Multi-level governance of public investment 2017

Table 1. **Facts and figures related to direct public investment**

2014	General Government	Subnational Governments
USD billion	43.1	31.7
USD per capita	364	268
% of GDP	2.1%	1.6%
% of public expenditure	8.8%	12.8%
% of total public direct investment	100%	73.6%

Source: OECD (2016), Subnational governments in OECD countries: Key data, 2016 edition (brochure).

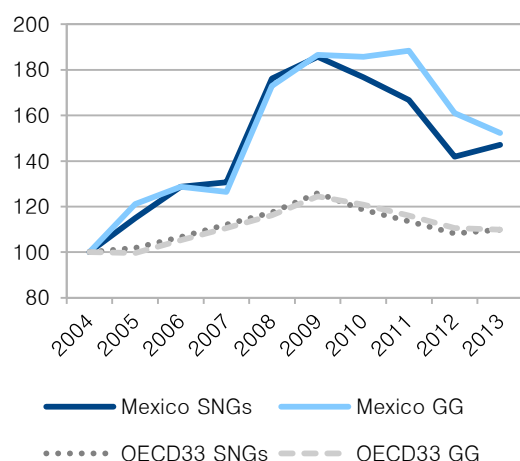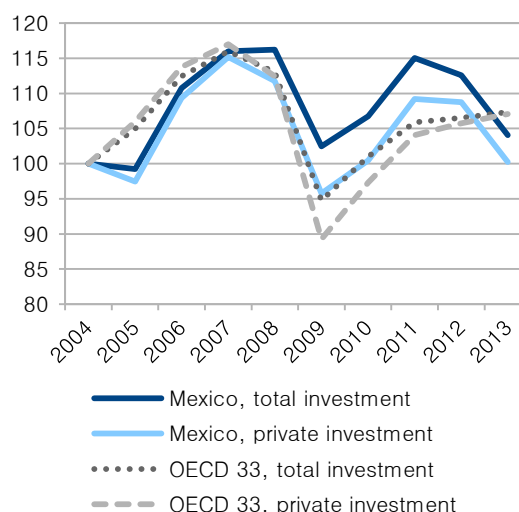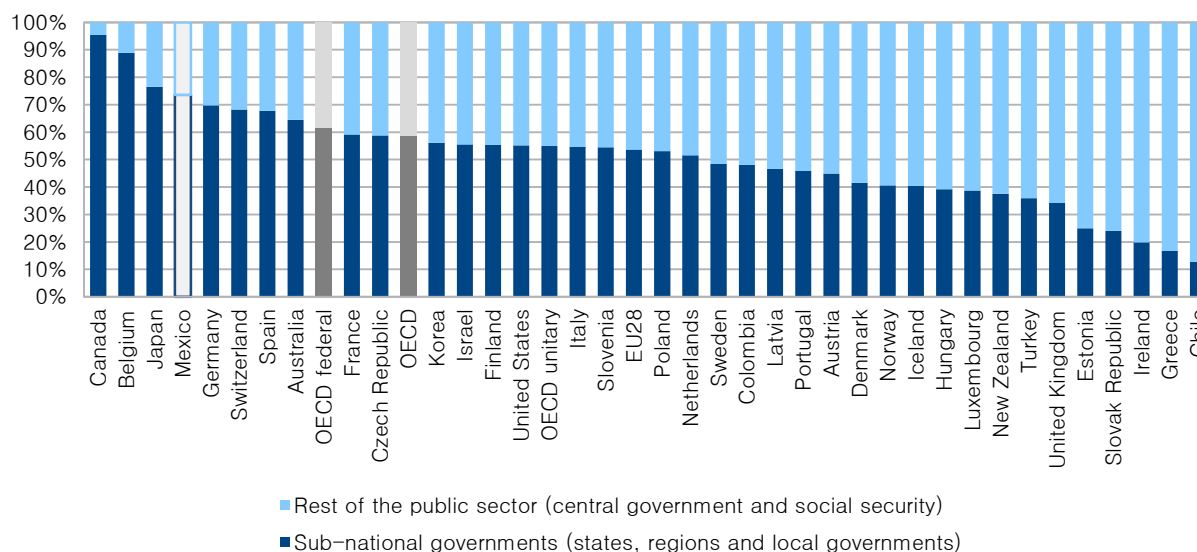Figure 1. **Trends in direct public investment in Mexico (2004–14)**

Figure 2. **Trends in total and private direct investment in Mexico (2004–14)**

Source: OECD National Accounts. In real terms, base 100 in 2004.

Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 3. **Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)**
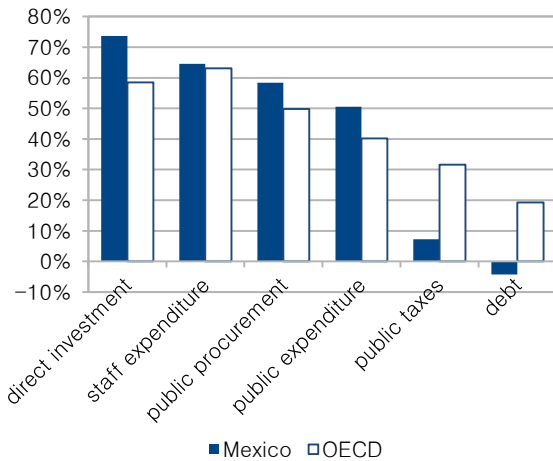

Source: OECD National Accounts.
Note: Data for Mexico: 2013 instead of 2014; Chile: 2012 instead of 2014; Turkey instead of 2014.
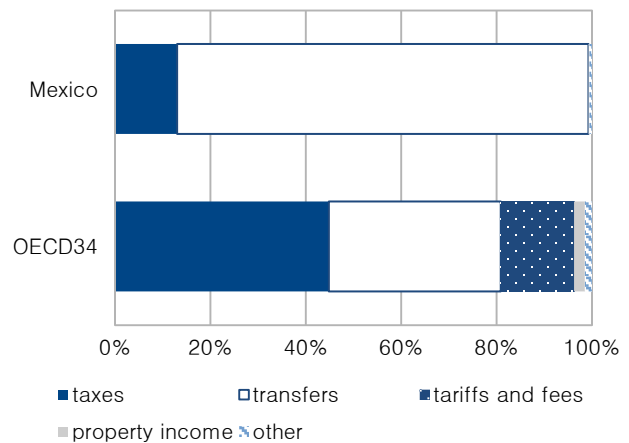
As in most federations, the share of subnational expenditure is higher than the OECD average for large categories of spending (total expenditure, investments, staff expenditure, public procurement). However in contrast to other OECD countries, SNGs in Mexico even have a small surplus (Figure 4). Moreover, in contrast to most other federations sub-national governments also have a very small share of revenues from taxes (Figure 5), which is compensated a very large reliance on transfers from the central government. In 2007, a reform was introduced to increase the share of taxes in SNG revenues, and more generally increase subnational financial autonomy.

Figure 4. **The role of subnational governments in public finance in Mexico, 2013**

Figure 5. **Indicators of subnational fiscal revenues in Mexico, 2013**

Source: OECD National Accounts. Note: public expenditure: 2012 instead of 2014.

Source: OECD National Accounts. Note: data for OECD:2014.

Examples of good practices or recent developments for effective public investment

Coherent Planning:

The National Development Plan (Plan Nacional de Desarrollo) is a document integrating the planning and budgeting of the federal administration. According to the Planning Law (Ley de Planeación), all other official planning documents (Sectoral Programmes, Special Programmes, Institutional Programmes and Regional Programmes) must be made in accordance with this plan

Vertical coordination:

In order to improve co-ordination across levels of government, Mexico has undertaken a legislative transformation of the entitlements of each government authority. In order to carry this out successfully, federal agreements with 32 state governments and the 169 municipalities that integrate the 90 largest cities were recently signed in 2013.

