

QUALITY INDICATORS OF PUBLIC FINANCIAL MANAGEMENT: CASE OF THE MUNICIPALITIES OF THE NORTHERN REGION OF MINAS GERAIS

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ABSTRACT

The aim of this research was to investigate the quality of fiscal management of the municipalities of the northern region of Minas Gerais in 2013, through the analysis of IFGF indicators, and thus check if the average score of it are distant or not of the state standard and national, and also determine the status of management in the process. Data analysis revealed that most of the municipalities surveyed are in a difficult situation regarding the fiscal position, where a large percentage has a management with difficulty and/or criticism. It was also noted that this situation is not much different from other municipalities. Finally this article, to present their theoretical foundations, methodology, data and outputs also seek partners from the Technology University of Lublin, in order to improve parameters of public management analyzes.

Key words: Municipal Public Management, Municipalities of the Northern region of Minas Gerais, Fiscal Accountability Act, IFGF.

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1. Introduction

Due to economic difficulties that Brazilian municipalities face, it is necessary to apply a management molded in efficiency economy, quality in the provision of public services, and especially in the clarity of management representatives of the executive and legislative. Therefore, considering the federative pact, it is up to the powers Executive and Legislative exercises its constitutional responsibilities to the achievement of the public interest, according to the maximization of resources and rationalization of expenditures. For this reason, transparency is essential in all activities carried out by public officials, for citizens to have the opportunity to understand clearly what is done by government managers.

With the organizational changes in the private and public sectors, changes such as the complexity and multiplicity of business, environmental, economic and social policies, it is necessary to use command tools to assist public officials in the management process with stipulation strategies for better decision making. Thus it is necessary to focus on the importance of having an effective and efficient public administration to act as a conductor for social progress that affects the entire society, cooperating in the development of the provision of public services to society. Effective and efficient public administration is essential in order to have a good plan to achieve the goals proposed by management.

According Viana et al. (2011), we need to show the quality of public administration, especially public spending where the limits laid down in the legislation cannot be overcome, highlighting public funds to guarantee the social rights envisaged by the Brazilian Constitution. So, in order to observe the behavior of municipalities in terms of cost control, investments and compliance with the social rights established in the Constitution, have been created indicators to measure the performance of the municipalities in relation to municipal management and economic and social development (Sousa et al., 2013).

Jannuzzi (2002) defines an indicator as a measure generally quantitative, with substantive social meaning, used to operationalize an abstract social concept, which tells something about an aspect of social reality or about changes taking place in it. According to the author, it is important in public administration because subsidize the activities of public planning and formulation of social policies in addition to assessing the well-being and determinants of different social phenomena. For Kayano and Caldas (2002), indicators are important tools for monitoring, control, management, verification and measurement of efficiency and effectiveness in public administration for allowing compare situations between locations (territorial spaces) or between different periods of the same municipality.

Jannuzzi (2001) draws attention to the use of indicators for economic and social evaluation of public management. For the author, the knowledge of the meaning, the limits and potential of social indicators can be useful for several

agents and institutions involved in the definition of social priorities and allocation of public budget resources. The author notes that the indicators can guide the analysis, formulation and implementation of social policies and contribute to the appointment of the magnitude of the needs to meet the different areas of intervention by the public administration.

Nahas et al. (2006) highlight that Brazil has advanced in the production of municipal indicators, which shows a concern of the state and municipal management in the use of indicators for management of urban and regional planning. The authors emphasize the existence of great variability of methodologies, which enables development of studies and systems for the cultural diversity that may reflect the existing living conditions in different regions.

According to Guimarães (2008), for the evaluation of management, composite indicators are important because they allow global comparisons of the municipality's situation and management performance. The availability of indicators for use in the diagnosis of empirical social reality, policy formulation, monitoring the living conditions of the population and analysis of social change, is therefore subject to the offer and the features of existing public statistics.

For Guimarães and Jannuzzi (2004), the advance of the decentralization process, the greater social pressure from successive economic crises and the consequent accumulation of local demands, come making the generation and regular dissemination of statistics, indicators and municipal rates become even more relevant in the planning process, especially to support the implementation process, monitoring and evaluation of public policies.

According to Silva (1995), for municipalities to take on and meet the different social and economic demands, it is necessary to develop tools and governance indicators in order to evaluate the performance of this management and measure the levels of economic and social development. This has been done through the „Fiscal Accountability Act” (LRF) and the indicators of the Federation of Industries of Rio de Janeiro's State (FIRJAN), also known as FIRJAN Index of Fiscal Management (IFGF).

The „Fiscal Accountability Act” (LRF) establishes borders to expenditure on personnel and public deficit, based on the terms: transparency and fiscal responsibility, aiming a social control of these public accounts. It is expected, therefore, that the good managers be recognized by the public and the market, integrating higher credit. The IFGF, on the other hand, was created with the intention to develop the habit of administrative responsibility in order to improve fiscal management of municipalities and improve decisions about the allocation of public resources. It uses five indicators as variables to measure the quality of municipal public management: Own Resources; Personnel expenses; investments; Liquidity; Cost of Debt. The evaluation of them allows classify municipalities in management excellence, good management, and with difficulty or criticism.

