



## Public-Private Partnership Agreements and Government Accounting

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### Abstract

Recent changes in government and legal accounting legislation presuppose that government financial and budget information should provide users with transparent information and accountability. Thus, accounting standards establish the obligation of federal and state governments to prepare reliable financial and budget information in such a way as to present and disclose the items associated with government activities, particularly as regards debt acquired in connection to contractual relationships called public-private partnerships. Enforcement of this obligation is still fragile, however. No effort has yet been made to provide financial information on the matter of debt relating to such agreements, or information regarding the amounts that are allocated to public spending for such activities.

**Key Words:** Government Accounting; Public-Private Partnerships; Federal Spending Budget; Public Debt.

### 1. Introduction

The economic crisis of the late 1980s made plain the inability of various governments to finance public expenditures, prompting a resurgence of the classic theory of the economy and with it the encroachment of market-based logic into public administration. The borders between the public and private sectors became more tenuous, as public administration took on a new role and allowed the private sector to make significant inroads as supplier of public goods and services. It is precisely in this context that public-private partnerships (PPPs) emerged.

According to the Organization for Economic Cooperation and Development (OECD), there are certain prerequisites for the success of a PPP. Among these are that the agreements should be clear, transparent, and should involve users in designing and monitoring the PPP project to guarantee an optimum quality-price ratio; and also as a fundamental mechanism for government accountability. Hence the importance of the way PPPs are recorded in government accounting.

This type of PPP and Private Finance Initiatives (PFI) were first developed in the United Kingdom starting in 1992, and since then have spread to other countries [1]; “in the United Kingdom alone, around 580 contracts have been signed for a value of around 40 billion dollars” [2].

For some time, the Service Provision Project (SPP) scheme was used in Mexico, which consisted basically of a contract entailing resources from various fiscal years, and involving a federal government agency or branch and a supplying investor. The corresponding agreement stipulated that the supplying investor had the obligation of supplying, over the long term, one or more services with the assets it built, on its own property or that of a third party (including the public sector) or to provide those assets, on its own or through a third party (including the public sector) according to a service provision project; and the government agency or branch had the obligation of paying for the services received.

Note that public-private partnership (PPP) projects represent a long-term contractual relationship between the public sector and the private sector, for the provision of public services, using infrastructure supplied by the private sector.

Under Mexican law, to create a PPP, the social benefit that it is intended to obtain must be justified and specified, and the financial advantage over other forms of financing must be demonstrated. This type of scheme first emerged in Mexico in 2003, allowing the private sector to provide support services to the government so that it, in turn, can provide a public service [3]. The federal government has been using PPP schemes since then in highways, health, education and law enforcement (penitentiaries). It was not until 2012 that long-term contractual relationships between the public and private sector were regulated. At present, Mexican states can develop PPP through a legal framework that is closely linked to federal legislation.

The PPP evaluation index in Latin America and the Caribbean gives Mexico a score of 58.1 points out of 100 [4], coming in behind Chile, Brazil and Peru. This index generally evaluates countries' competence for administering public-private partnerships in pursuit of infrastructure sustainability, with variables relating to the legal and regulatory framework, institutional aspects, operating maturity, investment conditions, financial facilities, and industry adaptation. At least by this indicator, Mexico has a considerable capacity to implement PPP agreements.

## 2. Review of Literature

### 2.1 Government Accounting Standards in the International Sphere

The economic-financial crises of the 1990s revealed deficiencies in the presentation of financial information by both the public and private sectors, [5] (Lane, p. 6). As a consequence, a global architecture of fiscal transparency standards has been proposed. The backbone of this regulatory architecture is the fiscal transparency code and its accompanying manuals and guides [6] [7]. These are in turn supported by detailed standards such as the Manual of Government Finance Statistics (GFSM) 1986 and 2001, which deal with statistical report presentation, and those developed by the International Public Sector Accounting Standards Board (IPSAS), which is part of the International Federation of Accountants (IFAC). According to the IMF, these accounting standards open the possibility of greater control over government finances, eliminating inconsistencies in financial and budget information because they reveal weak points in the government's financial control or accounting practices.

