Examining Budget Credibility in Mexico’s Environmental Protection Sector

Andrea Larios Campos, Fundar, Centro de Análisis e Investigación
Examining Budget Credibility in Mexico’s Environmental Protection Sector

Andrea Larios Campos, Fundar, Centro de Análisis e Investigación
Table of Contents

Introduction 4

Budget Credibility Trends in the Environmental Protection Sector 6

Impact of Budget Credibility Challenges on Sector Outcomes 11

Conclusions and Recommendations 13
Introduction

Since the pandemic and its effects on public expenditure, Mexico’s federal government has returned to a previous trend of overspending its initially approved budget. Excluding 2019, the year in which the federal administration changed, and 2020, which included pandemic austerity measures, resulting in underspending, expenditure has been overspent by between 6 and 7 percent of the budget approved by the Lower House (see Table 1).

Between 2017 and 2022, a period which included the last two years of the previous administration and four of the current one, Mexico’s federal government overspent its budget by an average of 4 percent. Previous research by the International Budget Partnership (IBP) and Fundar also found the approved total budget to have been overspent between 2014 and 2017, ranging from 3 percent in 2015 to 16 percent in 2016.1

<table>
<thead>
<tr>
<th>FY</th>
<th>Approved</th>
<th>Executed</th>
<th>% deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>6,588,838</td>
<td>6,984,724</td>
<td>6%</td>
</tr>
<tr>
<td>2018</td>
<td>6,780,224</td>
<td>7,177,925</td>
<td>6%</td>
</tr>
<tr>
<td>2019</td>
<td>7,199,885</td>
<td>7,143,850</td>
<td>-1%</td>
</tr>
<tr>
<td>2020</td>
<td>7,236,090</td>
<td>7,102,562</td>
<td>-2%</td>
</tr>
<tr>
<td>2021</td>
<td>7,088,208</td>
<td>7,583,687</td>
<td>7%</td>
</tr>
<tr>
<td>2022</td>
<td>7,456,839</td>
<td>7,962,558</td>
<td>7%</td>
</tr>
<tr>
<td>Average</td>
<td>4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Deviations in the federal budget vary across sectors and ministries. For example, in the previous administration, the budget for social development was continuously underspent while that of the office of the presidency was highly overspent. In contrast, the current administration entered its term with a commitment to cut expenditure for a wide range of sectors but to protect and increase the budget for

social protection.\textsuperscript{2}

The latter holds true. Under the mandate of “republican austerity,” the federal government has been cutting the budget for ministries, autonomous bodies, sectors, and public programs that are not considered to be priorities. One key example of the latter is the allocated budget for environmental protection, which is linked to three of the United Nations’ Sustainable Development Goals (SDGs): SDG 13, Climate Action; SDG 14, Life Below Water; and SDG 15, Life on Land.

Hence, this brief seeks to identify budget credibility challenges in Mexico’s environmental protection sector by examining budget deviation trends in the Ministry of the Environment (MoE) for fiscal years 2017-2022. The analysis will examine the ministry’s resources by both economical and functional classification, as only looking at the aggregate budget masks allocations for other categories that are not linked to the achievement of the SDGs.

The study uses various sources, including federal budget databases, annual budget execution reports, and the latest Voluntary National Review presented in 2021 by Mexico.

\textsuperscript{2} For more information, please refer to “Mexico: Budget Credibility and the SDGs (2022).” Available at: https://internationalbudget.org/wp-content/uploads/Mexico-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf
Budget Credibility Trends in the Environmental Protection Sector

The MoE’s budget execution is characterized by upward revisions each fiscal year, leading to an overspending against the initially approved resources of 21 percent on average. When comparing exercised resources with the revised budget, deviations average -0.4 percent (see Figure 1).

