



The capabilities of finance ministries: Mexico

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1 Introduction

Mexico's Ministry of Finance and Public Credit (MoFPC, or *Secretaría de Hacienda y Crédito Público*) was created in 1821, immediately after the country's independence from Spain, and has held the same title since 1853. The MoFPC has always been a fundamental institution in the Mexican state. Its powerful position was first asserted in 1824, when it became the central body to administer all federal income. Its functions have expanded over the years, including responsibilities in areas such as administering the postal services; managing customs; working as the General Treasury of the Federation; inspecting the Mint offices (which in the nineteenth century were initially administered privately); guiding commerce; carrying out fiscal planning and programming; working as a comptroller; generating statistical and geographic information; and even managing a federal registry of motor vehicles, among many others. At present, the MoFPC's main duties are in national planning, federal revenues and expenditure; public debt; insurance and finance; tax collection; public investment; and government accounting.

This range of functions suggests that the history of MoFPC has been marked by a fluctuation between two trends – one towards the concentration of economic and administrative (and thus political) power as the ministry that manages the country's financial processes, and the other the frequent need to distribute and delegate some of its responsibilities in view of the increasing complexity of its functions (Pichardo, 2002). While the functions of the MoFPC have changed throughout the years, however, its formal and informal powers have not. This has been particularly so in recent years.

This paper, which follows a similar structure to that of other case studies in the series on the capabilities of finance ministries in different jurisdictions, seeks to examine what makes Mexico's finance ministry capable of doing its job. More specifically, the study explores the administrative and organisational features that underpin its ability to carry out its functions. Studying the Mexican case aims to provide evidence to answer a central research question: Are there organisational and human characteristics that make some finance ministries more capable than others?

Several approaches are used to assess the MoFPC's capabilities: outcome measures that set the scene; bureaumerics to describe the Ministry; and a review of the four capabilities which are deemed to be central for an effective finance ministry, namely analytical, delivery, co-ordination and regulatory.

In undertaking the study, we reviewed official documentation, relevant legislation, and secondary sources on the subject. We also conducted a series of semi-structured, non-attributable, interviews with public officials and external experts between October and December 2014. These lasted between 40 minutes and two hours, and allowed us to better understand the informal aspects of the MoFPC's working dynamics, particularly in relation to the budgetary process. We made important revisions to the paper following some very thoughtful comments, which we gratefully acknowledge, from Philipp Krause and two anonymous reviewers.

Last but not least, it should be noted that the MoFPC's environment (including international conditions such as the price of oil and the legislative framework, plus the very recent enactment of subnational debt procedures) has changed significantly since we first drafted the paper. We have tried as far as possible to reflect those changes, paying special attention to aspects which have already changed and have influenced the MoFPC's institutional setting and/or historical patterns, but not addressing factors that may potentially have a significant impact on these but are still uncertain or under discussion.

2 Context

2.1 Introduction

One of the most common ways to assess the capabilities of a finance ministry is to analyse its core macro-fiscal outcomes, and the circumstances in which these are developed. The measures taken in the face of contingencies, and their success or failure translated into quantitative data, are indicative of the capacity of a finance ministry to carry out its functions and meet its objectives. Ultimately, if the finance ministry reaches the expected economic policy objectives, independently of other factors, then it can be said to be working properly.

At the same time it is essential to have a good knowledge of the social and political context in which the finance ministry's activities take place in order to understand the opportunities and constraints it faces, as well as its performance over time. No public organisation is immune from the political and social situation in which it is situated. How efficiently and effectively central finance agencies carry out their various functions depends, therefore, on the political, administrative, and cultural environment in which they operate (Allen and Krause, 2013).

A starting point for analysing the capabilities of the MoFPC is thus to describe its formal characteristics in a comparative perspective. Taking as a basis the institutional arrangements of the finance ministries in the countries belonging to the Organisation for Economic Co-operation and Development (OECD) allows us to contrast both the strengths of the MoFPC, and the areas in which it is lagging behind other jurisdictions. More generally, it serves to establish the essential elements for the analysis.

This section thus describes the financial scenario facing the MoFPC over the last 40 years; the macro-fiscal outcomes it has achieved; and Mexico's current situation, in both economic and governance terms. Finally, the section also introduces the formal features of the MoFPC in comparative perspective.

2.2 Core macro-fiscal outcomes

Going back to the 1970s, the struggle against inflation was a permanent feature of the Mexican economy. Two facts triggered this situation. First, in 1971 the Bretton Woods system collapsed due to the abandonment of the gold standard by the United States (USA). This led to the devaluation of the dollar. Second, the enormous and sudden increase in oil prices between 1975 and 1979. Moreover, this decade saw another issue which Mexico has since recurrently faced: the low growth rate of the Gross Domestic Product (GDP) (see Aparicio, 2010).

After 20 years with a fixed exchange rate, in 1976 the Mexican peso was devalued by 25% against the dollar. From then on, systematic devaluations continued until the 1990s, bringing with them high inflation rates. Paradoxically, the rise in the price of oil in 1973 was a great relief for public finances, because it provided an unexpected source of revenue, which unleashed excessive government expenditure during the administrations of both Luis

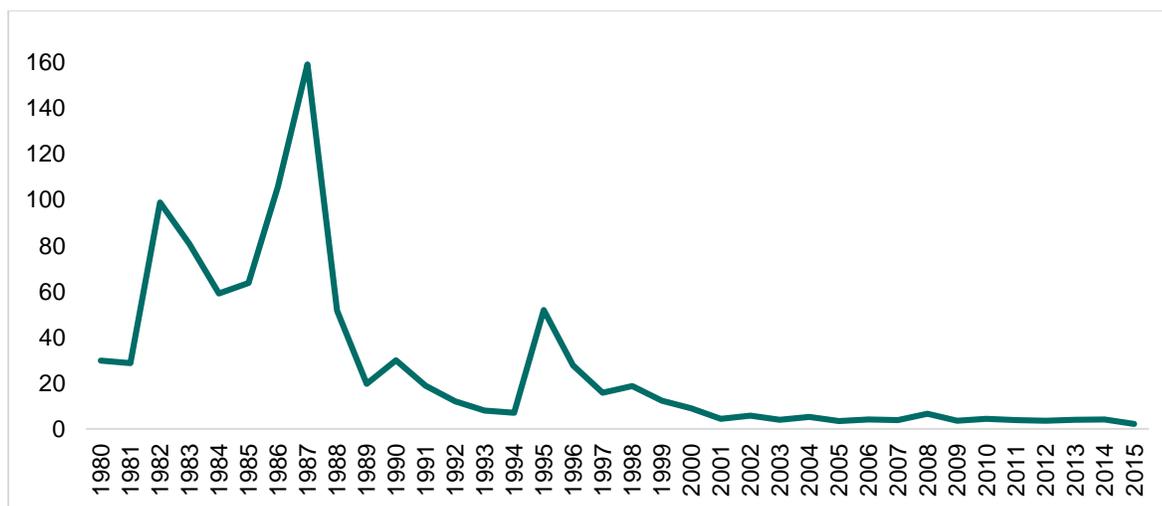
Echeverría (1970–1976) and José López Portillo (1976–1982). This in turn led to unprecedented levels of public deficit.

High oil prices and Mexico’s large oil reserves also meant the country was easily able to obtain international credit. This explains how the foreign debt rose from around 10% of GDP in 1980 to roughly 70% in 1987 (Centro de Estudios de las Finanzas Públicas, 2009). At the same time, the restrictive monetary policy followed by the US Treasury strengthened the dollar and raised interest rates (in dollars). This situation, combined with a subsequent drop in oil prices, led the Mexican government to temporarily suspend its debt payments in 1982, thus creating an economic crisis.

As a consequence, President Miguel de la Madrid’s (1982–1988) administration adopted the neo-liberal economic model, in order to put an end to the historically strong state intervention in the economy. Throughout the 1980s, the governing elite pursued an ambitious programme to privatise public enterprises, deregulate economic activity, and liberalise the financial sector. Trade openness would achieve its peak during President Carlos Salinas’s (1988–1994) term, with the signing of the North American Free Trade Agreement (NAFTA) in 1994.

Throughout the 1980s and early 1990s, the federal government put in place so-called Economic Pacts. Starting in 1987, these pacts between the government, producers, traders and workers/consumers were aimed at making economic commitments among all relevant parties to stop the inflationary cycle. They did help to reduce and control inflation levels, which at one point had exceeded 100% annually (see Figure 1). Moreover, it should be noted that in 1994, the Bank of Mexico was granted formal independence from the federal government. It was also given the mandate to manage the necessary monetary policies to keep inflation under control.

Figure 1: Annual Inflation in Mexico 1980–2015 (2010=100)



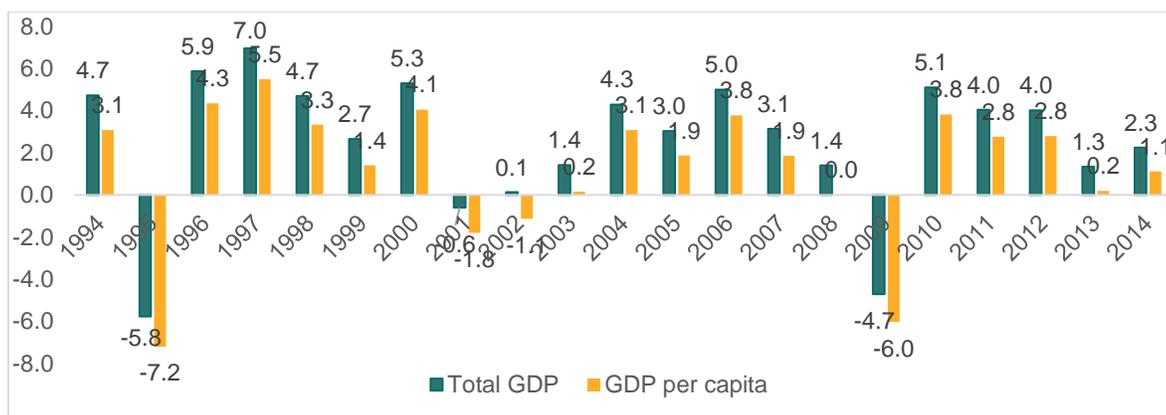
Source: Authors, using data from the Centro de Estudios de las Finanzas Públicas

In December 1994, however, yet another devaluation, followed by a new economic crisis, showed the fragility of the Mexican economy. This devaluation had three catalysts: a growing deficit in the current account, political instability, and access of some business actors to privileged information, which allowed them to take advantage of the imminent currency exchange adjustment. The country’s international reserves disappeared almost overnight. The ensuing crisis was eventually overcome thanks to a financial bailout of US\$

25 billion, sponsored by the International Monetary Fund (IMF) and the US government. This also contributed to a relatively fast recovery during the following years.

Since the early 2000s, the target of economic stability (i.e. single-digit inflation) was achieved. In 2015, inflation was 2.13%, significantly lower than the 159.17% observed in 1987. However, this has not guaranteed economic growth, which has remained slow in the past decade (see Figure 2). Mexico’s economic performance has remained unimpressive regardless of the measurement criterion is used – whether based on production, income or consumption. It reflects a persistent weakness of multi-factor productivity, which has offset the otherwise positive contributions of a growth in the labour force and human capital. While the contributions of these factor inputs to growth was on a par with other major emerging markets – though well behind Russia, India and China – Mexico is nevertheless alone among these countries in having suffered from negative productivity growth (OECD, 2013).

Figure 2: GDP percentage annual variation in Mexico 1994–2014 (2008=100)



Source: Authors using data from the Centro de la Estudios de las Finanzas Públicas

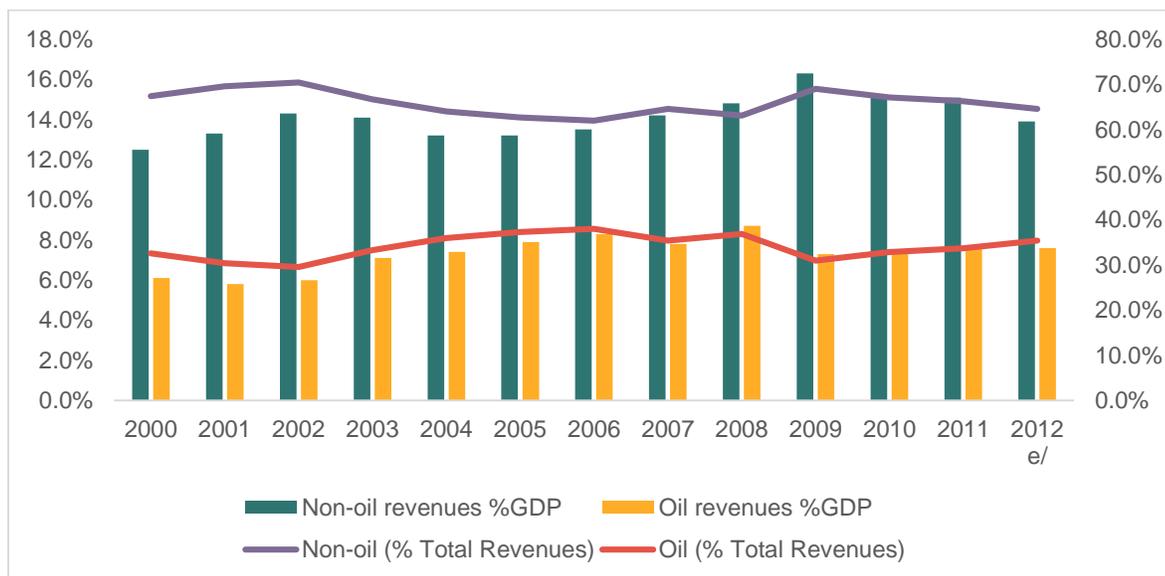
The 2009 global financial crisis also had effects on economic growth in Mexico. As shown in Figure 2, that year’s GDP decreased by 4.7%. However, unlike in previous decades when international crises had had considerable long-term negative effects on the economy, on this occasion Mexico was able to keep inflation and currency devaluation under control. It also experienced a notable recovery, leading to a 5.1% GDP growth the following year. The IMF acknowledged this new-found Mexican resilience, highlighting the country’s strong fundamentals and the authorities’ skilful management of the economy that allowed the implementation of an effective counter-cyclical policy response. In particular, the IMF emphasised the relevance of Mexico’s sound fiscal and monetary policies and the flexible exchange rate regime as a useful shock absorbers, as well as helpful support in the recovery (IMF, 2011). The IMF also noted, however, that Mexico still faced the task of unleashing its growth potential.

Economic growth in 2013 fell to 1.1% and in 2014 the GDP grew by only 2.3%, which was unimpressive compared to the strong recovery experienced between 2010 and 2012 (Figure 2). This economic slowdown was driven by weaker export demand and a contraction in domestic investment, largely in construction. In the following few years, there was a gradual economic recovery with more dynamic exports as the US economy picked up steam. This, as well as the regularisation of public expenditures, was expected to bring economic growth back to a range of 3–4% (World Bank Mexico Overview 2014).

According to the World Bank, Mexico’s growth performance might be also attributed to stagnant total factor productivity due to low competition, poor contract enforcement, and burdensome regulation, all of which result in widespread informality (World Bank Mexico Overview 2014). In order to raise long-term economic growth by accelerating productivity and factor accumulation, President Enrique Peña Nieto (2012–2018) has pursued a number of ‘structural reforms’ in areas such as labour market regulation, education, telecommunications, competition policy, financial sector regulation, energy, and fiscal policy. Policy-makers expect liberalisation of the energy sector in particular to boost Mexico’s economic growth, which generated some enthusiasm among potential investors, as reflected by Moody’s recent upgrade of Mexico’s credit rating to A3. It should be noted, however, that the impact of private investment is likely to be seen only over the course of several years.

On the other hand, one source of Mexico’s economic vulnerability is its heavy dependence on oil revenues. Historically, these have been the main source of government income. The problem is that they are obviously dependent upon international oil prices, which fluctuate substantially, which makes the public budget extremely vulnerable (Hofbauer, et al., 2002). As it can be seen in Figure 3, oil revenues represent almost 40% of Mexico’s total revenues, which is problematic in terms of accurate forecasting, growth volatility and budget credibility.