Empirical research highlights the relationship between fiscal transparency, government deficits and debt, "with a stronger correlation among low- and middle-income countries than among high-income countries" [5]. In other words, high-income countries tend to be more transparent, and the fiscal sustainability measures they adopt are further removed from the question of debt. There are also numerous studies demonstrating the relationship between fiscal opacity ("the use of accounting ruses to obscure deficits and debts) [...] and the perceived risk of default." Many countries hold non-financial assets in the form of subterranean resources such as oil, gas, diamonds, or precious metals, and few countries report through government accounting on the existence of this wealth, or the depletion of these natural assets, despite the extent to which they depend on them for their export revenues [8]. With the expansion of private-sector loan portfolios and guarantees, governments are more exposed to credit risk. Although accounting and statistical standards demand that any change in the payment probability of these instruments be recognized as an expense, the amortization of uncollectible debt is recognized as another reform of economic flow, and provisions for doubtful debts are not recognized, but simply disclosed as informational entries.

The Open Budget Index (OBI) demonstrates that in many cases companies do not provide enough information for civil society to understand or monitor the budget.<sup>1</sup> According to the 2010 survey, "a budget transparency norm can codify broadly accepted principles and guidelines of appropriate government conduct with respect to transparency and public participation in the budget process." In that survey, the Mexican government came in fifty-second out of ninety-two countries surveyed, finding that the government does provide budget information to a certain extent, albeit highly limited, and stating that "the nature of the information that government budget documents fail to provide is often significant" (p. 24). South Africa, New Zealand, the United Kingdom, France, Norway, Sweden and the United States are the countries that provide the most extensive information on the budget process. The 2015 survey had a different result, where Mexico moved to sixty-sixth place in a total universe of one hundred two companies whose score improved noticeably.

The 2010 OBI also describes the limited transparency of most countries regarding "off budget" activities. In these cases, the government's transactions are generally not managed through an annual budget process and are not subject to the same level of information, regulation or audit as other public transactions. These extra-budgetary funds are pensions or social security funds, state-owned enterprises, and discretionary or secret funds, money from donors, privatization funds, and PPP accounts. These "extrabudgetary funds account for nearly 40 percent of central government expenditures in transitional and developing countries," reads the report, which also finds that 41 out of the 92 countries surveyed do not

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<sup>1</sup> The Open Budget Survey of the International Budget Partnership (IBP) evaluates the availability of eight key budget documents in each country, as well as the comprehensiveness of the data contained in them. It also analyzes the extent to which Legislatures and Supreme Audit Institutions (SAIs) exercise effective oversight, and opportunities for the public to participate in decision-making processes regarding the national budget. It is not a survey of perceptions or opinions, but rather an index prepared on the basis of internationally accepted criteria to evaluate the budget transparency of each country and its accountability.

provide any information on extrabudgetary funds in their Executives' Budget Proposals. "Quasi-fiscal activities," it explains, "are any activities undertaken by state-owned enterprises, and sometimes by private sector companies at the direction of the government, in which the prices charged are less than usual or the "market rate" (subsidized bank loans). These quasi-fiscal activities hide the true cost of policies, making the government's budget position look better than it really is. "The paucity of information on extra-budgetary funds, quasi-fiscal activities, and contingent liabilities means that a large portion of government activities are carried out without scrutiny. Thus the public is unable to discern the government's true fiscal picture" (p. 26).

Public accounting should refer to the concepts, rules, standards and systems used to generate financial and budget information used in the presentation of budget reports, which refer to the preparation of summary information on the past, present and future status of public finances for internal use (management use) and external use (accountability). The fiscal reports are public when they are published and disclosed to citizens in the form of public finance planning (fiscal reports prepared in accordance with statistical norms) or government accounts or financial statements (fiscal reports prepared in accordance with accounting standards).

The accounting harmonization recently applied in Mexico does not seem to conform to the government's responsibility to present financial and budget information that includes the amount, evaluation and impact of PPP projects on public finances, or to enforce legislation and accounting standards with regard to transparency and accountability. The process of accounting harmonization, and concretely the provision of financial and budget information on PPPs, would tell the public more about the magnitude of this type of contracts and whether they are considered a component of the public debt, or public spending. This in turn would reveal more about the economic and social benefits of the projects and concessions that are awarded under this legal concept.

