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Revenue Pressure on Mexican Municipalities: Does it Lead to Greater Accountability?

Caroline Pöschl

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Caroline Pöschl

Summary

Development scholars are taking renewed interest in the taxation-accountability theory, which broadly claims that if governments are dependent on taxation they will become less corrupt and more accountable to citizens. The need to raise tax revenue is said to spark incentives that lead to mutually beneficial bargaining between the government and its citizens, through which citizens agree to make tax payments in return for more accountable governance and increased influence in government decision-making. Several scholars have shown empirical evidence in support of this taxation-accountability theory at the national level, yet few have studied it at the local government level.

This paper explores this theory in the context of Mexican municipalities. It follows the strategies taken in six urban municipalities that are under considerable pressure to raise their tax revenue. It reveals the processes that evolve from such pressure, whether they lead to tax bargaining or coercive taxation, and the extent to which greater accountability can be expected as a result. It is structured as a comparative case study based on several months of field research conducted in the states of Guerrero, Tabasco, Baja California Sur, Aguascalientes, Yucatan and Coahuila.

While the findings reveal some evidence of tax bargaining the causal link to greater accountability is not straightforward, and is greatly hindered by the institutional framework surrounding local government, particularly in the Mexican context. Explicit tax bargaining largely involved individual persons or firms negotiating down their tax obligation with no wider benefits to the population. Only where taxpayers formed a narrow interest group was there a possibility of a negotiation that could lead to greater accountability. More common were implicit agreements between the local government and the taxpayers: if the government was popular and exerted trustworthiness, it collected more and the residents were more willing to pay. If the government disappointed the residents, tax collection efforts were dropped and tax evasion increased. Yet rarely did these agreements lead to greater accountability. The obstacles preventing taxation-accountability linkages from taking hold in spite of considerable tax revenue-raising pressure included limited expenditure autonomy at the local level, interference from higher levels of government or other third parties (which are more powerful relative to local leaders than to national leaders), short time horizons due to brief term limits and the prohibition of consecutive re-election, as well as a lack of transparent accounting.

Keywords: subnational finance; local public finance; local accountability; local taxation; property tax; fiscal federalism; fiscal decentralisation; Mexican municipalities; tax bargaining.

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Acronyms

NGO	Non-governmental organisation
PAN	National Action Party
PRD	Democratic Revolutionary Party
PRI	Institutional Revolutionary Party

Introduction

Development scholars are taking renewed interest in the taxation-accountability theory, which broadly claims that if governments are dependent on taxation they will become less corrupt and more accountable to citizens (Bräutigam 2008; Bräutigam et al. 2008; Di John 2011; DFID 2009; Everest-Phillips 2010). The reasoning behind this theory is that a government that needs to raise taxes will want to respond to its citizens' demands and show that it is using tax revenue efficiently and effectively in order to elicit tax compliance (Bräutigam et al. 2008; Levi 1988). As Beblawi and Luciani (1987: 73) explain, a state that depends on taxation 'must give credibility to the notion that it represents the common good'. A government that relies on taxation will also be more willing to invest in the productivity of its jurisdiction and cooperate with its citizens in order to expand taxable goods and raise their value (Olson 2003). Taxation can incentivise citizens to resist (through evasion, protest, or other responses), to scrutinise more carefully how the government is spending public money, or to make demands from the government in return. The outcome is increased engagement between the government and its citizens, and mutually beneficial bargaining through which citizens agree to make tax payments in return for more accountable governance and increased influence in government decision-making (Moore 2004, 2007; Ross 2004; Tilly 1992).

Recent literature has shown evidence of this phenomenon in developing country contexts (see Moore (forthcoming) for a review). However, it has also shown that it does not work automatically or in every context. Instead the causal linkages are complex and take different forms, from 'direct and explicit haggling and agreement' to indirect 'strategic interactions and mutual behavioural adjustments without direct negotiation' (Moore 2008: 37-38), and outcomes are highly contingent on contextual factors and circumstances (Levi 1999; Moore 2008; Prichard 2009, 2010). What those precise contextual factors are, and through which mechanisms such linkages work in different contemporary developing country contexts, remains under-researched.

In particular, the extent to which these phenomena at the national level may apply to the local government level is unclear. Will pressure to raise tax revenue bring local governments to be more accountable¹ and less corrupt? If so, does it work through different mechanisms than at the national level? If not, why not? The dynamics of local government present their own idiosyncrasies. Understanding this link at the local level appears particularly relevant given rapid urbanisation and the decentralisation processes that are shifting power and responsibilities to local governments throughout the world (Campbell 2003; Faguet 2012; Faguet and Sánchez 2008).

Some scholars have started to explore these linkages at the local level. On the one hand, *quantitative* large-N studies have found evidence of local taxation-accountability linkages. These show that the more local governments rely on own source revenue (including taxation) as opposed to transfers from the central government, the more accountable and less corrupt they will be (Gadenne 2012; Gervasoni 2010; Hoffman and Gibson 2005). This is consistent with the theoretical fiscal federalism literature (Bahl and Bird 2008). On the other hand, there is also a small body of *qualitative* case study literature that illustrates a different picture. Case studies at the local government level in China (Bernstein and Lü 2008), East Africa (Fjeldstad 2001; Fjeldstad and Therkildsen 2008), and Senegal (Juul 2006) have shown that increased tax effort was more likely to lead to coercive tax collection methods, 'often characterised by violent and extortive forms of taxation' (Fjeldstad 2001: 302), than any agreement to increase

¹ The concept of accountability is defined here as responsiveness on the part of local government to demands of the broad majority of local residents within that municipality's jurisdiction. This encompasses the use of public funds in a transparent and efficient manner (implying limited corruption and embezzlement), and the effective delivery of public goods and services.

accountability. All the above accounts were in poor agrarian societies. But what happens in other contexts?

This paper aims to contribute to the body of empirical research on taxation-accountability linkages at the local government level. It examines a situation in which local governments are under substantial pressure to raise tax revenue, and assesses how and to what extent this sparks some sort of exchange or bargaining process between the local government and local residents. The principal aim is to understand the processes that emerge from short-term revenue needs at local government level, and the extent to which these processes activate tax bargaining that is consistent with longer-term claims about tax-accountability linkages. It also explores whether tax bargaining is more likely where state-society relations are relatively stronger.

The research is framed as a comparative case study of six urban municipalities in Mexico. It is based on several months of qualitative field research. The findings reveal that while some evidence of a link between taxation and accountability can be discerned, the relationship is not straightforward and is greatly hindered by the institutional framework surrounding local government.

No evidence of coercive taxation was found. Property taxation in particular is tied to very high political costs, given that it is a direct visible tax usually paid as an annual lump sum. Thus, given the context of electoral competition, local governments tried to maximise the property tax raised through methods that would elicit the most inconsequential reaction from taxpayers. That is, they encouraged payment by offering prizes or making the payment process more convenient. There was greater reluctance to make more meaningful efforts such as enhancing enforcement through stricter sanctioning of non-compliance, raising rates, or increasing assessed property valuations to their market value.

Explicit bargaining was observed around taxes with a narrower interest group, such as with street vendors on floor fees or local bus drivers on transport fees. Direct explicit tax bargaining surrounding property taxation was generally only between local government and individuals or firms to negotiate a reduction of their tax obligation. Most common was indirect implicit tax bargaining, manifested in two ways. First, when residents were dissatisfied with the local government's performance, or perceived it as corrupt or unresponsive, they withheld their tax payments. They deferred payment until a seemingly more trustworthy administration was in power. Second, when local government authorities sensed that they were unpopular and residents were dissatisfied, they adjusted their behaviour by refraining from collecting taxes and issuing sanctions. When they sensed that they were popular, they dared to ramp up their tax collection effort.

The degree to which these linkages lead to mutually beneficial bargaining or increased accountability, however, is less clear. Some local government officials may regard this link as a motivator for taking steps to develop an image of transparency, honesty, approachability and responsiveness in the short run. While it may have provided additional impetus, a more reliable motivator for cultivating an image of accountability is the prospect of re-election (to some office, even if consecutive re-election is prohibited), and career advancement within the party.

Several obstacles stood in the way of a stronger causal link running from tax revenue pressure to local government accountability. In a context of electoral competition, the possibility of bailouts and a lack of homogenised accounting, local government officials could still get by without having to tax their residents given the high political costs associated with doing so. Methods used included cutting costs, hiding debts and passing them on to the next administration, or taking extraordinary loans.

Further institutional constraints at the local level restricted local governments both from raising taxes and from being able to grant concessions. First, local governments have limited autonomy in terms of decision-making. This limits their manoeuvring power to respond to specific demands by the residents in a bargaining process, as has often been argued in the decentralisation literature, including for the Mexican context (Díaz-Cayeros and Martínez-Urriarte 1997; Mayer-Serra 2001; Sánchez 2013). Second, in an inter-governmental system, higher levels of government may undermine local tax raising (and tax bargaining) efforts when they have a veto over local tax policy decisions. Negotiated bargaining involving local government initiatives to raise the valuation of properties, raise property tax rates or introduce new taxes were in some cases vetoed by state governments for political reasons. Third, local government officials tend to have short time horizons when there is electoral competition. This is particularly the case in Mexico where mayoral term-periods are short (normally 3 years). This discourages tax collection efforts as large increases in intake require long-term investment in a modernised cadastre, and tax administration and revenue returns will tend to accrue to the next administration; this will mean that any advantages for the local government actually making increased tax effort, and by extension the link between tax payments and benefits for the residents, will be lost.

1 Research design

1.1 Research questions

This paper focuses on the causal processes arising from a revenue imperative at the local government level in Mexico. The context is one of urban local governments and electoral competition where the most important local tax handle is the property tax.

The main question asked is *when (if at all) does the revenue imperative lead to a bargaining process between local residents and the local government in this context, what form does this take, and what implications does this have for local government accountability?* It uses an X-centered approach for causal inference. It takes a specific scenario of X (when municipalities attempt to increase tax revenue because of urgent revenue needs), and examines the outcomes for Y (are processes stimulated that are likely to lead to increased accountability?).

More specifically the questions are: what processes does revenue pressure on local governments stimulate? If bargaining processes are stimulated, through which causal mechanism and in what form do they occur? What is the specific causal sequence? Do increases in tax intake lead to residents protesting, and does this lead to subsequent bargaining with outcomes that increase accountability? Or do local governments first improve accountability and then increase the tax intake? If no bargaining process is stimulated, why not? What are the main obstacles in the way of the emergence of bargaining processes with mutually beneficial outcomes?

The evidence is presented in two parts. In the first, municipalities that rank lower in terms of transparency and accountability according to available rankings are examined, and then municipalities that rank higher. This has the purpose of establishing whether we observe different outcomes in municipalities in which trust, government responsiveness and state-society relations (proxied by these rankings) are generally weaker, than in those municipalities in which these are stronger at the outset. The objective is to assess the proposition that when links for state-society relations are already in place, tax bargaining is a more likely outcome.

The principal aim is to understand what processes are emerging due to short-term revenue needs at the local government level, and the extent to which these efforts are activating processes of bargaining that are consistent with longer-term claims about the tax-accountability relationship.

1.2 Methodology

The methodology employed is qualitative case study analysis. The paper is structured as a comparative case study following field research in six municipalities located in six different states in Mexico. Data was collected primarily through semi-structured interviews with over 70 interviewees² between December 2012 and August 2013. This was triangulated through analysis of fiscal data, legal codes, secondary literature, news articles, campaign platforms and other documentary evidence. It was further supplemented by observation, for example of local council meetings, and the interaction between local authorities and residents.

The interviewees in each municipality broadly comprised the following:

- Local council (*cabildo*) members (mayors and councillors)
- Municipal directors of finance, revenue, taxation, property taxation
- Directors of the cadastre
- Municipal citizen participation offices
- Municipal transparency offices
- External, state-level or independent transparency, accountability or auditing institutions
- Civil society organisations, non-governmental organisations (NGOs).

Further informants of particular relevance were added to this standard list in each municipality, such as the representatives of hotel owners in Acapulco and the leaders of street vendors in Tabasco. For a broader contextual overview, the Mexican Ministry of Finance, state government finance secretaries, rating agencies, international financial institutions and academic institutions were consulted. Interviews were conducted, first, to understand the series of events and their sequence in the municipality, to gather information that was not documented and to help explain or clarify data; and, second, to understand the interviewees' perceptions, beliefs and motives. With regard to the latter, information was gathered to gain an 'insight into the mindset of the actor/s' more than to establish the objective truth (Richards 1996: 200).

1.3 Case selection

Six urban municipalities were selected for the focus of study in different parts of Mexico (see map in Figure 1): Acapulco (Guerrero), Centro (Tabasco), La Paz (Baja California Sur), Aguascalientes (Aguascalientes), Merida (Yucatan) and Saltillo (Coahuila).

² Interviews were conducted in Spanish and quotes have been translated into English. The interviews are referenced with a number corresponding to a list of interviews available from the author.

