

## CREATING COMPETITION TO REFORM AMONG STATES – DOING BUSINESS IN MEXICO

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*Global “Doing Business” indicators have become a useful tool to attract government attention to improving the business environment in many countries, but the FIAS project took it one step further, to the subnational level. Publishing comparative data on the ease of doing business across various states in Mexico inspired many local governments to introduce swift reforms. The Doing Business in Mexico study proved to governors and mayors that by adopting simple reforms and implementing them efficiently, they can improve competitiveness and create more jobs. Lessons learned from this project can provide useful guidance for designing similar programs in other countries.*



### Project Background and Key Outcomes

In June 2005, [the Foreign Investment Advisory Service \(FIAS\)](#) received an invitation from the Mexican government to expand the global [Doing Business](#) indicators beyond Mexico City. The capital did not reflect the reality of Mexico, a federation of 31 states and the Federal District and 100 million people. The Federal Regulatory Improvement Commission (COFEMER), an institution created by law to monitor regulation in Mexico, was designated as the government counterpart. USAID agreed to provide co-financing. In collaboration with COFEMER, the team selected 12 states and four indicators—starting a business, registering property, getting credit, and enforcing contracts.

*Doing Business in Mexico* was launched at a national conference in Mexico City. The event attracted almost 500 people from all levels of government, the private sector, media, and academia. The findings were widely reported in the media and continue to be quoted in print, TV, and radio.

A wide range of reform initiatives were launched across the country, including a public-private task force in Querétaro, the worst performing state. Specific reform initiatives and good practices were shared at two nationwide conferences on regulatory improvement that brought together state and municipal officials from all over the country. Other milestones included a “*Doing Business in Mexico Workshop*” organized by the state government of Puebla and USAID in August 2006 for the poorest states, and a federal government report analyzing the burden of notary costs. The impact of the benchmarks could be leveraged thanks to the IFC LAC Advisory Services, which decided to set up a program to help selected states implement the reforms identified in *Doing Business in Mexico*.

The states not included in the pilot project lobbied to be benchmarked. They found resources to co-finance the project themselves through the Mexican Association of State Secretaries of Economic Development (AMSDE), the Ministry of Economy, and the Ministry of Foreign Affairs. As a result, [Doing Business in Mexico 2007](#) covering all 31 states and Mexico City was presented on November 15, 2006. Media coverage was even broader than the first time.

The second study captured the reforms that had taken place throughout the year. Progress had been swift: Nine of the 12 states benchmarked in 2005 and Mexico City reformed in at least one of the areas covered by *Doing Business in Mexico*. Three states—Aguascalientes, Querétaro, and Yucatán—showed improvements in three of the

four indicators measured. All reforms were administrative in nature, i.e., did not involve changes in laws or federal regulations. Nevertheless, some improvements were significant (table 1).

**Table 1. Reduction in the time to start a business**

	<b>Doing Business in Mexico 2007</b>	<b>Doing Business in Mexico 2006</b>
Aguascalientes	12	32
Coahuila	28	39
Mexico City	27	58
Guanajuato	12	29
Nuevo León	24	50
Querétaro	19	52
San Luis Potosí	19	41
Yucatán	38	47

*Note: The reforms took place between August 2005 and July 2006.*

*Source: Doing Business database*

## **Lessons Learned: How Bringing Benchmarks to the Local Level Empowers Reformers**

### ***Bringing a global benchmark to the local level***

Three aspects contribute to the appeal of *Doing Business*:

1. It is global
2. It is easy to understand and communicate.
3. It clearly flags the bottlenecks that require reform.

Bringing this benchmark to the subnational level fills a vacuum—most measures of competitiveness compare countries; few take the local view. *Doing Business in Mexico* gave municipal and state governments the opportunity to put their specific location on the map—Monterrey could compare itself not only with other Mexican states but also directly with Shanghai or Germany.

### ***Eliminating excuses for a difficult business environment, since the solution is next door***

It was difficult to defend why Veracruz performed worse than its neighbor, Tabasco. With shared federal laws and similar regulations, municipal and state governments had a hard time explaining why it was comparatively more burdensome to do business in their location. This eliminated excuses and created incentives to reform. At the same time, *Doing Business in Mexico* offered examples of good practices available in the country; they could often be easily replicated. In many cases, no legal changes were necessary.

The “shame factor,” combined with the realization that much can be done by learning from neighbors, caught the attention of local authorities, who mobilized resources to make change happen. Since the competition to attract investment is increasingly local in a globalized world, *Doing Business in Mexico* took advantage of this rivalry to [create a positive dynamic of reform](#).

### ***Working with local partners***

It cannot be repeated enough: Local partners and local ownership are essential. With so many different locations, the project involved complicated logistics. Most importantly, it required reaching out to a large number of people, including mayors, governors, judges, as well as technical staff and a large number of lawyers.