## 2.2 The Accounting Theory of Government Accounting

Financial and budget information is highly important "for explaining all the situations" [9] that arise in the government sphere for decision-making. Normative accounting theory describes what should be done in accounting—and how it should be done—and it evaluates whether current procedures are up to date or whether new ones can be applied.

Thus, the flow of control describes, "practice at a specific moment or rationalizes existing procedures" [10]. These normative and descriptive theories seek to influence the issuance of financial and budget information, the specific purposes of which converge with the users of financial information, and by this light, accounting theory adopts a normative stance.

With the focus based on deductive reasoning and the axiomatic approaches that pre-define the basic principles on which the theory is based, it includes for Hendriksen "the formulation of general objectives for the presentation of financial reports, a statement of the accounting postulates concerning the economic, political and sociological environment in which accounting must operate [...] and finally, the application of the principles to specific situations and the establishment of methods and rules of procedure".

The analysis of financial and budget information involves application of interpretative and behavioral methods, which greatly influence the establishment of fundamental concepts [11]. For Hendriksen, the provision of a government service becomes a government asset because it is an express constitutional power conferred upon the government. For Mejía, the service the government provides benefits society, and it executes its functions based on fund theory, which accounts for government activities in "eight types of funds, classified in three groups: a) government funds; b) proprietary funds; and c) fiduciary funds; and two account groups: fixed assets and long-term debt." Based on this theory and on the fundamental principles, financial information is constructed for transparency and accountability, and thus provides a service to citizens.

Goldenberg (in Mejía 1981) states that the government is a fiscal and accounting entity, with its own scheme to record cash, resources, liabilities, and federal fund allocations in order to meet the objectives established in the applicable laws, regulations or standards. He explains command theory and fund theory applied to accounting theory, as made up of assets allocated to a specific purpose and a recognition of transactions to which those assets belong, and if we limit public investments to the figure of the PPP, that investment should be categorized as such an asset. Cruz [12] believes that government accounting can be viewed from an administrative perspective, according to the accounting basis, and also that "government accounting is a system that requires in-depth study to understand it" because its preparation involves both normative elements and legal principles.

## 2.3 Normative Aspects of Government Accounting

Accounting standards in Mexico are constructed on the basis of guidelines issued by international bodies. Around the globe, the convergence of standards prompts a process of harmonization within the countries which "is using accounting on an accrual basis, harmonized accounting and issuing entities" [13] (p. 52). The statement on "The Financial Reporting Entity" by the Governmental Accounting Standards Board [14], Declaration 14, paragraph 9, establishes the way in which other members of the public sector must be incorporated to the government sector, including government-owned

enterprises and all their components: hospitals, schools and universities, including government employees, to then apply the same standard across all these government entities. The adoption of international standards by governments will improve the comparability of financial information presented by the public-sector entities of various countries around the world.

The Handbook of International Public Sector Accounting Standards Pronouncements [15] contains the references to the International Public Sector Accounting Standards (IPSAS) that are designed to be applied to general-purpose financial statements in all public-sector entities. According to the Manual, public-sector entities include national governments, regional governments (for example, state, provincial or territorial), local governments (for example, municipalities, communities) and their dependent entities (for example, departments, agencies, councils, commissions) unless otherwise indicated. It is precisely by articulating government accounting for all three levels of government that a country progresses toward accounting harmonization.

In Mexico, this process [16] is managed on the basis of a standard issued by the National Accounting Harmonization Council (CONAC), which emanates from the Constitution, because the Congress has the faculty to issue laws regarding government accounting. CONAC refers to international standards-issuing bodies for harmonizing the accounting standards that will be applied in Mexico (GASB, IPSASB). Government financial information is presented in standardized form in order to guarantee its country-wide harmonization [17], and this is intended to establish general criteria so that the accounting system and issuance of financial information by public entities is homogenous and the information can be issued in real time.

