

2 Mexico Case Study: Compare, Compete, Cooperate: How Sub-National Doing Business Helps Mexican States to Improve Commercial Regulations

Introduction

Sub-national and regional *Doing Business* reports capture differences in business regulations and their enforcement across locations in a single country or region. They provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas.

The *Sub-national Doing Business* report is not an end in itself, but an entry-point to kick-start regulatory reform. Over the past three years, the experience in Mexico has been a clear example of the impact of the *Sub-national Doing Business* report on state and municipal policy reforms². *Doing Business in Mexico* has been a repeated exercise which has held state governments accountable for what they do or neglect to do when it comes to policies facilitating business and wealth creation. Due to the importance and popularity the *Sub-national Doing Business* report has gained in Mexico, policymakers' incentives are now more aligned towards designing an environment conducive to business development. If states improve regulations from one benchmarking to another, the *Sub-national Doing Business* report captures them and constituents, the private sector and potential investors will be aware of progress over time. To this end, governments have more than political incentives to improve business regulations. It is now clear how investments can also be attracted if policies are simpler, cheaper and faster.

This case study examines how the *Sub-national Doing Business* report has helped Mexican state governments improve their commercial regulations. Specifically, this case study:

- Illustrates the business registration reforms in Guanajuato, Aguascalientes, Morelos, Nuevo León and Puebla, as well as how the benchmarking fostered property registration innovation in Aguascalientes.

² Municipal reforms have been undertaken based on the reports of *Doing Business in Mexico*. However, this case study will focus on the commercial reforms undertaken in Mexico at the state level.

- Shows how the indicators affected the interaction between various government agencies and federal and local government by describing the emergence of inter-agency coordination in Puebla and cooperation between the state's executive branch, legislators and technical agencies in Guanajuato.
- Describes how reforms were leveraged thanks to peer to peer learning and knowledge sharing at the bi-annual regulatory conferences organized by the Federal Regulatory Improvement Commission or through site visits to states with good practices.
- Relates how benchmarks shaped the dialogue with the private sector, as private-public partnerships in Guanajuato and Querétaro worked towards finding alternative solutions to improve the state's business regulations.

These experiences capture lessons to help inform future reforms both in Mexico and in other countries. Six of these lessons learned are summarized in the last section.

Why Conduct a Sub-National Doing Business Study?

Unlocking Reformist Potential

As Rodrik (2008) points out, real-world policymakers and reformers operate in a country-specific environment and need to keep an eye on how specific policy solutions affect a variety of stakeholders and political circumstances. International best-practices are, almost by definition, non-contextual and do not take into account these complications. The *Sub-national Doing Business* report accounts for country specific constraints and decentralizes the development process while inspiring government officials to improve their business regulations and accelerate regulatory reforms. As the Mexican experience shows, the *Sub-national Doing Business* report can act as a source of inspiration to unlock governments' reformist potential. Even though implementing regulatory reforms is a strenuous process in politically divided countries like Mexico, some initiatives can have a positive impact and foster change. Such is the case of the sub-national Doing Business project.

With almost identical federal regulations, mayors and governors have difficulty explaining why it takes longer or costs more to start a business, register property, register collateral, deal with construction permits or enforce a contract in their city or state versus their neighbors. When the first *Doing Business in Mexico* report was released in 2005, it proved to state governments that there was no need to wait for Congress to reform federal legislation. The *Sub-national Doing Business* report showed how simple administrative reforms can also make a difference at the state level and improve competitiveness.

Sub-national Doing Business projects are designed to engage local governments. Local governments participate in various stages of the project. First, local governments are invited to answer the surveys (in addition to private sector respondents). Second, once the benchmarks have been constructed, the preliminary results are presented to the local government representatives on a confidential basis at a special meeting. After this meeting, the local governments have a period of time to verify the data, provide comments and document legal, administrative and technological reforms in their jurisdictions. This period of reply creates ownership among public officials and motivates them to reform. By combining the media appeal of Doing Business with the active involvement of state governments, sub-national Doing Business inspires state level regulatory reforms.

Partnering with Local Governments

Sub-national Doing Business helps policymakers review and analyze their local regulations from a comparative perspective. Sub-national Doing Business's benchmarking triggers four mutually reinforcing activities:

1. **Competition at the state level**, by identifying regulatory and procedural differences among cities and by ranking them according to the ease of doing business.
2. **Peer-to-peer learning across states**, as sub-national Doing Business records reforms and good practices, providing a platform for states to share their experiences in order to improve their rankings the next time the *Sub-national Doing Business* report is constructed.
3. **Cooperation between different government levels and among different government agencies**, in order to simplify and centralize procedures. A good example of cooperation is the creation of one-stop-shops where users can incorporate their businesses, register property or get operation licenses at the same place.
4. **Policy innovation** within the highest ranking states, as they face the need to keep improving commercial regulations to maintain their top rank positions.

