

# Sub-national Doing Business

Driving reform of local and regional business environments in APEC

May 8, 2009



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# Introduction

In September 2007, APEC Leaders provided a clear mandate for work to improve investment climates by removing behind-the-border barriers to investment as a significant contribution to regional economic integration noting the critical importance of investment to economic growth and development. They also noted with approval APEC's use of the World Bank's business risks, costs and competitiveness methodology to assess the productivity dividends of reform in a study presented to APEC Ministerial Meeting: *Enhancing Investment Liberalisation and Facilitation in the Asia-Pacific Region (Stage 2): reducing behind-the-border barriers to investment*.<sup>1</sup> The study, which identifies barriers in the region that have the greatest impact on investment, was endorsed strongly by ABAC and received mention by APEC Ministers so it is expected that the report will be influential in other APEC projects that target investment liberalisation and facilitation. In June 2007, G8 Leaders also supported the work within APEC to identify and address such barriers using diagnostic tools such as the World Bank's *Doing Business* indicators.

Australia is currently the convener of APEC's Investment Experts Group (IEG) which was established by the Committee on Trade and Investment (CTI) in 1994 to develop a set of Non-binding Investment Principles. IFC/FIAS was approached by Australia to collaborate on a project to complete two *Doing Business* case studies at the sub-national level focusing on efforts among member countries to overcome barriers to investment. The nominated case studies are Mexico and the Philippines. The case studies were presented by member economy champions at the APEC meetings held in Singapore from February 16 - 17, 2009.

The overarching objective of this project was the production of two case studies where APEC member economies have used the *Doing Business* indicators at the sub-national level to develop strategies to reduce impediments to investment. The case studies inform the significance of an approach to investment that encourages a domestic integration focus, i.e. looking at the sub-national picture to identify the domestic better practice of high growth states/provinces (rather than to international best practice) on the assumption that better practice may be more achievable and deliver very significant growth outcomes. The lessons drawn from the case studies will then contribute to an understanding of the significance of domestic to regional economic integration.

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<sup>1</sup> The Centre for International Economics (2007), *Enhancing Investment Liberalisation and Facilitation in the Asia-Pacific Region (Stage 2): reducing behind-the-border barriers to investment*. <http://www.apec.org/content/apec/publications.html>

Essentially, the Mexico and Philippines case studies seek to answer:

- The process to gain stakeholder buy in at the sub-national level to undertake the Sub-national Doing Business study, and degree of commitment from sub-national governments. Outline the role of any local public/private sector champions.
- Process for selection of cities, Doing Business topics/indicators and application of Doing Business methodology at the sub-national level. Why the Doing Business methodology works at the sub-national level and its limitations, if any.
- The results of the Sub-national Doing Business study, and potential areas for reform identified. The process for identifying reform issues and targets, the role the public and private sector and local champions played.
- Areas easy to reform/difficult to reform at the sub-national level.
- Successful reforms and why they were successful. Timing and execution. How did the Sub-national Doing Business project foster/guide the reform?
- Challenges in undertaking reforms/pending reforms/failed reforms.
- Public and Private sector perspectives on reforms.
- Next steps in the reform process.

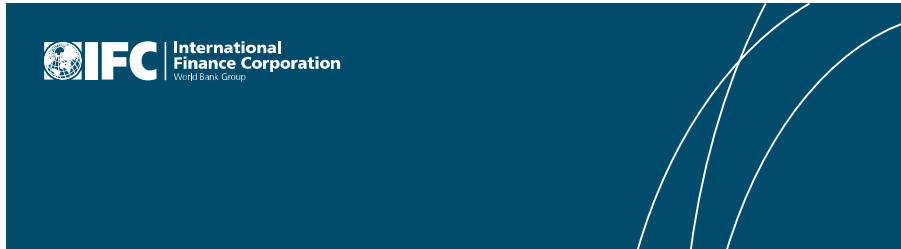
The following chapters present:

- A powerpoint presented on February 16 at the *Seminar to Improve the Domestic Business Environment* hosted by the Economic Committee and the Investment Experts Group, outlining the methodology of Sub-national Doing Business. This presentation was entitled ‘Sub-national Doing Business: Driving reform of local and regional business environments’
- The Mexico case study, entitled “Compare, Compete, Cooperate: How Sub-national Doing Business Helps Mexican States to Improve Commercial Regulations”
- The Mexico case study powerpoint, presented on February 17 at the breakout session on sub-national Doing Business at the *Seminar to Improve the Domestic Business Environment*
- The Philippines case study, entitled “Laying the Ground for Regulatory Reforms for National and Local Competitiveness”

- The Philippines case study powerpoint, presented on February 17 at the breakout session on sub-national Doing Business at the *Seminar to Improve the Domestic Business Environment*
- A summary of the reform at the sub-national level in China, based on the Doing Business in China 2008 report
- A powerpoint presentation on undertaking the Sub-national Doing Business project in Indonesia, presented on February 17 at the breakout session on sub-national Doing Business at the *Seminar to Improve the Domestic Business Environment*
- A power point presentation made to the Investment Experts group meeting in Singapore on 18 February on subnational Doing Business driving reform at the local and regional levels, entitled “Doing Business in APEC: Recent experience at the sub-national level”.

This paper will conclude with a discussion on the lessons learned from this project.

# 1 Sub-national Doing Business: Driving reform of local and regional business environments



## Subnational Doing Business

### Driving reform of local and regional business environments

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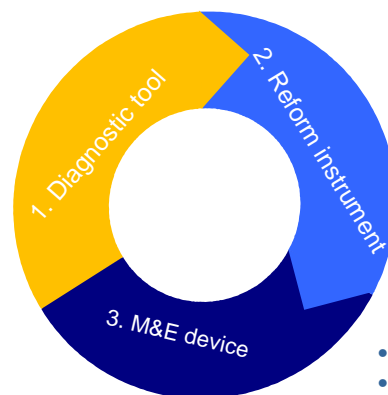


## Subnational Doing Business project

- Expands Doing Business indicators beyond the most populous city

### 1. Diagnostic tool

- Creates baseline
- Allows local and global benchmarking
- Puts regulatory reform on political agenda
- Links national and local reform efforts



### 2. Reform instrument

- Comparisons within cities are strong drivers of reform
- Uncovers bottlenecks and local good practices
- Promotes peer to peer learning
- Actively involves local governments and other reform stakeholders

### 3. M&E device

- Measures progress over time
- Creates an incentive to maintain reform effort even when governments change
- High media appeal





The Sub-national Doing Business project expands the World Bank Group's Doing Business indicators beyond the most populated city in the country. The main driver behind subnational reports is to provide local governments with a public policy tool. The approach is designed to be much more than a benchmarking exercise. IFC believes it is a powerful tool because it guides policymaker throughout the entire regulatory reform cycle. Sub-national Doing Business is a diagnostic tool, reform instrument and monitoring and evaluation system

Firstly, it is diagnostic tool because it creates a baseline. Sub-national Doing Business studies across 32 countries have shown that there are two reasons why subnational governments perform differently on the Doing Business indicators:

1. The regulations themselves are different, for example, different operating licensing requirements depending on the municipality.
2. There are variations due to how the same national law and regulations are enforced in each different location. A good example is contract enforcement, where code procedures and the law are usually identical for the whole country. A Sub-national Doing Business report captures differences in regulations and their enforcement at all levels of government in selected states in the same country.

Because of the Sub-national Doing Business report's media appeal, it puts regulatory reform at the top of the political agenda.

The second function of Sub-national Doing Business is as a reform instrument. Sub-national Doing Business creates a public policy tool for selected cities to compare themselves with each other and to compete globally. It promotes competition - it is not necessarily Pakistan competing with United Arab Emirates that is important for potential investors. The investor will compare Shanghai or Dubai with Karachi. Competition is increasingly global and increasingly local at the same time. The benchmarks can help specific locations to become globally more competitive. Local benchmarks are even stronger drivers for reform than international comparisons. Disparities among the states within the same country are much harder to justify. Disparities uncovered at the subnational level creates competition and motivation for reform.

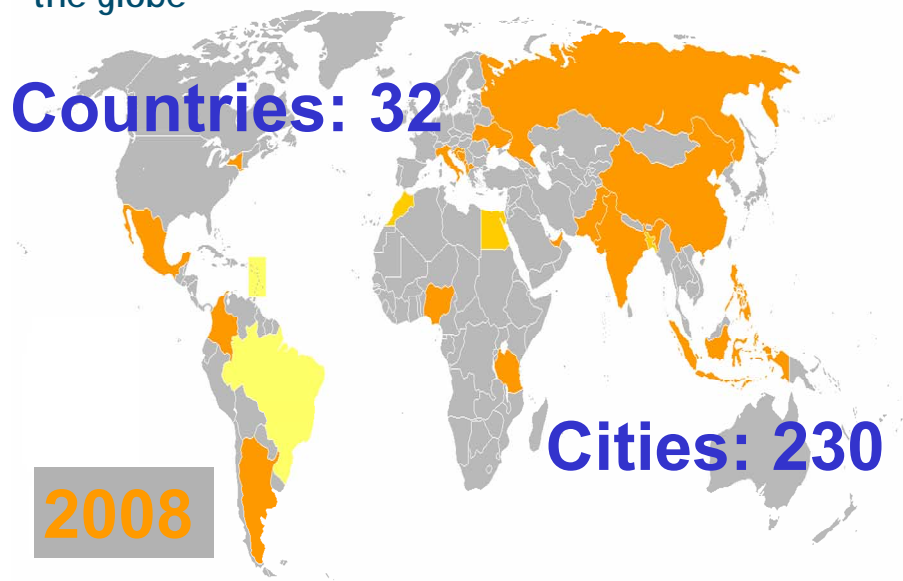
Sub-national Doing Business uncovers bottlenecks and good practices within an economy. It promotes peer-learning among local governments. In many economies it is easier to learn from the local best practices – international best practices may be hard to replicate due to local cultural and/or legal framework differences.

IFC reports have shown that good practices can usually be found without having to go abroad – within the same country. These practices are often quite easy and inexpensive to replicate. Thus replicating local best practice at the sub-national level may be preferable.

Sub-national Doing Business provides more room for regions and states from the same country to share their reform stories and to learn from each other. Projects are usually followed by workshops.

Finally, the third function is as a monitoring and evaluation tool. The Sub-national Doing Business project allows a country to measure progress over time. If the benchmarking is repeated, it is a great incentive for policy makers to improve the regulatory environment, so that it will be reflected in the following round.

### Subnational Doing Business has projects all around the globe



Sub-national Doing Business has projects all around the world. In total the project currently covers 230 cities in 32 countries. The APEC economies include Mexico, Philippines, People's Republic of China, Russia and Indonesia.

#### Subnational DB reports timeline

**2005-** The Project started in 2005, covering 24 cities in 3 countries in México (12) + Pakistan (4) + India (8)

**2006-** In the second year, IFC added 9 new countries and 40 cities, expanding to 6 Eastern Caribbean states, Brazil (12)+ Bangladesh (3)

**2007-** In 2007, IFC added 4 more countries and 12 new cities including 2 cities from Egypt, 7 from Morocco, 1 more city in Pakistan and 2 more cities in India

**2008-** By 2008, IFC had expanded reports to a further 23 countries and 154 cities, including the United Arab Emirates, 9 cities in Argentina, the People’s Republic of China, Colombia, Italy, 10 cities in Nigeria, the Philippines, South East Europe, Russia, Ukraine, Zanzibar and Indonesia

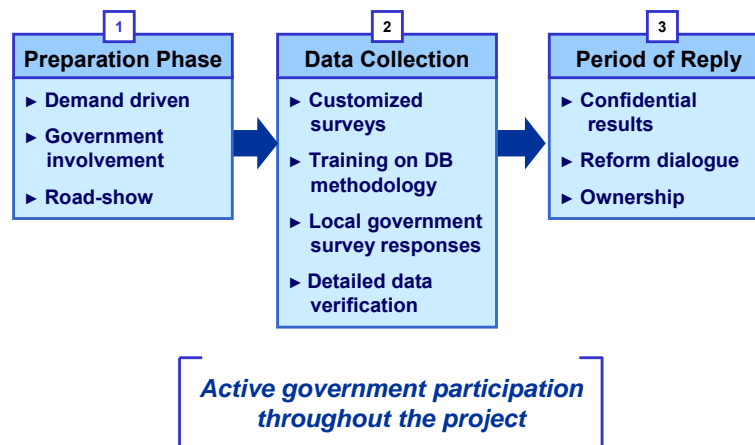
In **2009**, IFC will undertake updates of many of the already measured countries, as well as commence projects in Kenya and Turkey.

## Subnational DB Project Pipeline

Project	# of Cities	# of Indicators	Timing
INDIA	16 + Mumbai	7	June 08 – April 09
PAKISTAN	13 + Karachi	7	Nov 08 – July 09
INDONESIA	13 + Jakarta	3	Sep 08 – Nov 09
KENYA	11 + Nairobi	4	Oct 08 – Jun 09
NIGERIA II	36 + Lagos	4	Jan 09
ABU DHABI	1	10	Oct 08 – April 09
COLOMBIA II	20 + Bogota	5	Jan 09 – Nov 09
EGYPT	6	4	Apr 09 – Dec 09
VENETO	1	10	Aug 08 – Jan 09

This is the 2009 project pipeline. There is a variation amongst economies on the number of Doing Business indicators the IFC measures. As a project is just starting in Indonesia, the IFC will begin with 3 indicators, whereas in India, IFC has been undertaking sub-national Doing Business reports since 2005, so it has expanded to 7 indicators over time. Abu Dhabi and Veneto in Italy are unique as both cities requested the sub-national Doing Business team to measure against all 10 indicators, so they can see how competitive they are across the board against their internal rival cities of Dubai and Rome, respectively. This illustrates that Sub-national Doing Business really does drive competitiveness within an economy.

## How does Subnational DB work ?



This slide illustrates the consecutive phases of a Subnational Doing Business project.

The IFC begins with the preparation phase. Sub-national Doing Business is demand driven. Governments request the project, and are closely involved throughout. IFC always works with a local partner organisation to undertake the surveys.

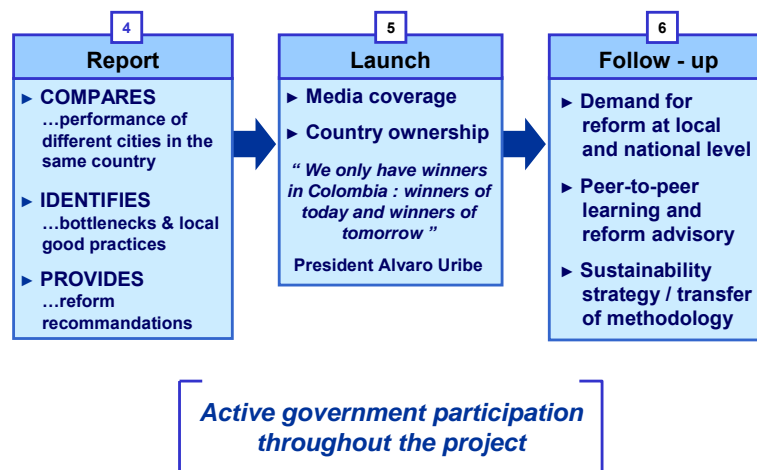
For the selection of cities within an economy, criteria include population, economic activity and political diversity. For the selection of Doing Business indicators to measure, IFC selects indicators in which regional differences are likely to occur and where reform is most urgently needed. IFC has seen that there are some indicators that imply both national and municipal regulation; for example starting a business (to see effects of municipal level one stop shops), registering property, enforcing contracts, trading across borders, paying taxes, and dealing with licenses.

IFC and local partner organisation usually undertake a roadshow to the selected cities to prepare the city for the impending survey, educating them on the Sub-national Doing Business project's purpose and methodology. During the preparation phase and roadshow, we also select the survey respondents. The local partner organisation is a key element for this. It is important to have local respondents to capture the regional differences. This is why questionnaires are translated into local language. Private sector respondents can remain anonymous if they wish.

The second phase is data collection, undertaking the surveys. We also train the local respondents on the Doing Business methodology so we obtain the correct data. Sub-national governments also participate, including as survey respondents.

The third phase is the period of reply phase, where IFC shares the results of the survey on a confidential basis with each local government and respondents and verify the data. The period of reply phase ensures the sub-national governments take ownerships of the results. IFC can also record, at this stage, any potential reforms at the sub-national level which may impact on the data.