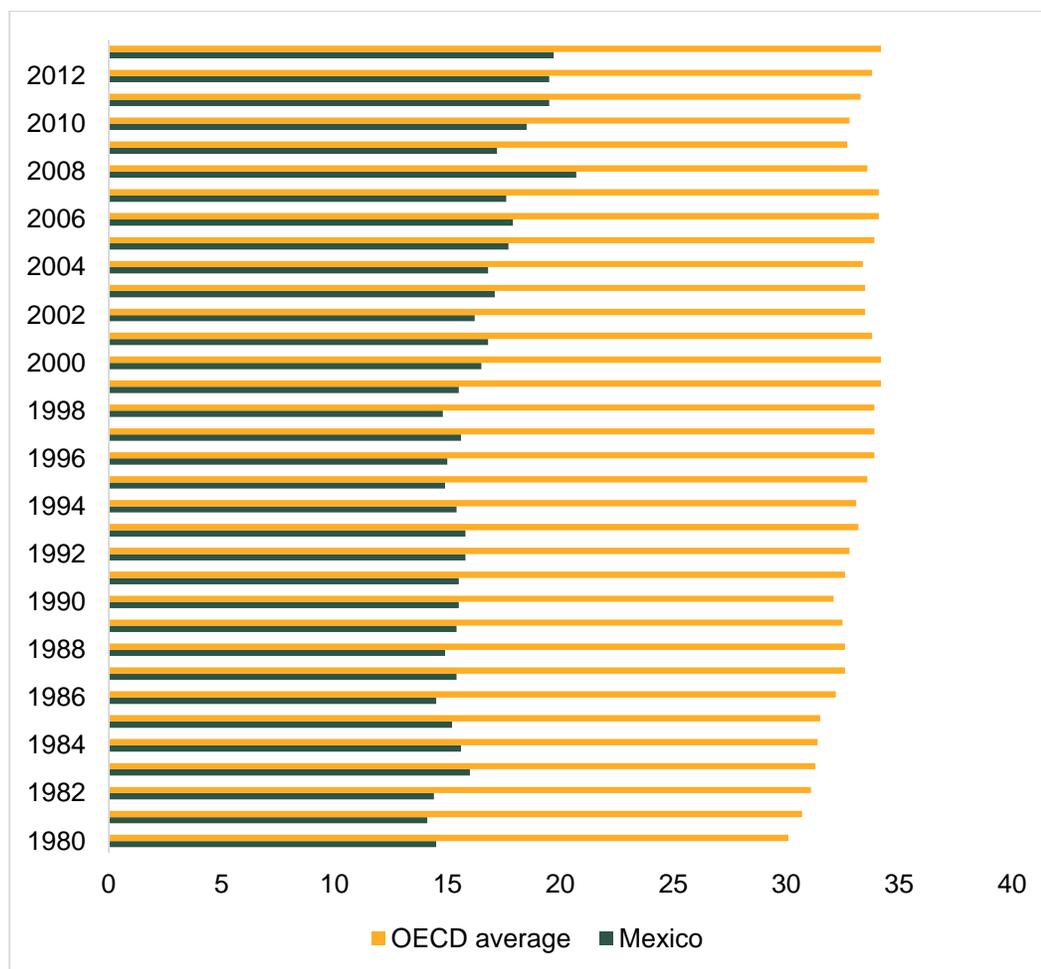
Figure 3: Oil and non-oil revenues as percentage of GDP and as percentage of total revenues



Source: Centro de Estudios de las Finanzas Públicas

Moreover, income tax collection has historically been a major challenge for the Mexican government, and has remained lower than in other OECD (and even some Latin American) countries.

Figure 4: Tax revenue as percentage of GDP 1980–2013.

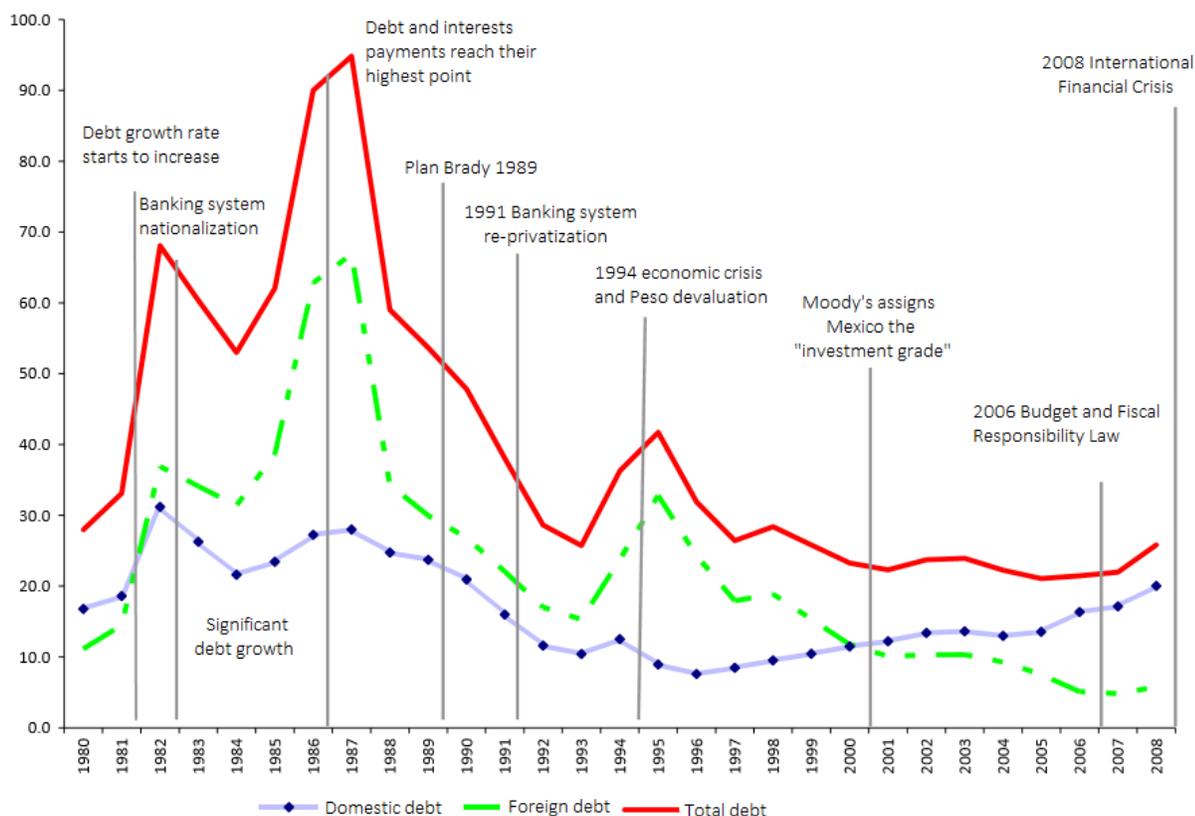


Source: Authors, using OECD data

In 1920, tax revenue in Mexico represented 3.1% of the GDP. Progress in tax revenue collection over recent decades led to taxes reaching almost 20% of GDP. This was made possible through income tax reforms undertaken in 1964, the implementation of value-added tax (VAT) in 1980, and various fiscal measures that helped to close legal loopholes, as well as to improve tax collection systems. Yet in comparison to OECD countries, the fact that taxes represent only 20% of GDP is an indicator of significant lag (Márquez, 2010).

With regard to debt, as mentioned above, this became a serious problem for Mexico in the 1980s, when domestic debt represented a major proportion of GDP. In spite of adjustment programmes to reduce public deficit, the 1986 fall in oil prices took debt to levels above 90% of GDP. In the late 1980s, the government renegotiated the debt and tried to reduce the total debt balance with the emission of bonds. The renegotiation did lower foreign debt to less than 30% of GDP by 1990, but during the 1994 crisis foreign debt was used as a solution, thus again increasing the total external debt (see Figure 5).

Figure 5: Budgetary public sector's net debt evolution, 1980–2008



Source: *Centro de Estudios de las Finanzas Públicas 2009, p. 17*

As can be seen in Figure 5, by 2000 total public debt stabilised between 25% and 30% of GDP (World Bank, 2014). Most of this debt is domestic, through the emission of bonds.

2.2.1 Allocation of Public Expenditure and Poverty Levels

Table 1 shows the recent distribution of ‘programmable public expenditure’ (such as funds that can be allocated on a yearly basis because they are not tied to prior commitments such as debt payment) by policy sectors/functions: social development, economic development, and government functions.

Table 1: Programmable expenditure of the public sector budget by function (%)

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011
Programmable Expenditure	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Social Development	56.01	58.30	58.80	59.14	59.42	59.51	54.24	55.93	56.73
Education	21.65	21.76	21.72	21.36	20.55	19.40	18.93	18.81	18.69
Health	14.05	13.74	15.13	14.79	14.47	13.18	13.57	13.49	13.88

Social Security	11.72	12.75	11.94	12.12	12.79	15.18	11.96	12.79	13.41
Urbanisation, Housing and Regional Development	6.87	8.06	7.59	7.80	8.45	8.24	6.35	6.39	7.03
Drinking water and Sewage	0.34	0.48	0.70	0.86	1.20	0.78	0.91	1.69	0.98
Social Assistance	1.39	1.52	1.72	2.21	1.95	2.73	2.51	2.76	2.74
Economic Development	30.51	30.24	31.07	30.27	29.85	30.97	36.94	35.23	34.14
Energy	21.31	22.47	22.01	21.67	19.76	22.23	27.19	26.18	24.34
Communications and Transport	2.37	2.04	2.89	2.49	3.93	2.16	2.56	2.73	2.81
Agricultural and Forestry Development	3.36	3.32	3.37	3.06	3.33	3.23	3.07	3.02	2.91
Labour issues	0.20	0.17	0.18	0.16	0.13	0.14	0.13	0.11	0.10
Business issues	0.45	0.36	0.43	0.56	0.53	0.77	0.74	0.59	0.61
Financial services	0.90	0.08	0.18	0.38	0.32	0.51	1.22	0.61	1.32
Tourism	0.18	0.18	0.18	0.12	0.16	0.22	0.26	0.21	0.23
Science and technology	1.37	1.12	1.15	1.08	1.05	1.03	1.04	1.04	1.08
Agricultural issues	0.19	0.25	0.22	0.24	0.23	0.21	0.19	0.17	0.18
Sustainable development	0.18	0.25	0.47	0.50	0.41	0.47	0.53	0.57	0.56
Functions of Government*	13.48	11.46	10.13	10.59	10.74	9.52	8.82	8.84	9.13
Public Administration	1.33	0.66	0.37	0.36	0.33	0.35	0.33	0.30	0.23
Interior	1.30	0.73	0.77	1.04	0.63	0.65	0.78	0.61	0.66
Sovereignty	2.46	2.34	2.17	2.00	2.20	2.15	2.28	2.45	2.70
Foreign Relations	0.37	0.40	0.35	0.35	0.37	0.33	0.31	0.34	0.30
Finance	3.28	2.55	2.63	3.11	3.30	2.21	0.96	0.96	0.92
Order, Security and Justice	3.00	3.03	2.97	2.96	3.17	3.18	3.51	3.41	3.78
Environment and Natural Resources Protection and Conservation	0.18	0.11	-	-	-	-	-	-	-

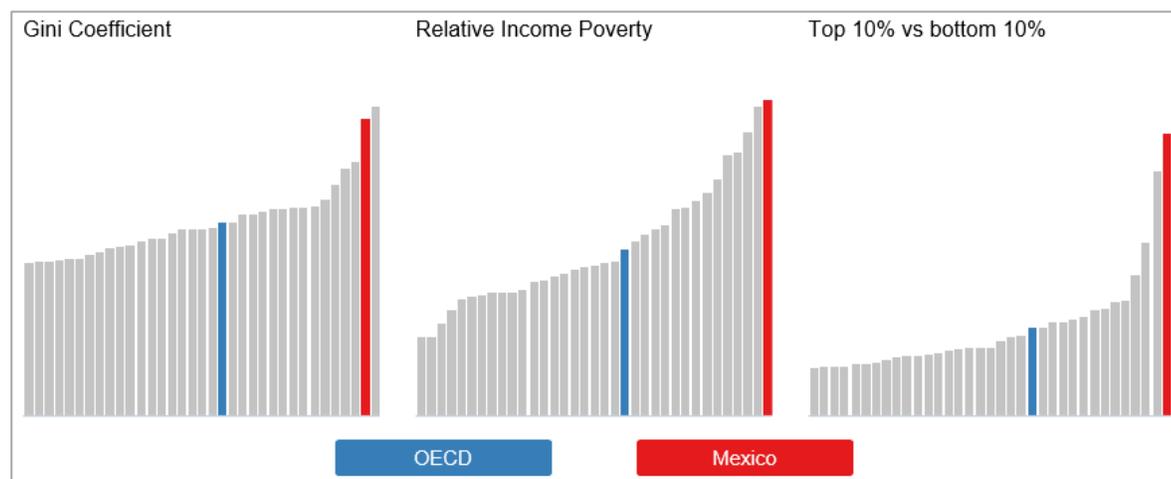
Regulations and Guidelines	0.69	0.75	-	-	-	-	-	-	-
Other public goods and services	0.42	0.48	0.44	0.31	0.33	0.24	0.27	0.40	0.18
Legislation	0.45	0.42	0.43	0.45	0.41	0.42	0.39	0.38	0.36

* Includes Executive, Legislative and Judicial Powers and Autonomous Branches.

Source: Centro de Estudios de las Finanzas Públicas

As Table 1 shows, over 50% of Mexico’s public spending is allocated to social development, although poverty and inequality remain high by international standards (both within the OECD and in comparison to other emerging economies; see Figure 6). While taxes and transfers have substantially reduced relative poverty in most OECD countries, this has not been the case in Mexico. This seems to suggest that resources invested in social development are not having the expected results. The capacity of social programmes to reach the poor has been extended and there has been progress in reducing poverty. Following the recent financial crisis, however, poverty levels have increased once again, showing the vulnerability of low-income households to economic shocks. Furthermore, the Mexican tax and benefit system achieves little redistribution compared to other OECD countries (for example, in Mexico some transfers such as energy subsidies are regressive). Mexico’s tax and benefit system lowers relative poverty by 3 percentage points compared to an average of 15 percentage points among OECD countries (OECD, 2013).

Figure 6: Income distribution and poverty



Note: A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.
Source: OECD, <http://www.oecd.org/social/income-distribution-database.htm>

2.2.2 Fiscal Federalism

Mexico is a federal nation comprising 31 sovereign states (divided into municipalities), plus its capital, Mexico City. Over the last 30 years, a decentralisation process to empower subnational governments was promoted. This involved strengthening state autonomy and redistributing authority, functions, responsibility, and resources from the federal government to the subnational governments. There has been particular emphasis on decentralising the provision of public services, such as health and education. As a result,

the system of federal transfers to the subnational governments has been adapted to meet these goals.

The various types of transfer include the following:

1. *Participaciones* ('*Ramo 28*' as identified in the budget) are unconditional revenue-sharing transfers.
2. *Aportaciones* ('*Ramo 33*' as identified in the budget) are earmarked transfers divided into funds for specific policy areas:
 - a. Education Payroll and Operational Expenses Fund (FONE)
 - b. Health Services Fund (FASSA)
 - c. Social Infrastructure Fund (FAIS)
 - d. Public Security Fund (FASP)
 - e. Multiple Contributions Fund (FAM)
 - f. Municipal Strengthening Fund (FAFM)
 - g. Adults and Technological Education Fund (FAETA)
 - h. States Strengthening Fund (FAFEF)
3. '*Ramo 25*', which supports education and salary increases in Mexico City.
4. Resources for social protection in health (healthcare programme aimed at those not covered by social security)
5. Subventions:
 - i. States Infrastructure Trust Fund (FIES)
 - ii. States Revenue Stabilising Fund (FEIEF)
 - iii. Other (e.g. for regional development)
6. Decentralisation agreements: collaboration and co-ordination agreements between federal agencies and states.
7. Reallocation agreements: resources originally allocated to federal agencies and reassigned to states in order to better achieve federal programme goals.

As Table 2 shows, federal transfers currently represent more than 30% of the total federal budget (although some years ago, they almost reached 40%).

Table 2: Federal transfers (*participaciones, aportaciones, and other subventions and transfers to states and municipalities*), 2013–2015, Millions of pesos

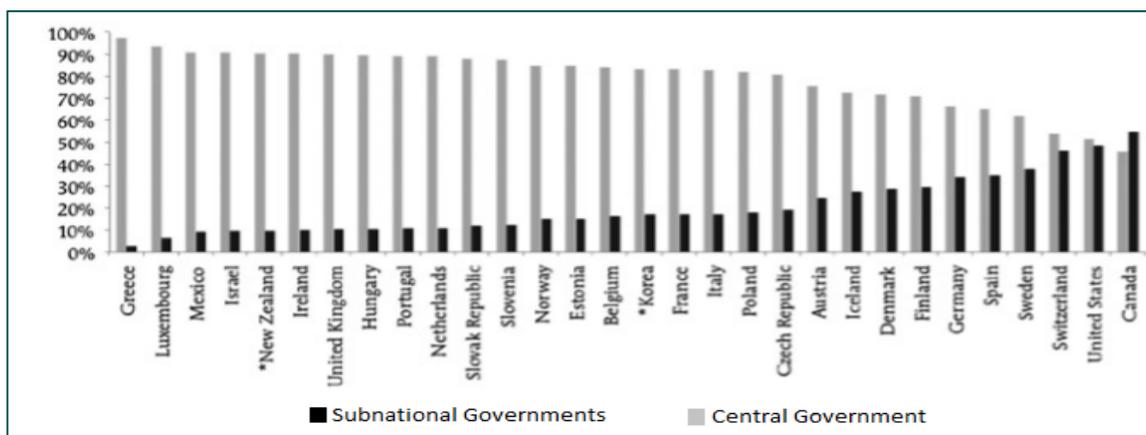
Concept	2013	% of Total Spent Budget in 2013	2014	% of Total Spent Budget in 2014	2015	% of Total Spent Budget in 2015
Total	1,427,299.9	33.93%	1,556,801.9	34.09%	1,656,131.8	33.68%
<i>Participaciones</i> (Ramo 28)	532,455.5	12.66%	584,904.3	12.81%	629,130.3	12.79%
<i>Aportaciones</i> (Ramo 33)	560,916.1	13.33%	594,547.8	13.02%	643,053.7	13.08%
FONE 1_/	324,615.6	7.72%	339,078.6	7.42%	378,566.1	7.70%
FASSA	68,604.8	1.63%	74,367.8	1.63%	81,502.0	1.66%
FAIS	53,090.8	1.26%	57,912.9	1.27%	58,503.0	1.19%
FASP	7,631.8	0.18%	7,921.6	0.17%	8,191.0	0.17%
FAM	17,286.4	0.41%	18,637.3	0.41%	18,827.2	0.38%
FAFM	54,413.8	1.29%	58,666.2	1.28%	59,263.9	1.21%
FAETA	5,542.1	0.13%	5,909.0	0.13%	5,819.7	0.12%
FAFEF	29,730.9	0.71%	32,054.3	0.70%	32,380.9	0.66%
Resources for social protection on health	70,902.3	1.69%	67,684.9	1.48%	72,075.3	1.47%
Subventions	107,381.9	2.55%	146,004.2	3.20%	151,525.0	3.08%
FIES	1,433.2	0.03%	0.0	0.00%	0.0	0.00%
FEIEF	13,896.3	0.33%	5,745.5	0.13%	4,839.0	0.10%
Other 2_/	92,052.4	2.19%	140,258.7	3.07%	146,686.0	2.98%
Decentralisation agreements	148,283.7	3.53%	159,259.7	3.49%	152,818.0	3.11%
SAGARPA (agriculture, cattle industry, rural development, fishing, food).	7,725.5	0.18%	4,187.1	0.09%	4,157.6	0.08%
SEP (Education)	119,978.9	2.85%	127,377.6	2.79%	125,743.7	2.56%
Semarnat (CNA, public water services)	20,579.3	0.49%	27,695.0	0.61%	22,916.7	0.47%
Reallocation agreements	7,360.4	0.17%	4,401.0	0.10%	7,529.5	0.15%

1_/ Includes Ramo 25. 2_/ This component includes subventions to states and municipalities for supporting regional development.

