

Chapter 4

Strengthening Governance at All Levels

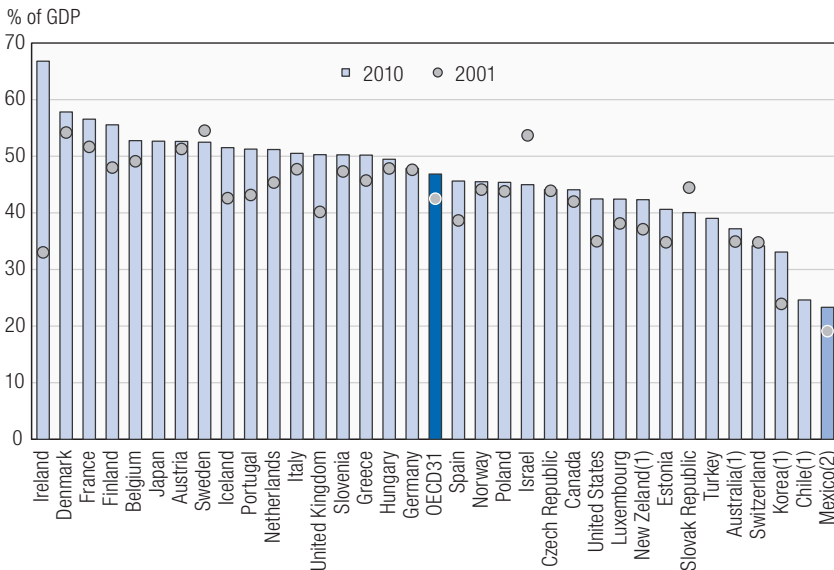
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The economic transformation of Mexico during the 1980s and 1990s led to a deep transformation of the role of the state in the economy. While Mexico has now become a highly globalised economy, its public management and governance system has had to adapt and modernise in a context of limited fiscal revenues. Significant progress has undoubtedly been made, but improvements have been uneven and advances at the federal level have not always translated into better capacity to design and implement policy across all levels of government. The Pact for Mexico announces a wide range of commitments that will further test the capacity of the public sector to deliver.

Good policy design is not sufficient to achieve all desired outcomes: implementation capacity plays a critical role in making a reform successful. Closing governance gaps at all levels, facilitating change, building capacity, and providing the right incentives (e.g. economic, visibility, recognition) are all crucial elements of strategies to achieve the new government's key objectives.

Public expenditure in Mexico is among the lowest in the OECD area (Figure 4.1). This strains public sector management capacity to mobilise people and resources effectively to face key challenges, such as poverty reduction, access to education, infrastructure improvements and adapting to change. In Mexico as in other OECD countries, the economic crisis provides an added incentive to find new ways of delivering quality public services at lower cost. This has led to more intensive

Figure 4.1. **Government expenditures as a % of GDP (2001 and 2010)**



Notes: 1. 2009 instead of 2010; 2. 2003 instead of 2001.

Source: OECD National Accounts.

efforts to professionalise the civil service, make better use of e-government and other ICT tools, streamline regulation, and improve management of key domains such as security and the rule of law, risk management and urban development, in order to better manage available resources.

In addition, in these and other fields, specific attention needs to be paid to improving the capacity of states and municipalities to implement policy effectively and in close co-operation with federal-level policy making. Managing relations among different levels of government is crucial, as governments must achieve more with less. Thus, Mexico should look for ways to facilitate co-ordination and solve capacity-building issues to bridge the information, fiscal, administrative, and policy gaps.

Strengthening public sector capacity

A fundamental building block for the Mexican government in improving the effectiveness of public policy is to ensure that the civil service has the skills, competences and incentives necessary for high-quality public service delivery. The recent OECD Public Procurement Reviews of Mexico's health and energy sectors (OECD a and b), for example, demonstrated the need to improve workforce management to better align human capital (numbers and skills) with strategic objectives. The most notable advance in recent years has been the creation of the Professional Career Service (*Servicio Profesional de Carrera*, SPC), which has embedded concepts such as meritocracy, professionalism, planning and career development into the vocabulary of the public administration. This is an important but challenging initiative, as was highlighted by the OECD (2011a) *Public Governance Review of Mexico*. A key challenge for the Mexican authorities is to consolidate the Professional Career Service as a core instrument of the government; doing so would ensure having a talented, diverse, high-performing, knowledge-based and professional workforce to meet the government's strategic objectives. To that end, it is essential to use strategic workforce planning to align the structure and function of the civil service with the goals of government.

Similarly, ensuring that recruitment is based on merit, as proposed in the Pact for Mexico for the "Professional Teaching Corps", and ensuring that permanence is determined through satisfactory performance, are means to enhance dynamism and fairness in the management of public organisations and public employees. A critical step for Mexico is to create a performance culture with strengthened management accountability. Finally, there is a need to further clarify the political-administrative interface, in order to enhance the credibility of the SPC while maintaining clear political accountability.

The Ministry of Public Management (*Secretaría de la Función Pública*, SFP) has been in charge of managing the federal public workforce and SPC. Current

plans to dismantle this ministry would imply giving the Ministry of Finance (Secretaría de Hacienda y Crédito Público, SHCP) responsibility for human resource management. This move may provide an opportunity to create synergies between the budget and HRM teams improving strategic workforce planning.

Mexico has made strong efforts to ensure that the public service is staffed by professional public servants who are recruited on merit. Implementation of the SPC is a major achievement given the situation a number of years ago. Efforts should continue to consolidate measures already taken to ensure having a transparent system that leaves little room for patronage.

Strategic workforce planning as a dynamic process designed to ensure effective performance in organisations is a key piece of the human resource management (HRM) modernisation agenda in many OECD member countries. Good workforce planning is indispensable for maintaining a structured and representative workforce of appropriate size. It is also important in meeting the changing needs of government organisations in a cost-efficient manner, and addressing specific issues such as turnover; workforce stability; the structure and quantity of training programmes; the need to manage downsizing programmes; and cost budgeting. All these elements play a key role in strengthening the capacities and capabilities of the Mexican civil service.

