

**FISCAL DECENTRALISATION AND INSTITUTIONAL  
CONSTRAINTS. Paradoxes of the Mexican Case.<sup>1</sup>**

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## ***Abstract***

Although the literature has analysed how different factors influence the success or failure of fiscal decentralisation processes; it seems that there is a lack of studies focused on the substantial role that the different institutional capacities have had in the outcomes obtained in different jurisdictions within the same subnational government level.

This study attempts to make evident that the states' institutional framework might become a more important factor for determining to what extent a fiscal decentralisation process can be more or less efficient. The differences in professional capacities among public servants, the legal framework, the management systems, and the technical infrastructure, become particularly significant elements in order to explain and determine the achievements and shortcomings of fiscal decentralisation.

The outcomes presented in this study are interesting because they provide more elements in order to understand that in certain contexts, it is necessary to go beyond from the causal assumptions developed in many studies on fiscal decentralisation.

## ***Resumen***

La literatura ha analizado la influencia de diversos factores en el éxito o fracaso de los procesos de descentralización fiscal. Sin embargo, tal parece que aún faltan estudios en los que se explore con mayor detalle el papel substancial que ha tenido la diferencia que existe, en cuanto a capacidades institucionales, entre jurisdicciones que pertenecen al mismo nivel de gobierno, ya sean estatales o locales.

Este documento intenta mostrar que el marco institucional de los gobiernos estatales quizá se convierta en un elemento definitivo para determinar en qué medida un proceso de descentralización fiscal puede ser más o menos eficiente. La diferencia entre la capacidad profesional de los servidores públicos, el marco legal, los sistemas de gestión y la infraestructura técnica, se vuelven particularmente importantes a fin de explicar y determinar los logros y fallas de la descentralización.

Los resultados presentados en este estudio son interesantes porque ofrecen más elementos para entender que, en ciertos contextos, es necesario ir más allá de lo planteado por modelos teóricos; y que no siempre es posible utilizar el mismo ritmo e instrumentos en la estrategia descentralizadora entre las jurisdicciones del mismo nivel de gobierno.

## *Introduction \**

There are several studies and empirical evidence about the advantages and risks related to fiscal decentralisation. Within this literature, it is possible to find coincidences and contradictions; which are explained, most of the time, because of some specific factors related to each specific case. These particularities might be related to the development level shown by the studied countries, or to the characteristics of their government systems. In some cases, it is the political context which explains such differences, or more specifically, the institutional and administrative traditions. Thus, fiscal decentralisation has to face the complexities of the diverse realities studied, avoiding the causal approach which prevailed for a long time in the past.

The Mexican case can be used as an example to illustrate the complexities confronted while carrying out a fiscal decentralisation process. Its political, institutional, and cultural background; as well as its centralist tradition, in a framework of intensive economic modernisation, make this country an interesting case of analysis. Some well accepted assumptions, such as the efficiency derived from fiscal responsibility, or the argument about that richer jurisdictions will be able to manage more efficiently the decentralised functions; can be seriously challenged if they are placed in the Mexican reality. Although the literature has analysed how different factors influence the success or failure of fiscal decentralisation processes; it seems that there is a lack of studies focused on the substantial role that the different institutional capacities have had in the outcomes obtained in different jurisdictions within the same subnational government level.

This article analyses the Mexican case from the contradictions and paradoxes shown by the fiscal decentralisation process. The common tendencies observed in similar contexts can be found as well in the Mexican case. However, with a closer look, those tendencies get diluted, leaving room for a reflection focused on the administrative structures; which seem to determine to a greater extent of what is recognised, the achievements and shortcomings of fiscal decentralisation. Therefore, it is interesting to explore to what extent the institutional and administrative strengthens and weaknesses of the state governments in a country such as Mexico, determine the efficiency level with which fiscal decentralisation is carried out.

The first part provides the basic theoretical assumptions about fiscal decentralisation, highlighting the contradictions found in practice. In the second part, the Mexican federalism case is presented; analysing the structure and evolution of

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the public finances at state level during the last years. The Mexican states are gathered in three different groups on the basis of selected financial indicators. Finally, in order to provide a deeper understanding of the states' financial management; in the third section three states are chosen as representatives of each of the three groups previously conformed, and their financial indicators are analysed with more detail.

## ***I. Decentralisation of Public Expenditure and the Role of Subnational Levels. Evidence and debate.***

### *1.1 Benefits from Decentralisation*

The analysis of intergovernmental fiscal relationships is based on the discussion about which level of government should carry out which functions and how these activities should be financed. The classical approach establishes that the public sector is responsible for three main activities: allocation, stabilisation, and distribution. Among some of the most recognised theorist of fiscal federalism (Oates, 1993; Musgrave & Musgrave 1984; King, 1984), there is general consensus that distribution and stabilisation must be carried out by the central government rather than at the local level; whereas subnational governments should be responsible, in addition to the central government, for allocation.<sup>1</sup>

Decentralisation is supported for several reasons, and one of the most important is because it promotes economic efficiency. Providing that there are not inter-jurisdictional spillovers, the provision of public services can be carried more efficiently if it is linked to the needs and tastes of the population that will be benefited from those services (Tiebout, 1956; Oates, 1993). Public services and goods can be provided by the jurisdiction that can offer them at the lowest cost, taking advantage from the economies of scale, and strengthening fiscal responsibility of lower levels.

There are other theoretical reasons in support of decentralisation (Bahl & Linn, 1992; Israel, 1992; Tanzi, 1995), it strengthens local governments, because the community identifies closely with local rather than with national authorities. At the same time, it promotes accountability, because local population will be able to discipline its local officials rather than lower level bureaucrats from the central government. This encourages clearer and closer links between tax payments and the public services provided. Greater overall resource mobilisation may occur because local governments can tax fast-growing parts of their economy more easily than the central government. And lastly, it increases local-level participation in development.

<sup>1</sup> For a different approach about the role of subnational government levels see: Dafflon, 1977; Bennet, 1980; Gramlich, 1991; Davey, 1992; Shah, 1994.

## *1.2 The Current Trend in Fiscal Decentralisation*

In general terms, there is a clear trend towards decentralisation all over the world; and this phenomenon is found in developed countries, such as the United States, France, Italy and Spain (Bahl and Sjoquist, 1990; Ahmad, Hewitt & Ruggiero, 1997), as well as for developing countries, including those in Latin America (cepal, 1993:7; Campbell, Peterson & Brakarz, 1991; Peterson, 1997). Considering all these international experiences, it is noticeable that in the fiscal area, decentralisation has been channelled mainly towards expenditure<sup>2</sup>. This is a logical consequence of the asymmetry between revenue and expenditure arrangements. On the expenditure side, there are many services and goods which can be better provided by subnational governments, whereas, on the other hand, good tax bases for state and local government are very limited<sup>3</sup>.

Although the theory of fiscal federalism states some basic guidelines in assigning expenditure responsibilities to multilevel governments, the practice shows that there is no common pattern. The following data provides an overview of the wide differences: "...among the six industrial federations (Australia, Austria, Canada, Germany, Switzerland, and the United States), the share of local (municipal) expenditures in total government expenditures varies from 7 percent in Australia to 24 percent in Switzerland; the state or provincial share of total expenditures varies from 14 percent in Austria to 43 percent in Australia. Transfers from higher-level governments vary from 16 percent of total local (municipal) revenue in Switzerland to 45 percent in Canada; the share of intergovernmental transfers in total receipts of states or provinces varies from 16 percent in Germany to 45 percent in Australia" (Ahmad, Hewitt & Ruggiero, 1997: 28).<sup>4</sup>

Although expenditure assignments vary widely throughout the world, there is a prevalent trend for central government to reserve functions such as defense; foreign affairs; foreign trade; regulation of immigration; intervention in and regulation of strategic industrial sectors; transport; telecommunications; and promotion of research and development. Intermediate levels (states or provinces) share responsibilities in areas such as agriculture, forestry, fishing, environmental protection; and regional infrastructure. Lastly, the provision of public services such as police, fire prevention, sanitation, transportation and so on are typically attributed to the local level (Ter-Minassian, 1997). Additionally, some authors have designed scores to determine which public services should be provided by which tier of government (Shah & Qureshi, 1994: 33).

In the case of social spending, a specific pattern cannot be found because the central government sets the policy for social insurance mechanisms such as old age and disability pensions. In the case of social assistance, functions have been

<sup>2</sup> Blondal (1997:3) found that even among OECD countries, the share of total expenditure of subnational governments is greater than their share of total revenue.

<sup>3</sup> See Norregaard (1997) for a very comprehensive discussion about this topic.

<sup>4</sup> About the difference between countries see also Castells (2000).

devolved to the local level but the federal and/or regional level sets the conditions and funds local programmes. In relation to education, subnational governments are responsible, in most cases, for the primary and secondary levels, whereas states or central governments carry out the tertiary education. In the area of health, central and subnational levels share concurrent responsibilities (Ibidem).

### *1.3 Public Expenditure Decentralisation in Practice*

#### The Dark Side

In the most mature federations, such as Canada and USA, the debate about the role that each government level should carry out has focused on equity and allocative efficiency issues (Wildasin, 1997). On the other hand, among developing and transition countries, the main concern about fiscal decentralisation is whether or not this process jeopardises macroeconomic stability, contributing to structural deficits and fiscal imbalance (Prud'homme, 1995; Tanzi, 1995; Fukasaku & Mello, 1997). From a sample of 32 industrialised and developing countries, econometric evidence shows that higher subnational spending and deficits lead to great deficits at the national level (Fornasari, Webb & Zou, 1998; quoted in Dillinger & Webb, 1998). The current discussion is about what are the factors that intensify or mitigate these problems.

The Latin American countries, following the world trend, have moved toward the management of public expenditure by subnational levels. In the region, lower levels are spending from 20 to 40 percent of public sector revenues (Peterson, 1997:v). The average share of subnational levels in the total government expenditure increased from 15.6 percent in 1985 to 19.3 in 1995 (Stein, 1998, b:3). In some countries, expenditure decentralisation has been accompanied by increases in subnational revenue capacity, in most of them, the rise of lower levels' spending has been financed through transfers.

