

A World Bank Group Flagship Report

14<sup>TH</sup> EDITION

# Doing Business 2017

Equal Opportunity for All

Economy Profile 2017

**Mexico**



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## INTRODUCTION

*Doing Business* sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation. *Doing Business 2017* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on labor market regulation indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies, from Afghanistan to Zimbabwe, over time. The data set covers 48 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 25 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 32 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Mexico. To allow useful comparison, it also

provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June 1, 2016 (except for the paying taxes indicators, which cover the period January–December 2015).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2017* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2017*, are available on the *Doing Business* website at <http://www.doingbusiness.org>.

## CHANGES IN *DOING BUSINESS 2017*

As part of a three-year update in methodology, *Doing Business 2017* expands further by adding postfiling processes to the paying taxes indicator, including a gender component in three of the indicators and developing a new pilot indicator on selling to the government. Also, for the first time this year *Doing Business* collects data on Somalia, bringing the total number of economies covered to 190.

The paying taxes indicator is expanded this year to include postfiling processes – those processes that occur after a firm complies with its regular tax obligations. These include tax refunds, tax audits and tax appeals. In particular, *Doing Business* measures the time it takes to get a value added tax (VAT) refund, deal with a simple mistake on a corporate tax return that can potentially trigger an audit and good practices with administrative appeals process.

This year's *Doing Business* report presents a gender dimension in four of the indicator sets: starting a business, registering property, enforcing contracts and labor market regulation. Three of these areas are included in the distance to frontier score and in the ease of doing business ranking, while the fourth—labor market regulation—is not.

*Doing Business* has traditionally assumed that the entrepreneurs or workers discussed in the case studies were men. This was incomplete by not reflecting correctly the *Doing Business* processes as applied to women—which in some economies may be different from the processes applied to men. Starting this year, *Doing Business* measures the starting a business process for two case scenarios: one where all entrepreneurs are men and one where all entrepreneurs are women. In economies where the processes are more onerous if the entrepreneur is a woman, *Doing Business* now counts the extra procedures applied to roughly half of the population that is female (for example, obtaining a husband's consent or gender-specific requirements for opening a personal bank account when starting a business). Within the registering property indicators, a gender component has been added to the quality of land administration index. This component measures women's ability to use, own, and transfer property according to the law. Finally, within the enforcing contracts indicator set, economies will be scored on

having equal evidentiary weight of women's testimony in court.

Also for the first time this year *Doing Business* collects data on Somalia, bringing the total number of economies covered to 190.

For more details on the changes, see the "Old and new factors covered in *Doing Business*" section in the Overview chapter starting on page 1 of the *Doing Business 2017* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 114 of the *Doing Business 2017* report. For more details on the distance to frontier metric, please see the "Distance to frontier and ease of doing business ranking" chapter in this profile.

## THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 190 by the ease of doing business ranking. *Doing Business* presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to two decimals. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. (See the chapter on the distance to frontier and ease of doing business).

The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

The 10 topics included in the ranking in *Doing Business 2017*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The labor market regulation indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in the economy profile.

### ECONOMY OVERVIEW

Region: Latin America & Caribbean

Income category: Upper middle income

Population: 127,017,224

GNI per capita (US\$): 9,710

DB2017 rank: 47

DB2016 rank: 45\*

Change in rank: -2

DB 2017 DTF: 72.29

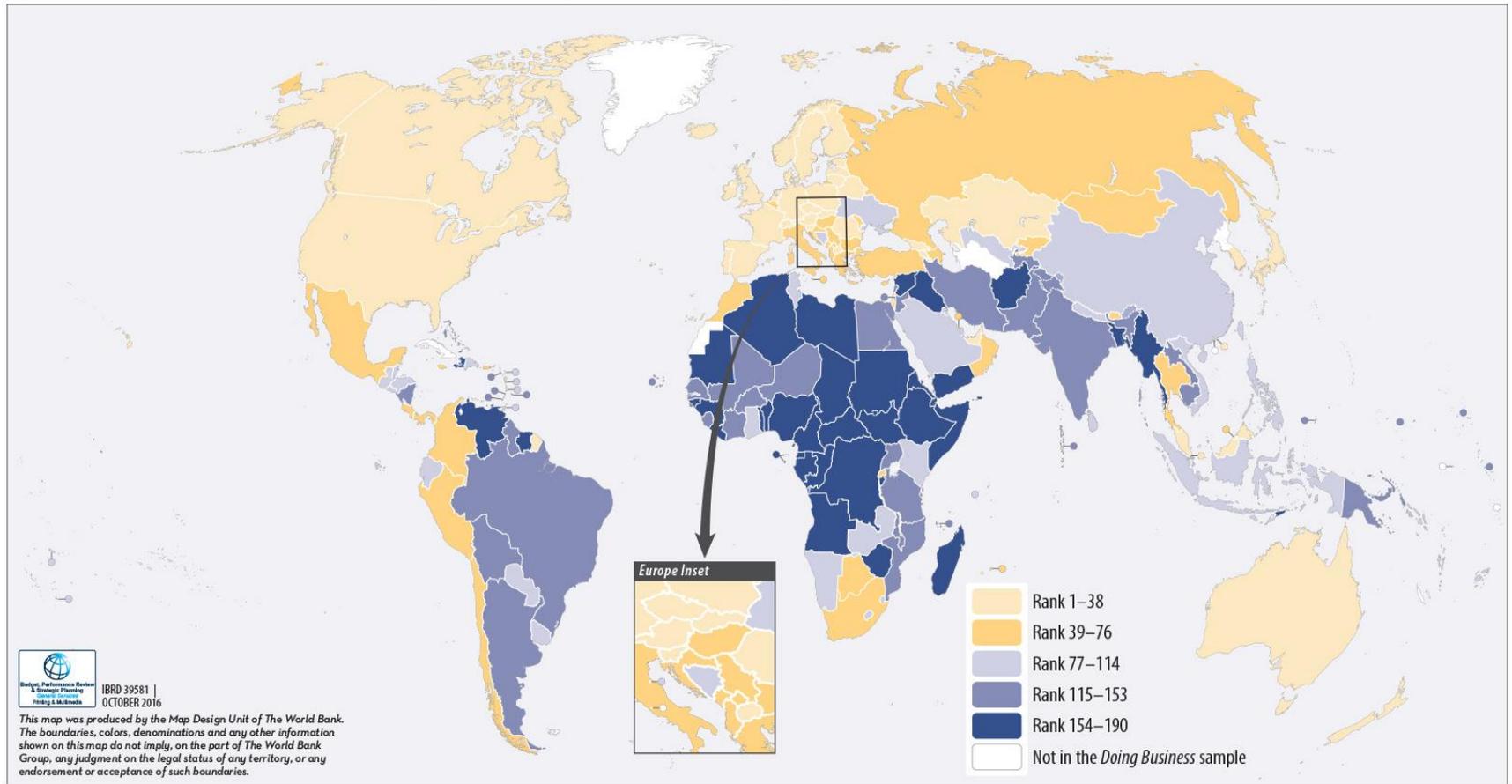
DB 2016 DTF: 71.95

Change in DTF: 0.34

\* DB2016 ranking shown is not last year's published ranking but a comparable ranking for DB2016 that captures the effects of such factors as data revisions and the changes in methodology. See the data notes starting on page 114 of the *Doing Business 2017* report for sources and definitions.

### THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business



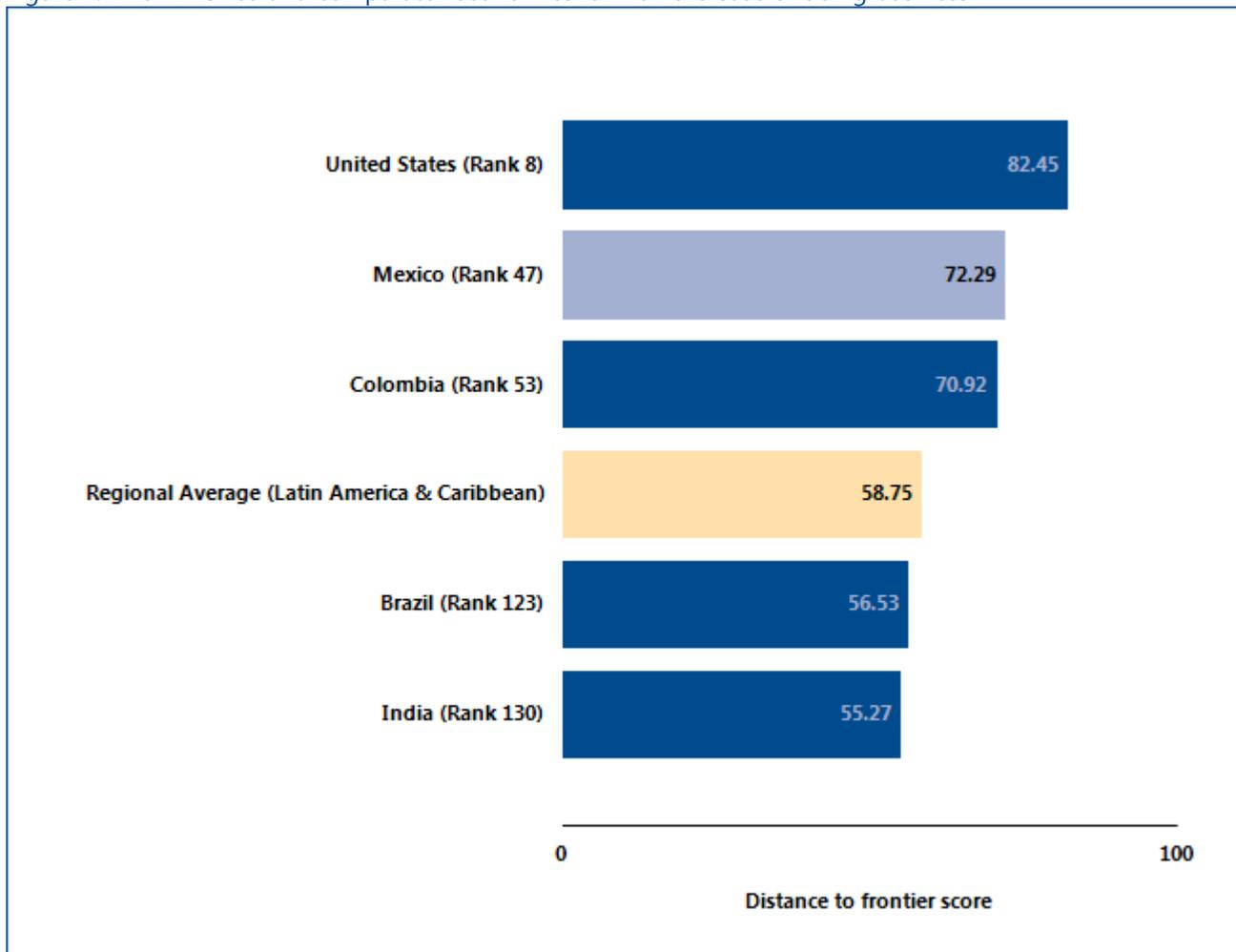
Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and relative to the

regional average (figure 1.2). The economy's rankings (figure 1.3) and distance to frontier scores (figure 1.4) on the topics included in the ease of doing business ranking provide another perspective.

Figure 1.2 How Mexico and comparator economies rank on the ease of doing business



*Note:* The rankings are benchmarked to June 2016 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.

*Source:* *Doing Business* database.

## THE BUSINESS ENVIRONMENT

Figure 1.3 Rankings on *Doing Business* topics - Mexico  
 (Scale: Rank 190 center, Rank 1 outer edge)

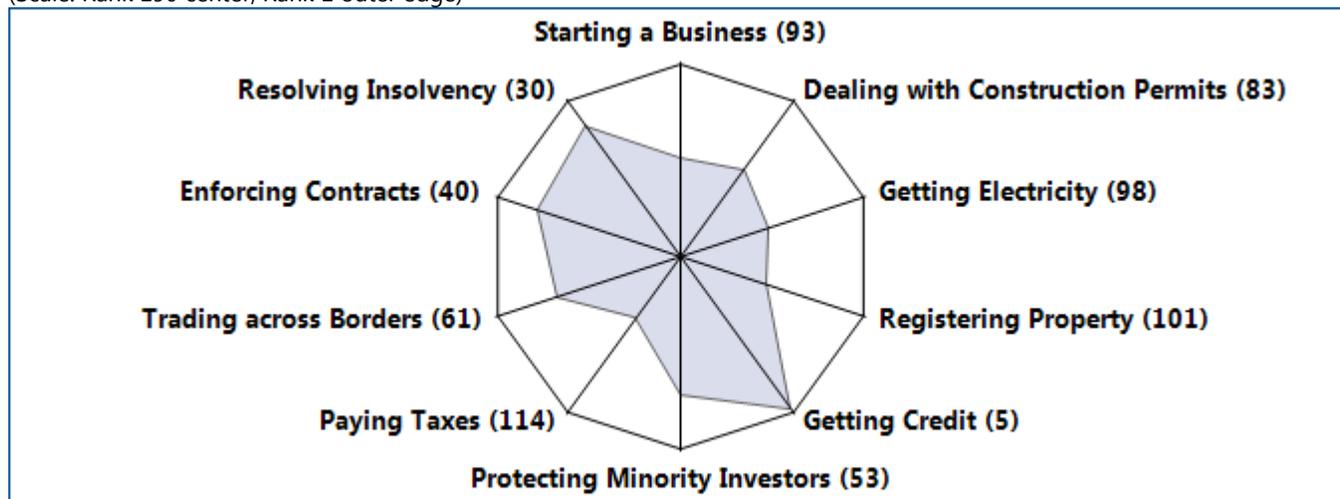
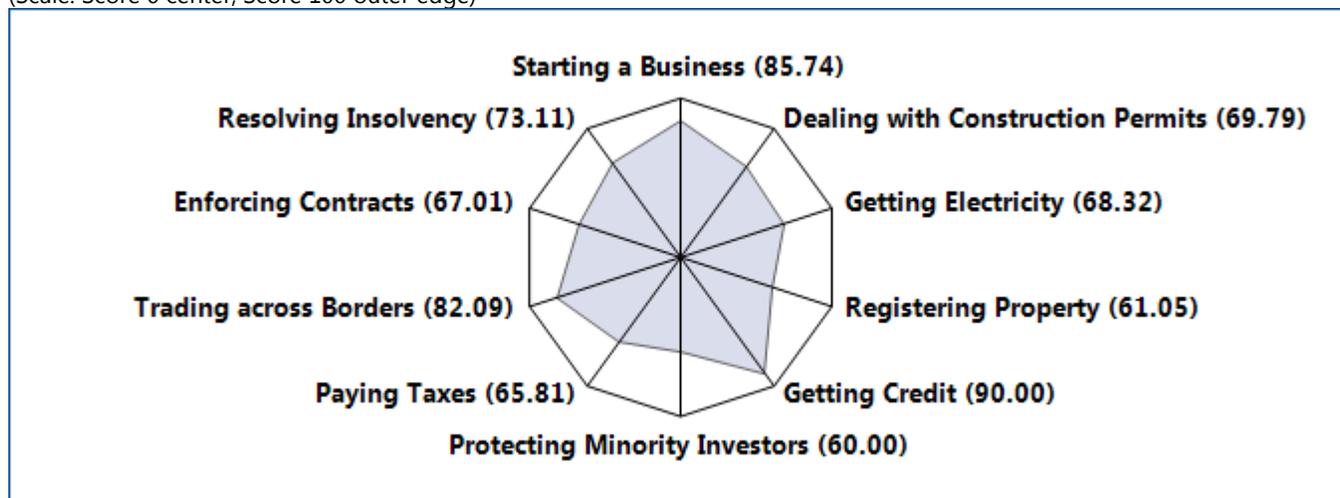


Figure 1.4 Distance to frontier scores on *Doing Business* topics - Mexico  
 (Scale: Score 0 center, Score 100 outer edge)



Source: *Doing Business* database.

Note: The rankings are benchmarked to June 2016 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.

## THE BUSINESS ENVIRONMENT

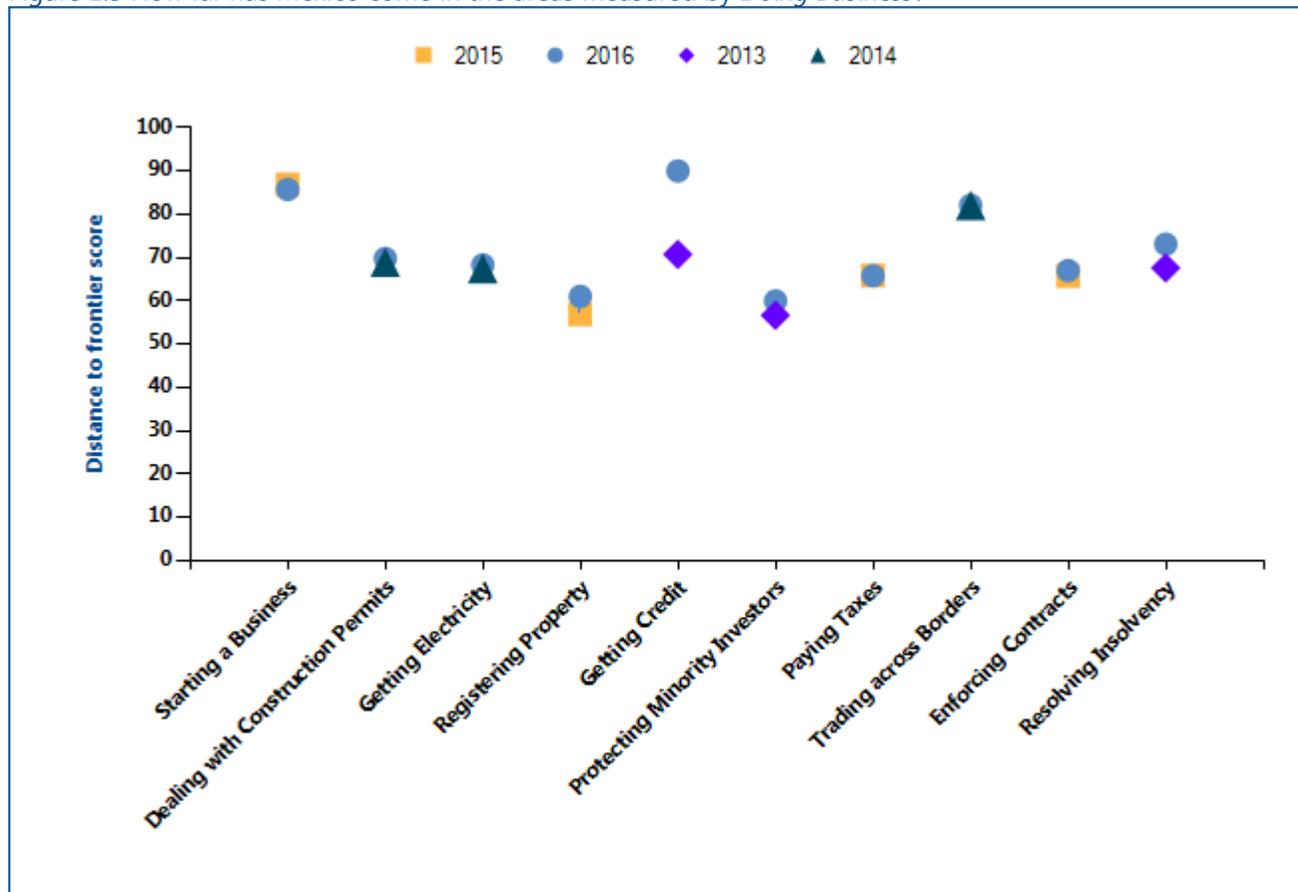
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy’s regulatory environment for firms, but they are always relative.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes,

*Doing Business* introduced the distance to frontier score. This measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy’s regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.5).

Figure 1.5 How far has Mexico come in the areas measured by *Doing Business*?



Note: The distance to frontier score shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator. Getting credit, protecting minority investors and resolving insolvency had methodology changes in 2014 and thus are only comparable to 2013. Dealing with construction permits, getting electricity and trading across borders had methodology changes in 2015 and thus are only comparable to 2014. Starting a business, registering property, paying taxes and enforcing contracts had methodology changes in 2016 and thus are only comparable to 2015. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). See the data notes starting on page 114 of the *Doing Business 2017* report for more details on the distance to frontier score. Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of business

regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Mexico

| Indicator  | Mexico DB2017 | Mexico DB2016 | Mexico City DB2017 | Monterrey DB2017 | Brazil DB2017 | Colombia DB2017 | India DB2017 | United States DB2017 | Best performer globally DB2017 |
|--|---------------|---------------|--------------------|------------------|---------------|-----------------|--------------|----------------------|--------------------------------|
| <b>Starting a Business (Rank)</b>                    | 93            | 72            | --                 | --               | 175           | 61              | 155          | 51                   | 1 (New Zealand)                |
| <b>Starting a Business (DTF Score)</b>               | 85.74         | 86.92         | 85.31              | 87.86            | 65.04         | 89.57           | 74.31        | 91.23                | 99.96 (New Zealand)            |
| <b>Procedure – Men (number)</b>                      | 7.8           | 7.0           | 8.0                | 7.0              | 11.0          | 6.0             | 12.9         | 6.0                  | 1.0 (New Zealand)              |
| <b>Time – Men (days)</b>                             | 8.4           | 8.4           | 8.5                | 8.0              | 79.5          | 9.0             | 26.0         | 5.6                  | 0.5 (New Zealand)              |
| <b>Cost – Men (% of income per capita)</b>           | 17.8          | 18.1          | 19.1               | 11.5             | 5.2           | 7.5             | 13.8         | 1.1                  | 0.0 (Slovenia)                 |
| <b>Procedure – Women (number)</b>                    | 7.8           | 7.0           | 8.0                | 7.0              | 11.0          | 6.0             | 12.9         | 6.0                  | 1.0 (New Zealand)              |
| <b>Time – Women (days)</b>                           | 8.4           | 8.4           | 8.5                | 8.0              | 79.5          | 9.0             | 26.0         | 5.6                  | 0.5 (New Zealand)              |
| <b>Cost – Women (% of income per capita)</b>         | 17.8          | 18.1          | 19.1               | 11.5             | 5.2           | 7.5             | 13.8         | 1.1                  | 0.0 (Slovenia)                 |
| <b>Paid-in min. capital (% of income per capita)</b> | 0.0           | 0.0           | 0.0                | 0.0              | 0.0           | 0.0             | 0.0          | 0.0                  | 0.0 (127 Economies*)           |
| <b>Dealing with Construction Permits</b>             | 83            | 87            | --                 | --               | 172           | 34              | 185          | 39                   | 1 (New Zealand)                |

| Indicator  | Mexico DB2017 | Mexico DB2016 | Mexico City DB2017 | Monterrey DB2017 | Brazil DB2017 | Colombia DB2017 | India DB2017 | United States DB2017 | Best performer globally DB2017 |
|--|---------------|---------------|--------------------|------------------|---------------|-----------------|--------------|----------------------|--------------------------------|
| (Rank)   |               |               |                    |                  |               |                 |              |                      |                                |
| Dealing with Construction Permits (DTF Score)                | 69.79         | 68.91         | 68.87              | 74.32            | 51.28         | 76.54           | 32.83        | 75.74                | 87.40 (New Zealand)            |
| Procedures (number)  | 13.0          | 13.0          | 13.0               | 13.0             | 18.2          | 10.0            | 35.1         | 15.8                 | 7.0 (4 Economies*)             |
| Time (days)  | 86.4          | 91.4          | 81.0               | 113.0            | 425.7         | 73.0            | 190.0        | 80.6                 | 28.0 (Korea, Rep.)             |
| Cost (% of warehouse value)                                  | 9.8           | 10.2          | 11.3               | 2.5              | 0.4           | 6.7             | 25.9         | 1.0                  | 0.1 (Trinidad and Tobago)      |
| Building quality control index (0-15)                        | 11.7          | 11.7          | 12.0               | 10.0             | 9.0           | 11.0            | 11.5         | 10.0                 | 15.0 (Luxembourg*)             |
| Getting Electricity (Rank)                                   | 98            | 84            | --                 | --               | 47            | 74              | 26           | 36                   | 1 (Korea, Rep.)                |
| Getting Electricity (DTF Score)                              | 68.32         | 70.11         | 65.76              | 80.83            | 81.23         | 73.73           | 85.09        | 83.39                | 99.88 (Korea, Rep.)            |
| Procedures (number)  | 6.8           | 6.8           | 7.0                | 6.0              | 4.0           | 5.0             | 5.0          | 4.8                  | 3.0 (15 Economies*)            |
| Time (days)  | 100.4         | 107.9         | 112.0              | 44.0             | 64.4          | 109.0           | 45.9         | 89.6                 | 18.0 (Korea, Rep.*)            |
| Cost (% of income per capita)                                | 336.7         | 332.9         | 357.9              | 232.7            | 58.0          | 581.4           | 133.2        | 24.4                 | 0.0 (Japan)                    |
| Reliability of supply and transparency of tariff index (0-8) | 6.2           | 7.0           | 6.0                | 7.0              | 5.0           | 6.0             | 7.0          | 7.6                  | 8.0 (26 Economies*)            |
| Registering Property (Rank)                                  | 101           | 111           | --                 | --               | 128           | 53              | 138          | 36                   | 1 (New Zealand)                |
| Registering Property (DTF Score)                             | 61.05         | 56.89         | 59.08              | 70.68            | 52.62         | 73.29           | 50.00        | 76.80                | 94.46 (New Zealand)            |
| Procedures (number)  | 7.7           | 7.7           | 8.0                | 6.0              | 13.6          | 6.0             | 7.0          | 4.4                  | 1.0 (4 Economies*)             |

| Indicator  | Mexico DB2017 | Mexico DB2016 | Mexico City DB2017 | Monterrey DB2017 | Brazil DB2017 | Colombia DB2017 | India DB2017 | United States DB2017 | Best performer globally DB2017 |
|--|---------------|---------------|--------------------|------------------|---------------|-----------------|--------------|----------------------|--------------------------------|
| Time (days)  | 42.1          | 65.3          | 46.0               | 23.0             | 31.4          | 16.0            | 46.8         | 15.2                 | 1.0 (3 Economies*)             |
| Cost (% of property value)                             | 5.2           | 5.2           | 5.6                | 3.5              | 3.1           | 2.0             | 7.7          | 2.4                  | 0.0 (Saudi Arabia)             |
| Quality of the land administration index (0-30)        | 16.3          | 14.6          | 16.0               | 17.5             | 13.8          | 16.5            | 7.0          | 17.6                 | 29.0 (Singapore)               |
| Getting Credit (Rank)                                  | 5             | 5             | --                 | --               | 101           | 2               | 44           | 2                    | 1 (New Zealand)                |
| Getting Credit (DTF Score)                             | 90.00         | 90.00         | 90.00              | 90.00            | 45.00         | 95.00           | 65.00        | 95.00                | 100.00 (New Zealand)           |
| Strength of legal rights index (0-12)                  | 10.0          | 10.0          | 10.0               | 10.0             | 2.0           | 12.0            | 6.0          | 11.0                 | 12.0 (3 Economies*)            |
| Depth of credit information index (0-8)                | 8.0           | 8.0           | 8.0                | 8.0              | 7.0           | 7.0             | 7.0          | 8.0                  | 8.0 (30 Economies*)            |
| Credit registry coverage (% of adults)                 | 0.0           | 0.0           | 0.0                | 0.0              | 53.4          | 0.0             | 0.0          | 0.0                  | 100.0 (3 Economies*)           |
| Credit bureau coverage (% of adults)                   | 100.0         | 100.0         | 100.0              | 100.0            | 78.9          | 92.1            | 21.4         | 100.0                | 100.0 (23 Economies*)          |
| Protecting Minority Investors (Rank)                   | 53            | 51            | --                 | --               | 32            | 13              | 13           | 41                   | 1 (New Zealand*)               |
| Protecting Minority Investors (DTF Score)              | 60.00         | 60.00         | 60.00              | 60.00            | 65.00         | 73.33           | 73.33        | 64.67                | 83.33 (New Zealand*)           |
| Strength of minority investor protection index (0-10)  | 6.0           | 6.0           | 6.0                | 6.0              | 6.5           | 7.3             | 7.3          | 6.5                  | 8.3 (New Zealand*)             |
| Extent of conflict of interest regulation index (0-10) | 6.0           | 6.0           | 6.0                | 6.0              | 5.7           | 8.0             | 6.7          | 8.3                  | 9.3 (New Zealand*)             |
| Extent of shareholder governance index (0-             | 6.0           | 6.0           | 6.0                | 6.0              | 7.3           | 6.7             | 8.0          | 4.6                  | 8.3 (Norway)                   |

| Indicator   | Mexico DB2017 | Mexico DB2016 | Mexico City DB2017 | Monterrey DB2017 | Brazil DB2017 | Colombia DB2017 | India DB2017 | United States DB2017 | Best performer globally DB2017 |
|---|---------------|---------------|--------------------|------------------|---------------|-----------------|--------------|----------------------|--------------------------------|
| 10)   |               |               |                    |                  |               |                 |              |                      |                                |
| <b>Paying Taxes (Rank)</b>                            | 114           | 112           | --                 | --               | 181           | 139             | 172          | 36                   | 1 (United Arab Emirates)       |
| <b>Paying Taxes (DTF Score)</b>                       | 65.81         | 65.85         | 65.81              | 65.81            | 33.03         | 58.91           | 46.58        | 83.85                | 99.44 (United Arab Emirates)   |
| <b>Payments (number per year)</b>                     | 6.0           | 6.0           | 6.0                | 6.0              | 9.6           | 12.0            | 25.0         | 10.6                 | 3.0 (Hong Kong SAR, China*)    |
| <b>Time (hours per year)</b>                          | 286.0         | 286.0         | 286.0              | 286.0            | 2038.0        | 239.0           | 241.0        | 175.0                | 55.0 (Luxembourg)              |
| <b>Total tax rate (% of profit)</b>                   | 52.0          | 51.9          | 52.0               | 52.0             | 68.4          | 69.8            | 60.6         | 44.0                 | 26.1 (32 Economies*)           |
| <b>Postfiling index (0-100)</b>                       | 42.6          | 42.6          | 42.6               | 42.6             | 8.0           | 47.5            | 4.3          | 93.1                 | 98.5 (Estonia)                 |
| <b>Trading across Borders (Rank)</b>                  | 61            | 60            | --                 | --               | 149           | 121             | 143          | 35                   | 1 (10 Economies*)              |
| <b>Trading across Borders (DTF Score)</b>             | 82.09         | 82.09         | 82.09              | 82.09            | 55.57         | 62.83           | 57.61        | 92.01                | 100.00 (10 Economies*)         |
| <b>Time to export: Border compliance (hours)</b>      | 20            | 20            | 20                 | 20               | 49            | 112             | 106          | 2                    | 0 (18 Economies*)              |
| <b>Cost to export: Border compliance (USD)</b>        | 400           | 400           | 400                | 400              | 959           | 545             | 413          | 175                  | 0 (18 Economies*)              |
| <b>Time to export: Documentary compliance (hours)</b> | 8             | 8             | 8                  | 8                | 18            | 60              | 38           | 2                    | 1 (25 Economies*)              |
| <b>Cost to export: Documentary compliance (USD)</b>   | 60            | 60            | 60                 | 60               | 226           | 90              | 92           | 60                   | 0 (19 Economies*)              |
| <b>Time to import: Border compliance (hours)</b>      | 44            | 44            | 44                 | 44               | 63            | 112             | 283          | 2                    | 0 (25 Economies*)              |

| Indicator   | Mexico DB2017 | Mexico DB2016 | Mexico City DB2017 | Monterrey DB2017 | Brazil DB2017 | Colombia DB2017 | India DB2017 | United States DB2017 | Best performer globally DB2017 |
|---|---------------|---------------|--------------------|------------------|---------------|-----------------|--------------|----------------------|--------------------------------|
| <b>Cost to import: Border compliance (USD)</b>        | 450           | 450           | 450                | 450              | 970           | 545             | 574          | 175                  | 0 (28 Economies*)              |
| <b>Time to import: Documentary compliance (hours)</b> | 18            | 18            | 18                 | 18               | 120           | 64              | 61           | 8                    | 1 (29 Economies*)              |
| <b>Cost to import: Documentary compliance (USD)</b>   | 100           | 100           | 100                | 100              | 107           | 50              | 135          | 100                  | 0 (30 Economies*)              |
| <b>Enforcing Contracts (Rank)</b>                     | 40            | 42            | --                 | --               | 37            | 174             | 172          | 20                   | 1 (Korea, Rep.)                |
| <b>Enforcing Contracts (DTF Score)</b>                | 67.01         | 65.69         | 65.45              | 74.60            | 67.41         | 34.29           | 35.19        | 72.61                | 84.15 (Korea, Rep.)            |
| <b>Time (days)</b>                                    | 340.7         | 389.0         | 350.0              | 295.0            | 731.0         | 1288.0          | 1420.0       | 420.0                | 164.0 (Singapore)              |
| <b>Cost (% of claim)</b>                              | 33.0          | 33.0          | 33.5               | 30.4             | 20.7          | 45.8            | 39.6         | 30.5                 | 9.0 (Iceland)                  |
| <b>Quality of judicial processes index (0-18)</b>     | 10.1          | 10.1          | 9.5                | 13.0             | 13.6          | 9.0             | 9.0          | 13.8                 | 15.5 (Australia)               |
| <b>Resolving Insolvency (Rank)</b>                    | 30            | 29            | --                 | --               | 67            | 33              | 136          | 5                    | 1 (Finland)                    |
| <b>Resolving Insolvency (DTF Score)</b>               | 73.11         | 73.03         | 73.11              | 73.11            | 49.15         | 71.74           | 32.75        | 89.19                | 93.89 (Finland)                |
| <b>Recovery rate (cents on the dollar)</b>            | 69.1          | 68.9          | 69.1               | 69.1             | 15.8          | 69.4            | 26.0         | 78.6                 | 92.9 (Norway)                  |
| <b>Time (years)</b>                                   | 1.8           | 1.8           | 1.8                | 1.8              | 4.0           | 1.7             | 4.3          | 1.5                  | 0.4 (22 Economies*)            |
| <b>Cost (% of estate)</b>                             | 18.0          | 18.0          | 18.0               | 18.0             | 12.0          | 8.5             | 9.0          | 10.0                 | 1.0 (22 Economies*)            |
| <b>Strength of insolvency framework index (0-16)</b>  | 11.5          | 11.5          | 11.5               | 11.5             | 13.0          | 11.0            | 6.0          | 15.0                 | 15.0 (6 Economies*)            |

Source: Doing Business database.

Note: DB2016 rankings shown are not last year's published rankings but comparable rankings for DB2016 that capture the effects of such factors as data revisions and changes to the methodology. The global best performer on time for paying taxes is defined as the lowest

time recorded among all economies in the DB2016 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax. If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a “no practice” mark. Similarly, an economy receives a “no practice” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator. \* Two or more economies share the top ranking on this indicator. A number shown in place of an economy’s name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

## STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

### What do the indicators cover?

*Doing Business* records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. The ranking of economies on the ease of starting a business is determined by sorting their distance to frontier scores for starting a business. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, several assumptions about the business and the procedures are used. It is assumed that any required information is readily available and that the entrepreneur will pay no bribes. Assumptions about the business:

- Is a limited liability company (or its legal equivalent). If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. Information on the most common form is obtained from incorporation lawyers or the statistical office.
- Operates in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is 100% domestically owned and has five

## WHAT THE STARTING A BUSINESS INDICATORS MEASURE

### Procedures to legally start and operate a company (number)

Preregistration (for example, name verification or reservation, notarization)

Registration in the economy's largest business city<sup>1</sup>

Postregistration (for example, social security registration, company seal)

Obtaining approval from spouse to start a business, to leave the home to register the company or open a bank account.

Obtaining any gender specific document for company registration and operation, national identification card or opening a bank account.

### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day (2 procedures cannot start on the same day). Procedures that can be fully completed online are recorded as ½ day.

Procedure completed once final document is received

No prior contact with officials

### Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

No professional fees unless services required by law or commonly used in practice

### Paid-in minimum capital (% of income per capita)

Deposited in a bank or with a notary before registration (or within 3 months)

- The size of the entire office space is approximately 929 square meters (10,000 square feet).

owners, none of whom is a legal entity

- Has start-up capital of 10 times income per capita
- Performs general commercial or industrial activities, such as the production or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Leases the commercial plant or offices and is not a proprietor of real estate.
- The amount of the annual lease for the office space is equivalent to 1 times income per capita

- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees one month after the commencement of operations, all of them domestic nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

**The owners:**

- Have reached the legal age of majority and are capable of making decisions as an adult. If there is no legal age of majority, they are assumed to be 30 years old.
- Are sane, competent, in good health and have no criminal record.
- Are married, the marriage is monogamous and registered with the authorities.
- Where the answer differs according to the legal system applicable to the woman or man in question (as may be the case in economies where there is legal plurality), the answer used will be the one that applies to the majority of the population.