Serving as an Advocacy Tool for the Private Sector

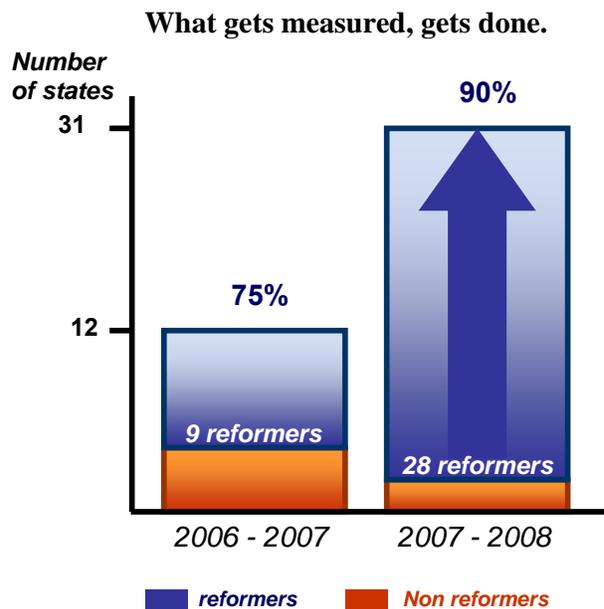
Sub-national Doing Business also benefits the private sector. For them, sub-national Doing Business is a policy advocacy tool as both the benchmarking and the detection of state best-practices allow business-people to lobby for improvements on specific business regulations at the state and federal level.

Reforming Starting a Business and Registering Property

Over the past three years, three *Sub-national Doing Business* reports have driven state level regulatory policy reforms in Mexico. In 2005, the first sub-national study compared 12 Mexican states and Mexico City. Subsequently the Mexican government became so interested in this project that it requested a second and third round of benchmarking. *Doing Business in Mexico 2007* covered all 31 states and measured the progress of the 12 states analyzed in 2005. In 2008, *Doing Business in Mexico 2009* report again compared business regulations of 31 states and the Federal District, and identified which reforms worked where, why and how.

Over the course of three years, reforms related to business entry were the most popular in Mexican states: 28 out of the 32 states carried out reforms in this area³. As a result, the average time required to start a business in Mexico has decreased from 36 to 24 days. Graph 1 presents these results:

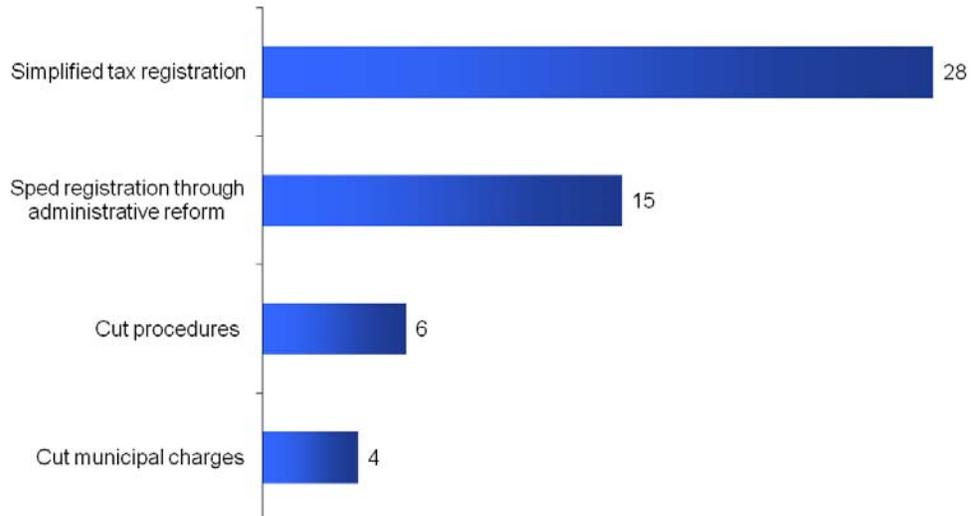
Graph 1: *Doing Business in Mexico 2006, 2007 & 2008:*



³ *Doing Business in Mexico 2009*

Graph 2 presents the specific reforms that made it easier to start a business in Mexico from 2006 to 2008.

Graph 2: Simplifying tax registration formalities: The most popular reform in Mexico.