A very serious problem associated with the heavy reliance of subnational levels in central transfers is that, if the latter have not been designed properly, they may disincentive the fiscal effort of these lower levels. Studies in Brazil, Colombia, Ecuador, Guatemala, and Mexico have showed that the increase of general purpose grants has produced a decline in local own-source revenue (Peterson, 1997:9; Ocampo, 1996). Such framework leads to a situation denominated as the commons problem. This occurs when subnational governments do not meet the full cost of their local programmes but they finance them with resources from other government levels, it means, with money from other jurisdiction, e.g. through central transfers. This was the case in Argentina, between 1985 and 1995, when the provincial governments tended to overexploit the common resources from national taxation (Jones, Sanguinetti & Tommasi, 1999).

The commons problem can be more serious if, besides, subnational levels have a high degree of borrowing authority. This situation generally leads to overborrowing and overspending, forcing the central government to bail them out when they are unable to face their debt services (Stein, 1998a; Hernandez, 1997). In China, Russia, and Brazil, central governments have been willing to absorb fiscal imbalances incurred by subnational governments (Wildasin, 1997). This has become a very important issue because of the need that lower levels have in order to finance their investment.

According to Shah (1997:26), the capital finance needs of developing and transition countries are estimated at about \$100 billion a year; and most of this amount is for local public infrastructure. Water and sewerage projects represent one half of these investment needs. In developed countries, local governments command 70% of the public sector investment needs; whereas in the developing world, this share accounts for 30%.

Another argument against decentralisation is that it might be more difficult to achieve a successful redistributive policy at national level. "National budgets tend to reduce regional disparities" (Prud'homme, 1995:203), and therefore, any reduction in the national budget in favour of the subnational levels increases interjurisdictional disparities by reducing the impact of national policies designed to correct regional inequities. The growth of lower levels' expenditure functions without an expansion of revenue sources, has raised the degree of vertical fiscal imbalance in Latin America. Stein (1998a:12) found that vertical imbalance is higher in the region than in OECD countries, in a proportion of 52% against 42%.

The most mature federations, such as Australia, Canada, and Germany, have formal equalisation programmes; but this important aspect of decentralisation has not received adequate attention in developing countries and serious horizontal fiscal imbalances persist. In some countries such as Brazil, Colombia, India, Mexico, Nigeria and Pakistan equalisation objectives are implicitly attempted in general revenue sharing mechanisms. But these systems combine different and, very often, conflicting interests and fail in achieving regional equity objectives (Shah, 1997). On the other hand, it seems that at the same time that local subnational governments received more resources through transfers, the poverty level increased within Latin America (Nelson, 1988: quoted in Campbell, Peterson & Brakarz, 1991:34).

The problematic described above is very linked with the argument that, in developing countries, the bureaucracy at local level is less qualified than at central level. National governments can attract better staff not only for higher salaries, but because a greater diversity of tasks, more possibilities of promotion, less political intervention, and a longer view of issues. Besides, in many cases, decentralisation is linked to corruption. This problem is more wide spread at local rather than at national level because there are closer relationships between local bureaucrats and local interest groups (Prud'homme, 1995).

On the other hand, it is necessary to consider that there are some local governments whose representative quality could be challenged (Davey, 1992). In

Latin America, according to an opinion poll, voters consider their politician as opportunistic, 70% declared had no or little trust for political parties and 54% had an equally distrust opinion concerning the government (Kraemer, 1997). In addition, local budgetary decisions do not necessarily reflect consumer demand. This might occur for different reasons: the lack of citizen participation in the decision making process, shortage of fiscal resources, and the resistance of the local bureaucracy to follow the authorities' policies (the principal-agent problem). If local democracies do not work properly, decentralisation might lead to patronage and clientelistic relationships between elected officials and local elite or any other form of corruption (Tanzi, 1995; Prud'homme, 1995; Bird, 1997).

### In Support of Theory

Shah (1997) points out that, contrary to what has been sustained about the potential of lower levels for fiscal mismanagement; within the European Union, there are some central governments that do not meet the Maastricht guidelines which establish that deficits should not exceed 3% of GDP, and debt should not exceed 60% of GDP, whereas subnational governments typically do. In Canada, between 1984 and 1994, the federal debt increased from 38% of GDP, to 60%; whereas provincial debt grew from 18% of GDP, to 22%, and the municipal one from 3.6% to 3.8% of GDP (Shah, 1998).

Despite the negative examples showing the disastrous effects that lower levels' borrowing has had in macroeconomic stability in different countries, the evidence suggests that nevertheless, decentralised systems have performed better in restraining subnational debt (Shah, 1997). Whereas central controls in France, Spain, U.K. and Australia failed in keeping subnational debt within sustainable limits; decentralised federations such as USA, Germany and Switzerland have achieved it.

For national governments, it is even harder to control subnational borrowing when lower levels have considerable political autonomy (Dillinger & Webb, 1999). In doing so, intergovernmental co-ordination and citizen participation can help considerably, as it occurs in Switzerland. Cantons and communes can borrow only for capital projects, and these projects require popular referenda for being approved. There are incipient examples of participatory budgeting in Brazil and Chile (Peterson, 1997).

Shah (1997), found that decentralised countries are more responsive to citizen preferences in service delivery and try harder to serve their people than centralised countries. In Russia, Freinkman & Yossifov (1998) suggests that at the same time that the federal budget became less important in financing public goods and services, the role of local governments has increased substantially in funding social expenditure, such as education, health, and social protection. Manor (1996, quoted by Shah, 1997:22) found that in India and Africa, decentralisation has promoted citizen participation, increasing information exchange between governments and citizenship, stimulating transparency and accountability. Garman

& Haggard (1995, quoted by Shah, 1997:22) obtained the same conclusions from a comparative study in Latin America, and these findings have been corroborated by other authors (Cabrero, 1995; Campbell, 1996; Peterson, 1997).

In relation to institutional capacity, this can be built through information exchange among subnational levels. Intergovernmental fiscal commissions and local government associations can promote the evaluation of government programmes, as it has been the case in South Africa (Shah, 1997). Horizontal information exchanges through local governments associations encourage evaluation and municipalities can learn from the different experiences. In Russia, neighbour regions tend to have similar budget arrangements and fiscal policy. This is because the horizontal intergovernment interactions supported by local associations of regional governments (Freinkman & Yossifov, 1998).

The experience of many African and Asian countries that share a colonial heritage is a clear example against the belief that the central bureaucracy can be more efficient. In those countries, the British, Dutch, and French colonial systems established their control through the creation of a civil service elite, very well qualified and dedicated to serving the colonial rulers. Countries such as Kenya, India, Pakistan and Indonesia inherited these civil services highly centralised, and professional, but completely detached from the local population. Even nowadays, in Pakistan, the most important positions on provincial and district governance are held by officers of the elite, who although working at subnational level, remain accountable to the federal government only (Shah, 1997).

Other authors, based on their works in India (Crook & Manor, 1994; Meenakshisundaram, 1996, quoted in Shah, 1997:23), and Philippines (Blair, 1996, quoted in Shah, 1997:23), concluded that decentralised democratic governance helps to reorient government's attitude from a command and control to a service provider role. In a index of good governance, using a sample of 80 industrialised and developing countries, Huther & Shah (1998:12) concluded that "citizen participation and public sector accountability go hand in hand with decentralized public sector decision making".

There are different arguments in support and against decentralisation, all of them based on empirical evidence. From this findings, it is possible to argue that the degree of fiscal decentralisation in any country is not the only factor that determines the degree of efficiency in its public sector' financial management. Thus, it is necessary to find out about other elements which should complement the fiscal decentralisation strategy in order to make it yield its expected benefits.

#### *1.4 Fiscal Performance and Budgetary Institutions*

Among the scholars, there has been a growing interest in determining the political-institutional factors which may contribute to explain the wide differences in fiscal performance among countries that have implemented a decentralisation process. Alesina, Hausmann, Hommes & Stein (1999) determined that in Latin America,

budgetary institutions<sup>5</sup> have an important effect on primary deficit; the evidence suggests that their presence encourages fiscal discipline, it means, low deficits.

Stein, Talvi & Grisanti (1998), have classified the budgetary institutions in three main categories: a) Regulatory framework that imposes numerical constraints on the deficit. b) Procedural rules that determine the drafting of the budget by the executive, the discussion in congress and its execution. c) Procedures and practices associated with the transparency of the budgetary process. Although these works have been focused at national level<sup>6</sup>, it is worth to say that there is evidence that such kind of variables do have an important influence at subnational level.

Among the budgetary institutions, efficient budget and financial management systems are essential elements for subnational levels. However, they are difficult to find within lower levels. As Hommes has pointed out (1996:21) “decentralisation process may have adverse fiscal consequences because in the early stages of the transition from centralised to decentralised forms of government, it is unlikely that strong budget institutions develop at the local level *pari-passu* with decentralization”. According to Shah (1997), all the countries in the Latin American region have not paid attention to the strengthening of institutional capacity.

In general terms, the national governments have gone through this complex process without considering what are the conditions that their subnational tiers had, and even worst, without implementing any consistent and systematic action to strengthen their administrative and managerial capacities (Campbell, Peterson & Brakarz, 1991:v). In Chile, “the institutionalization of decentralisation was facilitated by relatively strong administrative capacity at all levels of government and by effective public financial management and control at the center” (Winkler, 1994:17).

Subnational governments hardly produced timely financial statements, and if they are produced their distribution is limited to the central government. The deficiencies in financial accounting and reporting make difficult to evaluate their performance. Citizens do not have access to the financial information of their jurisdictions, and therefore, they are unable to evaluate them and compare their performance to other communities. There are not information services that can provide the financial information about the performance of the subnational tiers, and these performance cannot be reviewed systematically in order to provide whether penalties or rewards (Winkler, 1994:2; see also Hernández Trillo, 1997, for the Mexican case).