Figure 1. Ministry of the Environment Budget Execution Trend in MXN Million (2017-2022)

Source: Ministry of Finance Public Accounts

Overall, two trends are observed. On the one hand, budget credibility against the initial budget is low, as the ministry systematically spends above the approved resources by the Lower House. However, taking into consideration the ministry’s initial budget, revised spending targets are mostly met.

Each ministry is responsible for preparing a draft budget that is then presented to the Ministry of Finance for its revision and integration in the final federal budget, which is presented to Congress for
discussion and approval. The constant upward revisions during this process could point to deficiencies by the MoE during its budget planning process. An alternative explanation is that the MoE’s budget is influenced by the proportion of non-tax revenue collected through the year from environmental duties and royalties, which are harder to estimate and, therefore, allocate.

Regarding budgetary laws, the Federal Law on Budget and Treasury Responsibility (LFPRH) outlines the legal framework for budget deviations. Specifically, when budgetary deviations exceed five percent of the public entity’s total budget, it must be reported and properly justified in the Quarterly Finance Reports. However, this does not occur, breaching the current legal framework, which establishes that budgetary adjustments must be explained and can only take place if they allow a better fulfillment of each program’s objectives.

Non-compliance with the federal legislation complicates an objective assessment of whether deviations do allow better compliance with each program’s goals. To attempt an objective assessment of whether the public budget is promoting environmental protection, this brief identifies budget execution trends in the environmental sector and tries to match them with the performance of the related SDGs.

To begin a disaggregated analysis, it is important to know that the MoE’s budget is divided into five functional classifications, each with sub-classifications. The analysis below focuses on the functional classification, “Environmental Protection,” and three sub-classifications directly linked to the SDGs of interest: protection of biological landscape diversity, other environmental protection issues, and pollution reduction.

A first analysis is conducted by looking at the aggregate allocations of the abovementioned three sub-classifications. Data show overspending on budget execution, except for FY 2019 and 2020. Indeed, expenditure deviated by over six percent on average during the period.

In addition to indicating low budget credibility, the ministry’s overspending also traces back to budget cuts, which have seen allocations to the environmental protection functional classification cut year after year. Indeed, the approved budget for 2023 stands 45 percent below the highest level recorded in 2017 (see Figure 2). Furthermore, as of 2023, the budget for environmental protection represents 0.2 percent of the total budget, a proportion that has been falling since 2017 and that is insufficient to fund the fight against climate change and the energy transition.

---

3 The rules for the budgeting and programming process can be consulted in the Federal Law of Budget and Treasury Responsibility, second heading, chapter 1. Available at: https://www.diputados.gob.mx/LeyesBiblio/pdf/LFPRH.pdf
4 Modifications to public spending, use of surplus income and other spending concepts, and main causes of expenditure variations.
5 The other sub-classifications included in Environmental Protection are Water Administration, Wastewater Management, Drainage and Sewage, but they are not taken into consideration for the analysis to keep consistency with the first brief (https://internationalbudget.org/wp-content/uploads/Mexico-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf) on SDGs and budget credibility and because they are linked to SDG 6, Clean Water and Sanitation. As for the sub-classification, Pollution Reduction, it was eliminated in fiscal year 2020.
Figure 2. Budget Execution Trends of Environmental Protection Functional Classification in MXN Million (2017–2022)

