

regulatory reform agenda in their constitution. Since then, Aguascalientes, Baja California and Chiapas have followed suit. At a municipal level, 17 of the 32 analyzed cities created regulatory reform committees, formed by professionals from different agencies, with the purpose of improving regulations and the efficiency of bureaucratic processes affecting small and medium-size enterprises⁸. The federal government has also joined these efforts. Through the SME Fund⁹, 27 of the 32 states have obtained resources for different projects related to regulatory reform. The amounts range from MXN 800,000 (USD 59,576) for the creation of a Regulatory Reform Committee to MXN 3,500,000 (USD 260,645) for the implementation of online procedures and a Geographic Information System.

Since 2009, *Doing Business in Mexico* has recorded a total of 238 reforms improving the business regulatory environment across the 4 regulatory areas measured. This evolution attests to the large effort made across all government levels. The majority of these reforms are related to digitization of processes, the consolidation of procedures by creating one-stop shops, and improvements resulting from the implementation of oral proceedings for commercial disputes. However, there have also been setbacks. The closing of the one-stop shop *Tuempresa* negatively affected the business startup process and some cities have seen cost increases the dealing with construction permits and registering property indicators.

WHAT DOES DOING BUSINESS IN MEXICO 2016 MEASURE?

Doing Business studies regulations from the perspective of small and medium-size firms. In the annual report, that compares 189 economies across the world, Mexico is represented by Mexico City and Monterrey¹⁰. However, Mexican entrepreneurs face a diverse scenario in terms of regulations and practices

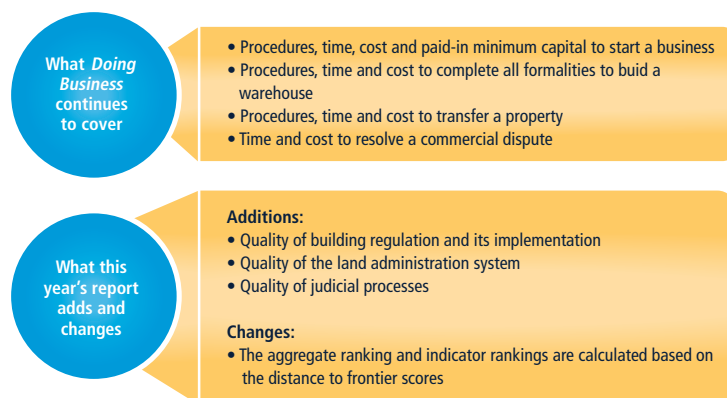
depending on the location of their businesses. *Doing Business in Mexico 2016*, the sixth subnational report for the country, captures different dimensions that are relevant for the business climate in 32 Mexican states across 4 indicators: starting a business, dealing with construction permits, registering property, and enforcing contracts. Additionally, for the first time, a pilot research was conducted to focus exclusively on the process of obtaining a connection to the water and sewerage networks in 16 Mexican municipalities¹¹. The results of this research have no impact on the overall ranking and are included as in the annex of the report¹²(box 1.1).

Doing Business in Mexico 2016 introduces 2 significant methodological changes. The first one affects 3 of the 4 analyzed indicators. New components designed to assess the quality of the regulation and of the services provided have been incorporated into the dealing with construction permits, registering property and enforcing contracts indicators. The Independent Panel of Experts on *Doing Business*¹³, policy makers, and other data users¹⁴ reached the conclusion that merely improving the efficiency of a process may have little impact if the service provided is of poor quality. For example, the ability to complete a property transfer quickly and inexpensively is important, but if the land

records are unreliable, the property title will have little value. In this respect, the dealing with construction permits indicator no longer measures exclusively the efficiency of the process to comply with all the requirements to build a warehouse (number of procedures, time and cost), but also the qualifications of the professionals responsible for reviewing the building plans, the quality controls to be carried out before, during and after construction, and applicable liability regimes, among other aspects. In this way, the dealing with construction permits indicator incorporates the building quality control index, the registering property indicator includes the quality of land administration systems index, and the enforcing contracts indicator includes the judicial process quality index (figure 1.1).

The second methodological change affects the calculation of the ranking by indicator and the overall ranking. In this edition, rankings by indicator are calculated based on the distance to frontier. This measure shows, on a scale from 0 to 100—where 100 represents the best practice identified at a global level and 0 the lowest performance—, how far a given economy is from “the frontier”, which is the best performance observed in each of the indicators at an international level. The overall ranking is based on the average distance to frontier across the

FIGURE 1.1 What *Doing Business* continues to cover and what it is adding and changing?



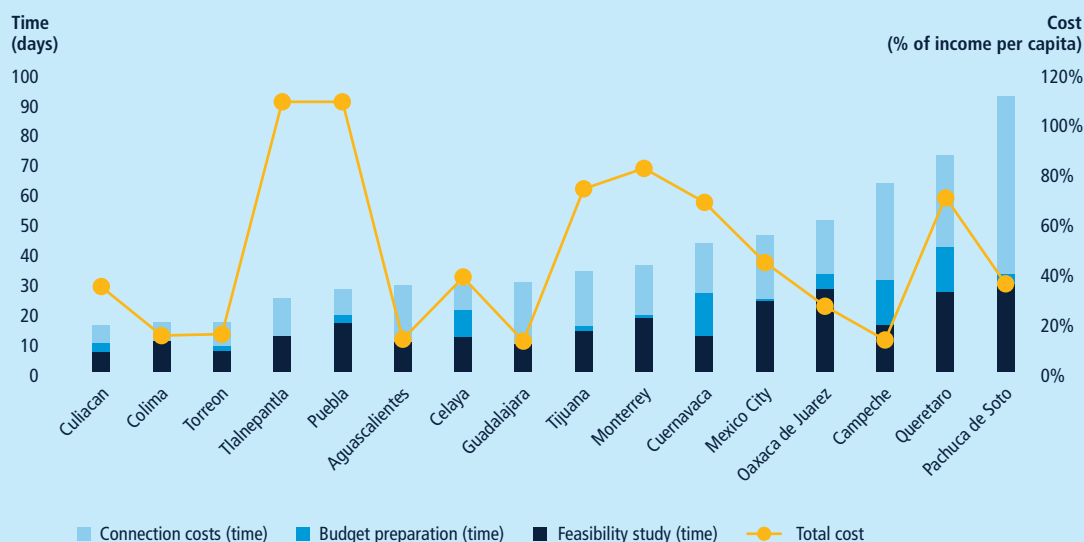
Source: *Doing Business* database.

BOX 1.1 Obtaining a water and sewerage connection

Access to water is crucial for the development of a wide range of activities across economic sectors. An inefficient water and sewerage system can negatively impact business productivity and growth potential, hence, new job creation. A recent study published by the World Bank identified that a gradual decrease in water resources may result in a GDP decrease of up to 6%^a. According to the United Nations, 78% of jobs in the world depend on access to water.