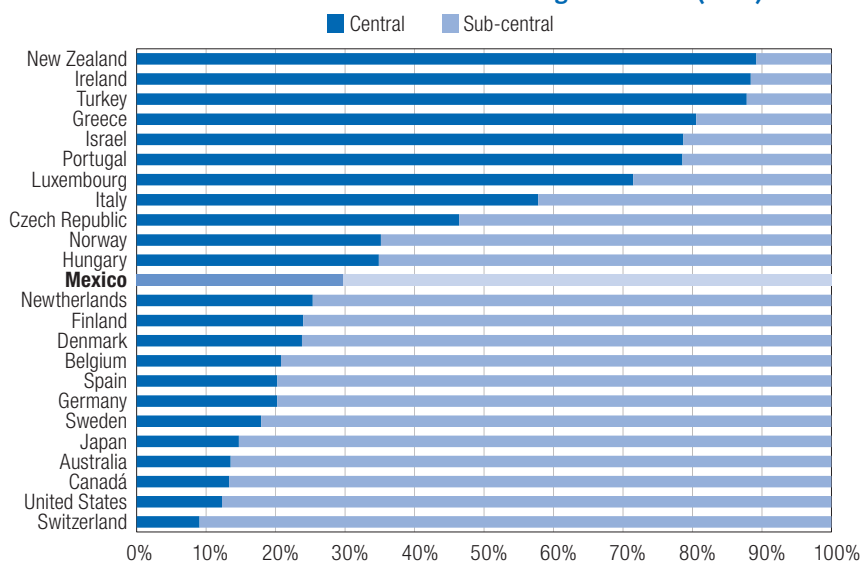
One of the most difficult issues is how to create a performance culture within specific organisations and throughout government. Creating such a culture requires new managerial competences at the operational level as well as adequate supporting arrangements and structures designed to assist employees in their quest for better performance. Similar to other OECD countries, the Mexican SPC includes a sub-system for performance evaluation, which measures those qualitative and quantitative aspects of organisations and individuals that allow them to meet their goals. Performance management thus requires a sophisticated approach, as many factors contribute to satisfactory or poor performance.

Mexico faces three main challenges here. First, assessing performance represents a cultural change for which neither the public service nor public servants are fully prepared. This change will require altering the attitudes, focus and incentives of managers and employees, and aligning administrative systems, organisations and resources towards multi-dimensional performance targets. Second, the government needs to build a framework for a performance management system. As a precondition for engaging in performance assessment, Mexico should strengthen its ability to describe the desired results of public organisations in a sufficiently operational way; this would improve the government's ability to assess performance at the organisational, team and individual levels. Third, operational managers should be more accountable for performance, and empowered to exercise this responsibility.

The experience of Canada's Management Accountability Framework could provide useful lessons for Mexico. Canadian authorities have put strong emphasis on results and performance, and increased delegation of management functions to departments. Thus, the Framework is intended to ensure departmental accountability for management results, including human resources.

Any effort to improve the human resource framework and bring a performance culture to the Mexican civil service must also address capacity at the sub-national level, which accounts for a large share of all public employment (Figure 4.2). Expanding the principles of professionalisation to local and municipal governments is a long-term challenge for Mexico. It is important to support and provide the conditions for development of merit-based HR policies in sub-national levels of government, as Mexico's public servants are largely

Figure 4.2. **Distribution of general government employment between the central and the sub-central levels of government (2008)**



Notes: Finland, Israel, Mexico and Sweden: 2007. Japan, New Zealand and Portugal: 2006. Japan: General government employment data are not classified according to system of national accounts definitions and are substituted by direct employment figures provided by central or sub-central governments. Data for Australia and the United States refer to the public sector (general government and public corporations). Data for the Czech Republic, Italy, the Netherlands, New Zealand and Poland are expressed in full-time equivalents (FTEs). In New Zealand FTEs are included for education, health and community services and personal and other services. Data for Hungary do not include other non-profit institutions at the central/sub-central level.

Source: International Labour Organisation (ILO), LABORSTA database. Data for Turkey are from the Ministry of Finance and Turkish Statistical Institute. Data for Japan are from the Establishment and Enterprise Census.

located in sub-central governments. This becomes even more important as local governments have been given responsibilities for the promotion of citizens' well-being, such as education and key public services. They require, therefore, sufficient capacities and abilities to meet those responsibilities.

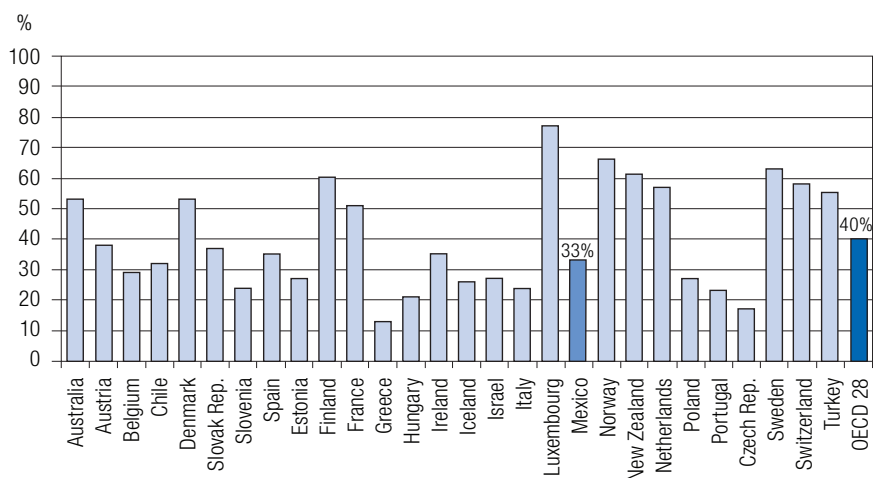
Recommendations

- Develop a clear strategic vision on how the public administration can contribute to meeting the government's priorities. This requires managing the whole public workforce in a more sophisticated and structured fashion to enhance efficiency. It also requires building a workforce of the appropriate size, composition, competences and skills required for service delivery.
- Consolidate the Professional Career Service System through strategic workforce planning, to effectively ensure capacity for service delivery while generating efficiency gains; developing a culture for performance management; providing real career opportunities for public employees; increasing the number of positions covered by the system; and facilitating collaboration between the budget authority and the human resource management body, to align workforce planning with budget planning.
- Expand the principles of professionalisation to all federal public servants – unionised (*de base*) and non-unionised (*de confianza*) – and to local governments. This implies fostering mechanisms for sharing experience and know-how across the federal public administration and levels of government, and developing evaluation frameworks and methodologies for constant oversight and a systematic assessment of the government's initiatives on workforce management.