## How does Subnational DB work ?



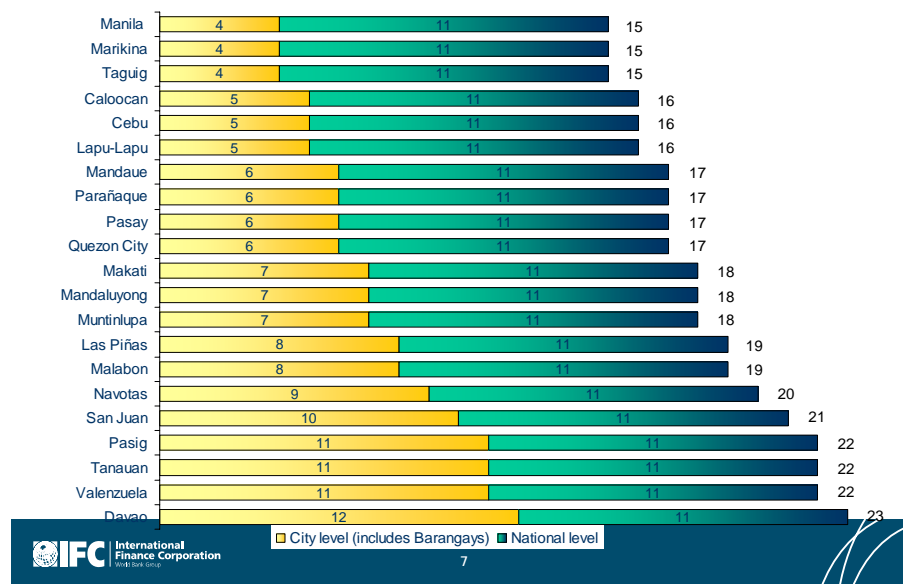
The fourth stage is the report publication, which:

1. Compares performance of different cities in the same country
2. Identifies bottlenecks and local good practices
3. Provides reform recommendations

As soon as the report is published, IFC hosts a launch, which is usually attended by high level public and private sector champions and academia, and attracts a lot of media.

The final stage of a Sub-national Doing Business report is the follow up, where IFC is able to respond to demand for technical assistance to reform at the local and national level. Reforms, of course, can be undertaken without IFC technical assistance, and can be guided by the good practice identified by the Sub-national Doing Business report within a country, through peer to peer learning. IFC infact has a sustainability strategy, where we are transferring the methodology for the Sub-national Doing Business report to our local partners in each country, so they can take this work forward without the IFC necessarily needing to be involved: we have already begun this process in Mexico.

## Procedures to start a business



This is a slide to illustrate the sub-national level differences we measured on the procedures to start a business in the Philippines. The yellow bars of the graph represent the number of procedures required by the city level government, and the green bars are the number of procedures required by the national level government, which are consistent at 11. However, there is wide variation at the city level in the Philippines on starting a business, where in Manila, only 4 extra procedures are required at the city level, whereas to contrast in Davao, 12 extra procedures are required, bringing the total number of procedures there to 23, whereas in Manila, it is only 15 in total.

## Subnational DB uncovers best practices within a country

Countries/Regions	Global ranking DB 2008	Hypothetical city ranking
South East Europe	75-136	9
India	134*	79*
Pakistan	76	52
OECS	27-85*	14*
Colombia	66	35
México	43*	33*
Egypt	126	106
Morocco	129	113
China	83	67



International Finance Corporation  
World Bank Group

2007 data

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Sub-national Doing Business uncovers best practice within a country.

In South East Europe, IFC measured 7 economies. There is a common vision for the South East Europe region, of growing regional cooperation, implementation of critical reforms to improve governance and investment climates, and they aim for eventual integration in the European Union (EU). To improve the business environment across South East Europe, national and municipal policymakers do not need to look beyond the region. If a hypothetical city was to adopt the best existing practices from South East Europe, it would rank 9 among the 178 economies measured by Doing Business 2008. With these existing best regulations in place, entrepreneurs in South East Europe would face a business environment similar to that of Ireland and better than 24 other European Union countries.

Another illustrative example of Sub-national Doing Business driving reform at the regional level is India. When the Doing Business reports came out in 2004 and 2005, India was ranked one of the worst locations to Do Business in South Asia, yet, it had one of the best records on investment, growth, and poverty reduction. The Government of India was furious with the IFC. There are some obvious reasons for this –having a huge internal market of over a billion people meant that India did indeed work differently from smaller economies. In 2007, the Sub-national Doing Business report across 12 cities showed major regional variations between Indian cities. IFC found that if India adopted the best practices from amongst all of these 12 cities, then its ranking could improve 55 places. The Government of India has now requested a Permanent Technical Advice team from the World Bank to help it reach its stated objective of improving 55 places in the Doing Business indicators as quickly as possible.

Higher rankings on the ease of doing business are associated with more growth, more jobs and a smaller share of the economy in the informal sector.

## Case Studies on Subnational Doing Business in Philippines and Mexico will highlight:

- The process to gain stakeholder buy-in at the sub-national level to undertake the Doing Business study, and the process involved in applying the methodology - selection of indicators, cities, customising surveys
- The results of the sub-national Doing Business studies, and potential areas for reform identified.
- Successful reforms at the sub-national level and why they were successful. Timing and execution. How did the sub-national DB report foster/guide the reform?
- Challenges in undertaking reforms.
- Public and private sector perspectives on reform.

The Investment Experts Group requested case studies on Sub-national Doing Business in the Philippines and Mexico. The results of these case studies are presented below.

Thank you!





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

### Introduction

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

The *Sub-national Doing Business* report is not an end in itself, but an entry-point to kick-start regulatory reform. Over the past three years, the experience in Mexico has been a clear example of the impact of the *Sub-national Doing Business* report on state and municipal policy reforms<sup>2</sup>. *Doing Business in Mexico* has been a repeated exercise which has held state governments accountable for what they do or neglect to do when it comes to policies facilitating business and wealth creation. Due to the importance and popularity the *Sub-national Doing Business* report has gained in Mexico, policymakers' incentives are now more aligned towards designing an environment conducive to business development. If states improve regulations from one benchmarking to another, the *Sub-national Doing Business* report captures them and constituents, the private sector and potential investors will be aware of progress over time. To this end, governments have more than political incentives to improve business regulations. It is now clear how investments can also be attracted if policies are simpler, cheaper and faster.

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

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

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

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

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

## **Why Conduct a Sub-National Doing Business Study?**

### **Unlocking Reformist Potential**

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

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

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

### **Partnering with Local Governments**

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

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

### **Serving as an Advocacy Tool for the Private Sector**

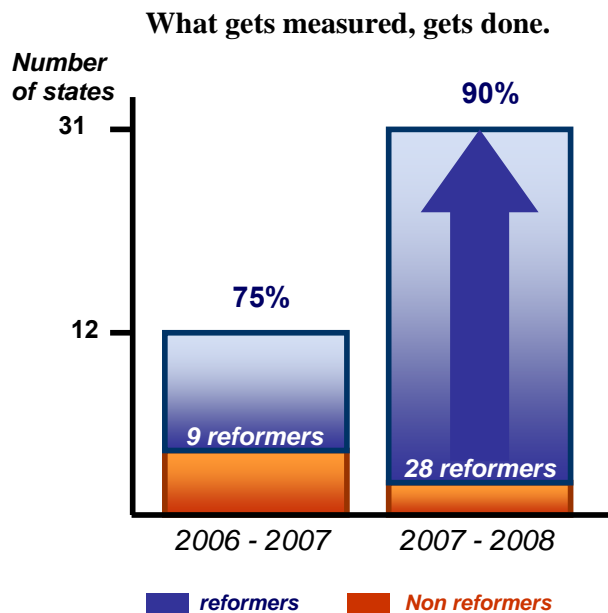
Sub-national Doing Business also benefits the private sector. For them, sub-national Doing Business is a policy advocacy tool as both the benchmarking and the detection of state best-practices allow business-people to lobby for improvements on specific business regulations at the state and federal level.

## Reforming Starting a Business and Registering Property

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

Over the course of three years, reforms related to business entry were the most popular in Mexican states: 28 out of the 32 states carried out reforms in this area<sup>3</sup>. As a result, the average time required to start a business in Mexico has decreased from 36 to 24 days. Graph 1 presents these results:

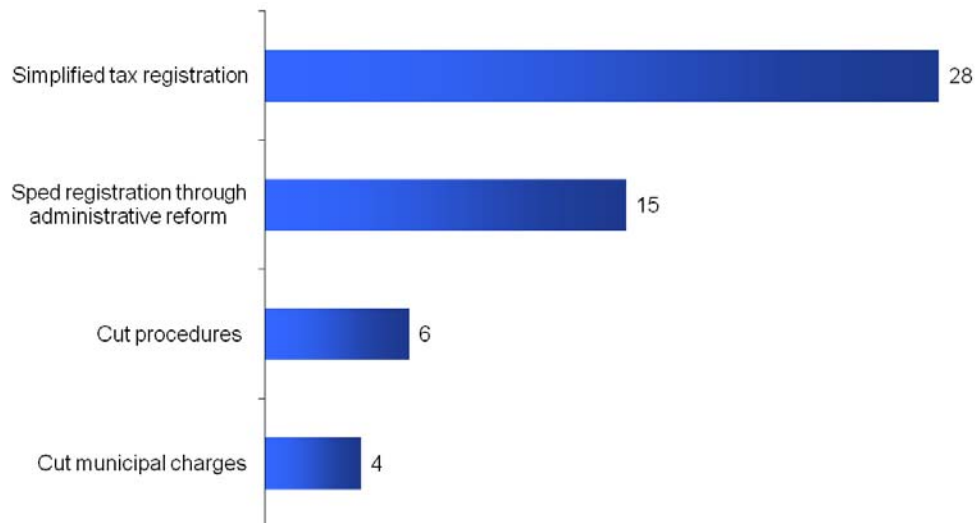
**Graph 1: *Doing Business in Mexico 2006, 2007 & 2008:***



<sup>3</sup> *Doing Business in Mexico 2009*

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

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



When the first sub-national *Doing Business* report was released, it took Guanajuato 29 days to process the required paperwork to allow an entrepreneur to start a business. In 2008, to open a business in Guanajuato, she would have to wait only 12 days and pay 9% of income per capita (GNI per capita)<sup>4</sup>, similar to the cost and time in Turkey and Japan<sup>5</sup>. To make this jump Guanajuato introduced the following reforms:

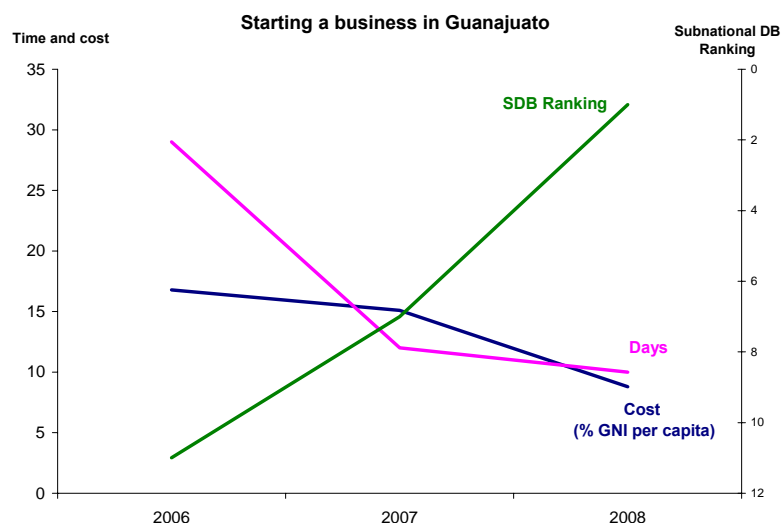
- Online business registration procedures.
- Single access points for businesses and simplified registration formalities.
- Simplified federal tax registration procedure (Registro Federal de Contribuyentes) that can now be obtained electronically at the notary.

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

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

<sup>5</sup> *Doing Business 2009*.

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



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

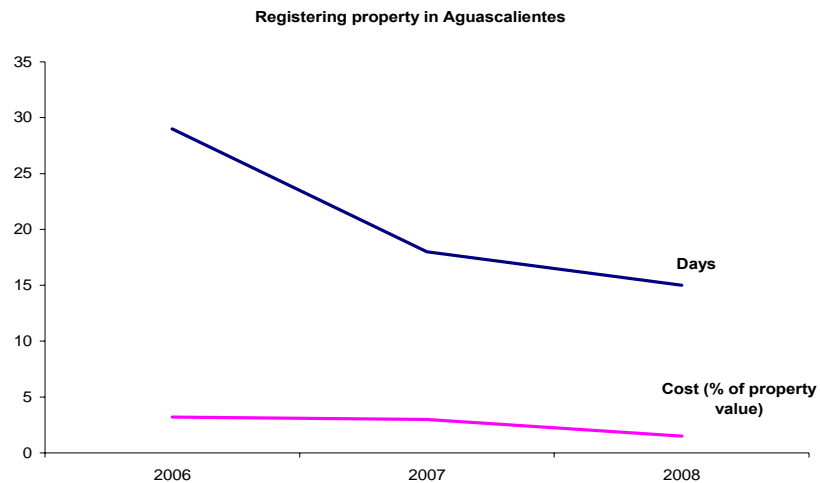
Morelos and Puebla drastically reduced the time of starting a business from 50 to 16 days and from 42 to 12 days respectively by streamlining procedures to obtain the municipal licenses, by training employees, by establishing one-stop-shops (in Spanish, *kioscos de información*) and by introducing electronic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

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

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

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

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



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

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

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

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

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

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

### **Charting a New Course by Working Together**

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

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



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

## **Mobilizing and Allocating Resources for a Targeted Intervention**

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

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

## **Inter-Agency Solutions to Reform the Regulatory System**

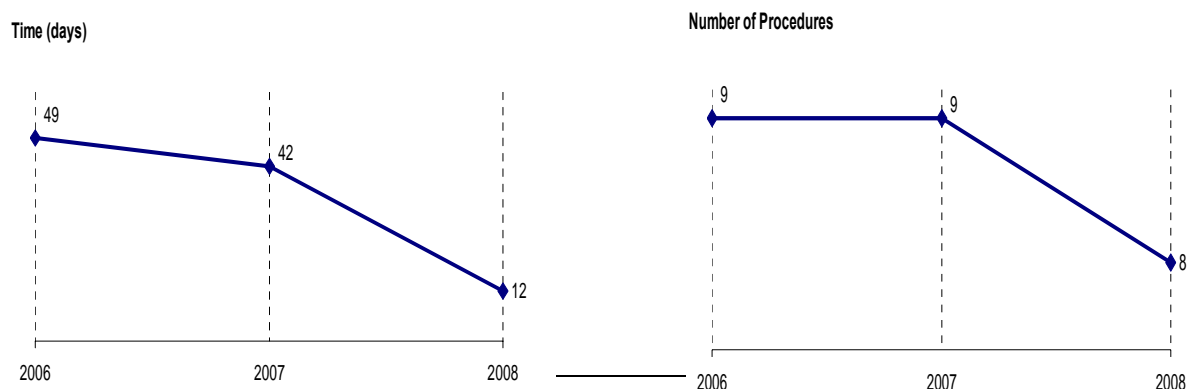
Countries can be reluctant to improve business regulations based on international rankings. For instance, when Mexico compares itself to Thailand, it is easy to claim that differences are due to different cultures, legal backgrounds, and political environments. However, when a state government performs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

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

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

Overall, according to the Ease of Doing Business ranking, Puebla moved from position 28 in 2007 to position 19 in 2008. By introducing electronic systems at the Public Registry of Commerce and Property and by establishing a one-stop-shop<sup>7</sup> Puebla has now the second position as the state where it is easiest to start a business<sup>8</sup>. Graph 5 shows the progress made by Puebla over the past three years.

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



<sup>8</sup> Source: *Doing Business in Mexico 2009*.

## Consultation is Key

The Law of Regulatory Reform in Guanajuato is a specific example of how states are working towards improving business regulations in a cooperative manner<sup>9</sup>. This law is an attempt to codify the regulatory reform process and it sets the precedent that regulatory improvement is now mandated by law. Guanajuato's law has four critical features:

1. It requires a consultative process that must include citizens and municipal governments.
2. It introduces the use of electronic systems for government-related procedures, paving the way for greater efficiency state-wide.
3. It distinguishes between low, medium and high risk businesses and defines different regulatory processes and requirements based on risk classification.
4. It provides sanctions for violations such as administrative penalties or suspensions to public officials that do not abide by this law<sup>10</sup>.

