

INDEX OF BUREAUCRACY

in Latin America

2022



ATLAS NETWORK
Center for Latin America



Adam Smith Center
for Economic Freedom

Index of Bureaucracy in Latin America 2022

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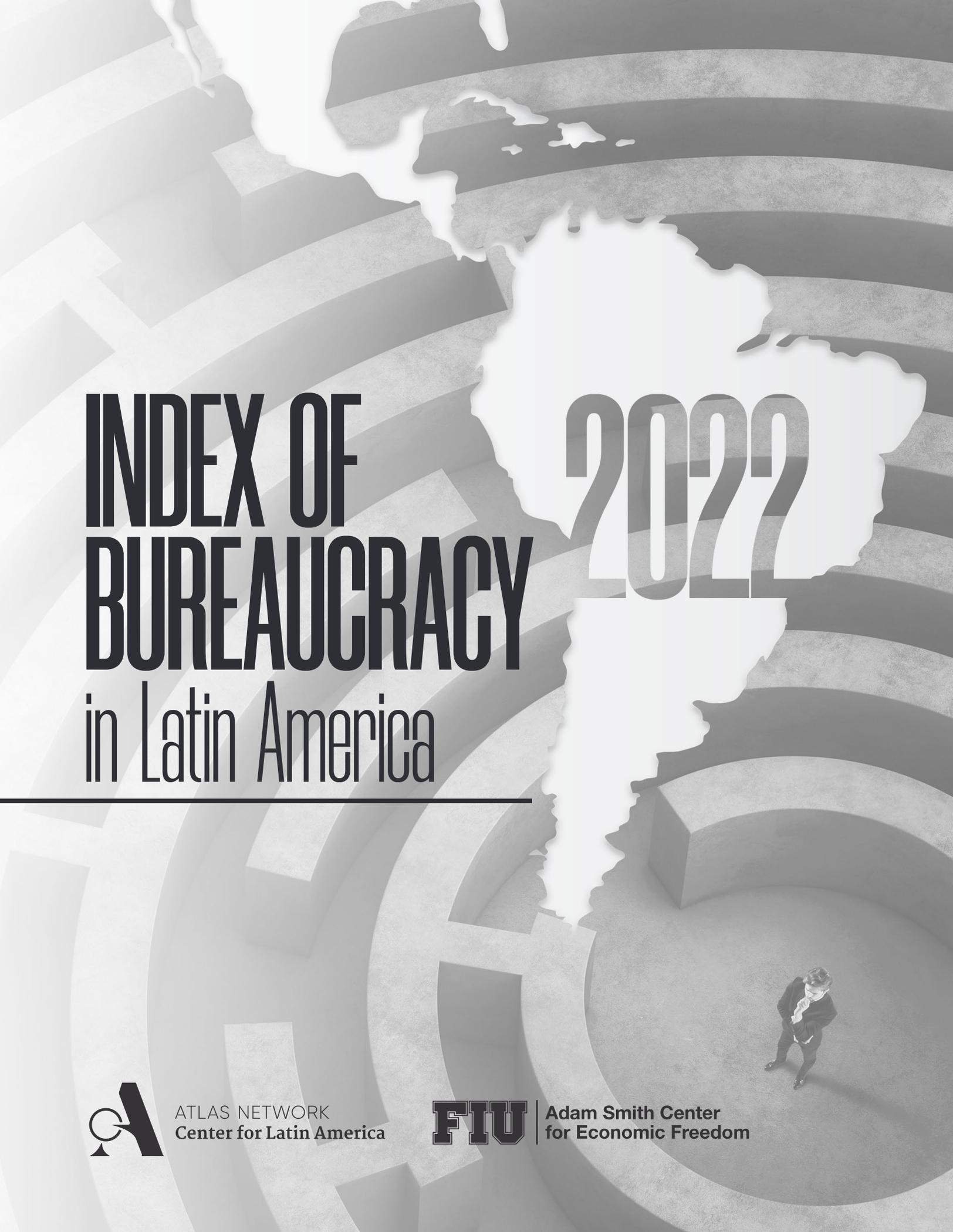
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Prologue

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.

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 (Brasil): Lucas Berlanza and Igor Matos Slim
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- 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.

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

Introduction

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 2022 Index of Bureaucracy in Latin America 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.

BRAD LIPS
CEO
Atlas Network



Introduction

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.

CARLOS DÍAZ-ROSILLO, PH.D.

Director and Founder
Adam Smith Center for
Economic Freedom

Introduction

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 eleven countries in the region, in three categories: administration of operations, administration of employment, and others. 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.

