The Resource Governance Index

2019 Interim Evaluation Report for Mexico (Mining)

Key messages

- Governance of the Mexican mining sector remains weak, scoring an overall 58 points in this interim assessment, which uses the Resource Governance Index methodology. Its score is three points short of that in the 2017 RGI.

- The sector's weakest component is "value realization"—policy areas related to licensing, taxation, and local impacts. Mexican authorities face the challenge of streamlining access to information about pre-licensing procedures within the sector. Authorities including the Ministry of Economy and the Ministry of Environment should work together to better enforce laws that address the local impacts of mining operations.

- Mexico has improved revenue management in mining, showing some advances in policy areas related to national budgeting and subnational revenue sharing. To maintain the momentum, good reporting practices shown by the Ministry of Finance should be must mainstreamed at the subnational level.

- Implementation of established rules remains the Mexican mining sector's main challenge.

SUMMARY

This report presents the Natural Resource Governance Institute's (NRGI) evaluation of Mexico's mining governance from 2017 to 2018 according to the methodology set forth in the Resource Governance Index (RGI). It also includes recommendations for improving the sector's governance.[1]

This document, the 2019 interim assessment, is a country-specific evaluation that NRGI designed to provide in-depth analysis of the evolution of Mexico's resource governance since the most recent RGI (2017).[2]

NRGI constructed the RGI using three overarching component topic areas, each representing an aspect of resource governance commonly found in resource-producing countries. The first two components, value realization and revenue management, are based on the chain of decisions governments and societies must make to benefit from natural resources. The third component assesses a country's enabling environment for good governance in the extractive sector.

Mexico's mining sector's overall score was 58 out of 100 points in the 2019 interim assessment. This constitutes a three-point fall from the country's 2017 RGI score and a move down from the "satisfactory" to the "weak" RGI performance band.

A score of only 49 on the value realization component, which assesses policy areas relating to licensing, taxation, and local impact, brought down the sector's overall performance. In this component, Mexico noticeably backslid in comparison to the 2017 RGI scores, especially on the licensing and local impact subcomponents. Policy makers and civil society actors should analyze and address a performance dip in all policy areas within a single component. This report provides a starting point to review aspects that can be improved.

In contrast, Mexico's mining sector improved by nine points to 62 out of 100 points in the revenue management component. This component improved in both of its assessed policy areas, national budgeting and subnational resource revenue sharing.

Figure 1. Resource Governance Index subcomponent scores, Mexico interim evaluation (mining)

COMPOSITE
58 /100

VALUE REALIZATION **49** /100

REVENUE MANAGEMENT **62** /100

ENABLING ENVIRONMENT **62** /100

PERFORMANCE BANDS	
Good	Scores over 75
Satisfactory	Scores 60-74
Weak	Scores 45-59
Poor	Scores 30-44
Failing	Scores under 30

INTRODUCTION

In Mexico, mining is a blossoming and geographically concentrated activity largely driven by foreign investment. Representing roughly 2.4 percent of Mexico's gross domestic product (GDP), most mining activity is concentrated in a handful of states such as Sonora, Zacatecas, Chihuahua, Coahuila and Durango. In these states, mining can represent up to 15 percent of GDP, as in the case of Sonora and Zacatecas.[3]

The country's mining portfolio has more than doubled in the last decade, with substantial exploration projects (1,113), 274 of which are currently in their productive phase.[4] In total, there are 4,139 mining companies registered in Mexico. Ninety-two percent of mining investment comes from foreign companies, with Canadian companies having the largest participation (77 percent). As production grows and the number of actors in the sector increases, mining governance will become a greater challenge, after having been historically overshadowed by the size of the hydrocarbon sector in the country.

In 2018, Mexico's mining production was valued at $10.5 billion.[5] Gold accounted for 32 percent of production, copper for 22.3 percent and silver for 17.7 percent. Mexico is the ninth-largest gold producer in the world in terms of volume and produced over 115.4 tons in 2019.[6] Most of the gold projects in the country are based in Sonora, Durango and Zacatecas.

Mexico's implementation of the Extractive Industries Transparency Initiative (EITI) in 2017 was a clear step towards improving the governance of the mining sector. Mexico EITI has so far published two reports, and Mexico has also advanced the transparency agenda by mainstreaming reporting practices.[7] This has been less obvious in the mining sector than in the hydrocarbon sector, where contract management provisions were established by the National Hydrocarbons Commission (CNH) for the three oil bidding rounds that took place between 2016 and 2018.