When the first sub-national *Doing Business* report was released, it took Guanajuato 29 days to process the required paperwork to allow an entrepreneur to start a business. In 2008, to open a business in Guanajuato, she would have to wait only 12 days and pay 9% of income per capita (GNI per capita)⁴, similar to the cost and time in Turkey and Japan⁵. To make this jump Guanajuato introduced the following reforms:

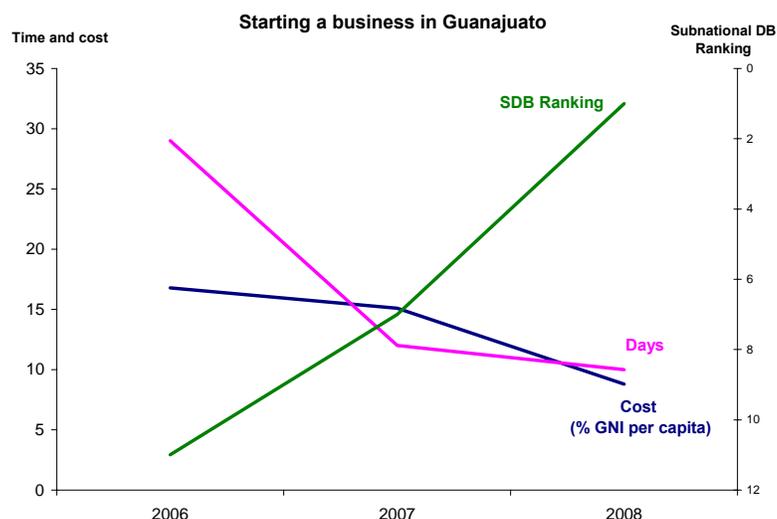
- Online business registration procedures.
- Single access points for businesses and simplified registration formalities.
- Simplified federal tax registration procedure (Registro Federal de Contribuyentes) that can now be obtained electronically at the notary.

Graph 3 shows the time and cost evolution of starting a business in Guanajuato as well as its impact on sub-national *Doing Business* rankings.

⁴ In *Doing Business in Mexico 2009*, the methodology for calculating costs was changed. Costs were computed as a percentage of GNI per capita rather than as a percentage of state-level GDP per capita. The numbers for *Doing Business in Mexico 2007* and for *Doing Business in Mexico* were back-calculated to reflect this change in methodology. The numbers presented in this case study are updated according to the GNI per capita and the change in methodology.

⁵ *Doing Business 2009*.

Graph 3: Guanajuato is the fastest city to open a business in 2008.



Other states like Aguascalientes, Morelos, Puebla and Nuevo León followed the sub-national Doing Business recommendations and reduced both the time and costs of starting a business. Aguascalientes reduced the procedural time of starting a business from 32 to 13 days from 2005 to 2008. To achieve the latter, Aguascalientes extended access to online registration, and amended the legislation to lower costs from a percentage of the initial capital to a fixed fee.

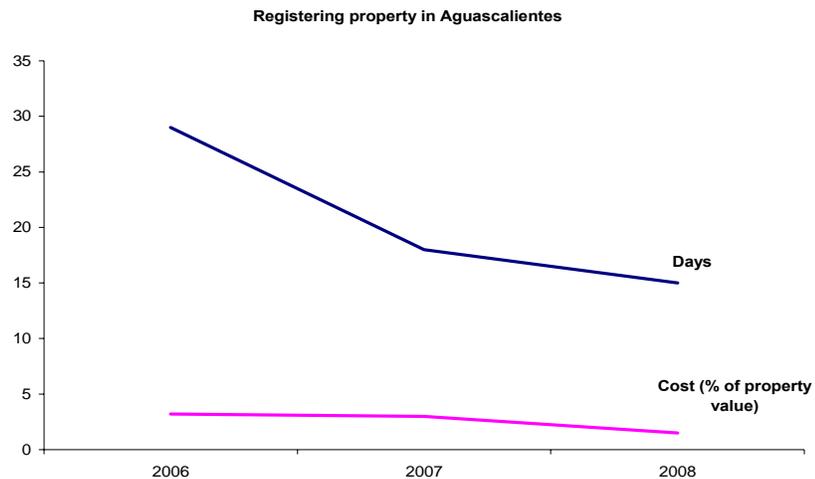
Morelos and Puebla drastically reduced the time of starting a business from 50 to 16 days and from 42 to 12 days respectively by streamlining procedures to obtain the municipal licenses, by training employees, by establishing one-stop-shops (in Spanish, *kioscos de información*) and by introducing electronic systems at the Public Registry of Commerce. Nuevo León instituted administrative reforms at the Public Registry of Commerce and streamlined payroll tax registration that led to the reduction of procedural times from 50 to 19 days from 2005 to 2008 respectively.

