

# Mexico

## **Centre for Public Finance Studies (Centro de Estudios de las Finanzas Públicas)**

**Established:** 1998.

**Enabling legislation:** A resolution in 1998 by the Chamber of Deputies. CEFP's establishment was confirmed in the Organic Law of Congress in 1999.

**Mandate:** To provide objective, non-partisan, and timely analysis to the congress on the public finances.

**Budget:** MXN 50.9 million (2009).

**Staff:** 59 (2011).

## 1. Context

The Centro de Estudios de las Finanzas Públicas (CEFP) was established in 1998 in the context of increasing democratisation. All political parties represented in the Chamber of Deputies signed the agreement establishing the CEFP and in September 1999, the CEFP was recognised in the Organic Law of Congress.

Elections in 1997 – the first under a set of reforms passed in 1996 to level the electoral playing field – ended the domination of the Partido Revolucionario Institucional (PRI) and marked a transition to a competitive multiparty system.<sup>1</sup> The PRI lost its absolute majority nationwide and lost control of the Chamber of Deputies (the lower house of the congress).<sup>2</sup> This period of divided government saw the congress beginning to take a more active role in the budget process, necessitating an increase in the congress’s technical capacity for independent budget analysis.

Following the 1997 elections, a delegation of new members of the Chamber of Deputies undertook a study visit to the United States Congressional Budget Office (CBO). Although there are marked differences between the two institutions, the design of the CEFP as a non-partisan budget analysis unit for the Mexican congress, and its budget-related committees more specifically, was influenced by the CBO model.

Unlike several other countries included in this study, the CEFP’s establishment was less driven by concerns around economic issues such as problems with deficit bias or excessive indebtedness. Nevertheless, there was a need to improve the efficiency and transparency of the budget framework (IMF, 2002). Over the past decade, Mexico has undertaken a series of reforms in this regard, in particular the 2006 Budget and Fiscal Responsibility Law (BFRL). The BFRL reiterated and expanded the role of the CEFP with, for example, provisions giving the CEFP greater access to government budget information and requiring the CEFP to assess the budgetary impact of legislation proposed by the congress.<sup>3</sup>

## 2. Relationship with the executive and the legislature

The CEFP is under the jurisdiction of the legislature and, while it provides independent analysis, it cannot truly be categorised as an independent institution. It is overseen by the Chamber of Deputies’ Committee on the CEFP. Typically members of this committee may also serve on the Finance Committee or the Budget and Public Accounts Committee. These are the two committees that the CEFP works most closely with, although it also provides analysis to other committees in the Chamber of Deputies such as the Finance Committee, to committees in the Senate and to individual legislators. The congress is responsible for the appointment of the Director of the CEFP; the CEFP budget is a component of the administrative budget of the congress; and CEFP offices are located within the Chamber of Deputies.

Although both report to the congress, the CEFP and the Federal Supreme Audit Office (FSAO) work autonomously from each other. The FSAO is an independent constitutional body with its own legislation. It reports to a dedicated audit committee in the Chamber of

Deputies. Nevertheless the 1998 resolution establishing the CEFP has a provision allowing the CEFP to request from the FSAO (with permission of the relevant committee) information it deems necessary for its work.

### Box 1. Role of the legislature in the budget process

Mexico has a presidential system of government with a bicameral congress. The President is elected every six years for a six-year non-renewable term. The 500-member Chamber of Deputies, or lower house, is elected every three years and the Senate, or upper house, is elected every six years by a combination of proportional and direct representation. One of the particularities of the congress is that deputies and senators may not be elected for consecutive terms, making the Mexican congress one of the only democratically elected legislatures in the world whose membership is completely renewed at each election. The Chamber of Deputies plays the dominant role in the budget process.

The 2006 Budget and Fiscal Responsibility Law (BFRL) sets out the role of the congress in the budget process and the timetable for legislative approval. Before submitting the budget the executive presents two reports to the congress: the first in April contains the macroeconomic projections for the next fiscal year, the second in June outlines the programme structure of the budget including proposed new programmes. The executive presents its expenditure and revenue budgets to the congress by 8 September. The latter must be approved by the Chamber by 20 October and the Senate by 31 October. The expenditure budget must be approved by the Chamber only by 15 November, well before the start of the new fiscal year on 1 January.

