



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 12-Dec-2019 | Report No: PIDA27560



**BASIC INFORMATION**

**A. Basic Project Data**

Country Mexico	Project ID P169959	Project Name Modernization of Public Financial Management Systems in Mexico	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 10-Dec-2019	Estimated Board Date 06-Feb-2020	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) United Mexican States	Implementing Agency Ministry of Finance and Public Credit (SHCP)	

Proposed Development Objective(s)

To improve the coverage and timeliness of public financial information and its use by the Federal Public Administration.

Components

- Strengthening Core Public Financial Management Functions and Systems
- Supporting Resource Management Functions and Systems
- Enhance the Use and Transparency of Public Financial Management Information
- Strengthening Institutional and ICT Capacity of SHCP

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	110.00
<b>Total Financing</b>	110.00
<b>of which IBRD/IDA</b>	110.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	110.00
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Environmental and Social Risk Classification

Low

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**Mexico is an upper-middle income country with a diversified economy, but moderate economic growth has limited significant poverty reduction and income convergence.** Growth averaged about 2 percent between 1980 and 2018, or close to 1 percent on a per capita basis. The country's per capita gross domestic product (GDP) stands at 34 percent of U.S. per capita GDP, compared with 49 percent back in 1980. On average, over the last 25 years, total factor productivity (TFP) growth has been negative. The official multidimensional poverty rate fell from 44.4 percent of the population in 2016 to 41.9 percent in 2018, while the share of the population living below the monetary poverty line in 2018 was 48.8 percent, close to the level observed in 2008. Moreover, regional inequality is high. After a decline in 2010–14, the annualized growth rate of median per capita income was 1.8 percent in 2016–18, still well below the average in the Latin America and the Caribbean (LAC) region.

**Improving public sector institutions is a critical challenge.** Dealing with institutional shortcomings requires a long-term strategy involving targeted and multiple reforms and interventions across policies, sectors, agencies, programs, and even projects. To meet the aspirations for inclusive growth, the authorities are committed to improving the government's ability to deliver public services and public infrastructure sustainably, transparently, efficiently, and equitably. Public finance management is an important element of the institutional strengthening in Mexico. Better integration and functional responsibilities, controls, timely-information to more efficiently allocate and save resources, and overall more effective public finance management processes would help safeguard public resources and enable more transparency.

**The deceleration in economic activity underway since Q2 2018 continued in 2019, but Mexico maintains a prudent macroeconomic policy framework.** On the demand side, despite real wage growth and strong remittance inflows in 2019, private consumption growth dipped to its slowest pace in the last years. Dragged by wage and other recurrent spending cuts in public administration, government consumption also slowed significantly over the first half of 2019. A degree of uncertainty around the trajectory of some of the new administration's sectoral policies, slowed investment further, which had been weak since 2016. In this context, inflation pressures continue to subside even with the significant minimum wage increase enacted at the beginning of the year. The policy rate has helped the local currency to hover below 20 pesos per dollar, as Mexico remains attractive to portfolio investors, but with less positive effects for fixed capital formation. Fiscal consolidation enabled the achievement of public debt stabilization. Mexico led emerging markets in stabilizing and then reducing public debt as a share of GDP, which stood at 53.6 percent in 2018 for gross public-sector debt (44.9 percent on a net basis as reported by the government). Expenditure rationalization measures plus the use its revenue stabilization fund broadly enable the authorities to compensate for lower than expected revenue collection



during 2019. Adherence to fiscal prudence is expected to continue as the administration presented its 2020 budget with a primary surplus and an overall fiscal deficit in line with the objective of stabilizing the public debt-to-GDP ratio. The budget emphasizes categorical social programs (minimum pension, student grants and stipends for youth) and a moderate public investment increase, which are financed by program consolidation and cuts in public wages, goods and services, and discretionary transfers to states.

### Sectoral and Institutional Context

**Over the last two decades Mexico, has made important strides in strengthening public financial management systems.** Mexico launched its Integrated System for Financial Administration (SIAFF) in the late 1990s. SIAF still supports core budgetary and treasury functions. The Federal Budget and Fiscal Responsibility Law of 2006 and the General Law of Government Accounting of 2008 provided a framework for accounting harmonization and a transition to accrual accounting. Constitutional reforms in transparency and accountability in 2014 and 2015 led to the creation of a National Transparency System (SNT) in 2014 and a National Anti-Corruption System (SNA) in 2015. The Transparency Law mandates the disclosure of all official documents produced by the government. Notwithstanding progress to date, Mexico's PFM system still faces challenges in the policy alignment, coverage, timeliness and quality of public financial information which hinder effective financial management.

**The budget process is robust, but further work is needed to integrate a medium-term, strategic perspective in financial management.** Budget is formulated by spending ministries based on the legal framework issued by the Ministry of Finance and Public Credit (SHCP) and the Government's strategic priorities which are reflected in the National Development Plan. A performance information system has been established at federal level.

**Significant progress has been made in the harmonization of budget classifications and accounting standards across Federal, State and Municipal levels of government but these are only partially aligned with international standards.** The budget classification includes administrative, economic, functional and program classification but economic and functional classification do not comply entirely with GFSM standards and SHCP has developed bridge tables to produce reports consistent with GFSM standards. The National Council for the Harmonization of Accounting (CONAC) established in 2008 has played a leading role in the development of budget and accounting standards, which are now shared by the federal state, and local levels of government. In principle accrual concepts have been adopted for public sector accounting in Mexico: the General Law of Government Accounting stipulates that, starting on 2012, the Government must prepare consolidated financial statements on an accrual basis and Subnational Governments from 2013. The transition to accrual accounting has been slower than planned and the path is still uncertain. CONAC's Government Accounting Conceptual Framework establishes that the national regulations take precedence over international standards, though national standards are incomplete. Information systems continue to apply modified cash principles. This is of material consequence. The IMF's 2018 Fiscal Transparency Evaluation<sup>1</sup> argues that cash-to accrual and coverage adjustments would increase the Mexican public sector deficit by 3.5 percent of GDP in 2016 largely because of significant under-registration or delayed registration of payment obligations.

