

Strengthening the Fiscal Ecosystem in Brazil:

Challenges and opportunities

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TABLE OF CONTENTS

1. Introduction	4
2. The origins of the existing fiscal ecosystem in Brazil	6
2.1 The formal division of powers set out in the 1988 Constitution	6
2.2 The Constitution, social rights, and fiscal decentralization	10
3. The first wave of reforms: the priority of fiscal control	12
3.1 Macroeconomic crisis and budgetary challenges in the 1990s	12
3.2 The Fiscal Responsibility Law and budgeting for results	14
4. The second wave of reforms: a shift in budget dominance	17
4.1 New fiscal rules	19
4.2 The parliamentary amendments saga and the increased dominance of Congress	21
5. What the Brazilian fiscal ecosystem looks like today	23
5.1 Advances and setbacks in terms of accountability and equity	23
5.2 Back to the three tensions	27
5.3 An updated overview of fiscal ecosystem actors	29
6. Future paths and opportunities	34
References	37
Annex: Case Studies	42

LIST OF ACRONYMS

CGU	Controladoria Geral da União/Federal Comptroller General
CSO	Civil Society Organization
FUNDEB	Fundo de Manutenção e Desenvolvimento da Educação Básica/Permanent Fund for the Maintenance and Development of Basic Education
GDP	Gross Domestic Product
GSB	Gender-sensitive Budgeting
LDO	Lei de Diretrizes Orçamentárias/Budgetary Guidelines Law
LOA	Lei Orçamentária Annual/ Annual Budget Law
LRF	Lei de Responsabilidade Fiscal/Fiscal Responsibility Law
MPU	Ministério Público da União/Federal Public Prosecutor's Office
OECD	Organisation for Economic Co-operation and Development
PPA	Plano Plurianual/Multi-Year Plan
PT	Partido dos Trabalhadores/Workers' Party
STF	Supremo Tribunal Federal/Supreme Court
TCU	Tribunal de Contas da União/Federal Audit Court
VAT	Value-added Tax

1. INTRODUCTION

Brazil, with an area of more than 8.5 million km², is the largest economy in South America and ranks 10th in the world, with a gross domestic product (GDP) of US\$2.2 trillion. Despite its economic size, Brazil's GDP per capita (US\$10,296) is about 30% lower than that of Argentina and Mexico. Brazil is also one of the most unequal countries in the world, in which the richest 10% of the population concentrates more than 50% of national income and almost 60% of wealth (Ministério da Fazenda, 2023). These high levels of inequality stem from—and are sustained by—distortions in public taxation and spending, which in turn are based on longstanding institutional features of the Brazilian fiscal ecosystem that undermine broad accountability and limit its capacity to promote equity. In this paper, we describe and assess these features, explore their recent historical trajectory, and discuss ways in which they can be addressed.

This case study focuses on the period starting with Brazil's return to democratic rule in 1988, as it adopted a new Constitution, and will analyze central government institutions and processes, looking at efforts to reform and improve budgetary governance at the federal level and covering the role of the three branches of government and other relevant actors and stakeholders. The national focus constitutes an important limitation given the federal nature of the Brazilian state, where 27 states and more than 5,000 municipalities are responsible for almost half of total government spending and for the delivery of a broad array of public services. Although we do not cover the functioning of subnational fiscal governance in detail, we look at education financing across levels of government as an area that illustrates key fiscal ecosystem characteristics and challenges, including aspects of multi-level governance because of the large share of spending involved and its importance for equity promotion.

As we will argue, the overall trajectory of fiscal policy and budgetary reforms in Brazil can be interpreted as stemming from three separate and interlocking tensions and conflicts that have shaped efforts at promoting both accountability and equity in the fiscal ecosystem. First, the continuous tension between promoting universal public policies aimed at realizing human rights and improving the wellbeing of the population while coming to terms with fiscal realities and resource constraints, which provoked a pendulum swing between more progressive approaches to fiscal policy and phases of austerity where fiscal discipline was the main focus. Second, the shifts in the balance of power between the executive and the legislature over the formulation and implementation of budget policies, and control over budgetary resources, which in recent years has reached an impasse which has seriously strained budget governance. And third, the complexity introduced by the federal structure of the Brazilian state, which over time has

¹See [Here](#) (accessed November 10, 2025).

been characterized by waves of decentralization and recentralization in both public and fiscal policies. The interplay of these three forces over time, alongside other factors, has alternatively opened and closed opportunities for shifting the fiscal ecosystem towards stronger accountability and more equitable outcomes, and in our view will continue to do so in the future.

At present, unfortunately, Brazil's fiscal ecosystem seems to be stuck. An ongoing power struggle between the executive and the legislature over funds for projects sponsored by legislators through parliamentary amendments (*emendas parlamentares*) threatens to undermine both accountability and equity and has resulted in the involvement of the judiciary, which constitutionally is not part of the annual budget process. A tight fiscal situation is preventing the government from making the kinds of investments it deems necessary to advance its social agenda, while problems of spending efficiency and effectiveness persist. And civil society organizations (CSOs) complain about the lack of openness and dialogue on fiscal policy matters, as high levels of inequality persist.

Despite this gloomy picture, there are interesting glimmers of hope. The intervention of the judiciary in the ongoing dispute around budget amendments could result in new rules for accountability. Pressure is mounting on the government to review and renew the legal framework for public finance, dating back to 1964, which could represent an opportunity to address several longstanding budgetary governance challenges. The media is playing a more constructive role in informing the public and shaping debates around fiscal policy and fiscal governance, and subnational governments are increasingly pushing for fiscal reforms while promoting local innovation. In other words, not all hope is lost. However, it is still not clear where the necessary political pressure for reform might come from, which coalitions of actors could support it, and how the forthcoming elections in 2026 might affect the process.

This paper is organized as follows: in the next section we present the origins of the Brazilian fiscal system, based on the 1988 Federal Constitution, and some of its main characteristics. In sections 3 and 4 we sketch two important moments, in the late 1990s and in the mid-2010s, that saw waves of budgetary and fiscal reforms, which reverberate up to today. Section 5 looks at the current contours of the fiscal ecosystem with its actors, contradictions, and disputes. Finally, the sixth section presents some initial thoughts about opportunities and pathways for future reform.

2. THE ORIGINS OF THE EXISTING FISCAL ECOSYSTEM IN BRAZIL

2.1 *The formal division of powers set out in the 1988 Constitution*

The return to democracy in Brazil in the mid-1980s, after 20 years of dictatorship, was accompanied by the strengthening of social, political, religious, and trade union movements. This led to a strong demand for greater popular participation in the political process, with the fundamental concern being to establish a new balance of power between the executive and legislative branches, and open up opportunities for citizen participation. It was in this context that the new Federal Constitution was drafted, in which various human rights that had previously been denied to a large part of society were enshrined in constitutional articles and became part of the core legal framework guiding public policy decisions and government action.

The Federal Constitution of 1988 introduced several changes to the budget process in all three levels of government—federal, state, and municipal. One of the most important changes is the obligation for governments to draft, and for the legislature to discuss and approve, three separate laws²: (a) the Multi-Year Plan (Plano Plurianual, or PPA), to be drafted and approved within the first year of each four-year presidential mandate, laying out the government's overall development strategy and the associated objectives and targets for the various sectors; (b) the Budgetary Guidelines Law (Lei de Diretrizes Orçamentárias, or LDO), to be presented to Congress each year by 15 April, laying out the key budget priorities and fiscal parameters to be used in the preparation of the annual budget for the following year; and (c) the Annual Budget Law (Lei Orçamentária Annual, or LOA), to be submitted to Congress by the end of August and approved by 31 December, specifying revenues and spending for each fiscal year in line with the priorities originally laid out in the PPA. This budgetary triad, as it is often known, is replicated at each level of the federation, and defines how governments should manage public resources in the pursuit of broader policy objectives.

This change brought important gains for the legislature in terms of political power and policy influence, since there are three separate moments during the planning and budgeting process where legislative approval is needed. In particular, the requirement of legislative involvement at the intermediate step related to the approval of the LDO is something that is not common across countries. In addition, the Constitution gave the legislative branch broad powers to amend the budget proposed by the executive, including altering the macroeconomic forecast and introducing new expenditure items, although these are supposed to be accompanied by corresponding revenue measures. At the same time, as regulated by Law 4320 of 1964—which sets out the basic rules and procedures still followed for public financial management—the annual budget law has an

²See Art. 165ff of the [Federal Constitution](#) (accessed November 10, 2025).

“authorizing” nature: rather than imposing an obligation on government to fully implement it, it merely sets upper limits on expenditure. The executive branch therefore continued to have the prerogative to adjust the budget during execution, for example through the opening of supplementary credits when revenues exceed forecasts, or through the procedure of “contingenciamento”, which gives the government powers to limit or withhold the execution of specific approved budgetary items, often as part of efforts to comply with fiscal targets or rules.

In addition to defining the respective roles and responsibilities of the executive and the legislature on budget matters, the Constitution sets out the arrangements for external financial and budgetary oversight and for citizen participation. The Federal Audit Court (Tribunal de Contas da União, or TCU) is recognized in Art. 71 of the Constitution as the body supporting Congress in holding the executive accountable for the management of public resources. It is given a broad mandate and functional autonomy, but its institutional structure does not adequately guarantee its independence. Although called a court, it is not formally part of the judiciary and is led by a collegiate body composed of nine so-called ministers, of which three are nominated by the President and the rest by Congress, making it vulnerable to political meddling, especially on politically sensitive topics such as approval of the government’s annual financial statements (Alston et al., 2009). Normally, the federal government’s annual accounts are assessed by a technical team made up of career auditors, which issues a technical opinion to be approved or rejected by the TCU’s more political decision-making body. The TCU’s opinion is then sent for a vote by the National Congress that determines the acceptance or refusal of the annual accounts, and any subsequent sanctions. This process can take years, and may not even come to a vote (Loureiro et al., 2009).

Citizen participation in public policymaking is also enshrined in the Constitution, although in a limited way. Art. 58 requires parliamentary committees to hold public audiences with CSOs, while Arts. 198, 204, and 206 call for public participation spaces in public policies for health, social assistance, and education. These constitutional provisions paved the way for the creation of sectoral “public policy councils”—as they came to be called—which have since been expanded to a number of other sectors (Avritzer, 2009; Lavallo and Szwako, 2023), creating representative spaces for dialogue and decision-making around sectoral policies.

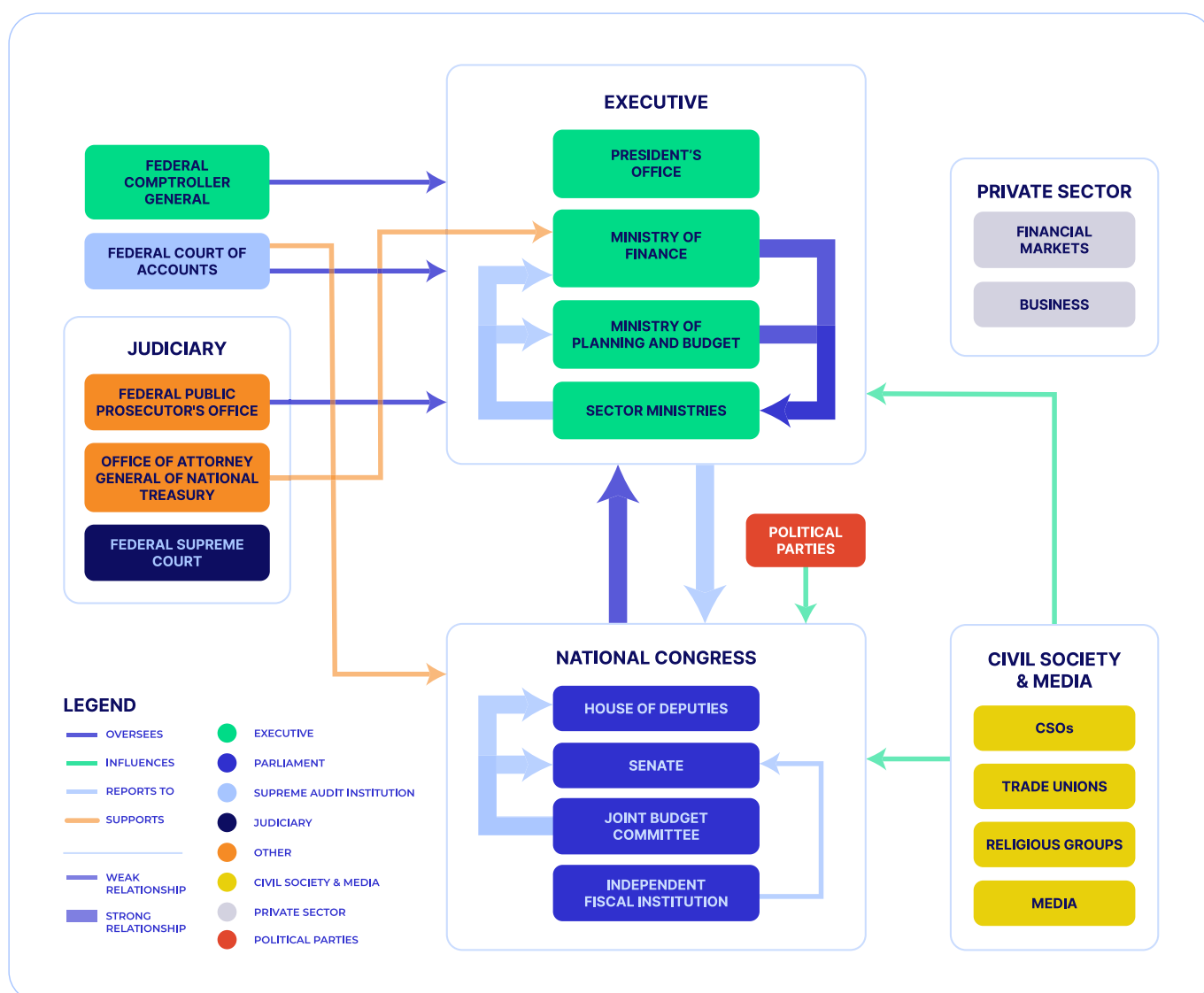
Two other actors with relevant roles in the budget process are worth mentioning. The first is the Federal Public Prosecutor’s Office (Ministério Público da União, or MPU), formally established in 1951 but with historical roots in French and Portuguese legal traditions. The MPU was deeply transformed by the 1988 Constitution, becoming an autonomous institution with functional, administrative, and financial independence, and expanding its role beyond criminal matters to defending democracy, fundamental rights, and the public

interest. Its members gained guarantees such as tenure and independence. Though not involved in budget drafting, the MPU oversees the execution of public funds, combats mismanagement, and defends public assets, complementing external oversight by Congress and the TCU. The second is the Office of the Attorney General of the National Treasury (Procuradoria-Geral da Fazenda Nacional, or PGFN). This office plays a key legal role in federal budget control, acting as a legal counsel for the National Treasury focusing on the legality of fiscal and financial actions. It oversees the federal government's active debt, advises the Ministry of Finance on financial matters, and helps combat tax evasion and corruption.