Subnational Doing Business, through a pilot research, measures for the first time the number of procedures, the time and the cost associated with the process that an entrepreneur must complete to connect a laundry business to the water and sewerage networks in 16 Mexican municipalities. Although the study specifically refers to a laundry business^b, the results are equally applicable to other activities requiring similar water consumption, such as beauty parlors or restaurants. The new data shows big time and cost differences associated with the connection process (see the figure).

The time required to obtain a water and sewerage network connection ranges from 3 weeks to 3 months.



Source: *Doing Business* database.

Getting a water and sewerage connection requires, on average, 8 procedures, 39 days and a cost equivalent to 47.7% of income per capita. The process is fastest in Culiacan—16 days—where the feasibility study and the connection works are completed in one week each, and least expensive in Guadalajara—12.4% of income per capita. Joint processing of water and sewerage connections contributes to substantially reducing the number of procedures and the time required to obtain a connection. Another factor that contributes to the efficiency of the process is the availability of an updated cadastre of hydraulic infrastructure. The availability of this type of information is essential to improve the efficiency of construction planning, operation, and maintenance works for the networks, and consequently, it contributes to substantially reducing the time associated with the connection process.

All the procedures are carried out before each city’s water and sewerage utility company. The number of procedures varies depending on whether the water and the sewerage network connection processes are carried out jointly as well as on the number of inspections carried out by the operating agency. As expected, time and cost variations are associated with the corresponding feasibility study—through which the utility determines whether water can be supplied in the required quantity and quality—and connection works. Both phases represent, on average, 89% of the total time. The cost of connection works alone represents, on average, 90% of the total cost.

Data concerning the quality of the regulation and of the services provided by water and sewage utilities across four areas were also collected. The first aspect is related to the transparency and accessibility of information. The availability of a clear and accessible regulation is relevant because it enables entrepreneurs to know in advance the applicable requirements, time and costs to connect their businesses to the networks. This reduces the possibility of being arbitrarily required to carry out additional procedures or incur further costs not pertinent to the requested service. The second area focuses on quality controls during connection works. The regulation must establish technical standards specifying the way in which connection works are to be carried out, the materials to be used and who must perform the works to ensure user safety and proper network operation. The two remaining areas are reliability of infrastructure and invoice layout and payment.

- a. High and Dry. Climate Change, Water, and the Economy, 2016. World Bank Group.
- b. The store has an area of 100 m², it is located in the municipality's urban area, and it will have an average water consumption of 6,600 liters per day and an average sewage flow of 6,400 liters per day. The store is located 10 meters away from the water and drainage network. The diameter of the water intake is 1 inch (2.54 centimeters) and the sewer diameter is 6 inches (15.24 centimeters).

4 analyzed areas. This change provides more information than the simple ranking used previously because it not only shows the position of each state but also the distance from one state to the other.

The data has been obtained from a review of current laws and regulations as well as from individual interviews with 456 local experts from the private sector throughout the country, including lawyers, notaries, architects, engineers, construction companies, professional associations and other professionals regularly completing the procedures analyzed in the study¹⁵. Additionally, 282 public officials from all government levels participated in the data collection process. The data is updated as of December 31, 2015, including data for Mexico City and Monterrey.

WHAT ARE THE MAIN FINDINGS?

Based on the overall ranking in the 4 analyzed areas, it is easiest to do business in Aguascalientes, Estado de Mexico and Colima (figure 1.2)—with a distance to frontier score of 77.92. Aguascalientes remains in the first place despite having moved back slightly in the distance to frontier, since it only recorded one reform in the enforcing contracts indicator. The Estado de Mexico and Puebla, which introduced reforms in at least 3 of the 4 measured areas, substantially reduced the gap to the top performer. All Mexican states still perform better than the Latin

American average—scoring 63.74 on the distance to frontier. There is no relationship between the aggregate ranking and the income per capita or population size of the states.

If the results are analyzed per indicator, large performance differences among states are noted, such as performance differences across indicators within the same state (table 1.1). No single state ranks among the top 9 performers in all the areas; in addition, 29 of the 32 states obtain a score above the average Mexican distance to the frontier in at least one indicator. This suggests that both the best practices and the worst performances are not concentrated in a reduced group of states but are spread across the country. Therefore, all the states have something to learn and something to teach. Starting a business is easiest in Nuevo Leon—where there is a widespread use by notaries of the online system SIGER to register the deed of incorporation and no municipal activity license is required—, while dealing with construction permits is easiest in Colima—where all interactions with urban development agencies can be completed online in just 12 days. Property transfer is easiest in Puebla—where 3 of the 5 procedures are carried out online—, and a commercial dispute is more efficiently resolved in Estado de Mexico—where the time is among the shortest and the quality of judicial processes index is one of the highest in the country.

When Mexico's performance is analyzed in an international context, the differences between the best and the worst Mexican performances become more evident (figure 1.3). This gap is especially wide for the new components that assess the quality of business regulation and of services provided¹⁶. For starting a business, for example, the difference between Nuevo Leon and Quintana Roo is equivalent to 76 positions in the global ranking or, in other words, going from position 149 to 73. This indicator is the only one where none of the Mexican states are ranked among the 25% best economies globally, mainly due to the high cost—with notary fees amounting half the total costs. The greatest variations among cities can be seen in the dealing with construction permits indicator, as practically all the process depends on municipalities. While Colima is ranked among the best practices in the world—at the levels of Australia or Germany—, Mexico City is ranked within the third quartile of the global ranking due to the high cost of obtaining a construction license. The largest differences in registering property are associated with the quality of land administration systems index, where Queretaro ranks among the top 25% economies—with a score similar to Ireland or Portugal—and Zacatecas among the 25% worst performances. On enforcing contracts, as a result of the reduction of the time required for resolving a commercial dispute, 23 states rank among the 25% best economies in the world in terms of efficiency (time

FIGURE 1.2 It is easiest to do business in Aguascalientes, Estado de Mexico and Colima



Note: The color scale reflects the position where each state is ranked in the aggregate ranking of *Doing Business* across the 4 analyzed indicators in the 32 Mexican states. Dark green represents higher regulatory efficiency, and dark red lower efficiency.

Source: *Doing Business* database.

and cost). For all the indicators except starting a business and for the registering property quality component, there is at least one Mexican city showing a better performance than the average for high-income OECD countries.

A comparative analysis between the results of *Doing Business in Mexico 2016* and those of the Survey on Regulatory Reform, Governance and Good Government, published by the Center for Private Sector Economic Studies (*Centro de Estudios Economicos del Sector Privado*)¹⁷, shows an inverse relationship between the average performance across the 4 indicators and the impact of informal payments required from companies in order to expedite procedures or obtain permits (figure 1.4). Not surprisingly, in

those municipalities where bureaucratic processes are simpler, more efficient and more transparent, there are less opportunities for these kinds of informal practices. The development and maintenance of best practices, as the use of electronic systems for company registration, the availability of a clear construction code containing no interpretation ambiguities, the availability of a land administration system where information is accessible and fees are clearly established, or the availability of a random online system for the assignment of cases to judges, all contribute to close the doors to corruption. Efficient, transparent regulation not only enables entrepreneurs to devote more resources to their productive activity, but also contributes to a reduction of corruption opportunities.