Nonetheless, there are still large differences across Mexico. While the aforementioned states compare well with the best in the world, others need much reform to become globally competitive. There is still a long way to go.

State comparisons and repeated benchmarking changed the way officials approach policy reform. Today, even if a state is number one on a particular indicator, its position is not secured and state governments have the incentives to continue improving the regulatory framework to maintain good rankings and stay competitive.

Property registration in Aguascalientes is a clear example of how sub-national Doing Business keeps the pressure on and therefore fosters continuous policy innovation. Noemi Carrillo from the Ministry of Economic Development in Aguascalientes mentions that “the fact that Aguascalientes was classified as the best-practice state when it comes to registering property had two critical consequences to our day-to-day work. First, we needed to be creative, as there were no other best-practice examples in Mexico that could be replicated in Aguascalientes. Second, we realized that we needed to continue working on finding new ways to improve every single day as we were facing intense state competition.⁶” Graph 4 shows Aguascalientes’ performance.

Graph 4: Aguascalientes, best practices for registering property 3 years in a row.



Over the past three years, Aguascalientes has implemented the following reforms at the Public Registry of Property in order to maintain its top position:

1. Simplified procedures by providing standardized forms.
2. Digitize procedures at the Public Registry of Property.
3. Introduced online payments.
4. Reduced transfer tax rates.
5. Signed collaboration agreements between the Public Registry and local notaries.

⁶ The findings are drawn from in-depth interviews conducted with government officials who had responsibility over the regulatory framework and implementation of policies directly related to what the *Doing Business in Mexico* report measures. Specifically, I want to thank Noemí Carrillo Villalobos, Juan Manuel Ponce Sánchez and Tania Lorena Valdez-Parga from Aguascalientes; Emilio Kanamaye León Lara from Colima; Juan Manuel Castillo Ocaña from Guanajuato; Marco Capetillo Rabling from Hidalgo; José Salvador Chavez Ferruzca, Efrén Flores Ledesma and Jorge Robles Farías from Jalisco; Hugo Gama Coria from Michoacán; Daniel Bautista Contreras from Morelos; Francisco Almalaguer from Nuevo León; Victor Díaz Ortiz and Lucía Sánchez from Puebla; Juan M. Navarrete Resendiz from Querétaro; Sonia Nájera Hernández from San Luis Potosí; Morayma Yaseen Campomanes from Sinaloa; and Mónica Zárate from Zacatecas. As senior managers and decision-makers, these officials have intimate knowledge of their state business environment, an in-depth understanding of technical and political considerations, and an institutional memory. As such, their first-hand experience of how the *Doing Business in Mexico* unfolded in their respective states provides a unique perspective on the impact that can be attributed to the *Doing Business in Mexico*.

Ranked for three years in a row as the state where it is easiest to register property, Aguascalientes has continuously found ways to reduce both time and procedural costs.

But innovation can present unforeseen challenges. According to Tania Lorena Valdez, in charge of policy reform at the Ministry of Economic Development in Aguascalientes, one challenge faced while trying to modernize the Public Registry of Property was raising awareness among stakeholders. First, they needed to convince public officials of the importance of reducing the time and cost of property registration: “Some officials were not so willing to change procedures or give up the revenues associated with the old system” said Mrs. Valdez. Second, once reforms were made, it proved difficult to get users to take advantage of the newly designed system: When the sophisticated electronic system to register property was finally ready to be used, nothing was happening. Entrepreneurs kept using traditional registration procedures, physically carrying documents from one place to another, because they were not aware that there was an electronic system available to register properties via remote access. “We had to promote greater use of the system, so that entrepreneurs could benefit from the reform” mentions Mrs. Valdez.

An advertising campaign was needed to publicize the improvements and highlight the new registration process to entrepreneurs. Unfortunately, officials had allocated the resources available to improve the property registration process itself and left nothing to spend on public awareness campaigns. Mrs Valdez and her team are currently working on ways to raise funds to conduct a proper awareness campaign across the state

Charting a New Course by Working Together

The *Doing Business in Mexico* reports became a tool to overcome the culture of confrontation. The *Doing Business* brand, and its sub-national version, offered objective and credible analysis free of political manipulation.

Officials indicated that because the sub-national Doing Business rankings stemmed from a neutral third-party organization such as the World Bank, it became possible to bridge political differences and to work collaboratively on specific policy bottlenecks. Daniel Bautista, from the regulatory improvement commission of Morelos, highlights how the majority of states around Mexico were pursuing reforms to improve the business environment using the sub-national Doing Business methodology. According to Mr. Bautista, discussions and consultations took on a different tone after the first *Doing Business in Mexico* report was issued: “Governments disagreed with many aspects of the sub-national Doing Business indicators, but now their actions were focused on either correcting errors or re-engineering processes that would either assimilate or surpass good practices in the indicators measured by the *Sub-national Doing Business* report”.