Figure 1 sketches out the actors that play a formal role in the Brazilian fiscal ecosystem and the main legal relationships between them. Within the executive, the Ministry of Finance (Ministério da Fazenda) and the Ministry of Planning and Budget (Ministério de Planejamento e Orçamento) play the main coordinating roles and oversee the work of sector ministries in charge of the corresponding public policy areas. The President's Office (Casa Civil) also plays an important role, even though not specifically formalized in the Constitution. Within the National Congress, the House of Deputies (Câmara dos Deputados) and the Senate (Senado Federal) have equal budgetary powers, which are mostly exercised through the Joint Budget Committee (Comissão Mista de Orçamento), composed of forty members taken from both houses. While not part of the initial constitutional provisions, the Senate can also count on the support of an Independent Fiscal Institution (Instituição Fiscal Independente) which was created in 2016 to monitor the implementation of fiscal rules.

Figure 1. Fiscal ecosystem in law

Source: Authors



The roles of the TCU, the MPU, the PGFN and of citizens have already been mentioned above. Other actors that deserve a mention and that appear in the map below are the Federal Comptroller General (*Controladoria Geral da União, CGU*)—an institution that is in charge of internal audit, government-wide annual reporting and anti-corruption activities, among other things³—and political parties, with their key role in democratic representation and in policy making.

³The CGU is formally part of the executive, but is placed outside it in the map due to its oversight function.

2.2 The Constitution, social rights and fiscal decentralization

As highlighted above, the Constitution promoted the universalization of essential public services by establishing these services as social rights guaranteed to all citizens, regardless of their economic status. In Article 6, for example, the Constitution defines education, health, and assistance to the destitute, among others, as social rights, ensuring that the state guarantees their realization and breaking with previous practices marked by clientelism and charity. In an effort to safeguard priority spending, the Constitution also earmarks a specific share of government revenues for health and education expenditures, with the aim of protecting them from political intervention (Castro, 2001; Frant, 1996; Peres, 2007).

This universalization of public policies was fundamental for structuring public systems such as the Unified Health System (Sistema Único de Saúde) and the Unified Social Assistance System (Sistema Único de Assistência Social), which expanded access to basic services and social protection, especially among the poorest. The Constitution also decentralized resources for states and municipalities, increasing local capacity to implement public policies, especially in the areas of basic education and health. The process of fiscal decentralization was designed to enhance the capacity of states and municipalities to finance and implement public policies. In particular, the government set up a Municipal Participation Fund (Fundo de Participação dos Municípios) funded by a share of central revenues from income taxes and from a tax on industrial production to help finance local government spending. While this share did increase over time, the federal government also gradually undermined this process by increasing overall revenue through other types of taxes like social contributions, thereby reducing the proportion of total revenues being shared with subnational governments, or by lowering the revenues to be shared through the introduction of tax expenditures (Arretche, 2004; Peres and Santos, 2020).

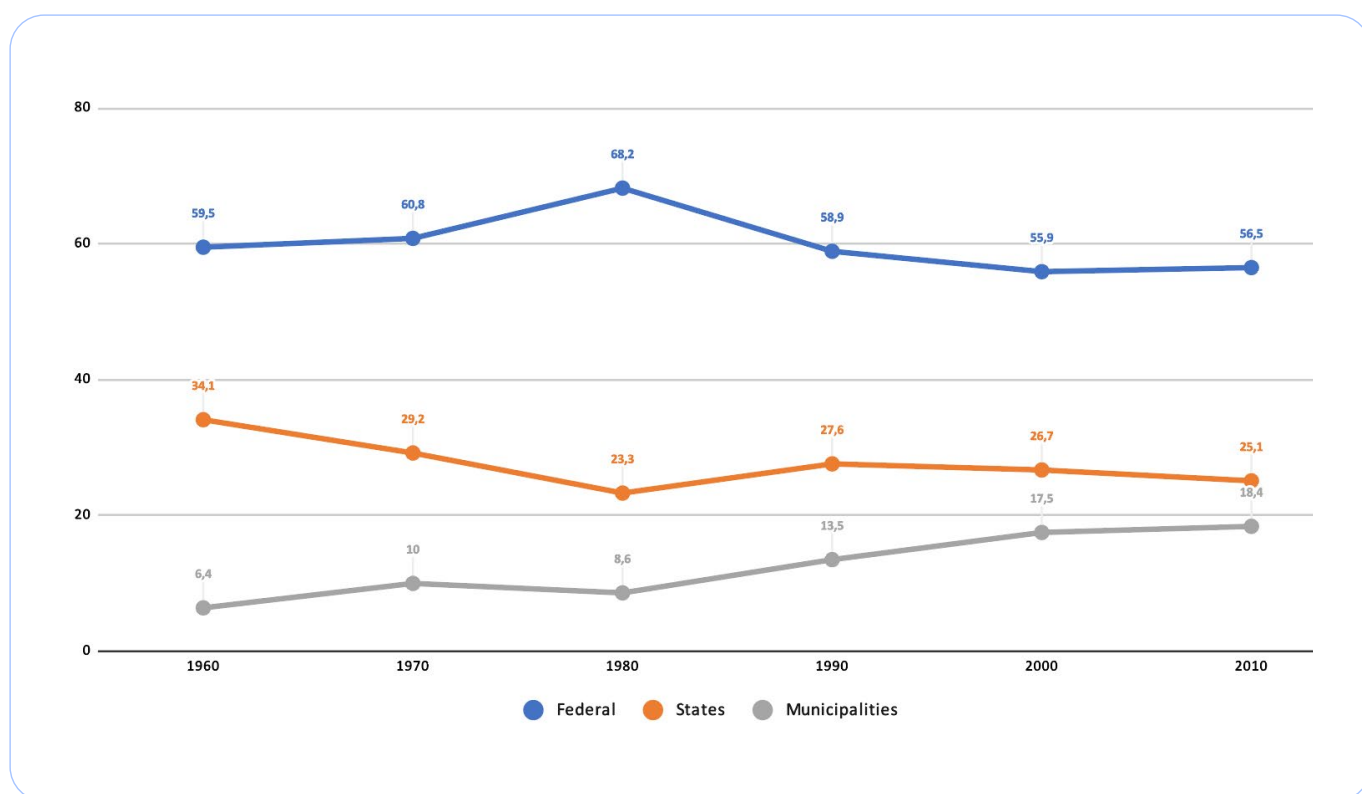
The approval of the Federal Constitution of 1988 thus consolidated a process of promoting and organizing universal public policies, especially in the social area. This included mandatory provisions shared by the three levels of government, with most of the responsibility for direct service provision in the hands of states and especially municipalities—the gateway to basic education, health, and social assistance. Over time, this has led to a shift in policy actions, transfers of resources, and bureaucratic strengthening of municipalities, with a corresponding reduction of personnel structures for these careers at the federal level. The federal government has increasingly focused on policy formulation and regulation, while implementation is left to subnational entities (Arretche, 1999).

Figure 2 shows how this gradual process of decentralizing resources unfolded. During the dictatorship years, revenues became increasingly concentrated at the federal level, followed by a 10 percentage point reduction in the 1980s with the return to democracy, and more gradual reductions after that, excluding the post-pandemic years. Municipalities are the main winners in the process, with their share of revenues rising from 6.4% in 1960 to 22.8% today. State governments, on the other hand, saw their share of revenues fall almost 10 percentage points between 1960 and the current period, reaching a share of 24.9% in 2023. The data clearly show the growing strength of subnational entities, which now account for almost 48% of total tax revenue, posing challenges to the Union's fiscal governance.

The expansion of social rights, however, occurred simultaneously with a tax system that remains heavily regressive and continues to favor the richest strata of the population, undermining equity. Brazilian tax policy continues to rely heavily on indirect taxes, such as those on consumption, which weigh proportionally more heavily on the poor, while taxation on income and wealth remains low and not very progressive (Salvador, 2016). Income from profits and dividends, for example, which constitute a larger share of rich people's incomes, is exempt from taxation, reducing the effective rates paid by the highest income brackets and contributing to regressivity.

Figure 2. Federal division of available tax revenue (1960–2023) – % of total

Source: Prepared by the authors, data updated from Afonso e Castro (2016) and available [here](#).



Another problem in pursuing equity is related to the decentralization model itself. The increase in resources transferred to municipalities for policy implementation was not coupled with a specific focus on reducing structural inequalities in Brazil. In general, the criteria for resource distribution across municipalities were designed in terms of population size or school enrolment, for example, without adjustments based on socioeconomic needs, race, and gender. The almost 5,600 municipalities in the country are highly varied, with pockets of poverty and places with a high concentration of wealth. The criteria used have failed to address the reality of a population that is 56% black, where women are the majority and illiteracy among black people in the northeast of the country is twice that of the southeast, and the income of a white male is on average 2.3 times higher than that of a black woman (PNCD, 2024). Ensuring equity in the implementation of public policies in Brazil requires a review of the criteria for the transfer and use of resources across the territory: something that is now being considered in educational policies.

The realization that the budget is the fundamental space for mediating distributive conflicts leads to the assumption that mediating such conflicts is possible. Mediating conflicts, however, does not imply resolving them. Given the well-established principles of budget annuality—whereby budgets need to be formulated, approved, and implemented on a yearly basis—and of continuity of public service—which states that governments cannot simply suspend the delivery of public services—we can reasonably assume that budgetary actors will look for ways to address distributive conflicts through the budget process. However, they may also end up circumventing, camouflaging, and obscuring them or pushing them off into the future, as part of what Lindblom (1959) would call a process of “muddling through” (Peres, 2024). The latter seems to describe the Brazilian experience pretty well, where the distributive conflicts present when the 1988 Constitution was adopted remain today.

3. THE FIRST WAVE OF REFORMS: THE PRIORITY OF FISCAL CONTROL

3.1 Macroeconomic crisis and budgetary challenges in the 1990s

Soon after the new Constitution was adopted, Brazil's economy started running into trouble. Within a few years, inflation had reached devastating proportions due to external imbalances, the monetary financing of chronic fiscal deficits, and the lack of credible stabilization policies (Guardia, 1992; Bacha, 1994; Afonso et al., 2016). Between 1986 and 1990, four different stabilization plans—Plano Cruzado, Plano Bresser, Plano Verão, and Plano Collor—were introduced and quickly failed, leading to escalating inflation rates that surpassed 2,000% in 1993. The economic adjustments caused by hyperinflation had many consequences for the government budget in all administrative spheres. The long-term coexistence of public administration with high levels of inflation led to the construction of an apparatus to protect public revenues and adjust spending through indexation. As

presented in Peres (1999), the persistence of high inflation in Brazil has made it possible for the government to put in place mechanisms to adjust both revenues and expenditures on a continuous basis, and to use inflation as a lever to control its relationship with civil servants, suppliers, and other actors through the strategic use of salary adjustments, late payments of contracts, and other similar arrangements. This allowed the government to keep real spending under control and balance the budget according to its needs.

Despite the constitutional provisions aimed at balancing powers over the control of public resources, the difficulty of understanding the value of the currency during the hyperinflation period kept the executive branch in total control of the budget, with limited accountability. Domestically, the low transparency of public accounts, coupled with the population's growing dissatisfaction with public services, led to the search for new rules of accountability. On the international stage, the 1990s were years of budgetary reforms in several countries. A combination of factors fueled this process. Countries' budget deficits had accumulated over the previous decade, leading to a worrying increase in debt-to-GDP ratios, and causing concern among international creditors. The perception was that existing budget models made it difficult for governments to seek financial balance and focus on performance (Almeida and Nerosky, 2006). In this international context of reform and adjustment, and under pressure due to its monetary instability and growing levels of indebtedness, the Brazilian government sought ways to adapt.