Investing in integrity to restore trust in government, promote economic competitiveness and improve public services

In the Section 4 of the Pact for Mexico, major political parties agreed that transparency and accountability are tools to raise the level of citizens' trust in their government. Indeed, OECD member country experiences have shown that trust is a vital determinant for sustainable economic growth, in that it encourages investments and innovation. In turn, trust in government is largely dependent on the integrity of the public sector. Mexico, however, has experienced a low level of trust compared to OECD countries, mostly due to the high perception of corruption and impunity. For example, Mexico ranked the lowest among OECD countries according to Transparency International's 2012 Corruption Perception Index.

Corruption leads to waste of public resources, lowers the quality of public services, and has damaging impacts on government decision making. As a key

Figure 4.3. **Level of trust in national government, 2012 or latest available year**

Source: <http://www.gallup.com/poll/world.aspx>.

element for strengthening integrity in the public sector, transparency is strongly supported by the Pact for Mexico – for example, through proposals to broaden the powers of the Federal Institute for Access to Information (IFAI) in the commitment 83. Mexico has been at the forefront of transparency initiatives, including at the international level by founding the Open Government Partnership in 2011, but it could further advance by consolidating its accomplishment at a sub-national level.

The Pact for Mexico also outlines the creation of a national anti-corruption system, which by means of a constitutional reform will establish a national commission and state commissions with powers of prevention, investigation, administrative sanction and referral to the competent authorities for acts of corruption (commitment 85). Many countries that faced corruption challenges similar to Mexico's have successfully addressed them through the modernisation of institutional arrangements. At the same time, their experience shows that a new institution is only a first step. To secure success, Mexico should pay particular attention to ensure independence of the new institution from political interference, and provide it with a clear mandate and sufficient resources to accomplish that mandate. Structural and operational autonomy from the Executive are the principal means to ensure independence of anti-corruption commissions. This autonomy could for example come through the appointment and removal of the governing body of the institution, where the executive shares nomination and approval powers with the legislative branch, and in some countries also with civil society.

Effective institutional reform must also encompass two additional aspects. First, many corrupt acts such as bribery are crimes and thus call for criminal

penalties. Institutions responsible for criminal investigation, prosecution and adjudication must have sufficient resources and expertise to accomplish this task. Second, corruption often involves not only corrupt officials, but also individuals and companies that corrupt them such as by paying bribes. Both the corruptor and the corrupted must be held accountable.

In addition to the anti-corruption institutional arrangement, Mexico should take into account the overall integrity framework, and pay particular attention to certain elements. One is to encourage and facilitate the reporting of corruption, for example through protection to whistleblowers and reducing impunity, and build a culture of integrity in public sector organisations. The Pact for Mexico places special emphasis on preventing and combating corruption in two institutions: PEMEX and the Federal Electricity Commission (CFE). This responds to the OECD Public Procurement Reviews of PEMEX and CFE that *inter alia* highlighted the need to strengthen the transparency and integrity of their procurement process. Mexico should go further and ensure that these institutions – like other Mexican enterprises – may be held liable under the Penal Code for corruption. As amply demonstrated in OECD countries, the threat of liability can spur corporate compliance measures to prevent corruption.

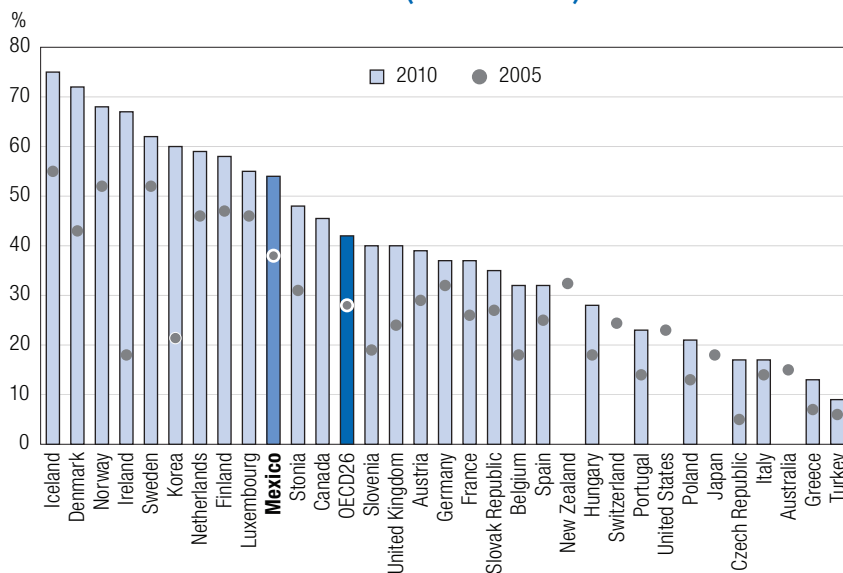
Recommendations

- Advance transparency initiatives at sub-national levels.
- Restructure institutional arrangements to prevent and sanction corruption by providing to the new anti-corruption commission – with real independence from political interference – a clear and specific mandate and sufficient resources.
- Substantially strengthen the criminal justice system so that it can and does investigate, prosecute, and sanction corrupt officials, as well as individuals and companies that corrupt them.
- Strengthen the overall integrity framework in the public sector to embed a culture of integrity in the public service, for example by facilitating the reporting of corruption and reducing levels of impunity.

Making the most of information and communication technologies (ICTs) to improve transparency, quality and efficiency of government

Mexico has a longstanding commitment to using ICTs to support public sector reforms and foster good governance by improving the transparency, quality and efficiency of government. The government has used ICTs to better integrate, simplify and implement processes in order to rationalise the use of

Figure 4.4. **Percentage of citizens using the Internet to interact with public authorities (2005 and 2010)**



Notes: For the United States, Japan and Australia, 2005 data refer to 2003. For Switzerland, 2005 data refer to 2004. For Denmark, Germany, France, Spain and New Zealand, 2005 data refer to 2006. For Canada and Mexico, 2010 data refer to 2007. For Iceland, 2010 data refer to 2009. 2010 data are missing for Australia, Canada, Japan, New Zealand, Switzerland and the United States, and these countries are not included in the average (OECD26).

