Depreciating Development:

How Accounting under Fiscal Rigidity Imperils Slum Upgrading in São Paulo

Gabriella Yolanda Carolini

**Submitted in partial fulfillment of the
Requirements for the degree
of Doctor of Philosophy
under the Executive Committee of the Graduate School of
Arts and Sciences**

**COLUMBIA UNIVERSITY
2008**

ABSTRACT

Depreciating Development:

How Accounting Under Fiscal Rigidity Imperils Slum Upgrading in São Paulo

Gabriella Yolanda Carolini

Despite Brazil's constitutional commitment to housing for all, the country's most populous city – São Paulo – has only experienced a growth in the number of slum dwellers and a decline in municipal investments in slum upgrading. Development literature suggests that this dilemma reflects the capacity and/or will of interested parties in building fiscal space to address poverty problems. However, this study asks whether the questions asked in such literature are sufficient in explaining why poverty reduction projects and development investments like slum upgrading are losing ground in places like Brazil. What are the fundamental assumptions and privileges inherent in current development debates and how do they influence planning outcomes?

The hypothesis presented here is that the current interpretation of fiscal responsibility and practices of public sector accounting reveal a fundamental bias against social investments like slum upgrading. Using the city of São Paulo's municipal financial statements between 1995 and 2005 for empirical evidence, I argue that the for-profit motivation shaping current public sector accounting practices often leads to a decline in much needed social investments. In short, what is captured in accounts, how it is captured, and what is not captured all matter. Secondly, current accounting practices energize an unproductive cycle in which perverse adaptations of "fiscal responsibility" on the local

front are increasingly fed by and feed stringent administrative guidelines at the national and international levels. This perverse cyclical dynamic and decline in social investments critically hamper planning for and the realization of development goals – all while creating an illusion of fiscal responsibility – and an incomplete vision of fiscal responsibility at that.

Though of course political struggles and strategic visions of economic development are key shapers of policies affecting slum upgrading, decision making processes and scholarly debates in such development planning projects increasingly rest on what are termed hard data. Accounting practices produce and report this data and in doing so influence the scope of what is deemed fiscally possible and appropriate in development planning. As São Paulo reveals, planners must reexamine current accounting practices, the effects of interpretations of fiscal responsibility, and the resulting often deceptive hard data.

<u>**Table of Contents**</u>

List of Boxes, Figures, Graphs, and Photographs

Boxes

Figures

Graphs

Photos

List of Acronyms

AEG	Advisory Expert Group
BCB	Banco Central do Brasil
BNH	Banco Nacional de Habitação
CFC	Conselho Federal de Contabilidade
CMH	Conselho Municipal de Habitação
FGTS	Fundo de Garantia po Tempo de Serviço
FMH	Fund for Municipal Housing
FPM	Fundo de Participação dos Municípios
GFSM	Government Financial Statistics Manual
IAS	International Accounting Standards
IBRACON	Instituto dos Auditores Independentes do Brasil
ICMS	Imposto sobre a Circulação de Mercadorias e Serviços
IDB	Inter-American Development Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IPTU	Imposto Predial e Territorial Urbano
ISS	Imposto Sobre Serviços
ISWGNA	Intersecretariat Working Group on National Accounts
LDO	Lei de Diretrizes Orçamentárias
LFR	Law of Fiscal Responsibility
LOA	Lei Orçamentário Anual
MDG	Millennium Development Goals
MIC	Middle-Income Countries
NBER	National Bureau of Economic Research
NYBMR	New York Bureau of Municipal Research
PMSP	Prefeitura do Município de São Paulo
PPA	Plano Pluri-Anual
SEHAB	Secretaria de Habitaçao e Desenvolvimento Urbano
SBPE	Sistema Brasileiro de Poupança e Empréstimo
SFH	Sistem Financeiro da Habitação
SNA	System of National Accounts
TCM	Tribunal de Contas do Município
TFHPSA	Task Force on the Harmonization of Public Sector Accounting
UN	United Nations

Acknowledgements

When many years ago I was told that rather than defining myself by my work, I seemed to define myself by my relationships, I worried that such an interpretation cast me in a negative light. Today, I am certain that I would not ever choose to define myself by anything but my relationships – my strength, purpose, and greatest satisfaction lie in them. Why else would these acknowledgements take up so many pages? And seeing as acknowledgements are likely the most widely read part of any dissertation, it seems a shame to spend such a relatively short time writing them. Given the importance of so many people and institutions to this research project and to me personally, in retrospect I should have taken more notes and written more drafts of all the great many thanks owed to a significant number of individuals that have helped me along the way. As inadequate as it may be in expressing the full scope of thanks due, here then is my attempt.

When I arrived at Columbia concerned about the potential in the U.S. for engagement in research or projects in international development, Elliott Sclar quickly assured me that "something always come up" and so I should not worry. He was certainly right. I started the doctoral program in September of 2002, and by the end of the next month was already hard at work as an associate on the UN Millennium Project, specifically for the Task Force (TF) dedicated to making recommendations on "how to improve the lives of slum dwellers". That project significantly shaped what I ended up researching in my dissertation. Though my previous professional work and graduate studies in Oxford had set the course of my interest in examining the role and potential of finance in development projects, it was through my work on the Millennium Project, and particularly our work in Brazil, that the idea of deconstructing assumptions and privileges in public sector accounting practices first came to bear. As such, a great many thanks are especially owed to Elliott Sclar as well as Pietro Garau – the co-ordinators of the UN TF for which I worked – for hiring me and allowing me to so be thoroughly integrated into the work and thought process of the TF. They led an amazingly inspiring group of individuals that formed the TF, and it was a wonderful experience and education in and of itself to work with them on this project. Among the members of the TF, I am particularly indebted to Alfredo Stein, David Satterthwaite, and Paulo Teixeira – for the great model of individuals, scholars, and advocates they are and the support they always gave my work.

There are a great many people in Brazil to thank – perhaps too many to list here. A number in São Paulo deserve particular thanks, but foremost is again Paulo Teixeira, who opened up his beloved hometown to me. Paulo and his wonderful family and team made all the difference to both my research and personal life there – addressing so many of my substantive questions and sharing with me so much of the universally adored Brazilian culture. Yes, even the daughter of an Argentine can love Brazil and participate in Carnival. Shhh. I am grateful too to Paulo's colleagues – especially Gisela Mori and Ana Claudia Rossbach – for sharing with me so much of their experiences working on Barrio Legal and more. Also many thanks are due to Doadeimo, or Dodo, for showing me around São Paulo and Brasilandia in particular…he was a very kind soul who left this earth too early. Finally, a very special and heartfelt thanks to André and Andrea

Leonardi – a most wonderful couple. André was always so knowledgeable and spirited about his work with Paulo in the city – and I am so pleased to call him and Andrea my friends. They both made me feel very much at home in São Paulo. *Que saudades!*

Also in São Paulo, many thanks are owed to Violeta Saldanha Kubrusly and her colleagues at SEHAB for being so open and willing to speak with me about their projects and work processes. Livio Fornazieri and his colleagues at the Tribunal de Contas do Município were also very forthcoming and welcomed my many particular questions about historical and current accounting practices in São Paulo. The librarians at the Secretary of Finance's archives were very accommodating and professional – and happily welcomed this frequent interloper. Last but not least, a number of faculty at the Universidade de São Paulo were extremely helpful. Erminia Maricato and João Whittaker at USP's planning and design faculty helped me get started on my work, while Roberto Savoia at the economics, administration, and accounting faculty graciously provided me with working space and a warm reception. Special thanks are also due to Albert Fishlow of Columbia University for giving me the wonderful opportunity to be at USP as part of a new exchange program he was establishing.

My students in the Urban Studies department at Barnard College (and yes, Columbia too!) made me see how much I truly enjoyed being a professor/advisor, and in doing so helped set the course of my future career. The depth and diversity of their thesis projects make me proud, and their willingness to heed any of my advice has been an honor to me.

I thank them for letting me be their guide for this past year…and for all the spectacularly creative cupcakes they made! They set the bar high.

At the Center for Sustainable Urban Development at the Earth Institute, Nicole Volavka Close's belief in my capabilities and great friendship has been so tremendous a reassurance and resource as I worked to complete the dissertation. I am very fortunate to call her both my colleague and friend. In Columbia's planning department, I have been blessed with the great love and untiring support of Leigh Brown for many years – she is a model woman and dear friend. The paradigm of a great professor, Susan Fainstein is someone I hold in highest regard. I am so grateful to have been her student while she taught at Columbia, and even more grateful to still have her wise and encouraging counsel in my life. Most recently, Bob Beauregard has been wonderfully willing to sit and listen to my little worries and to share his thoughts with me, despite the many competing claims on his schedule. I am so glad to have been at Columbia still when he joined and to have the chance to know him better. I also thank Valpy Fitzgerald, my supervisor while I studied for my masters at Oxford, for being the first to truly believe in and envision my academic career – even before I did.

On my dissertation committee sat a formidable group of scholars, each of whom I admire and respect a great deal, and each of whom I have learned much from. I am most grateful to Peter Marcuse, Elliott Sclar, Smita Srinivas, Michael Cohen, and William Goldsmith for sharing their time, suggestions, and thoughts with me. Michael Cohen very generously even made time to sit at my defense despite a full traveling schedule. William

Goldsmith, despite coming onto my committee last, has provided so many particular insights for which I am especially thankful.

Among a precious group of friends, Cindy Warner, Hannah and Brian McCullum, Chi Ren Choong and John Guthrow – to start with the college core – have been supportive…and patient(!). John in particular first encouraged me to study what I was passionate about in graduate school. Cindy – where to even begin? Who else but a roommate who started Columbia's "Peace Games" would have put up with me and my *occasional* combativeness since freshman year of college? Much love and thanks are theirs…always.

Sometimes close by and sometimes further afar, Åsa Frostfeldt, Janet Reilly, Balkees Jarrah, Mark Mattner, Sappho Xenakis, Gunilla Pettersson, Sara Russo Garrido, Jason Stanley, Chiara Scandaletti, and Elizabeth Coleman Chen remain my greatest "secret weapons". It is difficult to express in any language how much I treasure each one's presence in my life. They are my absolute joy, my absolute Comrades. Perhaps then I should also thank Skype, Motorola, T-mobile, British Airways, Icelandair (though I intend to fly SAS!), and even Alitalia (*imaginate!*).

I often say that my graduate experience at Columbia was infinitely upgraded by my participation in the IGERT program in international development and globalization. I am indebted to Joseph Stiglitz and Akbar Noman, in particular, for accepting me into this fellowship of scholars and for giving development studies a real multidisciplinary home

at Columbia. Of course, my IGERT cohort probably lengthened my years as a graduate student – poking and prodding my research and methodologies, ensuring I'd always be both challenged and supported. Without them, my graduate school life may have been too short and certainly boring. Luckily, I had the likes of Matthew Wai Poi, Marissa King, Cuz Potter, Dan Choate, and Ngoni Munemo to keep me actively returning for more…and actively searching for ways to sneak home from our usual outpost. Cuz has had the special burden/honor(?!) of being my planning buddy/accomplice – I am most grateful for his open ear. And Matt and Marissa – my quantitative geniuses, baseball gurus, and dearest friends – I could never do without, and will never want to.

The same very much holds for my planning-related family and core – Justin Steil, James Connolly, Cynthia Golembeski, Yumie Song Lee, Ana Zanger, Janina Franco, Sumila Gulyani, and my "real professional planner"-friend – Grace Han. My friendship with each one has so deeply touched me, it seems terribly inadequate to thank them with brief words here for the encouragement they gave me as I labored (or not) to finish the dissertation…and even get a job. Sumila's support has been so immitigably great that truly she would have written my dissertation for me if only I asked even once. Her sage presence in my life has meant all the world to me. And Grace – if I have any sanity, it is because of her unwavering support and great friendship. She understood my work habits, acted as my lifeline to NY when I traveled, and helped me strategize finishing this research project. How lucky I have been since she has returned to work and live in New York, where I can so easily count on her to be the dearest confidante and friend one could ask for.

Peter Marcuse I thank again – and again and again and again. One month into the doctoral program was all it took before I asked Peter to act as my dissertation supervisor – before I even had a dissertation question. I knew solely that I wished to learn as much as possible from him. And I continue to want to learn as much as possible from him. I am certainly not alone in thinking as much. Peter is an endlessly extraordinary individual and my greatest compass on all matters of substance and ethics. I never had quite a ready answer to the question of "who is your role model?" until studying under him.

Lastly, the greatest gratitude I owe to my family – my parents, Alfonso and Maria, my siblings, Patricia, Herman, and Maryann, as well as our most recent addition, Leila(!). I believe there is no one on this earth with whom I have spoken for more than five minutes that does not already know or sense how absolutely central and defining my family is in my life. How inadequate is any attempt to thank each parent and sibling for so generously helping me achieve any and all professional successes I have enjoyed. My family's unflinching support enabled and enables me to live and pursue my passions. It is precisely because I can be so ridiculously confident of their love that I have never too much feared failure or too much revered success.

Chapter One

Servant or Stealth Master?

I) Introduction

A. Everyone's Darling

What makes Brazil so popular? Samba, futbol players even an Argentine could appreciate, and Carnival go far in shoring up the faithful, yes. But policymakers, advocacy groups, private bankers, investors, and mere researchers alike have found an additional bounty of professional interest in the country's wide offerings. Brazil is quite literally a country where everyone can find laboratories supporting their own claims. The agile surveyors of emerging market investments and schools of commercial bankers have found respite in Brazilian dedication to creating a fiscally responsible – read conservative – environment. Housing advocates and community organizers have been equally comforted by a formally recognized right to the city and to adequate housing for all, in addition to the important legal articulation of the primacy of the social function of property. But can everyone's darling really be anyone's paradigm? In Brazil, as in most other countries, the reality almost always relays a less darling truth.

As the former Vice Minister of the Brazilian Ministry of Cities, Dr. Erminia Maricato, has written, even legally ratified programs and policies in Brazil face serious political obstacles in implementation and enforcement (1996; 2006). For example, although the Brazilian government has implemented specific poverty reduction programs in cities, progress at adequate scale is hamstrung by the country's struggle to effectively mobilize, access, or use existing financial resources (IPEA 2004; SEHAB-COHAB-SP 2004; Banco Central do Brasil 2002; Budds et al 2005; Ministério das Cidades 2004). Programs and policies aimed at improving housing provide a perfect example of this challenge. Despite at least 16 different formal funding programs or resources technically available for social housing in Brazil at all levels of government, the country's housing deficit remains tremendous, with over seven million housing units either in deficit or in conditions of inadequacy (Rossetto 2003; Brazilian Ministry of Cities 2004). In the city of São Paulo alone, roughly 2.3 million people or one-fifth of the municipal population live in inadequate or substandard housing – be it in *favelas*, *loteamentos*, or *cortiços*[1] (SEHAB 2006). Furthermore, though São Paulo's municipal budget has grown, the city's allocation to the housing and urban development sector has not (Prefeitura do Município de São Paulo – Balanços Geral 1995-2005).

São Paulo today shows exemplary characteristics of a middle-income country city with three special planning challenges. Firstly, scale. The city of São Paulo is Brazil's most populous, with 10.7 million people within city administrative boundaries and another roughly 8 million in its peripheral metropolitan area. One third of the city population is comprised of households earning up to five Brazilian minimum salaries per month, however formal real estate market transactions within this low-income population pool only amount to 9.2 percent of activity in the overall São Paulo real estate market (Pochmann 2005). Indeed, a significant number of the urban poor turn to informal housing markets or solutions in informal settlements (i.e., slums) due to both a deficit in

[1] *Favelas* are technically informal settlements on publicly-owned land while *loteamentos* are informal settlements on privately owned land. *Cortiços* are akin to inner-city tenement buildings.

housing units and an affordability crunch. Pochmann (2005:13) estimates that the adequate housing unit gap in São Paulo city in 2000 was just under 500,000 household units, and that within that units-gap, roughly 70 percent (or 350,000) were households earning below approximately US$240 per month. In absolute population terms, these estimates indicate that over one million of the most income-poor people in the city of São Paulo live in sub-standard housing units, if at all. Furthermore, the population living in slums is notably dynamic – increasing by nearly 43% between 1987 and 2000 (Pochmann 2005).

Secondly, decentralization. The city of São Paulo, like others in Brazil, is marked by the significant challenges of the age of decentralization. Significant legislative changes with the Brazilian Federal Constitution of 1988 and the passing of the Law of Fiscal Responsibility in 2000 saw to the devolution of public service administrative responsibility to the most local level. As a result, cities in Brazil show signs of both the benefits and costs of real decentralization. The Ministério das Cidades or Ministry of Cities reports that "especially within the field of urban policies, the involvement of towns, particularly large cities, increased both in relation to the financial aspects and the management of these [decentralization] policies. However, the real situation of Brazilian towns shows that most of them…do not have the necessary resources and management capability to address these issues" (2004: 58-59). Even the city of São Paulo, Brazil's wealthiest on many accounts, struggles to mobilize the necessary financial resources to service its dynamic population's basic needs. This problem is only magnified by São Paulo's challenging levels of inequality (Caldeira 2000; Schiffer 2002; Stephens et al

1997). In short, the welfare distribution system remains inadequate and the city's recently limited access to financial resources hampers its fight to alleviate poverty, despite (or perhaps because of) the decentralization of some powers.

Thirdly, vulnerability. The city of São Paulo struggles between global ambitions and local realities – spelling vulnerability for public investments aimed at the poor. As Schiffer has argued, the Brazilian economy – as realized in the São Paulo context – is "designed to maintain domination by the elite through a process of hindered accumulation. These relations were made possible by the state, which implements economic and legal measures internally, organizes public investments, and disseminates ideology, all in order to assure an ongoing economic process" (2002: 145). Olpadwala and Goldsmith (1992) concur, noting how social relations and power privileges therein, particularly in capitalist societies, are explicitly connected to public policy failures. While such an elite-powered political framework might be interpreted as a boon for the very city that shelters so much of the elite class, the reality has been very different for the city's poorest residents. Fix et al note that "neither state nor federal investments significantly reach the city of São Paulo, supposedly for technical reasons – poverty-reducing programs prioritize small municipalities and those with lower HDIs [or human development index scores]" (2003:29). Furthermore, as Schiffer's (2002) research implies, the struggle to identify the city as an engine of growth on a global scale often translates into the prioritization of creating a positive image of the city's fiscal health in order to service elite private sector demands to attract foreign direct investment. For example, between the years 1999 and 2002, São Paulo's municipal spending on housing and urbanism projects fell by almost 20 percent, while spending on improving the city's fiscal health (and international reputation) by paying down public debt saw an increase of almost 120 percent (Pochmann 2005).

The three aforementioned planning challenges in São Paulo illustrate the potential for warped actualization and complex struggle between competing goals in Brazil. These challenges bear particular weight on residents living in substandard urban settlements. Even the President of Brazil, Luiz Inácio Lula da Silva, acknowledged how the tensions of different actors and their objectives are manifested in the city of São Paulo's lowest income communities. In a speech he made in São Paulo in 2003, Lula recounted a story from his own experience living in such a community:

> "I remember that during an election campaign in 1972…a candidate whom I'm not going to name here because it doesn't matter, one or two months before the election, had lampposts, curbs and gutters put along the whole road. The candidate then won the election but, ten days later, a truck arrived to remove the lampposts, curbs and gutters – he simply had them taken away again. I don't believe that we can do everything, and everyone here realizes that it's impossible to do everything…" (Da Silva 2003)

Though Lula's story is one from three decades ago, the city of São Paulo – despite Lula's admonition – remains ripe with examples of the struggle to achieve "everything" or be everything to everyone – at least for a little while. The real staying power throughout recent decades, however, has proven to be with the city's inequalities, well rooted in the presence and growth of informal or substandard settlements. Paulistano 2 is one such informal neighborhood, located within the larger *loteamento* (i.e., informal settlement on privately owned land) of Jardim Paulistano in the administrative district of Brasilandia[2] which is on the northern edge of the city of São Paulo (see Box 1.1 below). The neighborhood is difficult to reach via public (or private) transport, is littered with refuse and spare construction materials, and is home to residents lacking security of tenure who often live directly under electricity towers which advise distance. The top floor of a self-help developed building in Paulistano 2 houses the community residents association, though the treacherously narrow and unfinished stairs make it difficult for all interested community residents to attend. The building's owner lets the community association use space on the building's top floor for meetings and activities, and the community association leader, Rosewaldo, both lives and works there. There are no other community group centers in Paulistano 2.

[2] All information presented here on Brasilandia is from author's fieldwork in São Paulo in the period between 2003 and 2007.

Box 1.1: Map of the City of São Paulo, with the district of Brasilandia highlighted.

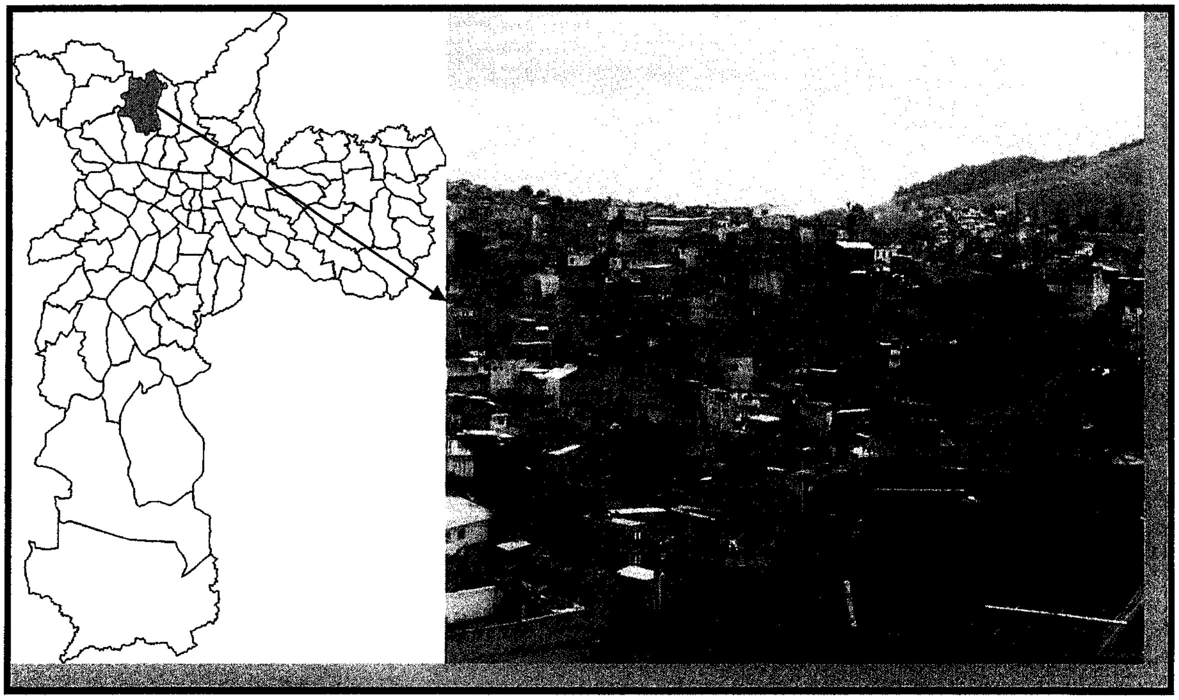


Photo source: author. Jardim Paulistano, a large informal settlement within the district of Brasilandia, is shown in the inset photo.

None of Paulistano 2's characteristics would seem surprising or notable for a city like São Paulo, where 20% of the population lives in substandard settlements save for one factor – Paulistano 2's neighboring community, Vila Nova Esperanca. It is not a high-income settlement. There are no home security gates or guards, nor luxurious shops. Rather, what is striking about Vila Nova Esperanca is that it is a community of residents much the same as those who live in Paulistano 2 – low-income, working class families. However, there is a notable physical difference between Paulistano 2 and Vila Nova Esperanca. Unlike its neighbor, Paulistano 2 was never the beneficiary of significant municipal-led regularization projects, despite being part of the same large loteamento of Jardim Paulistano. Funding for community improvements in Vila Nova Esperanca, and another neighboring community called Jardim das Pedras, came from a loan to the city by the Inter-American Development Bank (IDB) for slum upgrading. According to Rosewaldo and a municipal council neighborhood correspondent, when this funding ran dry the city was no longer permitted to seek new loans from the IDB (even though the IDB was willing to reissue a loan).[3] Of course, the city itself also did not allocate funds from its own budget for improvements to Paulistano 2, having relied so heavily on external targeted financing for such upgrading projects in the past.[4]

The resulting financial drama has left the settlement of Paulistano 2 without the improvements that its neighbors enjoy. For example, as shown in the photos of neighborhood playgrounds in Box 1.2 below, there are significant visible differences in amenities between Vila Nova Esperanca and Paulistano 2. There are also inadequacies in basic services for Paulistano 2 residents. Only three trash bins are used by 263 families there. The trash is collected from one spot - across the street from the one mostly abandoned playground - twice a week. The few municipal-installed street lights here that do exist do not work, though there is an old street lamp from an early municipal upgrading intervention which remains on – both day and night (Box 1.3 below). Although community leaders from the three neighboring informal settlements of Paulistano 2, Vila Nova Esperanca, and Jardim das Pedras actually have worked together

---

[3] There have been similar impacts in other Brazilian cities, most notably in Rio de Janeiro where a successful city-wide urban upgrading program, Favela Bairro, cannot continue because the national government has blocked an approved IDB loan replenishment to avoid the incurrence of further municipal debt upon which Favela Bairro depends (Perlman 2005: 33).

[4] This alone is an important point, reflective of the influence of powered political lobbies (rather than unorganized/vulnerable groups) in securing contested funding allocations in domestic budgets. The significant literature on this includes the seminal works of Becker, G. (1983), Dixit and Londregan (1995), and Plotnick (1986).

to fight for the upgrading and regularization of the area, there is growing visible inequality among these three communities.

Box 1.2: Playgrounds of inequality

Above is the community center of Vila Nova Esperança built with external funding – under lock when not used. Below is the sole playground in the neighborhood of Paulistano 2, illustrative of the increased inequity *within* Jardim Paulistano and a fairly short walk away from Nova Esperança's play center. *Photo sources: Author.*

Box 1.3: Basic services in Paulistano 2

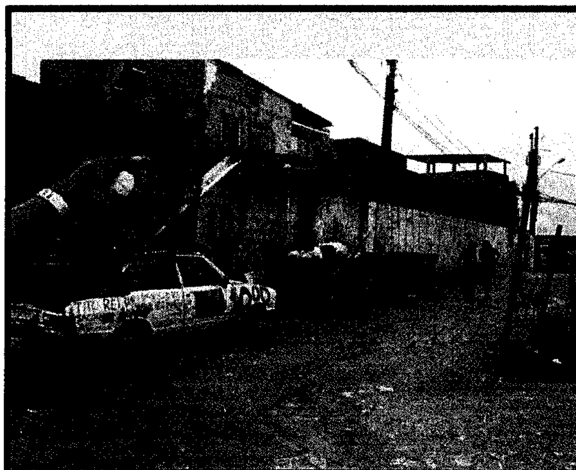


Photo 1 – Trash bins

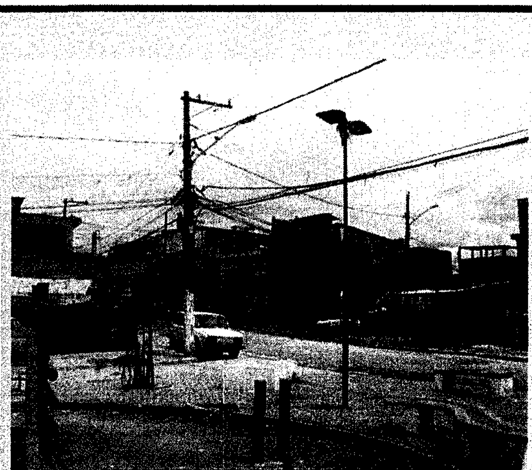


Photo 2 – Street lamp

Photo Source: Author. Three trash bins in Paulistano 2 serve 263 households and sit across from the community's only (notably abandoned) playground under the community's only working street lamp.

There are many influences bearing on the experience described above in Jardim Paulistano. Inequalities within this part of São Paulo and the lack of "fiscal space" for upgrading projects could be caused or aggravated by a number of issues, including the aforementioned politics of competition for municipal fund allocations, the capacity of community organizations to successfully self-advocate, or even the unfeasibility for private housing and development industries to produce formal affordable settlement options, to name a few obvious ones. The diverse conditions of neighborhoods in Jardim Paulistano could certainly also reflect the changes over time in the sequencing or prioritization of economic and social development strategies. In fact, such explanations find ample grounding in extant scholarly literature.

There are two schools of thought that speak directly to both the challenges and opportunities of creating fiscal space for development projects. One school is concerned with the management or targeting of *existing* fiscal resources. Herein lays the work of political economists and scholars who examine the role of power politics in government, including inter-agency competition for funding and the role of capitalist interests, lobbyists, or collective action in securing public investments for different projects (Dahl 1961; Olson 1965; Becker 1983; Lukes 1986; Marcuse 1986; Plotnick 1986; Dixit and Londregan 1995). Another body of literature within this school of thought is found in public management research. Such works include examinations of governance systems as well as government efficiency and effectiveness in the management of public funds and services, particularly vis a vis the private sector (Turner and Hulme 1997; Tendler 1997; Minogue et al 1998; Grindle 2000; Moore 2001; Lindblom 2003). Finally, planning scholars add to the discussion of how to best manage extant fiscal resources through the question of how to best channel funding to targeted development beneficiaries. Participatory planning/advocacy and participatory budgeting, as well as more specific attempts to define "best practice" in managing social investment projects like slum upgrading, are central to such discussions (Arnstein 1969; Rondinelli 1990; Davidoff 2000; Healey 2003; Cabannes 2004).

A second school of thought regarding the creation of fiscal space for development is instead concerned with the creation or leveraging of *greater* public financial resources than that which exists. This school includes literature on public finance, and specifically concerns the deepening of financial depth and effectiveness in banking systems, fiscal decentralization and public institutions at the sub-national level, as well as capital markets development (Bahl and Linn 1992; Phelps 1997; Bird and Vaillancourt 1998;

Fanelli and Medhora 1998; Smoke 2001). Another area of significant research on building up financial resources for development lies within economic debates regarding the role of international aid, globalization, and trade in the developing country context. Work in this area examines the effectiveness of aid for development as well as different models/strategies of economic growth (e.g. export-led, state interventions), most recently in the context of globalization (Wade 1990; Rodrik 1997; Burnside and Dollar 1997; Stiglitz 2002; Easterly 2002; Sachs 2005).

All of the aforementioned literature presents plausible and non-exclusionary explanations of the different obstacles and paths to securing extant or greater fiscal resources for development. However most such explanations lie on the surface of development – that is, they describe the will or capacity to create fiscal space for development in a given socio-economic context. In this study, however, the aim is to delve deeper below the surface of extant scholarly debates and analyze another variable or influence on fiscal space – one that helps shape the supposedly "given" socio-economic context in the city and the political concept of what is deemed possible from the public sector perspective. In other words, this research seeks to contribute to a multiplicative explanatory model in the fiscal space discourse by exploring the relevance of the *ownership of the means of "fiscal knowledge" production* – or namely, the design and implementation of systems of accounting practice which produce fiscal data and influence policymaking.