In the early 1990s, the Brazilian government once again tried to implement an economic plan aimed at bringing inflation under control and restoring confidence. The Plano Real, with its focus on indexation of the economy and the assumption of an inertial inflation profile, was finally successful in reducing the yearly inflation rate to two digits, down from more than 40% a month in early 1994. With the advent of the Plano Real and the abrupt reduction in inflation, there was a major change in the balance of power between budgetary players. The fiscal deficit was found to be much larger than imagined and the weight of the accumulated debts of states and municipalities during the inflationary period became clear. The indebtedness of subnational entities was greatly increased during this period by the introduction of the federal government's so-called macroeconomic tripod, a macroeconomic management approach based on three pillars: inflation targeting, the pursuit of a primary fiscal surplus, and the use of a managed floating exchange rate. Implementing the tripod implied setting a very high interest rate in order to maintain monetary stability. In this situation, states and municipalities became very dependent on the support of the federal government to salvage their public finances (Lopreato, 2000).

By the end of the 1990s, inflation fluctuated between pre-defined bands as part of an inflation-targeting model (Arestis, Paula, and Ferrari-Filho, 2009). However, controlling inflation and keeping public debt at levels considered adequate required a series of

institutional adjustments. Several of these adjustments were introduced as part of agreements with the International Monetary Fund and included the need to impose restrictions on the fiscal behavior of subnational governments, in an effort to tie their hands and ensure that they would not undermine the achievement of the federal government's macroeconomic objectives. These efforts culminated in the passing of comprehensive legislation that has reshaped fiscal policymaking ever since.

It is important to note that the process leading to the construction of a fiscal responsibility framework was made possible by the existence of a coalition of parties that ensured sufficient support for President Fernando Henrique Cardoso's agenda in the National Congress. The President's party (PSDB) did not have a majority in the National Congress, but its coalition with center-right parties such as the Liberal Front Party (PFL) and the centrist Brazilian Labour Party (PTB) allowed him to govern with a certain degree of tranquility and dominance over budgetary and fiscal matters. Deputies and senators were interested in positions and amendments, and the executive's dominance over this type of bargaining ensured support for important votes in the National Congress.

3.2 The Fiscal Responsibility Law and budgeting for results

Among the changes introduced by the Cardoso government were rules for controlling public deficits and debt, especially those of states and municipalities. Deficits were brought under control mainly by adopting limits for personnel expenses, which began to have their increases tied to revenue levels, and by introducing various adjustments to social security spending. In addition, the government approved the Fiscal Stabilization Fund (Fundo de Estabilização Fiscal) to keep the budget deficit under control and allow the untying of 20% of revenues linked to specific expenses in education and health. Several measures were also taken to control debts originating from court orders. The various controls adopted during this period—through laws, resolutions, provisional measures, and bilateral agreements with different federative units—were later consolidated into a single piece of legislation: the Complementary Law on Public Finances (Federal Law No. 101/2000), which became known as the Fiscal Responsibility Law (Lei de Responsabilidade Fiscal, or LRF). The LRF attempted to reproduce a regulatory framework for fiscal control adopted in other countries, such as New Zealand and the United States of America, and was part of a wave of similar reforms that were promoted by international financial institutions around that time (Corbacho and Schwartz, 2007).

The process through which the Fiscal Responsibility Law was developed was incremental and based on the organization of several regulatory changes that occurred in the executive and legislative branches over more than a decade from the late 1980s. In addition to rules for controlling personnel expenses and debt, the functions of the National Treasury Secretariat (Secretaria do Tesouro Nacional, or STN) were

strengthened and broadened as another fundamental element in the approval and subsequent effectiveness of the law. The STN, together with the Economic Affairs Committee of the Federal Senate, began to analyze the financial health of states and municipalities in order to approve (or deny) subnational credit operations, with the aim of reducing the debt of the three spheres of government, and has been instrumental in promoting fiscal discipline since then.

Some additional aspects of the LRF are worth mentioning as they relate to strengthening accountability mechanisms around public finances. First, it included a series of transparency requirements that improved the public availability of fiscal information, both in terms of the quantity and variety of documents that the government was supposed to publish to disseminate fiscal information and in terms of the content of these documents. It also called for the government to produce “simplified versions” of these documents that could be accessible to a non-technical audience. Second, the law gave external auditors at TCU broad oversight powers in terms of monitoring the correct implementation of its provisions. This gave the TCU important additional functions and led to a substantive increase in its capacity and profile over the years.

In terms of how the LRF affected the promotion of equity in fiscal policy, the predominant view is that the law strengthened the focus on fiscal discipline without offering adequate guarantees regarding the government’s social responsibilities as laid out in the Constitution. While early drafts of the law did include language and general principles related to balancing fiscal and social responsibility, its final text focused more narrowly on the need to set annual primary surpluses as the government’s main fiscal target. This not only prevents serious discussions about strategies to improve the government’s medium-term fiscal outlook, but also limits the building of the fiscal space necessary to honor social commitments and promote long-term public investment. On the other hand, few dispute the important role that the LRF has played in promoting the macroeconomic stability that underpinned many of the social gains achieved after its adoption and up to 2015.

Despite the changes introduced through the LRF, some of its provisions remain outstanding. The law foresaw the creation of a Fiscal Management Council (Conselho de Gestão Fiscal), tasked with designing common accounting criteria for assessing certain types of expenditures (e.g. overall wage bill and expenditure arrears). More than 20 years after the law was introduced, however, the Council has not yet been established. This lack of clarity has often led to excessive discretion by State Audit Courts when judging states’ fiscal positions, preventing effective accountability. Furthermore, while the law determined clear rules for debt incurred by states and municipalities, a limit on federal debt has never been established. This leaves the country more vulnerable in times of crisis, when federal debt can increase significantly in relation to GDP, as occurred between 2014 and 2017 and again in more recent years.

In the years that followed the adoption of the LRF and its fiscal controls, the federal government also introduced a series of changes in the budget structure and related classifications in an attempt to focus budget policies and programs on performance. The 2000–2003 PPA, also known as *Avança Brasil*, represented a milestone in Brazilian public management by adopting a program-based management approach focused on results, transparency, and managerial accountability. This was the third Multi-Year Plan introduced after the 1988 Constitution, and it attempted to articulate planning, budgeting, and management in an integrated way, with each program having a manager responsible for its costs and results. This new PPA model established an important milestone by introducing a planning model that was results-oriented and based on management control processes, with clear goals and greater budgetary discipline. This was understood as fundamental for the modernization of the federal public administration (Rezende, 2010; Core, 2007; Pares and Valle, 2006). According to Rezende (2010), however, the 2000–2003 PPA faced obstacles that prevented the effective implementation of the performance-based budgeting model. These included difficulties in coordination between program managers and ministries, a shortage of resources in relation to assigned responsibilities, and a general underestimation of the political complexity of the budget process and of institutional constraints such as earmarked funds and budget freezes. Thus, despite conceptual advances, the absence of incentives or penalties linked to performance, combined with politicization and fiscal rigidity, undermined the connection between program evaluation and allocation decisions, limiting the practical advances of results-based management.

If the results-based planning and budgeting agenda faced problems, advances in fiscal control continued through improvements in the organization of resource flows, including at subnational level. The federal government, through the ordinances of the Federal Budget Secretariat (*Secretaria de Orçamento Federal*) and the National Treasury, implemented changes to adapt national accounting standards to international rules and to ensure their application at subnational level. Two important budget execution and fiscal management reports—the Summary Report on Budget Execution (*Relatório Resumido da Execução Orçamentária*) and the Fiscal Management Report (*Relatório de Gestão Fiscal*)—were created at various levels of government, and their publication on the internet by each government and in a national repository controlled by the STN became mandatory. Non-compliance brought the risk of suspension of voluntary federal transfers. As a result, there was a significant increase in transparency in the revenue and expenditure bulletins of the three spheres, in addition to the creation of controls to measure the volume of expenditures on health, education, active and inactive personnel, and indebtedness. External auditors were particularly strengthened in this process, because in addition to greater access to regular information from the various government entities, they began to have greater responsibility in controlling the limits set in the LRF (Leite and Peres, 2010).

These changes brought about important gains in budget accountability, increasing control over revenues and expenses and, consequently, allowing for greater pressure and accountability for government achievements. In addition, the ministries of Finance and Planning introduced further changes creating control of revenues and expenses by source, which made reporting on the use of resources more accurate and precise, allowing the federal government to have greater control over federal transfers and agreements with municipalities and reducing the discretion of local managers in deciding how to spend these resources.

Despite the gains in accountability brought about by these shifts in budget classifications, the main thrust of the fiscal reforms that occurred during the governments of President Fernando Henrique Cardoso made fiscal control the most important element of budget execution, overriding the execution of actions planned in the PPA and a focus on performance. In practice, there was no implementation of a results-based budget in Brazil. This tension between the pursuit of policy priorities and the respect for fiscal balance was reinforced by managers, making the achievement of financial targets more of a priority than the achievement of the policy objectives set out in the budget—a tension that is still present in the relationship between “guardians” and “spenders” in the executive at federal level (Good, 2014; Couto & Cardoso Júnior, 2018), undermining the government’s capacity to pursue more equitable outcomes.

4. THE SECOND WAVE OF REFORMS: A SHIFT IN BUDGET DOMINANCE

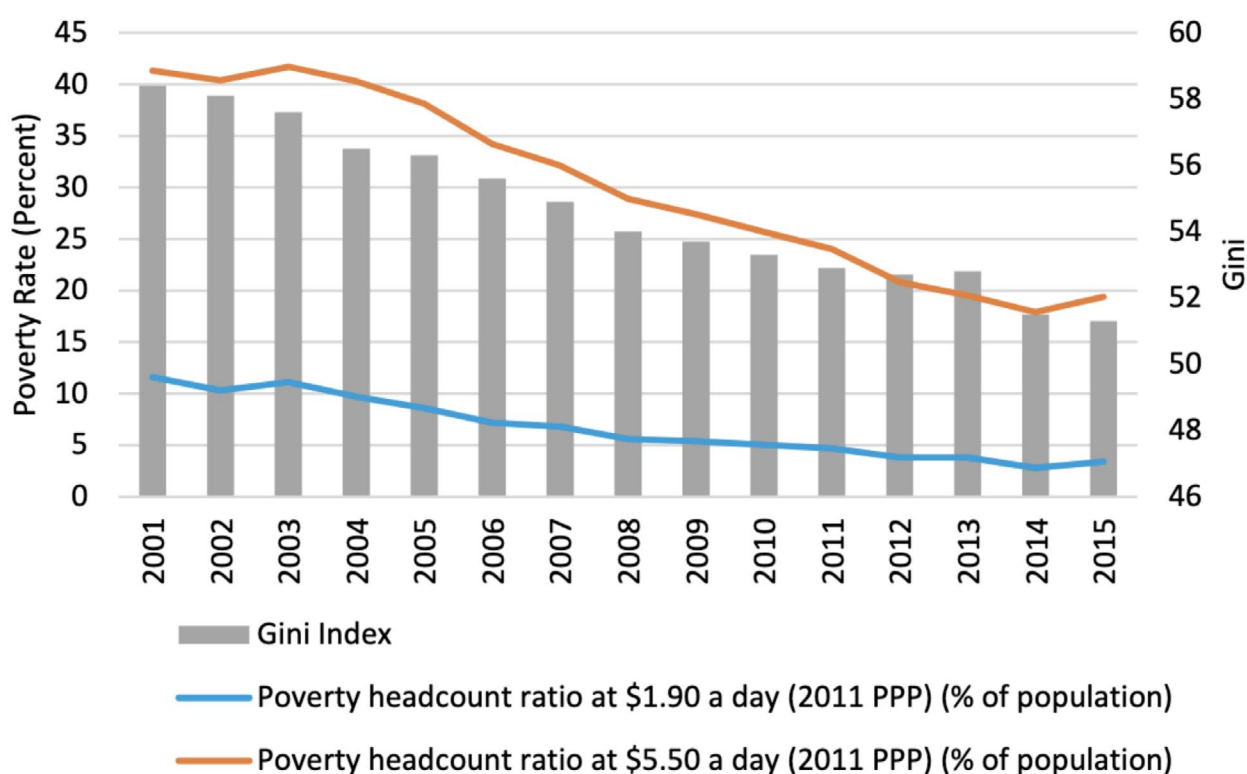
The end of hyperinflation after the Plano Real and the introduction of the LRF, alongside more favorable conditions in the global economy (including a boom in commodity prices that was very beneficial for Brazil) led to a period, between 2000 and 2013, during which fiscal governance ran reasonably smoothly. Despite fears that the election of Luiz Inácio ‘Lula’ da Silva to the presidency in 2002 was going to derail hard-fought gains in macroeconomic stability, the Workers’ Party (Partido dos Trabalhadores, or PT) ended up continuing with the macroeconomic tripod set by the previous government. This generated positive impacts for both the economy and for equity. The economy grew at an average annual rate of almost 4%, allowing the government to close its accounts with a primary surplus through the whole period, and to expand social programs like Bolsa Família that contributed to a significant lowering of poverty and inequality as shown in Figure 3 (Ferreira de Souza et al., 2019; Tepperman, 2016).