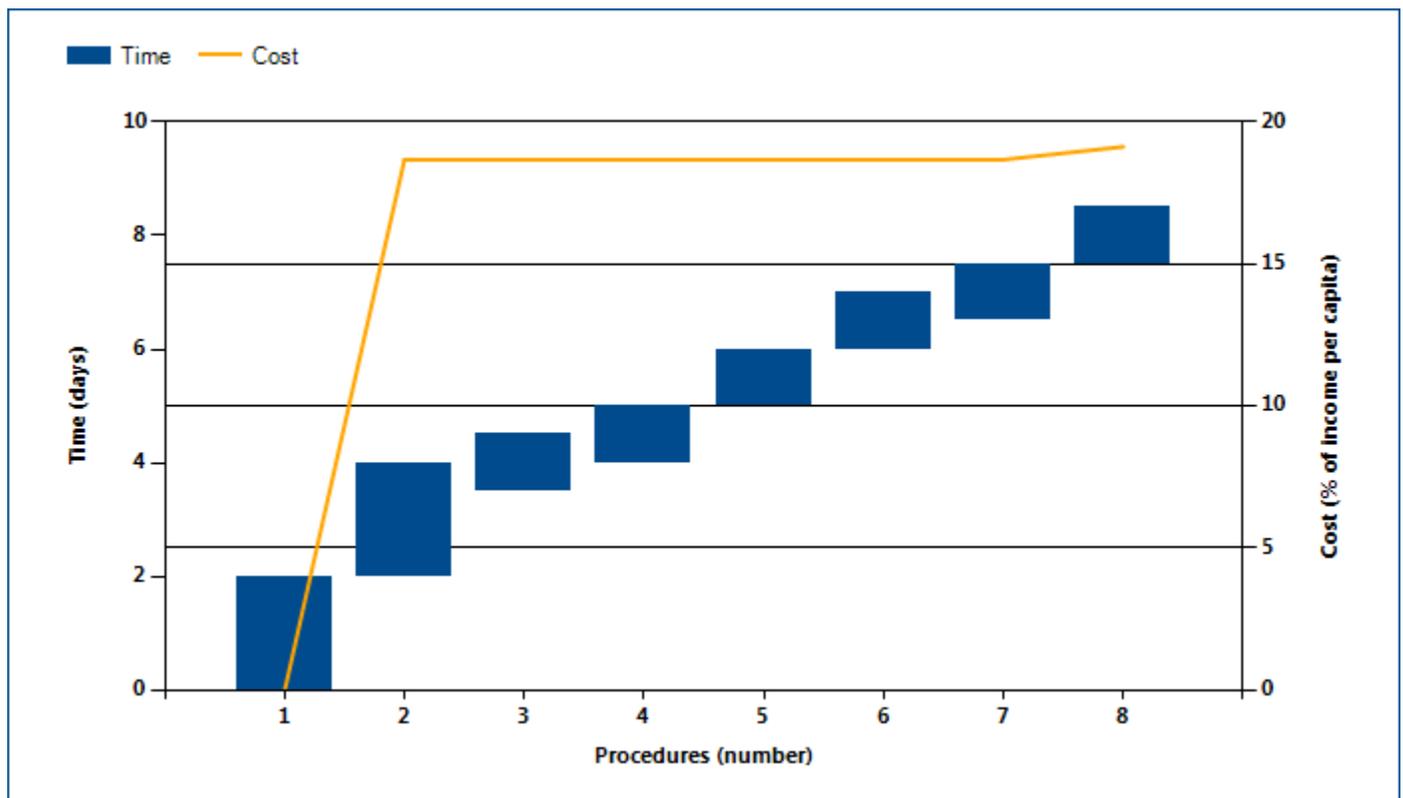
## STARTING A BUSINESS

### Where does the economy stand today?

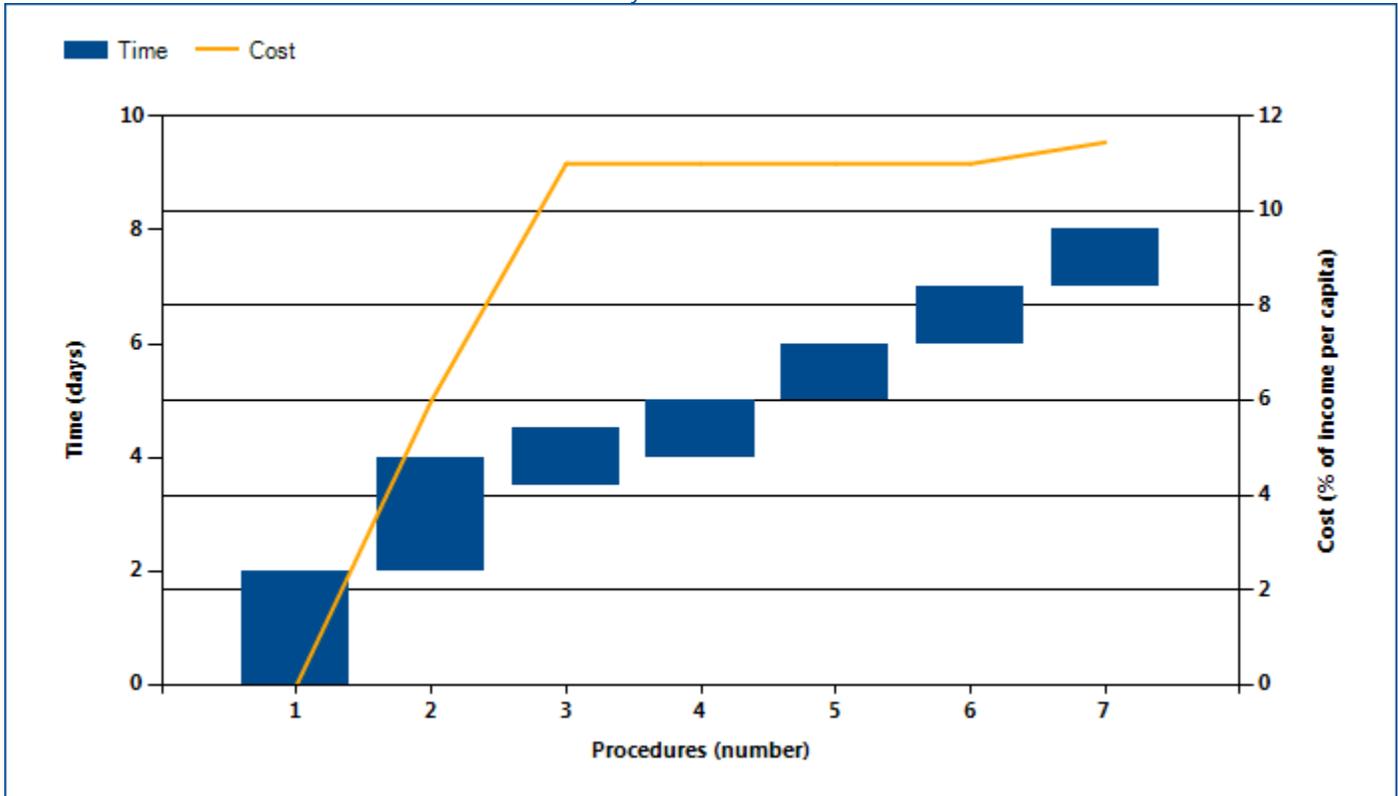
What does it take to start a business in Mexico? According to data collected by *Doing Business*, starting a business there requires 7.8 procedures, takes 8.4 days, costs 17.8% of income per capita for men, and requires 7.8 procedures, takes 8.4 days, costs 17.8% of income per capita for women. A requirement of paid-in minimum capital of 0.0% of income per capita (figure 2.1) is legally mandatory for both men and women. Most

indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 2.1 What it takes to start a business in Mexico - Mexico City  
Paid-in minimum capital (% of income per capita): 0.0



What it takes to start a business in Mexico - Monterrey



Source: *Doing Business* database.

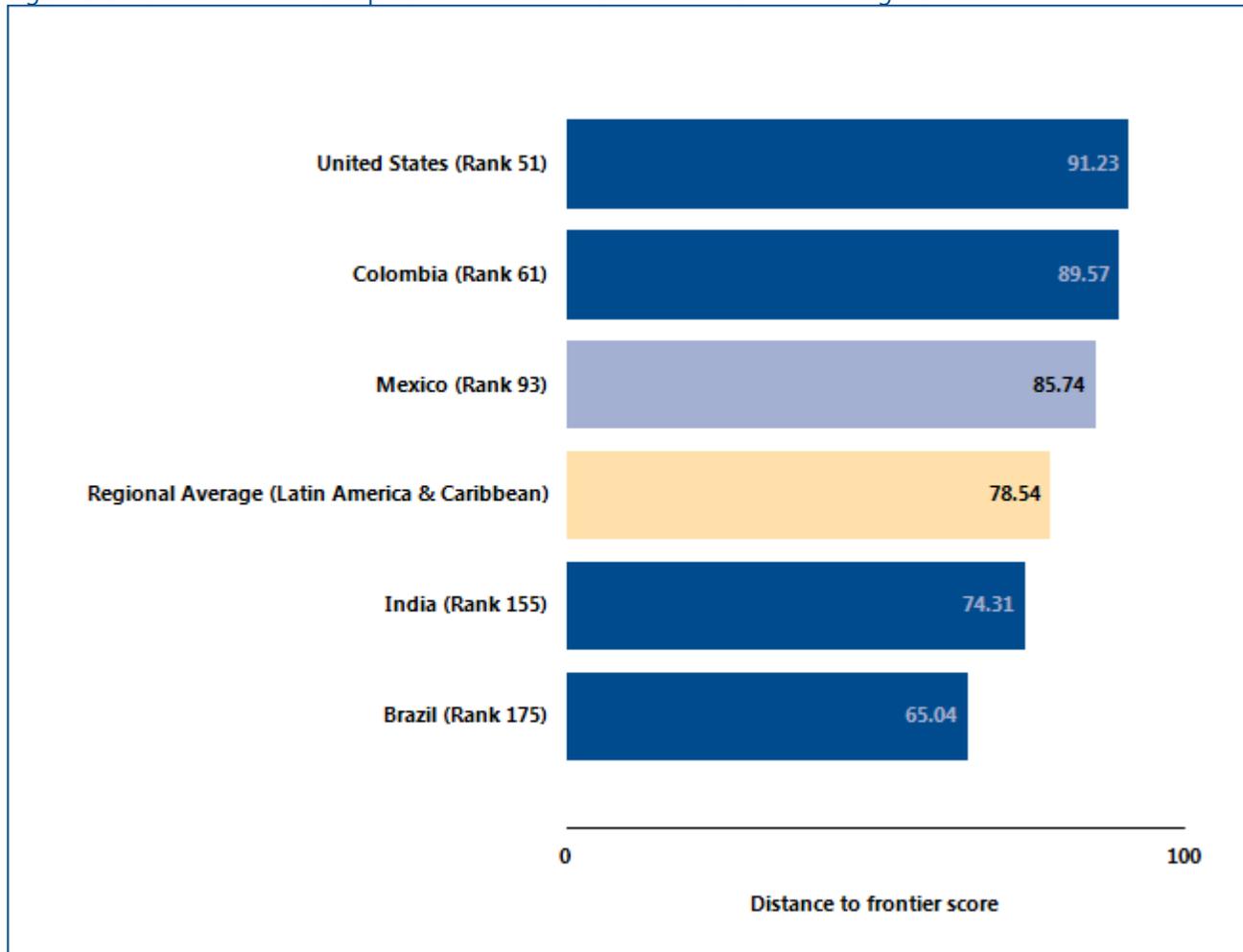
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter. Procedures in light blue are for married women only.

### STARTING A BUSINESS

Globally, Mexico stands at 93 in the ranking of 190 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the regional

average ranking provide other useful information for assessing how easy it is for an entrepreneur in Mexico to start a business.

Figure 2.2 How Mexico and comparator economies rank on the ease of starting a business



Source: Doing Business database.

## STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and

they often are part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Mexico (table 2.1)?

Table 2.1 How has Mexico made starting a business easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform   |
|---------------|--|
| <b>DB2011</b> | Mexico launched an online one-stop shop for initiating business registration.  |
| <b>DB2013</b> | Mexico made starting a business easier by eliminating the minimum capital requirement for limited liability companies. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## STARTING A BUSINESS

### What are the details?

Underlying the indicators shown in this chapter for Mexico is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the “standardized company”) used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

#### STANDARDIZED COMPANY

**Legal form:** Sociedad Anónima (S.A.) - Corporation

**Paid-in minimum capital requirement:** MXN 1

**City:** Mexico City, Monterrey

**Start-up Capital:** 10 times GNI per capita

Table 2.2 Summary of time, cost and procedures for starting a business in Mexico - Mexico City

| No. | Procedure  | Time to complete  | Cost to complete  |
|-----|--|-------------------|---|
| 1   | <p><b>Obtain the authorization of using the company name online</b></p> <p>The applicant can obtain the authorization of using the company name online at <a href="http://www.tuempresa.gob.mx">www.tuempresa.gob.mx</a>. After the registration in the website, the entrepreneur provides the company name it wishes to use. The Secretariat of Economy will first check its availability and then proceed if it complies with the legal framework. The authorization is issued via email and is valid for 2 days.</p> <p><i>Agency: Ministry of Economy (Secretaría de Economía)</i></p>   | 2 days            | no charge   |
| 2   | <p><b>Notary prepares the deed and parties sign it at the notary public</b></p> <p>This procedure consists in the formalization of the company’s charter by the notary. Upon receipt of authorization regarding the company name, the notary proceeds to notify of the use of the corporate name and drafts the articles of incorporation in order to be duly signed by the partners. The founding partners must provide their general personal information and present their official identifications and their Tax IDs. In order to publicize the act of incorporation, companies registered must file the deed of incorporation with the Public Registry of commerce</p> <p>The notary public is in charge of making the registration of the articles of incorporation at the Public Registry of Commerce whether in person or through remote electronic means. The following documents are required: (i) a duly notarized articles of incorporation (+ a copy) and (ii) a document certifying age above 18 years old.</p> <p>It usually takes the notary 2-3 days for the notary to review the</p> | 2 days on average | MXN 10,500 (notary fees) + MXN 15,950 (registration fees) |

| No. | Procedure   | Time to complete   | Cost to complete        |
|-----|---|--|-------------------------|
|     | <p>documents and process the final incorporation deed for execution by the relevant parties.</p> <p><i>Agency: Public Notary</i></p>  |  |                         |
| 3   | <p><b>File the deed of incorporation with the Public Registry of Commerce</b></p> <p>In order to publicize the act of incorporation, companies registered must file the deed of incorporation with the Public Registry of commerce</p> <p>The notary public is in charge of making the registration of the articles of incorporation at the Public Registry of Commerce whether in person or through remote electronic means. The following documents are required: (i) a duly notarized articles of incorporation (+ a copy) and (ii) a document certifying age above 18 years old.</p> <p>Once the fees are paid the information is uploaded into the Siger system (<a href="http://www.siger.gob.mx">http://www.siger.gob.mx</a>) the pre-coded forms are filled out with information included in the articles of incorporation, then they are sent to the Public Registry of Commerce and enrollment takes place immediately.</p> <p><i>Agency: Public Registry of Commerce</i></p> | Half a day (online procedure)                                      | Included in procedure 2 |
| 4   | <p><b>Obtain Tax Registry Number (RFC) at the the Sistema de Administración Tributaria, SAT</b></p> <p>The company must obtain a tax ID number (Registro Federal de Contribuyentes "RFC") at the Ministry of Finance and Credit, Secretaría de Hacienda y Crédito Público. Notaries are able do obtain it via the online portal (<a href="http://www.rfc-sat.com.mx/">http://www.rfc-sat.com.mx/</a>). He/she submits the information on the company and retrieves the RFC and the Tax Identification Card in pdf format.</p> <p>The entrepreneur can also obtain the RFC but needs to go in person to the service center to obtain an electronic signature.</p> <p><i>Agency: Sistema de Administración Tributaria, SAT</i></p>  | Half a day (online procedure) , 2 days if done by the entrepreneur | No charge               |
| 5   | <p><b>Register with the Mexican Social Security Institute (IMSS)</b></p> <p>This is a federal procedure that is performed to enroll at least one worker in Social Security. Information is available in person, by phone and on the agency's website: <a href="http://www.imss.gob.mx/">http://www.imss.gob.mx/</a> The employer must file AFIL02 format. The application may be pre-submitted online and then visit the agency's office where the entrepreneur will obtain his registry May be performed pre-internet high and then go to the IMSS administrative sub-delegation where the employer and the record high for at least one worker is obtained. The process is regulated by the</p>   | 1 day  | no charge               |

| No. | Procedure   | Time to complete                     | Cost to complete                               |
|-----|---|--------------------------------------|--|
|     | <p>Social Security Act and the Regulations of the Law on Social Insurance regarding Membership, Business Classification, Collection and Taxation. At the same time the company registers with the IMSS, registration at the National Worker's Housing Fund Institute (INFONAVIT) takes place and individual retirement savings accounts for the employees (Afore) are opened.</p> <p><i>Agency: Mexican Social Security Institute (IMSS)</i></p>  |                                      |  |
| 6   | <p><b>Register with the local tax administration (Secretaría de Finanzas del Gobierno del Distrito Federal) for payroll tax</b></p> <p>The company must register with the local tax administration after registering with the IMSS. The local office can be found at <a href="http://www.finanzas.df.gob.mx">www.finanzas.df.gob.mx</a>. The tax registration number and the company's postal code are required to register.</p> <p><i>Agency: Ministry of Finance and Credit</i></p>   | 1 day                                | no charge                                      |
| 7   | <p><b>Notify the local government (Delegación) online of the opening of a mercantile establishment.</b></p> <p>The notice of opening a mercantile establishment is fully completed online through the website <a href="http://www.sedeco.df.gob.mx">www.sedeco.df.gob.mx</a>. For low risk activities, the notification record is received automatically in an email.</p> <p><i>Agency: Local tax administration</i></p>  | Less than one day (online procedure) | no charge                                      |
| 8   | <p><b>Register with the National Business Information Registry (Sistema de Información Empresarial, SIEM)</b></p> <p>Mandatory registration with the National Business Information Registry (Sistema de Información Empresarial, SIEM) has been in effect since January 1997. The company will be registered with the specific chamber corresponding to its corporate purpose or activities. The cost varies with the number of employees and the company's activities as shown below.</p> <p>Fees for industry related activities (maximum fees)</p> <ul style="list-style-type: none"> <li>-6 or more employees \$ 670</li> <li>-3 to 5 employees \$ 350</li> <li>-Up to 2 employees \$ 150</li> </ul> <p>Fees for commercial and services related activities (maximum fees):</p> <ul style="list-style-type: none"> <li>-4 or more employees \$ 640</li> <li>-3 or less employees \$ 300</li> <li>-Up to 2 employees \$ 100</li> </ul> | 1 day                                | The costs can vary from MXN \$100 to MXN \$670 |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <i>Agency: Local Government Office or Delegation</i> |                  |                  |

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

Note: Online procedures account for 0.5 days in the total time calculation.

Procedures in light blue are for married women only.

Summary of time, cost and procedures for starting a business in Mexico - Monterrey

| No. | Procedure  | Time to complete                     | Cost to complete           |
|-----|--|--------------------------------------|----------------------------|
| 1   | <p><b>Obtain the authorization of using the company name online and file the draft deed of incorporation with the notary online</b></p> <p>The applicant can obtain the authorization of using the company name online at <a href="http://www.tuempresa.gob.mx">www.tuempresa.gob.mx</a>. After the registration in the website, the entrepreneur provides the company name it wishes to use. The Secretariat of Economy will first check its availability and then proceed if it complies with the legal framework. The authorization is issued via email and is valid for 2 days.</p> <p><i>Agency: Ministry of Economy (Secretaría de Economía)</i></p>                             | 2 days                               | no charge                  |
| 2   | <p><b>Notary prepares the deed of incorporation and parties sign it at the notary public</b></p> <p>This procedure consists in the formalization of the company's charter by the notary. Upon receipt of authorization regarding the company name, the notary proceeds to notify of the use of the corporate name and drafts the articles of incorporation in order to be duly signed by the partners. The founding partners must provide their general personal information and present their official identifications and their Tax IDs.</p> <p><i>Agency: Public Notary</i></p>   | 2 days                               | MXN 8,500                  |
| 3   | <p><b>File online or in person the deed of incorporation with the Public Register of Commerce</b></p> <p>In order to publicize the act of incorporation, companies registered must file the deed of incorporation with the Public Registry of commerce</p> <p>The notary public is in charge of making the registration of the articles of incorporation at the Public Registry of Commerce whether in person or through remote electronic means. The following documents are required: (i) a duly notarized articles of incorporation (+ a copy) and (ii) a document certifying age above 18 years old.</p> <p>Once the fees are paid the information is uploaded into the portal</p> | Less than one day (online procedure) | 5 per mil of share capital |

| No. | Procedure   | Time to complete   | Cost to complete |
|-----|---|--|------------------|
|     | <p>(<a href="http://www.siger.gob.mx/">http://www.siger.gob.mx/</a>), the pre-coded forms are filled out with information included in the articles of incorporation and they are sent to the Public Registry of Commerce where enrollment takes place immediately.</p> <p><i>Agency: Public Registry of Commerce</i></p>  |  |                  |
| 4   | <p><b>Obtain tax registration number (RFC)</b></p> <p>The company must obtain a tax ID number (Registro Federal de Contribuyentes "RFC") at the Ministry of Finance and Credit, Secretaría de Hacienda y Crédito Público. Notaries are able to obtain it via the online portal (<a href="http://www.rfc-sat.com.mx/">http://www.rfc-sat.com.mx/</a>). He/she submits the information on the company and retrieves the RFC and the Tax Identification Card in pdf format.</p> <p>The entrepreneur can also obtain the RFC but needs to go in person to the service center to obtain an electronic signature.</p> <p><i>Agency: Tax Administration Service</i></p>  | <p>Less than a day (online procedure),<br/>1 day if done by the entrepreneur</p> | <p>No charge</p> |
| 5   | <p><b>Register with the Mexican Social Security Institute (IMSS)</b></p> <p>This is a federal procedure that is performed to enroll at least one worker in Social Security. Information is available in person, by phone and on the agency's website: <a href="http://www.imss.gob.mx/">http://www.imss.gob.mx/</a> The employer must file AFIL02 format. The application may be pre-submitted online and then visit the agency's office where the entrepreneur will obtain his registry May be performed pre-internet high and then go to the IMSS administrative sub-delegation where the employer and the record high for at least one worker is obtained. The process is regulated by the Social Security Act and the Regulations of the Law on Social Insurance regarding Membership, Business Classification, Collection and Taxation. At the same time the company registers with the IMSS, registration at the National Worker's Housing Fund Institute (INFONAVIT) takes place and individual retirement savings accounts for the employees (Afore) are opened.</p> <p><i>Agency: Mexican Social Security Institute (IMSS)</i></p> | <p>1 day</p>   | <p>no charge</p> |
| 6   | <p><b>Register with the State Taxpayer Registry at the Ministry of Finance of the State of Nuevo León</b></p> <p>This procedure consists in registering the tax payer's information at the State Registry to obtain an account to file the tax returns corresponding to the payroll tax (ISN). To complete the procedure, the user must have:</p> <p>a. State Registry Form (original and copy); b. Proof of fiscal residence, no older than one month (original and copy); c. Official current photo</p>   | <p>1 day</p>   | <p>no charge</p> |

| No. | Procedure  | Time to complete | Cost to complete                               |
|-----|--|------------------|--|
|     | <p>ID of the person concerned and her/his representative if applicable (original and copy); d . Articles of incorporation (copy); e . Proof of the identity of the legal representative, and where applicable the notarized power of attorney and a valid official identification with photograph of the representative (original and copy) ; f . Being a person or entity; g .Domicile or establishment located in the state of Nuevo León.</p> <p>Information about this procedure is available in person, by phone and on the agency's website: <a href="http://www.nl.gob.mx/">http://www.nl.gob.mx/</a> The employer must go to the Taxpayers Registry, Lodging, Awards and ISAN window, and proceeded to register her/his data in the system and at the end is given an account number. The procedure is regulated by Arts. 154 and 155 of the Finance Act of the State of Nuevo León; and by the Agreement of Cooperation in Fiscal Federal Matters between Mexico's Federal Ministry of Finance and the State of Nuevo León.</p> <p><i>Agency: Ministry of Finance</i></p> |                  |  |
| 7   | <p><b>Register with the National Business Information Registry (Sistema de Información Empresarial, SIEM)</b></p> <p>Mandatory registration with the National Business Information Registry (Sistema de Información Empresarial, SIEM) has been in effect since January 1997. The company will be registered with the specific chamber corresponding to its corporate purpose or activities. The cost varies with the number of employees and the company's activities as shown below.</p> <p>Fees for industry related activities (maximum fees):<br/>                     -6 or more employees \$ 670<br/>                     -3 to 5 employees \$ 350<br/>                     -Up to 2 employees \$ 150</p> <p>Fees for commercial and services related activities (maximum fees):<br/>                     -4 or more employees \$ 640<br/>                     -3 or less employees \$ 300<br/>                     -Up to 2 employees \$ 100</p> <p>The costs can vary from MXN \$100 to MXN \$670.</p> <p><i>Agency: National Business Information Registry</i></p>       | 1 day            | The costs can vary from MXN \$100 to MXN \$670 |

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

Note: Online procedures account for 0.5 days in the total time calculation.

Procedures in light blue are for married women only.

## DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

### What do the indicators cover?

*Doing Business* records all procedures required for a business in the construction industry to build a warehouse along with the time and cost to complete each procedure. In addition, this year *Doing Business* introduces a new measure, the building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms, liability and insurance regimes, and professional certification requirements.

The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, several assumptions about the construction company, the warehouse project and the utility connections are used.

Assumptions about the construction company

The construction company (BuildCo):

- Is a limited liability company (or its legal equivalent).
- Operates in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is 100% domestically and privately owned.
- Has five owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.

The construction company (BuildCo) (*continued*):

- Has 60 builders and other employees, all of them nationals with the technical expertise and

### WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

#### Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Submitting all required notifications and receiving all necessary inspections

Obtaining utility connections for water and sewerage

Registering and selling the warehouse after its completion

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day

Procedure considered completed once final document is received

No prior contact with officials

#### Cost required to complete each procedure (% of warehouse value)

Official costs only, no bribes

#### Building quality control index (0-15)

Sum of the scores of six component indices:

Quality of building regulations (0-2)

Quality control before construction (0-1)

Quality control during construction (0-3)

Quality control after construction (0-3)

Liability and insurance regimes (0-2)

Professional certifications (0-4)

professional experience necessary to obtain construction permits and approvals.

- Has is a licensed architect and a licensed engineer, both registered with the local association of architects or engineers. BuildCo is not assumed to have any other employees who are technical or licensed experts, such as geological or topographical experts.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability).
- Owns the land on which the warehouse will be built and will sell the warehouse upon its completion.
- Is valued at 50 times income per capita.

#### Assumptions about the warehouse

##### The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- Will have two stories, both above ground, with a total constructed area of approximately 1,300.6 square meters (14,000 square feet). Each floor will be 3 meters (9 feet, 10 inches) high.
- Will have road access and be located in the periurban area of the economy's largest business city (that is, on the fringes of the city but still within its official limits). For 11 economies the data are also collected for the second largest business city.
- Will not be located in a special economic or industrial zone. Will be located on a land plot of approximately 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.

- Will be a new construction (there was no previous construction on the land), with no trees, natural water sources, natural reserves or historical monuments of any kind on the plot.
- Will have complete architectural and technical plans prepared by a licensed architect. If preparation of the plans requires such steps as obtaining further documentation or getting prior approvals from external agencies, these are counted as procedures.
- Will include all technical equipment required to be fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

#### Assumptions about the utility connections

##### The water and sewerage connections:

- Will be 150 meters (492 feet) from the existing water source and sewer tap. If there is no water delivery infrastructure in the economy, a borehole will be dug. If there is no sewerage infrastructure, a septic tank in the smallest size available will be installed or built.
- Will not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Will have an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day. Will have a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.
- Will be 1 inch in diameter for the water connection and 4 inches in diameter for the sewerage connection.

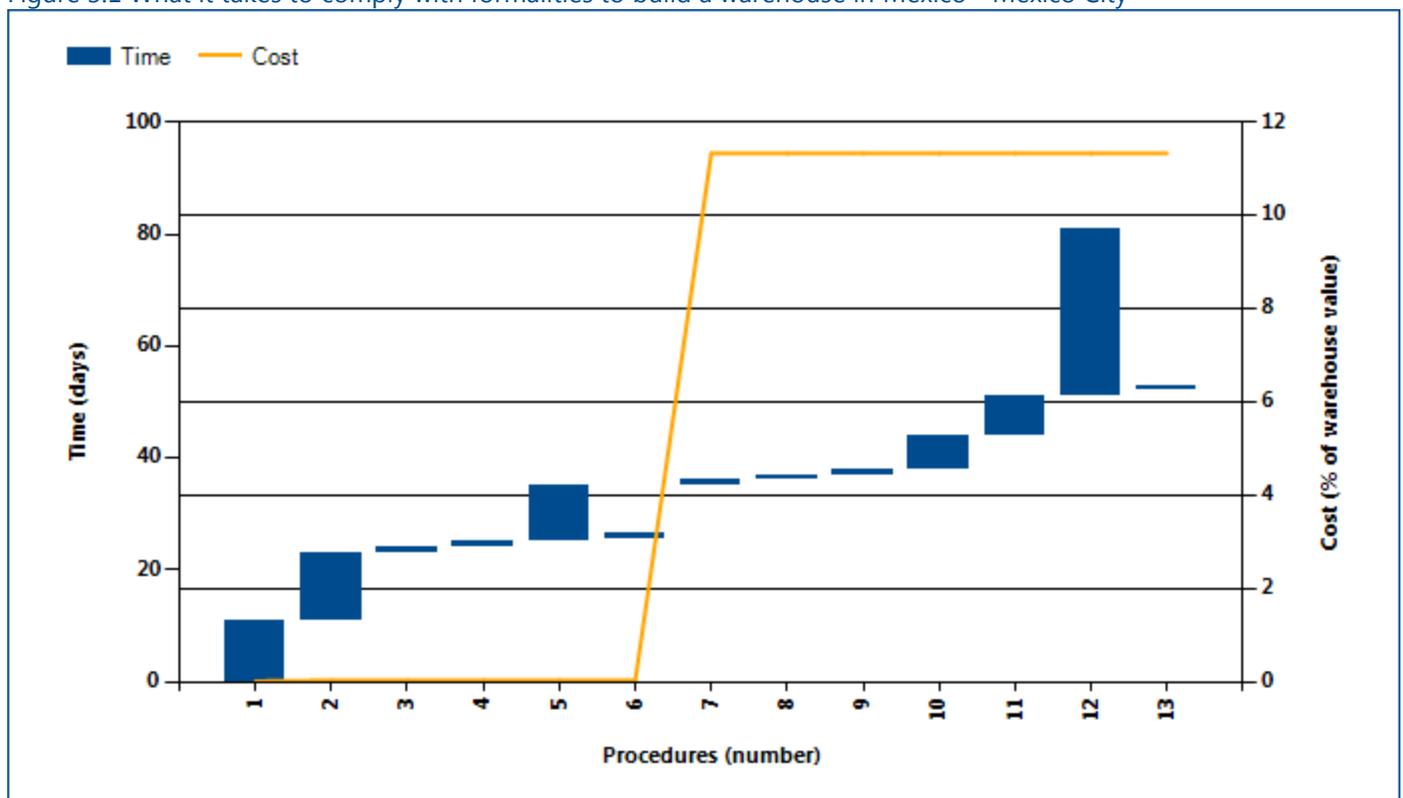
## DEALING WITH CONSTRUCTION PERMITS

### Where does the economy stand today?

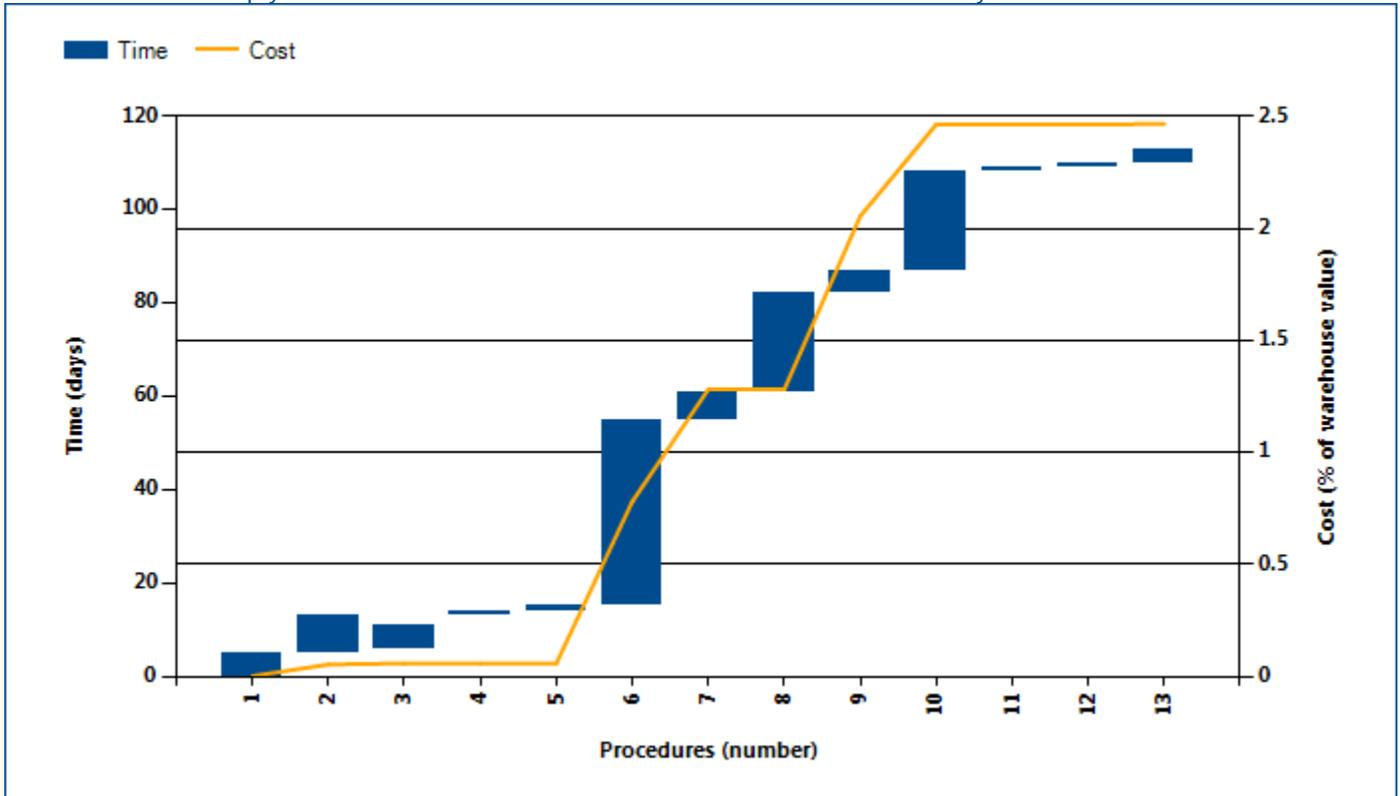
What does it take to comply with the formalities to build a warehouse in Mexico? According to data collected by *Doing Business*, dealing with construction permits there requires 13.0 procedures, takes 86.4 days and costs 9.8% of the warehouse value (figure 3.1). Most indicator sets refer to a case scenario in the largest business city of an

economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 3.1 What it takes to comply with formalities to build a warehouse in Mexico - Mexico City



What it takes to comply with formalities to build a warehouse in Mexico - Monterrey



Source: *Doing Business* database.

