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Mexico

Improving Fiscal Transparency and Administrative Performance at the State Level

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ACRONYMS

Acronym	Spanish	English
CNH	Convención Nacional Hacendaria	National Finance Convention
CPFF	Comisión Permanente de Funcionarios Fiscales	Permanent Commission of Fiscal Professionals
CPCEF	Comisión Permanente de Contralores Estados-Federación	Permanent Commission of State and Federal Government Comptrollers
GdM / GOM	Gobierno de México	Government of Mexico
INDETEC	Instituto para el Desarrollo Técnico de las Haciendas Públicas	Institute for the Technical Development of Public Finances
ONG / NGO	Organización no Gubernamental	Non-Governmental Organization
PFM	Gestión Financiera del Sector Público	Public Financial Management
SECODAM (now SFP)	Secretaría de la Contraloría y Desarrollo Administrativo	Comptrollers General's Office
SFP	Secretaría de la Función Pública	Ministry of Public Administration
SHCP	Secretaría de Hacienda y Crédito Público	Ministry of Finance
SNCF	Sistema Nacional de Coordinación Fiscal	National Fiscal Coordination System
TTL	Gerente de Proyecto	Task Team Leader
UCEF	Unidad de Coordinación de Entidades Federativas	States Coordination Unit
UCGICP	Unidad de Contabilidad Gubernamental e Informes de la Cuenta Pública	Governmental Accounting and Public Accounts Reporting unit
BM / WB	Banco Mundial	The World Bank

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EXECUTIVE SUMMARY

This report is intended to bring into the policy dialogue with the Government of Mexico (GOM) the issue of better performance and accountability in public financial management at the sub-national level in Mexico. It is also designed to explain a multi-disciplinary technical assistance exercise that the Bank has been carrying out since September 2004.

Sub-national governments in Mexico have made substantial progress in recent years in developing systems to support good governance, in particular, managing public expenditures, budget control and procurement. However, by and large these governments still lack systems and comparators based on internationally accepted parameters to assess performance and provide stakeholders with reliable, clear and objective assessments to correct course, define priorities or compare themselves with peers.

Going forward, the Bank will support the continuing efforts of the two state commissions that bring together the state fiscal professionals and state comptrollers to establish viable and verifiable indicators, with the goal to arrive at a continuous process of government performance improvement. To do so, key challenges at the state level include the need to harmonize state accounting rules, to build administrative capacity at the subnational level, and to establish appropriate state legal frameworks, especially in the procurement area. The federal government can do its part to arrive at collaborative solutions by being flexible, providing resources, and coordinating the efforts of the relevant commissions, as well as applying the same methodologies within its own performance monitoring processes, to the extent feasible. The states are the key actors in this process, since they receive funds from the federal government while also having an interest in monitoring their own performance and that of municipalities.

1. INTRODUCTION

1.1. Mexico's recent emergence as a more participatory and politically competitive country has facilitated efforts to improve the management of public funds at the sub-national level. The Country's National Finance Convention (Convención Nacional Hacendaria - CNH), completed in August 2004, emphasized the need to reach consensus among and within the three main levels of government (federal, state, and municipal) on fiscal management issues. While some have expressed concern about the slow pace of implementing the CNH's recommendations, a number of actors continue to work towards its stated goals. Many of these goals relate to the need for improved management and fiscal transparency at the state and municipal levels.

1.2. While their administrative systems are advanced in many ways, many states do not have sufficient management-level information to monitor their fiscal, procurement and administrative performance, the result being that any efforts towards performance improvement may not be appropriately focused. This is both a management problem for the states and an important issue for other stakeholders. The federal government would like to have more, better, and more consistently formatted information about how states are managing their financial, programmatic, budgetary and administrative affairs; the World Bank and other lenders/donors would like to have a clearer understanding of the quality and performance of state institutions, especially with regard to the use of federal budgetary transfers; and other interested parties such as credit rating agencies and citizen groups would like the states to prepare information in a regular and consistent way.

1.3. The Mexican states operate within the National Fiscal Coordination System (Sistema Nacional de Coordinación Fiscal or SNCF). In this context, and as a consequence of the banking capitalization requirements established by the Ministry of Finance (Secretaría de Hacienda y Crédito Público or SHCP) in April 2000, when any subnational government or decentralized entity within a state or municipality wishes to take on debt, it must comply with the requirement to have an annual rating by two of the three international credit rating agencies: Fitch Ratings, Moody's and Standard & Poor's.¹ This coverage of Mexico's subnational governments by the rating agencies (and all states now are in fact rated by at least two of them) is a distinguishing feature when compared to other countries of similar size and economic level.

¹ See "The Debt Market, a Financing option for State and Local Governments", Fitch Ratings, February 2004

Box 1: National System of Fiscal Coordination

Mexico's National System of Fiscal Coordination (*Sistema de Coordinación Fiscal*, SNCF) and the Institute for the Technical Development of Public Finance (INDETEC) were formally established in the country's Fiscal Coordination Law of 1979. Key attributes of the SNCF, as spelled out in Article 16 of the law, are:

1. Participation by the federal government through SHCP, and the state governments through their finance secretariats;
2. Development, monitoring and improvement of the SNCF, through:
 - A National Meeting of Fiscal Professionals;
 - The Permanent Commission of Fiscal Professionals, which includes all state financial secretaries;
 - INDETEC; and
 - The Fiscal Coordination Board, made up of a sub-group of state financial secretaries

The Permanent Commission of Fiscal Professionals has the power to form commissions or working groups to study specific problems and make recommendations directed at achieving more efficient coordination between states and the federal government. In addition, as part of the SNCF, the SHCP has the power to create technical groups to carry out follow-up and dissemination of decisions on planning, legal, programming and evaluation issues, and to issue guidelines on federal-state administrative collaboration on federal fiscal matters.

Other groups within the SNCF that cover themes related to this study, are the working groups on Fiscal Federalism, Coordinated Revenues, Local Revenue Sources, Public Debt, and Federal Expenditures. There are also technical groups for Revenue Collection and Fiscal Audit.

Further information can be found on SNCF's website www.sncf.gob.mx

1.4. The requirement for credit ratings gives states in Mexico a particular incentive to be transparent with regard to their performance. A standard system of fiduciary governance indicators will potentially result in an improved credit rating, and will heighten the competition between states for better ratings. Better ratings will imply better governance and lower transaction costs when doing business with state government. In addition, some decisions to be made in the future by the federal government with regard to fiscal and administrative decentralization could be subject to the performance demonstrated by the states based on a group of indicators similar to those suggested here.