The main purpose of this study was to analyze the resulting data of the indicators of quality of municipal fiscal management based on the (IFGF - FIRJAN Fiscal Management Index), through the evolution of rates of the municipalities of the northern region of Minas Gerais. As a secondary objective, this article has shown: a) the debate and verification of progress in the quality indicators of the municipal public administration looking to assess their impact over time, where some municipalities have developed and others have regressed in their results; b) determining the binding of variants through indicators that make up the IFGF; c) assess the data that make up the list of the quality of municipal fiscal management showing the progress of each city through the analysis of the results, which occurs through indicators or general indices identified by scores ranging from 0 to 1.

In this research data from the North of Minas Gerais and the Vale do Jequitinhonha were used because they are categorized as two of the poorest regions of the country, because there are in these locations a huge percentage of poor people of the state of Minas Gerais, with terrible economic and social indicators, high rates of illiteracy and infant mortality, low economic activity, high concentration of land and income, in addition to being dependent on government funding.

This paper is organized into six sections, including this introduction. In section two is the theoretical model that addresses the legal content and essence of the transparency of public fiscal management. Section three mentions the methodology used in the research, the mechanisms applied for data collection, the ratios used to review the degree of transparency of public fiscal management and evaluations used to investigate the results. Section four, in turn, seeks to highlight and defend the results achieved. The number five section shows the conclusions with the weightings of the ideas and results observed and argued throughout the article. At the end of the work they are shown the references used during the preparation of the article.

Finally, in presenting its theoretical foundations, methodology, data and results, this article also want to look for partners with the Technology University of Lublin, in order to improve analysis of parameters of public management.

2. Fiscal Accountability Act

The current Brazilian context implies adaptation changes with new technologies that provide tools that help both managers in capturing of data and the union in their analysis, provided by states and municipalities. The context of democratization and decentralization of the Brazilian States generates an increase of power of the state and local governments. Thus, it is the responsibility of the Brazilian states, the generation and fundraising in addition to the decision on the

allocation of public spending, according to Complementary Law No. 101 of May 4, 2000, known as Fiscal Accountability Act, according to Pereira (2012).

According to Santos (2015) the „Fiscal Accountability Act” is based on transparency and accountability. Transparency is seen as a social control mechanism and refers to standards of the bookkeeping and consolidation of public accounts. This mechanism generates the production of new reports by managers and the obligation to publish them in order that society has greater control over the management of public money. According to Santos (2015), there are other mechanisms of transparency of fiscal management: plans, budgets and laws of budgetary guidelines, accountability and its prior opinion, the summary of the budget execution report, the fiscal management report and its simplified versions. (Santos, 2015).

The responsibility, however, is related to the role of manager to levy the maximum that is allowed by law and only spend up to the limit of its revenue, respecting the criteria set by law. Law No. 101/2000 stipulates in Article 11 that „are essential requirements of responsible fiscal management: the institution, forecasting and effective collection of all taxes of the constitutional powers of the federation entity.” This law seeks to increase transparency in public administration, allowing market mechanisms and the political process serve as a control and punishment of government leaders who do not act according to what is proposed in the law. It is hoped, therefore, that the good administrators receive the recognition of the population and the market, including greater access to credit.

The „Fiscal Accountability Act” (LRF) sets limits for personnel expenses and public debt, and provides for the creation of goals for the control of income and expenses. This law also states that cannot have the creation of new continuing expenses (for more than two years) by the government, without the indication of their source of income or without reducing other existing expenses (Pereira, 2012). According to Article 1 of the LRF, the responsibility for fiscal management presumes the action planned and transparent in order to prevent risks and correct spillovers that can affect the balance of public accounts through the achievement of goals, obeying limits, requirements for waiver of revenue generation and personnel expenses, debt, among others. Therefore, Complementary Law No. 101/00 provides compliance for government revenues and expenditures in order to balance these two factors, allowing the financial health of the state allow for effective action in favor of social interests.

It is also observed the importance of LRF on the issue of transparency in fiscal management, allowing the interaction of society in monitoring public administration, which includes budgets, laws of budgetary guidelines and plans, which have their publications for the public administrator with a summary of the court of auditors and brief reports on budget implementation and fiscal management (Pereira, 2012).

3. Municipal Public Management

The 1988 constitution incorporated the Brazilian municipalities to the federal group, granting them autonomy in policy, legislative, and administrative, financial and organizational sector. In addition, it determined the competences, rights and obligations of municipalities and established the principles that lead the Public Administration: legality, morality, impersonality, publicity and efficiency. Due to this fact, emerged new and important responsibilities to the municipal manager, such as planning, coordination, control and evaluation of their prerogatives.

The municipal actions became the object of reflection since then, and it became clear that the mayors should conduct the allocation of resources in the annual budgets in order to reconcile with the goals and municipal resources, assisting in the management of government actions, by assigning monitoring responsibility of actions and results, giving, above all, transparency in the use of resources and goals achieved. However, over the years, the Brazilian municipalities faced with problems such as economic recession, inflation, insufficient resources and lack of efficient planning mechanisms. These factors impacted negatively the management and performance, both economic and social, of the municipalities. Another aggravating factor in this situation is the terrible management of resources, mainly characterized by the lack of social responsibility and commitment of some public officials. This occurred mainly due to the lack of strict standards of control in the Brazilian public management.