Furthermore, in the process of determining budgets, lower levels may be influenced by political factors. There is evidence that, between 1947 and 1982, in 17 Latin American countries, public expenditure has increased by 6.3% in preelectoral years, and had fallen by 7.6% in the postelectoral years (quoted in: Kraemer,

<sup>5</sup> Budget institutions defined as “all the rules and regulations according to which budgets are drafted, approved and implemented” (Alesina, Hausmann, Hommes & Stein; 1999:4)

<sup>6</sup> See Hallerberg & von Hagen, 1999; Campos & Pradhan, 1999; Gavin & Hausmann, 1997; Alesina, Hausmann, Hommes & Stein, 1999.

1997:10). Electoral cycles have been detected at subnational level in Mexico. Spending categories, such as social spending and intergovernmental transfers were used by the federal government to raise the ruling party's election prospects in gubernatorial races (Ibidem). In Argentina, it was concluded (Jones, Sanguinetti & Tommasi, 1999) that, between 1985 and 1995, the president was able to induce a lower spending among those provinces whose governor belonged to his political party.

Summarising, the deficiency of adequate budget and financial systems at subnational levels and the weakness of administrative structures, as part of their lack of institutional capacity, have become one of the main problems derived from decentralisation. It is necessary to consider that the weaker the institutional structures of any country, the wider the difference between the central and subnational levels institutional capacity, and therefore, the risks from decentralising will be higher.

## ***II. State Governments' Finance in Mexico. An Heterogeneous Panorama***

### *2.1 The Mexican Federalism*

The Mexican system of government is a representative, democratic and federal republic, with three tiers of government: federal, state and municipal. The country is made up of 31 states<sup>7</sup> which do not have any function exclusively reserved to them in the federal Constitution. The latter establishes that states are free and sovereign (Article 40), and they have general competence to perform all those functions not reserved to the federal level. However, there are some functions which cannot be performed by the states:

- Create any law which contradicts the federal legal framework
- Impose tax levies (excise duties, customs taxes, import or export taxes) on people or items in transit through their territories.
- Take any loan from a foreign country nor contract debt in foreign currency or outside the national territory. States and municipalities cannot contract any debt except when this is channelled to productive investment.

Each state government is organised, like the federal level, into three separate spheres —Executive and Judicial— which are renewed by popular election each six years; and the Legislative whose members are renewed every three years. The executive power is represented by the elected governor of the state, who is the political representative, besides being responsible for the state administration. The

<sup>7</sup> And the Federal District of Mexico which had its first elected major in December 1997 but it cannot be considered as a state due to its lack of Legislative and Judicial power.

legislative power is represented by the local Congress which is composed of deputies whose number is related to the population of the state<sup>8</sup>. The Judiciary is represented by the Superior Court of the state.

The federal constitution establishes that states are free and sovereign (Article 40); however, there are some significant limits:

- Their laws are subordinated to the federal constitution.
- The federal level takes the most important sources of revenue with the result that states' dependence on federal transfers is very high.

Each state divides its entire territory into municipalities; and the Federal Constitution attribute to the latter specific faculties, form of organisation, a few tax revenues, and freedom to manage them. There are 2426 municipalities which can be abolished according to conditions set out in the federal and state constitutions. The municipal level is seen as the base for the political and administrative organisation of the Mexican State. The municipal faculties include the provision of many public services such drinking water and sewerage; public lighting; cleaning; retail and wholesale markets; cemeteries; slaughterhouses; roads, parks and gardens; and public security.

The municipal government or 'ayuntamiento' comprises between five and 20 members depending on the population of the municipality. This is the only level of government which is not divided into different spheres or powers. The 'ayuntamiento' has a collective nature, and includes the municipal president (or major), 'sindico' (trustee), and 'regidores' (councillors)<sup>9</sup>, all of whom have the same hierarchical status. The federal constitution requires that they be elected every three years without an immediate re-election possibility.

The Constitution describes municipal government as 'free' in the sense that municipalities are conceived as autonomous spheres of government. Nevertheless, in practice, there are many ways in which this autonomy is severely limited:

- Municipalities have no legislative function and can only make regulations within the framework of state and federal law.
- Tax rates, and those loans going beyond any particular administration's term of office, have to be approved by the state legislature, while municipal accounts are audited by the state comptroller who reports to the legislature.
- Municipalities are very heavily dependent for their revenue on federal and state transfers. On average, in 1997, 60% of their revenue came from these sources. Although, for small municipalities this percentage represented up to 70%.

<sup>8</sup> Deputies are elected on majority and proportional representation basis.

<sup>9</sup> The Municipal president is elected on majority basis, whereas trustees and councillors are elected on majority and proportional representation basis.

As mentioned above, states must operate within the framework provided by the federal government, and this subordination is reproduced in the relationship between states and municipalities. Even though municipalities have service functions designated in the federal constitution, their dependence on the state level often leads to the facto performance of their functions by state government. It is necessary to emphasise that the official party governed completely the three tiers of government for more than sixty years.<sup>10</sup>

This situation has been reflected in the evolution of the intergovernmental fiscal relationships. Federalism in Mexico has meant financial subordination for subnational levels of government. The central government has taken the most important fiscal faculties, and therefore it possesses the most elastic and adequate revenue sources. The federal level levies taxes on public utilities, credit institutions, insurance companies, the use and exploitation of the nation's natural resources, foreign trade, electricity, gasoline, other oil products, and some special taxes. The federal government shares the following taxes with lower levels: income taxes, the value added tax, excises, oil export and import duties, and the tax on the ownership or use of vehicles.

Before 1980, states used to levy some taxes on sales, or on commercial activities. In 1980, the National System of Fiscal Co-ordination was created, states signed a revenue sharing agreement with the federal government; and they could not levy these taxes anymore as a condition for sharing the total federal tax revenue<sup>11</sup>. From 1980 onwards, the transfers from the National System of Fiscal Co-ordination became the most important revenue source for states and municipalities. In 1983, the federal government created a new transfer in the federal budget in order to promote the regional development. However, until 1995, these resources were allocated on discretionary basis.

From 1996, due to the strengthening of opposition political parties in the federal Congress, the resources used for regional development were divided in different funds and allocated on the basis of formulae. In 2000, those resources have been decentralised to states and municipalities through the federal budget, and these changes have been incorporated in the National System of Fiscal Co-ordination<sup>12</sup>.

Nowadays, states have a few unimportant own revenue sources; and, as it will be showed later, most of their revenues come from federal transfers. The main revenue sources for the states are the real estate transfer tax, the tax on older motor vehicles, a payroll tax, and some indirect taxes on industry and commerce. Since 1995, when the fiscal decentralisation process began, states were given some few new sources, such as taxes on spirits, beer and tobacco, and a tax on hotels. It is

<sup>10</sup> This trend has changed in the last years due to the political and electoral reforms. In January 2000, opposition political parties rule 34% of the state governments, nearly 40% of the municipalities, and 53% of the seats in the federal Congress.

<sup>11</sup> For a more detailed picture of the Mexican fiscal system see Amieva-Huerta (1997).

<sup>12</sup> A very comprehensive description about the changes carried out during the last years in intergovernmental fiscal matter in Mexico can be found in Cabrero Méndez & Martínez-Vázquez, 2000; and Courchene & Díaz-Cayeros, 2000.

important to highlight that although their own revenue sources are quite a few, some states do not exploit them.

Municipalities can levy some taxes, charges, fees, and fines (*impuestos, derechos, productos y aprovechamientos*). In 1983, due to the 1983 amendment of Article 115 of the Constitution, the property tax was assigned to this government level. It is recognised that this tax could become a good source of own revenue, as it does happen among the urban municipalities. However, for many different reasons such as the lack of institutional capacity (staff, technical knowledge and equipment), or the economic situation of rural municipalities, which are the majority, this goal has not been achieved. Most states have signed agreements with their municipalities in order to carry out the management of the property tax, charging the municipality with a percentage from the collection.

Even though municipalities have service functions designated in the federal constitution, their dependence on the state level leads often to the facto performance of their functions by state governments. As the states' dependence on the federal level leads them largely to operate within a framework provided by the federal government, so the municipalities are subordinated to the state. Thus by agreement, by custom or by inertia, state governments often act 'on behalf' of municipalities. To what degree they take on these functions varies from state to state and municipality to municipality. The point is that the intended decentralisation of activities to local governments, may often in practice, has meant a decentralisation only down to the state level. Urban municipalities have been overcoming this situation during the last years, trying to up date their charges for the different public services publicly provided, and improving their tax property collection systems (Cabrero, 1996).

## *2.2 Revenue and Expenditure at State Level (1989-1997<sup>13</sup>)*

As it happens in most developing countries, one of the main problems in analysing the finance of subnational government levels, is the lack of accuracy on the available data. In Mexico, the state and municipal financial information shows serious gaps and inconsistencies; even the one that comes from the official institution responsible for its collection and publication<sup>14</sup>. The analysis presented in this section has been carried out on the basis of a data base provided by the federal Ministry of Finance (shcp) with data from 1989 to June of 1997. The following are the main findings from the examination of this financial information:

<sup>13</sup> The data for 1997 are those registered until June of that year.

<sup>14</sup> The National Institute of Statistics, Geography and Informatic (INEGI).

A) States' revenue has increased, although this raise has relied on federal resources.

It is clear that states' revenue has increased; during the period analysed, it grew 160% in real terms. However, this raise has depended on resources from the federal level. The federal government has decentralised some functions such as basic education (1992) and health (1996) towards the states. The latter have received larger expenditure faculties, but without extending their own revenue sources. This situation has intensified the vertical imbalance among the three government levels which has been a very common problem derived from the decentralisation processes in Latin America.

It is not surprising to find out that the main source of revenue for the states, comes from federal transfers (Appendix, Graphic No. 1). As an average, states' own revenue represented 12.31% of their total revenue, whereas the federal transfers reached 87.69%. The states' own revenue grew 90% in real terms, and the federal resources 170%, it means nearly twofold than the former. The federal transfers showed a sustainable pattern to raise from 1989 to 1994. This year, the severe economic crisis at national level affected this pattern, and for the first, and only time, during the period, they decreased. Although they have grown again, basically from 1995 to 1996, because of the creation of new federal transfers (Ramo 26), which have extended the expenditure faculties of subnational levels. Summarising, states have more resources but at the expense of a stronger dependence on the federal government.