1.5. Procurement in the states is carried out by a variety of entities, but procurement oversight tends to be the responsibility of the Comptroller's office. These offices are State Secretariats but they maintain technical ties with the federal Secretaría de la Función Pública. Together the state and federal comptrollers form the Permanent Commission of State and Federal Government Comptrollers.

Box 2: Permanent Commission of State and Federal Comptrollers

In order to facilitate and encourage the collaboration of all three levels of government in the delivery of federal funds to Mexico's states and municipalities, while also helping to ensure their proper utilization, in December 1994 the *Secretaría de la Contraloría y Desarrollo Administrativo* (SECODAM, now SFP) embarked on a series of meetings with state comptrollers, and established the *Comisión Permanente de Contralores Estados-Federación*. This partnership has included training and technical assistance to prepare and encourage state and municipal governments to adopt modernization and developmental efforts within the programs and services under their responsibility. All state comptrollers now participate in this collaborative mechanism, where strategies are formulated and actions are carried out to strengthen systems of control and evaluation of state public management and of municipalities. Action plans are followed up, with actions redefined as required to ensure that appropriate decisions are made, in light of the goal of optimal collaboration among the three levels of government.

Currently the activities of the Commission are structured under joint programs between the federal and the state governments. The president of the Commission is the Secretary of *Secretaría de la Función Pública*, and the states choose one of the comptrollers as the Coordinator.

1.6. There have been some steps towards improving state procurement laws, in order to avoid confusion in the control and application of procurement procedures, there is a trend by the states to modify their state regulations to match the basic aspects of the procedures of the federal regulations. At the same time, some state laws are designed to favor state-based industries by imposing conditions that firms established outside the state can not meet.²

² During a visit to Mexico's Contractor's Association, one member explained that his firm, based in Mexico City, has applied for registration in one of the participant states for the last 8 years, without success.

1.7. In the implementation of technical assistance to states aimed at establishing a monitoring system to assess performance of key indicators of PFM at the state level,³ the Bank experienced a unique opportunity to learn about initiatives and obstacles confronted by a sample of state governments in developing such systems. This note reflects the experience of that technical assistance exercise, as of March 31, 2006. A timeline of activities of the Bank Team and its counterparts is included here in Annex 3.

³ From September 1, 2004 to June 30, 2005, the Bank team worked with eight pilot states (Aguascalientes, Campeche, Chiapas, Durango, Guanajuato, Jalisco, Nuevo León y Querétaro) and prepared the report "Mexico: State-Level Technical Assistance to Establish Performance Indicators for Procurement, Public Expenditure and Financial Management," World Bank Report No. 33404-MX December 30, 2005. Follow-up work from July 2005 to June 2006 resulted in this policy note and a more detailed report that is currently being finalized.

2. KEY ISSUES

2.1. After beginning with an initial set of internationally accepted Public Financial Management (PFM) performance indicators, and then customizing them for the context of the Mexican states, the Bank's technical assistance exercise recommended 42 initial indicators. These are fully detailed in Annex 1. However, it is recognized that states and state-level entities must choose their own performance indicators based on the information needs of the states and other interested parties. The indicators to actually be used will be different from those identified by the Bank, but it is hoped that the Bank's recommendations have provided a useful starting point. The monitoring system agreed for the states should include a group of common indicators to allow for comparison and transfer of good practices

2.2. In the course of the above-mentioned work, the importance of resolving certain institutional issues became clear. Some of the fundamental issues are the following:

- In Procurement, the states need to modernize their procurement laws, to establish the one-envelope system and the short-listing of consultants, to remove local registers and to minimize the use of non-competitive procedures. The states should make better use of the forthcoming Compranet Plus of the federal government or establish their own e-procurement systems; and the state governments can develop performance indicator systems able to produce performance indicators automatically or after minimal processing.
- Harmonization (homologación) of accounting practices across all three levels of government is critical for being able to create and maintain comparable fiscal performance data. During 2006 a number of efforts at accounting harmonization were in process. It is important that these efforts go beyond the development of a common framework for expenditure classification, to include other key accounting concepts. To do so, appropriate experts and professional bodies should be invited to the process, such as the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (CINIF),⁴ which operates within the framework of the Mexican Institute of Public Accountants.
- Cultural factors should also be recognized. In the first of two workshops organized by the Bank, participants selected cultural change as the most important obstacle to the establishment of a system to measure performance at state level. The need for cultural change was considered more important than other challenges such as lack of resources or lack of interest from state officials. For transparency to fully take hold of Mexican state governments will have to continue to shift from a culture of "control" to one of "*gestión pública*"—better public management.

⁴ See www.cinif.org.mx

3. RECOMMENDATIONS

3.1. The current period of economic stability and increasing state spending responsibilities provides a propitious environment for a coordinated capacity building effort to bring states in line with an understood framework for transparent fiscal reporting. This will require federal support and leadership and several policy changes as presented below.

3.2. *Agree on Performance Indicators.* The Bank has presented a proposed set of Public Financial Management (PFM) indicators in line with internationally accepted benchmarks. Based on the Bank's recommendation and taking into account the various proposals that have been advanced, it is recommended that the states define the set of indicators that they wish to integrate into a long term project to monitor government performance.

3.3. *Establish a Common Base.* The performance indicators system of each state government may be independent in the sense that the data collection, software and sources may vary from state to state; however agreement on a substantial set of common indicators would allow for comparison and peer competition. Those common indicators must be useful for state leaders, and for the federal government. They can be arrived at through appropriate consensual processes within established state/federal commissions. Chart 1 presents an example of performance in government procurement that should be always offered in any monitoring system.

3.4. *Participation of the Federal Government.* Although the work ahead is mostly at the state level, it is recommended that the federal government includes it among the priorities of its work agenda, by giving support to the general coordination and implementation, via the responsible ministries: SHCP and SFP. The federal government can also lead by example, by applying the same performance monitoring approach to its own operation.