Anxious to improve the level of public management performance, particularly on issues covering ethics, morality and transparency, began in Brazil the debate about lack of regulation of public accounts and the development of tools for planning and control public spending in order to get a more efficient management (Matias, Ortolani, Campello, 2002). Thus, it was sanctioned in Brazil on May 4, 2000 the LRF - „Fiscal Accountability Act” (Complementary Law No. 101/2000), which seeks greater accountability and transparency in fiscal management of municipalities.

The LRF intends to increase control and accountability of municipal managers in relation to public accounts, aimed at raising the quality of resource allocation and optimize the costs of public administration and also stimulate the development, allocating public resources to investments that improve the quality of people's lives. The law imposes limits and targets to the managers of fiscal policy aimed at generating lower fiscal deficits and a low concentration of debt. According to Souza et al. (2013), in order to assess the municipalities with regard to the LRF and social rights determined in the Constitution, were developed indicators that are used in measuring the performance of it in relation to municipal management. It stands out among the indicators the „FIRJAN Index of Fiscal Management” (IFGF) developed by FIRJAN, and is a tool of social control that aims to encourage the culture of management accountability through indicators

that allow the improvement of management tax municipalities and improving decisions about the allocation of public resources.

The IFGF consists in five indicators that assess the fiscal management: Own Revenue, which calculates the submission of the municipalities regarding the transfer of assets and rights granted by the state and the Union; Personnel expenses, which indicates the amount of expenditures of municipalities with personal payment, with respect to all of the net current revenue; Investments which checks how much has been invested in relation to the net revenue stream; Liquidity, which clears the left cash in cash by municipalities checking if it is enough to enable it to meet its short-term obligations, assessing the liquidity of the city with the same size of net current revenues; and finally the Cost of Debt, which is equivalent to the disbursement with interest and amortization in connection to the set value of real net income.

The regulation, control and transparency of the actions of municipalities, especially when it involves the use of public resources, are key tools to ensure responsible and efficient public management, which contributes to the provision of quality services to the population. So the search for efficiency in public administration relates to the effective control of public spending and transparency in the application of resources, themes contained in the LRF, and is possible to see this efficiency through good performance in IFGF indicators, which shows if limits set out in LRF are being fulfilled or not by municipalities.

4. „FIRJAN Index of Fiscal Management”

The Fiscal Management FIRJAN Index (IFGF) developed by FIRJAN and released in 2012, is a tool of social control that aims to encourage the culture of management accountability through indicators that allow the improvement of fiscal management of municipalities and improvement of the decisions about the allocation of public resources. The IFGF is organized based on official statistics from the fiscal results of the municipalities declared to National Treasury Department. It brings greater transparency to the municipal accounts as it promotes the understanding of the data and information that are provided by local governments, and also the way the taxes paid for the society are administered by them.

The IFGF also seeks to demonstrate the challenges of municipal management to allocate resources, considering the budget constraints that Brazilian municipal governments are facing. Regarding revenues, the problem is based on the dependence on intergovernmental transfers. With regard to spending, the challenge is the management of current expenditure because the budget austerity undermines the resources programmed for other purposes such as investments. Another problem is the liquidity, given that many municipal governments transfer expenditure for the following year without cash coverage as a form of debt.

Through this analysis were developed five indicators that make up the IFGF: Own Revenue, Staff Costs, Investments, Liquidity and Debt Cost. The first four represent 22.5% of the final result. The Cost of Debt ratio, however, is 10% of the total amount due, according to the FIRJAN, to the „low level of indebtedness of Brazilian municipalities”.



Figure 1. Description of IFGF indexes

Source: <http://publicacoes.firjan.org.br/ifgf/2015/index.html#9/z>
(Accessed on December 15, 2015).

The interpretation of results by indicator or general index, is quite simple. The score ranges from 0 to 1, and the closer to 1, the better the fiscal management of the municipality. There were also developed four concepts for IFGF with reference values to facilitate analysis:

- Concept A (Management Excellence): results of more than 0.8 points.
- Concept B (Good Management): results between 0.6 and 0.8 points.
- Concept C (Management in Trouble): results between 0.4 and 0.6 points.
- Concept D (Critical Management): results below 0.4 points.

Another important feature is that this method allows both the relative comparison as an absolute comparison over the years. Thus, it is possible to identify if an improvement in the ranking is related to factors specific to a municipality or to the worsening of others.

5. Characteristics of the North of Minas Gerais and of the „Vale do Jequitinhonha”

The North of Minas Gerais (Figure 2), consists of 89 municipalities, which together have a total population of 1,610,587 inhabitants in an area of 128,602 km². The region of „Vale do Jequitinhonha and Mucuri”, is in the northeastern

portion of the state, has an area of 85 square kilometers, about 1 million inhabitants and has 66 municipalities (IBGE, 2010).



Figure 2. Map of Minas Gerais regions

Source: IGA/Cetec 1994.

In the northern region of Minas Gerais and „Vale do Jequitinhonha and Mucuri,” droughts are recurring. Also, they have great social and economic problems such as poverty, high rates of infant mortality and illiteracy, malnutrition, low economic dynamism, dependence on government resources, high concentration of income and land. So they are classified as two of the poorest regions of the country. These are the less dynamic regions of Minas Gerais, even though they were objects of several investments to boost development. The work carried out by SUDENE and eucalyptus monocultures in the North and „Jequitinhonha/Mucuri” respectively activated partially the economy of these places. However, these investments did not improve the population's quality of life.

