



Index of
Bureaucracy
in Latin
America
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Center for Latin America

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Prologue

Brad Lips

We are proud to present the first edition of the *Index of Bureaucracy in Latin America*, a regional multi-institute study coordinated by Dr. Sary Levy-Carciente, a senior fellow with our long-established partner in Venezuela, *Cedice Libertad*, and inspired by the original work of our European partner, the *Institute of Economic and Social Studies* in Slovakia.

This project highlights the mounting bureaucratic burdens that small business and micro-enterprises in the region must endure daily merely to survive and get ahead, let alone be competitive and prosper. It also sheds light on the crucial policy changes required to facilitate a more reliable climate for productive investment and innovation. Ultimately, this is what will provide all people with better opportunities and deliver inclusive prosperity to Latin American societies.

At Atlas Network, we believe that removing needless barriers to voluntary trade and enterprise is essential to unleashing human ingenuity and human progress. Indeed, as Montesquieu's proposition suggests, "Useless laws weaken necessary laws." The expansion of administrative law under the modern state has led to a flood of rules and regulations that do not create value for everyday working citizens. Rather, they are a mechanism whereby those citizens are preyed upon by a complex bureaucratic establishment. This effectively reverses the purpose of a stable rule of law, inhibits economic freedom, and undermines the basis of a prosperous society.

The expansion of bureaucracy in Latin American countries represents much more than mounting red tape. This study shows the vast amount of time that everyday men and women devote to coping with bureaucratic burdens; with averages of over 1,000 hours per annum in countries such as Argentina and Venezuela. The data revealed throughout speaks for itself: to the extent that bureaucratic procedures become more complex, less predictable, and more onerous in number, small and micro enterprises tend to hire outside "gestores" or experts that can help navigate the bureaucratic labyrinths. Naturally, those that cannot spare the unforeseen expense resort to the informal way of doing things, and to a network of corruption and rent seeking where bribes become an extra-legal tax that is required to sustain and survive. This generates a vicious circle of negative incentives to perpetuate the status quo, at the expense of marginalized members of society. In turn, these rent-seeking structures debilitate social cohesion and breed the image of the privileged few discriminating against lower income members of society.

Sary Levy suggests that these phenomena are more akin to "black tape."

The results of the study that follows suggest the dire need to re-imagine and re-orient the form in which government bureaucracy functions, and tailor a "simple rules for a complex world" approach that puts the needs of citizens as the first and foremost priority. It is an issue of governance and transparency, but also of imagining the conditions that can enable people to work, produce, consume, invest, and save.

We hope that this first edition of the *Index of Bureaucracy in Latin America* helps identify policy changes required to remove barriers to daily activity, innovation, and human progress in the region's countries. To this end, we look forward to expanding the Index and including new countries in subsequent editions in the future.

As we like to repeat: *déjame trabajar...*



Executive Summary

Companies, citizens, and even public sector workers perceive the set of procedures required by modern administrative bureaucracy as an endless labyrinth, which absorbs valuable time that could otherwise be allocated to more productive activities. This “time tax” inhibits productivity and innovation, and represents a high opportunity cost in terms of new lines of production or better customer service. The bureaucratic largesse is particularly stifling for small businesses, which try to establish themselves in local markets and must allocate scarce valuable resources to comply with a vast mountain of requirements and procedures.

The era of the Industrial Revolution 4.0 is characterized by an uncertain, densely interconnected, and disruptive world, which requires that governments adapt rapidly to the needs of the citizens, offering them streamlined, simple, and uninterrupted access to their services. It must promote a productive and efficient policy consistent with the socio-economic dynamics of a prosperous and inclusive economy.

This new paradigm of public management implies a “simple rules for a complex world” approach that emphasizes simplicity, agility, and adaptability—a government with a receptive staff, open to facilitating solutions, which in turn should give way to an adaptive governance, capable of addressing the challenges and opportunities we face in this time of radical uncertainty and rapid change. In other words, we should transition from the Weberian bureaucratic model, which is a hierarchical and rigid structure based on general normative principles, to a flexible bureaucracy that relies on new technologies, and where its leaders review their actions and functions based on new perspectives, capable of fostering a public sector culture based on principles that can adapt to changing circumstances. This puts the needs of citizens as first and foremost and thereby breaks with traditional watertight compartments of modern administrative government. For the Latin American region, the core vision is one of “live and let live,” or better, in Spanish, “*déjame trabajar*.”

This leap has been very challenging for current government bureaucracies. It is ironic, and even surreal, that amid the third decade of the 21st century our countries still struggle with structures from the beginning of the modern era, very far from the adaptive governance model (polycentric, agile, and organic) in which the collaborative associations of the public sector, the business world, and civil society, allow the generation of progress across all sectors of the real economy.

Achieving this vital transformation in the underlying institutional framework of our economies is one of the most important challenges of our times. This is espe-

cially relevant for small businesses, which represent more than 75% of the total number of companies worldwide, and which account for up to 50% of employment opportunities—despite their limitations in human and financial resources, and the scarce time resources required to comply with the rules and regulations that are imposed on them.

With all this in mind, Atlas Network's Center for Latin America has initiated a project that aims to raise awareness, for Ibero-American countries, regarding the administrative-bureaucratic burden that small companies must bear to get ahead, and the relevant changes that must be made to support an agenda of human enrichment and inclusive prosperity. The methodology is based on the Bureaucracy Index developed by the Institute of Economic and Social Studies of Slovakia (INESS), adapted to the region, considering the most representative small companies by sector in each country.