Source: Adapted from MoFPC, 'Estadísticas Oportunas de las Finanzas Públicas', with data from Cuenta de la Hacienda Pública Federal 2013, 2014 and 2015

The decentralisation process has had important effects on transfers to and subnational spending trends in subnational governments. At the beginning of the 1980s, the federal government centralised nearly 85% of public spending while the states and municipalities spent a residual percentage (14.2% and 1.8% respectively). Currently, subnational governments spend more than 30% of the Mexican budget, but decentralisation has not had a clear impact on revenue patterns. Subnational government revenue has remained stagnant for the last 20 years. Mexico’s federal government collects more than 90% of all tax revenues, while the states and municipalities together collect less than 10%. In this regard, Mexico is atypical, in the sense that it acts as a federal nation in the context of expenditure but as a unitary nation in the context of revenue, as shown in Figure 7 (Cabrero, 2013).

Figure 7: Government level revenues as a percentage of the national total (2009)

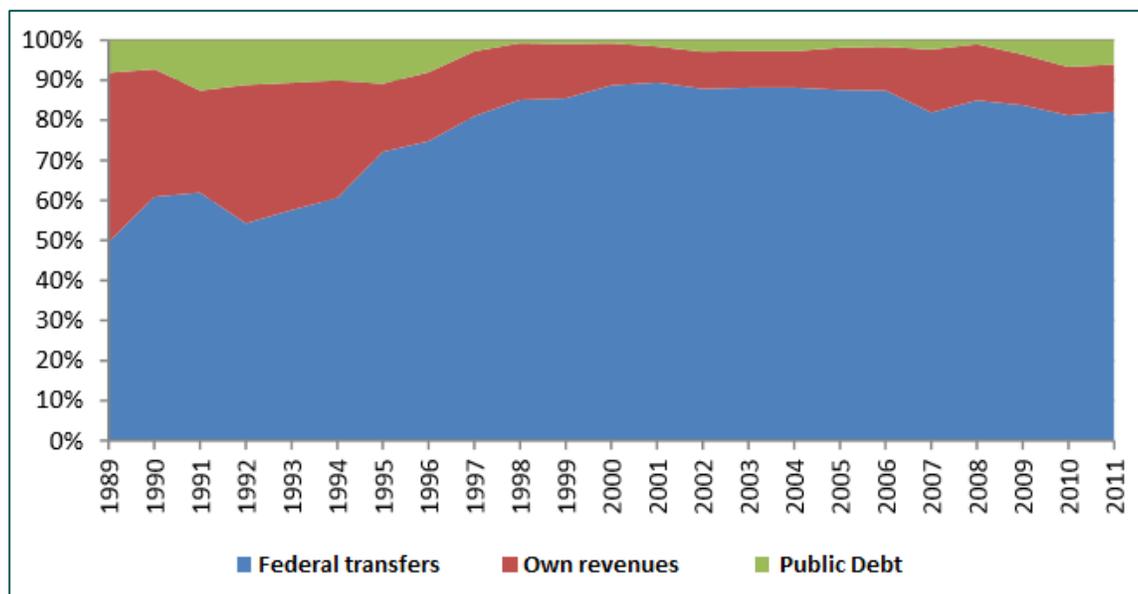


*Korea figures are for 2008.

Source: Cabrero, 2013

This situation has built subnational governments’ strong dependence on federal transfers, which fund a great amount of local spending. As it is shown in Figure 8, roughly 80% of states’ revenues come from federal transfers.

Figure 8: Mexican state revenues by source



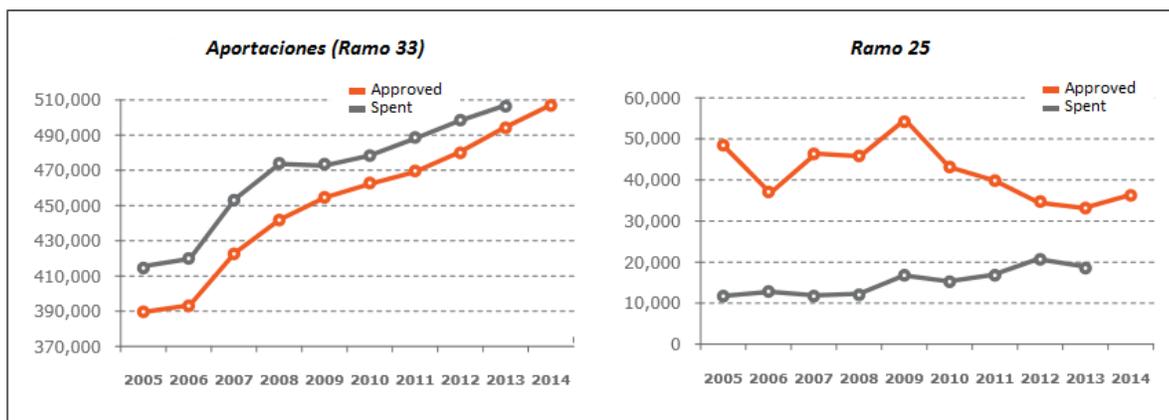
Source: *Isusquiza, 2014*

According to Cabrero (2013), in the current fiscal federalism arrangements, despite the fact the Chamber of Deputies is responsible for determining the level of federal transfers during the annual budget preparation and approval, fiscal policy is negotiated and drafted by only a few stakeholders. On one side, the MoFPC (with some input from the Ministries of Education, Social Development and Health) regulates intergovernmental transfers. On the other side, state governors have become key players, some of them with tremendous lobbying ability. They obtain resources through traditional channels or via special transfers (as in the case of oil surpluses). Finally, the 20 largest municipalities are able to manoeuvre and negotiate. The sheer volume of resources they generate enables them to maintain relative autonomy from state control.

As a result of these imbalances, the OECD has recommended that the Mexican federal government should apply budgetary restrictions to subnational governments, limit increased transfers and avoid extraordinary transfers. Another important recommendation is to promote fiscal rules particularly in areas related to deficit and debt (OECD, 2013). With regard to this issue, a law for fiscal subnational responsibility has just been enacted in Mexico (we discuss this below).

In fact, the MoFPC currently plays a significant role in modifying the volume of transfers approved by the Chamber of Deputies. It can both increase the volume of transfers (using revenue surpluses to underwrite extraordinary transfers or subventions), and reduce them without prior congressional approval. The following figures illustrate both cases.

Figure 9: Federal transfers approved and spent, Ramo 33 and Ramo 25



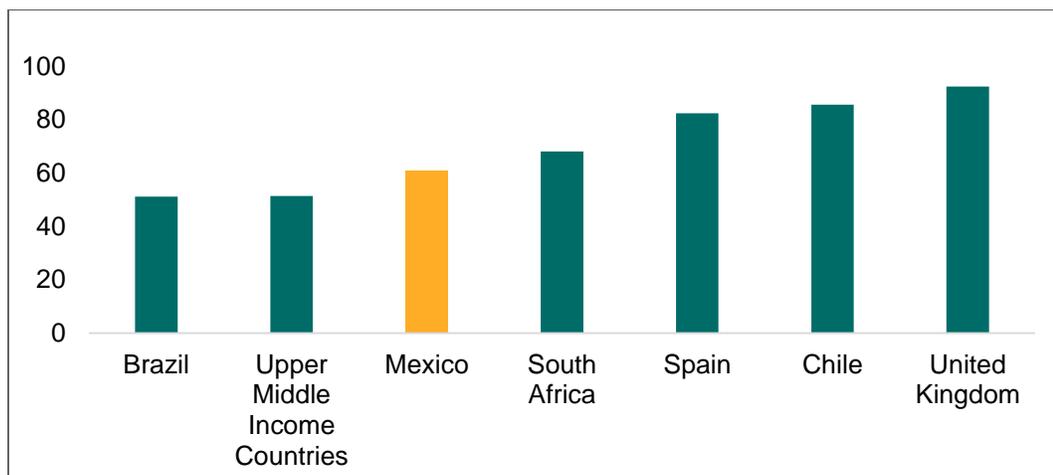
Source: México Evalúa, 2014a

Nonetheless, the MoFPC has only limited capacity to enforce and supervise the actual use of resources. In 2013, the ministry published guidelines for monitoring the use of federal resources transferred to states and municipalities, which established subnational governments’ obligation to provide quarterly reports on expenditures, how the transfers were used, and what results were obtained, including programme/policy evaluation reports. This can be seen as an effort by the MoFPC to increase its control over federal transfers, but how effective this will prove will need to be assessed in the coming years.

2.3 Governance and formal structural indicators

The Worldwide Governance Indicators (WGI), which could be described as an ‘index of indexes’, report on six aggregate governance indicators for over 200 countries and territories between 1996 and 2014. Among these indicators, Government Effectiveness is important for the purposes of this paper. It captures perceptions of the quality of public services, the quality of the civil service and its degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. Furthermore, it is accepted that budget management and public finance are key elements of any effective government.

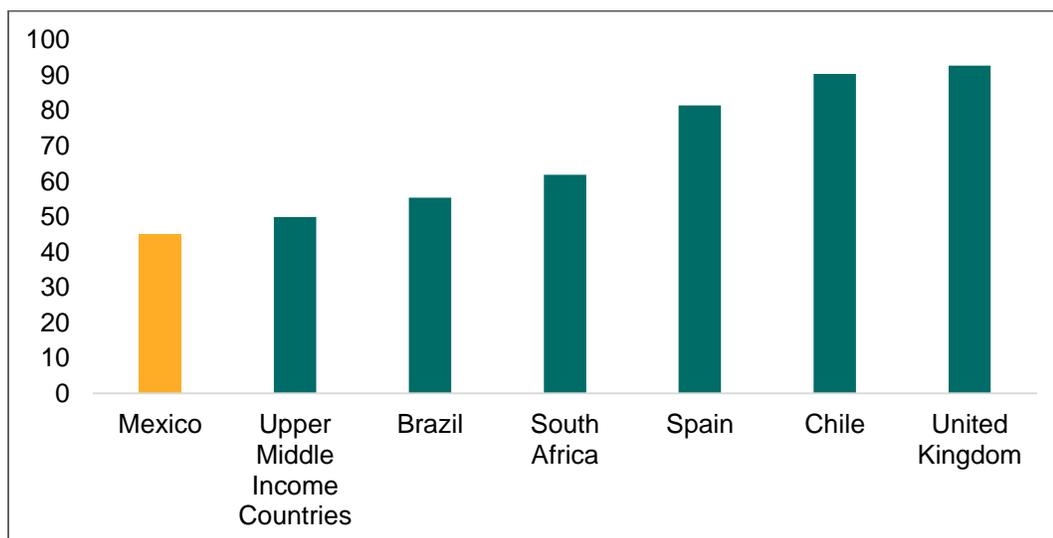
Figure 10: WGI aggregate indicator: Government Effectiveness in selected countries, 2004–2014 average



Source: Authors, using WGI data

Figure 10 shows that Mexico’s average score in this indicator is above the average of upper middle-income countries (UMICs), such as Brazil, but behind similar UMICs such as South Africa and Chile. Another important subject covered by the WGI, which is usually problematic for Mexico, is that of Corruption Control. This indicator captures perceptions of the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as the ‘capture’ of the state by elites and private interests.

Figure 11: WGI aggregate indicator: Control of Corruption in selected countries, 2004–2014 average



Source: Authors, using WGI data

According to the WGI, Mexican performance in this matter is slightly worse than in other UMICs, but lags behind other comparable nations like Chile, whose performance is similar to that in developed countries such as United Kingdom (UK). This problem needs to be addressed in order to foster economic performance. Indeed, the OECD has recommended

that Mexico effectively combat corruption in order to set the conditions for a better economic performance (OCDE, 2013a).

2.3.1 Budgetary Practices and Procedures

In the following paragraphs we summarise the institutional arrangements for the budgetary process in Mexico compared to other OECD countries, according to the 2012 Budget Practices and Procedures Survey. This Survey illustrates the various budgetary and fiscal arrangements in different countries for the purpose of comparison, thus providing an overall view of the formal mechanisms in place in the countries involved. It is important to keep in mind that it does not shed light either on the effectiveness of those arrangements, or on the economic performance of those countries. Thus, it is not a prescriptive approach.

In organisational terms, the Central Budget Authority (CBA) is the hub of the central government budget process. Almost all OECD countries locate the CBA in the Ministry of Finance and/or Economy. Such is the case in Mexico, where the CBA is the Under Secretariat for Expenditure in the MoFPC. In many OECD countries the head of the CBA is a senior civil servant, but in Mexico this is a political appointment.

In Mexico, the CBA is responsible for long-term fiscal projections. Elsewhere this function is located in other departments of the Ministry of Finance or in other line ministries, and four countries assign this responsibility to an independent institution. In Mexico, the annual budget must be based on these long-term fiscal projections, something that does not necessarily occur in 21 OECD countries.

Moreover, 58% of OECD countries develop macroeconomic estimates that cover a period of up to five years. Most of the rest use macroeconomic estimates for between 31 and 50 years. Mexico is atypical since estimates cover between six and ten years, as is also the case in Israel and the USA.

Most OECD countries evaluate the potential fiscal risks associated with entitlement spending (e.g. if the take-up rate of various entitlement programmes is higher or lower than assumed in the budget), though the comprehensiveness of evaluations varies. Among OECD countries, 30%, Mexico included, take risk into account for all entitlement spending, while 43% take risk into consideration in one way or another. In contrast, 27% of OECD countries report that risk is not taken explicitly into account for entitlement spending (i.e. Estonia, Finland, Germany, Italy, Japan, Korea, Slovenia, Switzerland and the USA).

Regarding the existence of fiscal rules that place limits on fiscal policy, Mexico is below the OECD average, although this average has increased from 2.5 to 3.6 since 2007. In that year, most countries had two or three fiscal rules while most countries in the 2012 survey applied four or five. The rule that Mexico has in place is the of the ‘Budget balance’² kind. About 85% of this kind of rules targets a specific budget balance as a percentage of GDP (43%), or a specific budget balance as a percentage of GDP in cyclically adjusted or structural terms (42%). In Mexico, the budget balance rule targets a specific budget balance as a percentage of GDP. Almost all budget balance rules are permanent and most of them designed with flexibility for handling fiscal crisis, which is the case in Mexico.

It is worth noting that very recently (April 2016) a new fiscal discipline law for states and municipalities was enacted. This is aimed at promoting responsible, efficient and prudent management of public finance. It also tries to redress the high levels of subnational debt in the past decade. This was made possible by a previous constitutional reform, which established that all three levels of government are responsible for ensuring fiscal stability

² In this survey, Mexico reported having only one fiscal rule, related to the budget balance. Nonetheless, a Report by the OECD (2009) states that Mexico has two additional debt rules.

and for contributing to creating the conditions for economic and employment growth. As a result of that reform, the Constitution provides Congress with the power to set budget, debt and fiscal transparency rules for the subnational government levels.

Finally, it is important to mention that the Mexican budget is based on a ten-year macroeconomic framework: five years before the draft budget and five years after. This requirement was introduced under the 2006 Budget and Fiscal Responsibility Law (BFRL) (although it was actually done even before the law was enacted). The macroeconomic framework includes Mexico's economic projections for a number of key variables: GDP, inflation, the nominal interest rate, and the current account for the next five years. It includes an overview of projections of public finances during the period 2010–2014. These projections focus on two relevant elements: first, the implications of the formula-determined expected price trajectory of Mexican oil; and, second, the pressures of expenditure on borrowing requirements. The ten-year estimates given in the Mexican budget are at an aggregate level. The budget does not include multi-year projections by programme, organisation, or economic classification. In fact, most budgetary details are presented on an annual basis. This is something that could eventually become an area for reform, given that Mexico's position is the second lowest in the OECD medium-term expenditure frameworks index (OCDE, 2009).

2.3.2 The role of Congress

Another important actor in the budgetary process is Congress. We will discuss this further below, but here we present some facts about the formal role of the Mexican Congress compared to other OECD countries. In Mexico, as in many OECD countries, the legislature formally holds unrestricted amendment power. In 61% of OECD countries, the budget is presented to the legislature at least three months before the start of the fiscal year (roughly four months in the case of Mexico). The vast majority of OECD countries also approve the budget prior to the start of the fiscal year. Legislative debate on the budget ranges from one month in Greece and the UK to four months in Canada, Denmark, Germany and Poland and eight months in the USA. In a little less than half of OECD countries, the legislature has at least three months to debate the budget; in 14 countries it has two months (ten weeks in the case of Mexico); and in three countries it has only one month.

Despite the diverse methods, all OECD countries have mechanisms in place to deal with the possibility of delays in the approval of the budget. In 12% of OECD countries, the provisional budget rules are described by the CBA as favouring the executive and encouraging restraint of the legislature's budget amendment powers. At the other end of the spectrum, the reversionary budget arrangements in 21% of the OECD countries may be considered to favour the legislature. In Mexico, as in Ireland and Switzerland, all spending is prohibited until the budget is passed.

2.3.3 Budget Transparency

In the area of transparency, all OECD countries which participated in the 2012 Budget Practices and Procedures Survey make the budget proposal submitted to the legislature publicly available, except in the case of the UK. On the other hand, only half of the countries produce a pre-budget report, of which 14 make it publicly available, including Mexico. This is also the case for a citizens' budget, which is publicly available in 15 OECD countries, Mexico included.