The North and Jequitinhonha regions have a large stake in the state territory, but this is not the case when one takes into account the share of contribution of these regions in the GDP of the state of Minas Gerais. According to IBGE (2008), this contribution was 4% and 1.9% respectively. And considering that in these regions are concentrated almost 20% of the state population, it appears that they present GDP per capita much lower than the other regions (Figure 3).

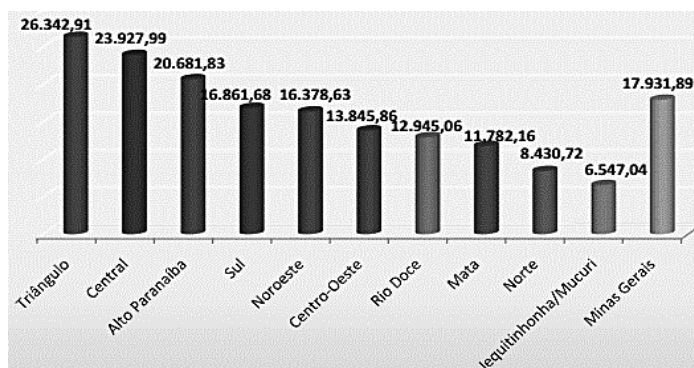


Figure 3. GDP per capita of the regions of Minas Gerais, 2010

Source: João Pinheiro Foundation.

And while large companies are installed in the North of Minas Gerais, the Integrated Development Institute of Minas Gerais (INDI) considers the small region's share of state GDP (about 4%) as a consequence of the end of the incentives offered by SUDENE, because of the distance from the main consumer markets and also by poor transport infrastructure in the region. The ten municipalities of Minas Gerais with the lowest GDP per capita in 2011 were characterized by the small share of the total state population and economic activity centered on services, especially public administration. Four belonged to the northern region six in the Jequitinhonha/Mucuri.

The ten municipalities of Minas Gerais with the lowest GDP per capita in 2011 were characterized by the small share of the total state population and economic activity centered on services, especially public administration. Four of them belonged to the North and six to Jequitinhonha/Mucuri.

Table 1. 10 smaller municipalities in relation to GDP, per capita in 2011

| Municipalities | GDP per capita 2011 (R\$) | Region |
|----------------------|---------------------------|----------------------|
| São João das Missões | 4.115,94 | Norte de Minas |
| Chapada do Norte | 4.189,61 | Jequitinhonha/Mucuri |
| Francisco Badaró | 4.190,86 | Jequitinhonha/Mucuri |
| Bonito de Minas | 4.255,30 | Norte de Minas |
| Ladainha | 4.330,80 | Jequitinhonha/Mucuri |
| Setubinha | 4.428,34 | Jequitinhonha/Mucuri |
| Jenipapo de Minas | 4.457,65 | Jequitinhonha/Mucuri |
| Mamonas | 4.508,31 | Norte de Minas |
| Monte Formoso | 4.527,16 | Jequitinhonha/Mucuri |
| Japonvar | 4.615,91 | Norte de Minas |

Source: João Pinheiro Foundation.

By analyzing the evolution of per capita income of Minas Gerais planning regions from 2000 to 2010, it is clear that it has some aspects, such as an increase in per capita income regions usually with a less dynamic economy, as in „ Vale do Jequitinhonha/Mucuri „, and the North. This increase is due to the high growth of income from classes D and E in particular, because of the increase of minimum wages, lower unemployment and also of the federal government programs of income transfer.

However, although the average per capita income has increased in ten regions of Minas Gerais, mainly in the North and Jequitinhonha/Mucuri region, regional inequalities persist. And these differences in relation to income, affect the population's quality of life in these regions and consequently in social and economic development of the state of Minas Gerais. We can see this difference in the IBGE (2010), shown in the table, where the North of Minas Gerais and Vale do Jequitinhonha/Mucuri presented, respectively, the lowest per capita incomes of Minas Gerais – R\$ 455.33 and R\$ 431.75.

Table 2. Household income of Minas Gerais regions, per capita in 2010 Source: IBGE, Overview of Census Results 2010. Development: João Pinheiro Foundation

| Region | GDP per capita 2010 |
|----------------------|---------------------|
| Jequitinhonha/Mucuri | R\$ 431,75 |
| Norte | R\$ 455,33 |
| Rio Doce | R\$ 599,69 |
| Noroeste | R\$ 622,67 |
| Mata | R\$ 710,11 |
| Centro Oeste | R\$ 721,28 |
| Sul | R\$ 727,66 |
| Alta Paranaíba | R\$ 761,04 |
| Triângulo | R\$ 908,04 |
| Central | R\$ 961,82 |

Source: Own work.

Another fact that demonstrates this situation is that of the ten municipalities with the lowest per capita incomes of Minas Gerais, eight are members of the two poorest geographical regions of the state: Vale do Jequitinhonha/Mucuri and North (Table 2).

Table 3. 10 municipalities in Minas Gerais with smaller per capita GDP, 2000 – 2010

| Municipalities | Region | GDP per capita 2010 (R\$) |
|-------------------------|----------------------|---------------------------|
| São João das Missões | Norte | 238,60 |
| Pai Pedro | Norte | 250,74 |
| Santo Antônio do Retiro | Norte | 258,69 |
| Ninheira | Norte | 259,00 |
| Frei Lagonegro | Rio Doce | 267,73 |
| Bonito de Minas | Norte | 270,83 |
| Caraí | Jequitinhonha/Mucuri | 270,88 |
| Setubinha | Jequitinhonha/Mucuri | 276,38 |
| Pedra Bonita | Mata | 280,36 |
| São João da Ponte | Norte | 281,68 |

Source: IBGE, Overview of Census Results 2010.