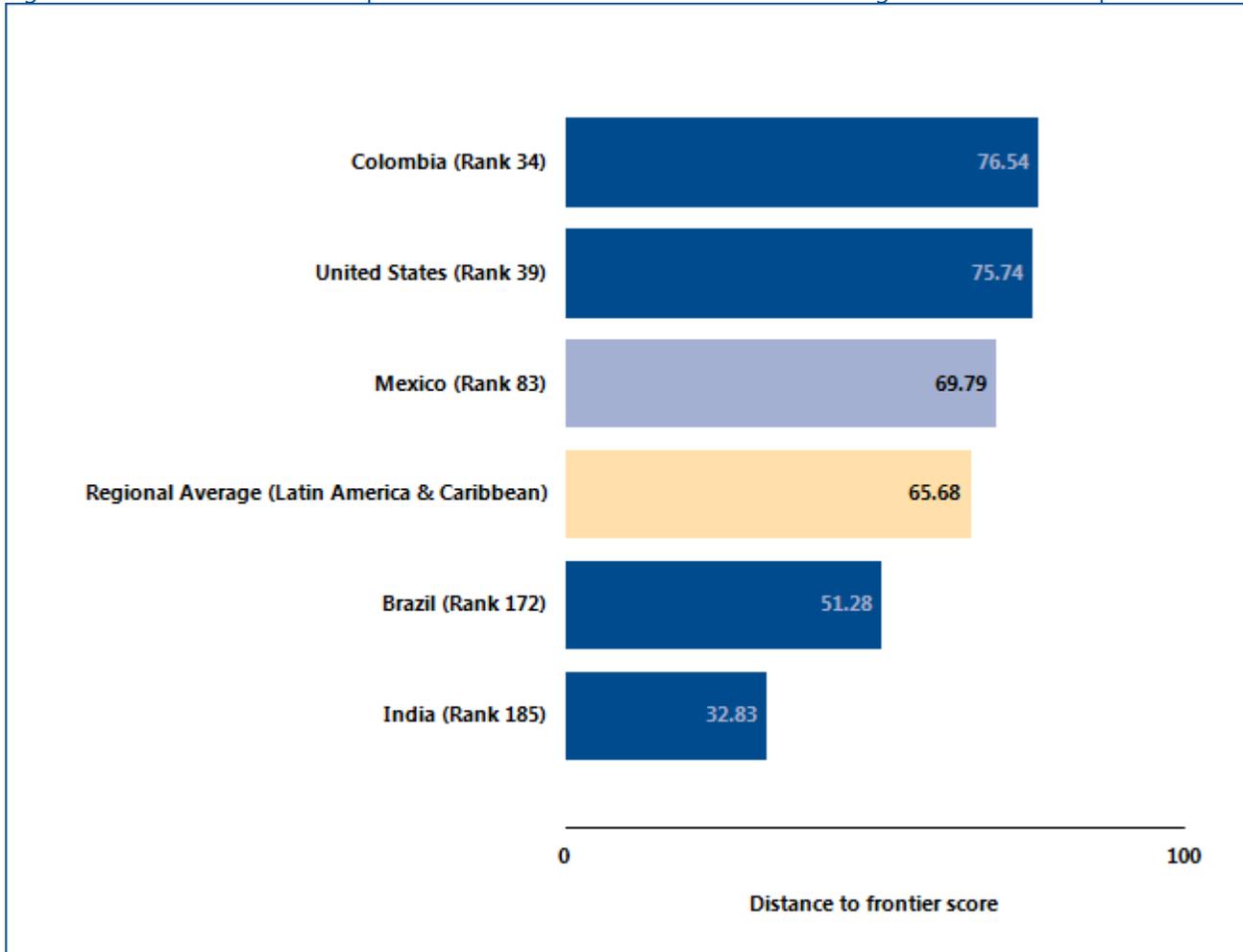
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

### DEALING WITH CONSTRUCTION PERMITS

Globally, Mexico stands at 83 in the ranking of 190 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator

economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Mexico to legally build a warehouse.

Figure 3.2 How Mexico and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

## DEALING WITH CONSTRUCTION PERMITS

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them. In

an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Mexico (table 3.1)?

Table 3.1 How has Mexico made dealing with construction permits easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform  |
|---------------|---|
| <b>DB2012</b> | Mexico made dealing with construction permits faster by consolidating internal administrative procedures. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## DEALING WITH CONSTRUCTION PERMITS

### What are the details?

The indicators reported here for Mexico are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

#### BUILDING A WAREHOUSE

**Estimated value of warehouse :** **MXN 7,083,838**

**City :** **Mexico City, Monterrey**

The procedures, along with the associated time and cost, are summarized below.

Table 3.2 Summary of time, cost and procedures for dealing with construction permits in Mexico - Mexico City

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
| 1   | <p><b>Request and obtain the alignment certificate (alineamiento) and official number (número oficial)</b></p> <p>The relevant agencies for this procedure are the Delegational One-Stop Shop (Ventanilla Única Delegacional), the Urban Development and Housing Ministry (Secretaría de Desarrollo Urbano y Vivienda), and the Federal District Department (Gobierno del Distrito Federal). Either a simple original copy or a certified one is acceptable.</p> <p>For the official number, the Federal District Department will assign a single official number for each property, at the request of the interested party, that has a front facing the public pathway. For the official alignment, the plot across the land indicates the restrictions or expropriation lines to be respected in the interaction between the property and the public pathway. Obtaining the single zoning certificate stating specific land use and feasibility is required.</p> <p>The following documents must be submitted:</p> <ul style="list-style-type: none"> <li>• Proof of payment of applicable real estate taxes (copy)</li> <li>• Public deed certifying property or title ownership (original and copy)</li> <li>• Payment of all fees</li> <li>• Application form (original)</li> <li>• Identification of the person completing the procedure and document certifying the respective identity (original and copy)</li> </ul> <p>Payment is made the same day when the certificate is requested. At the same time, a date is set for the taxpayer to return to receive the certificate, generally within 3 or 4 working days. The certificate is valid for 2 years.</p> <p>The official time limit is 8 days, but in practice, the process can take 1 -- 2 weeks. As the first procedure, it is not a simultaneous</p> | 11 days          | MXN 1,104        |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <p>one.</p> <p><i>Agency: Delegational One-Stop Shop (Ventanilla Única Delegacional), Urban Development and Housing Ministry (Secretaría de Desarrollo Urbano y Vivienda), and Federal District Department (Gobierno del Distrito Federal)</i></p>   |                  |                  |
| 2   | <p><b>Request and obtain single zoning certificate stating specific land use and feasibility</b></p> <p>At this stage, BuildCo obtains the document that certifies whether a specific use of a given building is authorized.</p> <p>There has been a fee change, increase in minimum wage, effective as of January 1, 2016, which has impacted the price of this procedure.</p> <p><i>Agency: Subdirección de Ventanilla Única of the Secretaría de Desarrollo Urbano y Vivienda attached to the Dirección del Registro de los Planes y Programas de Desarrollo Urbano of the Dirección General de Desarrollo Urbano</i></p> | 12 days          | MXN 1,296        |
| 3   | <p><b>Request a water feasibility study</b></p> <p>Upon reception of the zoning certificate, BuildCo must request a water feasibility study in order to continue the request of building permit. This procedure precedes the application for drinking water supply.</p> <p><i>Agency: Sistema de Aguas de la Ciudad de México</i></p>  | 1 day            | no charge        |
| 4   | <p><b>Receive inspection for a water feasibility study</b></p> <p>After requesting for a water feasibility study, there is an inspection to assess the feasibility of the water connection, sewage and rainwater drainage services will be installed in the construction.</p> <p><i>Agency: Water Services Agency</i></p>  | 1 day            | no charge        |
| 5   | <p><b>Obtain a water feasibility study</b></p> <p>Once the inspection has been conducted, a water feasibility study report is given to BuildCo, which will be used to continue processing the building permits.</p> <p><i>Agency: Water Services Agency</i></p>  | 10 days          | no charge        |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
| * 6 | <p><b>Obtain a certificate of debts for Water services</b></p> <p>Once the water feasibility process is on its way, Buildco. can also request a certificate of debts. This is another mandatory requirement to register a construction statement type B. The warehouse in the case study is considered a construction Type B, therefore this is applicable.</p> <p><i>Agency: Water Services Agency</i></p>   | 0.5 days         | MXN 145          |
| 7   | <p><b>Register Construction Statement Type B</b></p> <p>Construction Statement Type B applies to nonresidential or mixed uses of up to 5,000 square meters or up to 10,000 square meters for residential use or for single-family dwelling units within a risk zone.</p> <p>The following documents must be submitted:</p> <ul style="list-style-type: none"> <li>• Valid alignment certificate and official number (simple original copy or certified one)</li> <li>• Single zoning certificate for specific land use and feasibility (simple original copy or certified copy for collation)</li> <li>• Four copies of the architectural project for the construction work on duly outlined scale maps and containing all specifications regarding materials, finishes, and equipment to be used, signed by the owner, the director responsible for the construction work, and the co-responsible party for urban and architectural design and installations, as the case may be</li> <li>• Project descriptive report</li> <li>• Calculation report</li> <li>• Registration and identification card of the director responsible for the construction work and the co-responsible party for structural safety, urban and architectural design, and installations as appropriate (simple original copy or certified copy for collation)</li> <li>• Two copies of the structural design signed by the director responsible for the construction work and the co-responsible party for structural safety</li> <li>• Proof of payment of improvement taxes for potable water and sewerage works provided by the Federal District Department and license issuance fees if the application is required (simple original copy or certified copy for collation). Because the building considered here requires installation or modification of the water main and hook-up to the sewage system, the application and proof of payment of the corresponding fees are attached.</li> </ul> <p>After registration of the construction statement, the one-stop shop (Ventanilla Única Delegacional) reviews the submitted data and documents and verifies the progress of the construction work under the terms stated in the Administrative Verification Rules (Reglamento de Verificación Administrativa) for the Federal District.</p> <p>The director responsible for the construction work undertakes to post a signboard showing the registration number in the</p> | 1 day            | MXN 800,407      |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <p>construction work statement and the general construction work data, including the location and statement validity. The signboard must be posted in a visible place and legible from the public pathway.</p> <p>The validity of the statement (for construction work completion) is as follows:</p> <ul style="list-style-type: none"> <li>• Up to 300 square meters: 1 year</li> <li>• 300 -- 1,000 square meters: 2 years</li> <li>• More than 1,000 square meters: 3 years</li> </ul> <p>The cost breakdown for obtaining the building permit is the following:</p> <ul style="list-style-type: none"> <li>• Register: MXN 562.20 (DF Tax Code 2016 Article 185, Sec. B, fr. I, p.a)</li> <li>• Analysis: MXN 81.95 x 1,300.6 m2 = MXN 106,584.71 (DF Tax Code 2016 Article 185, Sec. B, fr. I, p.b)</li> <li>• Compensations for the Environment: MXN 43.38 x 1300.6 m2 = 56,420.028 MXN (DF Tax Code 2016 Article 300)</li> <li>• Compensations for road impact: MXN 125.20 x 1300.6 m2 = 161,835.9 MXN (DF Tax Code 2016 Article 301)</li> <li>• Rights for new water and sewage connection: MXN 306.68 x 1300.6 m2= 398,868 MXN (DF Tax Code 2016 Article 302)</li> </ul> <p>TOTAL= 725,269.53 MXN</p> <p>The cost breakdown for water and sewage:</p> <p>.</p> <p>A) Services of Hydraulic Construction and Operation (Art. 181)</p> <ul style="list-style-type: none"> <li>• Water Connection: MXN 14,347.50 (DF Tax Code Article 181, Section A, fr. I, p. c)</li> <li>• Water measurer device: MXN 7,198.73 (DF Tax Code Article 181, Section A, fr. III, p. c)</li> <li>• "Armado de Cuadro": MXN 1,505.93 (DF Tax Code Article 181, Section A, fr. IV, p. c)</li> <li>• Sewage Connection: MXN 9,714.84 (DF Tax Code, Article 181, Section B, fr. I, p. a) (Escogemos terreno tipo I y II)</li> </ul> <p>B) Authorization to use the Water and Sewage Network (Art. 182)</p> <ul style="list-style-type: none"> <li>• Technical assessment: MXN 41,121.80 (DF Tax Code, Article 182, fr. I, p. 2)</li> <li>• Water pipes usage fee: MXN 1,248.69 (DF Tax Code, Article 182, fr. III)</li> </ul> <p>TOTAL = 75,137.49</p> <p>Thus, the total cost to Register Construction Statement Type B based on "Codigo Fiscal del Distrito Federal" amended in December 2014 is the following: MXN 725,269.53 + MXN 75,137.49 = MXN 800,407.016</p> <p>The cost for the water connection includes the installation of the main pipeline, board, and meter. The cost to connect to water and sewage services are included in this procedure since the proof of payment of such fees are needed to request connection to these utility services (procedure 10). The cost is established by</p> |                  |                  |

| No.              | Procedure  | Time to complete | Cost to complete |
|------------------|--|------------------|------------------|
|                  | <p>the Financial Code of the Federal District. This procedure cannot be done without the results of the previous one, so it cannot be simultaneous.</p> <p><i>Agency: Ventanilla Única Delegacional</i></p>  |                  |                  |
| <p><b>8</b></p>  | <p><b>Notify the Municipal Authority upon completion of construction work</b></p> <p>The notification of completion is made in writing once the construction has been completed. Once notified, inspectors may visit the location within a week to verify the construction is in compliance with all applicable regulation.</p> <p><i>Agency: Municipality</i></p>               | <p>1 day</p>     | <p>no charge</p> |
| <p><b>9</b></p>  | <p><b>Receive inspection upon completion of construction work from Directorate of General Works</b></p> <p>BuildCo. request the occupancy clearance once all the previous inspections have been passed in a satisfactory way.</p> <p><i>Agency: Directorate of General Works (Municipality)</i></p>  | <p>1 day</p>     | <p>no charge</p> |
| <p><b>10</b></p> | <p><b>Request and obtain occupancy clearance</b></p> <p>Building use clearance is granted by the one-stop shop, once the occupancy clearance is issued to BuildCo.</p> <p><i>Agency: Delegational One-Stop Shop</i></p>  | <p>6 days</p>    | <p>no charge</p> |
| <p><b>11</b></p> | <p><b>Request and obtain authorization from civil protection</b></p> <p>An inspection from the civil protection agency (Secretaria de Protección Civil) will be conducted upon request by BuildCo. After the form and the emergency plan are filed, the civil protection agency will issue a certificate within 7 days.</p> <p><i>Agency: Secretaria de Protección Civil</i></p> | <p>7 days</p>    | <p>no charge</p> |
| <p><b>12</b></p> | <p><b>Request and connect to water and sewage services</b></p> <p>Once BuildCo. receives the authorization by the Civil Protection Department, it can request and obtain the water and sewage services.</p> <p><i>Agency: Sistema de Aguas de la Ciudad de México</i></p>  | <p>30 days</p>   | <p>no charge</p> |

| No.  | Procedure  | Time to complete | Cost to complete |
|------|--|------------------|------------------|
| * 13 | <p><b>Update the building record at the Tax Ministry</b></p> <p>Finally, BuildCo. is apt to register the new warehouse. The time and cost of updating the building record are established by the Financial Code of the Federal District, Article 217. The building is not actually registered with the Property Registry. Once built, a cadastral actualization document (manifestacion de actualisacion del valor cadastral) is filed for tax purposes with the Tax Ministry. The information in the new deed is updated only when the property (with the building included) is sold. In Mexico, the owner of the land is automatically the owner of the building unless otherwise specified. Only in cases where the owner of the building and the owner of the property are two different people would the building be registered.</p> <p><i>Agency: Tax Ministry</i></p> | 1 day            | no charge        |

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

Note: Online procedures account for 0.5 days in the total time calculation.

Summary of time, cost and procedures for dealing with construction permits in Mexico - Monterrey

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
| 1   | <p><b>Obtain feasibility of zoning certificate (uso de suelo) in the Secretariat for Urban Development and Ecology</b></p> <p>The zoning certificate provides information on the type of constructions that are allowed on the land.</p> <p>The following documents must be provided:</p> <ul style="list-style-type: none"> <li>a. Feasibility application for urbanizing the land (original)</li> <li>b. Property title (1 copy)</li> <li>c. A document certifying the legal status of the applicant:</li> <li>d. Incorporation charter registered with the relevant authority (1 copy)</li> <li>e. Power of Attorney (1 copy)</li> <li>f. Official identification of owner and agent (1 copy)</li> <li>g. Updated proof of payment of the property tax (1 copy)</li> <li>h. Location plan of the property</li> <li>i. Payment of the corresponding fees</li> </ul> <p>In areas considered high risk, a geophysical, geological and hydrological study done by a registered expert may also be requested.</p> <p>The procedure is legislated in Arts. 140 and 143 of the Zoning and Land Use Regulations of the City of Monterrey, Nuevo León. The basis of the cost is Art. BIS-52, Section I of the Finance Act for the Municipalities of Nuevo León.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p> | 5 days           | MXN 146          |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
| 2   | <p><b>Receive civil protection authorization from the Department of Civil Protection at the Secretariat for Urban Development and Ecology (SEDUE)</b></p> <p>This consists of the verification that the premises comply with the security measures and minimum standards of protection to prevent civil contingencies when in operation.</p> <p>The following documents must be provided:</p> <ul style="list-style-type: none"> <li>a. Official identification of the legal representative;</li> <li>b. 2 copies of the architectural plan;</li> <li>c. Proof of payment of the property taxes;</li> <li>d. Photograph of the land;</li> <li>e. Constitutive Act.</li> </ul> <p>The procedure is legislated in Art. 12, Section XXVI of the Civil Protection Rules of the City of Monterrey, and Art. 26, Section XXI of the Civil Protection Code of the State of Nuevo León.</p> <p><i>Agency: Department of Civil Protection</i></p>         | 8 days           | MXN 3,652        |
| * 3 | <p><b>Obtain alignment certificate (alineamiento vial) from the Secretariat for Urban Development and Ecology</b></p> <p>The certificate of alignment is issued by the Secretariat for Urban Development and Ecology, not the Fire Department, to provide the exact limit of the private property in regards to public roads.</p> <p>The following documents must be provided:</p> <ul style="list-style-type: none"> <li>a. Document proving ownership;</li> <li>b. Official identification of the legal representative;</li> <li>c. Proof of property taxes paid;</li> <li>d. Plan of the location of the property</li> </ul> <p>The procedure is legislated in Art. Regulation 73 of the Zoning and Land Use Rules of the City of Monterrey, Nuevo León. The basis of the cost is in Art. 52-BIS, Section IX of the Finance Act for the Municipalities of Nuevo León.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p> | 5 days           | MXN 365          |
| 4   | <p><b>Request land use license, building use license, official number and construction license from the Secretariat for Urban Development and Ecology</b></p> <p>ONce the certificate of alignment is issued, BuildCo. can request the land use license, building use license, official number and construction license from the Secretariat for Urban Development and Ecology.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p>  | 1 day            | no charge        |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
| 5   | <p><b>Receive inspection prior to issuing the land use license, building use license, official number and construction license from the Secretariat for Urban Development and Ecology</b></p> <p>Prior to the issuance of the building permit, there is a site visit to verify the conditions of the property. The inspection is scheduled at the time of the application for licenses of land use, building use and construction.</p> <p>The procedure is legislated in Art. 351 of the Law of Urban Development of the State of Nuevo Leon.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p>   | 1 day            | no charge        |
| 6   | <p><b>Receive land use license, building use license, official number and construction license from the Secretariat for Urban Development and Ecology</b></p> <p>Through a unique form issued by the City of Monterrey, the official number that corresponds to the property is provided, in addition to the permitted and prohibited uses at the site. The authorization of the construction of a new building on the premises is also provided.</p> <p>The following documents must be presented:</p> <ul style="list-style-type: none"> <li>a. Application form;</li> <li>b. Document proving ownership;</li> <li>c. Proof of payment of property tax;</li> <li>d. Professional license and responsive letter signed by the DRO;</li> <li>e. 4 photographs of the exterior of the property;</li> <li>f. Drawings of the draft;</li> <li>g. Architectural plans of the project in physical and AutoCAD 2004 format;</li> <li>h. Evidence of alignment;</li> <li>i. Soil mechanics and technical report of the project;</li> <li>j. Policy of liability insurance;</li> <li>k. Approval of Municipal Civil Protection;</li> <li>l. Proof of payment of fees.</li> </ul> <p>The customer must go to the Dirección de Control Urbano to complete the procedure from Monday to Friday between 8:00 am to 2:00 pm.</p> <p>The procedure is legislated in Art. 11 of the Zoning and Land Use Rules of the Municipality of Monterrey, Nuevo Leon and Arts. 17 and 20 of the Building Rules of the City of Monterrey, Nuevo León. The basis of the cost is in Art. 52, Section I, Subsection A, Art. 52- BIS, Section II, Paragraph E, Section III, Paragraph E and Art. 55 of the Finance Act for the Municipalities of the State of Nuevo León.</p> | 40 days          | MXN 51,195       |

| No.             | Procedure   | Time to complete | Cost to complete  |
|-----------------|---|------------------|-------------------|
|                 | <p><i>Agency: Secretariat for Urban Development and Ecology</i></p>   |                  |                   |
| <p><b>7</b></p> | <p><b>Update the cadastral registry</b></p> <p>BuildCo must update the cadastral information of the property (surface and value) before beginning construction.</p> <p>The following documents must be presented:</p> <ul style="list-style-type: none"> <li>a. Application form</li> <li>b. Official property plan approved by the municipal authority</li> <li>c. Proof of payment of the property tax</li> <li>d. Land use license</li> <li>e. Title deed</li> <li>f. Power of attorney of the legal representative</li> <li>g. Identification document of the person submitting the application</li> <li>h. Payment of the corresponding fees</li> </ul> <p>The procedure is regulated in Arts. 9, 22, and 31 bis 1 of the Cadastral Law of the State of Nuevo León and Arts. 12, 14, 25, 26, 29, 31 and 21 of the regulations of the Cadastral Law of the State of Nuevo León.</p> <p>The cost is regulated by Art. 277, Section V of the Finance Law of the State of Nuevo León.</p> <p><i>Agency: Municipal Treasury</i></p> | <p>6 days</p>    | <p>MXN 35,419</p> |
| <p><b>8</b></p> | <p><b>Request and obtain feasibility study for water and drainage services from the Water and Drainage Services of Monterrey (SADM)</b></p> <p>It is the process that confirms the possibility of providing a potable water and sewer service connection in a certain area of the city.</p> <p>To perform the procedure, BuildCo must have:</p> <ul style="list-style-type: none"> <li>a. Unique form to request the service;</li> <li>b. Sketch of the location.</li> </ul> <p>BuildCo must visit any commercial office the SADM at the Customer Service Section and request the feasibility to contract the service.</p> <p>The procedure is legislated in Art. 42 of the Finance Act for the Municipalities of Nuevo León.</p> <p><i>Agency: Water and Drainage Services of Monterrey (SADM)</i></p>   | <p>21 days</p>   | <p>no charge</p>  |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
| 9   | <p><b>Obtain excavation permit from the Secretariat of Public Services (Technical Department, Permit Coordination)</b></p> <p>This permit allows BuildCo to conduct any excavation of the road to install the pipes. The pavement must be repaired to its initial status after the completion of the work.</p> <p>To obtain the permit, BuildCo must submit:</p> <ul style="list-style-type: none"> <li>a. Communication addressed to the Technical Director;</li> <li>b. Proof of payment of property tax;</li> <li>c. Copy of the constitution;</li> <li>d. Official identification of the legal representative;</li> <li>e. Work project;</li> <li>f. Work program;</li> <li>g. Copy of professional license and identification of the DRO;</li> <li>h. Payment of fees;</li> <li>i. Escrow;</li> <li>j. Feasibility of water and drainage.</li> </ul> <p>The procedure is legislated in Art. 37 of the Building Code of the City of Monterrey, Nuevo León. The basis of the cost is in the Art. 52, Section III of the Finance Act for the Municipalities of Nuevo León.</p> <p><i>Agency: Secretariat of Public Services (Technical Department, Permit Coordination)</i></p>   | 5 days           | MXN 54,780       |
| 10  | <p><b>Request and connect to water and drainage services at the Water and Drainage Services of Monterrey (SADM)</b></p> <p>BuildCo must submit the following:</p> <ul style="list-style-type: none"> <li>a. Document proving ownership;</li> <li>b. Official identification of the legal representative;</li> <li>c. Articles of incorporation;</li> <li>d. Land use permit;</li> <li>e. Building permit;</li> <li>f. Registration of wastewater discharge;</li> <li>g. Architectural plan.</li> </ul> <p>The procedure is legislated in Art. 42 of the Finance Act for the Municipalities of Nuevo Leon and Art. 31 of the Building Code of the City of Monterrey, Nuevo León. The basis of the cost is in the Second Agreement, Title Services Water and Sewerage of Monterrey, IPD Meter Installation Fees for Connection and Service Standards Reinstalling Meter; Official Gazette no. 147.</p> <p>The cost is calculated as follows: [MXN 13,266.30 for the infrastructure contribution] + [MXN 9,140 for water connection] + [MXN 9,350 for drain connection] + [MXN 1,750 for the meter and installation]. It is assumed that the average water need is 662 liters/day and the average wastewater flow is 568 liters/day. A diameter of 1 inch for the drinking water connection and 4 inches for the drain connection are also assumed. Connection costs include labor, materials and costs of repaving.</p> | 21 days          | MXN 28,984       |

| No.              | Procedure  | Time to complete | Cost to complete |
|------------------|--|------------------|------------------|
|                  | <p><i>Agency: Water and Drainage Services of Monterrey (SADM)</i></p>  |                  |                  |
| <p><b>11</b></p> | <p><b>Submit completion of construction work report (oficio de obra terminada) and request stamp by the Secretariat for Urban Development and Ecology</b></p> <p>BuildCo or the Responsible of Construction works (Responsable de Obra) must provide a final report to the Secretariat for Urban Development and Ecology which certifies that the construction work was executed under his supervision, complying with the rules and following what was authorized.</p> <p>BuildCo or the Responsible of Construction Works must submit the following:</p> <ul style="list-style-type: none"> <li>a. Application form;</li> <li>b. Proof of payment of property tax;</li> <li>c. Responsive letter and copy of the professional license of the DRO;</li> <li>d. 2 original and 1 copy of the flat plane of history;</li> <li>e. Approval of civil protection;</li> <li>f. Articles of incorporation.</li> <li>g. Approved building license</li> </ul> <p>Payment is then made to obtain the stamp.</p> <p>The procedure is legislated in Art. 123 of the Building Code the City of Monterrey, Nuevo León. Moreover the obligations corresponding to the "Responsable de Obra" can be found in Art. 12 of the Building Code</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p> | <p>1 day</p>     | <p>no charge</p> |
| <p><b>12</b></p> | <p><b>Receive final inspection from the Secretariat for Urban Development and Ecology</b></p> <p>A final inspection is carried out to verify that the warehouse has been built in accordance with the regulations and the approved plans. The inspection is scheduled at the time of the notification of the completion of the construction.</p> <p>The procedure is legislated in Art. 351 of the Urban Development Law of the State of Nuevo Leon.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p>   | <p>1 day</p>     | <p>no charge</p> |
| <p><b>13</b></p> | <p><b>Obtain certificate of completion of construction work from the Secretariat for Urban Development and Ecology</b></p> <p>Once the final report is revised and the appropriate fees are paid, the Secretariat for Urban Development and Ecology will issue the certificate of completion, certifying that the warehouse is built in accordance with</p>  | <p>3 days</p>    | <p>MXN 183</p>   |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <p>existing regulations and approved plans.</p> <p>The procedure is legislated in Art. 123 of the Building Code of the City of Monterrey, Nuevo León. The basis of the cost is in Art. 52-BIS, Section VIII of the Finance Act for the Municipalities of Nuevo León.</p> <p><i>Agency: Secretariat for Urban Development and Ecology</i></p> |                  |                  |

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

Note: Online procedures account for 0.5 days in the total time calculation.

## DEALING WITH CONSTRUCTION PERMITS

### Building Quality Control Index

The building quality control index is the sum of the scores on the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices.

The index ranges from 0 to 15, with higher values indicating better quality control and safety mechanisms in the construction permitting system.

The indicator is based on the same case study assumptions as the measures of efficiency.

Table 3.3 Summary of time quality control and safety mechanisms in Mexico

|  | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|--|---|---------------------|---|-------------------|
| Building quality control index (0-15)  |   | 12.0                |   | 10.0              |
| Quality of building regulations index (0-2)  |   | 2.0                 |   | 2.0               |
| How accessible are building laws and regulations in your economy? (0-1)  | Available online; Free of charge.                                   | 1.0                 | Available online; Free of charge.                                   | 1.0               |
| Which requirements for obtaining a building permit are clearly specified in the building regulations or on any accessible website, brochure or pamphlet? (0-1) | List of required documents; Fees to be paid; Required preapprovals. | 1.0                 | List of required documents; Fees to be paid; Required preapprovals. | 1.0               |
| Quality control before construction index (0-1)  |   | 1.0                 |   | 1.0               |
| Which third-party entities are required by law to verify that the building plans are in compliance with existing building regulations? (0-1)                   | Licensed architect; Licensed engineer.                              | 1.0                 | Licensed architect; Licensed engineer.                              | 1.0               |
| Quality control during construction index (0-3)  |   | 2.0                 |   | 2.0               |
| What types of inspections (if any) are required by law to be carried out during construction? (0-2)  | Inspections by in-house engineer.                                   | 1.0                 | Inspections by in-house engineer.                                   | 1.0               |
| Do legally mandated inspections occur in practice during construction? (0-1)   | Mandatory inspections are always done in practice.                  | 1.0                 | Mandatory inspections are always done in practice.                  | 1.0               |
| Quality control after construction index (0-3)   |   | 2.0                 |   | 3.0               |
| Is there a final inspection required by law to verify that   | Yes, final  | 2.0                 | Yes, final  | 2.0               |

|   | Answer (Mexico City)   | Score (Mexico City) | Answer (Monterrey)   | Score (Monterrey) |
|---|--|---------------------|--|-------------------|
| the building was built in accordance with the approved plans and regulations? (0-2)   | inspection is done by government agency; Yes, in-house engineer submits report for final inspection. |                     | inspection is done by government agency; Yes, in-house engineer submits report for final inspection.       |                   |
| Do legally mandated final inspections occur in practice? (0-1)  | Final inspection does not always occur in practice; Final inspection occurs most of the time.        | 0.0                 | Final inspection always occurs in practice.  | 1.0               |
| Liability and insurance regimes index (0-2)   |  | 1.0                 |  | 2.0               |
| Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use (Latent Defect Liability or Decennial Liability)? (0-1)  | Professional in charge of the supervision; Construction company; Owner or investor.                  | 1.0                 | Architect or engineer; Professional in charge of the supervision; Construction company; Owner or investor. | 1.0               |
| Which parties (if any) are required by law to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use (Latent Defect Liability Insurance or Decennial Insurance)? (0-1) | No party is required by law to obtain insurance .  | 0.0                 | No party is required by law to obtain insurance ; Owner or investor.                                       | 1.0               |
| Professional certifications index (0-4)   |  | 4.0                 |  | 0.0               |
| What are the qualification requirements for the professional responsible for verifying that the architectural plans or drawings are in compliance with existing building regulations? (0-2)                                 | Minimum number of years of experience; University degree in architecture or engineering              | 2.0                 | University degree in architecture or engineering.  | 0.0               |

|   | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)   | Score (Monterrey) |
|---|---|---------------------|--|-------------------|
|   | ; Being a registered architect or engineer; Passing a certification exam.   |                     |  |                   |
| What are the qualification requirements for the professional who supervises the construction on the ground? (0-2) | Minimum number of years of experience; University degree in engineering, construction or construction management; Being a registered architect or engineer; Passing a certification exam. | 2.0                 | University degree in engineering, construction or construction management. | 0.0               |

Source: Doing Business database.

## GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

*What do the indicators cover?*

*Doing Business* records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. In addition, this year *Doing Business* adds two new measures: the reliability of supply and transparency of tariffs index (included in the aggregate distance to frontier score and ranking on the ease of doing business) and the price of electricity (omitted from these aggregate measures). The ranking of economies on the ease of getting electricity is determined by sorting their distance to frontier scores for getting electricity. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions are used.

### Assumptions about the warehouse

The warehouse:

- Is owned by a local entrepreneur.
- Is located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is located in an area where similar warehouses are typically located. In this area a new electricity connection is not eligible for a special investment promotion regime (offering special subsidization or faster service, for example).
- Is located in an area with no physical constraints. For example, the property is not near a railway.
- Is a new construction and is being connected to electricity for the first time.

The warehouse (*continued*):

### WHAT THE GETTING ELECTRICITY INDICATORS MEASURE

#### Procedures to obtain an electricity connection (number)

- Submitting all relevant documents and obtaining all necessary clearances and permits
- Completing all required notifications and receiving all necessary inspections
- Obtaining external installation works and possibly purchasing material for these works
- Concluding any necessary supply contract and obtaining final supply

#### Time required to complete each procedure (calendar days)

- Is at least 1 calendar day
- Each procedure starts on a separate day
- Does not include time spent gathering information
- Reflects the time spent in practice, with little follow-up and no prior contact with officials

#### Cost required to complete each procedure (% of income per capita)

- Official costs only, no bribes
- Excludes value added tax

#### The reliability of supply and transparency of tariffs index

- Sum of the scores of six component indices:
  - Duration and frequency of outages
  - Tools to monitor power outages
  - Tools to restore power supply
  - Regulatory monitoring of utilities' performance
  - Financial deterrents aimed at limiting outages
  - Transparency and accessibility of tariffs

#### Price of electricity (cents per kilowatt-hour)\*

- Price based on monthly bill for commercial warehouse in case study

**\*Price of electricity is not included in the calculation of distance to frontier nor ease of doing business ranking**

- Has two stories, both above ground, with a total surface area of approximately 1,300.6 square meters (14,000 square feet). The plot of land on which it is built is 929 square meters (10,000 square feet).
- Is used for storage of goods.

#### Assumptions about the electricity connection

##### The electricity connection:

- Is a permanent one.
- Is a three-phase, four-wire Y connection with a subscribed capacity of 140-kilo-volt-ampere (kVA) with a power factor of 1, when 1 kVA = 1 kilowatt (kW).
- Has a length of 150 meters. The connection is to either the low- or medium-voltage distribution network and is either overhead or underground, whichever is more common in the area where the warehouse is located. Requires works that involve the crossing of a 10-meter road (such as by excavation or overhead lines) but are all carried out on public land. There is no crossing of other owners' private property because the warehouse has access to a road.
- Includes only a negligible length in the customer's private domain.
- Does not require work to install the internal wiring of the warehouse. This has already been completed up to and including the customer's service panel or switchboard and the meter base

#### Assumptions about the monthly consumption

- It is assumed that the warehouse operates 30 days a month from 9:00 a.m. to 5:00 p.m. (8 hours a day), with equipment utilized at 80% of capacity on average and that there are no electricity cuts (assumed for simplicity reasons).
- The monthly energy consumption is 26,880 kilowatt-hours (kWh); hourly consumption is 112 kWh.
- If multiple electricity suppliers exist, the warehouse is served by the cheapest supplier.
- Tariffs effective in March of the current year are used for calculation of the price of electricity for the warehouse. Although March has 31 days, for calculation purposes only 30 days are used.

## GETTING ELECTRICITY

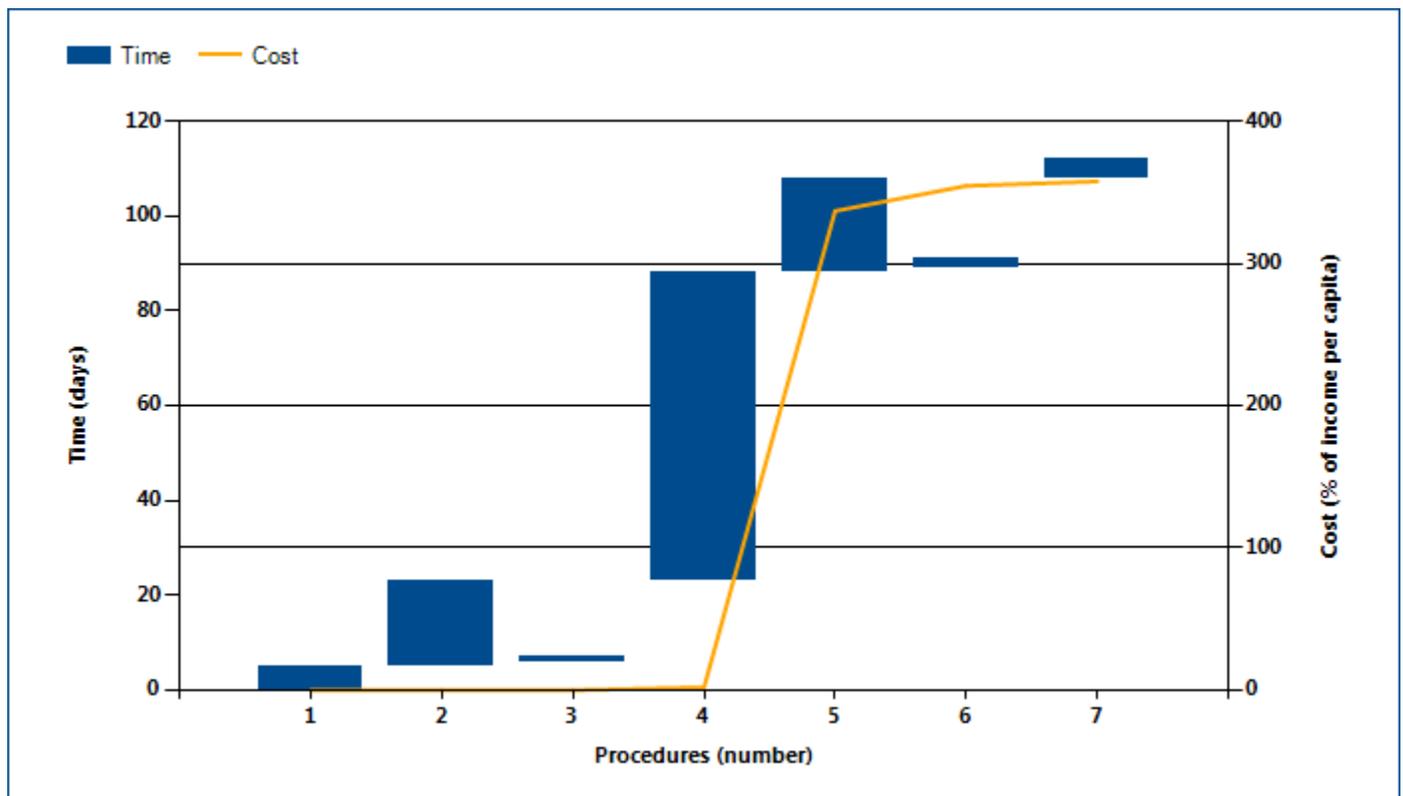
### Where does the economy stand today?