Figure 1 Map of Mexico showing municipalities selected for case study



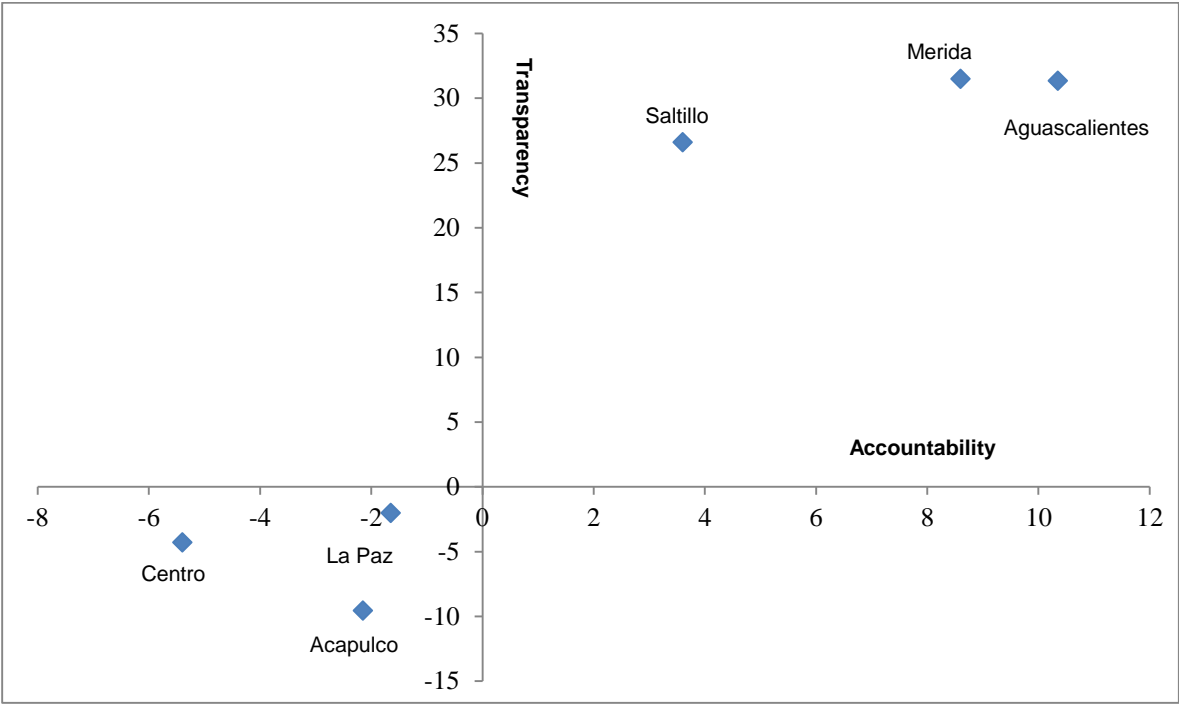
Structurally, similar municipalities were chosen: they are all urban municipalities that have comparable per capita GDP, number of inhabitants, and per capita budgets (see Table 1). They differ in one critical aspect: half of them rank very highly in terms of accountability and transparency according to available rankings, while the other half fare particularly poorly (see Figure 2). Selecting structurally-similar municipalities that are polar opposites in terms of transparency and accountability had the aim of investigating how local governments go about the process of raising revenue when accountability and transparency are relatively high versus the contrary, while controlling for more obvious structural reasons that might affect their success or failure. Small poor municipalities, for instance, will not be able to succeed in raising revenue because assessed property valuations are far lower and the population is less able to pay. Using structurally-similar municipalities more easily allows a focus on the theoretical questions of interest. Multiple cases were selected in each category in order to increase the chance of finding patterns that repeat, while diminishing the chance of studying complete outliers (for wider resonance of the conclusions drawn) (Eisenhardt 1989).

Table 1 Structural characteristics of municipalities selected for case study

	Name	Population ¹	GDP per capita (US\$) ²	Budget p.c. (pesos) ³	Accountability/transparency ⁴
1	Aguascalientes, Aguascalientes	750,000	12,000	3608	High
2	Merida, Yucatan	800,000	13,864	2688	High
3	Saltillo, Coahuila	725,000	11,607	2428	High
4	Acapulco, Guerrero	673,000	8,864	4423	Low
5	La Paz, Baja California Sur	252,000	10,545	3904	Low
6	Centro, Tabasco	665,000	13,800	4079	Low

Sources: 1. CONAPO (2010); 2. Standard and Poor's Mexico Sub-Sovereign Division estimates (2011); 3. INEGI (2012); 4. ARRegional Ranking (2011).

Figure 2 Distance from average in terms of transparency and accountability



Source: Own elaboration based on ARegional (2011).
 Note: Distance from average of the 100 municipalities rated.

What makes the chosen municipalities particularly interesting as the focus of study is that they are all cases of municipalities under considerable pressure to increase their tax revenue, the independent variable in the relationship explored here.

In Mexico, in the years prior to research municipal debt had been consistently growing faster than fiscal transfers from the federal government, the main local government revenue source (Interview 3; Interview 5; SHCP 2012; INEGI 2012). For example, in La Paz expenditure rose by 10 per cent from 2009 to 2011 but revenue did not grow, instead dropping by around 3 per cent over the same period (GeoAdaptive 2012). This resulted from a combination of stagnating oil revenue and a general economic downturn, which affects the level of federal government transfers. The economic downturn was largely a consequence of recession in Mexico’s main trading partners, and a slowdown in tourism because of reports of drug violence and swine flu in the previous years. Municipalities where oil is produced, such as Centro, particularly felt the consequences of stagnating oil revenue, as they receive a greater share of this and are more dependent on it than other municipalities (SHCP 2012).

This drop in transfers has made many municipalities struggle even to maintain existing levels of services, especially urban municipalities in the face of urban migration (Interviews 28, 33). Additional revenue was especially urgent for those with ambitions to carry out projects beyond their mandated responsibilities and to finish their term with a zero deficit (Ortega 2012; Interview 73). In several municipalities poor municipal financial management magnified a chronic debt problem. Many outgoing municipal administrations left high debts for their successors to grapple with (Martínez 2013; Rea 2012; Tzuc 2012). This added to revenue pressure in the administrations researched in Acapulco, Merida, and La Paz (Gómez 2012; Ponce 2012; GeoAdaptive 2012; Interview 39). Many municipalities expected to be bailed out by the federal government; however, a stricter bailout policy was imposed after national outrage at mismanagement of local funds (La Reforma 2012; Red Política 2013; Interview 5). Making matters worse, credit agencies Moody’s, Standard and Poor’s, Fitch Ratings and HR Ratings downgraded their ratings for most of the municipalities that they rate, complicating

municipalities' access to credit, raising borrowing costs, and reducing the interest of investors to finance their projects (Moody's 2012; Arteaga 2013; Soto 2013; GeoAdaptive 2012; Interview 4; Interview 3). This lack of alternative revenue placed great pressure on many municipal governments to ramp up their tax intake.

At the same time local tax powers had remained largely unexploited. The most important source of municipal own revenue was taxes related to property ownership, comprising around 60 per cent of municipal tax revenue on average, though there is much variation among Mexico's approximately 2,400 municipalities. Property tax is a revenue source that holds particular potential but has remained notoriously low throughout the past twenty years, averaging only 0.1 per cent of GDP until 1999 and 0.2 per cent since then (INEGI 2012; OECD 2013). Municipal governments in Mexico made little effort to raise taxes in the past, as this is politically unpopular and more difficult than alternative revenue sources of receiving federal and state transfers or borrowing money (Morones Hernández 2012: 84). Now that these alternatives were limited, as explained above, pressure has risen on them to begin making use of their previously unexploited tax instruments (particularly property tax).

In 2012 the federal government was especially vocal in urging all medium- and large-sized urban municipalities to make use of their property tax revenue potential, and warned that they would not be bailed out (García 2013). The municipalities have been further motivated to increase tax revenue because of recent adjustments in the transfer formulas that reward tax effort with greater federal and state transfers, in effect since 2011 (Peña Ahumada and Wence Partida 2011).

The selected municipalities have thus all (since the beginning of their administration between one to four years prior to field research) been under considerable pressure to raise their tax intake, which is the independent variable in the causal puzzle.

The municipalities chosen are all municipalities where, compared to the average municipality in Mexico, taxes and fees comprise a relatively important proportion of total revenue (between 11 per cent and 31 per cent) (see Table 2). They are among the 100 municipalities that are responsible for over 80 per cent of Mexico's tax revenue (INEGI 2012).

Table 2 Municipal taxes and fees, property taxes, 2011

Municipality	Taxes and fees (% of total revenue)	Property tax revenue (% of total tax revenue)	Property tax revenue (% of total revenue)
Acapulco de Juárez	19%	77%	9%
Centro	11%	99%	5%
La Paz	31%	74%	11%
Aguascalientes	18%	97%	8%
Merida	24%	99%	17%
Saltillo	26%	99%	19%

Source: INEGI (2012).

Note: Here property taxes include property tax (*impuesto predial*) as well as other taxes based on property, such as the tax on acquisition or property transfer.

2 Background and context

2.1 The third tier of government in Mexico

Before presenting the case evidence, it is useful to review briefly the institutional framework of the federal system and municipal government taxation in Mexico. The Constitution of 1917 that followed the Mexican Revolution separated the state into two tiers: the federation and the states. The states in turn were to use local government (municipalities) as organisational and administrative agents. Only in the 1980s and 1990s did decentralisation reforms bring increasing powers and responsibilities to the municipal level, eventually raising their status to a third tier of government. Mexico is now considered a federal country with three tiers of government: federal, state and municipal. There are thirty-one states (and one federal district), and just over 2,400 municipalities. A Constitutional Amendment in 1983 aimed to deepen decentralisation by assigning all property-related tax powers to municipalities.³ Further amendments granted them sole responsibility over various public services, including water, drainage, garbage collection and street lighting.

The local council or *cabildo* is the highest authority at the municipal government level. With a few exceptions, municipal councillors are elected from party lists in single constituency elections. The winning party places its leading candidate as the mayor (*presidente municipal*) and she and members of her team are granted over half of the seats in the council. This institutional construct gives the mayor considerable power, as it is difficult to overturn any of the ruling party's decisions (Moreno-Jaimes 2008). Although elections have been held since the beginning of the last century, it was not until the 1980s that de facto electoral competition became widespread and any party other than the national ruling Institutional Revolutionary Party (PRI) stood any chance of winning (Beer 2003; Hiskey and Canache 2005; Magaloni 2006; Cleary 2010; Grindle 2007).

The Mexican Constitution allows a term of only three years for municipal leaders, and prohibits re-election.⁴ This law is considered to stifle accountability as it prevents residents from sanctioning or rewarding local leaders through their vote (Grindle 2007; Moreno-Jaimes 2008). The political party of those leaders, however, may be re-elected, and many municipal leaders see their job as a showcase for their management and leadership capabilities and as a way of accumulating power and popularity for their future career. While the prohibition on consecutive re-election is somewhat particular to Mexico, the short time horizon of local leaders is typical. Even in countries where immediate re-election of local leaders is allowed, when faced with electoral competition they will tend to have similarly short discount rates and a time horizon that does not go beyond the next election (Bahl and Linn 1992: 118).

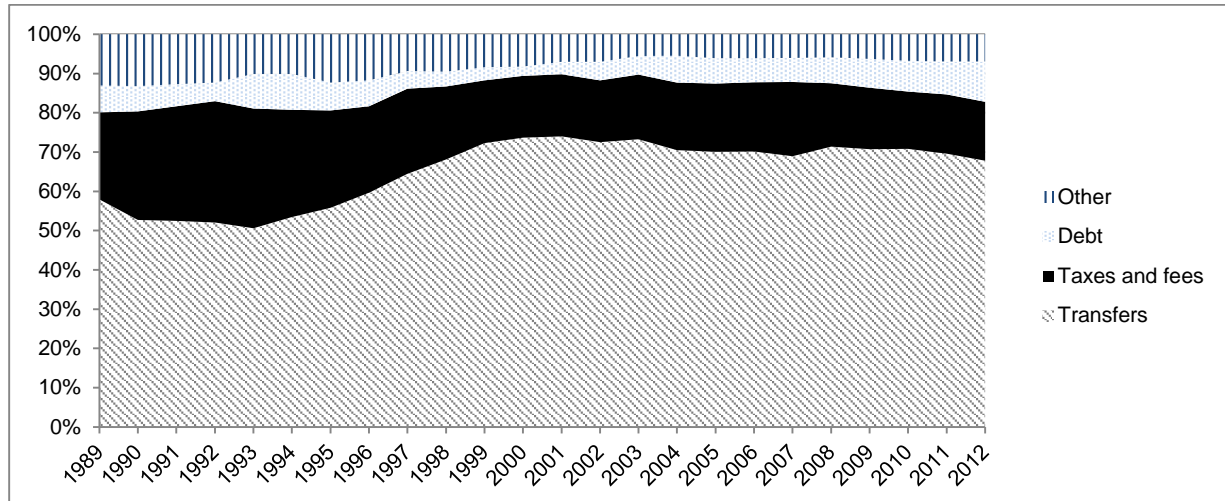
2.2 Municipal-level revenue in Mexico

Municipal governments use three broad sources of funding to finance their activities: transfers, own source revenue and debt (see Figure 3). Transfers from the central government, the greatest source, can be divided into those that are earmarked for expenditure on specific purposes (*aportaciones*) and those that are not earmarked (*participaciones*). Municipal own source revenue is of most interest here. This predominantly comprises taxes and fees, but also includes revenue from fines, sanctions, letting, leasing and renting.