The Chamber has the power to amend the draft budget within certain limitations. It cannot change the programmatic structure submitted by the executive or deny funding for expenditures that the executive is legally or constitutionally obliged to make (e.g. federal transfers or entitlement spending). It may increase expenditure only if it identifies additional sources of revenue. This may be done by increasing revenue estimates and the oil price assumption (within limits defined in law). All amendments must also be consistent with the balanced budget fiscal rule. As Mexico is a presidential system, a vote on the budget is not considered a vote of confidence in the government.

The Budget and Public Accounts Committee of the Chamber of Deputies holds hearings on the expenditure budget and hears evidence from representatives from the Ministry of Finance. It also plays a co-ordinating role with sectoral committees submitting their proposals for amendments to be voted on by the Budget Committee before the Budget Committee votes to submit the whole budget to the plenary for approval. The budget is read and debated twice in plenary session before the final vote. Legislative deliberations on the budget are open to the public and the media.

In addition to the support provided by the CEFP, the Budget Committee also has its own staff to assist it, although they typically do not have the same level of technical expertise.

*Note:* Before the constitutional reform of 2004, the deadline was 31 December; but this resulted in lengthy last-minute budget negotiations that ran into the new fiscal year. For this reason, the finalisation of the budget was moved back by six weeks. An exception is made in the year of presidential elections (every six years) when the new administration's budget must be adopted by 31 December. Table 3.1 of OECD (2009) shows the key dates of the congressional budget approval cycle.

*Source:* OECD (2009).

The CEFP operates entirely independently of the executive. However, the CEFP does have formal agreements with several public bodies such as: an agreement to exchange information

and methodologies for assessing poverty and social policies with the National Council for the Evaluation of the Social Policy (CONEVAL);<sup>4</sup> an agreement to access information and training databases with the National Institute of Geography and Statistics (INEGI);<sup>5</sup> and a partnership with the National Institute of Public Administration to promote research on public finances and jointly publish a book.

The CEFP also co-operates informally with certain universities and think tanks. Three times a year, the CEFP holds seminars or conferences in which leading academics and practitioners are invited to debate current issues in public finance. Moreover, universities promote the CEFP's annual prize (Premio Nacional de Finanzas Públicas) and frequently invite the centre to take part in specialised events. There are several non-governmental and academic organisations that prepare analysis and reports on the budget and public finance and related economic or social issues that may be complementary to the work of the CEFP, for example, the Centre for Analysis and Research (Fundar), the Centro de Estudios y Docencia Económicas (CIDE), the Centro de Estudios Espinosa Yglesias and the relatively new Centro de Investigación Económica y Presupuestaria (CIEP) headed by a former CEFP Director. As an example of their work, Fundar has a "Legislative Watch" subgroup that is in contact with the Chamber of Deputies' Budget Committee. For the 2012 Revenue Law, both Fundar and the CIEP examined the ways that the congress had raised projected revenues relative to the draft budget presented by the government.

### 3. Legal basis for establishment

The Centro de Estudios de las Finanzas Públicas was established by a congressional agreement published in the *Official Gazette* in 1998. One year later, in September 1999, the Organic Law of Congress formally recognised the CEFP as one of the five study centres<sup>6</sup> serving the congress. A first set of internal rules for the functioning of the CEFP and its various departments was published in the *Official Gazette* in 2002.<sup>7</sup> The CEFP's role was subsequently recognised in the 2006 Budget and Fiscal Responsibility Law.

### 4. Mandate

The CEFP has a broad mandate to provide objective, non-partisan and timely analysis to the congress on the public finances. As noted earlier, its mandate was expanded in the 2006 BFRL to include providing cost estimates of bills originating in the congress. The CEFP's activities are focussed on central government public finances; however, the CEFP does analyse intergovernmental transfers from the federal budget to states.<sup>8</sup>

### 5. Functions

The various functions of the CEFP are laid out in the 1998 resolution, the Organic Law of Congress, the CEFP's internal rules and the 2006 BFRL. Its main tasks are:

- Analysis of the government's quarterly reports on the state of the economy, public finances and debt; the proposed budget (revenue law and expenditure decree); the annual report on the National Development Plan Changes; and the report on foreign trade and tariffs.
- Briefing notes and/or longer studies on topics related to the public finances. It is quite common for parliamentary committees to ask the CEFP for information and the CEFP typically responds in writing. In 2011, the CEFP reports receiving 286 such requests, all of which were answered in writing.

