

Abstract

For the last two decades, Mexico has been decentralizing fiscal, political and administrative responsibilities to its subnational tiers of government. In 1997, when the opposition won the majority in the federal Congress, the fiscal decentralization process was strengthened by the creation of the Fund for Municipal Social Infrastructure (*FAISM*). Since then, municipalities in Mexico have been receiving more financial resources from the central government than ever before.

This paper analyzes the impacts that the creation of the *FAISM* has had on the tax effort of Mexican municipalities. Due to the lack of financial information at the municipal level, no study of this sort has examined the performance of Mexican municipalities, and very few studies have analyzed similar impacts in other developing countries. By drawing on original data of own-source revenue collection of the 217 municipalities on the State of Puebla, and by performing several calculations of descriptive statistics before and after the creation of the *FAISM*, this paper finds that the *FAISM* has negatively affected the tax effort of Mexican municipalities. This result is congruent with the 'rational' model of tax effort and with the prescription that the lack of proper institutions at the local level belies the good intentions of decentralization resulting in policy failure.