Box 3: Linkages to Mexico Country Systems Review

At the same time that this state-level study was being carried out, the World Bank was also conducting a review of Mexico's *federal* PR and FM Systems, in order to evaluate the possibility of increasing the use of the federal systems in Bank-financed operations.⁵

In Procurement, a clear linkage was made between the two studies in that the indicators used at the state level in this study are the same as those agreed at the federal level for the country systems review. The SFP is applying these indicators in the federal government and is also a key partner in this study involving the states.

In financial management, the country systems review has not focused on establishing performance indicators at the federal level. However, the federal government has been evaluated using criteria similar to those used here for the states, based on previous World Bank fiduciary diagnostic work. As financial indicators are established by states, the federal government could benefit by applying the same indicators to budgetary results.

3.5. *Modernization of procurement laws.* The federal government has advanced a modernization agenda simplifying government procurement, and establishing mechanisms to resolve conflict and disputes, using electronic procurement. Many states need to get closer to the federal government procurement regulations by enacting new laws and regulations in priority areas as defined in the characterization of the pillars or policy and institutional indicators assessment for each state as explained below.

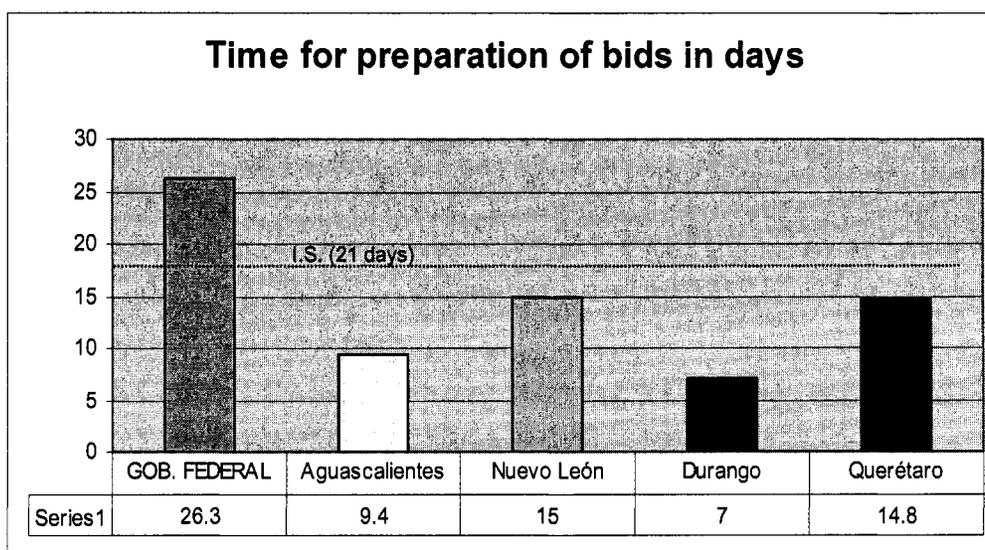
3.6. *Strengthening the regulatory bodies.* One of the features that is worth noting in the federal procurement system is the existence of a strong regulatory body. Many states could benefit from the creation or strengthening of such a regulatory body to yield the benefits of fast adjustment to ever changing markets. The adoption of a performance indicator system will provide the regulatory body with the technical basis to change regulations, instructions, general practices, and ultimately, to seek legal changes.

3.7. *Coordination and Implementation.* To ensure a coherent, multi-sector and meaningful performance indicator system serving a reasonable number of participant states, it is recommended that coordinating responsibilities be assigned to an appropriate person or entity.

⁵ Mexico: Review of Federal Government Procurement, Financial Management and Disbursements Systems, June 2005, World Bank Report No. 33403-MX

3.8. With regard to procurement performance indicators, the *Comisión Permanente de Contralores Estados-Federación* (CPCEF) could be vested with the authority and resources to disseminate the system and software on procurement data at the state level. This is consistent with the responsibilities of state comptroller’s office that includes issuing regulations to improve the accountability and efficiency of the government bodies. The CPCEF could then develop capabilities to carry out the Policy and Institutional Indicators assessment⁶ and to develop action plans with the state authorities aimed at improving the legal and institutional aspects of their state procurement systems. The Bank is willing to invite CPCEF to participate in one or more assessments prepared by the Bank.

Chart 1: Performance indicator: time given to bidders to prepare their proposals. International standard is 21 days.



I.S. – International Standard

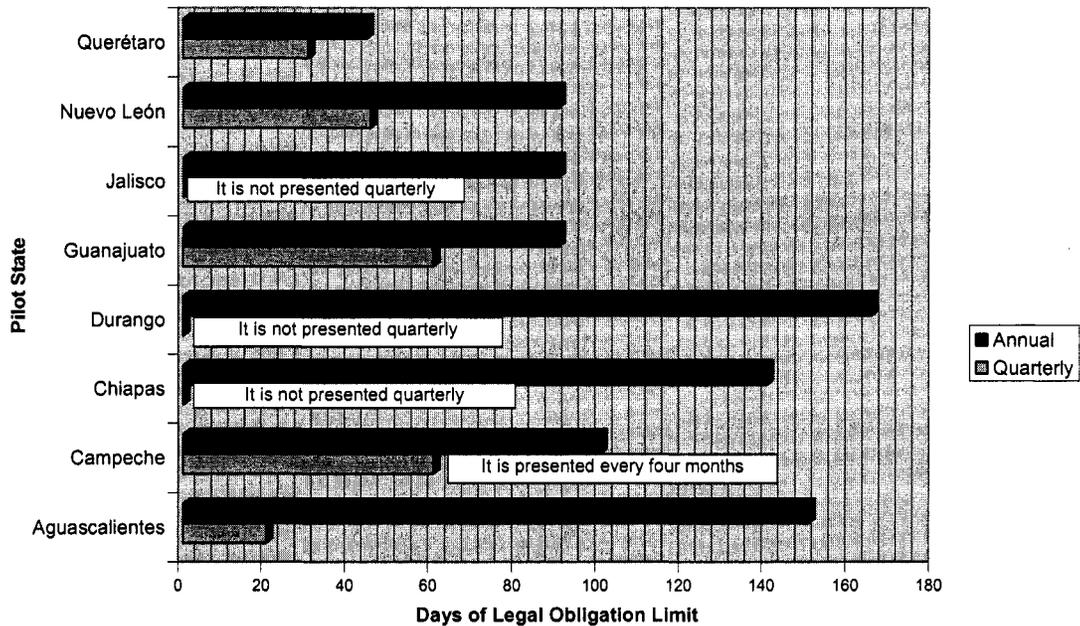
3.9. At the state level, the *Secretaría de Finanzas y Administración* is the logical entity responsible for collecting and processing the financial management and public expenditures data for decision making. If the SFAs can prepare the information in an agreed format, it could then be shared with the *Comisión Permanente de Funcionarios Fiscales Estados-Federación* (CPFF), which would have authorities similar to those of the CPCEF with regard to the procurement and control-oriented indicators. The CPFF is already well established within Mexico’s legal framework, as part of the National System of Fiscal Coordination.