It is because of these steps that NRGI has carried out a 2019 interim assessment for Mexico. For the mining sector, the 2019 interim assessment focuses on gold mining, because it is more economically significant than other

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3   *Sistema Integral Sobre Economía Minera* (Government of Mexico, 2018), www.sgm.gob.mx/SINEMGobMx/mineria_mexico.jsp.
4   *Anuario de las Industrias Extractivas 2018* (Fundar, 2019), 29, extractivismo.fundar.org.mx.
5   *Ibid.*
6   *Mexico Gold Production* (CEIC, 2019), www.ceicdata.com/en/indicator/mexico/gold-production.
7   *Mexico* (Extractive Industries Transparency Initiative, 2020), eiti.org/mexico.

minerals. It covers the period from 2017 to 2018. The rapid growth of the mining sector in Mexico and the country's recent history of implementing effective resource governance reforms makes the RGI a relevant technical guide for public officials, civil society actors and specialized media.

SUMMARY OF RESULTS FOR THE RGI INTERIM EVALUATION

The RGI evaluates how resource-rich countries govern their oil, gas and mining sectors, in particular from a perspective of transparency and accountability. Three components make up the index composite score. Two measure key characteristics of the extractives sector—value realization and revenue management—and a third captures the broader context of governance—enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which are comprised of 51 indicators, which are calculated by aggregating 133 questions.

Independent researchers, overseen by NRGI, complete a questionnaire to gather primary data on value realization and revenue management. For the third component (enabling environment), the RGI draws on secondary data from a number of external sources.

This interim assessment focuses on the two sector-specific components: value realization and revenue management. Context from the enabling environment component complements the analysis for each component.

Table 1. Mexico's RGI score trends between the 2017 edition and the 2019 interim evaluation (mining)

	MINING		
	2017 score	2019 score	Trend
RGI COMPOSITE SCORE	61	58	-3
VALUE REALIZATION	64	49	-15
Licensing	52	38	-14
Taxation	77	71	-6
Local impact	64	39	-25
State-owned enterprises	-	-	-
REVENUE MANAGEMENT	53	62	+9
National budgeting	56	75	+19
Subnational resource revenue sharing	63	63	0
Sovereign wealth funds	-	-	-
ENABLING ENVIRONMENT	65	62	-3
Voice and accountability	70	72	+2
Government efficiency	82	66	-16
Regulatory quality	82	80	-2
Rule of law	60	48	-12
Control of corruption	43	35	-8
Political stability and absence of violence	30	45	+15
Open data	90	85	-5
AVERAGE SCORE FOR LAWS	73	69	-4
AVERAGE SCORE FOR PRACTICES	51	47	-4
GAP (PRACTICES LESS LAWS)	-22	-22	0

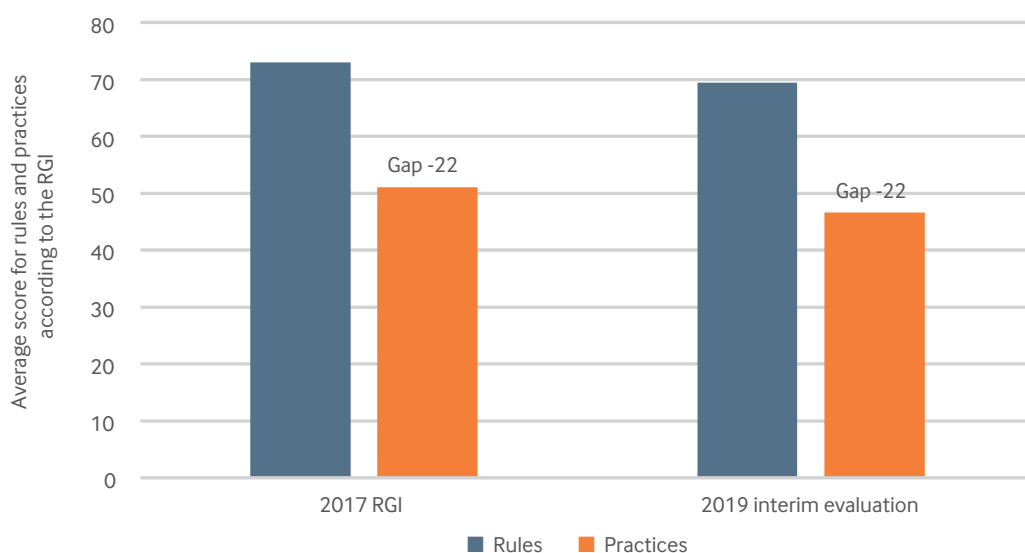| PERFORMANCE BANDS	
Good	Scores over 75
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Value realization

The value realization component covers the allocation of extraction rights, exploration, production, environmental protction, and revenue collection. Mexico's mining sector fell 15 points since the 2017 RGI, to a weak score of 49 points in this interim assessment. Performance in this component was notably lower than the score of 62 achieved in the revenue management component of the index. However, there is one similarity in that the best performing policy areas in each component relate to fiscal and national budgeting processes.