Development: João Pinheiro Foundation.

Another worrying situation in relation to these regions is that, according to 2010 data from the Institute of Applied Economic Research (IPEA), it is clear that the Municipal Human Development Index (IDHM) of them also showed unsatisfactory results.

Table 4. Municipal Human Development Index of Minas Gerais regions, IDHM 2010

| Region | IDHM 2010 |
|------------------------------------|-----------|
| Triângulo Mineiro e Alto Paranaíba | 0,706 |
| Oeste de Minas | 0,694 |
| Sul e Sudoeste de Minas | 0,694 |
| Central Mineira | 0,688 |
| Noroeste de Minas | 0,683 |
| Campo das Vertentes | 0,682 |
| Metropolitana de Belo Horizonte | 0,675 |
| Zona da Mata | 0,659 |
| Vale do Rio Doce | 0,636 |
| Norte de Minas | 0,623 |
| Jequitinhonha | 0,616 |
| Vale do Mucuri | 0,601 |

Source: IBGE, Overview of Census Results 2010.

Development: João Pinheiro Foundation.

As can be seen in the table, IDHM of the North of Minas Gerais and Jequitinhonha/Mucuri is between 0.600 and 0.699, which according to the figure is that these regions have an average human development consequence of many factors such as low income of the population.



Figure 4. IDH ratings

Source: <http://g1.globo.com/> – accessed in February 29, 2016.

It is observed in the table that in the ranking of the ten municipalities of Minas Gerais with smaller IDHMs, 8 belong to the north and the region of Vale do Jequitinhonha/Mucuri, with IDHM that do not reach 0.553, representing a low human development.

Table 5. The 10 lowest Human Development Index of Minas Gerais municipalities – 2010

| Municipalities | Region | IDH 2010 |
|----------------------|----------------------|----------|
| São João das Missões | Norte de Minas | 0,529 |
| Araponga | Zona da Mata | 0,536 |
| Bonito de Minas | Norte de Minas | 0,537 |
| Catuji | Jequitinhonha/Mucuri | 0,540 |
| Ladainha | Jequitinhonha/Mucuri | 0,541 |
| Monte Formoso | Jequitinhonha/Mucuri | 0,541 |
| Setubinha | Jequitinhonha/Mucuri | 0,542 |
| Frei Lagonegro | Vale do Rio Doce | 0,543 |
| Fruta de Leite | Norte de Minas | 0,544 |
| Itaipé | Jequitinhonha/Mucuri | 0,552 |

Source: Institute of Applied Economic Research (IPEA).

It can be seen, therefore, according to the presented figures, the northern region of Minas and „Vale do Jequitinhonha and Mucuri,” despite the development work carried out by SUDENE, are still poor regions that have difficulty to develop and generate their own resources and are dependent on funds from the government to keep them.

6. Methodology

This research is characterized, on the approach to the problem of quantitative and about the objectives, as descriptive research. Documentary surveys were conducted with collection, analytical processing and interpretation of primary and secondary data, with recurrent basis to the legislation that deals with the issue of fiscal responsibility and public management.

The objective of the research is to analyze the situation of the fiscal management of the municipalities of the northern region of Minas Gerais and some middle region of the municipalities of the „Vale do Jequitinhonha” through IFGF indicators and compare the average score of these municipalities with the average of Minas Gerais and Brazil, to see if they are distant or not of the state and national standard.

The information used for the research were collected mainly in the FIRJAN database. It was used as a variable to measure the quality of municipal management the „FIRJAN Index of Fiscal Management” – IFGF that consists of five indicators: a) IFGF Own Revenue; b) IFGF Personnel Expenses; c) IFGF Investments; d) IFGF Liquidity and e) IFGF Cost of Debt.

The research universe was defined as 89 municipalities in the northern region of Minas Gerais and 5 municipalities in the „Vale do Jequitinhonha”. Among the municipalities selected for the survey, five did not have the IFGF indicators calculated annually by FIRJAN by reference to the year 2013.

The assessment of indicators was made in accordance with the concepts and classification of IFGF presented in Table 1. Interpretation of the data collected depends on the score achieved by each municipality. It varies from 0 to 1, and the higher the score, the better the fiscal management of the municipality. After the determination of the results was drawn up a ranking of the best and worst tax administrations and was also made a fiscal management quality comparison using the average of the IFGF these municipalities, the state of Minas Gerais and Brazil.

With respect to reliability, data from IFGF indicators were collected in an authentic way, without change, from FIRJAN database.

7. Results

This research examined the tax situation of 94 municipalities through corresponding data to the year 2013, 89 municipalities in the northern region of Minas Gerais and 5 municipalities in the „Vale do Jequitinhonha”, the data of these regions were used because they are considered two of the poorest regions of Brazil, because inhabit these places a large percentage of poor and overly poor in the state of Minas Gerais, with terrible economic and social indicators, high rates of illiteracy and infant mortality, low economic activity, high condensation of land and income, as well they are dependent on government funding.