Looking at the states' own revenue, there are two main factors to point out. First of all, due to the centralisation of taxing authority by the federal level, states do not have one major own source of revenue. That is why taxes and charges, which were their most important concepts, represented each one only 3.24% of the total revenue for the whole period. Experience suggests that one condition sine quo non for a suitable decentralised system is that each tier of government should have *at least one major own source of revenue that can be administered with a degree of fiscal autonomy* (Ahmad, Hewitt & Ruggiero, 1997).

Considering the annual increase of taxes and charges, the former are the ones in showing a clear trend to grow. From 1989 to 1993 their average annual growth was 24%. This pattern was affected by the economic crisis and the increase in federal transfers. Between 1994 and 1996, they decreased 3.5% per year as an average. It is precisely the raise of federal resources the second factor which is affecting the strengthening of the states' own revenue sources. The availability of larger resources from the federal government seems to discourage the states' fiscal effort. This phenomenon, which has come out in many other countries (Uchimura, 1989 for the Colombian case; Peterson, 1990 for the Guatemalan case; case; quoted in Campbell, Peterson and Brakarz, 1991:30; Shah, 1991 for the Brazilian case; Kraemer, 1997, for the Argentinean case), will be confirmed during the interviews with the finance ministers from the case studies.

## B) The reduction of investment expenditure

The growth of states' revenue has been accompanied by the reduction of investment expenditure. During the whole period (Appendix, Graphic No. 2), investment accounted for the 19.17% of the total spending, whereas the current expenditure represented 34.23%. In 1989, investment represented 38.56% of the states' total expenditure; in 1997, it was 12.97% only. Between 1989 and 1992, investment expenditure showed a positive pattern. However, from 1993 to 1996, it declined drastically, going down from 29.28% in 1993, to 12.89% in 1996.

In real terms, investment expenditure grew 14%, whereas the current spending reached 102%. The latter showed a clear trend to increase, from 1989 to 1992, it raised 14% per year as an average. Due to the economic crisis, it declined 10% in 1995, and 4% in 1996. Although, it started growing again in 1997. There are two hypothesis that could explain the increase in current expenditure. The first one is that states are facing higher current expenditure costs due to their growing needs of staff, maintenance, and administrative costs in general. Besides, the larger amount of federal resources might have stimulated an inefficient expenditure management, and therefore an unnecessary expansion of administrative structures and staff.

On the other hand, after 1993, states received more expenditure responsibilities on basic education, health and social programmes. It is possible that they have had to increase their administrative costs in order to carry out these decentralised functions, given that the larger amount of the resources transferred are channelled to the teachers (99%) or doctors salaries (Cabrero *et al.*, 1998). In fact, states' expenditure on educational federalisation (*Federalización Educativa*) showed a very substantial growth of 6526% in real terms, during the whole period. In order to determine which hypothesis is correct it will be necessary to obtain a more detailed description of the states' public expenditure.

Other interesting characteristic that must be highlighted it is the evolution of transfers. Their growth, in real terms, was 101.28% for the whole period. They concentrated 28.21% of the total spending for the whole period, becoming the second largest item, after the current expenditure. These resources raised, systematically and substantially, from 1989 to 1994. During this period they raised, as an average, 15% per year. As the rest of the concepts, it declined in 1995 with the economic crisis, growing again from 1996. Among the transfers, the ones channelled to municipalities were the ones in concentrating the larger amount of resources from the total of public spending, 13.38%. It would be very interesting to determine the kind of transfers that states have designed for their municipalities, and to analyse the outcomes that those resources have had in the public spending at municipal level.

### C) The need to reform the current arrangements to limit states' borrowing capacity

Looking at the aggregate data for the state level, it seems that the public debt does not represent a serious problem, at general level at least. States' net indebtedness<sup>15</sup> tended to decline during the whole period. Besides, this concept accounted for only 3.67% of the total expenditure. Their new debt decreased as well, 39.68% in real terms. In fact, the states' new debt accounted for only 6.94% of their total spending. Although, states spent only 1.17% on interest payments, this concept raised 219% in real terms during the period; whereas, capital payments reached a growth of 598%.

The data seems to point out that in Mexico, states' debt neither represents a serious problem for this government level, nor jeopardises the macroeconomic stability of the country. In fact, in an index built to qualify budget institutions, which took into account the existence of borrowing constraints, in 20 Latin American and Caribbean countries, Mexico came out in the group with the highest ranking (Alesina, Hausmann, Hommes & Stein, 1999:11). However, there are some important facts that it is necessary to remark in order to provide a comprehensive picture of the states' current situation regarding to their public debt.

It has been mentioned that the overborrowing of state governments is one of the main variables that leads to fail a decentralisation process. Thus, an essential factor for a successful fiscal decentralisation process is the control of the subnational governments borrowing capacity<sup>16</sup>. In the Mexican case<sup>17</sup>, the reliance of state government on central resources and their lack of major own revenue sources has made wider the vertical fiscal imbalance. Besides, when a third (34.23%) of the total expenditure is channelled to current spending, it is not surprising to find out that this kind of spending is financed primarily through federal transfers. In addition, the federal law of fiscal co-ordination has allowed states to obtain a loan from any commercial or development domestic bank, with the understanding that, if the state cannot serve its debt, the federal treasury will pay it with the corresponding state's federal transfers that are not earmarked (the so called 'participaciones'). In such circumstances, the banks have not had any need to evaluate the risk of a project when its repayment is guaranteed by the federal level.

From the circumstances described above, it is possible to conclude that, in Mexico, the market has lacked discipline. Therefore, state governments have had incentives to overborrowing without considering their actual financial capacity, and banks have not had any stimulus to evaluate the risks of lending to the states. Besides, until 1999, states' financial information has not been public and very difficult to obtain. And if it is available, is not very reliable; thus, it has been very

<sup>15</sup> States' net indebtedness = new debt - capital payments.

<sup>16</sup> See Ter-Minassian (1997) for a comprehensive view about this issue.

<sup>17</sup> Some arguments mentioned in this section have been taken from the comprehensive work by Hernández, 1997 a.

difficult for the banks to try to evaluate the states' financial situation. From January 2000, the Federal Fiscal Co-ordination Law<sup>18</sup> establishes that, in order to obtain a loan, states and municipalities have to publish their financial records in local and national newspapers. This financial information should correspond to the previous fiscal year, or to the first semester of the current year. Besides, states and municipalities have to prove that their debts with the development's banks are being served.

Lastly, it is indispensable to point out that, given the large vertical imbalance, the federal government has been unable to not bail out states when they have faced financial problems. This did happen after the crisis in 1995, when many states did not have resources to cover even their current expenditure, and the federation had to provide additional resources for them. Summarising, it is evident that the arrangements to limit the states' borrowing capacity have not filled the characteristics of a sound system. Although states' debt has not led to macroeconomic problems so far, it is indispensable to keep improving this framework as an essential condition to move forward the fiscal decentralisation process in Mexico.

### *2.3 An Attempt to Measure the Efficiency on Public Expenditure Among State Governments*

As mentioned before, the lack of reliable and up dated financial information at subnational levels has been one obstacle in order to evaluate their performance. Among many other reasons, the current expenditure decentralisation process requires information about how states are managing their new responsibilities, what have been their outcomes, what are the problems that they face, and what needs to be done in order to support and obtained the maximum gains from these new arrangements.

Attempting to measure the efficiency of public expenditure at subnational level it is a difficult task. This is not only because the lack of accurate financial data, but besides empirical analysis of the efficiency of resource use is hard to find (Kalseth & Rastso, 1998), even more in the framework of developing countries. However, as Hernández (1997b) has pointed out for the Mexican case, when a reform process is undergoing, it is necessary to set parameters in order to evaluate its progress.

Hernández (Ibidem) has considered the OECD members' data as an acceptable reference to analyse the public expenditure pattern of intermediate government levels. Among the OECD's countries, at aggregate level, the current expenditure represents nearly 50%, as average, of their total expenditure. Their investment spending accounts for 14.75%, and their transfers represents nearly 33%

<sup>18</sup> Diario Oficial de la Federacion, 28<sup>th</sup> January 2000.

of the total expenditure. Finally, the interest payments accounts for slightly above 6%.

However, the Mexican case shows that, even at the same subnational level, the different jurisdictions might show a completely different scenario. For example, among the Mexican states, it is possible to find cases such as Oaxaca which shows a revenue structure similar to the average structure at intermediate level of government in Peru. On the other hand, Aguascalientes shows a revenue structure similar to the intermediate governments in South Africa. In the same way, analysing the expenditure structure, it will be shown that the Mexican states show a very different panorama.

Considering all those antecedents, this work does not attempt to measure the efficiency with which the public sector expenditure at state level is carried out; which is a very difficult task given the shortcomings already mentioned. This work seeks to analyse some elements in order to provide a deeper understanding of how states spend their resources, and the legal and institutional factors that might explain more efficient performances. In choosing our indicators, different theoretical and empirical considerations have been taken into account. We have considered essential to set an indicator to measure the relatively fiscal autonomy of the states. Fiscal autonomy implies greater control over financial resources in order to determine the overall level of local revenue and expenditure without the permanent intervention of higher government levels (Bahl & Linn, 1992). Therefore, it could be concluded that the higher the amount of own revenue collected by a subnational government unit, the higher its degree of fiscal autonomy<sup>19</sup>.

In analysing the pattern of the states' public expenditure, we have given particular importance to their current expenditure and investment. The former embraces basically wages, and general services which are necessary to keep the states' administration going. Although necessary, we suggest that they should not concentrate a large proportion of the total expenditure because it is very likely to find that most of these resources are spent on wages.

Although the decentralisation of expenditure functions may imply the growth in the size of the states' bureaucracy, it is a fact that larger resources have implied in many cases, an unnecessary increase in the staff members. At aggregate level, in 1996, government expenditure on wages represented 21.94% of total spending in Asia and Latin America; whereas in the OECD countries this percentage was 13.61% (Fakin & de Crombrughe, 1997:8).