Both interviewed public officials and external budget experts agreed that there has been a considerable improvement regarding budgetary transparency in Mexico in recent years. In particular, the creation of the website www.transparenciapresupuestaria.gob.mx, and the publication of the citizens' budgets represented substantial changes. This has been reflected in the score obtained in the Open Budget Survey (OBS) published by the International

Budget Partnership (IBP). The OBS assesses whether central governments make eight key budgetary documents available to the public, as well as whether the data in those documents are comprehensive, timely, and useful. In 2006, Mexico obtained a score of 50%, which rose to 54% in 2008, dropping slightly to 52% in 2010 and up to 61% in 2012. Of the eight budgetary documents that the IBP recommends that countries should publish, Mexico publishes all except for the Mid-year Review (an overview of the budget's effects at the midpoint of a year, which also discusses any changes in economic assumptions that may affect approved budget policies).

According to the IBP, Mexico's score is higher than the average score of 43 for all 100 surveyed countries, as well as the highest in the Central America and Caribbean region. Mexico's score indicates that the government currently provides the public with significant information on the national budget and financial activities during the course of the fiscal year. Notwithstanding such progress, there still are important issues in this area, such as the limited disclosure of budgetary reallocations made during the fiscal year, the source of those reallocations, and the details of the use of surplus income.

2.4 Conclusion

During the last decade, the MoFPC has achieved economic stability and has put order in the management of public finances. The devaluations of the peso against the US dollar, exorbitant inflation, as well as unpayable debts have all been controlled in recent years. The latter was supported first mainly by political mechanisms such as the Economics Pacts signed by relevant economic, social, and political actors, and later by a new institutional setting which included a formally independent central bank in charge of managing monetary policy.

In terms of budgetary practices, it could be said that Mexico is broadly in line with common international trends. As in most OECD countries, Mexico has a CBA (Under Secretariat for Expenditure) in the MoFPC. In preparing the budget, Mexico evaluates the potential fiscal risks associated with entitlement spending, and produces long-term projections, both of which are common practices among OECD countries. Progress made in the area of budgetary transparency should be highlighted, as it has allowed think tanks, external analysts, and citizens in general to gain access to more and better information. On the other hand, the estimates in Mexico still use a timespan of six to ten years, which is uncommon among the OECD countries. Furthermore, according to the OECD (2014), both the fiscal rules and the mid-term expenditure framework could be strengthened.

There remain a number of significant challenges. The structural weight of oil revenues has made public finances vulnerable and highly dependent on events abroad. Although over half of the programmable expenditure is invested in social development, high inequality rates and poverty have not yet been overcome. Moreover, tax revenues still represent barely 20% of GDP, and economic growth rates continue to be low (1.1% in 2015). All of this is further embedded in difficult social and political conditions, such as a recent increase in violence related to organised crime, corruption scandals, and a persistent disregard for the rule of law, as reflected in the Worldwide Governance Indicators. Overall, this represents a complex scenario for both the future management of public finances and the country's governability.

3 Institutional Framework

3.1 Introduction

The determinants of a finance ministry's capabilities could be related to its formal strength, but also to its informal powers, and even to its internal organisational arrangements. In this section we analyse these three aspects of the MoFPC. An analysis of the formal status of a finance ministry should cover both its authorities and the way central finance functions are distributed across the government (Allen and Koehnert, 2012, cited by Allen and Krause, 2013). Here we aim to identify the formal institutions that are associated with the MoFPC. Likewise, we explore the MoFPC as an organisation using a bureaumatic approach, which may offer some insights in terms of its overall size and resource distribution. Finally, we analyse the informal role of the MoFPC across government, and how that relates to its capabilities.

3.2 History in a nutshell

Mexico achieved independence from Spain in 1821. That same year the first four ministries were created: the Ministry of Public Finance, the Ministry of Foreign and International Relations, the Ministry of Justice and Ecclesiastic Affairs, and the Ministry of War and Navy (López, 2010). During the nineteenth century, the Ministry of Public Finance underwent several reforms in both its duties and structure. One of them, which took place in 1852, modified its organisation, dividing it into six areas, one of which was Public Credit. This fact led to its being renamed in 1853 as the Ministry of Finance and Public Credit.

The Ministry of Finance was not immune from the political instability that characterised the first 100 years of Mexico's independence. The dilemmas between forming a monarchy or a republic, a federal or a centralised government, were recurrent during that period. This was reflected in, among other things, the administrative stability of the Ministry of Finance: between 1821 and 1920, there were over 200 finance ministers over a period that featured six political regimes, two emperors, and over 40 presidents. For example, Manuel Ruiz, one of the various ministers of Finance under President Benito Juárez (1858–1872), occupied the position for just two days. In contrast, José Yves Limantour was Minister of Finance for more than 18 years during the dictatorship of Porfirio Díaz (1876–1911) (Ludlow, 2010).

Political instability led to a gradual widening of the ministry's functions. This in turn translated into greater complexity in its organic structure, and consequently to a constant rise in the number of employees located all over the country. In the long run, this created contradictions and duplication of ministerial tasks and duties (Ludlow, 2010). During those years, the main economic problems were the public deficit and the inability to improve tax collection. The frequent armed struggles were costly and made it difficult to collect taxes in certain regions. This situation started to change with the years of prosperity that were achieved under the dictatorship of Porfirio Díaz, but the 1910 Revolution brought with it political and economic instability yet again.

During the twentieth century, the MoFPC evolved more or less as follows (see Márquez, 2010). Starting in 1920, following the Revolution, its functions became more complex. This required the specialisation of tasks in each of its Under Secretariats and coordinated agencies. Ministerial profiles evolved over time: while initially staffed and led by engineers, accountants, and, for some time lawyers, from the mid-1970s economists who had undertaken postgraduate studies abroad began to predominate. Moreover, relevant professional experience either at the Bank of Mexico or the MoFPC became a precondition for both its senior personnel and political appointees.

In this same period, the MoFPC established itself as a crucial institution of federal public administration. Towards 1950, the tasks of promoting economic development were added to its substantive duties of designing, collecting and administering taxes, as well as formulating and managing the public budget. In addition, it became a centrepiece in the regulations of economic policy to confront economic and financial crises from the mid-1970s. These transformations happened gradually, in step with Mexico's economic-institutional development (Marquez, 2010).

An important, albeit temporary, change occurred in 1976, with the creation of the Ministry of Programming and Budgeting. This implied that the functions of programming and budgeting of federal expenditure were taken from the MoFPC and given to the newly created ministry. Thus, the MoFPC was left with three Under Secretariats: Finance and Public Credit, Revenues, and Fiscal Inspection. This would change again in 1982, with the nationalisation of the banking system. As a result, additional functions were entrusted to the MoFPC, in a new Under Secretariat for National Banking. Later in 1989, the Under Secretariat for International Financial Affairs was created to coordinate the government's policy related to the debt crisis and the restructuring of foreign liabilities.

The separation of functions between the MoFPC and the Ministry of Programming and Budgeting was redefined during the presidency of Carlos Salinas de Gortari (1988–1994). This was part of the policy to downsize bureaucratic structures and improve efficiency in the federal government agency. Consequently, the Ministry of Programming and Budgeting disappeared in February 1992, and responsibilities for public expenditure were returned to the MoFPC. The process of administrative restructuring ended the following year with the disappearance of the Under Secretariats for International Financial Affairs, Regulations, Budgeting Control, and Programming and Budgeting. The latter became the Under Secretariat for Expenditure.

These changes to the organisational structure of the MoFPC were triggered by Mexico's economic and institutional transformation. The Ministry's present structure, which will be examined later, has been adjusted to better suit the requirements of a more open and diversified economy, a modern economic sector and technological advances that require specific regulations.

3.3 Formal institutions

Mexico has a legal tradition that underlines, at least formally, a strict adherence to laws and rules. The basic principle that applies to the power of the Executive is that public servants can do only what is explicitly mandated by law. In that sense, the formal powers of the MoFPC come from its legal mandate, particularly art. 31 of the Organic Law for the Federal Public Administration (*Ley Orgánica de la Administración Pública Federal*, LOAPF). The following are worth emphasising:

- Project and co-ordinate the process of national planning for development, and co-ordinate the elaboration of the National Development Plan.

-
- Project and calculate the income of the federation, considering the needs of the federal public expenditure, the sensible use of public credit, and the financial health of the federal public administration.
 - Manage public debt.
 - Plan, co-ordinate, evaluate, and oversee the country's banking system.
 - Collect taxes, rights, products and exploitation of federal resources.
 - Organise and managing customs and inspection services.
 - Project and calculate the expenditures of the federal government- and state-owned public administration institutions, making them compatible with the availability of resources and addressing the needs and policies of national development.
 - Formulate federal public expenditure and the draft Budget of Expenditures of the Federation, and present both for the consideration of the President of the Republic.

The LOAPF states in art. 17 that the ministries may have subordinate semi-autonomous agencies (*órganos desconcentrados*) with authority over specific subjects. These agencies have administrative autonomy but no legal responsibilities. Currently, the MoFPC has four agencies of this kind:

1. *National Banking and Securities Commission*. Its main function is to supervise and regulate the entities which compose the Mexican financial system, with the aim of procuring its stability and proper functioning, as well as maintaining and fostering the healthy and balanced development of the system as a whole, to safeguard the public interest.
2. *National Insurance and Bonds Commission*. Its main function is to oversee that the operation of the insurance and bonds sectors adhere to the regulatory framework, preserving the interests of the public user as well as promoting a healthy development of this area.
3. *National Commission for Retirement Savings*. Its main function is to coordinate, regulate, supervise and oversee the retirement savings systems for workers in both the public and private sectors.
4. *Tax Administration Service*. It has the responsibility of applying fiscal and customs legislation with the purpose of ensuring that individuals and corporations contribute to public expenditure; in addition, it is responsible for supervising tax payers to ensure their fulfilment of tax and customs provisions and facilitating and incentivising voluntary compliance, as well as generating and providing the necessary information for the design and evaluation of tax policies.

The core finance functions of the modern states cover a range of activities related to policy-making, revenues, expenditures, and regulation. Richard Allen and Philipp Krause (2013) have identified at least 18 core finance functions. In the case of Mexico, most of these are centralised in the MoFPC, while others are delegated to the agencies mentioned above. There are still others, such as internal control, internal audit, and public procurement, which in Mexico are carried out by the Ministry of Public Administration (*Secretaría de la Función Pública*), or, in the case of treasury and cash management, are the responsibility of the independent central bank (*Banco de México*).

Table 3: Central finance functions

	Central finance function	Responsibility in Mexico
1	Macro-fiscal forecasting and analysis	MoFPC
2	Fiscal policy formulation	MoFPC
3	Fiscal risk analysis	MoFPC
4	Interface between monetary and fiscal policy	MoFPC
5	International economic and financial relations	MoFPC
6	Tax policy	MoFPC
7	Budget preparation	MoFPC
8	Treasury and cash management	Independent Central Bank
9	Internal control	Ministry of Public Administration
10	Internal audit	Ministry of Public Administration
11	Accounting policy	MoFPC
12	Debt management	MoFPC
13	Tax administration	Tax Administration Service
14	Customs administration	Tax Administration Service
15	Intergovernmental fiscal relations	MoFPC
16	Regulation of banks and other financial institutions	National Banking and Securities Commission, and Independent Central Bank
17	Management of public assets, including public enterprises	Treasury of the Federation (Tesorería de la Federación, which is a unit of the MoFPC that administers the funds and assets of the Federal Government). Public enterprises are semi-autonomous, but regulated and controlled by the ministry in charge of the policy sector to which they are related.
18	Public procurement	Ministry of Public Administration establishes procurement norms and policy. Procurement itself is delegated to spending units.

Source: Authors using Allen and Krause's categories (2013), based on Allen and Koehnert (2012)

Krause (forthcoming) has developed an index to assess the level of control of a given finance ministry, both in terms of administration (micro) and budgetary policies (macro). Micro-budgetary controls are the traditional domain of the finance ministry in its role as CBA. They are primarily designed to prevent funds leaking away uncontrolled and unaccounted for. These controls thus give the finance ministry a strong position within the executive during the annual formulation and execution phases of the budget preparation. Micro-budgetary controls are also the default instrument of budgetary control, which grew out of the parallel evolution of direct administrative oversight within the executive

bureaucracy, and the need to ensure financial accountability of spending units. The term ‘micro’ describes the degree to which a ministry of finance can dominate the annual budget cycle as a series of hierarchical bilateral relationships between itself and each spending unit. Mexico is at the very top of this index, with a score of 8.25 (on a 0–10 scale).

According to the author, the macro-budgetary controls are instruments that a ministry of finance uses to extend its reach beyond the scope of bilateral relations with spending ministries. Macro-budgetary controls seek to predetermine the most important budgetary decisions before a cycle of annual budget formulation begins. Conversely, they leave the internal operation of the spending bureaucracy largely alone. In short, macro-budgetary controls allow the finance ministry to take charge of the budget process, not just the budget (Krause, forthcoming). Mexico’s score on this index is 3.05.

Table 4: Mexico’s Micro and Macro Controls Index scores

	Observations	Mean	Minimum	Maximum	Mexico
Micro-level Controls	50	3.59	0.16	8.25	8.25
Macro-level Controls	50	3.49	0	9.17	3.05

Source: Krause (forthcoming)

Mexico’s high score in the Micro-budgetary control index – the highest of the countries rated – is consistent with the information we gathered through interviews. Both experts and public servants pointed to excessive control by the MoFPC during the budget formulation and especially during its execution. The law grants the MoFPC authority to control spending increases, cancel budget allocations, and approve reallocations during budget execution. However, the MoFPC tends to surpass these formal powers, ‘to review the policy aspects of ministerial matters, and to express opinions about how to conduct the ministries’ policies, something which goes beyond its formal authorities’ [interview]. In cases in which ministries require budget changes because of programme adjustments, or changes in government policy, spending units enter into a negotiation process with the MoFPC. Depending on the complexity of the issue, this involves higher-ranking officials, such as the Heads of Central Administrative Units (*oficialía mayor*), or even Under Secretaries. According to one interviewee, ‘things are scaled up as they grow more complicated’. The objective is to convince the MoFPC of the need to change the planned expenditure in order to obtain its authorisation.

In certain cases, when spending units require even small volumes of additional resources, the MoFPC’s intervention may be excessive. According to interviewees, budget specialists from the MoFPC sometimes ask questions about the type of contract, the supplier, the justification to acquire an asset or service, etc. These are all ministerial policy matters, which go beyond the MoFPC’s legal competence regarding budgetary management.

Occasionally, the MoFPC issues communications (so-called ‘*circulares*’, or memoranda) with instructions that have similar effects to those of higher-level rules (e.g. setting a deadline for the formalisation of contracts before the annual budget closure date). According to some interviewees, these memoranda ‘stall’ normal activities within institutions, thus creating major operational difficulties: ‘Sometimes, these measures issued by the Budgetary Policy and Control Unit are designed from a very general perspective, to be applied government-wide, but do not consider the conditions of particular agencies whose programs require constant procurement processes, and even have their own income sources to support these contracts’ [interview]. These *circulares* have become a regular,

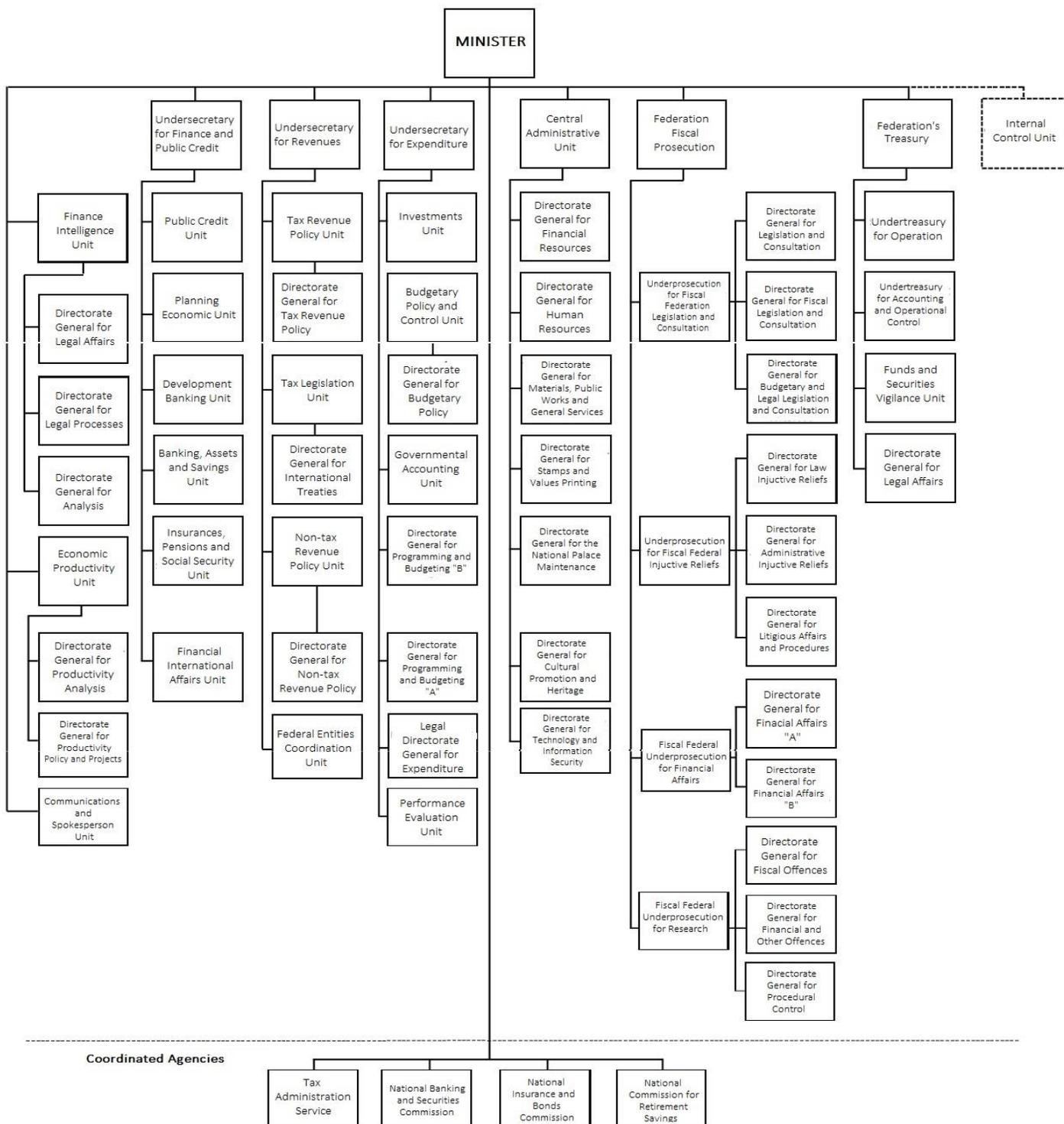
albeit informal, mechanism to control spending. Their use tends to be related to revenue inconsistencies throughout the fiscal year that create the need to cut budgets (e.g. less oil revenue than forecast). In general, it is not related to cash management issues, lack of other budget controls, or irresponsible spending units.