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

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

## Peer to Peer Learning and Knowledge Sharing

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

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

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

Aguascalientes, the state which consistently ranks number one on the ease of doing business in Mexico, has been visited by more than half of all Mexican states. They came to observe firsthand the practices that earned Aguascalientes the top rank on the ease of doing business in three consecutive reports. Durango, Oaxaca, Guerrero, Estado de Mexico, and Jalisco have visited Guanajuato to learn how to improve the overall sub-national Doing Business ranking in the period between the first to the second *Sub-national Doing Business* report<sup>11</sup>. Nuevo León, Puebla and Sonora also traveled to other states in order to analyze first hand specific practices, find ways to cooperate with their neighboring states and learn together.

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

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

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

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

## Shaping the Dialogue With the Private Sector

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

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

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

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

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

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

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

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

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

## **Conclusion: Lessons Learned**

### **Lesson 1: It’s All About Commitment**

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

## **Lesson 2: Have a Credible Source of Information**

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

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

## **Lesson 3: Focus, Focus, Focus**

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

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

## **Lesson 4: Build Stakeholder Engagement**

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

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

## **Lesson 5: Design a Marketing Strategy**

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



## Lesson 6: Hold Officials Accountable for Specific Reforms

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

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

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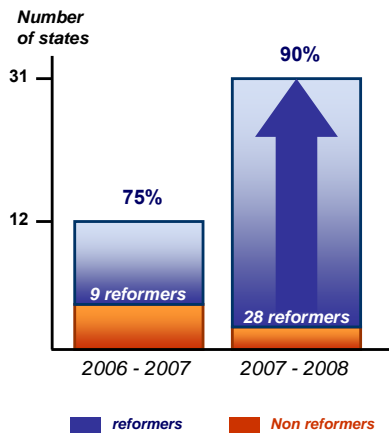
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### 3 Mexico Case Study Slides: Compare, Compete and Cooperate: How Subnational Doing Business helps Mexican states improve commercial regulations



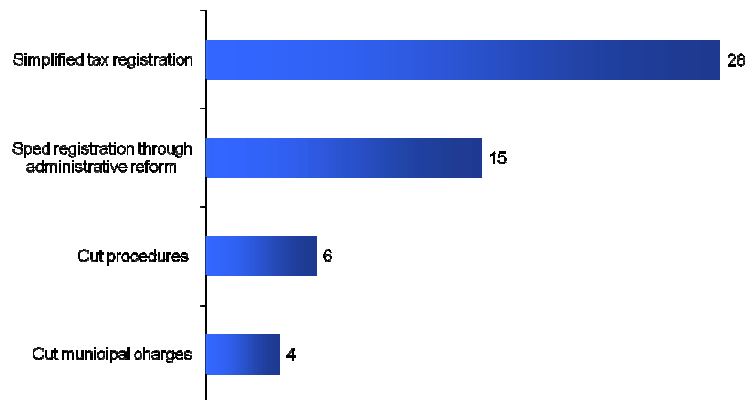
### How is Mexico improving its business environment?



- ✓ Reforms related to business entry are among the most popular in Mexican states and municipalities.
- ✓ Over the past three years, 28 of 31 states made it easier to start a business.

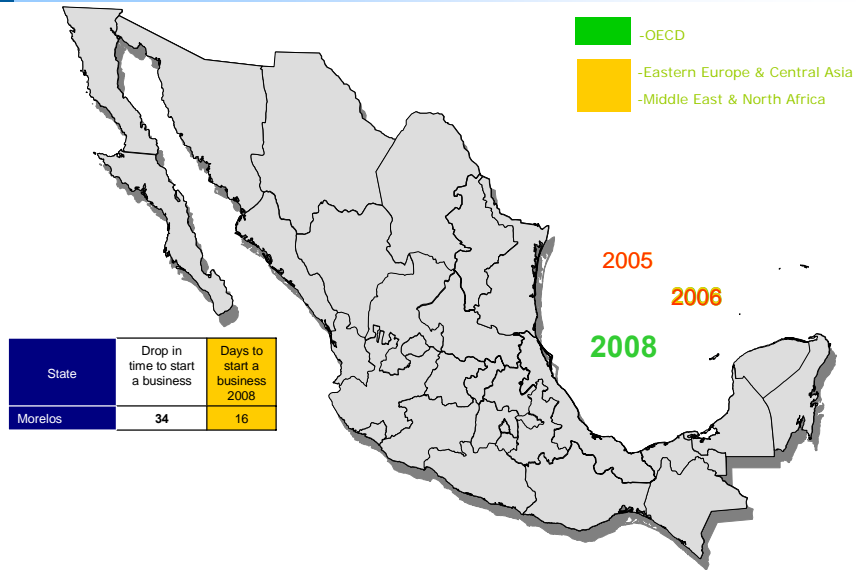
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### Specific reforms that made it easier to start a business in Mexico

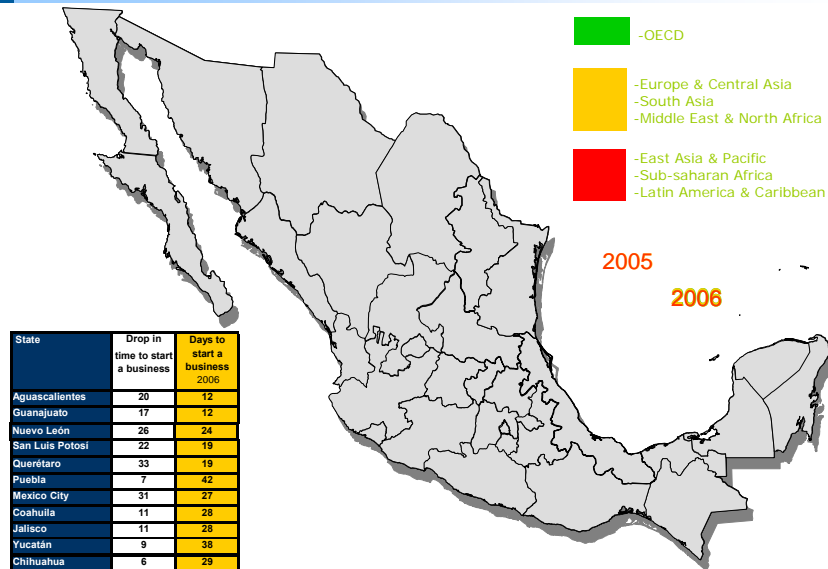


➤ What gets measured, gets done: The average time required to start a business in Mexico has **decreased from 36 to 24 days.**

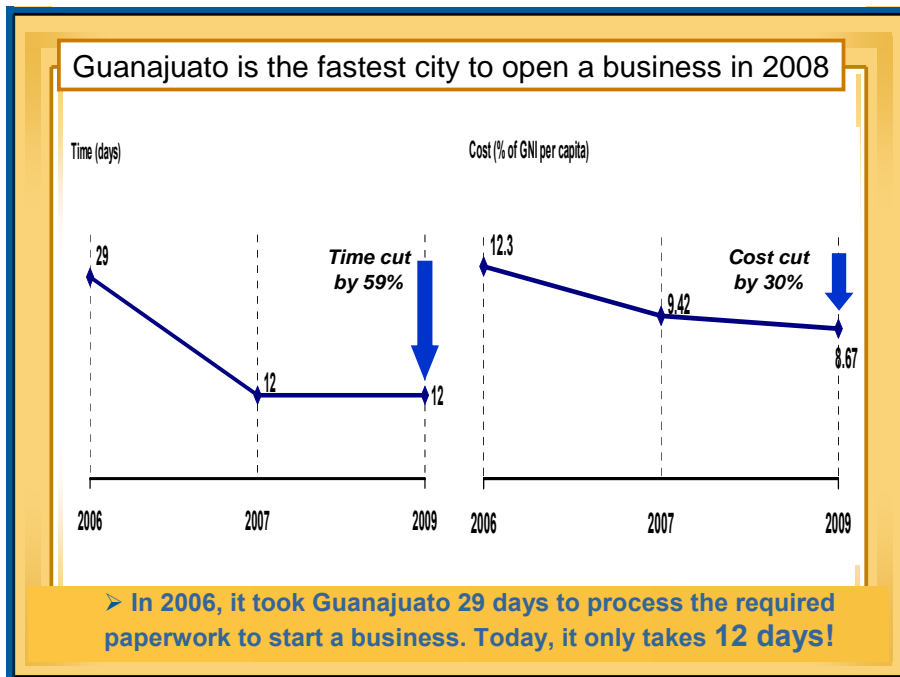
## Subnational Doing Business is an M&E device



## Subnational Doing Business is an M&E device



✓ Over the past three years, 3 Subnational Doing Business reports have driven state and municipal level regulatory policy reforms in Mexico.



## Starting a business in Guanajuato gets easier, cheaper and faster

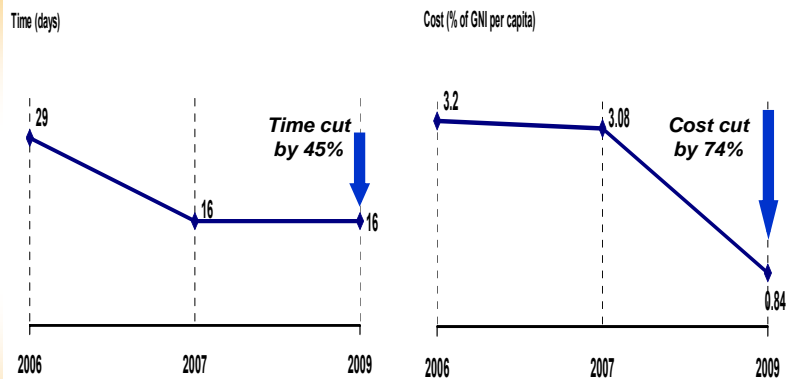
Guanajuato introduced the following reforms:

- ✓ **Online** business registration procedures
- ✓ **Single access points** for businesses and simplified registration formalities
- ✓ **Simplified the Federal Tax Registration procedure** \*  
that can now be obtained electronically at the notary

\*Registro Federal de Contribuyentes.

8

## Aguascalientes: Innovating in property registration procedures



✓ According to the *Doing Business in Mexico* report, Aguascalientes has the **best practice** for registering property 3 years in a row.

9

### Aguascalientes: Innovating in property registration procedures

Aguascalientes implemented the following reforms at the Public Registry of Property:

- ✓ **Simplified** procedures by providing standardized forms
- ✓ **Digitize procedures** at the Public Registry of Property
- ✓ Introduced **online payments**
- ✓ **Reduced** transfer **tax** rates
- ✓ Signed **collaboration agreements** between the Public Registry and local notaries

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### Charting a new course by working together

*By focusing on specific policy bottlenecks, Mexican officials were able to bridge political differences and to work collaboratively.*

In order to implement reforms, officials had to change their mindset:

- ✓ Stakeholders' needs and interests had to be considered.
- ✓ The government is now conscious of its role and the impact of its decisions on the country's economic growth.

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## Puebla: An example of inter-agency solutions for a targeted intervention

Stakeholders became part of the solution designing a reform strategy for business regulations:

- ✓The Association of Notaries
- ✓ The Ministry of Economic Development
- ✓The Ministry of Justice
- ✓The Bar Association

Inter-agency work was critical in reaching consensus among different interest groups in Puebla.

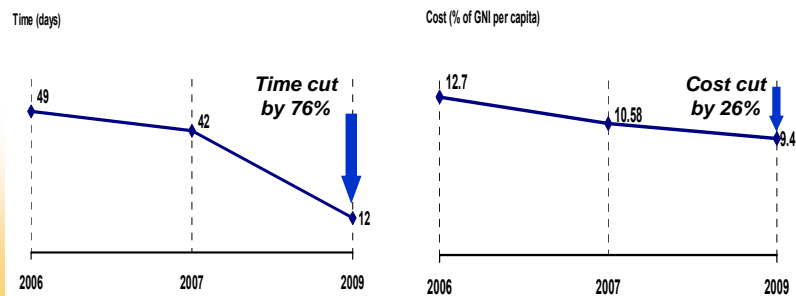
“The *Subnational Doing Business* report identified the main problems Puebla was facing related to business regulations, and from there onwards we started finding our own solutions.” *Lucía Sánchez, Ministry of Economic Development of Puebla*

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## Puebla: An example of inter-agency solutions for a targeted intervention

✓By introducing **electronic systems** at the Public Registry of Commerce and Property and by establishing a **one-stop-shop**, Puebla has now the **second position** as the state where it is easiest to start a business according to the *Doing Business in Mexico 2009*.

### Starting a Business in Puebla gets easier and faster



### Consultation is key: The case of Guanajuato

- ✓ **The Regulatory Reform Law in Guanajuato is an example of how Mexican states are working towards improving business regulations in a cooperative manner.**

Guanajuato's law has three critical features:

- I. It requires a **consultative process** that must include citizens and municipal governments.
- II. It introduces the use of **electronic systems** for government-related procedures.
- III. It provides **sanctions for violations** such as administrative penalties or suspensions to public officials that do not abide by this law.

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### Shaping the dialogue with the private sector: The case of Queretaro

- ✓ *In 2006, Querétaro convened working groups with wide representation of interested stakeholders to propose alternative solutions for business regulation reforms.*

The stakeholders participating were:

- ✓ Universities
- ✓ Municipal and Federal governments
- ✓ Chambers of commerce
- ✓ Business leaders
- ✓ Notary associations

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## Lessons Learned

### Lesson 1: It's all about commitment!

- ✓ Commitment is the key to regulatory reform. Aguascalientes, Guanajuato and Puebla are good examples of how long-term commitment towards reform can lead to policy innovation in property registration and reduce the time and costs of business entry.

### Lesson 2: Have a credible source of information

- ✓ It is critical to have a neutral third party to move from confrontation to cooperation. The objectivity of the *Subnational Doing Business* benchmarking allowed state governments to tackle specific reform areas.

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## Lessons Learned

### Lesson 3: Focus, focus, focus

- ✓ In order to increase competitiveness, state governments need to design comprehensive, yet focused reform strategies. Focus is essential, since governments lack the capacity to fix all problems at once. Focus is one of the most important lessons that can be drawn from the reforms in Mexico.

### Lesson 4: Build stakeholder engagement

- ✓ Business regulation reforms require state governments to lead an intense but arm's-length relationship with the private sector.

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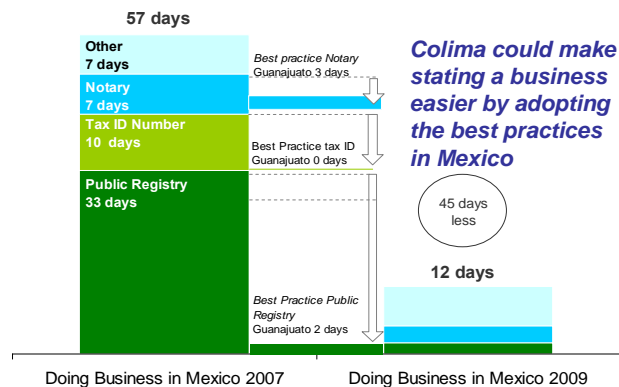
## Subnational Doing Business partners with local governments

*Subnational Doing Business helps policymakers review and analyze their local regulations from a comparative perspective and triggers:*

- ✓ **Competition at the state level**
- ✓ **Peer-to-peer learning across states**
- ✓ **Cooperation between different government levels and among different government agencies**
- ✓ **Policy innovation**

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## Subnational Doing Business shows how simple reforms can make a difference and improve competitiveness



With almost identical federal regulations, mayors and governors have difficulty explaining why it takes longer or costs more to start a business or registering property in their city or state versus their neighbors.

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## Why conduct a *Subnational Doing Business* study?

*It uncovers reform potential by identifying good practices within the country/ region*

### **Best Practices in Mexico**

States in Mexico	Ranking DB in Mexico 2009	Global Ranking DB 08 (181 economies)
<b>Procedures to start a business</b> Nuevo Leon and Sinaloa (7 procedures)	9	55
<b>Days to open a business</b> Coahuila Guanajuato and Puebla (12 days)	1	34
<b>Cost to open a business</b> Campeche (7.4% of income per capita)	7	54

Source: *Doing Business in Mexico 2009*

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## Charting a new course by working together

✓ *The Doing Business in Mexico reports became a tool to overcome the culture of confrontation*

- “Governments disagreed with many aspects of the Subnational Doing Business indicators, but now their actions were focused on either correcting errors or re-engineering processes that would either assimilate or surpass good practices in the indicators measured by the Subnational Doing Business report”.

