



# INDEX OF BUREAUCRACY

in Latin America

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2022



ATLAS NETWORK  
Center for Latin America



Adam Smith Center  
for Economic Freedom



## Index of Bureaucracy in Latin America 2022

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Two Liberty Center 4075 Wilson Blvd., Suite 310  
Arlington, Virginia USA 22203  
[atlasnetwork.org/center-for-latin-america](https://atlasnetwork.org/center-for-latin-america)

### Authors

Sary Levy-Carciente | **coord.**

Agustina Leonardi, Javier Bongiovanni, Alejandro Bongiovanni | **Fundación Libertad, Argentina**

Lucas Berlanza, Igor Matos | **Instituto Liberal, Brazil**

Carlos A. Chacón, María F. Gallego | **Instituto de Ciencia Política Hernán Echavarría Olózaga, Colombia**

Luis Loria, Esther Méndez, José Luis Cedeño, Diego Vargas | **Ideas Lab, Costa Rica**

Bettina Horst, Soledad Monge | **Instituto Libertad y Desarrollo, Chile**

Joselo Andrade, Danilo Vélez | **Instituto Ecuatoriano de Economía Política, Ecuador**

Ana Lilia Moreno, Viviana Patiño | **México Evalúa, Mexico**

José Ignacio Beteta y Alejandra Tupac Yupanqui | **Asociación de Contribuyentes del Perú, Peru**

Mónika Melo | **Instituto OMG, Dominican Republic**

Agustín Iturralde, Ramiro Correa y Martín Blanco | **Centro de Estudios para el Desarrollo, Uruguay**

Óscar Torrealba, Rocío Guijarro | **Cedice-Libertad, Venezuela**

### Recommended citation

Levy-Carciente, Sary (coord.) *Index of Bureaucracy in Latin America 2022*, Center for Latin America (Arlington, VA: Atlas Network, 2021), [www.atlasnetwork.org/iblat22en](https://www.atlasnetwork.org/iblat22en)

Design: Adnan Feric, Creatifera | [creatifera.com](https://creatifera.com)

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# Prologue

Roberto Salinas León | Executive Director,  
Center for Latin America, Atlas Network



## Liberty and the “Bossy State” in Latin America

“Useless laws weaken necessary laws.”

—Montesquieu

A few weeks after Atlas Network released the first edition of the *Index of Bureaucracy in Latin America*, in November of 2021, *The Economist* published a welcome editorial warning about the perils of what the authors call “the bossy state.” This is the new trend where governments, armed with good intentions to nudge businesses towards a “safer and fairer” society, replace their role as “umpires” and become “backseat drivers.” Important dangers emerge, including conflicts of interest, diminished efficiency and innovation, and cronyism.

The second edition of the *Index of Bureaucracy in Latin America 2022* confirms these fears. Dr. Sary Levy-Carciente, in collaboration with research associates from eleven different countries across Latin America, has compiled a set of valuable empirical data that highlights the mounting hurdles that the expansion of the administrative state imposes on microenterprises, and the high opportunity costs that emerge in the face of coping with such a complex web of regulations. One result of bureaucratic interventionism is waste; another is the deadweight financial burden that entrepreneurial initiatives must absorb to remain in business; yet another is corruption.

In effect, the empirical findings of this cross-country research help validate what Luis de la Calle (a prominent Mexican economist) calls “the economics of extortion.” Everyday men and women who seek to get ahead and prosper are inexorably confronted with the formidable task of bureaucratic compliance from a host of different administrative areas of federal, state, and local government: permits, concessions, licenses, rules and regulations, taxes, and much more. This generates a vicious circle of perverse incentives, where regulators unwittingly become experts at rent-seeking, using the power of permission to extort rents, on pain of closure or suspension. Here, then, lies an explanation of the widespread corruption that emerges when bribes and “tit for tat” understandings become a part of doing business, in the form of an extra-legal tax that is required to sustain entrepreneurial initiatives. Microenterprises are especially susceptible, as, in a very real sense, they are defenseless against this deviant manifestation of the bossy state.

Sary Levy correctly suggests that this phenomenon involves the transformation of “red tape” into outright “black tape.”

The world economy suffered a significant setback in human and economic freedoms during the pandemic and the ensuing lockdowns imposed in the vast majority of countries throughout the globe. Latin American countries were especially hard-hit, with a setback of at least ten years to “catch up” to levels achieved before the pandemic. In short, the region is facing yet another “lost decade.” This research project is especially valuable in identifying areas where public policy could go a very long way toward making entrepreneurial life easier for micro-businesses, reducing the amount of time devoted to compliance and bureaucratic procedures. Such reforms would also help reduce the opportunity costs involved in the complex network of rent-seeking that currently keeps entrepreneurship stifled and unable to grow, imprisoned in the informal economy.

This explains the force of our motto: *Déjame trabajar*, that is, “Let me work.” Indeed, despite the findings of this Index, it is important to highlight that, using this research, policymakers and policy analysts can now identify several areas for a relatively fast improvement in the right direction, namely, of enhancing greater economic freedom. As Brad Lips invites us to consider in his book *Liberalism and the Free Society 2021*, “The future belongs to advocates of authentic liberalism—open and entrepreneurial, inclusive and generous. . . .”

In this regard, we are especially pleased that this second edition of the *Index of Bureaucracy in Latin America 2022* is co-published with the Adam Smith Center for Economic Freedom, at Florida International University, in Miami. The Center’s founding director, Dr. Carlos Díaz-Rosillo, a prominent voice in the world of public policy himself, has been a key ally in making this research project come to fruition, and especially in opening the doors in expanding and developing the initiative in 2023, and beyond.

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**ROBERTO SALINAS LEÓN**

Executive Director, Center for Latin America, Atlas Network

# Acknowledgments

Sary Levy-Carciente | Coordinator, IB Latin America 2022



This project would not have been possible without the continued support and commitment of Atlas Network's Center for Latin America, in particular from its executive director, Roberto Salinas León, who has been the best of allies and sponsored us from the moment the project was conceived. I therefore begin by expressing my sincere gratitude to him.

I would also like to express my appreciation to the Atlas Network Board of Directors, particularly to its CEO, Brad Lips, for the trust and support they provided to us in 2021 to make this project a reality, and their continued support in 2022, which allowed us to expand the scope of this second edition.

Similarly, my thanks goes to Carlos Díaz-Rosillo, director of the Adam Smith Center of Florida International University, who showed his interest in the project when he first learned of it in 2021 and this year joined as co-organizer with support in dissemination.

I also wish to highlight the commitment and professionalism shown by the distinguished researchers from each of the network-affiliated organizations involved this year in the project, as well as that of their managers and executive directors:

- Fundación Libertad (Argentina): Alejandro Bongiovanni, Javier Bongiovanni, and Agustina Leonardi
- Instituto Liberal (Brazil): Lucas Berlanza and Igor Matos Slim
- Instituto de Ciencia Política "Hernán Echavarría Olózaga" (Colombia): Carlos A. Chacón and María F. Gallego
- IDEAS LAB (Costa Rica): Luis Loria, Esther Méndez, José Luis Cedeño, and Diego Vargas
- Instituto Libertad y Desarrollo (Chile): Bettina Horst and Soledad Monge
- Instituto Ecuatoriano de Economía Política (Ec-

uador): Joselo Andrade and Danilo Vélez

- México Evalúa (Mexico): Ana Lilia Moreno and Viviana Patiño
- Asociación de Contribuyentes del Perú (Peru): José Ignacio Beteta and Alejandra Tupac Yupanqui
- Instituto OMG (Dominican Republic): Mónica Melo
- Centro de Estudios para el Desarrollo (Uruguay): Agustín Iturralde, Ramiro Correa and Martin Blanco
- Centro de Divulgación y Conocimiento Económico, Cedice-Libertad (Venezuela): Rocío Guijarro and Óscar Torrealba.

I would like to make special mention of the researchers who contributed to the present report: María F. Gallegos, M.Sc. political scientist, from the ICP, Colombia; and Óscar Torrealba, Scrum Master economist, from Cedice, Venezuela, whose valuable assistance was crucial for the successful achievement of the IB-LAT second edition. Likewise, I wish to highlight the professional contribution of statistician Karen Tizado, whose technical expertise allowed us to enhance the analysis of the data collected.

Sergio Daga, who carefully reviewed the work and whose recommendations allowed us to improve it, deserves particular recognition. A thank you also to Manuel Hinds, who has been supporting our effort since its inception, and who, for this edition, kindly shared with us his reflection on the contents and their scope in terms of public policies.

Finally, my thanks to the full Atlas Network technical team, especially Hane Crevelari, for their logistical support throughout the entire process.

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**DRA. SARY LEVY-CARCIENTE**  
Coordinator, IB Latin America 2022

# Introductions

Brad Lips | CEO, Atlas Network



## Bureaucracy and Barriers to Trade

At Atlas Network, we believe that removing needless barriers to voluntary trade and enterprise is essential for societies to secure greater inclusive prosperity.

To unleash human ingenuity and again bring about rising living standards, governments must reduce the hurdles that stand before working citizens.

Adam Smith described, nearly 250 years ago, how the wealth of nations increases most where people enjoy “the obvious and simple system of natural liberty.” Progress and productivity are nearly inevitable when men and women can pursue their own interests, provided that they have “peace, easy taxes, and a tolerable administration of justice.”

Do we have a tolerable administrative state today? Not in most countries. The discouraging truth that is unveiled in the *Index of Bureaucracy in Latin America 2022* is that micro-enterprises allocate an average of 550 hours working hours per year simply to comply with the requirements imposed by bureaucratic rules and regulations. This makes entrepreneurial life intolerable for working men and women who are simply trying to get ahead.

Not all regulations are misguided and most are crafted with benign intentions, but we must be clear-eyed in recognizing that the expansion of the administrative state has created a predatory dynamic that punishes regular people.

This second edition of the *Index of Bureaucracy in Latin America 2022*, now expanded to cover eleven countries, sheds light on the extent of today’s problems and on policy changes that would create a more reliable climate for productive investment, innovation, and freedom to choose. The study is coordinated by Dr. Sary Levy-Careciente, a senior fellow with Cedice

Libertad in Venezuela, co-published with the Adam Smith Center at Florida International University, and inspired by earlier work by the Institute of Economic and Social Studies in Slovakia.

This Index complements other worthy cross-country research studies about human freedom. One of its distinguishing virtues is that the *Index of Bureaucracy* provides insights about everyday people, trying to make a living. Whereas some research tools are geared toward attracting foreign direct investment from multinational corporations, our *Index of Bureaucracy* recognizes the dignity of everyday men and women and their capacity to be drivers of value creation.

Excessive bureaucracy provides a drag on economic growth, and also incentivizes people to direct their entrepreneurial energies not to productive enterprise but to the challenge of navigating a labyrinth of regulatory codes and government offices. Money spent on lawyers and consultants—and often, on bribes—could otherwise have been directed to creating productive services and essential goods.

Hence our motto, “*Déjame trabajar*” (i.e., “Let me work”). This is not a matter of ideology, still less of partisan politics, but rather a recognition of the needs of everyday citizens who aspire towards a better future and a more prosperous outcome. As the great philosopher of law Richard Epstein says, we need simple rules for a complex world. This means, among many other things, a framework of general rules that are simple and predictable, with a government bureaucracy that facilitates, rather than hinders, enterprise and human progress.

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**BRAD LIPS**  
CEO  
Atlas Network





# Introductions

Carlos Díaz-Rosillo, Ph.D. | Director and Founder,  
Adam Smith Center for Economic Freedom, FIU

## Better Incentives for Better Results

The *Index of Bureaucracy in Latin America 2022* highlights one of the greatest obstacles to achieving prosperity in the entrepreneurial structure of any country: hyper-regulation, the vast number of controls and procedures that limit productive activities, commerce, and innovation, and slows down economic growth, both for individuals and for society at large.

This important research initiative, which is now a joint partnership between the Adam Smith Center for Economic Freedom and Atlas Network, emphasizes the bureaucratic burdens that small enterprises must confront, not only for their creation but also for their daily activities. The study finds the average total number of work hours that small businesses must dedicate on an annual basis to comply with bureaucratic procedures in three different areas: labor compliance, daily operation of the enterprise (where the majority of the legal obstacles are associated with tax compliance), and “others,” which include a large variety of rules and procedures that vary by industry sector and government level.

The study looks at 11 countries in the region, representing almost 90% of the total population of Latin America. The methodology employed by the index suggests that the most representative productive activities devote an average of 548 work hours per year to comply with bureaucratic measures imposed by government administration. It is not surprising that the worst performer is Venezuela, where bureaucratic requirements represent more than 1,000 hours per year (133 working days!). By contrast, in Brazil, compliance with bureaucratic procedures requires 180 hours per year (22.5 working days).

Even though an effective bureaucracy is necessary for the functioning of a modern society, when that bureaucracy becomes excessive, it inhibits the flourishing of commercial activities, discourages investment and creative efforts, and takes up material and human resources that would otherwise be allocated to production and innovation. It also forces millions of entrepreneurs into informality, leading them to work outside the legal framework and, consequently, beyond the radar of legitimate

government oversight and the tools necessary for the implementation of sound public policies (thus pushing these entrepreneurs into the fringes of criminal activities).

While the index highlights the regulatory and bureaucratic areas that are not working well in the region—and the steps necessary to improve their regulatory frameworks—it also showcases successful public policies that remove barriers to productive commercial activity and allow citizens to prosper. In other words, the study helps us understand what needs to be done and what needs to be avoided to achieve better results. At the same time, it helps us understand how differences in institutional and policy frameworks across different countries can help or hinder the dynamics of virtuous circles that promote economic freedom, progress, and prosperity.

We would like to express our gratitude to Brad Lips, CEO of Atlas Network, and Roberto Salinas-León, Executive Director of the Center for Latin America at Atlas Network, for the invitation to take part in this important initiative. We know that the *Index of Bureaucracy in Latin America* will continue to grow, in both reach and impact, and that it will become a key reference for those interested in the design and implementation of public policies that lead to a society that is freer, fairer, and more prosperous for all.

We are also convinced that it will become a useful instrument to help advance one of the key motivators for the Adam Smith Center: the relationship between thinking and doing to create meaningful transformations with positive social impact. The identification of barriers and obstacles to commercial activities is valuable insofar as decision-makers can use them to promote policies that lead to greater economic activity and allow millions of small and micro enterprises and entrepreneurs to generate prosperity for their families, their communities, and their countries. That is why we are interested in looking for better incentives that lead to better results.

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**CARLOS DÍAZ-ROSILLO, PH.D.**

Director and Founder  
Adam Smith Center for  
Economic Freedom

# Introductions

Dr. Manuel Hinds | Economist and Consultant



## The Costs of Excessive Bureaucracy

### The Purpose of the Index

The burden on small businesses of managing the direct costs of government-imposed bureaucracy is a very important variable in determining the development of this crucial sector, as well as in defining the degree of formality in the economy. The higher the costs, the lower the incentive to develop new enterprises—and the greater the incentive for companies to remain in the informal sector. So far, the costs of bureaucracy have been calculated only through taxes and other contributions to the government.

This second edition of the *Index of Bureaucracy in Latin America 2022*, changes that paradigm by highlighting the significance of government bureaucracy on small businesses. It illustrates the number of hours per year a person must work to comply with legal requirements throughout 11 countries in the region, in three categories: Administration of Operations, Administration of Employment, and Other Bureaucratic Procedures. The overall result indicates that the most representative companies in the region allocate an average of 548 hours/year for this purpose, which represents 25–40% of the annual working time of an employee, or between three and five months of a person's eight-hour workday. This represents a huge burden for small businesses.

### Uses of the Index

When combined with supplemental data, this index can expand the diagnosis of problems that these costs inflict on individual countries, not just on businesses themselves. Hence, it is necessary to integrate it with other data, such as the number of hours/year available to companies, and the cost of fulfilling these requirements in terms of income. These and other similar data are essential not only in determining the magnitude of the problem but also in designing pivotal reform policies to reduce the burden and monitor a cost-effective implementation of those new policies.

This research project generates the necessary information to facilitate the creation and implementation of these new policies, which could eventually be published as valuable addenda to the index. The publication of such useful information would undoubtedly represent a higher financial investment, but the benefits would significantly outweigh the costs, since the information would have already been

generated and would only need to be published.

This information in this document provides the framework to identify companies that are representative of the economy, as well as basic operational knowledge needed to keep a company running: branch of operation, business model, income, expenses, and balance sheet items. This data has already been collected as the index examines the operating costs of *running a company*—different from other bureaucratic load indicators, which only contemplate the costs of *opening a new business*.

### Potential Additional Uses of the Information Generated by the Index

This data is spontaneously generated when calculating this index because, contrary to using economy averages to identify the subject of the study, it uses an interesting methodology that selects representative companies and assesses their bureaucratic cost in the three categories mentioned above, revealing which government branch has—or has not—successfully managed this problem. Using this same methodology, for example, small businesses in Eastern Europe are defined as workshops that produce “mechanical or electrical goods,” while in Latin America they produce “services.” When characterizing companies, important information is revealed that could be very useful, not only in determining the cost of complying with bureaucratic procedures but also in understanding the basic structure of small companies and enabling a better grasp on how to help them. This index documents the importance of sectors in generating employment, and goods and services at the most basic level of economies, and provides valuable information that serves as a data hub on the cost of the bureaucratic burden and its impact on formality in the economy.

This information can be fundamental for the formulation of other public policies, such as formal education and outreach programs, since the internal structure and field in which companies operate says a lot about the strengths and weaknesses of different societies, including productivity at the business level and of each nation as a whole.

The index is already playing an important role and has a promising future as we develop ways to facilitate its use and expand its reach.

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**DR. MANUEL HINDS**  
Economist and Consultant

The logo for IBLAT 2022 is positioned in the upper right quadrant of the page. It features the text 'IBLAT' in a bold, sans-serif font above the year '2022' in a larger, stylized font. The text is white and is superimposed on a white silhouette of the Latin American continent. The background of the entire page is a dark maroon color with a pattern of concentric, overlapping circular bands in a lighter shade of maroon, creating a sense of depth and movement.

# Executive Summary

To understand and comply with the bureaucratic procedures required to keep a company running is a complicated and heavy burden, measured in both time and money. These requirements are especially significant for small companies that, with limited resources and few personnel, must find their way in the competitive market of their respective sectors or industries. For them, allocating the few resources they have to complete these bureaucratic procedures is often prohibitive, trapping them in the informal sector.

In Latin America, micro-, small-, and medium-sized enterprises (MSMEs) are a fundamental component of the business landscape, practically representing the entire business universe. They are important generators of employment but exhibit low productivity. Although business success is closely linked to the development of their internal business environment, there are external factors—toward the company and in the market—that can cripple their ability to be competitive (World Bank Group 2014).

It is important to note the critical role of the State, economic institutions, and public policies, which can favor or hinder business efficiency and success—in particular, the influence of

the legal framework, regulations, bureaucracy, and the quality of education, among others. An excessive bureaucratic burden prevents value generation, improvement in customer service, the possibility of adapting to the transformations and demands of the market, and creative reinvestment in productive activity. If this were not enough, these excessive burdens also create incentives for bribery and corruption, a scourge that threatens business activities and the possibility of improving the quality of life for citizens.

This work will focus on small businesses, which are the seeds of economic independence and free and responsible citizenship. Atlas Network's Center for Latin America has developed the calculation of the Latin American Index of Bureaucracy (IB-LAT) to contribute to the transformative agenda needed to propel a brighter regional future with productive dynamism and civil liberties.

The objective of this index is to demonstrate how small companies and micro-businesses are bound by bureaucratic burdens that inhibit their competitiveness and their opportunities to prosper. The index also aims to serve as a guide for policymakers and as a tool for companies and citizens in general. The

measurements have been inspired by the Bureaucracy Index developed by the Slovak Institute of Economic and Social Studies (INESS), adapted to this region and considering the most representative small companies in each country by sector.

In this second edition of the index, the following networks participated in the project: Fundación Libertad (Argentina), Instituto Liberal (Brazil), Instituto de Ciencia Política Hernán Echavarría Olózaga (Colombia), IDEAS LAB (Costa Rica), Instituto Libertad y Desarrollo (Chile), Instituto Ecuatoriano de Economía Política (Ecuador), México Evalúa (México), Asociación de Contribuyentes del Perú (Peru), Instituto OMG (Dominican Republic), Centro de Estudios para el Desarrollo (Uruguay), and Centro de Divulgación y Conocimiento Económico, Cedice-Libertad (Venezuela). Each institution assigned valuable research associates for this purpose, who with dedication and professionalism addressed the issues and challenges facing their respective countries.

First, the productive structure of each of the countries involved was reviewed and the most relevant activities in the Primary, Secondary, and Tertiary sectors were identified. Subsequently, these productive activities were reviewed based on the weighted proportion of small businesses to the overall size of business activity. Once the representative sector activity was selected, an exhaustive survey of the legally required bureaucratic procedures was conducted for the small company. This was substantiated by a series of interviews with companies, as well as professionals who are experts in the field.

After collecting the information, a quantitative measurement was carried out, finding the number of hours that a small company spends on average to fulfill each procedure, the frequency in which it needs to be done, and the number of people needed to implement it. This was established for each economic sector and country. Upon organizing the results, the following stand out:

- The small companies that carry out the most representative productive activities in the region allocate an average of 548 hours/year to comply with legal requirements of bureaucratic procedures in their countries. To put these figures into perspective, it is worth saying that according to the OECD, between 1,363 and 2,255 hours are worked per year, therefore, the bureaucratic-administrative burden represents in these countries between 25% and 40% of the annual working time of an employee.
- It was discovered that the more numerous, complex, frequent, and changing the processes are, the more companies tend to outsource them to specialized agents. As a result, in many cases informal, opaque, and even non-legal channels emerge, which feed perverse incentives and networks of corruption, weakening trust in the rule of law and social cohesion.
- The average time devoted to bureaucratic compliance is distributed as follows: 54% for procedures related to the Administration of Operations; 30% for procedures related to the Administration of Employment, and the remaining 16% for Other Bureaucratic Procedures.

- It is worth highlighting the important dispersion that emerges from the IB-LAT results: a difference of almost six times, between the high and low range of averages by country. This difference is even more pronounced in the results by sector, reaching a difference of 15 times.
- The results of the IB-LAT 2022 show Brazil leading the charts (180 hours/year), followed by Costa Rica (297 hours/year), Ecuador (395 hours/year), Uruguay (406 hours/year), Chile (470 hours/year), Colombia (477 hours/year), Mexico (506 hours/year), Peru (591 hours/year), Dominican Republic (745 hours/year), Argentina (900 hours/year), and Venezuela (1,062 hours/year).
- In terms of time, the most demanding procedures are:
  - In 5 of 11 countries, those associated with Administration of Operations,
  - In 4 of 11 countries, those associated with Administration of Employment, and
  - In 2 of 11 countries, those related to Other Bureaucratic Procedures.

These results reveal the areas in which particular attention is crucial.

- In terms of sectors, the most affected are:
  - In 6 of 11 countries, the Primary sector,
  - In 4 of 11 countries, the Secondary sector, and
  - In 1 of 11 countries, the Tertiary sector.
 However, the average of the results by productive sector is as follows: Primary, 544 hours/year; Secondary, 703.3 hours/year; and Tertiary, 509 hours/year—with the secondary sector having the greatest dispersion.
- A cluster analysis allowed the countries to be organized into four groups, combined by similarities in terms of time involved in complying with the different bureaucratic procedures. When organizing the results by economic sectors, the number of groups is reduced to three, and their members are modified according to the sector being considered. These findings underscore the need to closely observe each particular case analyzed here.
- The results show the urgent need to rethink and reorient the way in which the government bureaucracy has traditionally functioned, in search of governance that encourages development and growth.
- There are successful cases in the region from which to draw valuable lessons, guided by policies of simplification and digitalization of procedures. Some initiatives, however, aimed at transforming the governmental apparatus (and despite seeming to be worthwhile strategies) end up being unsustainable or insufficient, due to problems with the digital platforms or telecommunications services.
- It is worth noting that although it is vital to make public bureaucracy more efficient and transparent, it is crucial to identify those improper, unnecessary, and intrusive requirements that not only promote excessive control but also serve as incentives for corruption. Identifying and eliminating them is a priority to encourage the development of a free, responsible, and prosperous society in the region.

# I. General Considerations

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*“Those fighting for free enterprise and free competition do not defend the interests of those rich today. They want a free hand left to unknown men who will be the entrepreneurs of tomorrow.”*

—Ludwig von Mises, *Human Action* (2011)

Value creation in an economy is built on private initiative as its primary source. It is the people, fueled by their creativity and innovation, in their quest to improve their quality of life and that of their close circle, who compete to offer solutions to problems and attend to the needs and desires of others. In this process, personal knowledge, skills and talents—and that of third parties—are combined, integrated, and associated to form companies, which products and services will be brought to market.

Regardless of their size, companies seek to generate value in the medium and long term, demanding investment in talent, capital, and time. Likewise, a certain risk propensity is involved, as customers will decide if what is being offered meets their present and/or future demands.

Without these productive organizations, the exchange focuses on the short term, on immediate needs, which adds little value or wealth for future generations. This extension of the time horizon

that companies achieve favors a projection of intergenerational sustainability, with growth stability, which promotes productivity and competitiveness. This, in turn, provides choices and the most diverse access to goods and services, improving the quality of life and giving people the opportunity to exercise their right to choose, acquiring what they believe is most useful for them. The opposite happens in scenarios adverse to private production, in which options are minimized and consumers must resign themselves to scarcity and shortage. The right to choose and to have a dignified life is suppressed, and future projects are crippled.

In Latin America, micro-, small-, and medium-sized enterprises (MSMEs) are a fundamental component of the business landscape. Although they practically represent the entire business universe (99.5% of the total) and generate 60% of formal productive employment, they only contribute 25% to the regional gross domestic product (GDP) (Herrera 2020; Garcimartín et al. 2021, Dini y Stumpo 2020). The latter reflects various problems of the economies of the region; some of which are structural in macroeconomic and socio-political terms, and others in terms of governance and institutional functioning. Standing out among them is the presence of excessive and heavy bureaucratic structures, imposing considerable additional costs to the

production and value-creation processes for the vast majority of those who venture into economic life. In this sense it is worth noting that the ability to bear these additional costs is very different for a small, medium or large company, which significantly widens the gaps in productivity.

Thus, Latin American countries have yet to generate a favorable environment for the competitiveness and productivity of MSMEs. It is essential to promote an inclusive and inter-generational sustainable economic development that increases the generation of quality employment and reduces poverty and informality. It is worth saying that these situations have worsened with the SARS-Cov2 pandemic and its variants, by the very measures taken to contain it. Of particular impact was the confinement (generating a productive disruption) and an increased money supply without productive support—with its consequent inflationary pressures and increase of inherent debt. Other unfortunate factors have added to the situation, such as the Russian invasion of Ukraine, the appearance of monkeypox, and the multiple geopolitical tensions that warn us of possible conflicts in the near future.

Value creation results from what Kirzner (1975) called the entrepreneurial function, which is the process of discovering opportunities in the market, transforming economic resources, and channeling them to where they are most valued by people. Although business success is based on the development of greater and better internal skills, it is worth noting that there are factors external to the market—and to the company in particular—that influence its competitiveness, because they affect the cost structure of the company. In this sense, the role of the State and economic institutions stands out, whose decisions and policy objectives can favor or completely hinder the competitiveness of the company.

Bris (2022) describes the role of the State and its influence on the economy as follows:

*The competitiveness race is not unlike a cycling race. If you want to ride fast, you need three things: a good bike, to be in good shape, and a smooth and fast road. In a collaborative model, you might say the business is the bicycle, the business leader is the cyclist, and the road is the government and the external environment. The responsibility of a government is to design and build the best possible road. It turns out that when the road is good, good cyclists suddenly appear and want to race on it.*

In line with the last statement, authors such as Belas et al. (2019), recognize the influence of public policy in the business environment; especially the influence of the legal framework, regulations, bureaucracy, and the quality of education, among others. When the bureaucratic burden is too high, the path referred to by Bris (op. cit.) is full of obstacles and prevents companies from moving forward with competitiveness. This, in turn, hinders the generation of value since companies are forced to allocate valuable human, economic, and time resources to respond to the State, missing out on the opportunity to invest in their main economic activity.

Transparency International (2013) highlights the negative consequences of a State that imposes disproportionate burdens on small and medium-sized enterprises, with excessive or overly rigid administrative procedures, unnecessary licensing require-

ments, lengthy decision-making processes involving multiple people or committees, and a myriad of specific regulations that slow down business operations. These excessive controls also diminish the ability to generate long-term value and create incentives for bribery and corruption; both undesirable situations when the objective is to promote favorable conditions for economic growth and a better quality of life for its citizens.

**Business competitiveness, wealth creation, and social prosperity are only possible in free environments.**

Countries with better living conditions usually have a legal framework that is more sympathetic to enterprises and economic freedom. The presence of institutions that favor business development means that any person, in full use of their faculties and resources, who wishes to work or venture into entrepreneurship, can do so without unwanted interference by third parties or the State. On the contrary, in countries where institutions are not favorable to economic freedom, there are low levels of competitiveness, high levels of labor and business informality, and an inability to provide all kinds of goods and services.

In order to have a favorable legal framework, it is important to have a State that knows the scope of its powers regarding market regulation to prioritize its basic functions to improve the business environment, allowing citizens to cooperate with each other and live peacefully. All of the above requires a State that offers an efficient administration of justice, national and citizen security, and guarantees the right to private property.

On the State function, Mises (2011) explains:

*State and government are not ends, but means. Inflicting evil upon other people is a source of direct pleasure only to sadists. Established authorities resort to coercion and compulsion in order to safeguard the smooth operation of a definite system of social organization. (p. 1044)*

*As against all this formalism and legal dogmatism, there is need to emphasize again that the only purpose of the laws and the social apparatus of coercion and compulsion is to safeguard the smooth functioning of social co-operation. (p. 1047)*

Thus, an adequate regulatory framework, that provides greater legal certainty, favors an environment with greater confidence, which reduces risks, operating and transactional costs, and boosts greater medium and long-term investments. On the other hand, a regulatory framework that distorts market mechanisms will certainly impede the economic development of the country and the quality of life of citizens.

The positive relationship between regulation and economic growth was demonstrated by Silberberger and Königer (2016). Through the application of the generalized method of moments (GMM), introduced by Arellano and Bover (1995), and Blundell and Bond (1998), in an empirical study applied transversally to 106 countries between 1970 and 2009, they determined that regulatory quality has a larger positive non-linear impact on economic growth.

The purpose of regulations, through incentives, is to influence the behavior of people—individuals and corporations—to facilitate an improvement in production and market activity, stimulating their productivity and competitiveness. A good regulatory

framework allows companies to operate efficiently and improve their productivity, resulting in higher growth. In contrast, a market-distorting regulatory framework will in turn hinder economic development.

These results suggest that developing countries should direct their resources to improve their respective regulatory frameworks, which would require simultaneous efforts in two fronts: on one hand, deregulating and simplifying bureaucratic procedures; and on the other, attacking the opaque scourge of corruption by removing perverse incentives around regulated activities.

The excessive regulation of economic activity forces companies to allocate resources of time and money to comply with all the requirements and procedures, resources that could be channeled towards the development of productive activity and the improvement of products and services to the consumer. This reality not only raises the cost of doing business but makes the administrative and productive processes more complex, allowing increasing interference from the State in private, productive, and personal life.

In many cases, to escape this uncomfortable and costly situation, companies move to informality, losing the support and guarantees that the State's legal system must provide; in other cases, companies might migrate to other States or territories with more favorable conditions that promote their business activity, or even resource to changing to another economic activity—even if it is less innovative—if it is less harassed by bureaucracy or regulatory control. In other situations, unfortunately, they fall prey to the circuits of corruption just to save their investment, and will end up subjected to a perverse system that grows and feeds itself under the mantle of excessive bureaucratization until it becomes what De La Calle (2019) calls the “extortion economy.”

This dynamic reaches its maximum expression in what Naím (2022) has described as Mafia states, in which not only corruption prevails, or organized crime controls important economic activities, but entire countries exist in which the State uses and controls criminal groups to promote and defend the twisted interests of a ruling elite.

*Instead of building a state to protect citizens against the mafias, they transform it into a mafia organization designed to seize the most valuable assets in the country and to control its best businesses in order to transfer them to their family and friends (...) a predatory system, designed to give its leaders all the necessary margin to enrich themselves with impunity and use the country's firepower against anyone who poses a military, electoral, or commercial threat. (p. 299)*

Corruption generates a vicious circle that hinders development, and, from the economic standpoint, this illegal activity turns into an overtax and deterrence for all agents in the economy. It not only raises costs and reduces added value but increases the perception of risk as well as the expected return to make the business viable. This situation turns many projects into non-viable initiatives that could have been successful businesses in the absence of these problems.

The effects of corruption and bureaucracy on the economic performance of SMEs were analyzed by Nyarku & Oduro (2017). The results of the study revealed that 1% increase in corruption

leads to a 36.12% decrease in growth of employment and sales in SMEs. Furthermore, the results demonstrated that a 1% increase in bureaucratic bottlenecks leads to a 28.76% decrease in small-business growth. These findings demonstrated that the burdensome bureaucratic procedures such as issuing licenses, permits and restrictions are a vehicle for corruption. Those surveyed in the study revealed that, in order to comply with the required paperwork on time, they had to “grease the public official's palms” to get it done.

Meanwhile, the study carried out by Bbaale & Ibrahim (2018) revealed that the managers surveyed spent more than 7% of their time dealing with the demands of the public administration, and that almost 40% of all companies made, at some point in time, informal payments so that public officials could proceed with the formalities.

According to De La Calle (op. cit.), the impunity achieved by the corruption associated with public bureaucratic excesses makes it more expensive to create formal jobs. Staying in the informal sector can be more profitable, or less onerous, for the small- and medium-sized business owner. Informality is the ingenious way in which the economy has evolved to deal with extortion, but at a high cost, not only because informal businesses do not grow or improve their productivity as they should but also because of the distortion it causes in the labor market: in the face of a desirable increase in the supply of trained workers, there is a decrease in the demand for these given the widespread informality in the market. For a large number of small businesses, it is currently more advantageous to remain informal, where there is a kind of one-stop-shop for extortion, than to seek to enter the formal sector, where the possibilities of extortion are multiplied.

In short, the small- and medium-sized entrepreneur finds himself in a scenario where his options have been plundered, just for carrying out his economic activity with dignity. Under this system, it seems that creating value is punished in one way or another, creating an unfavorable and costly vicious cycle that attacks and destroys the virtue of work and therefore directly undermines human dignity.

In light of the above, it is crucial to have an instrument that allows us to identify those institutional elements built into regulations and specific bureaucratic procedures that have become the main bottlenecks for productive activities, and quantify them according to the time they demand to be fulfilled.

It is essential that regulations be met in a suitable time frame and that only appropriate requirements are requested, which will result in a more efficient business and governmental productive apparatus. Even more important is to eliminate unnecessary requirements and procedures that besiege and harass the productive structure, becoming instruments of unfair control, as we are far from promoting the efficiency of a process of productive appropriation and violation of rights.

Particular attention must be given to those procedures and bureaucratic requirements that are necessary for the formal operation of small businesses, which, as previously mentioned, represent 99.5% of those existing in Latin America and are the source of income of families in the region.

That is the inspiration behind the *Index of Bureaucracy in Latin America 2022*, which this year reaches its second edition, expanding its geographical scope to 11 Latin American countries.



# II. IB-LAT: Bureaucratic Burden on Latin American Small Business

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If the set of bureaucratic procedures is an onerous burden for any company, it is far greater for a small company. With few personnel—in many cases only the entrepreneur and the occasional office support employee—and very limited resources, it must find its way in the competitive market of its respective sector/particular industry. Therefore, allocating limited resources to operational procedures, in addition to being prohibitive, prevents the company from achieving its goals and meeting its objectives, while condemning it to informality.

It is precisely thinking about such a company, the seed of economic independence and free and responsible citizenship, that Atlas Network's Center for Latin America has developed the calculation of the *Index of Bureaucracy in Latin America 2022 (IB-LAT)* to contribute to the transformative agenda needed to propel a brighter regional future with productive dynamism and civil liberties.

The measurements have been inspired by the Bureaucracy Index developed by the Slovak Institute of Economic and Social Studies (INESS), adapting them to the region, and considering the most representative small companies in each country by sector. This has the purpose of identifying the burden most

commonly borne by the most representative small business in their respective economic sector.

It should be noted that the IB-LAT is not an index in the statistical sense, or index number, that contrasts a magnitude in two situations, having one of them as a reference. IB-LAT is a metric that allows us to track the cost that bureaucracy imposes on small businesses, measured in hours/year and its objectives are to

1. offer a measurement that serves as a guide to public policy-makers and entrepreneurs, as well as a tool for citizens as comptrollers of public affairs;
2. favor a critical analysis of the quality and efficiency of public management in the Latin American region;
3. promote the principle of subsidiarity of the State to serve private enterprise; and
4. favor the development of a free, responsible, and prosperous society in the region.

In this second edition, the scope of the IB-LAT was extended to 11 countries in the Latin American region, with the support of network centers:



- Fundación Libertad, from Argentina,
- Instituto Liberal, from Brazil,
- Instituto de Ciencia Política Hernán Echavarría Olózaga, from Colombia,
- IDEAS Lab, from Costa Rica,
- Instituto Libertad y Desarrollo, from Chile,
- Instituto Ecuatoriano de Economía Política, from Ecuador,
- México Evalúa, from México,
- Asociación de Contribuyentes del Perú, from Peru,
- Instituto OMG, from Dominican Republic,
- Centro de Estudios para el Desarrollo, from Uruguay,
- Centro de Divulgación y Conocimiento Económico, Cedice-Libertad, from Venezuela, the center that leads the project.

The IB-LAT 2022 provides detailed information of the bureaucratic procedures required for small businesses to remain in operation, analyzing their nature, their level of digitization, the public entities that demand them, the frequency in which they are required, and the time it takes to complete them.

Then, a comparative analysis of the IB-LAT 2022 is developed, considering the results by country, by economic sector, and by type of procedure, showing similarities and differences. This aims to serve as a guide for policymakers and as a tool for companies and citizens in general, to promote transformations in favor of improved governance, productivity, and a better quality of life.

Likewise, each of the participating centers in the study prepared an analysis of the bureaucratic burden that small companies must bear, for the most representative activities in their respective countries.

# III. Methodology



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Taking into consideration that the IB-LAT is a metric that allows us to monitor the cost that bureaucracy imposes on the economies of the Latin American region, the development of its methodology was directed by the following guidelines:

- attention to the differences in the productive structures of each country;
- small business orientation;
- focus on the bureaucratic procedures required to keep the company operating legally, not those of opening a business, which are required only once;
- validation of information on processes and bureaucratic requirements directly with small-business owners; and
- the annual time devoted to bureaucratic compliance.

With this in mind, the report is organized into five (5) phases:

1. Identification of the small company activity representative by sector

The first order of business is to know the productive structure of each country and identify the most important productive activity(ies) of small businesses in the Primary/Secondary/Tertiary sectors. This evaluation derives the identification

of the sector's representative activity. In most cases, it was found that for the same sector there were two or three activities with equivalent weight. Therefore, they were all included and the results for the sector reflect the average of times in each of these productive activities.

2. Identification of the operating procedures for the sector's representative activity

Next, a preliminary survey was made of the set of bureaucratic procedures required of small companies, both for Employment Management and for general operation of the company, also identifying those specific to the productive activity in which the company operates. This is an initial approach to the bureaucratic-administrative burden borne by companies, that would then be subject to validation.

3. Validation with small entrepreneurs and experts

Once the representative productive activities were defined in each of the economic sectors, a group of small businesses was identified to validate the data collected of the required bureaucratic procedures. A structured interview guide was developed for a series of interviews with experts in the field (administrators, accountants, lawyers), as well as small-business owners. Many companies stated they outsource the management of these pro-

cedures to outside companies, so these were also included in the scope of the interviews.

#### 4. Measurement

The collection of information was followed by the quantification process, considering the time required to complete the process, the frequency with which it must be done, and the number of people who must be involved to fulfill it (see Annex A and Annex B).

#### 5. Analysis of results

Finally, we proceeded to analyze the results by country, as well as a comparison for the sample of countries in the Latin American region of the study. In this regard, it is worth noting that this comparative analysis is performed in absolute hours and is not intended to imply that the opportunity costs in each of the economies of the region are equivalent.

It should be noted that, for the purposes of this study, a bureaucratic burden is regarded as imposed by a public authority, and it deems it unnecessary in complying with market requirements, or that it would be lighter if it weren't for the imposed regulation. Likewise, procedures required only once or with very irregular periodicity were excluded, as well as those procedures required for a single or infrequent project (change of brand, expansion of physical facilities, changes in the company's incorporation document, or similar). We emphasize that the procedures required for the opening of a company are not considered, which is an element that was included in the World Bank's Doing Business report.

It is worth pointing out two considerations. The first is that, although many of the procedures may be digitized, the quality of the internet connectivity service, failures in electricity or telephone services, and overloading of the portals through which the procedures or payment platforms are carried out often translate into times far from ideal. These aspects are considered and the effective times required to comply with the legally required procedures were collected, taking into account

the frequency with which they must be done and the number of workers who have to dedicate themselves to these tasks.

The second is that there are some requirements that might be a prerequisite for other procedures, and processing them through the public authorities does not guarantee the immediate delivery of the document that relieves the employer of the outstanding duties but rather implies an additional waiting time. In these cases, two things can happen: 1) the public office provides proof of the document being processed or pending final approval, and that said proof acts as a substitute in the fulfillment of subsequent procedures; 2) the public office does not provide proof of the document in process, generating a delay until the delivery of the final document is completed. In the first case, the time the procedure takes corresponds only to the time required to obtain the proof of the document in process; in the second case, the processing time includes delays until the final document is delivered.

The bureaucratic-administrative burden was divided into groups and subgroups as follows.

In the category of procedures associated with employment, the IB-LAT collects:

- Management of salaries, taxes, and contributions: including everything associated with salary management; administration of vacation time, sick, or accident leave; the procedures required by the social security administration, health insurance, and retirement plans.
- Hiring and firing administration: including personnel movement procedures, considering their average turnover, initial training processes, as well as required health and safety examinations. In case of requiring third-party services, the market search time for the best service provider is included.
- Working time reports: the sample company has only four employees. However, some countries require detailed and recorded management of working hours, holidays, etc., in their work code.

Fig. III.1 Bureaucratic procedures



In the category of procedures associated with the business operation, are those related to:

- Tax administration: income, property, consumption, and value added.
- Waste management: given the growing global importance in waste management and the particular demands in certain sectors.
- Vehicle management: including sale, operation, and driving of the company vehicle, if any.
- Mandatory certifications and external services: contain all activities related to legally required certifications, technical and security controls. In the case of requiring third-party services, the market search time for the best service provider is included.

Finally, the “Others” category includes those procedures that do not conform to the previous categories and those that are typical of the sector’s most representative economic activities:

- Production specific activities: related to the Representative company in each one of the sectors.
- Inspection/control: required by various authorities, such as firefighters or other public agencies.
- Special authorizations: according to different levels of government.
- Legal/regulatory changes: require significant retraining time for the personnel who carry out the procedures.

# IV. Results and Findings



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## IV.1 General results

This study identified the hours that small businesses in operation must invest to comply with all the legal requirements of bureaucratic procedures in their respective countries.

The totals reflect the weighted average (by sector participation in GDP) of the number of hours allocated by the representative small companies of each economic sector. The results for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, the Dominican Republic, Uruguay, and Venezuela are shown below (see Fig IV.1).

Brazil leads the charts as the country where small businesses spend the least number of hours in complying with the required bureaucratic procedures. This requires a total of 180 hours/year on average, equivalent to 7.5 continuous days and 22.5 eight-hour working days. The Primary sector spends the most time with bureaucratic procedures: 245 hours/year and, in general, the sector's greatest burden are the procedures related to the Administration of Operations (57.77% of the total hours).

At the opposite end of the spectrum is Venezuela, a country where small businesses allocate the greatest number of hours/years to comply with the required procedures. This involves a total of 1,062 hours/year, equivalent to 44 continuous days and to 133 eight-hour working days. In this case, it is the Tertiary sector that allocates the greatest number of hours to comply with the required procedures, and, in general, the greatest bureaucratic burden is concentrated in procedures related to the Administration of Operations (69.67% of the total hours).

It is worth highlighting the important dispersion that emerges from the IB-LAT results. There is a difference of 882 hours/year between Brazil and Venezuela, in other words, small businesses in Venezuela spend 9.8 times more hours complying with the required procedures compared to their counterparts in Brazil.

The results for Chile, Colombia, Mexico, and Peru are similar to the sample average of 548 hours/year, and they are located within great proximity of each other. The situation changes for those countries that skew away from the average, with greater differences among each other, and a relatively larger spread at the tail of the distribution.

Fig. IV.1 IB-LAT 2022. Results. Summary table. (hours/year)

	TOTAL	ADMN. EEMPL.	ADMN. OPER.	OTHERS		TOTAL	ADMN. EEMPL.	ADMN. OPER.	OTHERS	
ARGENTINA	510	335	135	40	I	620	298	146	176	MEXICO
	1366	669	603	94	II	467	298	154	16	
	784	318	446	20	III	541	298	146	97	
	900	411	447	42	*Weighted Avg.	506	298	150	58	
BRAZIL	245	130	113	2	I	797	20	440	337	PERU
	221	85	93	42	II	602	28	566	8	
	168	62	105	2	III	510	24	452	34	
	180	70	104	7	*Weighted Avg.	591	23	468	100	
CHILE	166	82	85	0	I	1142.1	282.9	838.1	21.1	DOMINICAN REPUBLIC
	1331	124	88	1119	II	868.8	100.6	698.0	70.3	
	259	112	106	41	III	725.0	34.5	677.6	12.9	
	470	111	100	260	*Weighted Avg.	745.0	69.6	645.8	29.6	
COLOMBIA	397	267	91	39	I	583	140	132	311	URUGUAY
	521	214	248	60	II	327	110	200	17	
	482	211	221	50	III	411	224	148	39	
	477	219	207	50	*Weighted Avg.	406	194	158	55	
COSTA RICA	408	364	40	5	I	843	196	460	187	VENEZUELA
	307	220	73	14	II	1082	196	830	55	
	287	159	92	36	III	1139	196	830	112	
	297	182	85	30	*Weighted Avg.	1062	196	740	125	
ECUADOR	272	47	152	74	I	*Time weighted average by significance of the sectors in GDP				
	644	47	188	410	II					
	295	34	169	91	III					
	395	39	172	183	*Weighted Avg.					

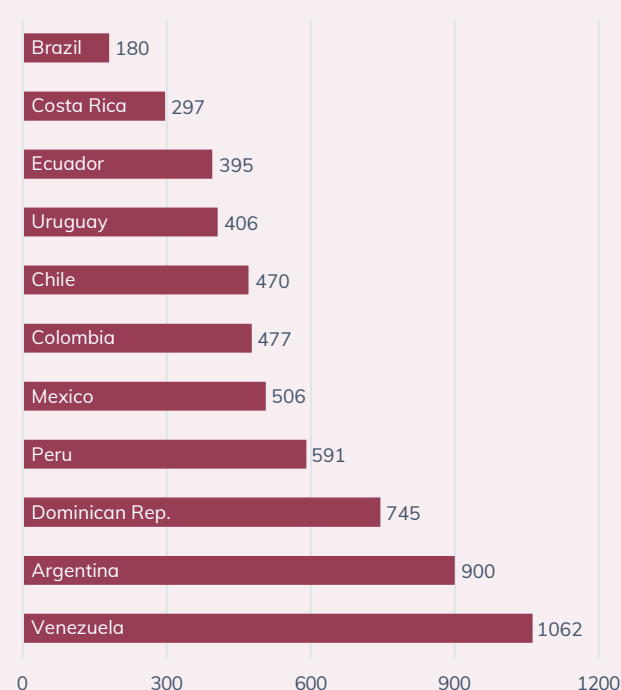
Ecuador is located in third place in the charts, with 395 hours/year, surpassing Costa Rica by 98 hours/year, which is in second place in the charts (297 hours/year), that is, a 33% increase in the time required to comply with bureaucratic demands. At the other end of the distribution, Venezuela exhibits a difference of 162 hours/year compared to Argentina (18% additional); and this, in turn, shows a difference of 155 hours/year compared to the Dominican Republic (an additional 20%).

Meanwhile, the countries whose results are close to the median have an average difference of 40 hours/year, which amounts to less than 7% of their results. Such is the case of Chile, Colombia, Mexico, and Peru.

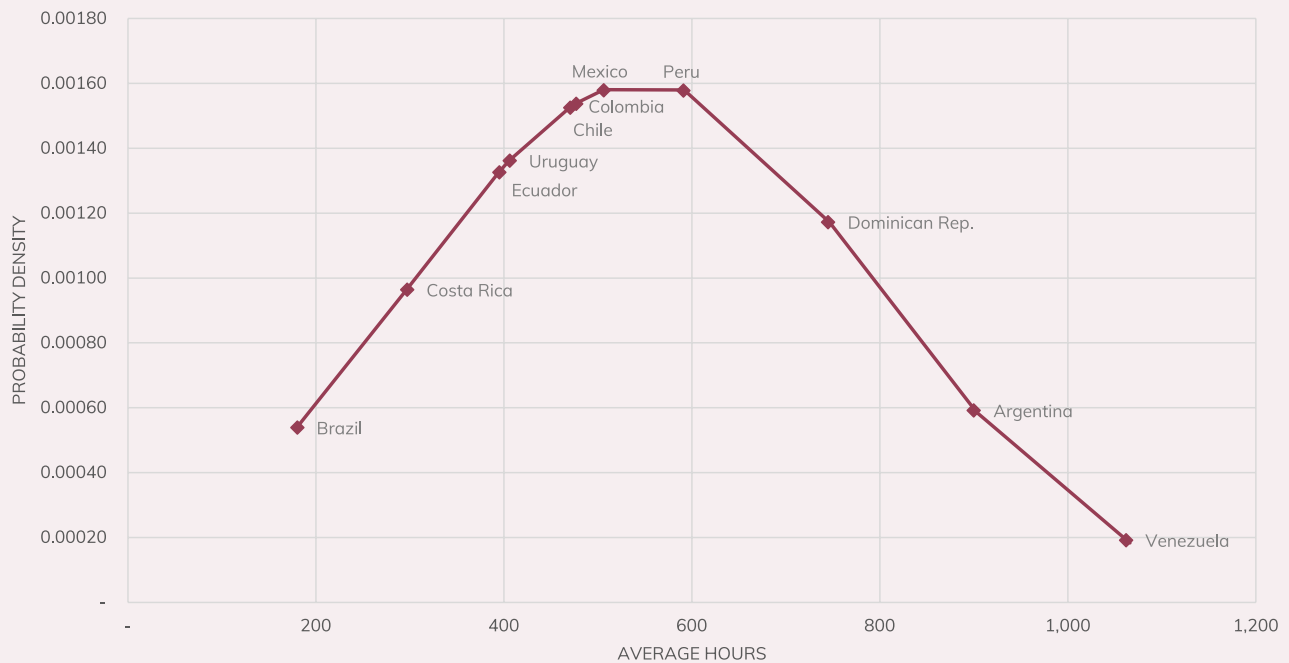
The graph highlights that the distances between the countries located on the left tail of the distribution have much more significant differences, in relative terms, which indicates that a considerable effort is required to improve their positioning. Thus, the second place in the ranking must reduce its bureaucratic burden by 39% to reach first place, and the third place, if it wanted to match the first, would have to reduce its bureaucratic burden by 54%.

Another perspective for the analysis of the results of the IB-LAT emerges from the use of the statistical technique of cluster analysis, from which the countries of the region were grouped by the type of procedures used in the study.

Fig. IV.2 IB-LAT 2022 Results by country, hours/year weighted average by significance in GDP



**Fig IV.3 Distribution of results IB-LAT 2022.**  
All sectors, weighted average by significance in GDP



This methodology allows us to gather similar entities into groups, while separating those that are most different, based on certain characteristics. To consider the variability in the analysis, given the great differences in results between the countries under analysis, the Ward Method or Minimum loss of inertia method was used, which creates homogeneous groups, minimizing the variance within each one of them. Prior to analysis, atypical cases were located at the top of the distribution, an indication of positive skewness. To symmetrize, the Tukey ladder of transformation was considered, substituting the data collected by its square root before applying the cluster analysis. Likewise, it was found that the correlations between the variables under study are not significant, avoiding incorporating redundant information.