Government activities must be accounted for an accrual basis, meaning that each entry is recognized on the date of its realization, regardless of the date of payment or the existing collection rights. The accrual basis provides more information for resource management and offers the best estimate of “the economic impact of the Federal Government’s fiscal policy” [18] (p. 11). In another sense, quantifiable changes in equity among public entities are recognized on a cumulative basis.

Accounting standards establish that all public entities should record budget and public spending transactions in a harmonious, defined and specific manner. The accounting system must generate reliable, timely, comprehensible and comparable financial and budget information for all internal and external users of the [19]. Accounting information is constructed on the basis of the conceptual framework to meet the needs of financial information users, and to be interpreted by the public at large.

The legal rule [20] establishes that federal entities must present Information on Financial and Budget Situation, Statement of Changes in Cash Flow from Public Finances, Report on Contingent Liabilities, Analytical Status of Assets, Analytical Status of Debt and Other Liabilities (short and long term, internal and external), Sources of Financing, Net Indebtedness, Cost of Financing, Flow of Funds, which sums up all the transactions and indicators of the fiscal position; and investment programs and projects [21].

## **2.4 Legal Aspects of Public-Private Partnerships**

As we indicated above, PPP projects have been developed in response to the neoliberal economic model and have become increasingly prevalent as countries look for ways to improve public-sector efficiency. The Law on Public-Private Partnerships [22] regulates this type of contract, and the standard is consistent with the constitutional principles around which the public and private sector converge to promote economic development. Constitutional principle [23] underscores the State’s obligation, as governor of national development, to ensure that development is comprehensive and sustainable. Furthermore, the principle indicates that the State will procure the stability of public finance and the financial system in order to help generate conditions favorable to economic growth. The State must plan, conduct and coordinate the nation’s economic activities and regulate them under criteria of social equity, productivity and sustainability, while the economic resources available must be administered efficiently, effectively, economically, with transparency and probity, to satisfy the objectives for which they are destined.

The term PPP refers to agreements under which the private sector supplies infrastructure assets and services traditionally provided by the State. PPP may be established via concessions and operating leases. Although they can be created for a wide variety of social and economic infrastructure projects, so far they have been used primarily in transportation infrastructure projects like highways, bridges and tunnels, and for housing, such as hospitals, schools and penitentiaries [24].

From the perspective of a government’s public finances, PPP can provide a viable alternative for the development of a country. They tackle solid projects aimed at resolving obvious limitations in infrastructure, like highways, railways, ports, electricity, and these partnerships probably have high rates of economic return. Projects such as these are often administered to include the collection of rates from users, because it is feasible and convenient, particularly in the case of economic infrastructure projects, which combine construction with exploitation, toll road maintenance and service

provision, and not so much so for social infrastructure projects such as the construction of hospitals, schools and penitentiary systems, whose administration requires more control.

Regardless of how the PPP project operates, it is configured as a contract that establishes a long-term relationship between public sector and private sector agencies for the provision of services to the public sector, wholesalers, intermediaries or the end user, and in which an infrastructure supplied totally or partially by the private sector is used to increase social welfare and levels of investment in the country. PPPs permit the development of productive investment, applied research and/or technological investment. The law does not describe what a productive investment project is, but when these are proposed they must be justified, specifying what or for whom the social benefit will be, and demonstrating their financial advantage over other forms of financing.

Three forms of carrying out PPP projects can be identified. A pure project is when the payment for the provision of services to the public sector or to the end user, together with the costs of investment, operation, maintenance, and conservation of the infrastructure, come entirely from federal budget resources. A combined project is when the resources come from one or more federal sources, the National Infrastructure Fund, other public resources, or another multiple source. Finally, a self-financing project is when the resources for its development and execution come entirely from contributions outside the public budget: private resources or revenues generated by the project itself.

The sources of financing for an investment can take three forms: private capital, credit, and budget revenues. In the past, the traditional scheme of public investment was to make the State directly responsible for securing the financing from banks, the operating contract with the operating company, and the construction with a construction company (Chart 1). Under the PPP scheme, the financing is private. The State<sup>2</sup> signs a long-term service contract for a PPP, and the PPP is the intermediary company that will take charge of contracts with the operating company, financing and the builder.