In São Paulo, the "given" socio-economic context is framed by the country's new fiscal regime, established in 2000 when the federal government enacted the Law of Fiscal

Responsibility (LFR). It was because of this law that the city of São Paulo could not take on any new liabilities, despite the IDB's willingness to renew a slum upgrading loan. The legislation required the tight restructuring of the city's past debt in cooperation with the National Treasury, and currently requires adherence to the debt ceiling at 120 percent of the city's net current revenue.[5] The LFR also mandates a primary budget fiscal surplus each year, which has centered around the figure of 4.25% of GDP.[6]

It is the calculation of this mandate for a primary budget fiscal surplus that seems to most trouble urban development and housing policymakers at the federal level in Brazil. In meetings with high-level under-ministers of housing and urban development in the Ministry of Cities and the Ministers themselves between 2004 and 2005, there was great concern voiced about the primary budget fiscal target of 4.25% being too high. The argument forwarded was that municipalities making public investments in social housing and upgrading would be hurt because their investments could not be depreciated over time and would thus weigh negatively on their budgets and on the targeting of such an ambitious primary budget surplus.[7] Though great emphasis in meetings was placed on the discussion of adjusting or meeting the primary budget surplus target, another topic mentioned but not pursued is equally worthy of scholarly exploration. That is,

[5] Furthermore, the Brazilian Central Bank's prudential regulations on private sector banks limit their exposure to government debt, lowering demand for public debt issuance and making it more difficult for municipalities like São Paulo to generate new sources of financing (de Mello 2005).

[6] The primary budget surplus is the difference between consolidated (Federal, State, and Municipal Governments as well as state enterprises) public sector revenues and expenses. The calculation excludes interest-on-debt payments, and the surplus itself is expressed as a percentage of gross domestic product.

[7] This information is from the author's own participation in three meetings with the Minister of Cities and under-ministers of the Ministry of Cities representing urban development and housing. These meetings took place in Barcelona at the World Urban Forum II in September 2004, in Brasilia at the Ministry of Cities in April 2005, and in New York at the Rockefeller Foundation's International Workshop on Achieving the Millennium Development Goals in Middle-Income Countries in September 2005.

depreciation – and more largely public sector accounting as currently practiced. The research presented here is motivated by the dearth in scholarly exploration of how the Brazilian socio-economic context and reality of conditions in neighborhoods like Paulistano 2 is spurred at least in part by perversities emerging from the architecture and current practice of accounting systems used in a Brazilian regime of fiscal austerity which finds strong advocacy in the international sphere.

B. All that is a given gold?

A great premium in policy-making is placed on empirical evidence or hard data to support or rationalize decisions. This premium on evidence, in turn, highlights the essential role played by fiscal data in mobilizing and accessing public finance or funding for any government initiative. While funding allocations are very often subject to inspection and lobbying by local stakeholders, the systems which rule and capture fiscal data often fail to show up on their critical radar screens. The system in question here is that of public sector accounting. Perhaps accounting practice is often deemed a staid given or, at most, background color among local stakeholders because the most widely recognized end-product of public sector accounting is national-level financial or income reports; or perhaps it is because the practices of finance and accounting are typically considered outside the "fray" of subjectivity and more objectively quantitative in nature. Achieve a certain debt-to-GDP ratio and loans become accessible. Achieve a certain budget surplus and gain repute for fiscal responsibility. But how are such standards of achievement designated and by whom? Furthermore, how well do they actually work to achieve their objectives?

Despite its absence from prominent planning debates in the urban sector today, the practice of public sector accounting has taken on large stakes for a continuously wider urban audience, particularly as countries' financial market depth or complexity has grown and public service responsibilities are decentralized. In the urban middle-income country context, nominally objective public sector accounting practices in cities require particular scrutiny for two reasons. First, middle-income countries typically have high levels of urbanization and heavy responsibilities from fiscal decentralization – as such, *urban* public administration in particular has significant impact on overall national development. Second, in such countries the international reputation and economic success of governments often hinge on their ability to simultaneously achieve a) economic stability and growth through fiscal sobriety measures, and b) high marks on social and economic development indicators as testament to national progress. Yet public sector accounting practices within rigid fiscal regimes used to achieve the former of these targets can have a traceable perverse effect on the latter target's realization.

To emphasize the importance of this dilemma, it is useful to highlight a recent study on public investment and fiscal policy by the International Monetary Fund (IMF). The report notes major concerns with Brazil's decade-long stagnation in economic growth, and in particular the related decline in public investment in areas such as transportation. While valid concerns, their articulation in the IMF report causes concern for planners, and in particular for housing advocates. More specifically, the report points out how "illegal land invasion and housing construction in areas immediately surrounding rail tracks have resulted in low average speeds" (IMF 2005:5). Low average speeds. Speed is indeed a concern as related to trade, both domestic and international. However, this explicit, pointed interest in speed as opposed to the quality of life of those who find refuge along the tracks – an aspect unnoted in the report - is disturbing in the context of the internationally agreed upon Millennium Development Goals (MDGs). The MDGs, which call for specific action targeted to halve poverty, include a call for improvement in the lives of at least 100 million slum dwellers by the year 2020[8]. Despite the IMF's nominal support of the MDGs, the aforementioned study is a brief but stinging reminder that housing issues – and poverty alleviation overall - continue to face difficulty in gaining currency as a widely recognized developmental public investment priority. Instead, the old hallmarks of structural adjustment programs – spending cuts and fiscal targeting – continue to hold sway as practiced if not admittedly preached development goals in and of themselves. Indeed, in non-industrialized countries, the IMF has often emphasized the importance of housing subsidy *cutbacks* in order to meet fiscal budget benchmarks (Heller 2002).

The main function of the example above, in addition to serving as an alert for housing advocates and planners to pay attention to IMF recommendations, is to highlight the types of issues raised in fiscal policy discussions for countries in the low- or middle-income scenario. In the report cited, as in most other such documents and discussions, a singular faith is placed on fiscal responsibility as a governing tool. However, such responsibility is too often mistakenly interpreted as hard-line conservatism and a goal

[8] MDG 7 on Environmental Sustainability comprises Target 11, which calls for "improvement in the lives of at least 100 million slum dwellers by the year 2020" (UN Millennium Project 2005a, *A Home in the City*).

unto itself as opposed to a means of achieving another substantive one. Rather, currently fashionable fiscal benchmarks and indicators are only a reaction to mismanagement of budgets in earlier eras, as well as the continuously perceived threat of government overspending and indebtedness – considered economic distortions (Milesi-Ferretti 2000). Nonetheless, the political currency carried by such rules threaten, and indeed in regions like Latin America, already inhibit public investments (Dur et al 1997; IMF 2004), particularly in the poverty-reduction category.

Governments certainly also have plentiful other domestic pushes and pulls which direct public investment cut backs to meet fiscal benchmarks (Hemming and Ter-Minassian 2004). It is not surprising when initiatives with little political influence – most often poverty-reduction or upgrading projects like those in Brasilandia – are first to get cut. Again, much has been written on this point (Becker 1983; Dixit and Londregan 1995; Plotnick 1986). However, such internal tendencies are arguably strongly supported and encouraged by international financial institutions' recommendations which have too often confused the technical with the substantive in articulating development goals. Recall, for instance, the IMF example aforementioned which called for housing subsidy cutbacks in order to achieve the "goal" of fiscal constraint. Even in a country like Brazil, which boasts freedom from new IMF-debts, governmental documents and information websites continue to boast of meeting governing standards recommended by that very same institution. Furthermore, international institutions breed mutual reinforcements; loans from other international institutions (in the Brazilian case, from the IDB) still reinforce credence in the international standards of fiscal responsibility set by organizations like the IMF (De Bellis 2006).

The dominating international political economic climate makes the elimination of the treatment of fiscal rules and indicators as development goals unlikely at present. Policymakers and researchers instead continue to debate how to best tweak such tools to achieve "development goals", rather than questioning their basis or their role in policy making and management within national borders. In short, internationally championed fiscal rules and benchmarks have become masters rather than servants of substantive development goals – such as adequate, affordable, and accessible housing for all. And over the course of the last century, public sector accounting has become the handmaiden of fiscal rules. More specifically, as an IMF publication describes, "as fiscal policies became more calibrated in the pursuit of economic stabilization, accounting became more important as a reporting system with measurement of the receipts and expenditure and their implications" (Premchand 1995: 3).

In short, how (and when) accounting practice recognizes transactions or activities impacts a government's real and perceived fiscal health, and thereby its access to budget allocations (at the sub-national level) and other financial resources. This is because public sector accounting provides the base data used in the calculation of fiscal indicators and financial reports. Furthermore, such data also influence a government's perceived scope of possible future work plans – as fiscal reports and costs of operation/maintenance are used in proposing yearly budgets. Indeed, the UN recognizes this importance in its guidelines on national accounting systems, or the System of National Accounts (SNA), noting that comparisons of accounting data "can influence popular and political judgments about the relative success of economic programmes..." (UN 1993: 1.37).

Is the power of accounting being over-stated here? Though government allocations to particular projects or agencies is of course embedded in political struggles, even in the political realm basic accounting data is used as rationalization or manipulated as supporting evidence for policy decisions (Richardson 1987; Boyce 2000). Accounting data presented in national income reports are also a top consideration in the investment decisions of private sector players. The SNA 1993 guidelines specify that the data gathered in national accounts are "a prerequisite for informed, rational policy-making and decision-taking" (UN 1993: 1:31). Investors and creditors alike place a premium on the thoroughness and consistency of such data.[9] Again, the UN's SNA 1993 guidelines note that "the investment programmes of major corporations must be based on long-term expectations about future economic developments that require national accounts data" (1993: 1.36). So too, then, should planners and other local stakeholders...with the added task of examining the rationale behind how data are first recognized (or not), compiled, and used.

[9] Of typical interest to financial players include data regarding a country's creditworthiness; its direction of economic policy and its popular support; what factors into its GDP and fiscal balance; whether fiscal and monetary fundamentals are compatible; what drives its current account and whether its fiscal policy is putting a burden on inflation or its debt? what its debt to GDP ratio is; how well the country collects taxes, etc. For more information, see Gottschalk, R. (2002) *International Lenders' and Investors' Behaviour: What the markets tell us we didn't know,* Institute of Development Studies, University of Sussex, April 2002.

C. Hypothesis and questions

This study hypothesizes that public sector accounting as currently practiced in a regime of rigid fiscal responsibility has a perverse effect on the level of public investment in poverty reduction – namely, in slum upgrading. Two arguments are forwarded to this end. First, current accounting practices inappropriately privilege private sector for-profit behavior and principles in public sector operations. Second, under fiscal rigidity, where accounting data are given greater importance, two perversities arise: a) a decline in social investments, particularly in informal settlements; and b) a strengthening of an unproductive cycle in which adaptation/corruption of intended outcomes of fiscal reforms on the local front is fed by and feeds a rising stringent interpretation of fiscal responsibility in administrative rules at the national and international levels. This perverse cyclical dynamic and the privileges afforded to a for-profit interpretation of public sector work critically hamper planning for and the realization of the MDGs in middle-income countries (MIC), and in particular their cities.

In order to show whether or exactly how public sector accounting impacts MDG-oriented social investments by government in an MIC city, the study focuses on two analytical lines of importance - the “what” and the “how”:

1. Exactly *which aspects* of public sector accounting practice affect social investment in slum upgrading?
2. *How* exactly are these aspects of public accounting practice impacting or connected with social investment in slum upgrading?

These inquiries of course also beg a deeper consideration that will be explored in each line of questioning. More specifically, what aspects of public sector accounting practice are most vulnerable to manipulation, and by whom? Should public sector accounting in particular be a public management tool for urban development planning? Why or why not? It is important here to also emphasize that the contention is that accounting as currently practiced has perverse effects on public investment in slum upgrading – not that public sector accounting has *more* perverse effects than other influences or that it is a *singularly* major influence. Rather, I will demonstrate *how* public sector accounting practice is a historically unexamined but highly relevant influence (or impediment) to social investments, and slum upgrading in particular.[10]

II. Foundations and Significance of Research

The tenets of accounting theory and practice have too often gone unquestioned since the dawn of standardized government financial reports and national income accounts in modern public management.[11] Within development policy circles, this is especially problematic because these tenets bear great influence on poverty reduction programs targeted to reach the world's poorest population.

---

[10] Though public sector accounting has received considerable policy and research attention in the environmental and natural resource development discourse, the consideration of its impact on poverty reduction-based public investments is new.

[11] Keynes is generally associated with the first arguments to use national income accounting as a way to stir economic growth by calculating the domestic flow of funds using the double entry bookkeeping method. In particular, his books, *The General Theory of Employment, Interest, and Money* (1936) as well as *How to Pay for the War* (1940), are useful references. Only after almost 50 years, in the 1980s, did researchers begin to firmly criticize the foundations upon which such accounting was held, particularly questioning its perceived scientific neutrality in determining national income (Tinker et al 1982; Mattessich 1995; Hopper et al 1987; Carruthers 1995).

In this dissertation, I support the argument that public sector accounting is far from a neutral public management tool. Rather, I contend that public sector accounting as currently practiced privileges a private sector for-profit behavior in government, with perverse effects on social investments[12], and in particular slum upgrading. Both theoretical and practical aspects of how current public sector accounting impacts slum upgrading in a regime of fiscal rigidity will be explored. More specifically, I present the implications of:

1. Technical accounting standards and practices on social investments;
2. Power dynamics behind the definition and application of standards and their use.

These themes form an analytical framework of interdisciplinary nature through which the study of public accounting's interface with planning objectives - and slum upgrading in particular - can be best positioned. The avenues of exploration reflect the diverse lines of influence of and on public sector accounting – political, economic, and social – with impact on slum upgrading.

1. Understanding what is and is not accounted for...

<u>Recognition</u>

One of the most important manners in which accounting impacts public management and policy is through the fundamental method or "basis of accounting system" used. As the

---

[12] In this study, use of the term "social investment" refers to public investment directed toward poverty reduction and the achievement of the MDGs. The particular dimensions of such investments are further discussed in Chapter Four.

International Federation of Accountants' (IFAC) International Public Sector Accounting Standards Board, or IPSASB, explains, "the basis of accounting adopted will influence the presentation, context, and disclosure of financial information to be presented by the government" (IFAC-IPSASB 1996: 3).

The basis of accounting systems can be described along a spectrum running from cash-basis accounting to full-accrual accounting, with modifications to both polarities in between. What and when transactions are recognized is dependent on which basis of accounting system is used. As Diamond describes in an IMF working paper (2002:4), the most important difference between cash-basis and the full-accrual basis of accounting is that in the accrual system, recognition occurs typically even before cash flows; in contrast, in cash-basis accounting, recognition of transactions occurs only when cash receipts and outlays are received. In lay terms, if a government invests in slum upgrading under the cash-basis of accounting, this means that only when cash is paid out would the government's expenditure be debited from its accounts. Instead, if such an investment were made under the full accrual basis, the expense would be immediately recorded in government accounts – regardless of whether or not cash were yet exchanged.

There are of course other important distinctions between the polarities of cash and accrual accounting. One of these is that only when a country's public sector accounting system uses the full accrual basis of accounting is the cost of an asset recorded over the asset life – i.e., depreciated or capitalized. In contrast, if a country uses any other basis of accounting, including a modified accrual basis, the entire cost of the asset is recognized in accounts in the accounting period in which it was acquired. Eventually this influences fiscal stability as perceived by both external and internal financial actors – and can mean the difference between a place like Paulistano 2 getting funding for street lamps and an improved playground or not. Only when a country uses full accrual accounting can, for example, an investment expense of USD 100,000 in slum upgrading with a life-cycle of 10 years be depreciated in the government accounts, with each year showing a cost of investment as USD 10,000 as opposed to the full USD 100,000 in year 1 alone. Of course, how such expenses/investments and assets are annually recorded have impact on the calculation and evaluation of fiscal budgets at the local and national level, thus affecting that year's gross domestic product (Diamond 2002).

Different bases of accounting systems also hold advantages for different public sector administrators and users. Cash-basis accounting's advantages is that of enforcing compliance with national budget rules, and is predictably favored by Ministries of Finance, while the benefits of full accrual-basis accounting is favorable to operational (sub-national) managers, as their performance is assessed more comprehensively under such a system (Diamond 2002). This line of argument is also reflected in the emergence of "New Public Management" literature, which calls for the adoption of private-sector practices within government and moves toward measuring accountability in terms of output or results (Modell 2004, Groot & Budding 2004, Goddard 2005, van Helden 2005). Coupled with the ongoing trend toward decentralization – both in administrative and operational responsibilities – the adoption of full accrual accounting has gained increased favor among public administrators and development experts. For example, such a perspective is shared by international standard setting organizations like the IFAC. The IFAC has long recommended the use of full-accrual basis accounting, and in 2001 even the IMF shifted its recommendation from cash-basis to full-accrual basis accounting in its Government Financial Statistics Manual. However, there are also arguments that contend that shifting accounting systems of developing countries – especially middle-income countries – could prove too costly (Diamond 2002).

Of course, there is more complexity at hand than simply whether or not a country uses full accrual as its basis of accounting. Put simply, even if a country adopts full accrual accounting at the national level, it can continue to use cash-basis accounting in operational branches. For example, though the United States (U.S.) government uses a full accrual basis of accounting at the Federal level, other government-level entities can still use the cash-basis or modified accrual basis of accounting. The differences in reporting systems are then reconciled at year-end using highly specific reconciliation guidelines[13]. As such, this study focuses more on how the rulemaking process and actual rules of either basis of accounting used matters for public investment at the city level.

Valuation (or not)

The valuation regime of most relevance to accounting remains the neoclassical one of a free and perfect market, built upon assumptions from the humanist tradition. As Tresch explains, "humanism was the philosophical revolution that replaced the quest for the divine with the quest for individual development and well being as the central purpose of

[13] See for example the treatment of intragovernmental reconciliation in the U.S. Department of Treasury's 160-page guide, *Federal Intragovernmental Transactions Accounting Policies Guide*, July 2005.

human endeavor" (2002: 8). The translation of this humanist philosophy into the sphere of economics, and even accounting, is grounded in utility valuation theory, which prizes the individual's pursuit of happiness – or in economic terms, the consumer and producer sovereignty as "a fundamental value judgment or norm in the conduct of economic affairs" (Tresch 2002: 8). In other words, this notion argues that individual benefit maximization is best achieved through exchange markets providing for free choice (IVSC 2005; Tresch 2002).

Over the last two decades, researchers have critiqued this sole reliance on utility-based measurements of values in records – noting, for example, the potential of using labor-based valuations (Tinker et al 1982; Mattessich 1995; Hopper et al 1987). This study, however, explores whether alternative valuation principles should be used to better determine the utility value of investments by considering both their costs *and benefits*, in the immediate *and* the longer-terms. The rationale behind this exploration is one which aims to bridge consumer choice theory – or individual preferences today (i.e., that which is currently captured by investment costs) with shared social preferences for tomorrow (i.e., that which calls for the estimation of the benefits or externalities of investments moving forward). This line of study connects the aforementioned literature on utility-based valuation with Kenneth Arrow's writings on the failure of the price system to capture social preferences (1974) as well as Mancur Olson's early research on the rationale behind collective action or preferences (1965).

In brief, what current accounting practices capture of government activity is far from a comprehensive view of government action at present or government actions specifically targeting future periods. Current public sector accounting instead heavily records the costs of government spending in the short-term. This is reflective of the double-entry book-keeping system used in accounting practice – which purposefully ignores externalities and intended outputs in favor of only recognizing a transaction's immediate and quantitatively measurable impact. This is in part because externalities are difficult to model and measure, and because they are not easily captured by current market prices. For example, there is not an active "market" for pricing upgrading projects as a whole – or for upgrading at large scale.

Some researchers argue that new products and the growth of hard-to-measure services require a reexamination of the timeliness of current GDP measurement methods (Boskin 1999; Williams 2000). Other suggestions specifically include the introduction of a cost-benefit approach to GDP calculations or the companion use of a new benchmark – for example, a GPI or genuine progress indicator, as in Australia (Islam & Clarke 2002; John, Walsh, & Moore 1991; Hamilton 1998). Indeed, the private sector has begun to make improvements to better capture and acknowledge special transactions and assets that have been thus far unacknowledged in accounts but that have both present and future values of interest, particularly for the calculation of national income accounts. This includes the emergence of issues like accounting for intangible assets and the concept of sustainable financing.

Intangible assets are defined as assets which lack physical substance, are non-financial in nature, and have a life span of more than one accounting period (US GASB 2007). Such assets are already on the radar screen of private sector accounting standard-makers, who are considering how to best capture the value of workforce talent and other identifiable intangible assets, like intellectual property.[14] In the private sector's International Accounting Standards (IAS), for example, there is even treatment of intangible assets under the consideration of how to define and capture values of different service concession arrangements. Contracts including the concession of the right of use are considered intangible assets that should be recognized in accounts (IAS 2007).[15] Within the public sector, only a few national-level standard setters have taken up the issue of capturing intangible assets, though only with regard to their national income accounts (which capture nationally-based private sector activities), including the United States, Canada, and Australia. For example, the United States' Governmental Accounting Standards Board issued a Standards Statement (Number 51) on July 10th of 2007 entitled "Accounting and Financial Reporting for Intangible Assets" (US GASB 2007). The IPSASB has yet to define a standard for public sector accounting on the issue of intangible assets, however it is one of the future research projects in which IPSASB intends to engage.

---

[14] See http://www.iasb.org/Current+Projects/IASB+Projects/Intangible+Assets/Intangible+Assets.htm

[15] In addition, intangible "capital" has emerged as a concept worthy of study in the calculation of national productivity. A number of scholars have worked to demonstrate that intangible capital, or "the glue that creates value from other factor inputs" in the production equation, has an appreciable impact on the level of GDP. (Cummins 2004; Corrado et al 2006). This also includes intangible assets like intellectual property and information technology.

Another example of progressive improvement in private sector valuation – here with regard to accounting for both present and future time frames – is in the concept of sustainable finance. Sustainable finance is understood here as the provision of financial capital and risk management products to projects and businesses that promote, or do not harm, economic prosperity, environmental protection and social justice (Jeucken 2004; Monash Sustainability Enterprises – Monash University 2000; Corporation of London 2002). In a UN Economic Brief prepared for the Earth Summit 2002, the topic of sustainable finance was addressed in an effort to recognize the great impact of financial players on sustainable development, particularly in the context of the aftermath of financial crises starting in 1998. The UN brief specifically noted that the World Bank and IMF jointly described financial security in both the short and long terms as a "global public good" (Gardiner 2001). Financial security – or alternatively security from diverse negative externalities of global finance – has since come under the sustainable finance umbrella and continues to gain audience in the international arena. In particular, the UN Environmental Programme (UNEP) has expended much effort in advocating the principles of sustainable finance in private sector practice, working with the financial services sector to explore in greater depth possible roads of action for incorporating sustainable finance priorities into those of for-profit financiers through its UNEP-Finance Initiatives (Freshfields Bruckhaus Deringer 2005).

For the purposes of this dissertation, the acceptance of intangible assets and sustainable finance into the dialogue of significant development actors, coupled with its ongoing consideration in the private sector, serves as an important example of the potential for improving valuation methods to better capture assets or benefits currently unaccounted for. Though the topics of intangible capital and sustainable finance have thus far largely focused on activities within the private sector, the rationale behind their acceptance remains relevant to the public sector. In part, this is because in finance the private sector has historically led changes in the public sector arena, and because such changes act as an indicator of the practicality of introducing other alternative methodologies and principles into decision-making processes. The suggested improvements to measurements of GDP also highlight that there is growing acknowledgement and action to correct for the currently inadequate methods of measuring and recording transactions' costs and benefits. This dissertation shows why the inadequacy on this front thus far and its repair are particularly critical to social investments in the lives of the urban poor.

2. Understanding what and who matters…

Presentation

What is and is not included in financial reports matter – both for internal government poverty reduction strategy decisions and for efforts at gaining external financial support. Arrow argues that "decisions are necessarily a function of information. Hence, if it is decided to collect no information relevant to a certain class of decisions, those decisions are nonagenda" (1974: 49). Continuing along the lines of this argument, the choice of data gathered and presented in financial reports as well as in national income accounts, bears great influence on what is considered important by user groups. Such data, in a sociologist's vocabulary, often become the basis of a "rationalized myth".

Sociologists Meyer and Rowan (1977:340) contend that, "organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society…Institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially." Governmental and non-governmental financial actors alike have indeed ceremonially adopted the use of financial statements, budgets, fiscal indicators, and national income accounts as central information resources and indications of public fiscal health. However, the dominating importance placed on such data is arguably a rationalized myth. The economist Kuznets, an early pioneer of the standardization of national income reports, was in fact disturbed by policymakers' reliance on measured reports of GDP as an indication of economic progress and a basis for future policymaking. Kuznets felt that the consideration of more data was required and that 'distinctions must be kept in mind between quantity and quality of growth, between its costs *and returns*, and between the short *and the long run…*" [emphasis added] (Hamilton 1998:2). Even early municipal reformers in the U.S. who advocated for uniformity in government financial reports and statistics to facilitate comparative studies quoted the mantra, "Keep me from caring more for books than for folks" (Curtis et al 1902:356).

Such concerns alluded to the fact that if all importance is placed in data reported, and if estimated benefits in addition to costs of expenditures are not included in such financial reports, then users of these reports and the accounting data therein arguably may not consider such information relevant – or at least as relevant as presented data – in their decision-making. As Lindblom contended, decision-makers simplify complex decision-making processes by limiting the scope of possible actions to small variations from the current reality (2003). Kuhn too described the difficulty of breaking outside of existing frameworks of analysis (1996). Together, such authors lend credence to the idea that decision-makers work primarily with data that is most readily available to them. In the case of using accounting data in financial decision-making, this has meant the acceptance of the potential inadequacy of data in theory but in practice allowing its dominance in the rationalization of choice.

Rather than incorporating new data into government financial reports or national income accounts on, for example, the economic assets arising from social investments or the counterfactual of costs saved by investments, critics of simply changing the presentation of accounting data argue that new social and environmental indicators that capture important missing data should be constructed (Lintott 1995). However, the construction of new benchmarks has mileage to gain before acceptance on the same terms as currently used accounting data-based indicators like GDP or the primary budget surplus – especially among financial decision-makers. This is because there remains a powerfully acknowledged association between accounting practice (and the data it reports) and economic prosperity in capitalist thought.[16]

[16] A number of distinguished authors make this connection clear. Schumpeter wrote how "capitalist practice turns the unit of money into a tool of rational cost-profit calculations, of which the towering monument is double-entry book-keeping…[P]rimarily a product of the evolution of economic rationality, the cost-profit calculus in turn reacts upon that rationality; by crystallizing and defining numerically, it powerfully propels the logic of enterprise" (1950: 123). Decades before Schumpeter, Max Weber too commented on the importance of accounting data to the growth of capitalist enterprise, noting that "capital accounting is the valuation and verification of opportunities for profit and of the success of profit-making activity by means of a valuation of the total assets (goods and money) of the enterprise at the beginning of a

Given the association of accounting with capitalism, the importance of how financial reports are used in decision-making processes to determine financial resource mobilization both within government and without should not be underestimated. Of course non-accounting or unquantifiable data also play a very significant – if not determinedly significant – role in decision-making processes, shaping diverse scopes of what is known and what is possible for different actors (Stiglitz 1993; Rich & Oh 2000; Lant & Hewlin 2002). There is certainly evidence from the private sector that shows that firms make efforts to incorporate various data sources into their decision-making processes, largely in an effort to beat benchmark or peer-group performances (Light 1998). Nonetheless, this study concentrates specifically on which data are currently most accessible. In short, the argument here is that accounting data presentation – e.g., in government financial statements and eventually in national income accounts – matters for urban development, and specifically for slum upgrading.

While some researchers have taken such an argument quite literally and have shown how the manner of presentation in accounting is important (So & Smith 2003), this is not the aim here. Neither does this study attempt to show that accounting data is the primary influence upon decisions made. Rather, this study aims to show how accounting data importantly help *set the agenda* or scope of decisions to be made by providing an empirically-based rationale for such decisions and by establishing a "given" socio-economic context. As Carruthers and Espeland report, accounting and choice sets have

---

profit-making venture…" (1978: 91). Previts and Dubis Merino (1998) present a more recent history on accountancy, which is also useful as a resource for tracing the connection with capitalist development.

been long connected. The authors note how others argued that "what accounts provide is the information necessary to measure and compare the alternatives in the set" (1991: 34). Nonetheless, the authors themselves proffer the idea of accounting as a rhetorical rationalization tool as opposed to one linked with "rationality" (1991). This notion of accounting as a purposeful tool – a rationalization of myths – also supports the argument that what data accounting presents is important, largely because such data presentation does not "...simply react to economic development or the changing demands of changing audiences; it help[s] to shape them" (1991: 55).

Representation

Existing differences (and similarities) between internationally respected relevant guidelines from the UN, the IFAC, and the IMF are of significant importance in public sector accounting. For example, who and how such guidelines define "economic assets", "public interest", or "capital formation" bear weight on the practice of government accounting and administration. Such questions are most often overlooked or not considered priority discourses in the urban or development sectors. Yet, how or whether they are answered has substantial influence on public sector accounting reports, the data such reports require from national and local level public sector managers, and eventually allocations to social investments at the city level. In short, the very *public* impact of accounting and fiscal policy guidelines demands greater public discourse.

Identifying and serving the public interest, for example, has a long history which is useful and relevant when applied to the examination of power behind the design of accounting guidelines. Planning and politics literature engenders the address of a number of assumptions – most importantly that of there being a, or rather one, public interest (Campbell and Fainstein 2003; Lukes 1986). In particular, the idea of there being "one" public interest reflects the precepts of modernity, stemming from the Enlightenment era's fascination and adherence to the idea of progression. Harvey notes that "the Enlightenment project, for example, took it as axiomatic that there was only one possible answer to any question. From this it followed that the world could be controlled and rationally ordered if we could only picture and represent it rightly" (1990: 27).

Indeed, for much of the modernist first half of the twentieth century, terms like public interest and expertise were not widely contested in public policy debates, just as definitions upon which accounting is practiced seldom meet challenge today in economic development or poverty reduction discourses. Early 20th century engineers channeled their "expertise" to service and reform the industrial city – they claimed they were able to "work above the din of local politics" and "advocat[e], with some success, their brand of organization to municipal administration as a whole" (Schultz & McShane 1978: 87; 92). Similarly, defenders of public sector accounting guidelines argue that accounting practice is based on a neutral science and founded upon empirical work, in short a quantitative tool free from value judgments and outside the fray of social, political, or economic debates (Tinker et al 1982; Mattessich 1995; Hopper et al 1987; Carruthers 1995).

In planning literature, voices like those of Jacobs and Davidoff eventually marked the dawn of a new era of envisioning the city, and more specifically, of questioning the role of the technocrat planner in the service of the public city or "public interest" (Jacobs 1961; Davidoff 1965). The production of knowledge and the paradigms within which such knowledge functions were more explicitly recognized as a reflection of (political, economic, and social) power struggles in the latter half of the twentieth century. Where government investment in the public interest is concerned, the underlining role of power struggles between capital interests has been clearly revealed (Marcuse 1986; Lukes 1986; Dahl 1961, Fogelsong 1986). The resulting acknowledgement, as Flyvbjerg emphasizes in his empirical study of urban politics in Aalborg, Denmark, is that "power defines reality" (1998: 117).

This study explores how power dynamics of concern in the public sector work at the international level in the defining of accounting guidelines and at the local level through the implementation and rationalization of accounting practices. Though some researchers have examined the impact of "defining power" within national accounting systems (Gilfedder and O' Hogartaigh 1998), this critique requires greater international as well as city-level application. Who at the international level is determining accounting standards? What assumptions do these standards make and what ideologies do they represent? How are they implemented and/or manipulated at the national or city level for political or personal gain? Again, some level of this critique has emerged in environmental or natural resource accounting at the international level[17], but it is severely lacking within the poverty reduction and development planning debate. As such, this dissertation looks at two critical perspectives on power: firstly, how standardization

[17] See, for example, Mathews' surveys of social and environmental accounting research (Mathews 1997; Mathews 2000).

processes are wrought with largely un-scrutinized subjectivity which biases against public sector social investments; and secondly, how definitions and objectives in accounting guidelines, much like fiscal indicators, can become masters rather than servants of public administration. The rationale – and rationale-makers – for existing rules and their implementation are too often left unchallenged. The research presented in the following chapters aims to help fill this gap and explores what implications it holds for urban development, and slum upgrading in particular.

Chapter 2

Privileging the Private: The evolution of an exact illusion?