The Mexican partner, COFEMER, had the institutional mandate and contacts to convene meetings in each location with high-level participation. During the initial road show, FIAS traveled to each of the 12 benchmarked states and presented the project to the local authorities. The message: This is a chance for you to differentiate yourselves, push regulatory reform to the top of the agenda, and help the local private sectors promote their specific location in a globalized world.

The team then asked that a local official be appointed focal point for the project. These local champions became part of the process of data collection as well as the consultation process on the preliminary results—another innovation of this project which contributed to build ownership among local governments.

Once the surveys came in and the indicators were built, the team held confidential consultations with each of the municipal and state government delegates individually. This opened a “right of reply” period during which the local governments could provide feedback and report on ongoing reforms. This period was crucial—it gave each subnational entity the chance to become familiar with the indicators and understand the methodology behind them in detail. It was also an opportunity for the states to “tell their story” about ongoing reforms not yet reflected in the quantitative data. And finally, it provided them with a space to voice frustration with the responses reported by the private sector and time to accept the findings. By the time the results were published in the press, they had become part of the reform process.



### ***Avoiding the traps of political partisanship***

Politics is always complicated, but more so in Mexico during an election year, when partisan divisions are sharp. This was extreme in the months prior to the July 2006 presidential election. Not only was being impartial important, but the perception of being so mattered as well. The team took a pragmatic approach to the topic to cut across the political divide. At the end of the day, all parties agreed on the idea of creating better conditions for firms to invest and create employment. But with the main counterpart being the federal government, the team had to be creative in figuring out a way to further cut across party lines in the tense pre-campaign period.

The solution was to engage with established groups that bring together local government representatives, regardless of their party affiliation. This includes the National Conference of Governors (CONAGO), and the Mexican Association of Secretaries of Economic Development (AMSDE). The team also ensured that the main events, such as the launching conference, included representation from all the main political parties. Paying attention to political sensitivities paid off.

### ***Getting the word out***

The team realized early on that for reforms to take shape, some noise needed to be made. An extensive media strategy was planned in advance, engaging the partners on the ground along with the World Bank Group communications network. This ensured that the story reached the local and regional media and engaged the global press in this Mexican story. The goal was to get the story out to every household, as ultimately each and every citizen is affected by these issues. The coverage in the media was extensive, both locally and globally, with coverage in print and broadcast.

### ***Leveraging impact, producing replicable and scalable results***

FIAS does not have the capacity to implement reforms single-handedly, but has to rely on partners from inside and outside the World Bank Group—including the IFC LAC TA facility, the World Bank team working on private sector development in Mexico, USAID, COFEMER, and the states themselves. Because the indicators are user-friendly, subnational governments and other donors can create their work programs around them.

## **Some Challenges**

### ***How did Doing Business in Mexico adapt the global methodology to fit local needs?***

**First** of all, not all *Doing Business* indicators capture the differences in regulations and their enforcement across subnational entities. This is why the study included only those indicators covering significant areas of municipal and state responsibility: starting a business, registering property, getting credit, and enforcing contracts. Nationwide indicators, such as the ease of employing workers, were left out.

**Second**, the project translated and “mexicanized” the surveys to make them easily understandable for local correspondents. Due to the similarity in regulations across the country, it is especially important to ensure that the respondents understand the questions and methodology correctly. This ensures that the variation in results across states reflects differences in regulations and their application, not differences in interpretation of the survey.

Repeating the benchmarking after one year allowed FIAS to use the benchmarks as a monitoring and evaluation tool and measure progress over time. This increased the pressure to reform. Once all the states have been benchmarked, annual updates will no longer be as time consuming and difficult to construct, as only the changes will have to be recorded.

### ***How to prepare a report measuring 4 topics in 31 states, available in two languages, in a period of six months?***

That was the timeline for the second edition of *Doing Business in Mexico*. The team used the lessons learned during the first report to simplify and systematize the process. Instead of extending contracts with individual lawyers in each location, a law firm in Mexico City with a strong local correspondent network was hired. The firm centralized the process of locating respondents in each city and assisted the team in the follow-up work.

In addition, the report followed the global *Doing Business* format and production mechanism, which not only provided brand recognition but also made it easier to complete the project in record time. It also ensured comparability with 175 countries and across time. The model has since been used successfully in other Latin American countries, such as Brazil, and across regions, such as the Organization of Eastern Caribbean States (OECS).

### ***Moving forward***

The challenge now is to make subnational benchmarking sustainable in Mexico. Ideally, World Bank Group involvement should decrease over time. As a first step, the methodology and production of the report need to be outsourced to a local think tank, with the WBG providing quality control.

This is currently under discussion.

#### **About the Authors**

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