³ Prior to 1983 real estate taxes were divided between all three levels of government: federal government taxed the acquisition of property, states collected the property tax, and municipalities were left with fees and licences for construction.

⁴ The prohibition on re-election in Mexico has now been revoked by a bill that will enter into force in 2018.

Figure 3 Sources of municipal revenue, percentage, 1989-2012



Source: INEGI (2012).

The most important source of municipal own revenue is property taxes, comprising around 60 per cent of municipal tax revenue on average, though there is much variation between Mexico’s municipalities. In the Federal District, for example, local residents pay \$1,000 annually on average, while local residents in Tlaxcala, Chiapas and Oaxaca pay only approximately \$37, \$22 and \$10 respectively.^{5 6} Over 500 municipalities (at least 20 per cent) did not charge any property tax (or at least did not report any) during the past year. In contrast, around 80 per cent of total property tax in Mexico is collected by 105 municipalities, or 4 per cent of municipalities (SHCP 2008).

3 The evidence

In this section, the evidence is presented for the six cases examined. The first three municipalities (Acapulco, Centro and La Paz) rank relatively low in terms of transparency and accountability, and the last three (Aguascalientes, Merida and Saltillo) rank high. For each municipality, the structure is similar. An introduction briefly describes the context. The first subsection examines the municipality’s strategy to raise revenue: did it choose to tax coercively or to enter into a bargaining process? Was the bargaining process explicit or implicit, and who was involved in negotiations? The next subsection addresses the outcome of that strategy: did it lead to greater accountability or other processes that may be consistent with an increase in accountability in future? The final subsection for each case draws conclusions about possible linkages found between tax revenue pressure and accountability.

3.1 Acapulco: murder by the sea

Acapulco lies on the Pacific coast in the south-west of the country. It is located in the state of Guerrero, which ranks among Mexico’s five poorest states. Once known as a Hollywood star retreat with its majestic bay of beaches and dazzling high-rise hotels, the city is now famous for gang rape, decapitations, and drug cartel turf wars (Graham 2011). With 1,170 homicides in 2012, Acapulco landed second place among the world’s most dangerous cities (CCSPJP 2013). The municipality of Acapulco was dominated by the PRI until 1996. Since then power has vacillated between the PRI and the Democratic Revolutionary Party (PRD). The current

⁵ Throughout the text \$ refers to Mexican pesos unless specified as US\$. In 2010 the average exchange rate was approximately US\$1 = \$13.

⁶ Information provided by the Instituto para el Desarrollo Técnico de las Haciendas Públicas (INDETEC).

mayor is Luis Walton-Aburto, a successful business tycoon and former member of the left-wing PRD before he ran for office with his own independent party, the Movimiento Ciudadano. Walton-Aburto took office as mayor of Acapulco in October 2012.

The findings show a case in which the local government projected to increase its property tax revenue by revamping the property tax registry and facilitating the tax payment process for taxpayers through online banking. No coercive taxation was observed. Instead, alongside the tax-raising efforts, the government made extensive efforts to improve its image and level of trust among the population, consistent with an implicit agreement simultaneously to increase accountability when demanding more taxes. It is unclear whether municipal leaders did this to achieve tax compliance alone or to enhance their popularity generally, but the local government officials did claim to see a connection between accountable governance and increased tax revenue. In the end, murder and threats by drug trafficking organisations prevented heightened tax-raising efforts and further increases in accountability.

3.1.1 Strategy to increase revenue

According to the municipality's councillors, the agreed strategy to raise revenue was the following. The first issue to tackle was to increase property tax revenue. Property tax is Acapulco's most important local tax, comprising almost 80 per cent of tax revenue. Revenue from the property transaction tax, which had been high in the past, fell in 2011 and 2012 as very few new hotels were constructed, with recent crime scaring away international tourists and investors (Interview 67). Yet revenue remained well below its potential. Only 60 per cent of registered property accounts that owed property tax actually paid; this does not take into consideration the omitted properties or the outdated base and values (Interview 69).

Several steps were taken in this regard. The main task was to update the cadastre in order to boost property tax revenue (Interview 69). Cadastral values (the base on which property taxes are assessed) tended to be far below market values or missing altogether, exemptions abounded, and non-compliance with payments was rarely sanctioned. A director of the cadastre was appointed to put the outdated real property registry in order. He started a process of reassessing and updating information on properties that formed the basis of property tax: the surface area of properties, construction on the property, ownership and other rights and obligations for each land plot in the municipality. Also, property values were to be matched to their market value based on information from property acquisitions and other transactions.

This was announced in a media campaign. The local government claimed in the media that the cadastre was unreliable and needed to be renewed. 'We will go house by house and update the registry' (Briseño 2013). According to the director of the cadastre, 'the registry was recognised as being in disarray and it was impossible even to determine how many land plots existed. The idea was to put the cadastre in order: update assessed values, increase the base of taxpayers, and ensure that all who owned property paid their due share' (Interview 69). The residents were not consulted on this decision, but the media campaign was intended to inform the public and help them understand that these were necessary steps to improve government finances (Interview 62).

The administration also tried to increase tax payments by simplifying the payment process. For instance, a one-stop-shop was planned for all tax payments, to replace numerous bureaucratic steps in different locations. The plan was also to allow payment via the internet. According to staff at the municipal cadastral institute, there were currently only six payment points in the municipality where property owners could go to make their payments (Interview 70). Online property tax payment had been possible in the past, but in 2011 the server collapsed. The new administration entered into negotiations with two banks, Scotiabank and

Bancomer, to reintroduce this system using better software. The idea was to have this set up and running within a few months from the start of the administration.

One of the councillors stressed that the main strategy to increase taxes was to re-establish trust in the government. 'People had lost trust. They didn't know where their money was going so they refused to pay' (Interview 60), indicating an awareness of the connection between local government accountability and residents' willingness to pay local taxes.

Other members of the local government also claimed to see this connection. In an interview another member of the *cabildo* told me, 'If people don't receive anything for their money, they threaten not to pay any more. Now the government is saying it will help, but if we don't do a good job people won't pay their taxes ... If the government is corrupt, then people don't want to pay' (Interview 61). He continued that some people don't pay because they are unable to: perhaps they don't have a job or simply cannot make ends meet as it is. If the government tries to collect taxes from them, they regard the government as oppressive. People stop paying for two reasons: first, if the economic situation is bad, and, second, when there is corruption, 'but corruption is the main reason' (Interview 61). The mayor of Acapulco also said to the press, 'there are areas where people don't pay. We have to give them services in order to demand a payment from them' (Briseño 2013).

According to one of the local councillors, an immediate campaign for street cleaning and public lighting was initiated to help residents regain trust in the local government, and by extension to increase tax intake. These services had been neglected, needed urgent attention and, importantly, were highly visible. 'The mayor started with the most visible projects to make the population clearly see that this government is different from the last' (Interview 60).

In total, twenty-one actions were promised and advertised. In each action the government branded itself with the slogan '*Acapulco puede*' (Acapulco can), using a colourful easily-recognisable logo, making a visible break with the past administration.

During the previous administration public lighting had been neglected, particularly along the beach, which caused security concerns. Within the first six months 44,900 lamps were replaced, increasing coverage from 60 per cent to 90 per cent (Interview 61; OptimaEnergia 2012). The previous administration had not paid the garbage company, so it ceased work and garbage piled up in several neighbourhoods. As the administration started in October and federal transfers were only due in February, there was no money to buy garbage trucks or pay collection companies during those first months. The councillor explained that the mayor took it upon himself to ask his friends for help. He managed to borrow forty trucks in order to dispose of 800 tons of garbage daily from October until federal funds arrived in February. After that, beaches and other tourist points of interest were remodelled and beautified. Additionally, roads were repaired and pedestrian walkways were improved and made accessible for wheelchairs (Interview 60).

The mayor also began a programme of administrative transparency. Every three months he had revenue and expenditure published in the newspapers. 'No mayor had previously done this in Acapulco and it is not required by law. He goes beyond what is required. This gives people a lot of trust in his government' (Interview 61).

'During the previous government, for each bureaucratic step government officials in the municipality would ask for a bribe. Now there is much less of this. The mayor is warning his people. One complaint and you're fired. 200 people have already been fired in this administration' (Interview 61).

These claims were put into perspective by other informants: 'We were more or less told, "I know you're going to steal, but please steal less"' (Interview 62). The corruption appears to be a matter of degree. The game appears to be one of highly patrimonial politics, to a far more obvious extent than observed in the other municipalities visited. According to informants, on top of their official salary councillors received two to three times their salary for expenses; receipts were not generally asked for (Interview 83). There were strings attached to the use of this money: many of the expectations that came with it later became apparent. On Women's Day, for instance, councillors were expected to purchase presents for the leaders of women's organisations. When a councillor was visiting a poor community, an elderly man complained of going blind and the councillor was expected to pay for his eye surgery. These public resources were spent arbitrarily, and defined by personal power and loyalty to a discernibly greater degree than observed elsewhere. Yet, while there appeared to be less accountability than in other municipalities, there was a clear effort to greater accountability than in the past.

3.1.2 Outcomes

What were the outcomes of the government of Acapulco's revenue-raising strategy? As it turned out, the municipal government was not successful in its attempts to raise revenue. All motivation to renew and update the cadastre quickly withered when the director of the cadastre was murdered two months into the new administration, together with the data manager of the municipal treasury. Sources say that it was narcotics traffickers who killed them. One of the directors of the local government explained, 'he tried to put order into the system and the mafia didn't like it' (Interview 69). The drug traffickers had controlled the property registry up until then and did not want this to change. 'They somehow got a hold of it and they have a strong interest in maintaining their control' (Interview 69).

It is difficult to keep up with which narco group dominates in Acapulco, the site of many turf wars between various cartels. There are many reasons why drug gangs take an interest in controlling the property registry. Information in the property registry helps them to collect protection money. They also have an interest in keeping cadastral values low. The greater the discrepancy between the market value and the cadastral value, the greater the opportunity for money laundering: properties can officially be sold at a massive profit.

The rest of the staff at the municipal secretariat of finance continue to live in fear. It has been impossible to find a willing replacement for the position of director of the cadastre. At the time of interview the head of finances wore both hats: in the mornings he was in the Finance Office on the coast, and after lunch he worked in the Cadastre Directorate behind the zocalo (the main square). Since the murders it has taken the remaining staff some time to get everything together and understand where the two experts left off. Their motivation to make any changes that would affect or increase property tax revenue has been severely dampened, and they are afraid to be seen to be doing too much. They keep a low profile, and even the negotiations with the banks to make the tax payment process more convenient for taxpayers were abandoned.

According to one councillor deals were struck with the hotelier industry, as they pay a large share of property taxes. Unfortunately nobody gave further details on the negotiations. According to the president of the Association of Hotels and Tourism, the government is particularly attentive to their needs, and public services are targeted to them (Interview 68). It is generally accepted in Acapulco that if tourism is doing well, the entire city's economy does well too. Yet what these deals included remains opaque, and it was difficult to ascertain whether government leaders acquiescing to the hotel industry was primarily to encourage tourism, motivate compliance with taxes, or seek personal benefit. Some former local public servants boasting that they owned entire floors of condominiums in hotel complexes along the bay sparked suspicion that it may be the latter (Interview 83).

3.1.3 Concluding remarks

In Acapulco the strategy to raise revenue was not coercive taxation. Instead, the plan was to increase tax intake by facilitating tax payment by taxpayers through online payment options, and by having all property owners pay the amount they actually would owe through a modernised and updated property cadastre. In the end organised crime got in the way of this strategy. The revenue-raising efforts were largely dropped as a result of fear of retaliation from the drug cartels.

Explicit bargaining was carried out with representatives of the hotel industry. It was clear that they worked together for mutual gain: the local government took measures to improve services that would encourage tourism, such as implementing street lighting and a clean boardwalk along the bay. However, I was unable to determine whether local councillors were making concessions because they were after the hotel industry's tax revenue or other advantages.

The local government took many steps to gain trust and improve its image, alongside motivating residents to pay taxes for a greater tax intake. This may be viewed as an attempt at implicit bargaining: local government leaders manifested their awareness that residents would not pay taxes if they distrusted the government. If they regained trust, perhaps more taxes could be demanded. However, despite what government officials claimed, the principal intention might have been to help the government improve its image, particularly after a very unpopular earlier administration. As the coordinator of public services of the municipal government said, 'the change in image and the effort to gain trust from the residents does not only increase tax compliance: it makes the government more popular generally'. I then asked why the mayor wants to be popular if the Mexican Constitution does not allow him to be re-elected. He replied that, 'He may be elected for something else in future' (Interview 61). Tax revenue may thus be a motivator for cultivating an image of accountable governance, but career aspirations are likely to be a stronger motivator for local politicians.

3.2 Centro: oil wealth and street vendors

Centro is the most important municipality of the city of Villahermosa, which means 'beautiful town' in Spanish – although this is not what awaits the visitor. The city experienced a petrol boom after the discovery of massive offshore oil deposits in the 1970s. Oil money financed the rapid construction of bulky infrastructure projects, and smoggy congested highways now meander around the marshes and tropical parks of this hot, humid, mosquito-infested swampland. It is also a city of newly-rich petro tycoons. After Merida, it is the most important commercial centre between Mexico City and Cancun.