Somewhere along the line, accounting practice evolved from an exercise in administrative control to a rapturously accepted tool for substantive evaluation. When, how, and why the servant became the master is worthy of exploration. Today, the practice of public sector accounting bears fundamentally subjective influence on a city government's capacity and scope for public investments. This influence is shaped by both the technical aspects of what is (and is not), as well as how, activities are captured in accounting practice, as per guidelines and standards. The decision-making processes and make-up of the professional boards defining such accounting guidelines and standards are also of course of consequence.

In this chapter, the historical trajectory and modern relevance of public sector accounting practice is highlighted. The argument presented is that accounting practice at present reflects an institutionalized (and inappropriate) privileging of private sector for-profit behavior in the non-profit public sector realm. The result is a bias in practice against the recognition and full valuation of social investments by government. From the developing country perspective, this bias bears particular importance – shown in the process of how practices are designed and in the realities these practices or standards ignore. In relaying the above argument, particular consideration of accounting practice's development in the United States is given because of the influence of that country's experiences on the ideological platform adopted by notable international organizations and on the Brazilian case, to be further discussed in the next chapter.

I. History of a (R)evolution

Any trip to a museum of antiquity would show that accounting in general is a practice of numeration with quite ancient roots. By some records, there were public accounts kept during the Babylonian Empire, with the temple archives of the sun god showing records of temple revenues, and of what would today be termed personnel expenses (e.g., wages), of capital expenditures (e.g., property purchases), etc. The Egyptians also kept fine records of properties and estates, so as to enable taxation, while Athenian and Roman societies show records of highly developed public accounts that reflected a complex system of checks on both the production and consumption of public servants and citizens – also with an eye on administering an effective and wide system of taxation (Brown 1971: 19-40).

The earliest accounts of record in modern European countries are mostly those reflective of auditing exercises in both governing systems and commerce. In other words, subsidiaries of the State (be they burghs, cities, etc.) and subsidiaries of estates, mercantile partnerships, and banks all kept accounts. These were largely control mechanisms – meant to enable a system of checks. In some cases, accounts showed both production costs as well as consumption. For example, in the thirteenth century, some manor estates in England kept survey accounts of "the whole condition of the estate, the buildings belonging to it, the fields and stock on the domain, the pasturage, the amount of wood and the profits of the waste, the mills, fisheries, and so forth. It also enumerated the free tenants and stated the terms of their tenure…" (Brown 1971: 53).

In addition to serving as an administrative check or audit control, such accounts and their audits became symbolic rites required in establishing good reputation. In the public sphere, already by the fourteenth century it was advisable for cities to keep accounts for auditing purposes and for merchants to demonstrate their exactitude via well-kept records of business (Brown 1971). The notion of well-kept accounts as required for the apt administration of the public good also arose. In 1491 Scotland, an Act was introduced calling for an annual "inquisition into the expenditure of the common good" (Brown 1971:81). In 1593 and 1598, further Acts were introduced to mandate an auditing of national accounts – though such exercises were not afforded the same political importance of sub-national or subsidiary account keeping – clearly owing to whom had power to check whom.[18]

While this history suggests a public sector-oriented nature to the origination of accounts or bookkeeping, the best known form of accounting practice and system therein – i.e., double-entry bookkeeping – is largely tied to the administrative needs of merchants and the development of commercial banking that accompanied the growth of trade in the Middle Ages. The movement from a simple listing or account keeping of expenses and

[18] It is of interest to note that public authorities of the Middle Ages often operated under charters which reflected the corporate nature of many cities or towns in Europe at the time. This was eventually also the case in the United States. Somewhat akin to Athenian and Roman societies, citizens in early American towns and cities were considered part of a private cooperation – a corporation of sorts – which allocated privileges to members or shareholders only. Perkins argues that "they were both private, commercial organizations (associated with speculators who had developed them) and public, communal institutions" (1989:166).

profits to a system of double-entry bookkeeping was a long time in coming. The earliest records of double-entry accounting can be found among records of local authorities in Europe (in Genoa, as early as 1340), in addition to the records of bankers and traders. Yet it is within the latter, and the trade arena in particular, that the practice of double-entry accounting grew into a veritably complex and widely used system which prevails still today.

Double-entry's successful adoption was largely facilitated by the mathematician Luca Paciolo, who printed the earliest known treatise on the art of bookkeeping as such in 1494 (Brown 1971: 108). The objective of Paciolo's treatise was "to give the trader without delay information as to his assets and liabilities" (Brown 1971:111). It is also of interest that the book was translated into the popular vernacular throughout Europe instead of into Latin, increasing its influence on practice on the continent, and eventually in Britain and beyond. Many argue that the spread of double-entry bookkeeping was central to the wide development of capitalism[19]. Double-entry "renders into objective, quantified terms the concept of capital as claims against listed resources", and allowed accounting practice itself to act both "as a condition affecting and affected by market evolution" (Previts et al 1998: 5).

After Paciolo's treatise, a fair number of trade books in Germany, Spain, Italy, France, England, and Scotland followed – mostly adhering to the same principles and further spreading the practice and suggested methodologies among bookkeepers (Brown 1971).

[19] Scholarship on the matter is substantial, but of particular note is the work of Werner Sombard – in addition of course to the earlier noted works of Schumpeter and Weber.

Finally in the 1800s, both in Europe and the United States, we see the emergence of societies or professional associations of accountants, with charters and rules of professional qualification (Brown 1971; Previts et at 1998). Yet even these were largely concerned with accounting practice as it pertained to private sector affairs. It was really with the population growth in cities in the latter half of the 19th century in Europe and the United States that demands for and standards of accounting in government arose.

Standards or uniformity in practice did not, however, arise as facilely as the mere attempt to practice double-entry bookkeeping did. The call for uniformity in practice emerged with the transformation of accounts from a record of personal keeping to one that was to be shared publicly and to transmit information. In England and Scotland, Municipal Corporation reform acts were passed in 1835 and then 1882, after which were established councils of government at the local level which were then responsible for preparing local level accounts for public audits (Brown 1971: 319-320). In the United States, the spectacular growth of the modern U.S. city in the late 1800s meant that a spectacular growth in infrastructure was also required – all of which called for a better system of taxation, financial mobilization, and accounting.

The history of what happens during this time of expansion in the United States is of particular relevance here because of the way that the municipal experience later shaped the federal mind-set of the U.S., and eventually received reinforcement in the U.S.'s involvement in the development of international norms. While, as Hillhouse (1936: 32) reports, municipal bond issues were relatively infrequent in the very early decades of the nineteenth century, by 1843 – when the first official statistics were published – aggregate municipal debt figured roughly US$27.5 million. Reflecting the rapid growth of urban centres and the public services therein required, nineteenth century U.S. cities quickly came to depend on this method of raising capital. This was also in part because of changes to state constitutions after the depression of 1837 that restricted state aid to municipalities. This change coincided with the migration to the underdeveloped Western regions and the subsequent explosion of railroad lines in the U.S. As a result, cities were in need of capital flows to attract railroad companies, and more business, to their locales. Thus was born the railroad aid bond. However, urban political machines and industries with power at the time were not keen on transparency, particularly in accounting records (Previts et al 1998). As such, the period was dotted with serious financial crises from the mismanagement and abuse of financial vehicles like bonds.

By 1901, after municipal financial crises, a tide grew of newly established professional associations like the American Economic Association and the American Association of Public Accountants. Such professional associations made serious calls for better information and the development of clear accounting reports from government, particularly at the municipal level and eventually also in federal government administration[20]. A 1901 report from a special committee of the American Economic Association, the Committee on Uniform Municipal Accounts and Statistics, was stinging.

[20] President Roosevelt created a commission to look into "Department Methods" in federal administration in 1905. Assistant Secretary of Treasury of the U.S. federal government, Charles Keep, headed the committee, largely known as the Keep Commission, which itself formally requested that a committee from the American Association of Public Accountants be formed to consult and advise on "investigating, reporting on, and recommending improvements in the business methods and practice of the Government, and particularly in its accounting methods" (Keep 1906: 142-143).

The report's opening states that "the first principles of accounting are understood by only a few of the men in charge of municipal records, and even where those principles are known, lack of co-operation between accounting, financial and technical departments results in misleading figures, or such as do not meet the needs of those who wish to make use of them" (Special Committee of AEA 1901: 254).

The "professionalization" and standardization of accounting practice translated into a push for uniformity in government financial reports. The uniformity in question referred both to uniformity in accounting techniques and methodologies as well as to uniformity in presentations of data. On both fronts, there was a lack of uniformity among cities both within and across states, impeding comparative studies of government activity and performance (Chase 1906: 456; Cleveland 1909). However, differences in practice were not limited to distinctions of location. Often, departments within one municipal administration also took to diverse accounting techniques and reports – and not in the least in order to protect against competition or because of the malaise between them (Wilmot 1906:102; Special Committee of AEA 1901, Cleveland 1909). For example, in a later report on the financial statistics of cities with a population of over 30,000 in 1912, efforts to amass comparative data were stymied by differences in definitions of fiscal years. The report states that "not only do the different cities close their fiscal years on many different dates, but in a number of instances even the fiscal years of the units and funds or accounts of the same city close on dates different from that of the city corporation, as the principle or sole governmental unit is here called" (Bureau of the Census 1914:7). There was also evidence that laws aimed at curtailing potential overzealous expenditures in municipal government were circumvented by the very legislative bodies that enacted them (Chase 1906: 454). Furthermore, some argued that the lack of a balance sheet excluded the possibility of accessing a quick summary reference on municipal assets and liabilities, though a more serious complaint rested on how the basis of accounting widely used – namely the cash basis – prevented a comprehensive picture of the extant liabilities of municipal government, thus strengthening calls for accrual-based accounting (Chase 1906; Wilmot 1906).

This period is crucial in the evolution of accounting practice not only because of the development or call for uniform recording methodologies, but also because it is here that the real seeds of accounting practice as a tool of substantive rather than only administrative evaluation are sown. This was in part a response to the aforementioned waywardly kept (if at all) accounts of political machines in cities (Previts et al 1998). The wide sentiment was that more data – and uniformity therein – would lead to better government – more efficient and less corrupt. In short, uniformity and standards in accounts were at least initially conceived or marketed as tools of the democratization of management, an effort to make transparent (and accountable) the work of government after a period of serious mismanagement (Frederick 1909). This was of course rooted in the socio-political and economic context of the day. This was the era witnessing the rise of scientific management, marked by Charles Taylor's influential publishing of *Principles of Scientific Management* in 1911, the development of professionalism and membership associations, the emergence of an industry of professional education (as evidenced by the number of professional departments and schools established in the early twentieth century), and modernist rationalism in politics and philosophy (Scott 2003; Beauregard 2003; Williams 2004).[21]

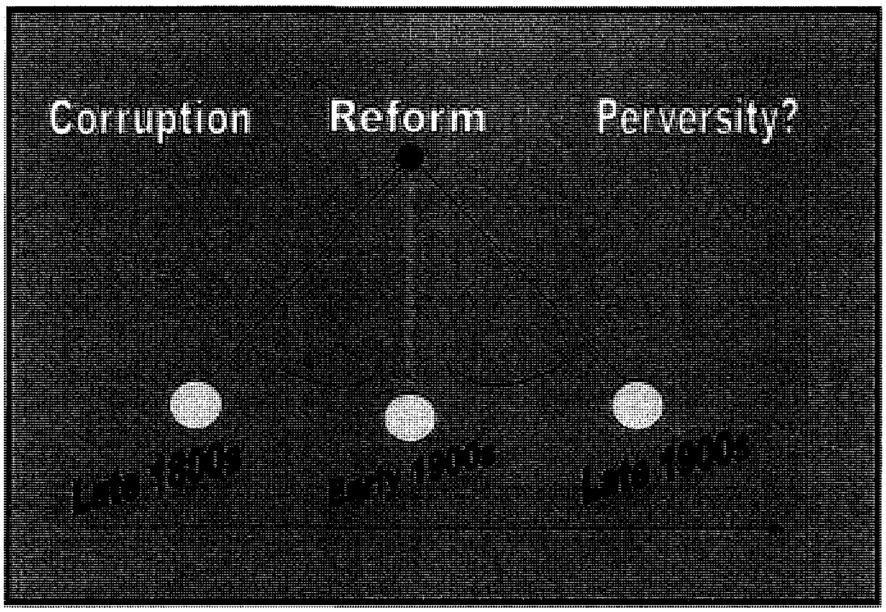
There were a number of areas of administration that were being transformed by the call for reform through the employ of "science" and an eye toward the model of private sector management. For example, a Census Bureau was finally made permanent in 1902, and by the turn of the 20th century was busy preparing for the 12th population census on vital statistics. By 1907, the federal government adopted double-entry bookkeeping, as then President Theodore Roosevelt contended that "systems of bookkeeping and accounting should conform to the most approved modern business methods…The comparative cost of all work for which cost keeping is possible should be ascertained as between offices and departments, and as between the Government and private enterprise, and should be followed by the adoption of standards of maximum cost" (Kraines 1970:6). In 1914, the Clayton Antitrust Act, creating the Federal Trade Commission which promoted official standards and independent audits, was passed. In the year 1917, "Uniform Accounting" was published by the American Institute of Accountants (the former AAPA) in the *Federal Reserve Bulletin* (Moussalli 2005). By 1920, the National Bureau of Economic Research (NBER) was formed. One of the NBER co-founders explained the need for the institution and for economic research noting that "our best home for the future lies in the extension to social organization of the method that we already employ in our most

[21] Many academic departments dedicated to accounting, to business, and other professional activities emerged in the U.S. in the early twentieth century. This reflected a time when great hope was placed in the study of measurements of efficiency, as embodied in the works of Veblen and Taylor. One of Veblen's students was Wesley C. Mitchell, who published in 1913 an influential text on Business Cycles, went on to teach economics at Columbia, among other places, co-found the New School in New York, and importantly co-found the National Bureau of Economic Research – where eventually the Department of Commerce turned when it wanted an accounting of national income distribution (Holcombe 2004; Carson 1975).

progressive fields of effort. In science and industry…we do not wait for catastrophes to force new ways upon us…We rely, and with success, upon quantitative analysis to point the way…"(Fabriant 1984:9).

It was after this initial period of advocacy for institutionalized information, standardized reports, and scientific methods began in the first two decades of the twentieth century that an important twist was applied in public sector accounting practice – that of interpretation and analysis of government performance, as opposed to transparent and accurate referencing alone. Several reports of the day indicate that a key reason standardization and uniformity in accounting methods and reports was so important was so as to enable comparative studies and assessments of government operations (Chase 1906; Cleveland 1906; Cleveland 1909; Special Committee of AEA 1901; Wilmot 1906). Wilmot argued that "such comparisons, if intelligently made and used by energetic reformers, would throw considerable light on such questions as to whether a city was being administered honestly and economically or dishonestly and extravagantly, and a comparison of the net existing assets would frequently explain large variations in the rate of tax levy between cities whose geographical and physical conditions were not dissimilar" (Wilmot 1906:107). In the 1930s, the accounting educator E.L. Theiss noted, "accountants, both public and private, have shown a larger willingness to render a more varied and more valuable service to clients and employers along the lines of *interpreting the accounts*" (1932:11) In short, cost accounting, or the management of costs, had taken over the mere recording of them. Taylor's *Principles of Scientific Management* had permeated into the public sector; the empirical technocrat (or the empowered and technically skilled public servant) had arrived with a vengeance. The pendulum of control over government administration, having been swung so off center with corruption in municipalities (and private industries)[22] in the late 1800s, was now quickly turning back toward the center with reform – but was it perhaps with too much energy, eventually surpassing its central purpose? (See Box 2.1. below).

Box 2.1. The Administrative Pendulum – United States



Williams (2004) argues that with the rise of the technocrat, U.S. city administrations also experienced a decline of the advocates within. In short, concern about auditing government and ensuring honest administration turned to concern with efficient administration. Citizen's surveys of governments turned into the professional (e.g. the

[22] The almost amusing details of a widely diverse portfolio of corruption in U.S. municipal administration and finance can be found in a number of publications, including: Hume (1884), Hillhouse (1936), Monkkonen (1984), and Tharp (1933), to name a few.

accountant's, engineer's, political scientist's, or economist's) survey of government (Williams 2004). Scholars and advocates of municipal accounting reform in the early twentieth century make ample reference to the model (and debate therein) of private sector management as a benchmark for various aspects of government operations (Wilmot 1906; Chase 1906; Foote 1901; Cleveland 1906; McBain 1921). Through using social surveys and their offspring – the scorecard and the index – as well as using newly aggregated municipal statistics and cost accounting methods, public administrators and municipal researchers between the 1910s and 1930s gained confidence in the ability to "scientifically" manage the public sector much as was done in the private sector.

This represented a turn away from the study of government for and by citizen audiences to a study of government's performance for and by the professional public manager or professional researcher. The focus of research and reports were turned inward toward efficiency of government offices and outward toward the costs of government services rather than inward toward the process of governance and outward toward the quality and impacts/benefits of government services rendered. This is a decisive development in public administration which has had multiple repercussions through the use of tools dependent on accounting data from government. In Williams' study of the evolution of performance evaluation in government up until 1930, he argues that:

> "by 1930, performance measurement had…evolved from a more inclusive study of government to a narrower and more sophisticated study of government service. It was no longer closely linked to policy advocacy; however, its apparent objectivity and neutrality hid unexamined value judgments. It was less closely linked with the public but more closely linked with government management. Methodological sophistication brought new problems, such as difficulties with relative weights for indexes. Quantification sometimes became an end in itself. Critical concepts such as results remained unclarified" (Williams 2004: 157).

Indeed, accounting and other tools of performance management seemed to offer a new silver bullet – a manner to quickly assess and then improve on government performance. However, this was government performance as in administrative management or, as Cleveland (1906:116) had advocated, in "the economy of operation and the efficiency of those in responsible positions", rather than government performance as in the service of the "public interest". Though there was of course also concern with assessing achievements or "results" of government service, what cost accounting and tools like scorecards or indices of government performance actually measured became increasingly reflective of a premium on quantity over quality. Measurements turned to seeking out data on physical area or volume served *as a proxy for* quality of services, be it in sanitation or water works (Williams 2004; Walker 1929; Ridley et al 1938). While capital arguably always had been a pursuit of nations and their governments, here now was the pursuit of the capitalist's logic and methods – control for loss (not quality) and increase of profit or revenues (not benefits).

This evolution (and leaning) in public sector accounting practice toward private sector for-profit behavior also spurred support for use of the budgeting exercise – and eventually the same leaning in that practice. The earliest budget on record from eighteenth century England was in fact an accounting report (Theiss 1932:11). Budgeting at such times, as with early accounting exercises, was used to control for and make recommendations as per the tax rate and level to impose on citizens. It is of interest that in the U.S., as with accounting practices, it was again first cities and states which adopted this tool as an administrative spending control strategy. According to Theiss, between 1911 and 1919 there were already 44 states in the U.S. that had used budgeting methods in their administrations (1932:12). In U.S. cities, budgeting was first a bottom-up led initiative, with departments reporting in needs and appropriation requests. For example, Chase (1906:453) reports that, as of 1906, "the appropriation bill or budget is made up in the city auditor's office from estimates submitted by the various departments, and after consideration and amendments by the mayor, is presented to the city council for action." However, it was in the realm of private sector activities that the budgeting exercise and all its derivative forms and functions (e.g. financial, managerial, sales, accounting) bloomed into a tool of executive administrative control (Theiss 1932; Hanson 1932). When advocacy for a national budget arose in the U.S., it was in fact the model of the private sector executive's budget that won currency among reform advocates, rather than the decentralized methods in vogue among cities.

Through the advocacy of the New York Bureau of Municipal Research (NYBMR), a functional budget was developed to replace the lump-sum appropriations budget. In New York City, this functional budget was "designed to show where money was being spent…and where there was public need" Williams (2004:138). However, by the second decade of the twentieth century, the functional budget essentially became line-item budgeting and NYBMR's advocacy moved toward allowing greater executive design and control over budget proposals. Essentially "executive budgeting left the appropriating authority with weaker control over actual expenditures and thus more dependent on accounting and reporting to know whether funds were used as planned. The legislature's power was found in the ability to accept or reject the next budget" (Williams 2004: 138).

It was not until 1921, however, that the national government adopted this exercise for the federal administration. And here there was a familiar voice behind the push for a federal budget in the U.S, and more specifically, an executive-designed budget – that of Frederick Cleveland. Cleveland co-directed the NYBMR and had written volumes earlier advocating for improvements in municipal accounting and administration. Cleveland is of interest here because of the connection he in particular embodies between administrative developments in accounting and budgeting at the municipal level (first) and the national level (second).[23]

It was the recommendations of the Commission on Economy and Efficiency, which Cleveland chaired, that were forwarded by President Taft in his 1912 speech to Congress. In it, Taft highlighted that the Commission called for the President to submit a budget to Congress each year, not the other way around (Taft 1912: 7). Cleveland's rationale for the "Executive" leadership of the budget was grounded on his belief that the appropriations or budget-by-committee/Congress design had facilitated corruption, secretive government, and wasteful, inefficient public administration (Cleveland 1921). Yet equal to the advocate's dismay with government performance was his enchantment with private firms' management style and methods. In his arguments, Cleveland makes

[23] The editor of the book series in which Frederick Cleveland published a key text on government reform, Dr. Samuel McCune Lindsay of Columbia University (who was also Vice-Chairman of the National Budget Committee), describes Cleveland's influence well in his editor's note: "Dr. Cleveland is not only a pioneer but also the foremost authority in America on the subject of the budget. He has had an exceptional professional training and experience in the underlying political theories of democracy, and the technical problems of public accountancy. The whole budge movement in the United States owes much to his persevering activities, since he planned and installed the budget system of the great municipal government of New York City ten years and more ago, on a scale that almost rivaled in complexity and size of operations the business of the Federal Government not many decades ago. Later he was the Chairman of President Taft's Commission on Economy and Efficiency...", which was a committee charged with investigating "the proper methods of introducing economy in the business of the Government through a budget system and in many other ways", according to President Taft's Introduction to the same book (Cleveland and Buck 1920: v,xi).

ample direct and indirect reference to private-sector operations and to scientific management, very much along the lines of Taylorism. Chiding municipal officials who insisted private sector management standards could not be applied in the public sector, Cleveland said, "It is beginning to be appreciated that no great business can be successfully conducted without exact knowledge concerning its details being brought to those who are responsible for direction and control. It is coming to be appreciated that this is just as true of public business as it is of private affairs…" Likewise in advocating reform at the federal level, Cleveland remained married to the importance of adapting the management skills of private industry in government. He describes his "Alternative Plan" for the U.S. Federal Government's organization as one that "proceeds from quite a different principle of organization," and that "the principles which govern all staff activity are principles of science…It is not discipline or reflex action, but knowledge – knowledge of things as they are, broadening the scientific basis for executive judgment" (Cleveland 1921:377, 284). Cleveland often used terms like "machinery" to describe his vision of how government departments should be arranged at the federal level for optimum performance and transparency (Cleveland 1921). Once it was argued that for such efficiency in the public sector, one needed standardized or uniform public accounts of revenues and expenditures; now, it similarly called for an executive budget.

There was reason to sympathize with Cleveland's compelling aspirations for public sector administrative management. And unsurprisingly, Cleveland found a good deal a support for his vision in the executive branch of the U.S. federal government. Again, then the acting Chief Justice of the U.S. Supreme Court, former President Taft in 1921, though critical of parts of Cleveland's enthusiastic call for a reorganization of the Federal government, concurred with Cleveland's admiration and leaning for an efficiency in management modeled by private-sector industries. In a critique of traveling expenses incurred by government employees on duty, the former President/Chief Justice asked "But do you suppose a private establishment would allow that sort of thing to go on blindly in that way?" (Taft 1921: 425). His successor in the executive branch went further. President Warren Harding explicitly moved to push government operations in the manner of the private sector. Echoing Roosevelt's earlier call, Harding asserted that "every principle and device which promotes efficiency in private business should be adopted and applied in government affairs" (Harding 1921: 430). In reference to the budget system newly enacted into law, he noted that "this is a long step toward introducing into government the sound methods that great private business establishments had adopted" (Harding 1921: 431). Perhaps of equal interest is the fact that these statements were all made in a very prodigious conference attended by all the above quoted parties, in addition to notable others like the future President and then Secretary of Commerce Herbert Hoover, at the semi-annual meeting of the Academy of Political Science in the City of New York on May 23rd, 1921. This was just a few weeks before the federal Budget and Accounting Act finally passed Congress (June 10, 1921) creating the U.S. General Accounting office (today the Government Accountability Office) and the Office of Management and Budget.

The lines of influence between science, industry, and government, and then also between municipal and national government administrative development, did not end there of course. For example, the National Committee on Municipal Accounting (created in 1934 to "develop integrated accounting and reporting standards for state and local governments") by 1948 was renamed the National Committee on Governmental Accounting (Moussalli 2005). Twenty years later, this committee published the GAAFR (Governmental Accounting, Auditing, and Financial Reporting) guidelines[24]. Today, however, we rarely trace back the practices of U.S. federal government operations – or of the international institutions the U.S. helped to spawn – back to that debate over administrative methods happening in U.S. cities at the turn of the twentieth century. Ignoring this history is a mistake – it reveals much about the inclinations of today's public policy institutions and the ideologies behind them which prize "science" and industry (or simply the private sector).

Studying how public sector accounting practices developed and grew in range and objective in the United States highlights how public sector accounting practice in an influential nation has assigned and institutionalized a preference or admiration for private sector for-profit behavior. This evolution importantly includes the empowerment of the accounting data and practice early on via the emergence of performance measurements like scorecards and indices, and the budget exercise. Later this same empowerment of accounting data found root in the inclusion of government accounts in national income calculations and indicators, and most recently through fiscal targeting. Throughout this trajectory of efforts to gather, standardize, and analyze government performance data through the exercise of accounting, there has been a strong undercurrent striving to align

[24] It was only in 1984 that the Governmental Accounting Standards Board (GASB) replaced the National Committee on Governmental Accounting.

public sector operations with the private sector for-profit organizational model and behavior – and importantly, to measure and evaluate them in the same manner. The private sector model - despite the significant variance of operations and objectives therein – is one which fundamentally places a premium on cutting costs of operations and increasing revenues or profits. The tools of this model, likewise, reflect a prioritization of measuring costs as a marker of efficient management.

Why the obsession with the private sector and its benchmarks of cost management? One might argue that profits are more dependent on costs than costs are dependent on profits. As such, measuring profits has never been as zealously pursued as measuring costs or independent drivers of profit in the private sector. In the public sector's mimicking of private sector behavior, this rationale explains why much more attention has been paid to cutting government administrative costs instead of correcting for tax evasion or weak collection systems. However, private sector industries, unlike government to a certain extent, have learned the benefits of aggressively pursuing studies of revenue and profit, be it through marketing and sales tools or through research on the transformative intangibles of human capital and intellectual property. The public sector generally fails to fervently "market" or to successfully pitch higher taxes or better tax compliance to its audience, for a multitude of reasons outside the scope of this study.[25] However, very recently, even the U.S. government is paying attention to how to better capture the full range of assets that spur economic growth and efficiency, rather than simply counting costs alone (Advisory Committee to Secretary of Commerce 2008).

[25] A very significant and interesting literature on tax reform exists with particular reference to the Latin American context. See for example Smolka and Furtado (1996); Bird and Slack (2002) de Cesare (2002); and Schneider, Lledo, and Moore (2004);

There is, however, another compelling explanation for the public sector's one-sided adoption of private sector behavior – one that alludes to the appeal of simplicity in a single number or tool from the management perspective. Stiglitz contended in a lecture while Chief Economist of the World Bank that "the success of the Washington consensus as an intellectual doctrine rests on its simplicity: its policy recommendations could be administered by economist using little more than simple accounting frameworks. A few economic indicators – inflation, money supply growth, interest rates, budget and trade deficits – could serve as the basis for a set of policy recommendations" (Stiglitz 1998: 5). Mimicking concepts (true or not) of private sector behavior, the rise of the indicator or quantitative report related the effort to discover the administrative "silver bullet" that would somehow make government a more efficient, more effective management operation. Even cost-benefit analyses (CBA), though at least theoretically admirable for attention paid to the concept of benefits, seem to miss the notion that the definition or comprehensiveness of costs and benefits themselves need revisiting just as much as (if not more than), say, the determination of the right discount rate to apply in CBA equations[26]. Instead of looking at fundamental definitions of costs and revenues – or of course equitable development, policy makers and researchers can play with indicators or focus on "getting prices right", the inflation rate low, the debt-to-GDP ratio down, and the primary budget surplus up. This seems easier somehow than accepting that there are no fundamentally good or bad numbers, as Stigltiz asserts (1998).

[26] For an interesting discussion of different cost-benefit analyses and the determination of social discount rates, see du Preez (2004).

In the end, it has taken over 500 years to develop complex and sophisticated systems of cost accounting, but we have yet to develop an equally adept system for recording and measuring benefits. And truth be told, even the costing methods are only reflective of certain classes of cost (e.g. immediate costs as opposed to medium or longer-term ones). *There is no one tool or method of effectively measuring all government and government services.* Yet there is a self-reinforcing and strong bias toward **measuring its costs**. This is aptly demonstrated in the current international arena by the system of classifications and standards guiding public sector accounting – and thereafter fiscal policy – today.

II. Modern Re-enforcements

An admiration for scientific management and private sector operations successfully infiltrated the public sector manager's mentality in the U.S. case, as explained above. Here, we turn to how international institutions of influence have embraced the same practices and biases, encouraging a global adoption of the privileging of private sector for-profit behavior in public sector operations. There are a few key international institutions and actors bearing particular influence in this exercise, each bringing their diverse experiences and perspectives to the table. The principle uniting them, however, is an ideology of "private" as "perfect" – or as near to perfect as is possible. In other words, there is consistent reference to and progress toward adopting the model of accounting and financial management forged in the private sector. While there are efforts made to adjust and adapt when private sector practice models are deemed inappropriate for public sector activity, the former remains the benchmark of management and practice. Yet the question remains whether this is an appropriate benchmark for public sector operations.

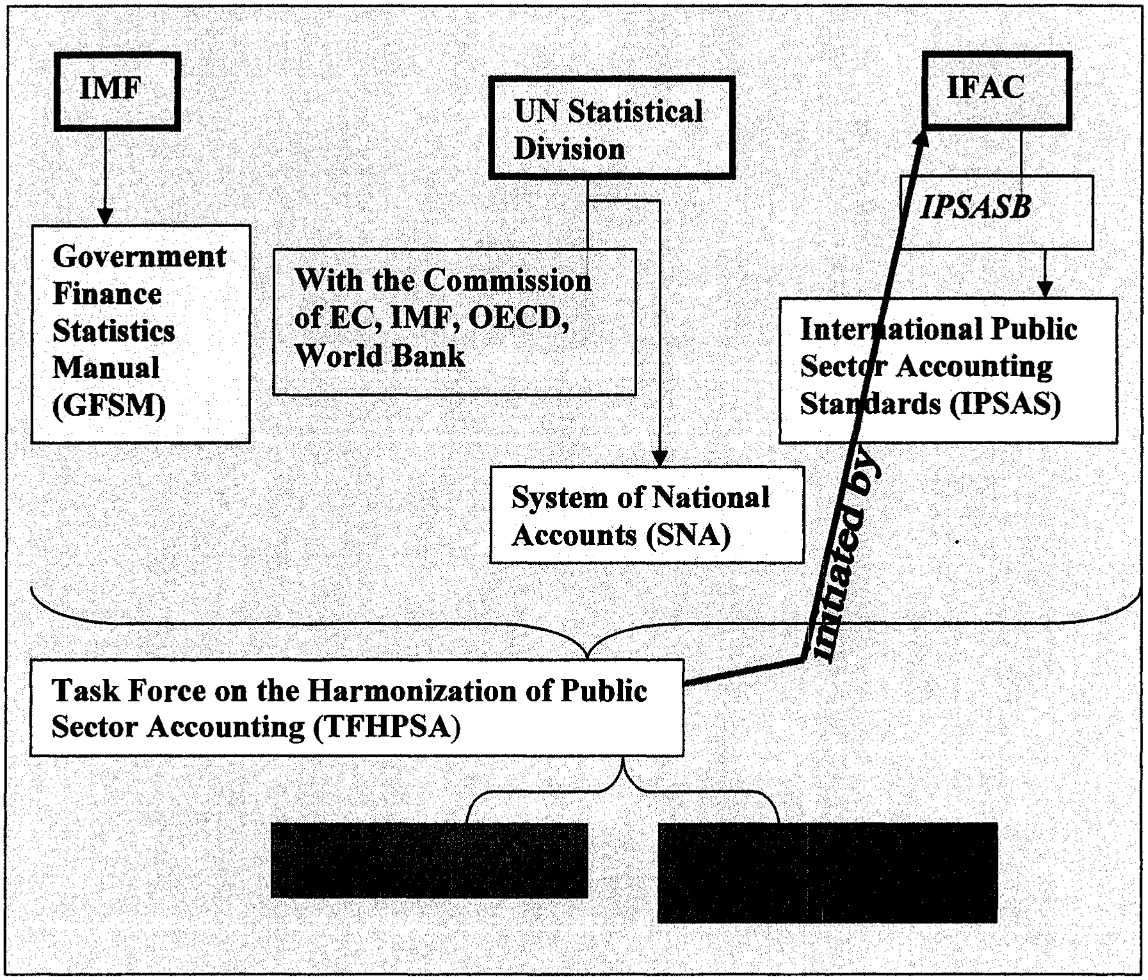
The inclination to adapt or adjust to private sector norms does not leave enough room for original and thoughtful consideration of public sector objectives and how the realms of accounting and fiscal management can best help serve those ends. More specifically, in international organizations there remains at present a failure to acknowledge and address a) the importance of public sector investments of social or intangible nature and of long-term beneficial consequence; and b) the growing importance of municipal voice at the national fiscal table. These shortcomings in current practice are actually empowered by a feebly transparent and superficially participatory decision-making structure of public administration.

