

Overview

Mexico is a country open to international trade. It has already signed 11 free trade agreements with 43 economies.¹ The advantages of Mexico as an open market are multiplied by the opportunities offered by its internal market of more than 112 million people. Mexico is the 11th largest economy worldwide in terms of gross domestic product and the second in Latin America.² Since Mexico is not the only country promoting an attractive business environment, it is more important than ever that it continues to improve its competitiveness. A failure to do so would be a missed opportunity. Business regulations are especially relevant because they are implemented by the government and have an immediate impact.

Doing Business measures and tracks changes in the regulations as they apply to domestic small and medium-size companies. Mexico

City represents Mexico in the annual *Doing Business* report, which compares 183 economies worldwide. However, entrepreneurs across Mexico face different regulations and local practices depending on the state and city where they do business. Therefore, regulatory improvements require the coordination of the 3 levels of government: federal, state and municipal, and the support of the legislative and judicial bodies, as well as key stakeholders, such as notaries. In 2005, in an effort to examine this regulatory diversity, the Office of the President requested a study that would go beyond Mexico City. This led to the creation of the *Doing Business in Mexico* subnational series. *Doing Business in Mexico 2012* is the fourth report in this series.

The results comparing 31 states and Mexico City are presented here (table 2.1). It is easiest to do business in Colima, followed by

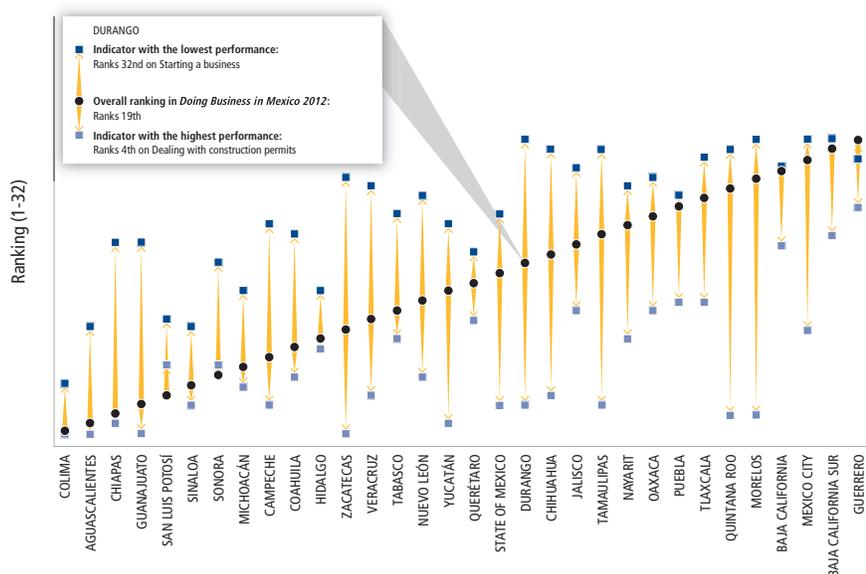
Aguascalientes and Chiapas. Colima implemented reforms making it easier to do business in the 4 areas measured in the report and climbed to first place for the first time.

It is still faster and cheaper to start a business in Guanajuato, while in Colima it is easier to deal with construction permits. Registering property is easiest in Aguascalientes, and enforcing contracts is less complicated in Zacatecas than in any other state.

Some states, such as Colima, Hidalgo and San Luis Potosí have a relatively consistent performance across the 4 areas measured in *Doing Business in Mexico 2012*; others are characterized by wide variation across the indicators. For example, in Durango, Quintana Roo and Tamaulipas it is relatively easier and cheaper for an entrepreneur to obtain a construction permit than it is in the other states, but more difficult to start a business (figure 2.1). Differences across areas of business regulation provide an opportunity for policy makers interested in regulatory reform. In addition, research suggests that business regulation reforms may have a greater impact if combined with effective regulation in other areas.