This period was also characterized by important advances in budget transparency and in citizen participation in policymaking. When Lula came to power in 2003, the PT could build on more than a decade of significant achievements at local government level using “participatory budgeting” as an approach that aimed to involve communities in decision-making around the allocation of budget resources (Touchton and Wampler, 2013;

Gonçalves, 2014). While participatory budgeting is not easily replicated at the national level, especially in a country as large and diverse as Brazil, civil society groups and social movements had strong expectations that the new government was going to give them more voice in policymaking at the federal level. The 2004–2007 PPA formulation process was indeed much more open and participatory than previously, with debates around policy priorities organized throughout the country and the participation of more than 4,000 people (Zigoni and Moroni, 2022). Subsequent years also saw reforms that increased the level, detail, and quality of fiscal information available to the public, from the launch of the Transparency Portal (Portal da Transparência) by the CGU in 2004 to the passing of Law 131 of 2009, also known as the Transparency Law (Lei de Transparência). This law reinforced some of the LRF's transparency provisions, including the need to promote public participation during the formulation of the PPA, LDO, and LOA, and made the publication of detailed real-time fiscal data mandatory for all levels of government (Alves and Heller, 2013).

Figure 3. Poverty and inequality trends in Brazil, 2001-2015.

Source: World Development Indicators (World Bank).



On the budget execution side, during this same period the executive made extensive use of its contingenciamento powers to control spending and limit the influence of Congress on public policy priorities, in particular when it came to certain types of parliamentary amendments which give each member of Congress the possibility of introducing specific spending items in the annual budget law to fund local projects (Faria, 2023). The withholding of spending for these individual amendments was used strategically by the executive to manage the political support it needed in Congress to advance its legislative and policy agenda. This guaranteed a certain kind of stability that allowed for good budgetary and policy results over the first two terms of Lula's government and the first term under the presidency of Dilma Rousseff. What the government did not manage to do, however, due to the fragile political coalition that supported it in Congress, was tackle the regressivity of the tax system, which is based on strong vested interests among the elite. While economic growth and good economic management lifted many people out of poverty and boosted consumption for low- and lower-middle-income households, the regressive nature of the tax system meant that those paying for such redistribution were still mostly from the middle class, rather than from wealthy elites.

When economic crisis hit again in 2014, it opened the way for a new period of turbulence and reform, during which the political winds shifted, weakening the coalition supporting government policies in Congress and bringing the PT's long period of rule to an end. The period between Dilma Rousseff's reelection in 2014 and her impeachment in 2016 was marked by a series of events, which included a worsening fiscal situation, large street protests that started in the wake of the economic crisis, the deflagration of the Lava Jato (Car Wash) investigations which uncovered massive corruption involving senior politicians and the state-owned enterprise Petrobras, and a very fragmented Congress in which support for the PT by centrist parties gradually waned, eventually opening the doors for Dilma's impeachment (Nunes and Melo, 2017).

Among the important fiscal governance reforms that took place in the following years, two deserve particular attention: the introduction of a new draconian fiscal rule, the teto de gastos or spending ceiling, and the imposition of mandatory execution of parliamentary amendments, which opened the door for a gradual takeover by Congress of control over discretionary spending that continues until today.

4.1 New fiscal rules

Having escaped the worst of the global financial crisis years relatively unscathed, Brazil started facing economic headwinds in the years that followed, due to a fall in global commodity prices and to several misguided policy choices. In the economic and fiscal crisis that occurred in 2014, one of the main turning points was precisely the imbalance in federal budget execution that led, for the first time since the Cardoso administration, to

a primary deficit in the closing of the annual accounts. The rupture of the annual primary surplus policy raised an alarm in financial markets and in the National Congress, which took advantage of the political weariness of President Dilma, who had been re-elected by a very small margin of votes in the previous year and was facing strong criticisms.

When the audit report from TCU on the 2014 annual accounts reached Congress, it highlighted supposed irregularities and delays in transfers from the Treasury to the main public bank (Caixa Econômica Federal) that were interpreted as hiding a larger fiscal deficit. Consequently, TCU recommended that Congress reject the annual accounts, marking the second time that this happened in the institution's history. The opposition, already upset about the government's heavy-handed use of its contingenciamento powers, jumped at the opportunity and opened an impeachment procedure against Dilma, who was eventually voted out with support from parts of her government coalition, including the Vice President. The impeachment process took place against a very unstable macroeconomic backdrop, with negative changes foreseen in the international outlook for the price of several commodities and the worsening of important indicators such as the deficit, debt, and employment. When Vice President Michel Temer took office, one of his first measures was to approve a fiscal package, not too different from the one previously proposed by the Dilma government, which Congress refused to analyze, although it was tougher. Constitutional Amendment 95/2016 put in place a total freeze of primary spending for 20 years, with limited exceptions foreseen only for education, health, and social security. To better police the implementation of the fiscal rule, the Senate also created the Independent Fiscal Institution, which among its functions is supposed to “analyze the adherence of fiscal and budget indicator performance with targets defined in relevant legislation”.⁴

The *teto de gastos* (spending ceiling), as the new fiscal rule came to be known, was expected to force the government to create a primary surplus in order to once again pay off debt and reduce it in relation to GDP, even if that meant de facto reducing different social expenditures in per capita terms. This measure made it possible to break the 1988 Constitution's rule of earmarking a certain share of revenues for the areas of education and health, and it had an immediate impact on various sectors, reducing per capita spending on social areas, especially housing, human rights, and women and children (INESC, 2023).

Despite these negative impacts, the intended changes in the trajectory of the public deficit and debt were much smaller than those announced by Temer. The governments led first by Temer and then by Bolsonaro, who took office in 2019, approved several exceptions to “break the ceiling” by allowing spending in their political interests to be carried out. This expedient was particularly used during the COVID-19 pandemic, both

⁴ See [here](#) (accessed November 10, 2025).

to authorize emergency spending to assist families and especially to enable electoral measures during the 2022 presidential election campaign. The Independent Fiscal Institution reported that the *teto de gastos* was broken nine times before being revoked in 2023 (Rocha, 2022). In 2023, Lula returned to power with a pledge to review the fiscal rule, which had already been discredited by the government, as well as by society and financial markets. Over the course of six months, a new fiscal framework (*novo arcabouço fiscal*, as it aptly came to be called) was discussed and approved. This new fiscal rule maintains the control of the deficit and of spending targets but allows primary spending to grow in line with positive revenue variations, and encourages an increase in public investment. The new rule provides for a transition period between reducing the primary deficit and proposing surpluses, always with a view to putting the public debt trajectory on a virtuous path.

The process of implementing the new rule has been complex and difficult. Although the government has been successful in increasing revenues (with a record income tax intake in 2024), compulsory spending remains very high and the executive has lost much of its control over discretionary spending. Federal parliamentary amendments, which have been on the rise since 2015, have reached a level of around 40% of all federal discretionary spending, making it difficult for the Ministry of Finance to adjust spending as needed during the year and limiting the space for additional policy priorities that the government may want to pursue.

4.2 The parliamentary amendments saga and the increased dominance of Congress

As we have already seen, the formal division of powers in the budgetary process set out in the 1988 Constitution provided for a rebalancing of roles and responsibilities between the executive and the legislature following 20 years of dictatorship. One of the powers that Congress was attributed in the Constitution, originally intended to give Congress a larger role in shaping budget allocation and strengthen its representative function, was that of introducing parliamentary amendments, which are specific budget allocations that allowed members of Congress to fund projects and interventions in localities and/or sectors of their choice.

In the Brazilian model of coalition-based presidentialism, presidents wield considerable power in setting and implementing policies, but they must rely on often fragmented and fragile coalitions in Congress to support their policy agendas (Abranches, 2018). Two of the main ways in which the executive has attempted to manage congressional support is by giving senior party figures in their coalition ministerial posts that provide access to power and control over financial resources, and by strategically managing the release of funding for parliamentary amendments in order to guarantee political backing at crucial moments. Given the already mentioned authorizing nature of discretionary spending

in the Brazilian budget system, the executive could block the release of funding for parliamentary amendments whenever necessary. This, in practice, allowed the executive to exert almost total control over public spending until 2015, in what Faria (2023) has termed the period of “dominance of the executive”.

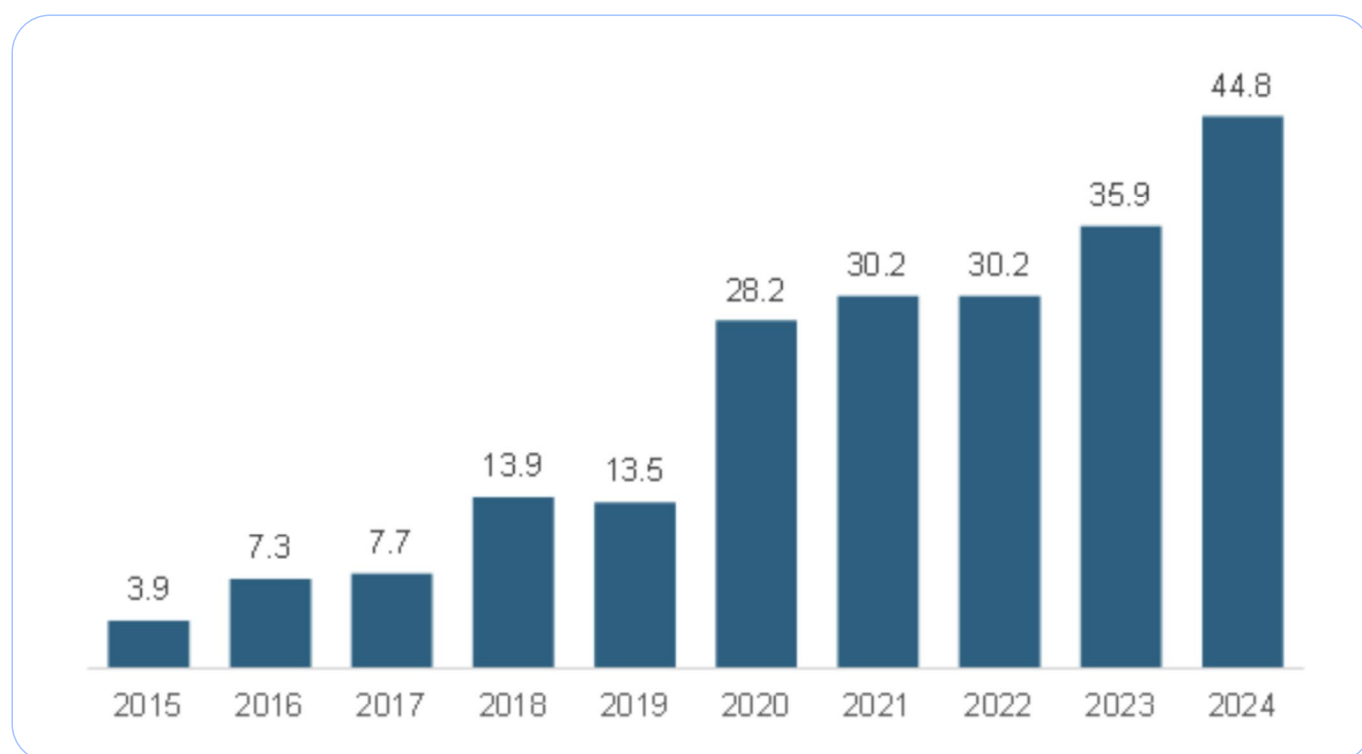
Over the years, this generated growing frustration among lawmakers, who saw their constitutional right to shape government budget policies often obstructed by executive maneuvering and political convenience. A major change in this balance was introduced before Dilma’s impeachment with Constitutional Amendment 86/2015, which made the execution of individual amendments by Members of Parliament mandatory, intensifying the tension between the two branches of government. With this change, the executive was obliged to comply with these amendments and fund their execution, expanding the powers of the legislative branch over the allocation of resources and altering the dynamics between the two branches of government. According to Faria (2023), some changes to parliamentary amendments had already been made by the Speaker of the Chamber of Deputies, Henrique Eduardo Alves, in 2013, using the LDO as a space for dispute. However, it was only after this amendment, negotiated by Eduardo Cunha, the following Speaker, that an escalation in parliamentary amendments began, taking advantage of a fragile moment for the government, which did not have a clear majority in Congress.

Over the years that followed, the number of resources controlled by Congress through different types of amendments has constantly grown (see Figure 4). New types of amendments, linked not to individual legislators but to party benches, parliamentary committees, and committee chairs, have been introduced, and the resources devoted to these amendments expanded. In 2024, total amendments have reached R\$45 billion, corresponding to 21% of discretionary spending in the budget, a situation with no parallel across many countries (Tollini and Mendes, 2024). Such growth has happened regardless of repeated scandals in the press denouncing cases of opacity, mismanagement, and corruption. These scandals have even led to the intervention of the Supreme Court (Supremo Tribunal Federal, or STF) to try and demand more transparency and clear allocation criteria, and to mediate the increasingly tense and volatile relationship between the executive and legislative branches. At the same time, as highlighted by Limongi and Figueiredo (2017), the political bargaining around parliamentary amendments has contributed to weakening the coherence of public policies. When submitting amendments, legislators seek to meet local interests, while the executive tries to ensure some level of complementarity with policies and programs already included in the budget. This three-way tug of war between the executive, Congress and the STF continues to this day, in a clear case of institutional crisis that is unforeseen in the Constitution and has no historical precedent in Brazil.⁵

⁵For a more detailed account and historical trajectory of parliamentary amendments, see case study 1 in the Annex.