- Costing of legislation that originates in the legislature. In 2011, the CEFP reported 288 requests for budget and income cost impacts of new bills, again answered in writing. This task is the most time-consuming, with the CEFP estimating that around 65% of staff time is spent on it.
- Analyse the government's short-term and medium-term projections and produce their own (covering one and five years ahead). Currently, neither the government nor the CEFP produce projections that exceed five years.

In addition to the above, the CEFP seeks to enrich the public debate on the public finances through its *Journal of Public Finance* (published two to four times a year) and activities such as conferences or seminars and an annual prize for the best piece of new research on public finances.

As a non-partisan unit, the CEFP is precluded from making normative policy recommendations. It is not required by legislation to monitor adherence to the fiscal rules currently in place in Mexico<sup>9</sup> or to cost election platforms.

## 6. Work programme

The CEFP Director General is responsible for preparing the draft work programme and submitting it to the Chamber of Deputies' Committee on the CEFP for review. The Director General also appears before the committee to present and answer questions on the draft work programme. The work programme must be approved no later than February.<sup>10</sup> The 1998 resolution and the CEFP's internal rules describe the types of analysis to be produced by the CEFP and its divisions. These includes requirements for certain pieces of CEFP analysis that must be incorporated into the work programme, specifically: analysis of the government's quarterly reports on the state of the economy, public finances and debt; analysis of the proposed budget (revenue law and expenditure decree); and the annual report on the National Development Plan within one month of their receipt by the congress. The CEFP may also propose undertaking research projects outside of what is outlined in its mandate, but this is subject to approval from the Committee on the CEFP.

The Finance Committee, the Budget and Public Accounts Committee, other committees, individual member of Congress and the Senate Finance Committee can all request reports and analysis from the CEFP. In executing the annual work programme, the CEFP accords priority to the Chamber of Deputies' Finance Committee and Budget and Public Accounts Committee, or to any committee with pending legislation that requires budget impact analysis. It normally answers their requests with a turnaround time of 30 to 45 days. Other committee or individual member requests may take longer to respond to, especially if the request is received during the September-November budget cycle when CEFP is on a tight deadline to provide analysis of the revenue and spending bills.

## 7. Budget

Since 2010, the CEFP's budget is not managed by CEFP directly but by the congress's overall administration, as is the case with the congress's other study centres. While data on the 2010 and 2011 budgets was not available for this study, the 2009 budget for the CEFP was MXN 50 682 024 (nearly USD 4 million), a decline of about 12% from CEFP's 2008 budget of MXN 57 809 634. This reflects in part the congress's efforts to cut public spending in response to the economic crisis. The 1998 resolution of the Chamber of Deputies does not explicitly describe funding for the CEFP. In practice, since it is part of the legislative support services,

the CEFP is a component of the administrative budget of the Chamber of Deputies (funded entirely by annual appropriations). The steps involved in CEFP budget approval are: the CEFP Director General submits a draft budget to the committee responsible for congressional administration; this committee scrutinises the budget of the CEFP in light of the total budget of the congress and may make modifications before it is sent to the Budget Committee; the Budget Committee may also make modifications before it approves the entire budget of the congress in the context of adopting the annual expenditure decree.

## 8. Staffing

### 8.1. Leadership

The 1998 resolution of the Chamber of Deputies lays out the formal procedures for appointing the Director General of the CEFP (articles 8-11). It provides for the position to be filled through an open competition. To assist in the appointment process, the governing body of the Chamber of Deputies – the Junta de coordinación política – appoints a jury comprised of academics and well-known professionals in the field of public finance, including two experts from the National College of Economists<sup>11</sup> and the National College of Political Science and Public Administration.<sup>12</sup> The jury helps to design the terms of reference, reviews the applicants and establishes a shortlist of three candidates. If it is unable to identify suitable candidates for the shortlist within a three-month period, the competition is re-opened. The Junta identifies and votes on its preferred candidate within the shortlist. The proposed candidate is then put forward for approval by the plenary. If the Chamber does not approve the candidate, the whole process is repeated.