The percentage of current expenditure varies widely, depending on the economic context. In Norway, in 1993, a rate between 17% and 28% on current expenditure, at subnational level, was considered as overspending (Kalseth & Rattso, 1998:350). In Brazil, in 1996, the states' current expenditure represented 27% of their total spending (Ter-Minassian, 1997 c:444). In the latter case, it must

<sup>19</sup> However, it is worth to mention that there is no country all over the world where subnational levels are cent per cent fiscally autonomous.

be remembered that by that time, Brazilian states were overspending and had to face a serious financial crisis (see section 1.3 and 2.2).

On the other hand, we suppose that the higher the rate of public expenditure spent on investment, the better standard of living that a subnational government unit provides to its population. This is because investment embraces all the resources spent in order to expand the provision of services and any other activities that support the economic (e.g. public services, industry, commerce, tourism, roads and telecommunications) and social development (e.g. education, health and social services) of the local community.

Population growth and urbanisation are increasing the demand for public investment; and as it has been mentioned (section 1.3), a large proportion of the capital financing needs belong to subnational levels. Fakin & Crombrughe (1997:8) consider that the reduction of government investment among European transition economies, represents a “missed opportunity for growth, especially in the field of infrastructural investment”. There is evidence that investment on infrastructure is a precondition in order to achieve economic growth, poverty alleviation and environmental sustainability (World Bank, 1994). This argument is even more valid among developing countries which show substantial shortcomings in all kind of infrastructure. Another essential indicator in our analysis was the debt burden of state governments. As it has been mentioned (see section 1.3 and 2.2), the indebtedness of subnational levels can become a menace to macroeconomic stability. In this sense, it was important to determine the importance of the states’ debt in their financial structure.

The next section is not an evaluation of the efficiency in the public expenditure of state governments, but provides information about the relationship between current and investment expenditure at this government level, which might be an important element for a more efficient financial management. The assumption is that a more equilibrated relationship between own revenue, current and investment expenditure, might provide a higher degree of autonomy for the states’ governments; and besides, they would be in better conditions to provide a wider range of public services. Serious imbalances in the structure of public expenditure, e. g. a state that spends most of its resources in current expenditure, might mean that it will have to rely in more resources from the federal level in order to meet its investment needs.

#### How the indicators were built

Knowing the limitations that our topic offers to any research, in an attempt to analyse the efficiency on the public expenditure at state level in Mexico, we have built an index<sup>20</sup> on the basis of the following five indicators:

<sup>20</sup> Using the data base provided by the federal finance ministry.

- a) State's own revenue and total expenditure ratio; which shows the state's capacity to exploit their own revenue sources.
- b) State's current expenditure and total expenditure ratio, which points out the importance of the administrative costs in the total of the available resources.
- c) The investment and total expenditure ratio which, we consider, indicates the state's investment capacity once that its administrative needs have been covered.
- d) The state's staff wages and total current expenditure ratio, which shows the weight of the state bureaucracy in the state's current expenditure.
- e) State's total loans and state's total revenue ratio, which shows the importance of loans in the state's revenue structure.

In order to set the numerical criteria to classify the 31 states, the results of the indicators a) and c), were organised in descending order; and the results of the indicators b), d) and e) in ascending order (Appendix A, Table 1). Once that all the states were given a rank in each indicator, the five ranks were added up in order to obtain a general rank per state (Appendix B, Table 1).

Finally, on the basis of this general rank, the states were gathered into the following categories:

- From 5 to 20 = Very Good Performance
- From 21 to 35 = Good Performance
- From 36 to 50 = Regular Performance
- From 51 onwards = Bad Performance

There are not states in the highest rank (Very Good Performance), therefore, the 31 states were classified in only three categories, which have been labelled as:

- A) Balanced financial structure (Good Performance): Aguascalientes, Tamaulipas, Queretaro, Morelos, Hidalgo, and Quintana Roo (G-1).
- B) Semi-balanced financial structure (Regular Performance): Zacatecas, Puebla, Tabasco, Michoacan, Oaxaca, Guerrero, Campeche, Coahuila, Chiapas, Nuevo Leon, Sonora, Nayarit, Sinaloa, Veracruz and Guanajuato (G-2).
- C) Unbalanced financial structure (Bad Performance): Baja California Sur, Colima, San Luis Potosi, Yucatan, Tlaxcala, Chihuahua, Durango, Jalisco, Baja California and Estado de Mexico (G-3).

#### Disagreement between theory and practice?

From the analysis carried out, there are two main points worth to highlight. The first one is the fact that, theoretically, the most developed state are the ones that will have a better performance because their stronger institutional capacity (staff well qualified, technical support, and so on in order to carry out a more efficient financial

management). However, our results show that some of the states considered as more developed, because of their GDP per capita and rate of economic growth, are among the states with a semi-balanced or unbalanced spending structure. This is the case for Baja California, Coahuila, Nuevo León, and Sonora (Appendix, Table No. 2). On the other hand, four of the poorest states in Mexico are in the groups with a semi-balanced or balanced spending structure: Hidalgo showed a balanced spending structure, whereas Oaxaca, Guerrero and Chiapas had a semi-balanced structure.

One interpretation to this outcome could be that the more developed the state, the more complex its financial management; thus, the stronger the pressure to increase its administrative expenditure during a recent decentralisation process. In this sense, it is also worth to mention that, in general terms, the states have received more federal transfers in the last years. These resources have not been distributed on equalisation basis, and it is a fact that the richer states have obtained more resources than the poorer ones (Kraemer, 1997 b, Hernandez, 1997, b). Therefore, it might not be erroneous to suppose that all these resources have encouraged fiscal irresponsibility among these rich states, because they are spending resources that did not come from their fiscal effort.

The second main finding is that, again according to theory, those states that show a stronger fiscal effort, will be more efficient in spending their resources. Nevertheless, in our analysis, some states that show a good or regular performance in raising their own resources (own revenue/total revenue ratio) such as Nuevo León and Sonora, show a semi-balanced financial structure, with propensity to a regular performance in general terms. A possible explanation might be that the fiscal effort encourages fiscal responsibility only when citizen participation invigorates accountability. And this requires a long period, since it represents a political evolution process in which a society is changing its mentality towards the government action. In this sense, in the short time, the trend would be towards expanding the public expenditure. On the other hand, it has been mentioned that a higher development degree implies a more complex financial panorama.

In addition, the Mexican tradition has been to support the regional development on the basis of expanding the government structures. Even more, the political tradition has encouraged the idea that governments should have a big size in order to be good; which might be reflected in the case studies analysed. In this sense, it seems that any political party has changed this pattern. Lastly, it could be argued that a higher development degree does not imply necessarily well developed financial and accounting management systems. As it has been shown by some studies mentioned in the first section of this document, these elements can make the difference between the success or failure of a decentralisation process.

In order to determine to what extent the financial and accounting management systems, the profile of officials, the legal framework, and training provided are important in the fiscal performance of the different states, it will necessary to carry out a more detailed analysis of such factors. That is why it is

indispensable to have a closer look at some specific examples in order to obtain evidence that sheds light on this fundamental issue.

#### 2.4 The Case Studies

In determining the case studies that were going to be included in this paper, we tried to choose representative examples from the three groups. It is well known that any project regarding to financial issues always brings resistance among most of the potential candidates to be researched. Despite this fact, it was possible to interview the staff of the finance ministry from three states whose names will not be mentioned in order to preserve the confidentiality of the data provided. The case that represents the states with a balanced spending structure, thus with propensity to a good performance, will be called G-1<sup>21</sup>. The case for the states with a semi-balanced spending structure which tends to a regular performance, will be called G-2<sup>22</sup>; and G-3<sup>23</sup>, is the case for those states with unbalanced spending structure which tends to a bad performance. In this section, the analysis of the three case studies will be focused on the evolution of their financial structure from 1989 to 1997. The analysis of the institutional factors will be carried out in the next section.

#### State's Financial Information (1989-1997)

<i>CONCEPT</i>	<i>National</i>	<i>State (G-1)</i>	<i>State (G-2)</i>	<i>State(G-3)</i>
<i>Financial Structure</i>	%	%	%	%
Revenue				
Own Revenue	12.31	10.51	5.38	8.31
Federal Transfers	87.69	89.49	94.62	91.69
Expenditure				
Current Expenditure	41.94	13.93	24.04	34.86
Investment	23.48	27.32	16.28	5.64
Transfers	34.57	35.09	33.93	38.47
<i>Financial Indicators (ratios)</i>				
Own revenue/total expenditure	12	11	5	8
Current expenditure/total expenditure	34	14	24	35
Investment/total expenditure	19	27	16	6
Staff wage/total current expenditure	80	62	73	75
Loans/total revenue	6.92	9	1	3
Own Revenue Per capita (1995)	60	70	27	45

<sup>21</sup> G-1 is a state which has nearly 900,000 inhabitants.

<sup>22</sup> G-2 is a state which has 3 million inhabitants.

<sup>23</sup> G-3 is a state which has nearly 900,000 inhabitants.

### A) State G-1

The state's total revenue has increased 93% in real terms, between 1989 and 1997<sup>24</sup>, it is interesting to point out the fact that its own revenue has decreased 24% in real terms, whereas the federal transfers have grown 112% during the same period. The state's own revenue has represented 11% of its total expenditure (Table No. 1), and the federal transfers 89% for the whole period. Among its own revenue sources, the only ones that raised in real terms were taxes and charges, 55% and 30% respectively.

The state's total expenditure grew 134% in real terms during the period. It is worth to highlight that current expenditure increased 25% in real terms, whereas investment declined 39%. Nevertheless current expenditure represented only 14% of the state's total expenditure for the whole period; and investment 27%. G-1 was the state that showed the highest rate on investment expenditure. 62% of the current expenditure was spent on wages, they represented 8.66% of the state's total spending during the whole period, the lowest rate of the three states analysed.

Transfers were the concept that reached the highest growth, 88% in real terms, in the state's total expenditure, they became the most important expenditure's concept. The state receives a transfer from the federal government in order to support the process of basic education decentralisation (Federalización Educativa). This transfer decreased 1.31% in real terms during the studied period; however, it represented 27% of the state's total revenue. The state's new debt decreased 98% in real terms during the period analysed. These resources represented 9.71% of the state's total revenue for the whole period, which was the highest percentage among the three states. Finally, the state's net indebtedness<sup>25</sup> decreased 104.73%; representing 9.13% of the state's total revenue, and 9.5% of the its total expenditure.