*Daniel Bautista, Regulatory Reform Unit of Morelos*

- After the first Doing Business in Mexico was released in 2005: “Discussions were focused on improving business regulations rather than philosophical debates”

*Hugo Gama from the Regulatory Improvement Commission of Michoacán*

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## 4 Philippines Case Study: Laying the Ground for Regulatory Reforms for National and Local Competitiveness

### Introduction

The business enabling environment in the Philippines is costly and overregulated, with wide variations observed in the implementation of national-level regulations among local government units (LGUs). This sub-national variation is documented in the World Bank Group's *Doing Business in the Philippines 2008 (DBP 2008)* study. **Table 1** presents the variations in total business permit fee charges, total transfer tax and total cost of certificate of occupancy among LGUs. The differences in the business permit fees are attributed to the clearances, inspections and other charges required by the city before the release of the business permit. Likewise, the differences in the property transfer tax imposed in different LGUs cause the wide variation in costs of property transfer, in addition to notary charges. In spite of the schedule of fees already provided in the Implementing Rules and Regulations (IRR) of the National Building Code (NBC), LGUs still differ in their computation of the certificate of occupancy. Due to these varying practices among cities, there is a need to examine and document the wide differences since it affects doing business in the Philippines.

**Table 1: Variations in Total Business Permit Fee Charges, Total Transfer Tax and Total Cost of Certificate of Occupancy.**

Cities	Total Business Permit Fees	Total Transfer Tax	Total Cost of Certificate of Occupancy
Caloocan	14,477.32	30,057.35	20,000.00
Cebu	7,124.79	18,216.58	3,000.00
Davao	5,595.76	29,146.52	16,506.00
Lapu-Lapu	2,160.63	27,324.86	1,750.00
Las Piñas	20,842.13	18,216.58	2,700.00
Makati	15,528.66	21,859.89	1,700.00
Malabon	11,395.00	18,216.58	11,000.00
Mandaluyong	5,141.93	18,216.58	20,000.00
Mandaue	5,185.76	10,929.95	1,600.00
Manila	11,372.00	27,324.86	3,121.60
Marikina	8,167.00	27,324.86	19,300.00
Muntinlupa	6,815.87	18,216.58	13,006.00

Navotas	4,986.00	18,216.58	19,000.00
Parañaque	6,312.04	18,216.58	20,700.00
Pasay	13,758.93	27,324.86	20,000.00
Pasig	8,636.66	18,216.58	20,500.00
Quezon	4,205.66	27,324.86	16,000.00
San Juan	8,506.82	18,216.58	10,000.00
Taguig	5,073.09	18,216.58	19,500.00
Tanauan	2,978.16	18,216.58	16,250.00
Valenzuela	3,968.50	18,216.58	20,000.00

*Source: Doing Business in the Philippines 2008 database.*

In May 2008, the International Finance Corporation (IFC), the private sector development arm of the World Bank Group, in partnership with the Asian Institute of Management Policy Center (APC) and the National Competitiveness Council (NCC), launched the *Doing Business in the Philippines* study. This was the first sub-national application of the World Bank Group's *Global Doing Business (GDB)* methodology in the Philippines, which examined business regulation in 20 metro cities.

The study benchmarks business regulations to identify bottlenecks and potential areas for reform. Using a standardized methodology, selected Philippine cities were compared against each other and with other cities around the world in three areas of business regulation, namely, Starting a Business; Dealing with Licenses; and Registering Property. These indicators were selected because they cover areas of local jurisdiction where reforms could be easily instituted. Cities were selected on the basis of the following factors: contribution to national income, political will, and population served. With this criteria, the study covered cities<sup>12</sup> belonging to the metro cities category. The twenty cities covered in the study are as follows: Caloocan, Cebu, Davao, Lapu-Lapu, Las Piñas, Makati, Malabon, Mandaluyong, Mandaue, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig, Tanauan<sup>13</sup> and Valenzuela.

<sup>12</sup> The selected cities were based on the identified priority cities of the National Competitiveness Council (NCC). The cities were given priority for improving the Philippine's competitiveness and attractiveness for investments. In addition, the metro city classification is adopted from the Philippine Cities Competitiveness Ranking Project (PCCR) of the Asian Institute of Management Policy Center (APC).

<sup>13</sup> Tanauan is the only non-metro city but was included as a test case for smaller cities.

Since its May 2008 launch, *DBP* has made its mark as a relevant policy reform tool, as it has been useful in several initiatives currently advocated both at the national and local levels. Key national government agencies (NGAs) are at the forefront in reviewing outdated and redundant laws. Some cities that were included in the study have already introduced both administrative and legislative reforms as their initial response. Metro Manila LGUs, in particular, have been working together for a standardized business registration procedure that is more uniform, predictable and harmonized. Finally, the private sector has also become more participative in contributing their perspectives on reforming business regulation.

The case study discusses three key points. First, the process of obtaining buy-in from local governments and the challenges encountered are presented. Second, the results of the study in identifying potential areas for reform as well as the key reform areas suggested by the sub-national report; implementation challenges in the reform process; and the critical role of the private sector as advocate of reform are further elaborated. Finally, the case study discusses how relevant the results of *DBP* are in the next steps of the reform process at the national and local levels.

## **Sub-National Doing Business – The Philippine Case**

### **Getting Buy-In for the Sub-National Study**

The first hurdle for the sub-national study was getting the buy-in of cities covered. There were critical activities that manifested the degree of commitment of cities. These were the road tours, presentation of the preliminary results, and report launch.

#### ***Road Tours to the 20 Cities***

As one of the key activities in the *DB* methodology, a road tour to each city included in the sub-national study was conducted before the survey implementation commenced. The road tours were comprised mainly of representatives from IFC, APC (Program Manager and one Research Associate) and NCC. The activity highlighted the importance of improving local business regulations in attracting foreign and domestic investments that would eventually create jobs for local constituents. During the road tours, key areas and processes for implementing reforms in local business regulations were also outlined. Each road tour facilitated feedback on issues surrounding the interplay of local and national business regulations and how the NCC–Transaction Cost and Flows (NCC-TCF) Working Group could address such matters. Most importantly, the road tours were the appropriate venues for soliciting commitments from each city visited to participate in the *DBP*.



Road tours were eventually held in all cities with the exception of Cebu City. *DBP 2008* was formally introduced to city officials including the City Mayor, City Administrator, Business Permits and Licensing Office (BPLO) Head, City Assessor, City Engineer/Building Official, City Treasurer and City Planning Officer. Cities were also encouraged to invite representatives from the local business sector to participate. In three cities, Marikina, Quezon and Pasay, the presidents of the local Chamber of Commerce were in attendance.

During the road tours, expectations were leveled-off as most of the City Officials thought that with their participation in the *DBP*, their city would have access to foreign funding assistance. A number of city officials even raised their prevailing concerns and problems, hoping for action from the national government. Other cities were quite apprehensive at first as they were concerned over the financial obligation of their city by joining the study. In addition, there were city officials who were quite hesitant to commit at first because the study entailed review of internal processes and required key data to rank cities. Conversely, some cities were quite open about the study since they had been already subjected to various other assessment and ranking studies.

The Philippine Cities Competitiveness Ranking Project (PCCRP), a survey being undertaken by APC for the past ten years and now on its 5th round of implementation, was helpful in getting buy-in from the cities. Of the twenty cities covered by the *DBP*, seven were first-timers to both studies. Since the majority of the city officials were already familiar with PCCRP, the *DBP* team clarified the distinction between the two studies to resolve the confusion. Due to its ratings in the past surveys, specifically the PCCRP ratings, City of Cebu refused to participate in the *DBP*.

### ***Preliminary Presentation of the Results***

In February 2008, three months before the release of the results of *DBP*, preliminary results were presented to LGU officials to allow them to comment and give their feedback on the initial outcome. The activity was treated with utmost confidentiality. Most of the cities included in the study were well represented; only three cities (Cebu, Pasig and Marikina) were not.

### ***DBP 2008 Report Launch***

In May 2008, the “*Doing Business in the Philippines 2008*” report was launched through a national conference held in Makati City. The conference highlighted the key findings of the study as well as the reforms that could be instituted based on the results. Panelists from the private and public sectors gave their perspectives on how the study can be used to further improve the competitiveness of the Philippines. The conference was attended by various stakeholders from national government agencies, local government units, business organizations, academe, and donor communities. In the national presentation, the Cities of Parañaque, Pasig and San Juan were not represented.

It was evident that the role of the City Mayor in all the activities mentioned above was crucial. The level of participation of key officials in major activities, such as the road tour, the preliminary presentation of results and formal launching of *DBP 2008*, was determined by the degree of City Mayor support. Most city officials waited for instruction and clearance from their Local Chief Executives before attending the events. Even the attendance of the private sector in the city’s affairs was usually determined by the relationship of the City Mayor with the business community. The role of the City Mayor was even critical at the very onset of the project implementation, since his/her leadership dictated the kind of support and participation of key local stakeholders for the study. Nonetheless, since the majority of the City Mayors were supportive of the project, this was not much of a problem in engaging the other officials in the activities.

Overall, the level of buy-in and support of cities to the objectives of the project brought forth several lessons learned:

- Participation in the *DBP* was determined by degree of interest to improve the image of the city and consequently highlight this as an achievement of the Local Chief Executive. In order to gain the support of the city, it was very important to know the leadership dynamics in the city and the key officers that serve as link to the City Mayor. As noted, City Mayors are very conscious of the standing of their cities since it would make an impact on their re-election bid.

- After gaining the commitment of the City Mayor, it was important to establish a working relationship with a key person or unit/department within the city hall. The designated contact person for each city was of strategic value in sustaining the communication throughout the duration of the project. A local champion may be an individual person or a key unit or department in the city. For example, the project team easily communicated with Atty. Melanie Malaya, BPLO Chief of Caloocan City on certain concerns that need urgent response from the city. The Urban Development Department (UDD) in Makati City was also very helpful in facilitating the relay of key information to their city officials. In several instances, UDD initiated the request for clarification and dialogue between the project team and the city officials. The department also assisted the project team in gathering the most number of participants in the road tour, the preliminary consultation and in the post-*DBP 2008* presentation. The City of Makati, given their level of participation, had a very high interest in the study mainly because they need to live up to their image as the financial center of the Philippines. They considered the indicators under *DBP 2008* as very critical in linking with investment opportunities.

### **Application of *Doing Business* (DB) Methodology at the Local Level**

The sub-national *Doing Business* methodology was based on the annual *GDB* report that tracks a set of regulatory indicators related to business start-up, property transfer and dealing with licenses, by measuring the number of procedures, time and cost associated with government's regulatory requirements. There were several key points raised in the course of gathering data and disseminating the results of *DBP 2008*:

First, a number of City Officials questioned the methodology, where cities were ranked based on the assessment of entire procedures capturing city-level, national agencies and private intermediaries. As the study progressed, most of the cities realized the importance of engaging other players in the entire process of business regulation. They also recognized the importance of collective initiative to improve the local investment climate of the city. With this, some cities have already started meeting with representatives from the NGAs to devise ways on how to improve their service delivery. Some of the issues brought up were organizational improvement (lack of manpower resources) and funding constraints (e.g. lack of necessary equipment to support the services being provided).

Second, the number of days accounted in the procedures was also initially questioned by cities. Eventually, this was ironed out when the project team explained that the purpose of recording a one-day-per-interaction for each procedure was for sub-national and global comparability. It was necessary to have a standardized methodology with a specific set of assumptions per indicator in order to establish a common reference point in responding to the questionnaire.

Third, the choice of local professionals and experts as respondents was also met with resistance. Some local officials noted that the sources of information for the study should have been the entrepreneurs or businessmen themselves. Hence, it was explained that the local experts, mostly lawyers, accountants and engineers, more or less have the overall appreciation and knowledge of the environment of regulation in the city. They had wider experience in dealing with both national and local-level procedures. Moreover, the study was not a mere survey, where number of respondents was critical. It basically mapped out procedures set by the city and captured by local experts and professionals through their responses.

Finally, among the three *DBP 2008* indicators, LGUs find the Starting a Business indicator as the most important, since this is where the city concentrates much of its efforts and resources. The natural bias on the part of cities to focus reforms only on entry regulation may stem from the fact that a lot of current assessment and donor programs concentrate on it. Aside from this, entry regulation generally presented the overall investment climate of the city and has been traditionally regarded as crucial in generating revenue that consequently portray the city's financial standing and marketability.

However, the two other topics, namely Registering Property and Dealing with Licenses, had gained considerable attention as many issues were also identified under them. These issues are now being addressed by the cities, NCC, concerned NGAs and even by the private sector. In fact, NCC, through its TCF working group, has already met with utility companies (e.g. power, water and telecommunication) and made use of the *DBP 2008* results in addressing key issues that affect efficiency of service and the time to connect.

The application of *DB* methodology at the local level met certain challenges. However, with the dialogue conducted and continuing consultations, issues were addressed and elevated to concerned agencies. The study provided cities with the objective baseline information of both their relative and absolute performances. Through the study, Philippine cities can now assess and compare how far they are in relation to the best of the world in terms of business regulation efficiency.

## **Results of *DBP 2008* as Potential Areas for Reforms and Reform Process Arising and Other Parallel Efforts**

The discussion on each *DBP 2008* indicator is divided into two parts. First, the results in terms of procedure, time and cost as well as the key areas for reforms are presented. The second part is a discussion on the reforms that are being undertaken due to the results of *DBP 2008*. It also presents other reform efforts from the national government that is further fueled by the study. *DBP 2008* has intensified the discussions on the overall picture and process of business regulatory reform in the Philippines. With the report, LGUs are pushed to view the process of reform as an interconnected effort among wider stakeholders. This signals the LGUs to not just explore reforms within their authority but also to involve other players and link with them.

The *GDB* report already highlighted this growing concern to address the entire business regulation environment. However, the impact of *DBP 2008* to LGUs indicated a stronger message to link all efforts to reform. The sub-national report strongly highlighted the message to connect all reform initiatives and clearly presented what areas to work on in order to improve the climate of doing business in the Philippines. Unlike previous efforts which were fragmented and disorganized, reform initiatives are now in synergy. Hence, the current initiatives are more integrated and inter-connected.

### ***Starting A Business***

#### *Results and Key Areas for Reforms*

**Results.** Across the Philippine cities, there are wide differences in the procedures, time and cost that an entrepreneur has to spend in order to complete the process of starting a business (**Table 2**). These differences could be attributed to distinctions in the regulatory procedures at the city level; service delivery of the local branches of NGAs; and local fees and taxes. On the average, starting a business in a Philippine city requires 18 procedures that take 35 days to complete and cost around 27% of income per capita. Manila, Marikina and Taguig have been noted as having the least number of procedures (15); Taguig with the least number of days (27); while Lapu-Lapu is the least costly (17% of Gross National Income (GNI) per capita) in starting a business.

**Table 2: Starting a Business Indicator Results per City.**

City	Starting a Business				
	Procedures (number)	Time (days)	Cost (% of income per capita)	Paid-in minimum capital (% of income per capita)	Ease of Starting a Business (rank)
Caloocan	16	28	35.5	6.9	7
Cebu	16	32	23.9	6.9	4
Davao	23	42	20.7	6.9	19
Lapu-Lapu	16	33	17.0	6.9	2
Las Piñas	19	33	44.6	6.9	18
Makati	18	32	37.2	6.9	13
Malabon	19	31	31.2	6.9	12
Mandaluyong	18	29	22.8	6.9	5
Mandaue	17	34	21.3	6.9	6
Manila	15	52	32.6	6.9	16
Marikina	15	28	27.5	6.9	3
Muntinlupa	18	40	25.4	6.9	17
Navotas	20	33	22.4	6.9	10
Parañaque	17	33	24.5	6.9	8
Pasay	17	35	35.2	6.9	14
Pasig	22	35	27.7	6.9	20
Quezon City	17	37	21.6	6.9	9
San Juan	21	39	27.5	6.9	21
Taguig	15	27	22.8	6.9	1
Tanauan	22	36	17.9	6.9	11
Valenzuela	22	37	21.0	6.9	14

*Source: Doing Business in the Philippines 2008 database.*

**Key Areas for Reform.** Designing the procedures that are generally uniform and predictable, especially on the requirements as mandated by the government (e.g. application for incorporation, social security, health care, among others), would make transactions easier for entrepreneurs.