Figure 4. Parliamentary amendments in the Federal Budget (billions, 2024 constant Reais)

Sources: Tollini and Mendes (2024) and *Painel do Orçamento da União*.



5. WHAT THE BRAZILIAN FISCAL ECOSYSTEM LOOKS LIKE TODAY

5.1 Advances and setbacks in terms of accountability and equity

If we look at the many reforms that have taken place in Brazil's fiscal ecosystem since 1988, there have been a number of significant advances in terms of accountability, especially when it comes to fiscal disclosure. Several improvements were made to the budget structure, creating new classifiers that allow for a more granular monitoring of budget information, closer control of financial resources, and a better link with performance. New and more detailed fiscal and financial reports are now regularly published on the websites of various government institutions. Some of these reports were introduced by the LRF, such as the abovementioned Summary Report on Budget Execution and the Fiscal Management Report. Furthermore, detailed budget data is made available in real time through a number of interactive platforms, including the CGU's Portal da Transparência, Siga Brasil at the Senate, and the Integrated Planning and Budgeting System (Sistema Integrado de Planejamento e Orçamento) at the Ministry for Planning and Budget. Access to additional fiscal information and data was also improved with the introduction of the Access to Information Law (Lei de Acesso à Informação) in 2011.

On one hand, the broad availability of fiscal information has greatly increased the capacity of various actors to hold government accountable for the use of public resources. Two cases are emblematic in this respect. The TCU investigations on fiscal irregularities that led to the impeachment of Dilma Rousseff—as questionable and politically driven as it was—were initially uncovered by a small, independent watchdog group called Contas Abertas (open accounts), which started monitoring these obscure transfers and denounced their size and characteristics, until they came to the attention of the Federal Public Prosecutor’s Office (MPU) and were eventually looked at by the TCU (Villaverde, 2016). Similarly, one of the first stories about the misuse of parliamentary amendments came to light when investigative journalist Breno Pires from the newspaper Estado de São Paulo started pouring over troves of documents to uncover details of shady uses of public resources for parliamentary amendments spent in exchange for Congressional support during the Bolsonaro government in 2020.⁶ The investigations around what came to be known as *orçamento secreto* (secret budget) led to police investigations and eventually to the involvement of the STF in asking for more transparency around parliamentary amendments.

On the other hand, the existence of so many different reports, systems, and portals can be confusing for those who are not part of the government or do not know their way around the budget process. For lay people, it continues to be very difficult to understand how the budget process really works. With the approval of several new revenue sources and multiple new funds there is now greater fragmentation of the budget, making it more difficult to understand—and therefore to monitor—the real volume of resources available to implement public policies (Rubin, 2015). Also, transparency does not easily lead to effective accountability unless it is accompanied by meaningful opportunities for non-state actors to influence budget policymaking, or by strong oversight actors with powers to hold government accountable. The general sense among CSOs is that despite strong levels of transparency, there are limited ways in which they can influence budget decisions (Zigoni and Moroni, 2022). And similar reservations exist about the role of some of the key accountability actors. One of our interviewees said that TCU has limited “teeth” when it comes to accountability, despite its growing role and size (Medeiros, 2021). This is partly due to legal gaps, such as the lack of a federal ceiling on debt and personnel expenses, but is also related to the fact that TCU tends to rely more on its signaling rather than its sanctioning function, trying to nudge government towards change rather than force it through sanctions. Similarly, the Independent Fiscal Institution has had a limited impact on government fiscal behavior, possibly because of its limited mandate and closeness to the Congress, which in recent years has certainly not shown fiscal restraint.

⁶ See, for example, a Twitter (X) thread by [Breno Pires](#) recounting the main steps of his investigation and linking the main newspaper articles that were published (accessed July 13, 2025).

Since the early 2000s, while these accountability-related initiatives were being implemented, there has been a parallel weakening of planning systems, with the consequent loss of relevance and importance of the government's main planning instrument, the PPA. The focus on the annual budget process and on day-to-day execution of public policies and programs gained more weight, with a narrow focus on fiscal balance and without adequate attention to the delivery of the policy objectives foreseen in the PPA (Garcia and Cardoso Júnior, 2015; Couto and Cardoso Júnior, 2020). Many argue that the PPA gradually became merely an illustrative document, produced and published to comply with legal requirements but with limited policy value and weak links to the annual budget process.

This weakening of budget planning also reflects the fact that the two main planning and budgeting instruments, the PPA and the LOA, rely on separate and parallel formulation processes. The documents are developed by two distinct departments within the Ministry of Planning and Budget, following different logics and meeting different legal requirements. Over the years, the PPA has been formulated in an attempt to provide more transparency on the programming, controls, and indicators demanded by civil society, the TCU, and the MPU. Yet the LOA, and more specifically budget execution, has become increasingly aligned with compliance with fiscal goals and with the requirements of the LRF. And while there has been enormous regulation and standardization of fiscal rules involving the budget, the same did not happen with the PPA, the standardization of which has remained incipient since 1988 (Santos et al., 2015). As a result, and together with growing economic instability after 2012, the gap that exists between the two instruments has increased, decreasing the influence that medium-term planning has on fiscal management during budget execution (Afonso, 2016).

A consequence of this weakening of the planning function means that equity continues to be a relatively marginal topic in the budget process. Although important progress was made on reducing poverty and inequality between 2000 and 2015, economic crisis, political shifts, and the COVID pandemic brought those declining trends to an end. Lula's re-election to a third presidential term in 2022 has revived the focus on equity issues, but the ongoing impasse with Congress, coupled with a much tighter fiscal situation, means that the government has limited policy space to promote a strong equity agenda. There has been some progress in the formulation of the yearly budget, with proposals to advance the structuring of so-called cross-cutting agendas (agendas transversais) that focus on equity gains, such as policies for early childhood, women, racial equity, the environment, and indigenous peoples.⁷ However, these proposals, for example those included in the 2024–2027 PPA, have a limited reach and could easily fall victim to changes made by the legislature, be reallocated to finance parliamentary amendments, or even be subject to a blockage of funds during the fiscal year, since they are not constitutionally protected.

⁷For more detail on efforts to strengthen gender-sensitive budgeting, see case study 2 in the Annex.

Another area that the Lula government has taken up as a priority since coming back to power is tax reform, with a view to making the Brazilian tax system both more efficient and more equitable. The reform of indirect taxation, with a strong focus on simplification and correcting a number of distortions generated by the multiplicity of taxes that were previously levied at various levels of government, was successfully approved in 2023, but now faces a prolonged and fraught period of regulation and gradual implementation—the new system of a national goods and services tax will only become fully operational in 2033. This was rightly hailed as an important victory, considering the number of previous failed attempts. However, it was potentially the least controversial part of tax reform, as it had broad support both within and outside government. The more politically difficult part of tax reform, dealing with personal income taxation, is where the government was hoping to tackle the longstanding regressivity of the Brazilian tax system. The plan included closing loopholes often used by rich taxpayers, ending exemptions to profits and dividends, and imposing an additional tax on the very wealthy, which the government has also championed in international fora like the G20. In fact, this second part of the government's tax reform plans was initially delayed and now potentially indefinitely postponed, given the fragility of the coalition supporting government in Congress, the broad political orientation of many members of Congress, and the fact that 2026 will be an election year.⁸

One exception to this general trend is a policy focused on equity that has managed to move from formulation to effective implementation in the education sector. The Permanent Fund for the Maintenance and Development of Basic Education (Fundo de Manutenção e Desenvolvimento da Educação Básica, or FUNDEB), created in 2020, is the result of an incremental process of policy construction that dates to 1996, when a new system for education financing was initially created in Brazil. After the adoption of the 1988 Constitution, Brazil's education financing policy shifted toward creating dedicated funds for primary and basic education, first with the Fundo de Manutenção e Desenvolvimento do Ensino Fundamental between 1998 and 2006, and later with FUNDEB (2007–present). This policy established a model of fiscal federalism where policies were centrally designed but locally implemented. FUNDEB reduced inequalities between wealthier and poorer states by transferring federal resources based mainly on weighted enrollment figures, fostering convergence in per-student spending. In 2020, Constitutional Amendment No. 108 expanded FUNDEB, made it permanent and more equity-oriented, adding criteria such as students' socioeconomic level, local fiscal capacity, and educational outcomes, and setting minimum investments for specific stages like early childhood education. These changes were phased in between 2021 and 2026, alongside an increase in federal contributions from 10% to 23% of total state

⁸For a more detailed explanation of tax reforms, see case study 3 in the Annex.

funds, reaching R\$56.5 billion in 2025, and distributed through three mechanisms—VAAF (minimum per-student value), VAAT (total student annual value), and VAAR (results-based student annual value). In summary, the FUNDEB is an initiative aimed at allocating federal resources to finance basic education in states and municipalities with a focus on equalizing the availability of financial resources between territorial entities with varying capacity to generate own revenues. FUNDEB seeks to serve especially students with greater social and economic vulnerability, including specific resource adjustments to increase gender and race equity across states and municipalities.⁹

5.2 Back to the three tensions

At the beginning of the paper, we set out three conflicts or tensions that have shaped efforts at promoting both accountability and equity in the Brazilian fiscal ecosystem over the years. Do these need to be revisited in light of the evidence presented?

The first tension, between maintaining fiscal discipline and promoting universal public policies, has been evident since 1988. The Constitution enshrined broad social rights and directed governments to realize them, but shortly afterwards the country was besieged by hyperinflation and debt, which eventually led it to adopt the LRF with its focus on fiscal discipline and limiting public spending. In the years between 2000 and 2014, the government had sufficient fiscal space to finance important social programs that helped reduce poverty and inequality, but in 2016 the pendulum swung back with the *teto de gastos*, which restricted the growth of primary spending and resulted in significant spending cuts for health and education. Authors such as Arretche (2012) and Draibe (2004) emphasize that this tension compromises the effectiveness of social rights and deepens inequalities, since fiscal adjustments tend to fall on social areas where expansion is essential for equity. The adoption of a new fiscal framework by the Lula government in 2023 sought to mitigate these conflicts, but still faces criticism regarding its compatibility with the commitments enshrined in the Constitution.

Interestingly, the tension between fiscal discipline and these social responsibilities of government relates to two additional aspects of the political economy of fiscal institutions and fiscal policymaking, which some of the people we interviewed pointed out. The first aspect is that the availability of public resources to finance the effective implementation of universal public policies and the realization of human rights does not depend only on the overall macroeconomic and fiscal constraints that governments face in terms of revenues and borrowing, but also on how decisions on the distribution of public resources are taken and on the influence of particularistic vested interests. In other words, even

⁹For further details on FUNDEB, please see the mini case study 4 in the Annex.

when resources are available, they can be allocated for purposes that are aligned with the demands of powerful interest groups rather than the common good. In Brazil, powerful private sector lobbies can influence fiscal policy in ways that social movements and marginalized groups cannot. They may trade financial support for political campaigns for tax incentives and other benefits, for example. In this sense, it is no surprise that tax expenditures in Brazil amount to a whopping 7% of GDP, often without clear or proven benefits (de Renzio et al., 2025). This is also linked to the second aspect that characterizes the Brazilian fiscal ecosystem, which is the persistent regressivity of its tax system that allows the well off to pay a much smaller proportion of their income in taxes to the government. The fact that redistributive spending policies like Bolsa Familia have been largely financed by a regressive tax system clearly limits the capacity of the Brazilian government to effectively address this first tension.

The second tension centers on disputes between the executive and legislative branches over control of the budget, a tension that is currently very much alive as the Lula government and Congress tussle over parliamentary amendments. Historically, the executive took advantage of the strong centralization of budget formulation and execution, using its powers strategically to both guarantee fiscal discipline and manage the support of its congressional base. More recently, however, the tide has turned, and the legislature has come to exert increasing influence, especially by imposing the mandatory disbursement of different types of parliamentary amendments and increasing the amounts involved. This shift in power is analyzed by authors such as Souza (2017) and Loureiro and Abrucio (1999), who point to the fragmentation of budget allocation and the weakening of strategic planning capacity. At the same time, this process increases the competition for resources on a clientelist basis and hinders the national coordination of public policies, contributing to a more reactive and less evidence-oriented budget. Some view this tension between the executive and the legislature as a “pseudo tension” that masks the real dispute and distributive conflict that exists between the decision to allocate budget resources according to the political interests of elected office holders (whether from the legislature or the executive, including deputies and senators, but also ministers) or based on technical criteria of policy eligibility and territorial need, which are systematically drawn up by technicians and bureaucrats from different ministries. Given that in many ways Congress has the ultimate decision-making power over the budget, it is hard to see how this tension can be resolved in ways compatible with the imperatives of accountability and equity, at least in the foreseeable future.

The third and final tension stems from the contradictions inherent in the Brazilian federal system, where decentralization of the provision of social services coexists with a concentration of resources and policymaking powers at the federal level. The literature on fiscal federalism (Abrucio, 2005; Rezende, 2007) shows that despite the leading role played by states and municipalities in areas such as education and health, the capacity to

formulate and finance these policies still depends heavily on conditional federal transfers. This tension has played out at various moments since 1988. The Constitution gave states and municipalities ample powers to manage their finances, but the 1990s crisis led the federal government to claw back a significant share of them, including through the LRF. During the following decade, Lula was a strong supporter of more decentralization. Examples of decentralization of public policies took place in different areas, such as education, social assistance, culture, and urban infrastructure. In the area of education, it was during the Lula government that FUNDEB was first implemented, allocating 10% of federal resources to transfers to states and municipalities. In social assistance, the Unified Social Assistance System was created and implemented, emulating the structure and logic of operation of the Unified Health System, which was created in the 1980s. This transformed social assistance into a universal policy with coverage throughout the national territory and with a gateway to municipalities through Social Assistance Reference Centers funded by federal transfers but managed at municipal level (Jaccoud et al., 2017). In the area of urban infrastructure, the Programa de Aceleração do Crescimento, or Growth Acceleration Program, proposed agreements and partnerships with states and municipalities for various infrastructure works, which, despite many implementation challenges, contributed to increasing the decentralization of resources (Abrucio, 2007).