After *Doing Business in Mexico*, consensus among government officials was easier to achieve. Discussions focused on specific policy alternatives rather than broad and ambiguous political ideals. “The credibility of the data, the neutrality of the Doing Business brand and the competition among states were critical to enable discussions focused on improving business regulations rather than “philosophical debates”, says Hugo Gama from the Regulatory Improvement Commission of Michoacán.

Mobilizing and Allocating Resources for a Targeted Intervention

With limited budgets and competing reform agendas, officials found the sub-national Doing Business methodology helpful in assessing the relationship between the costs of reforms and the benefits in terms of increased policy efficiency, reduction in costs and time for entrepreneurs and increased economic activity within a state. As Carlos Estrada from the Ministry of Economic Development of Michoacán noted, “*Sub-national Doing Business* allowed for sharp-shooting reforms instead of scattered and uncoordinated initiatives.” Additionally, Emilio Kanamaye, from the regulatory improvement commission of Colima, noted that the most important contribution made by *Sub-national Doing Business* was to enable states to transcend from a purely local perspective to a national and global vision.

Sub-national Doing Business also facilitated the transition from an “isolated” mindset to a cost-benefit analysis “integrated” mindset where stakeholders’ needs and interests are considered, and where the government is conscious of its role and the impact of its decisions on the state’s economic growth. To this end, the benchmarks provided a simple way to understand and easy to communicate framework to establish an M&E agenda. This is now helping states in Mexico to monitor and evaluate their performance over time.

Inter-Agency Solutions to Reform the Regulatory System

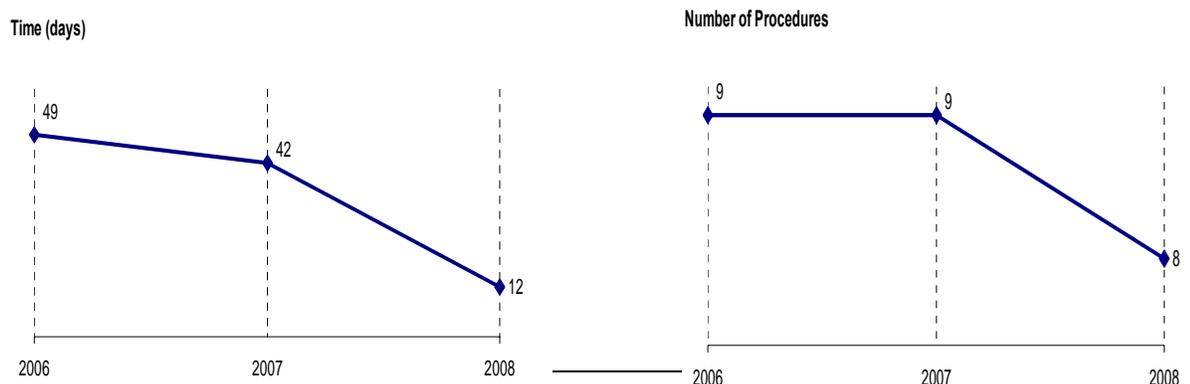
Countries can be reluctant to improve business regulations based on international rankings. For instance, when Mexico compares itself to Thailand, it is easy to claim that differences are due to different cultures, legal backgrounds, and political environments. However, when a state government performs worse than its neighboring state in the same country, then it is not as easy to blame outside factors. “Naming and shaming” poor performers fosters competition and puts regulatory reform at the top of the political agenda.

The state of Puebla offers an illustration of the “name and shame” effect. When the first *Doing Business in Mexico* report ranked Puebla among the lowest ranked states, officials were shocked and initially rejected the results. However, the fact that the analysis came from an objective third party made all the difference. In the end, politicians and government officials grew to accept the World Bank analysis as neutral and free of political manipulation. Without a doubt, as portrayed by Lucía Sánchez, from the Ministry of Economic Development of Puebla, the first *Doing Business in Mexico* report was a critical driver of change and of the subsequent competitive reforms implemented in the state.