⁶ Besides the indicators to measure operational performance, the system proposed by the Bank includes the evaluation of basic institutional aspects: legal and regulatory framework; structure and institutional capacity; procurement operations and market practices, as well as integrity of the public procurement system.

3.10. *Publication of indicators.* It is recommended that efforts to publish procurement and FM indicators be coordinated. The Bank identified three government units with broad contacts at the state level that may be involved in coordination: *Dirección General de Operación Regional y Contraloría Social* at SFP; the UCEF of SHCP; or INDETEC.

3.11. *Financial Reporting and Auditing.* A comprehensive set of public financial managed (PFM) indicators should include data with regard to the frequency, content, and timeliness of fiscal reporting. The Bank’s review of unaudited Public Accounts reporting in eight states showed significant variation in reporting practices, as shown in Chart 2 below. A financial audit of fiscal reports serves to enhance the credibility of such reporting, and indicators can be established to measure audit quality and timeliness. It is notable that some states have contracted private audit firms in order to improve performance in this area, and it would be interesting to have information about audit performance under such arrangements.

Chart 2: Submission of Public Accounts to the State Congress (Number of Days after the end of the period)



Source: *Constitución Política de las Entidades Federativas y ordenamientos tales como Leyes de Presupuesto, Contabilidad y Gasto Público, y de Fiscalización.*

4. TECHNICAL MATTERS TO BE RESOLVED TO IMPLEMENT RECOMMENDATIONS

4.1. *The role of the federal government.* The federal government has an important convening role in this process. It can also provide resources, either from federal revenues or loans, to support state efforts. On a technical level, while in some cases it may be best for states to follow federal government practices, in many areas the federal government should consider following the lead of particular states. This approach is applicable to the critical area of accounting harmonization. Federal government to accounting fails to follow international good practices in many ways, and thus it is likely to be more valuable for the federal government to allow the states to agree on common accounting practices, which can then be adopted at the federal level. Such a “bottom up” approach is likely to yield better results than the approach applied in recent years, in which “harmonization” has often meant that states adopt the same principles and rules used by the federal Finance Secretariat (SHCP).

4.2. *Procurement Indicators and Data.* At the onset of the deployment of the procurement performance indicators information system, many of the participant states would require a database or system to host the government procurement data. The current COMPRANET may still have the capacity to host additional data coming from new states. Currently 80% of the used capacity pertains to volume of data generated by federal government funded procurement, with 20% of data belonging to participant state-funded procurement. An increase of 30% in additional data will not clog the system but it would slow down queries and other functions of the system that are already somewhat slow with the current COMPRANET. The new COMPRANET Plus recently contracted out by SFP will have additional capacity to handle in a web environment the data from participant states in a faster and more accurate manner. Moreover, COMPRANET Plus will have a module providing data for policy making and strategic decisions; this module may host the software and inquire routines that will produce the performance indicators.

4.3. *Support among existing systems.* A closer cooperation between the states and COMPRANET is possible and would ease the data collection and processing of the performance indicators⁷ and will reduce the cost of the implementation of the system substantially. Alternatively, the state governments could invest in developing software and systems able to collect and process the procurement performance indicators thus creating their own databases of government procurement. Such local databases, although representing a possible duplication of data available in COMPRANET, would be easier to access, and may be useful for other economic and development policy decisions. Moreover, the comparison of data in the two systems may help as a quality control building block.

⁷ Sonora has an agreement with COMPRANET for publishing all competitive procurement in the state. The data collection for the state of Sonora for the study that complements the Policy Note was partially made by COMPRANET staff with a simple request.

4.4. *Coordination at local level.* At the state level, the Comptroller's office can serve as the local coordinator for the procurement matters. As in the case of the federal government that is about to implement a similar performance monitoring system, the state *Contraloría* would collect, process and analyze the procurement data, sharing it periodically with the CPCEF and the Joint Coordinator.

4.5. *Expanding the information systems, data integration and management information.* States will need to have a database with current procurement data or alternatively could sign an agreement with COMPRANET covering national competitive bidding, invitation to at least three suppliers and direct contracting. The states manage their procurement in two segments clearly separated: procurement of goods and procurement of civil works. Goods and capital expenditures are generally supervised by Finance and Administration departments who seek economies of scale or application of restrictions on purchase of assets. Civil works are managed by the Public Works Secretariat and a variety of de-centralized institutions (water and sanitation, roads, urban works). It is only generally at the Comptroller's office where the two segments of the state procurement merge for control purposes. For this reason, with a few exceptions, we are suggesting that the state Comptroller's office be the channel for consolidating, verifying, and sharing the local performance information.

4.6. *Normative bodies at the state level.* Mexico's federal government procurement has been assessed by the WB as robust and close to international standards due to the organization of the federal government on procurement: decentralized operation, a solid normative and regulatory body and an incipient independent resolution of dispute mechanism. Many states could benefit from following the organization and institutional arrangements of the federal government creating or strengthening such a regulatory body to yield the benefits of fast adjustment to ever changing markets. The adoption of a performance indicator system will provide the regulatory body with the technical base to change regulations, instructions, general practices, and ultimately, to seek the change of law.

4.7. *Quality of the system: Policy and Institutional Indicators.* It is not recommended to place the performance indicators system in states with arcane procurement legislation or excessive restrictions to out-of-state competition. The investment in setting up is justified when the reform and modernization on procurement law has begun at the state level. The performance system endorsed by the Bank provides an analytical tool to determine the quality of the state law and its institutions: the Policy and Institutional Indicators.