Source: Eurostat Information Society database; OECD ICT database; and Korean Survey on ICT usage by the ministry of public administration and security.

resources in times of economic constraints; deliver services more coherently across the federal public administration; and strategically maximise the benefits of previous e-government investments and plan for new ones. The use of mobile government, and particularly the adoption of a cloud-building approach are excellent examples of the Mexican government's pioneering intention to use opportunities brought about by new technologies (e.g. Web 2.0) and technological phenomena (e.g. social networks). These have allowed the government to create social value through ICT investments, to multiply the value generated by newly developed ICT systems, applications and platforms, and to use these new opportunities to improve policy making. Another example is the newly developed citizens' portal *www.gob.mx*, which is built on an advanced search model that makes the interface of the portal simpler and more intuitive for the users.

Indeed, recent data put Mexico on a par with the OECD's leading countries in terms of ICT use to interact with public authorities by citizens (Figure 4.4), as

well as by businesses albeit to a lesser extent. This is remarkable given the gaps in access to the Internet faced in Mexico, particularly by some of its poorest citizens.

However, consolidating results in the future will require improvement in the institutional and governance framework for e-government. Strong and consistent leadership will be needed to support an overall national strategy and push forward further e-government development. Moreover, e-government is a horizontal policy area that cuts across the entire public administration; in order to maximise its impact, it is necessary to establish a governance framework that facilitates in-depth consultation on e-government policies among major stakeholders, to enable synergies, avoid wasting resources, and ensure that the various initiatives respond to different needs and common objectives, and are successful in the long run. Stronger co-ordination within the federal level, as well as co-operation across levels of government, should be ensured.

**Box 4.1. Using ICT to improve efficiency:
The case of health sector procurement**

Mexico has considerably strengthened its public procurement processes in recent years. Procurement reforms, such as providing more flexibility and sources of efficiency in the legal framework (including through reduction in the number of regulations) and revamping its e-procurement platform provide the health sector with much-needed tools to improve its procurement outcomes. The remaining challenge is implementation of these reforms.

Public procurement is vulnerable to waste, fraud and corruption due to its complexity, the size of the financial flows it generates, and the close interaction between the public and private sectors. Mexico's health sector was exposed in recent years to waste and corruption scandals related to procurement. Procurement reform that is consistent with the OECD Principles for Enhancing Integrity in Public Procurement is therefore needed, to enhance trust and credibility in these essential Mexican government institutions. Improved governance in procurement will provide cost savings, strengthen administrative efficiency, and improve service delivery.

IMSS and ISSSTE could further improve their procurement processes by relying more on e-procurement. Yet the level of take-up by suppliers is low, and not all procurement information systems are integrated within the organisations and with *Compranet*, the central government procurement website. This makes it difficult to reap the benefits of investments made to develop ICT systems that make it easier, more transparent and less time-consuming to manage and access information. To achieve the expected results, the system must be used by a high number of suppliers. This entails ensuring that system users (both civil servants and suppliers) have the right

ICT skills; raising their awareness of the existence of – and trust in – the system; and providing them with the right incentives to use it. Moreover, enhancing integration among the electronic systems is crucial to ensuring greater efficiency.

Source: OECD (2012c), *Public Procurement review of the Mexican Institute for Social Security*, OECD.

Recommendations

- Ensure that the progress made in e-government is continued, with strong leadership and institutionalised co-ordination within the federal government and support for good practice at sub-national level.
- Ensure that the benefits from e-government are reaped in areas such as procurement where they can impact on reducing public expenditures and improving transparency.

Regulatory policy: Towards a whole-of-government perspective

In recent years, Mexico has striven to improve its regulatory policy in order to support business activities, discourage informality, and promote the rule of law. Recent achievements include reform of the Regulatory Impact Assessment (RIA) system to concentrate resources on high-impact regulations; adoption of the Standard Cost Model (SCM) to measure administrative burdens; and the launch of a one-stop-shop for business start-ups, *Tuempresa.gob.mx*. The oversight body, the Federal Commission for Regulatory Improvement (COFEMER), is now well established, and Mexico scores well relative to other OECD countries in terms of institutional capacity for managing regulatory reform.

Despite these achievements, a culture of effective regulatory improvement still needs to be embedded across the federal government and across levels of government. Mexico has a formal policy on better regulation established in the Federal Law of Administrative Procedure (LFPA). The main elements of this policy include establishing COFEMER as the oversight body; outlining the responsibilities of line ministries and regulators as part of the better regulation policy; and establishing tools for the regulatory improvement policy (i.e. RIAs, administrative simplification, and consultation). Ministries and agencies of the federal public administration have specific obligations with regard to the better regulation policy. They must submit to COFEMER all their legislative and regulatory drafts, along with their RIAs. Furthermore, at least every two years, they must submit a programme of regulatory improvement on the regulations and formalities they apply, as well as periodic progress reports. They must also

submit to COFEMER and keep updated the information recorded in the Federal Registry of Formalities and Services (RFTS).

Nonetheless, further work should be fostered to step up to a new phase of regulatory quality that embeds an effective and profound regulatory improvement culture across the federal government.

COFEMER performs the functions of i) co-ordination and supervision, ii) challenge and scrutiny, and iii) training, advice, and technical support for better regulation. That said, the Commission needs an institutional design that grants it sufficient legal and financial autonomy to discharge its mandate as a central oversight body for regulatory quality. Such autonomy would reinforce its technical independence, protect its professionalism, and distance it from cyclical influences within the Mexican public administration. The measures to achieve this can include an autonomous budget, and more independence regarding its capacity to exercise its power. The actions to strengthen COFEMER should be accompanied by the setting of transparency and accountability rules. A more robust institutional setting would locate COFEMER close to core executive functions.