Another measure used to determine how much has been achieved is to compare each state against its own past performance over time. Since 2006, each of the states has reduced the time it takes to start a business. Eighteen states and Mexico City reduced time by more than half (figure 2.2). Likewise, for 23 states, administrative or digitalization improvements in public registries have cut time by 32% on average, from 44 to 30 days between 2006 and 2011 (figure 2.3). In Jalisco, Quintana Roo, Sinaloa and Tamaulipas, time was reduced by almost 70%.

FIGURE 2.1 For some states uneven performance across areas reveals potential for further improvement



Note: The figure illustrates the highest and lowest topic rankings per state for each of the 4 indicators in *Doing Business in Mexico 2012*. Source: *Doing Business* database.

TABLE 2.1 Where is it easier to do business in México?

State	Overall ranking <i>Doing Business in Mexico 2012</i>	Overall ranking <i>Doing Business in Mexico 2009*</i>	Starting a business	Dealing with construction permits	Registering property	Enforcing contracts
Colima	1	6	6	1	3	2
Aguascalientes	2	1	12	2	1	3
Chiapas	3	2	21	6	2	11
Guanajuato	4	3	1	7	7	21
San Luis Potosí	5	8	8	9	9	13
Sinaloa	6	4	10	12	10	4
Sonora	7	12	18	8	8	19
Michoacán	8	11	9	16	6	9
Campeche	9	9	17	23	4	8
Coahuila	10	7	22	10	22	7
Hidalgo	11	14	11	16	14	10
Zacatecas	12	5	28	16	11	1
Veracruz	13	17	5	27	5	22
Tabasco	14	13	24	11	15	15
Nuevo León	15	21	7	26	13	16
Yucatán	16	22	2	20	23	17
Querétaro	17	15	20	13	17	19
State of Mexico	18	28	4	24	17	24
Durango	19	16	32	4	30	5
Chihuahua	20	10	30	31	12	5
Jalisco	21	25	16	16	29	14
Tamaulipas	22	18	31	4	26	18
Nayarit	23	23	26	14	27	11
Oaxaca	24	26	14	28	16	27
Puebla	25	19	15	25	19	26
Tlaxcala	26	24	19	15	20	30
Quintana Roo	27	20	27	3	31	28
Morelos	28	27	3	32	24	31
Baja California	29	31	25	29	21	23
Mexico City	30	32	12	20	32	29
Baja California Sur	31	29	23	22	28	32
Guerrero	32	30	29	30	25	25

Note: Rankings for all states are current as October 2011.

*The overall rankings for *Doing Business in Mexico 2009* are based on the 4 indicators measured and reflect data corrections.

Source: *Doing Business database*.

An analysis of Enterprise Surveys conducted by the World Bank in 7 Mexican states³ shows the correlation between the ease of enforcing a contract and productivity: in Coahuila, Jalisco and Nuevo León, where resolving a commercial dispute is more efficient, labor productivity for small and medium-size businesses is higher than in Mexico City, Puebla, the State of Mexico and Veracruz, where commercial litigation is less efficient (figure 2.4).⁴ The productivity of large companies is not affected. Large companies have more resources and are less prone to the adverse effect of business deals delayed by pending litigation. Large companies can also afford to seek justice through arbitration, which is faster, although more expensive. For a small company, a long and costly trial could mean the difference between staying afloat or going under. When dispute resolution is less efficient, small and medium-size entrepreneurs

may be forced to do business transactions only with people they know, limiting their dealings to a few businesses, curtailing competition and deterring labor productivity.

Other studies show the relationship between regulatory burdens and economic informality in Mexico.⁵ Informality comes at a cost: firms in the informal sector grow more slowly, have poorer access to credit, weaker protection of property rights and employ fewer workers — and their workers remain outside the protections of labor law. Regulatory improvements in Mexico have already had a significant impact. The effect of improving the business start-up process with the enactment in 2003 of the *Sistema de Apertura Rápida de Empresas* (SARE) increased the number of registered business by 5% and employment by 2.2%.⁶ Likewise, the effects of SARE were greater