DR. MANUEL HINDS
Economist and Consultant

The background features a stylized map of Latin America in white, set against a dark red background with concentric, wavy lines. The text 'IBLAT 2022' is written in a bold, white, sans-serif font over the map. The main title 'Executive summary' is in a large, white, serif font with a thin white underline.

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 (1062 hours/year).
- In terms of time, the most demanding procedures are:
 - In 5 of 11 countries, those associated with operations management,
 - In 4 of 11 countries, those associated with employment management, and
 - In 2 of 11 countries, those related to other 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



IBLAT
2022

“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 cooperation. (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 Bureaucracy Index for Latin America, 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



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 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 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:

1. to offer a measurement that serves as a guide to public policymakers 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, 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 Table 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	EMPL. MGMT	OPER. MGMT	OTHERS		TOTAL	EMPL. MGMT	OPER. MGMT	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

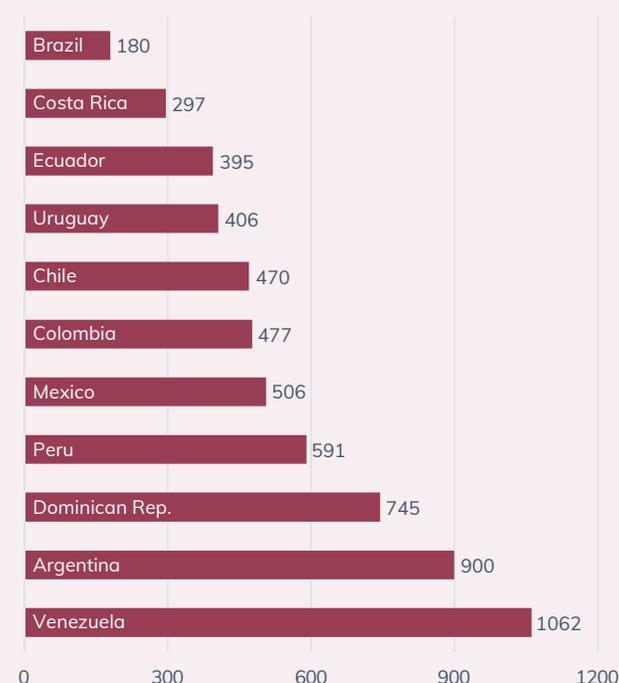
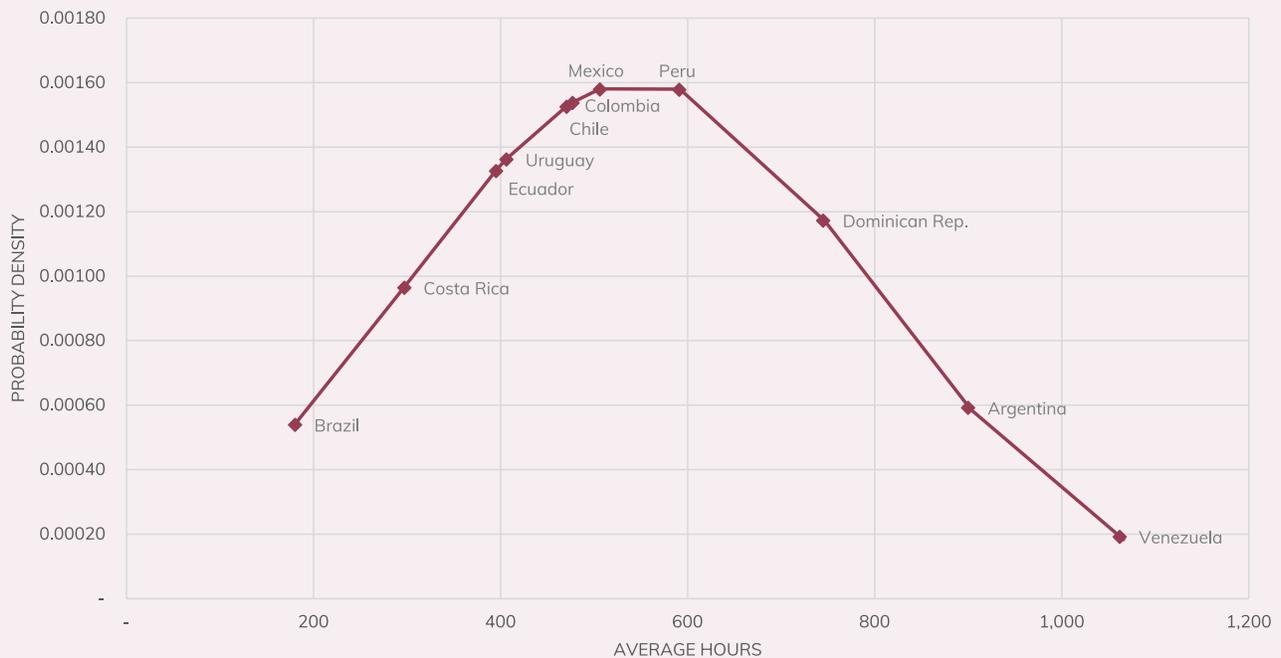