According to the 1998 resolution (Article 11), there are certain restrictions which any candidate must meet. He or she must:

- be a Mexican citizen in full exercise of their rights;
- be at least 30 years of age when appointed;
- hold a bachelor's degree in economics, public administration, or a discipline related to public finance from a recognised academic institution;
- have at least five years of professional experience in the field of public finance; and
- be of good reputation with no criminal convictions.

The five explicit criteria above do not make reference to candidates' political affiliation. However, the CEFP is a non-partisan institution and, as such, candidates should not be chosen based on political affiliation or act in a partisan manner during their tenure, even if they may have held political positions in the past. CEFP Directors have come from a variety of academic and professional backgrounds in economics, audit, accounting, business and politics.<sup>13</sup>

The 1998 resolution provides for the Director General of CEFP to be appointed for a five-year term that is renewable once. However, none of the past five Directors to date have served a full five-year term or been renewed. According to article 10 of the 1998 resolution, the Director General can be removed from office for cause by a two-thirds weighted vote, after a hearing before the Junta.

### 8.2. Staff

The CEFP currently has around 59 full-time equivalent staff, around half of whom are spread among its core divisions for its substantive work: Macroeconomic and Sectoral

Studies (eight staff), Revenue Studies (nine staff), Budget and Public Expenditure Studies (13 staff). The remaining staff include the CEFP leadership and those providing administrative and technical support. The number of staff has stayed more or less the same since the CEFP's inception despite the additional demands on the CEFP regarding costings since 2006, which may indicate the need for additional resources.

CEFP staff are hired through open competition.<sup>14</sup> In practice, most applicants, especially researchers, are drawn directly from graduate school programmes in Mexico's leading universities<sup>15</sup> after passing an examination<sup>16</sup> and interview process. They are hired by the congress and not by the CEFP directly and are subject to the same rules and conditions (pay scale, code of conduct, etc.) as other congressional staff.<sup>17</sup> The congress also sets the number of CEFP staff. As the pay scales of CEFP staff are slightly lower than that of the government's civil service for comparable duties, and as the CEFP is a research-oriented organisation, it is quite rare for a government civil servant with experience in, for example, the Ministry of Finance and Public Credit, to transfer to the CEFP. However, there are several senior staff at the CEFP with backgrounds working for non-governmental organisations or government. It is very rare for the CEFP to make use of outside consultants for its work.

## 9. Access to information

The 1998 resolution includes a provision for the CEFP to request from the Ministry of Finance information it deems necessary for its work. The CEFP's access to information was further strengthened in legislation by the 2006 BFRL (see Articles 42, 106 and 107). Nevertheless, the CEFP reports some difficulties in getting information in a timely manner. Delays are due in part to procedural issues – the ministry provides the requested information first to the relevant committee which is then responsible for transmitting it to the CEFP. Similarly, the CEFP reports some difficulties with the format in which information is given. For example, when the CEFP requested access to the database for the draft budget, the Ministry of Finance provided a PDF file. The CEFP then had to create its own database and manually re-enter the information in the PDF file at a time when the CEFP was on a tight deadline to make its report to the congress. On the positive side however, in recent years the Ministry of Finance has made a much wider variety of budget-related information publicly available.

## 10. Transparency

With the permission of the congress, much of the information produced by the CEFP is published on its website, including key documents such as its analysis of the draft annual revenue law, the draft annual expenditure decree and the Ministry of Finance's quarterly fiscal reports. The CEFP also publishes many studies on topics in public finance, monthly news bulletins (which follow various economic indicators) and its own *CEFP Journal of Public Finance*. At times, additional information and tools have also been made publicly available. For example, from 2007 to 2009 the CEFP published its forecasting work. The CEFP's congressional clients (committees and members) decide whether they would like to publish other research requests; typically these are not published. Costings of proposed legislation are treated as internal committee documents and are also not published.