Thus, four (4) aggregates or groups emerge, considering their combined similarities in the time required to comply with the bureaucratic procedures associated with the Administration of Employment, Operations, and Others (see Annex C1 and C2)

**Group 1.** Includes two (2) countries: Chile and Ecuador. This group presents below-average values in procedures associated with the Administration of Employment and Operations and above-average in those associated with Others.

**Group 2.** Includes two (2) countries: Peru and the Dominican Republic. This group shows below-average values in procedures associated with the Administration of Employment and above-average in those associated with Administration of Operations.

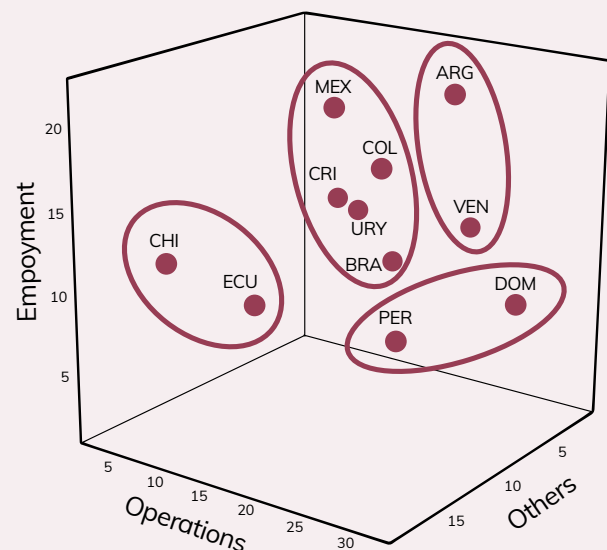
**Group 3.** Includes five (5) countries: Brazil, Colombia, Costa Rica, Mexico, and Uruguay. This group of countries is characterized by displaying below-average values in procedures associated with the Administration of Operations and in

Others. Regarding procedures related to the Administration of Employment, 4/5 exceed the general average.

**Group 4.** Includes two (2) countries: Argentina and Venezuela. This group presents above-average values in procedures associated with the Administration of Employment and Administration of Operations.

The analysis concludes that the performances of each country, when organized by the type of procedure, are different, highlighting the importance of devoting particular attention to those critical areas.

**Fig. IV.4 Cluster analysis results by type of procedure IB-LAT 2022**



Source: Own calculations

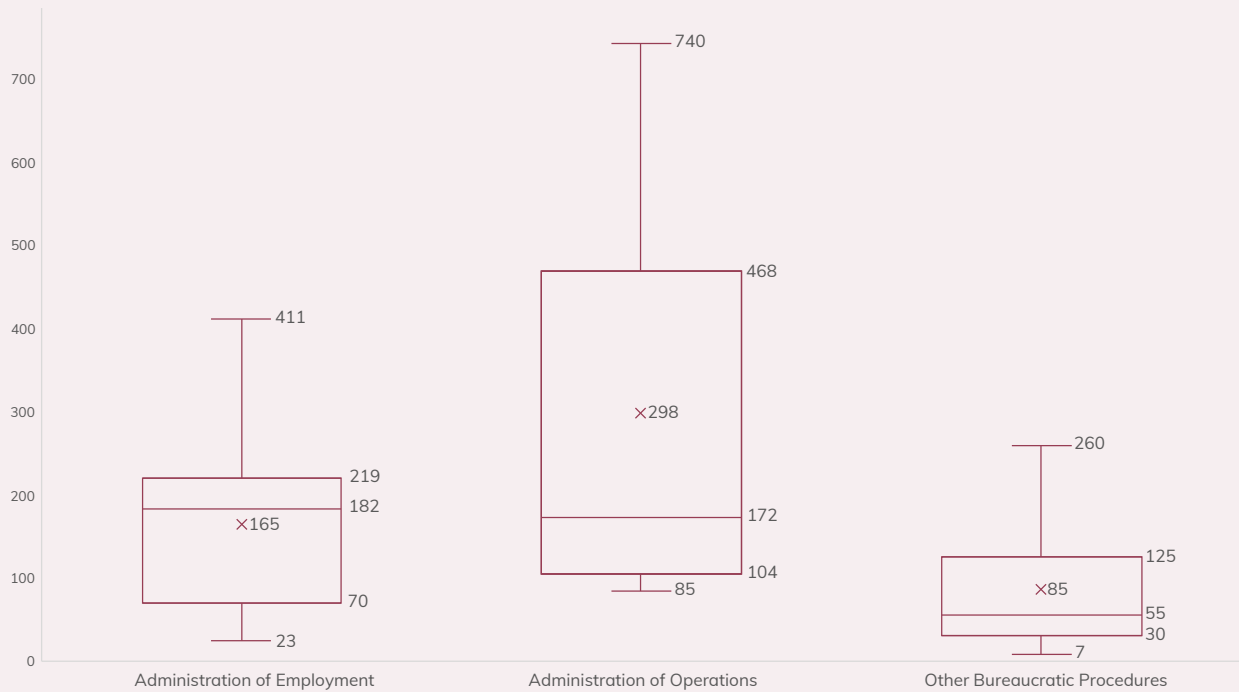
## IV.2 Results by type of procedure

A review by type of procedure indicates that, on average for the countries in the sample, 54.4% of the total hours required (298 hours/year) are concentrated in procedures related to the Administration of Operations; 30% (165 hours/year) in procedures related to the Administration of Employment, and 15.5% (85 hours/year) corresponds to Other Bureaucratic Procedures.

In the Dominican Republic, Peru, Venezuela, Brazil, and Ar-

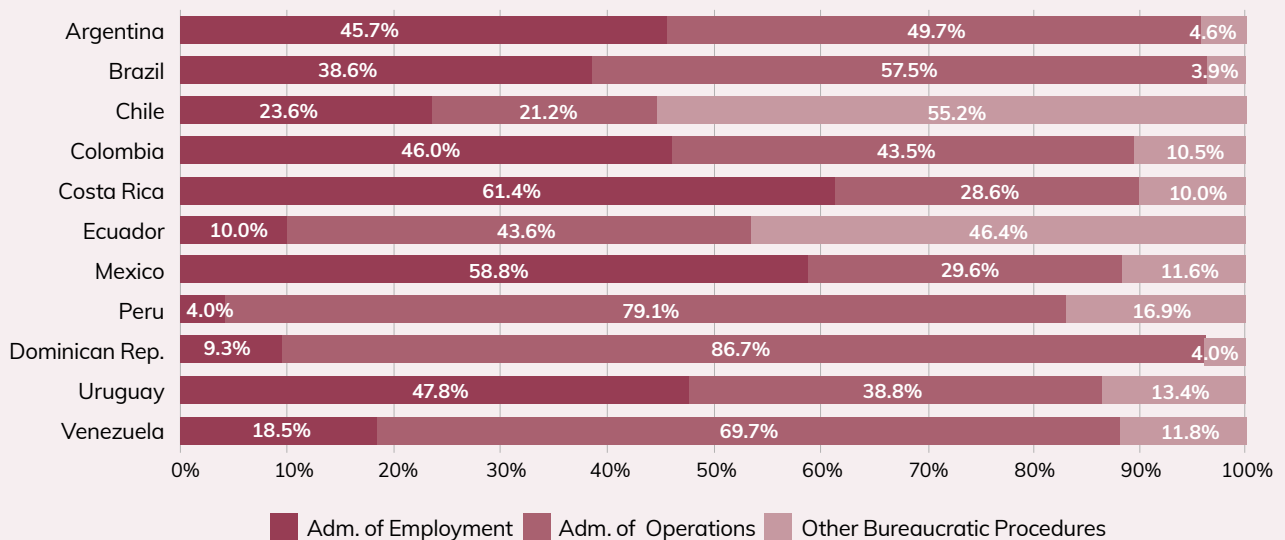
gentina (45% of the countries), the Administration of Operations is the group of procedures that requires the greatest number of hours/year; in Costa Rica, Mexico, Uruguay, and Colombia (36% of the countries), procedures related to Administration of Employment concentrate the greatest bureaucratic burden; and in Chile and Ecuador (18% of the countries), the so-called Other procedures—especially those specific to the company’s productive activity—are the most demanding in terms of hours. Hence the importance of considering the critical areas in a particular way.

Fig. IV.5 Box Plot. IB LAT 2022 results, by type of procedure



The box plot allows us to highlight the biases in the distribution of the IB-LAT results, as well as their median. Its whiskers indicate the values of the observations that are outside the central 50% of the distribution. This figure shows this information for the different types of procedures in the IB-LAT 2022.

Fig. IV.6 Weight by type of procedure IB LAT 2022 (%)





## IV.2.1 Administration of Employment

Peru is the country that requires the least number of hours to comply with procedures associated with the Administration of Employment (23.4 hours/year), followed by Ecuador (39.4 hours/year), and the Dominican Republic (69.6 hours/year). While Argentina is the country that requires the highest number of hours (411.3 hours/year), followed by Mexico (297.9 hours/year) and Colombia (219.5 hours/year). It stands out that a small company in Argentina must allocate 17.5 times more hours to comply with the procedures of this group, compared to its counterpart in Peru.

In almost all cases (with the exception of Mexico and Venezuela), the subgroup of procedures related to the payment of salaries to employees, as well as the payment of taxes and contributions associated with this concept, is the one that demands the greatest number of hours, within the Administration of Employment group, an average of 62.2% of the total.

It should also be noted that this group of procedures related to the Administration of Employment is the most significant for Costa Rica, Mexico, Uruguay, and Colombia. In Costa Rica, these procedures require 61% of the total hours/year that a company must devote to complying with all the required procedures; in Mexico, 59%; in Uruguay 48%; and in Colombia 46% of the total hours/year.

The opposite happens in Peru, the Dominican Republic, and Ecuador, where this group represents an average of 8% of the total time needed to comply with the required procedures.

## IV.2.2 Administration of Operations

For the 11 countries in the study, the procedures related to the report and payment of taxes are those that demand the most hours within the Administration of Operations. In eight of the countries, these procedures represent more than 80% of the total hours of the entire group (except Venezuela: 60.6%; Peru: 56.8%, and Colombia: 67.4%).

Venezuela is the country that requires the greatest number of hours to comply with this group of procedures (740.4 hours/year), followed by the Dominican Republic (645.8 hours/year) and Peru (467.9 hours/year). On the contrary, Costa Rica, Chile, and Brazil register the lowest number of hours for this group of procedures, on average 96.1 hours/year. Thus, a company in Venezuela must spend almost nine times more hours to comply with this group of procedures than a small company in Costa Rica.

Venezuela, Peru, and the Dominican Republic stand out because the Administration of Operations represents more than 70% of the total hours required annually for all bureaucratic procedures. The case of the Dominican Republic is of special interest, since the Administration of Operations represents 87% of the total, out of which 99% corresponds to compliance with tax requirements.

In Chile, the Administration of Operations has the least weight over the total hours/year required for small businesses to comply with all bureaucratic procedures (21% of the total), followed by Costa Rica (29% of the total).

## IV.2.3 Other Bureaucratic Procedures

In general terms, 49% of the hours on this group of procedures are related to legal requirements and changes, while 41.4% are hours related to the fulfillment of industry-specific activities of the representative company of each one of the sectors.

The country that spends the least number of hours to comply with Other Bureaucratic Procedures is Brazil. This group of procedures is also the one that concentrates the least weight of all of the bureaucratic burden (3.9% of the total). The Dominican Republic and Costa Rica rank second and third with the lowest number of hours in this group of procedures, both with 30 hours/year.

Meanwhile, Chile (259 hours/year), Ecuador (183.3 hours/year), and Venezuela (125.3 hours/year) are the countries where small businesses spend more hours to comply with this group of bureaucratic procedures.

Chile and Ecuador stand out because their greatest bureaucratic burden is concentrated in this group; for Chile it represents 55% of the total hours/year, and in Ecuador it represents 46% of the total. In both cases, the procedures that add additional hours in this group are those specific to the productive activity of the representative company of the Secondary sector, which in both cases is from the construction sector. A small construction company in Chile allocates an average of 1,618 hours/year to requesting all the permits required for its productive activity, and its counterpart in Ecuador spends 1,000 hours/year. Evidently, these results give this group a significant weight over the rest of the procedures already analyzed.

## IV.3 Results by economic sector

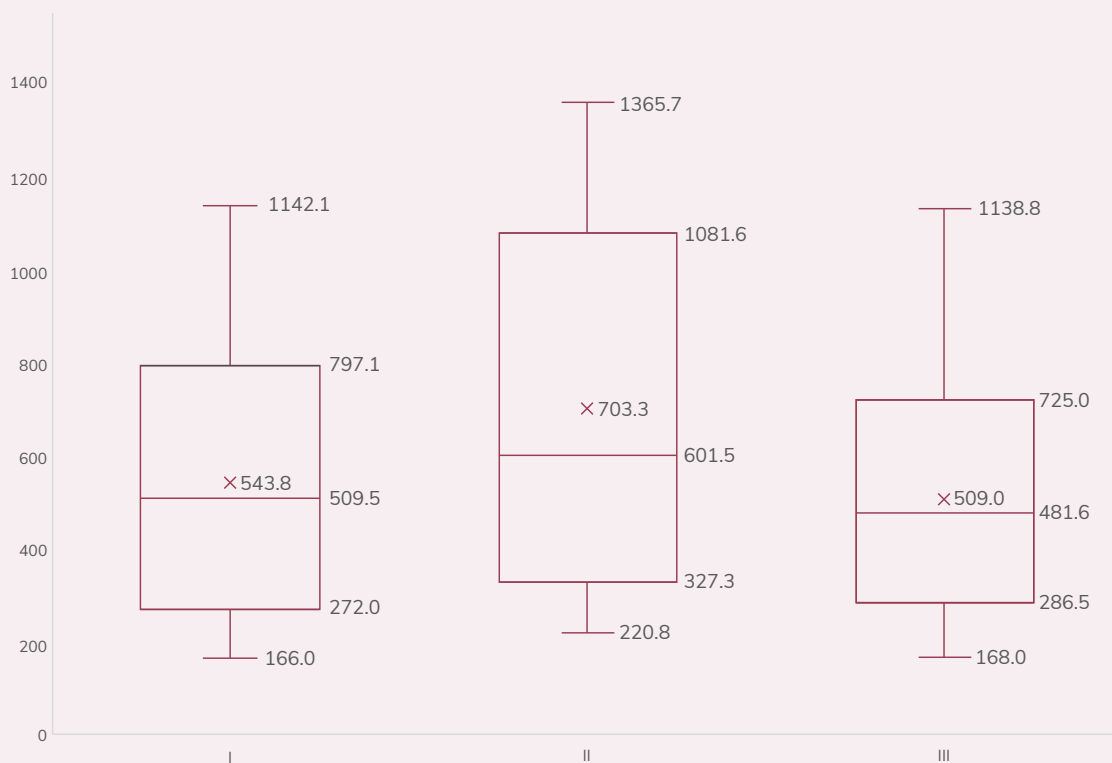
The analysis by economic sectors reveals that, on average, the Primary sector allocates 544 hours/year to comply with bureaucratic procedures, the Secondary sector 703 hours/year, and the Tertiary sector 509 hours/year.

Despite not having the highest average number of hours/year, it should be noted that small businesses in the Primary sector, in 55% of cases (Brazil, Costa Rica, Mexico, Uruguay, Peru, and the Dominican Republic), are the ones that commit the most time to comply with bureaucratic requirements compared to the other two sectors; in 36% of the cases (Argentina, Colombia, Ecuador, and Chile), it is the small company of the Secondary sector; while in Venezuela it is the one of the Tertiary sector.

Thus, it stands out that the Secondary sector averages the highest amount of hours/year in the fulfillment of procedures, when in most cases it is the Primary sector that bears the greatest bureaucratic burden compared to the other two sectors. This is due to the greater dispersion of the results obtained in the Secondary sector, as well as its asymmetric distribution with a positive skew.

Separating the results by country and by economic sector, it was identified that the small company that bears the least bureaucratic burden in the entire region is located in Chile, and

Fig. IV.7 Box plot. IB LAT 2022 results, by economic sector



The box plot allows us to highlight the skewness in the distribution of the IB-LAT results, while also showing their median. Its whiskers indicate the values of the observations that are outside the central 50% of the distribution. This figure shows us this information from the IB-LAT 2022 for the different economic sectors.

its activity belongs to the Primary sector (166 hours/year). In second and third place are the small companies of the Tertiary and Secondary sectors in Brazil (168 hours/year and 221 hours/year, respectively).

Meanwhile, the greatest bureaucratic burden is borne by small businesses in Argentina that operate in the Secondary sector (1,366 hours/year); followed by the Chilean small company, which also operates in the Secondary sector (1,331 hours/year), and in both cases the companies engage in construction activities. In third place is the Dominican Republic (1,142 hours/year), but in this case the small business belongs to the Primary sector.

In most cases, the results between the economic sectors do not diverge significantly from the average of each country (the deviation does not exceed 30% of the simple average), except in three countries: Chile, Ecuador, and Argentina.

In Chile, the results for the Primary and Tertiary sectors are 166 hours/year and 259.4 hours/year, respectively; however, procedures in the Secondary sector require 1,331 hours/year, a figure far removed from that reported by the rest of the sectors. The case of Ecuador is similar, where a company in the Secondary sector must allocate 644.5 hours/year to comply with procedures, while for the Primary and Tertiary sectors the average load is 283 hours/year. Finally, it is worth highlighting the case of Argentina, whose Secondary sector

allocates 1,365 hours/year to complying with procedures, when the burden of the Primary and Tertiary sectors is 509.5 hours/year and 783.6 hours/year, respectively. As previously indicated, these results are from companies involved in the construction activity.

### IV.3.1 Primary sector

Chile is the country where a small company in the Primary sector allocates the least number of hours to comply with the required procedures (166 hours/year), followed by Brazil (244.7 hours/year) and Ecuador (272 hours/year).

On the contrary, the Dominican Republic is the country where a small company in the Primary sector spends the greatest number of hours to comply with all the required procedures, with a total of 1,142 hours/year, followed by Venezuela (842.9 hours/year) and Peru (797 hours/year).

Therefore, a significant dispersion is observed in the Primary sector, considering that in the Dominican Republic a company must spend almost seven times more hours than in Chile to comply with all the required bureaucratic procedures.

Following the previously used cluster analysis methodology (see section IV.1), the results of the Primary sector were analyzed (see Annexes C3 and C4), observing a change in the

number and composition of the groups or aggregates, projecting three (3):

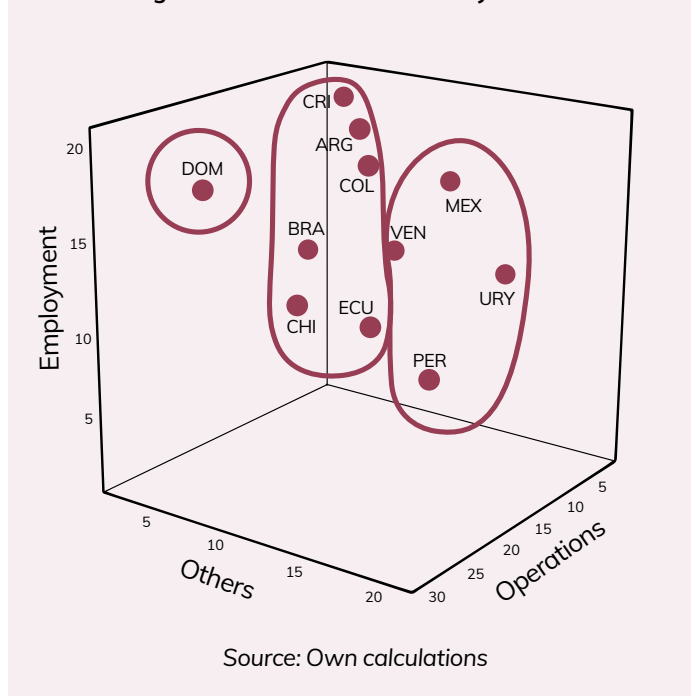
**Group 1.** Includes one (1) country: Dominican Republic. This one-member group presents above-average values in procedures associated with the Administration of Employment and Operations, and below-average in Others.

**Group 2.** Includes six (6) countries: Argentina, Brazil, Colombia, Costa Rica, Chile, and Ecuador. This group of countries is below the general average in procedures associated with the Administration of Operations and Others.

**Group 3.** Includes four (4) countries: Mexico, Peru, Uruguay, and Venezuela. This collective exhibit above-average values in the procedures defined as Others. In those associated with the Administration of Employment and Operations, 50% display values equal or greater than the average, and the remaining 50% are below the average.

This analysis concludes that the efforts geared towards reducing the bureaucratic burden of the Primary sector must be differentiated by type of procedure, in each of the countries of the study.

Fig. IV.8 Cluster results - Primary Sector



## IV.3.2 Secondary sector

Brazil is the country where a small company in the Secondary sector spends the least number of hours to comply with bureaucratic procedures (220.8 hours/year), followed by Costa Rica (307 hours/year) and Uruguay (327.3 hours/year).

Meanwhile, Argentina is the country where small businesses in the Secondary sector allocate the greatest number of hours/year to comply with the required procedures (1,365.7 hours/year), following Chile (1,331 hours/year) and Venezuela (1081.6 hours/year). As already mentioned in the previous section,

companies in the Secondary sector in both Argentina and Chile stand out for having the highest bureaucratic burden, measured in hours/year, and belong to construction activity.

Looking at the extreme values of the series, the Secondary sector in Argentina shows that the cost, measured in hours/year, to attend to bureaucratic burdens is six times higher than in Brazil.

Following the previously used cluster analysis methodology (see section IV.1), the IB-LAT of the Secondary sector (see Annexes C5 and C6), was classified into three (3) groups:

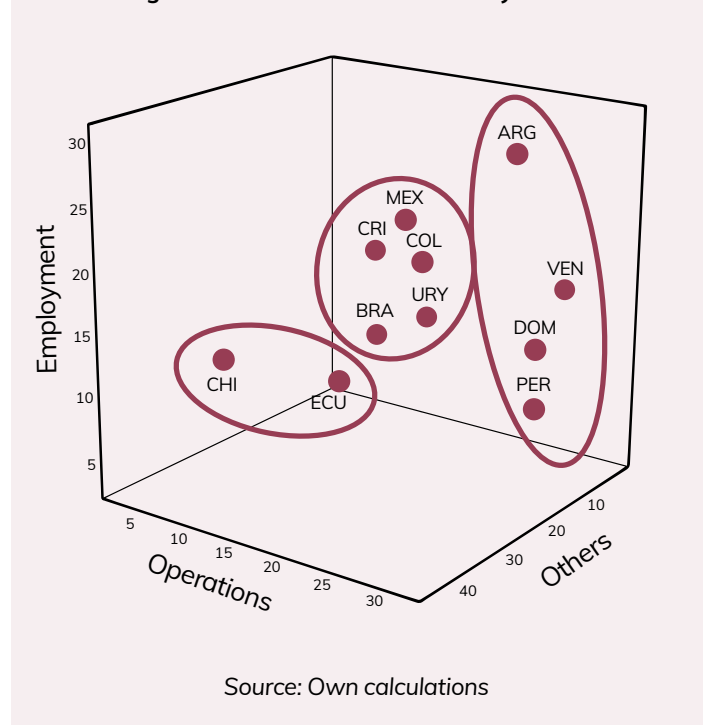
**Group 1.** Includes two (2) countries: Chile and Ecuador. The group displays below-average values in procedures associated with Administration of Employment and Administration of Operations, and above-average values in Others.

**Group 2.** Includes five (5) countries: Brazil, Colombia, Costa Rica, Mexico, and Uruguay. This group shows below-average values in procedures associated with the Administration of Operations and Others, while procedures associated with the Administration of Employment, 3/5 exceed the general average.

**Group 3.** Includes four (4) countries: Argentina, Dominican Republic, Peru, and Venezuela. The members of this group present above-average values in procedures associated with the Administration of Operations, and below-average in Others.

As in the Primary sector, efforts to make progress in reducing the bureaucratic burden in the Secondary sector must consider the specificities of each country, by type of procedure, and even particularities of certain productive activities.

Fig. IV.9 Cluster results - Secondary Sector



### IV.3.3 Tertiary sector

Brazil is the country where a company in the Tertiary sector allocates the lowest number of hours/year to comply with bureaucratic procedures (168 hours/year). It is followed by Chile (259 hours/year) and Costa Rica (287 hours/year).

At the opposite end of the range we find Venezuela, a country in which small companies in the Tertiary sector must allocate the greatest number of hours to comply with all the required procedures, 1,139 hours/year, followed by Argentina (784 hours/year) and the Dominican Republic (725 hours/year).

In Venezuela, a company in the Tertiary sector must spend seven times more hours to comply with bureaucratic procedures compared to a company in the same sector in Brazil.

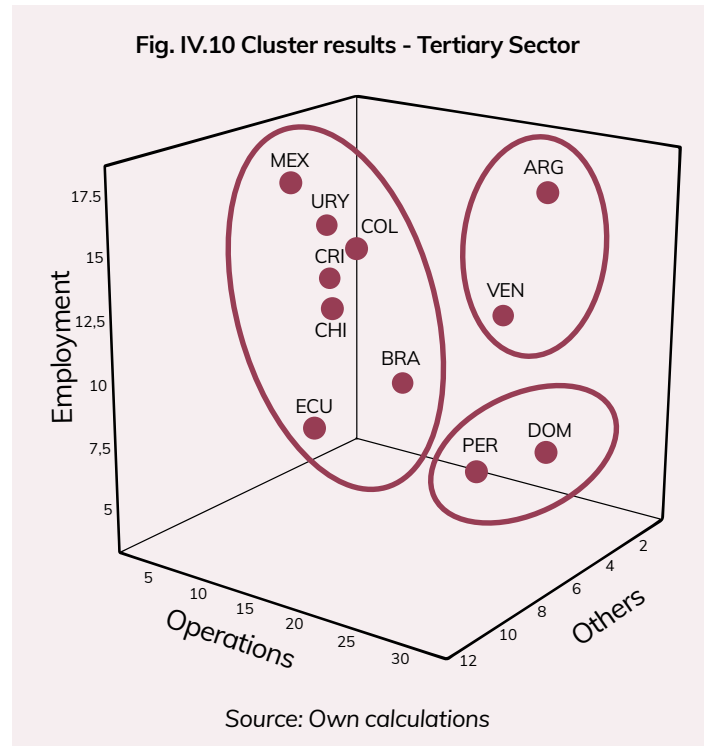
The results from the IB-LAT 2022 cluster analysis of the Tertiary sector (see Annex C7 and C8), yielded three (3) groups:

**Group 1.** Includes two (2) countries: Argentina and Venezuela. The members of this group display above-average values in procedures associated with the Administration of Employment and Operations.

**Group 2.** Includes two (2) countries: Peru and the Dominican Republic. This group exhibits above-average values in Administration of Operations and below-average in Administration of Employment and Others.

**Group 3.** Includes seven (7) countries: Brazil, Colombia, Costa Rica, Chile, Ecuador, Mexico, Peru, and Uruguay. These countries are characterized by maintaining the general average in Administration of Operations procedures. Regard-

ing Administration of Employment procedures and Others, they are above the average with 4/7 and 3/7, respectively.



Although the result of the cluster analysis by economic sector yields three groups, its members are different according to the sector considered. In the Tertiary sector, the difference by type of procedure between countries is evident.

# V. Conclusions and Final Thoughts



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## V.1 Results summary

The IB-LAT 2022 illustrates how the small companies that carry out the most representative productive activities in the region allocate an average of 548 hours/year to comply with legal requirements of bureaucratic procedures in their countries. To put these figures into perspective, it is worth saying that according to the OECD, between 1,363 and 2,255 hours are worked per year, therefore, the bureaucratic-administrative burden represents in these countries between 25% and 40% of the annual working time of an employee.

It was discovered that the more numerous, complex, frequent, and changing the processes are, the more companies tend to outsource them to specialized agents. As a result, in many cases informal, opaque, and even non-legal channels emerge, which feed perverse incentives and networks of corruption, weakening trust in the rule of law and social cohesion.

The average time devoted to bureaucratic compliance is distributed as follows: 54% for procedures related to the Administration of Operations (298 hours/year); 30% (165 hours/year) for procedures related to the Administration of Employment,

and the remaining 16% (85 hours/year) for Other Bureaucratic Procedures.

It is worth highlighting the important dispersion that emerges from the IB-LAT results: considering average time by country, it ranges from 180 hours/year in Brazil to 1,062 hours/year in Venezuela, which represents a difference of almost six times. This dispersion is even greater when the extreme values of the range for Other procedures by sector are considered: eight hours/year in Peru compared to 1,119 hours/year in Chile, a difference of almost 15 times, with both companies belonging to the Secondary sector.

Considering the results by productive sector, we find that in 6 of 11 countries (Brazil, Costa Rica, Mexico, Uruguay, Peru, and the Dominican Republic) the most affected is the Primary sector, in 4 of 11 countries (Argentina, Colombia, Ecuador, and Chile) is the Secondary sector, and in 1 of 11 countries (Venezuela) is the Tertiary sector.

However, the average of the results by productive sector is as follows: Primary, 544 hours/year; Secondary, 703.3 hours/year; and Tertiary, 509 hours/year.

A cluster analysis methodology allowed the countries to be

organized into four groups, considering the combined similarities in terms of time involved in complying with the different bureaucratic procedures. When organizing the results by economic sectors, the number of groups is reduced to three, and their members are modified according to the sector being considered. This emphasizes the need to move forward with careful and targeted efforts in each of the cases.

## V.2 Final thoughts

While theory clearly illustrates the relevance of institutionality and good governance to favor an integral and sustainable intergenerational development, the empirical conclusion of this report demands us to promptly attend to the rugged structure of bureaucratic procedures required for productive activities, in particular those related to small business.

There are successful cases in the region where policies of simplification and digitalization of procedures have been imple-

mented. However, there are instances in which such efforts have slowed down and even regressed. In many cases, the incorporation of new technologies has led to the digitization of processes, however, weaknesses of platforms, problems with connectivity and lack of knowledge of these new media has not allowed citizens to take full advantage of these opportunities.

The study reveals that procedures common to all companies and productive activities show a lower demand of time to be fulfilled. On the contrary, those specific to certain productive activities can become high consumers of time and effort. Particular attention should be paid to certain procedures that, although could be managed quickly, are slow to process and in some cases essential for starting another process or even prevent productive activity until they are completed.

It is worth noting that although it is vital to make the public bureaucracy more efficient and transparent, it is crucial to identify those undue, unnecessary, and intrusive demands that only favor excessive control. Identifying and eliminating them is a priority to favor a prosperous, free, and responsible society.

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The image features a stylized map of Latin America in white, set against a background of concentric, overlapping maroon and dark red arcs. The text 'IBLAT 2022' is printed in a bold, white, sans-serif font over the map. 'IBLAT' is on the top line and '2022' is on the bottom line, both centered horizontally.

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# VII. Appendices

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## Annex A. IB-LAT results - Summary table

	ARGENTINA					BRAZIL				
	I	II	III	Simple Avg.	Weighted Avg.	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	509.50	1365.70	783.60	886.20	899.90	244.70	220.80	168.00	211.17	180.23
<b>ADMINISTRATION OF EMPLOYMENT</b>	334.50	668.60	317.80	440.30	411.30	130.10	85.30	61.80	92.40	69.64
Salaries / taxes / contributions	171.00	425.80	216.90	271.20	265.40	87.00	62.90	30.60	60.17	38.75
Hiring and firing	15.50	135.90	27.00	59.50	53.90	17.90	15.20	12.00	15.03	12.83
Work reports	148.00	106.90	74.00	109.60	92.10	25.20	7.20	19.20	17.20	18.06
<b>ADMINISTRATION OF OPERATIONS</b>	135.00	602.90	446.10	394.70	447.00	112.90	93.10	104.50	103.50	103.61
Taxes	122.00	547.60	420.40	363.30	415.20	107.90	77.60	89.90	91.80	89.56
Waste management	0.00	11.40	0.00	3.80	3.00					
Vehicles	10.50	21.70	14.70	15.60	16.00	0.20	1.10	0.20	0.50	0.32
Health and Safety at Work	2.50	22.20	11.10	11.90	12.90	4.80	14.40	14.40	11.20	13.73
<b>OTHER BUREAUCRATIC PROCEDURES</b>	40.00	94.20	19.60	51.30	41.60	1.70	42.40	1.70	15.27	7.00
Legal	40.00	94.20	19.60	51.30	41.60					
Certifications / authorizations										
Inspections / audits										
Specific / productive activity										

	CHILE					COLOMBIA				
	I	II	III	Simple Avg.	Weighted Avg.	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	166,00	1331,00	259,40	585,47	470,41	396,90	521,00	481,63	466,51	476,85
<b>ADMINISTRATION OF EMPLOYMENT</b>	81,50	124,43	112,06	106,00	111,05	266,88	213,75	211,25	230,63	219,49
Salaries / taxes / contributions	66,00	93,00	105,00	88,00	98,00	231,25	179,00	189,50	199,92	193,46
Hiring and firing	8,75	22,43	3,47	11,55	7,98	33,13	32,25	19,25	28,21	23,53
Work reports	6,75	9,00	3,59	6,45	5,06	2,50	2,50	2,50	2,50	2,50
<b>ADMINISTRATION OF OPERATIONS</b>	84,50	87,67	106,22	92,80	99,82	91,40	247,50	220,75	186,55	207,46
Taxes	64,00	65,02	90,48	73,17	82,13	42,40	155,25	155,75	117,80	139,79
Waste management						0,00	0,00	3,00	1,00	2,04
Vehicles	7,50	6,00	4,75	6,08	5,31	8,25	23,25	0,00	10,50	5,34
Health and Safety at Work	18,00	20,40	13,24	17,21	15,25	40,75	69,00	62,00	57,25	60,29
<b>OTHER BUREAUCRATIC PROCEDURES</b>	0,00	1119,00	41,13	386,71	259,56	38,63	59,75	49,63	49,33	49,91
Legal						38,63	59,75	49,63	49,33	49,91
Certifications / authorizations										
Inspections / audits										
Specific / productive activity	0,00	1119,00	41,13	386,71	259,56					

	COSTA RICA					DOMINICAN REPUBLIC				
	I	II	III	Simple Avg.	Weighted Avg.	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	408,00	307,00	286,50	333,83	297,03	1142,11	868,81	724,99	911,97	744,96
<b>ADMINISTRATION OF EMPLOYMENT</b>	364,00	220,00	159,00	247,67	182,40	282,87	100,55	34,54	139,32	69,57
Salaries / taxes / contributions	230,00	134,00	115,00	159,67	124,88	281,58	96,56	31,45	136,53	66,57
Hiring and firing	60,00	60,00	31,00	50,33	38,66	0,85	3,48	1,87	2,07	2,14
Work reports	74,00	26,00	13,00	37,67	18,86	0,44	0,51	1,22	0,72	0,86
<b>ADMINISTRATION OF OPERATIONS</b>	40,00	73,00	91,50	68,17	84,94	838,11	698,01	677,56	737,89	645,75
Taxes	33,00	63,00	78,00	58,00	72,52	837,79	697,63	677,06	737,49	645,34
Waste management	0,00	3,00	10,50	4,50	8,37	0,32	0,38	0,50	0,40	0,41
Vehicles	7,00	7,00	0,00	4,67	1,85					
Health and Safety at Work	0,00	0,00	3,00	1,00	2,21					
<b>OTHER BUREAUCRATIC PROCEDURES</b>	5,00	14,00	36,00	18,33	29,73	21,13	70,25	12,89	34,76	29,64
Legal	1,00	0,00	12,00	4,33	8,88	20,00	13,50	12,86	15,45	0,00
Certifications / authorizations						1,13	56,75	0,03	19,30	17,01
Inspections / audits										
Specific / productive activity	4,00	14,00	24,00	14,00	20,85					

	ECUADOR					MEXICO				
	I	II	III	Simple Avg.	Weighted Avg.	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	272,00	644,48	294,52	403,66	395,05	619,86	467,36	540,86	542,69	506,31
<b>ADMINISTRATION OF EMPLOYMENT</b>	46,50	46,86	33,84	42,40	39,42	297,86	297,86	297,86	297,86	297,86
Salaries / taxes / contributions	18,00	18,00	18,00	18,00	18,00	103,86	103,86	103,86	103,86	103,86
Hiring and firing	26,00	28,61	10,14	21,58	17,77	194,00	194,00	194,00	194,00	194,00
Work reports	2,50	0,25	5,70	2,82	3,65					0,00
<b>ADMINISTRATION OF OPERATIONS</b>	152,00	187,56	169,25	169,60	172,32	146,00	153,50	146,00	148,50	149,99
Taxes	152,00	153,56	152,00	152,52	152,46	130,75	138,25	130,75	133,25	134,74
Waste management										
Vehicles	0,00	13,00	6,09	6,36	7,31	12,25	12,25	12,25	12,25	12,25
Health and Safety at Work	0,00	21,00	11,16	10,72	12,55	3,00	3,00	3,00	3,00	3,00
<b>OTHER BUREAUCRATIC PROCEDURES</b>	73,50	410,05	91,43	191,66	183,31	176,00	16,00	97,00	96,33	58,46
Legal										0,00
Certifications / authorizations	0,00	2,44	1,87	1,44	1,79	168,00	8,00	4,00	60,00	15,50
Inspections / audits	1,50	76,31	1,50	26,44	23,65					
Specific / productive activity	72,00	331,30	88,05	163,78	157,88	8,00	8,00	93,00	36,33	42,96

	PERU					URUGUAY				
	I	II	III	Simple Avg.	Weighted Avg.	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	797,10	601,53	509,90	636,18	591,00	582,71	327,27	410,72	440,23	406,20
<b>ADMINISTRATION OF EMPLOYMENT</b>	19,58	27,89	23,69	23,72	23,42	139,62	110,18	224,03	157,94	194,09
Salaries / taxes / contributions	13,79	21,67	16,75	17,40	16,86	102,66	85,43	147,13	111,74	131,00
Hiring and firing	3,92	5,17	5,94	5,01	5,35	16,96	9,27	39,89	22,04	31,82
Work reports	1,88	1,06	1,00	1,31	1,21	20,00	15,48	37,01	24,16	31,27
<b>ADMINISTRATION OF OPERATIONS</b>	440,29	565,97	452,35	486,21	467,86	132,09	200,22	147,87	160,06	157,56
Taxes	248,54	330,14	255,35	278,01	265,82	129,84	178,76	127,72	145,44	138,48
Waste management	14,25	17,67	15,00	15,64	15,26	0,00	1,87	14,95	5,61	11,12
Vehicles	61,50	58,17	92,00	70,56	79,51	2,25	0,34	4,33	2,31	3,35
Health and Safety at Work	116,00	160,00	90,00	122,00	107,28	0,00	19,25	0,86	6,70	4,62
<b>OTHER BUREAUCRATIC PROCEDURES</b>	337,23	7,67	33,86	126,25	99,72	311,00	16,87	38,83	122,23	54,54
Legal	5,00	7,67	15,00	9,22	11,51	311,00	16,87	38,83	122,23	54,54
Certifications / authorizations										
Inspections / audits										
Specific / productive activity	332,23		18,86	117,03	88,21					

	VENEZUELA				
	I	II	III	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	842,85	1081,64	1138,76	1021,08	1061,83
<b>ADMINISTRATION OF EMPLOYMENT</b>	196,10	196,10	196,10	196,10	196,10
Salaries / taxes / contributions	71,50	71,50	71,50	71,50	71,50
Hiring and firing	38,10	38,10	38,10	38,10	38,10
Work reports	86,50	86,50	86,50	86,50	86,50
<b>ADMINISTRATION OF OPERATIONS</b>	459,75	830,21	830,21	706,72	740,40
Taxes	178,25	535,71	535,71	416,56	449,05
Waste management					
Vehicles					
Health and Safety at Work	281,50	294,50	294,50	290,17	291,35
<b>OTHER BUREAUCRATIC PROCEDURES</b>	187,00	55,33	112,45	118,26	125,33
Legal	14,00	14,00	14,00	14,00	14,00
Certifications / authorizations	0,00	13,08	13,08	13,08	13,08
Inspections / audits	18,25	24,25	24,25	22,25	22,80
Specific / productive activity	154,75	4,00	61,12	73,29	78,63

## Annex B. Details of IB-LAT procedures by country

### Annex B.1 Details of IB-LAT procedures - Argentina

ARGENTINA	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.		
TOTAL					509.50	1365.66	783.56	886.24	899.89		
Sub-total					334.50	668.59	317.85	440.31	411.29		
Administration of Employment	Salaries / taxes / contributions	Settle salaries including SAC	Ministry of Labor, Employment and Social Security	12	D	72.00	182.05	81.12	111.72	106.22	
		Fill out paychecks	Ministry of Labor, Employment and Social Security	12	ND	36.00	81.84	42.25	53.36	51.75	
		Employee and employer contributions AFIP 931	Federal Administration of Public Income (AFIP)	12	D	24.00	84.31	26.87	45.06	41.45	
		Settlement of vacations, advances	Ministry of Labor, Employment and Social Security	12	D	24.00	38.31	48.00	36.77	42.39	
		Preparation of Payment Plans	"Federal Administration of Public Income (AFIP)/ Provincial Tax Administration (API)"	1/3/4/2 by sector and activity	D	3.00	12.77	3.76	6.51	6.01	
	Hiring / Firing	Procedures associated with the union, if applicable	Ministry of Labor, Employment and Social Security	12	D	12.00	26.48	14.87	17.78	17.52	
		Request for personal data	Ministry of Labor, Employment and Social Security	1	D	1.00	8.19	2.20	3.80	3.60	
		Signature of employment contract	Ministry of Labor, Employment and Social Security	1	D	0.50	4.61	1.48	2.20	2.17	
		Social security record	Ministry of Labor, Employment and Social Security	1	D	1.00	4.28	1.00	2.09	1.85	
		Pre-employment health screening	Ministry of Labor, Employment and Social Security	1	ND	3.00	11.99	7.04	7.34	7.81	
		Registration of personnel in AFIP	Federal Administration of Public Income (AFIP)	1	D	1.00	2.37	0.88	1.42	1.28	
		ART hiring	Federal Administration of Public Income (AFIP)	1	D	1.00	1.30	2.24	1.51	1.84	
		Life Insurance enrollment	Federal Administration of Public Income (AFIP)	1	D	1.00	7.86	1.48	3.45	3.08	
		Procedure in Social Work	Corresponding Union	1	D		11.44	0.00	5.72	2.98	
		Union Membership	Corresponding Union	1	D	0.00	15.35	0.00	5.12	3.99	
		Salary account opening	Corresponding Bank	1	D	1.00	0.88	1.48	1.12	1.26	
		Notification of Termination	Ministry of Labor, Employment and Social Security	1	D	1.00	1.75	2.96	1.90	2.39	
		Termination of employment contract	Ministry of Labor, Employment and Social Security	1	D	1.00	1.89	1.76	1.55	1.70	
		Final Payment / Final Settlement	Ministry of Labor, Employment and Social Security	1	D	1.50	22.30	1.72	8.50	7.05	
		Withdrawal from social security	Federal Administration of Public Income (AFIP)	1	D	0.00	1.19	1.00	0.73	0.92	
	Remove the worker from AFIP	Federal Administration of Public Income (AFIP)	1	D	0.50	40.52	1.76	14.26	11.69		
	Registration in Senasa	National Food Safety and Quality Service (SENASA)	1	D	2.00		0.00	1.00	0.26		
	Work Re-ports	Work Hours Record	Ministry of Labor, Employment and Social Security	12	ND	48.00	41.89	16.56	35.48	27.19	
		Scheduling of working hours	Ministry of Labor, Employment and Social Security	12	D	36.00	27.58	17.74	27.11	22.65	
		Employee sick leave report	Ministry of Labor, Employment and Social Security	12	D	24.00	15.06	12.00	17.02	14.34	
		Inform ART in case of accident or illness	Ministry of Labor, Employment and Social Security	12	D	36.00	15.58	21.12	24.23	21.59	
		Annual medical exam	Ministry of Labor, Employment and Social Security	1	ND	4.00	6.81	6.56	5.79	6.30	
	Sub-total					135.00	602.91	446.11	394.68	446.98	
	Administration of Operations	Taxes	Annual accounting presentation	Federal Administration of Public Income (AFIP)	1	D	3.00	11.05	2.20	5.42	4.61
			Accountability- reporting	Federal Administration of Public Income (AFIP)	1/12 by sector and activity	D	3.00	45.69	3.15	17.28	14.21
			Procedures associated with VAT	Federal Administration of Public Income (AFIP)	12	D	48.00	148.93	198.74	131.89	166.42
			Procedures associated with property tax	Federal Administration of Public Income (AFIP)	1	D	2.00	47.96	37.35	29.10	35.57
			Procedures associated with income tax	Federal Administration of Public Income (AFIP)	1	D	24.00	82.98	48.80	51.93	54.51
			Procedures Import / export duties if applicable	Provincial Tax Administration (API)	12	D		1.48		1.48	0.39
			Procedures associated with Gross Income Tax	Provincial Tax Administration (API)	12	D	24.00	118.92	57.63	66.85	69.26
			Procedures associated with the DREI	Municipality of Rosario	12	D	6.00	66.01	48.50	40.17	47.60
			Real estate tax payment	Provincial Tax Administration (API)	12	D	6.00	10.51	12.00	9.50	10.84
			Real Estate Rental Contracts payment	Provincial Tax Administration (API)	12	D		3.58		3.58	0.93
		TGI payment	Municipality of Rosario	12	D	6.00	10.51	12.00	9.50	10.84	
		Waste Management	Waste production notification	"Provincial Ministry of the Environment and Municipal Environment Secretariat"	12	ND		10.90		10.90	2.84
Hiring and payment of the waste collection company			"Provincial Ministry of the Environment and Municipal Environment Secretariat"	1/0,25 by sector and activity	ND		0.45		0.45	0.12	
Vehicles		Vehicle insurance	National Road Safety Agency (ANSV)	1/3/6 by sector and activity	D	1.00	4.73	3.68	3.14	3.61	
		Vehicle inspection	National Road Safety Agency (ANSV)	1/3/6 by sector and activity	ND	2.00	2.61	2.24	2.28	2.31	
		Vehicle authorization	National Road Safety Agency (ANSV)	1/3/6 by sector and activity	D	2.00	3.06	1.48	2.18	1.96	
		New vehicle registration	National Road Safety Agency (ANSV)	1	D	3.00	3.30	1.76	2.69	2.32	
		Dismissal of old vehicle	National Road Safety Agency (ANSV)	1	D	1.00	2.21	2.52	1.91	2.24	
Automotive Patent Tax Payment		Municipality of Rosario	3/4/6 by sector and activity	D	1.50	5.77	3.00	3.42	3.53		
Health / Safety at Work		Hire a safety and hygiene company	"Ministry of Labor, Employment and Social Security, Food Institute and Santa Fe Food Safety Agency (ASSAL)"	0,25/1 by sector and activity	D		3.68	1.48	2.58	1.86	
	Workplace Safety Course for Employers	Ministry of Labor, Employment and Social Security	1	D	2.00	5.68	3.68	3.79	3.98		
	Mandatory employee health checks to renew certificate	Ministry of Labor, Employment and Social Security	1/3 by sector and activity	D		1.77	2.96	2.36	2.27		
	Assessment and description of risk related to the workplace	Ministry of Labor, Employment and Social Security	1/2 by sector and activity	D	0.50	3.19	2.96	2.22	2.70		
Regular fire safety training	Ministry of Labor, Employment and Social Security	1/2 by sector and activity	D		7.90		7.90	2.06			
Sub-total					40.00	94.15	19.60	51.25	41.63		
Other Bureaucratic Procedures	Legal changes	Changes in the tax code	Federal Administration of Public Income (AFIP)	1/2/6 by sector and activity	D	24.00	37.28	10.08	23.79	18.95	
		Changes in the labor code	Provincial Ministry of Labor	1/2/3 by sector and activity	D	8.00	18.89	4.00	10.30	8.39	
		Changes to the commercial code	Federal Administration of Public Income (AFIP)	1/2/3 by sector and activity	D	8.00	16.16	5.52	9.89	8.61	
	Certifications/Authorizations								0.00	0.00	
									0.00	0.00	
	Specific to productive activity	Product accreditation in food industry	Food Safety Office, Municipality of Santa Fe.	unspecified	D		3.63		3.63	0.95	
		Building Permit according to Urban Regulations	Planning and Building office, Municipality of Rosario	unspecified	D		8.95		8.95	2.33	
		Building permit authorization	Planning and Building office, Municipality of Rosario	unspecified	D		0.30		0.30	0.08	
Building completion certificate	Planning and Building office, Municipality of Rosario	unspecified	ND		8.95		8.95	2.33			