In most cities, entrepreneurs are required to go to different offices to get the specific fees assessed or the signature of the particular officer in that office. Making the business permit application form downloadable and posting the process flow to follow in order to obtain the business permit in the city website would significantly ease the processing of papers for the entrepreneur.

In addition, the inspections required for particular clearances before the release of the business permit also delay the commencing of business operations. Identifying businesses into high-risk or low-risk types and requiring only the former classification for inspections before the release of the business permit would reduce the necessary procedures and time needed before a business could legally start its operations.

Most importantly, a single-access window for all national and local level procedures would also be an advantage in making sure that starting a business in the Philippines can likely be accomplished in the minimum time.

### *Reform Process Arising and Other Parallel Efforts*

Among the three *DBP 2008* indicators, Starting a Business stands out as having the most numerous efforts in the reform process.

**Local Government Units.** As early as the 2nd quarter of 2008 after *DBP 2008* results had been released, there are already reform initiatives from the cities involved in the study. These are the following:

- ***Caloocan City.*** *Caloocan City* is further streamlining its procedures, which would also support its effort in gaining ISO (International Standard Organization) certification through the Development Academy of the Philippines (DAP). According to Atty. Malaya, Business Permit and Licensing Office (BPLO) Chief, Caloocan City has been hooked to the Philippine Business Registry (PBR) since May 2008 and its initial operations are for sole proprietorship type of business.
- ***Valenzuela City.*** For *Valenzuela City*, *DBP 2008* documented a separate procedure in obtaining the sanitary assessment from the Health Department. The BPLO Head contested the finding, saying that this was not so since such assessment was already linked in their computerized system. However, a staff member from the Health Department confirmed what *DBP 2008* has documented and mentioned that the sanitary assessment is yet to be included in their system. Hence, the city is currently reviewing their computerization system, and hopefully, the sanitary assessment will be linked to it. With this, it is quite evident that the data presented in *DBP 2008* was quite helpful in identifying this particular bottleneck in starting a business in Valenzuela City.

- **Makati City.** *DBP 2008* pointed out that the processing of the locational clearance added much to the number of procedures and accounted for almost a quarter of the total cost to get a business permit in the City of Makati. In response, the City Government has started looking into the matter closely and signified their intent to lower the number of procedures and review the imposed fees for this type of clearance. In fact, Mr. Gerardo San Gabriel, Internal Management and Control Officer of the City of Makati, mentioned that they have sent their staff to the cities of Taguig, Marikina and Mandaluyong, three of the top five cities in the Starting a Business indicator, to study their best practices specifically on how they implement their zoning ordinance.
- **Davao City.** The City of Davao expressed disappointment over the results of the study. Through the combined efforts of IFC and APC in explaining how to make full use of the outcome of the study, city officials are now looking closely into integrating necessary improvements in their business permit processing. The city has signified its intention to further simplify their business permit application procedures with the aim of improving their ranking in the next round of *DBP* study.
- **Lapu-lapu and Mandaue Cities.** Both the cities of Lapu-Lapu and Mandaue are geared towards lessening their number of procedures by studying how to integrate their Realty Tax Clearance assessment in their overall set-up.
- **Marikina and Quezon Cities.** The cities of Marikina and Quezon have been working with IFC on regulatory simplification advisory work. *DBP 2008* data was the baseline used by the two cities in their respective simplification design.

**Technical Working Group – Standard Business Registration and Permit (TWG-SBRP).** The TWG-SBRP directly stemmed from the need to improve on the results of the Starting a Business indicator in the next rounds of both *GDB* and *SDBP*. In a meeting with NCC, Her Excellency President Gloria Macapagal Arroyo encouraged all stakeholders, including LGUs, to improve the ranking of the Philippines in the *DB* survey conducted by the IFC. On September 25, 2008, Metro Manila Mayors convened in a meeting and agreed to create a technical working group to look at how the business registration process in Metro Manila could be improved.



Subsequently, the group was organized with the aim to assess the variation in local and NGA regulations for business registration (entry); develop and implement a Standard Business Registration and Permit for cities and business applicants; and promote an environment conducive to private sector growth. There are two tasks involved in this reform effort.

Task 1 is to develop the “Standard Business Registration and Permit”. The activities included in Task 1 are as follows: review the legal and procedural aspects of LGU and NGA requirements for business registration (entry); develop and adopt SBRP; and develop a monitoring and evaluation (M&E) mechanism for SBRP implementation. Aside from the development of SBRP, other expected outputs from Task 1 include the assessment and recommendations on legal and procedural aspects of LGU and NGA requirements; creation of supporting department orders and local ordinances; and development of the action and advocacy plan as well as the implementation and M&E plan.

Task 2 is the “Implementation, Monitoring and Evaluation of SBRP”. This includes full implementation of SBRP; monitoring the adoption of SBRP; evaluating the implementation of SBRP and identifying areas for improvement; and coordinating with NGAs, LGUs, private sector, civil society and donors as necessary. Expected outputs for Task 2 include advocacy and consultation activities; capacity building modules and exercises; and implementation and M&E reports.

The reforms to be introduced by the TWG-SBRP will hopefully be adopted by the 17 Metro Manila LGUs. So far, 11 cities have been well represented during the Technical Secretariat meetings.

**Philippine Business Registry (PBR).** The PBR, initiated through an Executive Order in December 2006, is an online business registration facility, a collaborative product of the national and local government agencies to help streamline business registration procedures throughout the Philippines. In July 2008, PBR had its soft launching which featured the linking of the Department of Trade and Industry (DTI) Business Name Registration System (BNRS), BIR eReg system and Business Permit and Licensing System (BPLS) of the pioneering LGUs that had connected to the PBR (namely the cities of Caloocan and Mandaluyong) to register sole proprietorship businesses.

Additional features of PBR would include the application for partnerships and corporations at the Securities and Exchange Commission (SEC), registration with the Social Security System (SSS), Philippine Health Insurance Corporation (PhilHealth), Home Development Mutual Fund (PAG-IBIG), Cooperative Development Authority (CDA) and other licensing agencies, business renewal, business matching, online payment, and report generation facilities. With the results of and key reform recommendations from *DBP 2008*, the need to fully implement PBR is further underscored.

**National Anti-Red Tape Task Force (NARTTF).** In 2006, the NARTTF was established through Executive Order 557 to reduce red tape in all government agencies. This is one of the strategic measures of the Philippine Government for global competitiveness as indicated in its Medium Term Philippine Development Plan. Moreover, the Anti-Red Tape Law, which was passed in 2007 with its IRR taking effect on September 2008, mandates all offices and agencies, which provide frontline services, to regularly undertake time and motion studies, undergo evaluation and improvement of their transaction systems and procedures and re-engineering if deemed necessary to reduce bureaucratic red tape and processing time. The Civil Service Commission (CSC), through its regional offices and field offices, is currently monitoring the activities related to the implementation of the Citizen's Charter<sup>14</sup>. The full implementation of NARTTF activities as well as compliance of NGAs on the Anti-Red Tape Law would most likely affect the *DB* results in the future.

### ***Registering Property***

#### *Results and Key Areas for Reforms*

**Results.** Across the 21 cities in *DBP 2008*, on the average, eight procedures, 32 days and 4.4% of the property value to transfer a property title to another business were measured to enable the purchaser to use the property as collateral in taking new loans for expanding its business (**Table 3**).

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<sup>14</sup> "Citizen's Charter" refers to an official document, a service standard, or a pledge, that communicates, in simple terms, information on the services provided by the government to its citizens. It describes the step-by-step procedure for availing a particular service, and the guaranteed performance level that they may expect for the service. (Section 2 Rule II of the IRR of Anti-Red Tape Act Of 2007)

**Table 3: Registering Property Indicator Results per City**

City	Registering Property			
	Procedures (number)	Time (days)	Cost (% of property value)	Ease of Registering Property (rank)
Caloocan	8	33	4.8	20
Cebu	8	32	3.5	4
Davao	8	33	4.8	19
Lapu-Lapu	8	41	3.7	15
Las Piñas	8	25	4.5	9
Makati	8	33	4.6	18
Malabon	8	32	4.5	14
Mandaluyong	8	21	4.5	1
Mandaue	8	43	3.3	13
Manila	8	33	4.2	10
Marikina	8	32	4.7	17
Muntinlupa	8	26	4.5	2
Navotas	8	31	4.5	11
Parañaque	8	27	4.5	7
Pasay	8	32	4.7	16
Pasig	8	30	4.5	8
Quezon City	8	39	4.7	21
San Juan	8	26	4.5	4
Taguig	8	32	4.5	12
Tanauan	8	32	3.5	3
Valenzuela	8	30	4.5	4

*Source: Doing Business in the Philippines 2008 database.*

**Key Areas for Reform.** Reduction of time in two NGAs (BIR and Registry of Deeds (RD)) would significantly ease the time required in registering property, which is currently 75% of the time spent. Differences in the city level procedures, particularly in procedure 8 (Apply with the City Assessor's Office (CAO) for the issuance of a new tax declaration over the building and land in the name of buyer), where inspection could be eliminated if a city zoning ordinance was in place.

Significant reduction in cost will be felt if notary public fees for preparing and ratifying the sales deed were standardized. Likewise, uniformity in the imposition of property transfer taxes would minimize cost disparity.

#### *Reform Process Arising and Other Parallel Efforts*

**Local Government Units.** After the launch of *DBP 2008* report and the conduct of city-level workshops, several cities have explicitly committed to improve procedures at their level:

- **Valenzuela City.** The city has committed to reduce the number of days to apply with the CAO for issuance of new tax declaration in the name of a new buyer from three days to one day.
- **Makati City.** The city has committed to reduce the number of days to apply with the CAO for a new tax declaration in the name of new buyer from three days to one day.
- **Mandaue City.** Mandaue City has expressed a commitment to reduce the number of days needed to apply with the CAO for issuance of new tax declaration in the name of a new buyer from three days to one day.
- **Lapu-Lapu City.** The city is set to coordinate with the BIR Regional Office to lessen the length of time required to securing the Certificate Authorizing Registration (CAR).

**Land Registration Authority (LRA).** Currently, the LRA is implementing the so-called “Land Titling Computerization Project”. The project is expected to significantly improve the titling procedures and clean the agency’s records. The procedure was noted as a bottleneck in *GDB*, secondary to procedure 4 (Obtain tax clearance from BIR). The project has been designed to be implemented in five phases by the Land Registration Systems Inc. (LARES). This is under the Build-Own-Operate (BOO) financing scheme, the company has the exclusive right to provide information technology services to the agency for ten years, after which the contract may be extended through negotiation.

- The first phase of the current computerization project, involves system prototyping in the Registry of Deeds where pilot sites have been selected in the cities of Quezon, Parañaque and Cebu. This phase also involves the construction of a three-story information management center.
- Eventually, in the second phase, the developed and accepted system would be introduced and a central office application system would be commissioned.
- For the third phase of the program, the LRA will implement the system in 43 Registry of Deeds.
- Phase four will be the roll-out of the application to the remaining 52 registry centers.
- Finally, the fifth phase will cover the operation and maintenance of the resulting IT facilities and the development of a geographic information system for the National Capital Region Registries of Deeds.

**Bureau of Internal Revenue (BIR).** In terms of time, both *GDB* and *DBP 2008* have identified the BIR as a bottleneck in the registering property indicator. To address the issue, BIR issued Revenue Memorandum Order No. 15-2003 (“RMO 15-2003”) which orders that, “Certificates Authorizing Registration (CAR) shall be issued within five days from date of receipt of tax returns with complete documentary requirements”. However, *DBP 2008* study found that most of the regional district offices (RDOs) did not implement what was mandated. For example, although the regional district office of Mandaue was aware of RMO 15-2003, they could not implement the order due to their wide area of coverage as well as lack of technical support and personnel. The Mandaue RDO caters not only to the taxpayers within their vicinity but also to some areas of Lapu-Lapu City and other localities. Although the local officials and RDOs from Lapu-Lapu and Mandaue have already recognized this concern, it may take a while to bring about the necessary reforms due to lack of funds. In fact, Ms. Aida Simborio of the Policy and Planning Department of BIR mentioned that, with the current set up, BIR really lacks the facilities to handle these problems immediately. She also said that, even though there have been several issuances of the circulars, BIR does not have a monitoring system to take note of regional offices who really follow such orders.

### ***Dealing with Licenses***

#### *Results and Key Areas for Reforms*

**Results.** As guided by the NBC, the procedures and fees in obtaining all the necessary licenses and permits to construct a warehouse are generally the same across the cities (**Table 4**). On average, it takes 28 procedures, 129 days, and a corresponding cost of 243.1% of GNI per capita to complete the whole process. Taguig recorded the least number of procedures (23); Makati was the least expensive (102.4% of GNI per capita) while Davao and Tanauan were the fastest to complete the process (58 days).

**Table 4: Dealing with Licenses Indicator Results per City.**

City	Dealing with Licenses			
	Procedures (number)	Time (days)	Cost (% of income per capita)	Ease of Dealing with Licenses (rank)
Caloocan	29	135	132.0	9
Cebu	31	83	476.5	13
Davao	28	60	464.6	8
Lapu-Lapu	32	90	557.5	19
Las Piñas	25	134	115.7	3
Makati	25	125	102.4	1
Malabon	29	155	145.8	18

City	Dealing with Licenses			
	Procedures (number)	Time (days)	Cost (% of income per capita)	Ease of Dealing with Licenses (rank)
Mandaluyong	29	155	135.1	13
Mandaue	33	70	480.6	17
Manila	24	203	102.4	6
Marikina	25	121	123.0	1
Muntinlupa	30	141	127.0	11
Navotas	27	145	142.8	12
Parañaque	31	137	137.1	16
Pasay	27	161	139.8	15
Pasig	33	173	127.6	20
Quezon City	28	141	123.0	7
San Juan	31	175	134.8	20
Taguig	23	121	136.1	4
Tanauan	29	58	1072.3	10
Valenzuela	25	123	129.2	4

*Source: Doing Business in the Philippines 2008 database.*

**Key Areas for Reform.** In spite of the new schedule of fees stipulated in the IRR of the NBC, some Building Officials (i.e. Davao, Las Piñas, Marikina and Malabon) compute certificate of occupancy differently from other cities. The National Building Code and Development Office could correct this. Reorienting the staff at the Office of the Building Official (OBO) on the proper computation of fees could remove discrepancies in the fees imposed to applicants.

One-stop shops could centralize applications and processing of all project permits and clearances. The OBO could set up a system where all the required clearances, such as fire safety approval, locational clearance, and building permit, are processed in one window. Metro Cebu cities and Parañaque could benefit from such reforms, cutting interactions at the OBO for the evaluation and approval of the plans.

Applicants would need to understand how the process works. Dealing with Licenses can be more easily facilitated if there are flowcharts displayed in public places or on the city website. Aside from the step-by-step guide, the applicants would save a lot of time if they were provided with the list of required documents to be submitted to particular offices. The contact details of each office (e.g. address, contact number, contact person) would be helpful for applicants to know where to follow up their papers.

### *Reform Process Arising and Other Parallel Efforts*

**Taguig City.** The Taguig City Government already cut down the number of procedures by allowing the applicant to submit photocopies of the documents required in the processing of the building permit. It also established a customer service counter to speed up transactions.

**National Competitiveness Council - Transaction Cost and Flows (NCC-TCF).** The mandate of the NCC-TCF Working Group is to ensure consistency in implementing business rules at the national and local levels. Currently, aside from its efforts to reform the procedures under the Starting a Business indicator, the group is also looking more closely at addressing issues identified under the Dealing with Licenses indicator.

The group has already conducted an initial consultation and dialogue with key utility providers to be part of the reform process in dealing with various construction-related permits. Upon learning from the *DBP 2008* report that it takes 90 days to connect to the Manila Electric Company (MERALCO), Mr. Ernesto Cabral, Head of Central Sales of MERALCO, clarified that connection per se does not take that long and application actually starts after obtaining the building permit. Likewise, the processing of papers up to the actual time of electric connection is parallel with the construction of the warehouse.

Upon completion of the building, electric connection would only take in a week to install. With this development, the next round would be crucial to further validate this information, not only with MERALCO, but also with the private respondents. Furthermore, the result of which may have positive or negative impact on the rankings. Through this dialogue, the private utility providers have been made to realize how vital their role is in the reform agenda. Their active participation in the series of meetings signifies their appreciation of *DBP 2008*. The dialogue also served as a venue to raise their concerns and issues in dealing with the government, both at the national and local levels.