By analyzing the data is presented in Figure 5 the tax classification of the municipalities surveyed: most of obtained concept C and D being tied at 43% or

46%, no municipality has achieved concept A. Only 3% were classified as good management with concept B. However 5% of the analyzed municipalities do not have data in IFGF, they are unrated on the concept, which are: Padre Carvalho, Pintópolis, Riacho dos Machados, São João da Lagoa and Serranópolis de Minas.

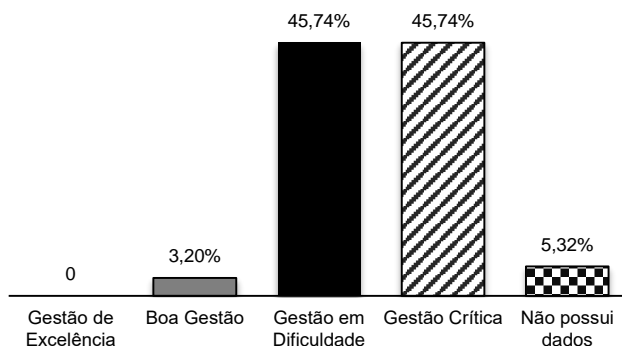


Figure 5. Classification of municipalities in the northern region of Minas Gerais by concept IFGF 2013

Source: FIRJAN – prepared by the authors.

By analyzing the data it was elaborated a ranking of the best and worst results. The city of Chapada Gaúcha was in 1st place, because scored the highest overall index, followed by the municipalities of São João das Missões and Francisco Sá respectively in 2nd and 3rd place. Consequently they were classified with concept B. IFGF rates of Staff Costs and Liquidity stood out for good grades, reaching the maximum score in and Francisco Sá Brasília de Minas. This shows that these municipalities are complying with the LRF that determines that spending cannot exceed 60% of the Current Net Revenue. Regarding liquidity, municipalities demonstrated get cash to cover expenses deferred to the following year.

Table 6. Ranking of Top Five IFG results in the North of Minas Gerais in 2013

| Ranking 2013 | | Municipalities | IFGF | Own Revenue | Personnel Expenses | Investments | Liquidity | Cost of Debt |
|--------------|------|--------------------------------|--------|-------------|--------------------|-------------|-----------|--------------|
| BR | MG | | | | | | | |
| 531° | 52° | Chapada Gaúcha | 0,6338 | 0,1069 | 0,7583 | 0,6707 | 0,8785 | 0,9055 |
| 573° | 60° | São João das Missões | 0,6284 | 0,1263 | 0,6933 | 0,7895 | 0,7929 | 0,8790 |
| 780° | 81° | Francisco Sá Brasília de Minas | 0,6042 | 0,3100 | 0,4504 | 0,6236 | 1,0000 | 0,6776 |
| 951° | 101° | Minas Pai Pedro | 0,5859 | 0,3683 | 0,4897 | 0,3339 | 1,0000 | 0,9272 |
| 1078° | 117° | | 0,5748 | 0,0429 | 0,5895 | 0,6250 | 0,8527 | 1,0000 |

Source: FIRJAN – Prepared by the authors.

In the ranking of the 5 lower results perceives a situation contrary, as we highlight the great expenditure on personnel and lack of liquidity. Municipalities that set integrally exceeded the limit for spending on certain personnel in the „Fiscal Accountability Act” (LRF) thus closing the year 2013 with more short-term bonds than cash resources due to that earned zero score in IFGF Personnel Expenses and IFGF Liquidity. Consequently, these cities were classified as D concept, as also check underinvestment and insufficient own income.

Table 7. Top Five Worst IFGF Results in the North of Minas Gerais in 2013

| Ranking 2013 | | Municipalities | IFGF | Own Revenue | Personnel expenses | Investiments | Liquidity | Cost of Debt |
|--------------|------|--------------------|--------|-------------|--------------------|--------------|-----------|--------------|
| BR | MG | | | | | | | |
| 5204° | 807° | Januária | 0,1256 | 0,2253 | 0 | 0,0702 | 0 | 0,5905 |
| 5207° | 808° | Joaquim Felício | 0,1246 | 0,0757 | 0 | 0,1847 | 0 | 0,6606 |
| 5191° | 806° | Engenheiro Navarro | 0,1302 | 0,1060 | 0 | 0,0902 | 0 | 0,8607 |
| 5101° | 800° | Glaucilândia | 0,1597 | 0,0652 | 0 | 0,3367 | 0 | 0,6925 |
| 5127° | 801° | Cônego Marinho | 0,1500 | 0,0532 | 0 | 0,2589 | 0 | 0,7983 |

Source: FIRJAN – prepared by the authors.

8. Comparison between mean: Brazil, Minas Gerais and North of Minas Gerais

According to the FIRJAN in 2013, IFGF of Brazil reached 0.4545 points, 10.5% lower than the previous measurement (0.5070); the tax situation of most municipalities has worsened in recent years. The results showed that the number of municipalities that have been well evaluated in IFGF with concepts A and B fell almost half, 15.7% of the municipalities obtained grade A or B, as 84.2% had C or D concepts, management difficult or criticism.