The oil-funded prosperity has also led to a bloated bureaucracy. In Tabasco the principal employer is the government. Employees of the national oil company PEMEX are the highest paid in town. Yet at the same time there is poverty, and streets in the city centre are lined with informal vendors working long hours in the scorching heat and in the rain, barely earning enough to get by. Oil money has made living costs soar and has crowded out other industries: all staple foods are imported from other states or from abroad. The current mayor is Humberto de los Santos Bertruy of the PRD (a former PRI member who moved to the PRD after his original party did not select him as a candidate), in power since January 2013.

In this case the municipality set out to increase property tax intake and to make use of a second tax handle: floor fees for informal vendors. With property tax, explicit bargaining was observed only between the local government and individual taxpayers, with the outcome of reducing the tax payment owed but with no beneficial outcome for the wider local population. With floor fees, there was an ongoing explicit bargaining process with beneficial outcomes for the taxpayers. There was also evidence of possible implicit bargaining as statements to the

media were made alongside collecting taxes; in these the government promised to improve accountability and transparency.

3.2.1 Strategy to increase revenue

The strategy of the municipal government, according to the local councillor specialising in treasury affairs, was to increase tax revenue with priority placed on property taxes (Interview 58). He added that increases in property tax intake would bring in more transfers because of the intergovernmental transfer formula. He was aware of and appeared motivated by the incentives of the central government transfer formula, which rewards increases in property tax revenue with a higher amount of transfers (see Law of Fiscal Coordination 2011). The municipal governments in Centro have traditionally made little effort to raise taxes. It is well remembered among the current leaders that the 2005 administration proposed to raise property valuation to 100 per cent of market value. A gradual increase was proposed over three years: the rise would only be applied to 40 per cent in 2005, then a further 30 per cent in 2006 and the final 30 per cent in 2007. Yet the mayor who decided this, Floricel Medina Pérez Nieto, consequently 'died politically ... Mayors don't want to bother people for taxes. It doesn't make them popular' (Interview 50). In view of the need for revenue, however, the current administration felt it should make an attempt. It believed that a large increase in tax revenue could be attained through even a little bit of tax effort, as prior administrations had hardly made any effort (Interview 44).

The internal policy set out by the Directorate of Finance of Centro at the start of its administration in January 2013 was 'to support the compliant taxpayer and incentivise legalisation of the in-compliant' (Dirección de Finanzas 2013). Specifically, discounts and partial amnesties were enforced, and fees on late payment were scrapped in order to motivate residents to become compliant. At the same time legal recourse was to be taken against those remaining in default after many years (El Independiente 2013), including through foreclosure of properties (Hernández 2012). 'To be perfectly clear, we are not raising taxes. But we are going after those who have not paid what they owe' (Interview 44). The strategy was therefore not one of coercive taxation, but largely just positively motivating compliance and reducing arrears, including through foreclosures. Much care was taken not to appear overly harsh in the methods used.

Another unexploited revenue source, which the revenue director regarded as having potential and wanted to target, was permits for street vendors or 'floor fees'. These are collected from the leaders of street vendors and market stands for the space they occupy for their sales. It is a source of municipal revenue that previous administrations had not been concerned with. According to one councillor, who had also been councillor in previous administrations, 'if the street vendors didn't pay, not much would happen in the past' (Interview 58). The revenue director estimated that 'About 10 to 15 per cent of the municipal population comprises informal vendors. There are at least 20,000 that currently don't pay even a single peso. If each of these paid 36 pesos per month, then that would amount to about 8,640,000 million pesos in additional revenue' (Interview 84). The plan was to negotiate with the leaders of the street vendors to see if they could strike a mutually beneficial arrangement.

Alongside the plan to raise tax intake, at the start of the property tax paying season in January 2013 this administration also promised transparency and accountability. In January a press release of the Centro municipal government reported that local councillors vowed to 'guarantee transparency and austerity and to contribute to better services for the citizenry' (Centro 2013).

However, there was a limit to what the municipal government could do in terms of providing services to residents. All of Centro's transfers that are not earmarked are directed towards

personnel (salaries of the municipal workers). The municipal government in Centro employs 6,800 people (compared to 3,000 in Saltillo and 1,200 in La Paz), 4,000 of which are unionised and cannot be dismissed. 'A great number of them are obsolete: there is no money for them to actually do anything' (Interview 49). The remaining funds are earmarked, particularly for energy and public lighting.

3.2.2 Outcomes

Property taxes

The administration found it difficult to increase property tax intake from the previous year. They had a late start with collection, as the cadastral data purportedly had not been passed on to them by the previous administration (Dominguez 2013). Without the computerised registry the municipality could not collect taxes from taxpayers who did try to pay their taxes. However, the registry was eventually recovered on 23 January 2013, three weeks after the administration took office (Dominguez 2013). Still, collections were slow throughout February as well (Valencia 2013). Further discounts, pardons of late payment fees and other exceptions were granted retrospectively to taxpayers who came into the office to ask for them. A constant stream of residents walked into the revenue director's office during interviews for this paper asking for late payment fees to be pardoned or for further discounts – including ad hoc discounts legitimised by the signature of the finance director – and these were often granted.

The largest exemption I witnessed involved a company with more than 1,000 land plots that owed over a million pesos in property tax. The mayor ordered a tax pardon for the company director for a certain percentage of its property tax payment since he had helped with the mayor's campaign (Interview 84). There was opposition to the discounts and exceptions in the Revenue Office: 'They are a nightmare to administer and they create vices. Many think that because they voted for the mayor, they will get special tax treatment. But if we don't grant these discounts then many people won't pay anything at all' (Interview 44).

Why have they found it so difficult to increase property tax revenue? The main reason, according to the revenue director, is the culture of not paying taxes that exists in Tabasco, which he believes is due to a deep-rooted distrust in the government. He estimates that they collect only a fraction of the potential. 'Each year, half pay, half are late and the backlog continues to accumulate. Over 400 million pesos is what we could get if everyone paid what they really owed' (Interview 44). Yet a more realistic estimation for 2013 is 126.2 million pesos, which is what was budgeted (see Revenue Law of Centro 2012).

But are people content with the services? One informant in the municipal government candidly answered, 'No. There is a lot of dissatisfaction and we receive constant complaints' (Interview 84). It was mentioned that water service coverage is poor and water is not clean ('chocolate water' is the term commonly used to describe it). There is garbage in the streets and public lighting has not expanded to cover all parts of the city. 'The population wants to see the services first. Then they might pay. But the municipality doesn't have the money to make the first step and improve things. It's a chicken and egg situation' (Interview 44).

Why is there such deep distrust of the government? The state of Tabasco was the very last of the thirty-one states to approve its State Transparency and Access to Information Law, which aims to oversee and promote both state and local government accountability. It came into force in February 2007, no less than five years after a federal transparency law required all states to approve it (Salazar Ugarte 2008; Maldonado García and Gallegos Pérez 2010; Abdo Francis 2010). It is also the state where the councillors of the state transparency institute (ITAIP) resigned in frustration in 2010, saying that the State Transparency Law was dead letter. The new leaders have been accused of covering up and legitimatising the

government's corrupt activities, rather than uncovering or preventing them. They allegedly entered into an agreement with the last administration, and revealed public information very selectively (Interview 51).

Members of an NGO in Tabasco claim that, 'Transparency and access to information may have improved but there is no accountability. Corruption has risen' (Interview 51). Another purports that 'Immunity continues and government leaders leave [their term] rich' (Interview 47). Corruption scandals have certainly dominated the news headlines. In 2007, \$3 million of a \$4 million federal disaster fund granted to the state following heavy floods allegedly went missing (Arias Rodríguez 2009). Dubious financial management resulted in a hospital crisis in November and December 2012. The hospitals did not receive their share of government funds, leaving doctors unpaid and patients unattended (Pérez Marín 2013; Barboza 2012, 2013). The estimated amount of diverted funds that were supposed to reach health care totalled \$1.5 billion (Marí 2013). There is a strong perception that the government is manipulating information, and government institutions cover up each other's illegal activities. However, the arrest of the governor and former mayor Andrés Rafael Granier Melo in June 2013 on charges of corruption and embezzlement of public funds may be a sign that the time of impunity is coming to an end (Zabludovsky 2013).

The municipal governments did not suffer the same public scandals as the state administration. Granier Melo, for instance, was highly regarded as municipal mayor before he was elected governor. However, many suspect complicity between the state and municipality as the former audits the latter. 'They cover for and protect one another. Additionally, the present [municipal] administration always covers for the former [municipal administration] saying that there is no evidence of wrongdoing, and it is hoped that the future administration will do the same [for them]' (Interview 52). The perception of a corrupt government at state level thus also affects the residents' perception of local government. According to both informants in the Office of Coordinator of Transparency and Access to Public Information and the revenue director of the municipality, the distrust sparked by the state government's misuse of funds is making residents wary of trusting even local government with their tax money (Interviews 47 and 44).

During one of the interviews with local councillors, a group of protesters congregated outside their offices. The protestors came to demand a delegate to represent their colony in the municipality (Tabasco Hoy 2013). Each colony in the municipality has an elected delegate who serves as a representative to defend their interests. One hundred and eighty-nine delegates have been elected in Centro, and they rescheduled the vote in another five communities because of violent disturbances during the process. Tierra Amarilla is a colony slightly north of Centro that, according to the government, geographically belongs to the neighbouring municipality of Nacajuca. It is a rural colony with only 970 inhabitants. They have been excluded for a second time from the local vote for their delegate, and are demanding to be included in the upcoming extraordinary elections. The protesters interestingly shouted, 'We pay property tax in Centro. Now give us representation!'

A local councillor explained, 'They are fulfilling their obligations in order to get rights. They have no services, only water but it is not potable. They want to be connected to Centro's network. They want their own delegate who will then get them connected to the municipal services' (Interview 58). Whether this will be granted remains to be seen. This was an example of an explicit effort at bargaining: residents believed that paying property tax strengthened their bargaining power with the municipal government to demand representation and services, due to its need for tax revenue. At the time of interview, however, it was not clear whether the municipal government would yield to these demands.

Floor fees

Regarding floor fees, the administration, via its coordinator of auditing, began to engage with the leaders of the street vendors and to mend the previously poor relations. There are 250 groups of street vendors around the historic centre's market alone. Each group of 30 to 100 vendors has a leader who helps to protect them and their selling spot. The leaders fight for the spaces of their vendors and reserve them for their people when they are vacant. They are also their representatives vis-à-vis the government.

The current administration reached out to these leaders and started negotiations to establish how much they should pay in taxes/fees. The leaders would collect these from their members and then take them to the municipal till. The leaders of the street vendors consider the proposed tax/permit fee too expensive, and are negotiating to bring it down by half. Negotiations continued during the time of interview and no agreement had been reached, but the extent to which the government responded to the street vendors had changed considerably from the previous administration. In the previous administration there was constant tension between the street vendors and the municipal government. The government continuously wanted the street vendors to become more presentable and not to clog up the streets and sidewalks, causing traffic congestion. According to one of the leaders of the street vendors, 'they [the last administration] didn't help us in anything. There were many protests and violent confrontations between the vendors and the government. The new government is far more cooperative' (Interview 53).

A second leader of another part of the historic centre told the same story. 'Now there is good communication. There is a lot of dialogue. They are giving us respect and that is fundamental' (Interview 54). He added that 'When the government shows us a benefit, we comply. If not, we get angry ... The problem is when they don't show a reason for taking our money away from us ... We now see municipal government employees cleaning or remodelling the market' (Interview 54).

This stands in stark contrast to the way the previous administration dealt with street vendors. 'He [the coordinator of auditing of the previous administration] would walk through the streets like a local boss with his men following behind him – like a mafia gang – threatening people to leave or see their goods destroyed' (Interview 55). He and his men removed the street vendors' stands overnight and set up barriers on the sidewalks to prevent them from laying out their products and setting up shop. A third group leader, on the job for about fifteen years, said 'previously they would crush our stores, sometimes with no prior notice ... There was no dialogue. There was no consensus' (Interview 56).

3.2.3 Concluding remarks

The revenue director of Centro municipality certainly perceived a link between accountability and transparency, which he described as: 'If I am dependent on you for taxes, I have to listen to you' (Interview 44). This was manifested in the government's conciliatory approach to the street vendors. To collect higher taxes, instead of threatening them and destroying their stands like the previous government, the new government entered into a dialogue with the leaders, showed respect to all the vendors, and is cooperating to help them clean and upgrade their selling areas, in what holds hope of becoming a tax arrangement with mutually beneficial outcomes.

The residents of Tierra Amarilla who organised a protest outside the councillors' offices also perceived this link: they attempted to exchange property tax payment for receiving a delegate to represent them and gain access to public services for them. The residents voluntarily paid taxes in the hope that it would strengthen their bargaining power for representation and

municipal government services. Whether the municipal government will grant them what they demanded, however, remains to be seen.

Aside from this incident, explicit bargaining around property tax was between the local government and individual taxpayers to negotiate their personal tax obligation. The Tax Directorate received many complaints about this. Yet it also shied away from raising the tax rate or raising values, remembering the political consequences this had for a previous mayor. Given the residents' distrust of local government (which in fact largely stemmed from corruption at state level rather than local level), they were less willing to pay, and the local government knew it could not get away with higher demands. Instead, they felt that they needed to grant discounts and exceptions in order to receive any payment at all. This can be seen as an implicit agreement, but it cannot be said that it prompted greater accountability.