Fig IV.3 Distribution of results IB-LAT 2022.
All sectors, weighted average by significance in GDP



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.

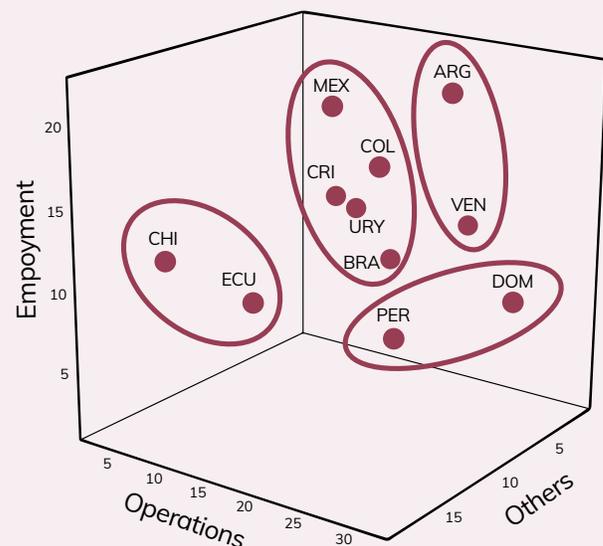
Group 3. Includes five (5) countries: Brazil, Colombia, Costa Rica, Mexico, and Uruguay. This group of countries is characterized by displaying below-average values in procedures associated with the administration of Operations and in