4.8. *Capacity building.* The application of policy and institutional indicators will allow for the comparison of state laws vis-à-vis the federal procurement laws that are considered by the Bank to be generally adequate in a global environment. To play a larger role influencing good practices and fostering better governance at the state level, CPCEF shall develop a team of staff from state comptrollers offices specialized in monitoring performance and knowledge sharing on procurement indicators. Such a team of at least three technical specialists should be able to assess the Policy and Institutional Indicators at the state level and to draft action plans to improve the critical areas of the

procurement system at the sub-national level thus catalyzing a dialogue on procurement reform and modernization.⁸

4.9. *Financial Management and Public Expenditure Indicators.* Accounting harmonization will make performance indicators more comparable and more easily understood. The Bank encourages the efforts of SHCP and the states to achieve this goal. In addition, efforts to establish common performance indicators would benefit from (i) an agreed definition of key terms; (ii) a consultation mechanism for states seeking advice in applying the indicator framework; and (iii) a common approach to indicator verification, which is currently lacking.

4.10. *Recent progress.* Important progress has been made in this area. In February 2006, a working group of the CPFF advanced an important proposal for states to prepare 43 indicators in four areas: (i) revenues; (ii) expenditures; (iii) public debt; and (iv) net income/expenditure ratios. Most of these indicators are derived from the annual Public Accounts and thus reflect budgetary results. Although they do not cover every aspect of the public financial management (PFM) cycle, the CPFF's indicators represent an important step toward improved fiscal transparency in the Mexican states. The data in these indicators should be subject to a reasonable verification process (e.g. by auditors or rating agencies) and the data should be made publicly available.

4.11. *Consistency with CNH recommendations.* The preparation of the CPFF's 43 indicators would be the responsibility of each Secretariat of Finance. The state-level efforts are supported by the Transparency Agreements that have been reached between the SHCP's States Coordination Unit (UCEF) and some states, as follow-up to the CNH. As of March 2006, the states of Aguascalientes, Sinaloa, Veracruz, Michoacán and Nayarit had signed such an agreement with SHCP, and other states were expected to do so in the near future. The agreements clarify the types of information that the federal government would like to receive from the states regarding their fiscal activities, and commit the states to provide the information to SHCP within an agreed timeframe.

⁸ The results of the policy and institutional indicators applied to a few state procurement laws are available in Annex 3 of the WB Report 33043 State-Level Technical Assistance to Establish Performance Indicators for Procurement, Public Expenditure and Financial Management.

5. AN AGENDA FOR ACTION

5.1. *Moving forward.* Mexico is in a good position to establish a national mechanism for performance monitoring of public expenditure, procurement, and financial management for its 31 states and the federal district. State institutions work within reasonably sound legal frameworks, implementation capacity is good, and there are many examples of world-class performance and implementation of systems that monitor it. States have been receptive to the internationally accepted methodology presented by the Bank for measuring performance, recognizing that they operate within an environment of global competition and comparison, with an ever-increasing openness and transparency of its processes and results.

5.2. *Two paths, one common goal.* It appears that the best approach to establishing common performance indicators in procurement, financial management and public expenditure will be along two parallel tracks. Procurement and control-oriented indicators can be managed at the state level by state Comptrollers offices and consolidated through the CPCEF. Meanwhile, financial management indicators including those reflecting budgetary results should be managed by State Secretariats of Finance and consolidated through a mechanism agreed within the CPFF. This note additionally encourages that a mechanism be established for both sets of data which should be periodically combined and published jointly by the two Commissions, and by each State.

5.3. *Resources needed.* The definition, prioritization, and agreement on the technical and operational aspects of implementing a system of performance indicators should include the determination of technical support, software and other systems and resource requirements, both from the perspective of central coordination within one state and for the overall coordination of all states. As an example of the decisions that will have to be undertaken, Annex 2 presents options for obtaining information with respect to procurement processes. Once a definitive proposal is prepared and agreed, this effort could compete for an Institutional Development Fund (IDF) grant of the World Bank, or other types of financing from national and international organizations. In addition, other existing resources should be sought and channeled into this work.

5.4. *Policy decision based on performance data.* As the states progressively adopt the monitoring system, the states can develop capacity to understand, interpret trends and define improvement actions.⁹ If the data and results of the performance are periodically published, the planning or finance authorities within state governments will be better able to define goals, areas of opportunity for improvement, and priorities based on the scores of the indicators. As an example, goals in government procurement may include:

⁹ Systems in the audit and control unit at SFP have allowed the unit to establish goals and targets for improving the procurement performance of the federal entities. Such system is described in the Report 33403-MX: Review of the Federal Procurement, Financial Management and Disbursement Systems, December 2005; it is so interesting that the General Comptroller's Office of Colombia is visiting SFP to learn about the system for a possible use in that country.

reducing direct contracting 10% every year, or broadening the base of government suppliers by 10% every year.

5.5. *Cost of implementation is marginal.* The comparison of performance indicators for the participant states among themselves and with those for the federal government would be of interest to the individual states and useful in helping them to formulate their policy initiatives (legal reform, control systems, service standards). Priorities for change and modernization initiatives could be based on areas where a state's performance appears to be weaker than that of its peers and/or the federal government. The expected costs of implementation of the performance indicators system are marginal when compared with the benefits from a more economic and competitive state administration. Consultation with several states confirms that most of the data, particularly related to FM indicators would not require additional personnel or resources for collection and processing of data; in procurement only a few states have adequate data and systems.

5.6. *Technical assistance.* Once there are success stories in the deployment of the performance indicator systems, these stories shall be promptly disseminated, both in terms of the reporting of state performance and the capacity building actions that were carried out. Capacity building activities could include giving newly interested states access to the software and macros of the databases for processing the performance indicators, quality control protocols, training publications and live presentations.

5.7. *Quality of the data.* The importance of data quality cannot be overemphasized. When using indicators for policy making and establishing priorities, the data must be reliable and relevant. The quality and timeliness of the data depends on the manner in which data is collected and the purpose of that data collection, and the verification mechanisms in place. The report accompanying this Note (see Table 2) presents an assessment of the generally available sources of procurement information at the state level. The overall conclusion of the assessment is the state comptroller's office data are quite reliable in respect to procurement processing at the state level. With regard to fiscal information, financial auditors and credit rating agencies can play an important role in verifying the accuracy of the performance data that is published.