What does it take to obtain a new electricity connection in Mexico? According to data collected by *Doing Business*, getting electricity there requires 6.8 procedures, takes 100.4 days and costs 336.7% of income per capita (figure 4.1).

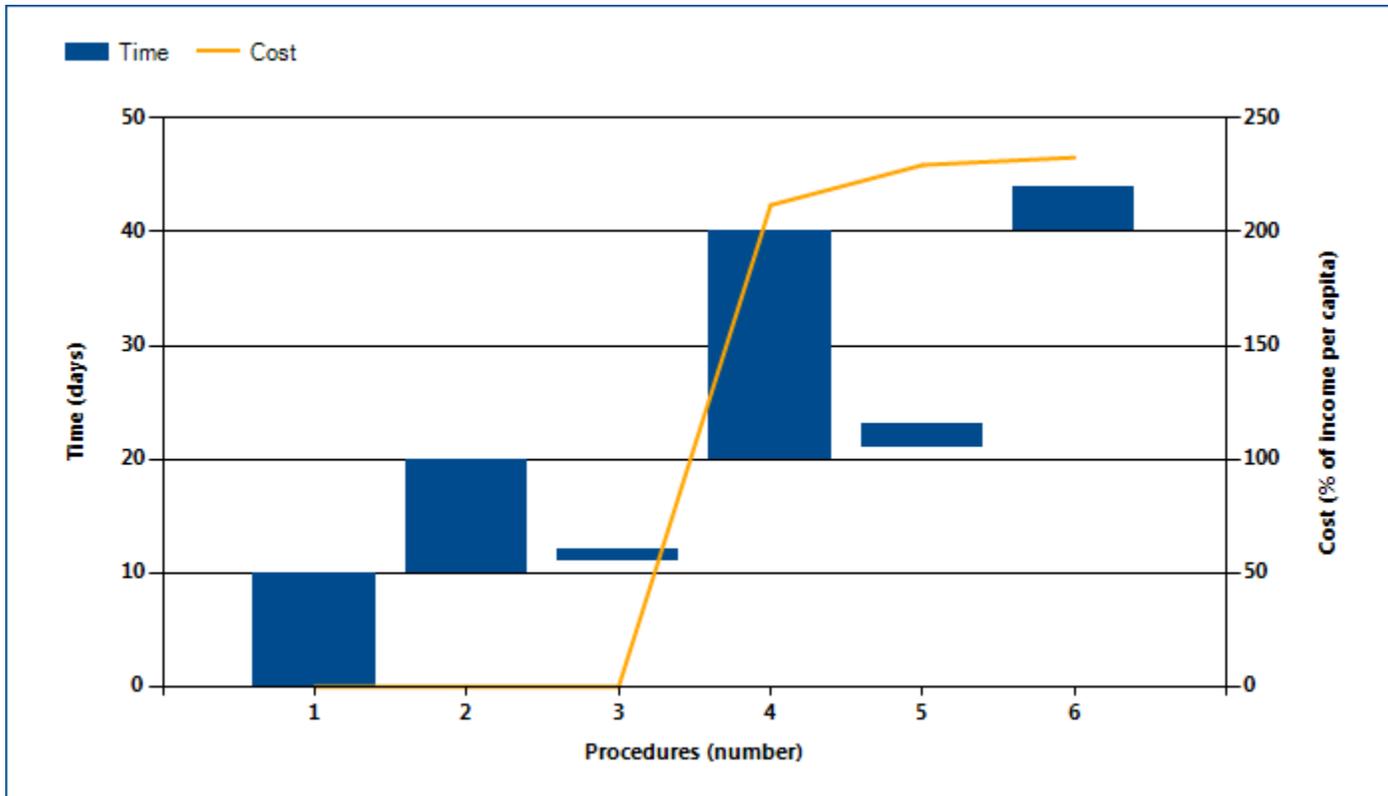
business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Most indicator sets refer to a case scenario in the largest

Figure 4.1 What it takes to obtain an electricity connection in Mexico - Mexico City



What it takes to obtain an electricity connection in Mexico - Monterrey



Source: *Doing Business* database.

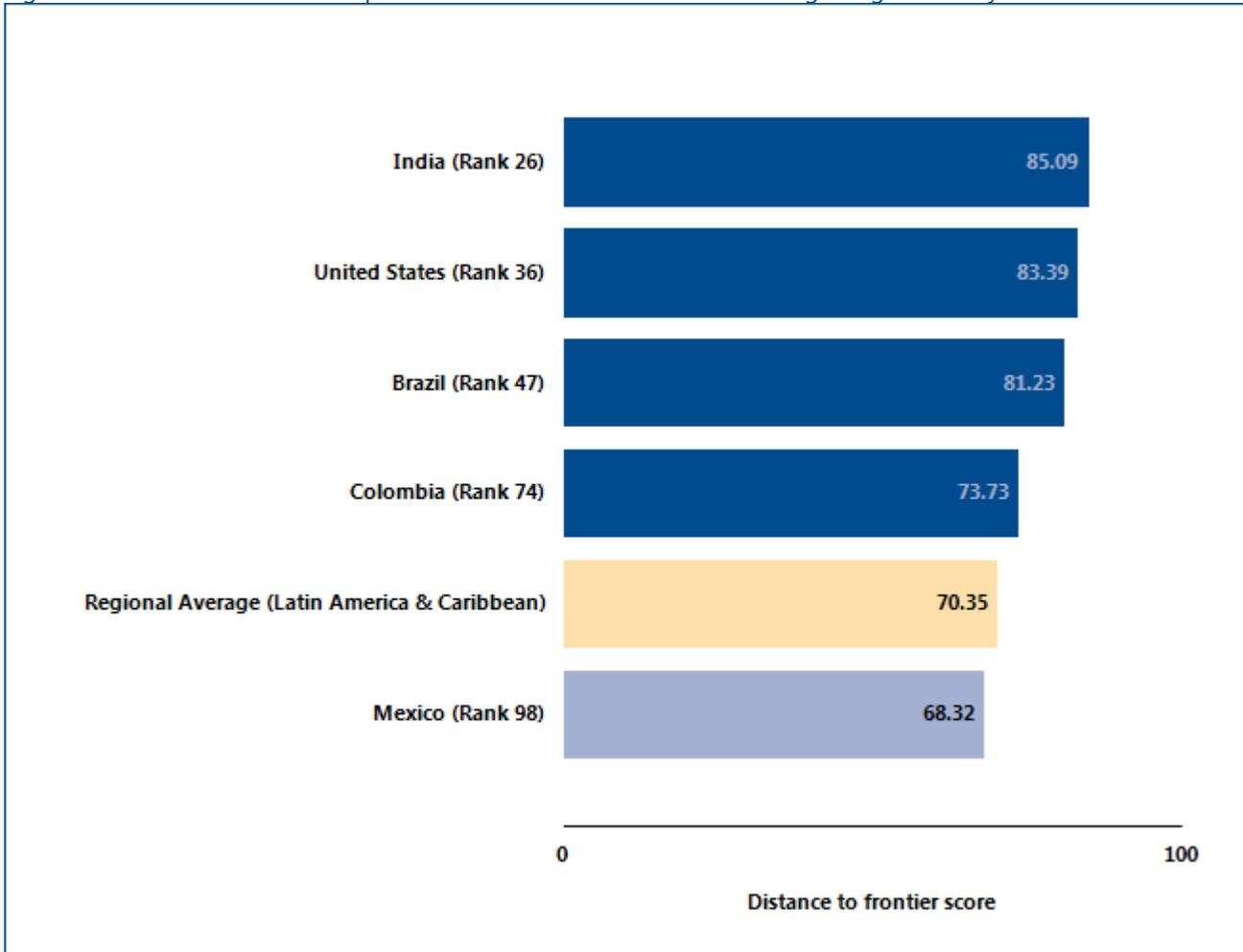
Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

### GETTING ELECTRICITY

Globally, Mexico stands at 98 in the ranking of 190 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the regional

average ranking provide another perspective in assessing how easy it is for an entrepreneur in Mexico to connect a warehouse to electricity.

Figure 4.2 How Mexico and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

## GETTING ELECTRICITY

Obtaining an electricity connection is essential to enable a business to conduct its most basic operations. In many economies the connection process is complicated by the multiple laws and regulations involved—covering service quality, general safety, technical standards, procurement practices and internal wiring installations. In an effort to

ensure safety in the connection process while keeping connection costs reasonable, governments around the world have worked to consolidate requirements for obtaining an electricity connection. What reforms in getting electricity has *Doing Business* recorded in Mexico (table 4.1)?

Table 4.1 How has Mexico made getting electricity easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform  |
|---------------|---|
| <b>DB2013</b> | In Mexico the distribution utility made getting electricity easier by streamlining procedures, offering training opportunities to private contractors, using a geographic information system (GIS) to map the electricity distribution network and increasing the stock of materials. |
| <b>DB2014</b> | Mexico made getting electricity easier by increasing the efficiency of the utility's internal processes and by enforcing a "silence is consent" rule for the approval of the feasibility study for a new connection.  |

Source: *Doing Business* database.

## GETTING ELECTRICITY

### What are the details?

The indicators reported here for Mexico are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

#### OBTAINING AN ELECTRICITY CONNECTION\*

|   |   |
|---|---|
| <b>Name of utility - Mexico City:</b>                         | <b>CFE</b>                                    |
| <b>Name of utility - Monterrey:</b>                           | <b>Comisión Federal de Electricidad (CFE)</b> |
| <b>Price of electricity (US cents per kWh) - Mexico City:</b> | <b>6.7</b>                                    |
| <b>Price of electricity (US cents per kWh) - Monterrey:</b>   | <b>7.1</b>                                    |
| <b>City:</b>  | <b>Mexico City, Monterrey</b>                 |

\*Price is calculated as a monthly consumption of 26,880 kWh for business customers, based on a standardized case study adopted by the Getting Electricity methodology. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity.

Table 4.2 Summary of time, cost and procedures for getting electricity in Mexico

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
| 1   | <p><b>Request feasibility study from CFE</b></p> <p>The client request a feasibility study to the Comisión Federal de Electricidad (CFE). The energy demand and a sketch of the localization of the warehouse are requested by the CFE.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p> | 5 calendar days  | MXN 0            |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
| 2   | <p><b>Hire electrical contractor to design connection and submit plans to CFE for approval</b></p> <p>Once the feasibility of the project has been confirmed by Comisión Federal de Electricidad (CFE), the clients electrical contractor obtains the design specifications from CFE, prepares the design of the electrical works needed to carry out the connection on the basis of these specifications and awaits approval of the plans from CFE.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>              | 18 calendar days | MXN 0            |
| * 3 | <p><b>Receive technical inspection by CFE for design approval</b></p> <p>This external inspection is necessary to validate the design of the connection works.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>  | 1 calendar day   | MXN 0            |
| 4   | <p><b>Obtain permit from municipality for external works</b></p> <p>The customer or the electrical contractor obtains the authorization from the Municipality to carry out the connection works in public land. Authorizations from the Public Works Secretary and from the Civil Protection Secretary are also needed.</p> <p><i>Agency: Municipality district, Public Works Secretary and Civil Protection Secretary</i></p>   | 65 calendar days | MXN 2,620        |
| 5   | <p><b>Await completion of external works by electrical contractor</b></p> <p>The installation of the transformer substation and the external connection works are the responsibility of the customer, who can choose to hire a private contractor to do the works.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>  | 20 calendar days | MXN 475,000      |
| * 6 | <p><b>Obtain approval of internal wiring installation from specialized firm</b></p> <p>The monitoring of the internal wiring installations is done by a specialized firm (Unidad de Verificación de Instalaciones Eléctricas ) which is responsible for checking that the wiring was done according to Mexican standards.</p> <p>The applicant must go to a Unidad de Verificación de Instalaciones Eléctricas (UVIE), accredited with the Entidad Mexicana de Acreditamiento (EMA) and registered with the Ministry of Energy</p> | 2 calendar days  | MXN 25,000       |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
|     | <p>(Secretaria de Energia). The firm will verify that the electrical installation meets the safety standards established in NOM-001-SEDE 2012; the UVIE also oversees the external work that is performed by the client (construction of the electrical substation).</p> <p>A certificate issued at the end of the inspection is needed by the time the supply contract is signed. This procedure may be performed simultaneously with other procedures. The costs associated with this procedure are determined by the Unidad Verificadora and the applicant. If the wiring is done within the provisions of the Mexican Standards, usually one inspection is sufficient to issue the approval (Dictamen de Verificación), but if the applicant did not perform its electrical work within the rules, then the Unidad Verificadora must make several visits to ensure that the wiring corresponds to the standards.</p> <p>Link to <a href="http://www.sener.gob.mx/webSener/portal/index.jsp?id=120">http://www.sener.gob.mx/webSener/portal/index.jsp?id=120</a></p> <p><i>Agency: Empresa privada</i></p> |                  |                  |
| 7   | <p><b>Sign supply contract, pay security deposit and await meter installation by CFE</b></p> <p>At the signing of the contract for providing electrical service connection the certificate of verification for the internal wiring installation must be submitted. The process of signing the supply contract is done after the security deposit has been paid for. Payment is made at the offices of the company. It is possible to settle the security deposit with a bank guarantee. The meter installation is done by the Área comercial which coordinates with the Departamento de Distribucion.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>  | 4 calendar days  | MXN 4,508.67     |

\* Takes place simultaneously with previous procedure.

Source: Doing Business database.

Summary of time, cost and procedures for getting electricity in Mexico - Monterrey

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
| 1   | <p><b>Request feasibility study from CFE</b></p> <p>The client request a feasibility study to the Comisión Federal de Electricidad (CFE). The energy demand and a sketch of the localization of the warehouse are requested by the CFE.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p> | 10 calendar days | MXN 0            |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
|     |   |                  |                  |
| 2   | <p><b>Hire electrical contractor to design connection and submit plans to CFE for approval</b></p> <p>Once the feasibility of the project has been confirmed by Comisión Federal de Electricidad (CFE), the clients electrical contractor obtains the design specifications from CFE, prepares the design of the electrical works needed to carry out the connection on the basis of these specifications and awaits approval of the plans from CFE.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>   | 10 calendar days | MXN 0            |
| * 3 | <p><b>Receive technical inspection by CFE for design approval</b></p> <p>This external inspection is necessary to validate the design of the connection works.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>   | 1 calendar day   | MXN 0            |
| 4   | <p><b>Await completion of external works by electrical contractor</b></p> <p>The installation of the transformer substation and the external connection works are the responsibility of the private contractor hired by the client</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p>   | 20 calendar days | MXN 300,000      |
| * 5 | <p><b>Obtain approval of internal wiring installation by specialized firm</b></p> <p>The monitoring of the internal wiring installations is done by a specialized firm (Unidad de Verificación de Instalaciones Eléctricas ) which is responsible for checking that the wiring was done according to Mexican standards.</p> <p>The applicant must go to a Unidad de Verificación de Instalaciones Eléctricas (UVIE), accredited with the Entidad Mexicana de Acreditamiento (EMA) and registered with the Ministry of Energy (Secretaria de Energia). The firm will verify that the electrical installation meets the safety standards established in NOM-001-SEDE 2012; the UVIE also oversees the external work that is performed by the client (construction of the electrical substation).</p> <p>A certificate issued at the end of the inspection is needed by the time the</p> | 2 calendar days  | MXN 25,000       |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <p>supply contract is signed. This procedure may be performed simultaneously with other procedures. The costs associated with this procedure are determined by the Unidad Verificadora and the applicant. If the wiring is done within the provisions of the Mexican Standards, usually one inspection is sufficient to issue the approval (Dictamen de Verificación), but if the applicant did not perform its electrical work within the rules, then the Unidad Verificadora must make several visits to ensure that the wiring corresponds to the standards.</p> <p><i>Agency: Private company</i></p>  |                  |                  |
| 6   | <p><b>Sign supply contract, pay security deposit and await meter installation by CFE</b></p> <p>At the signing of the contract for providing electrical service connection the certificate of verification for the internal wiring installation must be submitted. The process of signing the supply contract is done after the security deposit has been paid for. Payment is made at the offices of the company. It is possible to settle the security deposit with a bank guarantee. The meter installation is done by the Área comercial which coordinates with the Departamento de Distribucion.</p> <p><i>Agency: Comisión Federal de Electricidad (CFE)</i></p> | 4 calendar days  | MXN 4,688.88     |

\* Takes place simultaneously with previous procedure.

Source: Doing Business database.

## GETTING ELECTRICITY

### Reliability of supply and transparency of tariffs index

The reliability of supply and transparency of tariffs index encompasses quantitative data on the duration and frequency of power outages as well as qualitative information on the mechanisms put in place by the utility for monitoring power outages and restoring power supply, the reporting relationship between the utility and the regulator for power outages, the transparency and accessibility of tariffs and whether the utility faces a financial deterrent aimed at limiting outages (such as a requirement to compensate customers or pay fines when outages exceed a certain cap).

The index ranges from 0 to 8, with higher values indicating greater reliability of electricity supply and greater transparency of tariffs.

*Doing Business* uses the system average interruption duration index (SAIDI) and the system average interruption frequency index (SAIFI) to measure the duration and frequency of power outages in the largest business city of each economy (for 11 economies the data are also collected for the second largest business city). SAIDI is the average total duration of outages over the course of a year for each customer served, while SAIFI is the average number of service interruptions experienced by a customer in a year. Annual data (covering the calendar year) are collected from distribution utility companies and national regulators on SAIDI and SAIFI. Both SAIDI and SAIFI estimates include load shedding.

Table 4.3 Reliability of Supply and Transparency of Tariff Index in Mexico

|   | Answer<br>(Mexico City) | Score (Mexico<br>City) | Answer<br>(Monterrey) | Score<br>(Monterrey) |
|---|-------------------------|------------------------|-----------------------|----------------------|
| Reliability of supply and transparency of tariff index (0-8)  |                         | 6.0                    |                       | 7.0                  |
| Total duration and frequency of outages per customer a year (0-3)   |                         | 2.0                    |                       | 3.0                  |
| System average interruption duration index (SAIDI)  | 0                       |                        | 0.01                  |                      |
| System average interruption frequency index (SAIFI)   | 1.54                    |                        | 0.95                  |                      |
| Mechanisms for monitoring outages (0-1)   |                         | 1.0                    |                       | 1.0                  |
| Does the distribution utility use automated tools to monitor outages?   | Yes                     |                        | Yes                   |                      |
| Mechanisms for restoring service (0-1)  |                         | 1.0                    |                       | 1.0                  |
| Does the distribution utility use automated tools to restore service?   | Yes                     |                        | Yes                   |                      |
| Regulatory monitoring (0-1)   |                         | 1.0                    |                       | 1.0                  |
| Does a regulator—that is, an entity separate from the utility—monitor the utility's performance on reliability of supply? | Yes                     |                        | Yes                   |                      |
| Financial deterrents aimed at limiting outages (0-1)  |                         | 0.0                    |                       | 0.0                  |

|   | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|---|---|---------------------|---|-------------------|
| Does the utility either pay compensation to customers or face fines by the regulator (or both) if outages exceed a certain cap? | No  |                     | No  |                   |
| Communication of tariffs and tariff changes (0-1)   |   | 1.0                 |   | 1.0               |
| Are effective tariffs available online?   | Yes   |                     | Yes   |                   |
| Link to the website, if available online  | <a href="http://app.cfe.gob.mx/Aplicaciones/CCFE/Tarifas/Tarifas/tarifas_industria.asp">http://app.cfe.gob.mx/Aplicaciones/CCFE/Tarifas/Tarifas/tarifas_industria.asp</a> |                     | <a href="http://app.cfe.gob.mx/Aplicaciones/CCFE/Tarifas/Tarifas/tarifas_industria.asp">http://app.cfe.gob.mx/Aplicaciones/CCFE/Tarifas/Tarifas/tarifas_industria.asp</a> |                   |
| Are customers notified of a change in tariff ahead of the billing cycle?  | Yes   |                     | Yes   |                   |

|   | Answer (Mexico City) | Answer (Monterrey) |
|---|----------------------|--------------------|
| Price of electricity (US cents per kWh) | 6.7                  | 7.1                |

Source: *Doing Business* database.

*Note:* If data on power outages is not collected or if the SAIFI index or SAIDI index are above the threshold of 100, the economy is not eligible to obtain a score in the Reliability of Supply and Transparency of Tariff Index. If SAIDI and SAIFI are 12 (equivalent to an outage of one hour each month) or below, a score of 1 is assigned. If SAIDI and SAIFI are 4 (equivalent to an outage of one hour each quarter) or below, 1 additional point is assigned. Finally, if SAIDI and SAIFI are 1 (equivalent to an outage of one hour per year) or below, 1 more point is assigned. *Doing Business* measures the price of electricity but does not include these data when calculating the distance to frontier score for getting electricity or the ranking on the ease of getting electricity. The price of electricity is measured in cents per kilowatt-hour. On the basis of the assumptions about monthly consumption, a monthly bill for a commercial warehouse in the largest business city of the economy is computed for the month of March (for 11 economies the data are also collected for the second largest business city). As noted, the warehouse uses electricity 30 days a month, from 9:00 a.m. to 5:00 p.m., so different tariff schedules may apply if a time-of-use tariff is available.

## REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

### What do the indicators cover?

*Doing Business* records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. In addition, this year *Doing Business* adds a new measure to the set of registering property indicators, an index of the quality of the land administration system in each economy. The ranking of economies on the ease of registering property is determined by sorting their distance to frontier scores for registering property. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned and perform general commercial activities in the economy's largest business city.
- Have 50 employees each, all of whom are nationals.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value and entire property will be transferred.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.

### WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

#### Procedures to legally transfer title on immovable property (number)

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city<sup>2</sup>

Postregistration (for example, filing title with the municipality)

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

#### Cost required to complete each procedure (% of property value)

Official costs only, no bribes

No value added or capital gains taxes included

#### Quality of land administration index (0-30)

- Has no mortgages attached, has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. There is no heating system.

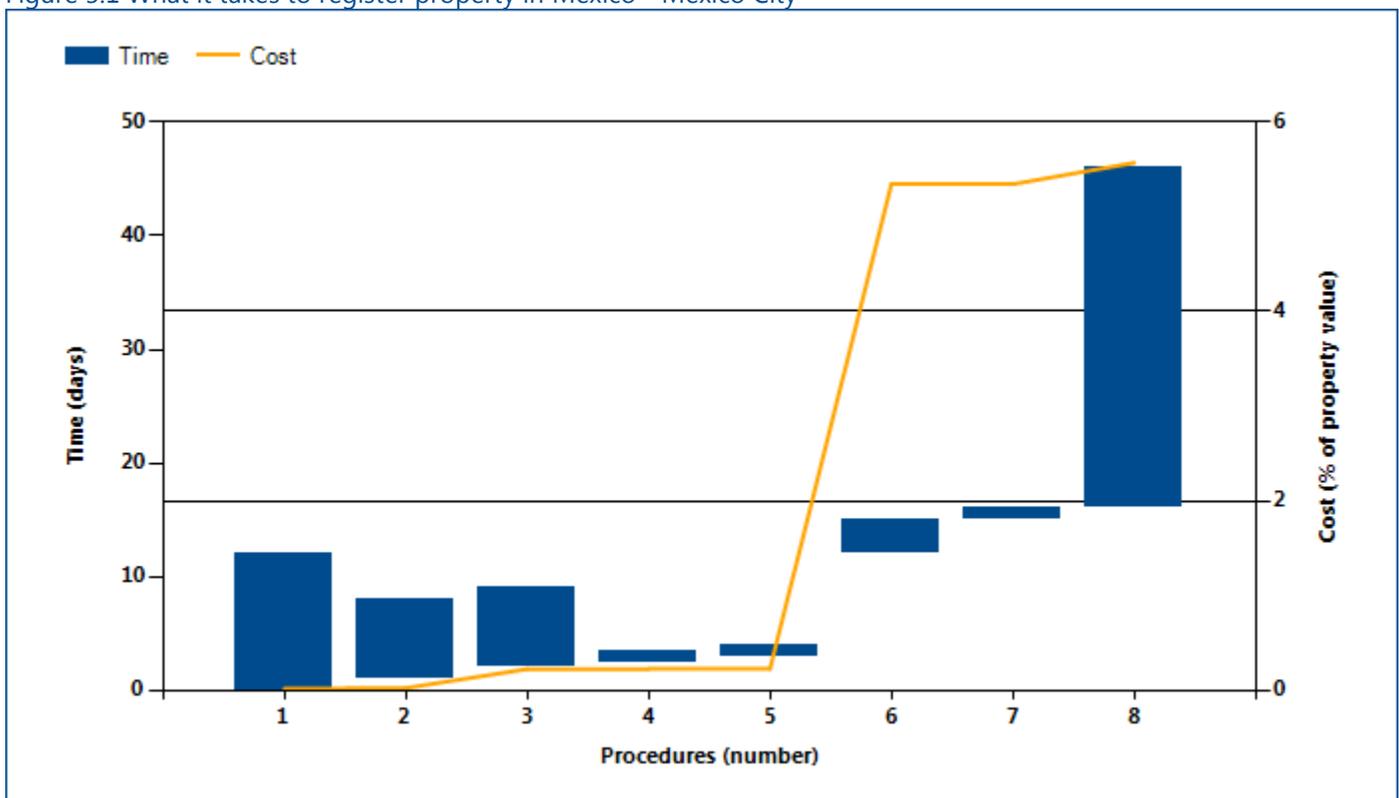
## REGISTERING PROPERTY

### Where does the economy stand today?

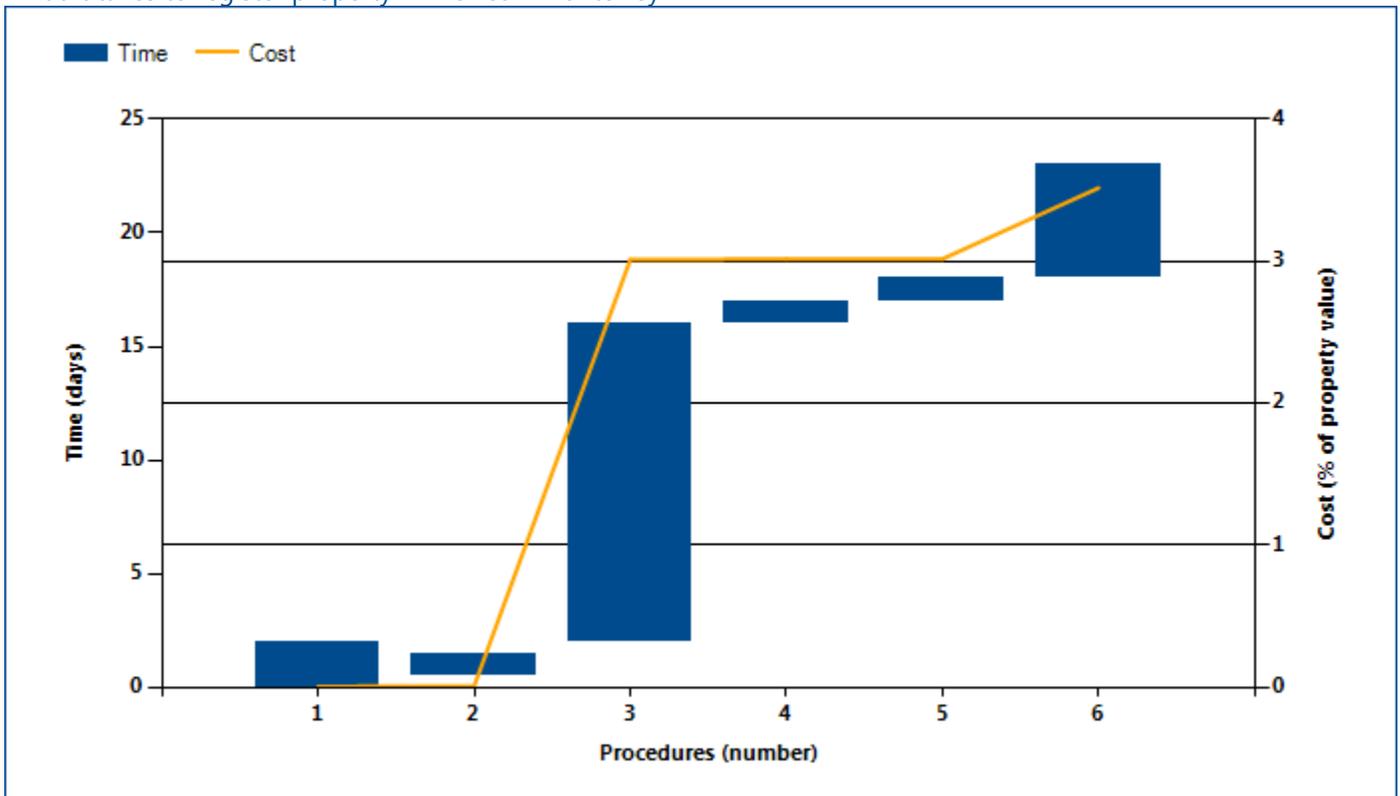
What does it take to complete a property transfer in Mexico? According to data collected by *Doing Business*, registering property there requires 7.7 procedures, takes 42.1 days and costs 5.2% of the property value (figure 5.1). The score on the quality of land administration index is 16.3

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 5.1 What it takes to register property in Mexico - Mexico City



What it takes to register property in Mexico - Monterrey



Source: *Doing Business* database.

Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

### REGISTERING PROPERTY

Globally, Mexico stands at 101 in the ranking of 190 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Mexico to transfer property.

Figure 5.2 How Mexico and comparator economies rank on the ease of registering property



Source: Doing Business database.

## REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many have cut

the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Mexico (table 5.1)?

Table 5.1 How has Mexico made registering property easier—or not?

By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform  |
|---------------|---|
| <b>DB2017</b> | Mexico made registering property easier by digitizing its land records, improving the quality of the Land Registry infrastructure and making the registration process more efficient. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## REGISTERING PROPERTY

### What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer’s name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

| STANDARD PROPERTY TRANSFER |                        |
|----------------------------|------------------------|
| Property value:            | MXN 7,083,838          |
| City:                      | Mexico City, Monterrey |