### B) State G-2

The state's total revenue for the whole period grew higher in real terms, than its total expenditure. G-2 was the state that showed the highest rate of growth in its total revenue for the whole period, 291% in real terms. But, as counterpart, it was the case that registered the highest reduction in its own revenue, 47% in real terms; twofold than state G-1.

As in the other two cases, the raised in the state's total revenue was based in federal transfers. But state G-2 was the case in which the transfers showed their highest rate of growth, 377% in real terms, for the whole period; 236% more than state G-1, and 80% more than state G-3. The state showed an increased, in real terms, in most of its own revenue concepts, taxes, charges, fines, and others.

<sup>24</sup> For the financial analysis of each case study we have used the data base (1989-1997) from the federal finance ministry.

<sup>25</sup> State's net indebtedness = New debt- Capital Payments.

However, these resources represented only 5% of the total expenditure for the whole period (Table No. 1); the lowest rate of the three cases. The federal transfers accounted for 94% of the state's total revenue, the highest percentage of the three states.

The federal transfers came basically from the National System of Fiscal Co-ordination (Participaciones), intergovernmental investment agreements (CUD), and basic education decentralisation process (Federalización Educativa). They represented, 45%, 22% and 26% of the state's total revenue, respectively. State G-2's total expenditure increased 278% in real terms during the whole period. The current expenditure raised 86%, whereas the investment reached an increase of 562. However, the current expenditure represented 24% of the state's total expenditure, and the investment only 16%. From the total current expenditure, 73% was spent on wages. Nevertheless, these resources accounted for 17% of the state's total expenditure; it means, 8% less than in state G-3.

The state's borrowed in four out of the nine years analysed, 1993, 1994, 1996 and 1997. During this time its new debt declined 67%, and these resources accounted for 0.86% of the state's total revenue for the period studied. Finally, the state's net indebtedness declined 84% in real terms, from 1993 to 1997, accounting for 0.35% of its total revenue and expenditure for the period analysed.

### C) State G-3

The state's total revenue increased 190% in real terms, during the whole period. But, in accordance with the national trend, this raised was based in the resources from the federal government. Although the state's own revenue grew 78% in real terms during the period, it represented only 8% of its total expenditure (Table No. 1). The federal transfers increased 203% in real terms, it means nearly threefold more than the state's own resources, representing 91% of the state's total revenue.

Despite that, as in the other two case studies, state G-3's total revenue raised because of the federal resources; it is worth to mention that it is the only one that showed an increased in its own revenue during the period analysed. The state's taxes grew 376% in real terms, and its charges 183%. Although these concepts showed a positive trend, taxes represented only 1.3% and charges 2.68% of the state's total revenue for the whole period.

The federal transfers that supported the state's revenue growth were basically two. Those from the National System of Fiscal Co-ordination (Participaciones), and those for the basic education decentralisation process (Federalización Educativa). The former grew 84% in real terms, whereas the latter increased 105%. The most important transfers, because of the percentage that they represented in the state's total revenue, were the Participaciones, that provided 67.35%.

State G-3's total expenditure raised 161% during the whole period. Its current expenditure grew 74% in real terms, and its investment 959. Nevertheless, the current expenditure represented 35% of the state's total expenditure for the

whole period, the highest rate of the three case studies. Whereas investment represented only 6%, the lowest percentage of the three states. A large proportion from the current expenditure, 75%, was spent on wages; and these resources, in relation to the state's total expenditure, represented 26.18%, the highest proportion of the three case studies. From the resources spent on wages, 70% was paid to the state's bureaucracy, and the rest, to the states teachers.

Among the spending concepts, transfers showed the lowest growth, 0.64% in real terms for the whole period. However, they became the most important spending category because of the percentage that they represented in the state's total expenditure, 38.47%. State G-3's new debt decreased 71% in real terms between 1993 and 1995, the state borrowed only these three years. These resources represented only 2.8% of its total revenue between 1989 and 1997. The state's net indebtedness declined 341.78% in real terms.

In the next section, some legal and institutional characteristics of the states studied will be analysed in order to provide more elements of comparison between them.

### ***III. The institutional and administrative capacities as key elements for fiscal decentralisation in Mexico***

#### ***3.1 The institutional and legal framework of state finance***

The legal fiscal framework at state level represents a key element for financial management. The accuracy and comprehensiveness of the laws determine in great extent the rigor and transparency with which the financial activity is carried out. The listing of the different laws, norms and administrative agreements that exist in the Mexican states is very long; however, in this study only those which constitute the fundamental basis for the states' financial activity have been considered.

The set of laws that represent the core of the legal framework are: the state and municipal financial law, which establishes the general procedures for the state's financial management; the revenue and expenditure laws, which spell out the amount of resources available for each fiscal year, and how they will be used; the public debt law; which determines the procedures and limits for contracting new debt; the state's fiscal co-ordination law, which sets the criteria for the distribution of transfers between the state's municipalities; the accounting and budgeting laws; the fiscal law; and the internal regulations of the state's finance ministry.

The fact that each state might have this legal framework, and that all those laws had been updated recently, represents a key factor that might facilitate a proper management of the state's finance.

When analysing the set of laws that exist in each state (Appendix, Table No.3), it is possible to notice that G-2 is the state with a more developed legal framework, since it has almost all the laws already mentioned (90% of the laws

considered). State G-1 has many of them (65%); and finally, G-3 is the state with the weakest legal framework (40%).

It is well known that a good legal framework does not guarantee the accomplishment of the law; but it does establish the conditions for pursuing it. The legal framework is not a sufficient condition for a better states' financial management; however, it is an indispensable condition to achieve it. It is clear that the serious legal shortcomings observed in state G-3, explain to large extent the poor financial situation of this state. In the other two states, their legal frameworks establish the conditions for more certainty, rigor and transparency in their financial management.

### *3.2 Comparative analysis of the states' administrative financial structures*

Other element to consider is the kind of organisational structure which the states have adopted in order to carry out their financial activity. A structure with a stagnant and large size, which shows duplicities and overburdened with control mechanisms will tend to be slower and less efficient than another structure where the management system is modern and works according to outcomes and monitoring systems.

In addition, it is essential to analyse the staff distribution between the different areas, since this represents a key indicator about the importance that each department has in the organisational system as a whole (Child, 1973; Hall, 1983; Mintzberg, 1997; and Pugh, 1968). In this sense, the information obtained from the case studies was very limited. As it was mentioned before, the states' financial areas are traditionally hermetic and do not facilitate their study.

A first approach shows that the criteria for determining the internal organisation of the departments are very similar in the three states (Appendix, Table No. 4). The revenue, expenditure, accounting and budgeting areas are the most important ones in the structure; because of their size and because of the functions that they carry out. However, there are some significant differences: in the case of state G-1, the Revenue and Collection Department concentrates 22% of the total staff of the finance ministry. In state G-2, this Department comprises 25%; and in state G-3, this percentage is nearly 70%. The different staff distribution in the case of state G-3 might have meant further capacity to generate revenue, 190% in nine years. However, this concentration might also have meant that the execution and control of expenditure have not been carried out properly.

The accounting and budgeting department is also an important administrative area. In the case of state G-3, this department concentrates 6% of the total staff finance ministry. Whereas in state G-1 and state G-2, this percentage represents 14%. The differences are more significant in the expenditure department, since in state G-1, it comprises 9% of the finance ministry total staff members. Whereas in state G-2 this percentage is 18%; and in state G-3, is 6% only.

It is noticeable that for state G-1 and state G-2 the auditing and fiscal inspection areas are important, because they comprise 21% and 27%, respectively, of the finance ministry total staff members. In the case of state G-3, this function is carried out, but is incipient and is not concentrated in a specialised department.

Finally, regarding to the size of the financial areas as a part of the whole state public administration, in state G-1 this area concentrates 11.8% of the state's total bureaucracy. In state G-2, it represents 5.6%; and in state G-3, 6.7%. It is interesting to point out that in state G-1 there are three officials from the state's finance ministry per each one thousand inhabitants; and the same relation applies in state G-3. The case of state G-2 is different, since there are six state's finance officials per each one thousand inhabitants; which does not necessarily mean more efficiency in the financial area of this state.

It is evident that the size of those areas, according to the relation between the number of officials per each one thousand inhabitants, is a simple indicator about the importance of the financial functions in the states' administrative context. Although this information offers some evidence that shows a slightly less favourable situation in state G-3; this variable does not explain sufficiently the states' efficacy level. Therefore, it would be indispensable to add other factors such as the administrative technology adopted and the professional background of the finance officials, which are the factors that will be analysed in the next section.

### *3.3 Comparative analysis of financial policies and management systems*

The analysis presented in this section is based on the interviews carried out with Senior Officials from the finance ministries of the three states chosen as case studies. It was given particular attention to the revenue and expenditure policies, to the modernisation of budgeting management systems, to technical assistance and information systems.

Regarding to the revenue policy, in the three cases, the lack of a "fiscal culture" was pointed out as one of the main problems. Authorities and citizens are not very interested in encouraging a stronger fiscal effort. The officials recognised that "while the federal transfers keep increasing, there is no need in improving our own efforts". On the other hand, regarding to the municipal revenue collection, the poor administrative local capacities were stressed. In state G-1, 50% of its municipalities have signed an agreement with the state government in order that the latter collects the property tax which, according to the federal Constitution, is a municipal faculty. In state G-2, 78% of its municipalities have signed the same agreement; and in state G-3, this percentage represents 80%. Thus, it is not a coincidence that in the last ten years, the property tax collected has represented 4.5% of the total state's revenue in state G-1, whereas in state G-2 it has represented only 3%, and in state G-3 2% only. On the other hand, state G-1's own revenue per capita is higher than in states G-2 and G-3.

In state G-1, there are periodical fiscal co-ordination meetings between the municipal treasurers; but this practice is not observed in the other two states. In the case of state G-3, the officials recognised that the lack of a state fiscal co-ordination law does not incentive the municipal collection at all.