### **Implementation Challenges in the Reform Process**

This section is made up of two parts. First, it presents the implementation challenges on the reform initiatives identified in each indicator. The second part focuses on the more general challenges that encompass all three indicators.

## ***Specific Challenges on each Reform Initiative***

### *Starting A Business – The Promise of PBR and SBRP*

For NGAs, the primary concern is to how effectively disseminate the contents of revised circulars and regulations so that their ground offices, such as the RDOs of BIR, operate according to the new regulations and that local clientele are fully informed of the procedures in the new regulations.

PBR is a major effort in streamlining the regulatory processes for business start-ups in the Philippines. However, at this early stage, it caters only to sole-proprietorship firms since the SEC, which has jurisdiction over limited-liability companies, is yet to link up with the system. PBR without the SEC would not guarantee any upward movements in the Philippine rankings since it is the registration of limited liability companies that is being measured in the Starting a Business indicator.

According to the PBR Management team, the existing i-Reg system<sup>15</sup> of the SEC is beset with system performance problems because it has not been enhanced or maintained since it was developed. During the first PBR Steering Committee Meeting on 15 August 2008, the SEC had committed to enhance its system within the next two years. In the meeting, the SEC agreed that they would use PBR for reservation of corporate names. The service provider for PBR has already developed the web service necessary to do this. However, the SEC has no server to receive the data from PBR.

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<sup>15</sup> The Philippine SEC offers the public the convenience of online registration through SEC-iRegister, the web-based Company Registration System of the Philippines Securities and Exchange Commission (SEC). SEC-iRegister is a quick, affordable, and user-friendly service that is available to the public 24 hours a day, 7 days a week. An easy, step-by-step guide allows everyone, even the computer novice, to use this web-based company registration system from the convenience of their desktop. With SEC-iRegister, clients can do the following online: (1) verify the availability of the desired name for corporation or partnership; (2) reserve the verified name; (3) accomplish and print the registration online without the need to buy the SEC forms.



Moreover, the success of PBR in improving the ease of doing business in the Philippines depends on the participation of LGUs. Several cities have already expressed interest in connecting to the PBR portal. The cities of Caloocan and Mandaluyong had already connected to PBR as early as the second quarter of 2008. However, according to NCC-TCF, there are some LGUs that do not have the necessary Information, Communication and Technology (ICT) infrastructure or they cannot comply with PBR criteria to connect. Currently, a number of LGUs have electronic Business Permit and Licensing System (e-BPLS) but many others have none. Moreover, existing e-BPLS of LGUs differ. Aside from having an e-BPLS, the LGUs also need to have an Internet connection, staging server and expertise to upload and download data from PBR. The best way to fast track the process of connecting LGUs to PBR, according to the PBR Management team, is through the provision of Online System Support so that they can connect effectively to the portal.

At the LGU level, one of the key challenges identified by the TWG on SBRP is the commitment of LGUs to allocate their time for Tasks 1 and 2 as well as the coordination of TWG with other NGAs. Proper and timely communication within and among necessary agencies is needed to come up with the expected outputs of the group. Time is of the essence for the TWG since they have to accomplish Task 1 (development of SBRP) by December 2008 to ensure its full implementation by February 2009.

#### *Registering Property: Addressing the High Cost*

There are already potential reforms that aim to reduce the time for transferring property from one owner to another. However, on the issue of reducing the cost of registering property, concrete steps have yet to be taken. *DBP 2008* results show that the following procedures contributed the most to the high cost of registering property in the Philippines: (1) Preparation of Deed of Sale by Notary Public; (3) Payment of Documentary Stamp Tax and Capital Gains Tax; and (6) Payment of transfer tax at the Treasurer's Office. Across all cities covered in the study, the three procedures account for an average of 90% of the cost incurred in transferring property from one owner to another.

The Integrated Bar of the Philippines (IBP) could help lower the cost of notarization. Currently, there are differences in the directives of local IBP chapters related to legal fees. For example, the IBP-Cebu City Chapter charges legal fees for notarization equivalent only to 1% of the property value as compared to 2% for Metro Manila IBP chapter. Though the problem has been identified, the IBP has yet to tackle the issue. Interviews with key informants from the IBP indicate that the organization is not very keen in addressing this issue because doing so would not be beneficial for some of its members.

The payment to BIR of a documentary stamp tax, equivalent to 1.5% of the property value, is a significant cost component in transferring property. There have been no visible efforts to lower this cost.

Finally, the transfer tax paid to the LGUs is another large cost in transferring property. To boost their revenues, LGUs, which are revising their outdated tax ordinances, are considering an increase in the transfer tax rather than decreasing it. Unless vigorous efforts are made to enhance the LGU's appreciation of the economic benefits of reducing the cost of doing business, the revisions in city tax ordinances will only add significant costs to the parties involved in transferring property.

### *Dealing with Licenses: Building Code Compliance and Transparency*

Instituting reforms in the procedures for issuing local licenses is quite challenging. Getting construction permits and other local licenses is laborious and time-consuming. The tedious procedures required for evaluating technical plans result in delays, which create opportunities for government officials to ask for monetary favors in exchange of expediting the process. In spite of the 15-day statutory time limit in releasing the building permit, many local governments still do not follow this. The weak capability of the Department of Public Works and Highways (DPWH) to monitor LGU's conformance with the IRR of the NBC makes the situation even worse.

A building contractor disclosed that, despite complying with all the requirements in securing a building permit, he was still asked by the OBO to submit other unnecessary requirements, which further delay the release of the permit. Contractors who need to meet their project timeline, might find it easier to give in to the monetary demand of local officials, just to obtain the building permit.

The lack of interest on the part of the OBO/City Engineering Office (CEO), as manifested by their lack of initiative to formulate reforms, is a major obstacle in improving the process of obtaining construction permits and licenses. To address this problem, the support of City Mayors for reforms would make the process of issuing permits and licenses fast and transparent. The City Mayors play a crucial role in trying to eliminate under-the-table transactions that add substantial costs in doing business in their cities.

The OBO/CEOs need to be coached on how to carry out potential reforms since the Philippines suffered a major slippage in its global ranking in the Dealing with Licenses indicator as reported in the latest *GDB* report.

### ***General Challenges for all Stakeholders***

Overarching among all the implementation challenges in the reform process mentioned above are the general hurdles that should also be overcome in order to fully institute the reform initiatives. These are as follows:

### *Regulation as Opportunity for Revenue Generation*

A business enterprise needs to get a business permit and to register in order to legalize its operation. The intention of regulating businesses is to ensure that their activities and operation will not pose harm to the general public. However, in the Philippines, with lesser national government subsidy (i.e. Internal Revenue Allotment) to LGUs, some regulatory functions are seen as venues for augmenting financial resources. With decentralization, where most of the decision-making authority is handed down to the LGUs, the challenge of increasing own-source revenues (local taxes, fees and charges) at the same time balancing it with facilitating entry of investors is evident. Hence, addressing concerns on high fees and charges would directly benefit the LGU since it will improve business-friendliness and attractiveness to investors.

### *Weak Linkages Among NGAs*

Most of the time, NGAs issue various guidelines and procedures without due knowledge on how these affect the overall environment of regulation. Therefore, there is a need to further improve inter-agency communication and collaboration. The government (i.e. through the Philippine Development Forum (PDF)) should ensure that there is understanding and transparency within and among the NGAs.

### *Changes in Leadership*

In the Philippines, reform initiative is personality-driven. In the local setting, the City Mayor is in a good position to push for reforms. However, since there is a chance that he may not be elected after his/her three-year term, the long-term goal of sustaining reform initiatives cannot be easily guaranteed. The same scenario holds true with the NGAs. At any given time, the head of office may be re-assigned or stripped of his/her power. Hence, there is a need to ensure and strengthen inter-agency and public-private sector collaborations, such as the NARTTF and NCC-TCF, to address these risks.

### *Strong Focus on Autonomy, Less Attention on Collaboration*

As a result of decentralization, LGUs are empowered in many ways to improve their fiscal standing. Such authority spurs competition among LGUs to increase their own sources of revenue in order to finance their daily operations, improve service delivery and other financial obligations. However, there are areas needing reforms, which warrant collective response and effort. In parallel, there are national level procedures that prolong the entire process of starting a business and registering property in the Philippines. This affects the ability of most LGUs to attract investments. Moreover, collaboration among LGUs is not a very popular practice in the Philippines as most focus their efforts and services within their geographic areas and boundaries.

### *Individual Efforts Rather than Collective Response*

The temptation to shift again to individual efforts is high if reform initiatives are not carried out consistently. Now that everyone is excited by the promises and efforts of various NGAs, LGUs and the private sector, the big challenge for the government is to sustain the reform initiatives until it improves the Philippine's standing in the global *DB* report.

### **Critical Role of the Private Sector as Advocate of Reform**

The private sector, composed of businessmen and entrepreneurs, has a critical role to play in the overall reform agenda in the field of business regulation. Even as subjects of regulation, they can be agents of change especially that directly affect their business operation. In the Philippines, the private sector has become a vigilant player in the reform process.

NCC is driven by key personalities from both the public and private sector. In TCF, the NCC's working groups, the Philippine Chamber of Commerce and Industry (PCCI), the Makati Business Club (MBC) and similar business groups are key members. They are also well represented in the NARTTF. In fact, the PCCI has been giving the Most Business-Friendly LGU Awards for many years. This shows that businessmen are serious in addressing concerns such as business regulation and corruption. For them, these are important issues that must be addressed by the government for businesses to grow and thrive. Their involvement in various discussions and fora has been seen to crystallize different issues of business regulations.

In an interview, Mr. Alberto Lim, the MBC Executive Director, stressed the importance of cities as subjects of most competitiveness studies and called on everyone to help Philippine cities attain global recognition, noting that the *DBP 2008* report seemed to be objective and practical while other studies were based on perception. The key lessons of the study deserve a second hard look.

With regard to key reforms now being initiated by the government, Mr. Lim noted that some of them are not at all new ideas, like the PBR. He pointed out that the turf war among agencies and LGUs are real impediments to streamlining procedures in business registration. He mentioned that a stronger hand must intervene in order to make this reform feasible and that there should be more political will among heads of government to put all the agencies in line.

## **Next Steps in the Reform Process**

### **NCC Asserts its Key Role in the Reform Agenda**

The long time absence of an apex body that monitors the implementation of business regulation both at the NGA and LGU level triggered many of the current issues in the business registration process. NCC, with its primary mandate to address and improve the general competitiveness of the Philippines, is now at the forefront of all these efforts to facilitate discussions on business regulation reform. The Public-Private Council is very supportive of the *DB* report and now centers its effort in meaningful dialogues and coordination activities that focus on reforming the business regulation.

Currently, the concerned NGAs are participating actively in various coordination meetings called by NCC-TCF and the PDF Growth and Investment Climate Working Group. This is a good signal that national agencies are open and would want to share in the overall work of reform. NCC has to position itself better as the need for facilitation and coordination is vital at this phase of reform. NCC must reiterate the need for a concerted and conscientious effort among key stakeholders in order to effectively achieve the goals of reform. This is not an easy task as it entails persistent coordination and advocacy as both LGUs and NGAs are governed by their own respective mandates and leadership.

### **Consolidating and Harmonizing Current Reform Initiatives of Different Stakeholders**

Particularly on reforming the process of business registration, there are several on-going efforts advocated by various foreign donors and implemented by different NGAs. The challenge now for the government is how to make sure that these current initiatives are consolidated.

### **LCP to Continue Advocating for Reforms at the LGU Level**

The current intention to standardize procedures among Metro Manila LGUs is an initial response to address the reform areas identified by *DBP 2008*. The League of Cities of the Philippines (LCP), recognizing the relevance of the SBRP and the need to improve the competitiveness and attractiveness of the cities for potential investors, assumed the active role of convening all LGUs of the National Capital Region (NCR) to come up with a set of standardized procedures for business registration. If SBRP is proven successful, it will be replicated and advocated to other LGUs. This will address the issues surrounding the variations across LGUs in terms of local regulations and interpretation of NGA regulations embedded in the business registration process.

The next important phase of this initiative is to monitor compliance and be aware of the dynamics at the local level in the course of implementation. This will definitely generate important findings in understanding the process of reform and eventually lead to a better regulatory environment for attracting businesses and investments.

## Conclusion

Undoubtedly, the implementation of *Doing Business in the Philippines* at the sub-national level introduced new ideas and revitalized approaches and collaboration among important stakeholders to further address reforms in the area of business regulation. It stirred up discussions on business regulation, not only among cities covered by the study, but also among NGAs and the private sector.

With the results of *DBP 2008*, Philippine cities have been encouraged to look into the details of the study and lay out plan to respond to the identified bottlenecks. Since, in general, Philippine cities are very conscious of their image, strong competition motivates key cities to explore good governance practices and service efficiency.

Likewise, NGAs have become more receptive and interested in looking at the overall picture of reform process. Private sector groups, particularly the local chambers and utility service providers have become increasingly open to dialogue and consultation with regard to improving the overall climate of doing business in the Philippines. Therefore, NCC 's role as a platform for dialogue and collaboration among different stakeholders was emphasized as crucial in advocating and facilitating reforms in the field of business regulation.

Overall, the *DBP 2008* report provides valuable data and information on the initial assessment of local procedures and referred national laws as a basis for the current initiative to simplify and standardize the business registration system.

- ***DBP 2008 fuels discussions on current reform initiatives.*** Largely, *DBP 2008* provides a strong push for the on-going talks on reforming the business regulatory climate in the Philippines. It complements the already existing efforts to address concerns over lengthy and tedious regulatory processes. In the effort to address these concerns, various stakeholders come together and collectively express their commitment to reform.

- **DBP 2008 provides baseline and comparative data on business regulation.** *DBP 2008* allows Philippine cities to compare themselves globally and enables them to assess their performance and standing on business regulation. The value of the study is in establishing the baseline data upon which to refer when implementing reforms.
- **DBP 2008 pinpoints best practices as well as areas for reform.** *DBP 2008* exposes Philippine cities to global best practices, which can also be adopted locally. Cities in the Philippines may be highlighted too when they have their own best practices. The report has shown that no particular city has the monopoly of best practices. It shows that there is still much to be done in reforming local business regulations.
- **DBP 2008 shows that strong competition among cities triggers local-level reforms.** The strong competition among cities in the Philippines contributes to the move to institute various reforms. Ranking studies such as *DBP 2008* mean a lot to LGUs as they bank on the results in marketing the city as the best place to do business. The results push the cities to innovate and improve their efficiency in business regulation processes.