Table 5.2 Summary of time, cost and procedures for registering property in Mexico Mexico City

| No. | Procedure   | Time to complete  | Cost to complete |
|-----|---|---|------------------|
| 1   | <p><b>The notary obtains the Zoning Certificate of the property</b></p> <p>The Public Registry of Property and Commerce requires a zoning certificate of the property to be attached together with the application to register the property transfer. The notary shall request the zoning certificate at the Ministry of Urban Development and Housing (Secretaría de Desarrollo Urbano y Vivienda). The cost is established in article 235, section III of the Fiscal Code for the Federal District.</p> <p>The applicant must submit an original and copy, the documents below with the corresponding delegation’s single-counter service. The authority will retain only the copies.</p> <ul style="list-style-type: none"> <li>- Form AU-01.</li> <li>- Proof of payment of property taxes to date.</li> <li>- Proof of payment of fees.</li> <li>- Official identification.</li> <li>- Relotificaton or subdivision license, if applicable.</li> <li>- Street number designation and boundary alignment certificate (certificado de alineamiento y número oficial), if applicable.</li> <li>- Public deeds, if applicable.</li> </ul> <p>-If the procedure is not carried out by the owner of the property, it must also submit a proxy letter or a notarized power of attorney.</p> | <p>12 days<br/>(simultaneous with Procedures 2, 3, 4 &amp; 5)</p> | <p>MXN 1,336</p> |

| No.               | Procedure  | Time to complete   | Cost to complete                                     |
|-------------------|--|--|--|
|                   | <p><i>Agency: Ministry of Housing and Urban Development of the Federal District (Secretaría de Desarrollo Urbano y Vivienda del Distrito Federal or SEDUVI)</i></p>  |  |  |
| <p><b>* 2</b></p> | <p><b>The notary obtains a non-encumbrance certificate</b></p> <p>Pursuant to article 3016 of the Civil Code for the Federal District, the notary before whom the transfer deed is being formalized must request a non-encumbrance certificate to the Public Registry. This request also acts as the mandatory pre-preventive notice (aviso preventivo) to the Public Registry, which suspends any inscription on the corresponding property for 60 days.</p> <p>The applicant must submit before the Public Registry of Property and Commerce the following documentation:</p> <ul style="list-style-type: none"> <li>- Application for request in triplicate, including the name and signature of the of the applicant, term of the certificate, location of the property and real estate folio.</li> <li>- Proof of payment of fees established in article 198, section I of the Fiscal Code for the Federal District in duplicate.</li> <li>- The application for request may also be made online, as well as the payment of fees.</li> </ul> <p>This procedure can be done online at the following website:<br/> <a href="http://www.consejeria.cdmx.gob.mx/index.php/dgrppyc/certificado-de-existencia-o-inexistencia-de-gravamenes">http://www.consejeria.cdmx.gob.mx/index.php/dgrppyc/certificado-de-existencia-o-inexistencia-de-gravamenes</a></p> <p><i>Agency: Public Registry of Property of the Federal District ("Registro Público de la Propiedad y del Comercio del Distrito Federal")</i></p> | <p>1 day if urgent process, 7 days if regular process (simultaneous with Procedures 1, 3, 4 &amp; 5)</p> | <p>MXN 540.00 (Non urgent) MXN 1,080.00 (Urgent)</p> |
| <p><b>* 3</b></p> | <p><b>The notary requests a commercial valuation of the property</b></p> <p>A commercial valuation is required under the Fiscal Code of the Federal District to determine the taxable value of the property subject to transfer. Article 116 of the Fiscal Code of the Federal District establishes that the property tax shall be calculated taking in to account the highest of (i) the purchase price, (ii) the cadastral value, and (iii) the value resulting from the commercial valuation by the fiscal authorities or authorized appraiser.</p> <p>The notaries usually have their own appraisers. Nevertheless, the parties may hire the appraiser they choose. When banks are involved in the</p>   | <p>7 days (simultaneous with Procedures 1, 2, 4 &amp; 5)</p>   | <p>0.2% of the Property Value</p>                    |

| No.        | Procedure  | Time to complete   | Cost to complete   |
|------------|--|--|--|
|            | <p>transaction, they will usually bring in the valuers they usually work with. Sometimes parties have a previous valuation, and the notary can have it reviewed to see if it suffices. However, these previous valuations are usually not fiscal ones and therefore another one has to be done to determine the value of the property for the ISAI tax, but also for the VAT tax to which commercial constructions are subject to when transferred (please note that the land is not taxable under VAT, just the commercial constructions).</p> <p><i>Agency: Licensed valuer</i></p>  |  |  |
| <p>* 4</p> | <p><b>The notary obtains a certificate of good standing with the water service</b></p> <p>Article 27 of the Fiscal Code for the Federal District establishes that the interested parties shall provide the notary evidence that the property subject to transfer has no outstanding debts to the water supply provider and property tax. This evidence should cover any outstanding from up to five years before the date when the public deed of sale and purchase is signed.</p> <p>In January 2016, a new online platform was introduced to complete this procedure online (<a href="http://www.finanzas.df.gob.mx">http://www.finanzas.df.gob.mx</a>). In order to request this information ("constancia de adeudo de aguas"), the petitioner only has to submit the water utility Account Number associated with the property to the system and pay the corresponding fee of MXN 144.70.</p> <p><i>Agency: Sistema de Aguas de la Ciudad de México (SACM)</i></p> | <p>less than a day<br/>(online procedure simultaneous with Procedures 1, 2, 3 &amp; 5)</p>   | <p>MXN 144.7</p>   |
| <p>* 5</p> | <p><b>The notary checks the good standing of the seller on the property tax (predial)</b></p> <p>The certificate of good standing of the seller on the property tax ("impuesto predial") is one of the documents to be provided by the interested parties under art. 27 of the Fiscal Code of the Federal District; the receipts of payments of the predial (boletas) are no longer required.</p> <p>Since February 2015, it has been possible to obtain this information online (<a href="http://www.finanzas.df.gob.mx">http://www.finanzas.df.gob.mx</a>). The petitioner has to submit the Cadaster Number (Cuenta Predial) in order to obtain the information of any outstanding debts of the property for the last 5 years.</p> <p><i>Agency: Ministry of Finance of the Federal District (Secretaría de Finanzas del Distrito Federal)</i></p>  | <p>less than a day if checked online or 13 days if certificate of good standing ("constancia de no adeudo") is requested (online procedure, simultaneous with procedures 1, 2, 3 &amp; 4).</p> | <p>MXN 144.7 if certificate of good standing ("constancia de no adeudo") is requested; no cost if information is checked online.</p> |

| No. | Procedure   | Time to complete | Cost to complete  |
|-----|---|------------------|---|
| 6   | <p><b>The notary formalizes the sale purchase agreement</b></p> <p>The notary public will request from the seller:</p> <ul style="list-style-type: none"> <li>• Property title (escritura), which the seller already has</li> <li>• Receipts evidencing the payment for real estate taxes for a period of five years (boletas del impuesto predial)</li> <li>• Receipts evidencing the payment of water fees for a period of five years (boletas del servicio de agua)</li> <li>• Public deed(s) containing the incorporation and by-laws of the seller company (escritura constitutiva), together with copy of any public deed(s) containing amendments to the by-laws of the seller company</li> <li>• Public deed(s) containing the powers of attorney granted in favor of the seller's representatives (for acts of domain and acts of administration in terms of the second and third paragraph of article 2554 of the Civil Code of the Federal District)</li> <li>• Copy of the official identification of the seller's and buyer's representatives</li> </ul> <p>The notary will procure on behalf of the parties:</p> <ul style="list-style-type: none"> <li>• The zoning certificate (obtained in Procedure 2)</li> <li>• The valuation (obtained in Procedure 3)</li> <li>• Certificate of good standing with the water company (obtained in Procedure 1)</li> <li>• Certificate of good standing in the property tax (obtained in procedure 4)</li> </ul> <p>The buyer is subject to pay the acquisition tax ("Impuesto sobre Adquisiciones o Transmisión de Dominio"). In this respect, on the date of execution of the real estate purchase agreement before the notary public, said notary public will retain the above mentioned taxes and pay them before Treasury Department.</p> <p>The scale of notary tariffs is with respect to the Notary Publics of the Federal District only. Other Mexican states have varying scales.</p> <p>The seller will also have to pay the income tax and the value added tax as follows:</p> | 3 days           | <p>MXN 342,412.82 according to our case study (Property Acquisition Tax plus Notary Fees Tax)</p> <p>The Property Acquisition Tax is determined, pursuant to article 113 of the Fiscal Code of the Federal District. The Tax schedule is as follows (cumulative and progressive fee schedule):</p> <p>From MXN 0.12 to MXN 94,072.57: MXN 207.92. Rate between these amounts 0.01105</p> <p>From MXN 94,072.58 to MXN 150,516.06: MXN 1,247.52 Rate between these amounts 0.03315</p> <p>From MXN 150,516.07 to MXN 225,773.88: MXN 3,118.80 Rate between these amounts 0.05526</p> <p>From MXN 225,773.89 to MXN 451,547.89: MXN 7,277.20 Rate between these amounts 0.03684</p> <p>From MXN</p> |

| No. | Procedure  | Time to complete | Cost to complete  |
|-----|--|------------------|---|
|     | <p>The applicable Income Tax for transferors resident in Mexico is 28% on the gain (the excess of the sale price over the adjusted tax basis). The tax basis of real estates is in general terms the original cost of acquisition as updated for inflation.</p> <p>The value added tax (16%) is applicable only with respect to the constructions that conform to the property and therefore an allocation of the price to the land and constructions should be made in the sales agreement based on an appraisal. The value added tax will be shifted to the buyer.</p> <p>The notary public shall calculate its fees as set forth in Article 15 of the Notary Fees of the Federal District (Arancel de Notarios of March 2015), taking into account the highest of (i) the purchase price, (ii) the cadastral value, and (iii) the value resulting from the commercial valuation by the fiscal authorities or authorized appraiser.</p> <p><i>Agency: Notary</i></p> |                  | <p>451,547.90 to<br/>MXN 1,128,869.71:<br/>MXN 15,594.00<br/>Rate between<br/>these amounts<br/>0.03530<br/>From MXN<br/>1,128,869.72 to<br/>MXN 2,257,739.43:<br/>MXN 39,504.80<br/>Rate between<br/>these amounts<br/>0.04328<br/>From MXN<br/>2,257,739.44 to<br/>MXN 4,349,334.30:<br/>MXN 88,366.00<br/>Rate between<br/>these amounts<br/>0.04722<br/>From MXN<br/>4,349,334.31 to<br/>MXN<br/>11,326,391.96:<br/>MXN 187,128.00<br/>Rate between<br/>these amounts<br/>0.04768<br/>From MXN<br/>11,326,391.97 to<br/>MXN<br/>20,887,467.14:<br/>MXN 519,800.00<br/>Rate between<br/>these amounts<br/>0.04812<br/>From MXN<br/>20,887,467.15 and<br/>up: MXN<br/>981,000.00 Rate<br/>after this amount<br/>0.04997</p> <p>Notary fees are<br/>calculated<br/>according to Art.</p> |

| No. | Procedure   | Time to complete | Cost to complete   |
|-----|---|------------------|--|
|     |   |                  | <p>15 of the official Mexico DF Notary Fees schedule. The fee schedule is as follows (cumulative and regressive fee schedule):</p> <p>Until MXN 143,183.00: Fix fee of MXN 4,172.00</p> <p>From MXN 143,183.01 to MXN 286,366.00: Rate of 1.125%</p> <p>From MXN 286,366.01 to MXN 572,732.00: Rate of 0.975%</p> <p>From MXN 572,732.01 to MXN 1,145,464.00: Rate of 0.825%</p> <p>From MXN 1,145,464.01 to MXN 2,290,928.00: Rate of 0.675%</p> <p>From MXN 2,290,928.01 to MXN 4,581,856.00: Rate of 0.578%</p> <p>From MXN 4,581,856.01 to MXN 9,163,713.00: Rate of 0.420%</p> <p>From MXN 9,163,713.01 onwards: Rate of 0.327%</p> |
| 7   | <p><b>The Notary lodges the preventive notice (aviso preventivo) at the Public Registry of Property of the Federal District</b></p> <p>According to Article 3016 of the Civil Code of Mexico DF establishes that the Notary has to give a preventive notice to the Public Registry of Property during the next 48 hours after the public deed has been signed</p> | 1 day            | No cost  |

| No. | Procedure   | Time to complete | Cost to complete |
|-----|---|------------------|------------------|
|     | <p>by both parties of the transaction. In practice, the Notary will fill up a specific form for the "aviso preventivo" and lodge it to the Registry the next day after the signature (sometimes even during the same say of the signature). This notice suspends any possible inscription to the property object of the transaction up to 30 days.</p> <p><i>Agency: Public Registry of Property of the Federal District ("Registro Público de la Propiedad y del Comercio del Distrito Federal")</i></p>   |                  |                  |
| 8   | <p><b>Registration of the transfer of title at the Public Registry of Property of the Federal District</b></p> <p>The notary public will proceed with the registration of the first testimony of the public deed containing the formalization of the purchase agreement of a real estate and the transfer of title, before the Public Registry of Property of the Federal District. After registration, the buyer will have to give notice to the corresponding water department, and any other company that provides any service to the property (i.e. electric company, water, etc.)</p> <p><i>Agency: Public Registry of Property of the Federal District ("Registro Público de la Propiedad y del Comercio del Distrito Federal")</i></p> | 30 days          | MXN 15,950       |

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

Note: Online procedures account for 0.5 days in the total time calculation.

Summary of time, cost and procedures for registering property in Mexico Monterrey

| No. | Procedure  | Time to complete                          | Cost to complete  |
|-----|--|---|---|
| 1   | <p><b>The notary obtains the non-encumbrance certificate and gives the pre-preventive notice (aviso pre-preventivo) to the Public Registry (IRCNL)</b></p> <p>The non-encumbrance certificate contains information including the description of the property and information regarding any charges, liens, mortgages or other encumbrances.</p> <p>To complete the procedure the notary must present the non-encumbrance certificate form (original and copy) with the information included in the sale and purchase agreement. By presenting this form the Notary sends the mandatory pre-preventive notice on behalf of the parties as well. The pre-preventive notice serves a double purpose: (i) As a notification to the Public Registry of the intention to transfer a registered property; and (ii) as a suspension of registration of any transaction or encumbrance (such as mortgages) upon the corresponding property by any third party. This suspension lasts 30 days.</p> | 2 days<br>(simultaneous with procedure 2) | MXN 219.12 for the non-encumbrance certificate (3 daily minimum wages at MXN 73.04 per harmonized minimum wage for Mexico) and MXN 292.16 for the pre-preventive notice (4 daily minimum wages) |

| No.        | Procedure   | Time to complete   | Cost to complete   |
|------------|---|--|--|
|            | <p>The procedure is regulated by Article 2910 of the Civil Code of the State of Nuevo León, Art. 8 Section VII and Articles 59, 61 and 63 of the Regulatory Law of the Property and Commercial Public Registry of the State of Nuevo León. The cost is regulated by Art. 271 Sections X and XII of the Finance Law of the State of Nuevo León.</p> <p><i>Agency: Public Registry (Instituto Registral y Catastral del Estado de Nuevo León, IRCNL)</i></p>  |  |  |
| <p>* 2</p> | <p><b>Obtain the cadastral value of the property from the Cadaster (Dirección de Catastro - IRCNL)</b></p> <p>The property transfer tax is calculated based on the cadastral value obtained through this procedure. The notaries can complete this procedure online through the Cadaster's online platform receiving the response immediately. The value obtained is merely informative.</p> <p>If the value is requested in person the following documents are required:</p> <ul style="list-style-type: none"> <li>a. Application form (original and copy)</li> <li>b. Receipt of payment of property tax "predial" (copy)</li> <li>c. ID of the owner</li> <li>d. Document identifying the applicant as the legal representative of the company (when requested on behalf of a company, copy)</li> <li>e. Public deed or sale agreement (copy)</li> <li>f. Receipt of payment of fees</li> </ul> <p>The procedure is regulated by Art. 34 of the Regulatory Law of the Cadaster Law. The cost is regulated by Art. 276, Section III-A of the Finance Law of the State of Nuevo León.</p> <p><i>Agency: Cadaster (Dirección del Catastro - IRCNL)</i></p> | <p>Less than 1 day<br/>(online procedure, simultaneous with procedure 1)</p> | <p>MXN 292.16 (4 daily minimum wages)</p>  |
| <p>3</p>   | <p><b>The notary prepares and executes the public deed, and collects and pays the property transfer (ISAI) tax at the municipality</b></p> <p>Currently there is not an official fee schedule for notary fees in Monterrey. Notaries would normally charge 1% of the property value, but is negotiable between the parties and the Notary.</p> <p>To complete the payment of the property transfer tax the notary would go the municipality and present the following documents:</p>  | <p>14 days</p>   | <p>2% of the property value for the property transfer tax + 1% of the property value for notary fees</p> |

| No. | Procedure   | Time to complete | Cost to complete                   |
|-----|---|------------------|------------------------------------|
|     | <p>a. Public deed</p> <p>b. Cadastral value (obtained in procedure 2)</p> <p>c. Receipt of payment of property tax "predial"</p> <p>d. Statement of payment</p> <p>The procedure is regulated by Art. 28 Bis fo the Finance Law for the Municipalities of the State of Nuevo León. The property transfer tax is based on the highest value between the sale price or the cadastral value.</p> <p>With the entry into force in July 2013 of the Federal Law for the Prevention and Identification of Operations with Illicit Resources (Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita) the notaries have to notify the Ministry of Finance (Secretaría de Hacienda y Crédito Público) if they provide services related with the transfer of a property above a certain amount.</p> <p><i>Agency: Notary</i></p>   |                  |                                    |
| 4   | <p><b>The notary gives the preventive notice to the Public Registry (IRCNL)</b></p> <p>Once the deed is signed the notary gives notice to the Public Registry informing of the conclusion of the transaction. The notice will have a validity of 60 days during which this transaction will have the priority over any other recordable action on the property.</p> <p>To complete this procedure the notary must present the following:</p> <p>a. Notice with the names of the parties of the transaction</p> <p>b. The purpose of the transaction</p> <p>c. The deed number</p> <p>d. Signature date</p> <p>The notary must bring the documentation to the Public Registry, pay the corresponding fees and receive the confirmation that the notice has been processed by the Registry. The procedure is regulated by Art. 2910 of the Civil Code of the State of Nuevo León. The cost is regulated by Art. 271, Section XII of the Finance Law of the State of Nuevo León.</p> <p><i>Agency: Public Registry (Instituto Registral y Catastral del Estado de Nuevo León, IRCNL)</i></p> | 1 day            | MXN 292.16 (4 daily minimum wages) |

| No. | Procedure   | Time to complete | Cost to complete   |
|-----|---|------------------|--|
| 5   | <p><b>The notary gives notice of the sale to the Cadaster (Dirección del Catastro – IRCNL)</b></p> <p>It is a common practice to update ownership at the Cadaster before starting the registration procedure at the Property Registry. In practice, the Property Registry requests proof that the Cadaster records have been updated with the new owner.</p> <p>In this procedure the changes in property ownership are recorded in the cadastral registry through the notice provided by the notary. To complete this procedure the following documents are presented by the notary:</p> <ul style="list-style-type: none"> <li>a. Notification of sale form (original)</li> <li>b. Copy of the receipt of payment of the property tax (predial)</li> <li>c. Description of the property</li> </ul> <p>The notary presents the sale notice at the Tax Payer Service Department with the required documents. The documents are reviewed and processed by the corresponding department for their approval. After their evaluation the notary returns for the results of the procedure.</p> <p>The procedure is regulated by Art. 29 of the Cadastral Law and Art. 28 of the Regulatory Law of the Cadastral Law.</p> <p><i>Agency: Cadaster (Dirección del Catastro - IRCNL)</i></p> | 1 day            | no cost  |
| 6   | <p><b>The deed is registered at the Public Registry (IRCNL)</b></p> <p>To complete the registration the notary must bring the following documents:</p> <ul style="list-style-type: none"> <li>a. Notarized public deed</li> <li>b. Receipt of payment of transfer tax (ISAI)</li> <li>c. Paymet of Income Tax</li> <li>d. Non-encumbrance certificate</li> <li>e. Cadastral value</li> </ul> <p>The notary must bring the documentation to the Public Registry and pay the corresponding fees. Once the procedure is completed the notary will come back to the registry to pick up the documentation. The cost is MXN 5 for every thousand or fraction of the property value with a minimum of 5 daily minimum wages (MXN 365.20) and a maximum of 570 daily minimum wages (MXN 41,632.80).</p> <p>The procedure is regulated by Art. 8, Section IV and Arts. 21, 22 and 23</p>  | 5 days           | MXN 5 for every thousand or fraction of the property value |

| No. | Procedure  | Time to complete | Cost to complete |
|-----|--|------------------|------------------|
|     | <p>of the Regulatory Law of the Commercial and Property Public Registry of the State of Nuevo León as well as by Arts. 2901, 2904 and 2910 of the Civil Code of the State of Nuevo León. The cost is regulated by Art. 271, Section I of the Finance Law of the State of Nuevo León.</p> <p><i>Agency: Public Registry (Instituto Registral y Catastral del Estado de Nuevo León, IRCNL)</i></p> |                  |                  |

\* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

## REGISTERING PROPERTY

### Quality of land administration

The quality of land administration index is the sum of the scores on the reliability of infrastructure, transparency of information, geographic coverage and land dispute resolution indices.

The index ranges from 0 to 30, with higher values indicating better quality of the land administration system.

If private sector entities were unable to register property transfers in an economy between June 2014 and June 2015, the economy receives a “no practice” mark on the procedures, time and cost indicators. A “no practice” economy receives a score of 0 on the quality of land administration index even if its legal framework includes provisions related to land administration.

Table 5.3 Summary of quality of land administration in Mexico

|  | Answer (Mexico City)                           | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|--|--|---------------------|---|-------------------|
| Quality of the land administration index (0-30)  |  | 16.0                |   | 17.5              |
| Reliability of infrastructure index (0-8)  |  | 5.0                 |   | 5.0               |
| What is the institution in charge of immovable property registration?  | Registro Público de la Propiedad y de Comercio |                     | Instituto Registral y Catastral del Estado de Nuevo León dependiente de la Dirección de Registro Público de la Propiedad y del Comercio |                   |
| In what format are the majority of title or deed records kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)? | Computer/Scanned                               | 1.0                 | Computer/Scanned  | 1.0               |
| Is there an electronic database for checking for encumbrances (liens, mortgages, restrictions and the like)?   | Yes  | 1.0                 | Yes   | 1.0               |
| In what format are the majority of maps of land plots kept in the largest business city—in a paper format or in a computerized format (scanned or fully digital)?    | Computer/Fully digital                         | 2.0                 | Computer/Fully digital  | 2.0               |
| Is there an electronic database for recording boundaries, checking plans and providing cadastral   | Yes  | 1.0                 | Yes   | 1.0               |

|  | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|--|---|---------------------|---|-------------------|
| information (geographic information system)?   |   |                     |   |                   |
| Is the information recorded by the immovable property registration agency and the cadastral or mapping agency kept in a single database, in different but linked databases or in separate databases? | Separate databases  | 0.0                 | Separate databases  | 0.0               |
| Do the immovable property registration agency and cadastral or mapping agency use the same identification number for properties?   | No  | 0.0                 | No  | 0.0               |
| Transparency of information index (0–6)  |   | 4.0                 |   | 3.5               |
| Who is able to obtain information on land ownership at the agency in charge of immovable property registration in the largest business city?   | Anyone who pays the official fee  | 1.0                 | Anyone who pays the official fee  | 1.0               |
| Is the list of documents that are required to complete any type of property transaction made publicly available—and if so, how?  | Yes, online   | 0.5                 | Yes, online   | 0.5               |
| Link for online access:  | <p>The website <a href="http://www.consejeria.df.gob.mx/index.php/rppyc">http://www.consejeria.df.gob.mx/index.php/rppyc</a> lists all the services provided by the registry, including their costs and waiting time.</p> <p>For transfers: <a href="http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mjg5&amp;direccion=NQ==&amp;">http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mjg5&amp;direccion=NQ==&amp;</a></p> <p>For non encumbrances certificates: <a href="http://www.c">http://www.c</a></p> |                     | <a href="http://nl.gob.mx/dependencias/ir/c/servicios">http://nl.gob.mx/dependencias/ir/c/servicios</a> |                   |

|   | Answer (Mexico City)   | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|---|--|---------------------|---|-------------------|
|   | <a href="http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mzc1&amp;direccion=NQ==&amp;">onsejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mzc1&amp;direccion=NQ==&amp;</a>  |                     |   |                   |
| Is the applicable fee schedule for any property transaction at the agency in charge of immovable property registration in the largest business city made publicly available—and if so, how?                                       | Yes, online  | 0.5                 | Yes, online   | 0.5               |
| Link for online access:   | <a href="http://www.consejeria.df.gob.mx/portal_old/civica/RP_PyCDF01Costos2015.pdf">http://www.consejeria.df.gob.mx/portal_old/civica/RP_PyCDF01Costos2015.pdf</a>  |                     | <a href="http://nl.gob.mx/dependencias/irc/servicios">http://nl.gob.mx/dependencias/irc/servicios</a> |                   |
| Does the agency in charge of immovable property registration commit to delivering a legally binding document that proves property ownership within a specific time frame—and if so, how does it communicate the service standard? | Yes, online  | 0.5                 | Yes, online   | 0.5               |
| Link for online access:   | The website <a href="http://www.consejeria.df.gob.mx/index.php/rppyc">http://www.consejeria.df.gob.mx/index.php/rppyc</a> lists all the services provided by the registry, including their costs and waiting time.<br><br>For transfers: <a href="http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mjg5&amp;direccion=">http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mjg5&amp;direccion=</a> |                     | <a href="http://nl.gob.mx/dependencias/irc/servicios">http://nl.gob.mx/dependencias/irc/servicios</a> |                   |

|  | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|--|---|---------------------|---|-------------------|
|  | NQ==&<br>For non encumbrance s certificates:<br><a href="http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mzc1&amp;direccion=NQ==&amp;">http://www.consejeria.df.gob.mx/portal_old/portal_detalle.php?contenido=Mzc1&amp;direccion=NQ==&amp;</a> |                     |   |                   |
| Is there a specific and separate mechanism for filing complaints about a problem that occurred at the agency in charge of immovable property registration?     | No  | 0.0                 | No  | 0.0               |
| Are there publicly available official statistics tracking the number of transactions at the immovable property registration agency?                            | No  | 0.0                 | No  | 0.0               |
| Number of property transfers in the largest business city in 2015:   |   |                     |   |                   |
| Who is able to consult maps of land plots in the largest business city?  | Anyone who pays the official fee  | 0.5                 | Only intermediaries and interested parties  | 0.0               |
| Is the applicable fee schedule for accessing maps of land plots made publicly available—and if so, how?  | Yes, online   | 0.5                 | Yes, online   | 0.5               |
| Link for online access:  | <a href="http://ovicananzas.df.gob.mx/TRAM/InformacionDetalleTramite.aspx">http://ovicananzas.df.gob.mx/TRAM/InformacionDetalleTramite.aspx</a>   |                     | <a href="http://www.nl.gob.mx/servicios/copia-de-plano-de-terreno">http://www.nl.gob.mx/servicios/copia-de-plano-de-terreno</a> |                   |
| Does the cadastral or mapping agency commit to delivering an updated map within a specific time frame—and if so, how does it communicate the service standard? | Yes, online   | 0.5                 | Yes, online   | 0.5               |
| Link for online access:  | <a href="http://ovicananzas.df.gob.mx/TRAM/InformacionDetalleTramite.aspx">http://ovicananzas.df.gob.mx/TRAM/InformacionDetalleTramite.aspx</a>   |                     | <a href="http://www.nl.gob.mx/servicios/copia-de-terreno">http://www.nl.gob.mx/servicios/copia-de-terreno</a>                   |                   |

|   | Answer<br>(Mexico City) | Score (Mexico<br>City) | Answer<br>(Monterrey) | Score<br>(Monterrey) |
|---|-------------------------|------------------------|-----------------------|----------------------|
|   | alladaTramite.aspx      |                        | plano-de-terreno      |                      |
| Is there a specific and separate mechanism for filing complaints about a problem that occurred at the cadastral or mapping agency?  | No                      | 0.0                    | No                    | 0.0                  |
| Geographic coverage index (0–8)   |                         | 2.0                    |                       | 4.0                  |
| Are all privately held land plots in the economy formally registered at the immovable property registry?  | No                      | 0.0                    | No                    | 0.0                  |
| Are all privately held land plots in the largest business city formally registered at the immovable property registry?  | No                      | 0.0                    | Yes                   | 2.0                  |
| Are all privately held land plots in the economy mapped?  | No                      | 0.0                    | No                    | 0.0                  |
| Are all privately held land plots in the largest business city mapped?  | Yes                     | 2.0                    | Yes                   | 2.0                  |
| Land dispute resolution index (0–8)   |                         | 5.0                    |                       | 5.0                  |
| Does the law require that all property sale transactions be registered at the immovable property registry to make them opposable to third parties?  | Yes                     | 1.5                    | Yes                   | 1.5                  |
| Is the system of immovable property registration subject to a state or private guarantee?   | Yes                     | 0.5                    | Yes                   | 0.5                  |
| Is there a specific compensation mechanism to cover for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry? | No                      | 0.0                    | No                    | 0.0                  |
| Does the legal system require a control of legality of the documents necessary for a property transaction (e.g., checking the compliance of contracts with requirements of the law)?                                | Yes                     | 0.5                    | Yes                   | 0.5                  |
| If yes, who is responsible for checking the legality of the documents?  | Registrar;<br>Notary.   |                        | Registrar;<br>Notary. |                      |
| Does the legal system require verification of the identity of the parties to a property transaction?  | Yes                     | 0.5                    | Yes                   | 0.5                  |
| If yes, who is responsible for verifying the identity of the parties?   | Registrar;<br>Notary.   |                        | Notary.               |                      |
| Is there a national database to verify the accuracy of  | No                      | 0.0                    | No                    | 0.0                  |

|  | Answer<br>(Mexico City)            | Score (Mexico<br>City) | Answer<br>(Monterrey)      | Score<br>(Monterrey) |
|--|------------------------------------|------------------------|----------------------------|----------------------|
| identity documents?  |                                    |                        |                            |                      |
| For a standard land dispute between two local businesses over tenure rights of a property worth 50 times gross national income (GNI) per capita and located in the largest business city, what court would be in charge of the case in the first instance? | Juzgado Civil del Distrito Federal |                        | First instance civil court |                      |
| How long does it take on average to obtain a decision from the first-instance court for such a case (without appeal)?  | Between 1 and 2 years              | 2.0                    | Between 1 and 2 years      | 2.0                  |
| Are there any statistics on the number of land disputes in the first instance?   | No                                 | 0.0                    | No                         | 0.0                  |
| Number of land disputes in the largest business city in 2015:  |                                    |                        |                            |                      |
| Equal access to property rights index (-2-0)   |                                    | 0.0                    |                            | 0.0                  |
| Do unmarried men and unmarried women have equal ownership rights to property?  | Yes                                | 0.0                    | Yes                        | 0.0                  |
| Do married men and married women have equal ownership rights to property?  | Yes                                | 0.0                    | Yes                        | 0.0                  |

Source: Doing Business database.

## GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders to view and consider a potential borrower's financial history (positive or negative) when assessing risk and they allow borrowers to establish a good credit history that will facilitate their access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

### What do the indicators cover?

*Doing Business* assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *Doing Business* uses two case scenarios, Case A and Case B, to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral (for more details on each case, see the Data Notes section of the *Doing Business 2017* report). These scenarios assume that the borrower:

- Is a domestic limited liability company.
- Has its headquarters and only base of operations in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.

### WHAT THE GETTING CREDIT INDICATORS MEASURE

#### Strength of legal rights index (0–12)

Rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

#### Depth of credit information index (0–8)

Scope and accessibility of credit information distributed by credit bureaus and credit registries

#### Credit bureau coverage (% of adults)

Number of individuals and firms listed in largest credit bureau as percentage of adult population

#### Credit registry coverage (% of adults)

Number of individuals and firms listed in credit registry as percentage of adult population

- Has up to 50 employees.
- Is 100% domestically owned, as is the lender.

The ranking of economies on the ease of getting credit is determined by sorting their distance to frontier scores for getting credit. These scores are the distance to frontier score for the strength of legal rights index and the depth of credit information index.

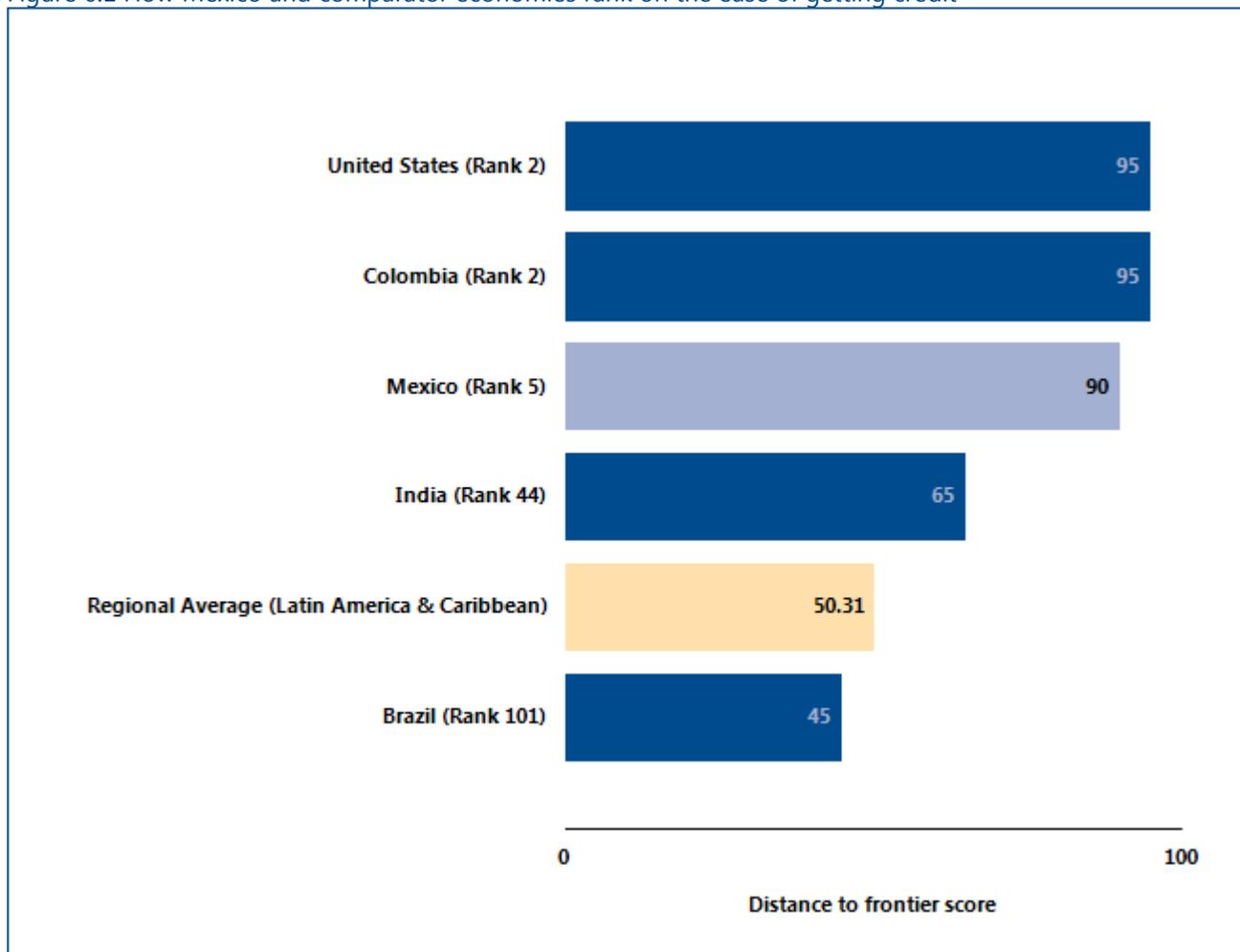
## GETTING CREDIT

### Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Mexico facilitate access to credit? The economy has a score of 8.0 on the depth of credit information index and a score of 10.0 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Mexico stands at 5 in the ranking of 190 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies provide useful information for assessing how well regulations and institutions in Mexico support lending and borrowing.

Figure 6.1 How Mexico and comparator economies rank on the ease of getting credit



Source: Doing Business database.

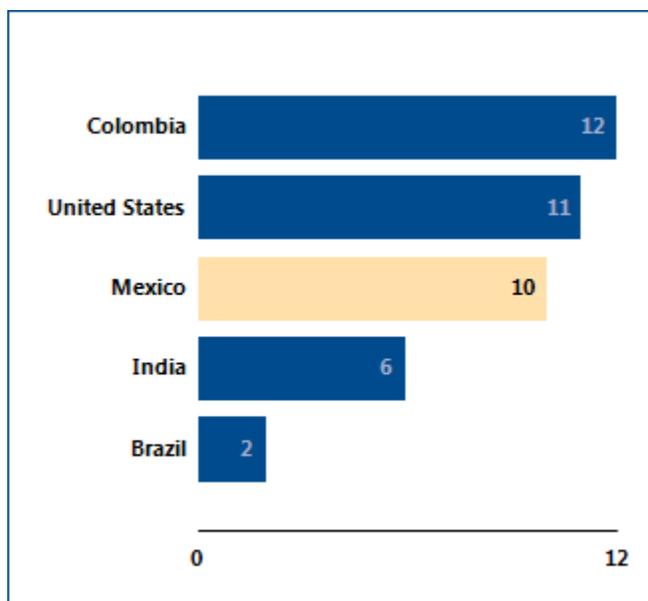
### GETTING CREDIT

One way to put an economy’s score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal

rights index for Mexico and shows the scores for comparator economies as well as the regional average score. Figure 6.3 shows the same for the depth of credit information index.

Figure 6.2 How strong are legal rights for borrowers and lenders?

Economy scores on strength of legal rights index

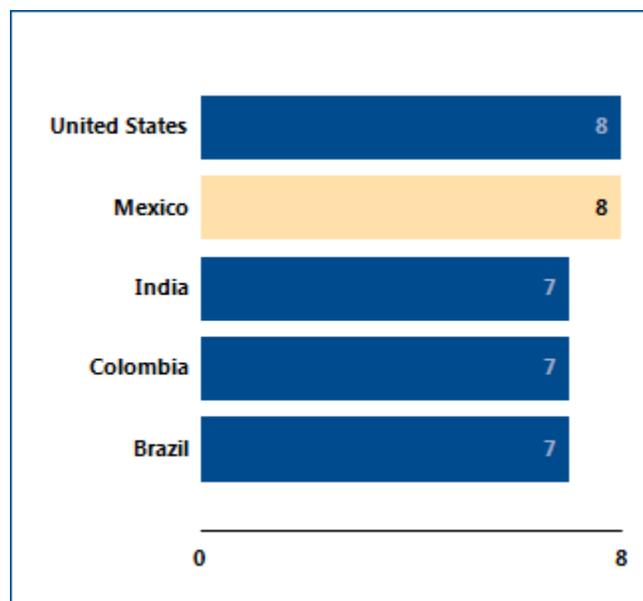


Source: Doing Business database.

Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.

Figure 6.3 How much credit information is shared—and how widely?

Economy scores on depth of credit information index



Source: Doing Business database.

Note: Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

## GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit

information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Mexico (table 6.1)?

Table 6.1 How has Mexico made getting credit easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform   |
|---------------|--|
| <b>DB2012</b> | Mexico strengthened its secured transactions system by implementing a centralized collateral registry with an electronic database that is accessible online.   |
| <b>DB2015</b> | Mexico improved access to credit by amending its insolvency proceedings law and establishing clear grounds for relief from a stay of enforcement actions by secured creditors during reorganization procedures. This reform applies to both Mexico City and Monterrey. |
| <b>DB2016</b> | Mexico improved access to credit by implementing a decree allowing a general description of assets granted as collateral. This reform applies to both Mexico City and Monterrey.   |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## GETTING CREDIT

### What are the details?

The getting credit indicators reported here for Mexico are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a credit registry and/or credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 8 features of the credit registry or credit bureau (see summary of scoring below).

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. For the strength of legal rights index, a score of 1 is assigned for each of 10 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

| <b>Strength of legal rights index (0–12)</b>  | <b>Mexico City<br/>Index score: 10.0</b> | <b>Monterrey<br/>Index score: 10.0</b> |
|---|--|--|
| Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?                                  | 1  | 1                                      |
| Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?  | 1  | 1                                      |
| Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?  | 1  | 1                                      |
| May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets?   | 1  | 1                                      |
| Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered? | 1  | 1                                      |
| Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?  | 1  | 1                                      |
| Does a notice-based collateral registry exist in which all functional equivalents can be registered?  | 1  | 1                                      |
| Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?   | 1  | 1                                      |
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?   | 0  | 0                                      |

| <b>Strength of legal rights index (0–12)</b>  | <b>Mexico City<br/>Index score: 10.0</b> | <b>Monterrey<br/>Index score: 10.0</b> |
|---|--|--|
| Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?  | 0  | 0                                      |
| Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it?                                   | 1  | 1                                      |
| Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt? | 1  | 1                                      |

| <b>Depth of credit information index (0–8)</b>   | <b>Credit bureau</b> | <b>Credit registry</b> | <b>Index score: 8.0</b> |
|--|----------------------|------------------------|-------------------------|
| Are data on both firms and individuals distributed?  | Yes                  | No                     | 1                       |
| Are both positive and negative credit data distributed?  | Yes                  | No                     | 1                       |
| Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed?  | Yes                  | No                     | 1                       |
| Are at least 2 years of historical data distributed? (Credit bureaus and registries that erase data on defaults as soon as they are repaid or distribute negative information more than 10 years after defaults are repaid receive a score of 0 for this component.) | Yes                  | No                     | 1                       |
| Are data on loan amounts below 1% of income per capita distributed?  | Yes                  | No                     | 1                       |
| By law, do borrowers have the right to access their data in the credit bureau or credit registry?  | Yes                  | No                     | 1                       |
| Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)?   | Yes                  | No                     | 1                       |
| Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers?   | Yes                  | No                     | 1                       |

*Note:* An economy receives a score of 1 if there is a "yes" to either bureau or registry. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

| Coverage                             | Credit bureau | Credit registry |
|--------------------------------------|---------------|-----------------|
| Number of individuals                | 91,570,074    | 0               |
| Number of firms                      | 3,454,206     | 0               |
| Total                                | 95,024,280    | 0               |
| Total percentage of adult population | 100.0         | 0.0             |

Source: *Doing Business* database.