3.3 La Paz: intergovernmental rivalries

La Paz lies in the state of Baja California Sur, on the eastern bay side of the peninsula on the Pacific, allowing its visitors to witness stunning sunsets from along its boardwalk. The nearby biosphere reserves (UNESCO World Heritage sites) draw tourists, and it is a popular stop for trips between the beach resorts at Los Cabos in the south and whale watching spots further north. However, one need not venture far into the city from the boardwalk to see the many empty shops, abandoned land plots and deteriorating roads. La Paz used to be in a booming special economic zone (the whole of Baja California Sur and Campeche) until the North American Free Trade Agreement (NAFTA) was signed in 1994. La Paz saw its peak as a bustling centre of commerce in the 1970s and 1980s, but has since deteriorated. La Paz's population is small and spread over a large surface area – La Paz is the fourth-largest municipality in Mexico geographically, covering 20,275 km². The current municipal administration has been in power since July 2011. It is led by Mayor Esthela de Jesús Ponce Beltrán of the PRI, which ran in coalition with the Green Party.

The strategy to raise tax revenue involved tackling three different taxes: property tax, local bus fees, and the sale of garbage. In this case, again, no coercion was observed. Negotiations started for tax bargaining around the local bus fares, but not with the other two taxes. However, an implicit agreement may have been present as the local government simultaneously took steps to appear transparent when it urged property owners to pay their tax.

3.3.1 Strategy to increase revenue

The municipal government of La Paz wanted to increase property tax revenue. To do so, they took steps to make it easier for residents to make their municipal tax payment. Internet payment was made possible for property tax (though it was not yet possible to pay in banks). Mobile paying stations drove to rural parts of the municipality so residents there could pay taxes near their home, without having to drive into the town centre. In October 2012 they reduced the discount for early payment from 40 to 30 per cent.

Starting in January 2013, they introduced efforts to detect omissions in the property registry through aerial photography. Many property owners had undertaken improvements on their property that would increase its cadastral value, but these had not been declared to the revenue authorities. The municipality of La Paz thus began to contact property owners who had neglected to declare improvements or other changes to their property that would increase their property's cadastral value. The revenue director emphasised several times that they were not raising the tax rate, but only capturing omissions in order to increase tax revenue.

Two further proposals to raise revenue were made. The first was to raise local bus fees. The second was to sell garbage to private companies for recycling. The approval of State Congress is required for all changes in municipal tax rates, as well as the introduction of new taxes. The municipality prepared a law to raise local bus fares, and one to provide a legal basis for the municipal government to sell its garbage, and sent these to the State Congress for approval.

Alongside trying to raise tax revenue the municipality set out to reduce its payroll, which cost a lot and prevented investment in public works and services. This proved difficult, as most employees of the municipality (1,200) were unionised and 'it is impossible to dismiss these workers' (Interview 30). It was added that if only these *trabajadores* (workers) were really *trabajadores* (hard-working) (Interview 30). Many of the positions were unnecessary, but given the rigid labour laws the municipality could do little to reduce costs beyond not hiring new workers.

The mayor also wanted to restore society's confidence in the government, which she believed had been lost. 'The past government had been opaque and the mayor wanted to change this' (Interview 32). She introduced a 'zero-corruption' plan as part of her campaign platform. This plan consisted of (1) transparency, (2) accountability, (3) citizen participation, and (4) administrative reorganisation (Interview 34). 'She [the mayor] wanted to change the attitude and image of the government. [The zero-corruption plan] is what she was elected for. More revenue may surely come as a consequence, but this was not the primary motivation' (Interview 32).

Either way, steps to ensure transparency and access to public information were taken. When the new government came into power, the mayor demanded external audits for some transactions made by the previous government. Warnings were given to previous officials according to the Law of Responsibility of Public Servants. This broke a tradition of keeping quiet about irregular activities of the previous administration in the hope that the next one will do the same in return (Interview 36). It must also be said, however, that the party in power had changed. The previous four administrations had all been PRD administrations, and therefore were less likely to blame or bring legal charges against other administrations of their own party.

Since coming to power, the administration adhered to transparency laws requiring them to maintain an online directory of officials with their telephone numbers, and publish Local Council Acts online and in the print media. With the goal of increasing citizen participation, a three-point framework was adopted. First, to involve groups from civil society in public work projects, their approval would be required in the decision-making phase of the project cycle. Second, the municipal Audit Office would respond to citizen requests. The office would also receive questions and complaints in person, with an option of asking questions on the website which links straight to the auditor's computer. Third, suggestion boxes: one in the municipal government building, one by the potable water system, and one at the main transport terminal. The contents would be collected and reviewed on a weekly basis. Given that records by the past administration had not been passed on, it was difficult to find out whether these measures had been newly introduced or had also existed during the previous administration. According to one informant, before an administration hands over power (especially to a new administration of a different political party), 'they delete everything from the computers, if they even leave the computers' (Interview 30).

3.3.2 Outcomes

Property taxes

There was no coercive taxation. Instead the treasury director emphasised that they are only capturing omissions in order to increase tax revenue, not raising the tax rate (Interview 29). The enhanced efforts were partly successful, but not as much as the treasurer hoped. Property tax revenue increased by 27 per cent from 2011 to 2012, and was expected to increase further in the following years as the cadastre would be modernised and land values updated (mostly adjusted upwards to be closer to their market value). But projections had been higher. According to the municipal treasury director, previous administrations neither made people pay taxes nor spent or invested very much. 'Now the population has a poor habit of not paying' (Interview 29). In other words, as government performance was low there was also a correspondingly poor culture of compliance, which was difficult to overcome. Property tax compliance (the amount received divided by the amount owed) was 22.6 per cent in 2012 according to data at the Ministry of Finance. The treasury director predicted that it would take some years for the culture of compliance to improve. He said that he believed it required consistently solid municipal financial management and adequate service provision for the culture of compliance to change (Interview 29).

While no explicit bargaining was observed with any group of residents, there were sustained efforts at local accountability in order to maintain people's confidence in the government and how it managed its budget. This may be regarded as implicit bargaining, in which the municipality increased accountability in order to motivate cooperation with tax payment. Sustained efforts were made to bring down municipal debt, through both investing in increased future revenue and renegotiating debt. This was done with a great effort to be transparent.

Revenue from local bus fees and garbage sales

The local administration reached an explicit tax agreement with the local bus drivers. The local bus drivers agreed to higher fees in exchange for help from the municipality to upgrade the bus service. However, negotiations were abandoned and the administration was unable to reach its goal of increasing transport fees. A municipal budget law proposal to raise bus fees was brought to the State Congress in September 2011 (State Congress needs to approve all changes in municipal tax rates as well as the introduction of new taxes). However, the State Congress never reviewed it, ignoring the timeframe laid out for a decision. The municipal government thus withdrew the draft budget law in July 2012, and resubmitted it three months later. The State Congress then finally did review it but rejected it, 'for no reason' according to informants in the municipal offices (Interview 85).

They were also unable to introduce the law that would enable them to sell their garbage for recycling. Although this would be an environmentally-friendly source of income with no burden on residents, State Congress rejected it. 'Being from another party, they are killing all of our good ideas' (Interview 86). Legal remedies to bypass ungrounded decisions or undue delays exist 'but these are costly and rarely utilised' (Interview 86).

Besides rejecting proposals to raise transport fees and introduce an environmentally-friendly tax, the state government also made the municipality pay a large fee for publishing anything in the Official Bulletin to give legal validity to their laws. This had never been the practice under the previous (PRD) state government. 'It is difficult if the municipal government and the governor are from different parties' (Interview 31). The current governor is from the centre right National Action Party (PAN) (although he is a former mayor of the left wing PRD); the parties that dominate in the *cabildo*, however, are PRI and Verde (in coalition).

3.3.3 Concluding remarks

The officials of the municipal government who were interviewed claimed that if the government spent its resources well, then people would pay taxes (Interviews 29, 30). The municipality of La Paz made an effort to cultivate a more accountable image than the previous administration. With a view to enhancing trust in the government and improving its image, the mayor set out on a zero-corruption platform in her campaign and has followed through with her plans. However, it is unclear whether this was primarily done with the intention of improving tax compliance, or simply to cultivate a positive image in order for the mayor to gain political power.

Several of the municipal government's efforts to negotiate a tax deal were subverted by the state government. The State Congress is required to approve municipal government proposals to change tax rates or introduce new laws. Conflict and competition between the different levels of government (or their political parties) in this federal system thus stifled the ability of the municipal government to raise revenue in order for processes leading to increased accountability to even begin.

3.4 Aguascalientes: parties aligned

The municipality of Aguascalientes lies in the state of the same name; Aguascalientes means 'hot waters', and it is named after its many hot springs. It is a small state of 5,500 km², with only one million inhabitants and few municipalities (ten, compared to sixty in Tlaxcala, which has a similar surface area and number of inhabitants). Located in the middle of the country at the crossroads between Mexico City and several other cities in the north, it is a centre of trade and commerce. It has recently attracted a large amount of foreign investment. For instance, Nissan is currently building a second massive industrial park. It is clean, relatively safe and services are run comparatively well. 'The good conditions bring investors in' (Interview 28). The mayor, Lorena Martinez Rodriguez, was a member of the PRI and had been in power since 2010.

In this case, explicit bargaining was found only between individual taxpayers and local government for a reduction of the individual's tax obligation. Possible implicit bargaining existed in that the local government took steps to increase accountability alongside demanding greater tax compliance, aware that the two are linked.

3.4.1 Strategy to increase revenue

To increase tax revenue, the municipality's main strategy was to help the state update all cadastral information, as the cadastre in Aguascalientes is run by the State Finance Secretariat. This involved matching property valuations to more recent records of transactions, and verifying that all plots were included with their current construction and other characteristics.

Regular meetings were held between the State Cadastre Institute and the municipality (Interviews 15, 16). Previously, an estimated 80 per cent of land plots had outdated values (Interview 28). In 2010 the cadastral values were revised to reflect higher market values based on corrected dimensions and characteristics of properties, in order to raise property tax revenue. Furthermore, the tax rate was increased by 0.05 per cent from 1.05 to 1.10 per mil.⁷ However, the administration did not raise it to the new full amount right away. Instead, the tax obligation owed by any taxpayer was only to increase by a maximum of 25 per cent from one year to the next. The tax revenue director explained that, 'otherwise it would be too harsh on the people' (Interview 28).

⁷ This is the amount of tax per thousand currency units of property value.

Several methods were applied to encourage residents to pay their property tax bills. First, financial incentives were granted to taxpayers. A raffle or lottery was announced: if people paid their entire year's property tax in one lump sum between January and March, their receipt entered a lottery. The prize was a car or a future property tax amnesty. Discounts were also applied: if residents paid their entire year's property tax in January or February they received a discount of 50 per cent, and in March a discount of 30 per cent.

Second, the municipal government ran a publicity campaign in the media (television, radio and in the press). The objective, according to the revenue director, was 'to sensitise citizens with regard to the tax and help them to understand that it was something necessary and had been necessary for a long time' (Interview 25). The finance director recalled that he had daily press conferences during the three months at the beginning of the year when lump-sum payments are encouraged and most payments are made, as that is when the discounts applied. They tried to be open and frank with people to encourage understanding and compliance with, rather than resistance to, the annual increase in taxes (Interview 25).

Third, they increased the methods of payment in order to make it easier for residents to pay. They first sent receipts to the property owners' homes. They have made it possible for people to pay in all the main banks and since 2013 at Oxxo, a chain grocery store. Plus, since 2011 it has been possible for residents to make tax payments online. Finally, they actively pursued non-compliant taxpayers, consistently applying a strict sanctions procedure.

Alongside these revenue-raising efforts the mayor opened a Citizen Observatory, to serve as a link between NGOs and residents on one hand and the municipal government on the other. The Observatory conducted training for public officials on transparency, maintained a computerised complaints system, and received complaints and suggestions from residents. The website outlines its purpose as helping residents to observe the quality of municipal management.

The creation of the Observatory was not a response to demands from residents, but a unilateral move by the mayor to try to give an image of transparency, citizen engagement and citizen influence. According to the head of the Citizen Relations Department of the Citizen Observatory herself, 'The idea to create this Observatory comes from the mayor, not from the citizens' (Interview 24). According to an informant in the Participatory Planning Department, 'The mayor created the Observatory. It is not the citizens who asked for it' (Interview 26).

The mayor made it her goal to rise in the Mexican Institute for Competitiveness' (IMCO's) transparency ranking. And she succeeded: the previous administration ranked 70th out of 300 municipalities. Hers came in 36th in 2011 and 5th in 2012.

The mayor thus made clear efforts to create an image of transparency and engagement with the residents. But was this done with tax revenue in mind? According to one informant in the public works sector of the municipality, 'I don't believe that tax revenue was a direct motivator. I think it has to do with the personal aspirations of a leader trying to demonstrate her political will' (Interview 26). Another informant at an NGO believes that the mayor has the will and motivation to improve transparency and citizen participation because her political career has not yet ended, and she has ambitions for higher office. She wants to demonstrate her capacity to achieve what she set out to do (Interview 27).