WHAT HAS IMPROVED?

The introduction of the new quality components and the new ranking calculation methods—per indicator and aggregate—may hinder data comparison over time¹⁸. For them to be absolutely comparable, the data for 2014 has been back calculated based on the new methodology.

Between 2014 and 2016, *Doing Business in Mexico* identified a total of 53 state and municipal reforms contributing to improve the business climate. More than half of these reforms were implemented in enforcing contracts, 25% in registering properties, 15% in dealing with construction permits, and 8% in starting a business. All the states have reformed in at

TABLE 1.1 Twenty nine of the 32 states perform above the average in at least one indicator

State	Aggregate ranking (4 indicators)	Distance To Frontier (DTF) 2016 (4 indicators)		Distance To Frontier (DTF) 2014 (4 indicators)		Starting a business		Dealing with construction permits		Registering property		Enforcing contracts	
		DTF	Ranking	DTF	Ranking	DTF	Ranking	DTF	Ranking	DTF	Ranking	DTF	Ranking
Aguascalientes	1	81.90		81.97		85.66	16	89.08	3	76.81	1	76.04	6
Estado de Mexico	2	80.99	↑	77.60		86.26	10	87.26	6	70.59	7	79.84	1
Colima	3	80.83		81.60		86.36	9	91.45	1	72.34	4	73.15	12
Puebla	4	80.69	↑	76.05		86.84	2	88.09	4	74.85	3	72.97	14
Sinaloa	5	79.80	↑	79.16		86.79	3	89.63	2	66.35	17	76.43	5
Guanajuato	6	79.78	↑	78.56		86.47	8	84.67	10	71.08	5	76.88	3
Durango	7	78.50	↑	76.55		84.28	23	87.43	5	66.60	15	75.69	8
San Luis Potosi	8	77.71	↑	77.23		86.24	11	86.62	8	70.15	8	67.81	24
Jalisco	9	77.58	↑	74.08		85.68	15	83.07	13	67.80	13	73.76	11
Veracruz	10	77.55	↑	76.58		85.88	14	87.10	7	69.31	9	67.92	23
Queretaro	11	77.39	↑	77.23		86.75	5	74.96	26	75.70	2	72.16	16
Sonora	12	77.12	↑	76.32		85.61	17	84.63	11	68.59	12	69.63	21
Nuevo Leon	13	76.81	↑	76.53		87.81	1	74.17	27	70.68	6	74.60	9
Chiapas	14	76.56	↑	76.47		80.94	30	85.38	9	65.39	20	74.53	10
Campeche	15	76.52	↑	75.89		84.75	21	75.80	24	68.66	11	76.87	4
Tamaulipas	16	76.43	↑	74.51		86.02	13	83.28	12	64.15	23	72.27	15
Coahuila	17	76.02	↑	73.56		84.28	23	78.87	18	65.10	21	75.83	7
Yucatan	18	75.47	↑	73.97		86.78	4	80.68	16	63.93	24	70.49	19
Hidalgo	19	74.93		75.34		81.34	29	78.69	20	69.03	10	70.67	18
Michoacan	20	74.60		74.91		86.22	12	77.50	22	64.85	22	69.84	20
Tabasco	21	74.41	↑	73.96		84.16	25	78.92	17	66.41	16	68.16	22
Nayarit	22	73.92	↑	72.44		84.67	22	77.67	21	62.10	25	71.23	17
Tlaxcala	23	73.13	↑	73.00		86.59	6	81.93	14	65.88	18	58.14	32
Morelos	24	72.78	↑	71.16		86.48	7	75.41	25	65.68	19	63.57	29
Quintana Roo	25	72.18	↑	69.96		75.07	32	81.09	15	55.11	31	77.46	2
Zacatecas	26	71.81		72.13		84.93	20	70.65	30	58.54	29	73.14	13
Chihuahua	27	71.76		71.89		80.80	31	71.89	29	67.70	14	66.64	25
Baja California Sur	28	71.11	↑	70.14		83.67	26	78.73	19	59.70	26	62.34	30
Baja California	29	69.66	↑	68.28		82.84	28	73.17	28	58.90	28	63.71	28
Guerrero	30	69.60		70.13		85.04	19	76.62	23	54.67	32	62.07	31
Mexico City	31	69.50	↑	68.82		85.17	18	68.28	32	59.08	27	65.45	27
Oaxaca	32	69.10		69.85		83.04	27	70.26	31	56.66	30	66.42	26

Note: The distance to frontier (DTF) score shows how far on average a state is from the best performance (the frontier) achieved by any economy for the 4 analyzed areas (starting a business, dealing with construction permits, registering property and enforcing contracts). A state's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the best global practice or "the frontier". A higher score denotes a more efficient regulatory environment. The overall ranking on the ease of doing business is based on an average of the distance to frontier scores for the 4 measured areas. For more details, see section About *Doing Business and Doing Business in Mexico 2016*.

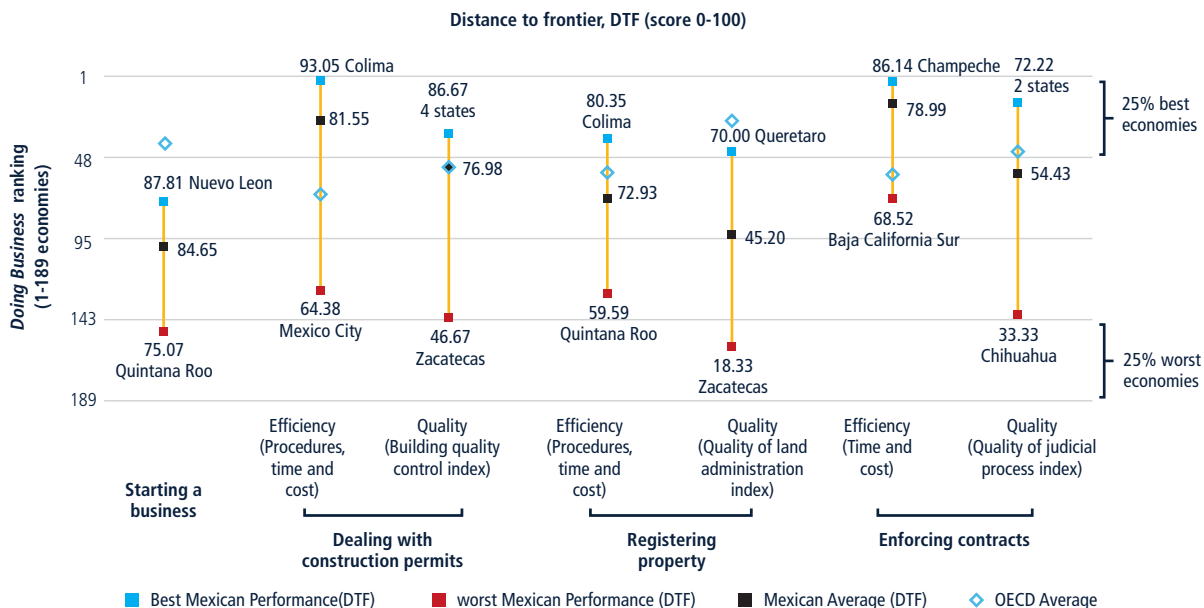
The data presented for 2014 have been back calculated based on the new methodology. All comparisons between 2014 and 2016 have been carried out based on these back calculated data.