The fact that the MoFPC can have such a strong central control is further enabled by the existence of an IT system known as Accounting and Budget System (*'Sistema de Contabilidad y Presupuesto'*, SICOP). The latter provides real-time information of every movement and expense for each spending unit. According to one interviewee, this furthers the budget officials' 'temptation to perform a central planner role'. Another interviewee stated that the technology allowed 'the MoFPC to minutely supervise all budgetary matters, thus strengthening its controlling tendency'.

3.4 Financing and Bureaumerics

The MoFPC comprises the Minister's Office, three Under Secretariats, a Central Administrative Unit (which has authority over internal planning, programming, budgeting, spending and financial control, as well as for the management of human, material, and IT resources); the Fiscal Attorney General's Office; the Treasury of the Federation; and an Internal Control Unit (which is formally accountable to the Ministry of Public Administration). As mentioned in the previous section, the MoFPC has four semi-autonomous agencies under its remit.

Figure 12: Organogram of the MoFPC



Source: Diario Oficial, 2015

In total (excluding semi-autonomous agencies), the MoFPC has 5,766 approved job positions for 2016. As of 31 December 2015, there were 793 vacancies. The distribution of positions and vacancies is presented in Table 5 on the next page

Table 5: Distribution of positions in the MoFPC

	Positions ¹	Vacancies ²	Total number of positions	Total vacancies
Minister's Office			300	7
Minister's Staff	58	3		
Financial Intelligence Unit	155	2		
Economic Productivity Unit	18	2		
Communications and Spokesperson Unit	69	0		
Under Secretariat for Finance and Public Credit			706	64
Under Secretary's Staff	114	7		
Public Credit Unit	133	8		
Planning Economic Unit	136	3		
Development Banking Unit	83	13		
Banking, Assets and Savings Unit	108	16		
Insurances, Pensions and Social Security Unit	87	7		
Financial International Affairs Unit	45	10		
Under Secretariat for Revenues			537	48
Under Secretary's Staff	91	9		
Tax Revenues Policy Unit	108	6		
Tax Legislation Unit	83	5		
Non-tax Revenue Policy Unit	39	3		
Federal Entities Coordination Unit	126	8		
Hydrocarbons Revenues Unit	90	17		
Under Secretariat for Expenditure			915	115
Under Secretary's Staff	137	12		
Investments Unit	67	5		
Budgetary Policy and Control Unit	213	36		
Governmental Accounting Unit	168	17		
Directorate General for Programming and Budgeting 'A'	113	9		

Directorate General for Programming and Budgeting 'B'	156	24
Legal Directorate General for Expenditure	27	5
Performance Evaluation Unit	34	7
Fiscal Prosecutor's Office	495	16
Treasury of the Federation	551	43
Internal Control Unit	144	10
Central Administrative Unit	2,118	490

Sources:

¹ Authors, using data from MoFPC, *Presupuesto de Egresos de la Federación, 'Analítico de plazas, 2016'*.

² MoFPC, in response to a public information request dated 25 May 2016.

As stated previously, in Mexico the Under Secretariat for Expenditure is the CBA. Under its control three areas are relevant for the budgetary process:

- The Budgetary Policy and Control Unit, which is responsible for setting the overall direction of budgetary policy and the internal co-ordination of budgetary decision-making (OECD, 2009). It has 213 positions.
- Directors General for Programming and Budgeting, 'A' and 'B' (DGPYPs). These two directorates exercise control over nearly all aspects of budget formulation and execution throughout the year: communicating the annual budget ceilings; negotiating draft budgets; authorising the release of funds for current spending and investment projects; and monitoring budget execution and performance. As a result, budget analysts at the DGPYPs are in constant contact with their ministerial counterparts. They are generally very well informed of the details of their respective budget items (OECD, 2009). In total, both DGPYPs have 269 positions.

DGPYP 'A' is in charge of the following government sectors: public administration, health, social security, national and public security, government, technology and science, federal contributions to states and municipalities, and autonomous institutions.

DGPYP 'B' is in charge of the following government sectors: agrarian development, natural resources, communications and transports, finance, tourism, energy, social development, labour and economy.

Given the number of MoFPC employees, it is a medium-sized ministry, as shown in Table 6, but is relatively large compared to ministries focused on policy and regulation (for example Economy, Public Administration, Energy, Labour, Social Development, among others). One possible explanation might be that it is the most important cross-government ministry, possessing a wide array of functions, with prominence over other federal public organisations.

Table 6: Approved positions for selected central sectors

Sector	Approved Positions
Defence	214,325
Public Education	50,920
Navy	65,605
Communications and Transport	17,979
Health	15,442
Agriculture, Livestock, Rural Development, Fisheries and Food	11,450
Interior	5,875
Finance and Public Credit	5,766
Labour	5,882
Environment and Natural Resources	4,413
Social Development	3,934
Foreign Affairs	3,444
Economy	3,338
Agrarian, Territorial and Urban Development	2,066
Public Administration	1,740
Energy	909
Tourism	865

Source: Authors using data from MoFPC, *Presupuesto de Egresos de la Federación, 'Analítico de plazas, 2016'*

In terms of its budget, the MoFPC is again a medium-sized ministry. In 2014, it was allocated 3.88% of the total budget assigned to policy sectors, as shown in Table 7.

Table 7: Percentage of budget allocations for selected sectors

Sector	Percentage
Public Education	27.13%
Health	11.84%
Social Development	9.79%
Communications and Transport	9.42%
Agriculture, Livestock, Rural Development, Fisheries and Food	7.60%
Defence	6.47%
Interior	6.04%
Environment and Natural Resources	4.99%
Finance and Public Credit	2.55%
Navy	2.45%
Agrarian, Territorial and Urban Development	2.29%
Economy	1.32%
Foreign Affairs	0.70%
Tourism	0.47%
Labour	0.39%
Energy	0.25%
Public Administration	0.12%

Source: Authors using data from MoFPC, *Analíticos Presupuestales*, 2016.

Table 8 below presents the original budget approved for the MoFPC, its increases during its execution (modified budget), and actual expenditure since 2004.

**Table 8: Ministry of Finance and Public Credit Budget 2004–2015
(Mexican pesos)**

Year	Original Budget	Modified Budget	Spent Budget
2004	23,620,151,310	27,552,885,737	26,915,982,874
2005	26,915,736,490	31,347,689,506	31,160,905,245
2006	27,211,945,700	38,172,388,713	38,023,875,079
2007	34,358,500,000	37,033,124,156	36,880,088,572
2008	36,139,000,000	48,886,630,701	48,843,675,805
2009	36,683,345,053	43,823,512,577	43,771,237,964
2010	36,456,348,781	43,612,043,601	43,218,640,764
2011	38,992,520,159	48,232,806,963	48,232,806,963
2012	46,233,633,514	54,020,609,162	54,016,899,394
2013	39,421,736,005	45,508,610,110	45,506,586,917
2014	41,882,330,182	50,281,176,471	50,280,583,305
2015	45,691,868,766	54,417,789,889	54,415,223,324

Note: includes Ministry, semi-autonomous agencies, and decentralised institutions.

Source: MoFPC, Cuenta de la Hacienda Pública Federal 2004-2015

As usually happens in Mexico, the MoFPC's actual expenditure each year was higher than in the original annual budget approved by Congress. In the next section we discuss how these budgetary modifications relate to the informal power of the MoFPC.

For FY 2014, the budget allocated to the MoFPC was MX\$41,882,330,182 (about US\$3,102,394,828³). Of this, 45.32% was for salaries, social security, and personnel allowances. In 2015, around 40% of the MoFPC's budget was allocated to such payments. In general, public federal administration salaries are higher than those offered by the private sector and local governments. The pay scale is fixed for all the federal ministries, and it is determined by position categories (hierarchy). Each position category (identified by a letter) is divided into three grades (A, B and C), and each grade is divided into three levels

³ Exchange rate: 1 USD=13.50 MXP (average during 2014).

(1, 2 and 3) (except for operational positions, whose pay scale has 11 levels). Not every ministry uses all of the groups and grades.

In general, positions identified by letters G, H, I and J are political appointees (Ministers, Under Secretaries, Heads of Central Administrative Units and Heads of Unit); positions identified by letters K and L are senior officials (Directors General and Deputy Directors General); positions identified by letters M, N, and O are middle-level bureaucrats (directors, deputy directors, and heads of department); positions identified by letter P are entry-level officers, who might be policy analysts or administrative staff (i.e. secretaries or drivers). All of them, with the exception of political appointees, could join the Professional Public Service (i.e. civil service). Finally, positions identified by numbers are clerical staff and tend to be union members, not part of the civil service.

The annual total income for each position category in the MoFPC is presented in Table A1. There is a high degree of vertical desegregation of wages, with at least 60 different levels. The Minister has the highest annual income (pre-tax around US\$223,879.93), and the lowest income level represents 5.9% of this (US\$13,209.13, before tax). In Annex 2,⁴ information is presented by category, grade and level for each department.

One interviewee suggested that wages at the MoFPC are good enough to attract and retain capable staff, meaning individuals with a strong academic background particularly for senior positions. Indeed, the MoFPC is widely perceived, both by public officials (inside the Ministry and in spending units) and external experts, to have staff with high technical expertise, which is a source of ministerial reputation. There is a range of professionals at the MoFPC, although most are economists, actuaries, public managers or accountants.

In Mexico, the Professional Public Service (*Servicio Profesional de Carrera*, SPC) was established in 2003. Its goals are to promote merit-based recruitment, performance appraisals, and management in the federal public administration (a civil service). The public servants hired through the PPS must participate in open competition procedures to demonstrate their knowledge and competencies. The candidate with the best score is hired and enjoys job security. The positions included in the PPS are: Directorate General, Deputy Directorate General, Directorate, Under Directorate, Head of Department and Liaison Officers. As of November of 2014, there were 2,059 career public servants in the MoFPC distributed as shown in Table 9.

⁴ Annex 2 source: Authors, using data from MoFPC, Presupuesto de Egresos de la Federación, ‘Analítico de Plazas, 2015’.

Table 9: Distribution of career public servants in the MoFPC

	Career Public Servants
Minister's Office	45
Economic Productivity Unit	11
Communications and Spokesperson Unit	34
Under Secretariat for Finance and Public Credit	148
Under Secretary's Staff	2
Development Banking Unit	43
Banking, Assets and Savings Unit	44
Insurances, Pensions and Social Security Unit	34
Financial International Affairs Unit	25
Under Secretariat for Revenues	324
Under Secretary's Staff	103
Tax Revenues Policy Unit	69
Tax Legislation Unit	65
Non-tax Revenue Policy Unit	26
Federal Entities Co-ordination Unit	61
Under Secretariat for Expenditure	545
Under Secretary's Staff	60
Investments Unit	46
Budgetary Policy and Control Unit	126
Governmental Accounting Unit	81
Directorate General for Programming and Budgeting 'A'	78
Directorate General for Programming and Budgeting 'B'	103
Legal Directorate General for Expenditure	22
Performance Evaluation Unit	29
Treasury of the Federation	185
Internal Control Unit	115
Central Administrative Unit	697

Source: MoFPC, in response to a public information request, 11 November 2014

Nonetheless, one interviewee said that, ‘the MoFPC is an example of a natural and well-functioning de facto civil service’. It even worked as such years before the formal establishment of the PPS. For decades, ‘the MoFPC has been a place where it is possible to develop a career. There is some personnel rotation, but people tend to stay in financial areas’. At the beginning of each administration, there are new political appointees (Minister, Under Secretariats, Head of the Administrative Central Unit, Heads of Units, and in some cases Directors General, and Deputy Directors General, despite being formally part of the PPS). Middle-ranking officials and below tend to remain. Moreover, an interviewee pointed out that even political appointees possess technical capability and expertise.

The presence of this de facto civil service system is probably due to the technical complexity of the areas under the MoFPC’s remit. The amount of related red tape, including regulations, guidelines, and specific norms, as well as the increased relevance of IT systems, create the need to retain people who are familiar with them – the learning curve for new, inexperienced personnel is very costly. This also applies to people working in the budget offices of the federal ministries, where there is greater job security than in other administrative offices for the same reasons [interview].

According to one interviewee, MoFPC public servants are highly competitive and attractive in the labour market. This would seem to be one of the main reasons for leaving the ministry, as officials often receive tempting job offers. But, in general, staff feel sufficiently comfortable to stay at the MoFPC for many years. Some are even considered to be ‘pillars’ in their areas of expertise.

3.5 Informal role

As it is usually the case with finance ministries, the handling of economic resources gives the MoFPC special power within the public administration. ‘The power of the purse’, in the words of one interviewee, ‘ensures that everybody is willing to sit down to negotiate with whoever handles the money’. This gives the MoFPC a higher status than other ministries. Some experts even think that the MoFPC’s power has become a sort of taboo, as many ministries allegedly understand their room for manoeuvre depends on what the MoFPC ‘allows or doesn’t allow them to do with their resources’. This helps them attribute their omissions to the lack of spending authorisation from the MoFPC.

Besides its formal legal competencies and the possibility of influencing policy decisions across government through the way it manages budgetary resources, there are at least three other sources of informal power in the MoFPC. First is the traditionally significant political weight of finance ministers. According to one interviewee, finance ministers ‘are vastly experienced in public administration, in knowing how to set the agenda, and some even have had presidential ambitions’. In addition, they generally have considerable technical knowledge of financial affairs, which gives them an advantage over to other cabinet members. While some finance ministers such as Francisco Gil Díaz, who served from 2000 to 2006, are not particularly close to the President (then Vicente Fox), others such as the current minister Luis Videgaray really are. He was a key actor during President Peña Nieto’s electoral campaign, and has placed some of his former team members inside the presidential office. For instance, Aurelio Nuño, former President’s Chief of Staff and current Minister of Education, developed his political career in association with Luis Videgaray. The latter is widely seen as a key political actor in the current administration.

A second source of informal power for the MoFPC is relates to budget execution, since the ministry apparently manages any surplus in government revenue on a discretionary basis, without clear transparency or accountability standards. Throughout the budget cycle, the

MoFPC can even make budgetary changes without prior congressional authorisation. Moreover, a couple of interviewees said that the MoFPC has ‘hidden pockets’, which further increase its power. These have been made possible because of situations such as the 7.98% extra revenue received between 2005 and 2013, which was above original estimates. Most of that income was not related to oil or taxes, but to revenue from ‘rights, products, or betterment levies’, that is income received by the government for its services, or for public assets that are sold or loaned. This extra income has usually softened the fall in oil prices, and has thus made it possible to balance the budget in years of crisis. In times of economic stability, however, this revenue represents an ‘additional or supplementary budget’ that has not been regulated properly, which means that the MoFPC is in a position basically to use it at its own discretion (México Evalúa, 2014).

Furthermore, the Mexican budget is subject to frequent modifications and reallocations even before the start of the fiscal year. When the budget is in the process of legislative approval, the Executive is already planning adjustments [interview]. The need to make reallocations is due to the fact that the budget is never a realistic document. Since 2005, the actual expenditure of the Expenditure Budget of the Federation has been above the budget approved by the Chamber of Deputies. Each year, expenditure exceeded the approved amount by an average of 8.3%. Aside from being higher, the budget is cut in certain areas and reallocations are made in others. The Executive knows in advance that certain areas will require more resources than those originally allocated. In other areas, it is already known that more resources than those originally allocated will be needed. According to some interviewees this may be due to the fact that the budget needs to be approved by the Chamber of Deputies and so must reflect political considerations to facilitate its authorisation. Another possible explanation is that ‘austerity’ and ‘rationality’ have become part of expenditure measures in Mexico, and both criteria should be reflected in the budget even though it is known that changes (e.g. higher expenditure) may be required afterwards.

The role of the MoFPC in budgetary reallocations gains relevance when we take two further aspects into consideration. First, the legislation does not set limits to the budgetary adjustments that the Executive may introduce. Second, legislative control is weak during budget execution, since the Executive no longer needs to get legislative approval at this stage, regardless of the type or magnitude of the adjustment (México Evalúa, 2014). Without appropriate checks and balances, the room for manoeuvre in redefining budget execution significantly increases the MoFPC’s informal power.

In terms of daily operations, the latter implies that spending units must be in constant contact with the MoFPC, particularly with their corresponding DGPYP ‘A’ or ‘B’, the units that approve adjustments and requests for additional resources. From what we gathered from interviewees, spending units are obliged to stay on good terms with the DGPYPs, in order to facilitate the resolution of issues in a satisfactory and quick manner. Interviewees also suggested that a poor relationship between a spending unit and the MoFPC may have a negative effect in the way the latter handles sector requests for budgetary modifications or additional resources.