However, this decentralization drive was turned back in 2014–2015 as Dilma faced national economic headwinds. In more recent years, the localized nature of resource allocation for parliamentary amendments can be interpreted at least partly as a renewed decentralization trend, supported by a more general increase in the financial resources available to subnational governments. What is unclear is how long this more recent wave might last, and the extent to which subsequent waves will promote an equitable distribution of resources across the country. Recent reforms, such as the new FUNDEB, attempt to rebalance this equation, promoting greater equity between federal entities. However, fiscal recentralization movements in crisis contexts reveal the ongoing instability of the federative pact, with direct impacts on subnational autonomy and intergovernmental coordination.

5.3 An updated overview of fiscal ecosystem actors

In the rest of this section, we broaden the list of relevant actors in the fiscal ecosystem, beyond those who play a formal role set out in the legal framework, to see how their roles have shifted over the past few decades, what they look like now, and the potential they hold for promoting accountability and equity.

Executive. The executive branch has always been—and continues to be—a very strong actor in the fiscal ecosystem. It holds the reins of policy and of budget making, and has extensive powers to ensure that its preferences guide public policy formulation and

implementation. This continues to be the case despite its reliance on an often-fragile coalition to support its legislative agenda in Congress, including budget approval. Over the years, however, the executive has lost some of its powers and some of its shine. Its powers to limit spending on parliamentary amendments, and use their release strategically to guarantee political support, were heavily curtailed with the introduction of mandatory amendments. The steady growth of parliamentary amendments also substantially reduced its control over discretionary spending, which was already limited due to the rigidity that characterizes the Brazilian budget. Finally, with the weakening of the planning process and limited success in the introduction of results-based budgeting, the executive has seen its ability to spend public resources effectively diminished, and its capacity to focus efforts on development results—including the promotion of equity—undermined.

Legislature. The Brazilian Congress has always been characterized by political fragmentation and limited effectiveness. In the years between 1988 and 2015, at least on budgetary matters, its role was more limited and controlled by the executive, despite the broad formal powers it was assigned by the Constitution, including amendment powers and the approval of the three main planning and budgeting documents—the PPA, the LDO, and the LOA. As we have seen, things shifted decisively in 2015, when Congress introduced a constitutional amendment that made the execution of parliamentary budget amendments mandatory. This enhanced the role of Congress when it came to control over budgetary resources, but in a way that can be seen as distorting. First, based on the principles of separation of powers and of the need for checks and balances, legislators should not be directly involved in budget execution, as that contradicts the legislature’s main oversight role in the budget process. Second, the introduction and subsequent increase of mandatory amendments have focused the interests of legislators on first approving and then following the implementation of the amendments that they have promoted themselves, and taken attention away from broader—and possibly more important—budget policy debates. In summary, while the role and power of Congress in the fiscal ecosystem has clearly grown, it has grown in ways that potentially undermine both accountability and equity.

External audit. The TCU is the institution constitutionally mandated to support Congress in auditing government accounts and ensuring proper accounting and financial management. Its role and effectiveness were limited in the early years after 1988, in part because macroeconomic conditions did not facilitate financial control. With the introduction of the LRF, the TCU’s role was expanded as it became responsible for monitoring and overseeing government’s fiscal performance at all levels. Over the years that followed, the TCU gradually increased its capacity and profile, improving the technical quality of its work and its capacity to communicate the results of its analyses and interventions, and covering new areas. At present it is a highly respected institution—yet it suffers from two main drawbacks. The first is that its leadership is politically

appointed, which undermines its independence, especially when decisions are politically sensitive. The second is that many of its recommendations often go unheeded or unanswered, limiting its effectiveness in terms of holding government accountable. Even so, the TCU plays a useful advisory role in trying to improve government performance in a number of areas, above and beyond its effectiveness in auditing government accounts.

Judiciary. The judicial branch does not play a formal role in the budget process, but in recent years the STF has been prompted to intervene in the dispute between the executive and the legislature over parliamentary amendments. It has played an interesting role in trying to control some of the excesses of congressional behavior and mediate around topics such as transparency and resource allocation, functioning as a *de facto* agent of accountability. It is not clear how effective this role will prove to be, but it is certainly important and will help shape the future functioning of key aspects of the fiscal ecosystem.

Civil society. Brazil has a thriving civil society sector made up of many different types of organizations, from mass social movements to sector-specific groups, and from religious groups to universities and think tanks that become involved in policy debates. Not many of this broad range of organizations become directly involved in fiscal policy debates or work with budget analysis and advocacy. At different points in time, however, strong campaigns were launched and many organizations mobilized around, for example, participating in the PPA process, or on issues related to the promotion of human rights and tax justice. While some successes were achieved, overall there is a sense that the influence of civil society on budget policies is quite limited. And while a number of formal participation spaces exist, including through sectoral policy councils, public audiences, and online platforms, some active CSOs in the fiscal space claim that the core economic ministries in government are not open to dialogue with social actors. A worrying trend, not specific to Brazil but notable in its domestic manifestation, is the growing influence of conservative religious groups, often linked to evangelical churches, that mobilize strong support for right-wing candidates. These groups wield enormous financial power and support political campaigns to promote a conservative agenda based on so-called traditional family values, which often run counter to the promotion of accountability and equity.

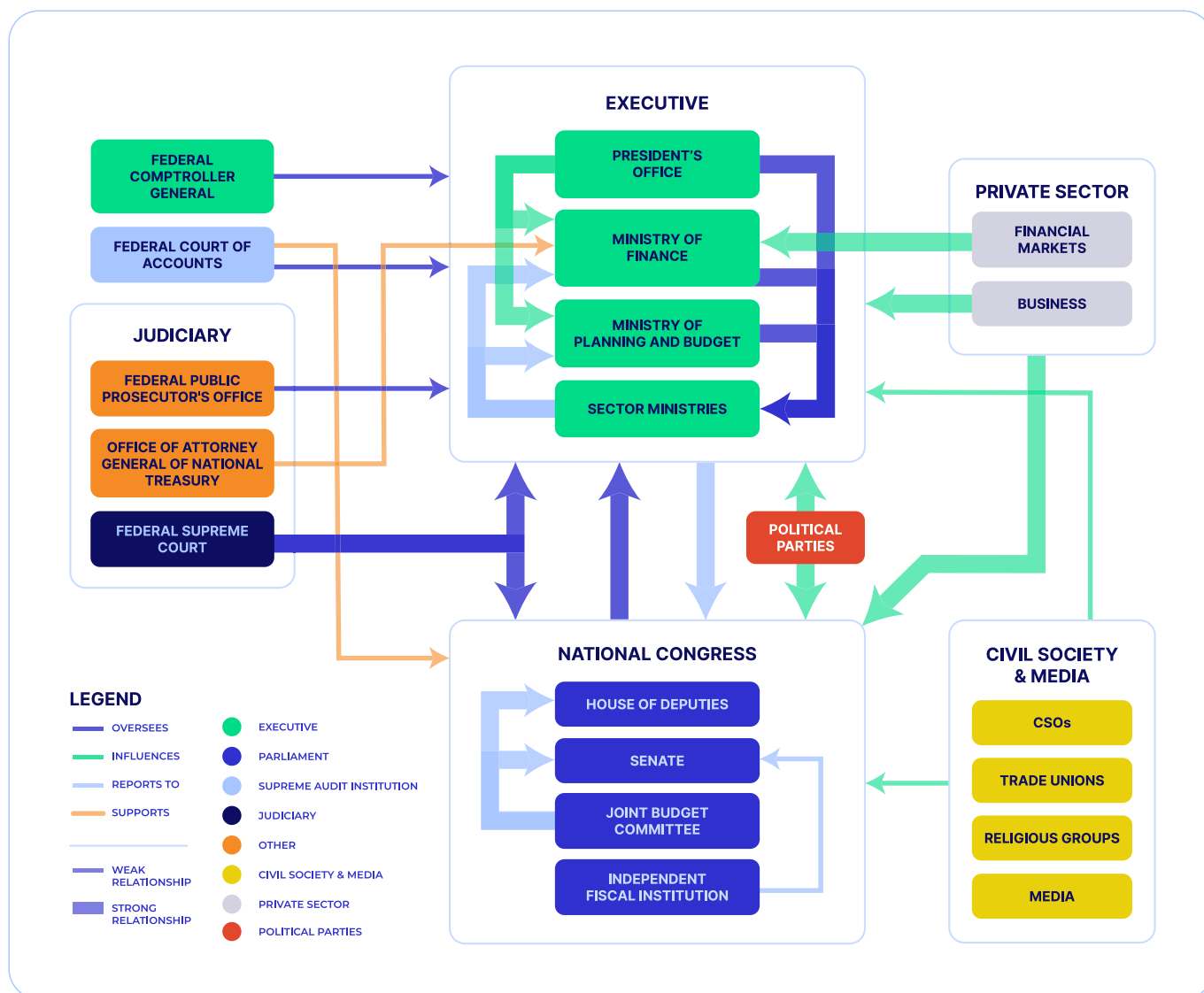
Private sector. The private sector—encompassing a range of actors such as large corporations, business associations, and financial markets—also exerts an important influence on the budget process. In Brazil, lobbying is not regulated as in many European countries or in the United States of America, but it is still regularly carried out by large corporations across many sectors, including agribusiness, industry, technology, and the media. Their focus has mostly been on preventing taxation, obtaining exemptions, or guaranteeing specific contracts as in the case of bids for large infrastructure projects or supply of equipment. A recent study shows that tax expenditures in Brazil have a high budgetary impact, reaching almost 7% of GDP, and benefitting different business sectors

(de Renzio et al., 2025). In some cases, however, private sector entities have supported a more constructive approach to fiscal reforms, as in the reform of indirect taxation, which was based on demands for simplification and increased efficiency.

Media. While the media sector in Brazil is dominated by a few powerful groups, there is a strong tradition of investigative journalism and a lively debate in the press on issues related to fiscal, budget, and public policies, often informed by the opinions of academics engaged in policy-relevant research. In recent years, there has been a surge of interest in fiscal matters which bodes well for the future of public debates on this matter and for the existence of a better-informed public opinion.

In Figure 5, we replicate the map originally shown in Figure 1 to depict how the fiscal ecosystem is structured and works in practice, rather than in law. This means recognizing that informal rules, institutional routines, and political dynamics differentiate how the ecosystem functions in the real world from what it should look like in theory. Some of the main differences seen between the two maps include: (a) the influence that political parties have on both the executive and the National Congress in terms of shaping the policy options that are politically feasible, especially in light of the fragmented coalitions that most governments in Brazil have had to rely on; (b) the role that the Supreme Court has come to play in recent years, mostly to try to resolve the dispute between the executive and the National Congress, despite the fact that it has no Constitutional role in the budget process; (c) the important role played by the President's Office in influencing budget policy, intervening in the budget process, and overseeing the work of sector ministries; (d) the relevant but limited influence of the media and civil society on fiscal policy choices and debates; and (e) the much stronger influence exercised by the private sector on both the executive and National Congress in shaping fiscal policies, often in ways that undermine accountability and equity.

Figure 5. Map of fiscal ecosystem actors in practice



As in any fiscal ecosystem, there is a lot of distributive conflict around budgetary resources and different actors have interests that seem difficult to consider without harming others or the balance of the ecosystem. At this time in the Brazilian fiscal ecosystem, the internal contradictions and paradoxes of these groups seem to draw more attention than their capacity for relational control and influence in the construction of accountability and equity. Nonetheless, shedding light on these interests and the motivations of different groups is very important for the population to understand the bottlenecks of the current model and the need for change.

6. FUTURE PATHS AND OPPORTUNITIES

The picture emerging from the analysis above and from the diverse set of interviews carried out as part of our research is of a fiscal ecosystem that is in serious flux, if not in deep crisis. For those interested in issues around fiscal policy and fiscal governance, the past few years in Brazil have been a time of intense public debate on both policy choices and the need for institutional reforms. As the tension between the executive and the legislature has edged towards deadlock, the need for comprehensive reforms in budgetary governance is becoming ever more evident. Recent celebrations of the 25th anniversary of the LRF—arguably the most important reform since the 1988 Constitution—have exposed both its incompleteness when it comes to ensuring that public finances remain on a sustainable path and its limitations in allowing for the social side of the fiscal bargain to be fully addressed through the creation of sufficient fiscal space for governments to pursue more equitable development outcomes.