5.8. *World Bank Role.* A summary of Bank support and government actions is provided in Annex 3. The Bank will continue to provide technical assistance and liaise with the involved entities with regard to any initiative regarding the PFM indicators at the state level and capacity building activities. The SHCP and SFP have specifically requested that the Bank continue to play the role of facilitator and provider of specific technical expertise. The Bank team will play this role with the state federal commissions referred to in this report, and with individual states that may request Bank technical support to establish a performance monitoring system.¹⁰ Further, in its own lending operations at the state level, the Bank will consider technical assistance aimed at establishing or upgrading the monitoring system during the project implementation.

¹⁰ As of the date of preparation of this report the Bank team had already begun working with the states of Jalisco, Sonora, Aguascalientes and Durango. These states are active in the CPCEF and for the CPFF, and these engagements were to be more intensive efforts than those undertaken in the initial pilot phase of the Bank's work.

ANNEXES

Annex 1 – Recommended State Indicators and Definition of Key Terms

Performance Indicator	<i>Measured by</i>
A. PFM Out-turns	
1. Primary fiscal balance or primary deficit compared to the original approved budget.	<p><i>i) Deviation level of <u>primary balance</u> with respect to budget the originally approved over the last three years.</i></p> <p><i>ii) Deviation level of <u>fiscal balance</u> with respect to the amounts originally budgeted over the last three years.</i></p> <p>Primary Balance: <u>Total Revenue</u> [Own Revenue + Federal Revenue (Federal PARTICIPACIONES + Ramo 33 + other Federal APORTACIONES). Debt is not included] – <u>Primary expenditures</u> [Recurrent Cost + Transfers + Investments (it does not include payment of interests and amortizations of the contracted debt or to be contracted, neither includes ADEFAS)].</p> <p>Fiscal Balance: Total Income – <u>Total Expenditures</u> (primary expenditures + interests + amortizations + ADEFAS)</p>
2. Compositions of budget expenditure out-turn compared to the original approved budget.	<p><i>Percent variance between the <u>primary executed expenditures</u> and the approved budget in the past 3.</i></p> <p>Budget originally approved. Primary Expenditure budgeted and originally approved.</p> <p>Primary Expenditure Executed: It is the total primary expenditure executed through out the year at the end of the period.</p>
3. Aggregate revenue out-turns compared to the original approved budget.	<p><i>i) Percent variance between total revenue received and revenue originally approved during the last three years.</i></p> <p><i>ii) Percent variance between <u>own revenue</u> received and the total revenue budgeted during the last three years.</i></p> <p><i>iii) Percent variance between <u>federal revenue</u> received and the total revenue budgeted during the last three years.</i></p> <p>Revenue Originally Approved: Total budgeted revenue originally approved.</p> <p>Total Revenue: Use definition of Indicator number 1.</p> <p>Own Revenue: Taxes + Duties + Products + Gains</p> <p>Federal Revenue: Participants + Contributions (including PAFEF and FIES) + any other Federal Government contribution.</p>

Performance Indicator	Measured by
B. Key Cross-cutting Features: Comprehensiveness and Transparency	
4. Extent to which budget reports include all significant expenditures on government activities, including those funded by donors.	<p><i>Percentage of <u>extra-budgetary activities</u> of state government, with respect of total spending, and the extent to which these expenditures are included in fiscal reports.</i></p> <p>Extra-budgetary Activity: Activities of the state government that are not included in the annual budget law (i.e. all those activities financed through funds or trust funds not considered within the budget.)</p>
5. Adequacy of information on fiscal projections, budget and out-turn provided in budget documentation.	<p><i>Of the following information, what is included in the budget?</i></p> <ol style="list-style-type: none"> <i>1.- Microeconomic assumptions that include, at least, estimates on economic growth, inflation and exchange rate.</i> <i>2.- Fiscal Balance (taking into consideration the definition of Indicator 1.)</i> <i>3.- Financing of Deficit. Description of the debt composition to be contracted to finance deficit.</i> <i>4.- State Debt (detailed at the beginning of the year)</i> <i>5.- Financial Assets</i> <i>6.- Budget out-turns of the previous year, included in the same document of the budget proposal.</i> <i>7.- Current year's budget (either the revised budget or the estimated out-turns), included in the same document of the budget proposal.</i> <i>8.- A summary of the budget data, for revenue and expenditures, according to the main items of classification used as referred to in indicator 6 (including data of the previous and actual year).</i> <i>9.- Explanation of the recurrent cost implications of the new initiatives in the budget, including estimated impact on the budget of the main changes in expenditures policy or in the program of expenditures.</i>
5. Administrative, economic, functional, municipal, and programmatic classification of the budget.	<p><i>Extent to which the Budget and expenditures are: (i) classified on an administrative, economic, functional and programmatic basis; and (ii) follow the SNCF's harmonization working group guidelines.</i></p>
7. Publication and accessibility of key fiscal information and audit reports.	<p><i>(i) Comprehensiveness, (ii) timeliness, (iii) accessibility and (iv) read-ability of fiscal information and audit reports.</i></p>
C. Budget Cycle	
3. Extent of multi-year perspective in fiscal planning, expenditure policy-making and budgeting.	<p><i>Percentage of annual budget based on multi-year fiscal forecasts and a State Development Plan..</i></p>

Performance Indicator	Measured by
9. Timeliness of budget approval.	<i>(i) Number of days that the legislative branch has for reviewing the annual budget and (ii) whether the budget is passed before the financial year commences.</i>
C (ii) Budget Execution	
10. Effectiveness of cash flow planning, management and monitoring.	<i>i) Frequency of (should be daily) calculation and consolidation of all the government's cash balances, and ii) Frequency of (should be annual, updated monthly) calculation and consolidation of revenue and expenditures based on revenue forecasts and budget implementation plans.</i>
11. Extent to which spending ministries and agencies are able to plan and commit expenditures in accordance with original/revised budgets.	<i>Expenditures are committed broadly in accordance with cash flow forecasts (agreed with finance ministry) and with the budget. Level of Frequency, predictability and transparency of adjustments to budget allocations.</i>
12. Extent to which budgeted resources reach spending units in a timely manner.	<i>Percentage of resources budgeted that service delivery units receive, with minimal delay.</i>
13. Effectiveness of internal controls.	<i>Number of audit observations as percentage of the number of transactions audited for each substantive process of state administration, including payroll.</i>
C (iii) Accounting and Reporting	
14. Timeliness, quality and dissemination of in-year budget execution reports.	<i>Timing of regular dissemination of reasonable quality budget reports, using classification that allows direct comparison to the budget and that incorporate expenditure, revenue and debt information.</i>
15. Timeliness of the presentation of audited financial statements to the legislature.	<i>For the most recent financial statements: (i) number of weeks or months after the end of the fiscal year by when the public accounts are presented to the Congress after the end of the fiscal year, (ii) whether a complete set of financial statements, certified by the external auditor (OFS or private auditor), are presented to the legislature within 9 months of the year-end.</i>
C (iv) External Accountability, Audit and Scrutiny	
16. Authority and relevance of external audit reports.	<i>i) Number of weeks or months after the end of the fiscal year by when the financial reports are audited by the OSF, ii) Total amount of the resources audited as a percentage of the total budget executed (by the OFS or an external auditor).</i>
17. Follow-up of audit reports by the executive or audited entity.	<i>Number of observations resolved as a percentage of total number of observations.</i>