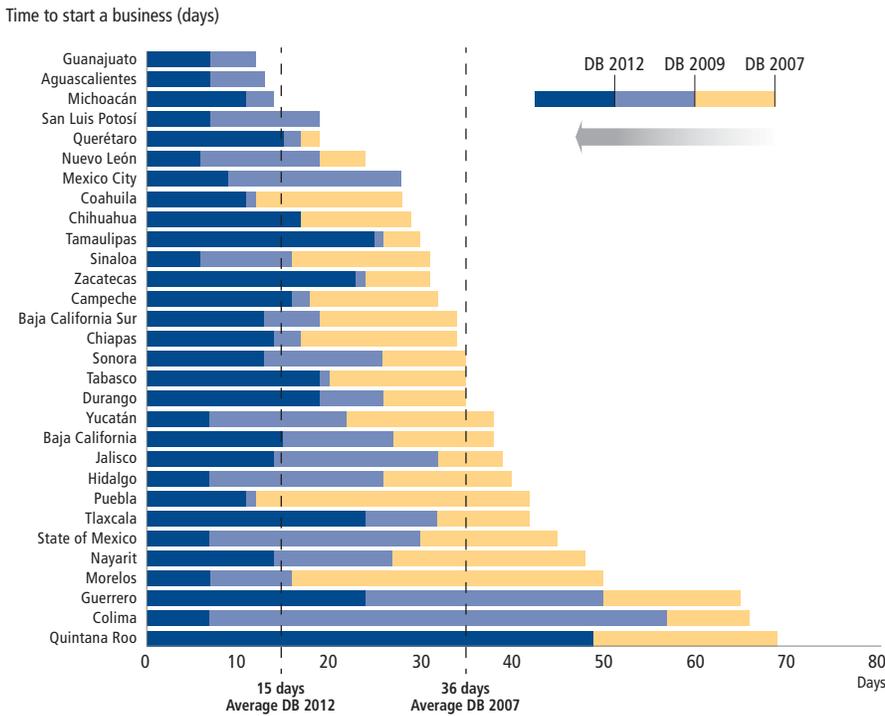
in states with less burdensome additional start-up procedures.⁷

FEDERAL REFORMS

In August 2009, the Ministry of Economy launched the online one-stop shop *tuempresa.gob.mx*. The site allows entrepreneurs to obtain authorization for a company name and to make relevant payments online; the entrepreneur has the option to create a draft of the deed of incorporation and choose the notary. Finally, the notary files the deed of incorporation online with the Public Registry of Commerce and obtains the Federal Tax Registration (*Registro Federal de Contribuyentes*). Today, starting a business in Mexico City requires 3 fewer procedures and can be completed in 9 days (figure 2.5). This reform required the coordinated efforts of 13 different offices at all 3 government levels: federal, state and municipal. The *Asociación Mexicana de Secretarios de Desarrollo Económico* (AMSDE) —the institution that coordinates the Economic Development Secretaries or its equivalent in the states— has been an ally in implementing the new online system *tuempresa.gob.mx*.

In April 2010 the Ministry of Economy began to prepare a draft decree to amend the company law (*Ley General de Sociedades Mercantiles*) to eliminate the minimum capital requirement for limited liability companies. The reform, in force as of January 1 2012, enables entrepreneurs to freely determine the amount of initial capital in the deed of incorporation. This amendment is aimed not only at placing Mexico at the level of countries like France, Germany or Malaysia, but also at benefiting small companies for whom complying with a minimum capital requirement represented a burdensome entry barrier. The same reform also amends the Foreign Investment Law (*Ley de Inversión Extranjera*), which shifted the power to authorize company names from the Ministry of Foreign Affairs to the Ministry of Economy. This provision, which comes into effect in June 2012, will concentrate all the procedures required to start a business with the Ministry of Economy, in its capacity as manager of the online one-stop shop *tuempresa.gob.mx* site and responsible of the Public Registry of Commerce.