This section is dedicated to exploring precisely how standards and guidelines emergent from dominant ideologies and decision-making processes at the international level conceptually privilege private sector behavior in the public sector realm, thereby producing biases against social investment and ignoring the growing need for accounting practices which better capture the full value (or both costs and benefits) of governments' socially-oriented investments and services.

A. Why international organizations and their decisions matter...

While international efforts to create and implement standards in areas like human rights or environmental conservation have met with a certain degree of disregard and occasional contempt by national governments, international standards of the financial and accounting sort have been accepted more easily and of late have actually proliferated. There are no compulsory guidelines or bodies with the power to directly penalize noncompliance, but there are nonetheless powerful international institutions that draft standards and guidelines for public sector accounting and fiscal management. Three institutions in particular attempt to standardize and advise on public fiscal management or accounting practices, in part to facilitate the international comparison of national performance (see Box 2.2 below). These are: 1) the IMF, which publishes the Government Finance Statistics Manual (GFSM); 2) the United Nations Statistical Division, which publishes the System of National Accounts (SNA) jointly with the Commission of the European Communities, the IMF, the Organization for Economic Co-operation and Development (OECD), and the World Bank; and 3) the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), which publishes the International Public Sector Accounting Standards (IPSAS).

Box 2.2: Network of international standard and guideline-setting actors



The organizations and publications highlighted privilege the private sector in various capacities. The first – the IPSASB of IFAC – in part through its own nature as a private entity, but also through its procedures and rulings; the second – the UN and SNA, in the categorizations of productive activity for inclusion in national income accounts; and the third – the IMF and GFSM – in the reinforcement and empowerment of the first two.

1. International Public Sector Accounting Standards

The IPSAS are international public sector accounting standards established by the IFAC's International Public Sector Accounting Standards Board (IPSASB). The initial phase of the IPSASB standardization program, which began in 1997, was funded by the Asian Development Bank, IFAC, the IMF, the United Nations Development Programme (UNDP) and the World Bank, and was completed in 2002 (IPSASB 2007). These standards are modeled on private sector accounting standards developed by the International Accounting Standards Board, another privately run organization. When private sector accounting guidelines are deemed unsuitable for translation, or when public sector-specific guidelines are necessary, the IPSASB writes and sends out draft-standards publicly for review, a process which is more frequent than the review of guidelines offered by the IMF and UN.

The IFAC and its IPSASB are important institutions for a few key reasons. Firstly, it is this group which most specifically addresses how government administrations should keep accounts and budgets, as opposed to the more aggregate data targets of the UN's SNA and IMF's GFSM. Secondly, out of all the aforementioned bodies establishing standards and guidelines for fiscal policy and accounting in the public sector, it is the only private organization. The IFAC is a global professional organization of accountants, mostly comprised of national accounting bodies from the private and public sectors. It nonetheless is the sole organization to pronounce international "Standards" (as opposed to frameworks or manual/guidelines) on ethics, auditing and assurance, and education, in addition to its public sector accounting standards. The IFAC also produces reports which document different national accounting experiences and current debates.

Thirdly, the IFAC-IPSASB was the organization that initiated a call to harmonize public sector accounting standards, the result of which was the creation of the Task Force on the Harmonization of Public Sector Accounting (TFHPSA). TFHPSA functioned between 2003 and 2006, comprising members from all of the aforementioned international institutions (IMF, UN, OECD, World Bank, etc) as well as national public sector accounting professionals from a number of different countries. The TFHPSA was provided with headquarters by the OECD, chaired by the IMF, and held meetings twice yearly. Members of the TFHPSA also published a number of papers and reports on issues of debate for resolution by the TFHPSA. There were two workings groups within the TFHPSA – one which focused on harmonization of accounting and statistical reporting and another which focused on providing recommendations for the updating of the SNA 1993.

Through its work on the TFHPSA, the IFAC-IPSASB was able to widen the scope of its influence and pursue the bridging of different accounting and public statistics practices in the public sector. For example, the UN's General Assembly approved a financial management reform program in 2006 that called for the adoption of IPSASs internally within the UN system (IFAC 2006b). The IMF likewise adjusted its previous recommendation for a cash-basis system of accounting to an accrual-based system in its last GFSM revision in 2001.[27] Furthermore, since it is not a legal enforcer, IFAC-IPSASB relies on its relationships – in addition to its membership bodies – to promote its activities and practices identified as exemplary. As the technical manager of the IPSASB notes, "In many countries there is very little contact between the accounting profession and the government; however, IFAC and the International Public Sector Accounting Standards Board are seeking to change this."[28] In fact, the IFAC enforces a Compliance program for its member bodies that specifically asks members about their efforts to implement or promote compliance in their countries with IPSAS.

Though IFAC certainly makes effort to secure the transparency of its operations – via its extensive documentation and public access website, it nonetheless tends to fall outside the scope of critical analysis in academia, particularly where fiscal policy and management in developing countries are concerned. To amend this gap in analyzing the impact of such an organization on fiscal management in the Global South, here we turn to a more in-depth view of IPSAS. The argument presented contends that there is a bias against or mishandling of the social responsibilities of governments both in technical principles forwarded in IPSAS and in the processes of standardization employed.

Identifying privileges…

Even though the IFAC-IPSASB's work starts with the private sector as its basis, the organization very much considers its activities to be a public good. Its stated mission is

[27] Though prior to the work of the TFHPSA, this update was specifically tied to recommendations by the IFAC-IPSASB.

[28] E-mail interview conducted September 20, 2007 with Matthew Bohun-Aponte of IFAC-IPSASB.

"to serve the public interest", and it considers that its strength "derives not only from its international representation but also from the support and involvement of its individual member bodies, which are themselves dedicated to promoting integrity, transparency, and expertise in the accountancy profession…"(IFAC 2006a: 7-8).

By certain parameters, standard-setting bodies and professional organizations like the IFAC and its IPSASB have made significant efforts to improve transparency and to include a wide range of representatives. In 2005, for example, members of the IFAC's IPSASB included nominated representatives from 15 countries from different regions and national income-levels, including France, UK, Australia, Argentina, Canada, Germany, India, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, South Africa, and the USA[29]. These representatives are first considered and approved by the IFAC's Nominating Committee, which uses as its selection criteria the following characteristics:

1. Possession of appropriate technical expertise;
2. Knowledge of institutional arrangements;
3. Technical proficiencies of users, preparers, and auditors;
4. Broad geographical spread (IPSASB 2004a).

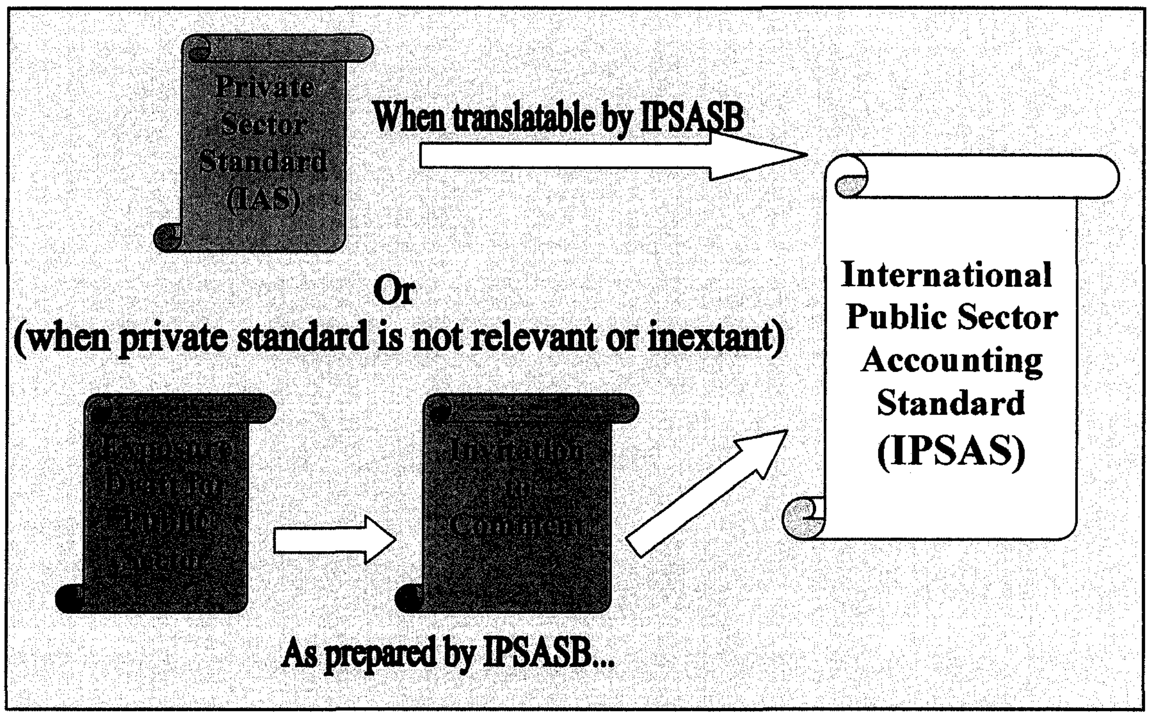
Members of the IPSASB serve for three-year terms, which are renewable though members cannot serve more than two terms consecutively. The IPSASB is also complimented by an IPSASB Consultative Group of interested constituents, who can provide input but cannot vote on proposed standards (IPSASB 2004). In addition, the

---

[29] The IPSASB also comprises three "public members" who are nominated by IFAC member bodies, other organizations, or the general public. The public members on the IPSASB in 2007 were from the U.S., Switzerland, and Italy.

IPSASB gives due-process to its proposed standards, allowing feedback from all interested parties or individuals. An Exposure Draft of a proposed standard is always prepared, and in certain cases the IPSASB also issues an Invitation to Comment on the Exposure Draft before it is finalized and distributed for feedback (See Box 2.3 for a diagram on the standardization process for public sector accounting). Two-thirds (or 12 out of 18) of IPSASB members must approve an Exposure Draft to make it a standard.

Box 2.3: The Making of an International Public Sector Standard



As far as membership and process go, the IFAC and its IPSASB seem to have reasonably structured their activities to allow for the transparency and diversity so prized. Nonetheless, in practice – as might be imagined – the diversity of representation is certainly questionable and bears influence on the standards. Here it is useful to examine the process of standard development more specifically. To this end, two relevant IPSASB proposals and their life cycle are reviewed:

a) Accounting for Social Policies of Governments

b) Revenue from Non-Exchange Transactions

The IPSASB simultaneously issued Invitations to Comment on best practice for the two above subjects in January 2004, remarking that they were meant to provide guidance on "key public sector specific issues that are not dealt with by the existing IPSASs" (IPSASB 2004 b: 1). Both called for comments by the end of June of the same year. However, the proposals have met with different ends to-date. The latter proposal – on Revenue from Non-Exchange Transactions – was approved as an IPSAS at the first 2007 meeting of the IPSASB, and will be included in the next IPSAS Handbook to be published in 2008. On the other hand, the original proposal for Accounting for Social Policies of Governments morphed into separate subject proposals (one which deals with social policy obligations excluding pensions, one dealing with pensions exclusively), and after much debate and discussion remains to be issued as an Exposure Draft four years following the first Invitation to Comment.

In its Invitation to Comment on Accounting for Social Policies of Governments, the IPSASB highlights some of the key debates regarding the interpretation of an "obligation". This includes the opinion of some professionals that the nature of the public sector renders the notion of a constructive obligation less relevant than in the private sector because, for example, governments can amend policies and laws with their own authorities any time they wish. However, as the IPSASB itself argues in the

Invitation to Comment, "although some governments may have occasionally used their sovereign powers to enact or change legislation with specific intention of avoiding legal obligations, this does not justify the widespread non-recognition of liabilities for legal obligations" (IPSASB 2004b: 37).

As such, the IPSASB proposed a matrix of requirements for when to recognize a government promise or policy as a "constructive obligation" or a "legal obligation", both of which must be reported as a liability in the government's general purpose financial statements (IPSASB 2004b: 25-28). According to the IPSASB, there are six criteria for the recognition of a constructive or a legal obligation and these are outlined in the box below.

Box 2.4 Criteria for the Recognition of Obligations of Government

	Legal Obligation	**Constructive Obligation**
1	The past (obligating) event has occurred (*from definitions of a liability and an obligating event*).	The past (obligating) event has occurred (*from definitions of a liability and an obligating event*).
2	A legal obligation is derived from a contract, legislation or other operation of law (*from definitions of an obligating event and a legal obligation*).	A constructive obligation arises when a government, by an established pattern of past practice, published policies or sufficiently specific current statement has indicated acceptance of responsibility and created a valid expectation that it will discharge those responsibilities (*from definitions of an obligating event and a constructive obligation*).
3	There is no realistic alternative to settling the obligation (*from definition of an obligating event*).	There is no realistic alternative to settling the obligation (*from definition of an obligating event*).
4	A present obligation must exist (*from definition of a liability*).	A present obligation must exist (*from definition of a liability*).
5	Settlement of the obligation is expected to result in an outflow of resources embodying economic benefits or service potential (*from definition of a liability*).	Settlement of the obligation is expected to result in an outflow of resources embodying economic benefits or service potential (*from definition of a liability*).
6	The expected outflow must be probable and measurable (*from recognition criteria*).	The expected outflow must be probable and measurable (*from recognition criteria*).

Source: IPSASB 2004b: 33.

IPSASB does recognize that the particular interpretation of criteria 3 in the box above is difficult to interpret where constructive obligations are concerned. Indeed, criteria 3, calling for there to be "no realistic alternative to settling the obligation" seems an awfully interpretative matter. Most any government policy or law, even in democratic societies, could theoretically be upturned. Nonetheless, the issue of importance here is that the criteria allow great room for a valuation or judgment of the credence of policies by individual public sector accounting professionals.

What about this issue and the process of standardization deserve attention from urban planners and development practitioners? Tracing this trajectory highlights the importance of the individual – of *who* participates (and who does not) in such powerful exercises. The initial Invitation to Comment on Accounting for Social Policies of Governments drew 47 responses. However, much of this commentary had to be specifically solicited by the IPSASB in an effort to secure diverse feedback. Paul Sutcliffe, the IPSASB Technical Director from 2000 to 2006 (and current senior advisor), in particular, documented such efforts – some of which were to prove in vain. At the last meeting of the IPSASB in 2004 in New Delhi, Mr. Sutcliffe noted that responses from the Invitation to Comment were from the same bodies that responded to the Invitation to Comment on the Non-exchange Transactions. In short, feedback largely came from the usual suspects: five Anglo- or Commonwealth countries alone (Australia, Canada, South Africa, UK, New Zealand) produced 25 responses (IPSASB 2005a). Furthermore, the few low- or middle-income countries (excluding South Africa) which had representatives sending in responses left more to be desired in terms of participation. For example, the only Latin American body to respond to Mr. Sutcliffe's specific request for feedback was the Comptrollership General of Peru – whose response was a non-response (see Box 2.5.).

Box 2.5: ***Sole Response from Latin America on Invitation to Comment on Accounting for Social Policies of Government***

```
-----Original Message-----
From: lalfaro@contraloria.gob.pe [mailto:lalfaro@contraloria.gob.pe]
Sent: Thursday, June 03, 2004 4:21 AM
To: psutcliffe@ifac.org; jerrygutu@ifac.org
Cc: gbode@contraloria.gob.pe
Subject: From Comptrollership General of Peru
Importance: High
Dear Mr. Paul Sutcliffe:
It is very pleased to greet you and thank for your communication
dated
On January 20th , 2004, about comments on documents: Addresing Social
Policies of Governments and Revenue from non-exchange Transactions.
Unfortunately, we will not be able to fulfill your request rigth now,
because our staff's institutional work activities are very tight, so
they are in a full time work. Please, accept our apologizes at this
time, hoping to share with you in future invitations.
Yours sincerely,
Liliana Alfaro
Technical Cooperation Manager
Phone: +51+1+4335727
Fax: +51+1+ 433 8173
```

Source: E-source – IPSASB, Comments on Invitation to Comment – Accounting for Social Policies of Governments – *From Comptrollership General of Peru;* accessed on April 24, 2007. http://www.ifac.org/PublicSector/ExposureDrafts.php

Unlike the language requirements for working processes and publications in international government-sponsored entities like the UN or IMF, the IFAC-IPSASB Invitations to Comment are only available in the English language, and thus add to the capacity burden faced by most low- and middle-income countries that might otherwise be more inclined to participate.[30] This was explicitly noted by the sole commentator from China – Mr. Song Qichao, its Deputy Division Director from the Department of Social Security in the Ministry of Finance. Ironically, Song was also a member of the IPSASB Steering Committee that actually drafted the Invitation to Comment, so his feedback to the completed document marks the process of actually drafting the Invitation to Comment as one that must have been wrought with participation problems as well. He highlighted that because of the need to translate the Invitation to Comment into his own language, he was unable to meet the deadline for feedback and also unable to solicit further feedback from other departmental colleagues in a timely manner (Song 2004). In countries where English is one of the official state languages, there was predictably greater relative feedback. Three South African bodies provided detailed feedback and two substantive responses were received from India's Government Accounting Standards Advisory Board. One response from Thailand and from Indonesia each were exceptional given potential language barriers and the sophistication of the feedback provided. In fact, the commentator from Indonesia, based at the International Centre for Public Sector Accounting, chided the IPSASB for suggesting that the term "social benefit" was well understood and did not require explicit definition, instead noting that there should be a campaign to ensure a wider common understanding of its meaning (Supriyani 2004). The only country from the African continent to provide feedback besides South Africa was

[30] It is noteworthy that though the Invitations to Comment and Exposure Drafts are only available in the English language, the actual approved standards to be implemented are of course available in French and Spanish as well – an interesting indication of power dynamics in the trajectory of standards development.

Sudan, from which an individual certified accountant sent in a two-page facsimile of comments.[31]

But is diversity in the actual membership make-up of such groups and processes particularly important, desirable, or even feasible in the context of rulemaking for such a technocratic practice? If an organization deigns itself "democratic" or claims the objective of "serving the public interest", then absolutely yes. It certainly is the case in the public sector, where diverse objectives and constituencies exist. Further, accountants and public finance professionals themselves have claimed as much. The plurality of participants in the standardization of accounting and finance practices has been heralded as a symbol of the democratization and transparency of rulemaking – indeed, such plurality is claimed as one of the hallmarks of the professional accounting practice's immunity to subjective, elitist behavior (Gilfedder and O'Hogartaigh 1998).

It is clear that the IPSASB, despite its best efforts, faces obstacles in garnering feedback from low- and middle-income country accounting bodies. This is in part due to language constraints and in part due to capacity issues in countries where public sector accounting professionals are, as the Comptrollership of Peru noted above, overworked and additionally perhaps not trained for participation in such discourses. However, the dearth of participation from accountancy bodies in low- and middle-income countries is also reflective of what is understood as a priority for public sector officials around the world. It is also reflective of what international organizations like the IFAC-IPSASB deems

[31] To its credit, the IPSASB and IFAC make available all of the comments or responses they receive online. The feedback on the Invitations to Comment cited in this section were all accessed on April 24, 2007 on the IFAC website.

worthy of targeted attention. Perhaps the IPSASB's work and its multiple influences on other accounting bodies are not always fully recognized by public sector professionals. Perhaps professionals with responsibility for public accounting systems were difficult to identify or reach. Perhaps too the IPSASB regarded an emailed communication sufficiently reasonably and singularly feasible in attempting to secure participation. Whatever the reason, the result is that rich countries are determining rules that may or may not be "best practice" for non-rich countries. In addition, it is clear that whatever successes are claimed in the gathering of diverse feedback, IPSAS are reflective first of adapted private sector principles, and second of the opinion of *national-level* accounting professionals or bodies, despite many fiscal responsibilities globally being decentralized to local governments – i.e., cities.

Why is this problematic? If, as Gilfedder and O'Hogartaigh (1998) contend, we understand membership in groups like the TFHPSA as political and subjective in nature, then we can more fully explore and formally recognize the power relations and impacts such membership and decision processes have on those missing from the decision-making table. The IFAC-IPSASB represents an organization that at least nominally prizes the "public interest" and "participation", but is challenged in attempts to actually achieve it. The result is a privileging of best practices as first defined in the for-profit private sector and the opinions of those who can and do participate in the public sector, that is high-income countries and their standards.

For example, in the aforementioned IPSASB Invitation to Comment on *Accounting for Social Policies of Governments*, a major contention was the definition of "social benefits". In a memo prepared for the IPSASB's discussion of feedback received, it was noted that responses were almost evenly split as per whether or not a definition of social benefits was necessary (Stanford 2005). As noted earlier, the sole commentary from Indonesia called for an explicit and detailed discussion of social benefits in the proposal on Accounting for the Social Policies of Government. The Indonesian comment proclaimed that, "the definition of the social benefit is a matter which should be prepared by the government as a consequence of their commitment to undertake particular activities in order to provide particular goods and services to the community" (Supriyani 2004). However, the IPSASB decided to maintain its original position, stating that "any definition should be generic rather than a detailed list of which benefits fall in which category" (Stanford 2005, p. 9.56). It adopted a three-part definition of social benefits, generic enough for adaptation but specifically including:

- Goods and services provided for collective consumption;
- Goods and services provided for individual consumption;
- Cash payments and transfers.

One might agree with the IPSASB's position, and even congratulate the Board for widening the GFSM's treatment of social benefits, which is consistent with the SNA 1993 and insists that "there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government" (Stanford 2005, p. 9.56). However, the adoption of a generic definition of social benefits demonstrates how the power of participation and voice –

rather than objectivity – determines best practice standards. When the exercise is conducted within a private organization with public aspirations, there is even further reason to pay attention to such power dynamics.

It is thus both by the nature of who is participating in the standardization process – and the fact that to begin with, standards are first simply translated from extant standards for private sector practice, that there is a privileging of private sector voice in the determination of public sector standards by IPSASB. Furthermore, as IFAC itself is a private organization, its reach in influencing and working with other international institutions like the IMF and UN, which are more visible in public development debates, is illustrative of the private sector's watermark on the reform of public sector fiscal management.

2. The Government Financial Statistics Manual

The GFSM, was first drafted in 1986, and then updated in 2001. According to the IMF, the primary purpose of the GFS Manual is "to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country" (IMF GFSM 2001:1). The major focus of the GFSM is on financial transactions, as opposed to the production and consumption of goods and services (which are the focus of the UN SNA). While it is the latter of the two (i.e., the SNA) that is most relevant to this dissertation (because of its particular role in establishing the definitions and methods of categorization for recording government's fiscal activities), there is nonetheless significant overlap between the GFSM's subject matter and that of the UN's SNA. Furthermore, the GFSM explicitly reinforces both the use of the SNA and the IPSASB's accounting standards, strengthening international consensus and pressure to follow these guidelines (IMF 2001a: 27). It is in this role of reinforcement that the GFSM is particularly important, rather than solely through its own contribution to the guidelines portfolio. Again, this is reflective of the fact that the IMF's GFSM concentrates on recording transactions and economic flows that have been already defined and categorized using the SNA system.

3. The System of National Accounts

The SNA is a self-described conceptual collection of principles that, similarly to the GFSM, "provide[s] a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policy-making" (UN 1993[32]). It was first drafted in 1953 and revised in 1968, then again updated in 1993, and is currently under revision. The UN Statistical Division has called upon a number of specialist groups, led by an Advisory Expert Group (AEG), to engage in the updating of the SNA 1993. The topical specialist groups include the Canberra II Group on Non-Financial Assets, the IMF Committee on Balance of Payments Statistics, the Task Force on the Valuation and Measurement of Equity, the Task Force on Financial Services, and the Expert Group Meeting on Industrial Statistics. All of these specialist groups prepare opinion papers and recommendations to the UN Statistical Commission's AEG – whose primary responsibility is in turn to advise the Intersecretariat Working Group on National

[32] http://unstats.un.org/unsd/sna1993/introduction.asp

Accounts (ISWGNA) on revisions to recommend to the UN Statistical Division Commission for the SNA 1993 update (ISWGNA 2007a). It is also important to note that, unlike the GFSM, the SNA is meant to act as a guideline for capturing data from both the private and public sectors.

Identifying privileges...

A number of principles or guidelines in the SNA 1993 are illustrative of the interpretive privileges afforded to private sector for-profit behavior in the public sector or biases that in practice have negative impact on social elements of public sector activity. One of these is the SNA's identification of productive activity in national accounts. The "production boundary" or the demarcation of productive activities recognized in national accounts is an issue impacting how comprehensive an analysis of the economy is feasible using the SNA. In short, what is captured in the production boundary has multiple effects on the rest of the system of accounts. As the SNA 1993 indicates, "the boundary of production determines the amount of value added recorded and hence the total amount of income generated by production" (UN 1993: 1.25). In other words, the production boundary impacts the income account, so on and so forth.

In determining boundary lines, the SNA 1993 guidelines argue that a balance must be struck between comprehensiveness and relevance. For example:

> "The System therefore includes all production of goods for own use within its production boundary, as goods can be switched between market and non-market use even after they have been produced, but it excludes all production of services for own final consumption within households (except for the services produced by employing paid domestic staff and the own-account production of housing services by owner occupiers). These services are consumed as they are produced

> and the links between their production and market activities are more tenuous than for goods production...The location of the production boundary in the System is a compromise, but a deliberate one that takes account of the needs of most users" (UN 1993: 1.22).

The potential for two interpretation conflicts lie at the heart of this statement, and the two are related. The first is the concept or notion of "ownership" and the second is the understanding of "most users". According the SNA 1993, "No single user, or group of users, can take priority over all others...The System is primarily intended to provide data at different levels of aggregation to meet the needs of analysts and policy makers interested in the behavior of the economy and the factors responsible for major market disequilibria, such as inflation and unemployment" (UN 1993: 1.82). Yet, the system itself privileges the needs of actors concerned with formal economy activities, or transactions which are officially recognized. How so? Ownership. For example, with regard to housing, the SNA 1993 treats all housing services as assets, "whether sold or consumed by the owners, [they] are included within the production boundary, and all of the corresponding income originating from the production of housing services appears in the System in the same accounts using the same definitions and classifications" (UN 1993: 2.3). This statement presumes that all housing services are officially or formally recognized in government surveys. It also highlights the importance of the *definition* of ownership. This is a major issue of contention, particularly in low- and middle-income countries where informality is often significant in the housing sector (to name but one sector). In this manner, whether intentionally or not, the SNA 1993 privileges housing assets with clear ownership lines. Furthermore, the SNA argument presented states that assets are only entities "from which economic benefits are derived by their owner(s) by holding or using them over a period of time" (UN 1993: 1.26)[33]. Though the ownership may be individual or communal, public or private, the character of "ownership" must be legally definable and recognized. Again, this creates important repercussions on economies where significant housing assets are not legally recognized or are located on contested land – i.e., in informal settlements.

The line of argument presented makes allusion to Hernando De Soto's much celebrated and much contested take on why the assets of the urban poor must be recognized and capitalized on (De Soto 2000). De Soto's work forwards the notion that recognizing or formalizing the largely informal assets of the poor and providing them with titles facilitates their rise from poverty by allowing them to leverage loans. However, there is an arguably more important effect that the recognition of such assets has on government – in two ways. The first impact that tying the definition of economic benefits (and the production boundary) to formal ownership has is clearly on the comprehensiveness of the production account in national income calculations. Secondly, the absent recognition of informal settlement housing from accounting data creates a negative incentive for public investment in upgrading such settlements. It is government – or specifically government agencies with investment programs in poverty reduction and alleviation via slum upgrading – that can significantly capitalize on the formal recognition of the "informal" assets of the urban poor and the provision of improvements to neighborhoods located on

[33] Economic benefits are explicitly linked to ownership in the SNA. The ownership ties can be distinguished as either "legal" ownership or "economic" ownership. The former "is the institutional unit entitled in law and sustainable under the law to claim the benefits associated with the entities"; the latter is "entitled to claim the benefits associated with the use of the entity in the course of an economic activity by virtue of accepting associated risks" (Harrison 2006:2). The key issue here is that residents in informal settlements are, in most cases, not recognized as either legal or economic owners – lacking titles or security of tenure in almost all of its manifestations.

contested land or informal settlements. This is not because of increased revenues due to a rise in formal tax collection – though of course this may happen. Recognition of the informal in this case could provide empirical data to support government upgrading investment *policy*. More specifically, recognizing or capturing informal assets and services in informal or substandard settlements would enable governments to track and more fully capture *in accounting data* the incremental rises in economic benefits such as assets created by slum upgrading programs in informal settlements. As slum upgrading at scale is a non-market investment (i.e., there is not a substantive market of competitors vying for the opportunity to upgrade slums at scale), the impact of recognizing economic benefits, and assets in particular, – even if to the individual household - arising from social investments in upgrading would positively impact how government activity is recorded in national accounts. This is the case even if government agencies contract out the actual implementation of upgrading tasks to private-sector firms (as they often do). The contracting of private-sector firms for upgrading projects produces a clear economic benefit to those firms, in transaction terms. However, for government agencies that contract for or directly work on upgrading, larger economic benefits are not captured under current SNA guidelines for the beneficiary household or for the government if the services they provide for exist in informal settlements where "ownership" – whether legal or economic – is not recognized.

The recording of such data in government accounts would provide for the empirical rationalization en vogue (and potential advocacy) for government programs that invest in informal settlements. In short, recognizing the informal in this case means also recognizing investment in improving services such as housing, water, and sanitation in informal settlements. Government bodies or programs whose purpose or mandate requires significant investment in upgrading the informal would have their efforts accounted for in accounting data terms that could then be used to rationalize continuation or improvement of the investments in question. If instead what is recognized remains only the costs of investments in the informal – as is the case at present according to the SNA 1993 – then the recognition of economic benefits to government and to beneficiary households from investment in housing improvements in informal settlements is lost, and government incentive to invest and upgrade diminished (particularly in comparison with government incentives to invest in projects with clearly recognized ownership and economic benefit streams, such as stadiums, for example).[34] This is of course particularly the case when governments are a) faced with a tremendous informal housing sector (as in Brazil) and b) when they are under pressure to demonstrate fiscal sobriety and productivity. If investments in slum upgrading are only accounted for in terms of the costs of investment, then governments undertaking such poverty reduction programs can be presented in accounting terms as both fiscally expansive and unproductive.