The policy to streamline Regulation inside Government (RIG) has been successful and deserves continuity. RIG refers to the regulations imposed by the state on its own administrators and public service providers. The “Guillotine of Administrative Regulations” had as one of its main goals to eliminate internal administrative regulations, in order to simplify and standardise the operation of federal government institutions and implement mechanisms to eliminate rules that hinder efficient service delivery. To date, this exercise has resulted in the elimination of 70% of the internal regulatory instruments. The policy to streamline RIG anticipates periodic reviews of the stock of regulations. Hence, it will be important that the new administration follows up this path-breaking exercise, upon which countries like Australia and Canada have also embarked. During the previous administration, the Ministry of Public Management (SFP) led the review of RIG. If this ministry were to be eliminated, the new administration might want to select another one with the capacity for whole-of-government influence to facilitate the continuity of this policy

The governance framework of regulatory authorities needs to be strengthened to ensure independence from direct political intervention and particular interests. Establishing a regulatory agency with a degree of independence (both from those it regulates and from the government) can provide greater confidence that regulatory decisions are made with the aim of maximising public value. Careful consideration should therefore be given to joint powers shared among agencies and ministries. It is therefore timely that in its inaugural Message to the Nation the President has committed to increase competition in the telecommunication sector and that building on this commitment the Pact for Mexico recognises the need to reinforce the autonomy and the decision-making powers of COFETEL

(commitment 40), as well as the need to strengthen the Comisión Nacional de Hidrocarburos (National Commission for Hydrocarbons, CNH) and expand its powers (commitment 51). In fact, the forthcoming OECD *Regulatory Reform Review* will advise the Mexican government to review the powers, attributions and governance arrangements of regulatory authorities. It is advisable to develop a whole-of-government model for the governance of regulators. This model should set the basic cornerstones of good governance for regulatory authorities in Mexico; it should also be used to revise the existing governance arrangements of regulatory authorities, as well as for guiding the development of new regulators.

Improving regulatory coherence across levels of government

Although attention to regulatory policies at sub-national level has been increasing, states and municipalities should strengthen the institutions and capacities for better regulation. Twenty out of the thirty-one federal states and the Federal District have a law on better regulation, mandating state authorities and sometimes municipalities to pursue regulatory improvement. In addition, eight states have laws on economic development that contain a section on regulatory improvement. Ten out of these thirty-two sub-national units have a commission in charge of advocating and implementing better regulation; twenty have a unit within a ministry; and two have additional units fulfilling this role. Likewise, 21 states make use of a citizen council to promote the active participation of citizens in their regulatory policies.

Despite progress, there is still room to develop and strengthen the institutions and capacities that support regulatory reform in states and municipalities. Monitoring the actual implementation of institutions and tools is important, to ensure that they are not only confined in the letter of the law. Three basic building blocks are suggested: laws for regulatory reform, units in charge of operating regulatory reform, and citizen councils to follow up regulatory policies. While it must be recognised that COFEMER has increased training and implementation assistance for states and municipalities, it is clear that its resources are limited. The key to advance capacity building even further is to secure the commitment of state governments to contribute to the work of COFEMER, as well as to engage municipalities.

Mexico should aspire to reaching convergence of regulatory policies at sub-national levels, and upgrade multilevel co-ordination. The lack of a structure facilitating political commitment and multilevel dialogue to address regulatory concerns might have slowed down progress towards convergence of regulatory institutions and practices, particularly in those states that are lagging behind in this area or those that do not possess the necessary knowledge to initiate reforms. Mexico could replicate some of the features of “co-operative federalism” to improve multilevel co-ordination, such as a solid political agreement to

pursue regulatory reform at national and local levels, funding schemes based on performance, and institutionalised monitoring of progress for strong accountability.

Only a few states and municipalities have made use of more sophisticated tools that may get them closer to a regulatory governance cycle approach. In the case of RIAs, for example, only five states are actually implementing this tool, with wide variation in terms of the stage of sophistication. Likewise, there is an incipient application of reviews of the stock of regulation by states and municipalities. On the other hand, e-government tools are widely employed to enhance regulatory transparency and simplify formalities.

It is time to move beyond pure simplification initiatives and to a regulatory governance cycle approach, so that regulatory policies in states and municipalities are comprehensive (address the different stages of the regulatory governance cycle), participative (motivate citizen participation in the management of regulatory policy), and permanent (stay beyond political transitions). The three levels of government, as well as other stakeholders of regulatory reform, have a role to play to accomplish these objectives.

Recommendations

- Mexico should embrace a “whole-of-government” culture for regulatory improvement policy. This includes creating a small committee or council of ministers to review and approve high-impact regulations, and establishing a network of units placed inside ministries that provide expert support in regulatory policy and governance matters.
- In order to achieve the “whole-of-government” culture for regulatory improvement policy, the institutional design of COFEMER must be revised to grant it sufficient legal and financial autonomy to reinforce its technical independence, protect its professionalism, and distance it from cyclical influences within the Mexican public administration.
- The institutional regulatory framework should be modernised through a review of powers, attributions, and governance arrangements of regulatory authorities. The governance framework needs to be strengthened to ensure independence from direct political intervention and particular interests.
- Institutions and capacities that support regulatory reform in states and municipalities should be strengthened while increasing the degree of political commitment to regulatory quality.
- Mexico should aspire to reach convergence of regulatory policies at sub-national levels and upgrade multilevel co-ordination by, for example, adopting some of the features of “co-operative federalism”.

- Regulatory policies at sub-national level should address all the stages of the regulatory governance cycle and be participative and permanent, while incorporating an approach consisting of policies, institutions, and tools.