Finally, a third source of the MoFPC’s informal power is its relationship with the Chamber of Deputies. Until the end of the twentieth century, Institutional Revolution Party (*Partido Revolucionario Institucional*, PRI) governed Mexico through a political system that was strongly presidential and authoritarian. The PRI had an absolute majority in Congress, and therefore did not represent a serious counterweight to the Executive. For all practical purposes, this meant that there were no real discussions or meaningful modifications to the budget proposed by the Executive. This increased the informal role of the MoFPC since it had all the de facto power over the budget. This situation started to change since the 1980s, and particularly from 1997 onwards, because of the emergence of ‘divided governments’

(i.e. with no political party holding a congressional majority). The legislature has thus slowly become a real counterweight to the Executive in the process of negotiating and approving the budget. Yet some interviewees suggested that there still is a low level of professional expertise among deputies and their advisers regarding budgetary matters. This means that they are not in the best position (e.g. analytically or technically) to conduct budgetary negotiations with the MoFPC. In fact, their discussions are generally led by political matters, but are insufficiently substantiated in quantitative terms.⁵

Moreover, every year the Legislature may modify approximately only between 6% and 10% of the total expenditure, an amount that is called the ‘negotiable purse’. The rest of the budget is already pre-committed because it includes items that entail legal obligations, such as the payment of wages and salaries, subsidies, pensions and social programmes, as well as transfers to states. This creates a scenario in which Congress reviews projected expenditure in a rather superficial manner, focusing on areas that are politically attractive. Within that percentage, Congress may identify areas for improvement and modify them without the government failing to fulfil its legal or political obligations. This does not really happen, however, partly because of the inadequate professional expertise of Congress in budgetary matters, which limits its ability to propose alternatives to those offered by the Executive (Ugalde, 2014).

3.6 Conclusion

The MoFPC’s formal powers are defined by the Organic Law of the Federal Public Administration, which describes its functions within the Executive. Given Mexico’s legalistic tradition, this is a very important source of bureaucratic legitimacy. The MoFPC concentrates (within its remit or through its semi-autonomous-agencies) a large part of the core financial functions carried out by modern states. These formal rules give it great powers over administrative matters in the budgetary process (micro), which it then uses to influence policy content and decisions. With regard to control over the budgetary process in general (macro), the MoFPC’s power falls within the average among the OECD countries.

Part of the prestige of the MoFPC comes from its human resources. There seems to be a consensus that they are highly professional and have the necessary expertise to carry out their duties. Some experts even argue that before the implementation of the new federal PPS, there already was a de facto civil service system within the MoFPC. This has allowed the ministry to retain public servants and preserve its institutional memory.

Besides its privileged position in the federal administration because of its formal authorities, other informal factors further increase the MoFPC’s power: the current Minister’s close relationship to the President; the role the MoFPC plays in budgetary modifications and reallocations, and in the management of extra income; and, finally, its historically asymmetrical relationship with the Chamber of Deputies. In the following section, we explore how these formal, informal and institutional capabilities support the MoFPC’s work.

⁵ It is worth noting that there are currently deputies with budgetary experience. Some of them have worked as public officers in the area of finance at the local or federal level. But they are just a few.

4 Analysis of Capabilities

4.1 Introduction

Any ministry of finance should have capabilities in a number of specific areas. These include: provision of advice and expertise; the ability to communicate and co-ordinate with diverse stakeholders; the control of processes within the ministry as well as between the ministry and outside (governmental and non-governmental) participants; and the ability to fulfil particular tasks and functions (ODI, The Human and Institutional Capabilities of Finance Ministries).

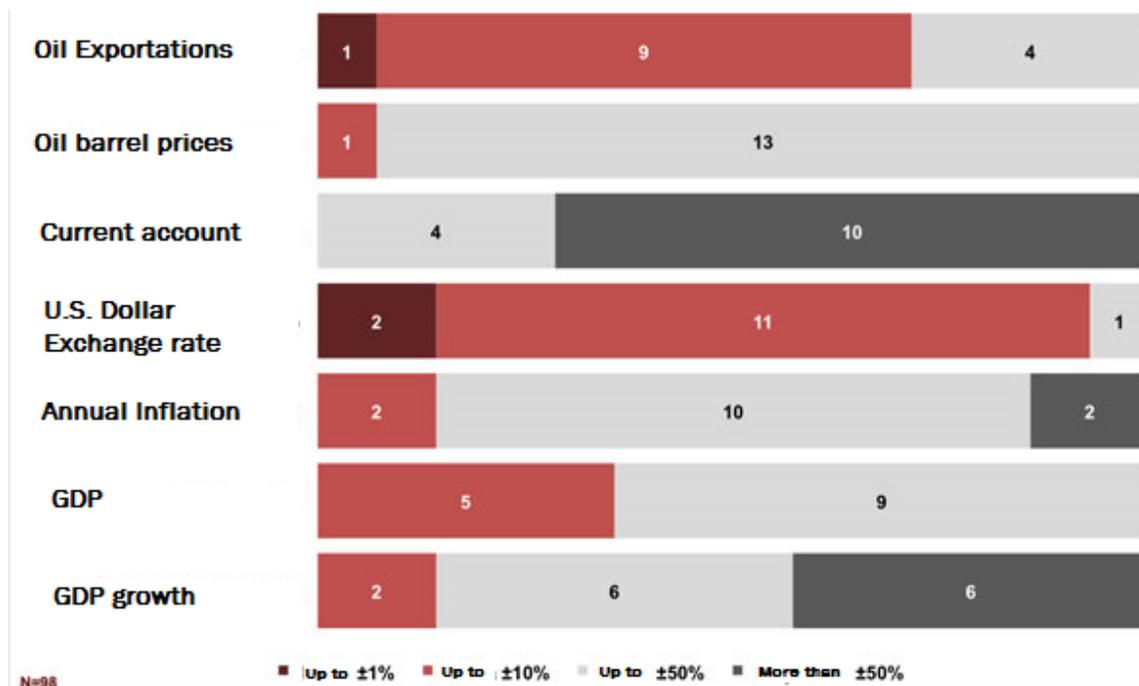
These tasks can be classified into four capabilities: analytical, delivery, co-ordinating and regulatory. In this section we study the way in which the MoPFC carries out each of them, with the objective of identifying areas of strength and aspects that could be improved.

4.2 Analytical capability

Interviews revealed that the MoFPC employs highly qualified staff, with the technical expertise and experience to carry out macroeconomic analysis, make economic forecasts and offer sound policy advice. As mentioned earlier, some officials have long careers in the MoFPC and have proven competence. Even political appointees seem to have expert knowledge, and often have prior experience in economic areas. Without underestimating political decisions, it seems clear that the MoFPC's analytical capability and staff continuity have greatly contributed to keeping a balanced budget in Mexico during recent years.

Despite the technical capability of its staff, however, some interviewees suggested that the MoFPC's official forecasts are seldom accurate. For example, in considering variables such as oil exports, oil barrel prices, current account, exchange rate, annual inflation, nominal GDP and GDP growth, between 2000 and 2012, the MoFPC was almost perfectly accurate in only in three out of 98 estimates (with a margin of error of $\pm 1\%$). On 30 other occasions, the estimates were within a margin of $\pm 10\%$. On 47 occasions it was within a margin of up to $\pm 50\%$, while in 18 the forecasts had a margin of error beyond $\pm 50\%$. Among these, it is in the estimates of GDP growth and current accounts where the differences between the forecast and real observations are the largest (see Figure 13 below).

Figure 13: Accuracy of the MoFPC in the estimates of economic variables for the following year (2000–2012)



Source: Serdán, 2013

One case that several analysts identified as particularly problematic is the revenue forecast [interviews]. This is usually underestimated and therefore generates extra income. While these funds are in principle governed by law, they are neither approved by the Chamber of Deputies, nor clearly reported, as mentioned above.

The nature of public revenue is vulnerable or unstable, and thus designing the budget on the basis of minimum expected revenue might be *a priori* considered financially prudent. As stated earlier, however, the main source of this extra income usually comes not from oil or tax revenues but from rights. In particular, rights payments should probably be easy to forecast given the inertia in the demand for public-sector processes.⁶ For example, between 2009 and 2012 the Ministry of Tourism budget, showed an average of approved revenue derived from rights of MXP 0.95 million, while it had an average surplus income of MXP 1,969.6 million, an underestimation of over 2,000%. While this is an extreme example, underestimating this revenue is a recurrent issue: for the Ministry of Public Administration, the Ministry of the Interior and the Ministry of Health, revenue was underestimated by 103, 54 and 51 times respectively. Even the MoFPC underestimated by 15 times its revenue from rights payments (México Evalúa, 2014).

A frequent criticism is that the MoFPC does not reveal how it calculates the estimates, leaving little space for public debate. In this respect, one interviewee pointed out that, ‘in Mexico there should be institutional frameworks that result in more trust and certainty that the estimates are not biased in any way, understanding that no forecast can be totally precise’. According to one MoFPC official, having these estimates verified by an external

⁶ For example, passport fees, construction license issuance, fines, donations and surcharges among others.

entity has not been ruled out. Yet the same official also stated that the estimates are usually in line with those generated by the IMF and other institutions.

The contrast between the MoFPC's technical capabilities and the lack of accuracy in economic estimates is puzzling. According to one interviewee, this may reflect political decisions, such as seeking to provide an optimistic environment for the government. Similarly, it may also be a strategy to have greater room for manoeuvre during budget execution. Indeed, one interviewee said it was possible that the MoFPC used these variations as a source of negotiation leverage with the Chamber of Deputies: to ensure budgetary conditions remain stable after legislators have introduced modifications to the budget proposal during its approval.

If things are indeed as commentators suggest, this would imply the MoFPC possesses a very strong analytical capacity to fulfil its budgetary functions in accordance with the regulatory framework, but at the same time is capable of making flexible arrangements and creating opportunities for negotiation.

4.3 Delivery capability

In this section, delivery capability in a context of a ministry of finance is defined as the ability to provide policy advice to line ministries. In general terms, the interviewees agreed that the MoFPC gives adequate advice, but also remarked this often depends on informal communication channels, as well as on the relationship between each ministerial budget office and the MoFPC. The advice is usually technical rather than policy related.

Due to the role of the DGPYPs in supervising and controlling expenses in the federal public administration, they have frequent contact with spending units. They usually resolve all questions and issues by phone, but if the sensitivity or complexity of the issues requires, advice can be given through memos. During the drafting of the budget, some ministerial budget officers 'spend hours on the phone' with their MoFPC partners [interview].

Some interviewees said that the MoFPC delivery capability is good, but rather passive, because its officials only react to what other ministries ask them about. Moreover, when new guidelines or regulations are issued, these are made available to the ministries through memoranda written in highly technical jargon. Seldom are there any additional actions to guarantee that the ministries have understood them [interview]. Of course, this is not always the case, because when there are new and important subjects, the MoFPC does organise training sessions (for example in the initial implementation of the RbB). Regular training courses are also provided on how to use information systems, and on some budgetary subjects, but few officials have access to them. Interviewees added that the advice provided by the MoFPC to spending units is not always responsive, and that the speed of response frequently depends on the quality of the relationships between people on both sides.

Lastly, one interviewee said that the Under Secretariat for Expenditure's daily activities are constrained by the need to comply with the Budget Responsibility Law and its reporting procedures. This allegedly leaves no time for broader policy considerations. However, it seems as though DGPYPs could be more proactive, and use their wide knowledge about the history and evolution of the budgetary system in each policy sector.

4.4 Co-ordinating capability

There are two specific points at which the MoFPC requires putting into practice its co-ordinating capability. One is during the preparation of the National Development Plan

(NDP) every six years. The other is every year, during the formulation of the draft budget and its negotiation with the Chamber of Deputies.

According to the Planning Law, the MoFPC must create the NDP ‘taking into consideration the proposals of the ministries and entities of the Federal Public Administration and of the state governments, the approaches formulated by social groups and by indigenous communities involved, as well as the gender perspective’. This requires considerable co-ordinating capability. Scholars, specialists, business people, members of civil society, international organisations and citizens in general (through public consultation forums) participate in the formulation of the NDP.

For the elaboration of the current NDP, there was an online public consultation; citizens’ proposals in electronic form and in physical booths, consultation forums, and policy sector meetings: 129,299 citizens participated in the online consultation, and the booths received 37,871 documents (33,955 in physical form and 2,916 digitally). There were 44 forums and 231 discussion panels in which 48,527 people participated, as well as five National Forums – one for each National Goal – with 31 discussion panels; seven Special Forums with 40 discussion panels; and 32 State Forums with a total of 160 panels. There were 122 Sectoral Boards set up with the participation of 13,252 people (NDP 2013–2018). The results of these exchanges with citizens were processed by the MoFPC, and then incorporated into the priorities of the current government and reflected in the NDP.

According to one interviewee, the MoFPC easily attracts a diversity of participants and achieves synergies. Its prestige allows it to form cross-ministerial working groups to discuss specific policy matters. Furthermore, during the current administration the head of the MoFPC has significant informal power, which enhances the ministry’s coordination capabilities. This is in addition to the UPCP and DGPYPs’ formal authorities over budget management, which obviously forces other ministries to interact with the MoFPC.

Regarding budget preparations, the MoFPC usually holds meetings with various participants. These include federal Ministers, Under Secretariats, and heads of Administrative Central Units, as well as state governors and finance ministers. The MoFPC also has contacts with deputies, who seek to lobby for the allocation of resources to their constituencies. Likewise, civil society organisations (think tanks and research centres) establish contact with the MoFPC to submit their proposals about the budget and its management. Finally, international organisations participate in establishing some programmes and offer recommendations to improve the budget. However, it should be noted that all of this is done in an informal manner. There are no standard procedures to systematise the participation of these stakeholders. According to one MoFPC official, ‘anyone who asks for an appointment is received’ [interview].

Within the federal public administration, the coordinating capability of the MoFPC to develop the budget seems to be very good. The MoFPC manages the process simultaneously with several other participants, and always complies with the established timeframes for the submission of the draft budget to the Chamber of Deputies. Interviewees seemed to agree that the MoFPC shows leadership in this matter, and follows a top-down approach to ensure discipline by spending units. For example, in 2013 it stopped ministerial representatives from going to the Chamber of Deputies to lobby for their budgets. Since then, negotiations are carried out only through the MoFPC, whose power to co-ordinate the whole process has thus increased [interview].

4.5 Regulatory capability

The MoFPC is responsible for the compliance with regulation in matters of budgets and fiscal responsibility and therefore must supervise and control spending units to guarantee

that their actions abide by the law. As in many other areas in Mexico, it is considered that there is an excess of regulation regarding fiscal matters.

The MoFPC exerts strong control over the areas that fall within its jurisdiction. However, a number of interviewees stated that in holding this central power, the MoFPC runs the risk of making processes too slow, and therefore does not respond rapidly to the needs of spending units. For example, recently a severe hurricane affected the state of Baja California Sur. Public officials from a given ministry, fulfilling their obligations, travelled to the area to help the victims. This implied paying for travel expenses, but because of the lack of electrical power and internet services in the region, it was impossible to obtain receipts. However, the law states that the corresponding receipts must be submitted, and the MoFPC did not authorise the payment of travel expenses without the receipts.

In recent years, a way through which the MoFPC enforces expenditure discipline across federal government is by closely monitoring underspending. This means checking on the lags in the use of public funds with regard to the expenditure calendar. The MoFPC closely monitors relevant cases through the DGPYPs. If spending is not regularised after 90 days, it withdraws the resources from that ministry. In order to avoid underspending, the line ministries have recently been asked not to divide the expenditure in 12 equal monthly amounts but to schedule expenditure more realistically.

Interviewees also suggested the MoFPC has the regulatory ability to maintain government-wide fiscal and expenditure discipline, but that it does not always exercise this competence. In some cases the MoFPC may apply it more rigorously while in others it can be more lax. 'The MoFPC fulfils 100% of its control functions insofar as it wishes to do so'. Thus, every time it wishes to maintain discipline in expenditure, it will achieve it. Yet controls are not equally imposed always across the various expenditure units [interview].

Lastly, interviewees agreed that the MoFPC usually conducted its business with the expenditure units on the basis of clear rules and 'fair play'. In the management of public funds it adheres to the regulations and discretionary movements are practically non-existent. There is usually constant communication between the MoFPC and spending units, and the former generally attempts to solve any issues through dialogue before imposing sanctions [interview].

4.6 Conclusion

The evaluation of the MoFPC's capabilities along the four dimensions shows that overall it possesses all of them and uses them frequently. The MoFPC is a powerful ministry and that comes as a by-product, among other things, of capabilities that have been strengthened over time. The evidence suggests that it has strong analytical and regulatory capabilities, but the way it uses these is open to influence by non-technical considerations that are sometimes more powerful. On the other hand, although the MoFPC has demonstrated its delivery and coordinating capabilities, in some respects these lack institutional support and often respond more to informal matters.

Annex 2 maps out how the MoFPC puts in practice the aforementioned capabilities through the analysis of three standard tasks of finance ministries, namely: 1) creating the final revenue forecast and spending envelope for the following year's budget; 2) considering a new spending request; and 3) planning, negotiating and implementing a formal institutional change to the budget process.

5 Conclusions

The MoFPC is a major institution in Mexico's federal public administration. We have discussed the underlying sources of its formal and informal power, which range from its policy performance and results to its basic capabilities. Since its foundation in 1821, the MoFPC has performed a variety of functions. At present, its main functions are finance and public credit; federal revenues; and expenditure policies and management. The MoFPC also performs additional tasks through its semi-autonomous agencies, such as fiscal policy and risk analysis; tax and customs policy and administration; accounting policy; debt management; regulation of financial institutions; and intergovernmental fiscal relations.