↑ States that improved their distance to frontier score with respect to the data published in *Doing Business in Mexico 2014*.

↑ Top 3 states that improved the most their distance to frontier score with respect to the assessment carried out in *Doing Business in Mexico 2014*.

Source: *Doing Business* database.

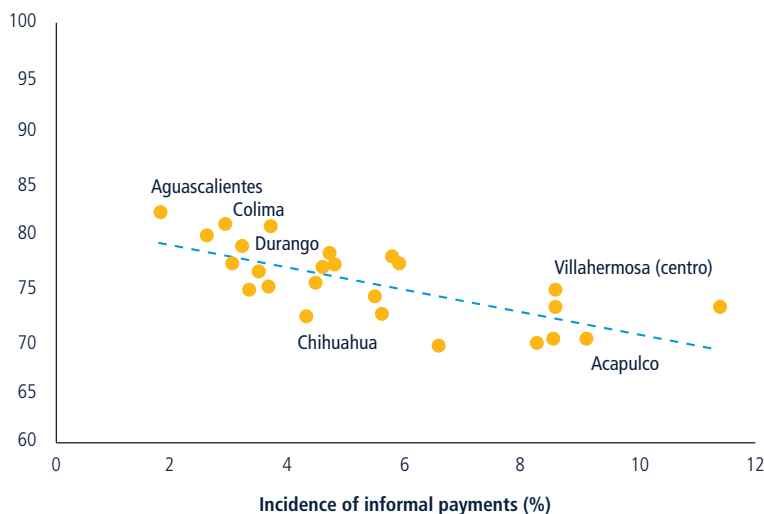
FIGURE 1.3 There are large performance variations, especially in the dealing with construction permits and registering property indicators



Source: Doing Business database.

FIGURE 1.4 The states with the best performance show, on average, a lower incidence of informal payments to expedite procedures or obtain permits

Distance to frontier (4 indicators average)



Source: Doing Business database and the Survey on Regulatory Reform, Governance and Good Government in the Main Mexican Municipalities, prepared by the Center for Private Sector Economic Studies (Centro de Estudios Económicos del Sector Privado - CEEESP). Note: The relationship is significant at 1% controlling GDP per capita. The impact of unofficial payments variable (estimated by CEEESP) refers to informal payments carried out by companies on certain occasions to expedite procedures or obtain permits.

least one area, 5 have done it in at least 3 areas, and Puebla has done it in all the areas. The pace of regulatory reform remains at the average of the last four editions of the report, which add up to a total of 238 reforms since 2009 (table 1.2).

In enforcing contracts, 28 states have reduced by one third the duration of judicial proceedings thanks to improvements in the implementation of oral proceedings to resolve small commercial claims. In Estado de Mexico, Quintana Roo, Yucatan, Puebla, Campeche, Oaxaca, Guanajuato and Colima, where specialized commercial courts are operating, the trial time has decreased to a half. Ten states—Baja California Sur, Coahuila, Estado de Mexico, Jalisco, Michoacan, Morelos, Nayarit, Puebla, Quintana Roo and San Luis Potosi—also improved the quality of judicial processes by introducing electronic tools to support case management. These include the creation of electronic files, deadline monitoring and control, the scheduling of hearing dates and the generation of judicial documents.

The second indicator where most reforms were recorded is registering property. Of the 14 states that improved, Durango and Tamaulipas have made the most progress thanks to the streamlining of procedures. Durango updated its Cadastre and improved the communication between the Cadastre and the Public Registry, reducing 3 procedures. Tamaulipas included more information about the property in the sales deed, the property certificate (*cedula catastral*), and the priority reserve certificate (*certificado de reserva con prioridad*), removing 4 procedures that were previously required to complete the information on the land. Aguascalientes, Baja California, Mexico City and Coahuila improved in the new quality of land administration systems index thanks to the digitization of their Public Registry and the implementation of an electronic database to check encumbrances. Other states also streamlined procedures, such as Jalisco, which eliminated the cadastral declaration (*manifestacion catastral*) procedure, or Estado de Mexico, which no longer requires a water payment certificate. Likewise, some states have also implemented electronic procedures, such as Jalisco and Puebla, or have implemented a web platform that allows notaries to interact with the Public Registry such as in Coahuila, Estado de Mexico and Sonora. Quintana Roo modernized its registry, reducing the time required to complete registration formalities from 50 to 30 days.

Over the last two years, 8 states reformed the dealing with construction permits indicator. Puebla was the city that made the most progress towards best practices by streamlining the procedures prior to construction in a single form—5 procedures into one. In Celaya, it is no longer necessary to obtain a road system impact resolution for low-impact buildings, and in addition, the same as in Tlaxcala, the procedure for obtaining an alignment certificate (*constancia de alineamiento*) and an official number is now done together with obtaining a construction license. In 2014,

Veracruz created the Department for Procedures and Services, a one-stop shop receiving files for the Urban Development, Environment, Civil Protection, Cadastre, Housing, and Treasury Departments. As a result, the duration of the process has been reduced by two weeks.

Four states improved the starting a business process during the last two years. Baja California made the most progress by implementing a “silence is consent” rule which reduced the time to obtain an operating license by 8 days. If the entrepreneur does not receive a municipal response within 72 hours after the application, he/she can start operations. In Puebla and Sinaloa, the use of SIGER, the electronic platform for the registration of the deed of incorporation at the Public Registry of Commerce, increased. In Durango, the registration of a company at the Federal Registry of Taxpayers can now be carried out through electronic systems, the same as in all the other states.

However, not all the changes made doing business easier. The most important setback is in business start-up. Although the process has substantially improved since 2007, the reform process has slowed down over the last two years due to technical problems with *Tuempresa*, the online platform for the creation of companies implemented in 2009. Online registration at the Public Registry of Commerce via *Tuempresa* is no longer possible. As a result, the number of procedures required to start a business increased in the 10 states where the use of this platform was more frequent and which were ranked among the 12 top positions in the 2014 ranking¹⁹. The property transfer process became more complicated in Colima, Zacatecas, Michoacan, Hidalgo and Oaxaca. Colima made the cadastral assessment certificate mandatory, and Michoacan, Hidalgo and Zacatecas increased its cost. Oaxaca raised the title transfer tax. Negative changes were identified in dealing with construction permits in 8 cities²⁰; these were mainly related to increases in construction

license costs and/or the costs of obtaining a connection to the water and sewerage systems. Initial operation glitches in the implementation of new one-stop shops and internal reviews of the new initiatives led to a rise in time. Although today these systems make the process more time-consuming, the time involved should improve over the medium term.