Although there is concern among the three states in relation to the revenue policy and the budget control system, in order to carry out a better expenditure management, the actions taken for each state are very different. In state G-1, a very rigorous budget control system has been improved in the last years, on the basis of a very up dated computer network. Besides, there is an expenditure's hand book which spells out the policy, functions, and practice of the expenditure execution. This hand book has supported the improvement of the whole expenditure system, and has complemented the respective legal framework.

On the other hand, the state has progressed significantly in the adoption of the budgeting programme technique, in order to complete the adoption of this technique before the end of the present administration; becoming one of the first states in achieving this objective. Finally, the state government has carried out many training courses in the last years in order to accelerate the modernisation of its whole financial activities, optimising of the new technological support.

In the case of state G-2 and state G-3, the efforts are very incipient. In both cases, the state governments recognise the lack of supervision during the expenditure execution, and the efforts for systematising the processes have started very recently. The latter action has been carried out without any previous training, which has meant the appearance of many obstacles in taking advantage of the new equipment. In both states, some functions of their treasuries are carried out manually, and traditional budgeting systems are still used. Although, the advantages of implementing the budgeting programme technique is acknowledged, there are not plans to adopt this system. In state G-3, there is a project to adopt a new budget control system, but at the moment, they are only trying to improve a basic accounting system.

Another big difference is that, in the case of state G-1, it is recognised that the transition and the information received from the former administration was organised, despite the change of the political party in power<sup>26</sup>. In the case of state G-2, it was mentioned several times that the former administration did not leave the information previously kept, and the transition was unorganised and irresponsible, despite both administrations belong to the same political party (PRI). Lastly, in state G-3, the current administration pointed out the difficulties faced during the transition, which was unorganised and with big information gaps. Although, in this last case, there was a change in the political party in power<sup>27</sup>.

<sup>26</sup> The former administration belonged to the official party, and the current administration belongs to an opposition political party.

<sup>27</sup> The former administration belonged to the official party, and the current administration belongs to an opposition political party.

### *3.4 Comparative analysis of the staff responsible for the financial management*

In relation to the profile of the officials that work in the finance ministry departments at medium and high level, five different variables were analysed: the time that they have worked in the public sector; their professional background, which means whether they have worked in the public or in the private sector; their academic background; their academic level; and the training that they have received. All these aspects were taken into account for the majority (85% at least) of the medium and high level officials from the three finance ministries studied.

Regarding the time that they have worked in the public sector (Appendix Table No. 5), it comes out that most officials in state G-1, 59%, have worked less than five years in the public sector. Most officials in state G-2, 51%, have worked between two and nine years; and in state G-3, 76% have worked in the public sector between five and fifteen years (Appendix, Table No. 6). This result points out that the officials in state G-1 have less experience in the public sector than those in state G-3, who show further experience; whereas the officials of state G-2 are in the middle.

This outcome is different from what can be expected, since further experience should be linked to further capacity. However, the evidence seems to point out that further experience has led to inefficiency due to the officials' negative attitude towards innovation whose objective is to achieve a more efficient performance. This phenomenon coincides with the outcomes from other studies in relation to the education and health sectors and social programmes in Mexico (Cabrero et al, 1998).

Regarding to their professional background, in state G-1, 41% of the officials have only worked in the public sector; although there is an important percentage that came from the private sector, 36%. In the case of state G-2, the officials who have only worked in the public sector represent 51%, whereas those who come from the private sector represent 32%. Finally, in state G-3, the officials that have developed their career in the public represent 56%, and those who came from the private sector are 29% (Appendix, Table No. 6). This evidence strengthens the argument already mentioned about the perverse effects that might come out from working teams conformed by officials that have worked exclusively in the public sector. This might be because this kind of bureaucracy has not been exposed to the dynamics of the private sector, which performance is more related to efficiency evaluations.

In relation to the academic background, the differences are not significant. In state G-1, the most common profession is accountant, 59%; and law, 13%. In state G-2, 45% of the officials are accountants, and 14% studied business administration. Finally, in state G-3, 70% of the officials are accountants, and the second most common profession was engineering, 9%. Therefore, the academic background was not an important difference between the case studies.

Regarding to the officials' academic level, in state G-1, all the officials have a bachelor degree, 32% have any kind of continuing studies, and 45% have a master degree. In state G-2, all the officials have a bachelor degree, 10% have done any

continuing studies, and 12% studied a master. In the case of state G-3, 3% have not a bachelor degree, 9% have done continuing studies, and 20% have a master degree. Thus, state G-1 showed better standards regarding the academic level of its high and medium level officials.

Finally, the last variable analysed was the training that all these officials have received<sup>28</sup>. The information obtained was scarce, but on the basis of the data gathered, it was established how often the finance ministries carried out training activities during the last two years. State G-1 was the case where the training was more frequent with nine courses for medium and high level officials. In state G-2, these courses were only four; and three in the case of state G-3. This evidence suggests that the difference in the case of state G-1 was not only because the higher academic level of its officials, but because sustained training activities have been considered as a valuable tool by the state government.

### *3.5 Accountability systems in the three case studies*

In general terms, the accountability systems for the management of public resources are not well developed. This is true even for the federal government, thus, states have developed very few systems. As Hernández (1997) has pointed out, there are few state governments that are interested in making public their financial records. According to a survey (Ibidem) about the reports from the state Congresses about the financial records of states and municipalities, in only 85% of the states the information is divided in specific revenue and expenditure reports. In only 54% of the states, this information was published in the official bulletin, and in only 8% of the states the reports are published in the local newspapers.

The case studies do not show big differences in relation to the national standard. However, there are some points that should be highlighted. In state G-1, since some years ago, it has become a tradition to publish the revenue and expenditure reports in the local newspapers. Nowadays, what the state government is doing is to provide more details in those reports, and to promote public discussions with business groups and other actors. In state G-2, this is not a central issue. The state Congress is informed about the revenue and expenditure reports because the legal framework establishes it. In state G-3, the current administration is trying to change the traditional approach, and is publishing the revenue and expenditure reports every two months. With this measure, they are trying to recover the trust from the citizenship.

<sup>28</sup> The analysis of this variable was carried out on the basis of the courses provided by INDETEC to the state governments. INDETEC is an institution that belongs to the National System of Fiscal Co-ordination and its aim is to provide technical assistance and training on the fiscal area to states and municipalities in Mexico.

### ***Final Remarks***

There is a clear trend towards decentralisation all over the world, and in the fiscal area, this process has been focused mainly towards expenditure. Whereas in the developed countries, the debate is focused on equity and allocative issues; among developing countries, the main concern is to determine to what extent fiscal decentralisation jeopardises macroeconomic stability, contributing to structural deficits and fiscal imbalance.

Based on empirical evidence, it can be argued that the degree of fiscal decentralisation is not the only factor that determines the degree of efficiency in the public sector's financial management. It has been found that the budgetary institutions play a significant role among the factors that contribute to explain the wide differences in fiscal performances among countries that have implemented a decentralisation process. Although most of those works have studied this issue at national level, there is evidence that such kind of variables do have an important influence at subnational level as well.

In Latin America, the national governments started their decentralisation processes without considering the administrative and managerial conditions of their subnational tiers, and without implementing any systematic strategy to strengthen the institutional capacity of those government levels. As result, the deficiency of adequate budget and financial systems at subnational levels and the weakness of administrative structures, as part of their lack of institutional capacity, have become one of the main problems derived from decentralisation.

In a country such as Mexico, the institutional framework of the states' financial activity, as well as the differences in professional capacities among public servants, and the technical infrastructure, are particularly significant elements in order to explain the differences in the states' financial situation.

Among the case studies selected, it is clear that state G-1 shows a better situation regarding to its institutional and administrative variables, which strengthen a favourable financial situation. It is clear as well that the case of state G-3 shows the poorest institutional and administrative conditions among the three case studies; and this situation has strengthened its tendency towards a less favourable financial situation.

Regarding to the legal framework, the case of state G-3 shows a deeper weakness. Although, there are serious shortcomings all over the country, the other case studies show minor deficiencies and a more up dated legal framework in the fiscal area. In the same way, in state G-1, the staff allocated in key areas for budget control and expenditure execution, has a more important role than in the other two cases. In the particular case of state G-3, those functions have been seriously neglected, which surely has had a strong influence in the low performance in the management of its public resources.

On the other hand, the management systems, and budgeting procedures, as well as the technical infrastructure, in terms of equipment, are clearly more

developed in state G-1 than in the other two cases. Besides, the profile of the officials in the financial areas shows a higher level in terms of academic degrees, diversity in relation to their experience, and sustained training activities in the case of state G-1 than in the other two cases.

Finally, about the accountability systems. If it is true that they are still weak at national level, and particularly in the three cases studies, it is possible to find a modest progress in state G-1. This state is publishing periodically its financial records, thus, opening them up for a public discussion.

The objective of this study has not been to establish direct causal relations; it means, it does not try to determine if the institutional factors determine a more efficient financial structure, because this fact would be very difficult to establish. This study attempts to make evident the importance and relationship of the institutional and administrative variables in the financial situation of the Mexican state governments. These variables are considered more as conditions which are reinforced positively in some cases, such as state G-1; and negatively, such as in the case of state G-3.

The outcomes presented in this study are interesting because they provide more elements in order to understand that in a context such as Mexico, it is necessary to go beyond from the causal assumptions developed in many studies on fiscal decentralisation. Some times, the knowledge of the institutional conditions of each subnational government might become a more important factor for determining to what extent a fiscal decentralisation process can be more or less efficient. In this sense, some states economically more developed might be highly inefficient during a fiscal decentralisation process; whereas other states with a lower degree of development might show a significant efficient performance.

The challenge in cases such as Mexico, is to go beyond certain well accepted assumptions about fiscal decentralisation, which some times over schematise the analysis, and offer a set of standard solutions. Realities such as the Mexican show the need to incorporate a more heterogeneous interpretation of the prevalent trends defined by the literature.

Public policy in relation to fiscal decentralisation cannot only be elaborated on the basis of general theoretical assumptions; but it should be elaborated grounded on detailed diagnosis of the context where the policy will be implemented, in this case, at intermediate government level. Besides, it should be recognised that, when facing a complex and heterogeneous reality, fiscal decentralisation cannot be homogeneous and standard.