## ACRONYMS

<b>APC</b>	Asian Institute of Management Policy Center
<b>APEC</b>	Asia-Pacific Economic Cooperation
<b>BIR</b>	Bureau of Internal Revenue
<b>BNRS</b>	Business Name Registration System
<b>BOI</b>	Board of Investments
<b>BOO</b>	Build-Own-Operate
<b>BPLO</b>	Business Permits and Licensing Office
<b>BPLS</b>	Business Permit and Licensing System
<b>CAO</b>	City Assessor's Office
<b>CAR</b>	Certificate Authorizing Registration
<b>CDA</b>	Cooperative Development Authority
<b>CEO</b>	City Engineering Office
<b>COR</b>	Certificate of Registration

<b>CSC</b>	Civil Service Commission
<b>DB</b>	Doing Business
<b>DBP</b>	Doing Business in the Philippines
<b>DILG</b>	Department of Interior and Local Government
<b>DPWH</b>	Department of Public Works and Highways
<b>DTI</b>	Department of Trade and Industry
<b>e-BPLS</b>	electronic Business Permit and Licensing System
<b>GDB</b>	Global Doing Business
<b>GNI</b>	Gross National Income
<b>IBP</b>	Integrated Bar of the Philippines
<b>IFC</b>	International Finance Corporation
<b>IRR</b>	Implementing Rules and Regulations
<b>LARES</b>	Land Registration Systems Inc.
<b>LCP</b>	League of Cities of the Philippines
<b>LGUs</b>	local government units
<b>LRA</b>	Land Registration Authority
<b>M&amp;E</b>	monitoring and evaluation
<b>MBC</b>	Makati Business Club
<b>MERALCO</b>	Manila Electric Company
<b>NARTTF</b>	National Anti-Red Tape Task Force
<b>NBC</b>	National Building Code
<b>NCC</b>	National Competitiveness Council
<b>NCC-TCF</b>	NCC–Transaction Cost and Flows
<b>NCR</b>	National Capital Region
<b>NGA</b>	national government agencies
<b>OBO</b>	Office of the Building Official



<b>PAG-IBIG</b>	Home Development Mutual Fund
<b>PBR</b>	Philippine Business Registry
<b>PCCI</b>	Philippine Chamber of Commerce and Industry
<b>PCCRP</b>	Philippine Cities Competitiveness Ranking Project
<b>PDF</b>	Philippine Development Forum
<b>PhilHealth</b>	Philippine Health Insurance Corporation
<b>RD</b>	Registry of Deeds
<b>RDOs</b>	regional district offices
<b>RMC</b>	Revenue Memorandum Circular
<b>RMO</b>	Revenue Memorandum Order
<b>SBRP</b>	Standard Business Registration and Permit
<b>SEC</b>	Securities and Exchange Commission
<b>SSS</b>	Social Security System
<b>TIN</b>	Tax Identification Number
<b>TWG-SBRP</b>	Technical Working Group – Standard Business Registration and Permit
<b>UDD</b>	Urban Development Department
<b>ULAP</b>	Union of Local Authorities in the Philippines

# 5 Philippines Case Study Slides: Laying the Ground for Regulatory Reforms for National and Local Competitiveness

## A Case Study on Sub-National Doing Business in the Philippines: Laying the Ground for Regulatory Reforms for National and Local Competitiveness

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Executive Director  
Asian Institute of Management Policy Center

### Outline of Presentation

- I. Sub-National Doing Business - The Philippine Case
  - Rationale
  - Buy- in among cities
  - Results/Findings
  - Key Areas for Reform
  - Reform Process and other Parallel Reforms
- II. Implementation Challenges in Reform Process
- III. Critical Role of the Private Sector
- IV. Next Steps in the Reform Process
- V. Value of Sub-national Doing Business report
- VI. Conclusion and Lessons learned

## Sub-National Doing Business - The Philippine Case



- **Rationale of Sub-National Study**

- To understand business regulatory environment in a decentralized system
- To identify variations in the interpretation and implementation of national laws
- To encourage reforms among local government units (key cities)
- To document best practices

## Getting Buy-In for the Sub-national Study

- **Key Activities**

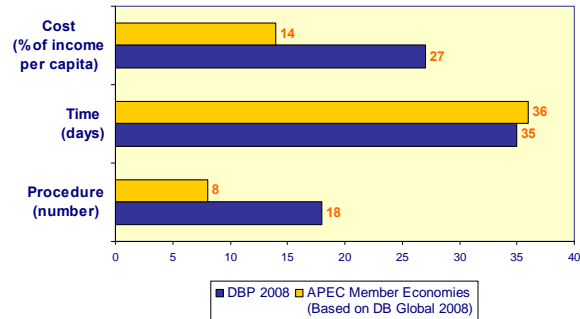
- Road tour
- Preliminary presentation of the results/Right of reply period
- Sub-national report launch

- **Lessons**

- High interest of cities to improve image, their attractiveness to investors
- Key contacts within the city hall (getting information and strengthening participation)

## Results of DBP 2008: STARTING A BUSINESS

- Result



- Key Areas for Reform

- Design procedures that are uniform and predictable for government-mandated requirements
- Make the business permit application form downloadable and availability of process flow charts in the city's website
- Identify businesses in terms of risk-based classification in requiring inspections
- Single-access window for all the national and local level procedures

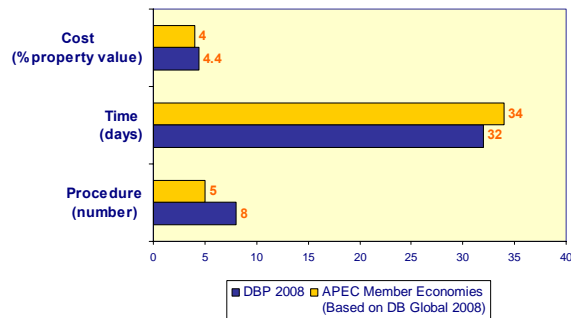
## Results of DBP 2008: STARTING A BUSINESS

- Reform Process Arising and Other Parallel Efforts

- **Local Government Units:** Eight (8) cities have already signified efforts to further streamline their business permit processing procedures.
- **National Government Agencies:**
  - **Technical Working Group - Standard Business Registration Procedure (TWG-SBRP)** - organized to look at how to improve business registration process in Metro Manila cities.
  - **Philippine Business Registry (PBR)** - an online business registration facility which is a collaborative product of the national and local government agencies to help streamline business registration procedures in the country
  - **National Anti-Red Tape Task Force (NARTTF)** - established to reduce red tape in all government agencies to attain global competitiveness

## Results of DBP 2008: REGISTERING PROPERTY

- Result



- Key Areas for Reform

- Reduction of processing time required in two NGAs (Bureau of Internal Revenue and Registry of Deeds)
- Elimination of the inspection under Procedure 8 thru availability of a City Zoning Ordinance
- Standardize notary public fees
- Uniformity in the imposition of property transfer taxes

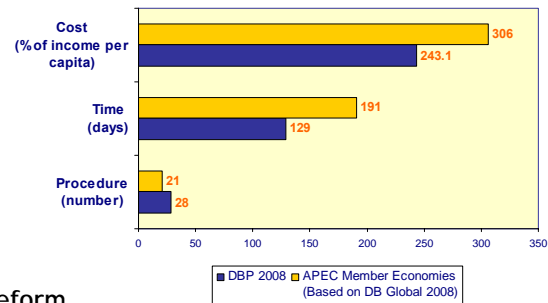
## Results of DBP 2008: REGISTERING PROPERTY

- Reform Process Arising and Other Parallel Efforts

- **Local Government Units:** Three (3) cities have already signified efforts to reduce the number of days in obtaining the new tax declaration from three (3) days to just one (1) day.
- **National Government Agencies:**
  - **Land Registration Authority (LRA)** - implements the "Land Titling Computerization Project" which is expected to significantly improve the titling procedures and clean the agency's records.
  - **Bureau of Internal Revenue (BIR)** - issued a Memorandum Order which orders that, "Certificates Authorizing Registration (CAR) shall be issued within five days from date of receipt of tax returns with complete documentary requirements"

## Results of DBP 2008: DEALING WITH LICENSES

- Result



- Key Areas for Reform

- Reorient the staff at the Office of the Building Official (OBO) regarding the proper computation of fees to remove discrepancies in the fees imposed to applicants
- One-stop shops could centralize applications and processing of all project permits and clearances
- Availability of flowcharts displayed in public places or in the city's website

## Results of DBP 2008: DEALING WITH LICENSES

- Reform Process Arising and Other Parallel Efforts

- **Local Government Units:** One (1) city has already cut down the number of procedures by allowing the applicant to submit only the photocopies of the documents required in the processing of the building permit. It also established a customer service counter to speed up transactions.
- **National Government Agencies:**
  - National Competitiveness Council -Transaction Cost and Flows (NCC-TCF) Working Group - mandated to ensure consistency in implementing business rules at the national and local levels. The group conducted an initial consultation and dialogue with key utility providers to be part of the reform process in dealing with various construction-related permits.

## Implementation Challenges in the Reform Process

- **Specific Challenges on Each Reform Initiative**
  - *Starting A Business*
    - Full implementation of Philippine Business Registry (PBR) and Standard Business Registration and Permits (SBRP)
  - *Registering Property*
    - High cost in property transfer
  - *Dealing with Licenses*
    - Compliance to National Building Code
    - Transparency among agencies/units involved
- **General Challenges for all Stakeholders**
  - Regulation vs. revenue generation
  - Weak coordination (NGA-level)
  - Changes in leadership (LGU-level)
  - Need to see the bigger picture of reform process
  - Collective and targeted response

## Critical Role of the Private Sector as Advocate of Reform

- Membership of key business organizations (such as the Philippine Chamber of Commerce and Industry (PCCI) and Makati Business Club (MBC)) in NCC working groups to address business regulation issues and corruption.
- PCCI has been giving the Most Business-Friendly Local Government Unit Awards for many years.
- Representation in National Anti-Red Tape Task Force
- Sought for official statements on critical economic and business-related issues

## Next Steps in the Reform Process

- Strengthening NCC as key partner of the government in championing reforms
- Consolidating various initiatives (e.g. help from donors, cooperation of national government agencies and cities)
- Working with the local government units

## Value of Sub-national Doing Business report

- Establishes baseline data on business regulation
- Provides comparable data on performances (among cities)
- Fuels the vital discussions on reform agenda
- Pinpoints good practices
- Warrants collective response from all stakeholders



## Conclusion

### Lessons learned:

- The **pace of reform** is far more important than just the rankings
- No monopoly of best practices - reform as a continuing process
- The importance of seeing the '**big picture**'
- Critical reform is **everyone's business**

THANK YOU!

[www.doingbusiness.org](http://www.doingbusiness.org)

## **6 Sub-national Doing Business in Indonesia**

The project commenced in October 2008, aiming to advance regulatory reforms at the sub-national level through comparative benchmarking which will measure the performance and identify opportunities for reform in fourteen (14) cities in Indonesia on key business regulatory issues as captured in three Doing Business topics (Starting a Business, Dealing with Construction Permits, and Registering Property). The Indonesia Sub-national Doing Business survey will cover fourteen cities, namely Jakarta, Surabaya, Bandung, Pekanbaru (replacing Medan), Banda Aceh, Palembang, Yogyakarta, Semarang, Surakarta, Denpasar, Balikpapan, Palangkaraya, Manado and Makassar.

In the early stages of the project, key highlights can be identified as follows:

### **1. Partner engagement and preparatory work:**

The Ministry of Administrative Reform (Menpan) has been identified as the main client for this project. Menpan has the authority over bureaucratic reform through the improvement of public service including optimizing coordination between national level government agencies and sub-national level governments. Menpan has been very supportive of the project and helped ensuring smooth reception of the project by all participating local governments and relevant national government counterparts. As the main client, they have received key knowledge and information on how the global survey is conducted and how it benefits the national and local governments. They have also been extensively briefed on the process that will be carried out through consultative meetings that the Sub-national Doing Business team held with them and other national government counterparts.

The Regional Autonomy Watch (KPPOD/Komite Pemantauan Pelaksanaan Otonomi Daerah) was selected as the local implementing partner through competitive procurement process. It has extensive experience in conducting surveys and delivering technical assistance to local and national governments, especially in areas of local economic governance and investment. Most importantly, the local partner demonstrated a high commitment to be intensely involved in the process and continue the work when IFC exits the project.

Questionnaires were received from the sub-national Doing Business team in Washington DC, incorporated inputs from the local partner and translated.

There have been 125 local respondents in 12 cities (out of the total of 14 cities). Two cities, Jakarta and Pekanbaru will start the survey in January 2009, as their commitment to participate in this survey was recently secured.

## **II . Capacity building and socialization**

One hundred and fifty-eight people participated in the kick-off meetings and trainings. Four kick-off meetings to socialize the survey and get the buy-in from the participating cities were held in 4 cities - Total participants: 114

Thirty-four key national government officials attended the kick-off meeting in Jakarta including the Chairman of the National Investment Coordinating Board, the Deputy of Public Services of the Ministry of Administrative Reforms, the Deputy for Investment Climate Development of the National Investment Coordinating Board, Special Staff for the Coordinating Ministry for Economic Affairs, and representatives of high-rank officials from 12 participating cities ranging from Regional Secretary to Head of Local Investment Coordinating Board. 79 key local government officials were also present during the follow-up kick-off meeting in 3 cities: Banda Aceh, Surabaya and Manado, including the Mayor of Surabaya. In addition, one (1) representative from the private sector attended the meeting in Surabaya. As a result, endorsement for this project received from the national government and the twelve participating cities but also government points for each city were appointed by the local governments to provide necessary support to the survey.

Eleven training sessions on survey methodology were delivered in 13 participating cities (a combined training session was delivered in Solo for that city and its neighboring cities: Semarang and Jogjakarta) - Total participants: 44

One training session to local partner (KPPOD) was delivered in Jakarta by the Sub-national Doing Business (SDB) team from Washington, DC and Sydney to provide knowledge and share experience on the project and the whole survey process. 10 other training sessions were delivered in 10 cities to local field surveyors in Oct and Nov to provide them with 'know-how' information on conducting the survey based on the Doing Business (DB) standard methodology.

### III. Survey roll-out

The survey was conducted in 12 cities (out of the targeted 14 cities) in early December 2008. 2 cities: Jakarta and Pekanbaru will start the survey in January 2009. The survey time for Jakarta will follow the timing for the global DB survey since data from Jakarta will also be used for the global DB report. Medan has been replaced by Pekanbaru in late Nov'08 due to its internal problem.

The following is a presentation given by the local partner, KPPOD, during the breakout session on the process undertaken thus far in Indonesia.

**KPPOD** Komite Pemantauan Pelaksanaan Otonomi Daerah

**EC-IEG Seminar**  
Singapore, 17<sup>th</sup> February 2009

**Measuring the Quality of  
Local Economic Governance &  
Sub-National Doing Business  
in Indonesia**

Presented by: P. Agung Pambudhi  
KPPOD Executive Director

## The Objective

- To have broader picture about Indonesia ease of doing business → Indonesia is not Jakarta the capital city, but around 500 cities/regencies
  - To identify major regulatory Constraints and Opportunities for Reforms → not only national, but also **international benchmark**
  - Promote harmonization of National and Sub-National Level Reform Implementation
- 

## The Indicators

- Starting a Business
  - Dealing with Construction Permit
  - Registering/Transferring Property
- Combination between National and Local Authority  
→ Based on 'case study' to have a comparable findings  
→ To measure: procedure – time – cost
-

## Source of Information: Experts

- It is Not based on Firm but Third Party (Expert) Experience
- 5 Experts each City: 1 Government Officer and 4 Experts (Notary, Business Consultant/Provider)
- Local (and National) supporting Law and Regulation

## Surveyed Cities

- The most populous cities with high economic activities
  - 14 Cities: Surabaya, Bandung, Semarang, Yogyakarta, Surakarta, Banda Aceh, Pekanbaru, Denpasar, Makassar, Manado, Balikpapan, Palangkaraya, Palembang, and (Jakarta)
- 

## The Team

- IFC Team (IFC Washington & Jakarta, and FIAS) → constructing the Survey Instrument and Methodology
  - Local Partner: KPPOD → implementing the Survey Instruments
  - Clients: The Ministry of Administrative Reform, supported by The Vice President's Office, The Coordinating Ministry of Economic Affairs, The National Investment Coordinating Board, and The Ministry of Home Affairs
  - 14 Surveyed Local Governments: appointing PIC each City as 'Champion'
-

## **The Progress**

- Kick-off meeting at National and Local level
- Training delivered and Respondents (Experts) identified
- Survey completed in 12 Cities
- Survey in another 2 Cities will be initiated this month
- Data verification is ongoing

## **The Challenges**

- Secure commitment from the national and local governments
  - Right of Reply Meeting
  - General Election in April – October'09 → possess opportunities (new administration = new motivation/priority) and risks (new administration = new faces)
-

## 7 Reform at the Sub-National Level in China

Regional disparity in economic growth and wealth is one of China's biggest developmental challenges despite China's huge accomplishment in lifting hundreds of millions of people out of poverty over the past 30 years. Studies have found evidence that this disparity can partly be attributed to the relative weakness of private sector development and to the weaker investment climates in the lagging regions. In China, sub-national governments are responsible for enforcing the national laws and regulations issued by the central government and for following the economy's macroeconomic and fiscal policies. Within this framework, however, they have a relatively high degree of autonomy to determine their own policies according to specific local conditions. Regional officials, therefore, can play a key role in determining the quality of the local investment climate.

China was rated as one of the top ten reformers in the global Doing Business 2006 and 2007 due to continued improvements in a number of business regulations measured by the Report. Similar emphasis on reform is evident among sub-national level governments looking for ways to respond to calls at the national level to spur economic growth and investment. However, many local governments, particularly those removed from the more advanced and richer coastal provinces, lack the knowledge and experience to make significant improvements in their business environment. Moreover, they are often unaware of the extent to which government regulations and their implementation can impact businesses and the pace of local economic growth and investment.