There is no shortage of books, articles, policy papers, and opinion pieces analyzing and commenting on the issues that need addressing. A non-exhaustive list, in no particular order of priority, would include:

- a. addressing the high level of rigidity in the Brazilian budget, due to the many constitutionally mandated and entitlement-based expenditures and worsened by the recent increase in mandatory parliamentary amendments, which limits policy adaptability and innovation;
- b. tackling what Couri and Bijos (2022) have called the “inflation of fiscal rules” that has built up over the years, making fiscal management ever more complicated and mostly accountable for achieving fiscal targets with limited responsiveness to equity concerns;
- c. the need to regulate and rationalize the possible uses of parliamentary amendments, promoting an approach that brings them in line with public policy objectives and promotes more coherence, complementarity, and equitable distribution;
- d. strengthening the policy planning function within the executive and improving the links between the PPA and the LOA to ensure that the annual budget more purposefully contributes to the government’s expected policy targets over the medium term, and that spending is better linked to performance targets and indicators;
- e. in a related way, reviewing and reforming the role that the LDO plays as an opportunity to debate broad budget strategies early in the budget process, with a view to reconciling fiscal discipline and development objectives;

- f. establishing better mechanisms for intergovernmental coordination, to ensure better policy coherence among different levels of government and improve policy implementation;
- g. promoting and institutionalizing better mechanisms for dialogue between government and civil society actors on fiscal matters, giving marginalized groups a stronger voice in shaping fiscal policies; and
- h. advancing reforms of income taxation and tax expenditure as fundamental strategies to tackle the regressivity of the tax system and improve the distributive impact of fiscal policy.

What is not clear at the moment is which coalition of political actors might be willing to support such an ambitious reform agenda, or even parts of it, given the polarization and lack of sufficient consensus across the political spectrum. Many of the people we interviewed share a sense of gloom, with limited optimism about how the fiscal ecosystem could be shifted to enhance accountability and promote equity. Some of them seem to think that things will need to get worse before they can improve, and that only a serious economic or political crisis might realign incentives in a way that makes reforms possible.

Despite this, there are at least four areas that were repeatedly mentioned as promising, or representing interesting signs of possible future change to come. These are:

1. The potential **role of the judiciary** in breaking the deadlock in the relationship between the executive and the legislature. The fact that the STF has stepped in to try and impose sound criteria and more effective controls on congressional spending on parliamentary amendments may signal the beginning of a phase in which accountability is again given more attention, and potentially more robust systems are set up that can guide future reforms. At the same time, it is risky to rely on actors that do not play a formal role in the fiscal ecosystem, and whose initiative might be reliant on individual rather than institutional incentives and interests. Excessive intervention by the judiciary could threaten the balance among the three branches of government and the future of democracy itself.
2. The energy around the need to **reform the legal framework for public finance**. Over the past few decades, the need to reform the main budgetary framework law—Law 4320/64, dating back to the years before the dictatorship—has been discussed several times. Such a reform could catalyze a broader debate on how the budget process works and how it could be made to work better in pursuit of both accountability and equity. Different initiatives have been undertaken in the past, including proposed bills, without success so far. There are at least three ongoing

reform initiatives. The first is being considered internally at the Ministry for Planning and Budgeting by the Federal Budget Secretariat, headed by the current secretary. The second is being discussed by a committee that brings together all state treasurers (Comsefaz). Finally, the third proposal is headed by a working group at the Center for Fiscal Citizenship, the think tank that helped introduce the reform of consumption taxes that is now being implemented. The 2026 elections may provide an interesting opportunity to discuss the proposals that will emerge from these efforts and test the political appetite for such a reform. Again, the urgency of addressing the budgetary deadlock could force a reckoning. Creating a broader consensus on how to improve the current system will be an important first step in formulating a credible, shared reform agenda that is ready when a political opportunity arises.

3. The existence of a stronger and deeper **public debate on fiscal matters** in the country. This stems from an increase in attention given by the media to various fiscal issues, from parliamentary amendments to tax expenditures and from fiscal rules to fiscal decentralization. The increased level of debate in the media can contribute to a better-informed public opinion and to the mobilization of groups that, armed with better knowledge of budgetary policies and processes, can put pressure on the government and on Congress to introduce the reforms necessary to promote accountability and equity. In the struggle for fiscal ecosystem reform, shaping the dominant narrative will be key. Working with the media is therefore likely to be an inevitable and important part of any reform strategy.
4. Finally, many have mentioned the role that **states and municipalities** can play as engines of change. Subnational governments sit at the endpoint of the service delivery chain, and may suffer some of the more painful effects of the shortcomings and malfunctioning of the current fiscal ecosystem. Governors, mayors, and heads of planning and finance departments at state and municipal levels have been very vocal in airing their grievances and have tested innovative ways of dealing with fiscal problems. For example, at least two states—Piauí and Rio Grande do Norte—have already passed state-level legislation looking at improving fiscal management and promoting fiscal sustainability. Many see this movement as an important one in terms of creating momentum for broader reform at the national level as well. In parallel, some have warned against letting too many fragmented initiatives and different blueprints undermine the necessary uniformity of a reform that is meant to address country-wide issues and challenges.

Whether, how, and when any one of these promising areas might gain sufficient momentum to spur broader reforms is difficult to foresee. What we have learned from successive waves of reforms in Brazil is that over the last 50 years, moments of fiscal and political crisis were moments that drove important changes. Whether looking at the deep unemployment and debt

crises that consecrated the return of direct elections and the Federal Constitution of 1988, or the impeachment of President Collor and the hyperinflation crisis of the 1990s followed by the implementation of the Plano Real, or the financial and fiscal crisis of states and municipalities that led to the enactment of the LRF in the 2000s, Brazil seems to find ways to reform and adapt when things get particularly complicated. At the current tense juncture, both domestically and internationally, and with lots of moving pieces, the Brazilian fiscal ecosystem might still be capable of finding ways to overcome the many challenges it faces.

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Case study 1

Parliamentary amendments and the struggle for budget dominance

Legislatures play a fundamental accountability role in budget processes around the world. In general terms, their budgetary powers are usually distributed across two moments in the annual budget cycle. During budget approval, legislatures receive and assess the budget proposal formulated by the executive, can in some cases introduce amendments to it, and to enact it into law. After the end of each fiscal year, legislatures usually receive external audit reports, analyze their findings and recommendations, and approve the executive's annual financial statements (Lienert, 2010). Amendment powers are one of the main characteristics of legislative budget institutions and of Parliaments' actual "power of the purse" (Wehner, 2006), and can vary substantially across countries.

In the case of Brazil, historically the role of the National Congress in the budget process was very limited. Up until 1988 the Congress could not make any changes to the budget proposed by the executive, and extra-budgetary spending was prominent, limiting accountability. With the return to democracy, the new Constitution promoted a significant shift, including giving Congress the power to introduce amendments to the proposed budget. Initially, amendments came in two forms: individual amendments presented by a single deputy or senator and collective amendments presented by a group of representatives, usually aggregated by sector or geographical area (Blondal et al., 2003). Amendments can be made to both expenditures and revenues (in the case of revenues, it is necessary to demonstrate that there was an error or omission in the revenue calculation), and can add, change, or cancel specific items in the budget proposal. There are a series of restrictions on the use of parliamentary amendments, as spelled out in Art. 166 of the Constitution: they need to be compatible with the PPA (the multi-year plan), they need to specify the funding needed—which should result from reductions in other spending items, and they cannot change allocations for expenses like personnel, debt servicing, and constitutional transfers. In practice, however, many of these restrictions are neglected (Silva et al., 2022).

The constitutional provisions, while aimed at rebalancing the power of the executive and the legislature to control and direct budgetary policies, created a very fragmented process whereby the National Congress approves thousands of amendments each year, most of which are highly individualized and used to obtain political returns rather than promote broad policy preferences (Pereira and Mueller, 2004). In other words, the incentives and interests of deputies and senators are not guided by a vision of the objectives that fiscal and budget policies should pursue—and of how the annual budget contributes to them—but focus more narrowly on the portion of the budget that is reserved every year for financing amendments (Silva et al., 2022).

During the period from 1988 to about 2013, parliamentary amendments were kept under control by the executive's use of contingenciamento or budgetary withholdings, which the President utilized strategically to reward or punish specific parties or individual members of Congress and to ensure legislative support for his political agenda. Selectively releasing funding during budget execution ensured a degree of coherence between the objectives of the executive and those of legislators. At the same time, however, it created frustration among legislators whose amendments were not getting any funding or whose projects were being delayed.

As the government of Dilma Rousseff struggled with social and economic strife during and after her re-election in 2014, the situation started to shift. Sensing her political vulnerability, Congress introduced a clause in the LDO for 2014 that made it mandatory for the executive to fund individual amendments. The following year, this arrangement was enshrined in Constitutional Amendment No. 86/2015, making the change permanent and shifting a substantial share of the power to decide on the allocation of discretionary budget resources from the executive to the legislature. The new regime had been a long time in the making, with the first discussions about the duty of the government to execute the budget as approved dating back to the mid-1990s (Faria, 2023), and more than 20 proposals being tabled from 2000 onwards. However, the reform shifted from its early focus on a more general discussion about the nature of the budget process and the role of the legislature in it to ending in a much narrower focus on forcing the executive to release funding for individual amendments (Rodrigues, 2023).

In 2016, Congress expanded the mandatory execution clause to so-called bench amendments (emendas de bancada), a type of collective amendment that is presented by a group of members of Congress from the same state. Another type of collective amendments presented by sectoral committees (emendas de comissão) has retained until today its authorizing nature. In 2019, Congress approved Constitutional Amendment 105, allowing individual amendments to be sent to states or municipalities without a clear definition of their purpose. These transfers came to be known as emendas pix, from the name of a popular money transfer platform. In the years between 2020 and 2022, during the Bolsonaro government, Congress also started using another type of amendment—the “rapporteur amendments” or emendas do relator, originally intended only for the correction of small technical or legal mistakes—for the broader purpose of allocating resources to specific projects. This gradual but decisive expansion of parliamentary control over budgetary resources started being increasingly scrutinized, with various problems detected.

Ever since the orçamento secreto scandal came to light in 2020, there have been a trove of reports and news items detailing cases of mismanagement and corruption linked to the use of amendments, such as overpricing of contracts, meddling with procurement processes, and use of shell companies. In 2022, this motivated the Supreme Court (STF) to intervene, also in response to legal arguments advanced by some parties in Congress. First, the STF prohibited the use of rapporteur amendments for funding electoral projects. Then, in 2024, it suspended the execution of all mandatory amendments for almost six months, until Congress agreed to introduce stricter

transparency rules around publishing the name of the member of Congress responsible for the amendment, the entity receiving the funds, and their purpose. While these rules now permit better tracking of the resources involved, their increased amounts and their pulverization across many localities and sectors makes proper monitoring still quite difficult. The STF also asked the CGU and TCU to actively monitor spending on parliamentary amendments, and in August 2025 asked the Federal Police to investigate irregularities in the execution of amendments worth almost R\$700 million. The struggle for transparency and accountability, it seems, is far from over.

Parliamentary amendments, in other words, have become an important anomaly in the Brazilian fiscal ecosystem that has few parallels in other countries (Tollini and Mendes, 2024). But by giving resources to parliamentarians that play an important role in their re-election prospects, they have also created a situation in which their reduction, reform, or removal seems like a political impossibility. One of the big challenges for the future of the Brazilian fiscal ecosystem, and for its path towards more accountability and equity, is to figure out a way to address and correct this anomaly, possibly as part of a broader reform process.

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Case study 2

Gender-Sensitive Budgeting: Progress, challenges, and paths forward

The public budget is a strategic arena where resources are disputed and state priorities realized. When analyzed from a gender equity perspective, government budgets reveal a historical invisibility of women in decision-making processes and in budget allocations. Within this context, gender-sensitive budgeting (GSB) has emerged as a tool of distributive justice, aiming to incorporate gender considerations into all phases of the budget cycle (OECD, 2023a; Sharp, 2012). GSB is a governance tool designed to integrate gender equity into budget formulation and execution, taking into account the different impacts that public policies have on men and women. The practice has been inspired by experiences in countries such as Australia, South Africa, and Mexico, and promoted by international institutions like the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (Sharp, 2012; OECD, 2023). Beyond resource allocation, this tool proposes a new logic for public decision-making.

In Brazil, between 2003 and 2023 the implementation of GSB advanced in fits and starts, alternating between periods of political advancement and of institutional dismantling. This case study summarizes the main findings of the study by Marinho and Peres (2025), which analyzes the progress, setbacks, and challenges of adopting budgetary practices aimed at gender equity in the country. As Marinho and Peres (2025) affirm, “the effectiveness of GSB requires a political commitment—still absent—to gender equity.”

From Suppression to Resurgence

The first implementation cycle, between 2003 and 2015, occurred in a progressive political environment. However, the federal executive did not fully adopt proposals by civil society or the Senate to institutionalize GSB, such as the ‘Women’s Budget’ initiative led by CFEMEA, a feminist nongovernmental organization. Despite the existence of the Secretariat for Policies for Women (Secretaria de Políticas para Mulheres), “GSB remained invisible due to the sectoral logic of budgeting” (Marinho and Peres, 2025). Between 2016 and 2020, the topic vanished from public debate, a reflection of the weakening of participatory institutions and of the dismantling of social policies following the economic crisis and the election of a right-wing government. Its resurgence began in 2021, driven by the Women’s Parliamentary Caucus, which included a provision in the Budgetary Guidelines Law for the mandatory annual publication of a report called Women in the Budget (*Mulher no Orçamento*). The measure was approved under a conservative government, demonstrating that “civil society and the legislature were the main drivers in reviving the agenda” (Marinho and Peres, 2025).