3.4.2 Outcomes

Tax compliance remained high at around 87 per cent, despite a rise in property valuations and a broadening of the base of taxpayers through a cadastral update. The revenue director proudly claimed, 'There has been a good response to the higher values and to increases in

property tax. It has been a success' (Interview 28). By mid-July they had already collected 92 per cent of the property tax that they had estimated to receive over the entire year. They also reduced the backlog of tax arrears from \$160 million in 2010 to \$114 million in July 2013 (Interview 25).

No evidence of coercion was found, and there appeared to be superior tax-collecting capacity that made evasion more difficult. The only evidence of explicit bargaining was between local residents and individuals concerning individual tax bills. While this mainly had an outcome of reducing the individual's tax obligation, if granted, there may also have been outcomes consistent with an increase in accountability. When asked whether residents see a link between paying taxes and receiving services, the director of property taxes, who deals with taxpayers on a daily basis, answered, 'Definitely yes. People come complaining, 'why are you taxing me if I don't have proper services?'' (Interview 15). It is thus a mechanism through which the government can find out about complaints and deficiencies: a way in which the government and residents engage. However, I could not find direct evidence that the information the municipality received through tax bill negotiations actually led to changes in accountability, for instance improving services in response to complaints.

In addition to better administrative capacity, the high compliance may be the result of implicit bargaining between the residents and municipal government in which residents agree to pay taxes in response to accountable governance. The director of property taxes gave me two reasons for the high compliance with property taxes. First, a procedure for enforcing sanctions on those who did not pay the tax, which was introduced by the state administration, was a contributing factor. But she also gave a second reason: people obey the government because the current mayor is very intent on providing more and better services. She listed, among other examples, a nearly-completed project to rehabilitate neglected localities in less affluent areas with a 'green corridor' of parks and bicycle paths (Interview 15).

When I asked the tax revenue director the same question, he also claimed that the good performance of the government helped explain why people accept the higher tax obligations. He explained that the city was well planned, and growth and expansion had been well managed. 'There is no accumulation of garbage, there is public lighting everywhere ... things are working' (Interview 28).

Municipal elections were held in July 2013. The PRI party that had supposedly performed so well and raised a lot of revenue was not re-elected. When asked why, informants in the Finance Directorate said that they did not have a strong PRI candidate this time around, and he was not from Aguascalientes. Also, while the PRI candidate for mayor did not win the PRI candidate for Congress did, so voters did not entirely reject the party. However, he also added that the candidate who won was populist and promised two things. First, he would lower property taxes. Second, he would get rid of the speed camera fines. The outgoing administration had mounted speed cameras around the city in December 2012. 'The speeding fines were not even introduced to raise revenue. Well below a million pesos was collected after their introduction. The main point was to reduce traffic accidents through speeding' (Interview 22). With respect to the property tax revenue increase, the revenue director concluded that 'the risk was taken and now we are suffering for it. You lose the sympathy of the taxpayers. I'm not saying that this was the predominant factor but it could very well be among the factors. Nonetheless, the valuations were updated and people paid the increased demand. They responded appropriately to the rise. Compliance is at almost 90 per cent' (Interview 22). He sees the compliance rate as evidence that the residents generally accepted the rise in property tax demands.

3.4.3 Concluding remarks

In Aguascalientes the strategy was to increase property tax intake through modernisation of the cadastre, ardent pursuance of arrears, and a steady rise in the tax rate. There were upper limits on how much an individual's tax bill could rise from one year to the next and there was still the possibility of challenging the tax bill in the municipal offices, so while this didn't go as far as coercive taxation it was more difficult for residents to evade than in other municipalities.

The only evidence of explicit bargaining found was over individual tax bills. While the outcome of these negotiations did not appear to bring any direct benefit beyond the individual's reduced payment, it is a mechanism through which the municipal government could learn about deficiencies and the needs of the population. Whether the municipal government acted on those needs, however, could not be determined.

Better tax capacity was part of the reason for success in raising the tax intake, but there may have also been a higher willingness to pay by the residents because of generally sound municipal management, consistent with the idea that there was an implicit agreement between taxpayers and the municipal government to this end. The revenue director claimed there was. The municipality was generally well managed, and the mayor took steps to be seen to increase citizen participation and transparency. She also completed well-received projects, including the creation of the green corridor.

However a populist mayor who promised to lower taxes was later elected by the residents. This may contradict what the revenue director said, showing that residents were in fact not in agreement with the higher taxes compared to services provided, or did not see a link between their tax payments and the maintenance of high quality services. Alternatively, it may simply have shown that residents only looked to the future when deciding who to vote for, and did not trust the PRI candidate to establish the link between their tax payments and benefits.

3.5 Merida: good government, bad government

Merida lies along the Riviera Maya on Yucatan peninsula. It has a picturesque historic centre dotted with parks, stately French colonial pastel-coloured mansions, bustling markets, ice-cream parlours, bars and restaurants where you can enjoy local dishes like *poc chuc*, *panuchos*, and *salbutes*. Merida has a population of 800,000 and an additional floating population of 200,000 tourists and seasonal workers who also consume municipal services. The municipal government is a PAN administration led by Rénan Barrera Concha, who has been in power since 1 September 2012.

While no coercion or explicit tax bargaining was observed, this is a case in which we see a clear correlation between tax payment and local government accountability: evidence of implicit bargaining. This is clearly seen when comparing the tax intake of the municipal administration in power at the time of interview in 2013 and its predecessor.

3.5.1 Strategy to increase revenue

Merida's strategy to raise revenue was to increase property tax intake by updating cadastral values and matching the tax bills accordingly. Merida has had its own cadastre since 2000 (along with eight of the larger municipalities in the state of Yucatan; the rest are managed by a state-controlled cadastre).

Two administrations ago, in 2008, the government of Merida signed on to a programme with Banobras, the national development bank, to modernise its cadastre. This involved taking

aerial photographs and field visits (conducted in 2010). Ninety-four thousand land plots that had not been registered were identified. This opened up a far larger tax base.

According to the director of the cadastre, the new valuation was never linked to the valuation used by the treasury of the municipality. The higher valuations were thus not used as the base for determining taxes, and did not translate into higher tax revenue. When asked why this was the case, he explained that, 'In the past, all secretariats had their own databases. A resident would go to one secretariat, for example the Finance Secretariat, to declare that he had bought a new property. That secretariat would create a new account for him that was not linked to any of the other registries, like the cadastre or the database used by the social development secretariat. If he wanted to pay his taxes and went to the cadastre, he would find that he wasn't even registered as the new owner' (Interview 43). They had proposed merging the property registry with the cadastre since 2008, but this was consistently rejected 'for political reasons: it is a very simple thing to merge these systems – we all have computers. But the more bureaucratic steps there are, the more control the government officials have ... If they simplify things, they lose control and opportunities to collect bribes' (Interview 43). An agreement was only signed in the current administration for all the computer systems to link up to a unified platform and to tax the updated property values.

To help raise revenue, the current administration also pushed a strong campaign in the media to prepare residents for the forthcoming rise in their property tax bills and to convince them to pay. In addition to this, they tried to lure taxpayers with discounts for early payment (20 per cent in January, 10 per cent in February and 8 per cent in March). This had been done in previous years so this was not a new strategy in Merida, but they added a raffle for those who paid in the first months, with prizes including two cars, ten laptops and twenty-five televisions. They also opened more payment points to facilitate tax payment. The next subsection examines the outcome in terms of any tax bargaining.

3.5.2 Outcomes

No coercive taxation was witnessed in Merida. No explicit bargaining was observed either, not even between individual taxpayers and local government, but that may be because the time of research did not fall into the property tax early payment 'season' where discounts are granted (January until March), when negotiations are most frequent.

There was evidence of implicit bargaining, however, in which the government and residents mutually adjusted their behaviour. The government's tax-collecting behaviour and the extent of its accountability appeared to match the taxpayer's compliance with payment at any given moment, showing that the local government and local residents were mutually adjusting their behaviour. This could be seen through a comparison across administrations in Merida.

There was recently a break in the seemingly-consistently accountable governance in Merida. PAN ruled for 20 years from 1991. PRI came into power in 2010 – when a break in accountability occurred – and PAN came back into power in 2013 (see Table 3).

The director of the municipal Public Access to Information Unit maintains that the culture of transparency was particularly poor during the previous PRI administration. He had audited the transactions of that administration in his past position as state auditing director and told of numerous irregularities (Interview 38).

Table 3 Municipal leaders in Merida from 2004

Years	Political party	Mayor
2004-2007	PAN	Manuel Fuentes Alcocer
2007-2010	PAN	César Bojórquez Zapata
2010-2012	PRI	Angélica Araujo Lara (1 July 2010-17 January 2012); Álvaro Omar Lara Pacheco (18 January -31 August 2012)
2012-2015	PAN	Renán Barrera Concha (since 1 September 2012)

The staff at the State Institute for Access to Public Information (INAIP), which checks that municipalities comply with the transparency laws, spoke along similar lines. Yucatan's State Transparency Law was signed in 2004 and entered into force in 2005; this obliged all 106 of Yucatan's municipalities to publish certain information, in particular on their use of public resources. It also required municipalities to set up Transparency Directorates and comply with certain minimal standards of publishing public information. Merida has had solid compliance with these laws, and has even gone beyond what is required by the law. For example, receipts of purchases are published online. 'They identified a necessity of the people. Now no one dares to withdraw it. That would have a high political cost' (Interview 42). Also, each month the Municipal Treasury publishes its revenue and expenditure as well as salaries in the newspaper with the mayor's signature. He said that this had always been the policy in Merida. But it was not done by the PRI government during their term from 2010 to 2012 (Interview 42).

The staff at the municipal Finance Office corroborated this story, as did those workers that had been employed in the office across administrations and were not members of PAN. During the twenty years of PAN administration at municipal level in Merida, financial management was solid. But from 2010 to 2012, 'the PRI administration destroyed all the work and good practices that the Treasury had built up over the years' (Interview 40). In response to the question of whether this may have been simply due to lack of experience, given that the PRI had not been in power for decades, the response was, 'No, it was because they were too experienced. They manipulated the system and very intentionally neglected to follow the good practices that had been established during previous years' (Interview 40). The good practices include contracting services through transparent public auctioning processes. The PRI administration allegedly ignored these procedures and contracted directly. The administration interviews lacked clarity on who had been contracted and which payments were agreed by its predecessor.

Workers at the municipal Finance Office complained that suppliers would approach them with bills and demand payment, but the previous administration had left no backup of this or any information on the contract. 'It didn't appear in the accounts as liabilities. They didn't follow proper accounting practices ... They also didn't follow the processes set up for handing over the administration to the next one. They left us no information; they left us completely in the dark' (Interview 41). Official documents contained a certain debt figure. But the incoming administration later found, after a thorough review, that there was \$99.3 million in debt completely unaccounted for. Again, in response to the question of whether this may have been because the previous administration did not know what they were doing, the answer was 'No, it is because they knew too much about what they were doing. The corruption was systemic' (Interview 39).

There is some continuity of expert staff in the municipal Finance Office. It is only the directors and deputy directors that change from administration to administration. So if there is a relatively permanent bureaucracy in this case, how could this happen? According to the staff, the directors of the PRI government did not involve anyone else in the office. They kept to themselves and left the rest of the staff with nothing to do. They were not interested in

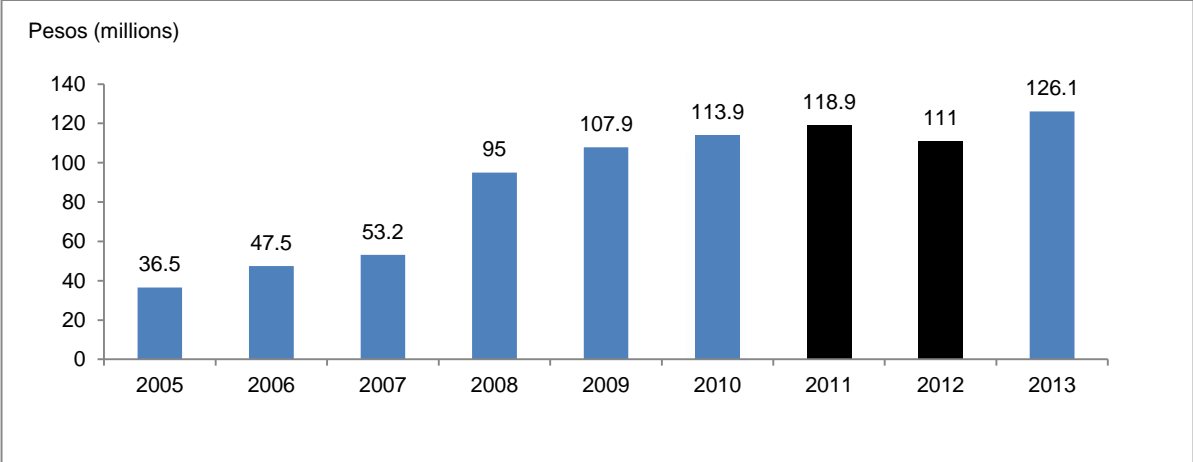
following the established processes, despite being urged to do so repeatedly by the rest of the staff (Interviews 40, 41).

Administrative costs in the prior administration had skyrocketed. For instance, the earlier PAN administration had paid \$500,000 for collecting taxes, and hired three firms to assist the administration. The PRI administration claimed to have spent an additional \$2 million on this, hiring eight firms, but revenue results did not improve; instead they worsened. The main firm hired was called Hermes. The revenue director of the administration interviewed said he believed that they might have invented this firm, as he had found no record of its existence.