Doing Business in China addressed these issues by providing information on the ease of doing business across China. The objective was not only to inform Government and other stakeholders of the regional variations and to share knowledge of best practices across China, but also to help local government understand what problems they faced so that they could undertake appropriate reforms. The study was undertaken by the IFC Advisory Services BEE team in China together with the China Academy of Social Sciences (CASS), one of China's premier semi-governmental think tanks. The Headquarter-based Subnational Doing Business team provided significant oversight and technical support.

### Project Implementation

Using the *Doing Business* methodology and drawing on experience from subnational studies in a number of major developing countries, including India, Mexico and Brazil, the China study measured the ease of doing business across 30 provinces making it one of the most comprehensive subnational



studies to date. It chose four Doing Business indicators which are indicative of a business-friendly environment and which are heavily influenced by local level implementation: (i) starting a business, (ii) registering property, (iii) getting credit and (iv) enforcing contracts.

The indicators were studied from the point of view of a locally invested business in each of the provincial capitals. In addition, analysis was undertaken regionally according to the following geographic groupings:

**Southeast:** Fuzhou (Fujian), Guangzhou (Guangdong), Hangzhou (Zhejiang), Nanjing (Jiangsu), Shanghai

**Bohai Bay:** Beijing, Jinan (Shandong), Shijiazhuang (Hebei), Tianjin

**Northeast:** Changchun (Jilin), Harbin (Heilongjiang), Shenyang (Liaoning)

**Central:** Changsha (Hunan), Hefei (Anhui), Nanchang (Jiangxi), Wuhan (Hubei), Zhengzhou (Henan)

**Southwest:** Chengdu (Sichuan), Chongqing, Guiyang (Guizhou), Haikou (Hainan), Kunming (Yunnan), Nanning (Guangxi)

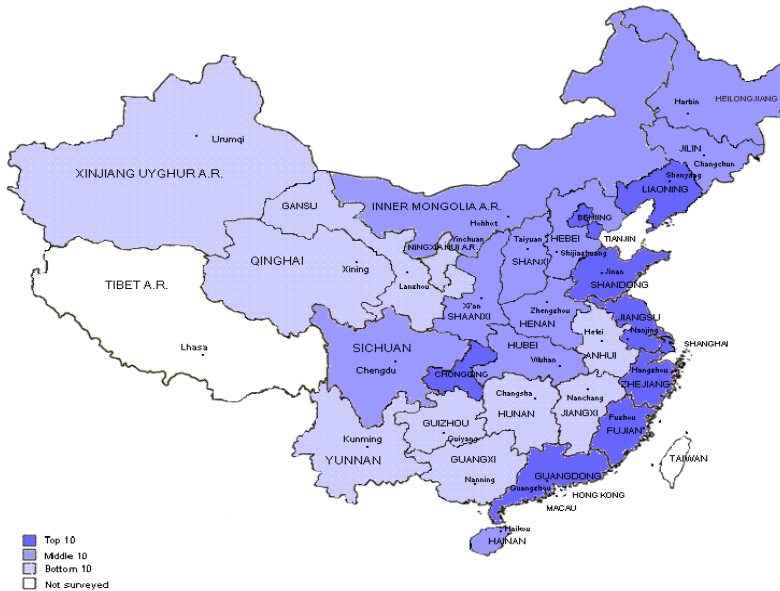
**Northwest:** Huhehaote (Inner-Mongolia), Lanzhou (Gansu), Taiyuan (Shanxi), Urumqi (Xinjiang), Xi'an (Shaanxi), Xining (Qinghai), Yinchuan (Ningxia)

## Summary findings

*Doing Business in China 2008 Report* presented the following main findings:

**Although all provincial-level governments are under direct administration of central government, there is a marked variation in the efficiency of implementing policy at the local level.** Coastal regions scored highest overall on ease of doing business. Guangzhou, a pioneer in China's national reform effort, was ranked best overall, followed by a number of other coastal cities. The cities with the most challenging environments tend to be those in western and central China. Yet there are good performers in the interior provinces. Chongqing, for example, is in the top 10; Chengdu, provisional capital of Sichuan, ranked 13th. All the cities measured have at least one indicator which compares favorably with other surveyed cities.

## Doing Business in China: Where is it easy, where not?



Source: *Doing Business in China*.

**Reforms and good practice are happening throughout China.** Many local governments have taken actions to make it easier for investors to do business in their localities. For example, Chengdu implemented a joint approval system for new businesses, cutting the number of procedures and the approval time significantly.

**Innovation within China, as well as outside, provide practical examples for those localities seeking to reform.** Many innovations within China compare favorably with international practices. For example, Nanjing would rank number 2 in the world in terms of the time needed for enforcing a contract. The Study provided numerous examples of good quality practices in China which provide policy-makers with strong evidence that they too can take steps locally that will directly impact the ease of doing business.

**Improving the business environment, particularly in poorer regions, is a powerful way to help the private sector create growth and jobs.** A favorable regulatory environment is good for all investors -- both domestic and foreign. Evidence internationally, as well as within China, is that the pace of reform can be even more important than the absolute ranking. Within China, there is a strong correlation between those localities that have the best local environment and the areas attraction to new investment. Using examples from within China strengthened the argument for reform since the results across the provinces were entirely comparable.

## Reform Implications

In China, nearly all laws and regulations concerning a company's operation are set at the national level. However, there is significant scope for local governments to improve efficiency and consistency in implementing these laws. There is often resistance at the local level since many reforms involve a reassignment of benefits and costs among different departments and local officials. This typically makes reform, particularly in less developed regions, slower than at the national level. Moreover, local officials are often unaware of the extent of the problems, or how to make improvements. By making information on local business environments widely available through the China SDB, as well as by sharing information on good practices, local governments are better able to see the way forward to launching reform programs. Using examples from within China greatly strengthened the argument for reform since the results across the provinces are entirely comparable. For example, a direct outcome of the Report was the launch of a major local reform initiative in Yinchuan, the provincial city of Ningxia Province, one of the poorest within China.

## Conclusions

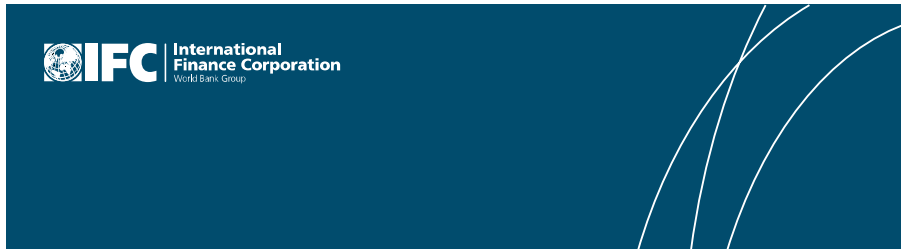
*Doing Business in China 2008* was published in April 2008. The launch was reported by more than 50 major media outlets in China including national television and newspapers hundreds of millions of readers and viewers. As the effects of the global downturn are increasingly felt in China, Government is urging localities to make improvements in their local investment climates and to make it easier for SMEs to operate. This has spurred additional interest in the findings of the SDB and what it tells localities about the scope for reform at the local level. Cities including Chengdu and Yinchuan have initiated reform plans following the findings of the SDB study. It can be expected that these cities will provide an example to other provinces, encouraging others to move in similar directions. Peer-to-peer learning can be a particularly powerful tool in China. From the experience of the Report's launch, and the many subsequent events where the SDB results have been shared with national, local and international audiences, the SDB seems to be having an impact on the reform agenda.

*Prepared by BEE China based on Doing Business in China, 2008*

**Table: City rankings on the ease of doing business**

City	Ease of doing business	Starting a business	Registering property	Getting credit	Enforcing contracts
Guangzhou	1	3	2	3	1
Nanjing	2	2	5	2	2
Shanghai	3	5	1	4	4
Hangzhou	4	1	7	8	3
Jinan	5	4	4	4	5
Fuzhou	6	7	3	1	12
Tianjin	7	8	6	6	5
Beijing	8	6	12	7	9
Shenyang	9	9	14	15	10
Chongqing	10	17	9	19	8
Shijiazhuang	11	16	21	9	14
Harbin	12	18	14	10	20
Chengdu	13	19	11	11	23
Hohhot	14	11	18	16	19
Wuhan	15	15	25	12	17
Haikou	16	13	23	18	11
Changchun	17	10	8	21	25
Xi'an	18	25	10	28	5
Zhengzhou	19	12	27	17	16
Taiyuan	20	20	26	12	18
Urumqi	21	14	13	26	22
Hefei	22	27	17	14	26
Nanchang	23	21	20	24	15
Yinchuan	24	26	16	27	13
Changsha	25	22	24	20	27
Xining	26	23	19	22	28
Kunming	27	23	22	23	29
Guiyang	28	30	28	25	24
Nanning	29	28	30	30	20
Lanzhou	30	29	29	29	30

## 8 Doing Business in APEC Recent experience at the sub- national level



### Doing Business in APEC Recent experience at the sub-national level

Presented to the Investment Experts Group  
Singapore, February 2009

Geoff Walton  
Foreign Investment Advisory Service

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## Objectives, Scope, Sources

- To highlight some recent reform **successes** among member countries and to draw **lessons** of experience for other APEC members
  - Methodology discussed in earlier session and is not the focus of this presentation
- Four economies: Mexico, Philippines, China, Indonesia
- Sources:
  - IEG-commissioned case studies presented by reform “champions” (Mexico, Philippines)
  - Published results (China)
  - Ongoing IFC-supported project (Indonesia)

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## Interpreting the Results of Subnational Doing Business

- **SNDB** main objective is to measure and encourage reform
- **SNDB** relies on the ability of the standardized methodology to create form among a web of approximations
- **SNDB** methodology is globally applicable so it is possible to compare results within a country and also between different cities in different countries
- **SNDB** allows city and national governments to see where best practices are located and to spur competition between cities
- **SNDB** data allows cities to compare and benchmark against each other but also to examine in detail why one city performs better than others

## Mexico

### Starting a Business (most popular)

- *Guanajuato*: The time required to start a business decreased from 29 days (2005) to 12 days (2008)
- *Aguascalientes* reduced the time to start a business from 32 (2005) to 13 (2008)
- *Morelos* and *Puebla* drastically reduced the time of starting a business from 50 to 16 days and from 42 to 12 days respectively
- *Nuevo León* reduced procedural times from 50 (2005) to 19 (2008)
- *Aguascalientes* followed *Yucatán* in simplifying the registration process and reducing fees at the Public Registry of Property.

### Registering Property

- *Aguascalientes* implemented a range of electronic reforms at the Public Registry of Property
- *San Luis Potosí* and *Chiapas* have introduced a bar code to allow computerized tracking of property records based on *Aguascalientes*' best practices.

## Philippines

### Starting a Business

- *Caloocan City*: streamlining procedures and linked to the Philippine Business Registry since May 2008
- *Valenzuela City*: reviewing computerization system
- *Makati City*: intends to reduce the number of procedures and review imposed fees for locational clearance
- *Davao City*: looking into integrating necessary improvements in their business permit processing
- *Lapu-lapu & Mandaue*: decreasing number of procedures for realty tax clearance assessment

### Registering Property

- *Valenzuela City and Makati City*: committed to reduce the number of days required to apply with the City Assessors' Office (CAO) for issuance of new tax declaration from 3 days to 1 day.
- *Lapu-Lapu City*: set to coordinate with the Bureau of Internal Revenue (BIR) Regional Office to lessen the length of time required to securing the Certificate Authorizing Registration (CAR).

### Dealing with Licenses

- *Taguig City*: reduced the number of procedures by allowing the applicant to submit photocopies of the documents required in the processing of the building permit.

## China

- Reforms and good practice are happening in China. China was the top reformer in East Asia in 2008. This emphasis on reform is found at the local level in a range of cities (see next slide).
- Coastal regions scored highest overall on ease of doing business. Yet there are good performers in the interior provinces. Chongqing, for example, had the greatest number of reforms and is in the top ten.
- Reforms and good practice are happening in China: Coastal regions scored highest overall on ease of doing business. Yet there are good performers in the interior provinces as well. Chongqing is in the top 10.
- Innovation within China, as well as outside, shows the way for those seeking to reform.
- Improving ease of doing business gives local policy-makers, particularly in poorer regions, a powerful tool to build their private sector, create growth and jobs.
- There are a number of cities with very good practices within China. If all these best practices were gathered together in a single city, then China's overall ranking would improve from 87 to 63 globally.

## China cont'd

### Starting a Business Reforms

- *Hangzhou*: use of single window and computerised joint approval process for business registration
- *Chengdu*: trial implementation of coordinated approval system for new enterprises significantly shortened the process/ time of approvals

### Registering Property Reforms

- 5 cities -- *Shanghai, Tianjin, Guangzhou, Xiamen and Chongqing*– adopted a single certificate for building and land
- *Fuzhou*: implemented a similar process cutting in half the time taken for review and approval.
- *Shanghai*: adopted a standard application form and provided free instruction sheet for customers at district/county real estate trading centres

### Contract Enforcement Reforms

- *Zhejiang and Shanghai*: many courts established "direct filing" systems where certain types of cases are automatically accepted and go to adjudication.
- *Chongqing*: a court cut the average litigation time (excluding enforcement of judgment) to about **40 days** from **120 days** by adopting summary procedures.



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## Indonesia

- Starting a business, dealing with construction permits, registering property
- Completed survey of 12/14 cities, currently validating data
- Challenge general election (April - July): local government priorities for reform may shift or overshadowed by election
- Will launch in October in time for the new President and Cabinet.
- Demonstration effect, provinces wanted to “show their wares”, SNDB becomes a way to promote cities/regions, learning from other cities around the world

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## Lessons Learned

- Everyone can stand to improve, and not necessarily in the same business area
- It is not just the absolute ranking that is important but also the rate of change of rankings
- Investors are looking for new opportunities to invest
  - Reform equates to profit-making opportunity
- Reform is a continuous process
  - Relative rankings are therefore dynamic
- Peer to peer learning is becoming common practice
- Improving the ease of doing business gives local policy-makers, particularly in poorer regions, a powerful tool to build their private sector.
- Cities where doing business is easier attract higher levels of investment.

## 9 Key lessons learned

The key lessons derived from this report and the various sessions at the *Seminar to Improve the Domestic Business Environment* are summarised below.

- A neutral third party such as the IFC undertaking the Sub-national Doing Business surveys is a clear advantage as both the private and public sectors trust IFC and more likely to trust the data. Methodology also more neutral than a perception based survey.
- Re reform champions: Sometimes a neutral third party also works better than a local government champion or member of a private sector body such as a Chamber of Commerce. A neutral third party can better champion reforms, eg a think tank. IFC partners with a local counterpart to undertake sub-national Doing Business surveys, such as think tanks, and they can also assume later the role of a reform champion.
- The Subnational Doing Business diagnosis very quickly identifies bottlenecks and easy steps to reform.
- The critical variable for reform is the keenness of a city to improve its investment image.
- National authorities that are decentralised to sub-national centres need to reform as well as local level authorities.
- Easy areas to reform at the sub-national level are starting a business, dealing, issuing construction permits and registering property. These are commonly regarded as low hanging fruits.
- Popular reforms include introducing a One Stop Shop that represents relevant national and sub-national authorities, as well as E-registries and Risk based regulation.
- Reforms are clearly ongoing. Mexico over several years continues to improve at the sub-national level, and competition to have a better investment climate increases within Mexico.
- Doing Business/Sub-national Doing Business shines a spotlight on bottlenecks, but motivation for reform must come from within a country at both the sub-national and national levels.
- Economic crisis: time for reform.

- At the local level, it is easier to find champions for reform as less players, less challenging environments, but support must also come from within national government.
- Once one sub-national government reforms, its neighbours do – you see reforms in clusters.
- New cities tend to be more dynamic than the old cities. The peripheral new cities can highlight best practice.
- Sub-national Doing Business helps to elevate problems seen at the city level to national level attention.

In conclusion, IFC would like to thank the APEC Investment Experts Group (IEG), and in particular, the convenor of the IEG, Roy Nixon and John Kitchen from the Australian Treasury, for this opportunity to introduce to IEG and APEC member economies Sub-national Doing Business as a tool to overcome barriers to investment, illustrated by the case studies from Mexico and the Phillipines. The case studies inform the significance of an approach to investment that encourages a domestic integration focus, i.e. looking at the sub-national picture to identify the domestic better practice of high growth states/provinces (rather than to international best practice) on the assumption that better practice may be more achievable and deliver very significant growth outcomes. IFC hopes the lessons drawn from the case studies have achieved the objective of contributing to APEC's increased understanding of the significance of domestic to regional economic integration.