The "Agreements of Coordination Framework" are aimed to directly link bilateral actions between federal and local governments. Local governments will submit a list of potential investment projects to be developed, that will contain a full description of each project as well as the estimated cost and number of beneficiaries. In order to apply the 2013 urban and housing policy, all submitted actions must be supported and attached to the Urban Development Programs (either for partial, metropolitan, urban and state programmes). It is also required to specify the origin of the requested public investment for each case (local investment, federal investment or joint investment). Submitted documents will be assessed by the Ministry of Agrarian, Territorial and Urban Development (SEDATU). All states have a local representation of SEDATU, so the first approach with the ministry should be carried out at the local level.
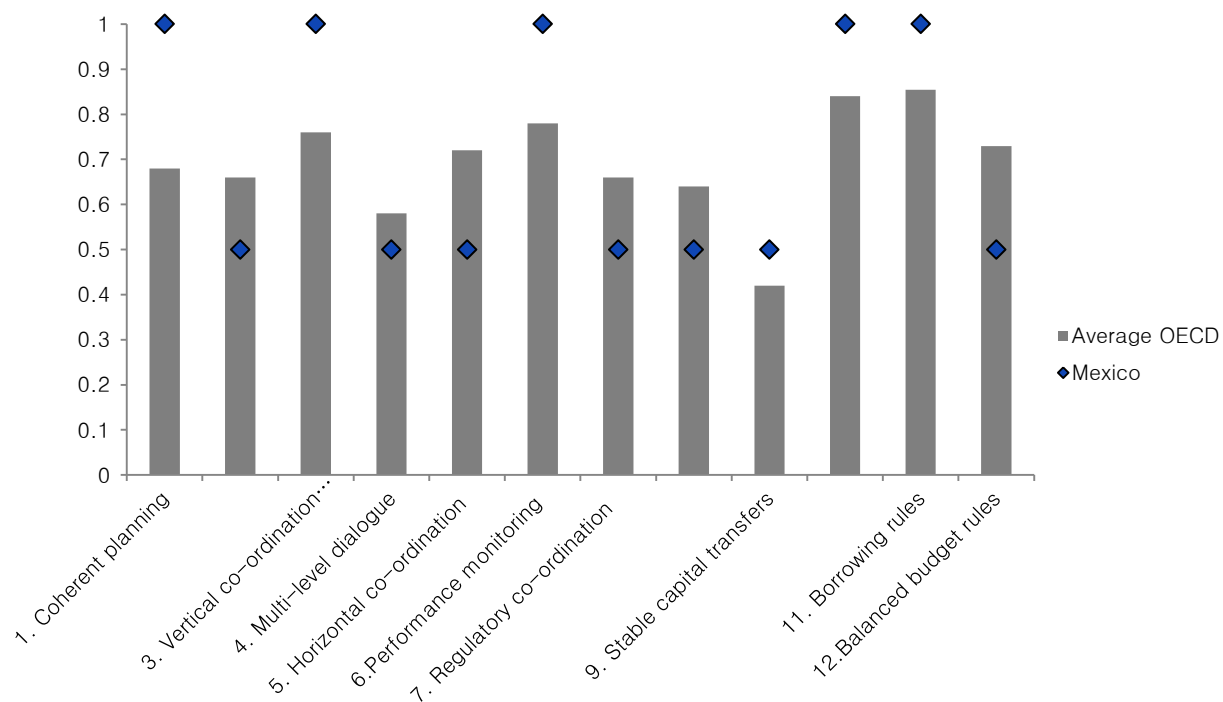
These agreements are expected to contribute to enhanced coordination between all three levels of government (Federal, State and Municipalities); cross-sectoral coordination between all institutions and participation of all members in public investment programmes. Since they have just been implemented, it is too early to assess their functioning.

Regulatory coordination:

Mexico is working to improve regulatory capacity at the subnational level. Twenty out of 31 states and the Federal District have issued regulatory reform laws; eight states have laws on economic development containing a section on regulatory improvement; ten of the 32 subnational units have a commission in charge of advocating and implementing better regulation; 20 have a unit within a ministry, and two have another body fulfilling this role. In addition, e-government tools are widely employed by states and municipalities to enhance regulatory transparency and simplify formalities. In 2009, the Mexican Ministry of Economy and the OECD worked to improve competitiveness at the subnational level by identifying the most burdensome formalities for the business sector in nine states. In 2011, the OECD supported efforts to improve regulatory quality in four states (Baja California, Colima, Chiapas and Sinaloa) and their municipalities (Tijuana, Colima, Tuxtla Gutierrez and Culiacan).

