Achievements and Challenges of Fiscal Decentralization

Lessons from Mexico

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Marcelo M. Giugale and Steven B. Webb
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Acronyms

CAPFCE  Comité Administrador del Programa Federal de Construcción de Escuelas
CEDEMUN  Centro de Desarrollo Municipal
CGC  Commonwealth Grants Commission
CIDAC  Centro de Investigación para el Desarrollo, A.C.
CNA  Comisión Nacional del Agua
CNS  Consejo Nacional de Salud
CONAFE  Consejo Nacional de Fomento Educativo
COPLADE  Comités de Planeación para el Desarrollo del Estado
COPLADEMUN  Comités de Planeación para el Desarrollo Municipal
COPRE  Comisión Presidencial para la Reforma del Estado
CVAT  Compensating value added tax
DIF  Desarrollo Integral de la Familia
EDUCO  Educación con Participación de la Comunidad
FAEA  Fondo de Aportaciones para la Educación de los Adultos
FAEB  Fondo de Aportaciones para la Educación Básica y Normal
FAETA  Fondo de Aportaciones para la Educación Tecnológica y de los Adultos
FAFM  Fondo de Aportaciones para el Fortalecimiento de los Municipios
FAISE  Fondo de Infraestructura Social Estatal
FAISM  Fondo de Aportaciones para Infraestructura Social Municipal
FAM  Fondo de Aportaciones Múltiples
FASP  Fondo de Aportaciones para la Seguridad Pública
FASSA  Fondo de Aportaciones para los Servicios de Salud
FFM  Fideicomiso de Fomento Minero
FGP  Fondo General de Participaciones
FISM  Fondo para la Infraestructura Social Municipal
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>IEPS</td>
<td>Impuesto Especial sobre Producción y Servicio</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IMSS-</td>
<td>Instituto Mexicano del Seguro Social</td>
</tr>
<tr>
<td>COPLAMAR</td>
<td>Coordinación General del Plan Nacional de Zonas Deprimidas y Grupos Marginados</td>
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<tr>
<td>INDETEC</td>
<td>Instituto para el Desarrollo Técnico de las Haciendas Públicas</td>
</tr>
<tr>
<td>INE</td>
<td>Instituto Nacional de Ecología</td>
</tr>
<tr>
<td>INEA</td>
<td>Instituto Nacional para la Educación de los Adultos</td>
</tr>
<tr>
<td>INEGI</td>
<td>Instituto Nacional de Estadística Geografía e Informática</td>
</tr>
<tr>
<td>IPF</td>
<td>Inversión Pública Federal Instituto Nacional de Estadísticas Geografía y Investigación</td>
</tr>
<tr>
<td>ISAN</td>
<td>Impuesto Sobre Automóviles Nuevos</td>
</tr>
<tr>
<td>ISIM</td>
<td>Impuesto Sobre Ingresos Mercantiles</td>
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<tr>
<td>ISSSTE</td>
<td>Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado</td>
</tr>
<tr>
<td>IVA</td>
<td>Impuesto al Valor Agregado (Value Added Tax)</td>
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<tr>
<td>MARINA</td>
<td>Secretaría de Marina</td>
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<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<tr>
<td>NEP</td>
<td>Nueva Estrategia de Programación</td>
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<tr>
<td>OCDE</td>
<td>Organización para la Cooperación y el Desarrollo Económico</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>OPD</td>
<td>Organismos públicos de descentralización</td>
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<tr>
<td>PAN</td>
<td>Partido Acción Nacional</td>
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<tr>
<td>PAO</td>
<td>Planes operativos anuales</td>
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<tr>
<td>PARE</td>
<td>Programa para Abatir el Rezago Educativo</td>
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<tr>
<td>PEMEX</td>
<td>Mexico’s nationalized oil company</td>
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<td>PRD</td>
<td>Partido de la Revolución Democrática</td>
</tr>
<tr>
<td>PRI</td>
<td>Partido Revolucionario Institucional</td>
</tr>
<tr>
<td>PROCAMPO</td>
<td>Programa de Apoyos Directos al Campo</td>
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<tr>
<td>PRODEI</td>
<td>Programa para el Desarrollo de la Educación Inicial</td>
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<tr>
<td>PROGRESA</td>
<td>Programa de Educación, Salud y Alimentación</td>
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<tr>
<td>PROMAP</td>
<td>Programa de Mejoramiento de la Administración Pública</td>
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<tr>
<td>PRONASOL</td>
<td>Programa Nacional de Solidaridad</td>
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<td>RFP</td>
<td>Recaudación Federal Participable</td>
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<td>RST</td>
<td>Retail sales tax</td>
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<td>SECODAM</td>
<td>Secretaría de Controlaría y Desarrollo Administrativo</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>SEDENA</td>
<td>Secretaría de la Defense Nacional</td>
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<tr>
<td>SEDESOL</td>
<td>Secretariat de Desarrollo Social</td>
</tr>
<tr>
<td>SHCP</td>
<td>Secretaría de Hacienda y Crédito Público</td>
</tr>
<tr>
<td>SNCF</td>
<td>Sistema Nacional de Coordinación Fiscal (Pacto Fiscal)</td>
</tr>
<tr>
<td>SSA</td>
<td>Secretaría de Salud</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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Democratization, decentralization, development. These three sequential forces have swept the world over the last decade and have redrawn the maps of politics, power, and prosperity. Undoubtedly, they have been fostered and accelerated by globalization (financial and commercial) and by the information technology revolution. Understanding those forces of change (despite their speed and complexity) is of the utmost importance for, in the end, their value will be measured by one simple yardstick—their impact on people’s quality of life, especially among the poor.

Modern Mexico has been fully engaged in, and is thus a rich case study of, the democratization, decentralization, and development trio. In recent years, enhanced political competition has redistributed decision-making across the three levels of government (federal, state, and municipal) and has made it more accountable to the average citizen. It has also given sub-national governments a renewed role as economic agents. The taxation, spending, borrowing, and institutions of Mexican states and municipalities are now increasingly (albeit unevenly) under the rigor of market discipline. The combined, closer scrutiny of voters and financiers is creating a new incentive framework for policymakers—a framework where necessary reforms become both inescapable and, more importantly, a perceived source of potential reward.

This book is the product of the analytical work of a large number of experts, Mexican and foreign. They here document Mexico’s decentralization experience; conceptualize its main trends, policies, and options; and bring it into the light of international comparison. They distill critical

* Director, Mexico Country Department, the World Bank. As with other chapters in this book, the opinions expressed here are the author’s own, and do not necessarily reflect the views of the World Bank, its Board of Executive Directors, or its member countries.
lessons and challenges that are of relevance for Mexico, for Latin America and, generally, for countries that are embarking on far reaching decentralization efforts. This renders the volume a major contribution to our knowledge and thinking in this area. And a timely one: for decentralization is an irreversible process that is likely to continue occupying policymakers for years to come.