In this first edition the institutions that participated in the project are as follows: Fundación Libertad (Argentina); Instituto Liberal (Brazil), Instituto de Ciencia Política Hernán Echavarría Olózaga (Colombia), Mexico Evalúa (Mexico); Fundación Civismo (Spain) and Cedice Libertad (Venezuela). Cedice was the lead institution in the project. Each institution assigned valuable research associates for this purpose, who with dedication and professionalism addressed the issues and challenges facing their respective countries. It is worth highlighting the inclusion of Spain in the study, a country historically and culturally linked to Latin America, and from which we can determine the sources of familiar organizational structures.

First, the productive structure of each of the countries involved was reviewed, identifying the most relevant activities in the primary, secondary, and tertiary sectors. Subsequently, these productive activities were reviewed based on the weight of the small business.

Once the small representative sector company was selected, an exhaustive survey of the legally required procedures was conducted. This was determined by a series of interviews with companies, as well as professionals who are experts in the field. This way the number of people needed was determined, as well as the required working hours and the required frequency of the procedures related to the hiring, management or dismissal of personnel (their tax registration, social security, pension, or other entities required in each country were identified; safety training, health exams, reports of working days, holidays and vacations, salary reports); the payment of taxes (for income, consumption tax, value added, or others); operational legal requirements (technical certification or occupational safety, bureaucratic procedures related to vehicles for business use, or waste management); the frequency in the modification of the processes and procedures, since this requires a time for training of the personnel who carry it out, and even more so when there are important legal changes, whether in labor or tax laws, in commercial codes or other regulations; and all those specific requirements related to the productive activity of the company.

After collecting the information, the quantitative measurement was carried out, finding that the number of hours that, on average, a small company spends to fulfill the administrative-bureaucratic burden in the sample of countries under study, is certainly high in relation to the averages observed in more developed regions such as Europe. It is worth highlighting the important dispersion that emerges from the results of the *Index of Bureaucracy in Latin America*, (IB-LAT) which tells us about the important regional differences as well as within countries, in the sectoral analysis. Organizing the results, a grouping of the countries into three blocks emerges:

- i) The first, which shows Brazil with 115h / year as the country with the best results in this study, followed by Spain, whose average values double those of Brazil. The result of Brazil is the product of a government effort specifically aimed at making the demands of small businesses more flexible when carrying out bureaucratic procedures. For its part, Spain shows a weighted average of 332h / year, highlighting the representative economic activity of the tertiary sector, with 255h / year.
- ii) The second group offers IB-LAT results around 500 hours per year, made up of Mexico with 492h / year and Colombia with 524h / year (weighted average), highlighting in them the weight represented by the procedures associated with employment. In the case of Mexico, the greatest burden is represented by the activities of hiring and firing personnel, consuming 35-42% of the time allocated to procedures (66% of the time of job administration), while Colombia suffers from the payment of salaries, contributions, and taxes associated with employment, pointing out that the primary sector manages to dedicate 74% of the time to this activity.
- iii) Argentina and Venezuela make up the third group with a high burden averaging 945h / year, which practically doubles the time spent by countries in group 2 and almost triples that of group 1 in complying with bureaucratic procedures. Likewise, the number of procedures that must be completed in these countries is important—50 for Argentina and 68 for Venezuela—and there are numerous institutions with which to interact. The procedures associated with paying taxes are the most complex and time-consuming in these 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 (OECD 2021). In other words, the bureaucratic-administrative burden represents in these countries between 20% and 50% of the annual working time of a worker. Many of these companies start with one or two people dedicated to this activity, which tells us about the weight that these practices represent. This group of countries has managed to digitize a large part of the procedures, but those that are specific to some economic activity are much more demanding than those that are common to all. Likewise, some regulations manifest supranational requirements, derived from integration processes, which are adopted into national legislation, adding requirements to those already in place; and the particularities of the different levels of government also have a relevant weight, in addition to a wide range of differentiation.

It was discovered that the more numerous, complex, and changing the processes are, companies tend to outsource to specialized agents, and in many cases informal, opaque, and even non-legal channels emerge, which feed perverse incentives and networks of corruption, whose damage is immeasurable, since it goes beyond the loss of product or the deficient quality in the provision of services, affects mainly vulnerable or disadvantaged groups, in addition to weakening trust in the rule of law and social cohesion (Rangel & Levy-Carciente, 2019).

The results show the urgent need to rethink and redesign the way in which the government bureaucracy has traditionally functioned, which must focus itself to serving and addressing the needs of citizens, in search of governance in tune with the new times and new realities.

Regarding bureaucratic procedures, the time required to open a business has been attended to, but the time required to keep it running has been relegated. Similarly, insufficient emphasis has been placed on the impact that these regulations have on small businesses, which represent more than 75% of the global total. Likewise, many of the strategies have relied on new technologies, computer systems, and digitizing procedures, which, although they have streamlined them, result in insufficient policy.

It is crucial to go further and review if these procedures are essential, if they add or reduce efficiency to the economic dynamics, if they favor transparency or if they are a source of opacity, if they provide a boost to innovation or if they are deterrents or obstacles to quality of life for present and future citizens.

It is our hope that the results of this project, which we intend to expand and continue in future editions, can be used as valuable material for the agenda of reforms required in our countries to strengthen conditions for innovation, productivity and greater human freedom in our countries.