The media also reported that the mayor of the previous PRI administration, Ms. Angelica Araujo Lara, was perceived as thoroughly corrupt. She reportedly diverted public funds to organise a Shakira concert in Merida for the 15th birthday of her daughter (El Universal 2011). She then resigned before her three-year term ended in order to run for senator, and many suspect that she diverted municipal funds towards her campaign. Her cousin, Omar Lara Pacheco (also the cousin of the former governor of Yucatan, Ortega Pacheco), became interim mayor until the term ended. Municipal funds disappeared and the PRI stopped paying the garbage company, who then stopped collecting garbage. Outraged residents would try to leave their garbage in front of the mayor's house in protest (Noticias de Yucatán 2012).

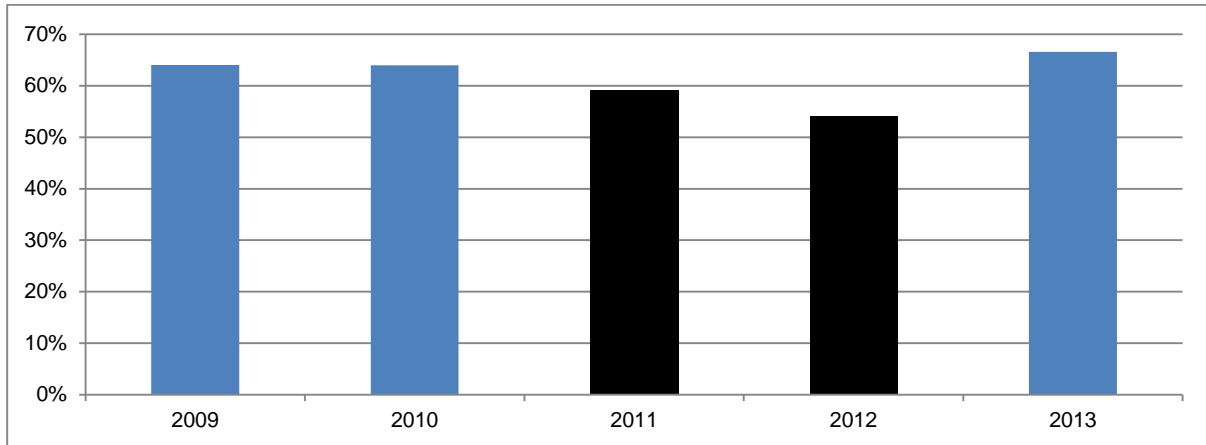
It was thus established that the previous government had been an outlier in the sense that it showed extremely poor accountability compared to the other municipal administrations in Merida. How did revenue perform over these administrations and why? The final year of the PRI administration, 2012, saw a very unusual dip in property tax revenue, just as the population was feeling outraged with the mayor and the PRI government. Collections then reverted to trend after the current government came to power towards the end of the same year. The drop in property tax revenue in 2012 and subsequent rise in 2013 can be seen in the revenue data in Figure 4. Figure 5 shows a similar fall and rise in tax compliance, measured as total property tax owed over the amount actually paid.

Figure 4 Merida's property tax revenue, 2005-2013



Source: Municipal government of Merida
Note: The dark bars show revenue from the preceding administration.

Figure 5 Property tax compliance in Merida (amount owed/amount paid)



Source: Municipal government of Merida

Note: The dark bars show revenue from the predecessor administration.

In the current administration, according to the director of the cadastre, 'despite the revaluation, people paid their taxes. People appear satisfied and in agreement [with the current government and its tax policy]' (Interview 43). The revenue director also believes that there is far more trust in the current government than the previous one, and that this is reflected in people's willingness to pay property taxes. He further claims that 'people are more willing to pay their taxes if there is transparency' (Interview 39).

Yet the drop in revenue may also be due to lax collection efforts on the part of the PRI government. Some in the Finance Directorate agreed that 'the PRI didn't make an effort to collect taxes as they did not want to hassle people. They didn't want people to get even more upset at them than they already were' (Interview 41). It was therefore likely to be a two-way process of mutual adjustment: residents were less willing to pay and the local government knew that it could not demand more taxes from an already-outraged population.

3.5.3 Concluding remarks

While no coercive taxation or explicit tax bargaining were observed, evidence was found of implicit tax bargaining between the residents and the local government. This involved behavioural adjustments of both parties. First, when residents were unhappy with the government and perceive it as corrupt and unaccountable, they withheld their tax payments. They then paid once a new, seemingly more trustworthy administration was in power. Second, when the government sensed that it was unpopular and had angered the residents, it refrained from collecting taxes and issuing sanctions. When it showed that it had brought transparency and accountability back it dared to increase the tax effort, including through increasing people's tax obligations following higher property valuation.

3.6 Saltillo: tax discount for employment

Saltillo lies in the northern desert state of Coahuila. It is close to Monterrey, the main commercial and intellectual hub of the north. Saltillo itself is one of the most important manufacturing centres in the country. It has a sizeable automobile sector, and at the same time offers high living standards (IMCO 2012). The *Financial Times* (UK) evaluated Saltillo as one of the ten best cities (of 422 in the Americas) in the areas of cost effectiveness and economic potential, judging it as an excellent place for investing (MBW 2013). Its mayor, Jerico Abramo Masso, received the Prize for Good Municipal Governance 2013 from the National Federation of Mexican Municipalities (FENAMM) for his contribution to sustainable development. His photograph was displayed in every room, on seemingly every wall of the municipal government building. It was clear that this ambitious young mayor did not regard

himself to be at the end of his career path. Mayor Jerico Abramo Masso of the PRI came into power in 2010, and his administration would finish at the end of 2013.

In this municipality, again, no coercive taxation was observed, but explicit bargaining was carried out with firms: concessions for tax discounts were granted by the municipal government if firms hired above a certain number of employees in the municipality. There was also evidence consistent with the existence of an implicit agreement: taxpayers and the local government mutually adjusted their behaviour to reach equilibrium between the level of tax payment and the level of accountability. On one hand, the municipality maintained high standards of services and the approval rating of the mayor was high; on the other hand, tax compliance was high at 70 per cent despite, regular upward adjustments to the tax bills.

3.6.1 Strategy to increase revenue

The strategy employed to increase tax revenue was similar to that of the other municipalities. Discounts were also applied here (15 per cent in January, 10 per cent in February and 5 per cent in March) to motivate (early) payment of property tax. The municipal government also facilitated payment for taxpayers. Since 2011 taxpayers have had various options for paying their property taxes: online, in banks or at Oxxo. Further payment points were opened in supermarkets and elsewhere where residents can pay with only a printout of the tax receipt, which they can obtain online. In January and February 2013, the local government distributed coffee and hot chocolate to people who came to the municipality and stood in line to pay their taxes. Many (particularly elderly) residents still preferred to come to the Municipal Palace rather than to make use of the more convenient alternative payment options.

The last aerial photography and field visits had been conducted as far back as 2004. No further updates or modernisation of the cadastre were planned, yet over recent years there had been updates to cadastral valuations in line with inflation and to align them to market values (through comparison with sales prices and other databases), which in turn raised the amount of tax owed by property owners and the amount received by the municipality. In 2011 the government introduced a scheme to grant people insurance against fire and floods if they self-declared a rise in their property value.

The Revenue Directorate was simply told to continue their efforts and not to ease off tax and fee collections during the electoral campaign period running up to the recent elections in July 2013. Relaxing tax collection efforts ahead of elections is considered a widespread practice all over the country (Interviews 44, 80, 76). Yet even during the campaign period, this Saltillo mayor continued pressurising his staff to keep tax payments rising in order to achieve his campaign promise of ending with a zero deficit (Interview 72). Property tax revenue has effectively remained stable. 'We were told to continue our efforts just as strongly as always' (Interviews 71, 73). The local councillor who focused on treasury affairs corroborated this, saying that the mayor's message was, 'Same strong effort as always. Don't relax, even though elections are coming up' (Interview 72). It appeared that it was more important for the mayor to end his term with a zero deficit than to make exemptions for taxpayers ahead of the municipal elections.

3.6.2 Outcomes

No coercion was observed. Explicit tax bargaining was carried out between the municipality of Saltillo and private firms. Yet rather than this being bargaining about tax payment in exchange for improved services or other benefits, the arrangement was a partial or full exemption for companies if they employed a lot of local residents. The director of the cadastre claimed that the municipal government used tax exemptions to motivate employment generation (Interview 71). Discount tables were published in the municipality's revenue law (Saltillo Revenue Law 2012), and are reproduced in Table 4. These reveal that

the greater the number of employees a firm hires during the year, the higher its discount will be with respect to property tax; this can even reach full exemption if the firm employs over 1,000 people. The law required that firms sign specific contracts for this with the municipality. Such an arrangement did not exist in the other municipalities researched. Property tax powers are thus used as an instrument by the municipal government to lure investors and encourage growth and employment in the municipality. This was not a recent proposal, but continued from previous administrations.

Table 4 Discount granted to firms in Saltillo for employment generated in 2012

Number of direct employees generated through the firm	Percentage of discount	Applied to year
10 to 50	10	2012
51 to 150	25	2012
151 to 250	35	2012
251 to 500	50	2012
501 to 1000	75	2012
1001 and above	100	2012

Source: Saltillo Revenue Law (2012)

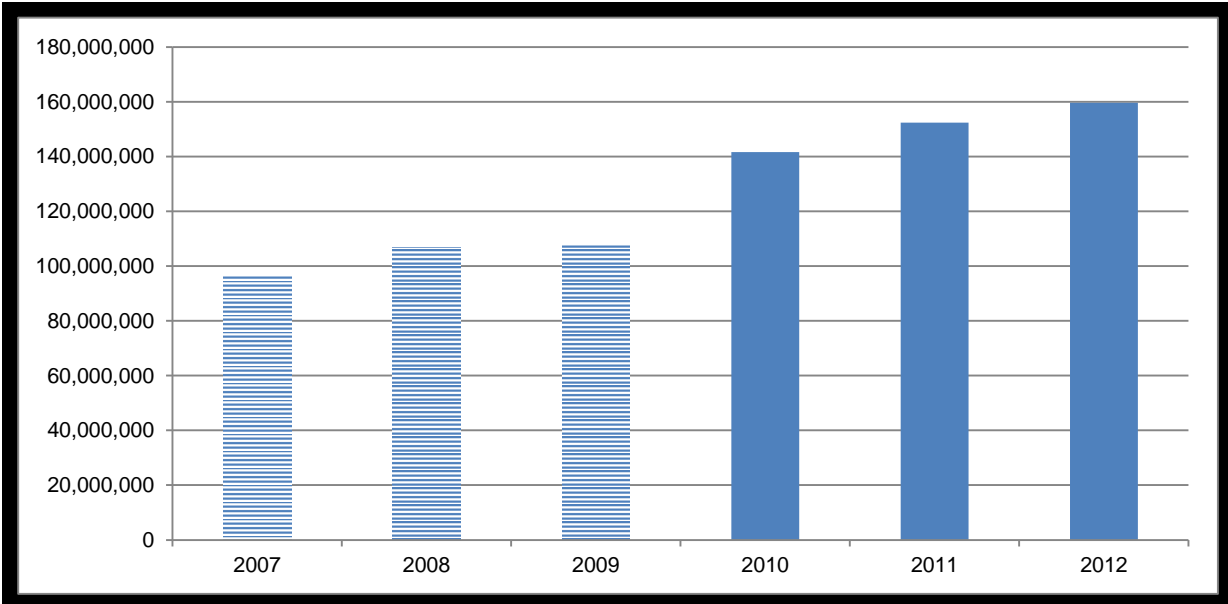
There was also some evidence of implicit bargaining. First, Saltillo’s property tax revenue consistently increased in real terms throughout the administration’s term from 2010 to 2012. The director of the cadastre estimated that \$170 million would be collected during 2012, with an even greater increase to come. At the same time, compliance remained high at around 70 per cent, despite regular upward adjustments to tax bills to meet inflation and market values. Saltillo thus managed to collect more taxes than other municipalities, and at the same time has been granted awards for the high quality of municipal service provision and city management. This may be because taxes motivated local councillors or put them under more pressure to provide better services. It may also be consistent with the idea that residents were more willing to pay taxes if they were content with local governance.

Yet there may also be other reasons for this. First, higher compliance may simply be a result of better capacity of the tax administration, making evasion more difficult, independent of the accountability or satisfaction of residents. Second, the high compliance and high revenue may be the result of a different tax-paying culture. The secretary of finance of the neighbouring state of Chihuahua has a theory about the tax-paying culture in the north, which he revealed to me in a meeting. He said that since the population had always been sparse and living conditions harsh, people were more hard-working and more dependent on one another, and thus more honest, trusting, obedient, and law-abiding compared to people in the south of Mexico. He added that the border with the United States could also have brought the influence of a different ethic to comply with rules and tax obligations (Interview 88).

Was there evidence of any *causal* link running from taxation to accountability? It was clear that the municipal government did what it could to maintain the mayor’s positive image of performing well for the residents, and succeeded in maintaining high approval ratings. Yet when asked whether the government manages its revenue more prudently and efficiently than other municipalities because they have a greater proportion of own revenue, both the revenue director and local councillor responsible for public finance answered that the government does not differentiate between revenue that comes from local taxes and that which comes from the federation (Interviews 73, 72). ‘After all, transfers also partly consist of payments by Saltillo’s residents for national or state taxes. We handle all public resources with great care’ (Interview 72).