Sector weighting: I=12.9%; II=26%; III=61.10%

Annex B.2 Details of IB-LAT procedures - Brazil

BRAZIL	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.		
TOTAL					244.70	220.80	168.00	211.17	180.23		
Sub-total					130.10	85.30	61.80	92.40	69.64		
Administration of Employment	Salaries / taxes / contributions	Collection and transfer of charges to Social Security - INSS	National Institute of Social Security - INSS	12.0	D	7.20	7.20	7.20	7.20	7.20	
		Collection and transfer of Withheld Income Tax - IRRF	Federal Revenue - RFB	12.0	D	13.20	7.20	7.20	9.20	7.62	
		"Collection and transfer of charges to the Dismissal Compensation Fund - FGTS"	Board of Trustees of the Severance Indemnity Fund - CCFGTS	12.0	D	7.20	7.20	7.20	7.20	7.20	
		Payment of 1/3 of vacation	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	0.70	0.60	0.60	0.63	0.61	
		Payment of the 13th salary	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.10	1.10	1.20	1.13	1.18	
		Overtime payment (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	12.0	D	26.40	0.00	0.00	8.80	1.85	
		Night surcharge payment (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	12.0	D	0.00	0.00	0.00	0.00	0.00	
		Payment for additional medical care (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	12.0	D	8.40	13.20	0.00	7.20	2.30	
		Payment of the benefit for risk at work (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	12.0	D	8.40	13.20	0.00	7.20	2.30	
	Payment of the transport voucher (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	12.0	D	14.40	13.20	7.20	11.60	8.48		
	Hiring / Firing	Admission exam	Special Secretariat for Social Security and Labor - SEPREVT	1.0	PD	2.1	2.00	2.00	2.03	2.01	
		Registration of employment contract - CTPS	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.50	1.50	1.10	1.37	1.18	
		Preparation of the employment contract	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.10	2.00	1.10	1.40	1.22	
		Filling out the employee registration form	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.60	1.50	0.60	1.23	0.79	
		Sending the eSocial for the worker	Special Secretariat for Social Security and Labor - SEPREVT and Federal Revenue - RFB	1.0	D	1.10	0.60	0.60	0.77	0.64	
		Completion of training or course (if applicable)	Special Secretariat for Social Security and Labor - SEPREVT	According to NRs	PD	3.10	0.00	0.00	1.03	0.22	
		Delivery of Personal Protective Equipment - PPE (if applicable according to the NR)	Special Secretariat for Social Security and Labor - SEPREVT	According to NRs	ND	0.60	0.60	0.00	0.40	0.12	
		"Opening / registration of the worker's salary account"	National Monetary Council - CMN	1.0	D	1.10	1.10	1.60	1.27	1.50	
		Proportional indemnification (if applicable)	Board of Trustees of the Severance Indemnity Fund - CCFGTS	1.0	D	0.60	1.10	0.60	0.77	0.67	
		Proportional vacation pay	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.20	1.10	1.10	1.13	1.11	
		Payment of the 13th proportional salary	Special Secretariat for Social Security and Labor - SEPREVT	1.0	D	1.20	1.10	0.60	0.97	0.71	
		"40% fine related to the Dismissal Compensation Fund - FGTS (if applicable)"	Board of Trustees of the Severance Indemnity Fund - CCFGTS	1.0	D	0.60	0.60	0.70	0.63	0.68	
		Dismissal exam	Special Secretariat for Social Security and Labor - SEPREVT	1.0	PD	2.10	2.00	2.00	2.03	2.01	
		Work Reports	Provision of information to the Digital Accounting System for Tax, Social Security and Labor Obligations - eSocial	Special Secretariat for Social Security and Labor - SEPREVT and Federal Revenue - RFB	12.0	D	25.20	7.20	19.20	17.20	18.06
		Sub-total					112.90	93.10	104.50	103.50	103.61
	Administration of Operations	Taxes	"Simples Nacional Collection Document Generator Program - PGDAS"	Federal Revenue - RFB	12.0	D	0.0	13.2	14.4	9.2	13.2
			"Declaration of Socioeconomic and Fiscal Information - DEFIS"	Federal Revenue - RFB	1.0	D	0.0	0.6	1.1	0.6	1.0
Corporation Tax - IRPJ			Federal Revenue - RFB	4.0	D	10.4	2.1	3.1	5.2	3.5	
Social Contribution on Net Income - CSLL			Federal Revenue - RFB	12/4/1.	D	8.4	0.6	0.2	3.1	0.8	
"Social Integration Program and Employee Asset Training Program - PIS / PASEP"			Federal Revenue - RFB	12.0	D	8.4	7.2	2.4	6.0	3.4	
Contribution to the Financing of Social Security - COFINS			Federal Revenue - RFB	12.0	D	8.4	7.2	2.4	6.0	3.4	
Tax on Industrialized Products - IPI			Federal Revenue - RFB	12.0	D	14.4	0.0	0.0	4.8	1.0	
Export Tax			Federal Revenue - RFB	24.0	D	14.4	0.0	0.0	4.8	1.0	
"Tax on transactions related to the movement of goods and the provision of transport services and interstate and inter-municipal communications - ICMS"			Municipal Secretariat for Finance	12.0	PD	26.4	0.0	0.0	8.8	1.8	
Tax on Services - ISS			Municipal Secretariat for Finance	12.0	D	8.4	25.2	8.4	14.0	10.6	
Tax on Urban Property and Land Property - IPTU			Municipal Secretariat for Finance	1.0	D	8.4	13.2	8.4	10.0	9.0	
Water and sewer fee			Local Sanitation Company	12.0	D	0.3	1.1	0.3	0.6	0.4	
Lighting fee			Local Energy Concessionaire	12.0	D	0.0	7.2	49.2	18.8	40.3	
Vehicles		Motor Vehicle Property Tax - IPVA and licenses	Municipal Secretariat for Finance	1.0	D	0.20	1.10	0.20	0.50	0.32	
Health / Safety at Work		Occupational Accident Insurance - SAT / RAT	National Institute of Social Security - INSS	12.0	D	2.4	7.2	7.2	5.6	6.9	
		Accident Prevention Factor - FAP	National Institute of Social Security - INSS	12.0	D	2.4	7.2	7.2	5.6	6.9	
Sub-total						1.7	42.4	1.7	15.3	7.0	
Other Bureaucratic Procedures	Others	18. Certificado Digital e-CNPJ	ICP-Brasil	1.0	D	1.7	3.4	1.7	2.3	1.9	
		19. Registro no conselho de classe	Conselho Regional de Engenharia e Agronomia (CREA)	1.0	D	0.0	2.2	0.0	0.7	0.3	
		20. Atestado de responsabilidade técnica elétrica	Conselho Regional de Engenharia e Agronomia (CREA)	Por obra	D	0.0	2	0.0	0.8	0.3	
		21. Atestado de responsabilidade técnica hidráulica	Conselho Regional de Engenharia e Agronomia (CREA)	Por obra	D	0.0	2.4	0.0	0.8	0.3	
		22. Atestado de responsabilidade técnica mecânica	Conselho Regional de Engenharia e Agronomia (CREA)	Por obra	D	0.0	2	0.0	0.8	0.3	
		23. Atestado de responsabilidade técnica para AVCB	Conselho Regional de Engenharia e Agronomia (CREA)	Por obra	D	0.0	2.4	0.0	0.8	0.3	
		24. Atestado de responsabilidade técnica estrutural	Conselho Regional de Engenharia e Agronomia (CREA)	Por obra	D	0.0	2	0.0	0.8	0.3	
		25. Protocolar pré-projeto arquitetônico na Prefeitura	Prefeitura municipal	Por obra	D	0.0	12.2	0.0	4.1	1.6	
26. Emissão de baixa de construção e "Habite-se"	Prefeitura municipal	Por obra	D	0.0	0	0.0	0.1	0.0			
27. Protocolar pré-projeto no Corpo de Bombeiros	Corpo de Bombeiros	Por obra	D	0.0	12.2	0.0	4.1	1.6			
		Corpo de Bombeiros	Por obra	D	0.0	0	0.0	0.1	0.0		

Sector weighting: I=8.1 %; II=22.2 %; III=69.7 %

## Annex B.3 Details of IB-LAT procedures - Colombia

COLOMBIA		Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.		
	<b>TOTAL</b>					<b>396.9</b>	<b>521</b>	<b>481.63</b>	<b>466.5</b>	<b>476.9</b>		
	Subtotal					266.875	213.75	211.25	230.6	219.5		
Administration of Employment	Salaries / taxes / contributions	Payroll calculation and payment	Ministry of Labor	12	Mix	60	48	51	53.0	51.7		
		Electronic payroll	DIAN	12	D	54	48	54	52.0	52.9		
		"Parafiscal payments, social benefits and social security"	Ministry of Labor	12	Mix	12	12	12	12.0	12.0		
		Service premiums	Ministry of Labor	2	D	4	5	5.25	4.8	5.0		
		Payment of non-labor wages (contract for works or services)	Ministry of Labor	12	Mix	73.5	45	39	52.5	44.9		
		Provisions and supplies	Ministry of Labor	3	ND	2.75	6	0.5	3.1	1.8		
		Vacation time processing	Ministry of Labor	4	D	1	1	2	1.3	1.7		
		Vacation log book	Ministry of Labor	4	D	1	1	1.5	1.2	1.3		
		Calculation and deposit of benefits (cesantías) (February 14)	Ministry of Labor	1	D	1	1	3	1.7	2.4		
	Processing of disabilities with the EPS	"Health Provider Entities (EPS) and Occupational Risk Administrator (ARL)"	4	Mix	22	12	21.25	18.4	19.7			
	Hiring / Firing	Entrance exams	Ministry of health and social protection	1	Mix	1.5	2.5	1.75	1.9	1.9		
		Signature of employment contract	Ministry of Labor	1	D	1	2.5	0.5	1.3	0.9		
		Social benefits enrollment	Ministry of Labor	1	Mix	22.25	18.25	7.25	15.9	11.3		
		Firing process (warnings, follow-ups)	Ministry of Labor	1	Mix	0.875	2.25	2.25	1.8	2.1		
		Termination letter	Ministry of Labor	1	Mix	0.25	1.25	0.625	0.7	0.7		
		Layoff / labor disputes	Ministry of Labor	1	D	0.25	1	1	0.8	0.9		
		Job Transition	Administrative Department of the Public Function	0	D	1.5	0.25	0.25	0.7	0.4		
		Settlement	Ministry of Labor	1	Mix	3.25	2.5	4.375	3.4	3.9		
		Final payment	Ministry of Labor	1	Mix	0.75	0.25	0.25	0.4	0.3		
	Work Reports	Retirement Medical Exam	Ministry of health and social protection	1	D	1.5	1.5	1	1.3	1.2		
		Layoff report	Ministry of health and social protection	1	D	0.25	0.25	0.25	0.3	0.3		
		New hire report	Ministry of Labor	1	Mixta	0.25	0.25	0.25	0.3	0.3		
		Disability report	Ministry of Labor	4	D	1	1	1	1.0	1.0		
	Administration of Operations	Taxes	Vacation report	Ministry of Labor	4	D	1	1	1	1.0	1.0	
			Subtotal					91.4	247.5	220.75	186.6	207.5
			Collection of documents for commercial registration	Chambers of Commerce; Superintendence of industry and commerce	1	D	1	1	3	1.7	2.4	
			Commercial registration renewal	Chambers of Commerce; Superintendence of industry and commerce	1	D	0.25	1	0.625	0.6	0.6	
Filing of financial statements with the Chamber of Commerce			Chambers of Commerce; Superintendence of industry and commerce	1	D	0.25	0.25	0.625	0.4	0.5		
Submission of exogenous national tax information			DIAN	1	D	16	24	17.125	19.0	18.2		
Submission of municipal tax exogenous information			DIAN	1	D	8	32	15.625	18.5	17.5		
Waste Management		Payment of taxes	DIAN	1	D	13	93	94	66.7	82.5		
		Issuance of electronic support document for those not required to invoice	DIAN	12	D	3.9	4	24.75	10.9	18.1		
Vehicles		Waste management	Ministry of Environment	12	ND	0	0	3	1.0	2.0		
		Vehicle insurance	Ministry of Transport	1	D	2	2	0	1.3	0.6		
		Technical-mechanical inspection	Ministry of Transport	1	ND	5.25	8.25	0	4.5	2.2		
		Vehicle tax payment	Ministry of Transport	1	D	1	1	0	0.7	0.3		
Health / Safety at Work	Driver service payment	Ministry of Transport	12	D	0	12	0	4.0	2.2			
	OSHMS certification course	Ministry of Labor	0.33	D	15.75	9	16.5	13.8	15.0			
	OSHMS implementation	Ministry of Labor	12	D	15	36	35.5	28.8	32.7			
Other Bureaucratic Procedures	Statistical & Legal	OSHMS adaptations and logistics	Ministry of Labor	12	D	10	24	10	14.7	12.5		
		Subtotal					38.625	59.75	49.625	49.3	49.9	
		Technical report on human safety and fire protection	Ministry of Interior	1	Mix	2.125	4.25	4.25	3.5	4.0		
		Regulatory Update		12		6	24	21.5	17.2	19.8		
		Electronic payroll registration	DIAN	1	D	0.5	0.5	0.5	0.5	0.5		
		Electronic payroll implementation	DIAN	1	D	2	4	3	3.0	3.0		
		Electronic signature implementation	Ministry of Commerce, Industry and Tourism	1	D	4	3	4.5	3.8	4.2		
Electronic invoicing - activation, parameterization, registration and issuance	Ministry of Commerce, Industry and Tourism	12	D	8	24	18	16.7	17.7				
Livestock Vaccination	ICA	2	ND	16	0	0	5.3	2.2				

Sector weighting: I=14 %; II=18 %; III=68 %

## Annex B.4 Details of IB-LAT procedures - Costa Rica

COSTA RICA		Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.	
TOTAL						409.00	307.00	286.50	334.17	297.08	
Administration of Employment	Sub-total					364.00	220.00	159.00	247.67	182.40	
	Salaries / taxes / contributions	Salary calculation	CCSS	24	D	24.00	24.00	48.00	32.00	41.66	
		Transfers	Internal/ MTSS y CCSS	24	D	144.00	48.00	24.00	72.00	35.20	
		Employee and employer contributions	Internal/ MTSS y CCSS	12	D	12.00	12.00	12.00	12.00	12.00	
		Settlement of holidays, advances	Internal/ MTSS y CCSS	2	D	2.00	2.00	1.00	1.67	1.26	
		Preparation of Payment Plans	Internal/ MTSS y CCSS	24	D	24.00	24.00	24.00	24.00	24.00	
		Others	INS	12	D	24.00	24.00	6.00	18.00	10.76	
	Hiring / Firing	Signing of an employment contract	Internal/ MTSS y CCSS	12	D	12.00	12.00	12.00	12.00	12.00	
		Social security enrollment	Internal/ MTSS y CCSS	12	D	36.00	36.00	6.00	26.00	13.93	
		Opening a salary account	Internal/ MTSS y CCSS	2	D	2.00	2.00	4.00	2.67	3.47	
		Notice of termination	Internal/ MTSS y CCSS	2	D	2.00	2.00	4.00	2.67	3.47	
		Document of termination of employment contract	Internal/ MTSS y CCSS	2	D	2.00	2.00	1.00	1.67	1.26	
		Final payment/ Final settlement	Internal/ MTSS y CCSS	2	D	2.00	2.00	2.00	2.00	2.00	
		Social security discharge	Internal/ MTSS y CCSS	2	D	2.00	2.00	1.00	1.67	1.26	
		Others	Internal/ MTSS y CCSS	2	D	2.00	2.00	1.00	1.67	1.26	
		Work Reports	Register of Working Hours	Internal/ MTSS y CCSS	12	D	60.00	12.00	6.00	26.00	10.01
			Schedule of working hours	Internal/ MTSS y CCSS	12	D	12.00	12.00	6.00	10.00	7.59
	Employee's sick leave report		Internal/ MTSS y CCSS	1	D	1.00	1.00	0.50	0.83	0.63	
	Report to the insurer in case of accident or illness		INS	12	ND	1.00	1.00	0.50	0.83	0.63	
	Administration of Operations	Sub-total					40.00	73.00	91.50	68.17	84.94
Taxes		Annual accounting presentation	Ministry of Finance	1 (simplified regime 4)	D	1.00	3.00	40.00	14.67	30.12	
		Procedures associated with VAT	Ministry of Finance	12	D	12.00	12.00	12.00	12.00	12.00	
		Procedures associated with property tax	Ministry of Finance	1 ó 4	D	2.00	2.00	16.00	6.67	12.30	
		Procedures associated with income tax	Ministry of Finance	1 ó 4	D	1.00	1.00	1.00	1.00	1.00	
		Formalities Import/export duties if exporting	Ministry of Finance	1	D	0.00	24.00	2.00	8.67	6.60	
		Procedures associated with Gross Income Tax	Ministry of Finance	1	D	2.00	2.00	1.00	1.67	1.26	
		Payment Real estate tax	Ministry of Finance	1	D	1.00	1.00	0.00	0.67	0.26	
		Procedures associated with VAT refund	Ministry of Finance	1	D	2.00	2.00	0.00	1.33	0.53	
		Procedures necessary for taxation	Ministry of Finance	1	D	6.00	6.00	6.00	6.00	6.00	
		Other Fees and Taxes	Ministry of Finance	1	D	6.00	10.00	0.00	5.33	2.44	
Waste Management		Notification of production of waste	Municipality/ Ministry of Health	1	ND	0.00	1.00	8.00	3.00	6.10	
		Study of waste minimization	Municipality/ Ministry of Health	1	ND	0.00	1.00	1.00	0.67	0.95	
		Control of submission of documents	Municipality/ Ministry of Health	1	ND	0.00	1.00	0.00	0.33	0.21	
		Others	Municipality/ Ministry of Health	1	ND	0.00	0.00	1.50	0.50	1.10	
Vehicles		Vehicle Insurance	Ministry of Finance / INS	1	D	1.00	1.00	0.00	0.67	0.26	
		Registration of new vehicle	Ministry of Finance / National Registry	1	D	3.00	3.00	0.00	2.00	0.79	
		Vehicle registration taxes	Ministry of Finance	1	D	1.00	1.00	0.00	0.67	0.26	
		Others	Internal/MOPT, MAG	1	ND	2.00	2.00	0.00	1.33	0.53	
Health / Safety at Work		Occupational safety training for employers	INS	1	ND	0.00	0.00	2.00	0.67	1.47	
	Regular training on fire safety	INS	1	ND	0.00	0.00	1.00	0.33	0.74		
Other Bureaucratic Procedures	Sub-total					5.00	14.00	36.00	18.33	29.73	
	Legal changes	Changes in the tax code	Internal/Ministry of Finance	12	ND	1.0	0.0	12.0	4.3	8.9	
	Specific to productive activity	Registration of the Small and Medium Agricultural Producers Registry (PYMPA)	MAG	1	ND	4.0	0.0	0.0	1.3	0.2	
		Registration of SMEs in the MEIC	MEIC	1	D	0.0	2.0	0.0	0.7	0.4	
		Health permit issued by the Ministry of Health	Ministry of Health	2	ND	0.0	10.0	0.0	3.3	2.1	
		Health registration of new product	Ministry of Health	2	D	0.0	2.0	0.0	0.7	0.4	
		Registration and annual maintenance of the simplified regimen	Ministry of Finance / INS	12	D	0.0	0.0	12.0	4.0	8.8	
Alcohol license (based on sales, once a year, quarterly collection)	Municipalities	4	ND	0.0	0.0	12.0	4.0	8.8			

Sector weighting: I=5.06 %; II=21.36 %; III=73.58 %



## Annex B.5 Details of IB-LAT procedures - Chile

CHILE	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.	
TOTAL					166.00	1331.10	259.41	585.47	470.41	
SubTotal					81.50	124.43	112.06	106.00	111.05	
Administration of Employment	Salaries / taxes / contributions	Calculation of salaries	Superintendence of Labor	12	D	57.00	66.00	81.00	68.00	75.10
		Payment of contributions	Sub-Ministry of Labor and Social Welfare	12	D	3.00	9.00	4.50	5.50	5.26
		Calculation and legal registration of advances	Superintendence of Labor	12	D	3.00	9.00	9.75	7.25	8.82
		Calculation, legal registration and holiday payment	Superintendence of Labor	12	D	3.00	9.00	9.75	7.25	8.82
	Hiring / Firing	Collect documents from the new worker	Labor Inspectorate	according to sector	D	1.00	5.03	0.63	2.22	1.58
		Elaborate and sign employment contract	Labor Inspectorate	according to sector	D	1.50	3.89	1.05	2.15	1.69
		Send the employment contract to the Labor Inspectorate	Labor Inspectorate	according to sector	D	2.00	1.68	0.25	1.31	0.74
		Calculation and payment of the final settlement	Labor Inspectorate	according to sector	D	0.50	2.15	0.38	1.01	0.76
		Notarial signature of the settlement	Notary and Labor Inspectorate	according to sector	ND	2.00	8.60	1.00	3.87	2.69
		Dismiss the worker from the Labor Inspectorate	Labor Inspectorate	according to sector	D	1.75	1.08	0.16	1.00	0.53
	Work Reports	Receive and process a medical license	Isapre/Fonasa	according to sector	D	4.50	3.00	3.00	3.50	3.17
		Carry out procedures for work accident	Mutual Security and Isapre/Fonasa	according to sector	D	2.25	6.00	0.59	2.95	1.90
	Subtotal					84.50	87.67	106.22	92.80	99.82
	Administration of Operations	Taxes	Document registration/stamp (bills, invoices, credit notes...)	Internal Revenue Service	according to sector	D	12.00	9.00	8.63	9.88
Registrations of Accounting Books			Internal Revenue Service	according to sector	D	8.00	9.26	30.00	15.75	23.19
Declaration and payment of monthly Value Added Taxes (VAT)			Internal Revenue Service	12	D	12.00	14.76	13.35	13.37	13.48
Pre-tax declarations			Internal Revenue Service	1	D	16.00	16.00	22.50	18.17	20.40
Annual income tax return			Internal Revenue Service	1	D	16.00	16.00	16.00	16.00	15.98
Health / Safety at Work		Training workers on safety issues	Security company	according to sector		6.00	9.90	2.05	5.98	4.12
		Keeping the Health and Safety Regulations up to date	Labor Inspectorate	according to sector	D	4.00	3.00	4.00	3.67	3.79
		Collect and submit background for fee update	Security company	1	D	8.00	7.50	7.19	7.56	7.34
Vehicles		Technical review	Transit Authority	1	ND	2.00	2.00	2.00	2.00	2.00
		Obtain vehicle registration	Transit Authority	1	D	0.50	0.25	0.50	0.42	0.45
SubTotal					0.00	1119.00	41.13	386.71	259.56	
Other Bureaucratic Procedures	Specific to productive activity	Traffic control permits	Works Directorate	4	ND	0.00	480.00	0.00	160.00	99.36
		Pavement break	Works Directorate	4	ND	0.00	480.00	0.00	160.00	99.36
		Excavations	Works Directorate	4	ND	0.00	640.00	0.00	213.33	132.48
		Debris removal	Works Directorate	4	ND	0.00	18.00	0.00	6.00	3.73
		Payment of permits (local)	Municipality	1	D	0.00	1.00	0.00	0.33	0.21
		Pest control	Municipality	12		0.00	48.00	0.00	16.00	9.94
		Temperature recording of refrigerators	Municipality	360		0.00	36.00	0.00	12.00	7.45
		Registration of production dates for products and raw materials	Municipality	360		0.00	36.00	0.00	12.00	7.45
		Payment of permits (local)	Municipality	1	D	0.00	0.00	0.25	0.08	0.17
		Pest control	Municipality	12		0.00	0.00	54.00	18.00	36.67
		Electricity control	Municipality	4		0.00	0.00	4.00	1.33	2.72
COVID sanitization	Ministry of Health	12		0.00	0.00	24.00	8.00	16.30		

Sector weighting: I=11.3 %; II=20.7 %; III=67.9 %

Annex B.6 Details of IB-LAT procedures - Ecuador

ECUADOR	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.		
TOTAL					272.00	644.48	294.52	403.66	395.05		
Administration of Employment	Subtotal				46.5	46.9	33.8	42.40	39.42		
	Salaries / taxes / contributions	Contribution receipts	Ecuadorian Institute of Social Security (IESS)	12	D	3	3	3	3	3	
		Retention of Payment Chirographic Loans	Ecuadorian Institute of Social Security (IESS)	12	D	3	3	3	3	3	
		Retention of securities paid mortgage loans	Ecuadorian Institute of Social Security (IESS)	12	D	3	3	3	3	3	
		Reserve fund sheet	Ecuadorian Institute of Social Security (IESS)	12	D	3	3	3	3	3	
		Record thirteenth salary	Ministry of Labor (MDT)	1	D	1	1	1	1	1	
		Record fourteenth salary	Ministry of Labor (MDT)	1	D	1	1	1	1	1	
	Hiring / Firing	Registration payment 15% profit	Ministry of Labor (MDT)	1	D	4	4	4	4	4	
		Hire notification	Ecuadorian Institute of Social Security (IESS)	Depends	D	3.75	8.4	1	4.39	3.58	
		Upload contract	Ministry of Labor (MDT)	Depends	D	3.75	8.4	1	4.39	3.58	
		Pre-occupational examinations	Ministry of Labor (MDT)	Depends	ND	1	1	1	1	1	
		Notice of termination	Ecuadorian Institute of Social Security (IESS)	Depends	D	2.5	1.5	1	1.69	1.37	
		Settlement calculation	Ministry of Labor (MDT)	Depends	ND	10	6.2	4.1	6.74	5.50	
	Work Reports	Settlement act	Ministry of Labor (MDT)	Depends	D	5	3.1	2	3.37	2.75	
		Salary change notification	Ecuadorian Institute of Social Security (IESS)	Depends	D	2.5	0.25	1.4	1.40	1.24	
		INEC report	National Institute of Statistics and Censuses (INEC)	1	D	0	0	4.3	1.42	2.41	
	Administration of Operations	Subtotal				152	187.6	169.3	169.60	172.32	
		Taxes	Tax return	Internal Revenue Service (IRS)	1	D	40	40	40	40	40
			Annual presentation of financial statements and annexes	Superintendence of Companies	1	D	40	40	40	40	40
			Monthly presentation of VAT	Internal Revenue Service (IRS)	12	D	48	48	48	48	48
Monthly statement of withholding tax			Internal Revenue Service (IRS)	12	D	6	6	6	6	6	
Simplified transactional annex			Internal Revenue Service (IRS)	12	D	6	6	6	6	6	
Dependency Annex			Internal Revenue Service (IRS)	1	D	8	8	8	8	8	
Dividend schedule			Internal Revenue Service (IRS)	1	D	1	1	1	1	1	
Contribution Payment to Charity Board			Board of Charity of Guayaquil	1	ND	0	0.97	0	0.32	0.29	
Payment of 1.5x1000 tax on total assets			Decentralized Autonomous Government of Guayaquil	1	D	0.5	0.5	0.5	0.50	0.5	
Municipal patent payment			Decentralized Autonomous Government of Guayaquil	1	D	0.5	0.5	0.5	0.50	0.5	
Habilitation rate			Decentralized Autonomous Government of Guayaquil	1	D	0.5	0.5	0.5	0.50	0.5	
Property tax			Decentralized Autonomous Government of Guayaquil	1	D	0.5	0.5	0.5	0.50	0.5	
Vehicles			Contribution to the Superintendence of Companies	Superintendence of Companies	1	SD	0.5	0.5	0.5	0.50	0.5
		Tax payment 2x1000 U Guayaquil	University of Guayaquil	1	ND	0	0.6	0	0.19	0.17	
		Annex of members and shareholders	Internal Revenue Service (IRS)	1	D	0.5	0.5	0.5	0.50	0.5	
		Vehicle inspection	National Transit Agency (ANT)	1	SD	0	5	2.3	2.45	2.81	
Health / Safety at Work		Registration of the new vehicle	National Transit Agency (ANT)	Depends	SD	0	8	3.7	3.92	4.50	
		Annual training plan	Ministry of Labor (MDT)	1	D	0	8	4.3	4.08	4.78	
		Occupational health training	Ministry of Labor (MDT)	1	D	0	1	0.5	0.51	0.60	
	Indicators	Ministry of Labor (MDT)	1	ND	0	2	1.1	1.02	1.20		
	Health and safety regulations	Ministry of Labor (MDT)	0.5	D	0	10	5.3	5.10	5.98		
Other Bureaucratic Procedures	Subtotal				73.5	410.1	91.4	191.66	183.31		
	Inspection / supervision	Fire department inspection	Fire department	1	SD	1.5	1.5	1.5	1.50	1.5	
		Reporting of economic operations and transactions	Financial and Economic Analysis Unit (UAFE)	12	SD	0	74.8	0	24.94	22.15	
	Specific to productive activity	Autorizaciones	Refresher course on money laundering	Superintendence of Companies	1	ND	0	2.4	1.9	1.44	1.79
		Beach or bay permit	Sub-Secretary of Aquaculture	1	ND	10	0	0	3.33	1.36	
		Inspections	Sub-Secretary of Aquaculture	2	ND	16	0	0	5.33	2.18	
		Environmental audit	Ministry of the Environment	0.5	ND	4	0	0	1.33	0.55	
		Water and soil noise report	Ministry of the Environment	1	ND	8	0	0	2.67	1.09	
		Waste declaration	Ministry of the Environment	1	ND	24	0	0	8.00	3.27	
		Quality and health certificates	Sub-Secretary of Quality and Inocuidad	1	ND	10	0	0	3.33	1.36	
		ARCSA inspection	National Agency for Health Regulation, Control and Surveillance (ARCSA)	1	ND	0	2.4	0	0.81	0.72	
		Registration renewal of heavy machinery	Ministry of Transport and Public Works (MTO)	1	ND	0	3.1	0	1.04	0.92	
		Building permits	Decentralized Autonomous Governments	1	ND	0	187	0	62.34	55.37	
		Electrical plans	National Electricity Corporation (CNEL)	1	ND	0	62.3	0	20.78	18.46	
		Water plans	Interagua	1	ND	0	62.3	0	20.78	18.46	
		Environmental certificate	Ministry of the Environment	1	ND	0	6.2	0	2.08	1.85	
		Construction risk specialization course	Ministry of Labor (MDT)	0.5	D	0	7.8	0	2.60	2.31	
		Institutional education plan	Ministry of Education	1	ND	0	0	17	5.67	9.65	
		Curriculum plan	Ministry of Education	1	ND	0	0	17	5.67	9.65	
		Corporate risk plan	Ministry of Education	1	ND	0	0	17	5.67	9.65	
Master file opening		Ministry of Education	1	ND	0	0	1.6	0.53	0.91		
Master file closing	Ministry of Education	1	ND	0	0	1.6	0.53	0.91			
Qualifications	CAS	1	ND	0	0	2.1	0.71	1.21			
Census of students (CAS)	Ministry of Education	1	ND	0	0	3.2	1.06	1.81			
Cost resolution	Ministry of Education	1	ND	0	0	2.1	0.71	1.21			
Scorecards	Ministry of Education	1	ND	0	0	1.1	0.35	0.60			
Operating permit	Ministry of Education	0.2	ND	0	0	8.5	2.83	4.83			
Audit	Ministry of Education	0.33	ND	0	0	16.8	5.61	9.56			

Sector weighting: I=18.8 %; II=26.9 %; III=54.3 %

## Annex B.7 Details of IB-LAT procedures - México

MEXICO	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.
TOTAL					619.86	467.36	540.86	542.69	506.31
Subtotal					297.86	297.86	297.86	297.86	297.86
Administration of Employment	Salaries / taxes / contributions	Income tax withholding	Tax Administration Service	12	D	15.19	15.19	15.19	15.19
	Annual record of employee salaries and withholdings	Tax Administration Service	1	D	1.27	1.27	1.27	1.27	1.27
	Statement of persons to who received salary payments or employment subsidies	Tax Administration Service	1	D	1.27	1.27	1.27	1.27	1.27
	Calculation of employees' profit sharing benefits (OCTs).	Ministry of Labor and Social Security and the Ministry of Finance and Public Credit	1	D	1.00	1.00	1.00	1.00	1.00
	Contributions to the Retirement Savings System	National Commission on the Retirement Savings System	12	D	12.00	12.00	12.00	12.00	12.00
	Worker-employer payments to IMSS and Infonavit	Mexican Institute of Social Security	12	D	12.00	12.00	12.00	12.00	12.00
	Registration of personnel in imss (hires); registration on IMSS mailbox	Mexican Institute of Social Security	1	D	0.32	0.32	0.32	0.32	0.32
	Registration of personnel in imss (dismissals); discharge on IMSS mailbox	Mexican Institute of Social Security	1	D	0.32	0.32	0.32	0.32	0.32
	Proceedings before the imss (pensions)	Mexican Institute of Social Security	12	Si	12.00	12.00	12.00	12.00	12.00
	Membership in the Institute for the National Fund for Employee Consumption	National Fund for Workers' Consumption	12	D	12.00	12.00	12.00	12.00	12.00
	Affiliation to INFONAVIT	National Workers' Housing Fund Institute	1	D	0.25	0.25	0.25	0.25	0.25
	Training of personnel in health and industrial safety	General Law on Civil Protection	1	ND	32.00	32.00	32.00	32.00	32.00
	Sick/maternity leave	Mexican Institute of Social Security	1	D	0.25	0.25	0.25	0.25	0.25
Compliance with regulation of psycho-social risks	Ministry of Labor and Social Security	1		4.00	4.00	4.00	4.00	4.00	
Hiring / Firing	Personal data protection	National Institute for Access to Information	1	D	1.00	1.00	1.00	1.00	1.00
Reviews of contracts, labor disputes, etc.	Conciliation and arbitration board	12	ND	192.00	192.00	192.00	192.00	192.00	
Obligations of the employer upon termination of employment	Conciliation and arbitration board	1	ND	1.00	1.00	1.00	1.00	1.00	
Subtotal					146.00	153.50	146.00	148.50	149.99
Administration of Operations	Taxes	Processing of advanced electronic signatures	Tax Administration Service	1	ND	16.00	16.00	16.00	16.00
	Registrations for invoicing purposes	Tax Administration Service	12	D	12.00	12.00	12.00	12.00	12.00
	Enrollment of employees in the Federal Taxpayer Registry (RFC)	Tax Administration Service	1	D	1.00	1.00	1.00	1.00	1.00
	Tax record	Tax Administration Service	1	D	1.00	1.00	1.00	1.00	1.00
	Accounting recording obligations	Tax Administration Service	1	D	1.00	1.00	1.00	1.00	1.00
	Formulate financial position statement and inventory as at 31 December each year.	Tax Administration Service	1	D	8.00	8.00	8.00	8.00	8.00
	Monthly SRI declaration	Tax Administration Service	12	D	48.00	48.00	48.00	48.00	48.00
	Annual declaration of ISR	Tax Administration Service	1	D	4.00	4.00	4.00	4.00	4.00
	Monthly Statement of Value Added Tax	Tax Administration Service	12	D	12.00	12.00	12.00	12.00	12.00
	Monthly Special Tax Return on Products and Services	Tax Administration Service	12	D	12.00	12.00	12.00	12.00	12.00
	Information Statement of Operations with Third Parties	Tax Administration Service	12	D	12.00	12.00	12.00	12.00	12.00
	Registration and updating of the RFC; activation of the tax box	Tax Administration Service	1	D	1.00	1.00	1.00	1.00	1.00
	Property tax	Municipal Finance Act	1	D	0.25	4.00	0.25	1.50	2.24
	Water payment	Local provider	1	D	0.25	4.00	0.25	1.50	2.24
	Electricity payment	Federal Electricity Commission	1	D	0.25	0.25	0.25	0.25	0.25
	Payroll tax	Ministry of Finance of each state	1	D	1.00	1.00	1.00	1.00	1.00
	New Car Tax (ISAN)	Ministry of Finance of each state	1	D	1.00	1.00	1.00	1.00	1.00
Waste Management	Waste authorizations and permits		12		3.00	3.00	3.00	3.00	
Vehicles	Vehicle registration	Secretary of Public Security	1	ND	4.00	4.00	4.00	4.00	
Vehicle discharge	Secretary of Public Security	1	ND	4.00	4.00	4.00	4.00	4.00	
Vehicle ownership Tax	Ministry of Finance of each state	1	D	0.25	0.25	0.25	0.25	0.25	
Replacement	Secretary of Public Security	1	D	4.00	4.00	4.00	4.00	4.00	
Subtotal					176.00	16.00	97.00	96.33	58.46
Other Bureaucratic Procedures	Specific to productive activity	Sanitary Records and Permits (Livestock)		6		96.00		96.00	5.49
	Filling Formats for Economic Censuses	National Institute of Statistics and Geography	1	D	4.00	4.00	4.00	4.00	4.00
	Compliance with health regulations by covid 19 and civil protection		1		4.00	4.00	4.00	4.00	4.00
	Certification of Origin by Importer, Exporter or Producer (agriculture)		3 sector I, 1 sector II		72.00	8.00		40.00	8.37
	Obligation to transmit the messages of political parties, independent candidates and electoral authorities. (Advertising agencies)		12				384.00	384.00	157.95
	Donor reporting for financial transparency (annual declaration due in May)	Tax Administration Service	1				1.00	1.00	0.41
	Reports on extraordinary donations - Mitigation impact of covid19. (Donors)		1				1.00	1.00	0.41
	Taxi vehicle permits, license plates, insurance, and toxicology screenings for public transportation drivers.	Local mobility authorities	1				8.00	8.00	3.29
Participation in tenders for the provision of services (preparation of the file)		4				160.00	160.00	65.81	

## Annex B.8 Details of IB-LAT procedures - Peru

PERU	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.
TOTAL					797.10	601.53	509.90	636.18	591.00
Administration of Employment	SubTotal				19.58	27.89	23.69	23.72	23.42
Salaries / taxes / contributions	Declaration by AFP	SBS	12	D	5.00	5.00	4.50	4.83	4.70
	Declaration of ONP	ONP	12	D	4.50	8.00	5.75	6.08	5.82
	PLAME Statement: Monthly Payroll	SUNAT	12	D	4.00	8.00	6.00	6.00	5.86
	Declaration of life insurance	MTPE	1	D	0.29	0.67	0.50	0.49	0.48
Hiring / Firing	Social security enrollment	MTPE	1	D	0.83	0.72	1.25	0.94	1.07
	Registration of personnel at SUNAT	SUNAT	1	D	0.42	0.22	0.21	0.28	0.26
	Registration of contract into the Ministry of Labor	MTPE	1	D	0.21	0.36	0.29	0.29	0.28
	Accident Insurance	SBS	1	D	0.42	0.67	0.63	0.57	0.58
	Life insurance	SBS	1	D	0.50	0.72	0.63	0.62	0.61
	Membership of the AFP and ONP	SBS	1	D	0.50	0.61	0.73	0.61	0.66
	Opening salary account and CTS	SBS/MTPE	1	D	0.29	1.44	1.83	1.19	1.41
	Social security withdrawal	MTPE	1	D	0.38	0.22	0.19	0.26	0.24
	Worker termination at SUNAT	SUNAT	1	D	0.38	0.19	0.19	0.25	0.23
	Employee's sick leave report	ESSALUD	1	D	0.88	0.50	0.50	0.63	0.59
Work Reports	Inform the insurer in case of accident or illness	SBS	1	D	1.00	0.56	0.50	0.69	0.62
Administration of Operations	Subtotal				440.29	565.97	452.35	486.21	467.86
Taxes	Procedures associated with IGV	SUNAT	12	D	72.00	80.00	84.00	78.67	80.58
	Procedures associated with Property Tax	MUNI	1	D	0.50	0.56	0.33	0.46	0.41
	Procedures associated with public facility fees	MUNI	1	D	0.63	0.53	0.27	0.47	0.39
	Procedures associated with ITAN: Temporary Tax on Net Assets	SUNAT	12	D	9.00	6.00	6.00	7.00	6.69
	Procedures associated with Income Tax	SUNAT	1	D	13.00	26.67	22.00	20.56	20.67
	Procedures associated with DAOT: Annual Declaration of Operations with Third Parties	SUNAT	1	D	4.50	6.67	4.50	5.22	4.85
	Import/export duty, formalities (if exporting)	SUNAD	12	D	108.00	168.00	108.00	128.00	117.66
	Procedures associated with Drawback (if exporting)	SUNAT	12	D	36.00	36.00	24.00	32.00	28.70
	Payment Real estate tax	SUNARP	1	D	0.42	0.22	0.25	0.30	0.28
	Fractioning payment in SUNAT	SUNAT	12	D	1.50	2.00	2.00	1.83	1.88
	Procedures associated with Vehicle ownership	SUNAT	1	D	0.50	0.50	0.50	0.50	0.50
Procedures associated with Alcabala Tax	MUNI	1	D	2.50	3.00	3.50	3.00	3.19	
Waste Management	Notification of production of waste	MINAM	1	D	6.00	10.67	8.00	8.22	7.97
	Study of waste minimization	MINAM	1	ND	7.00	6.00	6.00	6.33	6.23
	Communication to SUNAT	SUNAT	1	D	1.25	1.00	1.00	1.08	1.06
Vehicles	Vehicle insurance	MTC	1	D	1.25	0.83	4.50	2.19	3.16
	Vehicle inspection	SUTRAN	1	ND	3.00	2.67	5.00	3.56	4.16
	Vehicle registration	MTC	1	D	3.50	2.67	3.00	3.06	3.06
	New vehicle registration	SUNARP	1	D	2.00	2.67	31.50	12.06	20.04
	Dismissal of old vehicle	SUNARP	1	D	1.25	2.00	2.00	1.75	1.83
	Permission to transport dangerous goods and waste	MTC	1	D	48.00	45.33	44.00	45.78	45.14
	Automobile tax	MEF	1	D	2.50	2.00	2.00	2.17	2.12
Health / Safety at Work	Annual Occupational Safety Plan	PCM/ITSDC	1	D	68.00	93.33	47.14	69.49	59.40
	Occupational health safety, Plan Covid	PCM/MTPE	1	D	48.00	66.67	42.86	52.51	47.88
Other Bureaucratic Procedures	SubTotal				337.23	7.67	33.86	126.25	99.72
Legal	Changes in the fiscal regulation	SUNAT/MEF	2	ND	2.50	4.67	8.50	5.22	6.50
	Changes in labor regulations	MTPE	1	ND	1.50	1.67	3.75	2.31	2.89
	Changes in the General Commercial Act	MINJUS	1	ND	1.00	1.33	2.75	1.69	2.12
Specific to productive activity	Phytosanitary certificate for each container	SENASA	52	ND	315.90	0.00	0.00	105.30	72.97
	Renewal of environmental impact certification	MINAM	1	D	15.19	0.00	0.00	5.06	3.51
	Health registration for each product type	MINSA	1	ND	1.14	0.00	0.00	0.38	0.26
	Municipal inspection	MUNI	2	ND	0.00	0.00	14.2875	4.76	8.69
	Health card for each worker	MUNI	1	ND	0.00	0.00	3.429	1.14	2.08
	License renewal	MUNI	1	ND	0.00	0.00	1.143	0.38	0.69

Sector weighting: I=23.1 %; II=16.1 %; III=60.8 %

## Annex B.9 Details of IB-LAT procedures - República Dominicana

REP. DOMINICANA		Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.
TOTAL						1142.11	868.81	724.99	911.97	744.96
Administration of Employment	Subtotal					282.87	100.55	34.54	139.32	69.56932
	Salaries / taxes / contributions	Payroll Management for salary payments	MIT	24	ND	270.00	52.50	15.17	112.56	43.53469
		withholdings and Contributions: Health Insurance, Occupational Risk Insurance and Pension System and Infotep	TSS	12	D	4.50	10.50	7.33	7.44	7.53581
		Employee Leave / absences report	TSS	1.64	D	0.00	15.24	0.12	5.12	4.60836
		Payroll updates	MIT, TSS y DGII	8.42	D	2.58	2.57	3.16	2.77	2.71174
		Withholding and payment of income tax	DGII	12	D	4.50	15.75	5.67	8.64	8.17569
	Hiring / Firing	Employee registration	MIT y TSS	1	D	0.25	0.38	0.83	0.49	0.59355
		Health card; laboratory analysis; management	Ministry of Public Health	0.12	Semi	0.00	0.75	0.04	0.26	0.24578
		Warnings for employee misconduct	The company	.38	ND	0.00	0.66	0.12	0.26	0.26352
		Citations for unjustified dismissal [labor security]	MIT	.17	ND	0.00	0.50	0.00	0.17	0.149
		Negotiation for unjustified dismissal	The company	.46	ND	1.13	0.28	0.74	0.72	0.57698
		Calculation and payment of labor benefits	MIT	.94	Semi	0.38	0.75	0.60	0.58	0.58506
	Work Reports	Employee retirement	MIT y TSS	1	D	0.22	0.44	0.28	0.31	0.30292
		Employee leave / absences report	TSS	.28	D	0.00	0.13	0.08	0.07	0.0833
		Payroll updates	MIT y TSS	1.32	D	0.22	0.19	0.90	0.44	0.57376
		Notification of employee termination	MIT	.86	D	0.22	0.19	0.24	0.22	0.20614
Administration of Operations	Subtotal					838.11	698.01	677.56	737.89	645.7518
	Taxes	Data Submission Formats on company obligations	DGII	12	Semi	48.00	102.00	185.78	111.93	137.3315
		Accounting transaction records; custody of Tax Receipts (commercial or professional)	DGII	12	Semi	240.00	274.50	203.56	239.35	212.4639
		IR2- Annual Corporate Income Tax Affidavit	DGII	1	Semi	314.13	130.00	197.11	213.75	171.1476
		Review Affidavit	DGII	1	Semi	21.25	8.00	12.44	13.90	10.84308
		ACT-Taxable assets	DGII	1	D	0.75	34.25	1.17	12.06	10.91219
		ITBIS-Transfer Tax on Industrialized Goods and Services.	DGII	12	Semi	204.00	140.63	59.56	134.73	89.77066
		IR3- Declaration of Withholding of Employees.	DGII	12	D	5.16	3.00	9.00	5.72	6.27852
IR-17- Deductions and additional remuneration.	DGII	9.55	D	4.50	5.25	8.44	6.06	6.58958		
Waste Management	CRC- Integral Management and Co-processing of Solid Waste.	DGII	1	D	0.32	0.38	0.58	0.43	0.45934	
Other Bureaucratic Procedures	Subtotal					21.13	70.25	12.89	34.76	29.63559
	Special Authorizations	Activ. Construction: Staggered process for construction license (includes environmental approval and by the Ministry of Tourism)/ For Restaurants: Operating license and food handling (includes approval by Public Health and the Ministry of Tourism) For Pastries and Bakeries: Food Handling License For export of fruits and vegetables, Certificate of Food Safety and Health for export of fruits and vegetables.	For construction: City Council, Environment, Tourism Ministry of Public Works and Constructions; DGII and Ministry of Housing/ Ministry of Public Health. For restaurants: Ministry of Tourism and Ministry of Health. For confectionery and bakery: Ministry of Health. For the export of fruit and vegetables: Ministry of Health, Ministry of Agriculture	0,85	Semi	1.13	56.75	0.02	19.30	17.004
	Legal	Approval and updating of commercial registry	Chamber of Commerce and production	1	Semi	11.25	7.50	7.19	8.65	7.04983
Appointment and Ratification of Commissioners and Directors		Chamber of Commerce and production	1	Semi	8.75	6.00	5.67	6.81	5.57619	

Sector weighting: I=7.2 %; II=29.8 %; III=55.7 %

## Annex B.10 Details of IB-LAT procedures - Uruguay

URUGUAY	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.		
TOTAL					583.7	329.1	400.7	437.8	399.4		
Sub-total					139.6	116.7	214.0	156.8	188.2		
Administration of Employment	Salaries / taxes / contributions	Liquidate salaries	BPS	BPS	V	56.0	28.0	66.4	50.1	57.6	
		Fill out paychecks/ or payment method	BPS	BPS	V	42.0	9.2	14.0	21.7	15.1	
		Employee and employer contributions	BPS	BPS	V	4.0	45.5	62.3	37.3	54.5	
		Settlement of holidays, advances	BPS	BPS	V	0.7	2.8	4.5	2.6	3.8	
	Hiring / Firing	Signing of employment contract	Empresa	Company	P	2.6	1.1	3.9	2.5	3.2	
		Social security enrollment	BPS	BPS	V	2.6	0.9	4.2	2.6	3.4	
		Accident insurance	BSE	BSE	V	0.0	0.5	0.0	0.2	0.1	
		Opening a salary account	Empresa	Company	P	0.0	1.4	6.1	2.5	4.6	
		Document for termination of employment contract	BPS	BPS	P	1.3	1.9	5.2	2.8	4.3	
		Final payment/ Final settlement	Empresa	Company	V	8.0	0.7	16.2	8.3	12.4	
	Work Reports	Social security withdrawal	BPS	BPS	V	2.6	9.3	4.2	5.4	5.1	
		Registry of Working Hours	Interno, MTSS	Internal, MTSS	V	12.0	8.8	16.4	12.4	14.5	
		Employee's sick leave report	BPS	BPS	P	8.0	1.2	7.4	5.5	6.1	
		Annual medical examination	Empresa	Company	P	0.0	5.5	3.2	2.9	3.4	
	Sub-total					133.1	195.5	147.9	158.8	156.7	
	Administration of Operations	Taxes	Annual accounting report	DGI	DGI	V	78.0	80.0	104.3	87.4	97.3
			Procedures associated with VAT	DGI	DGI	V	36.0	12.0	7.7	18.6	10.7
			Procedures associated with property tax	DGI	DGI	V	0.0	3.7	7.7	3.8	6.3
Procedures associated with Income Tax-IRAE			DGI	DGI	V	3.8	12.0	7.7	7.9	8.3	
Import/export duties if exporting			Aduanas	Customs	V	0.0	66.0	0.0	22.0	13.7	
Real Estate Tax Payment			Intendencias Departamentales	Departmental Administrations	V	10.0	0.0	0.2	3.4	0.9	
Other Fees and Taxes			DGI	DGI	V	2.0	0.0	0.0	0.7	0.1	
Waste Management		Notification of production of waste	Intendencias Departamentales	Departmental Administrations	V	0.0	0.3	0.0	0.1	0.1	
		Contracting and payment of waste collection company	Intendencias Departamentales	Departmental Administrations	P	0.0	1.6	15.0	5.5	11.1	
Vehicles		Vehicle Insurance - SOA	Empresa	Company	P	1.0	0.0	0.6	0.5	0.5	
		Vehicle inspection	Intendencias Departamentales	Departmental Administrations	P	0.6	0.2	1.8	0.9	1.4	
		Vehicle registration	Intendencias Departamentales	Departmental Administrations	P	0.0	0.0	0.4	0.1	0.3	
		New vehicle registration	Intendencias Departamentales	Departmental Administrations	P	0.6	0.2	1.0	0.6	0.8	
		Vehicle mobility Tax	Intendencias Departamentales	Departmental Administrations	V	1.0	0.3	0.5	0.6	0.5	
Health / Safety at Work		Hiring of Health and safety company	Intendencias Departamentales	Departmental Administrations	P	0.0	2.5	0.0	0.8	0.5	
		Mandatory employee health checks to renew the certificate	BPS	BPS	P	0.0	5.5	0.0	1.8	1.1	
		Workplace risk assessment and description	MTSS	MTSS	P	0.0	11.2	0.0	3.7	2.3	
		Regular training on fire safety	Ministerio del Interior	Ministry of the Interior	P	0.0	0.0	0.9	0.3	0.6	
Sub-total					311.0	16.9	38.8	122.2	54.5		
Other Bureaucratic Procedures	Legal changes	Changes in the tax code	DGI	DGI	V	1.0	1.0	1.0	1.0	1.0	
		Change in collections	Varios Organismos	Various Agencies	V	2.0	2.0	2.0	2.0	2.0	
		Change in formats	Varios Organismos	Various Agencies	V	2.0	2.0	2.0	2.0	2.0	
	Specific to productive activity	Official Certificate of Veterinary Inspection	MGAP, Intendencias Departamentales	GAP, Departmental Administrations	P	240.0	0.0	0.0	80.0	26.7	
		Filing transportation certificate	MGAP, Intendencias Departamentales	GAP, Departmental Administrations	P	48.0	0.0	0.0	16.0	5.3	
		Livestock tax	Intendencias Departamentales	Departmental Administrations	P	18.0	0.0	0.0	6.0	2.0	
		Construction feasibility	MTSS	MTSS	V	0.0	5.6	0.0	1.9	2.5	
		Construction registration	BPS	BPS	V	0.0	5.6	0.0	1.9	2.5	
		Construction registration	DGI	DGI	V	0.0	0.6	0.0	0.2	0.3	
		Food Handling certification	Intendencias Departamentales	Departmental Administrations	P	0.0	0.0	2.9	1.0	1.3	
		Temporary rental permit	Ministerio de Turismo	Ministry of Tourism	V	0.0	0.0	0.5	0.2	0.2	
		Professional driving permit	Intendencias Departamentales	Departmental Administrations	P	0.0	0.0	5.4	1.8	2.4	
		Special license	Intendencias Departamentales	Departmental Administrations	V	0.0	0.0	0.8	0.3	0.4	
		Health Card	MSP	MSP	P	0.0	0.0	3.6	1.2	1.6	
Transfers for international payments (Brazil)	DGI	DGI	V	0.0	0.0	20.7	6.9	9.2			

Sector weighting: I=7.45 %; II=20.77 %; III=71.78 %

## Annex B.11 Details of IB-LAT procedures - Venezuela

VENEZUELA	Procedure	Institution	Annual Frequency	Mode	I	II	III	Simple Avg.	Weigh. Avg.	
TOTAL					842.88	1081.67	1138.79	1021.11	1061.86	
SubTotal					196.13	196.13	196.13	196.13	196.13	
Administration of Employment	Salaries / taxes / contributions	Calculation and payment of Cestatickets	12	D	4.80	4.80	4.80	4.80	4.80	
		Compulsory Savings Fund for Housing	12	D	6.00	6.00	6.00	6.00	6.00	
		"INCES: Retention of the employer, processing, transfer and issuance of solvency"	4	D	7.60	7.60	7.60	7.60	7.60	
		Social benefits [quarterly deposit]	4	D	1.80	1.80	1.80	1.80	1.80	
		Mandatory Social Security Withholding	12	D	51.30	51.30	51.30	51.30	51.30	
		Calculation and payment of social benefits	1	D	8.00	8.00	8.00	8.00	8.00	
		Summons/inspection for unjustified termination [labor security]	2	ND	8.00	8.00	8.00	8.00	8.00	
		Drafting of warnings to the employee in case of breach of the employment contract	3	ND	1.13	1.13	1.13	1.13	1.13	
		Post-employment medical service exam / report	1	ND	6.00	6.00	6.00	6.00	6.00	
		Pre-employment medical service exam / report	1	ND	5.00	5.00	5.00	5.00	5.00	
		Employee Report on Occupational Hazards and Accident Prevention	1	D	0.40	0.40	0.40	0.40	0.40	
		Employee registration	1	D	1.50	1.50	1.50	1.50	1.50	
		"Registration of the worker in the worker system of the Ministry of Labor. Employee statement. RNET"	1	D	1.50	1.50	1.50	1.50	1.50	
		Worker registration in FAOV - Banaviv	1	D	1.50	1.50	1.50	1.50	1.50	
		Withdrawal of the employee from the Labor Ministry workers system	1	D	1.70	1.70	1.70	1.70	1.70	
		Employee withdrawal from the Inces system	1	D	1.70	1.70	1.70	1.70	1.70	
		Employee retirement at FAOV - Banaviv	1	D	1.70	1.70	1.70	1.70	1.70	
		Issuance of labor solvency Min. Labor. [RNET]	5	D	6.00	6.00	6.00	6.00	6.00	
	Work Reports		Administrative management of social benefits [admission, review and approval of request for advancement of social benefits]	10	N/A	40.00	40.00	40.00	40.00	40.00
			Report of capital and interest accumulated for social benefits to each worker	5	D	0.50	0.50	0.50	0.50	0.50
		"Presentation of medical rest by the employee issued by a health center affiliated with the IVSS"	5	ND	20.00	20.00	20.00	20.00	20.00	
		Presentation of the medical leave and employee documents by the employer to the IVSS	5	ND	20.00	20.00	20.00	20.00	20.00	
Subtotal					459.75	830.21	830.21	706.72	740.40	
Administration of Operations	Taxes	Update of accounting books, purchase and sales in stamped sheets by the Mercantile Registry	24	N/A	24.00	24.00	24.00	24.00	24.00	
		Income tax advances	24	D	0.00	116.16	116.16	77.44	88.00	
		ISLR closing statement	1	D	0.00	40.20	40.20	26.80	30.45	
		VAT declaration	24	D	24.80	156.00	156.00	112.27	124.19	
		"National Fund for Science, Technology and Innovation (Fonacil)"	1	D	1.75	1.75	1.75	1.75	1.75	
		National Sports Fund	1	D	2.00	3.00	3.00	2.67	2.76	
		Municipal Tax on Economic Activities (ISAE)	12	D	0.00	19.40	19.40	12.93	14.70	
		Tax Law on Large Financial Transactions	24	D	48.00	96.00	96.00	80.00	84.36	
		Income tax withholding	12	D	31.20	31.20	31.20	31.20	31.20	
		VAT withholding	24	PD	46.50	48.00	48.00	47.50	47.64	
Health / Safety at Work		Acquisition of industrial safety equipment	1	ND	2.50	2.50	2.50	2.50	2.50	
		Search for Healthcare Providers Enrolled in Impasel	1	N/A	3.00	3.00	3.00	3.00	3.00	
		Training for workers in the area of occupational health and safety	4	ND	64.00	64.00	64.00	64.00	64.00	
		Post-vacation medical examination / report	5	ND	40.00	40.00	40.00	40.00	40.00	
		Prevacational medical service exam / report	5	ND	40.00	40.00	40.00	40.00	40.00	
		Monthly report of the prevention delegate	12	ND	36.00	48.00	48.00	44.00	45.09	
		Fire drill	1	ND	0.00	1.00	1.00	0.67	0.76	
		One day of recreation to employees per month	12	ND	96.00	96.00	96.00	96.00	96.00	
SubTotal					187.00	55.33	112.46	118.26	125.34	
Other Bureaucratic Procedures	Legal	"Approval and registration of the Company's Annual Balance Sheet"	1	PD	9.00	9.00	9.00	9.00	9.00	
		"Appointment and Ratification of Commissioners and Directors"	0,5	PD	5.00	5.00	5.00	5.00	5.00	
	Certifications / authorizations		"Inspection / supervision of the fire brigade to the physical facilities of the establishment"	1	ND	0.00	2.75	2.75	1.83	2.08
			"Industry and Commerce Patent Renewal [Economic Activities License]"	1	ND	0.00	1.33	1.33	0.89	1.01
			"Firefighters permit renewal [Includes physical inspection of the establishment]"	1	ND	0.00	9.00	9.00	6.00	6.82
	Inspections / audits		"Inspection / supervision of the Mayor's Office for municipal tax payments"	2	ND	0.00	4.00	4.00	2.67	3.03
			Inspection / supervision of the IVSS	1	ND	2.25	2.25	2.25	2.25	2.25
			Inspection / supervision of the Ministry of labor	1	ND	9.00	9.00	9.00	9.00	9.00
		Seniat inspection / supervision	4	ND	7.00	9.00	9.00	8.33	8.52	
	Specific to productive activity		Health certificate	5	ND	23.75	0.00	11.88	11.88	13.67
			Balance control	1	ND	0.00	0.00	4.00	1.33	2.67
			Income Tax Reinvestment Affidavit	1	D	6.00	0.00	0.00	2.00	1.45
			Dispatch guides / INSAI animal and plant mobilization guides	41	D	41.00	0.00	0.00	13.67	9.94
			Unique Mobilization, Monitoring and Control Guides	41	D	0.00	0.00	20.50	6.83	13.67
			National Environmental Guard Inspection / Environmental Guard	1	ND	4.00	4.00	0.00	2.67	1.33
		Inspection / supervision of the MAT	1	ND	6.00	0.00	0.00	2.00	1.45	
		Food handling permit	5	ND	40.00	0.00	20.00	20.00	23.03	
		Renewal of Registration in the Registry of Activities capable of Degrading the Environment [RACDA]	1	D	32.00	0.00	0.00	10.67	7.76	
		Sunagro Renovation	1	D	1.00	0.00	0.50	0.50	0.58	
	Renewal of the Sanitary Permit of the Commercial Establishment [Includes inspection of the commercial establishment]	1	PD	0.00	0.00	4.25	1.42	2.83		
	"Municipal solvency of the tax on economic activities (ISAE)"	1	ND	1.00	0.00	0.00	0.33	0.24		

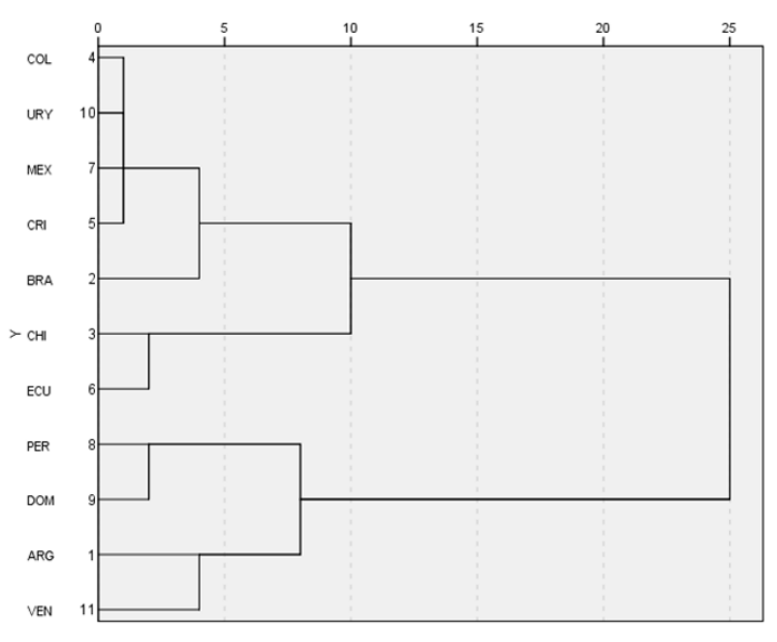
Sector weighting: I=24 %; II=9 %; III=67 %

Annex C. Clusters IB-LAT 2022.