Performance Indicator	Measured by
D. Institutionalized Stakeholders Participation	
18. Level of public awareness and participation in the budgetary process.	<p><i>Verification of actual practices in stakeholder participation throughout the budget cycle.</i></p> <p>a. Very High: Civic and private organizations/NGO's, legislative and judicial branch of the Government, Entities, Parastatal and Private Organizations.</p> <p>b. High: Participation of public entities (parastatals, entities, government branches, municipalities), but not of the civic or private organizations and NGOs.</p> <p>c. Medium: Participation only of the central government entities and paraestatal.</p> <p>d. Low: Participation only of the central government entities.</p> <p>e. Very Low: No significant participation outside the State's normative entities (Finance Secretariat, Administration, Planning or equivalent).</p>
19. Effectiveness in tax mobilization.	<p><i>Percentage of own revenue with respect to total revenue.</i></p>
20. Tax collection efficiency	<p><i>Percentage of the Administrative cost (current expenditure done by the collecting agency) with respect to the total amount collected.</i></p> <p>Total amount collected: Own revenue + ISAN + Property and taxes of Annexes 3, 7 and 8 of the <i>Convenio de Coordinación Fiscal</i>.</p>
F. Allocative Efficiency	
21. Budget flexibility vs. rigidity.	<p><i>Inflexible expenditure with regard to the total budget.</i></p> <p>Inflexible Expenditure: Essential expenditure to comply with unavoidable government commitments (participations and contributions to municipalities, transfers to other government branches, service of debt, payroll and any other type of earmarked expenditure, etc.)</p>
22. Quality and efficiency on public investment expenditure.	<p><i>Percentage of the total investment decisions made on the basis of cost-benefit analysis or social return analysis.</i></p>
23. Territorial integration and concurrence.	<p><i>Percentage of the total public investment program allocated to co-financed projects with municipalities.</i></p> <p>Cofinancing: Cofinancing with municipalities, it does not include contributions and participations, but does include contributions in kind. In order for the financing concept to be valid state resources in cofinancing should be under 100%.</p>
G. Monitoring & Evaluation	
24. Existence and coverage of results-based evaluation systems.	<p><i>Percentage of the total public expenditure subject to any type of ex-post or ongoing evaluation system focused on results.</i></p>

Performance Indicator	Measured by
H. Human Resource Management	
25. Right sizing.	<i>(i) Number of civil servants who are members of unions and who are non-union; and (ii) wage bill as a percentage of the regional GDP.</i>
I. Procurement (see Table 5 for tentative satisfactory thresholds)	
26. Advertisement of bids and publication of awards (measures transparency and openness of system)	<i>Percentage of public contracting for which bids comply with the requirement to advertise publicly the invitation to bid and the contract award results as well as the name of the awarded company.</i>
27. Time for preparation of bids (measures real opportunity for bidders to submit bids)	<i>Average number of days between the date of the publication of the invitation to bid and bid opening.</i>
28. Time for bid evaluation (measures efficiency of bidding process)	<i>Average of the number of days between the date bids are received and the date bids are awarded</i>
29. Bidders participation (measures the level of confidence of private sector in the process)	<i>Average number of bidders submitting bid in each public bidding process.</i>
30. Method of procurement used (measures the level of competition)	<i>Percentage of bidding processes using a method less competitive than the process recommended for the estimated contract amount.</i>
31. Direct contracting (measures transparency and level of competition)	<i>Percent of contracts awarded on a sole-source basis.</i>
32. Direct contracting (measure transparency and level of competition based on contract amount)	<i>Percent of total contract amount that were awarded through direct contracting.</i>
33. Contracting based on restricted bidding (measures transparency and level of competition based on contracts)	<i>Percentage of contracts awarded by the restricted bidding method</i>
34. Contracting based on restricted bidding (measures transparency and level of competition based on contract's amounts)	<i>Percentage of the total contract's amount that were awarded based on restricted bidding.</i>
35. Processes cancelled (measures quality of the bidding process)	<i>Percent of bid processes declared null before contract signature.</i>
36. Number of protests (measures the quality and fairness of the process)	<i>Number of bidding process for which protests were received</i>

Performance Indicator	Measured by
37. Time to answer protests (measure efficiency and fairness of the protest system)	<i>Average in the number of days between submission and final response to protests received.</i>
38. Protest results (measures effectiveness of the protest system)	<i>Percent of protests where the outcome favors the person presenting the protest.</i>
39. Timeliness of the payment process	<i>Percentage of payments made more than 45 days late.</i>
40. Contract amount increase (measures quality of the bidding and contract management)	<i>Average of the percentage increase of final contract amount due to changes and amendments.</i>
41. Restricted competition for consultants (measures quality of the consultancy services)	<i>Percent of processes for the selection of consultants using open competition instead of a restricted competition or shortlist methodology.</i>
42. Selection method for consultants (measures the quality of the consultancy services)	<i>Percentage of processes for the selection of consultants having price weighted more than 20% of the total scoring points.</i>

Annex 2 – Options to Establish a Quality Information System and to Simplify Data Input of Procurement Performance Indicators