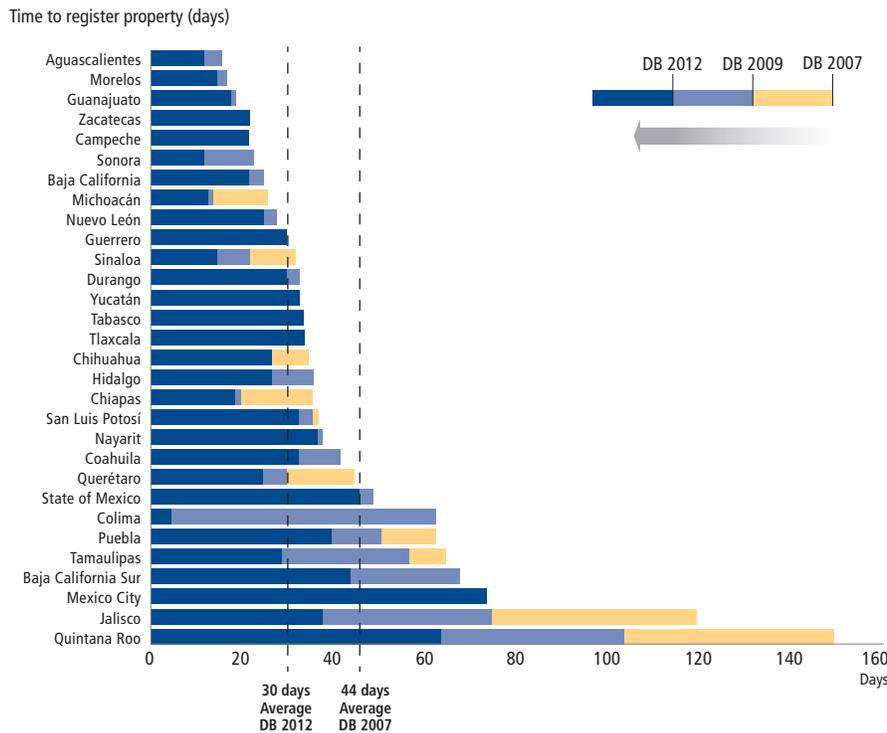
FIGURE 2.2 Since 2006, 18 states and Mexico City reduced by the half the time it takes to start a business



Note: The states of Veracruz and Oaxaca are not included, as the cities of Coatzacoalcos and Salina Cruz were replaced in *Doing Business in Mexico 2012* by Veracruz and Oaxaca de Juárez, respectively.

Source: *Doing Business* database.

FIGURE 2.3 In the last 5 years Jalisco, Quintana Roo, Sinaloa and Tamaulipas reduced by half the time to register property



Note: The states of Veracruz and Oaxaca are not included, as the cities of Coatzacoalcos and Salina Cruz were replaced in *Doing Business in Mexico 2012* by Veracruz and Oaxaca de Juárez, respectively.

Source: *Doing Business* database.

STATE AND MUNICIPAL REFORMS

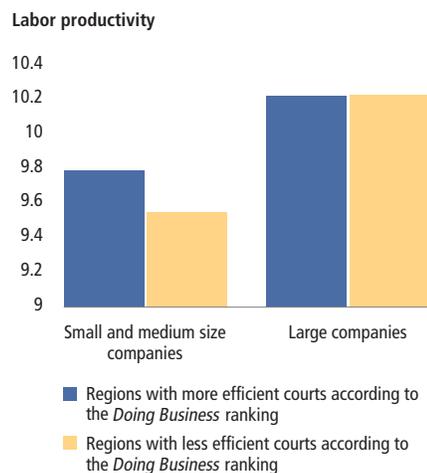
The Federal Commission for Regulatory Improvement (COFEMER, *Comisión Federal de Mejora Regulatoria*) has actively participated in the process of regulatory improvement. As of today, 20 states have a Regulatory Improvement Law (*Ley de Mejora Regulatoria*)⁸ and 8 others have legal frameworks for economic promotion, with tools and strategies to foster regulatory improvement.⁹