Today, 24 states have come closer to the best global practices since 2014. The distance to frontier score shows each state’s progress towards the best global practices on a scale of 0 to 100, where 100 represents the best performance identified by *Doing Business* at a global level. The states that have made the most progress towards the regulatory frontier are Puebla, Jalisco and Estado de Mexico (figure 1.5). Seven states have managed to exceed the average score of high-income OECD countries although there is still a wide performance gap between them and the top performers at an international level.

Puebla was the state that made most progress towards best practices, by introducing reforms in all the areas. For example, in dealing with construction permits, Puebla unified the procedures prior to construction within a single file—consolidating 5 procedures into one—, in addition to eliminating the need to obtain a fire department resolution for buildings smaller than 1,500 square meters or an inspection for the expedition of the construction license. In the contract enforcement, the state reduced the duration of judicial proceedings by more than half following the implementation of oral proceedings. For business startup, the use of SIGER, an online platform for the registration of the deed of incorporation at the Public Registry of Commerce, increased, making the process more expeditious.

Jalisco was the second state that made the most progress. It improved in 3 of the 4 analyzed areas, especially in dealing with construction permits and enforcing contracts. Guadalajara’s Inter-Municipal

TABLE 1.2 Since 2009, *Doing Business in Mexico* has identified 238 reforms across the 4 analyzed regulatory areas

STATE	2007-2009			2009-2012				2012-2014				2014-2016			
	Starting a business	Registering property	Enforcing contracts	Starting a business	Dealing with construction permits	Registering property	Enforcing contracts	Starting a business	Dealing with construction permits	Registering property	Enforcing contracts	Starting a business	Dealing with construction permits	Registering property	Enforcing contracts
Aguascalientes	✓	✓		✓			✓	✓	✓						✓
Baja California	✓			✓		✓					✓	✓		✓	✓
Baja California Sur	✓			✓		✓		✓	✓		✓			✓	✓
Campeche	✓			✓			✓	✓	✓		✓				✓
Chiapas	✓	✓		✓	✓		✓				✓				✓
Chihuahua	✓			✓				✓			✓				✓
Mexico City				✓	✓			✓			✓			✓	✓
Coahuila	✓			✓		✓		✓		✓	✓			✓	✓
Colima	✓			✓	✓	✓	✓	✓	✓	✓	✓				✓
Durango	✓			✓				✓		✓	✓	✓		✓	
Estado de Mexico	✓			✓		✓			✓		✓		✓	✓	✓
Guanajuato				✓				✓	✓		✓		✓		✓
Guerrero	✓			✓				✓	✓		✓				✓
Hidalgo	✓	✓		✓		✓			✓	✓	✓				✓
Jalisco	✓	✓		✓		✓		✓			✓		✓	✓	✓
Michoacan	✓	✓		✓	✓		✓	✓			✓				✓
Morelos	✓	✓		✓		✓			✓	✓	✓			✓	✓
Nayarit	✓	✓		✓				✓		✓	✓				✓
Nuevo Leon				✓		✓	✓				✓				✓
Oaxaca	✓	✓		✓				✓			✓				✓
Puebla	✓	✓		✓		✓		✓	✓	✓	✓	✓	✓	✓	✓
Queretaro	✓	✓		✓		✓		✓		✓	✓				✓
Quintana Roo	✓	✓		✓		✓		✓		✓	✓			✓	✓
San Luis Potosi	✓			✓	✓			✓	✓	✓	✓			✓	✓
Sinaloa	✓	✓		✓		✓			✓		✓	✓	✓		✓
Sonora	✓			✓	✓	✓		✓	✓		✓			✓	✓
Tabasco	✓			✓		✓		✓			✓			✓	
Tamaulipas				✓		✓	✓	✓			✓			✓	
Tlaxcala	✓			✓		✓		✓			✓		✓		
Veracruz	✓			✓					✓		✓		✓	✓	✓
Yucatan	✓			✓	✓		✓	✓		✓	✓		✓		✓
Zacatecas	✓			✓				✓			✓				✓

Note: The dealing with construction permits indicator does not appear within the blocks of reforms between 2007 and 2009 because it was introduced for the first time in the *Doing Business in Mexico 2009* edition.

Los datos de 2014 presentados están recalculados con base en la nueva metodología. Todas las comparaciones entre 2014 y 2016 se han realizado con base en estos datos recalculados.

✓ Reform making doing business easier.

Source: *Doing Business* database.

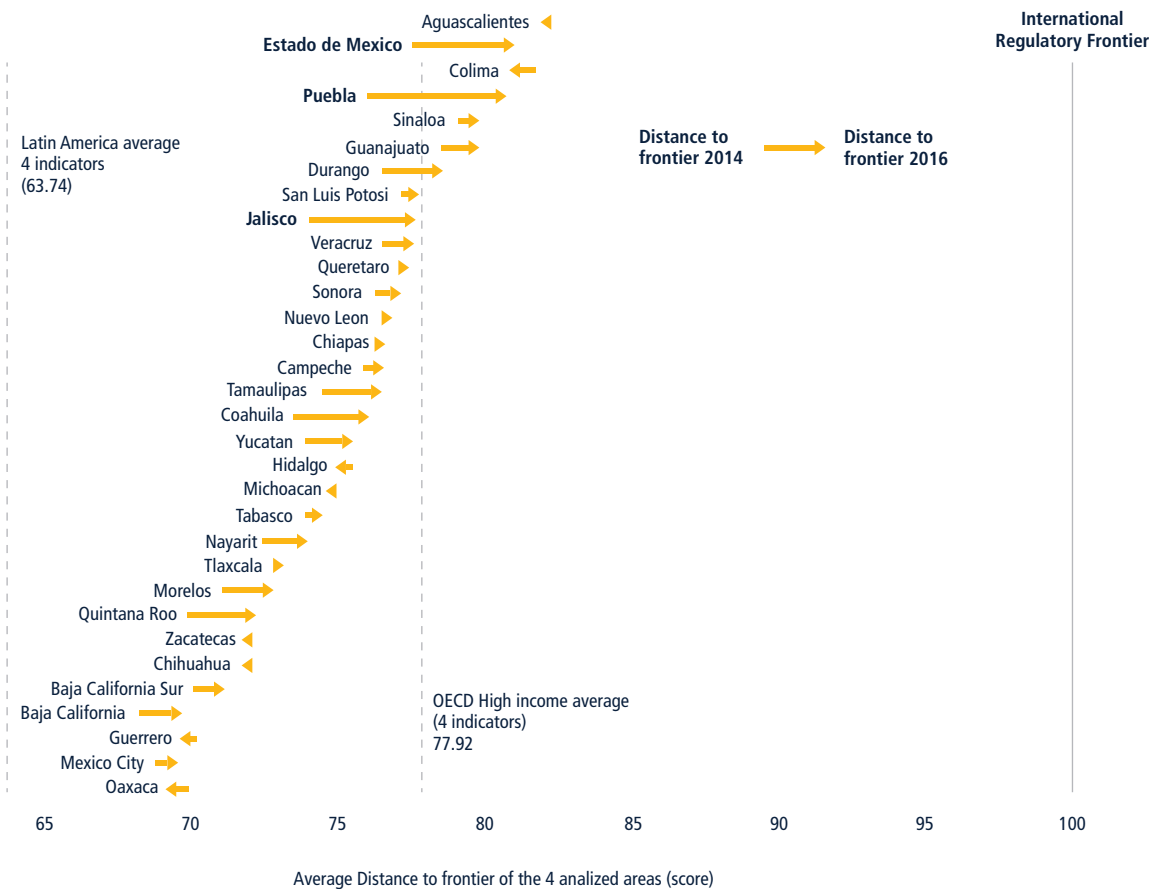
Water and Sewerage Services System (*Sistema Intermunicipal de los Servicios de Agua Potable y Alcantarillado*) unified the applications for obtaining water and sewerage connections and no longer requires fees for the connection to water and sewerage networks for certain buildings. For property registration, it is no longer necessary to obtain a cadastral assessment certificate, and online issuance of the non-encumbrance certificate was made available. In the enforcing contracts area, the implementation of electronic systems and tools for case management