## PROTECTING MINORITY INVESTORS

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders.

### What do the indicators cover?

*Doing Business* measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another. The ranking of economies on the strength of minority investor protections is determined by sorting their distance to frontier scores for protecting minority investors. These scores are the simple average of the distance to frontier scores for the extent of conflict of interest regulation index and the extent of shareholder governance index. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that Buyer is a large private company with multiple shareholders.
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.
- Has a supervisory board (applicable to economies with a two-tier board system) on which 60% of the shareholder-elected members have been appointed by Mr. James, who is Buyer's controlling shareholder and a member of Buyer's board of directors.
- Has not adopted any bylaws or articles of association that differ from default minimum standards and does not follow any nonmandatory codes, principles, recommendations or guidelines relating to corporate governance.

### WHAT THE PROTECTING MINORITY INVESTORS INDICATORS MEASURE

#### Extent of disclosure index (0–10)

Review and approval requirements for related-party transactions; Disclosure requirements for related-party transactions

#### Extent of director liability index (0–10)

Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions; Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of the transaction)

#### Ease of shareholder suits index (0–10)

Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses

#### Extent of conflict of interest regulation index (0–10)

Simple average of the extent of disclosure, extent of director liability and ease of shareholder indices

#### Extent of shareholder rights index (0–10)

Shareholders' rights and role in major corporate decisions

#### Extent of ownership and control index (0–10)

Governance safeguards protecting shareholders from undue board control and entrenchment

#### Extent of corporate transparency index (0–10)

Corporate transparency on ownership stakes, compensation, audits and financial prospects

#### Extent of shareholder governance index (0–10)

Simple average of the extent of shareholders rights, extent of ownership and control and extent of corporate transparency indices

#### Strength of minority investor protection index (0–10)

Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices

- Is a manufacturing company with its own distribution network.

The transaction involves the following details:

- Mr. James owns 60% of Buyer and elected two directors to Buyer's five-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores. Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products, a proposal to which Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.
- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent).
- The transaction causes damages to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

## PROTECTING MINORITY INVESTORS

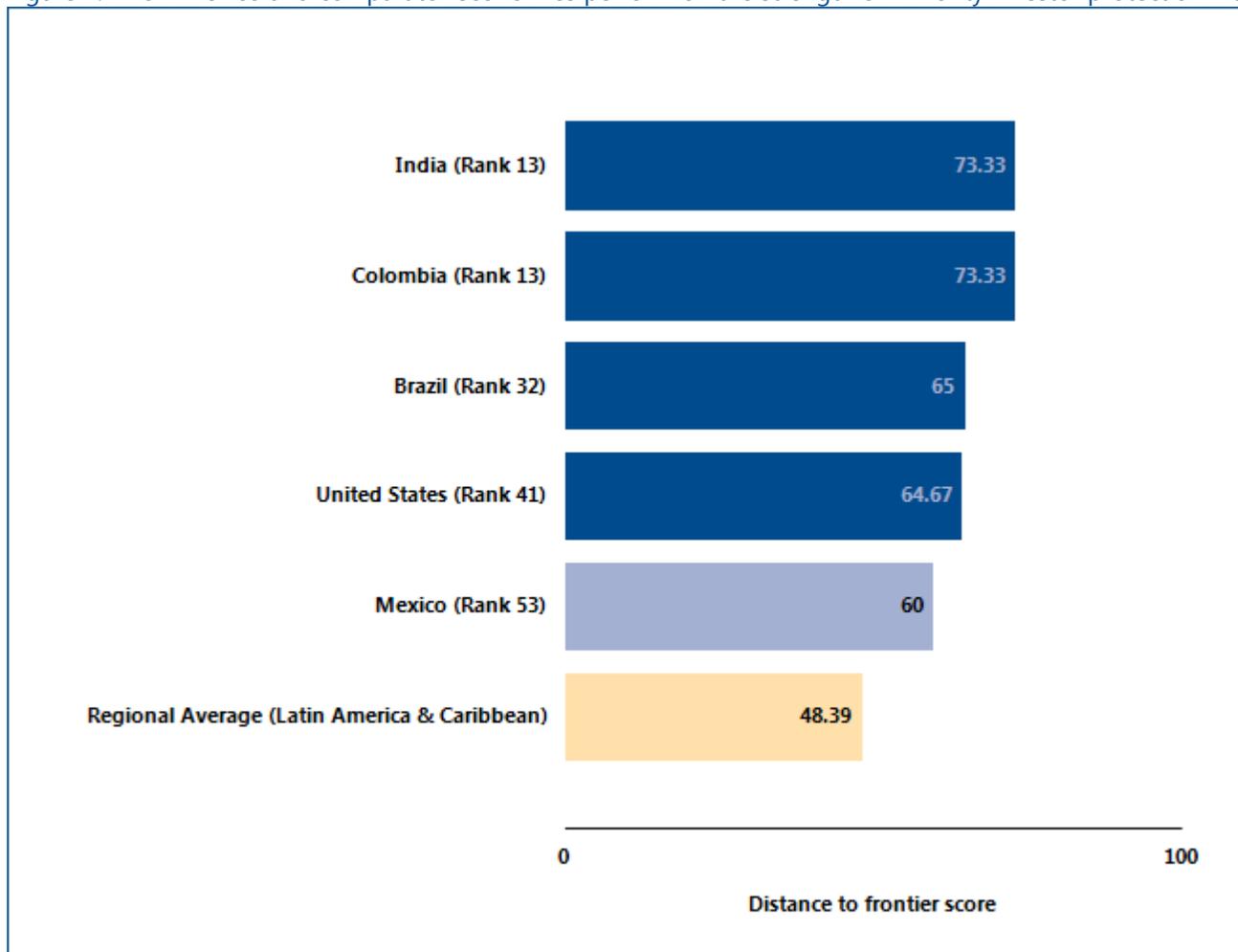
### Where does the economy stand today?

How strong are minority investor protections against self-dealing in Mexico? The economy has a score of 6.0 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Mexico stands at 53 in the ranking of 190 economies on the strength of minority investor

protection index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger minority investor protections against self-dealing in the areas measured.

Figure 7.1 How Mexico and comparator economies perform on the strength of minority investor protection index



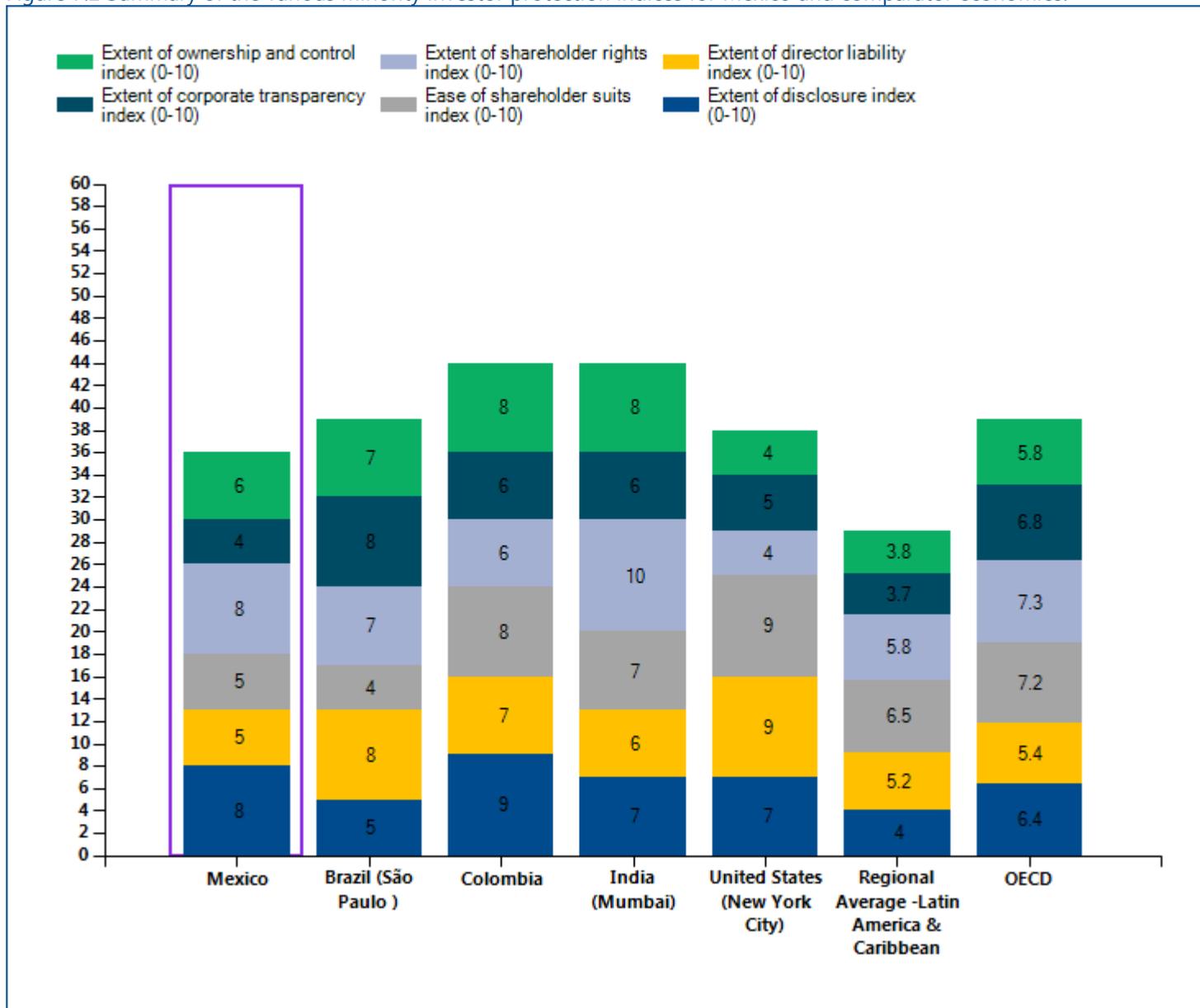
Source: Doing Business database.

### PROTECTING MINORITY INVESTORS

One way to put an economy's scores on the protecting minority investors indicators into context is to see where the economy stands in the distribution of scores across comparator economies. Figure 7.2 highlights the scores on the various minority investor protection indices for Mexico.

A summary of scoring for the protecting minority investors indicators at the end of this chapter provides details on how the indices were calculated.

Figure 7.2 Summary of the various minority investor protection indices for Mexico and comparator economies.



Source: Doing Business database.

## PROTECTING MINORITY INVESTORS

### What are the details?

The protecting minority investors indicators reported here for Mexico are based on detailed information collected through a survey of corporate and securities lawyers about securities regulations, company laws and court rules of evidence and procedure. To construct the six indicators on minority investor protection, scores are assigned to each based on a range of conditions relating

to disclosure, director liability, shareholder suits, shareholder rights, ownership and control and corporate transparency in a standard case study (for more details, see the Data Notes section of the *Doing Business 2017* report). The summary below shows the details underlying the scores for Mexico.

Table 7.2 Summary of scoring for the protecting minority investors indicators in Mexico

|   | Answer (Mexico City)  | Score (Mexico City) | Answer (Monterrey)  | Score (Monterrey) |
|---|---|---------------------|---|-------------------|
| <b>Strength of minority investor protection index (0-10)</b>  |   | 6.0                 |   | 6.0               |
| <b>Extent of conflict of interest regulation index (0-10)</b>   |   | 6.0                 |   | 6.0               |
| <b>Extent of disclosure index (0-10)</b>  |   | 8.0                 |   | 8.0               |
| Which corporate body is legally sufficient to approve the Buyer-Seller transaction? (0-3)   | Board of directors excluding interested members               | 2.0                 | Board of directors excluding interested members               | 2.0               |
| Must Mr. James disclose his conflict of interest to the board of directors? (0-2)   | Existence of a conflict without any specifics                 | 1.0                 | Existence of a conflict without any specifics                 | 1.0               |
| Must Buyer disclose the transaction in published periodic filings (annual reports)? (0-2)   | Disclosure on the transaction and on the conflict of interest | 2.0                 | Disclosure on the transaction and on the conflict of interest | 2.0               |
| Must Buyer immediately disclose the transaction to the public and/or shareholders? (0-2)  | Disclosure on the transaction and on the conflict of interest | 2.0                 | Disclosure on the transaction and on the conflict of interest | 2.0               |
| Must an external body review the terms of the transaction before it takes place? (0-1)  | Yes   | 1.0                 | Yes   | 1.0               |
| <b>Extent of director liability index (0-10)</b>  |   | 5.0                 |   | 5.0               |
| Can shareholders representing 10% of Buyer's share capital sue directly or derivatively for the damage the transaction caused to Buyer? (0-1) | Yes   | 1.0                 | Yes   | 1.0               |
| Can shareholders hold the interested director liable for the damage the transaction caused to Buyer? (0-2)                                    | Liable if unfair or prejudicial                               | 2.0                 | Liable if unfair or prejudicial                               | 2.0               |
| Can shareholders hold the other directors liable for the damage the transaction caused to Buyer (0-2)   | Liable if negligent   | 1.0                 | Liable if negligent   | 1.0               |
| Must Mr. James pay damages for the harm caused to Buyer upon a successful claim by shareholders? (0-1)  | Yes   | 1.0                 | Yes   | 1.0               |
| Must Mr. James repay profits made from the transaction upon a successful claim by shareholders? (0-1)   | No  | 0.0                 | No  | 0.0               |

|  |   |     |   |     |
|--|---|-----|---|-----|
| Is Mr. James disqualified or fined and imprisoned upon a successful claim by shareholders? (0-1)   | No  | 0.0 | No  | 0.0 |
| Can a court void the transaction upon a successful claim by shareholders? (0-2)  | Only in case of fraud or bad faith                                    | 0.0 | Only in case of fraud or bad faith                                    | 0.0 |
| <b>Ease of shareholder suits index (0-10)</b>  |   | 5.0 |   | 5.0 |
| Before suing can shareholders representing 10% of Buyer's share capital inspect the transaction documents? (0-1)                                 | Yes   | 1.0 | Yes   | 1.0 |
| Can the plaintiff obtain any documents from the defendant and witnesses at trial? (0-3)  | Documents that directly prove specific facts in the plaintiff's claim | 2.0 | Documents that directly prove specific facts in the plaintiff's claim | 2.0 |
| Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1)                                    | No  | 0.0 | No  | 0.0 |
| Can the plaintiff directly question the defendant and witnesses at trial? (0-2)  | Preapproved questions only  | 1.0 | Preapproved questions only  | 1.0 |
| Is the level of proof required for civil suits lower than that of criminal cases? (0-1)  | No  | 0.0 | No  | 0.0 |
| Can shareholder plaintiffs recover their legal expenses from the company? (0-2)  | Yes if successful   | 1.0 | Yes if successful   | 1.0 |
| <b>Extent of shareholder governance index (0-10)</b>   |   | 6.0 |   | 6.0 |
| <b>Extent of shareholder rights index (0-10)</b>   |   | 8.0 |   | 8.0 |
| Does the sale of 51% of Buyer's assets require shareholder approval?   | Yes   | 1.0 | Yes   | 1.0 |
| Can shareholders representing 10% of Buyer's share capital call for an extraordinary meeting of shareholders?                                    | Yes   | 1.0 | Yes   | 1.0 |
| Must Buyer obtain its shareholders' approval every time it issues new shares?  | Yes   | 1.0 | Yes   | 1.0 |
| Do shareholders automatically receive preemption rights every time Buyer issues new shares?  | Yes   | 1.0 | Yes   | 1.0 |
| Must shareholders approve the election and dismissal of the external auditor?  | No  | 0.0 | No  | 0.0 |
| Are changes to the rights of a class of shares only possible if the holders of the affected shares approve?                                      | Yes   | 1.0 | Yes   | 1.0 |
| Assuming that Buyer is a limited company, does the sale of 51% of its assets require member approval?  | Yes   | 1.0 | Yes   | 1.0 |
| Assuming that Buyer is a limited company, can members representing 10% call for an extraordinary meeting of members?                             | No  | 0.0 | No  | 0.0 |
| Assuming that Buyer is a limited company, must all members consent to add a new member?  | Yes   | 1.0 | Yes   | 1.0 |
| Assuming that Buyer is a limited company, must a member first offer to sell his interest to the existing members before selling to a non-member? | Yes   | 1.0 | Yes   | 1.0 |
| <b>Extent of ownership and control index (0-10)</b>  |   | 6.0 |   | 6.0 |
| Is it forbidden to appoint the same individual as CEO and chair of the board of directors?   | No  | 0.0 | No  | 0.0 |
| Must the board of directors include independent and nonexecutive board members?  | Yes   | 1.0 | Yes   | 1.0 |
| Can shareholders remove members of the board of directors without cause before the end of their term?  | Yes   | 1.0 | Yes   | 1.0 |

|  |     |            |     |            |
|--|-----|------------|-----|------------|
| Must the board of directors include a separate audit committee exclusively comprising board members?                                     | Yes | 1.0        | Yes | 1.0        |
| Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer?   | Yes | 1.0        | Yes | 1.0        |
| Must Buyer pay dividends within a maximum period set by law after the declaration date?  | No  | 0.0        | No  | 0.0        |
| Is a subsidiary prohibited from acquiring shares issued by its parent company?   | Yes | 1.0        | Yes | 1.0        |
| Assuming that Buyer is a limited company, is there a management deadlock breaking mechanism?   | Yes | 1.0        | Yes | 1.0        |
| Assuming that Buyer is a limited company, must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of Buyer? | No  | 0.0        | No  | 0.0        |
| Assuming that Buyer is a limited company, must Buyer distribute profits within a maximum period set by law after the declaration date?   | No  | 0.0        | No  | 0.0        |
| <b>Extent of corporate transparency index (0-10)</b>   |     | <b>4.0</b> |     | <b>4.0</b> |
| Must Buyer disclose direct and indirect beneficial ownership stakes representing 5%?   | No  | 0.0        | No  | 0.0        |
| Must Buyer disclose information about board members' other directorships as well as basic information on their primary employment?       | Yes | 1.0        | Yes | 1.0        |
| Must Buyer disclose the compensation of individual managers?   | No  | 0.0        | No  | 0.0        |
| Must a detailed notice of general meeting be sent 21 days before the meeting?  | No  | 0.0        | No  | 0.0        |
| Can shareholders representing 5% of Buyer's share capital put items on the agenda for the general meeting?                               | No  | 0.0        | No  | 0.0        |
| Must Buyer's annual financial statements be audited by an external auditor?  | Yes | 1.0        | Yes | 1.0        |
| Must Buyer disclose its audit reports to the public?   | Yes | 1.0        | Yes | 1.0        |
| Assuming that Buyer is a limited company, must members meet at least once a year?  | Yes | 1.0        | Yes | 1.0        |
| Assuming that Buyer is a limited company, can members representing 5% put items on the meeting agenda?                                   | No  | 0.0        | No  | 0.0        |
| Assuming that Buyer is a limited company, must Buyer's annual financial statements be audited by an external auditor?                    | No  | 0.0        | No  | 0.0        |

Source: Doing Business database.

## PAYING TAXES

Taxes are essential. The level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. Firms in economies that rank better on the ease of paying taxes in the *Doing Business* study tend to perceive both tax rates and tax administration as less of an obstacle to business according to the World Bank Enterprise Survey research.

### What do the indicators cover?

Using a case scenario, *Doing Business* records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions and dealing with postfiling processes. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments, time taken to comply with tax laws, time taken to comply with the requirements of postfiling processes and time waiting for these processes to be completed. The ranking of economies on the ease of paying taxes is determined by sorting their distance to frontier scores on the ease of paying taxes. These scores are the simple average of the distance to frontier scores for each of the four component indicators – number of tax payments, time, total tax rate and postfiling index – with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax rate<sup>1</sup>. If both VAT (or GST) and corporate income tax apply, the postfiling index is the simple average of the distance to frontier scores for each of the four components: the time to comply with a VAT or GST refund, the time to obtain a VAT or GST refund, the time to comply with a corporate income tax audit and the time to complete a corporate income tax audit. If only VAT (or GST) or corporate income tax applies, the postfiling index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither VAT (or GST) nor corporate income tax

### WHAT THE PAYING TAXES INDICATORS MEASURE

#### Tax payments for a manufacturing company in 2015 (number per year adjusted for electronic and joint filing and payment)

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

#### Time required to comply with 3 major taxes (hours per year)

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

#### Total tax rate (% of profit before all taxes)

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

#### Postfiling Index

The time to comply with a VAT or GST refund

The time to receive a VAT or GST refund

The time to comply with a corporate income tax audit

The time to complete a corporate income tax audit

<sup>1</sup> The nonlinear distance to frontier for the total tax rate is equal to the distance to frontier for the total tax rate to the power of 0.8. The threshold is defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2015*, which is 26.1%. All economies with a total tax rate below this threshold receive the same score as the economy at the threshold.

applies, the postfiling index is not included in the ranking of the ease of paying taxes.

Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company. A range of standard deductions and exemptions are also recorded.

All financial statement variables are proportional to 2012 income per capita. To make the data comparable across economies, several assumptions are used.

TaxpayerCo is a medium-size business that started operations on January 1, 2014.

The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.

Taxes and mandatory contributions are measured at all levels of government.

Assumptions about the VAT refund process:

- In June 2015, TaxpayerCo. makes a large capital purchase: one additional machine for manufacturing pots.
- The value of the machine is 65 times income per capita of the economy.
- Sales are equally spread per month (that is, 1,050 times income per capita divided by 12).
- Cost of goods sold are equally expensed per month (that is, 875 times income per capita divided by 12).
- The seller of the machinery is registered for VAT or general sales tax (GST).
- Excess input VAT incurred in June will be fully recovered after four consecutive months if the VAT or GST rate is the same for inputs, sales and the machine and the tax reporting period is every month.

Assumptions about the corporate income tax audit process:

- An error in the calculation of the income tax liability (for example, use of incorrect tax depreciation rates, or incorrectly treating an expense as tax deductible) leads to an incorrect income tax return and consequently an underpayment of corporate income tax.
- TaxpayerCo. discovered the error and voluntarily notified the tax authority of the error in the corporate income tax return.

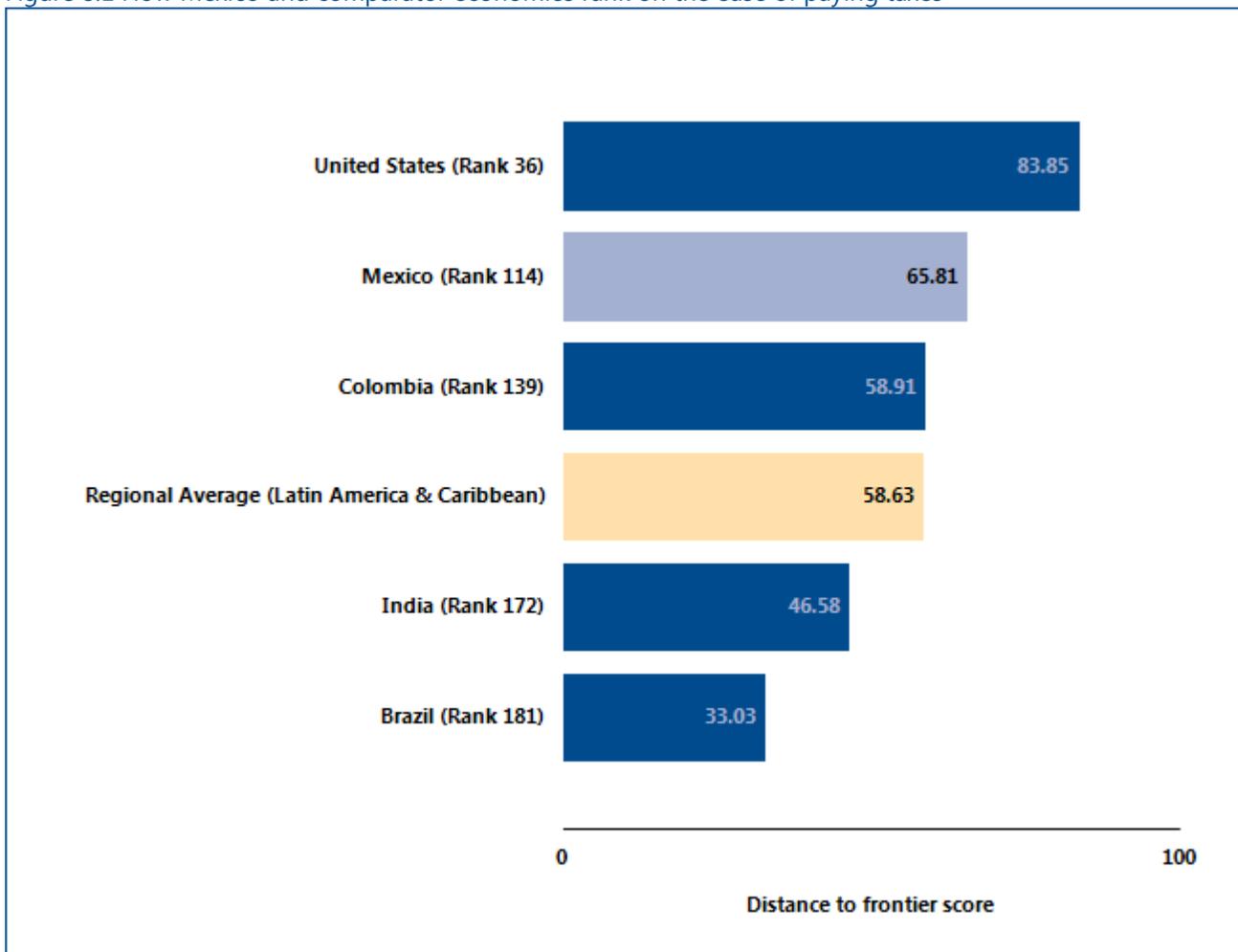
## PAYING TAXES

### Where does the economy stand today?

What is the administrative burden of complying with tax obligations and postfiling processes in Mexico—and how much do firms pay in taxes? Globally, Mexico stands at in the ranking of 190 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in (see table 8.2 and table 8.3 at

the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 8.1 How Mexico and comparator economies rank on the ease of paying taxes



Source: *Doing Business* database.

## PAYING TAXES

Economies around the world have made paying taxes faster, easier and less costly for businesses—such as by consolidating payments and filings of taxes, offering electronic systems for filing and payment, establishing taxpayer service centers or allowing for more deductions

and exemptions. Many have lowered tax rates. Changes have brought concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Mexico (table 8.1)?

Table 8.1 How has Mexico made paying taxes easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year | Reform  |
|---------|---|
| DB2011  | Mexico increased taxes on companies by raising several tax rates, including the corporate income tax and the rate on cash deposits. At the same time, the administrative burden was reduced slightly with more options for online payment and increased use of accounting software.   |
| DB2012  | Mexico continued to ease the administrative burden of paying taxes for firms by ending the requirement to file a yearly value added tax return and reduced filing requirements for other taxes  |
| DB2016  | Mexico made paying taxes easier for companies by abolishing the business flat tax—though it also made paying taxes more costly by allowing only a portion of salaries to be deductible. These changes apply to both Mexico City and Monterrey. In addition, the payroll tax rate paid by employers was increased for Mexico City. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## PAYING TAXES

### What are the details?

The indicators reported here for Mexico are based on the taxes and contributions that would be paid by a standardized case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review a set of financial statements as well as a standardized list of assumptions and transactions that the company completed during its 2nd year of operation. Respondents are asked how much taxes and mandatory contributions the business must pay how these taxes are filed and paid, how much time taxpayers spend preparing, filing and paying three major taxes (profit taxes, labor taxes including mandatory contributions and consumption taxes) and how much time taxpayers spend complying with postfiling processes and waiting for these processes to be completed.

#### LOCATION OF STANDARDIZED COMPANY

**City: Mexico City, Monterrey**

The taxes and contributions paid are listed in table 8.2 below, along with the associated number of payments, time and tax rate.

The postfiling index is based on four components—the time to comply with a VAT or GST refund, the time to obtain a VAT or GST refund, the time to comply with a corporate income tax audit and the time to complete a corporate income tax audit (table 8.3). These components are based on expanded case study assumptions. If only VAT (or GST) or corporate income tax applies for an economy, the postfiling index is the simple average of the scores for only the two components pertaining to the applicable tax. If neither VAT (or GST) nor corporate income tax applies, the postfiling index is not included in the ranking of the ease of paying taxes.

Table 8.2 Summary of tax rates and administration

| Mexico City: Tax or mandatory contribution    | Payments (number) | Notes on payments | Time (hours) | Statutory tax rate | Tax base         | Total tax rate (% of profit) | Notes on total tax rate |
|---|-------------------|-------------------|--------------|--------------------|------------------|------------------------------|-------------------------|
| Employer paid - Payroll tax                   | 1                 | online            |              | 3%                 | gross salaries   | 3.38                         |                         |
| Corporate income tax                          | 1                 | online            | 122          | 30%                | taxable profit   | 25.56                        |                         |
| Employer paid - Social security contributions | 1                 | online            | 64           | various rates      | gross salaries   | 22.15                        |                         |
| Property tax                                  | 1                 | online            |              | various rates      | property value   | 0.86                         |                         |
| Vehicle tax                                   | 1                 | online            |              | various rates      | value of vehicle | 0.04                         |                         |

| Mexico City: Tax or mandatory contribution    | Payments (number) | Notes on payments | Time (hours) | Statutory tax rate | Tax base       | Total tax rate (% of profit) | Notes on total tax rate |
|---|-------------------|-------------------|--------------|--------------------|----------------|------------------------------|-------------------------|
| Value added tax (VAT)                         | 1                 | online            | 100          | 16%                | sales price    | 0.00                         | not included            |
| Employee paid - Social security contributions | 0                 | jointly           |              | various rates      | gross salaries | 0.00                         | withheld                |
| Totals  | 6.0               |                   | 286.0        |                    |                | 52.0                         |                         |

| Monterrey: Tax or mandatory contribution      | Payments (number) | Notes on payments | Time (hours) | Statutory tax rate | Tax base         | Total tax rate (% of profit) | Notes on total tax rate |
|---|-------------------|-------------------|--------------|--------------------|------------------|------------------------------|-------------------------|
| Employer paid - Payroll tax                   | 1                 | online            |              | 3%                 | gross salaries   | 3.38                         |                         |
| Corporate income tax                          | 1                 | online            | 122          | 30%                | taxable profit   | 25.56                        |                         |
| Employer paid - Social security contributions | 1                 | online            | 64           | various rates      | gross salaries   | 22.15                        |                         |
| Property tax                                  | 1                 | online            |              | various rates      | property value   | 0.86                         |                         |
| Vehicle tax                                   | 1                 | online            |              | various rates      | value of vehicle | 0.04                         |                         |
| Value added tax (VAT)                         | 1                 | online            | 100          | 16%                | sales price      | 0.00                         | not included            |
| Employee paid - Social security contributions | 0                 | jointly           |              | various rates      | gross salaries   | 0.00                         | withheld                |
| Totals  | 6.0               |                   | 286.0        |                    |                  | 52.0                         |                         |

Source: Doing Business database.

Table 8.3 Summary of details of postfiling index in Mexico

|   | Answer (Mexico City) | Score (Mexico City) | Answer (Monterrey) | Score (Monterrey) |
|---|----------------------|---------------------|--------------------|-------------------|
| Postfiling index (0-100)                                |                      | 42.6                |                    | 42.6              |
| VAT refunds   |                      | 60.0                |                    | 60.0              |
| Does VAT/GST exist?                                     | Yes                  |                     | Yes                |                   |
| Frequency of VAT/GST refund submission                  | monthly              |                     | monthly            |                   |
| Does a VAT/GST refund process exist per the case study? | Yes                  |                     | Yes                |                   |

|   | Answer (Mexico City)                                  | Score (Mexico City) | Answer (Monterrey)                                     | Score (Monterrey) |
|---|---|---------------------|--|-------------------|
| Restrictions on VAT refund process  | None  |                     | None   |                   |
| Likelihood of VAT audit   | Likely  |                     | Likely   |                   |
| Time to comply with VAT refund (hours)  | 20.0  | 60.0                | 20.0   | 60.0              |
| Time to obtain a VAT refund (weeks)   | 37.2  | 34.4                | 37.2   | 34.4              |
| Corporate income tax audits   |   | 76.1                |  | 76.1              |
| Does corporate income tax exist?  | Yes   |                     | Yes  |                   |
| Likelihood of corporate income tax audit  | Likely  |                     | Likely   |                   |
| Time to comply with a corporate income tax audit (hours)                                    | 14.5  | 76.1                | 14.5   | 76.1              |
| Time to complete a corporate income tax audit (weeks)                                       | 35.0  | 0.0                 | 35.0   | 0.0               |
| Administrative appeal process   |   |                     |  |                   |
| First level administrative appeal authority   | Tax Authority (SAT)                                   |                     | Tax Authority (SAT)                                    |                   |
| Is the appeal authority independent?  | Independent department within tax office              |                     | Independent department within tax office               |                   |
| Are appeal guidelines accessible to the public?   | Yes   |                     | Yes  |                   |
| Source of appeal guidelines   | online/in printed publication/in person at tax office |                     | online/in printed publication /in person at tax office |                   |
| Is there a legal time limit for the appeal authority to issue a decision on the tax appeal? | Yes   |                     | Yes  |                   |
| Legal time limit  | 4 months  |                     | 4 months   |                   |

Source: *Doing Business*

Note:

The postfiling index is the average of the scores on time to comply with VAT refund, time to obtain a VAT refund, time to comply with a corporate income tax audit and time to complete a corporate income tax audit.

N/A = Not applicable.

## TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive use of paper documents, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential.

### What do the indicators cover?

*Doing Business* records the time and cost associated with the logistical process of exporting and importing goods. Under the new methodology introduced this year, *Doing Business* measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. The ranking of economies on the ease of trading across borders is determined by sorting their distance to frontier scores for trading across borders. These scores are the simple average of the distance to frontier scores for the time and cost for documentary compliance and border compliance to export and import (domestic transport is not used for calculating the ranking).

To make the data comparable across economies, a few assumptions are made about the traded goods and the transactions:

#### Time

- Time is measured in hours, and 1 day is 24 hours (for example, 22 days are recorded as  $22 \times 24 = 528$  hours). If customs clearance takes 7.5 hours, the data are recorded as is. Alternatively, suppose that documents are submitted to a customs agency at 8:00 a.m., are processed overnight and can be picked up at 8:00 a.m. the next day. In this case the time for customs clearance would be recorded as 24 hours because the actual procedure took 24 hours.

### WHAT THE TRADING ACROSS BORDERS

#### INDICATORS MEASURE FOR IMPORT & EXPORT

##### Documentary compliance – cost & time

Obtain, prepare and submit documents:

-During transport, clearance, inspections and port or border handling in origin economy

-Required by origin, destination and transit economies

Covers all documents by law and in practice

##### Border compliance – cost & time

Customs clearance and inspections

Inspections by other agencies if applied to more than 10% of shipments)

Port or border handling

Processing documents during clearance, inspections and port or border handling

##### Domestic transport\*

Loading and unloading of shipment

Transport between warehouse and terminal/port

Transport between terminal/port and border

Traffic delays and road police checks while shipment is en route

\* Although *Doing Business* collects and publishes data on the time and cost for domestic transport, it does not use these data in calculating the distance to frontier score for trading across borders or the ranking on the ease of trading across borders.

#### Cost

- Insurance cost and informal payments for which no receipt is issued are excluded from the costs recorded. Costs are reported in U.S. dollars. Contributors are asked to convert local currency into U.S. dollars based on the exchange rate prevailing on the day they answer the questionnaire.