The MoFPC's responsibilities in these areas are well supported by the legal framework, which in turn is an important source of formal power given the legalistic nature of Mexican public administration. Furthermore, rules and formal procedures also give the ministry micro-level control over the budget's overall administration. Qualitative data gathered for this research show that the ministry makes use of these authorities, and illustrates why Mexico obtained the highest micro-control index score among a sample of 50 countries (Krause, forthcoming).

Moreover, interviewees suggested that the MoFPC also possess an important degree of informal power across the government, and specifically over the budget process. Indeed, we identified at least three sources of informal power: the Finance Minister, who is usually a high-profile politician close to the President (as in the present case); the lack of sufficient regulation and transparency in some budgetary areas, which gives the MoFPC the opportunity to manage extra income during budget execution on a rather discretionary basis; and the Chamber of Deputies' lack of professional and technical knowledge regarding budgetary matters.

Regarding the MoFPC's financial performance and results, the conclusions are mixed. On the one hand, macroeconomic variables have remained stable in recent years. Debt has remained between 25% and 30% of GDP, and economic crisis and drastic currency devaluations have not occurred in the past 20 years (while the Mexican peso has certainly lost some ground against the US dollar in recent months, the situation has been far from resembling previous experiences). In addition, the Bank of Mexico has kept inflation below one-digit figures.

On the other hand, GDP growth has remained low, while levels of poverty and inequality continue to be rather high. While these issues cannot be fully (or perhaps even partly) attributed to the MoFPC's performance, they do provide a more complex image of Mexico's financial and economic situation. Furthermore, tax collection has been a permanent struggle for the MoFPC (and its relevant semi-autonomous agency), with tax revenues currently representing only 20% of GDP. This situation has been worsened by Mexico's dependence on oil revenues, which are unstable and even declining at present. The MoFPC therefore faces tough challenges regarding the future management of the Mexican economy.

Finally, what can we conclude from our analysis of the four capabilities? In general, both the MoFPC's informal role and broader political considerations constrain its performance. The MoFPC's analytical capability is based on the expertise and technical knowledge of its staff. There is consensus among interviewees that the MoFPC attracts and retains highly skilled personnel, something that is significantly related to its prestige. Furthermore, a de facto civil service system has allowed the MoFPC to secure its institutional memory. Yet, paradoxically this capability is not always in evidence in producing accurate macroeconomic forecasts. According to some interviewees, this may in fact be a strategy for facing negotiation processes, which also provides the MoFPC with room for manoeuvre during budget execution.

Regarding the MoFPC's delivery capability – understood as the ability to offer policy advice to line ministries – interviewees suggested it is usually based responding to demand. Furthermore, the advice is rarely about policy matters, and mostly related to doubts about guidelines, procedures, and IT systems. Lastly, it is worth noting this advice tends to rely on informal communication channels and personal relationships, rather than on well-defined procedures.

The MoFPC's co-ordinating capability is best exemplified by the budget formulation process, which requires the participation of several actors. Insiders agree that the MoFPC has a high degree of co-ordinating capability, which is also put into practice during the drafting of the NDP. While these two examples demonstrate the MoFPC's ability to keep highly complex negotiation processes under control, in some cases this relies again upon rather informal mechanisms.

With regard to the MoFPC's regulatory capability, findings indicate that it sets complex rules that are kept under control, particularly on budgetary matters. In addition to its formal authorities, its IT systems provide budget officials with real-time information about budget execution. Nonetheless, interviewees suggested that the MoFPC might enforce its own regulations with greater discretion on a case-by-case basis. When things seem to be under control, the MoFPC may give spending units some budget management flexibility. Yet if something that is relevant for the MoFPC seems to be going wrong, it will do whatever it takes to maintain fiscal and spending discipline. Therefore, as in the case of other points mentioned above, the MoFPC officials' decisions and actions might be based on more than purely technical considerations.

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10. Senior Adviser, MoFPC, 27 October 2014.

Annex

Table A1: Wage Structure at the MoFPC

Position Category	Grade	Level	Number of Positions	Annual Wage (MX Pesos)	Annual Wage (US Dollars) ¹	% of Minister's salary
Minister (G)	A	1	1	3,358,199	223,879.93	-
Under Secretariat or equivalent (H)	C	2	5	3,328,643	221,909.53	99.12%
Head of Administrative Central Unit (I)	B	1	1	3,172,579	211,505.27	94.47%
Head of Unit or equivalent (J)	C	3	5	3,256,531	217,102.07	96.97%
		2	1	3,110,591	207,372.73	92.63%
	B	3	2	3,129,553	208,636.87	93.19%
		2	12	2,874,308	191,620.53	85.59%
		1	9	2,641,519	176,101.27	78.66%
	A	2	1	2,641,519	176,101.27	78.66%
Directorates General or equivalent (K)	C	3	6	3,142,546	209,503.07	93.58%
		2	16	2,811,389	187,425.93	83.72%
		1	11	2,517,103	167,806.87	74.95%
	B	2	1	2,516,321	167,754.73	74.93%
	A	2	1	2,231,935	148,795.67	66.46%
Deputy Directorates General or equivalent (L)	C	3	85	2,459,231	163,948.73	73.23%
		2	9	2,146,198	143,079.87	63.91%

		1	16	1,874,038	124,935.87	55.80%
	B	3	1	2,144,082	142,938.80	63.85%
		2	7	1,871,921	124,794.73	55.74%
	A	2	1	1,633,272	108,884.80	48.64%
Directorates or equivalent (M)	C	3	142	1,576,147	105,076.47	46.93%
		2	114	1,301,863	86,790.87	38.77%
		1	13	1,092,300	72,820.00	32.53%
	B	3	21	1,285,411	85,694.07	38.28%
		2	56	1,086,327	72,421.80	32.35%
		1	25	934,028	62,268.53	27.81%
	A	3	6	1,080,294	72,019.60	32.17%
		2	38	927,994	61,866.27	27.63%
		1	12	798,793	53,252.87	23.79%
Deputy Directorates or equivalent (N)	C	3	223	796,063	53,070.87	23.71%
		2	113	669,767	44,651.13	19.94%
		1	27	569,509	37,967.27	16.96%
	B	3	41	663,779	44,251.93	19.77%
		2	100	568,801	37,920.07	16.94%
		1	83	492,181	32,812.07	14.66%
	A	3	10	556,502	37,100.13	16.57%
		2	119	491,154	32,743.60	14.63%
		1	17	437,587	29,172.47	13.03%
Head of Department or equivalent (O)	C	3	60	491,759	32,783.93	14.64%
		2	48	436,206	29,080.40	12.99%
		1	248	387,170	25,811.33	11.53%
	B	3	12	435,250	29,016.67	12.96%
		2	57	386,216	25,747.73	11.50%
		1	173	344,219	22,947.93	10.25%

	A	3	7	385,295	25,686.33	11.47%
		2	38	343,299	22,886.60	10.22%
		1	72	306,470	20,431.33	9.13%
High Responsibility Liaison officers or equivalent (P)	C	3	2	312,108	20,807.20	9.29%
		1	1	290,869	19,391.27	8.66%
	B	3	142	305,295	20,353.00	9.09%
		2	20	290,016	19,334.40	8.64%
		1	1	275,525	18,368.33	8.20%
	A	3	205	289,194	19,279.60	8.61%
		2	170	274,703	18,313.53	8.18%
		1	244	260,948	17,396.53	7.77%
	Liaison officers or equivalent (P)	Q	3	2	203,010	13,534.00
		2	2	177,434	11,828.93	5.28%
Clerical Staff		11	2,742	220,866*	14,724.40	6.58%
		8	134	232,005*	15,467.00	6.91%
		7	89	231,733*	15,448.87	6.90%
		6	24	228,002*	15,200.13	6.79%
		5	10	215,136*	14,342.40	6.41%
		4	1	200,170	13,344.67	5.96%
		3	1	198,137	13,209.13	5.90%

¹Rate: 1 USD=15 MXP (Exchange rate varies)

*Average

Source: Authors, using data from MoFPC, Presupuesto de Egresos de la Federación, 'Análítico de Plazas, 2015'.

Table A2: Generic Tasks

Introduction

Using a case-study approach, this annex describes and analyses three finance ministry tasks, and the way the MoFPC deals with them. These tasks are to:

1. Create the final revenue forecast and spending envelope for next year's budget.
2. Consider a new spending request.
3. Plan, negotiate and implement a formal-institutional change to the budget process.

The goal is to assess the MoFPC's ability to perform particular tasks and functions, and thus find out how it mobilises its resources and its formal and informal capabilities in practice, in order to deepen our understanding about them.

Final revenue forecast and spending envelope

At the beginning of every administration, the Executive sets the general guidelines that will define its government during its six-year term through the National Development Plan (NDP). This document sets out the policies, objectives and goals for the whole federal government. They are also the point of departure for all policy sector programmes, from which specific actions are defined and translated into specific details in the annual Expenditure Budget of the Federation (EBF). Mexico's budgetary process is governed by the Budget and Fiscal Responsibility Law.

The MoFPC is responsible for preparing the Expenditure Budget Project and other documents as part of an 'Economic Package'. This includes a proposal for an Income Law, and the General Criteria of Economic Policy for the following year. Occasionally, it also includes a proposal for reforms in fiscal areas, with the intent of achieving greater tax revenue (Fiscal Miscellaneous Resolution).

The General Criteria of Economic Policy sets out the strategy, objectives, and general macroeconomic goals that lay the foundations for the draft Revenue Law. The latter defines estimates for the collection of particular revenues based on these criteria. Therefore, although not strictly part of the Budget Project, these documents are closely linked to it as they determine the limits of the total volume of resources that can be spent by the government in a given year (Fundar, 2002). In other words, they contain the estimates of the sensitivity of the draft budget in terms of exchange rate, interest rates and oil prices, among others.

Schedule for the integration of the Expenditure Budget of the Federation

Date	Activity
1 April	The MoFPC sends the following information to Congress: Main objectives for the Revenues Law and for next year's Budget Scenarios and macroeconomic variables for the following year, such as: GDP growth, oil revenue, US dollar exchange rate, and interest rates, among others. Priority programmes
30 June	The Executive Power sends to the Chamber of Deputies: The budgetary programmes that will be used for the integration of the Expenditure Budget Proposal of the Federation for the following year.
8 September	Deadline for the Executive Power to send Congress the Economic Package for it to be analysed, discussed and modified: General Criteria of Economic Policy Draft Federal Revenues Law Fiscal Miscellaneous Resolution Draft Budget Decree
20 October	Deadline for the Chamber of Deputies to approve the Revenues Law
31 October	Deadline for the Senate to approve the Revenues Law
15 November	Deadline for the Chamber of Deputies to approve the Expenditure Budget of the Federation
1 January	Start of the fiscal year

Source: Adapted from MoFPC, 'Presupuesto de Egresos de la Federación, Proyecto, Versión Ciudadana, 2015.

Mexico uses a top-down system in preparing the budget. Its initial drafting is exclusively within the Executive led by the MoFPC, specifically through:

- The Under Secretariat for Expenditure
 - The Budgetary Policy and Control Unit
 - Directors General for Programming and Budgeting 'A' and 'B' (DGPYPs)
- The Under Secretariat for Revenues
- Economic Planning Unit, under the Under Secretariat for Finance and Public Credit

A first step in drafting the budget is to calculate macroeconomic, finance and public debt estimates to set the budgetary ceilings: how much can be financed (what are the

ordinary revenues both from oil and non-oil sources, tax and non-tax sources, and what is the debt capacity from a sustainability perspective); and what is the international macroeconomic scenario. This is how the first budgetary ceiling with regard to revenue is set. The first report with this information is submitted to Congress on 1 April, but the process is iterative, since the figures are adjusted before producing the final draft budget [interviews]. An updated and detailed version constitutes the General Criteria of Economic Policy. This activity is essentially carried out by the Economic Planning Unit, which is in constant communication with the Under Secretariat for Expenditure.

The process of preparing the draft budget in the line ministries formally starts with the submission by the MoFPC – more specifically by the Head of the Policy and Budgetary Control Unit – of a memorandum. This is sent out to the Heads of Central Administrative Units in each ministry, and establishes the general guidelines for the formulation of the Budget for the corresponding year. This document describes the schedule, and asks ministries to indicate if modifications to their programme structure are required, and whether this will imply the creation of new budgetary programmes, or the modification or cancellation of an existing one. Consequently, ministries are also required to review and update their Matrixes of Indicators for Results (MIR),⁷ and associated budget indicators. This information allows the Ministry of Finance to submit, by the end of June, the programme structure of the budget to the Legislature. Lastly, this memorandum asks ministries to submit new or modified multi-annual investment projects by mid-July (any issues related to this subject must be dealt directly with the MoFPC's Investment Unit).

Meanwhile, in the MoFPC work begins on estimating the upper limits according to the priorities of the National Development Plan and other presidential instructions. The Under Secretariat for Expenditure stays in contact with the line ministries and the Finance Minister to determine public policy priorities. According to one interviewee, performance information helps identify budgetary programmes that are in difficulty with the aim of improving them. To date, however, the idea of linking budgetary rewards or sanctions to programme performance remains unfulfilled.

In parallel with the processes just described, negotiations take place between the MoFPC and the ministries, as well as within each ministry. In the first case, it is common for Heads of Central Administrative Units, state governors, deputies and members of the civil society to negotiate increases to budgets and policy priorities with the MoFPC. In the case of the ministries, there are usually meetings between high-level officials (ministers, under-secretaries, Heads of Central Administrative Units and other Planning units) to plan for the following year, and to determine how resources approved in the budget will be allocated. The ministerial budget officers usually pre-estimate their budget upper-limit (based on previous years' budgets, adjustments for inflation, and other factors). Therefore, they prepare a budget draft even before they are officially informed of their annual ceiling. In this way, the first stage of budget preparation within the line ministries is largely incremental.

In July, the MoFPC sends out to the ministries the 'Handbook for Programming and Budgeting' (*Manual de Programación y Presupuesto*). This offers a detailed explanation of the budgeting procedures and mechanisms for each year, as well as information regarding the operation of the 'Integral Process for Programming and

⁷ These are tools to follow up on the performance of budgetary programmes through the definition of objectives, goals and results indicators. As described below, they are based on the Logical Framework Methodology, which helps to map out the causal assumptions and conditions required for a given programme to achieve its objectives (Dussauge, 2013).

Budgeting System' (*Sistema del Proceso Integral de Programación y Presupuesto*, PIPP), the IT system through which the budget is formulated.

For the preparation of draft budgets in the spending units, it is important to keep in mind that almost 90% of the resources are already earmarked to what is known as 'unavoidable expenditures'. These include, for example, the wage bill of public employees, which cannot easily change. Therefore, the possibility of modifying the budget is limited.

Based on the estimation of revenues and existing priorities, the MoFPC sets annual ceilings for the overall budget, as well as for the most important spending categories for each ministry. Once the DGPYPs inform ministries in early August what their budget ceilings will be, there is little margin for negotiation. Ministries must adjust their projected expenditure to both the general upper limit and to each spending category. When an expenditure ceiling is unrealistic, either because it is too high or is deemed to be too low, budget officials at each ministry know that they can make internal reallocations throughout the year with the knowledge and prior authorisation of the corresponding DGPYP at the MoFPC.

Once the line ministries have their budget's upper limit confirmed, they make the corresponding adjustments to their budget drafts. They then have between 48 and 72 hours to upload their budget file into the system. According to one interviewee, this forces budget officials to plan ahead and have their budget drafts ready. The failure to do so, given the short time period, would lead to producing hugely incremental budgets. The system has rules that, for example, impose maximum and minimum limits to certain expenditure items. It is therefore necessary to make adjustments while uploading the budget file to comply with all the system's validation rules. Once submitted, it is no longer possible to make changes to the file.

According to one interviewee, on some – rather infrequent – occasions, once the files from all the federal public administration bodies have been received, the MoFPC requires additional adjustments. For instance, it may require a given ministry to reduce its budget. In such cases, the MoFPC informs the ministry (generally via email) so that the latter can decide to which spending category to apply the reduction. The MoFPC then makes the relevant adjustment in the system. This process can also happen during the budget execution.

Finally, the MoFPC integrates the information from all sectors and the budget formulation stage ends with the submission of the 'Economic Package' to the Chamber of Deputies by 8 September. The latter has until 15 November to approve the budget. The new fiscal year begins on 1 January.

Any specific issue that arises during the formulation of the budget is settled, in the first instance, between the respective ministerial budget office and the MoFPC's DGPYPs. Depending on the complexity and importance of the subject, the negotiation may be referred to the level of Heads of Central Administrative Units and Under Secretariats, or even become a subject of discussion between the line minister and the Finance Minister. The last and highest instance in any budget decision is the President, who settles the budgetary priorities and guidelines with the Finance Minister, authorises the financial ceilings, and resolves any internal disagreements (OECD, 2009; interview).

One recurrent criticism that has been made of the budgeting process is that the results of public expenditure audits carried out by the Federal Supreme Audit Office (FSAO) are published after the new budget has been prepared, which means that they are neither timely nor useful in making expenditure decisions for the new budget year. There are plans to change this through a reform of the regulatory framework in order

to streamline the process. In the meantime, the FSAO issues a twice-yearly ‘Analysis of the Financial Management Report, with the intention of making this information relevant for the decision-making process [interview].

Consideration of a new spending request

New spending requests during the execution of the budget are not, in principle, considered in the federal law. However, the Budget and Fiscal Responsibility Law establishes which types of reallocation may take place during the budget year. For instance, it mentions the concept of ‘external reallocation’, which can be pursued when additional spending on existing items is required. An external reallocation can be of different types, including the transfer of resources between spending categories or sectors for different causes, an increase in the budget because of an income surplus, or the use of savings.