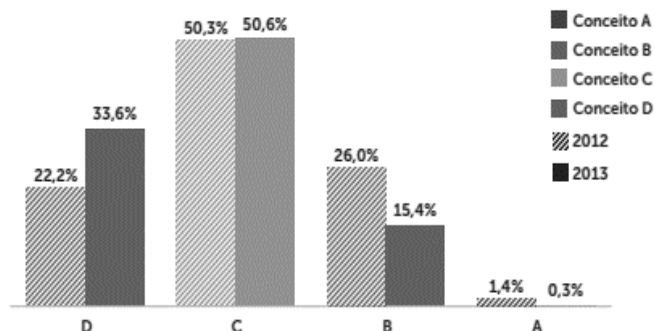


Figure 6. Percentage of municipalities according to the results of the IFG in 2013

Source: RJAN.

The indicators that stood out were the IFGF Personnel Expenditure and IFGF Investments. These indicators fell by – 11.4% and – 31.2%, respectively, compared to the previous survey. The IFGF Own Revenue also fell by – 0.8%, due to the fact that revenues decelerated more than the transfer of the states and the federal government.

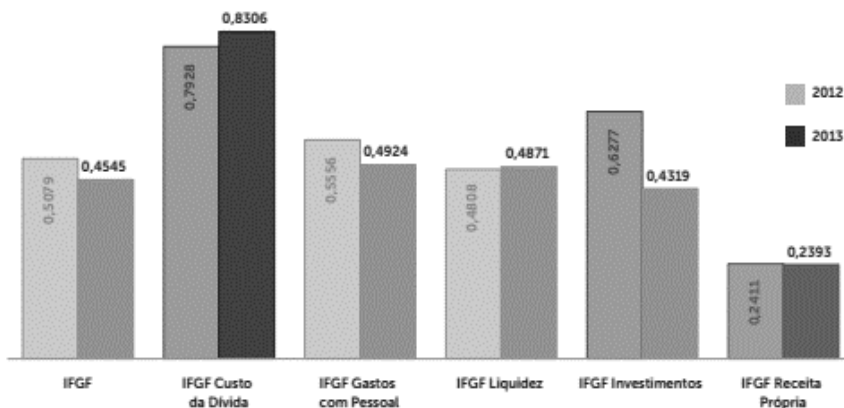


Figure 7. IFGF Brazil and its indicators (2012 and 2013)

Source: FIRJAN.

In the analysis of data for the year 2013 of all municipalities of Minas Gerais, as in most municipalities also realize is that they face difficult fiscal situation. Most (50.1%) achieved concept C, while 317 (39.2%) presented concept D, 84 municipalities (10.4% of the analyzed cities) were evaluated with good fiscal management and only three (0.4%) demonstrated excellence in IFGF (concepts B and A, respectively).

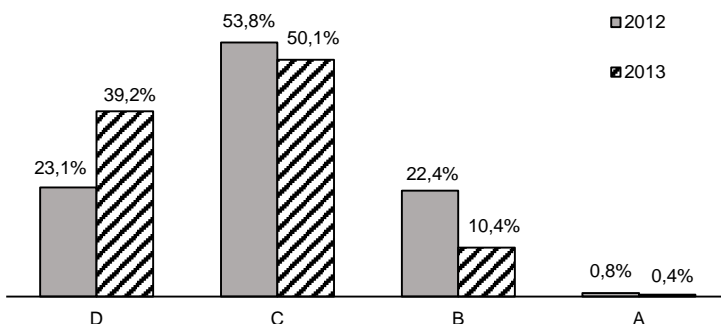


Figure 8. Distribution of Minas Gerais municipalities by IFGF concept (2013)

Source: FIRJAN.

The average IFGF of state municipal governments was 0.4362 points below the national average, as stated earlier, was 0.4545 points, which puts the state at a disadvantage compared to most states. In the analysis of indicators we realize that municipalities had performance below the national average in four indicators IFGF Liquidity (0.4491), IFGF Own Revenue (0.2199), IFGF Investments (0.3974) and IFGF Cost of Debt (0.8094). Regarding the IFGF Liquidity, Minas Gerais had the highest number of zero notes (256) compared to other states. Therefore, it can be concluded that one in four municipalities ended the year 2013 with no cash to pay its obligations.

The worst fiscal management performance detected by FIRJAN in Minas Gerais are mostly in northern cities and „Vale do Jequitinhonha” basically in cities with 10,000 inhabitants or less – except for Januária, with about 70 thousand inhabitants. In the next chart is the diagnosis of the fiscal management indicators of the municipalities of the northern region of Minas Gerais.

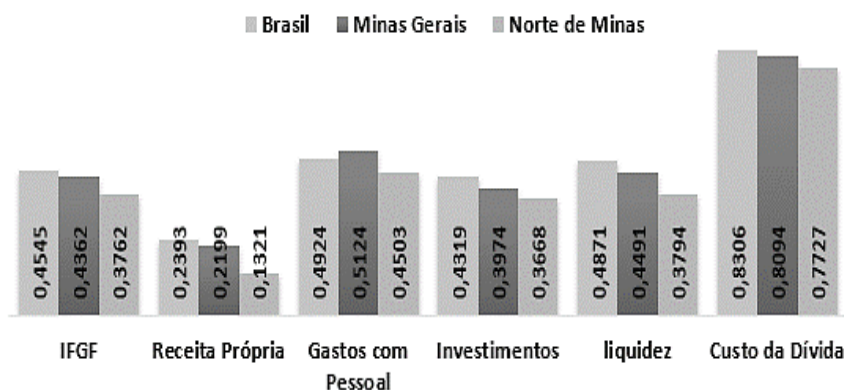


Figure 9. Comparison of the averages of the northern region of Minas Gerais with Minas Gerais and Brazil

Source: FIRJAN - prepared by the authors.