Further exploration of the SNA 1993 also highlights the interpretive contentions that arise in categorizing activities as "consumption" as opposed to "fixed capital formation". If

[34] Given the significance of the informal sector in national economies of the Global South in particular, the UN's Statistical Commission recommended that further work be conducted on how to better capture informal activities in the national accounts. However, here it is important to point out that treatment of the informal sector differs in category from the treatment of activities which occur in informal settlements. The former refers to economic activities; the latter refers to a physical place – where both formal and informal sector economic activities may occur. The efforts of different groups concerned with the SNA 1993 update to include better guidelines for the treatment and capturing of informal sector economic activities, though of interest, is not central to the argument presented here – which focuses more specifically on ownership/tenure issues.

expenditures are classified as the former – and more specifically, as intermediate consumption – instead of as fixed capital formation, this will "reduce the gross value added and operating surplus of the enterprise [in question – e.g., government agency] and hence GDP as a whole" (UN 1993: 1.57). What determines this classification decision is necessarily local interpretation. However, the UN's SNA 1993 provide guidelines which explicitly classify expenditure in areas like research and development or education as consumption and not capital formation. The argument put forth in support of this classification indicates that it is because such expenditures "do not lead to the acquisition of assets that can be easily identified, quantified, ad valued for balance sheet purposes" (UN 1993: 1.51). The argument forwarded here instead is that either a) what can be easily quantified or valued should not be the determining criteria for what is included in a system of data that explicitly aims to significantly shape economic analysis and policy-making; or b) economic analysis and policy-making not rely on national accounts calibrated under SNA guidelines for aggregate data or empirical evidence on government performance and fiscal health. The consideration of each remedy's feasibility is addressed later in this dissertation's conclusions. However, it is noteworthy that even the SNA recognizes that aggregates like the GDP or GDP per capita are difficult to lessen in importance as they already "acquired an identity of their own and are widely used by analysts, politicians, the press, the business community and the public at large as summary, global indicators of economic activity and welfare…[or] the relative success or failure of economic policies pursued by Governments" (UN 1993: 1.68).

For the current updating of the SNA 1993, the AEG prepared a full set of consolidated recommendations specifying which issues required address by the Intersecretariat Working Group on National Accounts (ISWGNA 2007b). Within this list of issues were a number of recommended improvements to the classification issues highlighted above. For example, revisions to the SNA 1993 will include a mandate to classify all research and development expenditures as fixed capital formation instead of as consumption – as noted in the example above. While this represents an improvement to measurements and categorizations in the national accounts, it also illustrates the privileging of private sector-heavy activities, as opposed to activities in which the public sector engages. To continue with the previous example, in the SNA 1993 both research and development as well as education were highlighted as examples of activities that were to be considered intermediate consumption. The former was clearly an example important to the private sector – and has been since subject to improvement in measurement as noted above. However, the latter, i.e., education investments – where the public sector is obviously very active – continue to be treated as intermediate consumption as opposed to fixed capital formation.

The same holds for how the SNA treats what is termed "other intangible fixed assets", or "new information, specialized knowledge, etc. not elsewhere classified…whose use in production is restricted to the units that have established ownership rights over them or to other units licensed by the latter" (ISWGNA 2007b: 25). The recommendation for the update of this treatment was restricted to renaming the category from "Other intangible fixed assets" to "other intellectual property products". There is significance in this alteration – namely because it follows a private-sector interpretation of examples of intangible fixed assets and because it clearly limits the scope of interpretation of what governments can consider intangible fixed assets to information that has, again, "ownership" rights or licensing. It does nothing to acknowledge, for example, institutional knowledge, which could also provide economic benefits, and is arguably more pertinent in the public sector.

CHAPTER 3

Fiscal Responsibility or Perversity?

How do privileges emerging from the historical and international platforms discussed in Chapter 2 impact local government administration and public investment in slum upgrading efforts today? This chapter seeks to answer this question through an examination of the practice of public sector accounting in a strict fiscal regime in Brazil. Using historical information on the evolution of the accounting and housing finance systems, recent empirical data from the city of São Paulo's budget archives over a ten-year period (1995-2005), as well as primary and secondary information on slum upgrading programs gathered from research, interviews, meetings, and participant observation in both the city of São Paulo and in the federal capital Brasilia, the argument forwarded is that an unproductive cycle of perverse adaptation of rules at the local level and austerity at the national level is present in Brazil. This unproductive and perverse cycle is facilitating a decline in municipal social investments in slum upgrading in São Paulo, all while creating an illusion of fiscal responsibility.

I. A Trifecta: Accounting, housing finance, and decentralization

In horseracing, a "trifecta" is a betting term that describes the occasion upon which a bettor must predict which horses will finish first, second, and third in exact order. The term has been extended to political discourses as well to describe scenarios in which a politician in an executive position appoints another elected official to a position and thereafter appoints a successor to the reassigned elected official. In this study, a trifecta is short-hand for the extension of particular influence from one sphere of public policy into two others. More specifically, those seeking to understand the "trifecta origins" of slum upgrading investments in Brazil today would do well to explore the significance of public sector accounting and housing finance systems, particularly starting with the year 1964. Preceded by an era when a development model of domestic consumption or import substitution reigned, it was in 1964 that the Brazilian government came under military rule, that new public sector accounting rules were introduced to control for excess government spending, and finally that a complex housing finance system (or Sistema Financeiro da Habitaçao – SFH) was envisioned. The executive-directed or top-down adaptation of accounting methods for public cost management and the development of SFH together formed a critical layer in the public policy foundation upon which was built the 1988 Constitution which decentralized responsibilities in basic service provision and housing construction to the city. How city governments have responded to the challenge of slum upgrading and the concurrent battle for fiscal space for social investments over the last two decades reflects the inherited influences of the trifecta of accounting, housing finance, and decentralization, each vector of which is explored in the next sections…

A. Accounting

As elsewhere, accounting practice in Brazil finds root centuries ago (Viana et al 2006). However, it was in the nineteenth century that it solidified as a profession in both the public and private sectors. It was also in 1880 that double-entry bookkeeping made its way into the country with the publishing of Veridiano de Carvalho's Mercantile Handbook (Schmidt et al 2006). And again as elsewhere, Brazil experienced (and arguably still experiences) a long struggle to standardize accounts and practices, starting in the mid-1800s with calls for uniformity in reports emerging in 1845 when a Trade Court was created to help resolve discrepancies (Viana et al 2006). By the early twentieth century, there was much corruption in the management of public accounts in Brazil, with the use of public funds for private gain and budgets using vague line-items (Topik 1987). This period in Brazilian accounting practice was still much influenced by the works and recommendations of early Italian accounting scholars and practitioners, though U.S. influence was starting to establish itself more clearly with the foundation of the Mackenzie College School of Commerce in São Paulo by a lawyer from the U.S. in 1907 (Schmidt et al 2006). By the mid-twentieth century, the U.S. contingent more clearly emerged as the leading influence over public sector best practice in Brazil.

In April of 1964, Brazil experienced a military coup or revolution, with General Castello Branco taking over the presidency of the Republic. With Castello Branco came a team of economic experts who had earlier served on joint Brazil-United States commissions on economy and trade in the post-WWII Cold War era when a strong alignment between the U.S. and Brazil emerged (Vidal Luna et al 2006, Syvrud 1974). Just two years earlier, in 1962, a professor of accounting in the U.S., Charles Lawrence, published a report in the journal *The Accounting Review* outlining the challenges of improving accounting education and practice in Brazil. Lawrence had spent two years serving as an advisor to the Escola de Administracão de Empresas in the city of São Paulo previous to his report, and felt that "those persons pushing for immediate or near immediate amalgamation of every nation's public accounting societies and the introduction of American standards must realize that the maturation process must first get at least a good hold" – namely in the educational system (Lawrence 1962). It is not so surprising then that several Brazilian accounting historians point to 1964 as the year in which accounting education in Brazil moved away from the early Italian professional influence into a sphere of U.S. influence (de Iudícibus 1997; Poubel de Castro et al 2004; Schmidt et al 2006). This shift was enabled by the introduction in Brazil of a new textbook by two U.S. authors, Finney and Miller, and its later influence on a Brazilian textbook publication on introductory accounting in 1971, which was subsequently used in all Brazilian accounting educational programs.[35] Here now entered into full bloom the era of using accounting as a management tool rather than a recording system, what in Brazil is termed accounting under the Patrimonialist school of thought.[36] In short, accounting practice became a central tool of government management, inherently tied to the budget proposal and reporting processes of government.

This school of thought in accounting education coincided with the political vision of executive control brought forth by President Castello Branco's management elite, which aimed to correct pre-1964 economic distortions like high inflation and heavy tax burdens, symptomatic of what were considered unproductive public sector spending and excessive deficit financing during the realm of import-substitution industrialization in Brazil

[35] It is of interest that one particular publishing firm in Brazil – Atlas – publishes a significant number of public accounting instructional books – and that this firm was co-founded in 1944 by Frederico Herrman Júnior, a leading accounting scholar and practitioner in Brazil who promoted the active application of accounting in the management of government patrimony and economy. Atlas is still headed by Júnior's family today (Schmidt et al 2006).

[36] The Patrimonialist School, as it is termed in Brazil, relates a philosophy of practice that in the United States is the equivalent of management accounting, or using accounts to manage/control activities impacting net assets. It was mostly conceived of as relevant for business management – i.e., the private sector – but still holds relevance for how accounting is used in the public sector realm.

(Syvrud 1974; Bulmer-Thomas 1994). Right before the military coup, Brazil had introduced a law revising the 1922 Codigo de Contabilidade Pública da União, or the Union's Public Accounting Code. Law no. 4.320, enacted March 17, 1964, is considered the seed of accounting practice in Brazil being at the service of executive-style cost management in government (Poubel de Castro et al 2004). The law introduced measures to ensure that government spending could be better controlled by the executive branch of government, requiring annual financial statements showing funding allocated by different work plans (e.g., for education, health, etc), by economic categories (current versus capital expenses), and by government agencies and related institutions. In order to prepare all such statements, the law required that government entities record revenues on a cash basis – to ward against an overestimation of potential annual revenues; it also mandated the practice of a modified accrual accounting of government expenditures to ensure that liabilities were recorded immediately. Importantly, this created a double coating of protection against spending (Angélico 1994: 114). Such data then fed (and still feeds) into the proposal of budgets for the following year.

Reflecting military control and its sense of public administrative best practices at the time, government in Brazil from the mid-1960s and well through the 1970s prioritized an executive-led promotion of economic growth, but often at significant social costs. Only one month after the enactment of Law no. 4.320, the military government further centralized administration and control of government spending. Budget preparation was centralized in the executive branch, diminishing the legislative body's influence over spending and oversight. More specifically, in 1967 a Ministry of Planning at the executive federal level was created, and by 1971 there was a Sub-secretary of Budget and Finances, in charge of the process of designing federal budgets and work programs over a multi-year period (Poubel de Castro et al 2004). President Castello Branco's economic team also introduced a "Plan of Economic Action" which aimed to reduce the public deficit, control inflation, promote private sector development, and limit salary increases, implementing a modernization of the fiscal and financial sectors (Vidal Luna et al 2006). However, it was also with such plans that Brazil experienced a precipitous drop in real wages and price adjustments (like the elimination of rent control), with serious damaging effect on income distribution (Syvrud 1974; Vidal Luna et al 2006).

At the local level too legislative powers were dissipated. The federal government became more involved in the type and level of investments made by sub-national levels of government, and even appointed Mayors (Syvrud 1974:143). The Brazilian Constitution of 1967 called for the updating of the institution of the "Court of Accounts", which had been first introduced in 1890 to inspect and evaluate federal government revenues and expenses. The 1967 constitution required that city executive and legislative bodies submit their accounts to an independent Court of Accounts rather than to the legislative body for auditing. This was required in particular for São Paulo and for any city with a budget 5% above that of São Paulo (e.g., Rio de Janeiro). As such, São Paulo's own Court of Accounts, the Tribunal de Contas do Municipio (TCM), was established in 1968 by municipal law as an "independent" entity in São Paulo[37]. The TCM-SP, headed by

---

[37] Information regarding the Courts of Accounts and in particular São Paulo's own accounting court is from field interviews with two accountants at the TCM of São Paulo in March 2006 and from the TCM-SP website: http://www.tcm.sp.gov.br/legislacao/lorgtcm/loc_t1.htm

five Counselors[38] (with life tenures), was charged with auditing city agencies on a monthly basis and the city's financial statements annually. More specifically, the TCM currently has a mandate to evaluate annual accounts presented by the Mayor, city council, and by the TCM itself; to judge the accounts of city agencies and public entities; to evaluate the lawfulness of staff appointments and pensions; and of course to audit accounting, financial, budgetary, and operational records of the city's administrative agencies. Interestingly, the TCM also has the power to apply penalties – established by law – in the case of irregularities. No further major legislative reforms were made to accounting practices until 2000, when the Law of Fiscal Responsibility (LFR) was enacted[39]. The post-LFR era will be discussed later in this chapter.

B. Housing Finance

Much the way accounting and public administration legislation introduced in the 1960s envisioned improving public management and thereafter economic performance by centralizing control, so too was legislation governing the establishment of housing finance institutions. Similarly again to the impact of accounting and administrative reforms aforementioned, there were also often social costs, or opportunity costs for those in substandard housing conditions, resulting from the housing finance system established. The SFH was nominally created to serve both the needs of low and higher-income Brazilians; however, much as could be argued about housing finance systems in other

[38] Three of the TCM Counselors are appointed by São Paulo's legislature, and the remaining two are the Mayor's appointees.

[39] There were, however, some legal measures taken to better specify or regulate accounting and auditing practices, including a 1980 legislative act at the municipal level, Organic Law No.9.167, which was enacted to regulate the São Paulo TCM's internal activities.

countries, this objective largely obscured the economic purpose of the system set in place – what in the United States has been called "the myth of the benevolent State" (Marcuse 1986). Indeed, as Syvrud argues, "in the conditions prevailing in Brazil in 1964, a high priority had to be given to housing, not solely for social purposes…but for the health of the economy itself. No other industry could have a greater impact in terms of expanding effective demand, so necessary for the stimulation of new investments and output in the industrial sector" (1974: 258). This significance of the SFH to the overall national economy, however, also implicated its weakness – the somewhat contradictory dual-purpose of attending to a significant housing deficit, especially among lower income households, while also serving to boost national economic growth. While these two purposes need not necessarily clash, the SFH's institutional structure hinted at the great likelihood of such.

The Brazilian SFH comprised the usual suspects of housing finance: savings and loan institutions, building societies, and state banks, in addition to the central agent of housing finance policy – the National Housing Bank of Brazil (or the Banco Nacional da Habitaçao – BNH). The BNH, itself also created in 1964, was charged with setting programs and policies, supervising SFH institutions, guaranteeing operations, and administering the different funding resources of the SFH (Valença 1992). The most important financial resources of the SFH was (and is) the workers' guaranteed compensation fund or Fundo de Garantia por Tempo de Serviço (FGTS)[40], in addition to

[40] The FGTS is a national fund constituted by the compulsory contribution of eight percent (on average) of a worker's salary. The eight percent is placed under the employee's name into a bank account which bears interest. The funds can be withdrawn by workers seeking to acquire housing or by those who no longer work.

the Brazilian system of savings and loans or Sistema Brasileiro de Poupança e Empréstimo (SBPE)[41].

A notable structural weakness in the system – which in part led to the dissolution of the BNH/SFH in 1986 – was a mismatch in the time horizon of its assets versus liabilities. In short, the savings funding the SFH were short-term based while the loans afforded by SFH were longer-term (Valença 1992). A further difficulty concerns social-interest housing funding through the FGTS. These funds – which are workers' social security as opposed to government-owned – need to secure full-cost recovery in lending operations. As such, their social mandate to serve the lowest income segment of the population's housing needs has proven largely unfeasible. In reality the FGTS has funded more middle-income housing needs than low-income housing. In the 1970s, the program started formally expanding its targeted population from households earning up to three minimum salaries to households earning five to ten minimum salaries (Cymbalista et al 2002; Valença 1992). However, even movement away from servicing the lowest income population could not save the SFH and its leading agent, the BNH, from its financial downfall in the 1980s.

[41] The FGTS can be used by individual workers seeking to acquire housing or if they lose employment. Otherwise, while being held in bank accounts these funds serve the purpose of funding housing and sanitation policies, with a particular emphasis on projects or policies serving social or low-income interests (Rossetto 2003). The SBPE, on the other hand, provided funding within the SFH for middle-income clients. In order to ensure that the SFH functioned without direct government subsidies, a cross-subsidization was designed to work between the SBPE- and FGTS-supported initiatives. More specifically, SBPE-funded operations were charged higher real interest rates so that FGTS-funded operations could be charged below-market interest rates (Valença 1992). In addition, to these funds, the SFH counted on repayments to fuel its lending cycle.

The closing of the BNH in 1986 and its reverberations on the SFH were the product of both the structural weaknesses aforementioned in the system coupled with the particularly unstable and hyperinflationary macro-economic context in Brazil during the 1980s. The international debt crisis associated with the excess of 1970s petrodollars traveled across many Latin American countries in the early 1980s, and was not unrelated to the internal national debt crisis in Brazil. In 1982, the same year in which the international debt crisis started in Mexico, already 10,000 Brazilian companies were in arrears in FGTS payments for their employees.[42] The economic recession of the period hurt employees and those who had taken out mortgages with their FGTS funds too. As Valença notes, there were record-level mortgage defaults and increasing unemployment, thus Brazilians in need of liquid funds sought such from their FGTS and SBPE accounts (1992:53). In the realm of housing alone, even twenty years after its creation, the SFH had only directed 4.5 percent of its resources directly to low-income households by way largely of self-help housing programs (Rossetto 2003: 22). As such, of the 15 trillion Cruz Reals in default to the SFH, only ten percent represented defaults from non-production based borrowers (i.e., individuals and city administrative agencies). The majority of defaults were by contractors, by semi-public housing companies (COHABs), and housing cooperatives (INOCOOPs), which together defaulted on roughly 10 trillion Cruz Reals (Valença 1992).

In the wake of the abolition of the BNH, the bank's liabilities and assets (and a significant number of employees) were incorporated in the Caixa Economica Federal,

[42] Furthermore, at that time, employees still had no means of checking on whether their companies were making payments into their FGTS account, though the BNH eventually introduced an accounts booklet for recording of payments (Valença 1992: 53).

while SFH supervision went under the tutelage of the Brazilian Central Bank and policy decision-making went to the National Monetary Council. The task of making housing policy proposals went to the Ministry of Urban Development and the Environment. However, these organizational changes did little to address the main structural weaknesses that plagued the BNH and SFH in the first place.

C. Decentralization and the rise of the city?

Marking the dissolution of military rule and national platforms supporting federal executive-led government in Brazil, a new constitution was adopted in 1988. Though to a certain extent, Brazilian government always reflected a strong federative style, it was with the 1988 constitution that decentralization was strongly institutionalized – a reaction, in part, to the preceding military regimes (Souza 2003; Rodrigues Afonso 2004; Rodrigues Afonso & Araújo 2004). Here was the first articulation of a nation-wide *urban* policy in Brazilian constitutional law. Cities gained in public service provision responsibility and in fiscal management duties, manifesting a push for decentralization both in international arenas and in locally-led popular movements (Freire Santoro et al 2007). For example, in a study of municipalities and social housing policy published in 2005 using data from the National Treasury of Brazil, social housing expenditures made by municipal government accounted for 60.5% of the total spent on this sector nationally (Bremaeker 2005b: 25). State governments contributed another 32.5% and the federal government only another 7%.[43]

[43] It will be of interest moving forward, however, to see how the introduction in 2005 of a new National System of Social-Interest Housing, and a National Social-Interest Housing Fund therein, will change the dynamics of which level of government is contributing most to social housing investments.

Perhaps most importantly, the 1988 Constitution also institutionalized the municipality as a government unit with rights and responsibilities independent of their corresponding state government unit, including for example the right to impose taxes. The two most important municipal taxes are: 1)ISS - a tax on services of any nature, including information services, research, health services, veterinarian services, personal care, physical construction and design services, tourism, etc; and 2) IPTU – a tax on urban building and land property. However, even with new tax rights of municipalities, the net effect on financial resource access was not significant (Bremaeker 2005a). The real financial gain was realized in two major governmental transfers to cities: the first, a transfer established from the federal to city governments via the Participation Fund for Cities or Fundo de Participação dos Municípios (FPM) from a percentage (22.5%) of the federal tax on industrialized products (IPI) and income tax (IR); the second, a state government transfer to cities in the form of a set percentage (25%) of the consolidated value-added tax or Imposto sobre a Circulação de Mercadorias e Serviços (ICMS)[44].

Empowered again vis a vis the federal government, both cities and states in Brazil engaged in high levels of debt financing in the early 1990s. While on an aggregate basis, state debt rose much more than municipal debt, this was not the case for larger cities like São Paulo and Rio de Janeiro whose indebtedness rested at similar levels to that of state governments. Such municipal indebtedness was in part a response to the growth of responsibilities placed on this level of government. Since the 1988 constitution, municipalities have seen at least 4.5% and in some cases up to 11% of their current

[44] The ICMS comprises taxes on the circulation of goods, on interstate and intercity transportation services, and on telecommunications services.

revenues newly dedicated to services that were earlier the providence of state and federal governments; importantly, these services were effectively (though not formally) transferred to local government without additional funding (Bremaeker 2005a; Garson 2005). However, scholars like Afonso and Araúju (2004) point to other issues facilitating the rise of such indebtedness at the sub-national level, such as: a) permissive terms for debt rollover agreements; and b) a historical promise of federal bailouts in case of sub-national insolvency.

Of course, mismanagement of government funds also appeared rampant in retrospect. In the city of São Paulo alone, a number of political figures have been connected to corruptions scandals connected to public works projects. For example, one of the most notorious figures, former Mayor Paulo Maluf (1969-1971; 1993-1996), has been charged with corruption and tax evasion several times in Brazil. Maluf was even indicted by the Manhattan District Attorney's office in March of 2007 for money laundering in relation to a kickback and inflated invoice scheme that allegedly stole $11.6 million from a giant highway project in São Paulo (the construction of Avenida Agua Espraiada) which totaled $140 million (Hartocollis and Rohter 2007). The 1990s' fiscal deficits, in part caused by sub-national corruption and the shifting of expenditure coverage to future administrations, precipitated the country's currency crisis and devaluation in 1999 (Gruben & Welch 2001, Bremaeker 2005a). Importantly, during this troubled period, sub-national governments also often failed to record liabilities properly. A report from an IMF field visit indicated that past unrecorded liabilities at the sub-national level– from "quasi-fiscal or extrabudgetary practices" – included those accumulated from losses incurred as a result of government-imposed prize freezes, those from monetary corrections applied to frozen savings accounts, and finally those from interest penalties paid on tax arrears (IMF 2001b:13)

It was in response to this growing fiscal crisis, peaking with a currency devaluation in 1999, that the Brazilian government brokered a series of agreements with the IMF, and in 1999 legally instituted for the first time a consolidated primary budget surplus target (at first set to 3.1% of GDP). The government also introduced an important Fiscal Stabilization Program, greatly impacting sub-national governments. The program restructured state and municipal debt at fixed interest rates so that the federal government could redeem that debt and issue its own at market rates, effectively creating a subsidy for sub-national governments. In return, participating sub-national governments were obliged to offer their own revenue and their rights to intergovernmental transfers as a guarantee on their debt (Afonso 2004; Afonso and Araúju 2004). Sub-national governments signed agreements with the federal government which forbade any new indebtedness on their part until their debt was paid off, providing for the mandatory annual reduction of extant debt until the end of 2016 (Afonso and Araúju 2004, de Mello 2005). This restructuring deal led the way for the drawing up of the Law of Fiscal Responsibility (LFR), or Complimentary Law No. 101, in 2000, a law which significantly shapes government administration and institutionalizes fiscal rules over management and behavior.

More specifically, the LFR established a very specific framework for transparency and accountability in the planning, execution, and reporting of budgets at all three levels of government. A few measures in the LFR are of particular interest for cities and are worth highlighting for later discussion. First, the law sets a debt ceiling for governments – for municipalities in particular at 120 percent of their net current revenue. Secondly, personnel spending – including pension payments and sub-contracts – cannot exceed 60% of municipal net current revenue. Another measure requires that any spending mandate have a correspondence in permanent revenues, so as to avoid the rolling over of expenditures to future administrations. The LFR also bans new spending commitments that cannot be executed before the incumbent administration's term ends and mandates the recording of any unspent commitments in the two quarters before an administration's term is ended – unless sufficient cash balances are available to cover the commitments at the end of the fiscal year (Lei Complementar n. 101 2000). As first mentioned in Chapter One, the law further requires that government attain a consolidated primary budget surplus, which is determined each year and has recently centered more or less around 4.25% of GDP. Finally, in its effort to institutionalize transparency in government, the LFR calls for the preparation of the following interlinked budget framework documents at every level of government (IMF 2001b; de Mello 2005:9):

a) Plano Pluri-Anual (PPA)/Multi-year Plan: a four-year budget plan to allocate projected budgetary resources over the following years for different programs and activities.

b) Lei de Diretrizes Orçamentárias (LDO)/Annual Budget Guidelines Law: a three-year budget guideline law that sets targets for the main budget aggregates (e.g., expenditure, revenue) listed in a Fiscal Targets Annex;

c) Lei Orçamentária Anual (LOA)/Annual Budget Law: an annual budget law that allocates budget resources to the programs and activities outlined in the PPA and consistent with the fiscal targets set by the LDO.

There have been mixed responses to the implementation of the above LFR's mandates, particularly where sub-national government is concerned – and especially in a city the size of São Paulo. While city administrators from São Paulo's Secretary of Housing and Urban Development (SEHAB) who have worked under the regime of LFR acknowledge its honorable intentions and its necessity in overcoming past corruption, a few also note many difficulties LFR puts into practice.[45] For example, a chief budgetary advisor notes that the LFR was an important marker in public finance, as it obliges governments to budget responsibly rather than passing on costs to future administrations; it also ensures continuity of programs by favoring their funding allocations over funding for new projects desired by consecutive administrations. However, the same advisor noted that the rules set forth in LFR make it very difficult to effectively address the demand for affording housing and upgrading in São Paulo. Another (former) SEHAB budget supervisor noted that the original intent of the law was lost because the Brazilian Congress took out various original articles before passing the law; as such, much of the

[45] A series of interviews were conducted in January-March 2006 with former and current SEHAB personnel, including Anaclaudia Rossbach, former financial administration coordinator at SEHAB (2002-2004); Vera Baratela, Financial and Budgetary Supervisor, SEHAB (2005-); Violeta Saldanha Kubrusly, Chief Technical Advisor, HABI-SEHAB (1999-2001; 2005-); Denise Lopes de Souza, Chief Technical Advisor – Budget, SEHAB (2005-).

philosophy and logic of the LFR's original plan is not present in the current legislation, encouraging diverse – and even muddled – interpretations of the law. Nonetheless, the same former supervisor believes that the PPA – and its adjustment through the LOA – helps city administrators envision and guide public policy in a more targeted manner, and most importantly, gets easier to implement with time. Budgetary and planning advisors working in São Paulo's Secretary of Planning as dedicated liaisons with SEHAB concur – noting that every three months there is monitoring and evaluations of programming executed versus programming planned in the PPA.[46]

Others within the accounting community, and particularly in São Paulo's municipal administration, note that the LFR does not go far enough in ensuring responsible management, noting the need for more alignment with international accounting and fiscal management standards. One level of complaint is with the limited targeting of fiscal discipline rather than a wider improvement of costs, general efficiency, results measurement, and cost-benefit analyses (Vaz de Lima et al 2003: 236). At the city's Secretary of Finance, this same sentiment was revealed. Wania Maria Ruotti, the Public Debt Advisor in the Accounting Department of the Secretary of Finance notes that Brazil still has more to adapt in aligning with international standards like the UN's SNA and those from the IMF, in addition to the IAS (the private sector accounting standard board from which the IFAC translates standards for the public sector). In particular, Ruotti reports that there has been a "juridical vacuum" in Brazil while a new law of public

[46] Interviews conducted in São Paulo on March 2, 2006 with Salustiano Nunes, General Budgetary Advisor for the Secretary of Planning, in charge of SEHAB liaison, and with Javier Toro Gonzalez, Special Planning Advisor for the Secretary of Planning, working with SEHAB as well. Since 2005, the Secretary of Planning (i.e., fiscal planning as opposed to physical planning) has taken responsibility from the Secretary of Finance for preparing the budget.

sector accounting to entirely replace the 1964 Law no. 4.320 still remains in Congress (after first being introduced in 2000 for consideration).[47] Though Brazil technically already follows the UN SNA guidelines in preparing its national accounts (Feijó et al 2004), the proposed law would lead the way for full accrual accounting in Brazilian fiscal administration as currently being promoted by the UN, IMF, and IFAC-IPSASB.

This push toward convergence is unsurprising. As De Bellis argues, "standards established at the global level are progressively more influencing domestic laws and administrations, directly penetrating within domestic legal orders" (2006:1). The author also argues that global standard setters engage in cross-referencing, not only to harmonize their rules but also because the reciprocal reinforcement of rules compounds their power and influence (2006: 13). For example, the international Financial Stability Forum, whose objectives and purpose are translated directly on the Brazilian Secretary for International Affairs' website (within the Ministry of Finance), states its intention to help "increase the transparency and openness of the international financial system; identify and disseminate international principles, standards, and codes of best practice; [and] strengthen incentives to meet these international standards" (Financial Stability Forum 2001:3). In addition, two Brazilian accounting institutions are members in the IFAC. One is the Conselho Federal de Contabilidade (CFC), or Federal Accounting Council, which is a private organization created by law but managed by the profession, The other IFAC Brazilian member body, the Instituto dos Auditores Independentes do Brasil (IBRACON), or the Brazilian Institute of Independent Auditors, is a private, voluntary organization created by the profession.

[47] Interview conducted in São Paulo on March 7, 2006

Neither of the Brazilian IFAC members claim outright activity with nor responsibility for public sector accounting practices in Brazil. In its compliance report to the IFAC, IBRACON further notes that the only institution responsible for accounting standards for the public sector in Brazil at present is the National Congress (IBRACON 2005). NY-based IPSASB Technical Manager Bohun also related that reports from Brazilian colleagues indicate that the "Brazilian government does not prepare financial statements in accordance with IPSASs, nor has it announced any intention to do so." (Bohun-Aponte 2007). The claim of non-involvement, however, does not equate with no intent. CFC has created a working group to develop accounting standards for the Brazilian public sector (CFC 2007:38). It is notable, given the CFC's project, that of its 337,000 members, only 60,000 are from public practice or the public sector, while the great majority works in private industry. It is also of interest to note that the IFAC's compliance program, in which both CFC and IBRACON participate, includes in its questionnaire a question regarding member bodies' efforts to promote IFAC standards, and the IPSAS in particular. Further, the Brazilian Finance Ministry sent delegates to the IFAC-inaugurated TFHPSA meetings, and the Brazilian Secretary for International Affairs within the Ministry of Finance lists standard-setting bodies of importance to policy on its website, including both the IAS Board and the IFAC. Thus, while the private accounting institutions and groups make no outward statement of interest in public sector reform, and while the Brazilian government makes no direct claim on adhering to IPSASB as of yet, the inclination of both the private sector organizations and the Brazilian government – and in particular financial administrators at both local and federal levels – itself is toward coordination with and adherence to cooperation and adaptation of private-sector influenced standards.