Doing Business in Mexico 2007 reported that 9 of the 12 states measured for a second time implemented reforms in at least one of the areas. Two years later, the reform process accelerated and *Doing Business in Mexico 2009* showed that 28 of the 31 states made it easier for companies to start-up and operate. As of this year's report, and for the first time, *Doing Business in Mexico 2012* shows improvements in 100% of the states (table 2.2). Overall, the State of Mexico was the state that most improved since 2009, climbing 10 places in the ranking. Colima had the largest improvement on starting a business and registering property; Michoacán in dealing with construction permits; Chiapas and Yucatán in enforcing contracts.¹⁰

All of the states introduced reforms in at least one of the topics: 18 states made reforms in 2 indicators —mostly in starting a business and registering property— and 6 states implemented reforms in 3 indicators, including dealing with construction permits or enforcing contracts. One state, Colima, improved in all 4 areas.

Improvements in Colima are the result of a wide reform plan that began in 2009 with a program that sought to turn Colima's government into "the most efficient in Mexico."¹¹ Each government office was required to send their goals to the state government. From these objectives, 60 high-impact "leading projects" were initially chosen. Thereafter, actionable items were identified, including designation of the responsible managers, as well as final dates for completion. For example, one of the projects was aimed at granting free internet access to the entire population of the state. Another project's goal was to launch e-government to allow citizens and businesses to complete procedures online. Different actors from the private and public

FIGURE 2.4 Efficient courts are associated with greater labor productivity for small and medium-size businesses



Source: Doing Business database and Enterprise Surveys.

sector were involved in the implementation of these reforms. In one instance, the public registry and the labor unions agreed on a collaboration framework to digitalize the property registry and reduce its backlog. As a result of the reforms, starting a business in Colima now takes 50 days less than in 2009; notaries may complete all property registration procedures online in 5 days; obtaining a construction permit is easier in Colima than anywhere else in Mexico, and enforcing a contract is more efficient than it was 3 years ago, due to reforms that improved the time for service of complaints.

Chiapas, Michoacán, Nuevo León, Sonora, Tamaulipas and Yucatán follow Colima closely, having implemented reforms in 3 of the areas measured. In Chiapas, for example, implementation of the electronic municipal SARE in 2010 has allowed entrepreneurs to start procedures and track their progress online. It is also the first state to create a platform to connect municipal and federal procedures under *tuempresa.gob.mx*, so that in the future the process could be done fully online. The inspection system for new constructions has been simplified through greater delegation of responsibilities and tasks to the architect. Regarding contract enforcement, the enactment of a new code in 2009 for the organization of the judiciary, has strengthened compliance with procedural time limits.

Obtaining a construction permit has been simplified, especially the procedures for pre-construction approvals. The municipality of Colima no longer requires builders to provide additional information in separate procedures prior to filing a construction permit application. Instead, the municipality consults their databases for the information. Nuevo León and San Luis Potosí combined several preconstruction procedures into one. Other improvement strategies have enabled one-stop shops to handle multiple construction-related procedures, like in Sonora. It is now also possible to rely on electronic databases to locate properties and determine land use, like in Yucatán, and other strategies include streamlining inspections by delegating greater responsibilities to private architects and engineers.

With regard to enforcing contracts, states have mainly dealt with internal organization issues by providing training for judges and incorporating technology to improve the performance of judicial officers. These reforms have focused on reducing the time for notifying a lawsuit, considered a bottleneck in the proceedings. Campeche, Tamaulipas and Yucatán created specialized offices for notifying officers, streamlining the notification process. These 3 states reduced on average the time to notify a complaint by 48%. Chiapas, Michoacán and Hidalgo strengthened their oversight departments, improving the performance of judicial officers and the compliance with procedural deadlines.