**Chart 1: Comparison Between Traditional Acquisitions (Public Financing) and PPPs (Private Financing)**

Public Financing		Private Financing	
State		State	
Operating contract	Financing Contract		Long-term service contract
Operating Company	Banks	PPP-Special purpose vehicle	
Construction contract		Operating contract	Financing contracts
Construction Company		Operating Company	Banks
		Construction contract	
		Construction company	

Source: Based on Hana Polackova Brixi, Nina Budina and Timothy Irwin, "Managing Fiscal Risks in PPPs," in Current Issues in Fiscal Reform in Central Europe and the Baltic States 2005 (Washington: World Bank, 2005), pp. 135-136.  
Available at <http://siteresources.worldbank.org/INTEUEINP/Resources/calosc.pdf>

Along these lines, signing a contract for a PPP must be justified, meaning its implementation must imply a social return and have demonstrable financial advantages over other forms of financing. If the cost of private financing is higher than the public financing, the excess must be "justified by superior efficiency" [25] and with the efficiency implied by the project's creation. For this author, the structuring of Private-Public Partnership projects "is often more expensive than traditional public works" (p. 49-50).

The standard established the government's obligation to expressly disclose that the project is a PP in preliminary studies and analyses, in unsolicited proposals, in public tender procedures, authorizations for development of the project and in the contracts and agreements signed with the developer. The commercial corporation that develops the project must be incorporated under Mexican law in order to develop a given project. For Treviño (p. 83), "this commercial corporation must be the principal of the PPP project, and also of the licenses, concessions or permits required to execute the works and provide the services arranged for under the PPP." As per Gausch (2005), these contracts must have an accounting system that keeps records of assets and liabilities "about the regulatory treatment and allocation of costs, investments,

<sup>2</sup> PPP projects can be carried out by agencies and departments of the Federal Public Administration; federal public trusts; entities governed by public law, with autonomy granted under the Political Constitutions of the United Mexican States, and state, municipal and public entities, with federal resources, in accordance with the agreements they enter into with agencies or departments of the Federal Public Administration. Federal resources are understood to be those in which the amount of contributions from federal, municipal and public entities combined are less than the federal fund allocations.

capital base, revenues, transactions with related parties, payments to the operator and operating and financial variables” (in Treviño, p. 35).

The formalities needed for projects created at the state level should be completed with the Ministry of Finance and Public Credit (SHCP), through administrative programming and budget units. Formalities for state-level PPPs are handled through the coordinator for each state ministry, or directly in the case of entities not assigned to a particular ministry. The SHCP is to coordinate and publish a record for statistical effects with information relative to the PPP projects, in which it will systematically publish the information contained in the project.<sup>3</sup> The information shall be public, except information that is reserved or afforded confidential treatment, according to the ordinance on Transparency and Access to Public Government Information and other applicable provisions.

Furthermore, when the SHCP presents its Federal Spending Budget plan, it must include an evaluation of the impact of the PPP projects on public finances during their lifecycle, and in its Quarterly Reports on Economic Situation, Public Finances and Public Debt, it must report on each of the authorized projects, amounts disbursed or pending disbursement according to the corresponding projections and estimates, and a status report on the project’s execution and timeline, as well as the amount of payments committed.

### 3. Methodology

The scope of the research is primarily exploratory, with a descriptive focus. We will conduct a hermeneutical review [26] of government accounting and budget financial information and disclosure of financial and budget information on PPP contracts.

The purpose of the study is to examine the financial and budget information of the Mexican federal government regarding PPPs, posing a fundamental question: Do the finance authorities appropriately disclose financial and budget information corresponding to the contracts entered into under the legal concept of PPPs, as required under government accounting standards?

The research was conducted through a compilation of data that could be analyzed to identify the contracts signed as PPPs. This is a transactional study on a non-probabilistic sample [27]. We reviewed financial and budget information for fiscal years 2013 [28], 2014 [29], and 2015 [30], and Quarterly Reports on Economic Situation, Public Finances and Public Debt issued by the SHCP as stipulated by the Law on Public-Private Partnerships with regard to government accounting.