Annex C.1 Weighted average by economic sector participation in GDP

Cluster	Statistics	Adm. of Employment	Adm. of Operations	Other Bur. Procedures
1	Median	75.00	136.00	221.50
	N	2	2	2
	Standard deviation	50.912	50.912	54.447
	Maximum	111	172	260
	Minimum	39	100	183
	% of total sum	8.3%	8.3%	47.1%
2	Median	46.50	557.00	65.00
	N	2	2	2
	Standard deviation	33.234	125.865	49.497
	Maximum	70	646	100
	Minimum	23	468	30
	% of total sum	5.1%	34.0%	13.8%
3	Median	192.60	140.80	40.00
	N	5	5	5
	Standard deviation	82.084	48.039	21.436
	Maximum	298	207	58
	Minimum	70	85	7
	% of total sum	53.1%	21.5%	21.3%
4	Median	303.50	593.50	83.50
	N	2	2	2
	Standard deviation	152.028	207.182	58.690
	Maximum	411	740	125
	Minimum	196	447	42
	% of total sum	33.5%	36.2%	17.8%
Total	Median	164.82	297.91	85.45
	N	11	11	11
	Standard deviation	118.414	235.678	76.739
	Maximum	411	740	260
	Minimum	23	85	7
	% of total sum	100.0%	100.0%	100.0%

Annex C.2 Cluster dendrogram IB-LAT 2022. Weighted average by economic sector participation in GDP

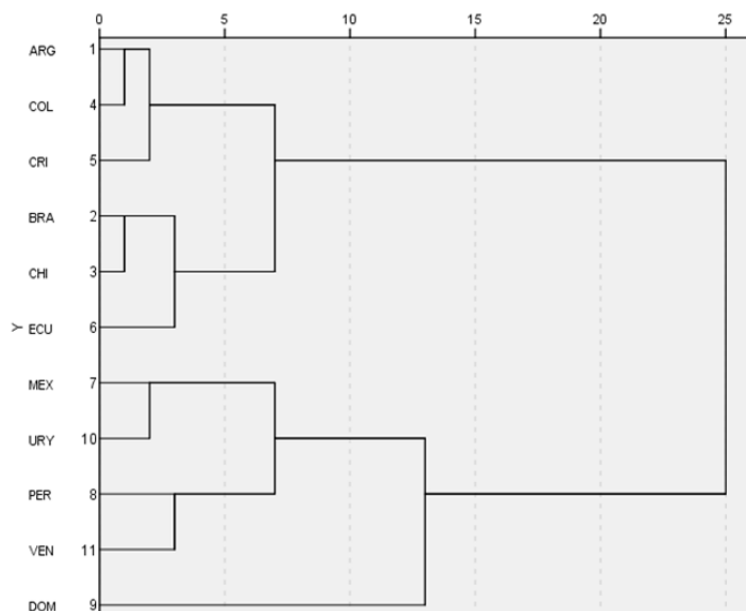




## Annex C.3 Cluster IB-LAT 2022. Primary sector

Cluster	Statistics	Adm. of Employment	Adm. of Operations	Other Bur. Procedures
1	Median	283.00	838.00	21.00
	N	1	1	1
	Standard deviation	.	.	.
	Maximum	283	838	21
	Minimum	283	838	21
	% of total sum	13.1%	31.8%	1.8%
2	Median	204.17	102.67	26.67
	N	6	6	6
	Standard deviation	135.454	39.903	29.527
	Maximum	47	40	0
	Minimum	364	152	74
	% of total sum	56.7%	23.4%	13.4%
3	Median	163.50	294.50	252.75
	N	4	4	4
	Standard deviation	115.889	179.832	83.076
	Maximum	20	132	176
	Minimum	298	460	337
	% of total sum	30.2%	44.8%	84.8%
Total	Median	196.55	239.27	108.36
	N	11	11	11
	Standard deviation	120.092	242.409	124.953
	Maximum	20	40	0
	Minimum	364	838	337
	% of total sum	100.0%	100.0%	100.0%

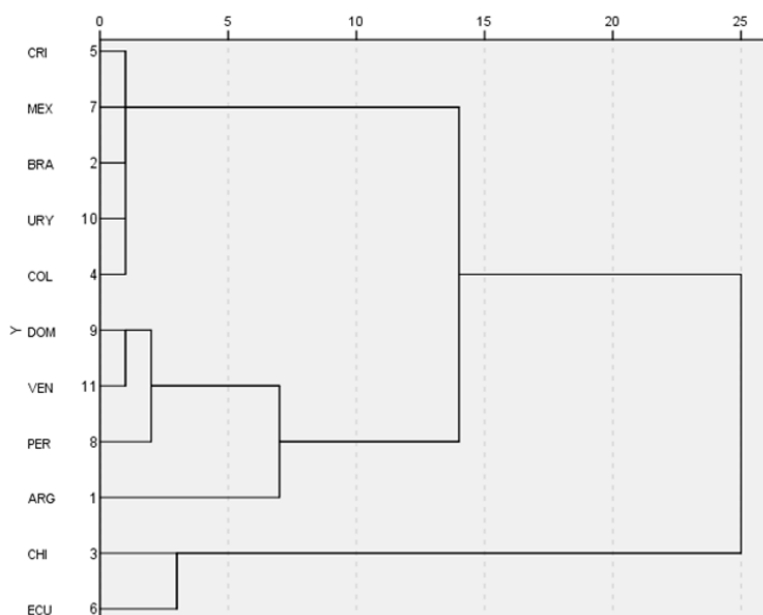
## Annex C.4 Cluster dendrogram IB-LAT 2022. Primary sector



Annex C.5 Cluster IB-LAT 2022. Secondary sector

Cluster	Statistics	Adm. of Employment	Adm. of Operations	Other Bur. Procedures
1	Median	85.50	138.00	764.50
	N	2	2	2
	Standard deviation	54.447	70.711	501.339
	Maximum	47	88	410
	Minimum	124	188	1119
	% of total sum	8.2%	7.4%	80.3%
2	Median	185.40	153.60	29.80
	N	5	5	5
	Standard deviation	87.263	72.858	20.401
	Maximum	85	73	14
	Minimum	298	248	60
	% of total sum	44.3%	20.5%	7.8%
3	Median	248.50	674.25	56.75
	N	4	4	4
	Standard deviation	288.648	117.781	36.253
	Maximum	28	566	8
	Minimum	669	830	94
	% of total sum	47.5%	72.1%	11.9%
Total	Median	190.18	340.09	173.18
	N	11	11	11
	Standard deviation	178.609	277.502	333.658
	Maximum	28	73	8
	Minimum	669	830	1119
	% of total sum	100.0%	100.0%	100.0%

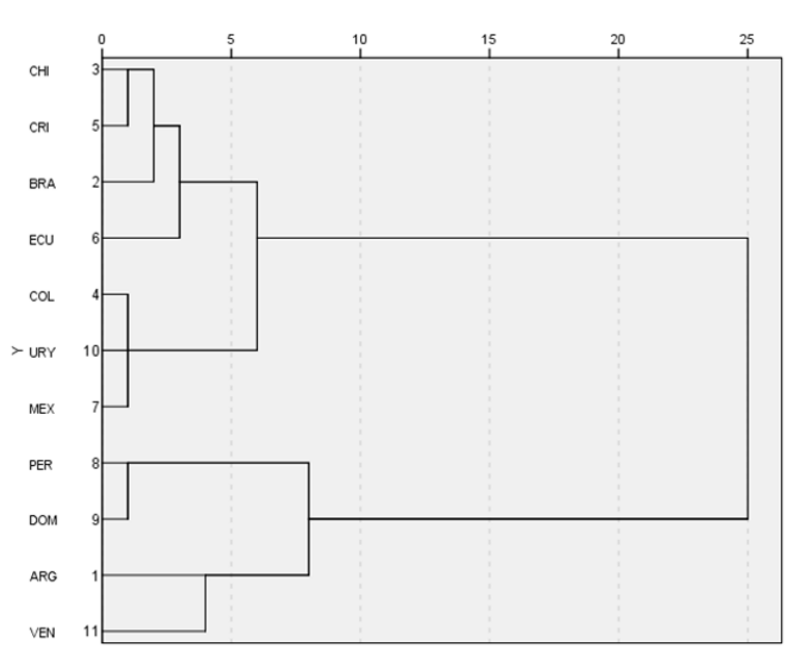
Annex C.6 Cluster dendrogram IB-LAT 2022. Secondary sector



## Annex C.7 Cluster IB-LAT 2022. Tertiary sector

Cluster	Statistics	Adm. of Employment	Adm. of Operations	Other Bur. Procedures
1	Median	257.00	638.00	66.00
	N	2	2	2
	Standard deviation	86.267	271.529	65.054
	Maximum	196	446	20
	Minimum	318	830	112
	% of total sum	30.7%	37.6%	24.7%
2	Median	29.50	565.00	23.50
	N	2	2	2
	Standard deviation	7.778	159.806	14.849
	Maximum	24	452	13
	Minimum	35	678	34
	% of total sum	3.5%	33.3%	8.8%
3	Median	157.14	141.00	50.86
	N	7	7	7
	Standard deviation	94.401	45.056	33.133
	Maximum	34	92	2
	Minimum	298	221	97
	% of total sum	65.8%	29.1%	66.5%
Total	Median	152.09	308.45	48.64
	N	11	11	11
	Standard deviation	106.404	256.235	35.973
	Maximum	24	92	2
	Minimum	318	830	112
	% of total sum	100.0%	100.0%	100.0%

## Annex C.8 Cluster dendrogram IB-LAT 2022. Tertiary sector



# VIII. Case studies by Country

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The logo for IBLAT 2022 is positioned over a white silhouette of the African continent. The text 'IBLAT' is in a smaller, bold, sans-serif font, and '2022' is in a larger, bold, sans-serif font below it. The background of the page features a dark red, textured pattern of concentric, overlapping curved bands that resemble a stylized globe or a series of ripples.

**IBLAT  
2022**

# 1. Argentina

Fundación Libertad

Agustina Leonardi, Javier Bongiovanni, Alejandro Bongiovanni

## 1.1 Production structure

In Argentina, the weight of the Primary sector in GDP is 12.9%. Within this sector, agriculture, livestock, hunting, and forestry are the ones with the largest scope (8.8%), followed by mining and quarrying (3.7%) and then by fishing (0.39%). Agricultural activity is a fundamental pillar of the Argentine economy. The Pampas region is the most important in the territory from an economic standpoint since its climate and soil characteristics make it a prime agricultural and livestock area. The vast plains and prairie landscape are ideal for growing cereals and oilseeds, and satisfy the demands of the internal and external markets.

With respect to the Secondary sector, it accounts for 26.0% of GDP. Within this sector, manufacturing industry is the largest with 20.2%; followed by the construction industry (3.6%); and then by electricity, gas, and water (2.2%). The sector consists of a set of heterogeneous industries whose activity is based on the transformation of raw materials into processed and semi-processed goods. Within the manufacturing industry, food production stands out, with a participation of 5.5% of GDP—and 27.4% in this sector—followed by chemical and substances manufacturing (3.0% of GDP).

The gross value of the Tertiary sector activities has the highest participation in the Argentine GDP, with 61.1%. The Services Sector is associated with all those activities that facilitate and allow the relationship between economic agents and their production activities. The expansion of world trade, global economic growth and regional integration have helped strengthen the importance of this sector in the economy. Within the aggregate, the sector that has the most weight is wholesale and retail trade (15.7%), followed by real estate (13.3%), and transportation and communications (8.8%).

The 2019 annual report from the Ministry of Labor, Employment and Social Security of Argentina, on the number of active companies—according to the ISIC classification—reveals that the sector with the highest participation is trade and repairs, with 28.3%; followed by real estate, renting, and business activities with 19.6%; then by agriculture, livestock, hunting, and forestry with 10.3%; and by manufacturing industries with 9.2%. Therefore, the number of companies in the sector according to branch of activity—2 digits of the ISIC—shows that 19.0% of them corre-

Fig. 1.1 Production structure by sector (2021)

Sector	Participation GDP (%)
Agriculture, hunting, and forestry	8.8
Fishing	0.4
Mining and quarrying operations	3.7
<b>PRIMARY SECTOR TOTAL</b>	<b>12.9</b>
Manufacturing	20.2
Electricity, gas, and water supply	2.2
Construction	3.6
<b>SECONDARY SECTOR TOTAL</b>	<b>26.0</b>
Wholesale, retail trade, and repairs	15.7
Hotels and restaurants	1.3
Transportation and communications	8.8
Financial intermediation	4.4
Real estate, renting, and business activities	13.3
Public administration and defense; compulsory social security	5.7
Education	4.8
Health and social work	4.0
Other community, social, and personal service activities	2.5
Private households with domestic service	0.8
<b>TERTIARY SECTOR TOTAL</b>	<b>61.1</b>
<b>TOTAL</b>	<b>100.0</b>

spond to retail trade, followed by real estate services (10.8%) and in third place, agriculture, livestock, hunting, and forestry (10.1%)

To identify the characteristics of the organizations belonging to the classification of micro-, small-, and medium-sized enterprises in Argentina, there is a legal framework that describes the conditions that must be met to consider a company in such categories. An initial classification includes annual sales amounts and number of employees, while a second is based on the number of employees the company has. This classification is the one used in this report, and it is described below.

Fig. 1.2 Categorization of companies by number of employees

Size	Activity				
	Construction	Service	Trade	Industry and mining	Agriculture and farming
Micro	12	7	7	15	5
Small	45	30	35	60	10
Medium category 1	200	165	125	235	50
Medium category 2	590	535	345	655	215

## 1.2 Representative economic activity of small businesses by sector

In accordance with the information gathered here, referring to the composition of GDP in Argentina, the number of companies by field of activity and their classification according to the number of employees, the representative or “sample” companies for each of the three production sectors should meet the following criteria:

- **Primary sector:** Companies belonging to a branch of agriculture, livestock, hunting, or forestry. Specifically, a company engaged in harvesting cereals, oilseeds, and forages with up to 10 employees was chosen.
- **Secondary sector:** Companies belonging to the manufacturing industry dedicated to the manufacture of food and beverages, and chemical products, in both cases up to 60 employees. For this edition of the Index, a company from the construction sector was added, with a maximum of 45 employees.
- **Tertiary sector:** Companies in the retail and wholesale trade sector (up to 35 employees); real estate, renting, and business activities (up to 30 employees); and communication services (up to 30 employees).

The companies were selected depending on the production structure of the country and the identification of the sample companies by sector. From the Primary sector, we selected a company dedicated to livestock production and soybean farming; three companies in the Secondary sector (a company that manufactures food products, one that makes chemical products, and another one in the construction field); and for the Tertiary sector, companies from the retail trade and communication services were included. For the sectors in which more than one economic branch was considered, a weighting was carried

out according to their share in GDP. The interviews were carried out with the administrative-accounting staff of the company as well as, if applicable, external professionals that the companies hire to carry out these tasks.

It is worth noting that in Argentina—given the amount of taxes assessed, its administrative complexity, and the constant modifications of processes—even small companies must delegate this task to external specialized agents. Likewise, the company staff were informed in detail of the methodology used and premises to take into consideration when completing the forms and answering questions for each analysis group, as follows: 1) Administration of Employment, 2) Administration of Operations, and 3) Other Bureaucratic Procedures.

The research specifically revealed the number of hours required for the company to comply with each of the procedures that make up the three groups, the frequency of the procedures, and the number of people involved in them. With this information, a certain number of hours was assigned per group, which added together show the total number of hours that a company requires to fulfill all their obligations according to their economic activity.

## 1.3 Results

The average time that (weighted by the sector in GDP) a small company in Argentina dedicates to complying with the legally required bureaucratic burden is certainly high: **IB-LAT=899.9 hours/year**. The highest number of hours is seen in the Secondary sector, with 1,365.7; the lowest, in the Primary sector, with 509.5 hours; and close to the average is the Tertiary sector, with 783.6 hours.

Of the three groups of procedures analyzed, the one that demands the most hours, on average weighted by the share of the production sectors in GDP, is Administration of Operations, with 447 hours/year, followed by Administration of Employ-

Fig. 1.3 Annual hours by sector and by group

Group of Procedures	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. of Employment	334.5	668.6	317.8	440.3	411.3
Adm. of Operations	135.0	602.9	446.1	394.7	447.0
Other Bur. Procedures	40.0	94.2	19.6	51.3	41.6
<b>TOTAL</b>	<b>509.5</b>	<b>1365.7</b>	<b>783.6</b>	<b>886.2</b>	<b>899.9</b>

ment, with 411.3 hours/year. Within the Administration of Employment, the subgroup that requires the most hours from the employer is the one that pertains to administration of wages. This includes everything related to labor taxes (personal contributions and employer contributions), which absorbs almost 62% of the hours devoted to the Administration of Employment.

Consequently, the number of hours that a company must allocate to Administration of Operations is absorbed for the most part by procedures associated with taxes at all levels of government (federal, states, and local levels), under the subgroup “administrative taxes.” In each case, all information necessary to complete the survey was gathered and recorded, from the collection of information through the liquidation of the tax, the presentation of the affidavit and even the payment itself. The highest number of hours is observed in the Secondary sector, with 547.6 hours, and the lowest in the Primary sector, with 122.0 hours; the weighted average being around 415.2.<sup>1</sup>

Finally, the item “Others,” of less relative importance, reflects all changes that must be made in the tax, labor, and commercial codes, as well as specific requirements for production activity, which demand an average of 41.6 hours/year, with the Secondary sector being the heaviest impacted by these requirements (94.2 hours/year).

*Within the Secondary sector, construction is the most time-consuming activity. The total number of hours per year required to comply with the procedures of the three groups is 2,019.5. These numbers almost double those required in the food industry (1,021 hours) and is 1.6 times what is required for a small chemical manufacturing company. The greatest differences occur in the sub-groups hiring and firing, and administrative taxes. For hiring and firing, the number of hours in the construction field amounts to 401 versus an average of 21.5 hours in the other two activities of the Secondary sector. The high turnover of contracts per project in the construction sector has a direct impact on this calculation. With respect to administrative taxes, the number of hours per year spent by a construction company amounts to 781, exceeding by 321 hours the average of the other two companies surveyed in the sector (food and chemicals).*

**Fig. 1.4 Procedures by economic sector**

Sector	Activity	Total procedures	Degree of Digitalization <sup>1</sup>	Organizations involved
Primary	Agriculture	47	85.1%	Ministerio de Trabajo, Empleo y Seguridad Social de la Nación, Administración Federal de Ingresos Públicos (AFIP), Servicio Nacional de Sanidad y Calidad Agroalimentaria, Agencia Nacional de Seguridad Vial.
Secondary	Food industry	51	86.3%	Ministerio de Trabajo, Empleo y Seguridad Social de la Nación, Administración Federal de Ingresos Públicos (AFIP), Agencia Nacional de Seguridad Vial, Ministerio de Ambiente Provincial, Agencia Santafesina de Seguridad Alimentaria, Instituto del Alimento Municipal, Secretaría de Planeamiento de la Municipalidad de Rosario.
	Chemical industry	50	90.0%	
	Construction industry	53	88.7%	
Tertiary	Retail trade	46	89.1%	Ministerio de Trabajo, Empleo y Seguridad Social de la Nación, Administración Federal de Ingresos Públicos (AFIP), Agencia Nacional de Seguridad Vial, Ministerio de Ambiente Provincial.

In addition to the hours required by bureaucratic procedures, another aspect to highlight is the number of procedures that companies must complete. For instance, on the Primary sector (whose activity surveyed was agriculture) there were a total of 47 procedures distributed as follows: 26 for Administration of Employment, 18 for Administration of Operations, and 3 for Others. Likewise, the Secondary sector, showed slight differences between the different categories surveyed, due to bureaucratic procedures specific to each sector. The chemical industry registered 50 procedures, the lowest of the group, distributed in 26 procedures for Administration of Employment, 21 for Administration of Operations and 3 for Other procedures; followed by the food industry with 51 procedures, with 26, 19, and 5 respectively; and finally the construction

<sup>1</sup> Ratio between digital procedures and total procedures.

*A small company in Argentina must complete an average of 49 procedures to comply with the Administration of Employment, tax, and other requirements specific to each sector. This means the company must allocate 899.9 hours a year to comply with these obligations. In other words, the company has to devote 3.6 hours per business day to meeting the requirements imposed by the State.*

sector with 53 procedures, composed by 26 for Administration of Employment, 21 for Administration of Operations, and 6 for Others.

## 1.3.1 Administration of Employment

The Argentine labor market is highly regulated, which means that the tasks in this category demand a significant number of hours from the companies—from salary payments to the resolution of union conflicts. In the Primary and Secondary sectors, this category of procedures is the one that requires the greatest number of hours. Specifically, in the Primary sector it absorbs 66% of the total hours; in the Secondary sector 49%; while in the Tertiary sector 41% of the total hours to comply with them.

This group of procedures is made up of three subgroups, as follows: the first, made up of salaries, taxes and contributions; the second, hiring and firing; and the third, by all the procedures associated with work reports. The average number of hours (weighted) for the three sectors demanded by this category amounts to 411.3 hours/year.

Within the subgroups, the number of hours demanded for salaries, taxes, and contributions is the one with the highest weighting within the group as a whole, with a participation of more than 50% in the three production sectors, reaching practically 70% in the Tertiary sector. The procedures associated with this activity include the payment of salaries and other salary components (vacations, advances, and supplemental compensation); payment to employees (by check or transfers); and the preparation of reports, presentation, and payment of contributions from the employer.

Specifically, employers are required to pay social contributions to the State every month. These include the contributions to social security that all employees must contribute to the system through withholdings made by their employer through their paycheck. In addition to the contributions that every employer pays for each employee, they are required to pay union dues, family compensation, funeral service benefits, and other contributions and expenditures imposed by each union collective agreement.

The subgroup referring to hiring and firing is the one that registers the least number of hours within the group, averaging 53.9 hours/year (weighted by sector participation in GDP) among the three sectors analyzed. This low number of hours in relative terms is associated with the generally low turnover in the labor market (construction excepted). The rigidity of the labor regulatory framework contributes to the relative stability of company personnel, while it affects the high level of informality in Argentina, and in many cases contributes to the permanent closure of companies. On the other hand, the Secondary sector, particularly the construction area, registers the highest number of hours in this category with 401 hours/year, due to the expected high turnover of contractors working for a construction company.

The third subgroup is made up of work reports that, on a weighted average for the three sectors, demand about 92.1 hours/year. The highest number of hours is recorded in the Primary sector, with 148; followed by the Secondary sector, with 106.9 hours; and then the Tertiary, with 74 hours. This subgroup includes the registration and scheduling of work hours and those procedures related to employee health screenings. The higher number of hours observed in the Primary sector is explained by seasonal activities that involve more time as these procedures are not standardized (or automated in many cases).

*The Administration of Employment appears as the group of procedures that takes the longest time to complete in an organization, with a weighted average of 411.3 hours/year. Within this category, the set of procedures related to salaries, contributions, and taxes is the one that demands the most time from the employer, with 265.4 hours/year. On the other hand, within the Administration of Operations, more than 90% of the hours of all sectors are spent on tax administration.*

## 1.3.2 Administration of Operations

This category is made up of subgroups: administrative taxes, waste management, vehicles, and occupational health and safety. The administrative taxes subcategory is the one that demands the greatest number of hours for the three sectors of the economy, with a weighted average of 415.2 hours.

Precisely, in all three sectors the participation of this subgroup exceeds 90% of the total procedures for Group 2, that is, Administration of Operations. In other words, out of every 10 hours used to complete this type of task, 9 are spent on tax administration. The highest number of hours is recorded in the Secondary sector, with 547.6 hours, and the lowest, in the Primary sector, with 122 hours.

Looking at these numbers at a broadened level, the weight of this subcategory remains significant: it represents 23.9% of the time dedicated to completing all the bureaucratic procedures in the Primary sector, around 40.1% in the Secondary sector, and 53.6% in the Tertiary sector.

The tax portion, although slightly different depending on the sector, is comprised of the following procedures: the annual financial accounting and reporting, procedures associated with the payment of the value added tax (VAT), the payment of property taxes, the payment of income tax, the payment

**Fig. 1.5 Time required for the Administration of Employment procedures (hours/year)**

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Salaries, taxes, and contributions	171.0	425.8	216.9	271.2	265.4
Hiring and firing	15.5	135.9	27.0	59.5	53.9
Work reports	148.0	106.9	74.0	109.6	92.1
<b>TOTAL</b>	<b>334.5</b>	<b>668.6</b>	<b>317.8</b>	<b>440.3</b>	<b>411.3</b>



**Fig. 1.6 Administration of Operations procedures (annual hours)**

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. Taxes	122.0	547.6	420.4	363.3	415.2
Waste Mgmt.	0.0	11.4	0.0	3.8	3.0
Vehicles	10.5	21.7	14.7	15.6	16.0
Health and Safety	2.5	22.2	11.1	11.9	12.9
<b>TOTAL</b>	<b>135.0</b>	<b>602.9</b>	<b>446.1</b>	<b>394.7</b>	<b>447.0</b>

of the tax on gross income, the payment of the DREI, and the payment of the TGI.

Of the aforementioned procedures, the one that takes the longest to complete, on average, is the one associated with paying VAT. The Tertiary sector is the most affected by this procedure: the payment of VAT represents almost half of the total time (48%) dedicated to tax duties. For the Primary sector, it represents almost 40%, and for the Secondary, 20–30% (depending on the branch). Income tax and gross income tax, the former at the national level and the latter at the state level, also become important. Out of the three sectors in the study, the Secondary sector is where the greatest number of hours is spent. It also depends on the scope of sales, since to the extent that the company sells outside of the state, the procedures associated with paying taxes turn more complex and time-consuming.

*The VAT payment is the tax administration procedure that takes the longest to complete. From the collection of information to the assessment and payment of the tax, it takes a company an average of 148 hours/year to comply with this procedure. This number increases for the Secondary sector, specifically the construction industry, reaching an average of 252 hours/year.*

Leaving percentages aside, it should be noted that completing the payment of taxes for the Primary sector takes a substantially lower number of hours than the other two sectors. While the Primary employs 122 hours a year, the Secondary requires between 420 and 781 hours, and the Tertiary takes between 301 and 458 hours per year. (The differences are explained by the production activities surveyed.)

The main reason why the Primary sector demands fewer hours to pay its taxes in relative terms is due to the seasonal nature of the activity, so there is no regular activity throughout the year. For example, animals are sold once a month all together or every three months. That is, there is no daily movement as in the rest of the companies analyzed (i.e., retail business and construction company). Likewise, VAT is settled in a simpler way as there are few buyers and suppliers (they are usually always the same), and, therefore, there are few movements. The same occurs with the gross income tax (local province tax), which is relatively simple to settle since it operates within a few provinces; there is no multilateral agreement; and, if there is one, it is only within two provinces. (This takes a long time for those companies that sell outside their provinces.)

Within the Secondary sector, only the food industry has particular requirements on waste management, which demand 25 hours per year to complete.

Turning to the Vehicles subgroup, the most noteworthy here is the homogeneity in terms of procedures and hours required to have the company vehicle(s) authorized to circulate. For any of the three sectors, between 10 and 35 hours per year are used for this type of procedure; their participation in the group and in the general total is very low (less than 10%).

The subgroup called Health and Safety at Work presents important inter-sector variations in relative terms, but the number of hours that this activity demands is still low. The Primary takes 2.5 hours per year; the Secondary between 6 and 58 hours; while the Tertiary, depending on the item, requires between 7 and 24.

**Fig. 1.7 Hours allocated to the payment of taxes per year (including labor taxes)**

Sector	Hours per year
Primary with 5 employees	150.5
Secondary with 15 employees (food industry)	480.0
Secondary with 45 employees (construction)	937.0
Secondary with 60 employees (chemical industry)	618.5
Tertiary with 7 employees (retail trade)	489.0
Tertiary with 7 employees (communication services)	343.0

The subgroups Waste Management, Vehicles, and Health and Safety at Work have a low participation in terms of Administration of Operations, which again highlights the importance of tax procedures within their category and within the grand total. It should also be noted that both present similar results due to the generalization of the procedures involved in each of them. More specifically, the tasks related to the inspection and authorization of vehicles, registration of new vehicles, and deregistration of old vehicles are independent of the production sectors. The same occurs with occupational safety and health training, which have been standardized so that inter-sectoral differences are minimal. It should be noted that in the Secondary food industry, according to the survey carried out, the contracted industrial hygiene and occupational safety company performs tasks related to food control and safety.

### 1.3.3 Other Bureaucratic Procedures

This category is made up of the subcategory called Statistical and Legal, and those specific to the production activity surveyed.

Tasks associated with changes in the commercial code, changes in the labor code, and changes in the tax code yield heterogeneous results both in the hours used and in determining the most demanding task. The Primary sector dedicates 40 hours with a preponderance of the procedure related to changes in the tax code (24 hours). In turn, the Secondary branch of the economy shows a great disparity depending on the item: the food industry takes 40 hours, while the chemical industry 108, and the construction industry 92, with greater weight in the changes of the commercial code for the food industry and the fiscal code for the chemical industry. The Tertiary varies between 12 (communication services), and 22 hours (retail trade), with a share equally distributed among all the procedures for retail and a preponderance of tax changes for communication services.

Although the procedures associated with changes in the tax code seem to be the most demanding in time, their prevalence is not reflected across the board. Argentina constantly undergoes changes in fiscal regulations and, above all, the constant addition of new ones. All this makes it increasingly difficult for companies to comply with all the bureaucratic procedures imposed by the State for their operation.

Within the Secondary sector, the food industry has particular requirements on waste management specific to their activity, taking 8 hours/year to comply with those regulations. As for the construction industry, these types of procedures demand 61 hours/year.

## 1.4 Final Considerations

A high tax burden, an entangled tax system, high labor costs, and the rigidity of labor market regulations are elements that make it extremely difficult to undertake an economic activity and sustain it in Argentina.

This study identified the high cost, in terms of hours, that a small business in operation must invest to comply with all the labor, tax, and industry-specific obligations of the economic activity by sector. This report reaches conclusions that are in tune with said studies conducted in small companies representing the three production sectors of the country. The data collection through interviews with the companies- administrative and accounting staff (or external specialized staff) made it possible to detect how many hours a company must dedicate per year to

*The construction industry has sector specific procedures that involve a low number of hours (61), however, the time it takes for the procedure to be finalized is extremely high. Construction permits take 30 hours/year to obtain, but it takes local (municipal) authorities about 5 months to deliver it once the process is completed. A similar situation occurs with urban licenses and project completion certificates, which require just a few hours to file but take on average 15 and 60 days respectively to be approved. This is clear evidence of the “dead” time generated by the bureaucratic apparatus.*

the completion of all procedures associated with the Administration of Employment and the Administration of Operations.

From these interviews, it can be deduced that there are many regulations that result in the proliferation of obstacles for small-business owners in Argentina. The constant changes in the regulatory framework, the delays in resolution of procedures, and the confusion and uncertainty that prevails in the Argentine economy were identified as the major deterrents to sustaining and expanding business activity.

On average, a small company in Argentina must allocate 899.9 hours/year to complete all the bureaucratic procedures established by the different levels of government. This implies that a company must dedicate 3.6 hours per business day to meeting the requirements established by the State.

The procedures associated with the Administration of Employment consume practically half the time required by the government bureaucracy, with the set of procedures related to wages, contributions, and labor taxes being the ones that require the most time from the employer. The other large block of procedures is that of administrative taxes (for all levels of government), which amounts to 415.2 hours per year. The greatest demands for business owners in Argentina are those related to fulfillment of labor and tax system requirements. These two elements not only hinder investment and growth in terms of time but also in terms of cost, which in turn translates into high levels of informality and even business collapse.

Argentina must inexorably pursue structural reforms that redefine the tax system and labor regime in a way that encourages investment, production, and employment. These procedures must be simpler, more flexible, more agile, predictable, and less costly so that small entrepreneurs can take root and thrive, and thus contribute to economic and social development.

# 2. Brazil

Instituto Liberal

Lucas Berlanza, Igor Matos Slim



## 2.1 Introduction

According to the *Doing Business 2020* report, which captures the economic performance of 190 countries in 2019, Brazil remained in the last position worldwide, with the highest average, in terms of financial cost and time required to meet tax obligations. This average, which amounts to 1,502 hours a year, is six times the world average or five times the Latin American average. However, there is a big difference between small businesses and the rest of the business universe, given the de-bureaucratization measures implemented by the government over the past few years in an effort to simplify and facilitate the set-up and operation of businesses in Brazil.

The result of this study found that Brazilian micro and small businesses currently require much less time than their neighboring countries to satisfy their bureaucratic requirements, about 211.2 hours on average per year. Although this figure is lower than in previous years, the basic fulfillment of their labor and tax obligations still represents a high cost for this type of company.

First off, the Law on De-bureaucratization (13.726/2018) eliminated the requirement of certain documents and obligations, streamlining and simplifying unnecessary or overlapping procedures or requirements, whose economic or social cost for both the public treasury and the citizen is greater than the possible risk of fraud.

Then, Law 9.756/2019 created the portal “gov.br” integrating all federal public websites and digital services into a single platform that has reached 115 million users, more than half of the Brazilian population.

Meanwhile, the Economic Freedom Law (13.874/2019) has significantly reduced the time to open and close a business in Brazil, granting a license exemption for low-risk activities that mainly benefit small businesses. This measure allows companies and entrepreneurs to develop businesses considered “low risk” without the need for state permits or licenses, and it facilitates the dissolution of the business, allowing its immediate closure, ensuring the reduction of bureaucracy, and providing a simplified process for all companies. This does not, however, relieve them of any legal liability. The initiative is based on guidelines adopted and developed by OECD member countries.

In this sense, the initiative is to simplify and expedite the opening, change, and dissolution of companies in Brazil, so that these procedures can be carried out within a day. Since the publication of the Digital Government strategy (10.332/2020), the opening time of a company in Brazil has decreased by 69%.

The Business Environment Improvement Law (14.195/2021) aims at de-bureaucratizing Brazil business environment, enhancing measures already in place by the Economic Freedom Law, such as simplification and automation of business establishment, protection of minority shareholders, streamlining of the foreign trade process, unification of business registration numbers between tax entities, among others. This law allowed all citizens to benefit from the modification of business regulations that individual micro enterprises already had access to by substantially easing the required procedures to formalize and conduct business activities in Brazil.

More recently, a new Notary Proceedings Law was created (Law 14.382/2022) to modernize and simplify procedures relating to public registers of official acts and transactions, which enables citizens and businesses to access the services of the country’s registration offices via the Internet. From now on, in-person attendance is no longer required for the signature and registration of legal documents.

## 2.2 Production structure

Brazil registered nearly 4 million new businesses in 2021, reaching 19.3 million active companies, spread across 27 states (Fig. 2.1) considering headquarters and branches in individual, micro, small, medium, and large companies. The southeast region accounts for 50% of this growth.

The Tertiary sector accounts for 4/5 or 80% of the total business in the country and consists mostly of micro and small companies. Furthermore, the Primary sector, driven by agribusiness, produced record results for the sector accounting for 27.4% of GDP and 40% of total exports in 2021. In the Secondary sector, the number of industries exceeds that of construction and is responsible for the collection of 1/3 of federal tax revenues, 40% of state taxes, while providing 26% of all formal jobs (preceded only by the commerce sector) and occupying 33.8% of the total

Fig. 2.1 Production structure by state

State	Businesses	%
São Paulo	5,534,229	28.6%
Minas Gerais	2,087,052	10.8%
Rio de Janeiro	1,730,014	8.9%
Paraná	1,405,435	7.3%
Rio Grande do Sul	1,292,984	6.7%
Santa Catarina	988,853	5.1%
Bahía	960,468	5.0%
Goiás	707,316	3.6%
Ceará	557,612	2.9%
Pernambuco	550,851	2.8%
Espírito Santo	439,658	2.3%
Pará	384,452	2.0%
Mato Grosso	373,103	1.9%
Distrito Federal	341,660	1.8%
Mato Grosso do Sul	271,003	1.4%
Maranhão	257,051	1.3%
Paraíba	247,980	1.3%
Rio Grande do Norte	231,481	1.2%
Amazonas	191,886	1.0%
Alagoas	174,851	0.9%
Piauí	170,303	0.9%
Sergipe	127,856	0.7%
Rondônia	123,596	0.6%
Tocantins	122,693	0.6%
Acre	39,064	0.2%
Amapá	37,354	0.2%
Roraima	32,285	0.2%
Exterior	507	0.0%
<b>TOTAL</b>	<b>19,381,597</b>	<b>100%</b>

workforce. According to its size, the classification establishes that micro-enterprises have up to 9 employees in trade and services, or up to 19 in industries, and an income limited to R\$360 thousand/year; the small business has between 10 and 49 employees in trade and services, or between 20 and 99 in industries, and a limited income of R\$360,000 to R\$4.8 million/year; and the others have more than 50 employees in trade and services, or more than 100 in industries, and an income of more than R\$4.8 million/year.

Fig. 2.2 Participation in GDP by sector

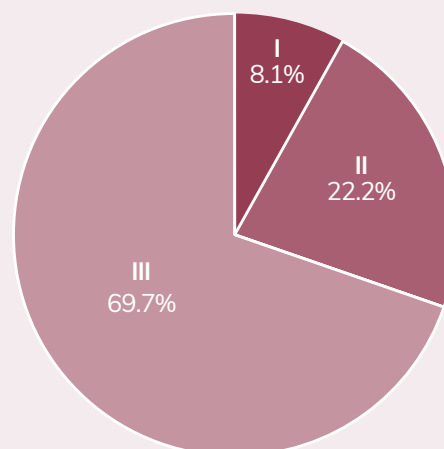
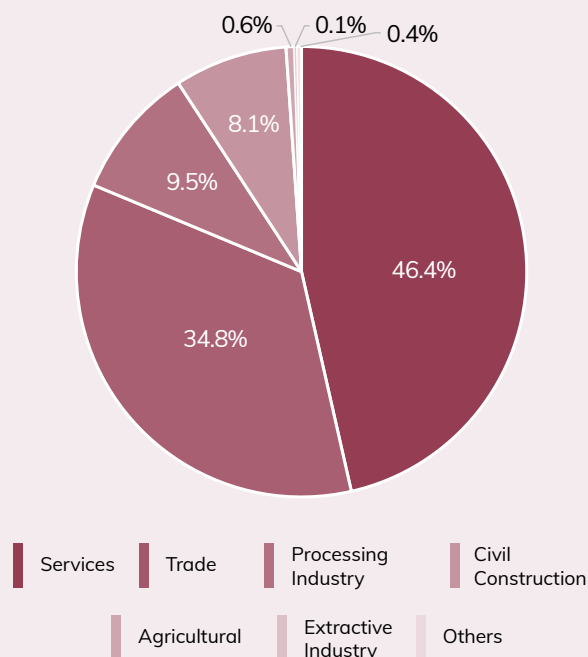


Fig. 2.3 Companies by production activity (%)



## 2.3 Representative economic activity of small enterprises by sector

With this in mind, the following small companies were selected as objects of analysis that best exemplify the economic activities of each sector:

Fig. 2.4 Distribution by production activity according to company size (no. companies)

Sector/Branch	Micro-enterprises	Small business	Micro-individual ventures	Others
I Agriculture	40,149	9,941	27,204	394,832
III Trade	2,550,926	397,652	3,490,015	222,093
II Construction	282,790	59,648	1,083,616	37,016
II Industry	504,483	119,296	1,218,502	111,047
III Services	2,440,370	407,594	5,515,561	468,863
<b>TOTAL</b>	<b>5,818,718</b>	<b>994,131</b>	<b>11,334,898</b>	<b>1,233,850</b>

Source: Receita Federal/2020

- The Primary sector in Brazil is basically made up of agri-business. Grains are the main product of Brazilian agricultural production, responsible for approximately R\$1.00 of every R\$4.00 of GDP. The company chosen to represent this sector is a grape farm located in the state of Rio Grande do Sul.
- The Secondary sector is predominantly composed of manufacturing and construction industries. The one chosen to represent this sector is a construction company located in the state of Minas Gerais, the state with the second largest concentration of companies in the country.
- The Tertiary and largest sector employs more than 70% of Brazilians. Consulting services were identified as the main service activity, therefore the company chosen to represent this sector is a law firm located in Sao Paulo, the most populated and industrialized state in the country.

The most relevant businesses and emerging markets were interviewed for each sector. These three companies subcontract an accounting office to do tax management and employment administration.

## 2.4 Results

The information gathered indicates that there were a total of 45 mandatory administrative procedures required for the Administration of Employment and Administration of Operations. These procedures were required by nine different public administrations, including federal, state, and municipal levels. Almost 100% of these procedures have been fully or partially digitized in recent years, but some of them have yet to be integrated.

The Primary sector continues to lose more time than others in bureaucratic procedures, spending 244.7 hours a year, 33.5 hours more than the average (which is basically the same as the Secondary sector) that devotes 220.8 hours a year. The Tertiary

sector still needs fewer hours for bureaucratic procedures, allocating 168 hours in total.

The Tertiary sector is the one that requires the least amount of time to deal with bureaucracy, especially since it illustrates a simplified regime of employment management and tax management. This is the result of the Simples National and eSocial systems that facilitate these procedures streamlining processes and payments.

### 2.4.1 Administration of Employment

The Administration of Employment requires 27 procedures, starting with hiring, payment of wages, and social contributions such as the retirement system and unemployment insurance, which places a burden on the employee and the employer. In Brazil, it is still mandatory that both contribute to a public retirement system, even if the employee prefers to contribute to a private one.

Micro and small companies spend most of their time calculating and paying salaries and social contributions as public pensions. The Primary sector shows the highest demand for time to comply with the procedures of the Administration of Employment, surpassing the Secondary sector by more than 50%, and spending more than double the time required in the Tertiary sector.

In addition to the monthly remuneration to which the worker is entitled during the vacation period, the employer must pay an additional amount corresponding to 1/3 of the worker's salary. Likewise, the employer must pay at the end of each year an additional salary corresponding to 1/12 of the gross salary per month worked, called the 13th salary. Their calculation and payment increase the time involved by 2.5 hours a year and adds four different extra procedures for each employee.

Fig. 2.5 Annual hours by sector and by group

Group of Procedures	Primary	Secondary	Tertiary	Simple Avg.	*Weighted Avg.
Administration of Employment	130.1	85.3	61.8	92.4	119.5
Administration of Operations	112.9	93.1	104.5	103.5	109.7
Other Bureaucratic Procedures	1.7	42.4	1.7	15.3	7.0
<b>TOTAL</b>	<b>244.7</b>	<b>220.8</b>	<b>168.0</b>	<b>211.2</b>	<b>236.2</b>

\*Weighted average by number of companies in Brazil: III=80% II=13% I=7%

Fig. 2.6 Time required for Administration of Employment procedures (hours/year)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	* Weighted Avg.
Salaries, taxes, and contributions	87.0	62.9	30.6	60.2	79.9
Hiring and firing	17.9	15.2	12.0	15.0	17.1
Work reports	25.2	7.2	19.2	17.2	22.4
<b>TOTAL</b>	<b>130.1</b>	<b>85.3</b>	<b>61.8</b>	<b>92.4</b>	<b>119.5</b>

\*Weighted average by number of companies in Brazil: III=80% II=13% I=7%

The employer must pay the worker's travel expenses on a monthly basis through a subsidy equivalent to the amount that exceeds 6% of their base salary. This procedure alone, depending on the number of employees, can cause each sector to lose a whole day of work per year to calculate expenses and fill out employee transport cards.

Each hour worked at night must be paid with an increase of at least 20% over the value of the daytime hour (article 7, IX of the Federal Constitution and article 73 of the Labor Code). This percentage may be higher when so provided by a collective agreement.

The exercise of work in unhealthy conditions, above the tolerance limits established by the competent authority, ensures the receipt of an additional 40%, 20%, and 10%, respectively, of the minimum wage in the region, as classified in the maximum, average, and minimum degrees. And, for activities or operations that, due to their nature or work methods, imply a greater risk or are considered dangerous, the worker receives an additional 30% of the minimum wage.

All these monthly procedures result in many hours a year and increase the calculation and payment times required, such as to hire and fire employees, making the work activity much more complex and burdensome for all types of Brazilian companies.

## 2.4.2 Administration of Operations

Administration of Operations, consisting basically of tax administration, involves three contribution systems, the most widely used is the so-called Simples Nacional, which is a shared tax collection and inspection regime, applicable to micro and small companies, under the Complementary Law 123/2006.

Although the Brazilian tax system is, in general, the most complex and the fourth highest corporate tax burden in the world, the specific complexities depend on the activity, sector, and region where the company is located. Because it is a federated territory, with 5,570 cities, 26 states and a federal district, 5 regions, and the federal government, Brazil has many different types of taxes and collections. For this rea-

son, some types of companies find it difficult to prosper and some regions are more developed than others. It is because of this complexity that Brazil occupies position 124 in the Doing Business ranking. After the World Bank discontinued the Doing Business index, the Ministry of Economy published a study showing that Brazil would have risen to position 65 in the ranking—if it still existed—after the initiatives and results obtained by the Brazilian government in relation to the modernization of the business environment.

In the Secondary sector, the time allocated to Administration of Operations was the least, with 93.1 hours/year. It should be noted that in this case the Primary sector company did not apply to the Simples Nacional regime, which increased the time spent in taxes to 112.9 hours. The Tertiary sector required 104.5 hours for these obligations.

It is possible to conclude, then, that the activities that use Simples Nacional in Brazil have less tax reporting obligations and consume less time complying with the bureaucratic burden than others.