D. The Big Picture: Yo-yo fiscal management

Perhaps a little strangely, there are many parallels that can be drawn between the fiscal management experiences of Brazil over the past few decades and misguided weight management efforts among individuals. In Brazil, a military regime took over federal government in 1964 in part to combat fiscal mismanagement, characterized by overspending, growing inflation, and slow economic growth. The military introduced a strong executive bias in government, both in accounting and fiscal policies. Austerity measures were imposed but results were often perverse, producing further inflation, indebtedness, and stagnancy for Brazil overall and stimulating greater inequalities among Brazilians. Furthermore, Brazil then suffered the effects of the petrodollar crisis and hyperinflation in the early 1980s. After democratic government was restored in Brazil in 1988, efforts were again made to control for inflation, induce economic growth, and cut government spending. Again, results were often perverse, evidenced by corrupt public sector exercises in creating personal gain for officials and further growth in inequality between the poorest and wealthiest income brackets. Then crisis came again, and the currency was devalued in 1999. The Law of Fiscal Responsibility was introduced as the law to end all perversity in 2000, a law that would restore accountability, prudence, and high performance at all levels of government. It is a law that empowers quantifiable data – accounting data – and mandates transparent reporting of all government financial activities. However, even under the LFR, there is evidence of a perversion of intention – as will be described in the next section.

In summary, Brazil has shown itself to be a yo-yo fiscal dieter. One strict diet, then binging. Another strict diet, then more binging or cheating. And now again, a newer stricter diet, with evidence emerging of perversions of the original intent of fiscal dieting. While diets by nature are not unworthy exercises – certainly in the fiscal realm – dieting in the hopes that a strictness will magically change a way of life, as any failed dieter will recount, simply does not work. And that which does not work at the individual level seems destined to encounter greater trouble at the aggregated scale. What is most important, however, is who the fiscal dieting has impacted most. It is through this empirical lens that we see that lowest income groups – usually those without political clout – hurt both in times of public sector overspending (which has often paralleled corrupt activities for personal gain) and in times of fiscal austerity (which has often equated with less social spending). In short, the poor pay – *always*. They pay the opportunity cost of corruption. They pay the opportunity cost of foregone social investments in times of fiscal austerity. This, at least, appears to be the case in São Paulo…

II. The Ground Level: São Paulo

A. The City Set-Up

The city of Sao Paulo's largest funding sources are its tax receipts and intergovernmental transfers, together comprising approximately 60% of the city's total revenues in most years between 1995 and 2005 (Prefeitura do Município de São Paulo – Balanços Geral 1995-2005). The most significant singular sources therein tend to come from two taxes, the IPTU (property tax) and ISS (service tax). In a typical sample year (2003), the city's tax receipts constituted roughly 48.6% of its total revenues, while another 40.1% came from intergovernmental government transfers from state and federal governments. Importantly, within state government transfers figure the city's share of the ICMS (value-added tax). While loans were once an important part of the city's revenues, São Paulo is prohibited from securing any new international loans (e.g., from the IDB, World Bank, etc) until 2010 (Cities Alliance 2004: 20). Showing the base data for the above percentages is Figure 3.1 below, a (translated) copy of the city's 2003 Statement of Revenues and Expenditures according to economic category (e.g. current, capital).[48]

[48] This Statement was prepared using a modified accrual basis of accounting for expenditures and a cash-basis of accounting for revenues (i.e., where revenues are only recorded when collected, and expenditures are recorded as soon as a commitment is made, although depreciation and capitalization costs are not allowed).

Figure 3.1 – 2003 Statement of Revenues and Expenditures – São Paulo

Prefeitura do Município de São Paulo ***Statement of Revenues and Expenditures by Economic Category 2003***	
CURRENT REVENUES	10,146,741,700
REVENUES FROM TAXES	5,143,091,000
ASSET INCOME	163,210,000
INDUSTRIAL INCOME	2,016,000
SERVICE INCOME	41,691,000
INTERGOVERNMENTAL TRANSFERS	4,246,017,000
OTHER CURRENT REVENUES	921,685,700
CAPITAL REVENUES	446,907,500
CREDIT OPERATIONS	281,359,300
TRANSFER OF PROPERTY	90,600,000
TRANFERS OF CAPITAL	7,380,000
OTHER CAPITAL REVENUES	67,568,200
TOTAL BUDGET REVENUES	**10,593,649,200**
CURRENT EXPENDITURES	8,933,478,234
PERSONNEL AND SOCIAL CHARGES	3,879,858,999
DEBT INTEREST AND CHARGES	912,603,400
OTHER CURRENT EXPENDITURES	4,141,015,835
CAPITAL EXPENDITURES	1,659,660,934
INVESTMENTS	1,374,491,753
AMORTIZATION OF DEBT	187,399,600
FINANCIAL ACQUISITION EXPENDITURES	97,769,581
CONTIGENCY RESERVE	510,032
TOTAL BUDGET EXPENDITURES	**10,593,649,200**

Source: Balancos Geral 2003, Demonstrativo da Receita e Despesa Segundo as Categorias Economicas, Secretary of Finance, Municipality of Sao Paulo. Translated by author.

In terms of expenditures, about 93% of the city's spending is defined as current expenditures, including personnel costs and interest payments. The remaining 7% of city spending is on capital expenditures, including of course capital investments. On an overall basis, there are national mandates for spending on health and education at the municipal level throughout Brazil introduced in 2000. The 2000 constitutional amendment requires all municipalities to spend at least 25% of their own revenues, in addition to a dedicated federal transfer, on education; in addition at least 15% of their own revenues, plus another dedicated federal transfer, is to be spent on health. For the city of São Paulo, there is also a requirement to pay down its debt service as per its arrangement with the National Treasury, amounting to just over 10% of its revenues in the sample year 2003, as related in Figure 3.1 above[49]. In addition, personnel costs (which include pension payments) account for the large majority of the city's agencies and Secretaries' budgets, though according to the LFR this expenditure cannot be greater than 60% of the city's total expenses. Altogether, in terms of sectors of activity, about 50% of São Paulo's revenues are dedicated to health, education, and debt service, leaving the remaining half to other government current and capital expenses, including those in the housing and urban development sector.

São Paulo's Secretary of Housing and Urban Development (SEHAB) was created in 1977 and is the city's agency in charge of housing policy, land-use and zoning policies, and preservation of urban environments. Importantly, SEHAB is also the city's agency dedicated to upgrading sub-standard human settlements, including improvements to or new production of housing for low-income households, neighborhood environmental improvements (pavements, sidewalks, playgrounds, etc.), and regularization of land to facilitate basic service provisions.[50] Though SEHAB's programmatic focus can

[49] Since 2003, the city has dedicated roughly 13% of its spending to debt payments according to Javier Toro Gonzalez, Special Planning Advisor for the Secretary of Planning, interviewed on March 2nd 2006.

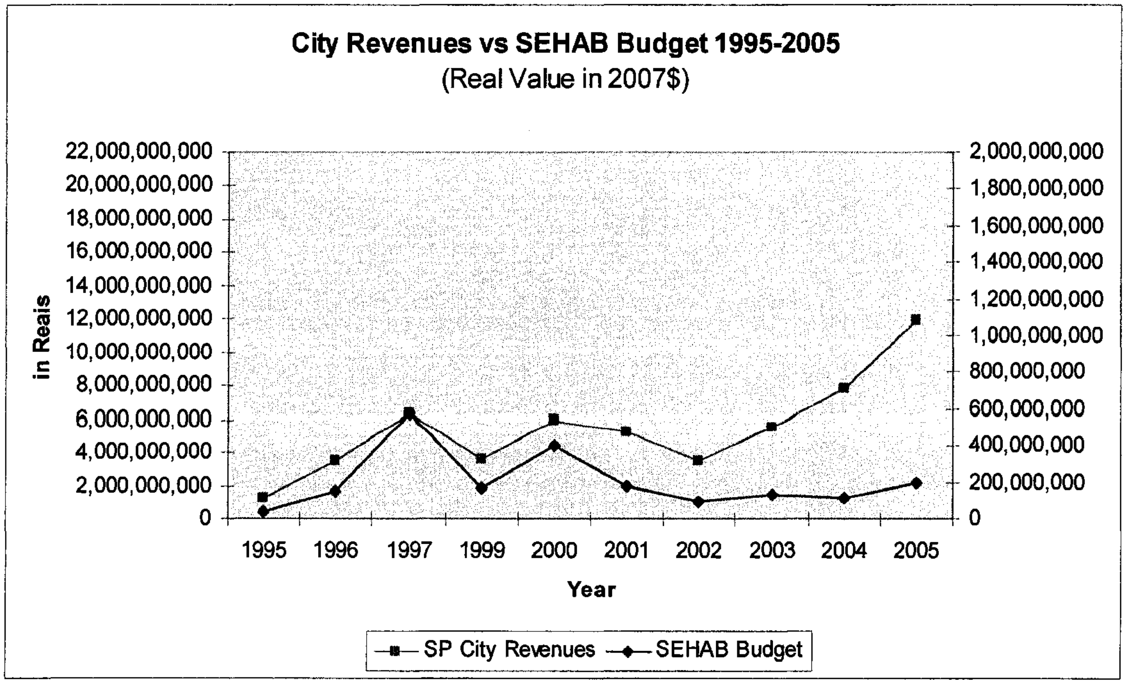
[50] Information from SEHAB's website:
http://www.capital.sp.gov.br/portalpmsp/do/orgaos?op=instituicaoForm&param=822&unidadeForm=false&mostraUnidades=false&filter=0&orderBy=0&coEstruturaPaiVertical=91

somewhat shift with administrations in power, there are two sub-secretaries working specifically on slum upgrading, the Superintendência de Habitação Popular (HABI) or Superintendent of Popular Housing, and the Departamento de Regularização do Parcelamento do Solo (Resolo) or the Department of Land Parcel Regularization. Within the agency's city-wide slum/informal settlement upgrading programming[51], the largest longstanding program is the Programa Bairro Legal. Bairro Legal specifically targets areas of the city that are predominantly occupied by low-income populations (Cities Alliance 2004). The program has included "sub-projects", such as a) the "verticalization" of squatter settlements (or the building of high-rise public housing), b) the redevelopment and upgrading of "special social interest zones" (or what are termed ZEIS) with infrastructure provision, services, and community centers, c) the upgrading of illegal subdivisions, and d) the renovation of public housing estates (Budds and Teixeira 2005).

On a comparative basis, what is of interest is that the budget for SEHAB and the City of São Paulo overall are on divergent paths (See Graph 3.1 below).

[51] SEHAB also has other non-upgrading specific programming for the regeneration or redevelopment of the city center and for the relocation of families from environmentally hazardous areas.

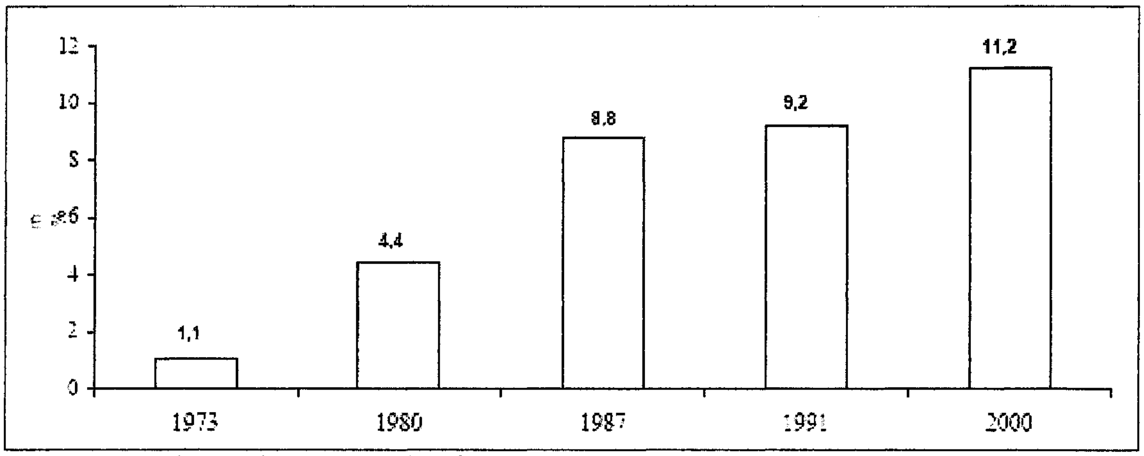
Graph 3.1: Comparison of Revenues and Budget Allocated



Source: Prefeitura do Município de São Paulo, Secretaria das Financas, Departamento da Contadoria – Balanços Gerais de 1995-2005 (General Balance Statements from 1995 through 2005).
Note: The City revenues realized line is plotted against the left-hand y-axis, while the SEHAB budget is plotted against the right-hand y-axis. Also, 1998 data is excluded because of distortions linked with the peaked overvaluation of the Brazilian Real and consequent devaluation the following year.

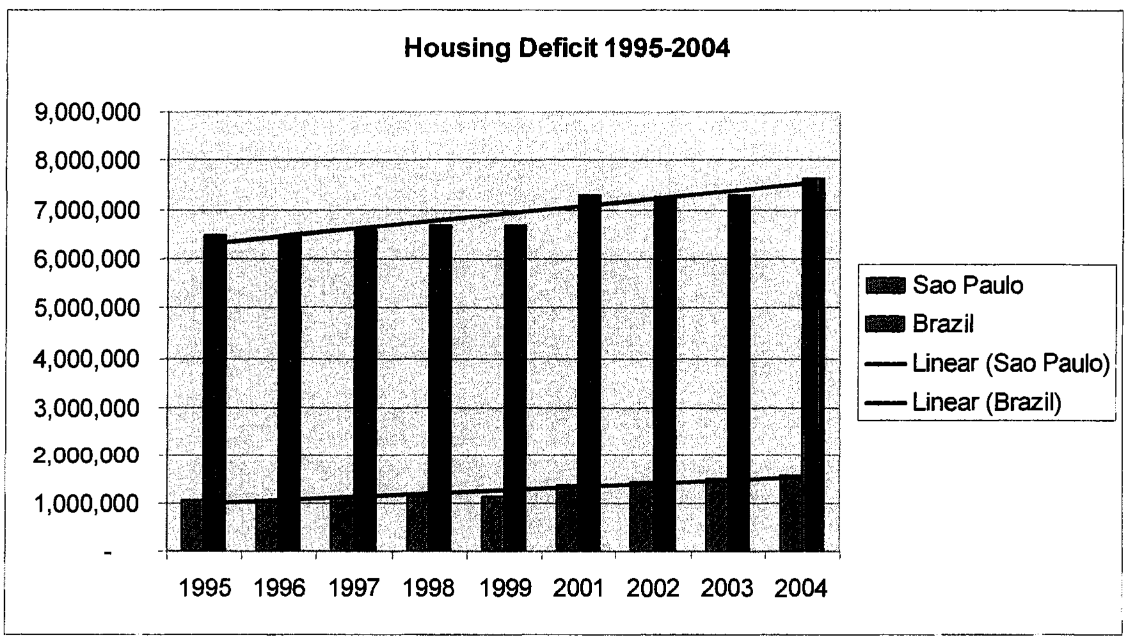
Though the above graph gives only a general sense of working budgets in São Paulo, the significant directional and absolute gap between the city's overall revenues and the budget dedicated to its housing agency is particularly notable since the year 2000 – when LFR was introduced. In short, post-LFR, SEHAB's budget has diverged significantly from the city's overall revenues, despite the additional associated timing with the introduction of a constitutional right to housing in the city with the 2001 Statute of Cities, a federal law, highlighting the social function of property, which regulates original articles of the 1988 Brazilian constitution (Fix et al 2003). This is also despite the evidence available already in 2000 that there was a substantial housing deficit problem in the city and a large number of poor households living in sub-standard conditions. For example, the relative percentage of population living in substandard settlements has grown in the city of São Paulo over the last decades of the 20th century (Graph 3.2), and the overall housing deficit in Brazil and in the state of São Paulo has grown steadily (with the exception of 1999) since 1995, as shown in Graph 3.3 below.

Graph 3.2 City of Sao Paulo – Evolution of the number of people residing in shantytowns relative to Total Population between 1973 and 2000 (in %)



Source: M. Pochmann (2005) using data from IBGE, SEADE, PMSP

Graph 3.3 Comparison of Housing Deficit in Brazil and the State of São Paulo

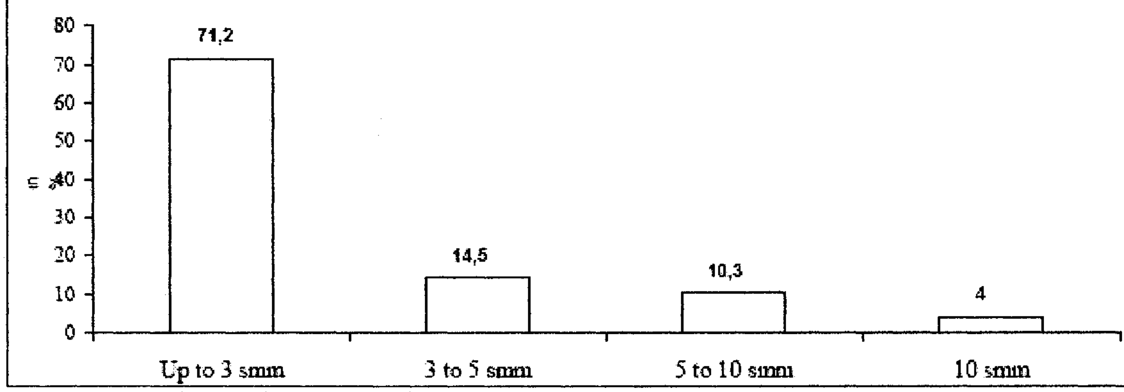


Source: Data from Ana Maria Castelo of FGV Projetos, Survey 1993-2004.

Though the figures above in Graph 3.3 relate the housing deficit in the state rather than city, we know from other sources that, for example, among those suffering from the housing deficit within the city of São Paulo, the majority (or roughly 71% in sample year 2000) were in the lowest income bracket (see Graph 3.4 below). These were households earning only up to three *salario minimos* (smm), or minimum salaries, which in Brazil at that time was the equivalent of R$453 (in nominal 2000 R$) or roughly US$250 (nominal 2000 US$) per month.[52]

Graph 3.4 Whose housing deficit? City of São Paulo Deficits by Income, Year 2000

São Paulo: Composition of the housing deficit according to family income bracket in 2000 (Total = 100%)



Source: M. Pochmann (2005) using data from IBGE, SEADE, PMSP

Given the upward trend of the housing crisis in the city of São Paulo, growth in the importance of the budget allocated to the city's one Secretary dedicated to devising and implementing housing, particularly for the poor, would not appear unmerited. Instead, SEHAB's allocated budget has only weakened on a relative basis – and especially so since the implementation of the Law of Fiscal Responsibility and its strict empowerment of accounting data in fiscal management. In the following section, discussion centers on

[52] The minimum salary in Brazil was R$151 in 2000, but as of March 1st, 2008 is R$415 per month, and is a figure that is periodically updated by law.

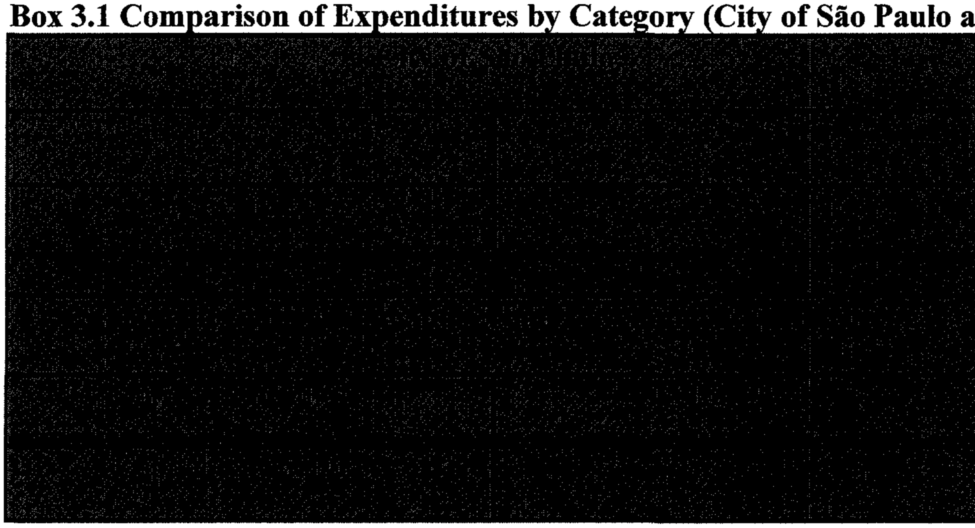
possible explanations for this decline that are specifically related to accounting data and its power under the LFR regime.

B. Understanding three ways the poor pay since the LFR...

1. An Exercise in Depreciation

To determine whether or how public sector accounting practices in rigid fiscal regime impacts social investments, it is useful to conduct a simple micro-level exercise in changing the basis of accounting systems used by the city of São Paulo. Using data from the same sample year noted earlier, it is evident that SEHAB and the city overall tend to spend funding on different types of activities and operations. Box 3.1 below shows the relative current and capital expenditures of both in 2003, highlighting that a significant majority of the city of São Paulo's budget is spent on *current* expenditures (93%), while the significant majority of SEHAB's budget is allocated to *capital* expenditures (83%).

Box 3.1 Comparison of Expenditures by Category (City of São Paulo and SEHAB)



Source: Base data from Balancos Geral 2003, Demonstrativo da Receita e Despesa Segundo as Categorias Economicas, Secretary of Finance, Municipality of Sao Paulo, and from PMSP 2003 Quadro de Detalhamento da Despesa Administraçao Direta – Secretaria da Habitaçao e Desenvolvimento Urbano / Detailed Statement of Direct Administration Costs – Secretary of Housing and Urban Development 1993 Exercise.

In more specific terms, earlier Figure 3.1 – the 2003 Statement of Revenues and Expenditures - showed that within the category of the city of São Paulo's capital expenditures, capital investments figure largely, amounting to R$ 1.4 billion or 82.8% of city's overall capital expenditures. Of interest is that though SEHAB's allocated budget amounts to only R$275 million or 2.6% of the city's overall revenues, SEHAB is actually responsible for almost 13%, or R$ 175 million, of the city's overall capital investments. Thus how SEHAB's capital investments are treated in accounting terms holds significance for the presentation of the city's overall fiscal health in financial statements. Under the current modified accrual basis of accounts, capital investments recorded are not allowed to be depreciated. However, if instead capital investments such as those made by SEHAB in slum upgrading were to be depreciated, under the rules of full accrual accounting, then the Statement of Revenues and Expenses by Economic Category would show a different – lesser – amount under capital investment expenses. In the sample year (2003), SEHAB's capital investment expenditures for slum upgrading programs included R$14,987,268 for upgrading loteamentos and another R$45,988,000 for upgrading favelas, totaling R$60,975,268 (PMSP 2003). If slum upgrading capital investments were depreciated using a simple straight-line method, instead of recording R$60,975,268 in capital investment expenditures, SEHAB would have recorded R$2,032,509 – a difference of R$58,942,759.[53] The city's Statement of Revenues and

[53] In order to depreciate under the straight-line method, one takes the asset value (R$60,975,268) minus the residual value (which here is assumed to be $0) and divides by the life of the asset (here estimated at 30 years for exercise purposes). Thus R$60,975,268 – 0 / 30 = R$2,032,509. This last amount is the figure that would be recorded in accounts for each year in the life of the asset.

Expenses would then appear as follows below in Figure 3.2, with the city's total capital investments at R$1,315,548,994 and a surplus in the amount of R$58,942,759:

Figure 3.2: Statement of Revenues & Expenses under Full-Accrual Accounting

Prefeitura do Município de São Paulo ***Statement of Revenues and Expenses by Economic Category 2003***		
CURRENT REVENUES		10,146,741,700
REVENUES FROM TAXES	5,143,091,000	
ASSET INCOME	163,210,000	
INDUSTRIAL INCOME	2,016,000	
SERVICE INCOME	41,691,000	
INTERGOVERNMENTAL TRANSFERS	4,246,017,000	
OTHER CURRENT REVENUES	921,685,700	
CAPITAL REVENUES		446,907,500
CREDIT OPERATIONS	281,359,300	
TRANSFER OF PROPERTY	90,600,000	
TRANFERS OF CAPITAL	7,380,000	
OTHER CAPITAL REVENUES	67,568,200	
TOTAL BUDGET REVENUES		**10,593,649,200**
CURRENT EXPENSES		8,933,478,234
PERSONNEL AND SOCIAL CHARGES	3,879,858,999	
DEBT INTEREST AND CHARGES	912,603,400	
OTHER CURRENT EXPENSES	4,141,015,835	
CAPITAL EXPENSES		1,600,718,175
INVESTMENTS	**1,315,548,994**	
AMORTIZATION OF DEBT	187,399,600	
FINANCIAL ACQUISITION EXPENSES	97,769,581	
CONTIGENCY RESERVE		510,032
TOTAL BUDGET EXPENSES		**10,534,706,441**
BUDGET SURPLUS/(DEFICIT)		**58,942,759**

Source: Base data from Balancos Geral 2003, Demonstrativo da Receita e Despesa Segundo as Categorias Economicas, Secretary of Finance, Municipality of Sao Paulo; Adjusted under full-accrual method of accounting, using data from the PMSP 2003 Quadro de Detalhamento da Despesa Administraçao Direta – Secretaria da Habitaçao e Desenvolvimento Urbano / Detailed Statement of Direct Administration Costs – Secretary of Housing and Urban Development 1993 Exercise.

The surplus amount recorded in the sample exercise of course only amounts to 0.6% of the city of São Paulo's revenue. However, as the primary budget surplus mandated by the LFR is calculated on a consolidated (federal, state, local) government basis, this amount can prove significant. For example, Afonso and Araújo (2004) report that in their 2004 study, Brazilian municipalities contributed only 0.1% to the overall consolidated primary budget surplus, with federal government contributing 2.6%, states 0.8%, and public enterprises another 0.9%, for a total primary budget surplus of 4.4%. In short, which basis of accounting system used – and the opportunity to depreciate capital investments – holds significance for government operations, and especially government operations under a system which places great emphasis on the achievement of precise fiscal targets. Furthermore, when capital investments are aimed at poverty alleviation and social support, as with SEHAB's slum upgrading capital investments, their accounting treatment sets the scope of opportunity in policy decisions about whether or not the city can afford to extend slum upgrading projects to communities in need.

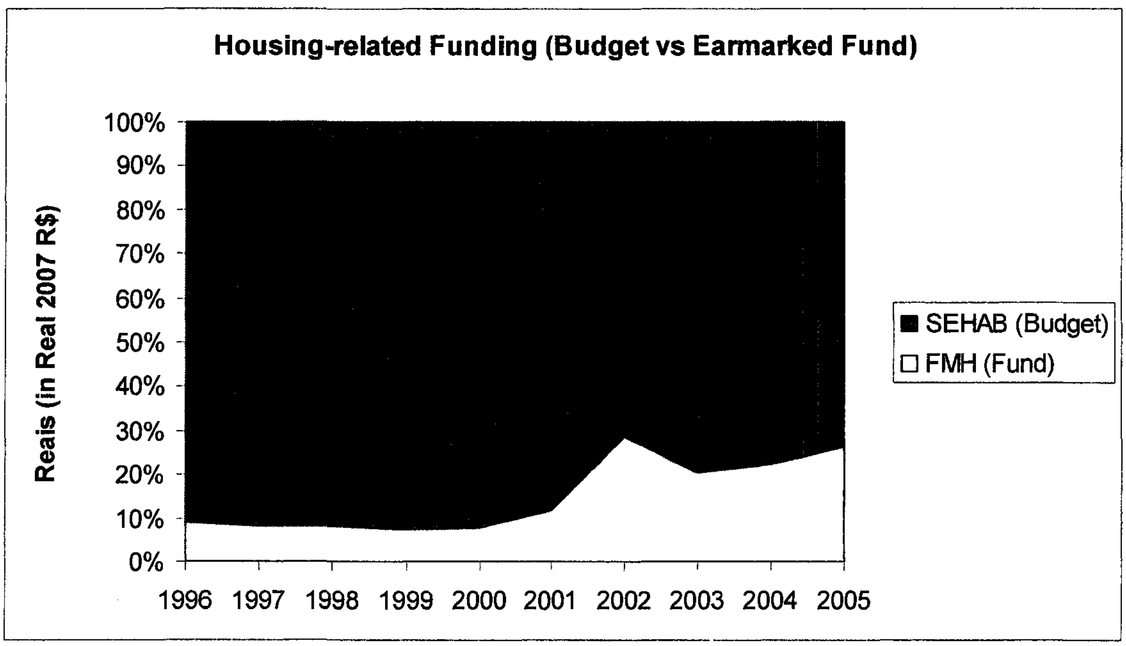
2. Negating Intentions

Since the LFR, the relative importance of earmarked funds (as opposed to allocated Secretary budgets) in the city has grown[54] (Rossetto 2003). This is certainly the case with regard to the one earmarked fund dedicated to the upgrading and production of housing in São Paulo, the Fund for Municipal Housing (FMH), or Fundo de Habitação Municipal (see Graph 3.5 below). The Municipal Housing Council (or Conselho

[54] In the wake of the new public finance regime established with the LFR of 2000, a plethora of earmarked funds have emerged so as to avoid the political budgetary struggle for allocations fought out between the city executive branch and the São Paulo city council (Rossetto 2003; Interview with Anaclaudia Rossbach, former financial administration coordinator at SEHAB on February 15, 2006).

Municipal de Habitação – CMH), created by law in 1994, is the managing council for the FMH, which was established in the same year. The creation of the CMH/FMH is tied to the popular protests for housing, and is an offspring of an earlier popular housing fund which began in 1979 (Cymbalista et al 2002). The CMH's institutional structure is meant to facilitate the participation of community stakeholders, particularly low-income housing associations from sub-standard settlements. Also, the fund is comprised of a share of the city's tax transfers from state and federal governments, in addition to revenues from the sale of properties built with public funding, as well as private donations and grants.

Graph 3.5 Relative composition of Housing-related Funding in the City of São Paulo



Source: Data from Balancos Geral 1995-2005, Secretary of Finance, Municipality of Sao Paulo

Three points are of most interest with regard to the FMH: the first is that unlike SEHAB's allocated budget, the FMH's funds can be carried over to subsequent years. Secondly, FMH-funded projects serve a population with up to 10 minimum salaries, while

SEHAB's dedicated favela-upgrading sub-agency (HABI) must target populations only making up to six minimum salaries. Thirdly, the FMH is not governed by the same rules as SEHAB when contracting out projects to third parties, and thus does not have to award contracts to the lowest bidder (Rossetto 2003). It is the second and third points in particular that appear somewhat troubling, particularly given the relative growth of the FMH as opposed to SEHAB's own allocated budget in Graph 3.5. In short, the lowest income segment of the population suffering from housing deficits (which as Graph 3.4 highlights is the largest) is losing out on the potential for dedicated funding from the municipality given that the targeted population for FMH is larger than that for SEHAB. Further, the fact that the lowest bidder does not necessarily win contracts, while potentially a positive ruling in the sense that quality can be potentially prioritized, also engenders the danger that again the city's institutional structure leaves an opening for the mismanagement of funds or biased contracting of projects that only nominally benefit the poor and in real terms serve capital interests.

An anecdotal view from the ground is illustrative of this point. Far south of Brasilandia, in São Paulo's city center, are the historic and stately municipal buildings where SEHAB is headquartered and the imposingly large city branch of the federal savings bank, or the Caixa Economica Federal, is located. On February 22nd, 2006, one of the meetings of the Municipal Housing Council was meant to take place at the Caixa building. Although the meetings of the Municipal Housing Council are public, the building and room reserved for this particular meeting could not accommodate a large group of community organization members due to "security reasons", according to meeting organizers from

SEHAB[55]. The members of community groups protested, and so the meeting was moved – after it had actually officially begun. All participants who already successfully entered the Caixa building for the Municipal Housing Council meeting had to move to the new meeting location – at SEHAB headquarters – to a rooftop room ironically smaller than the one originally reserved (see Photos 3 and 4 below).