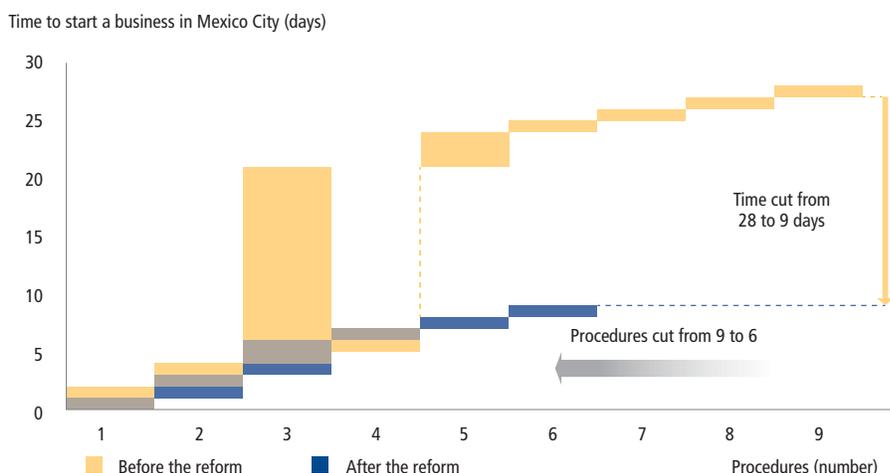
COMPARING REGULATION ACROSS THE 31 STATES AND MEXICO CITY

Starting a business using either the federal website *tuempresa.gob.mx* or the traditional method makes a significant difference: the number of procedures required to open a company can range between 5 and 8. In Sinaloa a company can be created in 6 days using the website, while in Quintana Roo, where the site is not used, it takes 49 days to start a business. The cost to open a business ranges from almost 6.0% of income per capita in Campeche, to 26.6% in Baja California. This variation is mainly driven by the notary fees and the registration fees at the Public Registry of Commerce.

Obtaining approvals to build a warehouse and connect it to public utilities (water, sewage and telephone) is, on average, faster, simpler and cheaper in Mexico than in other Latin American countries. However there are considerable differences among Mexican cities, where a builder may take 8 steps to obtain a building permit in Colima or 16 in Chihuahua. Another source of wide variation between states is the time and cost involved to request and obtain water and sewage services: from 7 days and MXN 19,765 (\$1,430) in Durango to 63 days and MXN 67,367 (\$5,260) in Nuevo León.

The number of procedures required to register property ranges from 4 in Campeche, Hidalgo and Tlaxcala to 10 in Guerrero and

FIGURE 2.5 Business start-up simplification gets a boost with the online one-stop shop *tuempresa.gob.mx*



Note: Data refers to Mexico City, which represents Mexico in the Doing Business global report. Source: Doing Business database.

TABLE 2.2 All states introduced reforms in at least one area				
States	Starting a business	Dealing with construction permits	Registering property	Enforcing contracts
Aguascalientes	✓			✓
Baja California	✓		✓	
Baja California Sur	✓		✓	
Campeche	✓			✓
Chiapas	✓	✓		✓
Chihuahua	✓	×		
Coahuila	✓		✓	
Colima	✓	✓	✓	✓
Durango	✓			
Guanajuato	✓			
Guerrero	✓			
Hidalgo	✓		✓	
Jalisco	✓		✓	
Mexico City	✓	✓		
Michoacán	✓	✓		✓
Morelos	✓		✓	
Nayarit	✓			
Nuevo León	✓		✓	✓
Oaxaca	✓			
Puebla	✓		✓	
Querétaro	✓		✓	
Quintana Roo	✓		✓	
San Luis Potosí	✓	✓		
Sinaloa	✓		✓	
Sonora	✓	✓	✓	
State of Mexico	✓		✓	
Tabasco	✓		✓	
Tamaulipas	✓		✓	✓
Tlaxcala	✓		✓	
Veracruz	✓			
Yucatán	✓	✓		✓
Zacatecas	✓			

✓ Reform making it easier to do business

× Reform making it more difficult to do business

Notes: Reforms took place between July 2008 and October 2011. In *Doing Business in Mexico 2012* the cities of Coatzacoalcos in Veracruz and Salina Cruz in Oaxaca were replaced by the cities of Veracruz and Oaxaca de Juárez, respectively.

Source: *Doing Business* database.

Yucatán. Differences are based on the number of certificates and documents required to register property. Colima modernized and digitalized its systems and reduced requirements, cutting the time to only 5 days. In Baja California Sur and Mexico City it takes up to 44 and 74 days, respectively. And the cost may range from 1.7% of property value in Chiapas to almost 6% in Morelos. These differences are mainly caused by transfer taxes, registration and notary fees, and additional taxes charged at a municipal and state level.