## 2.4.3 Other Bureaucratic Procedures

The National Solid Waste Policy instituted in Brazil in 2010 by law 12.305/2010 has a hierarchical objective directed to the non-generation, reduction, reuse, recycling, and the proper final disposal of waste generated during the production process and after the product's life cycle. It regulates aspects of the manufacture, import, transport, treatment, and final destination of all solid waste in the Brazilian territory in order to drive the regularization and environmental management of waste, including industrial solid waste (RSI) and construction and demolition waste (RCD).

Currently, the National Solid Waste Plan (PNRS) is in the process of being implemented—an indication of the great concern Brazil has shown regarding the correct treatment and adequate disposal of waste, especially in small cities and companies, which are not required to have a license under the environmental regularization process.

Fig. 2.7 Time required for Administration of Operations procedures (hours/year)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	* Weighted Avg.
Taxes	112.9	93.1	104.5	103.5	109.7
<b>TOTAL</b>	<b>112.9</b>	<b>93.1</b>	<b>104.5</b>	<b>103.5</b>	<b>109.7</b>

\*Weighted average by number of companies in Brazil: III=80% II=13% I=7%

Fig. 2.8 Time required for Other Bureaucratic Procedures (hours/year)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	* Weighted Avg.
Other Bureaucratic Procedures	1.7	42.4	1.7	15.3	7.0
<b>TOTAL</b>	<b>1.7</b>	<b>42.4</b>	<b>1.7</b>	<b>15.3</b>	<b>7.0</b>

\*Weighted average by number of companies in Brazil: III=80% II=13% I=7%

After the federal government digitized its services on an integrated digital platform, tax entities have begun to require a digital certificate for accounting, tax collection, and other procedures applicable to micro and small enterprises, for the licensing of their products and services, issuing invoices, paying taxes, and so on.

Other exclusive procedures depend on each activity and the biome, area, or region where the company is located, since environmental law requires Primary and Secondary companies involved in production and construction to have a prior license, as well as some compensatory measures to mitigate the potential environmental impact.

## 2.5 Conclusions

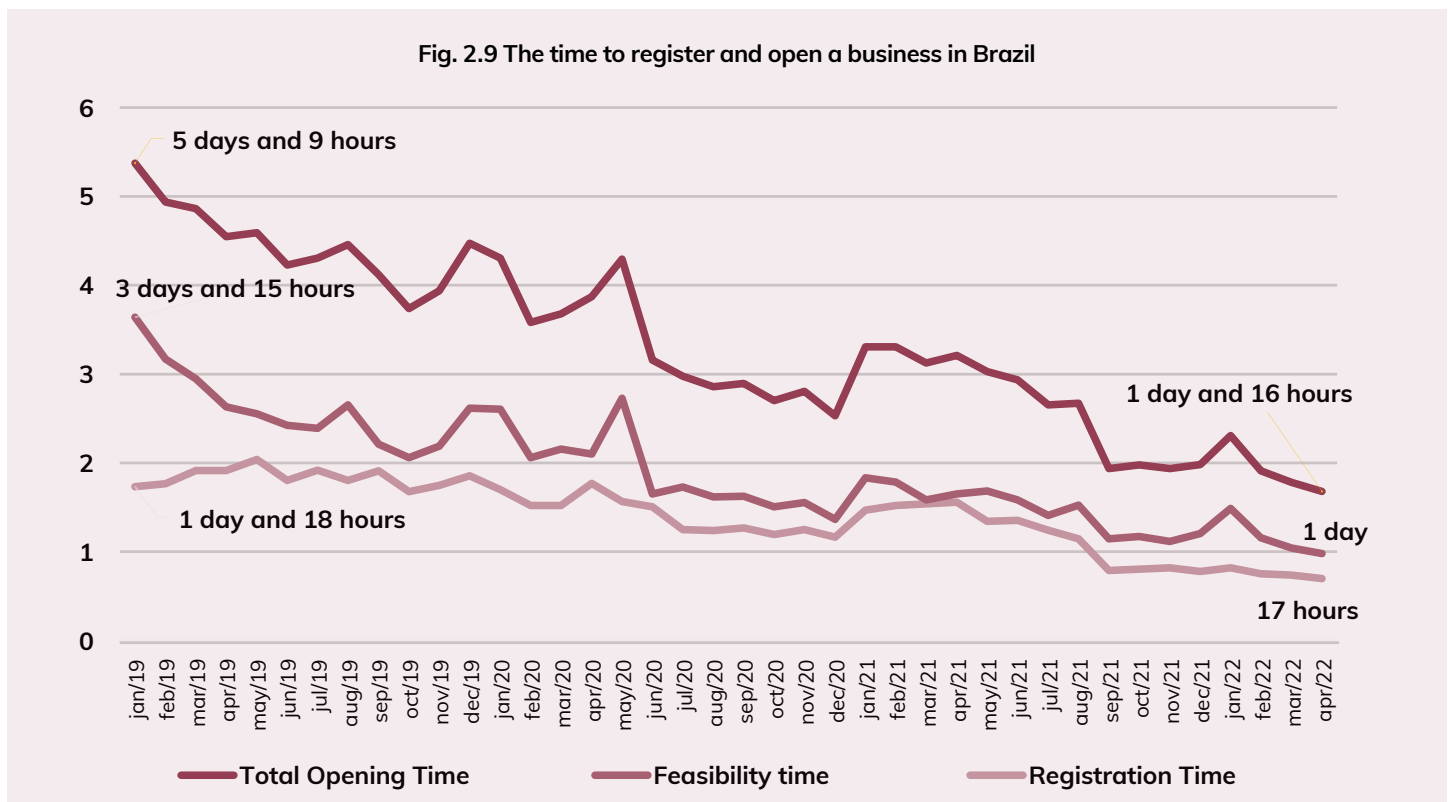
Over the past four years, Brazil has adopted important steps and continues to adopt various strategies to reduce bureaucracy and wasted time paying taxes. The Labor Reform, the Economic Freedom Law and the digital certification infrastructure have streamlined and integrated processes, from the generation of permits for the opening and operation of companies, to bankruptcy proceedings. The average of 182.1 hours per year for small companies to meet all obligations is much less than it has

been in the past, and significantly less than the average time spent by medium and large companies.

Brazil has made it easier to start a business and register property by making it faster, reducing the cost of the digital certificate, and improving the quality of the land administration system. The time to register and open a business in Brazil has been reduced from 5 days and 9 hours, to 1 day and 16 hours, reaching a historical record.

Since 2019, more than 4,000 regulations have been repealed and nearly 4,000 (84%) federal services have been fully digitized on the gov.br portal, reducing bureaucracies and processing times. In 2021, Brazil was recognized by the World Bank, in its GovTec index, as the seventh most mature country in digital government in the world. This ranking assesses the current state of digital transformation in the public sector in 198 world economies. The expectation is that, by the end of this year, all services associated with the federal government could be done digitally, speeding up the process and reducing bureaucracy. In addition, projections indicate that, up to 2025, the government can save R\$38 billion just by reducing bureaucracy and face-to-face customer care expenses. With more agile processes, society could save more than 149 million hours a year, which translates into R\$1.5 billion that could otherwise be wasted waiting for paperwork and procedures.

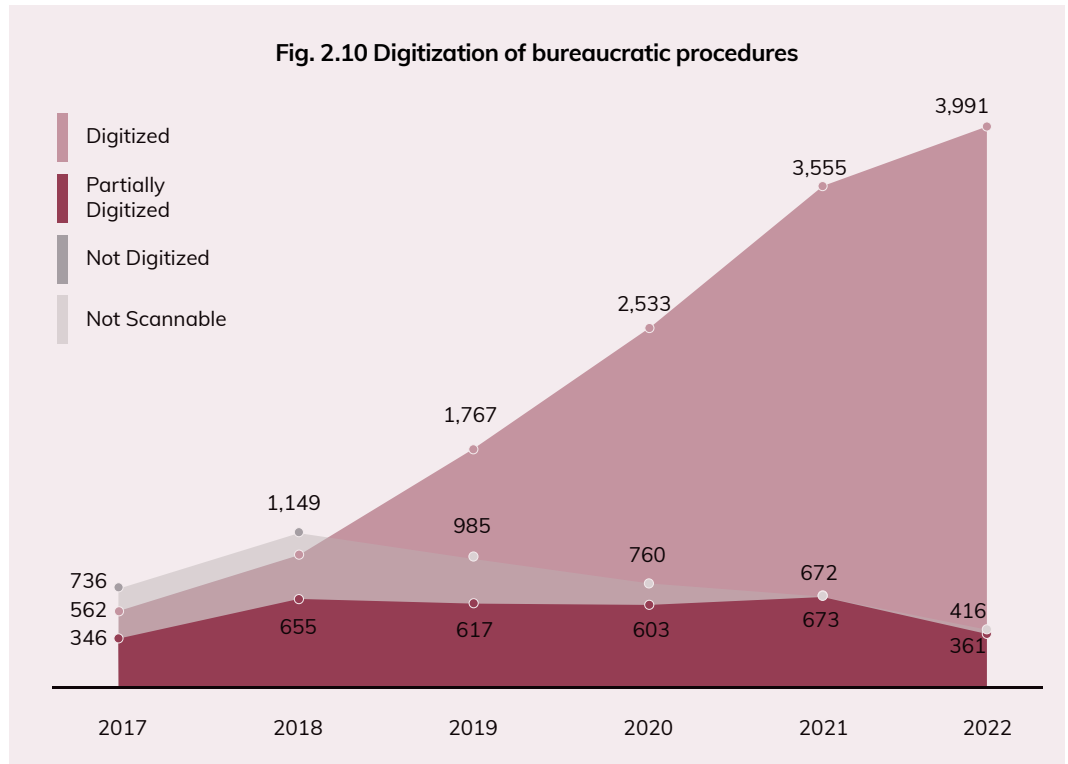
Fig. 2.9 The time to register and open a business in Brazil



Last year the federal government introduced an initiative called “Balção Único” (one-stop shop) which seeks to simplify the opening of businesses. This new process provides a simple and quick way to fill out all the forms and requirements for the creation of a new company through a single form on a digital and public platform. This model is one of the best practices for opening businesses globally.

However, Brazil still needs to improve its tax procedures and social contributions system by changing the way it is applied. It is one of the most complex and expensive tax systems in the world, with 443,234 regulations since the last constitution in 1988, distributed in 36,483 federal, 146,849 state, and 259,904 municipal regulations. The federal government and the National Congress have discussed a new tax reform proposal to simplify some federal taxes by

merging them and redistributing aliquots, making them fairer, thus encouraging investments and the generation of jobs.



**Fig. 2.11 Digital Government Maturity Index  
Top 10 of 198 countries**

<b>1</b>	<b>South Korea</b>	<b>0.98</b>
<b>2</b>	<b>Estonia</b>	<b>0.97</b>
<b>3</b>	<b>France</b>	<b>0.95</b>
<b>4</b>	<b>Danmark</b>	<b>0.93</b>
<b>5</b>	<b>Austria</b>	<b>0.92</b>
<b>6</b>	<b>United Kingdom</b>	<b>0.92</b>
<b>7</b>	<b>Brazil</b>	<b>0.92</b>
<b>8</b>	<b>Australia</b>	<b>0.90</b>
<b>9</b>	<b>Norway</b>	<b>0.90</b>
<b>10</b>	<b>Canada</b>	<b>0.90</b>

**NOTE**

This research looks at small businesses, excluding from the study other size companies that do not fall under this classification, as well as the impact of local rules that apply to these companies in each state. Some of the procedures contemplated here may not be applicable to all scenarios since they vary depending on the tax system to which the company belongs. The intention of this project is to serve as a general reference rather than as an indicator of particularities of each region or municipality. Just as it was conducted for the other countries covered by this index, this study analyzed the federal legislation and the set of bureaucratic procedures required to comply with the administrative-bureaucratic burden on small companies, however, the results may vary in sectoral comparisons given Brazil's plurality.



# 3. Colombia<sup>2</sup>

Instituto de Ciencia Política “Hernán Echavarría Olózaga”  
Carlos A. Chacón, María F. Gallego



## 3.1 Production structure

Colombia is a country of micro and small businesses. By 2021, out of the 16,282,681 businesses registered in the RUES,<sup>3</sup> 91.8% were classified as micro, 6% as small, 1.6% as medium, and only 0.5% as large. The first three categories account for 79% of employment and 40% of the Gross Domestic Product (GDP). This significant contribution to the Colombian economy implies that any action, policy, or regulation that affects the operational feasibility of a company must, for the sake of economic stability, promote economic growth and competitiveness, without disproportionately disrupting micro and small companies.

The first edition of the Bureaucracy Index for Colombia focused mainly on micro-enterprises since these represent 92% of the business ecosystem. In order to make this new edition comparable to the region, this year's index is calculated on small businesses, which represent greater income than micro-enterprises.

*Business size classification: What does a small business look like in Colombia?*

The exclusive criteria to classify the business size will be the income from annual ordinary activities of the respective company, as established by Decree 957 of 2019.<sup>4</sup> This level will vary depending on the sector in which the company operates.<sup>5</sup> Based on this, when talking about small businesses, the following ranges should be considered.<sup>6</sup>

As noted above, Decree 957 does not cover the Primary sector, but in paragraph 2 of article 2.2.1.13.2.2, it states that “for a business whose principal activity does not conform exclusively to one of the above sectors, the ranges to be applied shall be those intended for the manufacturing sector.” Therefore, for this study, the same conditions of the manufacturing sector will be considered for the Primary sector.

In 2021, the Colombian economy generated a GDP of US\$314.5 million; the share of the Primary sector was 14.1%, and the main products of this sector were coffee, bananas, flowers, sugarcane, cattle, and rice. [...] Meanwhile, the Secondary sector accounted for 18% of the GDP, and the industries that stood out were the production of textiles, chemicals, metallurgy, cement, cartons, plastic resins, and beverages. The Tertiary sector accounted for 68% of GDP, with a significant share for services, especially tourism.

**Fig. 3.1 Classification of small companies by sector**

	Ranges for the Definition of Small Business by Sector		USD	
	From	To	From	To
Manufacturing	\$895,488,252	\$7,790,629,980	\$223,872	\$1,947,657
Services	\$1,253,675,952	\$5,014,665,804	\$313,419	\$1,253,666
Trade	\$1,701,401,076	\$16,387,172,784	\$425,350	\$4,096,793

<sup>2</sup> In the first edition of the Index of Bureaucracy in Latin America (2021) the Colombian case was calculated on the number of hours it takes a microenterprise to comply with the bureaucratic obligations, considering that this business size, by number of companies, is the most representative. Nonetheless, in this new version and in future ones, the calculation will be made on small businesses for comparative purposes with the region. Therefore, the variations seen in this edition compared to the first are due mostly to the change in subject of the study, as well as the selection of the sample companies.

<sup>3</sup> Registro Único Empresarial y Social

<sup>4</sup> This classification was born with decree 957 of 2019, with the purpose of recognizing the reality business landscape, recognizing the differences between sectors, in order to strengthen the scope of the different public policy instruments focused on the segment of micro, small and medium-sized companies, modifying the criteria for determining business size.

<sup>5</sup> Article 2.2.1.13.2.1. - Decree 957 of 2019

<sup>6</sup> See Decree 957 of 2019. Note 1: the calculation in USD was made with the exchange rate on 05.22.2022: 3,969.05 COP/USD

## 3.2 Representative economic activity by sector

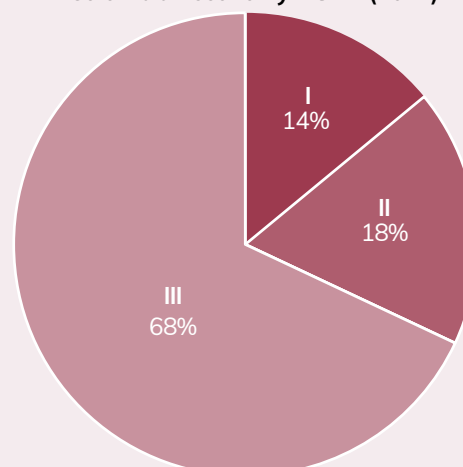
The following table represents the number of companies by sector of economic activity and size (Fig. 3.3) and the most representative businesses by economic activity determined by the total number of companies (Fig. 3.4)<sup>8</sup>

According to Figure 3.3, the branches/categories with a higher percentage of small business participation are G (wholesale and retail trade; vehicles), followed by M (professional, scientific, and technical activities), and C (manufacturing industry). For this reason, these economic activities were selected to define the most representative companies by sector.

Additionally, although their degree of participation in small businesses is not as important as in other production branches, section A was added in order to include the Primary sector. In this particular case, a coffee growing company was selected given its contribution to the GDP.

Based on this, and using the information contained in Fig. 3.4, the activities selected, according to the number of companies per branch<sup>9</sup> are as follows.

Fig. 3.2 Participation of the sectors in the Colombian economy – GDP (2021)



Source: Author's depiction based on data from the Ministry of Commerce (2021)<sup>8</sup>

Fig. 3.3 Number of companies by sector of economic activity and size

Description	2021				Total
	Microenterpr.	Small	Medium	Large	
A Agriculture, livestock, hunting, forestry, and fishing	24,905	4,792	1,767	443	31,907
B Mining and quarrying	4,965	912	325	222	6,424
C Manufacturing industries	159,067	10,763	2,956	1,187	173,973
D Supply of electricity, gas, steam, and air conditioning	1,568	235	99	144	2,046
E Water distribution, sanitation activities	8,758	601	180	87	9,626
F Construction	64,885	10,599	3,271	1,007	79,762
G Wholesale and retail trade; vehicles	643,590	24,554	5,508	1,358	675,010
H Transportation and storage	43,063	5,405	1,281	356	50,105
I Accommodation and food services	175,980	2,285	450	121	178,836
J Information and communications	38,789	3,438	680	222	43,129
K Financial and insurance activities	19,593	2,442	1,216	715	23,966
L Real estate activities	27,975	10,940	4,151	944	44,010
M Professional, scientific, and technical activities	93,979	11,101	2,150	496	107,726
N Administrative and support service activities	55,166	4,445	1,222	327	61,160
NC* Non ISIC classified activity	2,372	503	96	18	2,989
O Public administration and defense; social security plans	608	38	6	19	671
P Education	14,455	936	146	24	15,561
Q Human health care and social assistance	23,367	3,336	799	287	27,789
R Arts, entertainment, and recreation activities	26,859	769	161	47	27,836
S Other service activities	65,450	438	83	30	66,001
T Activities of households as employers	145	3	0	0	148
U Activities of extraterritorial organizations and entities	6	0	0	0	6
<b>TOTAL</b>	<b>1,495,545</b>	<b>98,535</b>	<b>26,547</b>	<b>8,054</b>	<b>1,628,681</b>

Source: Confecámaras. Economic Analysis Unit. \*NC- Not classified

<sup>7</sup> Ministry of Commerce (2021). Colombia profile. <https://www.mincit.gov.co/getattachment/1c8db89b-efed-46ec-b2a1-56513399bd09/Colombia.aspx>

<sup>8</sup> Information obtained through the right of petition to Confecámaras. The RUES database is not publicly accessible and there is no business census.

<sup>9</sup> Se agrega al sector primario otra actividad económica teniendo en cuenta el aporte del café al PIB colombiano.

Fig. 3.4 Most representative companies per economic activity and size

Branch	Description	Activity code	Description	Number of companies
A	Agriculture, livestock, hunting, forestry, and fishing	0141	Cattle and buffalo farming	5.153
B	Mining and quarrying	0510	Mining of hard coal (stone coal)	1.737
C	Manufacturing industries	1410	Manufacture of garments, except leather garments	28.113
D	Electricity, gas, steam and air-conditioning supply	3511	Electric power generation	1.193
E	Water distribution, sanitation	3830	Recovery of materials	5.334
F	Construction	4290	Construction of other civil engineering works	21.748
G	Wholesale and retail trade; vehicles	4711	Retail trade in non-specialized establishments with assortment consisting principally of food, beverages or tobacco	112.156
H	Transportation and warehousing	4923	Freight transportation by road	18.061
I	Accommodation and food services	5611	Catering of prepared foods	57.560
J	Information and communications	6201	Computer systems development activities (planning, analysis, design, programming, programming, testing)	10.029
K	Financial and insurance activities	6621	Activities of insurance agents and brokers	12.656
L	Real estate activities	6810	Real estate activities carried out with own or leased property	34.936
M	Professional, scientific and technical activities	7020	Management consulting activities	22.065
N	Administrative and support service activities	8299	Other business support service activities n, e, c	19.582
O	Public administration and defense; social security	8430	Compulsory social security plan activities	292
P	Education	8559	Other education activities n, e, c	3.323
Q	Human health care and social work activities	8621	Medical practice activities, without hospitalization	7.882
R	Arts, entertainment and recreation activities	9200	Gambling and betting activities	7.292
S	Other service activities	9602	Hairdressing and other beauty treatment activities	39.904
T	Activities of households as employers	9700	Activities of individual households as employers of domestic servants	109
U	Activities of extraterritorial organizations and entities	9900	Activities of extraterritorial organizations and bodies	6

Source: RUES Confecámaras. Economic Analysis Unit.

Fig. 3.5 Colombian representative companies

Branch	Small Business	Sample company	Sector
G	Wholesale and retail trade; vehicles	Retail trade in non-specialized establishments consisting mainly of food, beverages, or tobacco.	Tertiary trade
M	Professional, scientific, and technical activities	Consulting activities	Tertiary services
C	Manufacturing industry	Clothing, other than leather	Secondary
A	Agriculture, livestock, hunting, forestry, and fishing	Cattle and buffalo raising	Primary
A	Agriculture, livestock, hunting, forestry, and fishing	Coffee growers	Primary

## 3.3 Results

It takes an average of 476.85 hours a year for a small company in Colombia to comply with the bureaucratic procedures related to the Administration of Employment, Administration of Operations, and Other Bureaucratic Procedures obligations. This means that, out of the 246 working days,<sup>10</sup> or 1,968 working hours, a company must allocate 60 days, 24.23% of the total, to comply with corresponding procedures, leaving aside its main economic activity.

In Colombia, the average small business must comply with 46 obligations, distributed as follows: 52.17% for Administration of Employment, 32.60% for Administration of Operations, and finally 15.22% for Other Bureaucratic Procedures such as regulatory updates and sector-specific obligations.

In order to calculate the times that these procedures demand, common and specific obligations were identified, as well as the regulations and the entities that mandate them or issue the guidelines. Subsequently, interviews were conducted among employers and experts in the field to find out the time investment in these procedures. Finally, the information was consolidated, and weighted averages were calculated.

The group of obligations that places the greatest burden on the small employer are those procedures related to the Administration of Employment—219 hours/year weighted average (see Fig. 3.5). It is worth highlighting that, overall, the procedures relative to the payment of salaries, taxes, and the management system of health and safety at work (SG-SST) take approximately 80% of the total time businesses devote to these requirements, identifying bottlenecks that should be analyzed in depth.

Below are the results by procedure (weighted average by sector participation in GDP)

## 3.3.1 Administration of Employment

This section collects the information on procedures associated with employment. It is composed of 24 obligations that are divided into three subgroups: salaries, taxes, and contributions; hiring and firing; and logging of records and work reports.

In salaries, taxes, and contributions, the Primary sector is the most penalized, requiring 193.5 hours/year to comply with the required procedures, a significant number compared to the 219.5 hours/year it takes for all Administration of Employment obligations to be fulfilled. The hiring and firing subgroup take 23.5 hours/year, and finally, the work reporting takes 2.5 hours/year. These last two numbers, although they represent a time investment, are not perceived as obstacles by the interviewees, who stated they are simple and easy to execute.

Still, it is worth noting that the time of hiring and firing was calculated under the assumption that one person, annually, is fired and another person is hired. In this sense, if a company experiences greater employee turnover, the time may increase proportionally.

It is worth noting that, excluding the Primary sector, the bureaucratic burden of the Administration of Employment for the small business in Colombia, in either Secondary or Tertiary sectors, is approximately 42% of the annual total. For the Primary sector, this percentage increases by 25%, taking 67.2% of the total annual time.

The highest bureaucratic burden that the Primary sector must meet, reaching 231.25 hours/year, is related to the processing of salaries and contributions, but specifically in the calculation and payment of payroll, electronic payroll, salary payment, disability procedures with the health care providers.

The increased number of hours it takes a small business in the Primary sector to comply with these procedures, compared to the other two sectors, is a result of the great disconnect

Fig. 3.6 Summary table by sectors

Category	Subcategories	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. of Employment	Salaries/taxes/contributions	231.25	179	189.5	199.9	193.5
	Hiring/firing	33.125	32.25	19.25	28.2	23.5
	Work time and reporting	2.5	2.5	2.5	2.5	2.5
	<b>TOTAL GROUP</b>	<b>266.875</b>	<b>213.75</b>	<b>211.25</b>	<b>230.6</b>	<b>219.5</b>
Adm. of Operations	Taxes/administration	42.4	155.25	155.75	117.8	139.8
	Waste/	0	0	3	1	2
	Vehicle	8.25	23.25	0	10.5	5.3
	Management System	40.75	69	62	57.3	60.3
	<b>TOTAL GROUP</b>	<b>91.4</b>	<b>247.5</b>	<b>220.75</b>	<b>186.6</b>	<b>207.5</b>
Others	Statistical & Legal / Specific	38.625	59.75	49.625	49.3	49.9
	<b>TOTAL GROUP</b>	<b>38.625</b>	<b>59.75</b>	<b>49.625</b>	<b>49.3</b>	<b>49.9</b>
<b>TOTAL</b>		<b>396.9</b>	<b>521</b>	<b>481.625</b>	<b>466.508</b>	<b>476.851</b>

<sup>10</sup> By 2022 the country has 246 working days, 105 weekend days, and 19 holidays.

Fig. 3.7 Economic sectors

Category	Subcategories	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. of Employment	Salaries, taxes, and contributions	231.25	179	189.5	199.9	193.5
	Hiring and firing	33.125	32.25	19.25	28.2	23.5
	Work reports	2.5	2.5	2.5	2.5	2.5
	<b>TOTAL GROUP</b>	<b>266.88</b>	<b>213.75</b>	<b>211.25</b>	<b>230.6</b>	<b>219.5</b>
	<b>% ADM. OF EMPLOYMENT TOTAL</b>	<b>67.2</b>	<b>41</b>	<b>43.9</b>	<b>49.4</b>	<b>46</b>

and poor adaptability of the regulatory framework to the socio-economic realities in Colombia, in addition to social factors outside the scope of public policy.

The Primary sector includes cattle production and coffee growing, both activities with very different characteristics. On the one hand, the cattle sector is characterized by having permanent staff on farms (farmworkers), who are hired as laborers. Coffee growing farms, on the other hand, are characterized by having a high influx of coffee collectors during harvesting season, and a few workers to take care of the crops throughout the year. The nature of the business implies that most workers and gatherers are not hired under contracts but instead paid wages or by piece rate pay.

Both economic activities of the Primary sector must, in addition to the dynamics inherent to their operation, deal with a series of situations outside their control, but that shape the decision-making process and the way business is conducted. These variables can significantly increase times or simply push companies into informality due to the rigidity of the regulations they have to navigate.

One of the main obstacles faced is the rigidity of labor market regulations as they do not allow for variations like seasonal harvesting, weather, or other market reasons, involving payments for the amount of product collected (piece rate pay) on behalf of workers not formally employed or contracted. Since the actual regulation does not provide a legal figure for this, companies make payments informally, in cash, with no record.

Another obstacle that impacts small companies is the limited banking access among the working population, which forces companies to pay in cash, with the consequent procedures that this entails, from funds transfers and cash withdrawals to the physical delivery of the payment and cash receipts.

Some of those interviewed for this study pointed out a significant decrease in times to make and receive payments thanks to technological innovations such as digital wallets (Nequi, Daviplata, among others) whose use increased considerably during the pandemic. According to a report from the Bank of Opportunities, in June 2020, 31 million adults had at least one formal financial product, representing an increase of about 1.6 million in the last semester, for a record coverage of 85.9%.<sup>11</sup> Rural areas still show some lags in coverage,<sup>12</sup> so this percentage can't be generalized.

Fig. 3.8 Salaries, taxes, and contributions

	Procedure	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Salaries, taxes, and contributions	Payroll calculation and payment	60	48	51	53	51.7
	Electronic payroll	54	48	54	52	52.9
	Parafiscal payments, social benefits, and social security	12	12	12	12	12
	Service premiums	4	5	5.25	4.8	5
	Payment of non-labor wages (coffee growers)	73.5	45	39	52.5	44.9
	Provisions and supplies	2.75	6	0.5	3.1	1.8
	Vacation time processing	1	1	2	1.3	1.7
	Vacation log book	1	1	1.5	1.2	1.3
	Calculation and deposit of benefits (cesantías) (February 14)	1	1	3	1.7	2.4
	Processing of disabilities with the EPS	22	12	21.25	18.4	19.7
	<b>TOTAL SUBGROUP</b>	<b>231.25</b>	<b>179</b>	<b>189.5</b>	<b>199.9</b>	<b>193.5</b>

<sup>11</sup> La República (9 abril de 2021). Billeteras digitales alcanzaron más de 25 millones de usuarios tras la pandemia <https://www.larepublica.co/finanzas/billeteras-digitales-alcanzaron-mas-de-25-millones-de-usuarios-tras-la-pandemia-3150880>

<sup>12</sup> Banca de Oportunidades. Reporte de inclusión financiera 2021.

<https://www.bancadelasoportunidades.gov.co/sites/default/files/2022-08/Reporte%20de%20inclusi%C3%B3n%20financiera%202021.pdf>

Fig. 3.9 Hiring and firing/work reports

Adm. of Employment	Procedure	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Hiring and firing	Entrance exams	1.50	2.50	1.75	1.90	1.90
	Signature of employment contract	1.00	2.50	0.50	1.30	0.90
	Social benefits enrollment	22.25	18.25	7.25	15.90	11.30
	Firing process (warnings, follow-ups)	0.88	2.25	2.25	1.80	2.10
	Termination letter	0.25	1.25	0.63	0.70	0.70
	Layoff / labor disputes	0.25	1.00	1.00	0.80	0.90
	Job transition	1.50	0.25	0.25	0.70	0.40
	Settlement	3.25	2.50	4.38	3.40	3.90
	Final payment	0.75	0.25	0.25	0.40	0.30
	Retirement medical exam	1.50	1.50	1.00	1.30	1.20
	<b>TOTAL SUBGROUP</b>	<b>33.13</b>	<b>32.25</b>	<b>19.25</b>	<b>28.20</b>	<b>23.50</b>
Work reports	Layoff Report	0.25	0.25	0.25	0.30	0.30
	New Hire Report	0.25	0.25	0.25	0.30	0.30
	Disability Report	1.00	1.00	1.00	1.00	1.00
	Vacation Report	1.00	1.00	1.00	1.00	1.00
	<b>TOTAL SUBGROUP</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>
<b>TOTAL</b>		<b>266.88</b>	<b>213.75</b>	<b>211.25</b>	<b>230.60</b>	<b>219.50</b>

In turn, the Secondary and Tertiary sectors have better results in this subgroup of procedures with a difference of approximately 47 hours compared to the Primary sector. Payroll and electronic payroll calculations are the most expensive in these sectors.

Since 2021 the national tax authority, “Dirección de Impuestos y Aduanas Nacionales” (DIAN), has implemented the electronic payroll reporting in Colombia; documents must be electronically delivered to this entity every month by employers.<sup>13</sup> This process, as indicated by the businessmen and experts interviewed, requires that the employer carry out a double payroll process, making the calculation in its own system and then having to carry out the process on the DIAN platform. In addition, times are affected by the delay in uploading, adjusting, and sending the document through the portal, because, despite digitalization, the information systems sometimes turn out to be very slow in uploading information.<sup>14</sup>

These economic activities also encompass the payment of non-labor wages, since some of the employees are hired as contract workers. Those payments are usually made electronically, on a monthly basis, along with the documentation of payment of social benefits. In terms of time investment, these differ from the

Primary sector, as these payments are recurring and not made in cash. These types of contracts are often used when the employer does not have the financial ability to pay the costs associated with a formal contract and/or because the particular conditions do not apply to the economic activity.

The bureaucratic cost in time of paying parafiscal charges and social benefits is low for the three sectors. It is a virtual process that requires a transfer through the system and all payments can be made at the same time.

The hiring and termination procedures require practically equal time in all sectors, on average 23.5 hours/year, and the enrollment in social benefits absorbs most of it. These affiliations are virtual processes, but they can still be done in person, and this accounts for the time to download and fill out forms, collect the information, record, file, and wait time for the documents to be finalized. Without this process it would not be possible to hire the worker.

Finally, in reports, the last subsection of employment, the demanded time is low. These reports have to do with hires, dismissals, vacation time, and disability, which are reported through the social security online entry system and do not require any additional steps.

<sup>13</sup> Publímetro (2022). Nuevo plazo de nómina electrónica para pequeñas empresas.

<https://www.portafolio.co/mas-contenido/nuevo-plazo-de-nomina-electronica-para-pequenas-empresas-562592>

<sup>14</sup> In addition to the capacity problems of the DIAN website, users have to deal with connectivity problems and the digital divide in the country. This is because in areas such as Guainía and Vichada the average fixed internet speed is 1 (Mbps), while in Bogota it reaches 25; also, there are coverage issues and internet access issues, which in remote areas is low and the cost is very high. For example, in relation to income in departments such as Vaupés, Amazonas, Guainía, and Vichada, the ratio exceeds 6%. For more information: MINTIC (2020). ÍNDICE DE BRECHA DIGITAL REGIONAL. <https://colombiatic.mintic.gov.co/679/w3-article-162387.html>

### 3.3.2 Administration of Operations

This section collects the information on procedures associated with operations: taxes, waste management, certifications, vehicle management, and the occupational health and safety management system.

Figure 3.10 indicates that the subgroup that consumes the most time in this section is Taxes, which includes procedures related to the renewal of commercial licenses and the filing of financial statements with the Chamber of Commerce; and obligations with the national and municipal tax authority, such as the presentation of exogenous national tax information and annual tax payments.

Commercial licenses are renewed annually, before March 31 as mandated in Article 33 of the Commercial Code. This online process requires presenting financial balances from the previous year, completing the renewal form, and making the appropriate payment. This procedure, as well as the filing of financial statements, is not highly burdensome for small businesses.

In contrast, tributary obligations such as payment of taxes and exogenous declarations require much time from all three sectors.

The Primary sector—unlike the Secondary and Tertiary sectors—only takes 13 hours/year to pay taxes, since they enjoy a simplified process that changes according to the business activity. For example, cattle and unroasted coffee beans (and byproducts) are not subject to sales tax, according to article 424 of the Tax Statute.

The Secondary and Tertiary sectors, on the other hand, require more than 90 hours/year to comply with the procedures emerging from nine tax obligations. A couple of hours were added to account for time wasted when the DIAN payment platform is down, which can possibly extend the process a day or two. The interviewees disclosed that when the system is working, the process is as simple as organizing the information and making the payments.

The tax obligation to file national and municipal exogenous declarations is, aside from tax payments, one of the greatest sources of stress among companies. For this study, the time designated for this procedure was determined as if the process were done in-house, instead of outsourcing it to accountants, which is not as burdensome and less costly in terms of time and resources.

The weighted average time it takes to comply with these taxes, for all three sectors, corresponds to 25.5% of the total subcategory (adding national and municipal taxes), or 35.7 hours. The

Fig. 3.10 Results for the Administration of Operations

Adm. of Operations	Procedure	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Taxes	Collection of documents for commercial registration	1	1	3	1.7	2.4
	Commercial registration renewal	0.25	1	625	0.6	0.6
	Filing of financial statements with the Chamber of Commerce	0.25	0.25	625	0.4	0.5
	Submission of exogenous national tax information	16.00	24	17,125	19	18.2
	Submission of exogenous municipal tax information	8.00	32	15,625	18.5	17.5
	Payment of taxes	13.00	93	94	66.7	82.5
	Issuance of electronic support document for those not required to invoice	3.90	4	24.75	10.9	18.1
	<b>TOTAL SUBGROUP</b>	<b>42.4</b>	<b>155.25</b>	<b>155.75</b>	<b>117.8</b>	<b>139.8</b>
Waste Management	Waste Management	-	-	3.00	1.00	2.00
	<b>TOTAL SUBGROUP</b>	<b>-</b>	<b>-</b>	<b>3.00</b>	<b>1.00</b>	<b>2.00</b>
Vehicles	Vehicle insurance	2.00	2.00	-	1.30	0.60
	Technical-mechanical inspection	5.25	8.25	-	4.50	2.20
	Vehicle tax payment	1.00	1.00	-	0.70	0.30
	Driver service payment	-	12.00	-	4.00	2.20
	<b>TOTAL SUBGROUP</b>	<b>8.25</b>	<b>23.25</b>	<b>-</b>	<b>10.50</b>	<b>5.30</b>
Health / Safety at Work	OSHMS certification course	15.75	9.00	16.50	13.80	15.00
	OSHMS implementation	15.00	36.00	35.50	28.80	32.70
	OSHMS adaptations and logistics	10.00	24.00	10.00	14.70	12.50
	<b>TOTAL SUBGROUP</b>	<b>33.13</b>	<b>32.25</b>	<b>19.25</b>	<b>28.20</b>	<b>23.50</b>
	<b>TOTAL</b>	<b>91.40</b>	<b>247.50</b>	<b>220.75</b>	<b>186.60</b>	<b>207.50</b>

Primary sector reports a time expense of 16 hours for the national tax and 8 hours for the municipal, the Secondary sector spends 24 hours on the national and 32 on the municipal, and Tertiary spends 17.12 on the national and 15.65 on the municipal. The variations between sectors depend on several factors: order of information needed for the report, delays by DIAN verifiers, number of transactions and processes to report, etc.

This means that the time it takes companies to comply with these requirements depends greatly on the business activity as well as their organizational capabilities. In addition to this, times also vary depending on how well the payment platform is working and if users are able to pre-validate the information required. When the platform is not working correctly, it can add hours or even days to the time totals.

On the other hand, in addition to the time spent on taxes for the Administration of Operations, the SG-SST occupational health and safety management system stands out, requiring 60 hours/year. This system develops a logical and step-by-step process for continuous improvement in regulation, organization, planning, implementation, evaluation, and audit, as well as the corrective actions needed to anticipate, recognize, assess, and monitor risks that may affect health and safety in the workplace.

The management system applies to all public and private employers; dependent and self-employed workers; co-op workers; mission workers under civil, commercial, or administrative contracts; community-based enterprises and co-op organizations; temporary staffing companies, business associations or organizations that enroll independent workers in social security; occupational risk managers; the National Police (for non-uniformed personnel); and the Armed Forces (for civilian personnel).<sup>15</sup>

The implementation of this system is mandatory, and the requirements vary by sector. Efforts have been made to simplify

the steps to be followed, but the process still requires an accredited technician who is often hired from outside the company. This process can be implemented by the employer, as long as they get certified with a 50-hour course (renewed every three years by a 20-hour course). The time investment is significant as the employer needs to get the certification, tailor a plan of action, and validate it—which can take up to a week—and once it has been implemented, needs to be evaluated and adjusted. Often, external workers are hired to complete matrixes, but the fact of the matter is, processes could be substantially simplified to facilitate these onerous and complicated procedures that represent a costly burden for small businesses in Colombia.

### 3.3.3 Other Bureaucratic Procedures

This section collects the information on procedures associated with sector-specific obligations, updates and regulatory changes that companies must comply with because of the nature of their activity. These tasks cover the way in which companies have to adapt to new reporting systems, such as electronic signature, invoicing, and payroll. These tools were introduced in 2020 but became mandatory in 2021.

Companies have the choice of implementing these new systems by either purchasing them or by using the free tools offered through DIAN systems. To comply with the payroll and billing requirements, a company must first go through the electronic signature process, a virtual step that takes about half a working day to complete.

Electronic invoicing is a lengthier process, involving the identification of company products in the system and the registration of each customer. This process is especially costly for the Secondary sector, given the time it takes to register the many products and clients involved in their activity, in a platform that is often affected by system failures.

#### Case: Exogenous Tax Declaration

*Resolution 070 of 2019 determined that legal entities, their assimilates, and other public and private entities that in the taxable year 2021 or 2022 have obtained gross income greater than one hundred million pesos (100,000,000), must present an exogenous tax declaration. This refers to “the information presented by legal and natural persons, on the operations carried out with their clients, users or others who intervene in the development of the company’s corporate purpose, periodically to the national tax authority ‘Dirección de Impuestos y Aduanas Nacionales (DIAN),’ through electronic services in compliance with the resolutions and technical specifications issued by the General Director.”*

*The purpose of this declaration is to carry out information cross-checks and studies that allow the exercise of greater control of taxes and improve compliance with relevant formal obligations. This report must be made at*

*the national and municipal levels. For the national report, those who report the information must fill out more than 10 forms, validate the information, and send it through the applications of DIAN. At the municipal level, the Tax Department of the municipality is in charge of receiving this information, which consists of sending forms and records online. The guidelines are issued annually by the municipal authorities in charge.*

*Faced with this process, companies expressed dissatisfaction with the amount of information requested, the ineffectiveness of the portals, and the severe sanctions if not done correctly. Businesses find it difficult to report to the municipal authorities since the criteria depend on each of the different municipalities where the economic activity took place, slowing down the process. This tax declaration could be so complex that companies often have to hire an external accountant to comply with the process and avoid penalties.*

<sup>15</sup> Ministerio de Trabajo. Sistema de Gestión de Seguridad y Salud en el Trabajo. <https://www.mintrabajo.gov.co/relaciones-laborales/riesgos-laborales/sistema-de-gestion-de-seguridad-y-salud-en-el-trabajo>



Fig. 3.11 Results for Other Bureaucratic Procedures

Others	Procedure	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
	Technical report on human safety and fire protection	2.125	4.25	4.25	3.5	4
	Regulatory update	6	24	21.5	17.2	19.8
	Electronic payroll registration—DIAN	0.5	0.5	0.5	0.5	0.5
Statistical & Legal	Electronic payroll implementation	2.00	4	3	3	3
	Electronic signature implementation	4.00	3	4.5	3.8	4.2
	Electronic invoicing—activation, parameterization, enrollment, and issuance	8.00	24	18	16.7	17.7
	Livestock vaccination	16.00	0	0	5.3	2.2
	<b>TOTAL SUBGROUP</b>	<b>38.63</b>	<b>59.75</b>	<b>49.63</b>	<b>49.30</b>	<b>49.90</b>
	<b>TOTAL</b>	<b>38.63</b>	<b>59.75</b>	<b>49.63</b>	<b>49.30</b>	<b>49.90</b>

These virtual processes can be performed by company personnel, but businesses have chosen to outsource them, creating a market opportunity for this type of service company.

All these obligations are common to the sectors, but the Primary sector has an additional requirement to vaccinate livestock twice a year. This process takes about two days, but the specific number of hours varies depending on the amount of cattle that needs to be treated.

## 3.4 Final considerations and reflections

When regulation is rigid and complex, it disproportionately affects MSMEs, as it imposes costs, in time and money, that forces them to divert resources to comply with bureaucratic requirements, instead of generating value and becoming more competitive by investing in production improvement, recruitment, and innovation.

Labor and tax regulations are the most burdensome to small businesses in Colombia. Both obligations involve high costs in time and economic resources, hindering entrepreneurship and business function, encouraging informality and regulatory evasion, and restricting the opportunity for society to move along a path of productivity and overcoming poverty.

Allocating 219 hours/year to comply with employment obligations is a difficult bottleneck to overcome, reflecting a highly inflexible system that does not respond to the reality of employment in Colombia. These employment opportunities are generated, for the most part, by micro and small companies, the same companies that lack the organizational capabilities to bear all the labor costs involved.

Other international indexes validate this scenario. For example, according to the Prosperity Index of the Legatum Institute in London, Colombia ranks 74th out of 167 countries. In regard to the flexibility of the labor market, it occupies place 88. In the subgroup that refers to flexibility in recruitment practices, it ranked 133, and the subgroup for flexibility in wage determination ranked 100.

The inflexibility of the labor market impacts employment generation and leads to informality. According to the *Employment Mission Report*,<sup>16</sup> The current situation presents two major problems: on one hand, a decrease in social welfare and, on the other, underperforming economic growth. Since unemployment is persistently high, the majority of workers are operating independently or in very small companies with low productivity and ineffective professional development training.

This reinforces the urgent need to pursue labor reforms that enhance competitiveness and foster an institutional and normative environment that is adaptable to changing labor circumstances and territorial realities, particularly when it comes to productivity and cost of living.

The labor reform must begin by allowing the contribution of hourly workers to social security, and in doing so, extending health and pension coverage for independent and informal workers; it needs to redefine the process in which the minimum wage is calculated and established, in order to guarantee a true proportional representation of the country's formal and informal workforce. In a similar manner, changes in the nature of the minimum wage are necessary to make it adaptable to productivity and cost-of-living variations within the regions.

Another urgent need is to provide the rural sector its own labor regime, one that recognizes the asymmetries between rural and urban activities, promoting formalization and simplifying parafiscal contributions. This regulatory change must account for the production dynamics of the sector in accordance with seasonality, must include models of hiring by days and/or by hours in times of harvest, and prorating time worked to include benefits packaged in a single payment, where the State defines the respective distribution

According to Deirdre McCloskey, economist and historian:

*Jobs are never the problem! You can make them the problem by making it very hard to employ people and that's what the minimum wage, or interference in the job deal, or industrial zoning or licensing do.* (Interview with Axel Kaiser, Fundación para el Progreso, 2018, 3m20s, [https://youtu.be/Ea8rnWE\\_n9w](https://youtu.be/Ea8rnWE_n9w))

<sup>16</sup> <https://www.misionempleo.gov.co/Paginas/index.aspx>

The second tax bottleneck implies a reassessment of the tax system and of the negative consequences it may have. The burden of taxes, reporting and payment alike, is an obstacle to formalization, competitiveness, and job creation.

More than 90 hours doing tax payments and more than 35 doing tax reports indicate a highly burdensome system for small businesses, in terms of substantial economic cost—imposed by high rates of bureaucratic procedures—as well as in time demands.

According to the World Bank's *Paying Taxes 2020* report, the total rate of taxes and contributions on companies' profits is 71.2%. The 2021 International Fiscal Competitiveness Index, by Tax Foundation, ranks Colombia 31st among a group of 37 countries, and 37th in the corporate tax range. In Colombia the corporate income tax rate is 31%, which is significantly higher than the average of the other OECD members (22.9%). In addition, individuals contribute only 1.2% of GDP and businesses only 5%; this should be turned more towards the existing ratio in the OECD where 8.3% of GDP is contributed by individuals and 3% by businesses.

In this sense, the Colombian tax system should aim at tax simplification and improvement of information collection processes.

It is important to emphasize that if the establishment creates an environment for companies to generate value, reach high levels of productivity, increase competitiveness, and generate economic growth, Colombia will succeed in creating the conditions to achieve a better quality of life for its citizens.

Bureaucracy in Colombia becomes burdensome because of regulations, but the problem is exacerbated by many environmental problems outside the scope of regulation. The lack of

efficient infrastructure, low connectivity (digital, waterways, and land), and limited banking access, among others, impose additional pressures on small businesses, forcing them to remain in informality, not complying fully with their obligations or seeking alternative ways such as evasion or bribery; all this while losing productivity and competitiveness.

In this regard, the aim is to promote a flexible, adaptable, and reliable environment that generates the right incentives to start a business, to work, and to produce. This regulatory improvement must be accompanied by effective social investment, focusing on generating the right conditions to eliminate the perverse incentives produced by excessive rules and regulations.

The Colombian lag in competitiveness and productivity can be explained by the lack of synchronous efforts in regulatory improvement and social investment. With this in mind, efforts should be made at holistically approaching the bottlenecks identified in this study, while making the regulatory framework more adaptable, and simultaneously investing effort in resolving the aggravating environment.

Finally, these calculations were made for the three sectors of the economy and their representative companies; none of the economic activities belong to a highly regulated sector, and they all meet obligations that are fairly common for the business environment. The results would be different if the scope of work included companies belonging to regulated activities such as energy, electricity, natural gas, pharmaceuticals, transportation, postal services, or gambling, among others. In that scenario, it would be vital to review the regulation, its suitability, effectiveness, and efficiency.

# 4. Costa Rica

## Ideas Lab

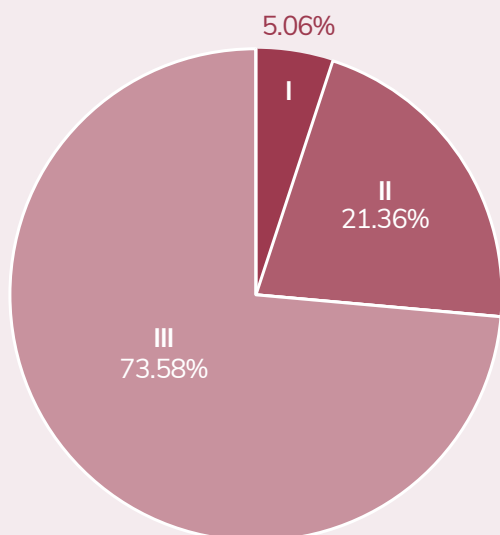
Luis Loria, Esther Méndez, José Luis Cedeño, Diego Vargas

### 4.1 Production structure

According to the 2015–2020<sup>17</sup> business statistics report, published by the Central Bank of Costa Rica (BCCR), the Costa Rican business structure is composed mostly of MSMEs. By 2020, the total number of active companies was 137,089, with micro-enterprises accounting for 80.09%, followed by small companies with 12.77%, medium-sized companies at 4.04%, and large companies with 2.59%.

With regard to the country's economic activities, by the year 2020, the weight of the Primary sector in GDP was 5.06%, the sector with the lowest participation. The Secondary sector accounted for 21.36% of GDP. Finally, the Tertiary sector was the most important sector in relation to GDP, accounting for 73.58%.

Fig. 4.1 Share of the economy by sector (%GDP)  
—Costa Rica (2020)



Source: Own elaboration with data from the Central Bank of Costa Rica.

In the Primary sector, the activities with the largest scope are agriculture, forestry, and fisheries, contributing 4.75% of GDP, in 2020. In the Secondary sector, the most important activity was manufacturing, with 13.70% of GDP. For the Tertiary sector, the activities with the highest share of GDP were wholesale, retail trade and vehicle repair (9.21% GDP); real estate activities (8.70% GDP); professional, scientific, technical activities, and administrative support services (13.94% GDP); in addition to education, human health, and social assistance activities (15.93% of GDP).

The BCCR's report on business statistics 2015–2020 provides information regarding the number of companies per economic activity. The classification has been done according to the ISIC<sup>18</sup> guidelines, at the Class level for micro, small, and medium companies; and by Section for large companies.

For the classification by company size, the BCCR used the methodology from the Ministry of Economy, Industry, and Trade (MEIC), the official body responsible for determining the classifications of companies in the country.

Figure 4.2 illustrates a summary of the economic activities that concentrated a greater number of small businesses, during 2020, in Costa Rica.

### 4.2 Representative economic activity of small businesses by sector

Based on the previous analysis, sample companies were identified for the Primary, Secondary, and Tertiary sectors. For the Primary sector, it was determined that the representative activities are agriculture, livestock, forestry, and fisheries, as they represent the largest share of GDP in this sector, and at the same time, have the highest concentration of small businesses.

For the Secondary sector, construction and manufacturing have the highest concentration of small businesses and enjoys the highest share of GDP.

<sup>17</sup> The Central Bank of Costa Rica released this publication on July 29, 2022, but the most updated data is up to 2020.

<sup>18</sup> International Standard Industrial Classification.

Fig. 4.2 Share of GDP by economic activity and company size, 2020, %.