This study shows that some times, among subnational levels, institutional factors might have a stronger influence than their economic development degree, as a key element in a fiscal decentralisation process. It is important that this detailed observations in a reality such as the Mexican, can be understood in time. If this does not occur, it is possible whether implementing a fiscal decentralisation process on the basis of assumptions not verified, or to delay decentralisation because of the uncertainty of the outcomes that such process might provoke.

Reality, as it has been shown in this study, is heterogeneous and diverse, therefore, a successful fiscal decentralisation policy should incorporate two characteristics: differentiation in the *rhythm* of its implementation, and differentiation in the *instruments* for its promotion. Besides, it should be more responsible in setting the institutional conditions at subnational level. Differentiation should be reflected in institutional and administrative “fitting up” policies; which in some cases, such as state G-2 and state G-2, should be implemented before going further in a fiscal decentralisation process. Whereas, in other cases, such as state G-1, those decentralising policies should be incremental. In this sense, the decentralisation process as a whole should be accompanied with a systematic and sustained strategy to strengthen the subnational governments’ institutional capacity in their financial areas.

Fiscal decentralisation in countries such as Mexico, should not be neither mechanical nor logical, but more comprehensive and effective. It should be remembered that a complex reality requires differentiated public policies. The myth of a mechanical and uniform simplicity can only be found in theoretical models.

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## APPENDIX A

## APPENDIX B

Table 1  
Results of Financial Indicators

	<i>OwnRev/ Totexp</i>	<i>CurrExp/ TotExp</i>	<i>Invest/ TotExp</i>	<i>Wages/ CurrExp</i>	<i>Loans/ TotRev</i>		
AGUASCALIENTES	10	1	2	4	9	26	AGUASCALIENTES
BC	5	20	14	20	8	67	BC
BCSUR	16	11	17	4	4	52	BCSUR
CAMPECHE	12	7	11	2	11	43	CAMPECHE
CHIAPAS	8	16	7	8	5	44	CHIAPAS
CHIHUAHUA	4	13	15	18	10	60	CHIHUAHUA
COAHUILA	11	11	6	12	3	43	COAHUILA
COLIMA	14	11	16	10	2	53	COLIMA
DURANGO	12	18	13	11	6	60	DURANGO
GUANAJUATO	3	21	8	17	1	50	GUANAJUATO
GUERRERO	10	9	7	3	12	41	GUERRERO
HIDALGO	14	2	6	5	2	29	HIDALGO
JALISCO	4	17	14	15	13	63	JALISCO
MEXICO	9	18	10	19	13	69	MEXICO
MICHOACA	14	10	1	14	1	40	MICHOACA
MORELOS	7	6	4	8	3	28	MORELOS
NAYARIT	11	10	14	9	4	48	NAYARIT
NVO LEON	2	18	8	15	1	44	NVO LEON
OAXACA	15	7	11	7	1	41	OAXACA
PUBLA	11	12	2	12	1	38	PUBLA
QUERETARO	12	3	1	10	1	27	QUERETARO
QUINTANA ROO	8	4	15	1	7	35	QUINTANA ROO
SLP	14	16	9	9	5	53	SLP
SINALOA	8	12	3	19	6	48	SINALOA
SONORA	1	14	12	12	5	44	SONORA
TABASCO	12	13	5	6	2	38	TABASCO
TAMAULIPAS	8	5	4	8	1	26	TAMAULIPAS
TLAXCALA	13	15	18	9	3	58	TLAXCALA
VERACRUZ	14	11	6	16	2	49	VERACRUZ
YUCATAN	6	19	15	13	2	55	YUCATAN
ZACATECAS	10	8	8	8	3	37	ZACATECAS

Table 2  
Financial Structure

		<i>Balanced</i>	<i>Semi-Balanced</i>	<i>Unbalanced</i>
<i>G D P</i>	<i>Hi Income</i> <sup>1</sup>		Coahuila Nuevo León Sonora Campeche	Baja California Quintana Roo
<i>P E R</i>	<i>Middle Income</i> <sup>2</sup>	Tamaulipas Aguascalientes Querétaro	Morelos	Baja California S. Durango México Jalisco Chihuahua Colima
<i>C A P I T A</i>	<i>Low Income</i> <sup>3</sup>	Hidalgo	Tabasco Zacatecas Chiapas Guanajuato Guerrero Michoacán Oaxaca Puebla Nayarit Sinaloa	San Luis Potosí Yucatán Tlaxcala Veracruz

<sup>1</sup> From 2500 USA Dollars onwards

<sup>2</sup> From 1600 to 2499

<sup>3</sup> From 700 to 1599.

*Table 3*  
Fiscal Legal Framework in the three case studies

<i>Law</i>	<i>G-1</i>	<i>G-2</i>	<i>G-3</i>
1.- Ley Orgánica de la Administración Pública del Estado (Public Administration Law)	X	X	
2.- Ley Orgánica Municipal (Municipal Law)	X	X	X(1998)
3.- Ley de hacienda del Estado (State's Fiscal Law)	X	X	X(1998)
4.- Ley de Hacienda Municipal (Municipal Fiscal Law)	X(1986)	X	
5.- Ley de Ingresos del Estado (State's Revenue Law)	X(1998)	X(1999)	X(1999)
6.- Ley de Ingresos Municipales (Municipal Revenue Law)	X(1998)	X(1999)	X(1999)
7.- Ley de Deuda Pública del Estado (State's Public Debt Law)		X(1996)	
8.- Ley de Deuda Pública Municipal (Municipal Public Debt Law)		X(1996)	
9.- Ley de Coordinación fiscal (State's Fiscal Co-ordination Law)	X	X(1995)	
10.- Ley de información Geográfica, Estadística y Catastral del Estado (Statistics Law)			
11.- Ley de catastro del Estado (State's Property's Records)	X	X(1994)	X(1983)
12.- Código Fiscal del Estado (State's Fiscal Code)	X	X(1987)	
13.- Código Fiscal Municipal (Municipal Fiscal Code)		X(1990)	
14.- Ley Orgánica del presupuesto de Egresos del Estado (State's Expenditure Law)		X	
15.- Ley Orgánica para la Contaduría General de Glosa del Poder Legislativo (Financial Records Law)	X	X	
16.- Reglamento Interior de la Secretaría de Finanzas y Planeación (Finance Ministry Law)	X	X	X
17.- Convenio de Administración de Contribuciones que celebran el Gobierno del Estado con los Municipios (Fiscal Agreement between the State and Municipal Governments)		X	X
18.- Convenio de Colaboración administrativa en materia fiscal federal que celebran el gobierno federal con conducto de la SHCP y el gobierno del estado (Administrative Fiscal Co-ordination Agreement between the Federal and the State Governments)	X(1997)	X(1997)	
19.- Lineamientos de racionalidad, austeridad y disciplina presupuestal (Rationality, Austerity and Budgetary Guide Lines)			X
	<b>12</b>	<b>17</b>	<b>8</b>

*Table 4*  
A Finance Ministry's Structure in the three case studies

	<i>G-1</i>	<i>G-2</i>	<i>G-3</i>
Ministry's Office	Oficinas del Secretario 4 (1.1%)	—	Despacho del Secretario 10 (3%)
Revenue Department	Dirección general de Ingreso 78 (22.2%)	Dirección de Ingresos 146 (24.6%)	D. de Ingresos y fiscalización 227 (69.2%)
Expenditure Department	Dirección general de Egresos 33 (9.4%)	Dirección de Egresos y Control Presupuestal 109 (18.4%)	D. de Egresos y Presupuesto 21 (6.4%)
Technical Fiscal Department	75 (21.3%)	Dirección de Auditoria e inspección fiscal 163 (27.5%)	—
Budgetary Control Department	41 (11.6%)	—	—
Accounting Department	—	Dirección de Contabilidad gubernamental y deuda pública 85 (14.3%)	D. de Contabilidad 21 (6.4%)
Assistance Department	Dirección general de Informática 19 (5.4%)	—	D. de Informática 14 (4.3%)
Legal Department	Dirección general Jurídica 13 (3.7%)	Unidad de Servicios Jurídicos 20 (3.4%)	Unidad Jurídica 7 (2.2%)
Administrative Department	Dirección de Administración 16 (4.5%)	—	Unidad Administrativa 18 (5.5%)
Cashiers Department	—	—	10 (3%)
Advice Unit	15 (4.3%)	—	—
Property's Records Department	58 (16.5%)	Instituto Catastral 70 (11.8%)	—
<b>TOTAL</b>	<b>352</b> (100%)	<b>593</b> (100%)	<b>328</b> (100%)
Number of Staff Members in the Finance Ministry per 1000 in habitants	3	6	3
Share of the Finance Ministry Staff Members in the State's Total Bureaucracy	(3,000) 11.8%	(10,517) 5.64%	(4,993) 6.57%

*Table 5*  
State's Officials Professional Experience Profile

<i>State/Years</i>	<i>Sector</i>	<i>0-2</i>	<i>2-5</i>	<i>5-9</i>	<i>9-15</i>	<i>16 onwards</i>	<i>Total</i>
<b>G-1</b>	Public Sector	45.45	13.64	13.64	9.09	18.18	<b>100</b>
	Private Sector	40.91	18.18	9.09	18.18	13.64	<b>100</b>
<b>G-2</b>	Public Sector	9.30	30.23	20.93	25.58	13.95	<b>100</b>
	Private Sector	74.42	9.30	2.33	9.30	4.65	<b>100</b>
<b>G-3</b>	Public Sector	14.71	8.82	44.12	32.35	0	<b>100</b>
	Private Sector	58.82	14.71	11.76	11.76	2.94	<b>100</b>

*Table 6*  
State's Officials Professional Background

<i>Previous Experience</i>	<i>G-1</i>	<i>G-2</i>	<i>G-3</i>
SPS	40.91	51.16	55.88
FPS --- SPS	13.64	6.98	2.94
PS --- SPS	36.36	32.56	29.41
AS --- SPS	0	6.98	8.82
MPS --- SPS	9.09	2.32	2.94
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Concept:

- SPS - State Public Sector
- FPS - Federal Public Sector
- PS - Private Sector
- AS - Academic Sector
- MPS - Municipal Public Sector