### 4. Results

The regulation in effect since 2012 establishes that as of fiscal year 2013, the Federal Spending Budget and accompanying financial information must include a separate line for PPPs. The SHCP must, when presenting its Federal Spending Budget, include a preliminary estimate of the maximum amounts to be invested for new projects, the projects already authorized, and an evaluation of the impact of the PPP projects on public finances during the life of the contract, based on macroeconomic projections used in federal government programming. The SHCP must also include a description of each of the authorized projects, amounts disbursed or pending disbursement, a status report on the project execution in the established term, and the amount of payments committed, as part of its quarterly reports on economic situation, public finances and public debt.

For fiscal year 2013, the 2013 Federal Budget does not describe any project of this type. The federal expenditure budget for 2014 describes at least one PPP project.

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<sup>3</sup> a) Project name; b) Public tender number; c) Name of requesting entity; d) Developer name; e) Term of contract; f) Amount; g) Amount of payments programmed and executed during project lifecycle; h) Indicators of project’s social, financial and economic return; i) Result of the suitability evaluation; j) Other information that the Ministry of Finance and Public Credit considers important.

**Chart 2: FEDERAL EXPENDITURE BUDGET FOR FISCAL YEAR 2014**  
(Millions of Pesos)

<b>Annex 1. Total Net Expenditure</b>	4,467,225.8
<b>ANNEX 4.A. PUBLIC-PRIVATE PARTNERSHIP PROJECTS</b>	
Total Amount of Investment	2014 Allocation
INSTITUTE FOR SOCIAL SECURITY AND SERVICES FOR GOVERNMENT WORKERS	
Construction and operation of a new “Hospital General Dr. Gonzalo Castañeda” in Mexico City	956.3
Source: <i>Official Gazette of the Federation</i> , December 3, 2013.	

As described in annex 4.A of the Federal Expenditure Budget for fiscal year 2014, the government reviewed plans to replace the old Gonzalo Castañeda Escobar General Hospital, conducted a project viability study and made a decision in the PPP project public tender organized by the Institute for Social Security and Services for Government Workers (ISSSTE), in an effort to improve the infrastructure and provide services related directly or indirectly to health care.

The project objective is to guarantee the Institute’s capacity to provide healthcare services to some 990,705 enrolled workers by strengthening the physical infrastructure for secondary healthcare services in the region of influence of the Gonzalo Castañeda General Hospital, so that it can provide health care and services consistent with the needs and expectations of the registered population.

The base cost is the initial investment needed during the phases of demolition, design, construction, equipment, operation, maintenance and equipment replacement over a 25-year timeline. Based on a reading of the Plan to Replace the Gonzalo Castañeda Escobar General Hospital and the project viability study, some advantages of securing these services through PPP arrangements for hospitals are:

- a. Work can be completed and commissioned more quickly and more according to schedule.
- b. Technological innovation in hospital functions.
- c. Hospital and physical infrastructure should be operated according to the highest quality standards because they have state-of-the-art technology in optimum condition.
- d. The developer is responsible for infrastructure maintenance.

The developer is responsible for the design, financing, demolition, construction, equipment, operation and maintenance of the physical infrastructure and facilities of the hospital during the life of the contract. The developer is also responsible for providing medical equipment services, maintenance of facilities and equipment, storage areas, fumigation and pest control, waste elimination, sanitation, gardening, parking, information and telecommunications technology, security, laundry, food services, photocopying and information transfer, supply of medicinal gases, hemodialysis, laboratory and sterile processing stations. Payroll expense remains primarily the responsibility of the Institute (93.6%), but personnel engaged in the provision of cafeteria, janitorial, laundry and maintenance are the responsibility of the developer.

One of the developer’s responsibilities established in the contract is to guarantee the availability and quality of hospital assets and to ensure those assets are in optimum condition during the life of the contract.

For fiscal year 2015, the Federal Expenditure Budget includes a line item containing construction and operation of the new Gonzalo Castañeda General Hospital in Mexico City.