A similar trend can be seen in budget execution trends by sub-classification. Allocations have been cut from their 2017 levels across categories, even though deviations from the initially approved budget are overspent in two out of three sub-classifications (see Figure 3). It is also worth noting that, after being underspent repeatedly, the classification of pollution reduction was eliminated from the public budget in 2019.
Economic classification can also be a useful predictor of budget execution. Data show that budget credibility is higher for current expenditure than for capital expenditure. However, both classifications show double digit deviations from the initial budget, albeit with different trends. While current expenditure is consistently revised upward and, thus, overspent versus the approved budget, capital expenditure shows subsequent downward modifications and, thus, underspending, except for FY 2021 and 2022 (see Table 2).
Table 2. Budget Execution Trends of Environmental Protection Subcategories by Economic Classification in MXN Million (2017–2022)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved</td>
<td>6,824</td>
<td>6,483</td>
<td>4,461</td>
<td>4,148</td>
<td>3,825</td>
<td>3,825</td>
</tr>
<tr>
<td>Modified</td>
<td>7,725</td>
<td>7,851</td>
<td>4,824</td>
<td>4,282</td>
<td>4,853</td>
<td>4,670</td>
</tr>
<tr>
<td>Executed</td>
<td>7,724</td>
<td>7,851</td>
<td>4,822</td>
<td>4,282</td>
<td>4,853</td>
<td>4,529</td>
</tr>
<tr>
<td>Deviation (initial)</td>
<td>13%</td>
<td>21%</td>
<td>8%</td>
<td>3%</td>
<td>27%</td>
<td>18%</td>
</tr>
<tr>
<td>Deviation (revised)</td>
<td>-0.01%</td>
<td>0%</td>
<td>-0.05%</td>
<td>-0.01%</td>
<td>0.0%</td>
<td>-3%</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approved</td>
<td>785</td>
<td>829</td>
<td>2,644</td>
<td>1,191</td>
<td>341</td>
<td>442</td>
</tr>
<tr>
<td>Modified</td>
<td>770</td>
<td>687</td>
<td>550</td>
<td>465</td>
<td>425</td>
<td>507</td>
</tr>
<tr>
<td>Executed</td>
<td>770</td>
<td>687</td>
<td>550</td>
<td>465</td>
<td>425</td>
<td>505</td>
</tr>
<tr>
<td>Deviation (initial)</td>
<td>-2%</td>
<td>-17%</td>
<td>-79%</td>
<td>-61%</td>
<td>25%</td>
<td>14%</td>
</tr>
<tr>
<td>Deviation (revised)</td>
<td>0%</td>
<td>-0.002%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance Public Accounts

Indeed, when looking at the Annual Public Account, which provides limited justifications regarding reallocations, and analyzing them for the period 2017-2022, most upward deviations are explained by a higher-than-expected acquisition of supplies and operational expenses, mostly labor-related costs.6

In some cases, the higher current expenditure is covered by higher revenues received from the payment of levied fines (non-tax revenues). However, in other cases, they relate to budget cuts of other classifications, such as investment.

Indeed, capital expenditure in physical investment is mostly underspent against the initial budget due to cash reductions the Ministry of Finance made to several programs in charge of the MoE. These reductions cause the deferral of works scheduled to be carried out throughout the country. Specific details on the deferred works are not provided by the Public Account reports; however, in the following section, a specific program will be briefly addressed.

6 Available at: https://www.cuentapublica.hacienda.gob.mx/
Impact of Budget Credibility Challenges on Sector Outcomes

In 2020, Mexico reaffirmed its commitment to the Paris Agreement to keep the global temperature increase below 2°C through the implementation of different policies. However, the latest Climate Transparency Report (2022) states that Mexico’s current goals and progress are insufficient. Indeed, the Government continues to prioritize investment in oil refinery infrastructures and subsidize fossil fuels. Also, the Sustainable Development Report 2022 shows that SDG 13 on Climate Action, SDG 14 on Life Below Water, and SDG 15 on Life on Land are not on track or maintaining SDG achievement.

Furthermore, the Climate Action Tracker (CAT) rates Mexico’s policies and actions as highly insufficient to fight climate change and reach its 2030 emission commitments. The rating indicates that policymaking and the implementation of public policies regarding the 2030 Agenda lead to rising, rather than falling, emissions. Indeed, the CAT criticizes the current administration, arguing that the country’s environmental and climate policies have gone backward since fossil fuels usage has been prioritized “under the discourse of energy security and republican austerity” (CAT, 2022).