Based on the sub-national Doing Business results, the government of Puebla prepared a briefing note on the issues that were driving its poor performance. Among the most pressing issues were the regulations related to starting a business. Specifically, this note presented a proposal to establish single access points for businesses and how to introduce simple and standardized incorporation documents. The proposal was widely disseminated to stakeholders who had dealt with several policy problems, such as the Association of Notaries, the Ministry of Economic Development, the Ministry of Justice, and the Bar Association. The sub-national Doing Business results turned out to be critical in reaching consensus among different interest groups and in designing a reform strategy for business regulations in Puebla. The findings served to educate stakeholders on the importance of efficient business regulations and focused the discussions on solutions to clearly defined obstacles. As Mrs. Sánchez stated, “The *Sub-national Doing Business* report identified the main problems Puebla was facing related to business regulations, and from there onwards we started finding our own solutions.”

Overall, according to the Ease of Doing Business ranking, Puebla moved from position 28 in 2007 to position 19 in 2008. By introducing electronic systems at the Public Registry of Commerce and Property and by establishing a one-stop-shop⁷ Puebla has now the second position as the state where it is easiest to start a business⁸. Graph 5 shows the progress made by Puebla over the past three years.

Graph 5: Starting a Business in Puebla gets easier and faster.



⁸ Source: *Doing Business in Mexico 2009*.

Consultation is Key

The Law of Regulatory Reform in Guanajuato is a specific example of how states are working towards improving business regulations in a cooperative manner⁹. This law is an attempt to codify the regulatory reform process and it sets the precedent that regulatory improvement is now mandated by law. Guanajuato's law has four critical features:

1. It requires a consultative process that must include citizens and municipal governments.
2. It introduces the use of electronic systems for government-related procedures, paving the way for greater efficiency state-wide.
3. It distinguishes between low, medium and high risk businesses and defines different regulatory processes and requirements based on risk classification.
4. It provides sanctions for violations such as administrative penalties or suspensions to public officials that do not abide by this law¹⁰.

In drafting the law, Guanajuato drew extensively on the *Doing Business in Mexico* report and the sub-national Doing Business -inspired reform process in the state. As Juan Manuel Castillo of the Regulatory Improvement Office of Guanajuato stated, "the *Doing Business in Mexico* report was a key piece of the government's lobbying effort to gain passage of the law. The government of Guanajuato drew on the benchmarks to convince skeptical legislators, and justified the law with all political parties in Congress."

According to Castillo, the sub-national Doing Business recommendations were also a critical source of inspiration during the legal drafting of the law. Like Guanajuato, there are now 11 other states that have approved laws on regulatory reform.

Peer to Peer Learning and Knowledge Sharing

Over the past three years *Doing Business in Mexico* has fostered cooperation among states. The comparative nature of sub-national Doing Business unleashed a new interest in conducting site visits among states in order to learn about the reforms that produced the most significant improvements and examine what practices accounted for a state's top rank on the ease of doing business.

⁹ *Ley de Mejora Regulatoria para el Estado de Guanajuato y sus Municipios*, published in the Official Register in May 2007.

¹⁰ *Ley de Responsabilidades Administrativas de los Servidores Públicos del Estado de Guanajuato*, articles 13-19.

Aguascalientes, the state which consistently ranks number one on the ease of doing business in Mexico, has been visited by more than half of all Mexican states. They came to observe firsthand the practices that earned Aguascalientes the top rank on the ease of doing business in three consecutive reports. Durango, Oaxaca, Guerrero, Estado de Mexico, and Jalisco have visited Guanajuato to learn how to improve the overall sub-national Doing Business ranking in the period between the first to the second *Sub-national Doing Business* report¹¹. Nuevo León, Puebla and Sonora also traveled to other states in order to analyze first hand specific practices, find ways to cooperate with their neighboring states and learn together.

Peer to peer learning is becoming common practice. When it comes to registering property, for instance, both San Luis Potosí and Chiapas have introduced a bar code to allow computerized tracking of property records based on Aguascalientes' best practices. As a result, Chiapas became the second best state on the ease of registering property as recorded by *Doing Business in Mexico 2009*. Aguascalientes also benefited from this peer-to-peer cooperation; it simplified the registration process and reduced registry fees based on Yucatán's best-practices, as uncovered by the *Sub-national Doing Business* report.

In addition, the role of the bi-annual conference organized by the Federal Regulatory Improvement Commission (COFEMER) has proven to be a critical platform to foster peer-to-peer cooperation and best-practices sharing. Because of its importance and relevance to policy reforms in Mexico, the *Sub-national Doing Business* report is now a standard feature of the agenda. COFEMER invites every state in Mexico to present their experiences and lessons learned from the sub-national Doing Business reforms in plenary sessions.