Governance and public order

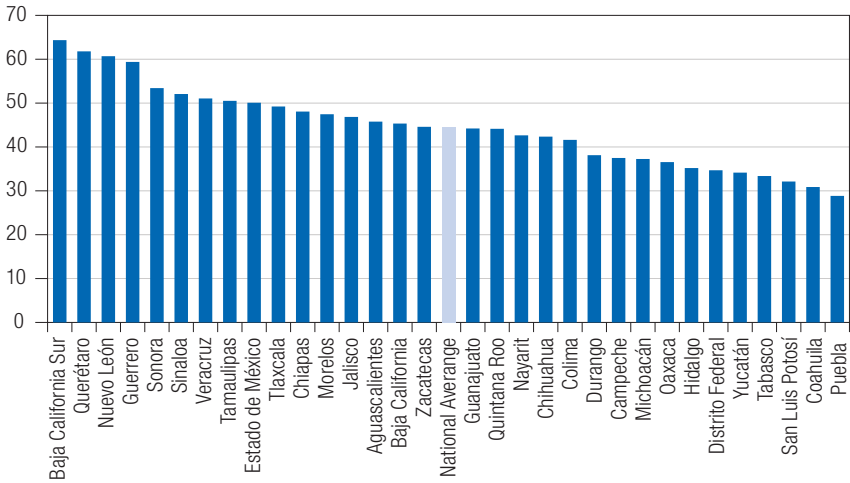
Security and justice are the foundations of healthy and prosperous economies. Opinion polls rank crime as the top concern of citizens, above even other pressing socio-economic issues such as poverty and unemployment. Threats to the integrity of property and the security of employees may either entirely drive investors and projects away or reduce the competitiveness of businesses through higher overhead costs. Crime in Mexico has distinct geographical dynamics. National averages mask strong differences in crime rates across the country. Murder rates are highest in the northwestern states such as Chihuahua, Sinaloa and Guerrero, where the rates have been elevated for over a decade. Tlaxcala, in the centre, and Yucatan, in the peninsula, have murder rates consistently well below the national average. Property crimes, on the other hand, tend to be concentrated in the cities, and tend to increase with regional per capita GDP, which explains the mixed picture of the distribution of crime across the country.

Significant reforms began in 2008 to improve the effectiveness and efficiency of the justice systems and strengthen institutional capacities to respond to crime. As is the case with other member countries that have undergone similar initiatives, however, it will take time to fully implement the reforms. For instance, data on pre-trial populations (Figure 4.5) demonstrate the marked variation in the speed at which people awaiting trial are processed through the legal system across Mexico.

The strong measures of the past few years have underlined that fighting crime effectively requires coherent policies across government bodies and levels of government. This includes the relationship on the one hand between crime prevention, law enforcement and justice administration, and on the other hand between creating opportunities and social development across local, state and national levels. More effective public policies against crime in Mexico require: (a) seeing security and justice as a concern of public policies, not just of the police; (b) developing evidence-based policy making in this area, and (c) being able to give security and justice a strong local footing.

The problem for the authorities in dealing with all types of crime is the difficulty of gathering data that are robust and interpretable. For example, the propensity to report crimes varies within countries. Research demonstrates that a large number of crimes are never reported: according to the US Bureau of Justice Statistics (2010), only 40% of property crimes and 49% of violent crimes were reported to the police. Similar estimates of unreported crimes for Mexico are as high as 90% (ENVIPE survey of 2010). Addressing criminal activity depends

Figure 4.5. **Pre-trial population as a percentage of total prison population (2011)**



Note: Indicator values are compiled from data published by the federal Secretariat of Public Safety (SSP).

Source: OECD (forthcoming), *Strengthening evidence-based policy making on Security and Justice in Mexico*.

on active reporting by citizens and business, yet a Gallup survey in 2007 showed that only 37% of the Mexican public expressed confidence in the country’s judicial system and courts. Finally, in Mexico the economic cost associated with starting a criminal process is, or is perceived to be, high, and this further discourages reporting. Public policies to prevent crime are thus closely linked to issues of public trust and integrity in the public sector. The Pact makes several important commitments in the field of police and justice reform. These need to be guided by good data and an evidence-based approach to policy making.

The absence of robust data on crime and its economic impact risks distorting the debate on how to tackle insecurity. Some elements are highly mediated, such as the military operations against drug cartels, cross-border trafficking and big money corruption scandals. Yet, much of the lower-profile criminality that affects people’s daily lives, often more directly, is never reported. In this context, allocation of resources can easily become skewed. The crucial issue remains, however, how to strengthen and reform institutions related to criminal justice so as to encourage more reporting of crime and more effective prosecution. This in turn will help rebuild trust between citizens and the public authorities. Nonetheless, it will take some time for these programmes to bear fruit and for their impact to be visible in the data.

Recommendations

- Mobilise Mexico's statistical and analytical capacity at national and state levels to improve evidence on and quality of security indicators, and find better ways to integrate objective and perception measures of the effectiveness of the judicial system and law enforcement by states.
- Develop an evaluation of the performance of criminal justice systems in Mexico, designing a framework that takes into account results from previous reforms of the justice service.
- Incorporate an assessment of the conditions and incentives for states/localities that could help in reforming the justice systems and in strengthening institutions.

Governance of risk

Emergency preparedness and response is a basic function of government that depends on good governance practices, in particular co-operation across departments and across levels of government. The National Civil Protection System (SINAPROC) has clear mechanisms to mobilise Federal resources in support of emergency response needs when state and municipal capacities to manage emergencies are overloaded. At the same time, given the very high level of environmental risks in Mexico (especially due to hurricanes, floods and earthquakes), local emergency response capacity is a crucial factor.

Mexico has made much progress in its national risk management, with the establishment and strengthening of the SINAPROC in 1986. For example, a 7.4 earthquake in March 2012 caused no human casualties in Mexico City, and had only negligible physical impact. As a result, economic growth was preserved and the accumulated assets of economic development were not lost. These impressive results reflect improvements in the mix of structural measures (*e.g.* more stringent building codes) and non-structural measures, such as advanced early warning systems, a much more developed safety culture with increased public awareness and preparation, and the benefits of regular drills and massive exercises. The reception of a precise earthquake warning 40 seconds in advance was particularly helpful.

While significant progress has been made at federal level, there are varying levels of capacity across some states and many municipalities to manage risks on their own. The "Safe Cities are Resistant to Disasters" is designed to bridge co-ordination and institutional participation between the three levels of government, by establishing a certification process for key civil protection capacities that municipalities should possess. Only 89 municipalities in 19 states have engaged in this programme, however: many states and municipal governments see insufficient incentives to participate.