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

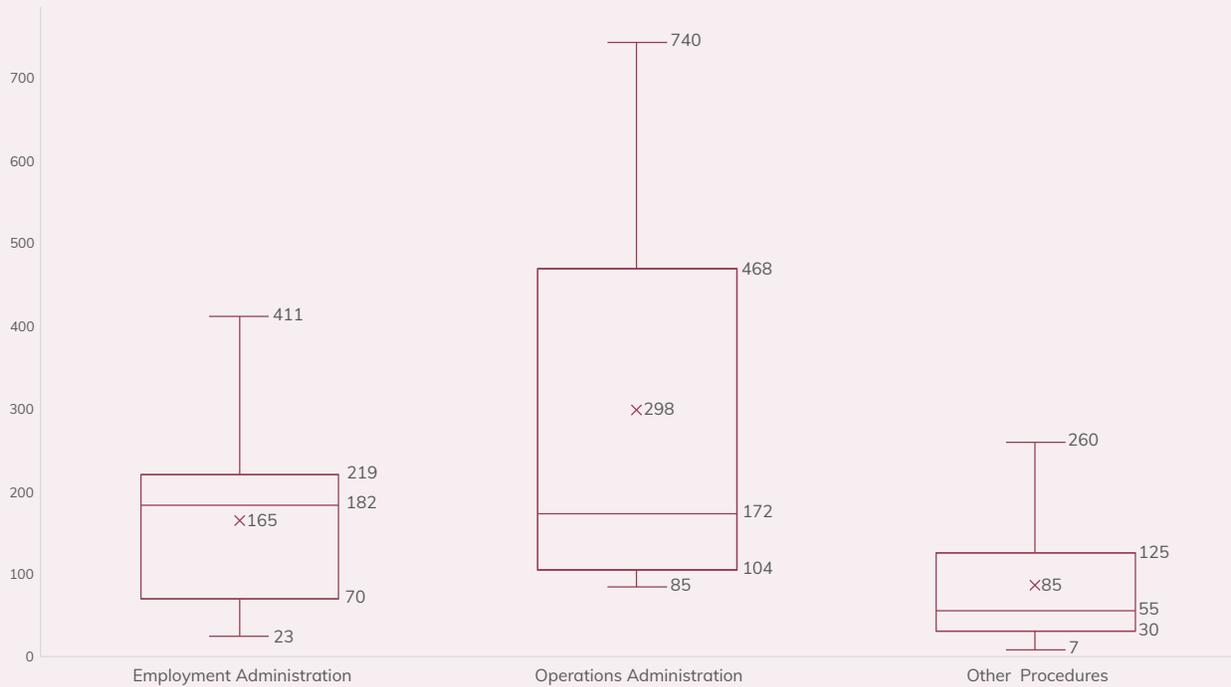
IV.2 Results by type of procedure

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-

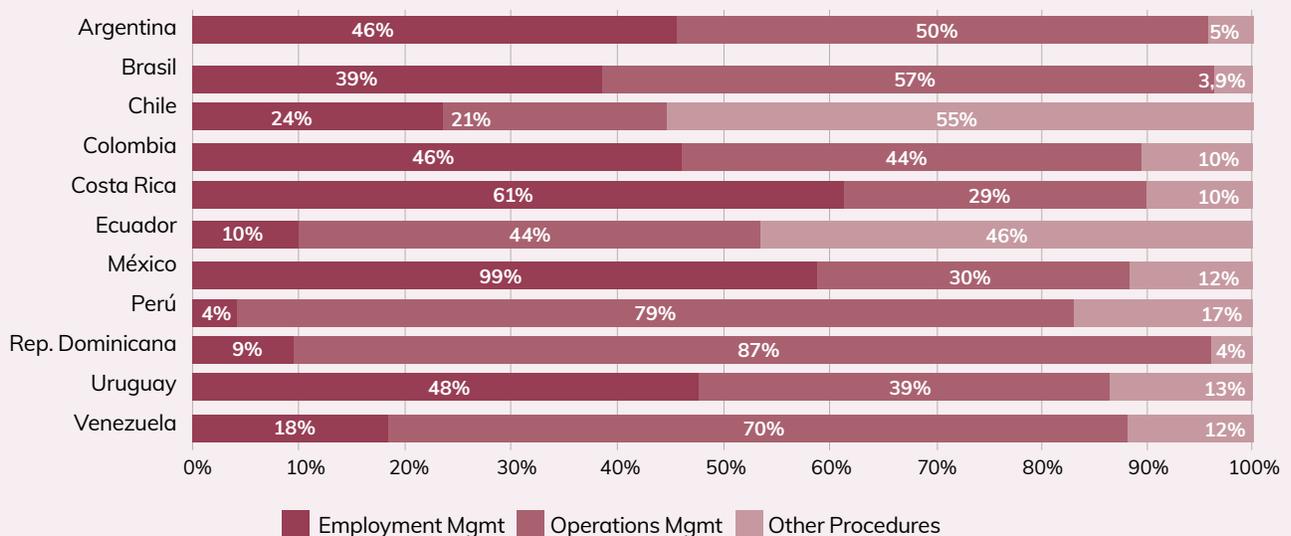
gentina (45% of the countries), the administration of operations is the group of procedures that requires the greatest number of hours/year; in Costa Rica, Mexico, Uruguay, and Colombia (36% of the countries), procedures related to administration of employment concentrate the greatest bureaucratic burden; 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

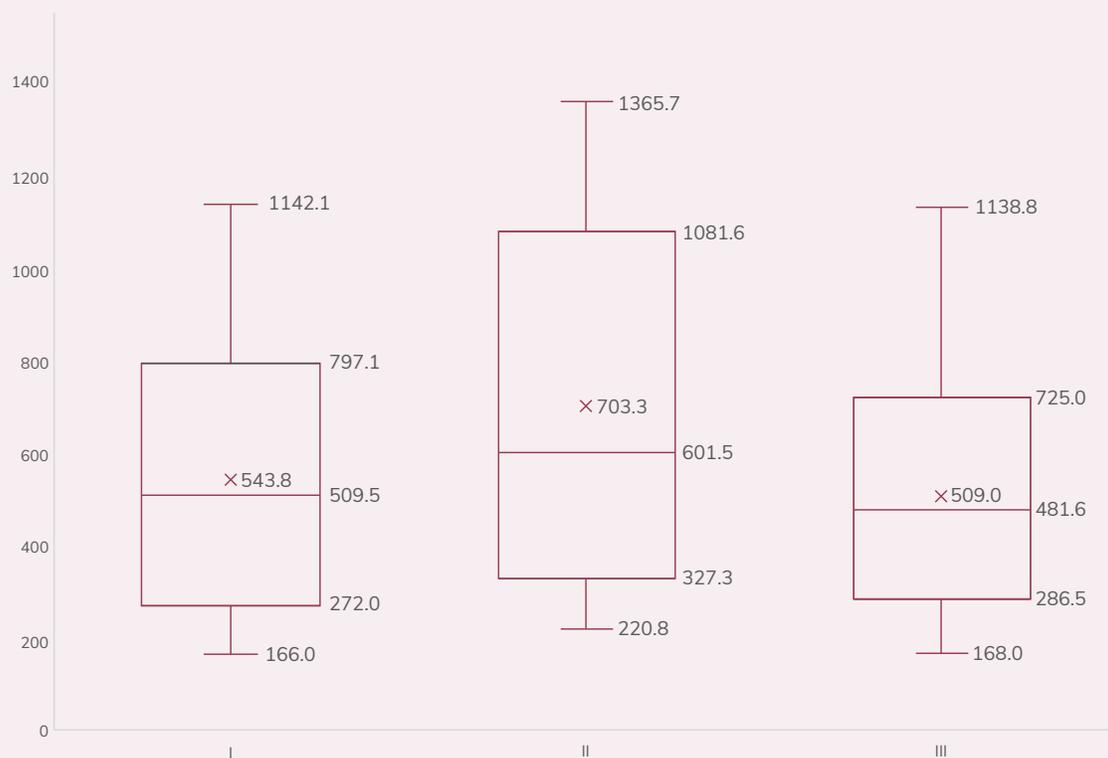
The analysis by economic sectors reveals that, on average, the primary sector allocates 544 hours/year to comply with bureaucratic procedures, the secondary sector 703 hours/year, and the tertiary sector 509 hours/year.