## Assumptions of the case study

- For each of the 190 economies covered by *Doing Business*, it is assumed that a shipment travels from a warehouse in the largest business city of the exporting economy to a warehouse in the largest business city of the importing economy. For 11 economies the data are also collected, under the same case study assumptions, for the second largest business city.
- The import and export case studies assume different traded products. It is assumed that each economy imports a standardized shipment of 15 metric tons of containerized auto parts (HS 8708) from its natural import partner—the economy from which it imports the largest value (price times quantity) of auto parts. It is assumed that each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner—the economy that is the largest purchaser of this product. Special products such as precious metal and gems, live animals and pharmaceuticals are excluded from the list of possible export products. However, the second largest product category is considered as needed.
- A shipment is a unit of trade. Export shipments do not necessarily need to be containerized, while import shipments of auto parts are assumed to be containerized.
- If government fees are determined by the value of the shipment, the value is assumed to be \$50,000.
- The product is new, not secondhand or used merchandise.
- The exporting firm is responsible for hiring and paying for a freight forwarder or customs broker (or both) and pays for all costs related to international shipping, domestic transport, clearance and mandatory inspections by customs and other government agencies, port or border handling, documentary compliance fees and the like for exports. The importing firm is responsible for the above costs for imports.
- The mode of transport is the one most widely used for the chosen export or import product and the trading partner, as is the seaport, airport or land border crossing.
- All electronic submissions of information requested by any government agency in connection with the shipment are considered to be documents obtained, prepared and submitted during the export or import process.
- A port or border is defined as a place (seaport, airport or land border crossing) where merchandise can enter or leave an economy.
- Government agencies considered relevant are agencies such as customs, port authorities, road police, border guards, standardization agencies, ministries or departments of agriculture or industry, national security agencies and any other government authorities.

## TRADING ACROSS BORDERS

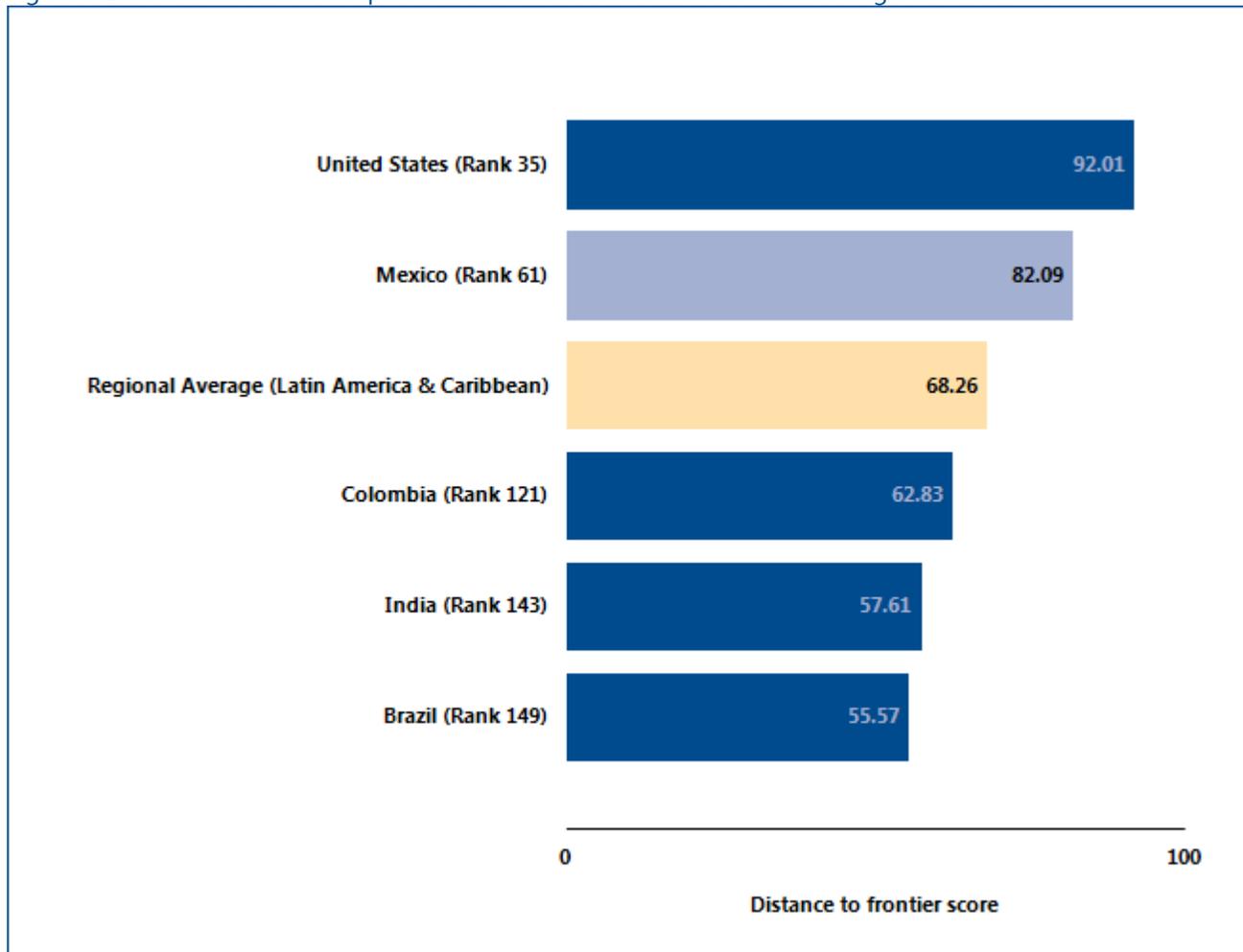
### Where does the economy stand today?

The Trading across Borders indicator refers to a case study scenario of a warehouse in the largest business city of an economy (except for 11 economies for which the data are a population-weighted average of the 2 largest business cities) trading with the main import and export partner through the economy’s main border crossing.

Globally, Mexico stands at 61 in the ranking of 190 economies on the ease of trading across borders (figure 9.1).

While not included in the distance to frontier or ease of doing business ranking, data on domestic transportation is also recorded for all economies and provided in Table 9.3.

Figure 9.1 How Mexico and comparator economies rank on the ease of trading across borders



Source: Doing Business database.

## TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange

systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Mexico (table 9.1)?

Table 9.1 How has Mexico made trading across borders easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year | Reform  |
|---------|---|
| DB2014  | Mexico made trading across borders easier by implementing an electronic single-window system. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## TRADING ACROSS BORDERS

### What are the details?

The indicators reported here for Mexico are based on a set of specific predefined procedures for trading a shipment of goods by the most widely used mode of transport (whether sea or land). The information on the time and cost to complete export and import is collected from local freight forwarders, customs brokers and traders.

#### LOCATION OF STANDARDIZED COMPANY

**City: Mexico City, Monterrey**

The details on the predefined set of procedures, and the associated time and cost, for exporting and importing a shipment of goods are listed in the summary below, along with the required documents.

Table 9.2 Summary of export and import time and cost for trading across borders in Mexico

|  | Mexico City | Monterrey | Latin America & Caribbean |
|--|-------------|-----------|---------------------------|
| Time to export: Border compliance (hours)      | 20          | 20        | 63                        |
| Cost to export: Border compliance (USD)        | 400         | 400       | 527                       |
| Time to export: Documentary compliance (hours) | 8           | 8         | 56                        |
| Cost to export: Documentary compliance (USD)   | 60          | 60        | 111                       |
| Time to import: Border compliance (hours)      | 44          | 44        | 65                        |
| Cost to import: Border compliance (USD)        | 450         | 450       | 685                       |
| Time to import: Documentary compliance (hours) | 18          | 18        | 83                        |
| Cost to import: Documentary compliance (USD)   | 100         | 100       | 120                       |

Source: Doing Business database.

Table 9.3 Summary of trading details, transport time and documents for trading across borders in Mexico

|         | Mexico City                      |                                   | Monterrey                        |                                   |
|---------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
|         | Export                           | Import                            | Export                           | Import                            |
| Product | HS 85 : Electrical machinery and | HS 8708: Parts and accessories of | HS 85 : Electrical machinery and | HS 8708: Parts and accessories of |

|                                 | Mexico City  |                              | Monterrey  |                              |
|---------------------------------|--|------------------------------|--|------------------------------|
|                                 | Export   | Import                       | Export   | Import                       |
|                                 | equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles | motor vehicles               | equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles | motor vehicles               |
| Trade partner                   | United States  | United States                | United States  | United States                |
| Border                          | Nuevo Laredo border crossing   | Nuevo Laredo border crossing | Nuevo Laredo border crossing   | Nuevo Laredo border crossing |
| Distance (km)                   | 1117   | 1117                         | 219  | 219                          |
| Domestic transport time (hours) | 20   | 20                           | 5  | 5                            |
| Domestic transport cost (USD)   | 1300   | 1300                         | 500  | 500                          |

Source: *Doing Business* database.

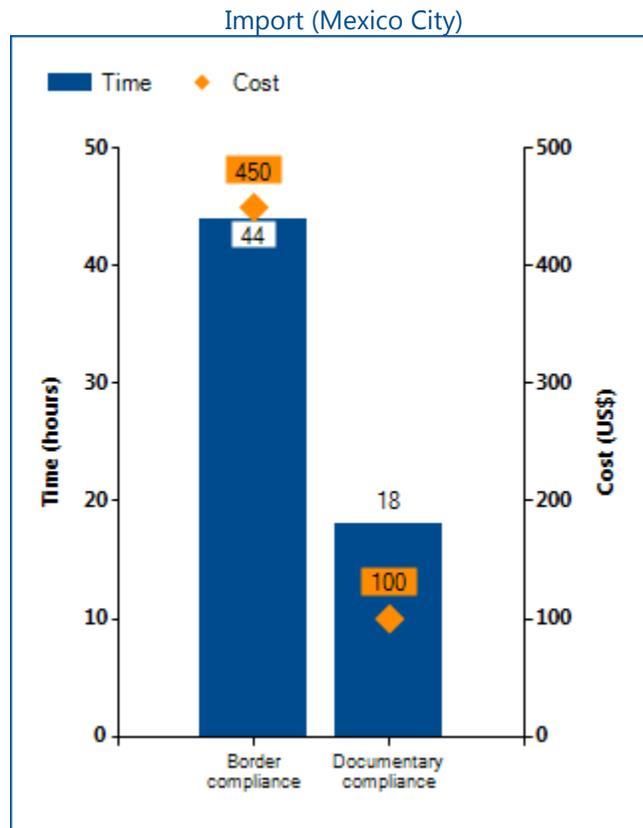
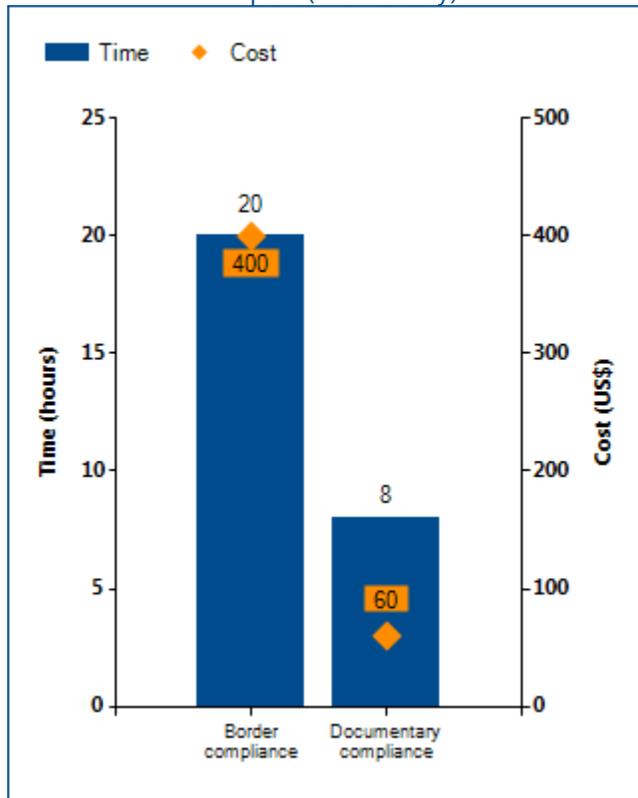
| Documents used to export                     |
|--|
| Guía de Transporte (Road Transport Document) |
| Customs Export Declaration                   |
| Commercial Invoice                           |
| Packing List                                 |
| NAFTA Certificate of Origin                  |
| .  |
| Documents used to import                     |
| Guía de Transporte (Road Transport Document) |
| Customs Export Declaration                   |
| Commercial Invoice                           |
| COVE   |
| Packing List                                 |
| NAFTA Certificate of Origin                  |

Source: *Doing Business* database.

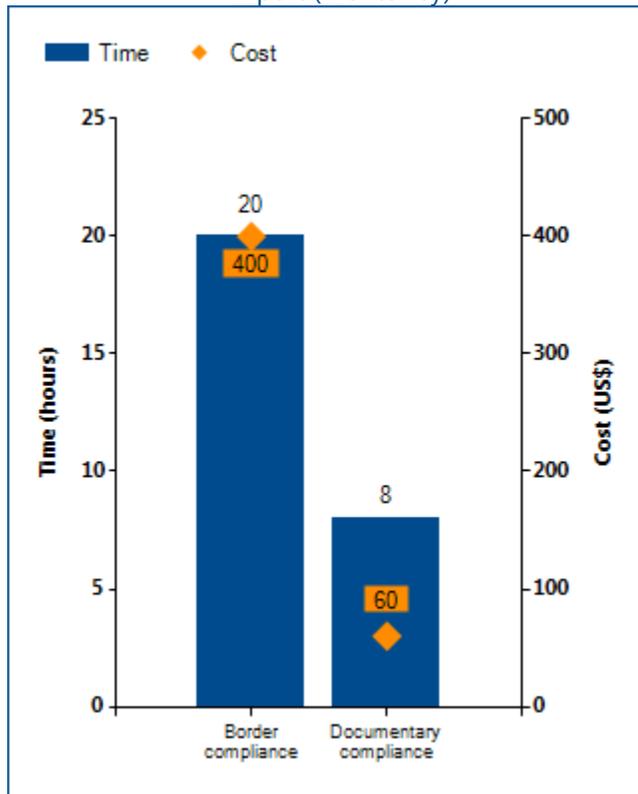
Note: *Doing Business* continues to collect data on the number of documents needed to trade internationally. Unlike in previous

years, however, these data are excluded from the calculation of the distance to frontier score and ranking. The time and cost for documentary compliance serve as better measures of the overall cost and complexity of compliance with documentary requirements than does the number of documents required.

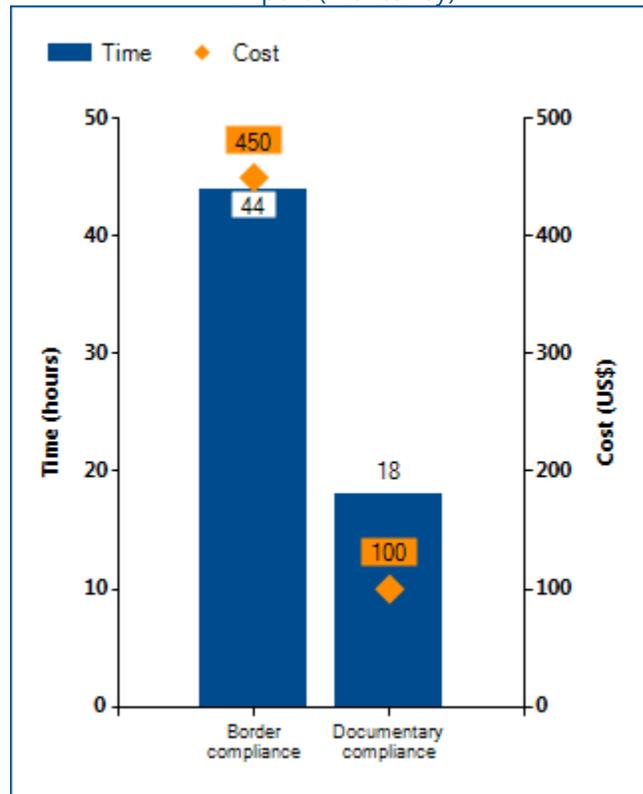
Figure 9.2 Summary of Mexico on the ease of trading across borders  
Export (Mexico City)



Export (Monterrey)



Import (Monterrey)



Source: Doing Business database.

## ENFORCING CONTRACTS

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute.

### What do the indicators cover?

*Doing Business* measures the time and cost for resolving a standardized commercial dispute through a local first-instance court. In addition, this year it introduces a new measure, the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. This new index replaces the indicator on procedures, which was eliminated this year. The ranking of economies on the ease of enforcing contracts is determined by sorting their distance to frontier scores. These scores are the simple average of the distance to frontier scores for each of the component indicators.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The dispute concerns a lawful transaction between two businesses (Seller and Buyer), both located in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- The buyer orders custom-made goods, then fails to pay.
- The value of the dispute is 200% of the income per capita or the equivalent in local currency of USD 5,000, whichever is greater.
- The seller sues the buyer before the court with jurisdiction over commercial cases worth 200% of income per capita or \$5,000.

### WHAT THE ENFORCING CONTRACTS

#### INDICATORS MEASURE

#### Time required to enforce a contract through the courts (calendar days)

- Time to file and serve the case
- Time for trial and to obtain the judgment
- Time to enforce the judgment

#### Cost required to enforce a contract through the courts (% of claim)

- Attorney fees
- Court fees
- Enforcement fees

#### Quality of judicial processes index (0-18)

- Court structure and proceedings (0-6)
- Case management (0-6)
- Court automation (0-4)
- Alternative dispute resolution (0-3)

- The seller requests a pretrial attachment to secure the claim.
- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

## ENFORCING CONTRACTS

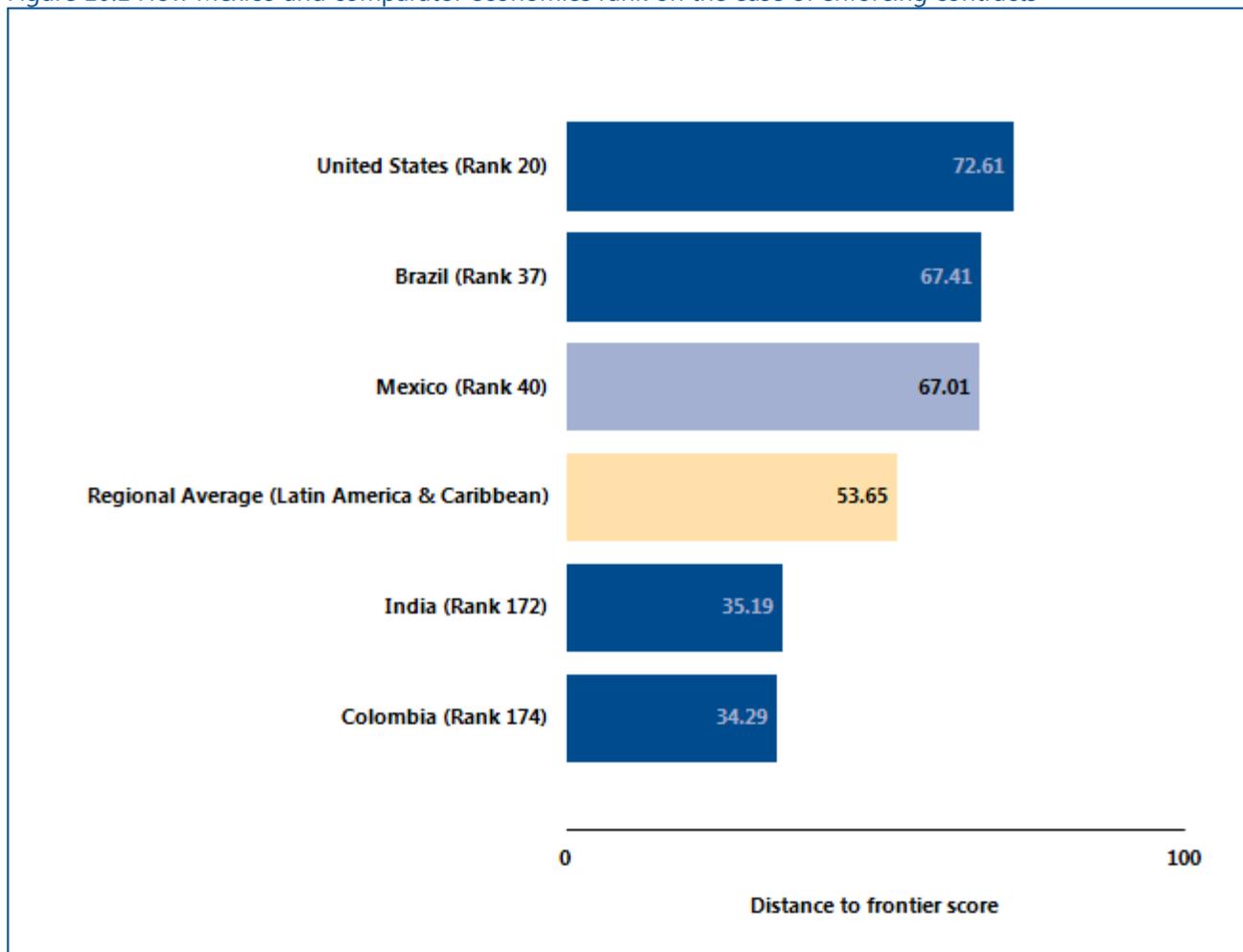
### Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Mexico? According to data collected by *Doing Business*, contract enforcement takes 340.7 days and costs 33.0% of the value of the claim. Most indicator sets refer to the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier

and ease of doing business ranking at the end of this profile for more details.

Globally, Mexico stands at 40 in the ranking of 190 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Mexico.

Figure 10.1 How Mexico and comparator economies rank on the ease of enforcing contracts



Source: *Doing Business* database.

## ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies often work on

reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making contract enforcement faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Mexico (table 10.1)?

Table 10.1 How has Mexico made enforcing contracts easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform  |
|---------------|---|
| <b>DB2014</b> | Mexico made enforcing contracts easier by creating small claims courts, with oral proceedings, that can hear both civil and commercial cases. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## ENFORCING CONTRACTS

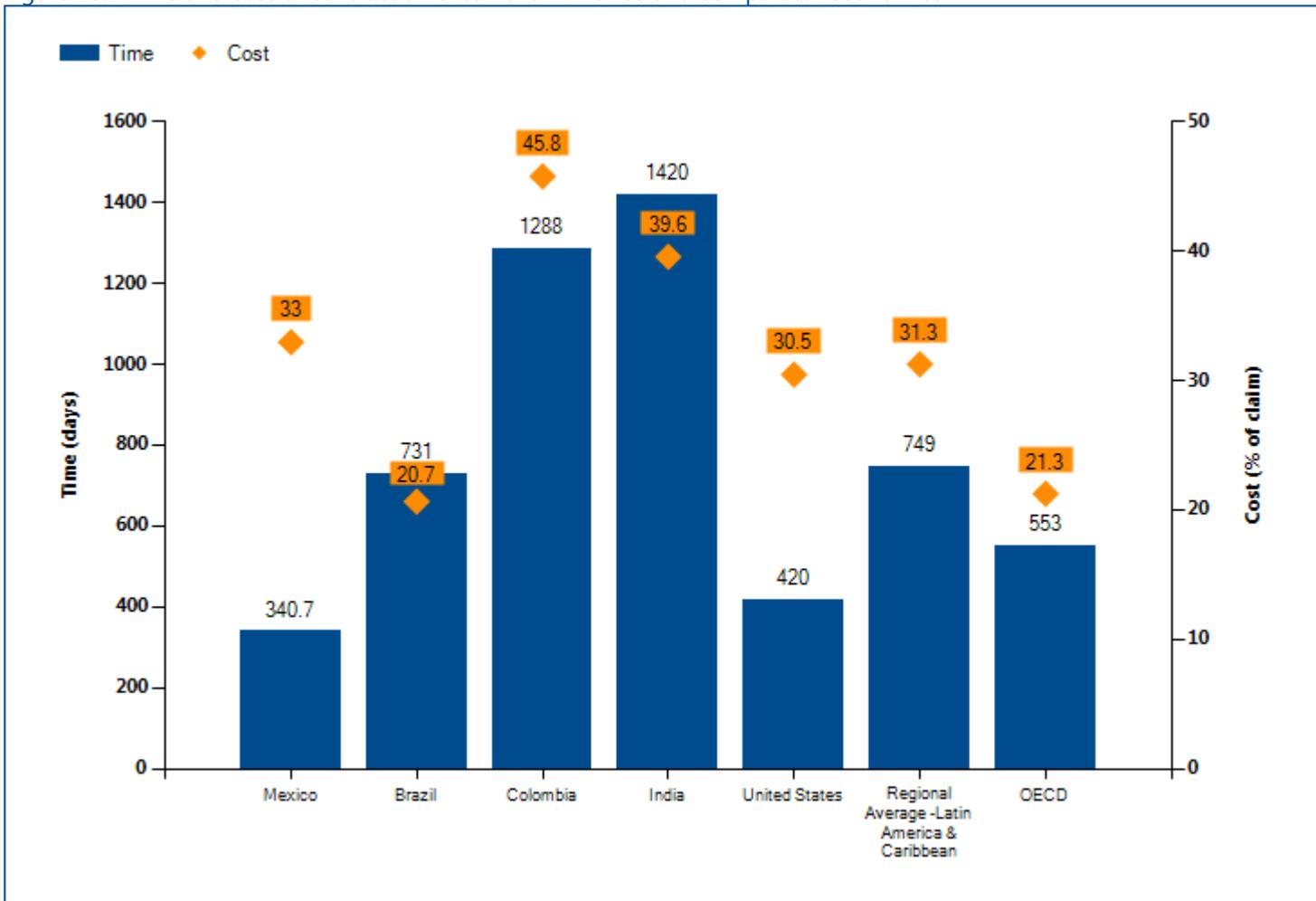
### What are the details?

The data on time and cost reported here for Mexico are built by following the step-by-step evolution of a commercial sale dispute within the court, under the assumptions about the case described above (figure 10.2). The time and cost of resolving the standardized dispute are identified through study of the codes of civil procedure and other court regulations, as well as through questionnaires completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well).

#### ECONOMY DETAILS

|                                       |   |
|---------------------------------------|---|
| <b>Claim value - Mexico<br/>City:</b> | <b>MXN 268,027</b>  |
| <b>Claim value -<br/>Monterrey:</b>   | <b>MXN 268,027</b>  |
| <b>Court name - Mexico<br/>City:</b>  | <b>Mexico City First Instance<br/>Oral Civil Court</b>    |
| <b>Court name -<br/>Monterrey:</b>    | <b>Monterrey First Instance<br/>Oral Commercial Court</b> |
| <b>City:</b>                          | <b>Mexico City, Monterrey</b>                             |

Figure 10.2 Time and cost of contract enforcement in Mexico and comparator economies



Source: Doing Business database.

Table 10.2 Details on time and cost for enforcing contracts in Mexico

| Indicator                             | Mexico City | Monterrey | Latin America & Caribbean average |
|---------------------------------------|-------------|-----------|-----------------------------------|
| Time (days)                           | 350.0       | 295.0     | 749                               |
| Attorney fees                         | 22.5        | 20.4      | 20                                |
| Filing and service                    | 42          | 15        | 47                                |
| Cost (% of claim)                     | 33.5        | 30.4      | 31.3                              |
| Court fees                            | 5.0         | 5.0       | 5                                 |
| Trial and judgment                    | 125         | 120       | 503                               |
| Enforcement fees                      | 6.0         | 5.0       | 6                                 |
| Enforcement of judgment               | 183         | 160       | 213                               |
| Court structure and proceedings (0-5) | 3.5         | 5.0       | 3                                 |
| Case management (0-6)                 | 3.0         | 5.0       | 2                                 |
| Court automation (0-4)                | 0.5         | 0.5       | 1                                 |
| Alternative dispute resolution (0-3)  | 2.5         | 2.5       | 2                                 |

Source: Doing Business database.

## ENFORCING CONTRACTS

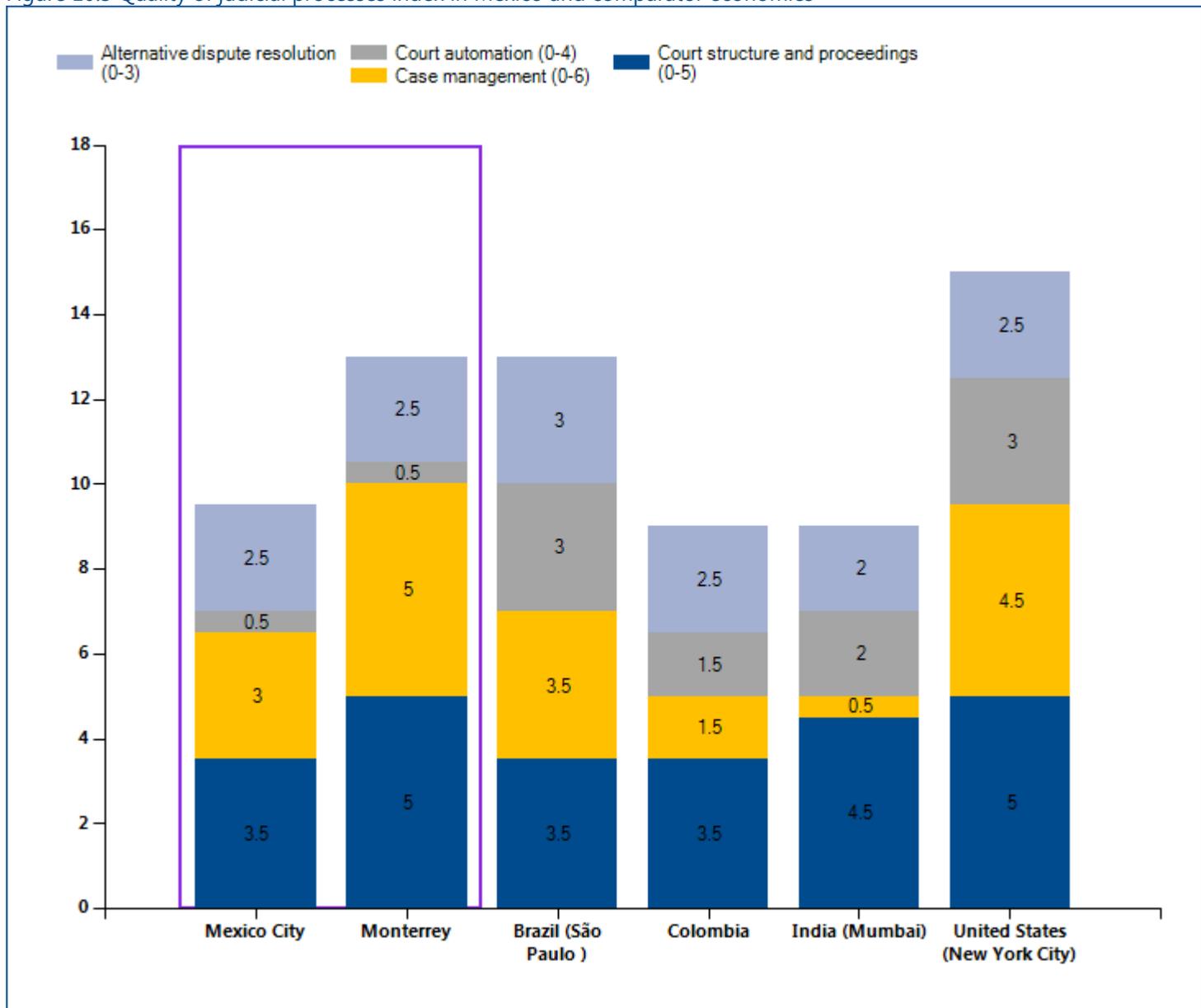
### Quality of judicial processes index

The quality of judicial processes index measures whether each economy has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution. The score on the quality of judicial processes index is the sum of the scores on these 4 sub-components. The index ranges from 0 to 18, with higher values indicating better, more efficient judicial processes.

The scores reported here show which of these good practices are available in Mexico (figure 10.3).

This methodology was initially developed by Djankov and others (2003) and is adopted here with several changes. The quality of judicial processes index was introduced in *Doing Business 2016*. The good practices tested in this index were developed on the basis of internationally recognized good practices promoting judicial efficiency.

Figure 10.3 Quality of judicial processes index in Mexico and comparator economies



Source: Doing Business database.

Table 10.3 Details of the quality of judicial processes index in Mexico

|   | Answer<br>(Mexico City) | Score<br>(Mexico City) | Answer<br>(Monterrey) | Score<br>(Monterrey) |
|---|-------------------------|------------------------|-----------------------|----------------------|
| Quality of judicial processes index (0-18)  |                         | 9.5                    |                       | 13.0                 |
| Court structure and proceedings (0-5)   |                         | 3.5                    |                       | 5.0                  |
| 1. Is there a court or division of a court dedicated solely to hearing commercial cases?  | No                      | 0.0                    | Yes                   | 1.5                  |
| 2. Small claims court   |                         | 1.5                    |                       | 1.5                  |
| 2.a. Is there a small claims court or a fast-track procedure for small claims?  | Yes                     |                        | Yes                   |                      |
| 2.b. If yes, is self-representation allowed?  | Yes                     |                        | Yes                   |                      |
| 3. Is pretrial attachment available?  | Yes                     | 1.0                    | Yes                   | 1.0                  |
| 4. Are new cases assigned randomly to judges?   | Yes,<br>automatic       | 1.0                    | Yes,<br>automatic     | 1.0                  |
| 5. Does a woman's testimony carry the same evidentiary weight in court as a man's?  | Yes                     | 0.0                    | Yes                   | 0.0                  |
| Case management (0-6)   |                         | 3.0                    |                       | 5.0                  |
| 1. Time standards   |                         | 1.0                    |                       | 1.0                  |
| 1.a. Are there laws setting overall time standards for key court events in a civil case?  | Yes                     |                        | Yes                   |                      |
| 1.b. If yes, are the time standards set for at least three court events?  | Yes                     |                        | Yes                   |                      |
| 1.c. Are these time standards respected in more than 50% of cases?  | Yes                     |                        | Yes                   |                      |
| 2. Adjournments   |                         | 0.0                    |                       | 0.0                  |
| 2.a. Does the law regulate the maximum number of adjournments that can be granted?  | No                      |                        | No                    |                      |
| 2.b. Are adjournments limited to unforeseen and exceptional circumstances?  | No                      |                        | No                    |                      |
| 2.c. If rules on adjournments exist, are they respected in more than 50% of cases?  | n.a.                    |                        | n.a.                  |                      |
| 3. Can two of the following four reports be generated about the competent court: (i) time to disposition report; (ii) clearance rate report; (iii) age of pending cases report; and (iv) single case progress report? | Yes                     | 1.0                    | Yes                   | 1.0                  |
| 4. Is a pretrial conference among the case  | Yes                     | 1.0                    | Yes                   | 1.0                  |

|  | Answer<br>(Mexico City) | Score<br>(Mexico City) | Answer<br>(Monterrey) | Score<br>(Monterrey) |
|--|-------------------------|------------------------|-----------------------|----------------------|
| management techniques used before the competent court?   |                         |                        |                       |                      |
| 5. Are there any electronic case management tools in place within the competent court for use by judges?   | No                      | 0.0                    | Yes                   | 1.0                  |
| 6. Are there any electronic case management tools in place within the competent court for use by lawyers?  | No                      | 0.0                    | Yes                   | 1.0                  |
| <b>Court automation (0-4)</b>  |                         | <b>0.5</b>             |                       | <b>0.5</b>           |
| 1. Can the initial complaint be filed electronically through a dedicated platform within the competent court?  | No                      | 0.0                    | No                    | 0.0                  |
| 2. Is it possible to carry out service of process electronically for claims filed before the competent court?  | No                      | 0.0                    | No                    | 0.0                  |
| 3. Can court fees be paid electronically within the competent court?   | No                      | 0.0                    | No                    | 0.0                  |
| <b>4. Publication of judgments</b>   |                         | <b>0.5</b>             |                       | <b>0.5</b>           |
| 4.a Are judgments rendered in commercial cases at all levels made available to the general public through publication in official gazettes, in newspapers or on the internet or court website?                             | No                      |                        | No                    |                      |
| 4.b. Are judgments rendered in commercial cases at the appellate and supreme court level made available to the general public through publication in official gazettes, in newspapers or on the internet or court website? | Yes                     |                        | Yes                   |                      |
| <b>Alternative dispute resolution (0-3)</b>  |                         | <b>2.5</b>             |                       | <b>2.5</b>           |
| <b>1. Arbitration</b>  |                         | <b>1.5</b>             |                       | <b>1.5</b>           |
| 1.a. Is domestic commercial arbitration governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all its aspects?                            | Yes                     |                        | Yes                   |                      |
| 1.b. Are there any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration?  | No                      |                        | No                    |                      |
| 1.c. Are valid arbitration clauses or agreements usually enforced by the courts?   | Yes                     |                        | Yes                   |                      |
| <b>2. Mediation/Conciliation</b>   |                         | <b>1.0</b>             |                       | <b>1.0</b>           |

|   | Answer<br>(Mexico City) | Score<br>(Mexico City) | Answer<br>(Monterrey<br>) | Score<br>(Monterrey<br>) |
|---|-------------------------|------------------------|---------------------------|--------------------------|
| 2.a. Is voluntary mediation or conciliation available?  | Yes                     |                        | Yes                       |                          |
| 2.b. Are mediation, conciliation or both governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all their aspects?      | Yes                     |                        | Yes                       |                          |
| 2.c. Are there financial incentives for parties to attempt mediation or conciliation (i.e., if mediation or conciliation is successful, a refund of court filing fees, income tax credits or the like)? | No                      |                        | No                        |                          |

Source: *Doing Business* database.

## RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By clarifying the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and sustainably grow the economy.

### What do the indicators cover?

*Doing Business* studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. These variables are used to calculate the recovery rate, which is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. To determine the present value of the amount recovered by creditors, *Doing Business* uses the lending rates from the International Monetary Fund, supplemented with data from central banks and the Economist Intelligence Unit.

To make the data on the time, cost and outcome comparable across economies, several assumptions about the business and the case are used:

- A hotel located in the largest city (or cities) has 201 employees and 50 suppliers. The hotel experiences financial difficulties.
- The value of the hotel is 100% of the income per capita or the equivalent in local currency of USD 200,000, whichever is greater.
- The hotel has a loan from a domestic bank, secured by a mortgage over the hotel's real estate. The hotel cannot pay back the loan, but makes enough money to operate otherwise.

In addition, *Doing Business* evaluates the adequacy and integrity of the existing legal framework applicable to liquidation and reorganization proceedings through the strength of insolvency framework index. The index tests whether economies adopted internationally accepted good practices in four areas: commencement of proceedings, management of debtor's assets, reorganization proceedings and creditor participation.

## WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

### Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

### Cost required to recover debt (% of debtor's estate)

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

### Outcome

Whether business continues operating as a going concern or business assets are sold piecemeal

### Recovery rate for creditors

Measures the cents on the dollar recovered by secured creditors

Outcome for the business (survival or not) determines the maximum value that can be recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

Present value of debt recovered

### Strength of insolvency framework index (0-16)

Sum of the scores of four component indices:

Commencement of proceedings index (0-3)

Management of debtor's assets index (0-6)

Reorganization proceedings index (0-3)

Creditor participation index (0-4)

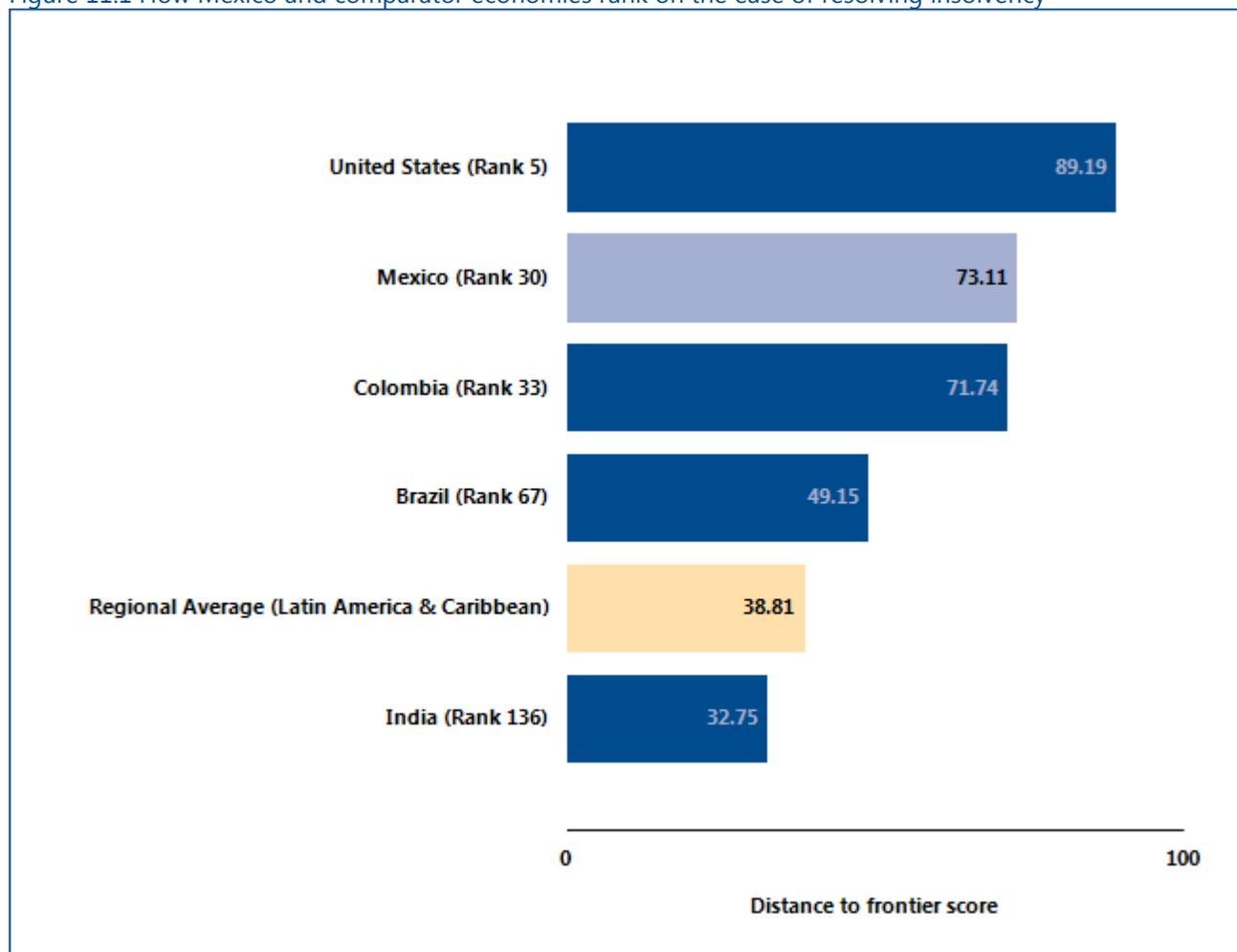
## RESOLVING INSOLVENCY

### Where does the economy stand today?

Globally, Mexico stands at 30 in the ranking of 190 economies on the ease of resolving insolvency (figure 11.1). The ranking of economies on the ease of resolving insolvency is determined by sorting their distance to frontier scores for resolving insolvency. These scores are the simple average of the distance to frontier scores for the recovery rate and the strength of insolvency

framework index. The Resolving Insolvency indicator does not measure insolvency proceedings of individuals and financial institutions. The data are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

Figure 11.1 How Mexico and comparator economies rank on the ease of resolving insolvency



Source: Doing Business database.

## RESOLVING INSOLVENCY

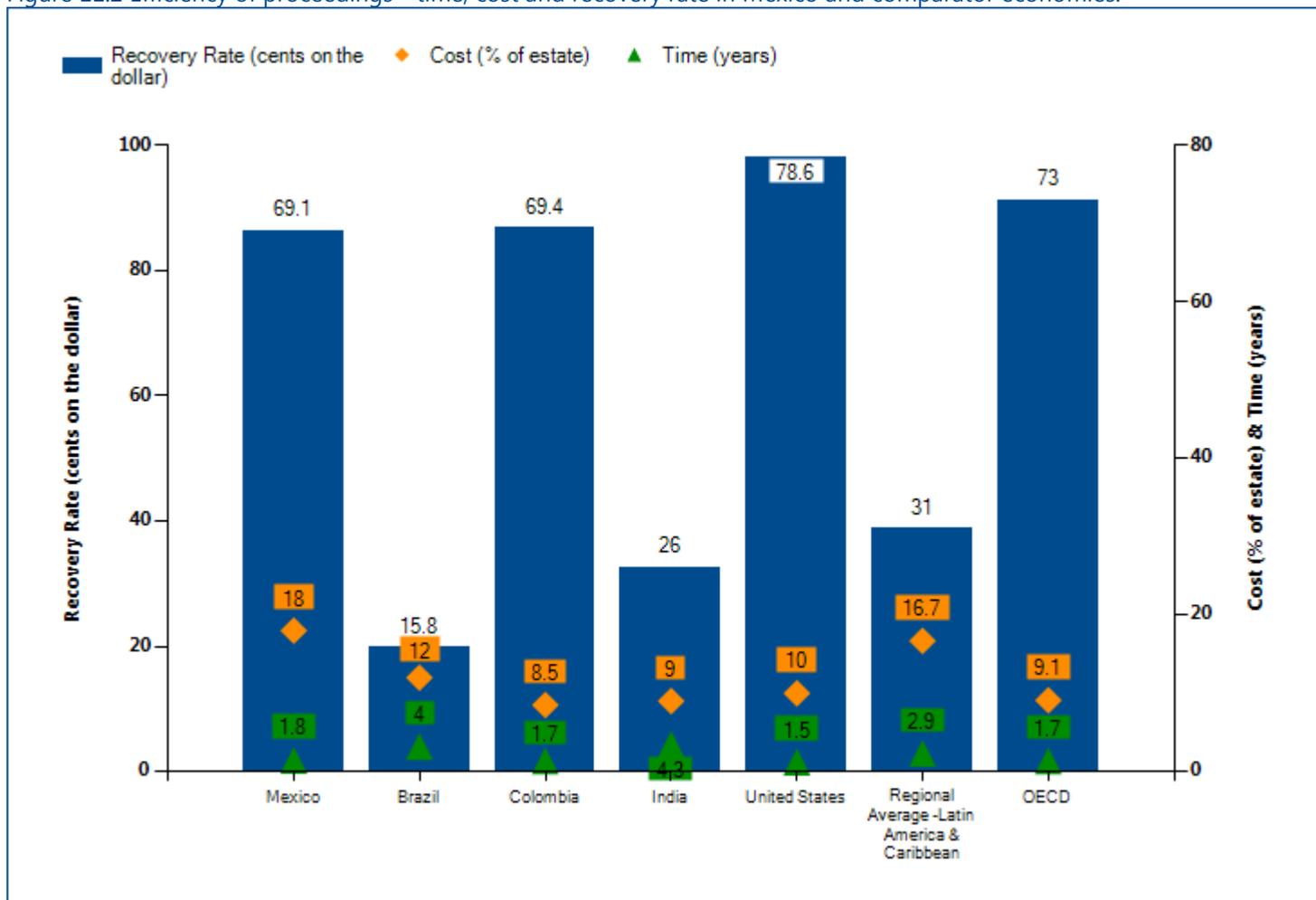
### Recovery of debt in insolvency

Data on the time, cost and outcome refer to the most likely in-court insolvency procedure applicable under specific case study assumptions.

According to data collected by *Doing Business*, resolving insolvency takes 1.8 years on average and costs 18.0% of the debtor’s estate. The average recovery rate is 69.1 cents on the dollar. Most indicator sets refer to a case

scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities.

Figure 11.2 Efficiency of proceedings - time, cost and recovery rate in Mexico and comparator economies.



Source: *Doing Business* database.

Note: The recovery rate is calculated based on the time, cost and outcome of insolvency proceedings involving domestic legal entities and is recorded as cents on the dollar recovered by secured creditors. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted. Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account. The recovery rate is the present value of the remaining proceeds, based on end-2015 lending rates.

Table 11.1 Summary of data for the strength of insolvency framework index Mexico

|                            |                        | Answer         | Explanation  |
|----------------------------|------------------------|----------------|--|
| Proceeding                 | Mexico City, Monterrey | reorganization | The Law of the Commercial Insolvency Law (LCM) provides a unitary form of insolvency proceedings (concurso mercantil) which has two phases: Conciliation (reorganization) and Bankruptcy (Liquidation). Mirage would commence a reorganization proceeding (conciliation) by filing for a "concurso mercantil" in light of Art. 10 of the (LCM). It will be sufficient to demonstrate that the debtor is generally unable to pay its debts as they mature. One of the main advantages of this option is that once the "concurso mercantil" commences, all all enforcement actions against the debtor would be automatically suspended, allowing Mirage to reorganize. |
| Outcome                    | Mexico City, Monterrey | going concern  | Since it would be possible to reach a reorganization agreement, the hotel will continue operating as a going concern.  |
| Time (in years)            | Mexico City, Monterrey | 1.8            | It would take approximately 21 months to resolve an insolvency proceeding in Mexico City, similar to the case study, in which a debtor reaches a reorganization agreement with its creditors and the agreement is approved. All necessary steps to complete the entire process are included within this estimate, including the appointment of an inspector, a conciliator and insolvency administrator, and the preparation of the creditor's claims. The period prescribed by Article 145 of the Commercial Insolvency Law is rarely enforced, but it is taken into account when approving the agreement.  |
| Cost (% of estate)         | Mexico City, Monterrey | 18.0           | The costs associated with an insolvency proceeding (in which a reorganization agreement is approved) in Mexico would amount to approximately 18% of Mirage's estate. The main components of this cost would be the attorney's fees (5-11 %), as well as the inspector, conciliator and insolvency administrator (7%) and additional judicial costs (1%).   |
| <b>Recovery rate: 69.1</b> |                        |                |  |

Source: Doing Business database.

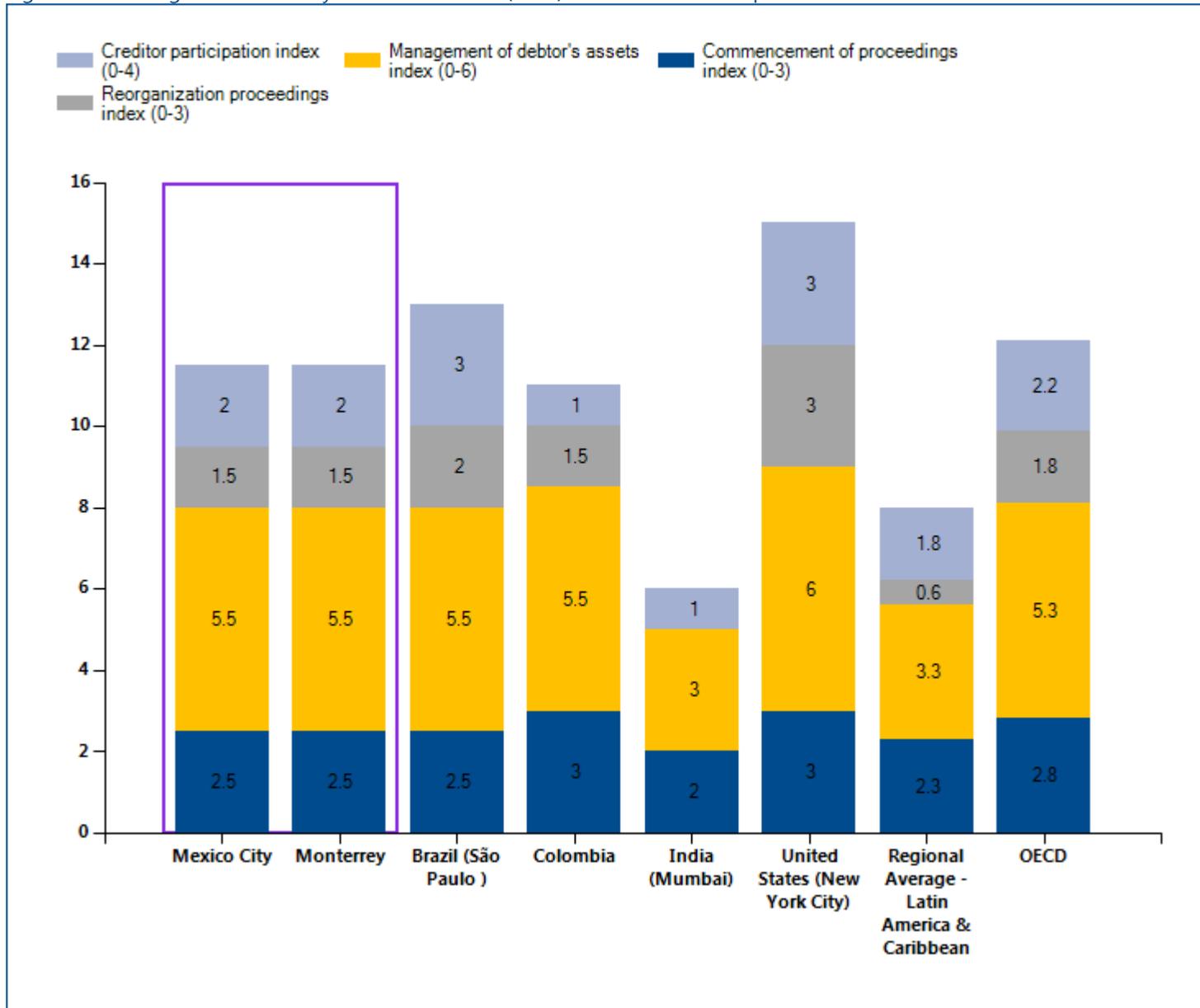
## RESOLVING INSOLVENCY

### Strength of resolving insolvency index

The strength of insolvency framework index is the sum of the scores on the commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. The index ranges from 0 to 16,

with higher values indicating insolvency legislation that is better designed for rehabilitating viable firms and liquidating nonviable ones. Mexico scores 11.5 out of 16 on the strength of resolving insolvency index.

Figure 11.3 Strength of insolvency framework index (0-16) in Mexico and comparator economies



Source: Doing Business database.

Note: Even if the economy's legal framework includes provisions related to insolvency proceedings (liquidation or reorganization), the economy receives 0 points for the strength of insolvency framework index, if time, cost and outcome

indicators are recorded as "no practice".

Table 11.2 Summary of data for the strength of insolvency framework index Mexico

|  | Answer (Mexico City)   | Score (Mexico City) | Answer (Monterrey)   | Score (Monterrey) |
|--|--|---------------------|--|-------------------|
| Strength of insolvency framework index (0-16)  |  | 11.5                |  | 11.5              |
| Commencement of proceedings index (0-3)  |  | 2.5                 |  | 2.5               |
| What procedures are available to a DEBTOR when commencing insolvency proceedings?  | (a) Debtor may file for both liquidation and reorganization          | 1.0                 | (a) Debtor may file for both liquidation and reorganization          | 1.0               |
| Does the insolvency framework allow a CREDITOR to file for insolvency of the debtor?   | (a) Yes, a creditor may file for both liquidation and reorganization | 1.0                 | (a) Yes, a creditor may file for both liquidation and reorganization | 1.0               |
| What basis for commencement of the insolvency proceedings is allowed under the insolvency framework?                                   | (e) Other  | 0.5                 | (e) Other  | 0.5               |
| Management of debtor's assets index (0-6)  |  | 5.5                 |  | 5.5               |
| Does the insolvency framework allow the continuation of contracts supplying essential goods and services to the debtor?                | Yes  | 1.0                 | Yes  | 1.0               |
| Does the insolvency framework allow the rejection by the debtor of overly burdensome contracts?  | Yes  | 1.0                 | Yes  | 1.0               |
| Does the insolvency framework allow avoidance of preferential transactions?  | Yes  | 1.0                 | Yes  | 1.0               |
| Does the insolvency framework allow avoidance of undervalued transactions?   | Yes  | 1.0                 | Yes  | 1.0               |
| Does the insolvency framework provide for the possibility of the debtor obtaining credit after commencement of insolvency proceedings? | Yes  | 1.0                 | Yes  | 1.0               |
| Does the insolvency framework assign priority to post-commencement credit?   | (a) Yes over all pre-commencem                                       | 0.5                 | (a) Yes over all pre-commence  | 0.5               |

|  | Answer<br>(Mexico City)                   | Score (Mexico<br>City) | Answer<br>(Monterrey)                         | Score<br>(Monterrey) |
|--|---|------------------------|---|----------------------|
|  | ent creditors,<br>secured or<br>unsecured |                        | ment<br>creditors,<br>secured or<br>unsecured |                      |
| Reorganization proceedings index (0-3)   |   | 1.5                    |   | 1.5                  |
| Which creditors vote on the proposed reorganization plan?  | (a) All<br>creditors                      | 0.5                    | (a) All<br>creditors                          | 0.5                  |
| Does the insolvency framework require that dissenting creditors in reorganization receive at least as much as what they would obtain in a liquidation?                             | No  | 0.0                    | No  | 0.0                  |
| Are the creditors divided into classes for the purposes of voting on the reorganization plan, does each class vote separately and are creditors in the same class treated equally? | Yes                                       | 1.0                    | Yes   | 1.0                  |
| Creditor participation index (0-4)   |   | 2.0                    |   | 2.0                  |
| Does the insolvency framework require approval by the creditors for selection or appointment of the insolvency representative?   | No  | 0.0                    | No  | 0.0                  |
| Does the insolvency framework require approval by the creditors for sale of substantial assets of the debtor?  | No  | 0.0                    | No  | 0.0                  |
| Does the insolvency framework provide that a creditor has the right to request information from the insolvency representative?   | Yes                                       | 1.0                    | Yes   | 1.0                  |
| Does the insolvency framework provide that a creditor has the right to object to decisions accepting or rejecting creditors' claims?   | Yes                                       | 1.0                    | Yes   | 1.0                  |

Source: Doing Business database.

## RESOLVING INSOLVENCY

A well-balanced bankruptcy system distinguishes companies that are financially distressed but economically viable from inefficient companies that should be liquidated. But in some insolvency systems even viable businesses are liquidated. This is starting to

change. Many recent reforms of bankruptcy laws have been aimed at helping more of the viable businesses survive. What insolvency reforms has *Doing Business* recorded in Mexico (table 11.3)?

Table 11.3 How has Mexico made resolving insolvency easier—or not?  
By *Doing Business* report year from DB2011 to DB2017

| DB year       | Reform   |
|---------------|--|
| <b>DB2015</b> | Mexico made resolving insolvency easier by clarifying several rules, shortening the time extensions allowed during reorganization, facilitating the electronic submission of documents and improving the legal rights of creditors and other parties involved in bankruptcy procedures. This reform applies to both Mexico City and Monterrey. |

Source: *Doing Business* database.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

## LABOR MARKET REGULATION

*Doing Business* studies the flexibility of regulation of employment, specifically as it relates to the areas of hiring, working hours and redundancy. *Doing Business* also measures several aspects of job quality such as the availability of maternity leave, paid sick leave and the equal treatment of men and women at the workplace.

*Doing Business 2017* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on these indicators or include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. Detailed data collected on labor market regulation are available on the *Doing Business* website (<http://www.doingbusiness.org>). The data on labor market regulation are based on a detailed questionnaire on employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

To make the data comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Is a cashier in a supermarket or grocery store, age 19, with one year of work experience.
- Is a full-time employee.
- Is not a member of the labor union, unless membership is mandatory.

The business:

- Is a limited liability company (or the equivalent in the economy).

- Operates a supermarket or grocery store in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Has 60 employees.
- Is subject to collective bargaining agreements if such agreements cover more than 50% of the food retail sector and they apply even to firms that are not party to them.
- Abides by every law and regulation but does not grant workers more benefits than those mandated by law, regulation or (if applicable) collective bargaining agreements.

### LABOR MARKET REGULATION

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. What

changes did Mexico adopt that affected the *Doing Business* indicators on labor market regulation (table 12.1)?

Table 12.1 What changes did Mexico make in terms of labor market regulation?

| DB year       | Reform  |
|---------------|---|
| <b>DB2017</b> | Mexico adopted a resolution that eliminated geographic differences in national minimum wages. Prior to the reform Mexico was divided into two zones—zone A and zone B—with different applicable minimum wages. This reform applies to both Mexico City and Monterrey. |

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### What are the details?

The data reported here for Mexico are based on a detailed survey of labor market regulation that is completed by local lawyers and public officials.

Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

#### Hiring

Data on hiring cover five areas: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; (iii) the minimum wage for a cashier, age 19, with one year of work experience; and (iv) the ratio of the

minimum wage to the average value added per worker (the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population).

| Hiring   | Mexico City<br>Data | Monterrey<br>Data |
|--|---------------------|-------------------|
| Fixed-term contracts prohibited for permanent tasks?                         | Yes                 | Yes               |
| Maximum length of a single fixed-term contract (months)                      | No limit            | No limit          |
| Maximum length of fixed-term contracts, including renewals (months)          | No limit            | No limit          |
| Minimum wage applicable to the worker assumed in the case study (US\$/month) | 168.3               | 168.3             |
| Ratio of minimum wage to value added per worker                              | 0.1                 | 0.1               |

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### Working hours

Data on working hours cover nine areas: i) the maximum number of working days allowed per week; (ii) the premium for night work (as a percentage of hourly pay); (iii) the premium for work on a weekly rest day (as a percentage of hourly pay); (iv) the premium for overtime work (as a percentage of hourly pay); (v) whether there are restrictions on night work; (vi) whether nonpregnant

and nonnursing women can work the same night hours as men; (vii) whether there are restrictions on weekly holiday work; (viii) whether there are restrictions on overtime work; and (ix) the average paid annual leave for workers with 1 year of tenure, 5 years of tenure, and 10 years of tenure.

| Working Hours   | Mexico City<br>Data | Monterrey<br>Data |
|---|---------------------|-------------------|
| Maximum number of working days per week   | 6.0                 | 6.0               |
| Premium for night work (% of hourly pay)  | 0.0                 | 0.0               |
| Premium for work on weekly rest day (% of hourly pay)                                     | 25.0                | 25.0              |
| Premium for overtime work (% of hourly pay)   | 100.0               | 100.0             |
| Restrictions on night work?   | No                  | No                |
| Whether nonpregnant and nonnursing women can work the same night hours as men             | Yes                 | Yes               |
| Restrictions on weekly holiday?   | No                  | No                |
| Restrictions on overtime work?  | Yes                 | Yes               |
| Paid annual leave for a worker with 1 year of tenure (working days)                       | 6.0                 | 6.0               |
| Paid annual leave for a worker with 5 years of tenure (working days)                      | 14.0                | 14.0              |
| Paid annual leave for a worker with 10 years of tenure (working days)                     | 16.0                | 16.0              |
| Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days) | 12.0                | 12.0              |

Source: Doing Business database.

## LABOR MARKET REGULATION

### Redundancy rules

Data on redundancy cover nine areas: (i) the length of the maximum probationary period (in months) for permanent employees; (ii) whether redundancy is allowed as a basis for terminating workers; (iii) whether the employer needs to notify a third party (such as a government agency) to terminate one redundant worker; (iv) whether the employer needs to notify a third party to terminate a group of nine redundant workers; (v)

whether the employer needs approval from a third party to terminate one redundant worker; (vi) whether the employer needs approval from a third party to terminate a group of nine redundant workers; (vii) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (viii) whether priority rules apply for redundancies; and (ix) whether priority rules apply for reemployment.

| Difficulty of redundancy index                           | Mexico City<br>Data | Monterrey<br>Data |
|--|---------------------|-------------------|
| Maximum length of probationary period (months)           | 1.0                 | 1.0               |
| Dismissal due to redundancy allowed by law?              | Yes                 | Yes               |
| Third-party notification if one worker is dismissed?     | Yes                 | Yes               |
| Third-party approval if one worker is dismissed?         | Yes                 | Yes               |
| Third-party notification if nine workers are dismissed?  | Yes                 | Yes               |
| Third-party approval if nine workers are dismissed?      | Yes                 | Yes               |
| Retraining or reassignment obligation before redundancy? | No                  | No                |
| Priority rules for redundancies?                         | Yes                 | Yes               |
| Priority rules for reemployment?                         | Yes                 | Yes               |

Source: Doing Business database.

## LABOR MARKET REGULATION

### Redundancy cost

Redundancy cost measures the cost of advance notice requirements and severance payments due when terminating a redundant worker, expressed in weeks of salary. The average value of notice requirements and

severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is considered. One month is recorded as 4 and 1/3 weeks.

| <b>Redundancy cost indicator (in salary weeks)</b>  | <b>Mexico City<br/>Data</b> | <b>Monterrey<br/>Data</b> |
|---|-----------------------------|---------------------------|
| Notice period for redundancy dismissal for a worker with 1 year of tenure                     | 0.0                         | 0.0                       |
| Notice period for redundancy dismissal for a worker with 5 years of tenure                    | 0.0                         | 0.0                       |
| Notice period for redundancy dismissal for a worker with 10 years of tenure                   | 0.0                         | 0.0                       |
| Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure) | 0.0                         | 0.0                       |
| Severance pay for redundancy dismissal for a worker with 1 year of tenure                     | 14.6                        | 14.6                      |
| Severance pay for redundancy dismissal for a worker with 5 years of tenure                    | 21.4                        | 21.4                      |
| Severance pay for redundancy dismissal for a worker with 10 years of tenure                   | 30.0                        | 30.0                      |
| Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure) | 22.0                        | 22.0                      |

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### Job quality

Doing Business introduced new data on job quality in 2015. Doing Business 2017 covers eight questions on job quality (i) whether the law mandates equal remuneration for work of equal value; (ii) whether the law mandates nondiscrimination based on gender in hiring; (iii) whether the law mandates paid or unpaid maternity leave; (iv) the minimum length of paid maternity leave (in calendar days); (v) whether employees on maternity leave receive 100% of wages; (vi) the availability of five fully paid days of sick leave a year; (vii) whether a worker is eligible for an unemployment protection scheme after one year of service; and (viii) the minimum duration of the contribution period (in months) required for unemployment.

| <b>Job Quality</b>  | <b>Mexico City<br/>Data</b> | <b>Monterrey<br/>Data</b> |
|---|-----------------------------|---------------------------|
| Equal remuneration for work of equal value?                       | No                          | No                        |
| Gender nondiscrimination in hiring?                               | Yes                         | Yes                       |
| Paid or unpaid maternity leave mandated by law?                   | Yes                         | Yes                       |
| Minimum length of maternity leave (calendar days)?                | 84.0                        | 84.0                      |
| Receive 100% of wages on maternity leave?                         | Yes                         | Yes                       |
| Five fully paid days of sick leave a year?                        | No                          | No                        |
| Unemployment protection after one year of employment?             | No                          | No                        |
| Minimum contribution period for unemployment protection (months)? | n.a.                        | n.a.                      |

Source: Doing Business database.

## DISTANCE TO FRONTIER AND EASE OF DOING BUSINESS RANKING

*Doing Business* presents results for two aggregate measures: the distance to frontier score and the ease of doing business ranking, which is based on the distance to frontier score. The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

### Distance to Frontier

The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 36 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, the former Yugoslav Republic of Macedonia and New Zealand have the smallest number of procedures required (1), and New Zealand the shortest time to fulfill them (0.5 days). Slovenia has the lowest cost (0.0), and Australia, Colombia and 103 other economies have no paid-in minimum capital requirement (table 14.1 in the *Doing Business 2016* report).

#### Calculation of the distance to frontier score

Calculating the distance to frontier score for each economy involves two main steps. In the first step individual component indicators are normalized to a common unit where each of the 36 component indicators  $y$  (except for the total tax rate) is rescaled using the linear transformation  $(\text{worst} - y)/(\text{worst} - \text{frontier})$ . In this formulation the frontier represents the best performance on the indicator across all economies since 2005 or the third year in which data for the indicator were collected. Both the best performance and the worst performance are established every five years based on the *Doing Business* data for the year in which they are established, and remain at that level for the five years regardless of any changes in data in interim years. Thus an economy may set the frontier for an indicator

even though it is no longer at the frontier in a subsequent year.

For scores such as those on the strength of legal rights index or the quality of land administration index, the frontier is set at the highest possible value. For the total tax rate, consistent with the use of a threshold in calculating the rankings on this indicator, the frontier is defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including *Doing Business 2015*. For the time to pay taxes the frontier is defined as the lowest time recorded among all economies that levy the three major taxes: profit tax, labor taxes and mandatory contributions, and value added tax (VAT) or sales tax. For the different times to trade across borders, the frontier is defined as 1 hour even though in many economies the time is less than that.

In the same formulation, to mitigate the effects of extreme outliers in the distributions of the rescaled data for most component indicators (very few economies need 700 days to complete the procedures to start a business, but many need 9 days), the worst performance is calculated after the removal of outliers. The definition of outliers is based on the distribution for each component indicator. To simplify the process two rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including minimum capital, number of payments to pay taxes, and the time and cost indicators), and the 99th percentile is used for number of procedures. No outlier is removed for component indicators bound by definition or construction, including legal index scores (such as the depth of credit information index, extent of conflict of interest regulation index and strength of insolvency framework index) and the recovery rate.

In the second step for calculating the distance to frontier score, the scores obtained for individual indicators for each economy are aggregated through simple averaging into one distance to frontier score, first for each topic and then across all 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly

identical to the simple average used by *Doing Business*<sup>2</sup>. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components<sup>3</sup>.

An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. All distance to frontier calculations are based on a maximum of five decimals. However, indicator ranking calculations and the ease of doing business ranking calculations are based on two decimals.

The difference between an economy's distance to frontier score in any previous year and its score in 2015 illustrates the extent to which the economy has closed the gap to the regulatory frontier over time. And in any given year the score measures how far an economy is from the best performance at that time.

#### Treatment of the total tax rate

The total tax rate component of the paying taxes indicator set enters the distance to frontier calculation in a different way than any other indicator. The distance to frontier score obtained for the total tax rate is transformed in a nonlinear fashion before it enters the distance to frontier score for paying taxes. As a result of the nonlinear transformation, an increase in the total tax rate has a smaller impact on the distance to frontier score for the total tax rate—and therefore on the distance to frontier score for paying taxes—for economies with a below-average total tax rate than it would have had before this approach was adopted in *Doing Business 2015* (line B is smaller than line A in figure 14.2 in the *Doing Business 2016* report). And for economies with an extreme total tax rate (a rate that is very high relative to the average), an increase has a greater impact on both these distance to frontier scores than it would have had before (line D is bigger than line C in figure 14.2 in the *Doing Business 2016* report).

<sup>2</sup> See Djankov, Manraj and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

<sup>3</sup> For getting credit, indicators are weighted proportionally, according to their contribution to the total score, with a weight of 60% assigned to the strength of legal rights index and 40% to the depth of credit information index. Indicators for all other topics are assigned equal weights

The nonlinear transformation is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in an economy's overall tax system. Instead, it is mainly empirical in nature. The nonlinear transformation along with the threshold reduces the bias in the indicator toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). In addition, it acknowledges the need of economies to collect taxes from firms.

#### Calculation of scores for economies with 2 cities covered

For each of the 11 economies in which *Doing Business* collects data for the second largest business city as well as the largest one, the distance to frontier score is calculated as the population-weighted average of the distance to frontier scores for these two cities (table 13.1). This is done for the aggregate score, the scores for each topic and the scores for all the component indicators for each topic.

Table 13.1 Weights used in calculating the distance to frontier scores for economies with 2 cities covered

| Economy            | City           | Weight (%) |
|--------------------|----------------|------------|
| Bangladesh         | Dhaka          | 78         |
|                    | Chittagong     | 22         |
| Brazil             | São Paulo      | 61         |
|                    | Rio de Janeiro | 39         |
| China              | Shanghai       | 55         |
|                    | Beijing        | 45         |
| India              | Mumbai         | 47         |
|                    | Delhi          | 53         |
| Indonesia          | Jakarta        | 78         |
|                    | Surabaya       | 22         |
| Japan              | Tokyo          | 65         |
|                    | Osaka          | 35         |
| Mexico             | Mexico City    | 83         |
|                    | Monterrey      | 17         |
| Nigeria            | Lagos          | 77         |
|                    | Kano           | 23         |
| Pakistan           | Karachi        | 65         |
|                    | Lahore         | 35         |
| Russian Federation | Moscow         | 70         |
|                    | St. Petersburg | 30         |
| United States      | New York       | 60         |
|                    | Los Angeles    | 40         |

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects, 2014 Revision. <http://esa.un.org/unpd/wup/CD-ROM/Default.aspx>.

### Economies that improved the most across 3 or more *Doing Business* topics in 2014/15

*Doing Business 2016* uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2014/15

implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate distance to frontier score. Changes making it more difficult to do business are subtracted from the total number of those making it easier to do business. Twenty-four economies meet this criterion: Armenia; Azerbaijan; Benin; Costa Rica; Côte d'Ivoire; Cyprus; Hong Kong SAR, China; Indonesia; Jamaica; Kazakhstan; Kenya; Lithuania; Madagascar; Mauritania; Morocco; Romania; the Russian Federation; Rwanda; Senegal; Togo; Uganda; the United Arab Emirates; Uzbekistan; and Vietnam. Second, *Doing Business* sorts these economies on the increase in their distance to frontier score from the previous year using comparable data.

Selecting the economies that implemented regulatory reforms in at least three topics and had the biggest improvements in their distance to frontier scores is intended to highlight economies with ongoing, broad-based reform programs. The improvement in the distance to frontier score is used to identify the top improvers because this allows a focus on the absolute improvement—in contrast with the relative improvement shown by a change in rankings—that economies have made in their regulatory environment for business.

### Ease of *Doing Business* ranking

The ease of doing business ranking ranges from 1 to 190. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to 2 decimals.

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*Doing Business 2017* is the 14th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. The report provides quantitative indicators covering 11 areas of the business environment in 190 economies. The goal of the *Doing Business* series is to provide objective data for use by governments in designing sound business regulatory policies and to encourage research on the important dimensions of the regulatory environment for firms.



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