Photos 3 and 4: Meeting of the CMH

Photo credits: author

Hours later when the meeting finally began in earnest, the members of community organizations protesting for access to the meeting to register their needs had significantly diminished in size, spirit, and influence. For even though community representatives account for 16 out of the 48 members of the CMH, only one-third of the membership have to be present for a meeting to have quorum. As such, at this particular meeting, quorum was called without significant community representation. Instead, who were present were representatives from other civil society groups (which also are allocated 16 spots) – including real estate development interests (e.g. real estate professionals, lawyers, architects, and construction firm unions) as well as government

[55] All information presented on the meetings of the CMH is the result of the author's own participation and observance.

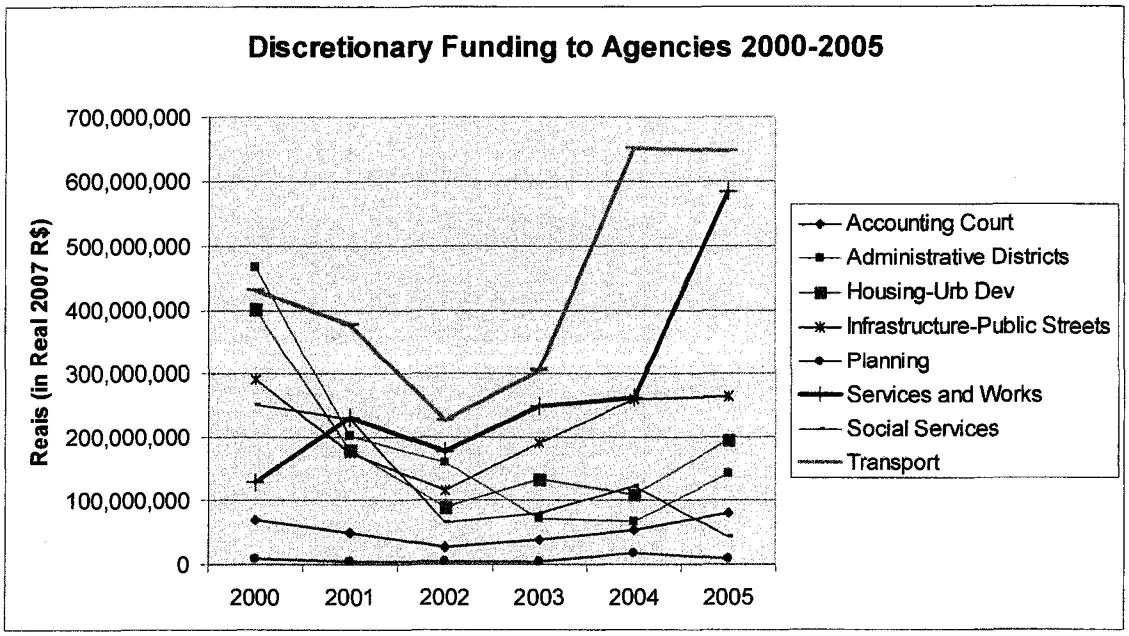
representatives.[56] This story, coupled with the differential target population between the FMH and SEHAB overall, reflects a problematic scenario with regard to whether public funds are or can effectively reach the lowest-income populations requiring upgrading assistance, whether the FMH is effectively implementing a participatory approach to housing policy and funding allocation, and importantly, whether the growing importance of earmarked funds since the passing of the LFR effectively negates the LFR's efforts to control for fiscal mismanagement and transparency. Indeed, a recent study from POLIS – a well known research institute in São Paulo – corroborates this concern and questions the transparency and effectiveness of the CMH-FMH in addressing the needs of the lowest-income residents in squatter settlements (Freire Santoro et al 2007).

3. Shifting Away from the Unrecognized

Within the pool of discretionary funding in the city of São Paulo, it is clear that SEHAB and its capital investments in slum upgrading are losing out in funding allocations. Where, then, is the city's discretionary funding going? Since the implementation of LFR, as Graph 3.6 below shows, there has been a particular rise in the city's allocations to the Secretary of Transportation and the Secretary of Services and Works (which manages public utilities and waste collection).

[56] The remaining one-third or 16 membership spots are for government officials from city, state, and federal levels.

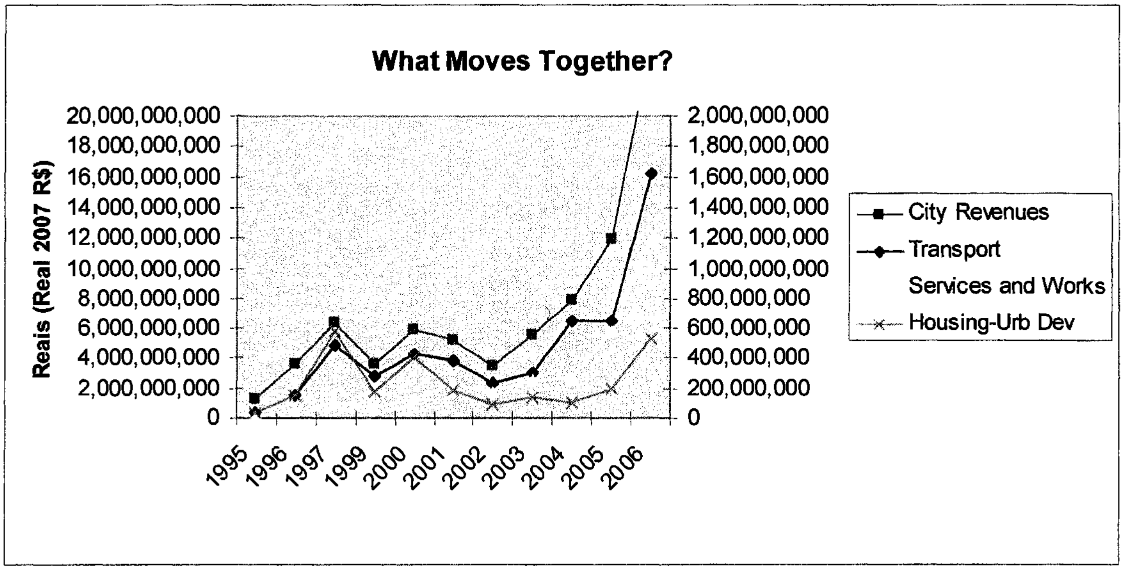
Graph 3.6 Discretionary Funding in the City of São Paulo since LFR



Source: Data from Balancos Geral 1995-2005, Secretary of Finance, Municipality of Sao Paulo

Whereas the graph above shows that SEHAB's budget allocation was particularly on par with that of the transport sector when LFR was introduced in 2000, since that time there has been a significant divergence between the two. In addition, the services and works sector as well as the infrastructure and public streets sector has surpassed SEHAB's allocation. There may be a number of political explanations for these shifts, but no explanation claims that there has not been greater need for funding housing and urban development projects, or that municipal government did not carry the brunt of the funding burden for this sector during this period. Instead another type of explanation is proffered here – that is, the influence of how long-term commitments of investments in informal settlements without clear ownership ties are treated in accounts versus investments that are shorter-term and in the "formal" city, where there are clear and legal lines of ownership established regarding assets. For example, looking at the movement of the city of São Paulo's revenues and that of budget allocations to Secretaries of Transportation, Services and Works, and Housing/Urban Development (or SEHAB), it is clear that (except for the services and works sector) these allocations moved together in the period leading up to the LFR in 2000 (see Graph 3.7 below).

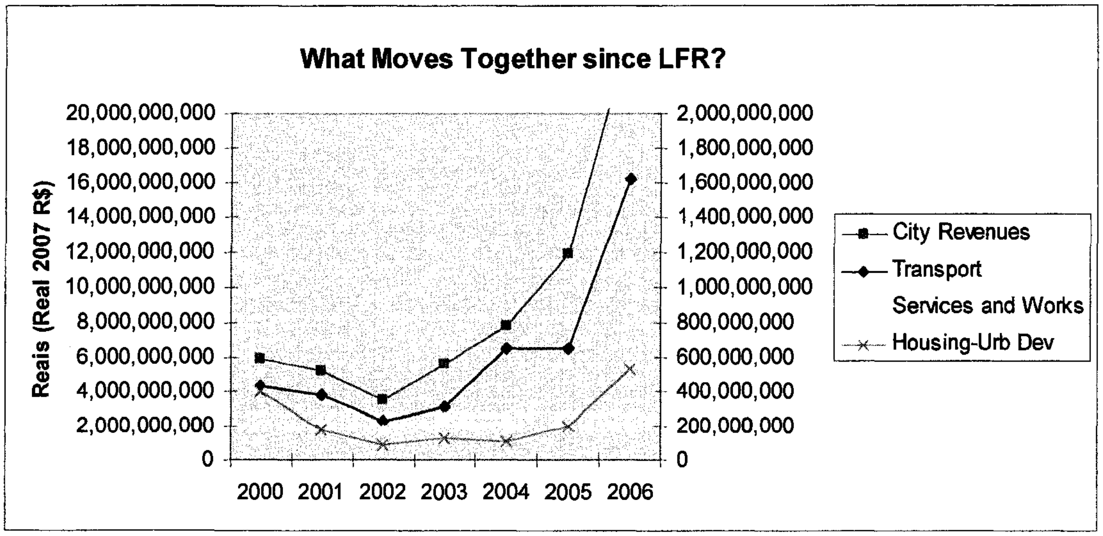
Graph 3.7 Transport, Services & Works, and SEHAB Budget Allocations 1995-2005



Source: Data from Balancos Geral 1995-2005, Secretary of Finance, Municipality of Sao Paulo

However, it is also clear that since the introduction of LFR in 2000, the budget allocations of the Secretary of Transport and Services and Works has diverged with that allocated to SEHAB (see Graph 3.8 below)

Graph 3.8 Budget Allocation Divergences since LFR



Source: Data from Balancos Geral 1995-2005, Secretary of Finance, Municipality of Sao Paulo

A possible explanation for the divergence demonstrated in the graph above is a twist on Hernando de Soto's arguments on the opportunity costs of informality, as explained in Chapter Two. In essence, what Graph 3.8 highlights is a movement away from long-term projects in informal settlements (i.e., SEHAB), where capital investment commitments are required over many accounting periods and are not officially recognized as producing economic assets (with clear ownership). In contrast, the Secretaries of Transportation and Services and Works are engaged in projects within the "formal" city, and relative to the scale of slum upgrading required, are shorter-term projects. In a post-LFR era when fiscal rules and accounting data are prioritized development goals, the city's incentive for long-term investments in the informal, and in slum upgrading in particular, loses ground relative to incentives to invest in areas where economic assets are clearly produced and recorded in accounts within shorter time frames.

Chapter Four

Conclusions: Accounting for Reality

In *The Great Gatsby*, Fitzgerald wrote about "the unreality of reality – a promise that the rock of the world is founded securely on a fairy's wing." In development processes, fiscal responsibility is viewed as *the* rock or core foundation, but this view rests on a proverbial fairy's wing – namely, on current public sector accounting practices. In the popular imagination, accounting invokes ledgers, calculators, and objectivity. As described in the previous chapters, in reality accounting at present has deeply subjective, influential, and arguably perverse impacts on government operations, with particular effect on the achievement of social and economic development goals in informal urban neighborhoods. This is particularly the case when accounting practices and data are empowered in a regime of fiscal rigidity, as the Brazilian case reveals. In that country's prime city, current public sector accounting practices facilitate a decline in much needed upgrading in informal settlements. They also energize an unproductive cycle in which adaptation/corruption on the local front is increasingly fed by and feeds stringent administrative guidelines at the national and international levels. This perverse cyclical dynamic (or yo-yo fiscal management) and decline in social investments critically hamper planning for and the realization of social development goals – all while creating an illusion of fiscal responsibility.

Part of the dilemma exposed by the evidence from the city of São Paulo is the fundamental juxtaposition between the use of accounting as a management tool and the nature of social investments they measure and capture in financial statements. Social investments, such as slum upgrading, differ from other public investments in that they:

1. Are long term;
2. Produce benefits that are hard to quantify in market terms and importantly lag over time;
3. Largely target the informal sector;
4. Value participation as a good in itself.

Each dimension above receives different treatment or privilege under current public sector accounting practices in a rigid fiscal regime.

Project life or time-to-completion is a dimension with serious competition for prioritization among public investments – one positioning deep social investments versus more shallow public investments. Though "shallow" may seem a harsh term to describe any public investments, here it is simply meant to describe investments that require short timeframes for the implementation of improvements and that only temporarily address a problem in question – in other words, they are "quick fixes". Deep social investments display the opposite character, requiring longer commitments of time to realize improvement and providing longer-term solutions to social problems. For example, the federal government's "Fome Zero" or "zero hunger" program is certainly an important and required expenditure to alleviate hunger and malnutrition in the population today. However, significant program funding is aimed at shallow public investments or emergency management, like providing financial aid to families to purchase food and distributing vitamins and nutritional supplements. As slum upgrading projects tend to both require long tenures for completion at scale and provide longer-term improvements to the substandard characters of slums, it is here considered a "deep" social investment. Yet accounting practices at present, particularly under any but the full-accrual basis of accounting, do little to recognize the special nature of government's critical capacity and role in deep social investments. Perhaps this is part of why the IPSASB has of yet not approved an official standard on *Accounting for the Social Policies of Government*, as noted in chapter two.

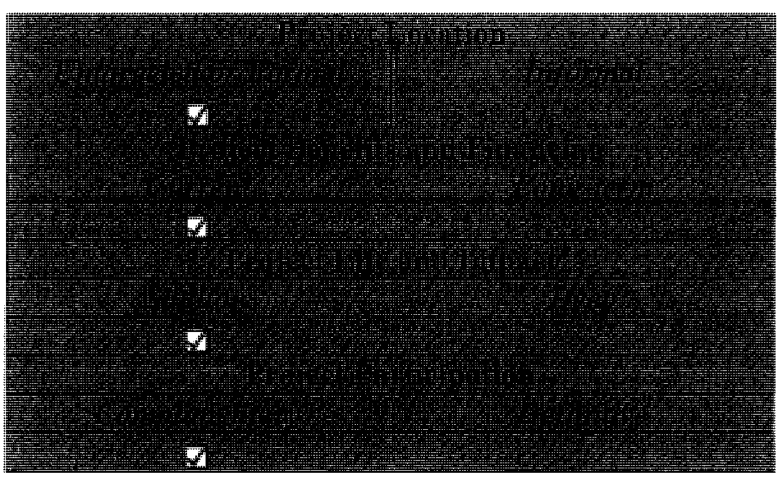
With regard to benefits produced, a few peculiarities of social investment deserve notice. First, benefits from social investments tend to requirement longer time frames than that of a fiscal year to emerge. Furthermore, such benefits are not clearly or exclusively quantifiably measured – complicating their capture in accounts as assets. In part because of these reasons, public investment projects with current or extant financial resources are given a premium, particularly under LFR, over social projects like slum upgrading which require leveraged longer-term financing. The LFR's tight fiscal rules prioritize hard data produced by accounting practices which privilege the measurement of short-term costs – and benefits – rather than considering longer-term time horizons or benefits. As described in chapter three, such accounting practices also fail to account for the full life of an investment, or in other words, do not depreciate investment expenses. The resulting concern for the vulnerability of longer-term social investments has been raised in regard to other cities in Brazil with significant slum challenges, like Rio de Janeiro, as well. For example, the former secretary of finance from Rio, Sol Garson, notes that "urban development projects have been relying basically on resources that depend strongly on the short term: year budget current savings, interest on cash available, discretionary capital transfers" (Garson 2005:16). Garson further argues that while such revenues can be "appropriate for social areas which require mostly current expenditures, they fail to support long term investments," specifically in areas like housing and sanitation where due to tight fiscal rules municipal credit operations are prohibited (2005:10;16). This scenario provides little incentive for local governments with short tenures to commit to the financial scale of investments required for citywide slum upgrading.

Another dimension distinguishing social investments is that of the physical locations of their impact. Competition for public funding sways between investments that are non-physically targeted (i.e., city-wide or at least within the "formal" city) and investments that instead target the "informal" city or substandard settlements, as discussed in chapter three. The informal nature of numerous human settlements – in Brazil as elsewhere – and specifically the lack of formally recognized data or surveys of such neighborhoods or settlements translates into difficulty in how to account for assets produced by social investments in these areas. Current accounting standards require clear and legal ownership ties for economic benefits, including assets, to be recognized in financial statements. Perhaps for the same difficulties, policy mandates targeting improvements in informal neighborhoods are scarcely if at all recognized as government liabilities – legal or constructive.

Finally, social investments assign value to the processes as well as products of public investment. In short, the participation of intended beneficiaries in decision-making processes behind social investments is definitive rather than complimentary. Though upgrading projects in informal settlements certainly have not always realized or acknowledged participatory planning and design ideals as goods in themselves, the current consensus among advocates, practitioners, and activists engaged in slum upgrading clearly recognizes the primacy of participation as a key to any project success. Such definitive participation, however, requires – again – longer time frames than more complimentary and less definitive participation in decisions behind public investments. Yet current accounting practices in Brazil's LFR-era encourage the primacy of relatively shorter-term and thus less *definitively* participatory public investments in government operations.

All the dimensions distinguishing social investments described above interact with accounting guidelines in different manners. The matrix in Box 4.1 below captures these dimensions and the privileges the choices therein are assigned under current accounting practices in Brazil today.

Box 4.1: Current accounting under LFR privileges…



Slum upgrading often occurs in informal settlements within cities, is funded using longer term credit operations than other social investments, requires longer time periods to implement lasting solutions, and involves definitive participation. All of these characteristics of slum upgrading are unfavorably treated according to current accounting practices under the LFR in Brazil. It is thus not surprising that the city of São Paulo's substandard settlements remain numerous and the budget assigned to the Secretary designated to improve them is increasingly weakened relative to other city agencies or funding outputs, despite Brazil's constitutional call for the "right to the city" and adequate housing for all.

The prospects for change at present appear slim, particularly given the momentum of support in international spheres for strengthening rather than weakening the role of current accounting "best practices" in public management. These practices, as described in chapter two, work to align accounting in the public sector with practices in the private sector. However, is assessing government fiscal performance in terms which do not fully acknowledge the distinct and unique social nature of some government operations fair? The private sector, behavior therein, and privileges it is afforded have been much discussed and referred to in this study. And though there is clearly no "one" private sector entity type, the private sector in terminology is largely meant to capture those firms and institutions that are run "for-profit". Yet it is imaginably more difficult to envision a principle equivalent to the private sector's "for-profit" mantra for the public sector for at least one major reason[57]. The public sector – or more specifically, government – and evaluations of its performance are complicated by that which it deigns to represent and work toward, namely the "public interest". The public interest, as has been noted in this study's introduction and in a multitude of other works, is anything but singular. And yet, government and its controlled entities (i.e., the public sector) have the handy task of serving "the public interest" and its multitudinous objectives, including of course the objectives of private sector entities and the objectives of social welfare. Is it then fair to measure government's financial or fiscal performance using methods that were developed for entities with a much more limited "for-profit" guiding principle?

If indeed accounting practices remain prime fiscal management tools for government, there is ample reason to reconsider some of the assumptions carried in guidelines and standards. There is too much complexity and room for interpretation – and necessarily so – in public sector accounting practices which produce hard data for governments to then demand that policy outcomes adhere to and achieve fixed fiscal rules based on such data. In short, if inputs are loosely characterized and captured, then outputs cannot be strictly interpreted in fixed quantitative form. This is not a call for the end of fiscal rules or for accounting standards, but rather an admonition against dependence on present fiscal rule adherence as an indication of fiscal health, particularly given that accounting standards and base data produced are so interpretive. Instead, fiscal responsibility may be also achieved with a more variable and context-specific fiscal objectives framework, one

[57] Even terming public sector activities as driven by the "non-profit" mantra is an inadequate assignment, as governments also clearly seek to increase revenues or "profits" with various strategies.

which specifically also looks to capture previously unrecognized assets and economic benefits amassed by social investments and quality of life improvements.

It is in this context that a worthwhile project emerges calling for the revisiting of substantive rather than solely operational government objectives and how to best measure them. Howard McBain, a professor of municipal science and administration at Columbia who was involved in early discussions of accounting and budgeting methods in the United States, wrote an essay in 1921. He argued:

> "Again and again it has been asserted that the conduct of government is nothing more nor less than the conduct of business; and the methods and achievements of private business in America have been set in laudatory contrast with the methods and achievements of our various units of government. In my judgment this contrast has been sadly overworked. I need not point out that the aims and purposes of our government are different, if not indeed opposite, to those of private business; and that aims and purposes cannot fail to affect methods and achievements. Personally I should regret to see the government put wholly upon a business basis even if that were possible – which happily it is not...It should not be ignored that these [government] operations are carried on under legal limitations that are unknown to private business..." McBain (1921: 334-335)

There are two general ways to reconsider current practices so as to tend to the regrets McBain envisioned. The least revolutionary path calls for improved acknowledgment and address of trade-offs and privileges in current accounting practices highlighted in previous chapters. The more challenging path calls for a more major change in how we envision and implement evaluations of government activities.

Many scholars have acknowledged the trade-offs of using present fiscal performance assessments, including recent notable economists like Sachs and Stiglitz. Herein is the argument for the adoption by governments around the world of full-accrual accounting methods (as proposed by the IPSASB), and for the development of complimentary data indicators or improvements to costing methodologies to help better identify priorities. For example, the Banco Central do Brasil (BCB) – an autonomous public institution which reports to the Ministry of Finance – has experimented with improvements to their cost accounting for government operations. While such improvements do not widen the scope of what is measured to include the more substantive goals (i.e., housing for all, improved quality of life) toward which government nominally works, they do acknowledge at least some of the problems with assessing government performance based on budget accounts alone. For example, in 2004 the BCB implemented an exercise in activity-based costing. Though again this is a further movement in the direction of the private sector model and in tweaking measurements of cost rather than benefits, activity-based costing proponents argue that it allows governments "to attach administrative expenditures to products and services and enable[s] measurement of costs that do not aggregate value, contributing to a better analysis of working processes, eliminating waste and optimizing the use of budget resources" (BCB 2004:9). In short, if applied in the city of São Paulo, activity-based costing would discontinue the aggregating of all personnel costs at SEHAB, and instead link personnel costs with specific projects like Bairro Legal. While activity-based costing could perhaps provide SEHAB with a better method for determining the per household cost of upgrading, as one former financial administration coordinator at SEHAB indicated during an interview, others in the Planning Secretary indicated that activity based accounting would distort performance measurements because of factors like the cost of land in São Paulo.[58] Furthermore, even activity based

---

[58] Interviews cited here were with Anaclaudia Rossbach, former financial administration coordinator at SEHAB (2002-2004); and with Salustiano Nunes, General Budgetary Advisor for the Secretary of

costing does not address the fundamental privileges afforded by the base accounting data used in such exercises – i.e., the cost heavy weighting in government fiscal management.

The second more difficult path is of course acknowledging that accounting practices and the data they rely on and produce should not be so central to the measurement of government performance. An eccentric designer and innovator, Buckminster Fuller, once said one never changes things by simply fighting the existing reality. To change something, we must build a new model that makes the existing model obsolete. Though this seems an unlikely scenario in the present socio-political environment across the globe, the envisioning of another model for assessing government performance – both fiscal and otherwise – requires further research. For example, the UN's Millennium Project, which was charged with preparing recommendations for the achievement of the Millennium Development Goals (MDGs), has advocated for governments to engage in needs assessment exercises rather than budgeting exercises alone in strategizing for the achievement of the MDGs (UN Millennium Project 2005b). In short, the argument is that governments should establish specific development goals first and then draw budgets and mobilize finances for them, rather than developing budgets first and determining which development goals are affordable given extant funds. The specific methods promoted by the Millennium Project are:

1. Develop list of interventions;
2. Specify targets for each set of interventions;
3. Development investment model, estimate resource needs;
4. Estimate synergies across interventions;

Planning, in charge of SEHAB liaison.

5. Develop financing strategy (UN Millennium Project 2005b: 243).

While of course these steps were envisioned for national governments, cities can (and in some places are beginning to) engage in such need assessment methods too. In this way, accounting practices and data would remain outside the realm of determining public investment priorities.

To further level the playing field and share in the production of fiscal knowledge which is presently shaped by data emerging from accounting practices, new premiums can also be placed on different data sources and types therein. In other words, if government performance is most readily judged in fiscal terms which are good at capturing whether a primary budget surplus target has been met but bad at capturing whether "the right to the city" and adequate housing has been achieved, then perhaps heavier weighting is required on the development of performance measurements that capture substantive goals. For example, in addition or complimentary to the aforementioned needs assessments, are community-level mapping exercises producing new data from the perspective of residents. Somewhat similar in spirit to the early citizens' surveys of government in the United States mentioned in chapter two, many community organizations are leading development projects and evaluations, and in particular engage in enumeration efforts in informal settlements in order to present new data to government for project support (Dayaratne et al 2003; Glöckner et al 2004; Weru 2004; Carolini 2008). The data gathered in locally-led surveys and exercises are important challenges to the continued domination of extant fiscal reports of government performance which arguably have made government ignorant of that which numbers fail to report at best, and more adept at obscuring undesired outcomes at worst.

An anecdotal story from a public school instructor in São Paulo is illustrative of this point on the manipulation of accounts and is useful here in an effort to demonstrate why hard data in financial statements are insufficient measurements of government fiscal performance[59]. In election years, competitive exams for public servant positions are plentiful in Brazil. Why? These positions are budgeted for in city or state financial statements, without intention of ever filling such positions. In short, funding allocated to such staff positions are diverted to political campaigns during election years. After elections, the position is accounted for with falsified documents. A computer is ordered and received – but none exists. An individual was appointed to the Metropolitan Police Academy, but never went or was never informed of the appointment. Given that the results of competitive exams are invalidated after two years, most often the positions are left unfilled, existing only as line-items on budgets, while funds are channeled to campaigns. The line of deception extends to international funding, according to the same source. The World Bank has provided a major loan to improve primary through secondary school education. A third of the loan is allocated to educational materials, a third to personnel salaries, and a third to "reciclar" – or the recycling of staff, i.e., funding used to further their training and keep them on. The Brazilian government receives the loans, but only forwards 30% to local schools. The remaining 70% is used by the federal government in other sectors in a manner so as to build interest on the 70% of the loan.

[59] Interview conducted in São Paulo on January 26, 2006; the identity of the public school instructor has been kept anonymous here.

When reporting to the donor agency is required, the government keeps the interest made on the original 70% of the loan, and only then finally distributes the 70% to the education sector - but in the following manner: all public education staff are provided with an additional month's salary as an extra bonus[60], amounting to what is termed a "14th salary" or month's pay which is allocated in February. The actual amount of the 14th salary can be anywhere up to a maximum of R$ 9,000, depending on the school's record for advancing students to the next grade and the teacher's attendance record. This pay out is meant to amount to 70% of the original loan, so as to demonstrate to the donor that funding was used toward improvement of the education system. The school's incentives are thus to advance students, regardless of performance and the students' incentives are to slide ahead with minimum effort.

The story above, though anecdotal, is a poignant reminder of the inadequacy of information relayed in financial statements. Yet, though of course political struggles and strategic visions of development are key shapers of policy, decision making processes in development work increasingly rest on what are termed hard data, reported in government financial statements. Accounting practices produce this data and in doing so provide the rationalization or justification for many a policy decision that often jeopardizes social investments. São Paulo reveals the need for public performance tools that better account for longer-term horizons and social investment benefits. It also demonstrates that rigidity can be counterproductive and that a singular faith in a limited vision of fiscal responsibility can be detrimental.

[60] Usually in December, school teachers receive a bonus – a 13th month's pay in a 12-month period.

References

Advisory Committee to the Secretary of Commerce on Measuring Innovation in the 21st Century Economy (2008) *Innovation Measurement: Tracking the State of Innovation in the American Economy*, A Report to the Secretary of Commerce. E-resource: http://www.innovationmetrics.gov/Innovation%20Measurement%2001-08.pdf

Afonso, J. R. and Araúju, E.A. (2004) "Local Government Organization and Finance: Brasil", Preliminary version of paper prepared for *Local Governance in Development Countries* (2006) ed. Anwar Shah, Washington, D.C.: The World Bank.

Afonso, J.R. (2004) "The relations between different levels of government" in *CEPAL Review*, Vol. 84, December.

Angélico, J. (1994) *Contabilidade Pública, 8th Edição*, São Paulo: Editora Atlas.

Arnstein, S. (1969) "A Ladder of Citizen Participation" in *Journal of the American Planning Association*, Vol. 35, Issue 4, pp.216-224.

Arrow, K. (1974) *The Limits of Organization*, New York: W.W. Norton & Company.

Bahl, R. and Linn, J. (1992) *Urban Public Finance in Developing Countries*. New York, NY: Oxford University Press.

Banco Central do Brasil (BCB) (2002) *Public Finance – Summary of Brazilian Stabilization Plans and Glossary of Instruments and Norms Related to Economic and Financial Policy, Revised Edition*, Brasilia: Banco Central do Brasil – Department of Economics.

BCB (2004) *The Banco Central do Brasil's Cost System: A Case Study*, Prepared by the Cost and Managerial Information Consultancy Team, Planning and Budget Department of the Banco do Brasil, Brasilia.

Beauregard, R. (2003) "Between Modernity and Postmodernity: the Ambiguous Position of U.S. Planning", in Campbell, S. and Fainstein, S., eds. *Readings in Planning Theory.* Cambridge, Massachusetts: Blackwell. pp. 108-24.

Becker, Gary (1983) "A Theory of Competition among Pressure Groups for Political Influence", *Quarterly Journal of Economics,* Vol. 98(3), pp.371-400.

Bird, R. and Vaillancourt, F. (1998) "Fiscal decentralisation in developing countries: an overview," in *Fiscal Decentralisation in Developing Countries*, ed. Bird, R. & Vaillancourt, F., Cambridge: Cambridge University Press.

Bird, R. and Slack, E. (2002) *Land and Property Taxation: A Review.* Paper prepared for a World Bank workshop in March, 2002.

Boskin, M (1999) *Economic Measurement: Progress and Challenges*, Standford University SIEPR Working Paper 15.

Boyce, G. (2000) "Public discourse and decision making: Exploring possibilities for financial, social and environmental accounting", in *Accounting Auditing and Accountability Journal, 13*(1) 27-64.

Brazilian Ministry of Cities (2004) *Cidades para todos*. Brasilia: Publication of the Communication Assessment of the Ministry of Cities, September 2004.

Bremaeker, F.E.J. de (2005a) IBAM 53 Anos: Panorama das Finanças Municipias em 2004, Série Estudos Especiaias, No. 120, Rio de Janeiro: Instituto Brasileiro de Administraçao Municipal (IBAM)/Escola Nacional de Serviços Urbanos (ENSUR)/ Banco de Dados Municipais (IBAMCO).

Bremaeker, F.E.J. de (2005b) IBAM 52 Anos: Os Municípios e a Política Habitacional de Interesse Social, Série Estudos Especiaias, No. 116, Rio de Janeiro: Instituto Brasileiro de Administraçao Municipal (IBAM)/Escola Nacional de Serviços Urbanos (ENSUR)/ Banco de Dados Municipais (IBAMCO).

Brown, Richard (1971) *A History of Accounting and Accountants*, New York: reprinted from 1905 edition by Augustus M. Kelley Publishers.

Budds, J., Teixeira, P. and SEHAB (2005) "Ensuring the right to the city: pro-poor housing, urban development and tenure legalization in São Paulo, Brazil" in *Environment and Urbanization*, Vol. 17, No. 1.

Bulmer-Thomas, V. (1994) *The Economic History of Latin America since Independence*, Cambridge: Cambridge University Press.

Bureau of the Census (1914) *Financial Statistics of Cities having a Population of Over 30,000: 1912*, Washington: Government Printing Office, U.S. Department of Commerce.

Burnside, C. and Dollar, D. (1997) "Aid Spurs Growth – in a Sound Policy Environment" in *Finance & Development*, Vol. 34, No.4.

Cabannes, Y. (2004) "Participatory budgeting: a significant contribution to participatory democracy" in *Environment and Urbanization*, Vol. 16, No.1, pp.27-46.