Although the CEFP has a staff member assigned to respond to media questions, in practice the CEFP avoids the limelight and lets its work speak for itself. Apart from the public outreach activities described in Section VIII, the CEFP relies on publication of its work on its

website as its main form of communication with the media and the public. As a general rule, the CEFP does not send out news releases or hold news conferences (although the Director General may occasionally agree to be interviewed by the media). This is seen as the prerogative of members of the congress. Nevertheless, the work of the CEFP receives regular media coverage.

## 11. Governance, advisory support, monitoring and evaluation

The Chamber of Deputies' Committee on the CEFP provides broad oversight of all aspects of the CEFP. The CEFP does not have an independent advisory board or a panel of outside experts to provide comments on CEFP's annual work programme or the quality of its outputs. In general, evaluations of the CEFP's work are informal, notably from comments and feedback by committees and members in the congress, peers, or the media.

## 12. Concluding remarks

The CEFP was established in 1998 to provide the congress with objective, non-partisan and timely analysis on public finances. The CEFP has significantly enhanced capacities within the legislature for independent budget analysis and is a model for many Latin American countries looking to do the same. Its work has been widely reported in the media and has contributed to the public debate on the budget and public finances.

Although modelled in part on the United States CBO, the CEFP does not have the same autonomy granted to the CBO and cannot claim to be fully independent. Given the difficulties that any non-partisan institution faces when working in a highly partisan environment, it might be useful to explore ways to enhance the CEFP's autonomy and to protect it from political interference or perceptions of political interference, for example, in the leadership appointment process. This could be done in part by examining the various models for independent fiscal institutions in other OECD countries, particularly those institutions under the legislature, and how they have dealt with similar challenges. In addition, given the broadening of the CEFP's mandate, particularly around costing, there is a case to be made for increasing the CEFP's resources.

### Notes

1. With three main political parties: the PRI, the Partido Acción Nacional (PAN), and the Partido de la Revolución Democrática (PRD).
2. Subsequently, in the 2000 presidential elections, PRI lost to the PAN candidate, Vicente Fox, for the first time ever. This was a second major event for active political pluralism in Mexican politics.
3. The BFRL was followed by several additional pieces of legislation in 2007 and 2008 on integral fiscal reform, public sector pension reform, and accounting. See OECD (2009) for a more in depth description of this legislation.
4. By law, CONEVAL is in charge of measuring poverty and assessing the social policy.
5. INEGI is the independent institution in charge of producing Mexico's official statistics.
6. There are four other research organisations attached to the congress that specialise in constitutional, agriculture, social and gender issues.
7. There have been several subsequent updates to these rules.
8. Mexico is a federation of 31 states and a federal capital district.
9. The fiscal rule at federal level pertains to the financial balance, which includes interest payments but excludes the cost of the banking sector rescue package, public-private partnership schemes,

PIDIREGAS and the long-term investment schemes of PEMEX, the national oil company. There are also two fiscal rules that apply at sub-national level. OECD (2009) discusses the three fiscal rules.

10. Article 3 of the 1998 Resolution.
11. Colegio Nacional de Economistas (CNE), a professional organisation of Mexican economists.
12. Colegio Nacional de Ciencias Políticas y Administración Pública.
13. For example: as political advisors, Member of Congress, etc.
14. Article 12 of the 1998 Resolution establishing the CEFP also provides for staff to be promoted based on merit.
15. Most have a Master's degree in economics or a related field.
16. The exams are announced in the major national newspapers.
17. Information on the salaries and benefits of congressional staff are available online as part of the Congress's efforts for increased transparency: [www.diputados.gob.mx/transparencia.htm](http://www.diputados.gob.mx/transparencia.htm). A directory with the contact information of all CEFP staff is also available online at: [www.cefp.gob.mx/institucion/directori01.pdf](http://www.cefp.gob.mx/institucion/directori01.pdf).

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### **Legislation**

- Congressional Resolution Creating the Centre for Public Finance Studies (*Acuerdo Parlamentario para la Creación de la Unidad de Estudios de Finanzas Públicas de la Cámara de Diputados*), 15 April 1998.
- Organic Law of Congress (*LEY Orgánica del Congreso General de los Estados Unidos Mexicanos*), 3 September 1999.