Recent Developments

Three consecutive reports—2021, 2022, and 2023—were published under this new provision, marking milestones for GSB in Brazil. However, each exhibited both technical and conceptual limitations:

- The 2021 report overestimated expenditures targeting women (R\$236 billion), due to the lack of disaggregated data (Brasil, 2022).
- The 2022 report responded to congressional criticism by incorporating classifications such as “specific” and “broad” spending on gender, similar to the Australian model (Brasil, 2023).
- The 2023 report was more precise, weighting non-exclusive expenditures by the proportion of women in the population and highlighting key policies such as the Equal Pay Law, anti-femicide initiatives, and investments in childcare (Brasil, 2024).

With the arrival of a progressive government in 2023, the institutional framework was rebuilt. The Ministry of Women, the Ministry of Planning, and the Planning Secretariat were reestablished, and Social Participation and Diversity Advisory Units were introduced in various ministries.

Persistent Challenges

Despite recent progress, GSB remains marginal in impact. There is a lack of reliable data, intersectoral coordination, and long-term political commitment. The budget continues to be a contested space where the gender agenda is peripheral. Among the major remaining challenges, a few worth mentioning are:

- The lack of data disaggregated by sex, race, and ethnicity in budget programs, hindering measurement and monitoring (Santos, 2022).
- The absence of a national integrated strategy, as highlighted by Pereira et al. (2010), who point to the gap between discourse and implementation.
- Institutional resistance to gender mainstreaming, which is often diluted in universal policies or confined to sectoral actions (Rodrigues and Xavier, 2017).
- Actual spending on women remains low—only 0.1% of the R\$202 billion disbursed in 2023 was exclusively dedicated to gender programs (Brasil, 2024).

The current landscape shows that GSB in Brazil is still applied *ex post*, focusing more on monitoring than on proactive allocation based on equity. As Marinho and Peres (2025) summarize, “without data and strategy, the budget remains blind to gender.”

Recommended Paths Forward

In a report based on a review of gender budgeting practices in Brazil, the OECD (2024) proposed concrete recommendations to consolidate GSB in Brazil, including:

- The integration of a gender perspective into public finance legislation.
- The implementation of gender impact assessments on public spending and taxes.
- The strengthening of technical capacities on gender budgeting, with support from the National School of Public Administration and the Brazilian Institute for Geography and Statistics.
- The reformulation of the Women in the Budget report to prioritize forward-looking decisions.
- The creation of an inter-agency and multi-level working group, led by the Ministry of Planning and Budget, to disseminate best practices among states.

These recommendations underscore that institutionalizing GSB requires cross-sector coordination, federal articulation, and legal backing. Social participation and legislative pressure are also crucial to ensure that the budget reflects existing inequalities and promotes distributive justice.

Brazil's experience with GSB illustrates the paradoxes of public policy in the country: even with popular and international support, institutionalization remains fragile and subject to reversals. As Marinho and Peres (2025) conclude, GSB is still “an accessory tool with no significant impact on the federal budget—or on women's lives.” Its effectiveness will depend on political will, technical capacity, and social mobilization: elements still under dispute in a context of fiscal austerity and distributive conflicts. More than a budgeting tool, GSB stands as a symbol of a state truly committed to equality.

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Case study 3

The unfinished business of tax reform

In an article published in 2015 Bernard Appy, the outgoing tax reform czar in Lula's then-government, defined Brazil's tax laws as "among the worst in the world" (Appy, 2015). The paradox inherent in the Brazilian tax system is spelled out clearly in a paper commissioned by the Inter-American Development Bank: "It managed to both continuously increase the gross tax burden throughout the postwar period, until it reached levels higher than the average of advanced economies and well above the average of emerging economies, and accumulate distortions that make the poor quality of taxes a greater challenge than the volume of what is collected" (Afonso et al., 2013).

Some of the characteristics of the Brazilian tax system that make it particularly 'bad' include (Appy, 2015; Afonso et al., 2013; World Bank, 2018; Higgins and Pereira, 2014; Salvador, 2016):

1. A heavy reliance on indirect taxes on goods and services, which make up about one third of tax revenues, are highly regressive, and are very complex to manage. Brazilian taxpayers face some of the highest compliance costs in the world, having to manage four separate

goods and services taxes, of which two levied at federal level, one at state level, and one at municipal level. This complexity—and the uncertainty it generates—has a number of negative effects: it creates distortions that lead to inefficiencies and dampen productivity; it generates high levels of judicialization, with costly legal disputes that affect both taxpayers and governments; and it gives rise to “fiscal wars” among states and municipalities that end up competing to attract companies and investments, lowering overall revenues and creating regional imbalances.

2. The regressive nature of income taxation. Income sources like dividends and capital gains, for example, are either exempted from taxation or taxed at very low rates, which favors high earners. In addition, some tax exemptions and deductions benefit the wealthy disproportionately, as is the case for instance with the deductibility of health and education expenditures. High-income individuals can also avoid taxes by shifting income from the personal to the corporate tax base, a phenomenon termed *pejotização*. As a result, the overall impact of taxation on income distribution is negative, and high earners face a lower effective tax rate than poor people.¹⁰

The need for comprehensive tax reform has been on the policy agenda for some time already. Various attempts have been made by governments, focused mostly on reforming indirect taxation through the introduction of a unified value-added tax (VAT) to replace the various existing taxes. Proposals presented in 1995 and 2008 floundered due to political resistance—mostly by states worried about fiscal autonomy and revenue losses—concerns about equity, the complexities of transition, and institutional resistance. In 2023, the political consensus necessary to sustain such a reform was created at the beginning of Lula’s current mandate, when Congress passed Constitutional Amendment 132/2023. The amendment built on a proposal initially tabled in 2019, which was in turn based on a reform originally formulated by an independent think tank called Centro de Cidadania Fiscal (Center for Fiscal Citizenship). This think tank had been working behind the scenes to bring together companies from different sectors to identify their main complaints and proposals, and putting together a proposal based on shared principles of simplicity, neutrality, transparency, equity, and revenue collection, and on ample debate with different social, political, and economic actors.

The reform includes the replacement of the various existing goods and services taxes with a modern VAT, with revenue shared between levels of government, creating a unified tax base, regulation, and administration. In addition to the VAT, a new excise tax will be levied on goods with negative health and environmental externalities. In 2024, further infra-constitutional legislation (LC 214/2025) was approved to define key features of the new tax system. After a

¹⁰ For more recent evidence, see also Palomo et al. (2025).

long transition period (until 2032), the reform is expected to simplify taxation for businesses significantly while making Brazil's high indirect tax burden more transparent and equitable for consumers.

While many have correctly hailed the consumption tax reform as a great success, it is important to highlight that it only addresses some of the problematic characteristics of the Brazilian tax system, most evidently its regressivity. When President Lula came back to power in 2023, his government pledged to tackle both consumption tax and income tax reform. While the former is mostly aimed at making the tax system simpler, addressing distortions, reducing compliance costs, and pre-empting fiscal wars, the latter is fundamental for promoting progressivity and equity. While internationally the government has played a prominent role in the launching of initiatives related to the introduction of wealth taxation—for example in the context of its chairing of the G20 in 2024—domestically its ambitions have been hampered by limited political support for more progressive income taxation and resistance by powerful elite interests.

Another area that is in need of attention is tax expenditure reform. Brazil loses a significant share of revenues due to a large number of exemptions, deductions, tax holidays, and similar policies. Many of these have limited impact, worsen inequality, and make the tax system even more complex and difficult to navigate. Reform priorities include adopting a comprehensive definition of tax expenditures—currently some are not considered as such due to a restrictive definition adopted by the Brazilian revenue administration, limiting transparency and accountability—and introducing regular evaluations and sunset clauses, in order to rationalize and reduce ineffective tax expenditures as part of ongoing tax reforms (de Renzio et al., 2025).

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Case study 4

The New FUNDEB: Advances and challenges in the promotion of equity in education

The policy of education financing in Brazil underwent a major change after the 1988 Constitution and during the following two decades. The government decided to create dedicated funds for the development of primary and basic education that led to the establishment first of the Fundo de Manutenção e Desenvolvimento do Ensino Fundamental (1998–2006) and then FUNDEB (2007 until today). Analysis of this case reveals the construction of a model of fiscal federalism in Brazil that allowed for both the centralized formulation of public policies and the implementation of these policies by local governments in the education sector.

The first Fund focused on basic education—the Fund for the Maintenance and Development of Basic Education (Fundo de Manutenção e Desenvolvimento da Educação Básica or FUNDEB)—managed to reduce inequalities in educational supply between states through complementary transfers from the federal government to poorer states and their municipalities. This led to some convergence of student-year values between states in the north and northeastern regions with lower economic potential, and those in the southeast and south that have higher revenues of their own. The transfer criterion was simply the number of enrollments in each level of basic education weighted by a cost factor decided by the Fund’s National Committee at the Ministry of Education. This Fund, approved in 2006, was due to expire in 2020 (Peres et al., 2024). Thus, in 2015 the National Congress began to debate proposals to replace FUNDEB with the aim of further reducing inequalities, adding new criteria in addition to enrollment, increasing transfers from the federal government, and making the Fund permanent (Do Nascimento Santos et al., 2022).

The approval of Constitutional Amendment No. 108 in 2020 marked a new cycle for FUNDEB, transforming it into a permanent, expanded, and equity-oriented instrument. The new FUNDEB began to distribute resources considering the socioeconomic level of students, the fiscal capacity of the federated entities, and indicators of educational results, in addition to setting minimum percentages for application in stages such as early childhood education. The reform of the Fund was accompanied by progressive implementation between 2021 and 2026 to allow the assimilation of the new mechanisms by education networks and their management systems (Peres et al., 2021).

Between 2020 and 2025, the federal government's contribution grew progressively from 10% to up to 23% of the total collected by state funds. In 2025, federal resources reached R\$56.5 billion, divided among the three different modalities: VAAF (minimum per-student value), VAAT (total student annual value), and VAAR (results-based student annual value). Each one aims to address different kinds of inequalities: the VAAF guarantees a minimum per student, the VAAT considers the fiscal capacity of the implementing entities, and the VAAR rewards advances in management and learning with equity.

The year 2025 is an especially relevant milestone in the trajectory of the new FUNDEB, with the joint entry into force of two decisive factors for intrastate equity: the fiscal availability weight and the socioeconomic level weight. These mechanisms redistribute the Fund's resources, prioritizing networks that face greater social vulnerability and lower investment capacity. It is innovative not only in its adoption, but in combined action, which reduces isolated distortions and amplifies redistributive effects. In the state of São Paulo, for example, an additional redistribution of R\$216.4 million is estimated in favor of networks with greater vulnerability (Callegari et al., 2025)

In addition, the weighting factors for enrollment in rural, indigenous, and quilombola (formerly enslaved population) education were expanded, recognizing their differentiated costs and contributing to correcting historical inequalities. At the same time, VAAR has matured as an instrument to induce the improvement of management and the reduction of educational inequalities. The adherence of networks to the required conditionalities increased significantly, with emphasis on the criteria for technical selection of managers and curricular alignment with the national education curriculum, adherence of which reached 89% and 97% respectively. The conditionality of student participation in national assessments, inactive due to the pandemic, was reintroduced in 2025, with 91% of the networks qualified. The most challenging conditionality—that of reducing racial and socioeconomic inequalities in learning—underwent methodological reformulation. Instead of directly comparing the results between social groups, the internal evolution of the most vulnerable group will be evaluated. Although it is a breakthrough, this approach still does not fully capture the ideal of equity as equality of opportunity between different groups, requiring future improvements.

The unprecedented publication of VAAR microdata by the federal government in 2025 represents another advance, allowing more accurate diagnoses by the networks and greater social control. Successful experiences, such as those of cities like Aracaju, Vitória, Goiânia, and Macapá, which reduced inequalities across multiple groups, can be studied and replicated (Callegari et al., 2025).

Despite the advances, some challenges remain. Constitutional Amendment 135/2024 allowed up to 10% of FUNDEB resources, in any modality, to be redirected to actions to promote full-time enrollment, which can reduce direct transfers to the networks. Implementing this measure will require close monitoring to avoid setbacks in equitable distribution.

In addition, structural issues such as the precise definition of the student-quality cost and socioeconomic vulnerability indicators remain undefined. The lack of updated parameters makes it difficult to align the real need for investment per student and the resources effectively transferred. Legislative proposals discussed in Congress, such as the bills of parliamentarians Dorinha Seabra and Randolfe Rodrigues, address these gaps but have not yet resolved central aspects such as the operationalization of the goal of early childhood education or the criteria for calculating the VAAR complementation (or VAAE, as proposed by the Senate).

Finally, a tension remains between the meritocratic incentives embedded in the VAAR and the risks of exclusion of students in situations of greater vulnerability, who may be less suited for standardized assessments. Future regulation should ensure that the search for efficiency does not lead to distortions that accentuate inequalities, such as the exclusion of youth and adult education students, or students from rural areas.

The new FUNDEB has so far demonstrated an important redistributive capacity and a power to incentivize good management practices and equity policies. Its most profound effects, however, are yet to come. Like any structural policy, its results require time, continuity, and improvements. To this end, it will be essential to combine the institutional strengthening of federated entities, the qualification of educational management, and the active listening of researchers and civil society. The constitutional revision window after 2026 offers a strategic opportunity to consolidate advances and correct distortions, reaffirming FUNDEB as a central instrument for addressing educational inequalities in Brazil.

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