ISIC classification	According to income				
	Micro	Small	Medium	Large	Total
Agriculture, forestry, and fishing (A)	0.7	0.6	0.6	2.9	<b>4.75</b>
Mining and quarrying (B)	0.1	0.1	0.1	0.0	<b>0.31</b>
Manufacturing industries (C)	0.4	0.6	0.8	11.9	<b>13.70</b>
Supply of electricity, water and sanitation services (D, E)	0.1	0.1	0.1	3.0	<b>3.19</b>
Construction (F)	0.5	0.8	0.8	2.4	<b>4.47</b>
Wholesale and Retail; repair of motor vehicles (G)	0.7	1.1	1.3	6.2	<b>9.21</b>
Transport and storage (H)	0.5	0.7	0.7	2.1	<b>3.99</b>
Accommodation and food service (I)	0.5	0.4	0.3	1.0	<b>2.20</b>
Information and communications (J)	0.2	0.4	0.5	3.9	<b>5.06</b>
Financial and insurance activities (K)	0.1	0.2	0.4	5.2	<b>5.91</b>
Real estate activities (L)	2.5	1.9	1.6	2.6	<b>8.70</b>
Professional, scientific, technical, administrative and support service activities (M, N)	1.4	1.4	1.4	9.8	<b>13.94</b>
Public administration and compulsory affiliation social security plans (O)	0.0	0.0	0.0	4.7	<b>4.76</b>
Education and Human health care and social assistance (P, Q)	4.0	2.7	1.7	7.5	<b>15.93</b>
Other service activities (R, S, T, U)	1.0	0.9	0.6	1.3	<b>3.89</b>
<b>TOTAL</b>	<b>12.7</b>	<b>12.0</b>	<b>10.8</b>	<b>64.5</b>	<b>100.00</b>

Source: Own elaboration with data from the Central Bank of Costa Rica

Fig. 4.3 Activities with greater participation of small business by sector (2020)

ISIC	Sector	Total small businesses
<b>PRIMARY SECTOR</b>		
A	Agriculture, forestry, and fishing	882
<b>SECONDARY SECTOR</b>		
C	Manufacturing industries	988
F	Construction	1,667
<b>TERTIARY SECTOR</b>		
G	Wholesale and Retail; repair of motor vehicles and motorcycles	5,233
I	Accommodation and food services	1,498
M	Professional, scientific, and technical activities	1,200

Source: Own elaboration with data from the Central Bank of Costa Rica

Finally, for the Tertiary sector, the activities with the highest share of GDP include wholesale and retail trade; repair of motor vehicles and motorcycles; hospitality and catering; and professional, scientific, and technical activities. These activities also concentrate the largest number of small businesses in the country.

With this in mind, the following sample companies were selected as objects of analysis that best represent the economic activities of each sector. A description is given in Figure 4.4, above.

Fig. 4.4 Description of companies interviewed for each sector

Sector	Sample companies
Primary	Three companies dedicated to coffee growing
Secondary	Three companies involved with artisan food production
Tertiary	Three companies involved with the sale of food and beverages

## 4.3 Results

The average time (weighted by the sector in GDP) that a small company in Costa Rica dedicates to complying with the legally required bureaucratic burden is IB-LAT = 297 hours/year. The highest number of hours is seen in the Primary sector, with 408 hours/year, followed by the Secondary sector with 307 hours/year, and the Tertiary with 286.5 hours/year.

### 4.3.1 Administration of Employment

The procedures related to the Administration of Employment in Costa Rica demand the most hours from small businesses. In the case of the Primary sector, the representative coffee-growing companies allocated 364 hours/year to the Administration of Employment.

The representative companies for the Secondary sector, engaged in food manufacturing, allocated 220 hours/year to

Fig. 4.5 Annual hours by sector and by procedure

Subcategory	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
<b>ADMINISTRATION OF EMPLOYMENT</b>	<b>364.00</b>	<b>220.00</b>	<b>159.00</b>	<b>247.67</b>	<b>182.40</b>
Salaries, taxes, contributions	230.00	134.00	115.00	159.67	124.88
Hiring and firing	60.00	60.00	31.00	50.33	38.66
Work reports	74.00	26.00	13.00	37.67	18.86
<b>ADMINISTRATION OF OPERATIONS</b>	<b>40.00</b>	<b>73.00</b>	<b>91.50</b>	<b>68.17</b>	<b>84.94</b>
Taxes	33.00	63.00	78.00	58.00	72.52
Waste management	0.00	3.00	10.50	4.50	8.37
Vehicles	7.00	7.00	0.00	4.67	1.85
Health and Safety at Work	0.00	0.00	3.00	1.00	2.21
<b>OTHER BUREAUCRATIC PROCEDURES</b>	<b>5.00</b>	<b>14.00</b>	<b>36.00</b>	<b>18.33</b>	<b>29.73</b>
Legalities	1.00	0.00	12.00	4.33	8.88
Specific to production activity	4.00	14.00	24.00	14.00	20.85
<b>TOTAL</b>	<b>408.00</b>	<b>307.00</b>	<b>286.50</b>	<b>333.83</b>	<b>297.03</b>

Source: Own elaboration with data from interviews and the BCCR

On November 20, 2019, the government of Costa Rica implemented the “Agreement for the contributory insurance of coffee collectors for the special and seasonal nature of the harvest, signed between the Costa Rican Social Security Fund, the Ministry of Labor and Social Security, and the Coffee Institute.”<sup>19</sup>

This agreement facilitates the collective insurance of coffee collectors, both domestic and foreign. Due to the dynamics of the activity, coffee collectors work on different farms and for different employers, which makes it difficult to include them in payroll and enroll them in social security benefits. This procedure, which is carried out only once, under the Coffee Institute, makes it possible to identify beneficiaries and their families so that they can use health insurance in any region of the country where they are working.

the Administration of Employment. The small businesses involved in this activity expressed concern about the vast difficulties they face in keeping up with payments to the Costa Rican Social Security Fund (CCSS) and for the possibility of having to close operations in the event of a possible loss of the health permit. As a consequence of the enormous cost of social charges, it is common for small businesses to keep some staff in informality, outside their payrolls, and without declaring them to the CCSS.

The representative companies in the Tertiary sector, involved in the sale of food and drinks, spent 159 hours/year in the Administration of Employment. In the case of bars and

restaurants, employment administration procedures can be extremely tedious. For example, tips for employees are the equivalent of 10% of the total amount of the check, and it's included in all invoices and must be distributed among employees. In addition, those responsible for estimating staff compensation must take into account meal deductions, personal leave, overtime pay, and changes in shifts, among other things.

### 4.3.2 Administration of Operations

In Costa Rica, procedures related to the Administration of Operations required 40 hours/year in the Primary sector, 73 hours/year in the Secondary sector, and 91.50 hours/year in the Tertiary sector.

The payment of national taxes is very cumbersome. For this reason, it is common for small businesses to be forced into hiring third parties to provide them with electronic billing software, accounting, and filing and tax payment services, among others. A significant number of small businesses, particularly in the Tertiary sector, would greatly benefit from a simplified tax system, whereby they would be taxed on the basis of the amounts of their purchases and not on profits.

In regard to procedures, taxes, and bureaucratic burden at the municipal level, there are significant differences, depending on the municipality in which the company operates, in terms of requirements, waiting times, digitization, and amounts to pay.

### 4.3.3 Other Bureaucratic Procedures

Each of the three sectors had industry-specific procedures. The Primary sector invested 5 hours/year to comply with these requirements, the Secondary sector 14 hours/year, and the Tertiary sector 36 hours/year.

<sup>19</sup> <https://www.mtss.go.cr/elministerio/despacho/convenios/Convenio%20MTSS-CCSS-ICAFE.pdf>

Recently, the General Comptroller's Office published the document *Tax Collection in Costa Rica: Challenges for a simpler and more efficient tax system.*<sup>20</sup>

Among the most relevant findings: "It becomes apparent taxpayers are not the main focus of tax administration services, given the process of meeting their obligations is a costly and burdensome one. They are pleading for the implementation of better customer service and greater simplicity in tax return and payment procedures. As for the management of the tax administration, there is a wide variance not only in the number of actors involved (collectors, administrators, and beneficiaries) but also in platforms and information systems, which results in variable collection costs. This high variance is evident in all the entities, revealing areas for improvement. As far as the tax system is concerned, it is a complex one, with 99 active taxes, 38 types of taxed objects, low yield taxes, and aliquots of dissociated proportions from the current economic reality."

The Primary sector invests this time in the registration and renewal of the Small and Medium Agricultural Producers Registry (PYMPA) for the Ministry of Agriculture and Livestock. Although this is not a requirement, small businesses choose to do it as it provides them access to some exemptions and reduced rates. In a similar manner, the Secondary and Tertiary sectors elect to register and renew their SME registry for the Ministry of Economic Affairs, Industry, and Trade (MEIC). This is an optional procedure, but companies choose to go through with it as it provides many benefits, to the point that some companies choose to stay "small or medium," instead of growing, so as not to lose those benefits.

Figure 4.6 presents a detail of the benefits that are granted to companies when enrolling in the Ministry of Agriculture and Livestock (MAG) registry for Small and Medium Agricultural Producers (PYMPA) and SMEs in the Ministry of Economic Affairs, Industry, and Trade (MEIC). (Fig. 4.6)

For companies in the Tertiary sector, industry-specific procedures for restaurants, food retailers, and bars have specific requirements at the local level, such as alcohol licenses that require an estimate and payment based on annual sales.

In addition, it is important to highlight that the Tertiary sector is one of the most impacted by physical controls in Costa Rica to verify permits, gas operation, fire requirements, health permits, seating capacity during the pandemic, and royalty payments to the Association of Composers and Authors of Costa Rica (ACAM), among others.

Finally, all sectors coincide on the need for lower percentages of social security contributions. Costa Rica has a three-way contribution system (Employer, Worker, State) that amounts to 37% between

Fig. 4.6 Benefits of SME registration

Benefits of PYMPA registration with the MAG	Benefits of SMEs registration with the MEIC
<ul style="list-style-type: none"> <li>• Exemption from Value Added Tax for PYMPA leases with amounts less than 1.5 base wages.</li> <li>• Access to credits and guarantees from the Development Fund for Micro-, Small-, and Medium-Sized Enterprises.</li> <li>• Valuation of the Real Estate Tax for Agricultural Land based on the provisions of Law 9071.</li> <li>• Receive exemption from tax payment to legal persons when making the request.</li> <li>• Differentiated tax rate for the registration of water wells of Small and Medium Agricultural Producers (PYMPA).</li> <li>• Permits for Agricultural Burning (based on Decree No. 35368-MAG-S-MINAE).</li> <li>• If the producer so requests, lightweight, heavy-duty, or four-wheel drive vehicle may be exempted from the emissions test in the Vehicle Inspection, according to Article 3 of Decree 30709-MAG-MOPT.</li> <li>• It is given priority when distributing aid in emergency situations.</li> <li>• Pay with an Adjusted Salary Base during the first four years of life of the PYMPA. Reduced rate and progressive application based on the "Regulation for establishment of a Salary Adjusted Base for Micro-business in Health Insurance."</li> </ul>	<ul style="list-style-type: none"> <li>• Participation as an SME supplier to the State.</li> <li>• Financing, guarantees, and assurances through the Development Fund for Micro-, Small-, and Medium-Sized Enterprises (FODEMIPYME) of the Banco Popular.</li> <li>• Access to grants for innovation with the Ministry of Science, Innovation, Technology, and Telecommunications (MICITT).</li> <li>• Business development services such as conferences, training, and workshops, among others.</li> <li>• Business fairs and business meetings.</li> <li>• Preferential rate in the annual revalidation of companies before the Federal College of Engineers and Architects (CFIA)</li> <li>• Special \$5 rate to micro and small waste managers. Art 1- 49 Decree N° 41526-S-MINAE-H</li> <li>• Preferential rates: PYMExpress and Exportafácil.</li> <li>• Financing from the Development Banking System, INDER, and other entities.</li> <li>• Tax exemption for legal entities: micro and small businesses.</li> <li>• VAT exemption for micro- and small-businesses leases, amounting to less than ₡669,000.</li> <li>• Staggered payment for employers before CCSS for new micro-enterprises up to five employees.</li> <li>• Microenterprise health permit: one-time fee of \$20.</li> <li>• Preferential rate for health permits for micro-enterprises (20% of the current rate).</li> <li>• Three-year grace period (no payment) for certification of drones before the General Directorate of Civil Aviation.</li> <li>• Staggered exemption for micro and small enterprises in the payment of income tax, for the first three years of operations (Law 9635 Ministry of Finance).</li> </ul>

<sup>20</sup> [https://cgrfiles.cgr.go.cr/publico/docs\\_cgr/2022/SIGYD\\_D/SIGYD\\_D\\_2022007963.pdf](https://cgrfiles.cgr.go.cr/publico/docs_cgr/2022/SIGYD_D/SIGYD_D_2022007963.pdf)

### The ACAM Case

In Costa Rica, the law<sup>21</sup> gives the Association of Composers and Authors of Costa Rica (ACAM) the right and the power to charge<sup>22</sup> for something they call “Public Communication.”

**“ACAM charges commercial establishments for the public reproduction of musical works, including bars, restaurants, hotels, dance clubs, concerts, fairs or any commercial premises that use the musical repertoire protected by ACAM.”<sup>23</sup>**

In other words, almost all commercial establishments in Costa Rica are required to pay ACAM for playing music in their establishments (for example, using the Spotify app), without receiving anything in exchange from ACAM. Failure to comply with this payment exposes the establishments to penalties, fines, closure, and denial of other permits such as municipal licenses.

It is the opinion of the establishment owners that this payment is an abusive procedure for just playing music on their premises, especially considering the fact that many of them already pay subscriptions to platforms like Spotify, which deals with copyrights, so it makes no sense to pay an additional amount to ACAM for the same purpose.

employer and the worker—in contrast with the average in the OECD countries of 26.2%—in addition to the percentage covered by government revenue.

## 4.4 Conclusions

In Costa Rica, the Catálogo Nacional de Trámites (CNT) compiles standardized basic information on all administrative procedures and requirements. It is enforced as law and aims to avoid duplicity of procedures and expedite them in benefit of all citizens. The CNT also contains elements such as affidavits and the enforcement of positive silence. These tools that favor citizen petitions are underutilized and could have a major positive impact on the country’s competitiveness and economy.

Unfortunately, it is clear that a law is not the solution for excessive bureaucracy. Many institutions are unaware of the existing laws, and therefore do not apply them. In addition, it is important to promote a service culture among public officials. While citizens have in the past been fearful of retaliation from officials—which could potentially harm their businesses—it is important they feel empowered and able to effectively assert their rights.

**Fig. 4.7 Breakdown of contributions to social security by employer, employee, and State**

Institution	Benefit	Employer	Employee	State
Costa Rican Social Security Fund (CCSS)	Health and maternity insurance	9.25%	5.50%	0.25%
	Disability, old age, and death	5.25%	4.00%	1.41%
Other institutions	Employer quota to Banco Popular y de Desarrollo Comunal	0.25%	-	-
	Fondo de Asignaciones familiares	5.00%	-	-
	Instituto Mixto de Ayuda Social	0.50%	-	-
	Instituto Nacional de Aprendizaje	1.50%	-	-
Worker Protection Act	Employer Contribution to Banco Popular y de Desarrollo Comunal	0.25%	-	-
	Fondo de Capitalización Laboral	3.00%	-	-
	Fondo de Pensiones Complementarias	0.50%	-	-
	Employer-Worker Contributions to Banco Popular y de Desarrollo Comunal	1.00%	-	-
	Instituto Nacional de Seguros	1.00%	-	-
<b>SUBTOTAL</b>		<b>27.50 %</b>	<b>9.5 %</b>	<b>1.39 %</b>
<b>TOTAL</b>			<b>38.39 %</b>	

Source: Own elaboration with data from interviews and the BCCR.

<sup>21</sup> Ley de Derechos de Autor y Derechos Conexos, N°6683 from 1982 (LDADC) and regulations.. Ley de Procedimientos de Observancia de los Derechos de Propiedad Intelectual, n.º 8039 del año 2000.

<sup>22</sup> [https://www.acam.cr/media/documentos/79Tarifario2022\\_.pdf](https://www.acam.cr/media/documentos/79Tarifario2022_.pdf)

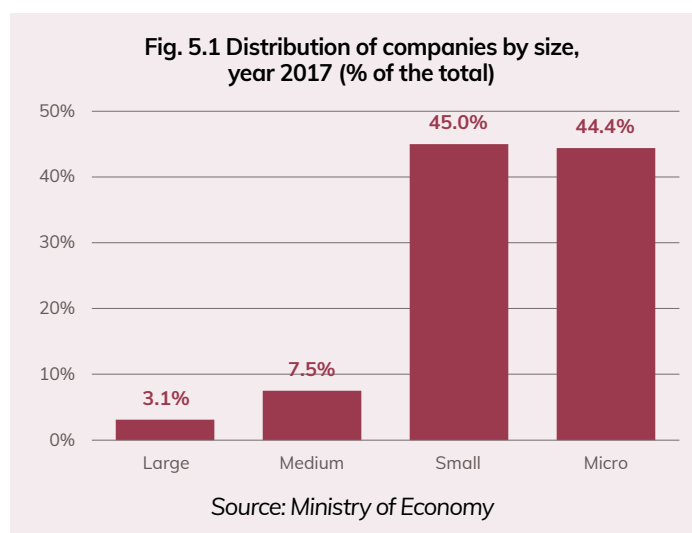
<sup>23</sup> <https://www.acam.cr/front/pt1.php?ref=34#:~:text=ACAM%20le%20cobraa%20todo%20aquel,4>

# 5. Chile

Instituto Libertad y Desarrollo  
Bettina Horst y Soledad Monge

## 5.1 Production structure

There are almost 1.3 million companies in Chile, most of which are small. According to data from the Ministry of Economy, 45% of the country's enterprises are small, 44.4% are micro-enterprises, and only 3.1% and 7.5% are large and medium, respectively (Fig. 5.1).



Companies in Chile are classified by level of sales or by number of employees. For comparison purposes, the number of employees was considered, where small businesses are composed of 10 to 25 employees. (Fig. 5.2)

**Fig.5.2 Categorization of companies according to sales and number of employees**

Size	Sales	Number of employees
Micro	0–2,400UF <sup>24</sup>	0–9
Small	2,400–25,000UF	10–25
Medium	25,000.01–100,000UF	25–200
Large	100,000.01UF and more	200 and more

Source: Law No. 20.146

According to data from the Internal Revenue Service, in 2017, 11.3% of small businesses belonged to the Primary sector, 20.7% to the Secondary sector, and 67.9% to the Tertiary sector. In the Primary sector, agriculture, livestock, hunting, and forestry are the activities with the largest scope, with 10% of all small businesses. Construction leads the Secondary sector category with 10.5%. Finally, in the Tertiary sector, the activity with the most weight is wholesale and retail trade, with 28.5% of small businesses (Figure 5.3).

**Fig. 5.3 Production structure by sector (2017, total % of comp.)**

Sector	% of Total companies
<b>PRIMARY SECTOR</b>	<b>11.3</b>
Agriculture, livestock, hunting, and forestry	10.0
Fishing	0.7
Mining and quarrying	0.6
<b>SECONDARY SECTOR</b>	<b>20.7</b>
Nonmetallic manufacturing industries	5.3
Metallic manufacturing industries	4.5
Supply of electricity, gas, and water	0.4
Construction	10.5
<b>TERTIARY SECTOR</b>	<b>67.9</b>
Wholesale and retail trade	28.5
Accommodation and food service	4.2
Transport, storage, and communications	8.0
Financial services	6.9
Real estate and business activities	13.5
Teaching	1.8
Health care and social assistance	3.5
Other service activities	1.5
<b>TOTAL</b>	<b>100.0</b>

Source: ECLAC with data from the Internal Revenue Service, 2017

<sup>24</sup> Unidad de Fomento (UF) is a unit of account used in Chile; a non-circulating currency.



## 5.2 Representative economic activity of small businesses by sector

The companies were selected utilizing data from the Internal Revenue Service to identify the economic activities that best represent each sector. (Fig. 5.3)

The Primary sector in Chile is represented by a company devoted to the agricultural production of wheat. In the Secondary sector, construction and manufacturing activities were determined as representative, specifically contractors and food manufacturing companies. Finally, in the Tertiary sector, food retailers, real estate, and retail business were selected.

According to these results, small companies from the above-mentioned activities were interviewed, and weighted by the participation of each activity in their sector.

## 5.3 Results

In Chile, according to the analysis, a small company spends on average 470 hours a year to comply with legal procedures required to operate, in the areas of Administration of Employment, Administration of Operations, and Other Bureaucratic Procedures specific to each economic activity.

The information collected shows that the Primary and Tertiary sectors spend a similar number of hours per year, where the difference is largely due to the lack of specific procedures for the Primary sector. On the other hand, the Secondary sector spends the most time on bureaucracy, approximately five times more than the other sectors. The explanation lies in the specific cumbersome procedures that prevail in this sector. In fact, if the time spent in specific procedures is disregarded, the number of hours allocated to bureaucracy in small businesses is reduced by more than half.

Of a total of 34 procedures identified, 22 are available for online processing—that is, more than half of them. However, it should be noted that several of these procedures were automated less than four years ago, so the level of bureaucracy in Chile has been significantly decreased in recent times.

The authorities that interact most with small businesses are the Labor Department and the Internal Revenue Service, in addition to the respective municipalities.

## 5.3.1 Administration of Employment

Companies in all three sectors are required to comply with the same procedures in relation to the Administration of Employment. These include the calculation and payment of payroll, together with the corresponding taxes and contributions; procedures associated with hiring and firing, which are dealt with directly through the Labor Department and those associated with their respective security companies, such as training, management of work accidents, and keeping up to date with Health and Safety Regulations. In total, small businesses spend approximately 111 hours a year to meet the demands of the Administration of Employment.

## 5.3.2 Administration of Operations

The Administration of Operations involves the fulfilment of fiscal obligations. This includes the monthly VAT declaration and payment, pretax annual returns, and annual income tax returns. These last two obligations are the ones that take the most time for small businesses and also add additional difficulty, since they require a tax accountant. On the other hand, documents (bills, invoices, dispatch guides, debit notes, and credit notes) and records to support accounting (Daily Book, General Book, Inventory and Balance Book, FUT Book, and Book of Purchases and Sales) must be stamped by the Internal Revenue Service.

*In the past, the process of stamping tickets and invoices was very cumbersome. First you had to have the bills printed, which could take a couple of days. Then they had to be picked up and physically stamped at the Internal Revenue Service. Sometimes officials would not stamp them right away, so they would need to be picked up on another day. In addition to the time spent on this process, medium to large companies with several locations required an additional worker devoted to these tasks, which could take up to a week each month.*

*The digitization of the document stamp began in 2014 and became mandatory in 2021. This considerably reduced the time and staff needed to perform these procedures. Now, there is no need to worry about printing, signing, and stamping hard copies, since it can all be easily completed electronically through an app from the Internal Revenue Service.*

Fig. 5.4 Annual hours by sector and by group

Group of Procedures	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Administration of Employment	81.5	124.4	112.1	106.0	111.1
Administration of Operations	84.5	87.7	106.2	92.8	99.8
Other Bureaucratic Procedures	-	1,119	41.1	386.7	259.6
<b>TOTAL</b>	<b>166</b>	<b>1,331.0</b>	<b>259.4</b>	<b>585.5</b>	<b>470.4</b>

Finally, if the company has its own vehicles, they must carry out an annual inspection and registration payment, which fall into the category of Administration of Operations. However, this type of procedure only represents 6% of this category, while the remaining percentage is related to taxes.

In total, small businesses spend approximately 100 hours a year to meet the demands of the Administration of Operations

### 5.3.3 Other Bureaucratic Procedures

In Chile, some economic sectors have specific procedures for small businesses. For the representative companies, we were able to identify specific obligations for the Secondary and Tertiary sectors.

The most burdensome administrative activity is in construction. To conduct their activity, companies need to apply for right-of-way and traffic control permits, demolition, and excavation permits, which could take up to three months to be approved by the Register of Works. This is why, on average, a small construction company takes 1,618 hours to complete this type of procedure.

Small food-processing establishments (manufacturing) and food retailers (trade) must comply with licensing payments and pest control requirements. The former also involves keeping audit records, while the latter requires quarterly electrical system controls and monthly sanitation reviews due to COVID.

In total, small businesses spend approximately 260 hours a year to meet the specific requirements of their economic activity.

## 5.4 Final considerations

In recent years, Chile has automated several procedures required by the government for the legal operation of companies in the country. This has facilitated and reduced the time that businesses spend dealing with the bureaucratic burden. However, these improvements can't be measured since there is no historical data prior to this study that would be comparable.

In addition, it should be mentioned that Chile has not fully adapted to the recent automation, since there are companies that continue to perform these procedures in person. This is especially true in regions where companies are less informed, so it is essential to give them the tools to adapt to this change and thus reduce the time they spend on bureaucratic procedures.

On the other hand, there are certain administrative requirements that are related to internal functions of the company. For example, in the case of tax returns, the process becomes much less tedious and requires less time when the company keeps its records in a simple and organized way.

Finally, we observed that the biggest administrative obstacles are in the Secondary sector, specifically in construction. This economic activity faces a series of challenges related to work permits, which take an enormous amount of time to be resolved, hence concluding that construction is the sector most affected by bureaucracy in the country.

# 6. Ecuador

Instituto Ecuatoriano de Economía Política  
 Joselo Andrade y Danilo Vélez

## 6.1 Production structure

In order to know the production structure of Ecuador, we used the Quarterly National Accounts report (Bulletin No. 117) presented by the Banco Central del Ecuador (BCE). In 2020, the Tertiary sector was the most representative with a 56.8% contribution to GDP, followed by the Secondary sector with a weight of 29.6%, and finally the Primary sector with a share of 13.6%.

The most representative activity by sector was identified by analyzing their share in GDP in the following periods: 2019, as it was a pre-pandemic year; 2020, which was the last year with available data when this document was prepared; and the average for the 2000–2020 period. Within the Primary sector, agriculture was the most representative activity with a share of 9.3% between 2000 and 2020. For the purposes of this report, aquaculture and fishing activities will be considered within agriculture, bumping this group's participation to 10.6% in GDP. In the Secondary sector, manufacturing was the predominant activity with an average of 14.2% in the period studied, as well as the construction field with a weight of 9.5%. In the Tertiary sector, trade (11.6% of GDP) and education, health, and social services (8.1% of GDP) stand out.

This selection is substantiated by analyzing the different activities according to the number of companies, the level of sales and the registered employment positions. According to information from the Directory of Companies and Establishments (DIEE) 2020, prepared by the Instituto Nacional de Estadística y Censos (INEC, 2021), when analyzing total sales according to economic activity (ISIC, Rev. 4 Code – 1 digit) wholesale and retail trade; manufacturing industries; and agricul-

Fig. 6.1 Production structure by sector (% GDP)

SECTOR/INDUSTRY	2019	2020	Avg. (2000–2020)
Agriculture	8.3%	9.3%	9.3%
Aquaculture and shrimp fishing	0.6%	0.6%	0.6%
Fishing (excluding shrimp)	0.5%	0.5%	0.7%
Oil and mining	5.8%	3.1%	8.3%
<b>PRIMARY SECTOR</b>	<b>15.2%</b>	<b>13.6%</b>	<b>18.8%</b>
Oil refining	1.1%	1.8%	1.7%
Manufacturing (excluding oil refining)	14.6%	15.8%	14.2%
Electricity and water supply	1.8%	1.9%	1.5%
Construction	11.7%	10.1%	9.5%
<b>SECONDARY SECTOR</b>	<b>29.2%</b>	<b>29.6%</b>	<b>26.9%</b>
Trade	9.8%	9.8%	11.6%
Accommodation and food services	2.4%	2.0%	2.0%
Transportation	5.9%	5.6%	6.4%
Mail and Communications	1.9%	2.1%	2.3%
Financial service activities	3.8%	4.1%	3.0%
Professional, technical, and administrative activities	8.0%	7.7%	6.9%
Education and health and social services	9.7%	11.2%	8.1%
Public administration, defense; compulsory social security plans	6.9%	7.9%	6.5%
Private households with domestic service	0.6%	0.5%	0.4%
Other services (*)	6.4%	5.8%	7.0%
<b>Tertiary SECTOR</b>	<b>55.5%</b>	<b>56.8%</b>	<b>54.3%</b>
<b>TOTAL GDP</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Banco Central del Ecuador (2021), Quarterly National Accounts Bulletin No. 117

(\*) Includes: Real estate, entertainment, recreation, and other service activities

ture, livestock, forestry, and fisheries are in the top places. In terms of the number of companies, commercial; and agricultural, livestock, forestry, and fishing activities stand out in the first and second place; while trade and manufacturing industries are the two activities that employ the most people. (See Annex 6.A.1; 6.A.2 and 6.A.3)

In Ecuador, the categorization of companies according to size is given by the level of sales and by the number of employees; the first criteria being the prevalent one (INEC, 2021). Below are the companies classified by size:

Fig. 6.2 Categorization of companies by size

Size	Annual sales	Employees
Micro	≤ 100,000	1 to 9
Small	100,001–1,000,000	10 to 49
Medium category "A"	1,000,001–2,000,000	50 to 99
Medium category "B"	2,000,001–5,000,000	100 to 199
Large	5,000,001 ≥	200 or more

Source: Directory of Companies and Establishments (DIEE) 2020

According to this classification, small businesses in Ecuador are those with annual sales volumes ranging from US\$100,001 to US\$1,000,000, or that have 10 to 49 people employed. In 2020, small businesses accounted for 6.15% of the total number of companies, their sales accounted for 10.64% of the total, and they occupied 17.52% of the total employment positions.

## 6.2 Representative economic activity of small businesses by sector

As stated in the previous section, and based on the Business Ranking of the Superintendence of Companies (2021), the small companies representing each of the sectors (ISIC, Rev. 4 code – 6 digits) must have the following characteristics:

**Primary sector:** company dedicated to the exploitation of shrimp farms and shrimp larvae (A0321.02), with sales ranging from \$100,001 to \$1,000,000, and employing between 10 and 49 people.

**Secondary sector:** company engaged in the manufacture of garments from woven, knitted, and crocheted fabrics, non-woven fabrics, among others (C1410.02), as well as a company engaged in construction of all types of residential buildings (F4100.10), with sales ranging from \$100,001 to \$1,000,000, and employing between 10 and 49 people.

**Tertiary sector:** commercial company dedicated to the sale of parts and accessories for motor vehicles (G4530.00), company devoted to elementary education (P8510.21), both with sales ranging from \$100,001 to \$1,000,000, and employing between 10 and 49 people.

## 6.3 Results

For the development of the IB-LAT for Ecuador, the administrative, accounting, and management staff of 12 companies in the representative sectors were interviewed, as well as experts in the field. Figure 6.4 shows the summary results by economic sector and group of procedures. The average time (weighted by sector participation in GDP) that a small company in Ecuador spends to comply with different bureaucratic procedures is 395.05 hours/year.

The Secondary sector is the one facing the greatest bureaucratic burden, with 644.48 hours/year, in particular due to the specific procedures for certain activities in the sector. Consequently, the Primary and Tertiary sectors bear a similar burden, 272 and 294.52 hours/year respectively, which represents half the time, compared to the Secondary sector.

Fig. 6.4 Annual hours by sector and by group

Group of Procedures	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. of Employment	46.50	46.86	33.84	42.40	39.42
Adm. of Operations	152	187.56	169.25	169.60	172.32
Other Bur. Procedures	73.50	410.05	91.43	191.66	183.31
<b>TOTAL</b>	<b>272</b>	<b>644.48</b>	<b>294.52</b>	<b>403.66</b>	<b>395.05</b>

Fig. 6.3 Number of companies, total sales, and employment recorded by company size

Size	No. of companies	% Total	Total sales	% Total	Total employment positions	% Total
Micro	777,614	91.89%	\$1,457,685,200	1.00%	747,660	26.28%
Small	52,079	6.15%	\$15,499,475,628	10.64%	498,359	17.52%
Medium category 1	7,565	0.89%	\$9,031,485,632	6.20%	214,539	7.54%
Medium category 2	5,075	0.60%	\$14,275,194,538	9.80%	258,860	9.10%
Large	3,932	0.46%	\$105,405,424,371	72.36%	1,125,600	39.56%
<b>TOTAL</b>	<b>846,265</b>	<b>100%</b>	<b>\$145,669,265,369</b>	<b>100%</b>	<b>2,845,018</b>	<b>100%</b>

Source: Directory of Companies and Establishments (DIEE) 2020

In total, 63 procedures were identified, of which 38 are applicable to all companies (although not all companies comply with each one of them), while 25 are specific to the production activity of the sample companies. Regarding paperwork, 47% of the total procedures are digitized, however, most of the general compliance procedures are digitized, and those which are not mainly relate to inspections or industry-specific communications to the responsible government office.

### 6.3.1 Administration of Employment

The total procedures for this category are 15, of which 7 relate to salaries, taxes, and contributions, 6 to hiring and firing, and 2 to work reports. The same apply to all companies, however, the work reports to INEC are random.

Fig. 6.5 Time required for Adm. of Employment procedures (h/y)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Salaries, taxes, and contributions	18.00	18.00	18.00	18.00	18.00
Hiring and firing	26.00	28.61	10.14	21.58	17.77
Work reports	2.50	0.25	5.70	2.82	3.65
<b>TOTAL</b>	<b>46.50</b>	<b>46.86</b>	<b>33.84</b>	<b>42.40</b>	<b>39.42</b>

In general, each procedure represents similar average times across all sectors. The differences are mainly in the annual turnover of staff, which differs according to the need of the different activities.

As for salaries, taxes, and contributions, the procedures are associated with the monthly payment of contributions to the Instituto Ecuatoriano de Seguridad Social (IESS), as well as the enrollment and calculation of benefits such as profit sharing, and thirteenth and fourteenth salaries.

With regard to hiring and firing, companies must notify the IESE and the Ministerio de Trabajo of each enrollment, as well as each dismissal. Compliance with these procedures is done digitally and does not represent major difficulties for companies. The differences in the number of hours devoted to this subgroup are determined by staff rotation in the companies analyzed.

Work reports include the notification of salary changes made on the IESE website and the INEC statistical reports. These procedures, however, do not apply to all activities.

### 6.3.2 Administration of Operations

The bulk of the paperwork in this category, and the number of hours spent completing it, corresponds to the payment of taxes. In fact, of the 21 procedures identified, 15 relate to the payment of taxes, 2 to vehicle administration, and 4 to the management of health and safety at work.

Fig. 6.6 Time required for Adm. of Operations procedures (h/y)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Taxes	152.00	153.56	152.00	152.52	152.46
Vehicles	0.00	13.00	6.09	6.36	7.31
Health and Safety	0.00	21.00	11.16	10.72	12.55
<b>TOTAL</b>	<b>152.00</b>	<b>187.56</b>	<b>169.25</b>	<b>169.60</b>	<b>172.32</b>

As for tax payments, the same procedures are carried out by all companies, except for the construction sector, which is subject to two specific additional procedures.<sup>25</sup> On average, it takes companies 152 hours a year to pay taxes. Tax payments represent 56% of the total bureaucratic burden for Primary sector companies, 24% for Secondary sector companies, and 52% for Tertiary sector companies.

Of these, 47% are processed by the Servicio de Rentas Internas (SRI), 27% are municipal, and 13% are required by the Superintendencia of Compañías (Super Cias). It should be noted that most of the procedures of this subgroup are digitized.<sup>26</sup>

Procedures related to vehicle management include annual vehicle inspection and new vehicle registration. Naturally, these procedures are only carried out if necessary, so not all activities record time devoted to them.

#### **“If the page doesn’t collapse . . .”**

*Despite the high degree of digitization that most general compliance procedures have in Ecuador (those with organizations such as the IESE, Ministerio de Trabajo, SRI, and Super Cias), a constant problem companies face is the frequency of which web portals collapse, especially in times of increased traffic. Procedures can take twice as long when the portal is not functioning correctly, but the main difficulty results from the fact that the loaded information can be lost, forcing users to repeat the process.*

Finally, this category covers the hours for occupational health and safety management, which encompasses required company trainings, submitting the health and safety plan, and recording management indicators. Additionally, companies must update their health and safety regulations every two years. For the fulfillment of the training requirement, companies hire external authorized providers, while the design of the annual plan and the collection of information is usually done in-house. It should be noted that not all companies interviewed comply with these requirements.

<sup>25</sup> Contribution to the Junta de Beneficencia de Guayaquil (Guayaquil Charity Board) and contribution to the Universidad de Guayaquil.

<sup>26</sup> The municipal procedures included in the report are required by the Gobierno Autónomo Descentralizado de Guayaquil (GAD) and can be carried out completely online. However, there are municipalities in the country where the same degree of digitization does not exist, so for these cases the number of hours is higher.

### 6.3.3 Other Bureaucratic Procedures

This category includes those procedures specific to the activity in which the company operates, as well as the special inspections and controls required annually for the operation of the company. This group of procedures represents a differentiating factor for Ecuador's score, in particular for the set of procedures that are specific to certain activities such as shrimp farming, construction, and elementary education.

Fig. 6.7 Time required for Other procedures (h/year)

Subgroup	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Specific/Production activity	72.00	331.30	88.05	163.78	157.88
Inspection/Control	1.50	76.31	1.50	26.44	23.65
Special Authorizations	0.00	2.44	1.87	1.44	1.79
TOTAL	73.50	410.05	91.43	191.66	183.31

In fact, for the Primary sector, the group of procedures specific to shrimp farming represent 26% of the time devoted to the bureaucratic burden. Meanwhile, for the Secondary sector, construction companies endure more than 1,000 hours dealing with procedures specific to their activity, which represents more than 80% of the total. In a similar manner, companies providing elementary education spend 43% of the time complying with procedures required by sector regulators.

#### **The advantages of not having a government ministry of their own**

*The shrimp sector is subject to various activity-specific procedures such as fees and inspections that require several hours per year to complete.*

*However, a fact highlighted by representatives of the sector and economic analysts is that this activity benefits from not having its own ministry and, therefore, not being over-regulated. Indeed, analyst Walter Spurrier (2022) points out that, since the industry operates in the narrow strip between land and sea, it has been off the radar of the regulations that apply to agriculture and fishing. Along the same lines, Alberto Dahik (2022) says that the activity was developed thanks to the fact that there is not, and never was, a "National Institute of Shrimp."*

Other requirements in this category are inspections of general compliance such as those required by the fire department; others more specific such as ARCSA, which garment manufacturing companies must comply with; and special authorizations such as the anti-money laundering training or the operations and transactions report with the Unidad de Análisis Económico y Financiero (UAFE), required for construction companies.

## 6.4 Final considerations

In recent years, Ecuador has scored poorly on international indicators rating its ecosystem for business development. For example, in the latest edition of Doing Business 2020 the country ranked 129th out of 190 economies. In a similar way, according to the latest information from The World Bank's Enterprise Surveys (2017), 32.7% of Ecuadorian companies identify tax administration as a significant limitation, and 23.5% feel the same about obtaining licenses and permits.

Recently, however, there have been efforts from the government authorities to change this situation. In 2018, the Organic Law for the Optimization and Efficiency of Administrative Procedures was introduced, making the simplification of procedures a state policy, and creating the Portal Único de Trámites Ciudadanos (Gob.ec) or single window, that serves as a guide to procedures in Ecuador. As reported on the portal, online procedures went from 21% (October 2018) to 35% (December 2019).<sup>27</sup>

As discussed in this report, much of the general compliance procedures in Ecuador have been digitized. This has resulted in a significant reduction in the time spent on bureaucratic processes, which currently represents a lower burden than that expressed in the above-mentioned international reports.

However, beyond the improvements in digitization, Ecuadorian companies are still subject to a wide range of procedures. In particular, every year companies must comply with at least 15 processes related to the payment of taxes. This number could be higher if certain conditions were met, such as, for example, if the company keep assets abroad or if it engaged in transactions requiring the payment of the capital exit tax.

On the other hand, although the procedures related to the Administration of Employment do not represent a significant time expense to the companies considered in the study, the time spent on this category could be higher if the company had a larger number of employees. This could mean that a longer time is needed to verify the information related with the monthly social security payments, and the yearly reports that should be sent to the Ministerio de Trabajo concerning employee benefit payments.

Finally, there are sectors that encounter greater difficulties due to procedures specific to their activity. Shrimp farming, education, and especially construction, spend a considerable amount of time sending reports, attending inspections, or obtaining permits. In order to alleviate this burden, the requirement that certain reports must be brought in person to the relevant entity for approval could be eliminated; as well as some duplicate procedures that could be improved by allowing public entities to cross-reference information. In conclusion, there are opportunities for improvement in optimization and continued simplification of procedures, as enacted by law in 2018.

<sup>27</sup> <https://www.gob.ec/acerca-gobec>

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## Annex 6.A.1 Total sales by economic activity

Economic Activity	Total Sales	Total %
Wholesale and retail trade; repair of motor vehicles and motorcycles	\$55,659,598,660	38.21%
Manufacturing industries	\$30,658,873,462	21.05%
Agriculture, livestock, forestry, and fisheries	\$10,019,336,488	6.88%
Financial and insurance activities	\$9,910,268,126	6.80%
Mining and quarrying	\$8,598,521,380	5.90%
Transport and storage	\$5,537,537,283	3.80%
Information and communication	\$4,511,931,640	3.10%
Construction	\$3,530,541,207	2.42%
Professional, scientific, and technical activities	\$3,165,707,769	2.17%
Supply of electricity, gas, steam, and air conditioning	\$2,937,200,562	2.02%
Human health care and social assistance	\$2,525,122,984	1.73%
Administrative and support services activities	\$2,105,896,551	1.45%
Education	\$1,835,733,178	1.26%
Accommodation and food service	\$1,480,282,795	1.02%
Real estate activities	\$1,227,374,885	0.84%
Other service activities	\$854,803,756	0.59%
Water distribution; sewage, waste management, and sanitation activities	\$822,922,834	0.56%
Arts, entertainment, and recreation	\$267,166,469	0.18%
Public administration and defense; compulsory social security plans	\$20,445,340	0.01%
<b>Total</b>	<b>\$145,669,265,369</b>	<b>100.00%</b>

Source: Directory of Companies and Establishments (DIEE) 2020

**Annex 6.A.2 Number of companies by economic activity**

Economic Activity	Number of companies	Total %
Wholesale and retail trade; repair of motor vehicles and motorcycles	290,635	34.34%
Agriculture, livestock, forestry, and fisheries	80,784	9.55%
Transport and storage	78,459	9.27%
Other service activities	74,937	8.86%
Manufacturing industries	70,449	8.32%
Professional, scientific, and technical activities	61,573	7.28%
Accommodation and food service	54,974	6.50%
Construction	26,755	3.16%
Education	24,842	2.94%
Human health care and social assistance	21,323	2.52%
Real estate activities	20,879	2.47%
Administrative and support services activities	18,401	2.17%
Information and communication	7,997	0.94%
Arts, entertainment, and recreation	5,588	0.66%
Financial and insurance activities	2,778	0.33%
Public administration and defense; compulsory social security plans	2,104	0.25%
Mining and quarrying	1,735	0.21%
Water distribution; sewage, waste management, and sanitation activities	1,569	0.19%
Supply of electricity, gas, steam, and air conditioning	483	0.06%
<b>Total</b>	<b>846,265</b>	<b>100 %</b>

Source: Directory of Companies and Establishments (DIEE) 2020

**Annex 6.A.3 Registered employ. positions by economic activity**

Economic Activity	Total Employ. positions	Total %
Wholesale and retail trade; repair of motor vehicles and motorcycles	527,356	18.54%
Manufacturing industries	355,268	12.49%
Education	302,150	10.62%
Public administration and defense; compulsory social security plans	291,970	10.26%
Agriculture, livestock, forestry and fisheries	223,358	7.85%
Human health care and social assistance	157,400	5.53%
Transport and storage	155,106	5.45%
Professional, scientific, and technical activities	151,196	5.31%
Administrative and support services activities	150,756	5.30%
Accommodation and food service activities	106,987	3.76%
Construction	98,398	3.46%
Financial and insurance activities	70,497	2.48%
Other service activities	69,047	2.43%
Information and communication	52,098	1.83%
Real estate activities	41,464	1.46%
Mining and quarrying	33,829	1.19%
Water distribution; sewerage, waste management and sanitation activities	22,812	0.80%
Supply of electricity, gas, steam and air conditioning	18,750	0.66%
Arts, entertainment and recreation	16,576	0.58%
<b>Total</b>	<b>2,845,018</b>	<b>100%</b>

Source: Directory of Companies and Establishments (DIEE) 2020



# 7. Mexico

## México Evalúa

Ana Lilia Moreno, Viviana Patiño

### 7.1 Production structure

*Location of small enterprises. Identification of representative enterprise by sector.*

The classification of companies in Mexico is determined by the number of employees and level of sales, which were established since 2009 (Fig. 7.1), when the most recent classification was published.<sup>28</sup> According to INEGI criteria, micro-enterprises are characterized by having fewer than 10 employees and annual sales of less than 4 million pesos; while small companies employ on average between 11 and 13 workers and generate sales below 100 million pesos.

Both micro and small businesses can be formal or informal companies, and they are of great importance to the Mexican economy as micro and small companies occupy 52% of all employed

personnel, according to data from the 2019 Economic Census. Large companies represented 32.1% of the total. To analyze companies according to their classification, the North American Industry Classification System (NAICS)<sup>29</sup> 2018 version was used. This is a useful tool for collecting, analyzing, disseminating, evaluating, and comparing statistical information from the economies of Canada, Mexico, and the United States.

According to these censuses, in Mexico, small and medium-sized enterprises represent 4.9% of companies, while micro-businesses make up 94.9% of companies. Large companies represent 0.2% of all establishments (INEGI, 2019c, p.3).

However, in view of the destructive effects of the COVID-19 pandemic on the national economy, INEGI analyzed the mortality of enterprises in the years 2020 and 2021, and the effect on formal and informal micro-enterprises. The data showed a strong impact, because of the existing micro-enterprises in

**Fig. 7.1 Categorization of companies according to sales and number of employees**

Sector	Stratification								
	Micro			Small			Medium		
	Employees	Sales annual range (million MXP)	Top combination*	Employees	Sales annual range (million MXP)	Top max combination	Employees	Sales annual range (million MXP)	Top combination*
Industry	0–10	< \$4	4.6	11–50	\$4.01–\$100	95	51–250	\$100.1–\$250	250
Trade	0–10	< \$4	4.6	11–30	\$4.01–\$100	93	31–100	\$100.1–\$250	235
Services	0–10	< \$4	4.6	11–50	\$4.01–\$100	95	51–100	\$100.1–\$250	235

\*Top Combination = (Employees) x10% + (annual sales) x 90; mxp= Millions of pesos

Source: National Institute of Statistics and Geography [INEGI] (2019c) Economic Census 2019 | Micro, small, medium and large companies. Stratification of establishments. Economic Censuses 2019

<sup>28</sup> Current classification for Mexico in 2022. However, for its last census, INEGI used only the employed personnel to differentiate between the size of the companies. This, according to INEGI, is in continuity with previous publications on stratification; the most recent is published in the Official Journal of the Federation from December 30, 2002.

<sup>29</sup> The SCIAN (NAICS) 2018 is made up of 20 sectors of economic activity, which in turn are divided into 94 subsectors, 306 branches, 615 sub-branches, and 1,084 classes of activity, of which 994 are covered by the 2019 Economic Censuses of the National Institute of Statistics and Geography (INEGI).

**Fig. 7.2 Micro-enterprises and the effects of COVID-19, according to their formality**

		Proportion according to INEGI	Formal	Informal	Total
2019 Census	Total economic units		37.40%	62.60%	100%
			1,795,258.00	3,004,898	4,800,156
	Microenterprises (2019 Census)	95%	1,703,699.84	2,851,648	4,555,348
COVID Effect	Survived COVID 2020	83%	1,407,085.70	2,229,989	3,637,075
	Survived COVID 2021	77%	1,077,968.35	1,927,714	3,005,683
	Microenterprises that remained in 2020 (2019 Census)		63%	68%	66%

Source: Own elaboration with data from INEGI (2019b, 2020, and 2021b)

2019; by 2021 only 63% of formal enterprises and 66% of informal enterprises still existed. In real numbers, of the 4,555,348 micro-enterprises registered in 2019, only 3,005,683 survived; of which 1,077,968 are formal and 1,927,714 are informal.

Figure 7.3 shows that the majority of employed personnel for 2008, 2013, and 2018 concentrated in micro-enterprises. For 2018, the percentage of personnel employed by micro-enterprises was 37.2%; while in small companies it was only 14.8%, which represents the lowest value for that year.

According to INEGI (2019; p. 4), public insecurity is the main problem reported by establishments (micro, SMEs, and large) to carry out their activities. However, companies consider that the excess of bureaucratic procedures to operate is also a significant burden, placing it in fourth place, after high costs of utilities (water, electricity, and telephone services) and taxes. Also, the economic census projected a significant lag in the adoption of information technologies because only 26 of every 100 establishments have computers, and 23 out of 100 have internet (INEGI; 2019; p. 4).

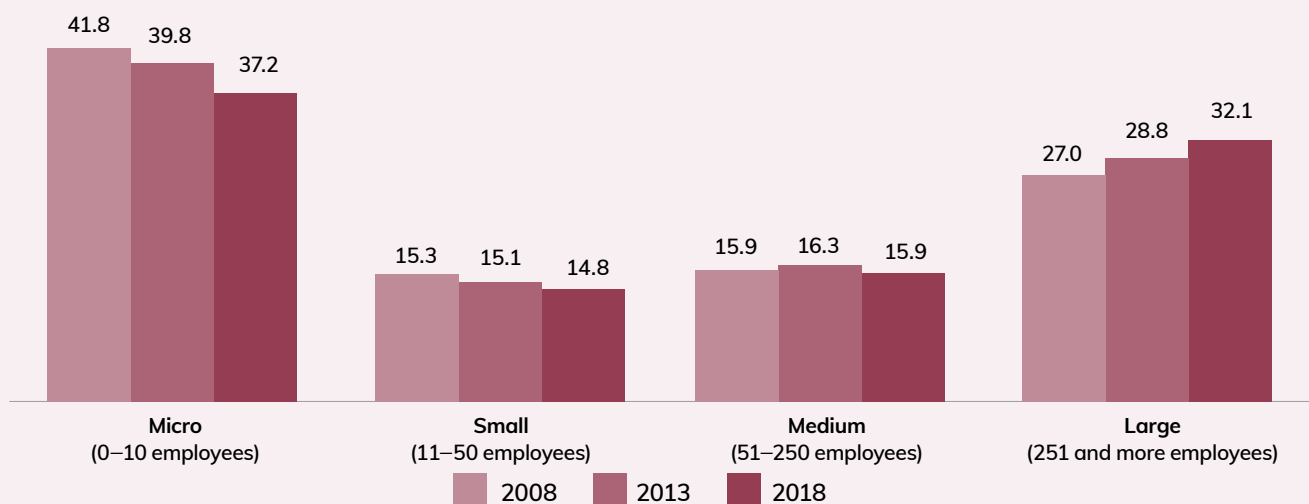
## 7.2 About micro and small companies

With this in mind, the following companies for the Primary, Secondary, and Tertiary sectors were selected considering the percentages of businesses and employees with respect to the totals in their economic sectors.

**Primary sector:** Company engaged in agriculture, livestock, forestry, fishing, and hunting (sector 11). Of this category, the 2022 Index was developed by interviewing companies engaged in livestock and berry production for export.

**Secondary sector:** Company engaged in manufacturing industry (sector 31-33). In this area, the 2021 Index was developed by interviewing a company producing processed food for sale to supermarkets and aviation industry; a company manufacturing Styrofoam—an important supply in the packaging and construction industries—and one more involved in the recycling of both organic and inorganic waste, as well as the installation of waste management plants for the conversion of inorganic waste into electrical energy.

**Fig. 7.3 Total employed staff by size (2008, 2013, 2018)**



Source: Instituto Nacional de Estadística y Geografía [INEGI] (2019) 2019 Economic Census | Micro, small, medium, and large companies stratification of establishments

**Tertiary sector:** Commercial enterprise (sector 46), professional services (sector 54), temporary accommodation and food and beverage preparation services (sector 72), and educational services (sector 61). In this category, the 2021 In-

dex was developed by interviewing companies engaged in the retail trade of gasoline, the provision of elementary educational services, a small hotel, a cafeteria, an advertising agency, and an accounting firm.