The number of procedures required for enforcing contracts is practically the same in all the Mexican states; however, the time and cost required to solve a commercial dispute can vary greatly. While in Chihuahua and Sinaloa it takes 290 days, the same case in Mexico City and in Morelos can take almost

4 to 6 months longer. Likewise, the cost of litigation goes from 20.6% of the claim value in Aguascalientes to 36.3% in Oaxaca. The states that are faster are also the least costly. In the 16 states where contract enforcement is slower, the parties pay 4% more of the claim value than in the other 16 states with more efficient contract enforcement.

LEARNING FROM EACH OTHER

If a hypothetical city called “Mejtlán de Juárez” adopted the good practices of this report, it would rank 20 out of the 183 economies measured in *Doing Business 2012*, 33 places ahead of Mexico’s ranking (table 2.3). Mejtlán de Juárez would be ahead of Colombia, Germany and Peru on the ease of starting a business. As regards the ease of complying with formalities to build a warehouse and connect it to water and sewage

utilities, the city would rank first among 183 economies, thanks to the combination of new technologies in government offices and reduced costs for the different procedures. It would be simpler to register property in this hypothetical city, than in the United States, and enforcing contracts would be more efficient than in the Netherlands.

States such as Sonora aspire to implement good practices to achieve the results of this hypothetical city of Mejtlán de Juárez. In a series of regular meetings, Sonora has already contacted 9 states to exchange information and learn about online procedures, one-stop shops, the use of remote access technology and other programs that have been successful in other states. The strategy worked. Sonora implemented reforms in 3 of the 4 areas and jumped 5 places on the overall ranking. Other states, such as Guanajuato, sent a working group to Aguascalientes to learn about the construction permitting process and Hidalgo visited Puebla to learn about its one-stop shop. Hidalgo, Morelos, Puebla and Querétaro maintain constant communications and try to meet every 2 months to share their experiences and improvement plans (table 2.4).

TABLE 2.3 Good practices in Mexico compared internationally	
	Global ranking (183 economies)
Number of procedures to start a business: Nuevo León, Sinaloa (5 procedures)	33
Days to start a business: Nuevo León, Sinaloa (6 days)	17
Cost to start a business: Campeche (6.0% of income per capita)	63
Number of procedures to deal with constuction permits: Colima (8 procedures)	6
Days to deal with constuction permits: Colima, Durango (27 days)	3
Cost to deal with constuction permits: Aguascalientes (17.6% of income per capita)	21
Number of procedures to register property: Campeche, Hidalgo, Tlaxcala (4 procedures)	25
Days to register property: Colima (5 days)	10
Cost to register property: Chiapas (1.7% of property value)	34
Number of procedures to enforce a contract: Campeche, Coahuila, Colima, Durango, Jalisco, Nayarit, Sonora, Yucatán, Zacatecas (37 procedures)	75
Days to enforce a contract: Nuevo León (236 days)	7
Cost to enforce a contract: Aguascalientes (20.6% of the claim)	46

Source: Doing Business database.