contributed to an improvement in the quality of judicial system index.

Twenty-five percent of the states that made most progress towards best practices improved, on average, in 3 areas, while 25% of the states that made the least progress improved in only one. The significant progress in the distance to the frontier has been mostly the result of comprehensive efforts spanning different regulatory areas. Regulatory reform committees, comprised of professionals from different agencies, have played a

relevant role. Sixty-four percent of the reforms recorded took place in 17 of the 32 analyzed municipalities—54% of the total—where regulatory reform committees are set up. The development of clear action plans with collective goals can speed up the strengthening of the business environment. Four of the eight states that dropped in the aggregate distance to frontier score introduced 2 negative changes and the rest one change. Overall, advances exceeded setbacks. On average, the 32 states advanced 1.02 points towards the frontier of best practices.

FIGURE 1.5 Puebla, Jalisco and Estado de Mexico made the most progress towards best global practices although there is still a wide performance gap between them and the best performers globally



Note: Progress towards the best global practices is equivalent to the difference between the distance to the frontier score for 2016 and that for 2014 across the 4 measured indicators. The 2014 distance to the frontier has been re-estimated based on all the methodological changes implemented in this report.
Source: Doing Business database.

COMPARING BUSINESS REGULATIONS AND THEIR APPLICATION AMONG STATES

STARTING A BUSINESS

Starting a business in Mexico requires, on average, 8 procedures, 14.6 days and a cost of 11.4% of income per capita. The process is easiest in Nuevo Leon and most difficult in Chihuahua and Quintana Roo. The number of procedures ranges from 7 to 9 mainly due to differences in municipal requirements. With the exception of Monterrey (Nuevo Leon), Culiacan (Sinaloa) and Matamoros (Tamaulipas), all the municipalities require an operation license to start a business. Additionally, Campeche and Cancun (Quintana Roo) require a civil protection department license as well as registration at a municipal registry of taxpayers.

The process may take from 8 days in Nuevo Leon and Sinaloa—where the use of the SIGER online system is more widespread among notaries—to 48.5 days in Quintana Roo. The largest part of the cost corresponds to notary fees. The process is most expensive in Baja California (28.8% of income per capita) and least expensive in Colima (4.6% of income per capita).

DEALING WITH CONSTRUCTION PERMITS

On average, dealing with construction permits requires 12.4 procedures²¹, takes 64.5 days and costs 2.9% of the warehouse value. The average score for the building quality control index (BQCI) is 11.5 points out of a maximum of 15. At a global level, the process is almost twice as fast, but significantly more expensive, than the average for high-income OECD countries—152.1 days and 1.7% of the warehouse value—with a similar number of procedures and quality control index score—12.4 procedures and 11.4 points. The process is simplest, fastest and more secure, but 7% more expensive with respect to the Latin American average.

It is easiest to obtain construction permits in Colima—8 procedures, 12 days, 1.9% of the warehouse value and 13 points in the BQCI—, and most difficult in Mexico City—13 procedures, 81 days, 11.8% of the warehouse value and 12 points. The number of procedures ranges from 6 in Culiacan, where the municipality and the state work in collaboration to operate a one-stop shop focused on process streamlining, to 18 procedures in Ciudad Juarez, where a building company must interact with the authority on 6 occasions before applying for a construction license. The time ranges from 12 days in Colima, where construction permits can be obtained online, to 137 days in Acapulco, where the issuance of the construction license takes one and a half months. Costs range from 1.5% of the warehouse value in Tuxtla Gutierrez to 11.8% in Mexico City, where the construction license alone costs around MXN 300,000 (USD 18,000) and is 30 times more expensive than in Tuxtla Gutierrez.

Significant differences exist between cities in the quality control mechanisms after construction—inspections actually carried out—, the required qualifications of professionals responsible for approving the technical projects and supervising construction works, and liability regimes. Acapulco, Aguascalientes, Colima and Veracruz have the best national practices—13 points—, as Directors Responsible for Construction Works (*Directores Responsables de Obra*)²² and the municipality carry out the inspections for which each one is responsible in all the cases—the Directors Responsible for Construction Works do this during construction and the municipality after construction. Zacatecas has the lowest score—7 points, because all inspections both during and upon completion of the works are not carried out in all the cases and the professionals who review the building plans and supervise the works are only required to have a bachelor's degree as certification.

REGISTERING PROPERTY

In Mexico, a property transfer requires, on average, 6.5 procedures, 26 days and costs 3.5% of the property value. This performance is better than the Latin American average, which is represented by 7 procedures, 45.4 days and a cost of 4.3%.

It is easiest to register a property in Puebla and most difficult in Guerrero. The process may take from 9 days in Puebla to 78 days in Oaxaca. In Puebla, the Public Registry takes less than one day in processing the registration of the deed of incorporation because notaries can file for this document using electronic systems. In addition, 3 of the 5 procedures required to transfer a property can be carried out online. The total number of procedures required for registering property ranges from a maximum of 10 in Guerrero and Yucatan to a minimum of 5 in 9 states.

It is more expensive to transfer property in Mexico City, where the parties must pay 5.6% of the property value. However, it only costs 1.8% of the property value in Veracruz as the tax on real estate purchases are among the lowest in the country. This tax represents, on average, 61% of the total cost of the indicator for a real estate transaction.

Twelve states have attained full digitization of the Public Registry, and 17 states have fully digitalized maps. None of the states have linked the Public Registry and Cadastre databases so that changes in one of the databases are automatically reflected in the other. Cadastral data is accessible to the public in 18 states only. The majority of the states charge a fee for inquiries at the Public Registry and the Cadastre, while in some states inquiries are free of charge. In the majority of the states, information concerning fees, requirements and response times at the property registries and cadastres are available on the internet. However, this is not the case in Zacatecas, where this information is not available, or in Oaxaca, where only the registry's response times are published.