Mexico has established itself as one of the leading countries in the financial management of disasters, through the National Disaster Fund (FONDEN) and the National Fund for the Prevention of Disasters (FOPREDEN). These strategic components of SINAPROC help alleviate the overall economic impacts of disasters and should help lower expenditures over the long term. Allocations have been highly concentrated however, going to relatively few states and not necessarily those with the highest exposure to risk. FONDEN has allocated 77% of its funds to just 6 of the 31 states (26% of its funds went to Veracruz and only 1% to Tamaulipas). This concentration reveals a high degree of recurrent losses in a few states that should be further pushed to insure their own assets, for example by earmarking federal contributions to pay for premiums. FOPREDEN has allocated 61% of its funds to 6 of the states (25% of its funds to Tamaulipas and only 1% of its funds to Veracruz). A recognised lack of capacity in some states to submit acceptable project proposals explains this concentration, and could undermine optimal distribution of allocations from a risk management perspective.

Improper land use and territorial/urban planning (discussed later in this chapter) contribute heavily to the vulnerability of Mexico's population to environmental risks, and are considered the most pressing policy challenge for disaster risk reduction. Rapid and continuous urbanisation in metropolitan areas has increased informal settlements in hazard-prone areas such as riverbanks and unstable hills. On this key issue, Mexico faces a governance deficit in risk prevention that ultimately places significant pressure on SINAPROC. Authority for land use policy is within the remit of local councils for more than 60% of Mexico's territory, and local land use plans are designed with very little link to information about risks. Further, informal settlements often spread beyond the limits of municipalities into federal land, but coordination to strictly enforce building prescriptions in these zones is a recurrent challenge. The key to addressing this governance gap is to ensure that risk assessment initiatives at state and municipal levels are reflected in territorial land use policies and in urban planning, and are supported by an appropriate institutional framework with enforcement powers. Development of state and municipal risk atlases that reflect the probable occurrence of hazards, vulnerability of populations and exposure of assets are at the beginning stages and not broadly used to inform urban planning. Different federal programmes to provide technical assistance for municipal risk atlases and support their development costs need to be reinforced and produce results useful for the National Risk Atlas. Adoption of the 2012 General Law for Civil Protection is the ideal opportunity to strengthen risk management policy in Mexico by implementing and monitoring a multilevel approach to disaster risk prevention. Effective implementation would monitor whether land use planning and urban development at municipal and state levels are sustainable given the impacts of climate change on disaster risk.

Recommendations

- Expand outreach efforts to increase local involvement in the programme “Safe Cities are Resistant to Disasters”, and augment incentives to participate.
- Harmonise and reinforce federal support for development of risk atlases at sub-national levels.
- Strengthen institutional arrangements and incentives, combined with control and sanction mechanisms, for municipalities to develop their territorial land use policies based on risk assessment.
- Prepare disaster risk prevention plans at state and municipal levels based on a risk atlas and indicating structural and non-structural measures to reduce disaster risks.

Strengthening policy coherence in urban development

Mexico has grown rapidly into an urban country. Seventy-two percent of the population live in cities, 51% in metropolitan areas. Some 80% of GDP is generated in these metropolitan areas. Nonetheless, significant problems exist in urban areas with respect to public infrastructure, public services and housing, stemming from a combination of limited investment, insufficient and ill-allocated public budgets, and legislation that is becoming obsolete and does not promote efficient collaboration among different levels of government. Public policy has recently started to acknowledge this new urban reality and has generated encouraging results. However, measures will have to keep pace with a rapid and large-scale urbanisation challenge.

The problems of urban governance are exemplified by the issues of urban sprawl and housing and transportation which illustrate the risks inherent in poor co-ordination of public policies between the national and city levels.

Mexico has urbanised, but has done so through costly and poorly managed urban sprawl. Urban population in Mexico has doubled in the past 30 years, but cities’ built-up areas have experienced an average sevenfold increase. Population in the metropolitan area of Villahermosa in the southern state of Tabasco for instance has grown three times while its built-up area has grown by 30 times. Similarly, population growth in the Puebla-Tlaxcala metropolitan area is 2.4 times larger than the 1980 levels, but the built-up area has grown more than 12 times. The number of housing units sold in Mexico quadrupled in the past decade thanks to the successful introduction of mortgage finance enterprises (SOFOLES, SOFOMES), the significant reduction of interest rates, and government policy to achieve a fivefold increase in mortgage loans by public or government-sponsored enterprises.

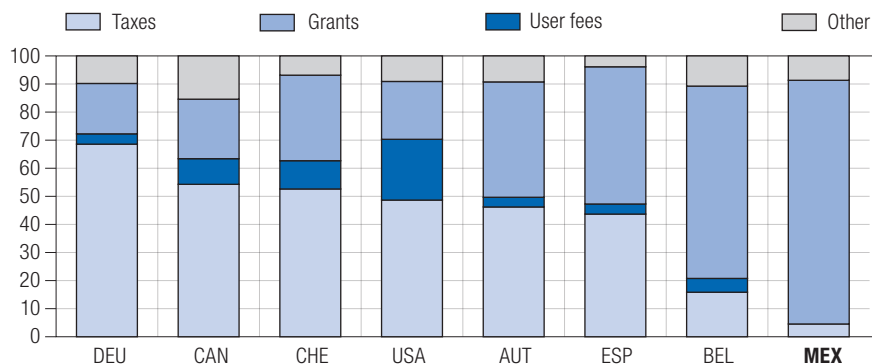
At the same time, housing development has been carried out disconnected from urban planning, and has been based on land prices that are usually cheaper well outside the built-up area. Such urban sprawl has deep financial, social and environmental consequences for cities and countries. These include the increased cost of public service delivery, lack of public-good provision in newly developed areas, rising carbon emissions and related health problems. Recently, the federal government has been trying to address these issues through their *Desarrollos Urbanos Integrales Sustentables* (DUIS), an inter-ministerial programme focusing on integral community development and partly aiming at densification. Such co-ordinated action includes efforts by *Sociedad Hipotecaria Federal*, as well as the ministries of social development (SEDESOL), environment and natural resources (SEMARNAT), energy (SENER) and economy (SE). While the programme is a positive step in the right direction, further actions are needed as DUIS are only applied to 26 cities and almost every case includes new developments that lie already at the edge of urban agglomerations' built-up areas.