COFEMER's bi-annual conferences have proven useful to share even survey completion strategies. Sonia Nájera, from the Regulatory Improvement Commission of San Luis Potosí, recalls how one of her colleagues voiced his frustration about how difficult it was to answer the sub-national Doing Business surveys. On the other hand, Sonia could tell her colleagues how her state's regulatory improvement commission convened specialized groups of stakeholders (banks, registries and lawyers) to help San Luis Potosí's government respond to the survey accurately, rather than relying on its own means. What shocked Sonia's colleagues the most was that San Luis Potosí was able to respond rapidly and effectively, even though its resources were less abundant than those at the disposal of wealthier states like Nuevo León, Quintana Roo or Mexico City.

¹¹ According to the Starting a business indicator, Guanajuato jumped from position 11 in 2006 to position 1 in 2008 as a result of reforms undertaken during 2007.

Shaping the Dialogue With the Private Sector

The *Doing Business in Mexico* report also helped transform the interaction between state governments and the private sector. It was a change in the institutional process by which governments manage, analyze, design and implement reform strategies related to competitiveness and business regulations. Never before has the private sector been so actively involved and considered in the policymaking process.

Reform strategies are now designed through an improved participatory process. In many cases, it was the first time that stakeholders were engaged in brainstorming and formulating solutions with the state government. Governments engaged the private sector and interested professional associations (such as notaries, lawyers, financial press) in specific problems, which in turn led to productive discussions focused on resolving specific problems. These participatory processes were unprecedented for three key reasons:

1. They were organized around highly specific policy problems, the ones generated by the sub-national Doing Business data.
2. State governments moved from a defensive to a proactive position, as proponents of solutions and not as passive observers who reacted to criticisms levied by the private sector.
3. The *Sub-national Doing Business* report allowed inter-agency coordination to rationalize redundancies in specific problems being addressed. One-stop shops in Colima, Querétaro and Nuevo León are a clear example.

This new form of engaging stakeholders generated a sense of purpose and trust, and officials noted that it has carried through to other policy areas of government. The sub-national Doing Business process represented a new way of formulating public policy, one whose advantages are seen in the results and new trust that has been developed between state governments and the private sector.

The state of Querétaro offers an illustration of the extent of private sector involvement in policy design. After the publication of the first report, Querétaro convened working groups with wide representation of interested stakeholders (universities, municipal and federal governments, chambers of commerce, business leaders, notary associations) to evaluate the sub-national Doing Business indicators and propose alternative solutions.

Through the working groups, and based on the sub-national Doing Business data that was discussed, both the Querétaro government and stakeholders learned the reasons why practice and regulation did not always match. Only then were they able to work collaboratively on finding common solutions. While recalling this experience, Juan M. Navarrete of the regulatory improvement commission of Querétaro noted that “without the sub-national Doing Business framework, no dialogue would have taken place and reforms would not have benefited from the stakeholders’ input”.

More importantly, after the second *Doing Business in Mexico 2007* report, business leaders recognized the impact of their participation in reversing the state’s negative rankings. Both government and the private sector recognized the mutual benefit of working collaboratively on reform efforts. In addition, Navarrete was keen to point out that Querétaro’s reform process was not limited to a pure sub-national Doing Business -reform process. Rather, competitiveness issues were at the top of the government’s agenda from the start, and sub-national Doing Business provided a sound framework to move from policy discussions on the state’s economic competitiveness to concrete reform actions that have produced visible results to the private sector.

In Guanajuato the government engaged the business community early on to help shape its reform strategy and initiatives. The consultation process was built on informal but well-planned mechanisms to engage relevant stakeholders, with the Council on Regulatory Reform being its official body.

Because of the significant impact that stakeholder consultations had on the results and the success of the reform efforts, the new 2007 Law of Regulatory Reform established a formal mechanism for stakeholder engagement. The law institutionalized the Council on Regulatory Reform into a formal consultation process, thus making stakeholder engagement an integral task of future reform packages.

Conclusion: Lessons Learned

Lesson 1: It’s All About Commitment

Commitment is the key to regulatory reform. For many states the reforms captured by the *Sub-national Doing Business* report reflect a broader, sustained commitment to improving their competitiveness. Aguascalientes, Guanajuato and Puebla are good examples of how long-term commitment towards reform can lead to policy innovation in property registration and reduce the time and costs of business entry. Several reformist states, such as Aguascalientes, were motivated by the competitive pressure to attract investors. And others saw a need to facilitate local entrepreneurship, like Puebla or Guanajuato. Some states needed inspiration from others in order to commit. Aguascalientes followed Yucatán’s experience in simplifying the registration process and reducing fees at the Public Registry of Property. In 2007/08 San Luis Potosí and Chiapas followed Aguascalientes’s example of introducing a bar code to allow computerized tracking of property records.