**Fig. 7.4 Structure of micro and small companies in Mexico, by employees and economic sector**

Economic sector	Number of microenterprises/ total companies in their economic sector (%)	Number of employees in microenterprises/ total employees in their economic sector (%)	Number of small companies/total companies in their economic sector (%)	Number of employees in small companies/ total employees in their economic sector (%)
Sector 11 Agriculture, animal husbandry, forestry, fishing, and hunting (only fishing and aquaculture)	80.97%	20.73%	15.44%	37.28%
Sector 21 Mining	71.61%	3.46%	16.98%	5.72%
Sector 22 Generation, transmission, distribution, and commercialization of electrical energy, supply of water and natural gas through pipelines to the final consumer	61.87%	4.04%	27.05%	8.14%
Sector 23 Construction	46.76%	6.01%	39.34%	26.44%
Sector 31–33 Manufacturing industries	94.42%	19.01%	3.88%	7.24%
Sector 43 Wholesale trade	87.48%	22.16%	9.85%	17.31%
Sector 46 Retail trade	98.84%	62.53%	0.97%	6.30%
Sector 48–49 Transport, mail, and storage	52.56%	4.85%	32.31%	15.59%
Sector 51 Information in mass media	76.37%	5.57%	17.42%	7.73%
Sector 52 Financial and insurance services	86%	7.76%	10.56%	5.63%
Sector 53 Real estate and rental services of property	94.07%	48.09%	5.08%	20.01%
Sector 54 Professional, scientific, and technical services	89.21%	30.96%	8.97%	21.47%
Sector 55 Corporate	61.26	0.33%	17.42%	1.19%
Sector 56 Business support, waste management, and remediation services	89.86%	5.55%	5.04%	3.46%
Sector 61 Educational services	71.82%	17.28%	23.83%	31.45%
Sector 62 Health and social assistance services	95.18%	54.18%	4.47%	21.76%
Sector 71 Cultural and sports entertainment services and other recreational services	94.71%	42.44%	4.43%	15.69%
Sector 72 Temporary accommodation and food and beverage preparation services	96.31%	59.42%	3.31%	14.74%
Sector 81 Other services except government activities	98.29%	78.93%	1.60%	12.72%

Source: Own elaboration with data from INEGI (2019b). 2019 Economic Census.

According to its share in the Gross Domestic Product (GDP), the Tertiary sector contributes the most with 53%, followed by the Secondary sector (41%) and the Primary sector (6%) (INEGI, 2019).

## COVID-19

In the wake of the COVID-19 pandemic, INEGI conducted the Survey on the Economic Impact of COVID-19 on companies (ECOVID-IE), to find out the effects on Mexican companies, which showed that of 1,873,564 companies consulted, 96.25% received no government support. Of the total companies surveyed, 6.84% were small- and medium-sized enterprises; and 92.25% were micro-enterprises.

The survey also indicated the causes for which they did not receive the support intended to help companies weather the impact of COVID-19, as follows: 30.75% said they had no knowledge of it, 20.88% said that requesting it was too complicated, 4.79% said they did not meet the requirements, 12.63% said they did request it but did not receive the assistance, and 24.45% considered that it was not necessary to request support. For small- and medium-sized companies in particular, the most common reason was not deeming it necessary (38.64%), followed by not having knowledge of it (29%). In the case of micro-enterprises, the order is reversed, as 32.35% of them said they had no knowledge of it and 24.09% thought they did not need support.

Of the medium and small companies surveyed, 99.47% said they had implemented public health mitigation measures, while 97.98% of the micro-enterprises did as well. In addition, 16.59% of Mexican companies enforced temporary closures or partial suspension of technical operations due to the situation; 9.7% of medium and small enterprises and 17.18% of micro-enterprises implemented these measures.

The Business Demography Study (EDN) 2020 and 2021 was also conducted, with the purpose of identifying the changes that Mexican micro, small, and medium companies have had in the context of the COVID-19 pandemic. Regarding the morbidity of establishments, the survey divided them into formal and informal, resulting as follows (Fig. 7.5).

According to 2019 censuses, of the 4,800,157 establishments in Mexico, 37.4% are formal and occupy 81.1% of the employed staff. Paid staff receive an average of 133,968 pesos annually. Also, 6 out of 10 establishments are informal. Almost 8 out of 10 employees do not receive formal payment.

**Fig. 7.5 Morbidity of micro and small enterprises during the COVID-19 pandemic and its formality**

Year	Size	Formal Establishments (1,795,258.718)		Informal Establishments (3,004,898.282)	
		Closed Businesses (%)	Surviving Businesses (%)	Closed Businesses (%)	Surviving Businesses (%)
2020	Microenterprises	17.41%	82.59%	21.80%	78.20%
	Small and medium companies	21.76%	78.24%	0.00	0.00
2021	Microenterprises	23.31%	76.69%	32.40%	67.60%
	Small and Medium companies	20.52%	79.48%	0.00	0.00

\* The proportions were calculated by INEGI with respect to the number of establishments observed during the 2019 Economic Census (INEGI, 2019).  
Source: INEGI, Business Demography Study (EDN) 2020 and 2021.

<sup>30</sup> The seven laws: the Federal Labor Law, the Social Security Law, the Law of INFONAVIT, the Federation Tax Code, the Income Tax Law, the Value Added Tax Act, and the Federal Workers' Service Act.

## 7.2.1 Description and analysis of general procedures for the Administration of Employment—Sectoral particularities

The companies with less than 10 employees in the three economic sectors are required to comply with basically the same formalities and procedures in relation to the administration of their personnel. Particularly important are the tax payments related to payroll, benefits, and other social security procedures submitted to the “Instituto Mexicano del Seguro Social,” including employer obligations related to retirement. The employer contributions to housing funds through the “Fondo Nacional de la Vivienda para los Trabajadores” (INFONAVIT) are also considered. In addition, other payments that require more time are those made for the protection of personal data, profit distribution payments, and follow-up procedures to lawsuits and arbitration awards. In these areas in total, companies record approximately 298 hours/year.

There is a special situation regarding outsourcing. On September 1, 2021, the outsourcing reform came into effect in Mexico, that is, the labor system under which a company outsources the hiring service. In other words, companies hire other companies to carry out employment contracts. The changes in outsourcing involved the reform of seven laws.<sup>30</sup>

For many companies, this reform to outsourcing meant adding to their payroll employees who worked for them but were hired by a different company. According to data from the Mexican Social Security Institute, before the reform, approximately 5 million people worked under the subcontracting system; of these, in early August, half had already migrated to be hired directly by the companies they work for. This change was intended to benefit workers by giving them access to social security, greater profit-sharing distribution, and above all, workplace seniority recognition. The changes include the following:

- The subcontracting of personnel is prohibited, that is, when a natural or legal person provides or makes available their own workers for the benefit of another.
- Employment agencies, staffing companies, or intermediaries may participate in recruitment, selection, and training of personnel, but in no case shall they be regarded as employers.

According to the latest census of INEGI (2018), personnel directly employed by companies in Mexico totaled 22,447,571, and personnel employed by staffing companies (contracted by outsourcing) is 4,685,356, which represents 17.3% of the total for that year. On the other hand, the activity with the highest percentage of employed personnel by outsourcing is “electricity, water, and gas” with 42%; followed by “mining” with 33.4%. In other words, these are the activities where most people are hired by outsourcing and where companies will see the greatest impact from the legal reform.

This study found that Mexican companies with less than 10 employees spend an average of 298 hours in the Administration of Employment.

## 7.2.2 General description and analysis of procedures for the Administration of Operations—Sectoral particularities

Micro enterprises spend on average 150 hours/year (weighted by sector participation in GDP) for the Administration of Operations. These hours include time spent on tax, vehicle, and occupational health and safety procedures.

A recent and relevant change in the tax provisions came into effect in 2022, called “Régimen Simplificado de Confianza” from the Servicio de Administración Tributaria (SAT), or the Mexican tax authority. The new rules are applicable to individuals and companies whose income is less than 3.5 and 35 million Mexican pesos (MXN), respectively, invoiced according to their economic activity; therefore, under these conditions, micro and some small businesses are impacted. The SAT has a registry of 2.1 million micro and small businesses whose gross annual incomes do not exceed 35 million pesos, which represents 96% of the total number of companies that will benefit from this new regime.

From 2022 on, individuals under this system will be required to pay between 1% and 2.5% of their income.

The Mexican government argues that companies would benefit by having greater liquidity. In other words, it provides companies with more cash for their immediate expenses. This liquidity is obtained in two ways:

1. Currently, individuals, being suppliers, pay taxes once their sales are invoiced even if their customers, to whom they sell, do not pay at the time of billing. However, from 2022 on these individuals will pay their taxes only when they have actually collected income from invoices.
2. When companies buy machinery and make certain investments related to their activity, they can deduct it to pay lower taxes. With the new simplified regime or “Régimen Simplificado de Confianza” they will continue to deduct them, but in less time and at higher rates.

Tax payment procedures include federal, state, and municipal tax payments; preparation of declarations; procedures to obtain tax certificates; updating of electronic signatures and records on fiscal status; procedures to generate electronic invoices; and purchase of stamps to be able to issue vouchers. Local taxes mainly include the payment of property tax, payroll taxes, and taxes related to vehicle ownership.

In order to determine the hours devoted to tax payment, information from the PwC analysis for all countries was used. The results of the study included the payment of labor and consumption taxes in the total hours spent paying taxes. Under this standard, the hours invested by Mexican companies (with less than 10 employees) were calculated, resulting in an average of 237 hours, only three below the one recorded by PwC.

## 7.2.3 General description and analysis for Other Bureaucratic Procedures—Sectoral particularities

As for Other Bureaucratic Procedures, interviews and analysis yield some particularities described below:

Figura 7.6 IB-LAT 2022. Mexico

	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
<b>TOTAL</b>	<b>620</b>	<b>467</b>	<b>541</b>	<b>543</b>	<b>506</b>
<b>ADM. OF EMPLOYMENT</b>	<b>298</b>	<b>298</b>	<b>298</b>	<b>298</b>	<b>298</b>
Salaries, taxes, and contributions	104	104	104	104	104
Hiring and firing	194	194	194	194	194
Work reports					0
<b>ADM. OF OPERATIONS</b>	<b>146</b>	<b>154</b>	<b>146</b>	<b>149</b>	<b>150</b>
Taxes	131	138	131	133	135
Vehicles	12	12	12	12	12
Health and Safety at work	3	3	3	3	3
<b>OTHER BUR. PROCEDURES</b>	<b>176</b>	<b>16</b>	<b>97</b>	<b>96</b>	<b>58</b>
Legal changes					0
Certifications/Special Authorizations	168	8	4	60	16
Specific to productive activity	8	8	93	36	43

Fig. 7.7 Regulatory burden IB-LAT, breakdown vs. PwC. 2022.

	A	B	C	B+C	
	Total regulatory burden. IB-LAT (hours)	Hours spent on tax payments (ISR & VAT)	Hours spent on tax payments and employment requirements	Total hours spent on tax payment	Hours Taxes for Mexico PwC
Primary sector	620	131	104	235	240
Secondary sector	467	138	104	242	240
Tertiary sector	541	131	104	235	240
Average	543	133	104	237	240

Source: Own elaboration with data from INEGI

## A tax service with more obstacles

The “Servicio de Administración Tributaria” (SAT), or tax administration service, presents a problem that was observed in different states of the Mexican Republic, and has to do with the quality of service provided to taxpayers. Different complaints were observed about staff cuts that have pushed the institution to appoint social service providers (usually young people between 20 and 25 years old<sup>31</sup>) without previous experience, to tend to taxpayers’ requests. This causes delays in procedures and reduces the efficiency of trips to the SAT; people must return several times to make clarifications or complete their processes.

Another notoriously problematic issue on the SAT is the delay and saturation of appointments. Since the beginning of 2022, the SAT agenda began to become saturated due to natural demand and also some additional procedures that the authority requested from taxpayers. The interviews revealed that the saturation problem could produce significant delays for processes and compliance. The tax authority has a virtual queue to process requests in which taxpayers can be registered for days without getting a turn.

## Single Feasibility Opinion

The “Dictamen Único de Factibilidad (DUF)” or single feasibility opinion must be processed by all companies or investment projects, which is required for their opening, installation, operation, or expansion, to comply with the applicable regulatory provisions. The DUF authorizes a project on local sanitation, urban development, civil protection, environmental, and economic development. According to our interviews, this process now takes between a year and a half to three years, whereas in past administrations such procedures took about four months.

## Waste management

It was observed that the issue of waste, as in 2021, continues to be basic and without major demand for compliance with regulation. For small businesses the procedures for waste management are carried out locally and are authorized at the state or municipal level. They basically refer to the treatment, recycling, reuse, collection, storage, or final disposal of more than 50 kilos per day of

urban solid waste or any amount of waste that needs special handling at the local level. The legal basis for such management is found in local regulations and environmental regulations. According to the information gathered from the 2021 interviewees, even with specialists in waste management, in Mexico waste regulations are quite basic and there is still little demand for compliance or efforts by the authorities to enforce the law or regulations. Therefore, our interviewees agreed that waste management does not represent a significant number of hours per year for a small business.

## Primary sector

A farmer involved with the production and export of vegetables mentioned his electricity cost has increased 28% because of a rate change. This, in addition to tax requirements has forced him to alternate between formality and informality in order to pay the bills. In a similar way, the livestock industry continues, as in 2021, having to deal with burdensome health compliance regulations, raising concerns. For the production and export of agricultural products, procedures have gotten difficult as the government prohibited intermediaries from providing phytosanitary certification services on site. So, now the farmer must personally go to the nearest office of the relevant authority to process permits, which delays the departure of the shipments up to 24 hours. Also, in the case of livestock, due to the high bureaucratic burden to achieve the brucellosis<sup>32</sup> and bovine tuberculosis<sup>33</sup> “free acts” the farmer has to hire specialized technicians, who are scarce in the market. The brucellosis and tuberculosis scans determine the level of certification of the cattle, which in turn defines the scope that the commercialization of the cattle can have, with the maximum level being exports. The time dedicated to these procedures can be up to three months, approximately 90 days.

## Secondary sector

The regulations applicable to the Manufacturing, Maquiladora (foreign-owned manufacturing), and Export Services Industry (Immex) continue to promote and encourage industrial activity intended for export. In the last decades and until 2019, the Ministry of Economy was fundamental in the establishment and development of Immex companies. Their officials advised entrepreneurs, received requests, and of-

<sup>31</sup> In Mexico, one of the requirements for obtaining a bachelor’s degree is to perform at least 480 hours of community service where students apply the knowledge acquired in the classroom in a period ranging from six months to two years (Edo. Mex., 2022).

<sup>32</sup> It is an infecto-contagious disease caused by *Mycobacterium bovis*, transmissible to humans (zoonotic disease) through the consumption of contaminated, unpasteurized dairy products or through contact with infected animals.

<sup>33</sup> Infectious and contagious disease of chronic and progressive nature affecting cattle, is caused by a bacteria called *Mycobacterium bovis* (*M. bovis*), is closely related to the bacteria causing human and avian tuberculosis.

ferred support for issues that came up as a result of the implementation of specific operations, in order to ensure the growth of the sector. Immex companies became key pieces to create sources of employment, strengthen Mexico's trade balance, and increase international competitiveness.

In 2019, however, a new wave of overregulations was imposed by the Ministry of Economy to obtain compliance with the Immex Program. That, combined with the lack of personnel due to public sector cuts by the Federal Austerity Law, caused setbacks for small businesses that will possibly be reflected in greater burdens for the coming years. According to the "Consejo Empresarial Mexicano de Comercio Exterior, Inversión y Tecnología (COMCE) Bajío," five out of ten small businesses do not have a foreign trade specialist to facilitate the required procedures. According to the interviewees, the situation persists, and business processes are perceived as overregulated.

### Tertiary sector

For the Tertiary sector, the study concentrated on the procedures that require a significant investment of time for small businesses. Worth highlighting are ones related to compliance with the local health and safety regulation due to COVID-19; additionally, compliance with the filling of formats for economic censuses; compliance with the regulation for the civil protection of facilities; and the recording and reporting obligations for non-profit organizations, including private schools and civil associations. In the transportation sector, interviews confirmed the significant bureaucratic burden they experience, especially when obtaining permits, license plates, insurance, and toxicology screenings for public transportation drivers. This regulation contrasts with the procedures and requirements for vehicle owners and drivers that have registered under digital applications.

Within the services sector, in terms of investment in time and personnel that microentrepreneurs must devote to compliance with the regulation, the broadcasters and/or advertising companies that manage marketing of advertising spaces stand out. In this overregulated industry, the microentrepreneur is required to comply with complex regulations on electoral matters and economic competition, a situation that often requires them to hire up to two full-time employees to be in charge of these activities. In addition, a new law came into force on September 2021<sup>34</sup> to regulate agencies, advertisers, and media companies involved in advertising activities, establishing additional provisions relating to contracts signed between the parties, and the sale and resale of advertising space and collections. For the broadcaster and/or advertising companies that manage radio and television advertising spaces, compliance with this standard and the relative costs involved increased significantly in 2022. Compliance work consists of two types of compliance: 1) managing official and fiscal advertising airtime on TV/radio with which broadcasters pay the government and political parties in kind (free announcements); and 2) preparing documentation for complying with economic competition regulatory purposes. The free broadcasting of information and messages from the Mexican State on radio and open television is possible because of the time made available to them through these

structures. As a whole, these times receive the generic name of "official times" and are made up of State time and fiscal times.

The precise definition of official times, State times, and fiscal times is found in the General Law of Social Communication, which in Article 4 defines: 1) State time is 30 free daily minutes of transmission that all radio and television stations, whether public or private, are required to give the State; 2) Fiscal time is the daily air time on radio and television that the State receives as payment in kind for the use of federal concessions by commercial broadcasters. Currently fiscal time is 35 minutes a day for radio stations and 18 minutes a day for television channels; and 3) Official time is the sum of the State time and the fiscal time for each broadcaster. The implementation of this law depends on the functions of several institutions. During electoral times and for political parties, the institution in charge is the "Instituto Nacional Electoral" or National Electoral Institute, and for the regulation of official times, it is the "Secretaría de Gobernación" or Ministry of the Interior and the social communication offices of each government unit.

In addition, according to electoral regulations, broadcasters are required to grant political parties radio and television airtime for the diffusion of advertising material during electoral times. This becomes even more complicated when federal and municipal elections are held, which forces broadcasters to respect the electoral ban, that is, during such seasons they are prohibited from broadcasting government advertising. Therefore, the broadcaster must reschedule official times to avoid violating the restrictions and at the same time comply with the obligations established in the General Law of Communication.

In regard to obligations relating to economic competition, broadcasters are required to respond to requests for information that the Federal Telecommunications Institute requires, to frequently review the structure of the markets in the various localities where the radio spectrum is segmented and distributed to broadcasters through concessions, and to avoid the formation of monopolies. For this purpose, the broadcaster is required to fill out forms and prepare robust documentation for the purposes of economic competition analysis by the telecommunications and broadcasting authorities.

## 7.3 Conclusions and final reflections

The Mexican government has made changes in regulatory policy and fiscal policy, some with positive results, although for the most part, there has been an increase in the time spent by micro and small businesses in meeting the regulatory requirements imposed on them. Through interviews with accounting staff, micro- and small-business entrepreneurs from different economic sectors and regions of Mexico, as well as data collected from public information sources, this study was able to detect how many hours a company must spend each year to be able to comply with all procedures associated with the Administration of Employment and the Administration of Operations.

In Mexico, a micro or small company spends a simple average of 543 hours/year, and 506 hours/year weighted average (by sec-

<sup>34</sup> Law for Transparency, Prevention, and Combating Improper Practices in Advertising Contracting

tor participation in GDP) to complete all the bureaucratic procedures established by the different levels of government. On a weighted average, the Administration of Employment Procedures takes 298 hours/year, while the Administration of Operations Procedures takes 149 hours/year.

There are specific problems in the Mexican bureaucracy that were a common denominator among the interviewees. One example is the digitization of procedures, an area in which Mexico was making progress. However, the tax authority or “Servicio de Administración Tributaria” (SAT) has again requested some procedures to be handled in person. This is perhaps one of the reasons why there has been a general increase in the delay in these types of procedures. The widespread saturation in the SAT appointment system, and the lack of qualified customer service staff have slowed down the fulfilment of taxpayers’ obligations.

The bureaucracy in Mexico shows a variation of approximately 11% from 2021 to 2022. However, studies recently published revealed some relevant data regarding the survival of the companies during the pandemic. From 2019 to 2020, only 63% of formal and 68% of informal businesses survived. It is particularly surprising that these percentages have a difference of 5%; that is, companies died practically at the same rate because of the pandemic, whether they were formal or informal, according to INEGI. These results open opportunities to review incentives to encourage formality among micro and small businesses.

On the other hand, in the case of sectoral procedures, there are areas of improvement especially for the Primary sector, where more than 150 additional hours (620 hours/year) are spent compared to the Secondary sector (467 hours/year) or Tertiary sector (541 hours/year). The cases of livestock in terms of compliance with phytosanitary requirements stand out, which, according to micro-entrepreneurs, can delay commercial transactions due to the complexity of the paperwork. Also, the broadcasting and advertising industry observes strong regulatory burdens that represent high costs for entrepreneurs and cannot be translated into income opportunities for these companies. Rather, they prevent companies from expanding their commercial potential by being forced to supply the government with free airtime (official time) as part of their contributions in order to avoid severe penalties.

Finally, an interesting reference fact to consider comes from a survey conducted by the “Confederación Patronal de la República Mexicana” (Coparmex), one of the most important business associations in Mexico. In this survey, members of companies with less than 10 employees, were questioned on their regulatory burden, revealing that, on average, they spend 49 hours a month to comply with the regulatory framework. This means that in a year they spend approximately 588 hours, or four hours more per week, than the time we estimated for this study. We can conclude, that comparing our analysis to the data collected by PwC and Coparmex, the results are equivalent, within tolerable margins of error.

## 7.4 Bibliography

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# 8. Peru

**Asociación de Contribuyentes del Perú**  
José Ignacio Beteta, Alejandra Tupac Yupanqui

## 8.1 Production Structure

According to data from the “Superintendencia Nacional de Administración Tributaria” (SUNAT) or the Peruvian national tax administration, and the fifth article of the Law on Promotion of Production Development and Business Growth (Supreme Decree N° 013-2013-PRODUCE), annual sales are the main criteria used to classify the size of a company. Small businesses have annual sales greater than S/690,000 (150 ITU), and up to the maximum amount of S/7,820,000 (1,700 ITU).

**Fig.8.1 Classification of companies according to annual sales (2020)**

	Annual sales
<b>Microenterprise</b>	Up to the maximum amount of 150 Tax Units (ITU), equivalent to S/ 690,000.00 or \$175,796.18*
<b>Small business</b>	Higher than 150 ITU and up to the maximum amount of 1,700 ITU, equivalent to S/ 7,820,000.00 or \$1,992,356.69*

Source: SUNAT. \*According to the exchange rate on 08/08/2022

Also according to the SUNAT, the registry of formal enterprises (as of December 2020) indicates that there were more than 1,788,000 formal enterprises in Peru, of which 95.24% were micro-enterprises and 4.12% were small businesses. However, it is important to note that according to the “Encuesta Nacional de Hogares” (ENAH0) or national household survey, during 2020, 85% of micro and small businesses were informal.

**Fig. 8.2 Formal enterprises by size (2020)**

SIZE	%	N° of companies
<b>Micro</b>	95.24	1,703,745
<b>Small</b>	4.12	73,623
<b>Medium</b>	0.15	2,749
<b>Large</b>	0.49	8,783
<b>Total</b>	100.0	1,788,900

Source: SUNAT.

On the other hand, the Central Reserve Bank of Peru indicates the production structure of the country during 2020 was defined as follows:

**Fig. 8.3 Production structure by sector (2020)**

Sector	Participación PIB (%)
<b>PRIMARY SECTOR</b>	<b>23.1%</b>
Agriculture	6.4%
Fishing	0.5%
Metal mining	8.8%
Hydrocarbons	1.5%
Primary Manufacturing	3.6%
<b>SECONDARY SECTOR</b>	<b>16.1%</b>
Non-Primary manufacture	8.5%
Construction	5.6%
Electricity and Water supply	2.0%
<b>TERTIARY SECTOR</b>	<b>60.8%</b>
Trade	10.2%
Services	50.6%
Taxes	8.1%
<b>GDP</b>	<b>100%</b>

Source: NOTAS DE ESTUDIOS del BCRP, #21, March 18, 2021. Table 1(page 2) <https://www.bcrp.gob.pe/docs/Publicaciones/Notas-Estudios/2021/nota-de-estudios-21-2021.pdf>

The production structure is divided into three sectors. The Primary sector includes agricultural activities, fishing, metal mining, hydrocarbons, and Primary manufacturing. The most important economic activity in this sector is mining and hydrocarbons, which represent 10.3% of GDP, whose most representative product is copper, followed by zinc and gold. The second most important economic activity in the Primary sector is agriculture, accounting for 6.4% of GDP with poultry, paddy rice, and potatoes as main products.

The Secondary sector includes activities in non-Primary manufacturing, construction, and electricity and water supply. Non-Primary manufacturing is the largest, accounting for 8.5% of GDP. It in-

cludes food and beverages (27.1%); chemicals, rubber, and plastics (20.4%); textiles, leather, and footwear (12.4%); wood and furniture (8.9%); among others with lower percentage participation. On the other hand, construction and electricity and water supply represent 7.6% of the total GDP.

Finally, the Tertiary sector is the one with the greatest weight within the country's production structure, and its most representative economic activity is services, generating 50.6% of GDP. This includes financial and insurance services (7.2% of GDP); telecommunications (5.7%); public administration (5.5%); transportation and storage (4.3%); among others.

## 8.2 Representative economic activity of small businesses by sector

To determine the representative activity of each sector, the SUNAT database was used to identify the economic activities with the largest number of registered companies in each sector during 2021. Below is a list of representative activities that were considered when selecting the sample companies for this study.

### Primary Sector:

*Agricultural and livestock service activities, except veterinary services*

*Cereals, oilseeds, and fodder crops*

### Secondary sector:

*Manufacture of garments other than fur; manufacture of furniture, furniture parts, box springs and mattresses*

### Tertiary sector:

*Restaurants, bars, and taverns; food retail, beverages, and tobacco in specialized stores*

## 8.3 Results

The identification of general procedures that companies must comply with, on a daily basis, was carried out through interviews with experts and the revision of standards issued by the Ministry of Labor and Employment Promotion (MTPE), Ministry of the Environment (MINAM), Ministry of Economy and Finance (MEF), Superintendence of Banking and Insurance (SBS), National Superintendence of Public Records (SUNARP), among others. Additionally, the list of processes was enhanced by adding industry specific procedures for each economic activity, according to data provided by employees, managers, accountants, and business owners interviewed.

As a result, a list of 48 procedures was obtained, of which 15 are for the Administration of Employment and 24 are for the Administration of Operations. In addition, 3 procedures refer to changes in regulations and company compliance, while the last 6 procedures correspond to industry-specific requirements due to the nature of the business. For future analysis, it is important to mention that weighted averages have been calculated according to the share of the production sectors in GDP.

To determine how many hours a year the representative companies of each sector invest to comply with the bureaucratic obligations, the study considered the frequency, duration, and number of people involved in each procedure. Indisputably, the hardest hit is the Primary sector. Businesses in the Primary sector must invest more than 797 hours each year in the fulfillment of procedures, which can be translated into more than 33 days. The Secondary sector, in turn, invests more than 600 hours/year. Entrepreneurs whose businesses are engaged in the manufacture of garments and furniture must allocate about 25 days to comply with the bureaucratic burden imposed by the public administration. Finally, the companies in the Tertiary sector engaged in the food service (restaurants, bars, canteens, food retail), and specialized beverages and tobacco stores, devote about 509.9 hours (21 days) per year to the fulfillment of procedures.

The large increase in the number of hours/year allocated for bureaucratic procedures in the Primary sector is generated from mandatory processes classified as "Other" since they are specific to their economic activities. A more detailed description on the origin of these procedures and the reasons they represent a significant obstacle for the agricultural entrepreneurs will be covered later in the study.

Fig. 8.4 Annual hours by sector and group

Group of Procedures	Sector			Average	
	Primary	Secondary	Tertiary	Simple	Weighted
Adm. of Employment	19.58	27.89	23.69	23.72	23.42
Adm. of Operations	440.29	565.97	452.35	486.21	467.86
Other Bur. Proc.	337.23	7.67	33.86	126.25	99.72
<b>TOTAL</b>	<b>797.10</b>	<b>601.53</b>	<b>509.90</b>	<b>636.18</b>	<b>591.00</b>

### 8.3.1 Administration of Employment

This section is made up of three subgroups of procedures. The first corresponds to those contributions linked to the payment of salaries, which require an investment of 16.86 hours annually, representing the category with greater weight in this section. This includes pension contributions through "Administradoras de Fondos de Pensiones" (AFP) or pension fund managers and the "Oficina de Normalización Previsional" (ONP), the "Planilla Mensual de Pagos" (PLAME) or monthly payroll statement, and life insurance contributions.

The second subgroup includes all the procedures required in the process of hiring and firing personnel, which includes nine procedures, such as social security enrollment, personnel discharge in SUNAT, contract registration with the MTPE, enrollment in accident insurance and life insurance, workers affiliation to the AFP or ONP, among others. On average, these procedures require 5.35 hours annually since the vast majority of the processes have been fully digitized, they can be fulfilled virtually in a matter of minutes, in addition to the fact these are only necessary when an employee is hired or fired.

The third covers Other administrative obligations including work reports, which are necessary in the face of specific circumstances that require compliance, such as the employee's sick leave report and the report that is issued to the insurer in case a worker suffers an accident or illness. In the same way as the previous category, they are not necessarily performed periodically, and their processes are highly automated. That's why, on average, they take 1.21 hours/year to perform.

**Fig. 8.5 Time required for Adm. of Employment procedures**

Subcategories	Primary	Secondary	Tertiary	Weighted Avg.
Salaries, taxes, and contributions	13.79	21.67	16.75	16.86
Hiring and firing	3.92	5.17	5.94	5.35
Work reports	1.88	1.06	1.00	1.21
<b>TOTAL</b>	<b>19.58</b>	<b>27.89</b>	<b>23.69</b>	<b>23.42</b>
<b>Adm. of Employment / Total (%)</b>	<b>2.46%</b>	<b>4.64%</b>	<b>4.65%</b>	<b>4.14%</b>

## 8.3.2 Administration of Operations

Bureaucratic obligations related to the Administration of Operations have been classified into four categories. The first is tax administration, which significantly exceeds the others, since on average they require the investment of about 265 hours each year. These include procedures associated with the payment of general sales tax (IGV), property tax, utility taxes, income tax, among others. The time it takes to comply with these procedures depends, to a large extent, on the number and type of transactions the company performs, as well as the amount of personnel available to comply with every stage of the process.

In addition, the time required to complete some procedures may vary depending on the region. Some municipalities offer different services and deadlines, placing some entrepreneurs at a disadvantage, having to assume higher costs or deadlines compared to their counterparts located in other districts or regions.

The second category of procedures is waste management, which requires more than 15 hours/year and includes notification of waste production, communications to SUNAT, and waste minimization study. The latter is the only process that is not digitized and, in the vast majority of cases, requires hiring a third party to carry out the study complying with MINAM requirements. However, despite the fact that the company is not the only one to intervene directly in the fulfillment of this procedure, the entrepreneurs continue to assume the time invested in the search for a specialized service provider in the market.

On the other hand, in case the company owns a car, it must comply with seven procedures related to vehicles. These include vehicle insurance, vehicle inspection and registration, Hazardous Materials Safety Permit, among others. In total, more than 79 hours/year are required to register, maintain, and decommission a vehicle, as well as dealing with the regulatory entities such

as the "Superintendencia de Transporte Terrestre de Personas, Carga y Mercancías" (SUTRAN), SUNARP, and the "Ministerio de Transportes y Comunicaciones" (MTC).

Finally, the Annual Occupational Safety Plan and the COVID Plan are included in the Occupational Health and Safety category. On average, they require more than 107 hours/year. However, the process can be much lengthier—as one of the restaurant businesses in the Tertiary sector highlighted—as the process involves the development of manuals that can be rejected or need adjustments, resulting in delays to comply with these procedures.

**Figura 8.6 Adm. of Operations procedures (annual hours)**

Subcategories	Primary	Secondary	Tertiary	Weighted Avg.
Adm. Taxes	248.54	330.14	255.35	265.82
Waste Mgmt.	14.25	17.67	15.00	15.26
Vehicles	61.50	58.17	92.00	79.51
Health and Safety	116.00	160.00	90.00	107.28
<b>TOTAL</b>	<b>440.29</b>	<b>565.97</b>	<b>452.35</b>	<b>467.86</b>
<b>Adm. of Operations / Total (%)</b>	<b>55.2%</b>	<b>94.1%</b>	<b>88.7%</b>	<b>81.8%</b>

## 8.3.3 Other Bureaucratic Procedures

### Changes in regulations

Changes in fiscal regulation are often the most common, especially in the current government, requiring more than 6 hours/year on average. On the other hand, changes in labor regulations and commercial code are less frequent, thus requiring less than 3 hours/year.

### Procedures specific to economic activity

The Secondary sector does not record any specific procedures. The Tertiary sector indicates three procedures, which include the municipal inspection of the premises, the health identification card for workers, and the renewal of the health permit to operate a food-related business. On average, these procedures take up to 18.86 hours of time from employers and workers, particularly because most are not digitized and require the physical presence of employees, demanding part of their working day.

The Primary sector bears the greatest bureaucratic burden caused by specific procedures related to their economic activity. The interviewees pointed out that, unlike other industries, many procedures exclusive to the agro-industrial sector have not been digitized and retain the same requirements and processes established more than a decade ago.

Companies engaged in the production, sale, and export of agricultural products must comply with the phytosanitary certificate for each container they export. This is a process that even small businesses do almost weekly, thus increasing the number of hours for these procedures, which could exceed 830 hours/year.

This group of procedures has many weaknesses that, if improved, would benefit Peruvian export industries, encouraging foreign trade. The process requires the intervention of a supervisor, that according to agricultural entrepreneurs, follow guidelines that are outdated and subjective.

## 8.4 Final considerations and reflections

- The Peruvian economy has been characterized by a high level of informality, which has worsened in recent years due to the pandemic quarantine. High bureaucratic burdens discourage formalization and hinder the operations of entrepreneurs, especially micro and small businesses.
- In Peru, many procedures have been digitized in recent years, providing efficiency and security to thousands of companies. However, there is still a long way to go, especially in relation to the procedures specific to each economic activity. Procedures involving supervisors or inspectors often require more time from employers. The authorized representatives of the regulatory bodies should have clear and objective criteria to ensure the consistency of processes.
- Procedures related to the Administration of Operations require the largest time investment. On average, they account for 79% of the total time allocated to the fulfillment of bureaucratic obligations. On the other hand, other procedures related to the change in regulations and sector-specific requirements represent 17% of the time invested, while the procedures associated with the Administration of Employment only require 4% of the total time. This is because most of the procedures in this category have been digitized.
- On average, small businesses must invest 591 hours/year in the fulfillment of bureaucratic procedures. This translates into the allocation of approximately 25 days per year only to the fulfillment of fiscal obligations, consuming 10% of the total working days per year.<sup>35</sup>

### Case: The Agricultural Entrepreneur

Agricultural activity accounted for 6.4% of Peru's GDP in 2020. It is a primary economic activity of the country and provided job opportunities to more than 4.7 million employees during 2020, according to ENAHO data. However, despite being such an important production sector for the country, agricultural entrepreneurs still have to face the lack of digitization and standardization of bureaucratic procedures.

As part of the research process for the Bureaucracy Index, the interviews with fruit farming and exporting entrepreneurs revealed the inefficiency of the process to obtain phytosanitary certificates for each container they export. They recognize the need for certification as a method to guarantee the quality of products, however, the role of the container inspector usually generates obstacles or even additional costs for the company.

The "Servicio Nacional de Sanidad Agraria del Perú" (SENASA) or national agricultural health service assigns an inspector who is responsible for verifying that the products meet the quality and transportation standards required, and then approves the certificate. However, occasionally inspectors are not sent directly by SENASA to the place where the container is located, so the exporting company must cover the transportation costs. Also, if the inspector does not arrive on time for the dispatch, the employer must bear the additional cost of the hours that containers and trucks had to wait.

Another recurring problem agricultural entrepreneurs must face is that some municipalities do not have enough personnel in charge of inspections. Given this situation, some companies resort to providing incentives to the workers of the regulatory entity to prioritize their needs and facilitate obtaining certificates.

Corruption and lack of digitization mainly affect small entrepreneurs with limited resources. Regulators must guarantee the objectivity of bureaucratic procedures and implement the use of technology that allows digitizing and standardizing each process, through the use of cameras and specialized laboratories.

<sup>35</sup> The year 2022 has 249 working days in Peru

# 9. Dominican Republic

Instituto OMG  
Mónica Melo



The Dominican Republic is internationally known for its beaches, music, and baseball players. It is therefore understood that the main economic activity of the country is tourism. However, the Dominican Republic has long been characterized by the diversification of its economic activity, with a great boost of the industrial sector and a rebound, in the last few years, of construction, local manufacturing, and trade. In regard to small business, they permeate all sectors of economic activity.

## 9.1 Production structure

The Monthly Economic Activity Indicator report (IMAE) 2020–2021, issued by the Central Bank of the Dominican Republic in April 2021, indicates that as of March 2021 the leading sectors were construction (56.8%), free trade zones (32.4%), mining (21.4%), transport and storage (19.7%), local manufacturing (13.4%), and trade (9.4%).

It should be noted that the report issued in April 2022 indicates that as of March 2022, the leading growth sectors showing a significant added value increase were hotels, bars, and restaurants (39.3%), other service activities (11%), communications (8.2%), and transportation (8.8%). Meanwhile, other sectors that showed growth were: trade (7.8%), energy and water (7.5%), health (7.3%), public administration (7.4%), construction (6.3%), and free trade zone manufacturing (6.8%), among others.

Regarding the weight of GDP per sector, the report issued by the Central Bank on the incidence of GDP by economic activity indicates the following distribution as of December 2021:

- Agricultural: 5.6%
- Industries: 31.4%
  - Mining and quarrying: 1.6%
  - Local manufacturing: 11.5%
  - Free trade zone manufacturing: 3.5%
  - Construction: 14.8%

- Services: 55.7%
  - Energy supply and water: 1.3%
  - Trade: 11.1%
  - Hotels, bars, and restaurants: 5.7%
  - Transport and storage: 7.8%
  - Communications: 0.8%
  - Financial intermediation, insurance activities: 3.6%
  - Education: 5.1%
  - Healthcare: 3.2%
  - Other service activities: 5.9%
  - Public administration and defense, social security: 4.9%
- Taxes less subsidies on products (7.3%)

## 9.2 Representative economic activity of small businesses by sector

### a. Definition of small business

Law No. 488-08, which establishes a regulatory regime for the Development and Competitiveness of Micro-, Small- and Medium-sized Enterprises (MSMEs), published in G. O. No. 10502 of December 30, 2008, establishes the official definition of small businesses in article 2, Paragraph 2; definition that was slightly amended by Law No. 187-17 amending Articles 1, 1, 2, and 22, and adding Article 2 Bis to Law No. 488-08 (G. O. No. 10889 of 28 July 2017), with the following:

*Small Business: a) From 11 to 50 workers; and b) Annual gross sales of up to fifty-four million Dominican pesos (RD\$54,000,000.00).<sup>36</sup>*

It should be noted that paragraph II introduced by Law No. 187-17 adds that the updated gross sales value will be indexed annually based on the Consumer Price Index; the Ministry of Industry, Trade, and MSMEs shall publish at the

<sup>36</sup> Previously Law 488-08 classified MSMEs taking into account parameters of number of employees, total assets, and gross income generated annually, so defined Small Business as “Economic unit, formal or informal, that has a number of 16 to 60 workers and an asset of RD\$3,000,000.01 (three million and one cent) to RD\$12,000,000.00 (twelve million pesos) and that generates gross income or annual turnover of RD\$6,000,01 (six million and one cent) to RD\$40,000,000.00 (forty million pesos). Indexed annually by inflation.”

**Fig. 9.1 Number of businesses according to their classification (2012–2020)**

Year	Micro	Small	Medium	Total MSMEs
2012	200,167	200,167	651	219,245
2013	212,222	212,222	683	233,418
2014	223,396	223,396	715	246,432
2015	236,779	236,779	760	261,414
2016	249,125	249,125	821	275,350
2017	257,282	257,282	876	284,972
2018	261,066	261,066	909	290,907
2019	235,189	235,189	901	266,588
2020	211,034	211,034	752	240,442

beginning of each year the indexed values for the annual gross sales criteria. In this sense, the 2020 MSMEs Bulletin<sup>37</sup> issued by the internal revenue service establishes a definition of Small Business with the applied indexation, as follows:

*Small business: 11 to 50 workers and annual gross sales of up to sixty-one million five hundred and fifty-three thousand eighty-seven Dominican pesos with 51/00 (RD\$61,553,187.51).*

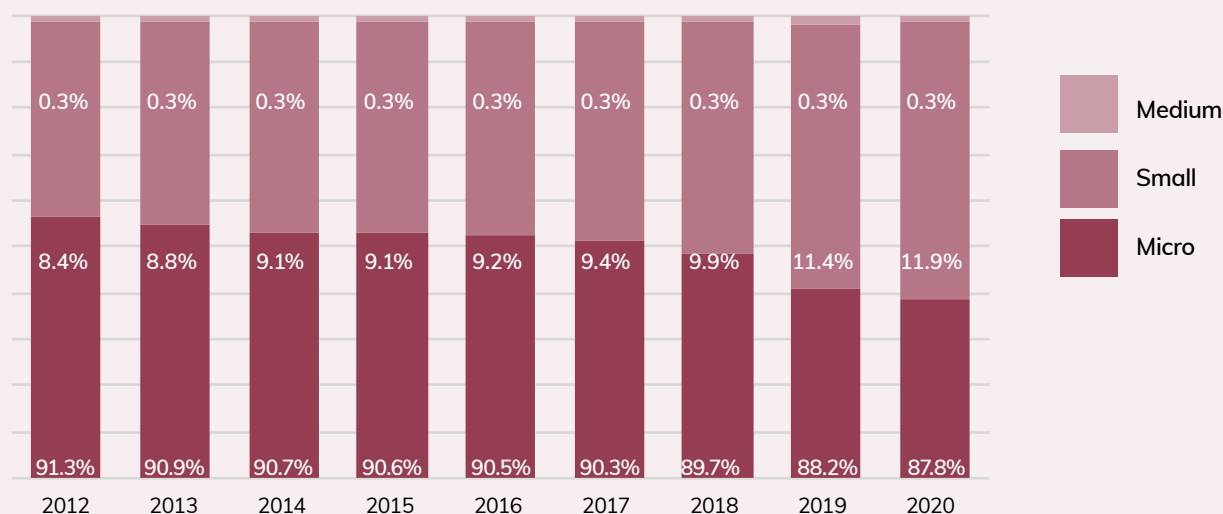
The aforementioned bulletin presents Figure 9.1 with the number of companies according to their classification, from the year 2012 to the year 2020.

### b. Representation by sector

The report *Economic and Market Situation of MSMEs in the Dominican Republic due to the COVID-19 crisis*<sup>38</sup> indicates that 21.70% of MSMEs belong to the agricultural sector and only 0.55% belong to the fishing and mining sector, more than 83.3%

of MSMEs are concentrated in urban areas, and only 16.7% are located in rural areas. In terms of economic sectors, 46.7% of these companies belong to the trade sector, followed by the services sector with 38.4% and the industry sector with 14.9%. The traditional activities in this sector are retail trade, grocery stores, beauty salons and barber shops, textiles and footwear, restaurants, bars and taverns, and repair of personal and household goods.

It should be noted that the document “General List of companies classified as MSMEs according to their size and term”<sup>39</sup> issued by the Ministry of Industry, Commerce, and MSMEs, in April 2016, indicated there were 541 companies registered, at that time, in the category of “Small Businesses,” all from the Tertiary sector (shops selling products, clothing, food, technological equipment) and Secondary sector, mostly construction companies (architecture and engineering services).

**Figura 9.2 Proportion of MSMEs according to category (2012–2020)**

<sup>37</sup> Dirección General de Impuestos Internos, Gerencia de Estudios Económicos y Tributarios, Departamento de Análisis de Recaudación y Estadística, MIPYMES Bulletin 2020, Dominican Republic, September 2021

<sup>38</sup> Ministerio de Industria, Comercio y Mipymes (MICM), el Observatorio Mipymes y el Programa de las Naciones Unidas para el Desarrollo (PNUD), *Situación económica y de mercados de las mipymes en República Dominicana por la crisis del covid-19*, República Dominicana, 2020.

<sup>39</sup> “Listado General de empresas clasificadas Mipymes según su categoría y vigencia”

Fig. 9.3 Number of MSMEs according to economic activity (2020)

Economic activity	Micro	Small	Medium	Total MSME's
<b>Agricultural</b>	<b>7.163</b>	<b>1.221</b>	<b>35</b>	<b>8.419</b>
Cereal crops	1.397	177	3	1.577
Traditional Crops	2.837	580	22	3.439
Livestock, Forestry and Fishing	1.555	317	9	1.881
Agricultural Services	1.374	147	1	1.522
<b>Industries</b>	<b>22.896</b>	<b>4.040</b>	<b>173</b>	<b>27.109</b>
<b>Construction</b>	<b>13.243</b>	<b>2.051</b>	<b>46</b>	<b>15.340</b>
<b>Mining and quarrying operations</b>	<b>160</b>	<b>37</b>	<b>3</b>	<b>200</b>
<b>Manufacturing</b>	<b>9.493</b>	<b>1.952</b>	<b>124</b>	<b>11.569</b>
Editing, Recording, Printing	1.539	162	15	1.716
Beverage Making	120	36	3	159
Plastic Processing	139	86	12	237
Production of Bakery Goods	701	209	9	919
Manufacture of tobacco products	114	35	9	158
Production of dairy products	182	41	2	225
Manufacture of soaps and detergents	323	44	5	372
Manufacture of Furniture and Mattresses	669	145	6	820
Manufacture of wood, paper and cardboard products	513	99	6	618
Manufacture of Textiles and Clothing	902	188	12	1.102
Manufacture of Chemical Substances	242	82	4	328
Other Manufacturing Industries	4.049	825	41	4.915
<b>Services</b>	<b>180.975</b>	<b>23.395</b>	<b>544</b>	<b>204.914</b>
<b>Public Administration</b>	<b>600</b>	<b>98</b>	<b>1</b>	<b>699</b>
<b>Rental housing</b>	<b>15.951</b>	<b>1.148</b>	<b>20</b>	<b>17.119</b>
<b>Trade</b>	<b>52.130</b>	<b>11.462</b>	<b>178</b>	<b>63.770</b>
Fuel Trade	908	620	7	1.535
Vehicle Trade	9.604	1.849	21	11.474
Other Trade	41.618	8.993	150	50.761
<b>Communications</b>	<b>2.310</b>	<b>302</b>	<b>19</b>	<b>2.631</b>
<b>Electricity, Gas and Water</b>	<b>959</b>	<b>161</b>	<b>4</b>	<b>1.124</b>
<b>Hotels, Bars and Restaurants</b>	<b>7.346</b>	<b>1.496</b>	<b>42</b>	<b>8.884</b>
<b>Financial Intermediation, Insurance and Others</b>	<b>8.622</b>	<b>824</b>	<b>14</b>	<b>9.460</b>
<b>Educational Services</b>	<b>2.946</b>	<b>699</b>	<b>24</b>	<b>3.669</b>
<b>Health Services</b>	<b>15.134</b>	<b>849</b>	<b>60</b>	<b>16.043</b>
<b>Transport and Storage</b>	<b>9.872</b>	<b>1.247</b>	<b>57</b>	<b>11.176</b>
<b>Other Services</b>	<b>65.105</b>	<b>5.109</b>	<b>125</b>	<b>70.339</b>
<b>TOTAL</b>	<b>211.034</b>	<b>28.656</b>	<b>752</b>	<b>240.442</b>

According to the 2020 MSMEs Bulletin,<sup>40</sup> 240,442 companies were registered as MSMEs by 2020, of which 87.8% were micro-enterprises, 11.9% were small, and 0.31% were medium-sized companies. The remaining 1.3% belong to large companies.

Figure 9.2 was taken from the indicated report.<sup>41</sup>

Based on the reviewed reports, we can indicate that the weight of the sectors is as follows:

1. Primary: 7.2% (agricultural, mining and quarrying)
2. Secondary: 29.8% (local manufacturing, free trade zones, and construction)
3. Tertiary: 55.7% (services)

The participation of small businesses in these activities by 2020 is as follows:

1. Primary:
  - a. Agricultural: 5.6%, particularly: traditional crops (fruits and vegetables)
2. Secondary:
  - a. Construction: 14.8%, particularly: development of projects, houses, buildings
  - b. Local manufacturing: 11.5%, particularly: confectionery and bakery, and cake shops
3. Tertiary:
  - a. Trade: 11.1%, particularly: sale of vehicles
  - b. Private transportation services and storage: 7.8%
  - c. Hotels, bars, and restaurants: 5.7%

## 9.3 General results and results by procedures

The study revealed small companies must perform about 26 procedures for their operation, of which at least 8 must be performed monthly, 4 annually, and the others are carried out depending on the specific needs of the business or industry.

It should be noted that in some industries the applicability, frequency, and complexity of the procedures is directly related to the number of operations of the company and to the availability of internal automation of calculations, processes, and reports. It also relates to the experience level of the staff in charge of implementing such procedures.

No obstante, lo anterior:

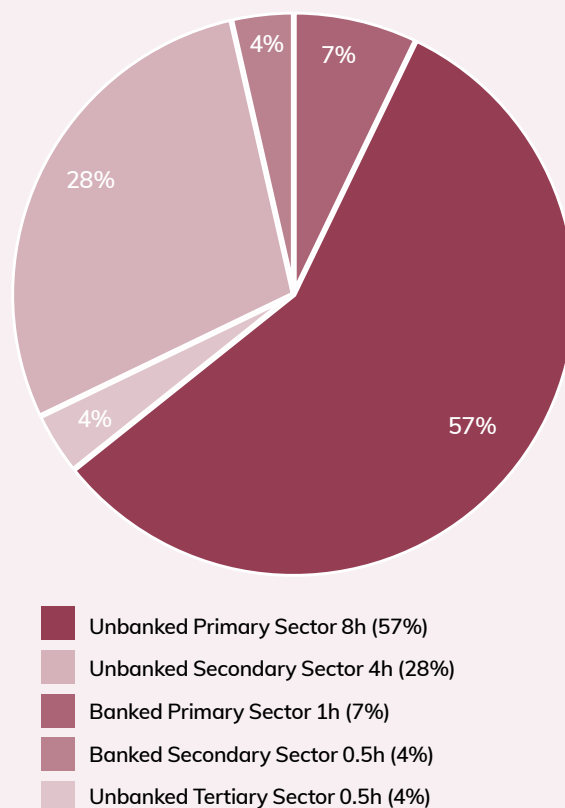
*100% of interviewees reported great ease and speed when handling procedures related to the Dominican Social Security System, through web-sites designated for that purpose.*

*100% of interviewees reported great complexity in the monthly management of their tax receipts associated with invoices or Number Tax Receipt (NCF), registration of the operations carried out, both of income and expenses. Also burdensome is the obligation to keep physical records of tax receipts of their activities (to support and validate fiscal controls), since the printouts from the NCF fade in a very short period of time (30–45 days).*

### 9.3.1 Administration of Employment

This category reflects the simple average number of hours employed in payment of salaries, income taxes, social security contributions, hiring, firing, and work reports to the appropriate regulatory entities, which comes up to 139.3 hours. However, it should be noted that the sector with the highest impact on this average is the Primary sector with 282.9 hours, due to the fact that the small businesses interviewed are dealing with the traditional fruit and vegetable growing industry that involve many manual steps and procedures in the Administration of

**Fig. 9.4 Biweekly payroll management hours by sector/banking access**



<sup>40</sup> Dirección General de Impuestos Internos, Gerencia de Estudios Económicos y Tributarios, Departamento de Análisis de Recaudación y Estadística, MIPYMES Bulletin 2020, Dominican Republic, September 2021

<sup>41</sup> Dirección General de Impuestos Internos, Gerencia de Estudios Económicos y Tributarios, Departamento de Análisis de Recaudación y Estadística, MIPYMES Bulletin 2020, Dominican Republic, September 2021



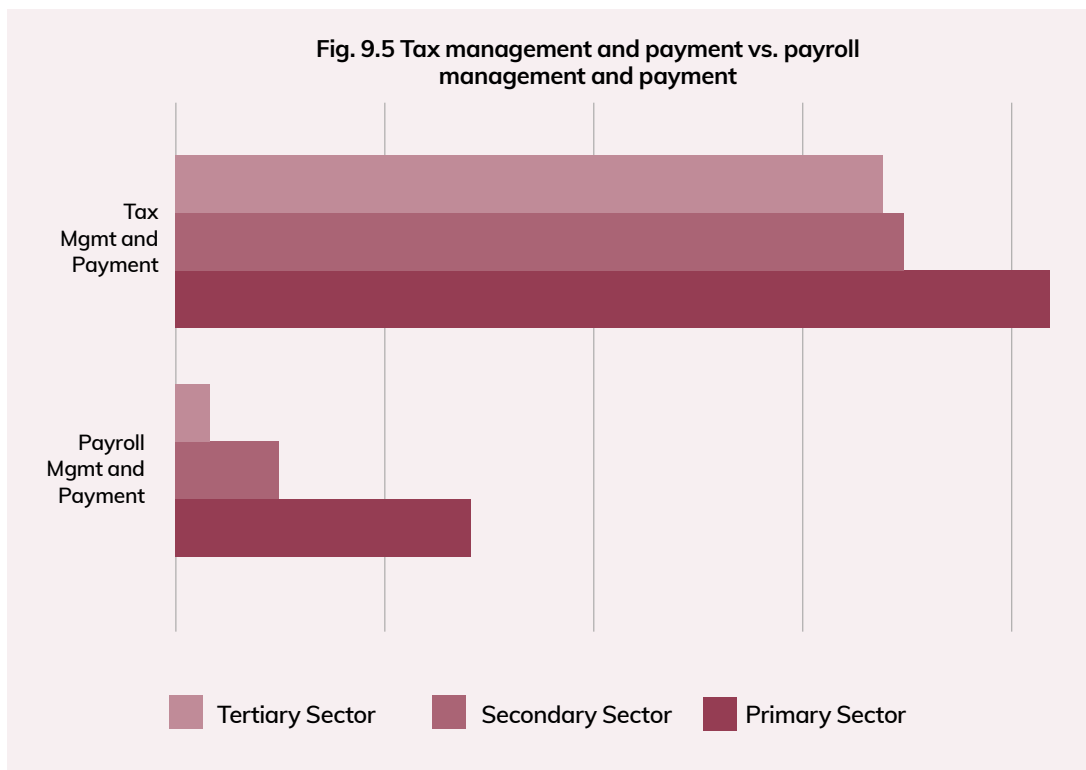
Employment. It is followed by the Secondary sector with 100.6, impacted by the construction industry.