The legal procedure to carry out budget reallocations in the ministries is as follows:

1. The procedure with the MoFPC is carried out through the Central Administrative Unit of each ministry.
2. The request must be justified by identifying each budgetary modification, as well as its associated schedule.
3. In the case of income surplus, a decision or validation of the notification by the MoFPC about the former is required.
4. The MoFPC, through the information system for the control of budgetary reallocations, establishes the mechanisms making it possible to respond to requests for budgetary reallocations within the terms and timeframes established by the relevant regulation.
5. The MoFPC may require additional information from the given ministry before approving any budgetary reallocations. This then triggers the relevant procedure.

Ministries are informed by the MoFPC about the outcomes of the external budgetary reallocations through the electronic system. This takes place once they are received and registered in the system, within 12 working days after the receipt of the request. The MoFPC notifies requesting ministries when their external budget reallocations have not been authorised within the established timeframes, again via the control system for budget reallocations.

Leaving aside these legal procedures, the interviews revealed that a new spending request (a new programme, or additional funding requested for an existing line item) is something determined largely by bureaucratic (and even political) negotiations. In practice, there is no established formal process for submitting a new spending request. Essentially, the ministerial budget offices must negotiate the resource reallocation with the MoFPC’s DGPYPs. The answer depends on the amount requested and the relevance of the subject. An example mentioned in one interview was when the ministry, during the budget exercise, needs to hire external consultants to undertake a priority project that had not been anticipated in the EBF. The administrative unit in charge of the area in the given ministry submits its request (quantified in terms of money and time) to the ministerial budget office. Then, the unit’s representatives must ‘sit down with the MoFPC to lay out the need for the expenditure, since it is necessary to convince them of its importance’ [interview]. In these cases, some interviewees suggested that it is the personal relationship between the spending unit representatives and the officials at the MoFPC that determines the extent to which the formal procedures are applied and how, the time it takes for the requesting ministry to get an answer, and even the outcome of the request.

There are, however, also some cases in which such negotiations might not be needed. For example, if the subject is a presidential priority, and it is therefore clear to the MoFPC that the extra resources will be needed. Similarly, another interviewee stated that when ‘the request is adequately justified and is clearly truly important, the resources are approved’ without much delay. Furthermore, some interviewees also indicated that savings in certain spending categories might be an important source of additional resources for other ministerial programmes, without affecting overall budget levels.

A third scenario is that of introducing a new programme, or requesting considerably larger resources for an existing one, during the drafting of the budget. This is, in fact, a particularly difficult activity. First, new programme objectives must be explicitly formulated in accordance with the broader objectives laid out in the National Development Plan. Second, once the annual budgetary ceiling is established it cannot be raised. Third, the room for manoeuvre within the budget is only around 10%, which means there are just two ways to get additional resources for a new programme or function: either they are redistributed between ministries or functions, or more resources are obtained via the Revenues Law.

While difficult, it is not impossible to create a new programme, or substantially increase the resources for an existing one. Ministries must negotiate the request with the MoFPC’s DGPYPs, a process which, depending on the project’s importance, might even be referred to the President. Interviewees mentioned at least one example of this presidential involvement in supporting budgetary requests to launch a new programme. Yet still in this scenario, one interviewee stated that the key to successfully getting more resources was to ‘play on the side of the MoFPC, taking into account always that this ministry is the one which holds all the cards’.

Results-based budgeting as a formal-institutional change to the budget process

During the 1990s and early 2000s, the Mexican federal government carried out reforms to improve the efficiency and effectiveness of public spending. This was part of a broader strategy to reform the public sector that aimed, among other things, to evaluate the performance of the federal administration. This was especially pursued through the measurement of outputs and outcomes, in order to get an idea of the impact of government actions. Nonetheless, these initiatives encountered problems with implementation, including excessive paperwork, lack of political interest, and a failure to engage line ministries in reform efforts. Moreover, performance indicators and evaluations results were barely used in decision-making (OECD, 2009).

Despite this, throughout that period there were some important institutional changes to support performance evaluation. For example, the National Council for the Evaluation of the Social Development Policy (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*, CONEVAL) was established in 2004. According to the law that governs its functions, CONEVAL is in charge of ‘revising periodically the achievement of the social objective of the programs, targets and actions of the Social Development Policy, to correct, modify, add, redirect or terminate them totally or partially’ (*Ley General de Desarrollo Social/General Law for Social Development*, art. 72). Since its creation, CONEVAL was established as a semi-autonomous agency, formally attached to the Ministry for Social Development (*Secretaría de Desarrollo Social*), but with an innovative institutional design that sought to secure its administrative autonomy and technical capacity. This changed in February 2015, when a legal reform re-designed CONEVAL as an autonomous non-majoritarian institution (i.e. no longer under control of the Executive).

An important step was taken in 2006, with the enactment of the Budget and Fiscal Responsibility Law (BFRL, or '*Ley Federal de Presupuesto y Responsabilidad Hacendaria*'). This law currently regulates the programming, budgeting, approval, exercise, control and evaluation of public federal revenues and expenditure. Thereafter, the so-called Integral Tax Reform of 2007 was passed on the assumption that, while it was necessary to increase the level of tax collection, the government had to achieve greater benefits for Mexican society with the available resources. This reform package was far-reaching and had three objectives: improving tax collection, improving the efficiency and effectiveness of public expenditure, and strengthening fiscal federalism (OECD, 2009). Moreover, in 2008 there was a constitutional reform in the field of public spending and taxation. This reform established that external technical bodies must evaluate the results obtained by the federation, states, and municipalities in their use of public funds. The aim was to underscore that all public funds should be allocated and executed with efficiency, effectiveness, sound economic sense, transparency, and honesty in order to satisfy their respective objectives (Pérez-Jácome, 2010). By introducing this set of legal changes, MoFPC officials sought to secure the long-term institutionalisation of the reforms.

Among its various objectives, the BFRL sought to reintroduce the design of budget indicators associated with a Performance Evaluation System (PES).⁸ This seemed a helpful way to improve expenditure control, and to increase the MoFPC's participation in making government-wide decisions. Thus, MoFPC officials managed to set the basis of a broader and more ambitious Results-based Budgeting (RbB) scheme. The reform was further supported by the recent experience of CONEVAL officials in developing the social sector's monitoring and evaluation (M&E) system.

The BFRL formally defined the PES as 'the set of methodological elements which allow developing an objective assessment of programmes, along the principles of verifying the degree in which goals and objectives are achieved, on the basis of strategic and management indicators which might allow knowledge of the social impact of programmes and projects' (art. 2, section LI).

The BFRL also stated that annual programming and budgeting processes would need to take into account (among other inputs) the PES's reports regarding progress in fulfilling the National Development Plan's (NDP) objectives and goals (art. 24). The law established that the PES would be 'mandatory for budget executors' (art. 111); that indicators included in the PES would become part of the annual Expenditure Budget (art. 111); and that the PES should be fully implemented by fiscal year 2008. The BFRL further stated that the budget structure would include 'performance indicators' to link the NDP and each institution's annual goals (art. 27). The same article mentioned that 'performance indicators' could be about 'coverage, efficiency, economic and social impact, quality and equity' aspects. Moreover, the law remarked that, 'the evaluation of performance should be developed through the verification of the degree of accomplishment of objectives and goals, on the basis of strategic and management indicators which allow knowing the results of federal public resources use' (art. 110).

In order to implement the law, measures were taken to adapt the regulatory framework, bolster a set of actions to improve institutional performance, and promote the use of tools for planning, analysing, and evaluating budgetary programmes for the purpose of incorporating performance information into decision-making. The latter implied the need for co-ordination between those responsible for executing

⁸ A first version of the PES was originally introduced in the 1990s, but partly because it lacked a legal basis, it had no practical effect on linking budgetary execution, programme results, and budgetary allocations.

budgetary programmes and those units in charge of planning, evaluation, budget, control, and supervision functions.

Thus, throughout 2007 and 2008 a very complex policy design process developed. MoFPC officials engaged in several internal discussions about how to reform the budgetary structure, to both assess the quality of public expenditure, and reinforce a performance orientation. The MoFPC introduced the concept of ‘budgetary programme’, which allowed it to better link public expenditure with the specific objectives of each federal institution, as well as with the general objectives of the NDP (Dussauge, 2013). An important factor in the process of building a RbB-PES scheme was the partnership between CONEVAL and the MoFPC. CONEVAL officials possessed significant technical expertise in evaluation methodologies and international examples and so were in a position to both ‘protect’ the M&E system they had built in the social policy sector, and push for a broader approach to performance management and budgeting. The MoFPC contributed its wider political expertise and stronger institutional weight within the federal government.

CONEVAL and the MoFPC (and the Ministry of Public Administration, or *Secretaría de la Función Pública*, which later joined the other two) published the General Guidelines for the Evaluation of the Federal Programmes of the Federal Public Administration (*Lineamientos Generales para la Evaluación de los Programas Federales de la Administración Pública Federal*). These regulate ‘the evaluation of federal programmes, the elaboration of the matrixes of indicators and the monitoring systems, as well as the elaboration of the strategic objectives of the ministries and agencies of the Federal Public Administration’. The Guidelines also provide a definition of ‘strategic objectives’, reinforce the idea that institutions should align their objectives with the NDP, and that they should be ‘oriented towards promoting effectiveness, efficiency, economy and quality in the Federal Public Administration, and the social impact in the exercise of social spending’. An important feature of these Guidelines was the introduction of ‘matrixes of indicators for results’ (MIR), which were to be prepared on the basis of the Logical Framework Methodology (Dussauge, 2013). Lastly, the Guidelines stated that evaluation results should be ‘systematically articulated with planning and budgetary processes’. This was ‘to guarantee a performance oriented evaluation and provide feedback to the Performance Evaluation System’.

The design of a new evaluation framework that could be tied to budgetary decisions was completed with the publication of the Rule that established the general requirements for the Performance Evaluation System (Rule PES, or *Acuerdo por el que se establecen las disposiciones generales del Sistema de Evaluación del Desempeño*). This introduced the first formal definition of the Results-based Budget: ‘the process which integrates in a systematic form, in the corresponding decisions, considerations about the results and impact of budgetary program execution and the use of resources allocated to them’ (Dussauge, 2013).

An important organisational innovation to promote the implementation of the reform was the creation of the Performance Evaluation Unit (PEU, or *Unidad de Evaluación del Desempeño*) in October 2012, as part of the Under Secretariat for Public Expenditure. Its main functions are ‘to co-ordinate the strategic performance evaluation as defined in the BFRL, as well as to follow it up based on the strategy of Management for Results, the Results-Based Budgeting and the Performance Evaluation System, with the participation of the relevant administrative units within the Ministry and, when applicable, the agencies and units of the Federal Public Administration, state governments, municipalities and territorial demarcations of the Federal District, supported on the process of planning, programming, budgeting, executing, controlling, following up, evaluating and accountability’. Moreover, the

PEU has the function of participating in the definition of the federal public expenditure through the design of regulations, criteria, methodologies, and procedures to determine the expenditure priorities (Diario Oficial, 2013).

Despite the progress in designing the RbB-PES' regulatory framework, its implementation has been rather problematic. Some suggest that the partial institutionalisation of these tools 'has been achieved due to the mandatory nature of the legal framework'. However, neither participating institutions nor public servants have 'yet taken ownership of the entire system' (Caso, 2010; Dussauge, 2013). The reforms have encountered other important issues. Throughout the Calderón administration (2006–2012), MoFPC officials failed to link evaluation results and budget allocations (Conde, 2007; Dussauge, 2013). This was partly because despite the volume of information and interesting findings, there was little time to follow up on them. Moreover, some officials think that some programmes have been over-evaluated, with evaluation reports saying basically the same thing year after year. Lastly, the new RbB-PES was introduced in the middle of recurrent inter-bureaucratic conflicts between the MoFPC and the MPA (Pardo, 2009; González, 2010).

Five years after the RbB-PES was introduced, a constant criticism has been that budgeting routines have not fully incorporated information about performance results. In fact, inertia is still the most important feature of the budget. Despite several efforts to underscore the relevance of 'results', there still is a focus on 'processes' [interviews]. Similarly, one interviewee stressed there is sometimes a lack of communication between the planning process and the budgetary programmes, which means that NDP priorities and their indicators are not always reflected in the MIRs, while less relevant activities and non-strategic indicators have been included in the MIRs. Consequently, there have been cases in which the objective of the PES reports has been reduced to merely justifying expenditure, losing sight of their final purpose. There have also been cases in which the indicators fix low and hence attainable goals in the indicators [interview]. Thus, despite the MoFPC's efforts, clear cause-effect links between public programme performance and budget levels have not been fully established. According to one interviewee, 'whoever says that a programme has disappeared as a consequence of poor performance as reported in the PES is lying'. Another interviewee said that for the 2015 budget there have been some specific examples of programmes ended due to their poor performance, although stating that this was far from being the norm.

At the start of the 2012–2018 administration the RbB had yet to be fully implemented and operational. The MoFPC seems to have acknowledged that a reform that seeks to have a large percentage of programmable budget based on performance information requires gradual implementation. Thus, continuing with previous efforts, in 2013 the new federal administration launched the programme '*Gobierno Cercano y Moderno*' ('A Modern and Closer Government'). In line with the NDP, this programme included among its objectives the need to improve the performance of budgetary programmes and that of the government as a whole. In other words, the aim was to strengthen the PES and the RbB.

To that effect, an important step taken by the MoFPC was to recognise that the RbB-PES is an ongoing process, which is never fully finished and that must be flexible and open to change. Previously, the RbB-PES was seen from an excessively rigid and legalistic perspective, with MoFPC officials trying to mechanically link the PES to RbB. The current view seems to be that the PES must really provide feedback to results-oriented management [interview]. Furthermore, there have been efforts in further collaboration between the Performance Evaluation Unit (PEU) and the Budgetary Policy and Control Unit (BPCU). While both are part of the Under

Secretariat for Expenditure, this has not been an easy process given BPCU's preference towards flexibility in spending (i.e. discretionary decisions), and PEU's aim to strengthen planned spending. This collaboration has made it possible to identify the links between budgetary programmes' MIRs and relevant policy sector objectives, all of which in turn had to be linked to a national goal. Officials suggest that about 80–85% of the programmable budget of the federal public administration is now supported by a logical framework, although noting that sometimes MIRs are poorly constructed.

More recently, the MoFPC introduced the idea of pursuing a 'zero-based' budget for fiscal years 2015 and 2016, with the aim of further increasing the efficiency of public spending (SHCP, 2015). Despite this label and the rhetorical support of MoFPC officials, the budgetary process does not seem to have followed the principles of this kind of budget, such as starting budgetary calculations from scratch, measuring full costs/benefits of all programmes, etc. In fact, the 'zero-based' budget was allegedly based on a review of programme objectives, indicators, and evaluations, to assess its links with the NDP's objectives. As a result, for FY 2016 the MoFPC claimed a reduction of 26% in the number of budgetary programmes (from 818 to 605). More specifically, it stated that 261 programmes had been reduced to 99 (in a 'fusion' process), seven had been moved from one policy sector to another, 56 had been terminated, and four had been created.

At present it remains unclear how far the current 'zero-based' budgeting approach will represent an evolution of the previous RbB-PES, or will remain simply a political strategy associated with the current government. The legal framework and methodological tools (e.g. MIRs) described above are still in place, and no legal changes have been made to institutionalise the 'zero-based' budgeting approach. In fact, the whole exercise seems to be based just on some MoFPC memoranda and instructions, which further shows how the informal powers of this ministry can alter budgetary practices. In terms of linking budgetary programme performance and budgetary allocations, there is not much evidence on how the MoFPC used existing programme evaluations or other performance information that its own PEU has generated in the past. On the contrary, concerns about budgetary efficiency and budgetary control would seem to trump broader interests in consolidating a proper performance budgeting system, particularly at a time of limited resources partly due to falling international oil prices, and low economic growth.

Conclusions

This analysis of three generic tasks allows us better to assess MoFPC's capabilities in practice. Looking at the process of setting the revenue target and expenditure envelope showed how far the MoFPC controls it, clearly following a top-down strategy. It makes major decisions, with the President's consent. Spending units basically follow the MoFPC's instructions without much room for negotiation (mainly after the ceilings are set). The Planning Unit makes macroeconomic forecasts, which consider a number of variables that allow it adjust estimates throughout the year. During the preparation of the expenditure envelope, formal and informal communications with spending units, as well as between different areas of the ministry, are essential. This whole process is greatly linked to MoFPC's analytical capability, which we have also discussed.

Considering a new spending request during the budget year, or during the preparation of the draft budget, is a rather restricted and politically constrained activity. Current regulations include mechanisms to manage budget reallocations throughout the fiscal year, and new programmes can be added to the budget during its formulation. However, these activities rely on political decisions, particularly when a large

volume of finance is involved. In some cases, it is the President who makes the final call. Therefore, informal negotiations have a crucial role in this area, and personal relationships may sometimes be indispensable in order to obtain favourable results.

The analysis of recent reforms to the budgetary system has shown the complexities the MoFPC has faced in introducing performance-oriented budgeting practices. Given the legalistic nature of Mexican public administration, passing a law and establishing a comprehensive regulatory framework in this area was a very important step. The process behind this, which involved the MoFPC, CONEVAL, and to a lesser extent the MPA, further illustrated the former's co-ordinating capability. Yet the analysis of the reform process has also shown that implementation has not immediately followed. On the one hand, an important first step was to introduce the 'budgetary programme' concept as a way to better link public expenditure and each institution's specific objectives. Moreover, the Matrixes of Indicators for Results (MIR), based on the logical framework methodology, provided a useful tool to further support these efforts. On the other hand, there have been important limitations along the way. The objectives and goals of each programme are not always clearly aligned to the National Development Plan. The quality of some MIRs is still questionable, with some merely being used to justify expenditure. The reform did make some progress, but mainly because of its mandatory nature, with most actors showing rather limited commitment. More recently, the introduction of a 'zero-based' budget approach has been said to reinforce the link between budgetary performance and budget allocations, but in practice it seems to have been governed by efficiency and budgetary control concerns.

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