While budget credibility in this case does not relate to an aggregated under-execution of resources and could mean better funding of government activities within the sector, the reality is that the increase in the budget for environmental protection is directed toward current expenditure above capital expenditure and to programs which are not directly related to fighting climate change. Additionally, the allocated budget for environmental protection represents only 0.2 percent of total public spending, which is insufficient, considering that the estimated required investment for the energy transition and fight against climate change for developing economies is between $28 billion and $67 billion per year.

A concrete example of the underspending in capital expenditure can be seen through reallocations in the category made in 2021 to the program “Conservation and Management of Protected Natural Areas.” In this case, capital expenditure was modified to stand 52 percent below the initially approved budget of MXN 20 million. The latter constitutes a problem for Mexico’s environmental protection activities, as the

7 The Climate Action Tracker (CAT) is an independent scientific analysis that measures government climate action against the globally agreed aim of holding warming well below 2°C and pursuing efforts to limit warming to 1.5°C. It is produced by two research organizations, Climate Analytics and New Climate Institute. Available at: https://climateactiontracker.org/countries/mexico/policies-action/.

Protected Natural Areas (PNAs) are the main tool for the conservation of the country’s natural heritage. According to previous research by Fundar, the initial allocation given to each PNA at the beginning of the year is symbolic, since the availability of said resources varies throughout the year depending on the reallocations made by the ministries’ directorates or by the Ministry of Finance itself. Northwest PNA directors stated in previous interviews that the administrative process to obtain resources is slow, which means that the time horizon to spend them is closed before they receive them. The latter caused PNAs to turn to private partners to keep the operation of the programs going (Fundar, 2020).

Even when non-tax revenues exceed the initial budget, they are usually used to cover current expenditure instead of funding capital expenditure. Combined with already low budget credibility these inefficiencies mean that the MoE’s approved budget is rarely met, causing distortions to its yearly plan and budget execution.

Conclusions and Recommendations

This brief identifies two main problems with budget execution trends for environmental protection. First, allocations have been consistently cut and currently stand below their 2017 levels, showing that the fight against climate change is not a priority for the current administration. Second, the budget credibility within the sector is lower for capital expenditure than for current expenditure, showing that the insufficient resources are being over-executed in programs and activities that have no direct impact in the fight against climate change, as they are mostly related to higher-than-expected labor costs.

Furthermore, the government does not comply with the legal mandate of properly justifying budget allocations when they exceed the five percent threshold, which further weakens budget credibility in the country.

To improve budget credibility, the MoE must be held accountable by Mexico’s Congress, which should require comprehensive explanations of financial deviations from the initially approved budget and how they will contribute to or weaken advancements in the sector and achieve development goals. Another way to incentivize budget discretion could be that when reallocations stand above a certain threshold, they must be compulsorily discussed within the Lower House before enactment.

Lastly, by instituting mandatory impact evaluations, the government can assess if budgetary allocations for programs and services within the environmental protection sector are serving to reverse the problems they seek to solve.

In this regard, Fundar will keep pushing for more transparency in the exercise of public funds and a higher level of budget credibility through each year’s analysis of the Federal Budget proposal. Specifically, through its participation in the Lower House’s open parliaments regarding the budget approval process, Fundar will keep stressing the need for credible budgets and the importance of limiting reallocations, especially when they endanger access to human rights and compliance with SDGs.10

---

10 Last year, key messages regarding budget reallocations were placed within Mexico’s gender equality budget.

www.internationalbudget.org
The International Budget Partnership (IBP) headquarters:

750 First Street NE, Suite 700
Washington, D.C. 20002
Tel: +1 202 792 6833

The International Budget Partnership is a global partnership of budget analysts, community organizers, and advocates working to advance public budget systems that work for all people, not a privileged few. Together, we generate data, advocate for reform, and build the skills and knowledge of people so that everyone can have a voice in budget decisions that impact their lives.

For more information on IBP:
info@internationalbudget.org or visit
www.internationalbudget.org

@OpenBudgets

International Budget Partnership

International Budget Partnership

International Budget Partnership