Lesson 2: Have a Credible Source of Information

It is critical to have a neutral third party to move from confrontation to cooperation. The objectivity of the sub-national Doing Business benchmarking allowed state governments to tackle specific reform areas and to escape from the deeply politicized environment that characterizes the federal government in Mexico. No single set of best practices will serve the needs of all countries at all times, but the sub-national Doing Business detection of national best practices has proven critical to accelerate business regulation reforms in Mexico.

Moreover, even though in theory private sector development was a priority for all state governments, reform efforts were not subjected to rigorous evaluation or public scrutiny, nor was there a basis for comparing strategies pursued by other states. The first *Sub-national Doing Business* report changed all that. The fact that it took 94 days to register property in Querétaro while the same process, under the exact same regulatory framework, took 29 days in Aguascalientes meant that local governments had the power to undertake radical reforms. Querétaro set a target of meeting or surpassing the existing best practice, thereby aligning its resources to meet this goal. Without the comparative and detailed sub-national Doing Business analysis, governments would not have pushed for the types of reforms that were carried out nor would they have prioritized or designed the types of programs that were and are being implemented.

Lesson 3: Focus, Focus, Focus

In order to increase competitiveness, state governments need to design comprehensive, yet focused reform strategies. Focus is essential, since governments lack the capacity to fix all problems at once. Focus is one of the most important lessons that can be drawn from the reforms in Mexico. The key is to focus on tackling one type of reform at the time; develop it and then move on to the next reform. It is important to begin with “the low hanging fruit”—e.g. administrative reforms related to starting a business, for example, then move to regulations and legislation related to e.g. registering property before taking on the bigger challenge reforming the tax system. One step at a time.

For instance, many states focused solely on reforming business registration processes. According to Noemi Carrillo, from the Ministry of Economic Development of Aguascalientes, it was difficult not to become distracted by all the procedures affecting the private sector. “So many areas for improvement exist, creating a strong temptation to try to fix everything,” says Ms. Carrillo.

Lesson 4: Build Stakeholder Engagement

Business regulation reforms require state governments to lead an intense but arm's-length relationship with the private sector. The sub-national Doing Business data allowed governments to establish formal and informal mechanisms of consultation with business associations and chambers of commerce. By focusing on the *Doing Business in Mexico* report, state governments moved from confrontation to cooperation as they were able to gain the support of various stakeholders while designing the state's reform strategy. As Juan Naverrete stated, "we got entrepreneurs to join the reform effort instead of being disengaged and constantly criticizing the government's efforts."

Top reforming state governments were also able to establish broader communication strategies with citizens. Through consultations, information campaigns, and newly established structures—such as Guanajuato's Entrepreneurial Service Center—governments reached out to citizens to visibly demonstrate a change in service culture and to show that government was delivering results that citizens cared about. Officials pointed out that seeking and using the feedback of citizens constitutes a new culture being adopted by governments in Mexico. To many officials interviewed, sub-national Doing Business has been a clear case of how this new culture of transparency and participation leads to an improved business environment.

Lesson 5: Design a Marketing Strategy

The fifth lesson is related to communicating reforms. Reforms are critical, but to generate the desired impact, people need to know about them. Communicating reforms is as important as implementing reforms. "We realized that many people did not know about the simplified process and were still trying to register via the old system," Mrs. Valdez remembers. "We weren't persistent enough in our marketing campaign – and without continuity, the campaign had only limited effectiveness. Currently, we are designing a new, extended communication campaign at both the municipal and state level to encourage small businesses to join the formal sector" mentions Mrs. Valdez.

Lesson 6: Hold Officials Accountable for Specific Reforms

The Mexican experience allows us to appreciate the impact of simple benchmarking on reforms and the importance of the “name and shame” phenomenon in holding governments accountable. Much of the press coverage generated by the first and second *Sub-national Doing Business* report stemmed from the striking performance and cost differentials among states despite the exact same regulatory framework. National and state media gave wide coverage to the reports, highlighting the differences among cities made for good press. Many officials interviewed noted that it generated embarrassing coverage, but ultimately resulted in strong political commitment for reform initiatives. They also pointed out that the *Doing Business in Mexico 2007* report was crucial in making senior government leaders realize that failure to act would be reflected in future reports, with perhaps even more embarrassing media attention.

In the case of Nuevo León, media interest did not cease with the release of the *Sub-national Doing Business* reports. Financial and economic journalists kept asking officials for progress on business environment and jobs creation reforms. This attention further reinforced the support of senior decision makers, and in part it helped to sustain the government’s commitment and budgetary allocations to continue with the reform program.

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