Mexico scored 71 points out of 100 in the taxation subcomponent and 75 points in the national budgeting subcomponent, equating to satisfactory and good performances respectively, according to the RGI performance classification. Taxation is a highly relevant subcomponent in the case of Mexico, as mining is mainly a private business-driven sector. Thus, the federal government processes to collect taxes and royalties should be efficient and streamlined. By contrast, the mining sector lags in almost every other policy area not related to fiscal rules and budgeting, i.e., licensing, local impacts and subnational revenue sharing. (See page 7 for more information about national budgeting.)

The interim assessment shows a 22-point implementation gap (the difference between average scores for the laws and practices). The extractive-sector components of the RGI show that in almost every subcomponent, the government fails to implement its own regulations. Implementing rules remains the Mexican mining sector's main challenge and failure to do so is why performance has declined in licensing and local impacts since the 2017 edition of the RGI.

Figure 2. Trend of the gap between rules and practices in Mexico's mining sector

Mexico's mining sector scores 38 out of 100 points in the licensing subcomponent, which was the lowest score awarded across the extractive-sector specific areas of the assessment. There are five indicators that contribute to underperformance in the licensing subcomponent: reserves disclosure practice, pre-licensing round practice, post-licensing practice, financial interest disclosure rules and financial interest disclosure practice. These indicators measure disclosure and availability of information in critical policy areas for the decision-making process that precedes investment.

In the case of reserves disclosures, the assessment showed that even though the government publishes information about mineral deposits, there is no public data on the amount of recoverable minerals found by private companies.[8] This is particularly important because most mining projects in Mexico are in the exploration phase.

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8   Concluded upon a review of the Ministry of Economy's website, the Mexican Geological Service, the portal GeoInfomex and the Integral System of Mining Administration (which has the geoportal Cartominmex). However, the information about mining reserves on the National Institute of Statistics and Geophysics (INEGI) website is limited to the reserved territories and not the amount of mineral resources in the subsoil.

Most of Mexico's mining concessions are allocated through a first-come, first-served process. However, there are special cases in which the government organizes open bidding rounds. In the case of the pre-licensing and post-licensing round practice indicators, the assessment found two factors related to the lack of quality disclosures. First, during the pre-licensing phase, the biddable terms are locked behind a paywall, visible only to interested bidders, even though the law requires this information to be public.[9] Second, the lack of quality disclosures during the post-licensing phase makes it hard for the public to learn the results and winners.[10]

Mexico's mining sector has similar challenges in implementing laws and policies in the local impact subcomponent to those found in the licensing subcomponent, which resulted in a drop from the satisfactory to poor performance band in this interim assessment. Although it is a legal requirement that the Ministry of Environment (SEMARNAT) produce and publish environmental impact assessments (EIAs), the research shows that publication of EIAs can be inconsistent. Current disclosures of EIAs only include executive summaries, mitigation plans and their respective approval resolutions by the authority (SEMARNAT). There is no clear way for end users (civil society actors, affected populations or journalists) to keep track of environmental mitigation commitments in the lifespan of operations.

On the other hand, there is no separate social impact assessment that the government must approve before operations begin, and Mexican EIAs are technical documents that lack social impact information. SEMARNAT publishes the EIA executive summaries, the mitigation plans (also known as the "environmental impact manifest") and key additional information through a weekly Ecologic Gazette. The gazette, however, suffers from lack of consistency in its disclosures, and most of the available information focuses solely on environmental aspects and not social ones.[11]

These are some areas where quality disclosures are lacking in Mexico's mining sector. Progress in such areas is vital to ensure that civil society actors have the tools to understand the characteristics of available mineral resources, track the allocation processes and follow the environmental and social impacts of mineral extraction. Improved transparency in key areas of resource governance could make a significant impact in improving the overall governance environment in the country. Reforms should begin with adherence to the existing regulatory framework related to transparency.

Revenue management

In comparison to the 2017 RGI, there was an improvement in the revenue management component score and, more specifically, in the national budgeting subcomponent score. The mining sector moved from the weak to the satisfactory performance band due to a nine-point improvement since the 2017 RGI.

National budgeting was the only area of the index for which the Mexican mining sector's performance was classified as "good." In part, the positive score change was because Mexico adhered to its numerical fiscal rule at the end of 2018, due to the action of the Superior Audit of the Federation, which is an autonomous body that performs audits at the end of every fiscal year.[12]

Mexico's recent EITI membership facilitated access to information about both government expenditures and resource revenues. Currently, the website eiti.transparenciapresupuestaria.org contains information on resource revenues disaggregated by their origin. This is an upgrade from the Mining Fund (Fondo para el Desarrollo Regional Sustentable de Municipios Mineros) website, which presented the information only in aggregate.