Information Source	Advantages and strengths	Disadvantages and limitations	Role and recommendations	Comments and other actions
Required directly from the contracting agencies and entities on an individual basis.	Direct information that can be verified in detail to avoid mistakes.	High implementation costs; uncertainties regarding long-term viability of the project; strong workload increase when the areas are required to provide information; difficulties and possible delays in integrating the whole data; deficient quality that requires close supervision.	Enter on a regular basis all data on hiring processes to the system as soon as the information is generated.	Participate in the establishment of objectives and follow a performance review to ensure their achievement; monitor the quality of the information entered in the system.
Generated with information from the Ministry of Finance.	Umbrella institution with links to all government entities; possibility to generate data based on their financial management systems.	Operational work that provides limited required data; need to enhance data base beyond their priorities and objectives.	Obtain the required information through the system that will be implemented, thus obliging entities to perform a careful information report.	Feasibility to implement new controls based on data that will be available in the system.
Generated with information from the Comptroller's Office.	Umbrella institution with links to all government entities; possibility to generate data based on their own control systems; harmonious work with their objectives and responsibilities.	Inadequate system, through which integrating information becomes a costly and time consuming task; information is normally requested directly to the entities; many different work systems and capacities in the comptroller's offices nationwide.	Operate the specially designed electronic information system, which will be operated by the own staff as well as by the entities on-line.	Perform audits to verify the information quality, as a complementing measure to ensure the system reliability.

Information Source	Advantages and strengths	Disadvantages and limitations	Role and recommendations	Comments and other actions
Obtained from Information System at (individual) State level.	Lower time and cost investment to integrate data; system designed and adjusted to the State needs and criteria; possibility to modify the system to comply with new information requirements;	Higher costs at national level resulting from multiple systems used for the same purpose; different platforms that can hamper or render difficult to share information in the future; possible discontinuity when facing government changes and with the arrival of new government officials with different criteria.	Recommend to give the responsibility of the system operation to the Comptroller's Office, that will verify the information quality.	Recommend to maintain in the system a group of indicators agreed in a national project, to ensure functionality of the system in the future.
Information System compatible among States.	Strengthening a national project geared to improving performance; savings in the system cost itself and the data gathering; more opportunities of sharing information among states and the federation.	Integration of a system parallel to Compranet, providing all information on biddings with federal funds; this would mean duplicating efforts to provide such data.	The Permanent Commission of State and Federal Government Comptrollers is the Body where a national agreement can be reached on the indicators that can be adopted in a national project.	The system could count on two components, the first part with the system of indicators adopted at the national level, and the second optional part where each State could add its preferences.
Compranet	Use of a solid system with wide information that could be adapted to automatically generate performance indicators for hiring processes.	Inflexibility of the system to adapt itself to specific needs, other than those foreseen; would be necessary that all States required all information on State-resource biddings to be included in Compranet.	Analyze the possibility that Compranet provides information with data that can be included in the information systems in the States, in order to avoid duplicating efforts for data input.	Compranet can be adapted to automatically generate federal management indicators, which would facilitate its integration in the national program with the States.

Annex 3 – Timeline

Table 1: Toward a System of Performance Indicators – A Timeline

Date	Activity
September 20, 2004	Internal Concept Review held in the Bank
November 17-18, 2004	Bank team presents concept of work at semi-annual meeting of CPCEF in the state of Campeche
December 2, 2004	First Workshop held in Mexico City. Workshop includes three consultation exercises: (i) a written questionnaire; (ii) an electronic survey; and (iii) work in breakout groups.
January-March 2005	Visits carried out by Bank team to eight pilot states
April 2005	Internal review in the Bank focuses on the proposed indicators
April 14-16, 2005	Bank team participates in meeting of the Commission on Evaluation of Public Management and Internal Control Systems, a sub-commission of the CPCEF, in Ensenada, Baja California
April 26, 2005	Second Workshop is held in Mexico City. Attended by approximately sixty officials, including representatives from eight pilot states and four others. Focus of the workshop is on refining the indicator set and making plans for Next Steps.
March – May 2005	Pilot states submit data to the Bank with regards to the indicators
May 17, 2005	Decision Meeting held in the Bank with regard to first phase of work
May 29-30, 2005	Bank FM/PEM team works with officials from the states of Jalisco and Guanajuato to improve precision of indicators and arrive at a brief glossary of key terms
June 16-17, 2005	Bank team presents contents of draft Progress Report at semi-annual meeting of CPCEF in the state of Zacatecas
June 23-24, 2005	Bank team presents contents of draft Progress Report at meeting of Accounting and Budget Harmonization group of the CPFF in Merida, Yucatan
June 30, 2005	Bank team distributes draft Progress Report to stakeholders
September 7, 2005	Bank Team attends meeting of the Commission on Evaluation of Public Management and Internal Control Systems of the CPCEF in which a proposal of 57 indicators was made. This meeting took place in Mazatlan, State of Sinaloa.
September 21, 2005	Bank team sends comments on the proposal of the Evaluation Commission of the CPCEF.
September 23-24, 2005	Presentation made as part of the International Budget Conference in the state of Aguascalientes.
July-November 2005	Detailed comments received from SFP with regard to Progress Report and the Federal Systems report – numerous meetings held to arrive at appropriate language and presentation in the report
December 2005	Bank Procurement team carries out initial visit to the state of Sonora, which recently assumed leadership responsibilities in the CPCEF, to begin in-depth support to establish procurement indicators in the state.
January 2006	Concept Review for Second Phase of the Technical Assistance

Date	Activity
February 24, 2006	Harmonization Group of the CPFF presents its proposal for 43 indicators. Proposal includes technical formats for each indicator, and a glossary of terms
March 2006	Two meetings held with SHCP's states unit (UCEF). After receiving final comments from these officials, June 2005 Progress Report is published in English and Spanish
March 9-10	Bank Procurement team visits Aguascalientes to begin in-depth support to establish procurement indicators in the state. See press release: http://www.aguascalientes.gob.mx/Difusion/com-boletines/bol11337.asp
March 10, 2006	Bank FM/PEM team attends meeting of the Harmonization Group in the state of Durango, which includes representatives from 26 states. Bank team makes brief presentation and commits to continue providing facilitation and technical support
March 22, 2006	Decision Meeting held for Draft report of second phase (this report)
March 31, 2006	Draft report of the second phase, including recommendations, delivered to government counterparts

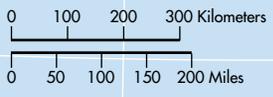
MAP SECTION



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MEXICO

- SELECTED CITIES AND TOWNS
- ⊙ STATE CAPITALS
- ⊛ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- STATE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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