In the figure above it was found that these municipalities had run below the average of Minas Gerais and Brazilian in all indicators. It stands out among the indices to Own Revenue, which has performance inferior approximately 45% compared to Brazil and 40% from Minas Gerais and the liquidity, which is about 22% and 15% lower than that of Brazil and Minas Gerais, respectively. This happens mainly because the municipalities in the north of Minas Gerais are poor and do not have a good collection, so cannot have a sufficient cash balance to pay off the debts, despite government transfers.

Another index that draws attention is the personal expenses that did not get a very large variance in relation to the Brazilian average and Minas Gerais.

However, in the ranking of five worst all took zero. This shows that these municipalities exceeded the limit for spending on personnel established by the LRF.

For the executive secretary of the Association of Municipalities of Minas Gerais SUDENE area, Professor Luiz Lôbo, this situation is related to an excess of personnel employed by the municipal governments of these municipalities, and also due to the administration by the municipality organs of the State and Union, as Emater, military police and post offices, which generates a very large spending on payroll, which worsens the situation because these municipalities need transfers, because the own revenue generation is very small.

As seen above, most of the cities of these regions do not have population enough to allow significant tax revenue, and there isn't, for example, the collection of property tax, technical difficulties. There are no data and information, and most homeowners are irregular. And with the slowdown in revenues and the increase in personnel expenses and lower investment public accounts deteriorated, the municipalities started to depend more on government transfers, which has left local governments increasingly dependent on economic and political developments.

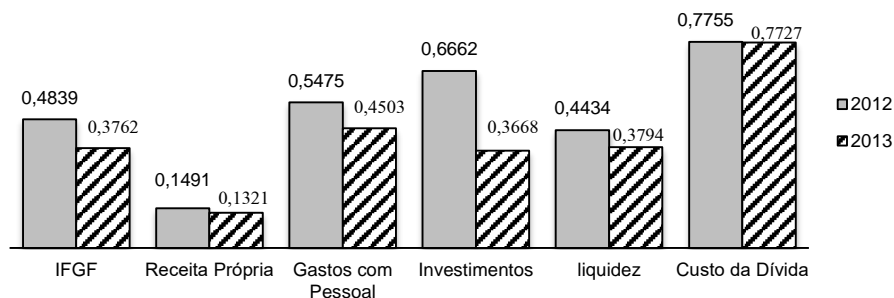


Figure 10. Comparison of the averages from northern region of Minas Gerais in the years 2012 and 2013

Source: FIRJAN - Prepared by the authors.

Regarding the evolution of the data, the table above shows that the average of the municipalities of the north of Minas Gerais 2012 regressed to 2013 as well as the average of most municipalities, but the results of the municipalities in the north of Minas Gerais were worse. The IFGF Investments index achieved a significant drop of about 45%, which shows that these municipalities have invested less than 20% of its net current revenue in infrastructure. Another index that accompanied the Brazilian situation was the Spent Personnel which fell about 18%.

9. Conclusion

For municipalities to take on and meet the different social and economic demands there is a need to develop tools and governance indicators in order to evaluate the performance of this management and measure the levels of economic and social development. This article aims to analyze the data collected from the municipalities in the northern region of Minas Gerais for the year 2013, which made it possible to identify the quality indicators of municipal fiscal management from IFGF - „FIRJAN Index of Fiscal Management” and sort managements of the same as management excellence, good management, management with difficulty and critical management.

According to the data obtained in the research, most of the municipalities surveyed is in a difficult situation regarding the fiscal position, thus getting a large percentage with the C and D concepts that represent management with difficulty and any municipality to sorting through concept of management excellence. These poor results are consequences of high expense with personnel and lack of liquidity of these municipalities which ended the year 2013 with the highest number of obligations in the short term than funds in cash, and also of dependence of the cities from government transfers, which prevents managers to make more investments.

Comparing the Brazilian average with the average of the state of Minas Gerais and the northern region of Minas Gerais, it is noticed that there was a drop in scores relative to the previous measurement. Therefore, it is noted that the fiscal situation of most municipalities has worsened in recent years, and the average of the north of Minas Gerais is not so far from the rest of the country.

Given the above, it is clear that the municipalities in the north of Minas Gerais, facing economic and social difficulties, cannot get good results in public management indicators, and this situation is extended for many years. In addition, it was noted that the development of municipalities is much lower than the rest of the municipalities in the state. Therefore, it was found that the quality of fiscal management in these municipalities is quite unsatisfactory, and are consequences both of mismanagement but also few opportunities for storage.

For municipalities to succeed better rankings in IFGF concept requires that each municipality meets the LRF, not going beyond the limits. It is also imperative that these municipalities are able to collect more taxes, by means that can increase the flow of money and thus help to raise revenues, thus becoming less dependent on government resources. Also it is necessary to improve the management of these municipalities so that they are able to perform the necessary actions to improve the presented indexes.

Finally, it is important to note that the partnership between the State University of Montes Claros and the University of Lublin will help immensely in the improvement of public management performance of technologies analysis, to develop new strategies for evaluation, and for the improvement of public management indicators in Brazil.

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