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9   Mining Law, Chapter II articles 29 (in case of the bidding process), 16 and 17 (first come first serve process).
10   The last three bidding rounds were held in 2010, 2012 and 2018 (process included in the current assessment).
11   To corroborate this assertion, we compared the availability of information in the official consultation portal of the Ministry of Environment for two different projects submitted in 2017: project 10DU2017MD031 and project 10DU2017MD038. Both projects involve the submission of an impact assessment study. The first record does not include any downloadable files, the second includes three different files (the EIA executive summary, the Environmental Impact Manifest and the approval form).
12   Article 74 section VI of the Political Constitution of the United Mexican States stipulates that the Chamber of Deputies through the Superior Audit of the Federation (ASF) review the public account. If discrepancies appear between the amounts corresponding to income or expenditure, in relation to the concepts and the respective items or there is no accuracy or justification in the income obtained or in the expenses incurred, the liabilities will be determined in accordance with the law. The ASF carries out its audit of the public account carried the end of each fiscal year. The review is external and therefore independent and autonomous of any other form of control or inspection carried out by the internal control body.

EITI membership will shape the entire open data strategy of Mexico's mining sector. The interim assessment shows that no centralized open data portal presently contains information on production, reserves, exports or licenses. The EITI data portal has the advantage of being nested within the Ministry of Finance's largest open data system which is why it has been especially effective in displaying information on revenue disclosures and expenditures. Systematic disclosures in the extractive sectors on the basis of the EITI model could help improve the quality and accessibility of information, across both hydrocarbon and mining sectors.

The lowest score in the revenue management component is for subnational revenue sharing, for which the score of 63 out of 100 remained the same. An important finding of the subnational revenue sharing subcomponent is that the Mexican government failed to disclose the specific revenue share amount that it transferred to each of the subnational entities. The Fiscal Coordination Law contains the complex formulas that mandate the fiscal distribution. However, mining producing regions have no clear information on how much money they will receive in a given year. This is mainly because the formulas change from year to year and are dependent on statistics from the Ministry of Economy. These statistics vary depending on variables such as poverty, wealth and how much mining extraction each state undertook. However, the government only presents information about the resources once they are transferred in total amounts transferred, not disaggregated by revenue stream.

RECOMMENDATIONS

Value realization

- The Ministry of Economy should disclose information about recoverable mineral reserves. This is particularly relevant for a sector that is mostly comprised of exploration projects.

- Information related to pre-licensing procedures must be open and accessible, not locked behind a paywall. An integrated approach to this scenario could look like the information disclosures presented by the CNH during hydrocarbon bidding rounds.

- Regulatory authorities such as the Ministry of Environment should publish environmental impact assessments and environmental mitigation plans in a user-friendly manner.

Revenue management

- The Ministry of Economy and Ministry of Finance should cooperate to translate the national budgeting advances reported in this interim assessment into open data specific to the sector. A specific data approach could include information on production, reserves, exports and licenses.

- Mexico can improve subnational resource revenue sharing transparency in mining by leveraging the benefits from the EITI model. Countries such as Peru have made advances by complementing their national EITI reporting with subnational EITI chapters. The concentration of mining production in relatively few producing states in Mexico can be an advantage when setting the basis for state-level EITI chapters.

ABOUT THE RESOURCE GOVERNANCE INDEX

The RGI is a freely available, public data product that provides a global benchmark, country and sector diagnostic tool and a roadmap for policy reforms at the global, regional and country levels. The RGI evaluates how resource-rich countries govern their oil, gas and mining sectors, in particular from the perspective of transparency and accountability.

The 2017 RGI results showed that the effective governance of oil, gas and mining sectors is not an insurmountable challenge but that many countries still struggle to adequately govern their natural resource wealth. The 2017 RGI assessed 81 resource-rich countries and the results are available at: www.resourcegovernanceindex.org

This 2019 RGI interim assessment captures Mexico's performance during the period from 2017 to 2018 against the same measures included in the 2017 RGI, which assessed the period from 2015 to 2016. This 2019 RGI interim assessment provides NRGI, partners and stakeholders with a unique opportunity to measure Mexico's performance over time, to identify where it has made progress and where it can act on recommendations ahead of the 2021 RGI.

Given that this is a unique country-specific RGI update, it does not provide a comparative analysis with other countries or rank Mexico among a group of resource- rich countries. Comparative analysis will be possible with the 2021 Resource Governance Index.

Methodology

The RGI consists of three components: value realization, revenue management and enabling environment, which in turn consist of 14 subcomponents, 51 indicators and 133 questions.

The first component—value realization—covers the allocation of extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises. The second component—revenue management—covers national budgeting, subnational resource revenue-sharing and sovereign wealth funds. The third component assesses a country's enabling environment, by drawing on pre-existing research to measure the broader context, such as political stability, control of corruption, rule of law, freedom of expression and other factors.

More information about the methodology, framework and questionnaire used to construct the Resource Governance Index is available at: www.resourcegovernanceindex.org/about/methodology.

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