Given the need for more reliable, modern and safer transportation systems for cities in Mexico, there is an area of opportunity to clarify the roles and responsibilities among the different actors and levels of government, with more modern local transportation laws where necessary, and a focus on supporting the creation and reinforcement of transport planning and management bodies at the municipal and state levels. However, such bodies have so far tended to lack a metropolitan or functional perspective, are often politicised and lack expertise, and risk being “captured” by private developers. At the same time, private sector involvement is needed to encourage the creation of integrated transport companies to strengthen high-capacity modes of transport.

Underlying many issues of local economic development is the issue of local finance. Mexico's sub-national governments rely on transfers as a source of revenue. In other federal countries, taxes are usually the main source of revenue for the state/regional governments (see Chapter 3). In Mexico, they represent below 5% of states' revenues (see Figure 4.6). Municipalities also have a lower-than-average reliance on taxes (only about 12%). Even though decentralisation of public budgets from the Federal level to states and municipal governments has progressed over the past decade, there is still room for considerable further improvement in the organisation of local public finance. This finding figures prominently in the Pact for Mexico (commitment 70).

Federal transfers should not substitute for local and efficient taxing efforts, but rather could complement them and provide incentives. Moreover, better evaluation of federal transfers is called for, since resources are often decentralised without the necessary accountability or minimal guidelines for resource

Figure 4.6. **Sources of revenue at the sub-national level in different OECD federal states (2010)**



Note: Data for Mexico, Switzerland and the United States refer to 2009 instead of 2010.

Source: OECD (2011b), *Institutional and Financial Relations across Levels of Government*, OECD, 2010 data.

application. There is a need to revise methods for achieving better co-ordination of public credit to local governments through adequate mechanisms to facilitate all types of loans (multilateral international loans, public domestic loans [e.g. BANOBRAS] and private loans), and to improve cities' functioning and competitiveness. Overall, regulation for local governments' indebtedness needs to be revised—as pointed out in the Pact for Mexico in its commitment 68—so that the Ministry of Finance (SHCP) can assure adequate information disclosure on local public income and debt capacity, and thereby allow public debt markets to function efficiently and prevent eventual disequilibria. In particular, it is important that analysis pays more attention to designing effective financing funds for metropolitan areas; that would provide incentives for collaborative efforts among neighbouring municipalities and/or states to provide the necessary infrastructure and public services in these multi-jurisdictional areas. For Mexican cities to become more competitive and sustainable, it is also important to concentrate on better regulation of urban land markets and improved urban planning. The Pact for Mexico promises to address many of these issues. It proposes to review the fiscal system, including allocating greater taxing power to sub-national bodies and undertaking a comprehensive review of the fiscal co-ordination mechanism, combined with an effort to improve the transparency and efficiency of public spending.

A proper balance between greater competences for state and municipal governments needs to be struck; it must take into account the need for i) a

national urban policy approach that ensures efficiency, and ii) a regional and local one that enhances complementarities and addresses inequality. The federal government already has a large impact on urban areas through a variety of sectoral programmes, policies and projects that are being implemented by a wide range of national ministries. The effectiveness of those urban policies might be enhanced if they are co-ordinated through a spatial vision for urban development, *i.e.* a national urban policy agenda that is flexible and tailored to the specific needs of different cities and urban areas, taking into account differences in city size and region. In other terms, policy trade-offs need not include pitting one urban region against another.

Such an agenda will require significant investment in capacity building at the municipal level. Many municipal authorities lack the financial, planning and administrative capacities needed to act as effective institutions promoting growth. Indeed, many struggle to fulfil basic service delivery obligations. This stems not only from their limited financial resources but also in large part from extremely high levels of turnover in municipal administrations – a side effect of the prohibition on the re-election of mayors. Many of the challenges with respect to career structure, workforce development and professionalization are particularly acute at municipal level, precisely because of this turnover. Recent OECD work underscores the extent to which capacity development for sub-national public authorities goes beyond a narrow focus on workforce improvement. It is also highly context-specific, since there is no such thing as generic “capacity” but only *capacities to do* specific things. A systemic perspective is therefore needed, one that embraces the nature and quality of institutions at all levels of government. For this reason, the assessment and strengthening of local policy making and financial and administrative capacities must be based on a serious assessment of capacity needs. These will vary across municipalities depending on their size, structure and levels of development. Here, too, national and state policies will need to take a differentiated approach to capacity challenges at municipal level.

Strategies for capacity development should therefore also include mechanisms for strengthening relations among levels of government; for identifying, sharing, and applying good practices across sub-national governments; and for strengthening the partnership role that state and federal governments play with respect to local governance. For sub-national authorities with limited authority or resources to help promote development or improve service quality, capacity development may focus more on working constructively, both horizontally and vertically, with other actors in government. Any such assessment and steps toward capacity development should bring together both top-down and bottom-up perspectives.

Recommendations

- Undertake a systemic review of the nature and quality of institutions at all levels of government. Strengthening of local policy making, financial and administrative capacities must be based on a serious assessment of capacity needs.
- Review the system of federal transfers (and local public financial health in general) to ensure that accountability and guidelines for resource application are clear and transparent, and provide scope and incentives for local and regional economic development action.
- Clarify the roles and responsibilities among the different actors and levels of government in key areas of urban development, such as transport and housing/land use, focusing on supporting the creation and reinforcement of planning and management bodies. Care should be placed on striking a balance between private sector involvement and the arms'-length independence of these bodies.
- Ensure that efforts to develop public sector capacity extend to municipalities, in particular by fostering greater professionalisation of municipal administrations and by helping municipalities develop their ability to collaborate effectively with one another and with higher levels of government.
- Explore options for increasing local capacity by reducing the turnover in sub-national administrations, including extending the term of mayors.

Further Reading

OECD (2011a), *Public Governance Review of Mexico*, OECD, Paris.

OECD (2011b), *Institutional and Financial Relations across Levels of Government*, OECD, Paris.

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OECD (2012b), *Public Procurement Review of PEMEX: Optimising the Supply Process to Maximise Value Creation*

OECD (2012c), *Public Procurement review of the Mexican Institute for Social Security*, OECD, Paris.

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