



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/08/2001									
<b>PROJ ID:</b> P066867		<b>Appraisal</b>	<b>Actual</b>								
<b>Project Name:</b> Mexico Decentralization SAL	<b>Project Costs (US\$M)</b>	606.07	606.07								
<b>Country:</b> Mexico	<b>Loan/Credit (US\$M)</b>	606.07	606.07								
<b>Sector(s):</b> Board: PS - Sub-national government administration (33%), Central government administration (28%), Banking (22%), General public administration sector (11%), Health (6%)	<b>Cofinancing (US\$M)</b>	0	0								
<b>L/C Number:</b> L7002											
	<b>Board Approval (FY)</b>		00								
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2001	06/30/2001								
<table border="1"> <tr> <td><b>Prepared by :</b></td> <td><b>Reviewed by :</b></td> <td><b>Group Manager :</b></td> <td><b>Group:</b></td> </tr> <tr> <td>Jorge Garcia-Garcia</td> <td>Anwar M. Shah</td> <td>Ruben Lamdany</td> <td>OEDCR</td> </tr> </table>				<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>	Jorge Garcia-Garcia	Anwar M. Shah	Ruben Lamdany	OEDCR
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Jorge Garcia-Garcia	Anwar M. Shah	Ruben Lamdany	OEDCR								
<b>2. Project Objectives and Components</b> <b>a. Objectives</b> The loan had four objectives: 1. To impose hard budget constraints on federal resources provided to states and municipalities; 2. Reducing moral hazard in sub-national borrowing; 3. Increasing the transparency and public accountability of sub-national fiscal and financial management and of the overall decentralization process; and 4. Setting up pilot mechanisms to enhance efficiency in decentralized expenditures . <b>b. Components</b> The loan, a structural adjustment, had two tranches that were disbursed after Borrower met the conditions set in the loan agreement. <b>c. Comments on Project Cost, Financing and Dates</b> Loan disbursed as scheduled .											
<b>3. Achievement of Relevant Objectives:</b> <b>Objectives 1 and 2.</b> On March 31, 2000, the Secretary of Finance and Public Credit (SHCP) discontinued its policy of accepting <i>mandatos</i> to collateralize the sub-national debt with revenue sharing transfers . SHCP eliminated the exception whereby sub-national lending was not considered part of a lender's normal exposure concentration limits . To calculate their capital-risk weighted average, commercial banks must give greater weight to loans given to states and municipalities that lack credit ratings . Sub-national governments must get their credit ratings from two international rating agencies . <b>Objective 3.</b> Discretionary transfers given through <i>Ramo 23</i> were eliminated from the federal budget . SHCP published the regulatory frameworks for all the programs involving payments to the states, as well as rules of access to such funds . <b>Objective 4.</b> The 2000 budget contained the specified level of funding for transfers to the states for the enhancement of environmental and health programs . SHCP and sub-national entities developed a plan to improve their accounting, auditing, budgeting, revenue, debt management and reporting procedures .											
<b>4. Significant Outcomes/Impacts:</b> It reduced the potential danger of the <i>mandatos</i> to the federal government's fiscal policy . It took steps to introduce market-based discipline on the access to credit markets by sub-national governments . It eliminated the discretionary transfers from the federal budget ( <i>Ramo 23</i> ).											
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b> None											

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Highly Satisfactory	Satisfactory	The loan helped to enhance discipline in Mexico's fiscal policy at the federal and sub-national levels. The loan, however, cannot be rated as highly satisfactory because it undertook relatively easier steps of those identified in the President's Report for this loan. Furthermore, the ICR rates it as highly satisfactory by overstating its achievements. The ICR presents as loan achievements actions or procedures already in place before loan was granted: <ul style="list-style-type: none"> <li>• One rating agency was doing credit ratings for sub-national governments;</li> <li>• Ramo 33 transfers started in 1998;</li> <li>• The Statistical Annex to the President's Report to Congress published information on transfers to states.</li> </ul>
<b>Institutional Dev .:</b>	High	Modest	Reforms had a positive but small impact on the institutional arrangements in support of decentralization .
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Highly Satisfactory	Satisfactory	ICR presents as loan achievements actions or procedures already in place before loan was granted . As a result ICR overstates Bank performance .
<b>Borrower Perf .:</b>	Highly Satisfactory	Satisfactory	ICR presents as loan achievements actions or procedures already in place before loan was granted . As a result ICR overstates Borrower performance .
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

To ensure fiscal discipline, all levels of government must be made to face the financial consequences of their decisions.

**8. Assessment Recommended?** ☒ Yes ☐ No

**Why?** To get a better grasp of the loan achievements .

#### 9. Comments on Quality of ICR:

ICR covers important subjects, presents evidence about loan conditions met and discusses how the loan contributes to macroeconomic stability and poverty alleviation . However, the ICR has shortcomings, noted below .

ICR presents as loan achievements actions or procedures already in place before the loan was granted, or attributes to the loan actions unrelated to it. First, the law regulating Ramo 28 transfers was issued in 1980 and the transfers were based on a formula. Second, Ramo 33 transfers started in 1998, two years before the loan was granted . Third, President Fox's statement that "there would be no more bailouts" cannot be attributed to the loan; moreover, there is no institutional arrangement in place to prevent more bailouts . Fourth, before 2000 the Statistical Annex to the President's Report to Congress published information on state -by-state allocation of federal government spending for roads and education . If publishing this information was a loan condition, the ICR should have pointed out what difference it made or explained the qualitative and quantitative difference, if any, between the information published before and after the loan .

ICR could have: (a) presented loan achievements accurately; and (b) attributed actions to loan objectives precisely . As it is presented, some actions and loan objectives cannot be properly matched . For example, transfers based on formula do not ensure that sub-national governments will adopt hard budget constraints .