



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 09-May-2019 | Report No: PIDC26506



BASIC INFORMATION

A. Basic Project Data

Country Mexico	Project ID P169959	Parent Project ID (if any)	Project Name Modernization of Public Financial Management Systems in Mexico (P169959)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Aug 16, 2019	Estimated Board Date Oct 31, 2019	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) United Mexican States	Implementing Agency Ministry of Finance and Public Credit	

Proposed Development Objective(s)

The objective of the proposed Project is to improve the coverage, quality, timeliness, transparency, and use of public financial information in Mexico.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
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Environmental and Social Risk Classification
Low

Concept Review Decision
Track II-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

Fiscal consolidation enabled the achievement of public debt stabilization. By 2018, the authorities achieved the fiscal consolidation required by the Fiscal Responsibility Law, including for the second year running a primary surplus and the target of the Public-Sector Borrowing Requirement (PSBR) of 2.4 percent of GDP (down from its 2014 high of 4.5 percent). Mexico led Emerging Markets in stabilizing and then reducing public debt as a percentage of GDP, which stood at 44.8 percent on net basis as reported by the government. The needed adjustment between 2015-18, following the fall of commodity prices (in 2014) took a toll on public investment, but also on several recurrent spending categories. The new administration presented its 2019 budget, foreseeing an increase in the primary surplus (from 0.7 percent to 1 percent of GDP) and again maintaining the 2.5 percent of GDP overall fiscal deficit. For 2019, the budget places emphasis on new categorical social programs (minimum pension and transfers for youth programs) and a moderate public investment increase, which in line with the approved budget would be financed by program consolidation and austerity measures in wages, goods and services, and reductions in discretionary transfers to states.

Sectoral and Institutional Context

Supporting macro-fiscal stability, financial and administrative efficiency, transparency, and an effective use of fiscal information are all important objectives of public financial management (PFM) which are operationalized through integrated financial management regulations, processes, and information systems. In the case of Mexico, over the last two decades, the country has made important strides in achieving these objectives, with much progress in achieving macro-fiscal stability and important progress also in achieving financial efficiency. Mexico was also able to launch ambitious and broad reform processes through the enactment of PFM related legislation in the areas of public budgeting and accounting that not only mandated the adoption of internationally accepted principles but also initiated a process of harmonization of PFM standards across all levels of government.

Notwithstanding the significant progress in these areas, in the context of PFM, there is scope to improve the coverage of supporting systems used to manage public expenditures, as well expenditure classifications. The recently released Fiscal Transparency Evaluation conducted by the IMF¹ in 2018 found that, while Mexico meets fifteen out of forty-eight principles at an advanced level and nine at a good level, sixteen principles are met only at a basic level and seven do not meet even the basic practice. Two important issues, which are closely related to PFM practices that prevent Mexico from fully adopting the principles of accrual accounting (important for effective reporting, and better informing and supporting fiscal and financial management functions), stand out from this evaluation. The first is related to the institutional coverage of existing processes and systems, which in practice currently cover only one third of total public expenditures; the second is related to inconsistent use of expenditure classifications, which limits the utility of existing information and forces fiscal authorities to rely on a variety of information sources. As a result, Mexico's current practices and systems are not generating information of sufficient

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



quality and timeliness, thus undermining fiscal policy formulation, public resource allocation, and effective budget implementation functions.

Relationship to CPF

The 2014-2019 Country Partnership Strategy (CPS) for the United Mexican States identifies Strengthening Public Finances and Government Efficiency (Theme 3) as one of the priority areas for engagement. The proposed Project's focus on improving the coverage, quality, timeliness, transparency, and use of public financial information in Mexico through the strengthening of the Government's public financial management and public investment management systems is well-aligned with these priorities.

C. Proposed Development Objective(s)

The objective of the proposed Project is to improve the coverage, quality, timeliness, transparency, and use of public financial information in Mexico.

Key Results (From PCN)

1. Percentage of transactions that are recorded at their corresponding expenditure moment (commitment, accrual and payment)
2. Percentage of public investment projects processed according to the standardized criteria, processes, and methodologies within the National Public Investment System (implying projects' compliance with standardized criteria, processes, and methodologies)
3. Percentage of administrative and financial transactions in the Federal government that are recorded in real time in the central financial management system
4. Scope and availability of online data used to inform macro fiscal and financial planning functions
5. SHCP using information from a common data warehouse and business intelligence tools for fiscal planning and monitoring. (*Use*)

D. Concept Description

The proposed Project aims to expand the coverage and strengthen the coverage, quality, timeliness, transparency and use of the public financial information in Mexico through the strengthening of the integrated management of three key areas linked to the expenditure cycle: (1) the consolidation of integrated public financial management methods and practices within core financial management functions; (2) the strengthening and integration of decentralized administrative functions; and (3) the strengthening of the national public investment management system. At this stage, the amount of the loan is tentative and to be determined through the preparation of the project.



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

Summary of Screening of Environmental and Social Risks and Impacts

Environmental and Social risks identified at Concept Note Stage are rated low given the nature of this project.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

CONTACT POINT

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APPROVAL

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