Preliminary indicators of MLG of public investment for regional development

Figure 6. **Indicators for the coordination of public investment for regional development**

■ Average OECD
◆ Mexico

Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

ANNEX 1
Indicators for the coordination of public investment for regional development

1. Coherent planning across levels of government

The country has regional development policies/strategies to support regional development and local investments.

a	No explicit national policies to support regional development	
b	Explicit national policies to support regional development in all or parts of the country	
c	Explicit national regional development policies completed by regional investment strategies aligned with it	X

2. Co-ordination across sectors in the national planning process

The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development

a	No mechanism	
b	At least inter-ministerial committee and/or cross-ministerial plan	X
c	Inter-ministerial committee and/or plan + other mechanisms	

3. Vertical co-ordination instruments

The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)

a	None of these	
b	At least one of these mechanisms	
c	At least one of these mechanisms involving many sectors	X

4. Multi-level dialogue to define investment priorities for regional development

The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities

a	No regular dialogue	
b	Formal or ad hoc dialogue	X
c	The platform has decision-making authority	

5. Horizontal co-ordination across jurisdictions

The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment

a	No mechanisms	
b	Formal horizontal co-ordination mechanisms at the municipal level	X
c	Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions)	

6. Performance monitoring and learning

The country has mechanisms in place to monitor and evaluate regional development policy

a	No mechanisms	
b	The country has indicators to monitor the effectiveness of regional development policy	
c	The country has conducted evaluations of regional development policy	X

7. Regulatory co-ordination across levels of government

The country has mechanisms to co-ordinate regulations across levels of government

a	No intergovernmental co-ordination mechanisms	
b	Formal co-ordination mechanisms between national/federal and state/regional governments	X
c	Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them	

8. Co-financing arrangements across national and subnational levels

There are co-financing arrangements for public investment

a	No co-financing arrangements	
b	Co-financing arrangements exist but funds are not tracked	X
c	Co-financing arrangements exist and funds are tracked	

9. Subnational governments benefit from predictable capital transfers over time

Variations in total capital transfer from one year to the next

a	Large variation: more than 20%	
b	Medium variation: between 10% and 20%	X
c	Little variation: less than 10%	

10. Transparent information across levels of government

Subnational fiscal situation is publicly available

a	Not available for any type of subnational government	
b	Available for regions/states/some level of subnational government only (on an individual basis)	
c	Available for each subnational government individually	X

11. Fiscal stability: rules for subnational governments

There are limits on subnational borrowing

a	No limits on subnational government borrowing	
b	Non-binding borrowing constraints	
c	Binding borrowing constraints	X

12. Safeguarding capital spending at subnational level

Balanced budget rules protect subnational capital spending

a	No balanced budget rule	
b	Balanced budget rule with no exception for capital spending	X
c	Balanced budget rule protecting capital spending (type golden-rule)	

ANNEX 2
Definitions and sources

Definitions:

- **General government (S.13)**: includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).

- **Subnational government**: is defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).

- **Direct investment**: includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

Sources:

Cuervo (2015): Mexico: Plan Nacional De Desarrollo (2013-2018), Boletín Regional, Urbano y Ambiental Vol. 11.

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OECD (2015a), OECD National Accounts Statistics (database), http://dx.doi.org/10.1787/na-data-en..

OECD (2015b), Implementation Toolkit, Effective Public Investment Across Levels of Government http://www.oecd.org/effective-public-investment-toolkit/

SEDATU (2014), Correspondence between SEDATU and the OECD.

OECD (2012), *OECD Reviews of Regulatory Reform: Mexico*, Towards a Whole-of-Government Perspective to Regulatory improvement, Key Findings Report, OECD Publishing, Paris.

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