Figure 9.4 shows the difference in time spent on biweekly payroll management by different companies within the same sector, but with different mechanisms used to make salary payments. In the Primary and Secondary sectors, companies whose employees have banking access spend less time dealing with the payment process because they are done through bank transfers. Companies whose employees don't have banking access (or a hybrid where just some of them do) spend more time dealing with this process as the payments are done in cash. Paying with cash involves the cash withdrawal from business accounts, counting bills, placing money in envelopes, plus travel and time to hand them out, and finally the signature of the appropriate receipts, making it a lengthy process. On the other hand, in the Tertiary sector, all salary payments are made through bank transfers, with a biweekly average of 0.5 hours invested in this process.

*Companies whose employees have banking access spend 85% less time in the process of paying salaries than companies whose employees don't have bank accounts.*

### 9.3.2 Administration of Operations

For the Administration of Operations, companies spend a simple average of 737.9 hours. For these procedures, as previously stated, the monthly management of their Number Tax Receipts (NCF) has great impact, as does the recording or registration of operations (both of income and expenses), and maintaining the physical copies of tax receipts of their activities.



The most affected sector is again the Primary sector (837.80), followed by the Secondary sector (697.6) where both economic activities reported similar numbers of hours used in these procedures.

In this case, although the Tertiary sector reported a smaller number, the difference is not significant, 677.10.

Below is a comparison of the hours spent on tax management and payment, and the hours spent on payroll management and payment.

*In order to mitigate the complexity of this process, 100% of the interviewees indicated they have outsourced these services to external accounting experts, even if they have internal staff dedicated exclusively to those processes. It is a costly decision but an effective way for management to gain peace of mind.*

### 9.3.3 Other Bureaucratic Procedures

Within this category we include the authorizations required for particular functions and the legal issues of corporate updating. In the latter, the legal structure used by small business impacted the frequency and complexity of the procedures, although all three sectors showed similar numbers, for a simple average of 15.5 hours.

However, special permits and authorizations in the construction industry impact the Secondary sector with 56.8 hours. Within the same industry, however, the frequency in which a company applies for such permits as well as time invested, vary significantly depending on the number, size, and completion time of projects. Similar companies in the same year

may therefore need different numbers of permits, which also varies from year to year. This variation directly affects the reported simple average.

It should be noted, however, that the construction companies interviewed in this study showed good management and mastery of the procedures and did not report any problems in that respect. The hours they invested for each permit are considerably less than those reported by the independent consultants interviewed.

The same could be verified with companies in the Primary and Tertiary sectors, with respect to the special permits they require to operate their respective industries.

*Construction permits are requested for each project, so the number of permits varies annually depending on the number of projects that each company executes in a year, and therefore the valuation of the number of hours used in those procedures will vary accordingly.*

## 9.3.4 Improvements in implementation process

As of the execution date of this report, four improvements are in the process of implementation in the Dominican Republic that will impact the hours spent on the procedures evaluated:

### 1. Zero Bureaucracy and Regulatory Improvement Program

This is the first reform of the National Competitiveness Strategy (Decree 640-20) proposed by the presidency of the Dominican Republic. This program, led by a commission consisting of the National Competitiveness Council, the Ministry of Public Administration, and the Government Office for Information and Communication Technologies (OGTIC), aims to make the government system more efficient, agile, and transparent.

The implementation plan contains proposals for the improvements of processes, flowcharts, and simplification plans for 41 institutions and 150 procedures, and the implementation of a platform that integrates information, data, and forms to avoid duplication of documents in the management of procedures before the State.

This program is complemented by Law 167-21, from August 9, 2021, on Regulatory Improvement and Simplification of Procedures.

The timely implementation of these proposals will have a significant positive impact on industry specific procedures for all three sectors of the economy.

### 2. Digital Agenda

Decree No. 527-21 launched the 2030 Digital Agenda and subsequently launched its 2021–2024 Action Plan. The Digital Agenda is the national strategy for digital transformation in the short, medium, and long term. The Digital Agenda is composed of seven components,<sup>42</sup> one of which is Digital Governance.

The overall objective is to achieve efficiency and transparency of Public Administration through the use and adoption of digital technologies, bringing the State closer to the citizens in order to improve their quality of life.

In other words, the Digital Agenda complements the Zero Bureaucracy and Regulatory Improvement program, since, among other specific objectives, it seeks to achieve digital transformation of the State from different areas of management. These areas include expanding onsite and digital public services; access to public information through open government initiatives and government transparency; and streamlining digital public goods and services.

Understanding that the Digital Agenda seeks a digitized and

agile management of government procedures, its timely implementation could positively impact the bureaucratic burden currently faced by small businesses.

### 3. Electronic Invoicing

The General Directorate of Internal Revenue has included on its website a system called “Facturador Gratuito de Facturación Electrónica” or free electronic invoicing system, which consists of a technological tool that allows the issuance and receipt of digital tax receipts (e-CF), compliant with the fiscal system of electronic invoicing established in the Dominican Republic, for those taxpayers who wish to invoice electronically from their own computers. The platform, which has certain requirements, has been specially designed for independent professionals, individuals, and MSMEs.

With this platform users can significantly reduce transaction registration procedures and avoid having to safeguard physical receipts.

### 4. Platform change of the Santo Domingo Chamber of Commerce and Production

The Santo Domingo Chamber of Commerce and Production is a private non-profit entity, with more than 175 years of existence—the oldest in Latin America—and it is responsible for handling the Mercantile Registry of all legal entities.

At the end of June 2022, this entity began using platform 2.0 to facilitate formalizing companies, implementing a fully digitized registration process, with the aim of achieving the formalization of companies in an agile manner.

This platform will also allow several state institutions (Dirección General de Impuestos Internos, Oficina Nacional de Registro de la Propiedad Industrial, Contrataciones Públicas, Superintendencia de Bancos, among others) to connect to the system to have quick access to corporate information of the entities requesting procedures in those other institutions, avoiding duplication of documents.

Executives of the Santo Domingo Chamber of Commerce and Production have indicated that with the help of the Dominican Federation of Chambers of Commerce and Production (FED-OCÁMARAS) they intend to implement the use of such a platform across all chambers of commerce throughout the country.

The national implementation of this platform will considerably simplify the legal procedures analyzed in this report.

## 9.4 Final considerations and reflections

As previously mentioned, interviewees stated that payroll management and payment for employees with banking access is simple, unlike payroll procedures for employees without banking relationships. In regard to the contributions to the Dominican Social Security System they agreed it is a quick and easy process.

Interviewees felt comfortable handling the procedures specific to the industry where they operate, but in turn, felt overwhelmed by those related to the preparation of documents and reports for tax payment purposes, although they expressed

<sup>42</sup> The components of the 2030 Digital Agenda are: 1) Governance and Regulatory Framework; 2) Connectivity and Access; 3) Digital Governance; 4) Education and digital capabilities; 4) Digital economy; 5) Cybersecurity (cross-cutting axis); 6) Technological innovation (cross-cutting axis)

that, once the documents have been prepared, the payment process itself is easy and quick to execute.

In general, the interviewees mentioned the significant burden placed by the daily, weekly, and monthly preparation of invoices; the monthly management of their Number Tax Receipts (NCF); the recording of all operations carried out (both of income and expenses); and maintaining physical records of tax receipts of their activities.

In this regard, we consider it appropriate to expedite implementation of the “free electronic invoicing system,” and specifically, making it available to all types of companies.

One hundred percent of the companies interviewed stated they outsource accounting and tax management services, and handle it as part of doing business, integrating the outside services into their operating costs (even when having internal staff in charge of accounting management), which reflects a regulatory environment that is too complicated and burdensome for companies to navigate on their own. An appropriate business climate should consider tax and other operating procedures, especially for the micro and small business, that can be managed and performed in-house, without additional charges or costs, except for certain exceptions.

With regard to Other Bureaucratic Procedures, the study reflects a higher time demand in the construction sector, but this burden varies from company to company and from year to year, since permits are required for each construction project. In this sense, if the company in question carries out a single project in the year, the hours it takes to process permits is much less than that of a company that executes 10 projects in the same year. In any case, the construction companies analyzed here expressed control of the process and stated it did not represent a particular burden to them.

In general, there is a noticeable improvement in the processes of managing special permits for all three sectors; however, we look forward to the implementation of the programs and projects proposed by the Zero Bureaucracy Program, the National Competitiveness Strategy, and the Digital Agenda. We urge that these programs be implemented as soon as possible, as these regulatory and structural adjustments are necessary to establish the foundations for the creation of a single inter-institutional technological platform or infrastructure that will allow citizens and businesses to carry out procedures in a digital, agile, and simple way, using an inter-connecting system accessible through any device, platform, or operating system.

# 10. Uruguay

Centro de Estudios para el Desarrollo

Agustín Iturralde, Ramiro Correa, Martín Blanco, Sabrina Riveiro

## 10.1 Production Structure

The production structure of the Uruguayan economy for 2021 has been developed with data from the Sistema de Cuentas Nacionales (in English, System of National Accounts [SNA]) published by Banco Central del Uruguay (in English, CBU).

Figure 10.1 presents the traditional division of the economy into the Primary, Secondary, and Tertiary sectors, as well as the weighted average of each of these sectors in relation to the GDP of the Uruguayan economy.

Fig. 10.1 Weighted average of sectors according to GDP

Sector	GDP 2021	Weighted by GDP
Primary	114,339	7.45%
Secondary	318,890	20.77%
Tertiary	1,102,354	71.78%

The Uruguayan economy follows the global trends of the vast majority of market economies. The predominant sector is the Tertiary, with 71.78%, followed by the Secondary sector, with 20.77% and finally the Primary, with the lowest weighted average of 7.45%.

## 10.2 Representative economic activity of small businesses by sector

This analysis has divided the three economic sectors into different economic activities, as they are defined in the SNA, by the CBU. The results are shown in Figure 10.2. It illustrates the production structure as well as the weighted average of each economic activity with respect to their share in GDP.

Based on these results, the most representative economic activities within each economic sector are determined, helping to define the representative sectoral company. The most representative activities by sector are:

- **Primary sector:**  
Agricultural activity
- **Secondary sector:**  
Manufacturing and construction
- **Tertiary sector:**  
Retail, accommodation, and food service; healthcare, education, real estate activities, and other services; and finally, transport and storage, information and communications.

Fig. 10.2 Economic sectors weight on GDP

Sector	Activity	GDP in 2021	Weighted by sector in GDP
Primary	Agriculture, fishing, and mining	114,339.00	100.00%
Secondary	Manufacturing	185,016.47	58.02%
	Electricity, gas, and water supply	49,814.58	15.62%
	Construction	84,059.03	26.36%
Tertiary	Trade, accommodation, and food service	229,601.70	20.83%
	Transport and storage, information, and communications	158,828.04	14.41%
	Financial services	95,498.94	8.66%
	Professional activities and leasing	124,689.38	11.31%
	Public administration activities	83,720.62	7.59%
	Health, education, real estate, and other services	410,014.96	37.19%

## 10.2.1 The characterization and weight of companies in the Uruguayan economy

The classification of the companies of the Uruguayan economy is conducted according to their size, following the current legislation.

- **Microenterprises:** Companies with up to four employees and whose annual sales (minus value added tax) do not exceed Unidades Indexadas (UI) 2,000,000 (Consumer Price Index linked units)
- **Small businesses:** Companies with up to 19 employees and whose annual sales (minus value added tax) do not exceed UI 10,000,000.
- **Medium-sized companies:** companies with up to 99 employees and whose annual sales (minus value added tax) do not exceed UI 75,000,000.

MSMEs are defined as a set of micro-, small-, and medium-sized companies. Data from the National Development Agency (ANDE) from 2020 identified 189,820 active MSMEs in Uruguay. Within this group, 85.23% are micro-enterprises, 12.01% are small businesses, and 2.36% are medium-sized companies.

## 10.2.2 Representative company by sector

Figure 10.2 illustrates the proportion of small businesses by sector of economic activity (obtained from the statistics of the Central Bank) allowing us to determine the activities that will be analyzed in the scope of this study, which we list below:

1. Agricultural production, hunting, and related service activities
2. Manufacture of clothing
3. Specialized construction activities
4. Retail trade, except trade of motor vehicles and motorcycles
5. Land and pipeline transport
6. Real estate activities

Once the representative companies were elected, interviews and surveys were carried out with different companies in those sectors, as well as with third-party providers, to be able to estimate the hours devoted to the different procedures required for the economic activity.

## 10.3 Results

The results illustrate that Uruguayan companies spend an average of 438.5 hours/annually to comply with the bureaucratic burden. A more detailed look at the weighted averages by sector, presented in Figure 10.1, reveals an average of 405.2 hours, a much smaller amount, as seen on the table below.

Fig. 10.3 Hours Spent by Companies with Bureaucratic Compliance

Group of Procedures	Primary	Secondary	Tertiary	Simple Avg.	Weighted Avg.
Adm. of Employment	139.6	110.2	224	157.9	194.1
Adm. of Operations	132.1	195.2	147.9	158.4	156.5
Other Bur. Procedures	311	16.9	38.8	122.2	54.5
<b>TOTAL</b>	<b>582.7</b>	<b>322.3</b>	<b>410.7</b>	<b>438.6</b>	<b>405.2</b>

The Primary sector devotes 582.7 hours to the various bureaucratic procedures. The procedures that demand the most hours are in the Others category, in particular the sector-specific procedures, which represent more than double the sum of the other two groups of procedures, becoming the greatest burden for this sector.

On the other hand, companies in the Secondary sector spend an average of 322.3 hours—the lowest overall amount among the three sectors—with the highest time demand for the Administration of Operations. The Tertiary sector devotes 410.7 hours to bureaucratic procedures, where the Administration of Employment absorbs the most time.

It is worth noting that the group that demands the most time among each of the sectors is different for each one of them. This means that the group of procedures that represents the greatest bureaucratic burden varies by sector.

### 10.3.1 Administration of Employment

Regarding the group of procedures related to the Administration of Employment, the Tertiary sector is the one that devotes the most hours to comply with them. It is worth noting

Fig. 10.4 Times required for Administration of Employment by sector and activity

	Primary	Textile	Construction	Secondary	Grocery Store	Real Estate company	Tourism	Tertiary
Salaries, taxes, and contributions	102.7	67.0	126.0	85.4	86.0	188.0	130.0	147.1
Hiring and firing	17.0	9.4	8.9	9.3	19.0	50.0	44.0	39.9
Work reports	20.0	10.9	25.6	15.5	33.5	32.0	55.0	37.0
Total: Adm. of Employment	139.6	87.3	160.5	110.2	138.5	270.0	229.0	224.0

the difference within the sub-groups Hiring and Firing, and Work Reports.

For the Tertiary sector, the subgroup of Work Reports represents a significant time expense since dealing with the final consumer and variable wages (such as income for commissions in the case of real estate) require the correct calculation of monthly fees.

The Tertiary sector, in addition to being the sector that invests the most hours to comply with the Administration of Employment, is also the group with the largest scope in GDP, therefore the weighted average is higher than the simple average time allocated for these types of procedures. It is worth noting this is the only sector with that peculiarity, which is seen across all subgroups, revealing the severe impact bureaucracy has on this type of activities.

**Fig. 10.5 Average Adm. of Employment**

	Simple Avg.	Weighted Avg.
Salaries, taxes, and contributions	111.7	131.0
Hiring and firing	22.0	31.8
Work reports	24.2	31.3
Total: Adm. of Employment	157.9	194.1

## 10.3.2 Administration of Operations

In this group of procedures, the sector that presents greatest difficulties is the Secondary, especially in the areas of administrative taxes and health and safety. In the latter case, it is mainly related to the requirements of construction activities since they deal with increased occupational risk prevention.

In regard to administrative taxes, the high numbers particularly relate to one of the sample companies involved in the textile industry, as they have to deal with import procedures, which substantially increases the results. This is part of the country's trade restrictions on importing or buying abroad.

It is worth highlighting that taxes common to all economic activities have been standardized and are easily accessible, showing a similar number of hours committed to their compliance, all across the board. Companies with high transaction levels might differ on the numbers, which simply involves more data processing for obvious reasons.

**Fig. 10.6 Times required for Administration of Operations by sector and activity**

	Primary	Textile	Construction	Secondary	Grocery Store	Real Estate company	Tourism	Tertiary
Adm. Taxes	129.8	200.0	116.0	173.8	156.2	123.2	98.2	127.7
Waste Mgmt.	0.0	0.0	6.0	1.9	52.0	0.0	0.0	15.0
Vehicles	2.3	0.0	1.1	0.3	3.6	3.8	6.9	4.3
Health and Safety	0.0	8.0	44.0	19.2	3.0	0.0	0.0	0.9
Total: Adm. of Operations	132.1	208.0	167.1	195.2	214.8	127.0	105.1	147.9

Analyzing the weighted averages, we observe that waste management and vehicle administration are below the average for the Secondary sector, emphasizing that the heaviest bureaucratic burden comes from procedures related to administrative taxes.

**Fig. 10.7 Average Adm. of Operations**

	Simple Avg.	Weighted Avg.
Adm. Taxes	143.8	137.4
Waste Mgmt.	5.6	11.1
Vehicles	2.3	3.3
Health and Safety	6.7	4.6
Total: Adm. of Operations	158.4	156.4

## 10.3.3 Other Bureaucratic Procedures

When analyzing the behavior of the subgroup Statistics, Legal, and Industry-Specific, we must note that economic activities, such as real estate, have a small number of hours dedicated to this, since they do not have specific procedures to perform. But the main reason all sectors of the economy do not spend a lot of time dealing with this type of requirements is because Uruguay has very few major cross-sectoral regulatory requirements. This can be seen, for example, by looking at the country's international debt ratings, where the country's great institutionality is continually highlighted, with no significant changes regardless of the government in office.

Having pointed this out, Figure 10.8 highlights two activities that invest a lot of time dealing with sector specific procedures, such as livestock in the Primary sector and tourism in the Tertiary sector; construction follows in third place.

On the other hand, when comparing the weighted average and the simple average, the first is significantly lower since the weight of the Primary sector in GDP is the lowest of the three.

Having said this, it is important to emphasize the enormous weight that industry-specific procedures have for the Primary sector, more than double the time of any of the other groups of procedures.

Fig. 10.8 Times required for Other Bureaucratic Procedures by sector and activity

	Primary	Textile	Construction	Secondary	Grocery Store	Real Estate company	Tourism	Tertiary
Statistics, Legal, and Industry-Specific	311.0	5.0	43.0	16.9	15.0	6.0	158.0	38.8
Total Others	311.0	5.0	43.0	16.9	15.0	6.0	158.0	38.8

Fig. 10.9 Averages Other Bureaucratic Procedures

	Simple Avg.	Weighted Avg.
Statistics, Legal, and Industry-Specific	122.2	54.5
Total Others	122.2	54.5

## 10.4 Final considerations and reflections

As this is the first time that Uruguay has participated in the *Index of Bureaucracy in Latin America*, we cannot draw conclusions from previous years, but we can make a comparative analysis of the results obtained in the IB from the countries that participated in the previous edition. On average, a small company in Uruguay must allocate 405.2 hours/year to complete all the bureaucratic procedures established by the different levels of government, as shown in Figure 10.3, the lowest number of hours in Latin America compared to 2020, with about 100 hours less than Mexico and approximately 150 hours less than Colombia, placing Uruguay in a favorable position. However, it should be noted that for most of the countries, the heaviest bureaucratic burden lies on the procedures related to the Administration of Employment and Administration of Operations, whereas for Uruguay, the most hours are spent handling industry-specific procedures.

In this sense, we can establish that the time involved in procedures related to the Administration of Employment and Administration of Operations is highly standardized, the problems begin to arise in sector-specific procedures, such as those required of cattle ranchers.

On the other hand, when comparing the results obtained with those of a developed country like Spain, we can see that small Spanish entrepreneurs spend approximately 140 hours less dealing with bureaucracy. This demonstrates that Uruguay still has room for improvement to reach levels that approach those of the First World.

In terms of employee insurance, companies have the obligation to take out separate insurance policies for their employees to cover workplace injuries. It should be noted that this is the only insurance required, and we believe that this is largely due to the existence of the Social Security Bank. This bank charges 15% and 7.5% of the salary to the employee and the employer, respectively, to pay for sick leave, maternity leave, etc.

As far as waste management is concerned, most of the companies interviewed do not need to hire this service. Businesses in specific sectors, such as supermarkets in the Tertiary sector or construction companies in the Secondary sector, are required to put these procedures in place.

### Outsourcing of Accounting and Fiscal Management Services as Standard Procedure

One of the main conclusions that we must highlight is that all small businesses must outsource specialized agents to be able to comply with regulations and procedures. The companies interviewed stated that the procedures are usually time-consuming and cumbersome, so they prefer to outsource the service to other companies that already have the know-how or because scale economies make it a profitable service. In consequence, the need to hire such services has already been internalized, and entrepreneurs take it into consideration when calculating their operating expenses, but it remains a significant cost, especially for small businesses.

### The Centralization of Procedures in Montevideo

It is interesting to highlight the case of food service companies, which suffer from the lack of a national regulatory entity to control them. Such regulation is carried out at the province level, which implies that those businesses that want to sell in more than one province must obtain an authorization in each one of them. The same applies to bromatological registrations, since they do not have a national food regulatory agency. This means that entrepreneurs must incur an extra cost in each province where they operate.

Uruguay encounters very specific obstacles at the sectoral level. For example, problems have been detected in the tourism sector when receiving payments from Brazil. A 33% withholding tax is imposed on direct transfers to pay for Uruguayan services. This represents a significant problem considering that Brazilian citizens account for about 20% of tourism in Uruguay. This implies that Uruguayan companies must create companies in other countries to perform a triangulation in order to receive transfers without such withholding taxes, and while it is costly to maintain a company in another country, this cost is lower than the tax charged for direct transfers from Brazil.

# 11. Venezuela

Cedice-Libertad

Rocío Guijarro, Óscar Torrealba

## 11.1 Production structure

As of 2022, Venezuela still did not have updated official statistical information that allows identifying the number of active companies by type of economic activity. It is worth bearing in mind that the last economic-industrial census conducted by the National Statistics Institute (INE) corresponds to the period 2007–2008.<sup>43</sup> There is also a lack of updated information on the evolution of GDP by economic activity or the number of people employed by type of activity, which could support a statistical approximation towards the most representative economic activities in 2022. This data has not been updated since 2018.

The prolonged absence of official numbers makes it very difficult to calculate projections for macroeconomic aggregates. So much so that the International Monetary Fund (IMF) in its last report<sup>44</sup> excluded Venezuela from regional averages on consumer prices and highlighted the difficulties of the institution in obtaining statistical information on the country, emphasizing that the data projected in that report should be interpreted with caution because of its high degree of uncertainty.<sup>45</sup>

The absence of official statistics not only complicates the projections, but also generates divergences between the estimates of different institutions, banks, and consulting firms that analyze Venezuelan economic behavior. This is the case with GDP estimates for 2022; while there is consensus that GDP will grow, there is no convergence in the projections on the magnitude of this growth: the IMF estimates an increase of 1.5%; ECLAC projected a growth of 5%; the investment bank Credit Suisse has estimated an increase of 20%; while the firm Focus Economics has projected an increase of 9%.

Consequently, the little official information available does not generate confidence among citizens due to the deterioration of State institutions. This is the case with the official inflation data available. However, both official statistics and civil organizations<sup>46</sup> estimates point to a fall in inflation in 2022, even below three digits.

<sup>43</sup> The only document available to the user contains only preliminary results in aggregate terms.

<sup>44</sup> International Monetary Fund (2022). *World Economic Outlook. War sets back the global recovery*. April 2022. Washington, DC.

<sup>45</sup> See World Economic Outlook statistical appendix.

<sup>46</sup> See the Cedice Libertad Inflation Meter at [www.cedice.org.ve/observatoriogp](http://www.cedice.org.ve/observatoriogp)

<sup>47</sup> This category excludes trade in motor vehicles and motorcycles, repair of personal and household goods.

<sup>48</sup> National Statistics Institute (s.f). Population of 15 years and more employed, by sector and branch of economic activity, 1st semester 1999–2nd semester 2018. Retrieved 28 April 2021, from [http://www.ine.gov.ve/index.php?option=com\\_content&view=category&id=103&Itemid=40](http://www.ine.gov.ve/index.php?option=com_content&view=category&id=103&Itemid=40).

In short, despite the difficulties, based on the scarce official information available and statistical reports developed by civil organizations, an estimate of the sample companies has been produced for each economic sector.

### 11.1.1 Official statistics available

According to the IV *Economic Census 2007–2008* of the National Institute of Statistics (INE), the activity that concentrates the largest number of economic units in the Tertiary sector is retail trade,<sup>47</sup> which in turn represents 45.3% of the total economic units of the country, thus being the most representative activity in general terms. The manufacturing industries concentrate 6.41% of the economic units and are the most representative of the Secondary sector. Regarding the Primary sector, the preliminary data from the census do not show a classification by type of activity; however, it is specified that it is represented by agricultural activities such as growing crops and raising animals, which account for 0.08% of the total.

Meanwhile, the official information available on the employed population by sector and branch of economic activity, updated until the last quarter of 2018, indicates<sup>48</sup> that retail trade, restaurants, and hotels employ 30.8% of the working population, being the most representative branch of the Tertiary sector. In the Secondary sector, it is the manufacturing industry, which employs 13% of the population. The agricultural sector with livestock and hunting activities represents 8.9% of the employed population, being the most representative activity of the Primary sector.

### 11.1.2 Statistics produced by civil society

According to the National Survey of Living Conditions (Encovi 2021), 26% of the employed population is concentrated in other service activities, which include business, professional, union, political, and religious associations; repair of computers, personal and household goods; and other personal service



Fig. 11.1 Number of employees by economic activity (2019–2020)

Economic Activity	Employee personnel	% of total
<b>TERTIARY SECTOR</b>		
Other service activities such as repairs, cleaning, hairdressing	2,869,956	26%
Public administration and defense, education, health, social assistance, art, entertainment, embassies	2,221,515	20%
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,963,972	17%
Transportation, storage, accommodation and food service, communications and computer services	1,551,761	14%
Financial, insurance, real estate, professional, scientific and technical entities; and administrative and support services	636,529	6%
<b>SECONDARY SECTOR</b>		
Construction	522,734	5%
Manufacturing industry	308,025	3%
Installation/supply/distribution of electricity, gas or water	169,759	2%
<b>PRIMARY SECTOR</b>		
Agriculture, livestock, fishing, hunting and related service activities	913,519	8%
Mining and quarrying operations	79,510	1%
<b>TOTAL</b>	<b>11,237,280</b>	

Source: Universidad Católica Andrés Bello (2020). National Survey of Living Conditions. Caracas. Retrieved 26 April 2021, from <https://www.proyectoencocom/informe-interactivo-2019>

activities that include laundry and cleaning, hairdressing, dry cleaning, and funeral services.<sup>49</sup>

Likewise, the construction activity employs the largest number of people in the Secondary sector, concentrating 5% of the total, followed by the manufacturing sector, which absorbs 3% of the total number of employed persons. Agriculture, livestock, fishing, and hunting activities are the most representative of the Primary sector, employing 8% of the total.

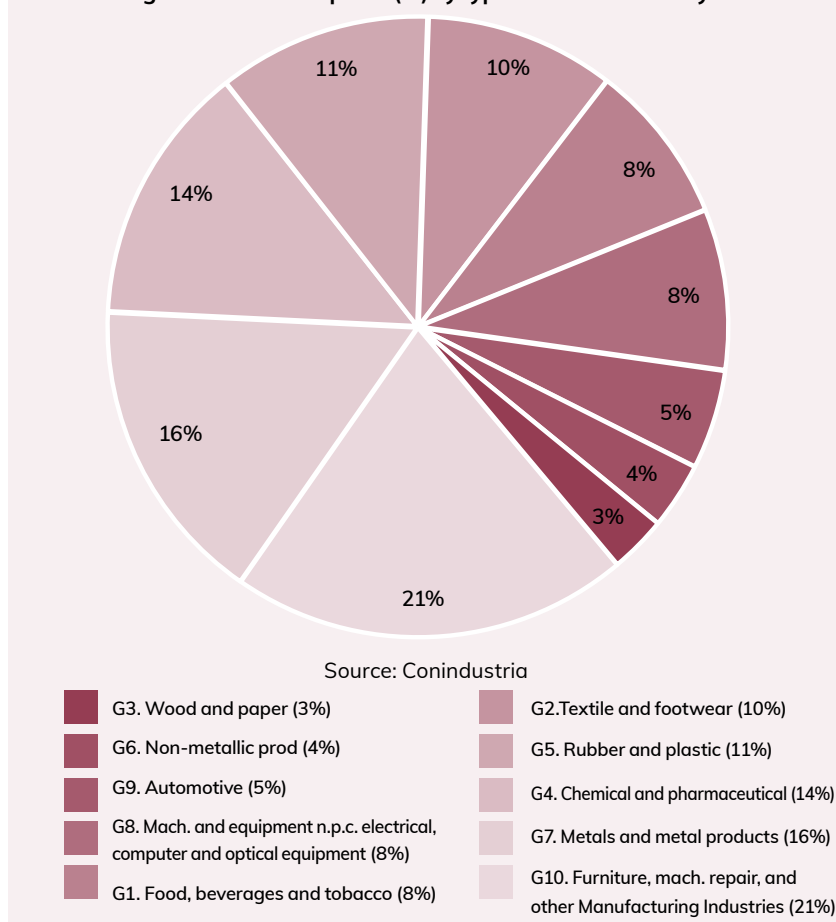
According to data collected by the Venezuelan Confederation of Industrialists (Conindustria), there is an estimated 1,955 active industrial establishments, of which just over 1,600 are affiliated with the institution.<sup>50</sup> Of the total number of members, 24% are large companies, 55% are medium-sized enterprises, and 21% are small businesses; however, the largest concentration of small companies is engaged in activities related to furniture repair, machinery repair, and other manufacturing industries.

## 11.2 Representative economic activity of small enterprises by sector

Taking into consideration the data presented so far, the activity of agriculture, livestock, fishing, and hunting is the most relevant in the Primary sector.

In the Secondary sector, the most representative activity is the manufacturing industry, and according to Conindustria, the largest concentration of small

Fig. 11.2 Small enterprises (%) by type of industrial activity



<sup>49</sup> See the Venezuelan Classification of Economic Activities of the National Statistics Institute.

<sup>50</sup> See CONINDUSTRIA. Encuesta cualitativa de coyuntura industrial IV trimestre 2021. Caracas.

Fig. 11.3 Representative activity by economic sector

Economic Activity	Criteria	Source
<b>TERTIARY SECTOR</b>		
Other service activities such as repairs, cleaning, hairdressing	Employed personnel	Encovi
Wholesale and retail trade; Restaurants and hotels	Employed personnel; operating economic units	INE
<b>SECONDARY SECTOR</b>		
Furniture repair, machinery repair and other manufacturing industries	Employed personnel; operating economic units	Conindustria
<b>PRIMARY SECTOR</b>		
Agriculture, livestock, fishing, hunting and related service activities	Employed personnel	INE, Encovi

companies is engaged in activities related to furniture repair, machinery repair, and other manufacturing industries.

Regarding the Tertiary sector, INE data suggest that the most representative sector is wholesale and retail trade, as well as restaurants and hotels, while the Encovi 2019–2020 highlights services related to the repair of computers; personal and household goods; and other services such as laundry and cleaning, hairdressing, dry cleaning, and funeral services.

## 11.3 Overall results

The study identified 66 bureaucratic procedures required by 18 government institutions. Not all these procedures are carried out by the same company but are instead a function of their production activity. Thus, the company representing the Primary sector is required to comply with 50 bureaucratic procedures before 13 government institutions. The representative company in the Secondary sector is required to comply with the same

number of procedures to 11 institutions. Meanwhile, companies in the Tertiary sector are required to comply with 55 procedures before 13 government institutions.

On average, small businesses in Venezuela spend 1,061.8 hours/year to comply with 53 required bureaucratic procedures. This is equivalent to more than 44 continuous days, 133 8-hour working days, or 53% of the 248 working days in 2021.

Of the three groups of procedures, those related to the Administration of Operations have the largest scope with 740.4 hours/year, specifically those related to tax declaration and payment (449.1 hours/year), representing 42% of the 1,061.8 hours/year required by this type of procedures.

The second largest group of procedures are those related to the Administration of Employment (740.7 h/year). It should be noted that this set of procedures are not dependent on the production activity of the representative company, for that reason all sectors invest an equal number of hours per year to comply with this group of procedures.

Figura 11.4 Hours required for the fulfillment of bureaucratic procedures by economic sector according to groups and subgroups of procedures

	Economic Sectors			Simple Avg.	Weighted Avg.
	I	II	III		
<b>TOTAL</b>	<b>842.9</b>	<b>1081.6</b>	<b>1138.8</b>	<b>1021.0</b>	<b>1061.8</b>
<b>ADM. OF EMPLOYMENT</b>	<b>196.1</b>	<b>196.1</b>	<b>196.1</b>	<b>196.1</b>	<b>196.1</b>
Salaries, taxes, and contributions	71.5	71.5	71.5	71.5	71.5
Hiring and firing	38.1	38.1	38.1	38.1	38.1
Work reports	86.5	86.5	86.5	86.5	86.5
<b>ADM. OF OPERATIONS</b>	<b>459.8</b>	<b>830.2</b>	<b>830.2</b>	<b>706.7</b>	<b>740.4</b>
Taxes	178.3	535.7	535.7	416.6	449.1
Health and safety at work	281.5	294.5	294.5	290.2	291.3
<b>OTHER BUREAUCRATIC PROCEDURES</b>	<b>187.0</b>	<b>55.3</b>	<b>112.5</b>	<b>118.3</b>	<b>125.3</b>
Legal	14.0	14.0	14.0	14.0	14.0
Certifications/authorizations		13.1	13.1	13.1	13.1
Inspections / Audits	18.3	24.3	24.3	22.3	22.8
Specific by productive activity	154.8	4.0	61.1	73.3	78.6

Other Bureaucratic Procedures (125.3 h/year) show the greatest discrepancies between economic sectors, since it relates to the procedures that are specific to the production activity. This group of procedures illustrate the difference in the number of hours that each representative company, depending on its activity, must invest to comply with specific procedures required of them.

It should be noted that companies representing the Tertiary sector not only face the highest number of procedures, but also invest the most hours in compliance. Meanwhile, in regard to bureaucratic requirements, the company representing the Secondary sector closely follow that of the Tertiary sector, allocating a similar number of hours to the group of procedures related to the Administration of Employment and the Administration of Operations. The difference between the two sectors (II and III) rests in those procedures that are specific to the production activity of the companies.

It is noteworthy that the annual number of hours spent by the Primary sector on bureaucratic procedures is lower than in the Secondary and Tertiary sectors, although it remains a highly significant number. This is due to two factors:

- First, the representative company of the Primary sector is exempt from paying ISLR,<sup>51</sup> and it is considered an official VAT taxpayer since they are required to declare it but enjoy the exemption of the tax. This condition allows them to declare VAT on a quarterly basis, which considerably reduces the time spent on fulfilling this duty compared to other economic sectors; however, they are not exempt from being considered as special taxable entities. For this reason, despite the exemptions and benefits, the total number of hours devoted to tax compliance remains significant.

- Also, there is a number of procedures that are required in a timely manner, since they are based on specific activities inherent to this production sector. These requirements are not included in this study because they are irregular in terms of their periodicity, that is, they depend on activities and decisions of the company.

When analyzing the results according to the institution that mandates the procedures, its apparent that the Ministry of the People's Power for the Social Process of Labor (MPPPST) is the one that demands the most bureaucratic procedures, with 27 in total, including those from the National Institute for Prevention, Occupational Safety, and Health (INPSASEL), since it is an entity attached to this ministry. Adding up the times for procedures required by the MPPPST and INPSASEL, the total comes up to 436.52 hours/year. However, the eight procedures required by the National Integrated Tax and Customs Administration (SENI-AT) are the ones that require the most time of small businesses, a total of 489.32 hours/year.

However, of the 66 procedures identified in total, 30 are digitized, 30 are not, 4 are partially digitized, and 2 do not fall under this classification.<sup>52</sup> It is important to mention that digitized procedures require more hours/year to complete than non-digitized ones; on average, digitized procedures require 520.8 hours/year, while non-digitized procedures (face-to-face) require a total 447.5 hours/year.

One of the reasons for this difference is the fact that 37% (194.5 hours/year) of the total hours/year that require the digitized procedures correspond to recurrent errors or failures in the web portals where each procedure should be done, forcing small businesses to repeat processes, wait for internet services to be restored, or deal with considerably slow data upload and download speeds.

**Fig. 11.5 Average number of procedures and hours required by each government institution**

Government Institution	Procedures	Hours/year
National Integrated Tax and Customs Administration	8	439.82
National Institute for Occupational Safety, Health and Prevention	10	302.35
Ministry of the People's Power for the Social Process of Labor	17	134.18
Autonomous Health Control Service	2	69.80
Social Security Institute	2	53.00
National Superintendence of Food Management	2	42.00
Ministry of Popular Power for Ecosocialism	1	27.27
City hall	3	18.98
Commercial Registry Office	2	14.00
Fire department	2	11.75
National Housing and Habitat Bank	3	9.20
National Autonomous Service for Standardization, Quality, Metrology and Technical Regulations	1	8.00
Ministry of People's Power for Agriculture and Land	1	6.00
National Institute of Sports	1	2.76
Ministry of People's Power for Science and Technology	1	1.75

<sup>51</sup> The ISLR exemption is conditional on the company allocating one hundred percent of the tax amount (which it would have paid) to direct investments in research and development, scientific or technological, improvement of productivity rates, or in capital goods. At the end of the fiscal year, the company must submit a report containing all the investments made during the year, all supported by invoices, and must be sent to an institutional email.

<sup>52</sup> These procedures are related to the search for suppliers of materials and equipment to comply with any government and administrative requirements.

**Fig. 11.6 Bureaucratic procedures according to their digitization status**

Procedures	Number of procedures	Hours/year
Digitized	30	520.8
Not digitized	30	447.5
Partially digitized	4	67.3
Does not apply	2	67

## 11.4 Results by type of procedure

### 11.4.1 Administration of Employment

**Fig. 11.7 Hours required in the Administration of Employment, by subgroup of procedures and economic sector**

	Economic Sector			Weigh. Avg.
	I	II	III	
<b>Adm. of Employment</b>	<b>196.1</b>	<b>196.1</b>	<b>196.1</b>	<b>196.1</b>
Salaries, taxes, and contributions	71.5	71.5	71.5	71.5
Hiring and firing	38.1	38.1	38.1	38.1
Work reports	86.5	86.5	86.5	86.5

This section is made up of three subgroups of procedures. The first corresponds to those contributions linked to the payment of salaries;<sup>53</sup> the second subgroup includes all the procedures required in the process of hiring and firing personnel; the third covers other administrative obligations including preparation and logging of records and work reports.

Of the 71.5 hours/year required for the payment of salaries, taxes, and other labor contributions, 56 hours/year are spent dealing with system failures on public institution websites when making the appropriate contributions. The most significant case is the web portal of the Venezuelan Social Security Institute (IVSS), whose failures add 47 hours/year to a process that, in the absence of these type of drawbacks, would not take more than 4.2 hours/year.

Hiring an employee requires a total of 12 bureaucratic procedures that take 38.13 hours/year; specifically, 11.4 hours per hiring and 29.9 hours per firing.

It should be noted that, in this group of procedures related to the Administration of Employment, it's not always possible to make a correlation between the number of people involved and the time it takes to complete a process. For example, in the case of salaries, taxes, and contributions, a significant increase in the number of employees does not significantly affect the outcome of the index, but it does occur with the subgroup of procedures

<sup>53</sup> It should be clarified that the action of paying salaries is not included in the report because, regardless of government requirements, the company must naturally pay its workers.

<sup>54</sup> There are 10 in total if the labor contributions described in the Administration of Employment section are included.

required for the hiring and firing of personnel. In other words, in the event that a company does not hire or fire just one person per year, but two, the total hours required for the fulfillment of the corresponding procedures would double.

The subgroup called Work Reports gathers procedures that are mainly required by the Ministry of Labor and are of administrative nature for the most part, totaling 86.5 hours/year.

### 11.4.2 Administration of Operations

**Fig. 11.8 Hours required in the Administration of Operations, by subgroup of procedures and sector**

	Economic Sector			Weigh. Avg.
	I	II	III	
<b>Adm. of Operations</b>	<b>459.75</b>	<b>830.21</b>	<b>830.21</b>	<b>740.40</b>
Taxes	178.25	535.71	535.71	449.05
Health and Safety at work	281.5	294.5	294.5	291.35

This group is divided into two subgroups of procedures. The first covers those procedures related to the payment of national taxes and parafiscal contributions that do not belong to the workplace. The second subgroup concentrates procedures related to health and safety at work.

Small companies must comply with the payment of six taxes and contributions<sup>54</sup> such as: the Value Added Tax (VAT), Income Tax (ISLR), taxes on economic activities by the municipalities (ISAE), the contribution to the National Fund for Science, Technology and Innovation (Fonacit), the Tax on Large Financial Transactions (IGTF), and the contribution to the National Sports Fund.

The declaration and payment of the six taxes mentioned above involves a set of procedures that require the most hours/year of all the subgroups of procedures identified in this study. The total for this item, excluding the Primary sector that enjoys some tax exemptions, is 535.71 hours/year, both for the representative company of the Secondary sector and for the representative company of the Tertiary sector. The weighted average of the three sectors is 449.1 hours/year.

Of the 10 bureaucratic procedures that small businesses must perform for the payment of their taxes, 7 must be done through the SENIAT web portal. The system failures on this institution's website adds 134.4 hours to the year, due to the repetition of bureaucratic processes, failures in uploading and/or downloading of information, or delays in transferring files.

The subgroup of procedures related to health and safety at work requires a total of 291.35 hours/year. There are two obligations that require the greatest number of hours for their fulfillment: the first is the planning one day a month for recreation and leisure activities for the work team (96 h/year) and the second is the obligation to regularly train employees in occupational health and safety (64 h/year).

**Fig. 11.9 Procedures associated with tax declarations and payments, by sectors**

Bureaucratic procedures	Economic Sector			Average
	I	II	III	
Daily Book Update, Major, Inventory; Auxiliary Books	24	24	24	24.0
Advance Tax		116.16	116.16	88.0
Income Tax Declaration		40.2	40.2	30.5
VAT return	24.8	156	156	124.2
National Fund for Science, Technology, and Innovation (FONACIT)	1.75	1.75	1.75	1.8
National Sports Fund	2	3	3	2.8
Municipal Tax on Economic Activities (ISAE)		19.4	19.4	14.7
Large Financial Transaction Tax Act	48	96	96	84.4
Income Tax withholding	31.2	31.2	31.2	31.2
VAT withholding	46.5	48	48	47.6
<b>TOTAL</b>	<b>178.25</b>	<b>535.71</b>	<b>535.71</b>	<b>449.1</b>

## 11.4.4 Other Bureaucratic Procedures

This group is divided into four subgroups: legal procedures before the Commercial Registry office; renewals of certifications and permits; inspections and audits of company facilities; and other procedures specific to the production activity of the representative company.

**Fig. 11.10 Time required for Other procedures (hours/year)**

	Economic Sector			Weigh. Avg.
	I	II	III	
<b>Other procedures</b>	<b>187.00</b>	<b>55.33</b>	<b>112.45</b>	<b>125.33</b>
Legal	14.00	14.00	14.00	14.00
Certifications/authorizations		13.08	13.08	13.08
Inspections / Audits	18.25	24.25	24.25	22.80
Specific by productive activity	154.75	4.00	61.12	78.63

The time required by the legal procedures before the Commercial Registry Office may vary significantly according to the office where the bureaucratic processes are carried out. On average, these procedures require 14 hours/year and are independent of the economic activity of the representative company.

The renewal of certifications and licenses for economic activities and the renewal of firefighter permits make up the two procedures of the subgroup called Certifications/authorizations. Both renewals take place once a year and add 13.08 hours/year.

Meanwhile, government institutions carry out company inspections or audits, without prior notice, in order to assess compli-

ance with all the required procedures described in this study. Receiving and attending to the requirements of officials in the inspection and control process requires 22.8 hours/year.

With regard to specific procedures to the production activity, in both the Primary and Tertiary sectors, almost all procedures relate to production control, distribution, and sale of food.

In the case of the Tertiary sector results, it is important to highlight that the result for this subgroup is an average of the two companies representing this sector: other service activities (hairdressing, repairs, etc.) and food retail. What is relevant for this case is that for "other service activities" no specific procedures were identified, while for the food retail, six procedures were found that required 122.25 hours/year, resulting in an average time for this economic sector of 61.12 hours/year.

### **Digitization of procedures before the Commercial Registry Office**

*The legal procedures before the Commercial Registry Office were partially digitized from October 2021, which reduced the time required to comply with these requirements from 48 hours/year to 14 hours/year.*

*Previously, each trip to the Commercial Registry Office took at least half a morning to complete an average of seven procedures, including bank deposits that had to be made directly at the bank office, since there was no digital payment option.*

*This process is partially digitized, but a considerable improvement has been observed for this period.*

**Increased inspections and controls**

*During 2020 and part of 2021, companies were subject to fewer inspections and audits. These used to be much higher, not only because of the number of audit institutions but in the frequency with which each institution proceeded to inspect. There are several reasons for this decline:*

*The confinement that was implemented as a measure to contain the pandemic by COVID-19 forced businesses closures and reduced the concentration of people in workspaces. This also affected government institutions and, above all, their oversight capacity.*

*It is estimated that government institutions have fewer human resources, thus losing the capacity to exercise exhaustive inspections.*

*Fuel shortage. Venezuela is experiencing a severe shortage of fuel, which limits public officials' ability to travel and conduct business inspections, especially in rural areas where distances between inspection sites are often greater.*

*However, during 2021 and 2022, there has been an increase in the number of audits, especially by the Mayor's Office and by SENIAT officials. This reactivation has been exclusively for fiscal purposes, and the possibility that other institutions such as INPSASEL and MPPP may also reactivate these inspection processes is not ruled out.*

NIAT, and the second is the procedures related to health and safety at work.

Regarding the payment of taxes, small businesses must devote 449.1 hours/year to these procedures, most of them digitized. With respect to this, there are two elements of vital importance that should be addressed to significantly improve these processes that compromise time and human resources that could be devoted to production activities or even leisure.

The first element is to apply a simplification strategy, not only to reduce the amount of taxes, but also the frequency in which they have to be declared and paid. (Some taxes in Venezuela are declared and paid every two weeks.) The second element to attend is the quality of the process, as well as the quality of the web platforms available to the public to carry out procedures with the SENIAT. The failures of this particular portal add up to 137.65 hours that can be avoided if the problem is solved.

With regard to health and safety at work, compliance with the eight procedures identified in this group requires an average of 291.3 hours/year. In particular, it is suggested that the requirements set forth in the Organic Law on Prevention, Conditions, and Health Environment at the Workplace Regulations be studied and reconsidered to determine whether or not they can be applied by small businesses.

For example, the Primary sector is required to have an ambulance in rural work areas; all sectors are required to have one working day per month to organize activities of enjoyment; every quarter a number of hours are also required for employee training in occupational health and safety, and a prevention officer is required to prepare and personally deliver a monthly report on working and health conditions at his or her workplace.

Finally, there are other procedures that also deserve attention, such as those related to the handling and/or marketing of animal or plant-based foods. Not only does the current exhaustive control on production, distribution, and marketing of food add hours to the paperwork, but so too does the processes of obtaining sanitary and food handling permits for employees, as well as sanitary permits for commercial establishments. Other procedures related to the Ministry of Labor also deserve special attention, starting with a thorough review of the current Organic Labor Law for Workers.

The degree of presence that the State has in people's lives is excessive. The times reflected here are a manifestation of the effort and resources that are wasted in complying with a scaffolding of demands that in the end does not add value.

Time is an irrecoverable and irreversible resource. That's why it is crucial to make the necessary corrections on this matter as soon as possible, to improve the quality of life of the citizens of Venezuela.

## 11.5 Conclusions and recommendations

This study identified the hours that a small business in Venezuela must invest to comply with all the bureaucratic procedures required by the Venezuelan government every year. In total it takes **1,062 hours/year** to comply with an average of 53 procedures required for each company

There is not a subgroup of procedures that exhibit a low number of hours, in other words, all deserve special attention in terms of simplification because all require an overwhelming amount of time for their fulfillment.

However, there are two subgroups of procedures that deserve special attention. The first is the payment of taxes to the SE-

# INDEX OF BUREAUCRACY

## in Latin America 2022

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*“This is important research and its conclusions and recommendations are based on the best available data, analyzed with the most rigorous methodology. In Latin America, there is a broad consensus about how urgent it is to improve the quality of public institutions, their operations, and their decisions. But nothing can be improved if it is not thoroughly understood. These pages make a valuable contribution to our understanding of the obstacles that prevent Latin America’s public sector from performing better.”*

**MOISÉS NAÍM, Ph.D.**

Distinguished Fellow, Carnegie Endowment for International Peace, Washington DC

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*“This is a must-read for anyone interested in understanding how governments in Latin America work.”*

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Director for Policy, London School of Economics

*“How many hours does a small business devote to comply with regulations? This quantitative metric is grounded in a clear methodology and in an effort that already represents 11 Latin American countries. This is a tremendous contribution to advance the agenda of transformations required in our region.”*

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President, Asociación de Administradoras de Fondos de Pensiones, Chile

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*“What cannot be measured, does not exist. The *Index of Bureaucracy Latin American* identifies barriers to employment and trade in a variety of countries. The countries measured in this edition represent a reliable metric of the current state of the “rules of the game.” It constitutes a very good starting point to improve the legal framework and therefore the opportunities for economic and entrepreneurial success in Latin America.”*

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Chairman and CEO, The Daboub Partnership