While this appeared an obvious response by a government official in defence of his government, the revenue director claimed that residents tend to withhold their payments if they are unhappy with the administration, and then pay later when someone is in power that they prefer. He said, ‘the amount of property tax revenue we received rose a lot once the new mayor came to power’ (Interview 73). Data from the Revenue Directorate showed that it had increased from \$107,471,000 to \$141,690,000 between 2009, when the last administration was in power, and 2010 when Mayor Jericó Abramo Massa came to power, which was a marked discontinuity in the previous trend even in real values (see Figure 6). The finance director similarly claimed that, ‘People expected a lot from the new mayor [who has been in power since January of 2010]’ (Interview 73). He further explained that they had high expectations from him as a competent and ambitious city manager, and were willing to trust him with their tax payments. They withheld tax payments to the previous government and waited until this mayor came to power in order to make their payment. While some of the drop in revenue during the last year of the previous government could have been from them relaxing their tax collection efforts, the revenue director maintained that the spike in the following year showed that it could not have been purely from lax collection, but instead from residents first withholding their payments and then finally paying the following year. It is difficult to know from the data if it really is as the revenue director claimed, but it corroborates the story told in Merida.

Figure 6 Property tax revenue in Saltillo, 2007-2012, pesos



Source: Municipal government of Saltillo.

3.6.3 Concluding remarks

The strategy of the municipality of Saltillo in raising tax revenue was to maintain the mayor’s image of performing well for the residents and maintaining a high tax effort by chasing up non-compliant taxpayers, allegedly even during the electoral campaign period. No coercive taxation was observed. Instead, as in the other municipalities, taxpayers were motivated to pay their taxes through incentives such as discounts, prizes, convenient payment options, and even offering coffee and hot chocolate to taxpayers who stood in line to pay their taxes at the Municipal Palace.

Explicit agreements around taxes were entered into between the municipal government and large firms: the government granted the firms exemption on their payments for creating employment. Yet this tax arrangement did not lead to an increase in local government accountability to improve, for instance, public services that would help business. Instead the

concession on the part of local government was the tax exemption itself. Nonetheless, this may have encouraged increased employment in the municipality.

There may have been implicit bargaining in the sense that Saltillo manages the municipality well, with high standards of service provision and solid financial accountability, and the population was therefore willing to comply with comparably high property tax bills. The evidence was consistent with the notion that residents were happy to comply with their tax obligations as long as they observed a well-managed municipality. The high compliance, even with regular upward adjustments to property tax bills, may have had to do with a general culture of compliance in that part of Mexico compared to other municipalities. While there appeared to be evidence to support the revenue director's claim that residents withheld their tax payments until an administration was in power that they preferred, it was difficult to determine if revenue needs actively pushed the government to be more accountable to residents.

4 Conclusion

4.1 Revenue-raising strategy: no coercion

No coercion was observed in the cases studied, in either the municipalities that had relatively strong a priori state-society relations (proxied by transparency and accountability rankings), or in those where these were relatively weaker. Raising tax revenue is widely viewed as a last best option involving a high risk of political death.

This is consistent with the literature that has often highlighted that property tax, the most important local tax handle both in Mexico and many developing countries all over the world, is particularly unpopular among taxpayers. It is usually paid in the form of an annual lump sum, making it a highly visible, direct and salient tax (Bird 2011; Cabral and Hoxby 2012). Even if the real tax owed remains the same, even nominal differences are noticed and create resentment among taxpayers.

In the municipalities visited, there proved to be substantial scope for raising property tax intake through several methods short of actually raising the tax rate or the tax bills of property owners. Such methods focused on motivating people who normally evaded to pay, including economic incentives such as raffles, discounts and promises to pardon fines for past arrears; facilitating tax payment for the residents by increasing payment points and setting up online payment options; and making tax payment more comfortable by offering coffee and hot chocolate to those queueing to make their payment. Tackling tax arrears or omissions in the property registry was the next step. More stark methods like updating property values to coincide with market values or raising the tax rate were rarely considered. These were regarded as far more politically sensitive, leading to dissatisfaction and anger among residents, and were avoided when possible.

Evidence from the municipalities visited as well as secondary evidence indicates that municipal leaders in fact tried to exhaust all alternative sources of revenue before taxing, including both ordinary and extraordinary transfers from the federal government and loans from private banks or international institutions (Interview 95). The mayor of Acapulco, for example, first tried to receive a rescue fund from the central government (Ponce 2012). Only when this failed were other revenue options considered (Interview 69). The unit in the Mexican Ministry of Finance in charge of coordination with the federal entities complained that subnational leaders were incessantly asking it for money while leaving their tax powers unexploited (Interview 95). Many municipal governments simply cut down on spending, defaulted on their liabilities (including personnel payments), or dug themselves further into

debt (Romero 2012). In Merida, for instance, the previous administrations had managed to illegitimately pass debt and liabilities along to their successors through crafty accounting methods. These are all ways to circumvent unpopular tax collection despite substantial revenue pressure.

4.2 Evidence of explicit and implicit tax bargaining

Regarding property tax, there was little *explicit* tax bargaining observed that led to an outcome of improved local government accountability. The explicit bargaining observed with (potential) taxpayers predominantly involved negotiating over the amount of the tax to be paid: individuals would come to the office of the municipal revenue directors in order to request a lowering of their personal tax obligation. In one municipality agreements were signed between the municipal government and firms, in which firms could be granted discounts if they hired a large number of employees from the municipality. The government did not, however, offer any other type of concession such as greater transparency, instruments for greater citizen participation, or any services that would benefit the taxpayers or a larger group of residents.

The instances observed where the government did explicitly negotiate with a group of potential taxpayers, with a possible outcome of concessions responsive to a wider group, were mostly instances involving different types of taxes. For instance, in Centro local officials approached the leaders of the street vendors, improved relations and started a dialogue with a view to collecting floor fees from them. At the time of interview, the street vendors and the government were in the midst of negotiations with a potentially mutually beneficial outcome: in return for floor fee payments, the municipal government showed willingness to assist the vendors in cleaning their selling areas and upgrading their stands. In La Paz, the municipal government and local bus drivers negotiated an exchange as well: a rise in transport fees in exchange for government projects to improve transport services. The fact that explicit tax bargaining for mutually beneficial governance outcomes occurred with taxes other than property tax is likely due to the tax incidence and prior organisational strength of the taxpayers: those taxes paid by a narrow group with special interests, such as street vendors or the transport union, both of which have common, clearly-defined needs and demands and leaders who represent them vis-à-vis the government, were the taxes around which explicit tax bargaining was observed.

There were also indications of *implicit* tax bargaining. The local governments appeared to take pre-emptive actions to ease acceptance among taxpayers of the increase in tax effort. Many of the municipal leaders ran a vocal campaign declaring transparency and accountability to the taxpayers in parallel with their tax-raising efforts. For instance, in Aguascalientes the mayor set up a Citizen Observatory for residents to scrutinise the quality of municipal management and to create a closer link between the municipal government and residents. In Acapulco the mayor vehemently warned against corruption among public workers, and published revenue and expenditure data in the media every three months, which no mayor had done in his city before him. In La Paz a zero-corruption agenda was enforced. The leaders of the different municipalities generally sensed or forecast how far they could go in raising taxes, updating property values or pursuing tax arrears. They claimed to be aware that if they upheld a positive image and enjoyed citizen satisfaction through accountable governance, they could go further in demanding tax payment as residents would comply. By contrast, if they performed poorly, there would be more evasion and tax revenue would diminish. An increase of accountability thus occurred prior to or simultaneously with increased demands of taxes.

Yet in each of these cases the respective mayor may anyway have taken steps to gain a positive image and popularity, as each had at least one eye on higher office. It was not entirely discernible whether they deemed the steps necessary or important in view of raising

revenue, let alone if the need for increased tax revenue sparked these policies. More generally, while their fear of the political cost of taxation may be regarded as evidence that local leaders anticipate protest, revolt or especially judgement at the ballot box or by their political party, it is more likely that this fear simply leads to a reduction in tax effort when they are unpopular rather than a motivation to increase accountability.

Turning now to the residents, there was no *collective mobilisation* in any of the cases in response to the municipal government scaling up its property tax effort. As already mentioned, individual residents tried to seek a reduction in their own payments on a personal level. Requests for personal favours and concessions were observed, not collective action or demands for public benefits.

One case where residents did mobilise was when the people of Tierra Amarillo colony organised a protest in front of Centro's Municipal Palace. However, this popular mobilisation did not occur in reaction to the government's tax policy. Instead, the residents voluntarily paid property taxes without being legally obliged to as they believed that this would win them bargaining power, and strengthen their case for obtaining a delegate to represent them in the municipality and get municipal services extended to their colony. At the time of interview it was still unclear whether they would obtain the concession they demanded, and whether their paying property taxes was sufficient to convince the government to grant them any right to representation.

Several cases revealed that residents resist taxes through *tax evasion* when they are dissatisfied with the government. In Merida, when corruption scandals and deterioration in service delivery became apparent in the previous administration, residents withheld their property tax payments. Once a new government came to power in which they had more trust, payments swiftly resumed. This is particularly feasible when compliance is not immediately sanctioned or when it is easily pardoned, as is the case in most municipalities in Mexico (Morones Hernández 2011; 2012).

One may thus regard this as implicit bargaining or exchange. Taxpayers only pay the equivalent of what they deem the government deserves, according to the level of local government accountability. And local governments only demand as much as they feel they can get away with considering their level of accountability. Yet such an arrangement does not lead to increased accountability unless awareness of the loss in revenue that follows poor performance motivates local government officials to strive actively for accountable governance. As mentioned above, local government officials were very clear about the fact that they could gain compliance only if they were popular and maintained satisfactory public management and service delivery; if people become disillusioned they would not achieve tax compliance. Yet when local governments made an effort to demonstrate accountability alongside their tax collection efforts, it was difficult to discern how important tax compliance was as a motivator compared to other reasons.

4.3 Obstacles to tax bargaining at the local government level

For the taxation-accountability link to take hold, local governments need to be *dependent* on taxation. Unless there is a high degree of dependence on the taxpayers for revenue, the local government will have no incentive to engage in negotiating with its residents. Strong dependence on taxation is difficult to attain at the local government level. Since local tax revenue is usually not sufficient to pay for all their expenditure responsibilities, local governments tend to be financed through some combination of transfers, taxes and other revenue. When transfers from the central government abound, when municipalities can easily borrow on the market, when they can pass their debts on to the next administration, and when they can expect a bailout from the central government, there is little dependence on taxation. While own revenue gives local governments independence from the centre, it is

also more costly to collect, both economically and politically (the latter particularly if the local leaders are popularly elected or if they hope to be elected for other positions in future), and local governments will prefer to rely on alternative revenue sources.

The Mexican case shows that decentralising tax powers to subnational governments does not imply that they will make use of these or develop any dependence on them. However, the Mexican case also shows that (a) imposing a hard budget constraint through a stricter policy on financial rescues, and (b) introducing a transfer formula that effectively rewards tax effort with a greater share of central government transfers, can help uphold revenue pressure to some degree.

A second obstacle is that local governments may not always have the power to respond noticeably to demands from their residents or to use the tax revenue for new projects demanded in a bargaining process. Many local governments have only few competencies and little decision-making power. In Mexico, as elsewhere, a large proportion of local funds are earmarked for purposes decided on by central government, and tax revenue may be used to cover previous liabilities passed on from the former administration, such as for a large payroll of unionised workers (as seen in Centro and La Paz). This leaves local governments little manoeuvring power to improve services or invest in new ideas in an effort to show residents that they are using their tax money effectively (Díaz-Cayeros and Martínez-Urriarte 1997; Sánchez 2013).

Third, while local government performance should be more visible than that of any other level of government (Faguet 2000, 2012), there is frequently a mismatch between local government accountability on one hand, and the perception of taxpayers of local government accountability on the other. For the taxation-accountability link to take hold, residents need to be able to judge whether their local government has performed responsibly and in their interest or not. With opaque accounting methods, many municipalities in Mexico passed the consequences of poor financial management to the next administration without their residents noticing (the financial mayhem was usually revealed only after the next election had taken place). Furthermore, as the decentralisation literature has often argued, local performance may easily be confused with successes and failures of the state or national government (Faguet 2012; Ahmad and Garcia-Escribano 2006). In Centro, scandals at state government level seemed to create a distrust of all levels of government generally. As elsewhere, municipal leaders were quick to blame higher levels of government for any shortcomings (rightly, as when State Congress blocked initiatives in La Paz, or wrongly), and to take credit for their achievements.

Another obstacle is that terms end after only three years in most municipalities, and the Mexican Constitution currently forbids consecutive re-election of municipal leaders. Local governments have little incentive to embark on an investment like updating property values to raise property tax revenue, as the benefits would not accrue until the next administration is in power. The local administration that asked for the tax increase would not be around to reward taxpayers with any requested expenditure or other requests. It thus seems futile for residents to meet and negotiate a deal with an administration that will only last three years, with no guarantee that any subsequent administration will abide by a contract entered into with its predecessor.

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