ENFORCING CONTRACTS

Resolving a commercial dispute takes, on average, 276 days and costs 26.2% of the claim value. The average score in the quality of judicial processes index is 9.8 over a total of 18 points. Globally, the process takes half the time than in high-income OECD countries—538 days—and has a higher cost—21.1%.

The level of efficiency between states is heterogeneous, and the process may be as fast as in Campeche and Guanajuato, where it takes 160 and 178 days respectively, or as slow as in Baja California Sur and Tlaxcala—with 453 and 455 days. Service of process is still fastest in Guanajuato thanks to process efficiency and the monitoring system implemented at their central notification office (*central de actuarios*), while in one third of the states a month or more is still required. The oral trial proceedings take from 2.5 months in Campeche and Estado de Mexico, where one and six specialized courts on commercial matters are operating respectively, to 10 months in Tlaxcala, where two courts concurrently hear both civil and commercial cases. Enforcement is still fastest in Zacatecas and slowest in Baja California Sur, partially because claim service of process is still slow.

The areas analyzed by the quality of judicial processes index depend on both local regulations and federal laws. The largest variation between states is lies in the indices on court infrastructure and judicial proceedings as well as the case management index. Nuevo Leon and the Estado de Mexico are the states that have come closer to the best performing economies globally. Concerning the case management index, some local judiciaries stand out for their advanced electronic systems to support case management by judges and litigants. Estado de Mexico and Quintana Roo, with 5.5 points in this index, add to the only five world economies with 5.5 points over 6 possible points.

PROMOTING REGULATORY IMPROVEMENT THROUGH PEER-TO-PEER LEARNING AT A LOCAL LEVEL

Analyzing and comparing the different regulations existing in a country can be an appropriate way of identifying good regulatory practices and promoting reforms. For example, it is much easier and cost-effective for officials at the Department of Urban Development of Guanajuato to learn how a geographic information system was implemented in San Luis Potosi than in Singapore. The implementation of a tool that already operates efficiently in a similar context where the same language is spoken and similar regulatory frameworks are in place is, in the majority of cases, a simpler process.

Mexico is an example in this respect. In the past edition of *Doing Business in Mexico*, a consultation with municipal and state public officials from the 32 states showed that peer-to-peer learning continues to be one of the most efficient tools for reform. In addition, the *Doing Business in Mexico* series and the bi-annual meetings organized by the Federal Commission for Regulatory Reform (COFEMER) were identified as the best sources of good practices in the country. The results of a similar consultation carried out for this edition concerning the reform process again show that the states that have made the most efforts to contact others have made the most progress towards best practices. The average number of inquiries made by Jalisco, Estado de Mexico and Puebla, for example, were 23 across all the indicators. Forty-six per cent of all contacts were related to the registering property indicator, 21% with the dealing with construction permits indicator, 18% with the starting a business indicator and 15% with the enforcing contracts indicator²³.

During the last few years, interactions between states and municipalities to learn from one another have played a relevant

role in the transfer of good practices to those states that are lagging behind (figure 1.6). If the evolution of the indicators analyzed in this report is observed from 2007 to 2009, the performance of the quartile of states that are lagging behind has moved closer to the performance of the other states in 3 of the 4 indicators, although there is still a wide performance gap between them. Even though both groups have made consistent progress towards the best international practices, in enforcing contracts, this reduction has not narrowed the gap between the 2 groups. Similarly to the Mexican experience, other OECD countries such as Poland have generated regional information exchange opportunities concerning good practices and reform processes encouraged by the results of a recent subnational *Doing Business* study. Technical assistance programs were started in two regions of the country to improve their performance in business startup and construction permitting.

The performance differences that still persist among the states show a great learning potential between them. If the best practices observed in the 32 states were applied to Mexico City and Monterrey, their overall results would substantially improve in 3 of the 4 areas (figure 1.7).

The results of this study provide a good opportunity for municipal, state and federal governments to continue improving their country's business climate. This report identifies improvement opportunities and good local practices in each one of the analyzed areas (table 1.3). However, the exchange of good practices need not be limited to the country. For example, the best Mexican practice in starting a business is not competitive at an international level because, when transferred to the global ranking, it would rank in the 67th position. On the other hand, in those states that have already implemented the best national practices in one or more indicators, the learning potential on a national basis is limited. In

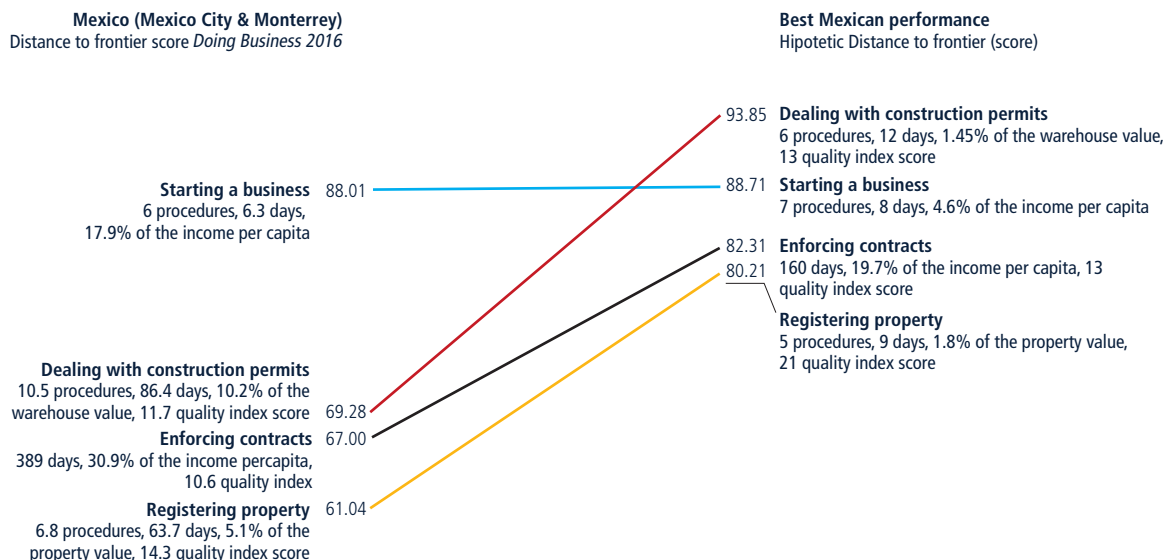
FIGURE 1.6 Today the states lagging behind are closer to the best global practices than in 2007, although there is still a wide performance gap between them



Note: The dealing with construction permits indicator was measured for the first time in 2009. The data for the enforcing contracts indicator in 2007 is not comparable with previous years because in 2008 substantive methodological changes were introduced to this indicator.
 Source: Doing Business database.

these cases, the adoption of good practices from other countries could encourage governments to be more ambitious in the modernization of their regulatory framework. Reforms that are exclusively restricted to the implementation of superficial improvements will not be enough to substantially improve the business climate. Large-scale reforms, such as the reform carried out in contracts enforcement through the implementation of oral commercial proceedings, are the ones that can bring Mexico to the level of the best performing economies at an international level.