Caldeira, T. (2000) *City of Walls: Crime, Segregation, and Citizenship in São Paulo*, Berkeley: University of California Press.

Campell, S. and Fainstein, S. (2003) "Introduction: The Structure and Debates of Planning Theory" in *Readings in Planning Theory,* Second Edition, eds. Campbell, S. & Fainstein, S., Oxford: Blackwell Publishing.

Carolini, G. (2008 – forthcoming) "Organizations of the Urban Poor and Equitable Urban Development: Process and Product" in *The New Global Frontier: Urbanization, Poverty and Environment in the 21st Century*, eds. Martine, G., McGranahan, G., Montgomery, M., and Fernandez-Castilla, R., London: Earthscan.

Carruthers, B. & Espeland, W.N. (1991) "Accounting for Rationality: Double-Entry Bookkeeping and the Rhetoric of Economic Rationality" in *American Journal of Sociology*, Vol. 97, No.1.

Carruthers, B. (1995) "Accounting, Ambiguity, and the New Institutionalism" in Accounting, Organizations and Society, Vol. 20, No.4., pp.313-328.

Carson, C. (1975) "The History of the United States National Income and Product Accounts: The Development of an Analytical Tool" in *Review of Income & Wealth*, Jun75, Vol. 21 Issue 2, pp.153-181.

CFC (2007) *Part 2 Statement of Membership Obligation Self-Assessment Questionnaire*, June 2007.
http://www.ifac.org/ComplianceAssessment/published_survey.php?MBID=BRAZ2

Chase, H. (1906) "Notes on Municipal Government: Municipal Accounting" in *The Annals of the American Academy of Political and Social Science*, Vol. 28; 95: 453-462.

Cities Alliance (2004) *Integrating the Poor: Urban Upgrading and Land Tenure Regularization in the City of São Paulo*, Washington, D.C.: Cities Alliance.

Cleveland, F. (1906) "Municipal Credit and Accounting Reform" in *Journal of Accountancy*, June, Vol. 2, p.109-117.

Cleveland, F. (1909) *Chapters on Municipal Administration and Accounting*, New York: Longmans, Green, and Co.

Cleveland, F. (1921) "The Reorganization of the Federal Government – An Alternative Proposal" in National Expenditures and Public Economy, eds. F. Cleveland and S. McCune Lindsay, New York: The Academy of Political Science, Columbia University.

Cleveland, F. and Buck, A. (1920) *The Budget and Responsible Government*, New York: The MacMillan Company.

Corporation of London (2002) *Financing the Future: The London Principles – the role of UK financial services in sustainable development*, Study prepared for the World Summit on Sustainable Development on behalf of the UK's Department for the Environment, Food and Rural Affairs.

Curtis, C., Falkner, R., Chase, H., Hartwell, D., Woodruff, C. and Mr. Baker (1902) "Uniform Municipal Accounts and Statistics: Discussion" in *Publications of the American Economic Association*, 3rd Series, Vol. 3, No. 1, February, pp.354-368.

Cymbalista, R. & Moreira, T. (2002) *O Conselho Municipal de Habitação em São Paulo, in Series: Observatorio dos Direitos do Cidadáo: acompanhamento e análise das políticas públicas da cidade de São Paulo*, No. 10. São Paulo: Instituto Pólis / PUC-SP.

Da Silva, L., et al. (2003) "The Programme for Land Tenure Legalization on Public Land in São Paulo, Brazil", Transcript of speech, printed in *Environment and Urbanization* 2003; Vol.15.

Dahl, R. (1961) *Who Governs? Democracy and Power in an American City?* New Haven: Yale University Press.

Davidoff, P. (2000) "Advocacy and Pluralism in Planning" in *The City Reader*, Second Edition, eds. R. LeGates and F. Stout, London: Routledge.

Dayaratne, R. and Samarawickrama, R. (2003) "Empowering communities in the peri-urban areas of Colombo" in *Environment and Urbanization*, Vol. 15, No. 1.

De Bellis, M. (2006) "Global Standards for Domestic Financial Regulations: Concourse, Competition and Mutual Reinforcement between Different Types of Global Administration", in *Global Jurist Advances – The Berkeley Electronic Press*, Vol. 6, Issue 3.

de Cesare, C.M. (2002) *IPTU: Otimização & Justiça Tributária*, Paper prepared for IV Curso de Gestão Urbana e de Cidades, Escola de Governo da Fundação João Pinheiro in Belo Horizonte, Brazil, 14-18th October 2002.

de Iudícibus, S. (1997) *Teoria da Contabilidade*, São Paulo: Editora Atlas.

de Mello, L. (2005) *Fiscal Responsibility Legislation and Fiscal Adjustment: The Case of Brazilian Local Governments*, Paper prepared for the World Banks' Practitioners' Conference on Mobilizing Urban Infrastructure Finance in a Responsible Fiscal Framework, in Jaipur, India, January 6-8, 2005.

De Soto, H. (2000) *The Mystery of Capital*, New York, Basic Books.

Diamond, J. (2002) *Performance Budgeting – Is Accrual Accounting Required?* IMF Working Paper 240, Washington, D.C.

Dixit, A. and Londregan, J. (1995) "Redistributive Politics and Economic Efficiency," *American Political Science Review* 89 (4):856-66.

Du Preez, M. (2004) *The Discount Rate for Public Sector Conservation Projects in South Africa*. African Development Bank, Oxford: Blackwell Publishing. E-resource: http://www.blackwell-synergy.com/doi/pdf/10.1111/j.1017-6772.2004.00100.x

Dupuis, J., Laliberté, L., and Sutcliffe, P. (2006) *Task Force on Harmonization of Public Sector Accounting – Final Report*; Paper presented at the fifth meeting of the Task Force on Harmonization of Public Sector Account (TFHPSA), Paris, France, March 8-10, 2006.

Dur, R.A., Peletier, B., and Swank, O. (1997) *The Effects of Fiscal Rules on Public Investment if Budget Deficits are Politically Motivated*, Mimeo, November 1997.

Easterly, W. (2002) *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, Cambridge, MA: Massachusetts Institute of Technology Press.

Fabricant, S. (1984) *Toward a Firmer Basis of Economic Policy: The Founding of the National Bureau of Economic Research*, NBER Historical Archives; E-resource: http://www.nber.org/nberhistory/sfabricantrev.pdf

Fanelli, J. & Medhora, R. (1998) "Financial Reform in Developing Countries: an overview," in *Financial Reforms in Developing Countries*, eds. Fanelli, J. & Medhora, R., Great Britain: Macmillan Press Ltd.

Feijó, C.A., Olinto Ramos, R.L., Frickmann Young, C.E., de Cerqueira Lima, F.C., and de Arroxelas Galvão, O.J. (2004) *Contabilidade Social: O Novo Sistema de Contas Nacionais do Brasil - Segunda Ediçao, Reviste e Atualizada*, Rio de Janeiro: Elsevier – Editora Campus.

Financial Stability Forum (2001) *Final Report of the Follow-Up Group on Incentives to Foster Implementation of Standards*. E-resource: http://www.fsforum.org/publications/Final_Incentives01.pdf

Fix, M., Arantes, P., and Tanaka, G. (2003) *The Case of São Paulo*, Study prepared for UN Habitat Global Report on Human Settlements 2003, e-resource: http://www.ucl.ac.uk/dpu-projects/Global_Report/home.htm

Flyvbjerg, B. (1998) *Rationality and Power: Democracy in Practice*, Chicago: University of Chicago Press.

Fogelsong, R. (1986) *Planning the Capitalist City – The Colonial Era to the 1920s*; Princeton, N.J.: Princeton University Press.

Foote, A.R. (1901) "Uniform Municipal Accounts and Statistics: Discussion" in *Publications of the American Economic Association*, 3rd Series, Vol.2, No.1, February, p.284-292.

Freire Santoro, P., Cymbalista, R., Teixeira, A.C., and Tatagiba, L. (2007) *Habitação: Controle Social e Política Pública*, Série Observatório dos direitos do cidadão, Caderno 31, São Paulo: Instituto Pólis.

Freshfields, Bruckhaus, Deringer (2005) *A Legal Framework for the Integrations of Environmental, Social, and Governance Issues into Institutional Investment*, Study produced on pro bono basis for the Asset Management Working Group of the UNEP Finance Initiative. Available from www.unep.org.

Gardiner, R. (2001) *Sustainable Finance – Seeking Global Financial Security*, UN Economic Briefing, No.2, Towards Earth Summit 2002, e-resource: www.earthsummit2002.org.

Garson, S. (2005) *Brazil: The Need for Intergovernmental Cooperation in Urban Development*, Paper prepared for the World Banks' Practitioners' Conference on Mobilizing Urban Infrastructure Finance in a Responsible Fiscal Framework, in Jaipur, India, January 6-8, 2005.

Gilfedder, D. and O'Hogartaigh, C. (1998) "The Grasshoppers and the Great Cattle: Participation and Non-Participation in the ASB's Standard-setting Process" in *Journal of Management and Governance*, 2: 287-296.

Glöckner, H., Mkanga, M., and Ndezi, T. (2004) "Local empowerment through community mapping for water and sanitation in Dar es Salaam" in *Environment and Urbanization*, Vol. 16, No.1.

Goddard, A. (2005) "Accounting and NPM in UK Local Government – Contributing *Toward Governance and Accountability" in Financial* Accountability and Management, Vol. 21, No.2.

Gottschalk, R. (2002*) International Lenders' and Investors' Behaviour: What the markets tell us we didn't know*, Institute of Development Studies Working Paper 193, University of Sussex, UK.

Grindle, M. (2000) *Audacious Reforms: Institutional Invention and Democracy in Latin America,* Baltimore, MD: John Hopkins University Press.

Groot, T. & Budding, T. (2004) "The Influence of New Public Management Practices on Product Costing and Service Pricing Decisions in Dutch Municipalities" in *Financial Accountability and Management*, Vol. 20, No.4.

Gruben, W & Welch, J. (2001) "Banking and Currency Crisis Recovery: Brazil's Turnaround of 1999" in *Economic and Financial Review*, Journal of the Federal Reserve Bank of Dallas, Fourth Quarter 2001.

Hamilton, C. (1998) "Economic Growth and Social Decline: How our measures of prosperity are taking us down the wrong path" in *Australian Quarterly*, May-June.

Hanson, A. (1932) "The Relation of Cost Accounting to the Budget Control Problem" in *The Accounting Review*, March, Vol. 7, Issue 1, p.34.

Harding, W. (1921) "Business in Government and the Problem of Governmental Reorganization for Greater Efficiency" in *National Expenditures and Public Economy*, eds. F. Cleveland and S, McCune Lindsay, New York: The Academy of Political Science, Columbia University.

Harrison, A. (2006) *Definition of Economic Assets – SNA/M1.06/14*, Prepared for the Fourth Meeting of the Advisory Expert Group on National Accounts, 30 January – 8 February 2006, Frankfurt.

Hartocollis, A. & Rohter, L. (2007) "Brazilian Politician Indicted in New York in Kickback Scheme" in *New York Times*, Americas News Section, March 9, 2007.

Harvey, D. (1990) *The Condition of Postmodernity*, Oxford: Blackwell Publishers.

Healey, P. (2003) "The Communicative Turn in Planning Theory and its Implications" in *Readings in Planning Theory*, Second Edition, eds. Campbell, S. & Fainstein, S., Oxford: Blackwell Publishing.

Heller, P. (2002) *Considering the IMF's Perspective on a "Sound Fiscal Policy"*, Paper presented at the EPRU Network Conference on Danish and International Economic Policy at the Institute of Economics, University of Copenhagen, May 23-24, 2002.

Hemming, R. and Ter-Minassian, T. (2004) "Possible New Approaches to Fiscal Accounting" in *Finance & Development*, December 2004.

Hillhouse, A.M. (1936) *Municipal Bonds: A Century of Experience*, New York: Prentice Hall, Inc.

Holcombe, R. (2004) "National Income Accounting and Public Policy" in *The Review of Austrian Economics*, Vol. 17, Issue 4, pp. 387-405.

Hopper, T., Storey, J., & Willmott, H. (1987) "Accounting for accounting: Towards the Development of a Dialectical View", in Accounting, Organizations and Society, Vol.12, No.5, pp.437-356.

Hume, J. (1884) "Are We a Nation of Rascals?" in *The North American Review*, Vol. 139, Issue 333.

IAS (2007*) Summaries of Interpretations – Summary of IFRIC 12 on Service Concession Arrangements Defined*, IAS Plus International Accounting Standards. E-source: www.iasplus.com/interps/ifric012.htm

IBRACON (2005) *Part 1 Assessment of the Regulatory and Standard-Setting Framework Questionnaires*, July 2005.
http://www.ifac.org/ComplianceAssessment/published_survey.php?MBID=BRAZ1

IFAC (2006a) *Handbook of International Public Sector Accounting Pronouncements - 2006 Edition*; New York: IFAC.
_____(2006b) United Nations Adopts IFAC's International Public Sector Accounting Standards, IFAC News and Events, September 5, 2006. www.ifac.org.

IMF (2001a) *Government Financial Statistics Manual*, Washington, D.C.: IMF.

IMF (2001b) *Brazil: Report on Observance of Standards and Codes (ROSC) – Fiscal Transparency Module*, IMF Country Report No. 01/217.

IMF (2004) *Public Investment and Fiscal Policy*, prepared by the Fiscal Affairs Department and the Policy Development & Review Department, in consultation with other departments, the World Bank, and the Inter-American Development Bank; March 12, 2004, Washington, D.C.

IMF (2005) *Public Investment and Fiscal Policy – Summaries of the Pilot Country Studies*, prepared by the Fiscal Affairs Department in consultation with other departments, the World Bank, and the Inter-American Development Bank; April 1, 2005, Washington, D.C.

IPEA [Institute for Applied Economic Research] (2004) *Brazilian Monitoring Report on the Millennium Development Goals*, Brasilia: IPEA.

IPSASB (1996) *Definition and Recognition of Revenues*, Study published by the International Federation of Accountants' International Public Sector Accounting Standards Board, e-resource: www.ifac.org.

IPSASB (2004a) *Interim Terms of Reference of the International Public Sector Accounting Standards Board.* IFAC E-source:
http://www.ifac.org/Members/DownLoads/2007_A03_TOR.pdf

IPSASB (2004b) *Accounting for Social Policies of Governments – Invitation to Comment*. IFAC E-source. (no longer posted on website).

IPSASB (2005a) *Minutes from the PSC Meeting in New Delhi, India in November 2004*, IFAC E-source: www.ifac.org

IPSASB (2007) *Strategy and Operational Plan 2007-2009*, IFAC e-source: http://web.ifac.org/download/IPSASB_Current_Strategic_Plan.pdf

Islam, S. & Clarke, M. (2002) "The Relationship between Economic Development and Social Welfare: A New Adjusted GDP Measure of Welfare" in *Social Indicators Research*, Vol.57, No.2.

ISWGNA (2007a) *Report of the Intersecretariat Working Group on National Accounts*, UN Publication, Sales Number E/CN.3/2007/7.

ISWGNA (2007b) *The Full Set of Consolidated Recommendations.* Background Document for the Thirty-eighth session of the Statistical Commission, 27 February – 2 March 2007.

IVSC (2005) *International Valuation Standards 2005, Seventh Edition*, London: International Valuation Standards Committee.

Jacobs, J. (1961) *The Death and Life of Great American Cities*, New York: Vintage Books.

Jeucken, M. (2004) *Sustainability in Finance: banking on the planet*, Delft: Eburon.

John, K., Walsh, R., & Moore, C. (1991) "Comparison of Alternative Nonmarket Valuation Methods for an Economic Assessment of a Public Program" in *Ecological Economics*, Vol. 5, pp.179-196.

Jopson, B. (2005) "International Financial Reporting Standards" in Comments and Analysis, *Financial Times*, October 17, p. 13.

Keep, C. (1906) "The American Association's Committee on the Business and Accounting Methods of the United States Government", in *Journal of Accountancy*, June 1906: 142-146.

Keynes, J.M. (1936) *The General Theory of Employment, Interest, and Money*, New York: Harcourt, Brace.
___________(1940) How to Pay for the War: *a radical plan for the chancellor of the exchequer*, New York: Harcourt, Brace.

Kraines, O. (1970) "The President versus Congress: The Keep Commission, 1905-1909: First Comprehensive Presidential Inquiry into Administration" in *The Western Political Quarterly*, Vol. 23, No. 1, pp. 5-54.

Kuhn, T. (1996) *The Structure of Scientific Revolutions*, Chicago: University of Chicago Press.

Lant, T. & Hewlin, P. (2002) "Information Cues and Decision Making" in *Group & Organization Management*, Vol. 27, No.3, pp.374-407.

Lawrence, C. (1962) "Brazil – Education and Accountants", in *The Accounting Review*, Vol. 37, No. 3, July 1962, pp. 510-514.

Lei Complementar n. 101. (2000) *Lei de Responsabilidade Fiscal: No. 101 de 4-5-2000*, 3rd Edition, São Paulo: Saraiva – Coleção Saraiva de Legislação.

Light, D. (1998) "Performance Measurement: Investors' Balanced Scorecards" in *Harvard Business Review*, November-December 1998: 17.

Lindblom, C. (2003) "The Science of 'Muddling Through'" in *Readings in Planning Theory*, Second Edition, eds. Campbell, S. & Fainstein, S., Oxford: Blackwell Publishing.

Lintott, J. (1996) "Environmental Accounting: Useful to Whom and for What?" in *Ecological Economics*, Vol. 16, pp.179-190.

Lukes, S. ed. (1986) *Power*, New York: New York University Press.

Marcuse, P. (1986) "Housing Policy and the Myth of the Benevolent State", in *Critical Perspectives on Housing*, eds. Bratt, Hartman, & Meyerson. Philadelphia: Temple University Press.

Maricato, E. (1996) *Metrópole na periferia do capitalismo*. São Paulo: Hucitec.

_________(2006) *Housing and Cities in Brazil and Latin America*, Mimeo presented at seminar at the Centro Studi Urbanistici per i Paesi in Via di Sviluppo – DIPTU, Università degli Studi di Roma 'La Sapienza', June 2006.

Mathews, M.R. (1997) "Twenty-five years of social and environmental accounting research: Is there a silver jubilee to celebrate?", in *Accounting Auditing and Accountability Journal, 10*(4) 1-531.
____________ (2000) *The Development of Social and Environmental Accounting Research 1995-2000*, Discussion Paper, e-resource: http://www-accountancy.massey.ac.nz/docs/Discussion%20Paper/205.pdf

Mattessich, R. (1995) "Conditional-Normative Accounting Methodology: Incorporating Value Judgments and Means-End Relations of an Applied Science", in *Accounting, Organizations and Society*, Vo. 20, No.4, pp.259-284.

McBain, H. (1921) "The Problem of Governmental Reorganization" in *National Expenditures and Public Economy*, eds. F. Cleveland and S, McCune Lindsay, New York: The Academy of Political Science, Columbia University.

Meyer, J. & Rowan, B. (1977) "Institutionalized Organizations: Formal Structure as Myth and Ceremony" in *The American Journal of Sociology*, Vol. 83, No. 2,pp.340-363.

Milesi-Ferretti, G.M. (2000) "Good, Bad, or Ugly? On the Effects of Fiscal Rules with Creative Accounting", *IMF Working Paper*, Number 172.

Ministério das Cidades (2004) *Cities for all*, Brasilia: Publication of the Communication Assessment of the Ministry of Cities.

Minogue, M., Polidano, C. and Hulme, D. (1998) *Beyond the New Public Management: Changing Ideas and Practices in Governance*, Cheltenham: Edward Elgar.

Modell, S. (2004) "Performance Measurement Myths in the Public Sector: A Research Note" in *Financial Accountability and Management*, Vol. 20, No.1.

Monash Sustainability Enterprises – Monash University (2000) *Toward Sustainable Finance: A roadmap to the financial services industry*, Study prepared for Environment Australia – Sustainable Industries Branch.

Monkkonen, E. (1984) "The Politics of Municipal Indebtedness and Default, 1850-1936", in *The Politics of Urban Fiscal Policy*, eds. McDonald, T. & Ward, S., London: Sage Publications.

Moore, M. (2001) "Political Underdevelopment: What causes 'bad governance'" in *Public Management Review*, Vol.3, Issue 3, pp. 385-418.

Moussalli, S. "Accounting for the Journal's First 100 Years: A Timeline from 1905 to 2005" in *Journal of Accountancy Online Issue*, October 2005.

Olpadwala, P. and Goldsmith, W. (1992) "The Sustainability of Privilege: Reflections on the Environment, the Third World City, and Poverty" in *World Development*, Vol. 20, No. 4, pp. 627-640.

Olson, M. (1965) *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, Massachusetts: Harvard University Press.

Perkins, E. J. (1989) "The Entrepreneurial Spirit in Colonial America: The Foundations of Modern Business History" in *Business History Review*, Vol 63, No.1: 160-186.

Perlman, J. (2005) *The Myth of Marginality Revisited – The Case of Favelas in Rio de Janeiro, 1969-2003*, Electronic resource, March 24, 2005.

Phelps, P. (1997) "Introduction," in *Municipal Bond Market Development in Developing Countries: The Experience of the U.S. Agency for International Development*, ed. Phelps, P., Finance Working Papers, US AID.

Plotnick, R. (1986) "An Interest Group Model of Direct Income Redistribution," *Review of Economics and Statistics* 68(4): 594-602.

PMSP - Prefeitura do Município de São Paulo (1995-2005) *Balanços Gerais de 1995-2005 / General Balance Statements from 1995-2005* Secretaria das Financas, Departamento da Contadoria.

PMSP - Prefeitura do Município de São Paulo (1993) *Quadro de Detalhamento da Despesa Administraçao Direta – Secretaria da Habitaçao e Desenvolvimento Urbano / Detailed Statement of Direct Administration Costs – Secretary of Housing and Urban Development 1993 Exercise.* Secretaria das Financas, Departamento da Contadoria.

Pochmann, M. (2005) *Millennium goals and the risk of noncompliance: the limits of sub-national governments for full human settlement in Brazil*, Prepared for the Brazilian Ministry of Cities in preparation for an International Workshop on "Achieving the Millennium Goals: Mobilization of Resources for Human Settlements in the Cities of the Middle Income Countries", Rockefeller Foundation, New York September 12-13, 2005.

Poubel de Castro, D. And Garcia, L.M. (2004) *Contabilidade Pública no Governo Federal*, São Paulo: Editora Atlas.

Premchand, A. (1995) *Effective Government Accounting*, Washington, D.C.: International Monetary Fund.

Previts, G. and Dubis Merino, B. (1998) *A History of Accountancy in the United States – the Cultural Significance of Accounting*, Columbus, Ohio: Ohio State University Press.

Rich, R. & Oh, C. (2000) "Rationality and Use of Information in Policy Decisions: A search for alternatives" in *Science Communication*, Vol.22, No.2, pp.173-211.

Richardson, A.J. (1987) "Accounting as a Legitimating Institution" in *Accounting, Organizations, and Society*, Vol. 12, No. 4, pp.341-355.

Ridley, C.E. and Simon, H. (1938) *Measuring Municipal Activities*. Chicago: The International City Managers' Association.

Rodrigues Afonso, J.R. (2004) "The relations between different levels of government in Brazil" in *CEPAL Review*, Vol. 84, pp.133-155.

Rodrigues Afonso, J.R. and Araújo, E.A. (2004) *Local Government Organization and Finance: Brasil*, Unpublished paper, World Bank.

Rodrik, D. (1997) *Has Globalization Gone Too Far?* Washington, D.C.: Institute for International Economics.

Rondinelli, D. (1990) "Housing the Urban Poor in Developing Countries: The Magnitude of Housing Deficiencies and the Failure of Conventional Strategies are World-Wide Problems" in *American Journal of Economics and Sociology*, Vol. 49, No.2.,pp.153-166.

Rossetto, R. (2003) *Fundo Municipal de Habitação*, Série Observatório dos direitos do cidadão, Caderno 14, São Paulo: Instituto Pólis/PUC-SP.

Sachs, J. (2005) *End of Poverty: Economic Possibilities for Our Time*, New York:The Penguin Press.

Schiffer, S. (2002) "Economic Restructuring and Urban Segregation in São Paulo" in *Of States and Cities: The Partitioning of Urban Space*, eds. P. Marcuse & R. van Kampen, Oxford: Oxford University Press.

Schmidt, P., dos Santos, J.L., and Fonseca, P.C. (2006) *The Roots of the Patrimonialist School in Brazil: The Role of Frederico Herrmann Júnior*, paper presented at the Eleventh World Congress of Accounting Historians, July 2006, Nantes, France.

Schneider, A., Lledo, V. and Moore, M. (2004) *Social Contracts, Fiscal Pacts and Tax Reform in Latin America*, Paper prepared for the Inter-American Development Bank, 7 February 2004.

Schultz, S. & McShane, C. (1978) "To Engineer the Metropolis: Sewers, Sanitation, and City Planning in Late Nineteenth-Century America" in *Journal of American History*, Vol. 65, September.

Schumpeter, J. (1950) *Capitalism, Socialism, and Democracy*, New York: Harper Torchbooks.

Scott, James C. (2003) "Authoritarian High Modernism", in Campbell, S. and Fainstein, S., eds. *Readings in Planning Theory*. Cambridge, Massachusetts: Blackwell; pp. 125-41.

Secretaria das Financas (1995-2004) *Balanços Gerais do Municipio de São Paulo.* (General Balance Statements of the city of São Paulo).

SEHAB-COHAB-SP (2004) *HabitaSampa*, São Paulo:SEHAB (Housing and Urban Development Secretary of the city of São Paulo) and COHAB-SP (Metropolitan Housing Company of São Paulo).

SEHAB (2006) *Politica Habitacional da Cidade de São Paulo*, Presentation prepared in January 2006 by Secretary of Housing in city of São Paulo.

Smoke, P. (2001) *Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice*, Democracy, Governance, and Human Rights Programme Paper 2, February 2001, United Nations Research Institute for Social Development.

Smolka, M. and Furtado, F. (1996) "Argumentos para a Rehabilitiação do IPTU e do ITBI como Instrumentos de Intervenção Urbana (Progressista)" in *Espaco e Debates*, Vol. 30, No. 16, pp. 87-103.

So, S. and Smith, M. (2003) "The Impact of Presentation Format and Individual Differences on the Communication of Information for Management Decision Making" in *Managerial Auditing Journal*, Vo. 18, No.1, pp.59-67.

Song, Qichao (2004) *Comments on Invitation to Comment: Accounting for Social Policies of Government. People's Republic of China*. E-source, accessed April 24, 2007. http://www.ifac.org/PublicSector/ExposureDrafts.php

Souza, C. (2003) Building Municipal Capacity for Finance and Budgeting in Brazil, Working Paper 2, International Development Department of the School of Public Policy, University of Birmingham (UK). E-source: http://www.idd.bham.ac.uk/research/Projects/municipal_finance/Engkars%20Brazil.pdf

Special Committee of AEA (1901) "Uniform Municipal Accounts and Statistics", in *Publications of the American Economic Association*, 3rd Series, Vol. 2, No. 1, February: 254-283.

Stanford, J. (2005) *Memo on Exposure Draft, Accounting for Social Policies of Government (Excluding Pension Arrangements, 16 June 2005*. Accessed September 13, 2007 on www.ifac.org.

Stephens, C., Akerman, M., Avle, S., Maia, P., Campanario, P., Doe, B, & Tetteh, D. (1997) "Urban Equity and Urban Health: Using Existing Data to Understand Inequalities in Health and Environment in Accra, Ghana and Sao Paulo, Brazil" in *Environment and Urbanization*, Vol. 9, No. 1.

Stiglitz, J. E. (1993) "Market socialism and neoclassical economics", in Bardhan, P. and Roemer, J. (eds), *Market Socialism: The Current Debate*, New York: Oxford University Press.

Stiglitz, J. (1998) *More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus*, The 1998 WIDER Annual Lecture, Helsinki, Finland.

Stiglitz, J.E., (2002) *Globalization and its Discontents*, New York: W.W. Norton & Company.

Supriyani (2004) *Comments on Invitation to Comment: Accounting for Social Policies of Government*. International Centre for Public Sector Accounting, Indonesia. E-source, accessed April 24, 2007. http://www.ifac.org/PublicSector/ExposureDrafts.php

Syrud, D. (1974) *Foundations of Brazilian Economic Growth*, Stanford, California: Hoover Institution Press, Stanford University.

Taft, W. (1912) *The Need for a National Budget: Message from the President of the United States transmitting Report of the Commission on Economy and Efficiency on the Subject of the Need for a National Budget*, Washington: Committee on Appropriations Document No. 854.

Taft, W. (1921) "Financial Retrenchment and Governmental Reorganization" in *National Expenditures and Public Economy*, eds. F. Cleveland and S, McCune Lindsay, New York: The Academy of Political Science, Columbia University.

Tendler, J. (1997) *Good Government in the Tropics*, Baltimore, MD: John Hopkins University press.

Tharp, C. (1933) *Control of Local Finance Through Taxpayers' Associations and Centralized Administration*, Indianapolis: M. Ford Publishing Company.

Theiss, E.L. (1932) "Budgetary Procedure as a Means of Administrative Control" in *The Accounting Review*, March, Vol. 7, Issue 1:11-21.

Tinker, A., Merino, B., & Neimark, M.D. (1982) "The Normative Origins of Positive Theories: Ideology and Accounting Thought" in *Accounting, Organizations and Society*, Vol. 7, No.2, pp.167-200.

Topik, S. (1987) *The Political Economy of the Brazilian State 1889-1930*, Austin, Texas: University of Texas Press.

Tresch, R. (2002) *Public Finance: A Normative Theory*, San Diego: Academic Press – An Elsevier Science Imprint.

Turner, M. and Hulme, D. (1997) *Governance, Administration and Development: Making the State Work*, West Hartford, CT: Kumarian Press.

UN (1993) *System of National Accounts (SNA) 1993*.

UN Millennium Project (2005a) *A Home in the City*, Task Force on Improving the Lives of Slum Dwellers, lead authors: P. Garau, E. Sclar, G. Carolini; London: Earthscan.

UN Millennium Project (2005b) *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*; New York.

US GASB (2007) *Accounting and Financial Reporting for Intangible Assets*, Statement No. 51 of the United States Governmental Accounting Standards Board. E-source: www.gasb.org.

Valença, M. (1992) "The Inevitable Crisis of the Brazilian Housing Finance System" in *Urban Studies*, Vol. 29, No. 1, pp: 39-56.

van Helden, G.J. (2005) "Modernisation in the Public Sector" in *Financial Accountability and Management*, Vol.21, No.1.

Vaz de Lima, D. and Gonçalves de Castro, R. (2003) *Contabilidade Pública: Integrando União, Estadoes e Municípios, Segunda Edição*, São Paulo: Editora Atlas.

Viana, A.L. and Yoshitake, M. (2006) *History of Accounting in Brazil*, paper presented at the World Congress of Accounting Historians, July 2006, Nantes, France.

Vidal Luna, F. and Klein, H. (2006) *Brazil since 1980*, Cambridge: Cambridge University Press.

Wade, R. (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton: Princeton University Press.

Walker, M. L. (1929) "Rating cities according to the services which their citizens are getting, in *The American City*, No.41, p. 130-134.

Weber, M. (1978) *Economy and Society, Volume One*, Berkeley: University of California Press.

Weru, J. (2004) "Community federations and city upgrading: the work of Pamoja Trust and Muungano in Kenya" in *Environment and Urbanization*, Vol. 16, No.1.

Williams, D. (2000) *Values Discourse and Discursive Democracy in Natural Resource Planning*, Paper presented at 8th International Symposium on Society and Natural Resource Management, Bellingham, Washington, June 2000.

Williams, D. (2004) "Evolution of Performance Measurement Until 1930" in *Administration & Society*, Vol. 36, No. 2, p.131-165.

Wilmot, H.W. (1906) "Municipal Accounting Reform – as Illustrated in the City of Minneapolis", in *Journal of Accountancy*, June 1906, Issue 2.