TABLE 2.4 States seeking to learn good practices				
State	Number of states contacted	States contacted	Areas covered	Frequency of meetings
Aguascalientes	5	Baja California, Colima, Guanajuato, Querétaro and San Luis Potosí	Starting a business Registering property Enforcing contracts	Once a year
Baja California	2	Jalisco and Sinaloa	Starting a business	Every 2 months
Chiapas	1	Guanajuato	Starting a business Enforcing contracts	Once a month
Durango	5	Baja California, Colima, Chihuahua, Jalisco and Puebla	Starting a business Dealing with construction permits Registering property	Every 6 months
Guanajuato	6	Aguascalientes, Chiapas, Guerrero, Jalisco, Querétaro and Quintana Roo	Dealing with construction permits Registering property	Every 6 months
Hidalgo	6	Mexico City, Morelos, Puebla, Querétaro, State of Mexico and Tlaxcala	Dealing with construction permits Registering property	Every 2 months
Jalisco	4	Colima, Mexico City, Puebla and Querétaro	Dealing with construction permits	Once a month
Michoacán	4	Aguascalientes, Colima, Mexico City and Sonora	Starting a business Registering property	Once a month
Morelos	7	Hidalgo, Jalisco, Mexico City, Puebla, Querétaro, Sinaloa and State of Mexico	Starting a business	Once a month or every 6 months
Nuevo León	3	Jalisco, Sinaloa and State of Mexico	Starting a business Registering property	Every 6 months
Puebla	6	Hidalgo, Mexico City, Morelos, Nuevo León, Querétaro and State of Mexico	Dealing with construction permits Starting a business	Every 3 months
Querétaro	7	Hidalgo, Jalisco, Mexico City, Morelos, Puebla, State of Mexico and Tlaxcala	Dealing with construction permits	Every 2 months
Quintana Roo	4	Campeche, Colima, Tabasco and Yucatán	Starting a business Registering property	Once a month
Sinaloa	5	Mexico City, Nayarit, Sonora, State of Mexico and Tabasco	Starting a business Dealing with construction permits Enforcing contracts	Once a year
Sonora	9	Aguascalientes, Baja California, Campeche, Chiapas, Chihuahua, Durango, Guanajuato, Jalisco and Sinaloa	Starting a business Dealing with construction permits Registering property Enforcing contracts	Once a week, month or every 6 months
Tabasco	5	Baja California, Guanajuato, Querétaro, Sonora and State of Mexico	Starting a business Registering property	Once a month
Veracruz	1	Guanajuato	Starting a business	Once a year
Zacatecas	2	Colima and Nuevo León	Starting a business Dealing with construction permits Registering property	Once a month

Note: The information was obtained through surveys sent in October 2011 and answered by state government authorities.

Source: Doing Business database.

NOTES

1. Information available at: http://www.promexico.gob.mx/en_us/promexico/Trade_agreements
2. Source: International Monetary Fund.
3. *Enterprise Surveys* provides the most comprehensive databases of firm-level data in emerging economies. The data provides information on more than 130,000 firms in 125 economies. See: <http://enterprisesurveys.org/>
4. Data on labor productivity and firm size were gathered from firm-level surveys performed between August 2009 and June 2010 in 7 Mexican states (Coahuila, Jalisco, Mexico City, Nuevo León, Puebla, State of Mexico and Veracruz). Labor productivity is defined as annual sales in the fiscal year 2009, divided by the number of employees having contracts for an indefinite term during the same period. Small and medium-sized enterprises are those with fewer than 100 employees. The states with the most efficient courts were identified as those above the median of the 7 states analyzed in accordance with the ranking of the contract enforcement indicator of *Doing Business in Mexico 2009*. Methodology details may be obtained at: <http://www.enterprisesurveys.org>
5. Linz University, Austria. 2002. Featured in the workshop of the Australian National Tax Centre, Australia, July 17, 2002.
6. Bruhn, Miriam. 2011. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." *Review of Economics and Statistics* 93(1): 382–86.
7. Kaplan, David S., Eduardo Piedra and Enrique Seira. 2007. "Entry Regulation and Business Start-Ups: Evidence from Mexico." Policy Research Working Paper 4322. Washington, DC: World Bank.
8. Campeche, Chiapas, Colima, Durango, Guanajuato, Hidalgo, Jalisco, Morelos, Nuevo León, Puebla, Quintana Roo, San Luis Potosí, Sinaloa, Sonora, State of Mexico, Tabasco, Tamaulipas, Veracruz, Yucatán and Zacatecas.
9. Aguascalientes, Baja California, Baja California Sur, Chihuahua, Coahuila, Guerrero, Nayarit and Tlaxcala.
10. An improvement in the rankings results from the difference between the previous adjusted rank and the current rank, both on the overall ranking and on each indicator.
11. Presentation by the Governor of the State of Colima, Lic. Mario Anguiano Moreno, Bogotá, Colombia, December 2011.