**Fiscal reports cover only entities included in the Federal budget thereby excluding a significant part of the public sector.** SHCP issues monthly and quarterly financial reports which contain detailed information on revenue and expenditure budget execution, as well as public debt. These reports are made public through the Ministry's internet web site. Annual public accounts prepared by SHCP are to the Legislature within four months after the end of each fiscal year. There are

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<sup>1</sup> Pattanayak, Sailendra, Eliko Pedastaar, Alpa Shah, Concha Verdugo, Richard Allen, Felipe Bardella, and Rolando Ossowski. Mexico Fiscal Transparency Evaluation. IMF: Washington, DC, 2018.



119 Extra Budgetary entities at the Federal level for which summary information on the revenues, spending and financing is included in the budget documents. These account for 6 percent of the Federal budget. More than 246 federal trust funds, some of them with “organic structure” make transactions largely outside the budget. Subnational governments are not covered by the consolidated fiscal report, accounting for one third of public sector spending. There is no consistent framework for reporting by state-owned enterprises. Fiscal reports in Mexico are compiled and disseminated and regularly published online by SHCP. SHCP launched the Budget Transparency Portal in 2011.

**Significant progress has been made in strengthening financial information systems, but systems for key functions are fragmented, limiting the coverage of financial information and the effectiveness of controls.** The Integrated Federal Financial Administration System (SIAFF) was developed internally by SHCP to support core treasury functions. The Accounting and Budget System (SICOP) was developed to support accounting reforms and integrate the budgeting and accounting functions through linkages to SIAFF. Additionally, Government has put in place a public procurement system (Compranet). These systems allow recording of financial transactions, including payments, budget and accounting information. However, information on debt, revenues, and some treasury functions are still managed through different systems. Systems have been designed following a function-by-function approach, focused on budgetary expenditures, rather than with a view to achieving process integration. Consequently, the systems do not ensure consistency across information sources. Management processes are isolated, limiting effective control over all stages of the expenditure cycle such as setting ceilings, estimation of budget availability and arrears. Fragmentation hinders timely consolidation of financial information and effective control.

**GoM has decided to undertake an overhaul of its federal PFM processes and systems with the goal of improving the quality and timeliness of financial information, expanding systems coverage by fully adopting international best practices and principles.** Reforms will support a transition towards accrual accounting principles in order to improve the quality of financial information and strengthen fiscal accountability. The key elements of this strategy: expanding coverage of public expenditure management controls and systems; Improving the timeliness and consistency of PFM information; Reducing the fragmentation of PFM information to support fiscal management; and Strengthening the supporting technological platforms for PFM systems. This strategy provides the framework for the proposed project.

### **C. Proposed Development Objective(s)**

Development Objective(s) (From PAD)

To improve the coverage and timeliness of public financial information and its use by the Federal Public Administration.

#### Key Results

Successful achievement of the Project Development Objective (PDO) above will be measured with the following outcome level indicators:

- a) Share of the federal budget directly executed through the IFMIS (coverage)
- b) Reduction in the time to produce consolidated budget execution information (timeliness)
- c) Share of units in SHCP using information from a common data warehouse primarily fed by the FMIS (use of information)



**D. Project Description**

The Project comprises four key areas of intervention or components: (1) strengthening core public financial management functions and systems, i.e. budgeting, accounting, treasury, public investment and public debt management; (2) supporting resource management functions and systems in federal government agencies including payroll, procurement, and asset management; (3) enhancing the use and transparency of public financial management information, contributing to evidence-based decision-making; and (4) strengthening institutional capacity to support the reform process, including ICT platforms, the technological architecture underlying the public financial management information systems, and change management activities.

Legal Operational Policies	
	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

**Environmental and social risk are rated low.** The Project will finance consulting and advisory services, capacity building and training to help improve and consolidate Mexico’s technological platform for public financial management. Investment in hardware and software programming are expected and related e-waste and energy efficiency aspects need to be considered. No activity will finance or lead to physical displacement, construction works, negative impacts on social inclusion, or negative impacts on vulnerable population. The strengthening of fiscal transparency and citizen participation initiatives considered under Component 3 are expected to enhance public accountability and transparency.

**E. Implementation**

Institutional and Implementation Arrangements

The Project will be implemented over five years by the Ministry of Finance and Public Credit (SHCP). The Project Administration Unit (PAU) will be located within SHCP’s Under-Secretariat for Expenditures. The PAU will be led by a Project Administrator and will include fiduciary and monitoring and evaluation staff. The PAU will be responsible for operationalizing the strategic guidance from the Project’s Steering and Operational Committees; overseeing implementation in coordination with the project execution units; and carrying out the Project’s fiduciary, environmental and social risk management, administrative, and monitoring duties including the preparation of technical and financial monitoring reports required by the Steering and Operational Committees and the World Bank. A Steering Committee will set the project’s strategic direction and Operational Committee will oversee implementation. An Operational Committee will oversee the implementation of the Project. The General Directorate of Technology and Information Security (DGTSI) will serve as Technical Advisor, while the Project Administrator will serve as the Committee’s Technical Secretariat.



**CONTACT POINT**

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**APPROVAL**

Task Team Leader(s):	Henry Forero Ramirez Alberto Leyton
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**Approved By**

Environmental and Social Standards Advisor:		
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Practice Manager/Manager:		
Country Director:	Pablo Saavedra	13-Dec-2019

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