FIGURE 1.7 If the best practices observed in the country were implemented, Mexico's results at an international level would improve in all areas



Note: The data for Mexico City and Monterrey is updated as of December 31, 2015.
 Source: Doing Business database.

TABLA 1.3 Summary of reforms to improve the ease of *Doing business in Mexico*²⁴

Suggested reforms	Involved agencies
Starting a business	
<ul style="list-style-type: none"> Prepare the digitization process Streamline and eliminate procedures Make the use of notaries optional for starting a business Reduce the cost of registration at the Public Registry 	<p>Federal level:</p> <ul style="list-style-type: none"> Ministry of Economy Tax Administration Service Mexican Social Security Institute <p>State level:</p> <ul style="list-style-type: none"> Public Registry of Commerce Ministry of Finance <p>Municipal level:</p> <ul style="list-style-type: none"> Municipalities: Treasury
Dealing with construction permits	
<ul style="list-style-type: none"> Align the requirements established by law to those actually required in practice Make quality controls before and during construction more efficient Monitor the certifications and authorities of directors responsible for construction works and strengthen and apply penalty systems Streamline the process to obtain a construction completion certificate Create an institutional memory at municipalities and join process streamlining efforts with those of other government levels Improve the coordination and cooperation between different agencies through the implementation of one-stop shops 	<p>State level:</p> <ul style="list-style-type: none"> State water and sewerage companies <p>Municipal level:</p> <ul style="list-style-type: none"> Municipalities: departments of urban development and construction projects Municipal water and sewerage companies <p>Others:</p> <ul style="list-style-type: none"> Private water and sewerage companies Professional associations (architects and engineers)
Registering property	
<ul style="list-style-type: none"> Link the Public Registry and the Cadastre Modernize the judicial framework to support the use of information technologies Digitize the Public Registry document archive and close physical books Expand the coverage of the Public Registry and the Cadastre Standardize the regulation governing registry and cadastre functions at a national level Make standardized sales contract documents available at a national level 	<p>Federal level:</p> <ul style="list-style-type: none"> Ministry of Agrarian, Territorial and Urban Development <p>State level:</p> <ul style="list-style-type: none"> Public Property Registry Ministry of Finance <p>Municipal level:</p> <ul style="list-style-type: none"> Cadastre Municipal Finance Area <p>Others:</p> <ul style="list-style-type: none"> Notaries
Enforcing contracts	
<ul style="list-style-type: none"> Periodically monitor court caseloads and court performance Analyze the option of implementing electronic claim filing (e-filing) Implement the use of electronic service of process Make judicial resolutions public 	<p>Federal level:</p> <ul style="list-style-type: none"> Legislative Power <p>State level:</p> <ul style="list-style-type: none"> Judiciaries

NOTES

- FMI World Economic Outlook (WEO) Update, July 2016: Uncertainty in the Aftermath of the UK Referendum.
- UN Comtrade database. Data for 2015.
- The Global Competitiveness Report 2015-2016. <http://reports.weforum.org/global-competitiveness-report-2015-2016/>; Hall and Jones 1999; Caselli 2005; Gourinchas and Jeanne 2006.
- OECD Compendium of Productivity Indicators 2016.
- OECD Compendium of Productivity Indicators 2016.
- The Global Competitiveness Report 2015-2016. <http://reports.weforum.org/global-competitiveness-report-2015-2016/>
- World Economic Forum, Mexico Country Profile. <http://www3.weforum.org/docs/gcr/2015-2016/MEX.pdf>.
- The 17 municipalities having a Regulatory Reform Committee are Tijuana, La Paz, Campeche, Tuxtla Gutierrez, Torreon, Tlalnepantla de Baz, Celaya, Guadalajara, Monterrey, Puebla, Queretaro, Cancun, San Luis Potosi, Culiacan, Hermosillo, Veracruz and Merida.
- The Micro, Small and Medium-Size Enterprise Support Fund (*Fondo de Apoyo para la Micro, Pequeña y Mediana Empresa - FONDO PYME*) is an instrument designed to support companies through the funding of programs and projects fostering the creation, development, viability, productivity, competitiveness and sustainability of SMEs.
- The global *Doing Business 2016* report covers 11 indicators in 189 economies. The indicators refer to a scenario in the largest business city in each economy, with the exception of 11 countries, including Mexico, whose population adds up to more than 100 million inhabitants. There, *Doing Business* collects information concerning the second largest business city.
- Aguascalientes, Campeche, Celaya, Mexico City, Colima, Cuernavaca, Culiacan, Guadalajara, Monterrey, Oaxaca de Juarez, Pachuca de Soto, Puebla, Queretaro, Tijuana, Tlalnepantla de Baz and Torreon.
- See Exhibit: Pilot measurement of the obtaining a water and sewerage network connection indicator.
- For more information concerning the Independent Panel on *Doing Business*, see the website <http://www.dbrpanel.org/>
- For more details, see section What is changing in *Doing Business*?
- See sections About *Doing Business* and *Doing Business in Mexico 2016*, Data notes, and the list of collaborators in the Acknowledgments section.
- The building quality index for the dealing with construction permits indicator, the quality of land administration systems index for registering property and the quality of judicial processes index for enforcing contracts.
- The comparative analysis has been carried out with the 25 municipalities covered in both the *Doing Business in Mexico 2016* report and

the Survey on Regulatory Reform, Governance and Good Government in the Main Mexican Municipalities, prepared by the Center for Private Sector Economic Studies (*Centro de Estudios Economicos del Sector Privado - CEESP*). The impact of unofficial payments was calculated based on 4 indicators: 1. Percentage of surveyed companies to which an unofficial payment was requested during the last procedure carried out 2. Percentage of companies to which an unofficial payment was requested during the most recent procedure. 3. Percentage of companies to which an unofficial payment was requested last year when completing formalities at their municipalities. 4. Percentage of companies knowing another company in the locality to which an unofficial payment was requested.

18. See section What is changing in *Doing Business?* for more information on the impact of the new methodology on the ranking.
19. Aguascalientes, Colima, Mexico City, Estado de Mexico, Guanajuato, Guerrero, Oaxaca, San Luis Potosi, Tlaxcala and Yucatan. In *Doing Business in Mexico 2014*, registration at the Public Registry of Commerce and the Federal Registry of Taxpayers was performed as a single procedure in these states. Today, two procedures are necessary.
20. Campeche, Chiapas, Coahuila, Guerrero, Queretaro, Quintana Roo, San Luis Potosi and Sonora.
21. In contrast to previous reports, three interactions (procedures) are considered when an inspection is required to resolve a procedure: 1. Applying for the procedure; 2. Receiving the inspection; 3. Obtaining the procedure at the responsible agency. Previously, two interactions were considered: 1. Applying for and obtaining the procedure; 2. Receiving the inspection.
22. These are also known as Responsible Construction Works Experts in some cities (*Peritos Responsables de Obra*).
23. This information was collected based on questionnaires distributed after each one of the meetings held with officials from the 32 Mexican states.
24. The reforms included in the table are detailed at the end of each one of the chapters devoted to each indicator.