**Chart 3. FEDERAL EXPENDITURE BUDGET FOR FISCAL YEAR 2015**  
(Millions of pesos)

<b>Annex 1. Total Net Expenditure</b>	<b>4,694,677.4</b>
<b>ANNEX 5.A. PUBLIC-PRIVATE PARTNERSHIP PROJECTS</b>	
Total Amount of Investment	1,613.1
INSTITUTE FOR SOCIAL SECURITY AND SERVICES FOR GOVERNMENT WORKERS	
Construction and operation of a new “Hospital General Dr. Gonzalo Castañeda” in Mexico City	1,026.4
Construction of a new Hospital Clinic in Mérida, Yucatán	586.7
Source: <i>Official Gazette of the Federation</i> , December 3, 2014.	

There is no clear criterion for defining the programs and investment projects that must be included in budget information, because for this to occur, each project must be registered in the Research Unit Portfolio for inclusion in the federal budget. Based on an analysis of the federal budget financial information, 1,613.1 million pesos were allocated to the PPP project for the ISSSTE, of which 1,026.4 million were for construction and operation of the new General Hospital, amounting to .045% of the federal expenditure budget for 2015.

According to the adjudication ruling for the mixed international public tender, the maximum amount the requester may pay for the provision of services complementary to medical attention is MXN8,644,491,476.79 (excluding value-added tax, VAT), which translates into an annual service payment of MXN367,850,701.14. The winning economic proposal was for a total amount of MXN8,068,663,811.64 (excluding VAT), or an annual service payment of MXN343,347,396.24. Because this is lower than the permitted maximum, the bidder that offered this amount was adjudicated the project.

What bears closer analysis here is that this line item does not seem to coincide with the amount that the federal budget allocates in fiscal year 2014, and even less in the 2015 budget. Furthermore, if the public tender was held in September 2014, how were the funds allocated in 2014—and probably not disbursed—accounted for? How was the difference between the assigned budget for 2015 and the amount effectively paid registered in the books?

The 2015 budget contains a line item corresponding to construction of a new hospital clinic in Yucatán under the PPP concept, whose budget value is MXN586.7 million. No information was found relating to the organization of a public tender, but there is information on the feasibility study and an unsolicited proposal, which does not describe amounts or terms.

Given that the SCHP is responsible for publishing this information, we reviewed the Quarterly Reports on Economic Situation, Public Finances and Public Debt, but found no information relating to the projects described in the Federal Expenditure Budget for 2014 or 2015.

Under the Law on Public-Private Partnerships and the Government Accounting Law<sup>4</sup>, state and federal governments and state-owned enterprises have the obligation of publishing financial and budget information, and these entities fall short of this obligation, since no information of this type was found.

<sup>4</sup> There is information on various PPP contracts at the state level. One of these is the Program to Promote Public-Private Partnerships in Mexican States (PIAPPEM) for the state of Chiapas [31], the purpose of which is to make the state of Chiapas more competitive by helping it to expand and improve its provision of services and public infrastructure. It does so by working to strengthen the legal and institutional capacity to apply harmonized PPP schemes, enabling it to expand and operate its infrastructure and public services through increased participation by the private sector. In another part of the country, in Monterrey, a tripartite effort was made for a project involving total investment of MXN2.99billion, finance by the Inter American Development Bank (IDB), Banobras (a state-owned enterprise) and Banorte (a private bank). The project began in 2009 and has the objective of increasing the supply of water and sanitation capacity of the Monterrey metropolitan area. The active life of the project was calculated at 20 years. Information available at: [http://www.cca.org.mx/ps/funcionarios/muniapp/descargas/Documentos\\_de\\_apoyo/informaciontematica/capp/Proyecto\\_Integral\\_Infraestructura.pdf](http://www.cca.org.mx/ps/funcionarios/muniapp/descargas/Documentos_de_apoyo/informaciontematica/capp/Proyecto_Integral_Infraestructura.pdf) viewed on November 28, 2015. The Polytechnic University of San Luis Potosí, Mexico, has a Service Provider Scheme that began its construction phase in 2007 and concluded in 2011, at a cost of MXN1,978.38 millions (excluding value-added tax, VAT). The contract has a duration of 20 years and to payments established until 2011 to payments established until 2011 corresponds to MXN640.1 million. Available at:



For the purposes of this study, the answer to the question posed above is that the government entities that make up the central public administration do not, in fact, present financial and budget information corresponding to the 2013, 2014 and 2015 fiscal years regarding the PPP contracts that have been signed in Mexico.

## 5. Conclusion

For Treviño (p. 15) in Mexico, “hundreds of PPP projects (perhaps thousands [...]) have been started up at all three levels of government” since before the Law took effect, “[...] but accounting for them is very difficult because of the sovereign nature of federal states and the autonomy of municipalities.” In fact, Mexico was the first country in Latin America to use PPP in infrastructure. At the end of the 1980s, three highway concession projects were registered.

Over the past ten years, Mexico has increased the amount of its debt and it is not immediately clear where the resources have been allocated. However, it would seem that in applying them, the government “does not have the appropriate studies to carry out”<sup>5</sup> the projects, meaning the projects that are executed lack sufficient and necessary information to make the investment, which encourages an increase in debt over the course of several years, with no opportunity to monitor the application of the investments made in prior periods.

According to the IMF, the PPP scheme can attenuate expenditure and controls, shift public investment to off-budget accounts, and debt to off-balance government accounts. In this situation, the State may have to bear the brunt of the risks involved in the PPPs and may face considerable fiscal costs in the medium or long term. It is imperative that the government reveals the processes for selecting and implementing PPP projects, explains the role of the SHCP with regard to the project, and circumscribes the fiscal risk posed to government public finances, because the cost of financing and the necessary guarantees is often borne by the taxpayer. This being the case, the government and public entities involved in the PPP project should establish a goal of achieving transparency and accountability, and this is only possible if they have orderly, clear and sufficient fiscal and budget accounting that is complete enough to supply the information needed to evaluate all of the fiscal risk. For the IMF, until a broad-based, comprehensive international accounting standard is developed for PPP, there is a substantial risk that in the design of these partnerships, efficacy and efficiency are sacrificed to other considerations. This thwarts the purpose of using PPP to increase efficiency, and it also serves to dissemble the medium- and long-term consequences that many PPP have for public finances. Mexico carried out three test projects with apparent success. The positive results inspired the new government of then-president Carlos Salinas de Gortari to develop a program to build more than 4,000 km of concession highways starting in 1989.

## 6. List of Abbreviations

CONAC	National Accounting Harmonization Council
GASB	Governmental Accounting Standards Board
GFSM	Manual of Government Finance Statistics
IDB	Inter American Development Bank
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards Board
ISSSTE	Institute for Social Security and Services for Government Workers
OBI	Open Budget Index
OECD	Organization for Economic Cooperation and Development
PIAPPEM	Program to Promote Public-Private Partnerships in Mexican States
PFI	Private Finance Initiatives
PPP	Public-Private Partnership

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[http://www.cmiec.org/comisiones/tematicas/financiamiento/Decretos/Univ\\_politecnica\\_San\\_luis\\_P.pdf](http://www.cmiec.org/comisiones/tematicas/financiamiento/Decretos/Univ_politecnica_San_luis_P.pdf) viewed on January 15, 2015 <http://www.piappem.org/file.php?id=400> viewed on February 5, 2016.

A Public Lighting Project for Mexico City operates under a public-private partnership (PPP) scheme and was awarded to a concessionaire in 2010 for a period of 10 years. The total amount of investment stipulated is MXN2.60 billion. The amount will be paid over a ten-year period in annual installments. Available at: [http://www.cca.org.mx/ps/funcionarios/muniapp/descargas/Documentos\\_de\\_apoyo/informaciontematica/capp/AlumbradoPublico\\_DF.pdf](http://www.cca.org.mx/ps/funcionarios/muniapp/descargas/Documentos_de_apoyo/informaciontematica/capp/AlumbradoPublico_DF.pdf) viewed on November 22, 2015.

<sup>5</sup> Ibid, p. 85

SCHP	Ministry of Finance and Public Credit
SPP	Service Provision Project
VAT	Value-Added Tax

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