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

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.

was identified that the small company that bears the least bureaucratic burden in the entire region is located in Chile, and 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):

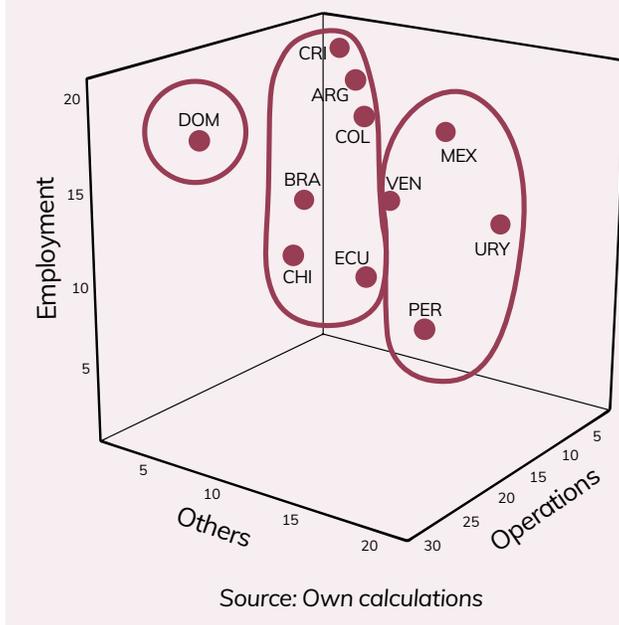
Group 1. Includes one (1) country: Dominican Republic. This one-member group presents above-average values in procedures associated with the administration of Employment and Operations, and below-average in Others.

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.

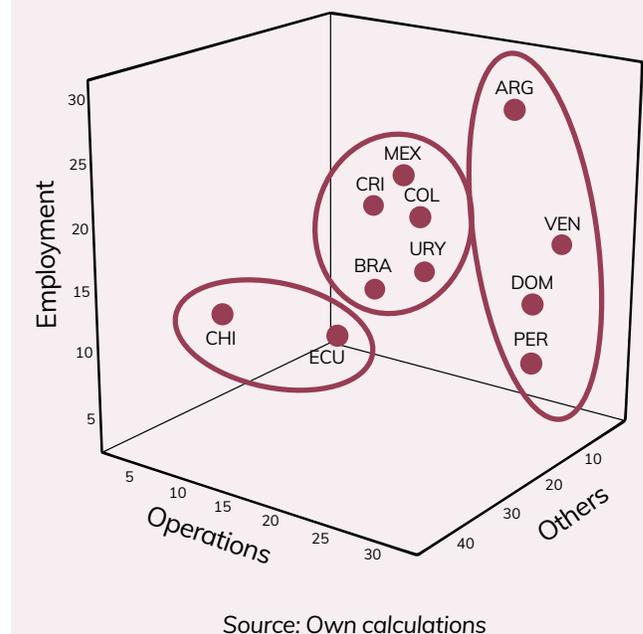
Following the previously used cluster analysis methodology (see section IV.1), the IB-LAT of the secondary sector (see Annexes C5 and C6), was classified into three (3) groups:

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.

Fig. IV.9 Cluster results - Secondary Sector



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.

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.

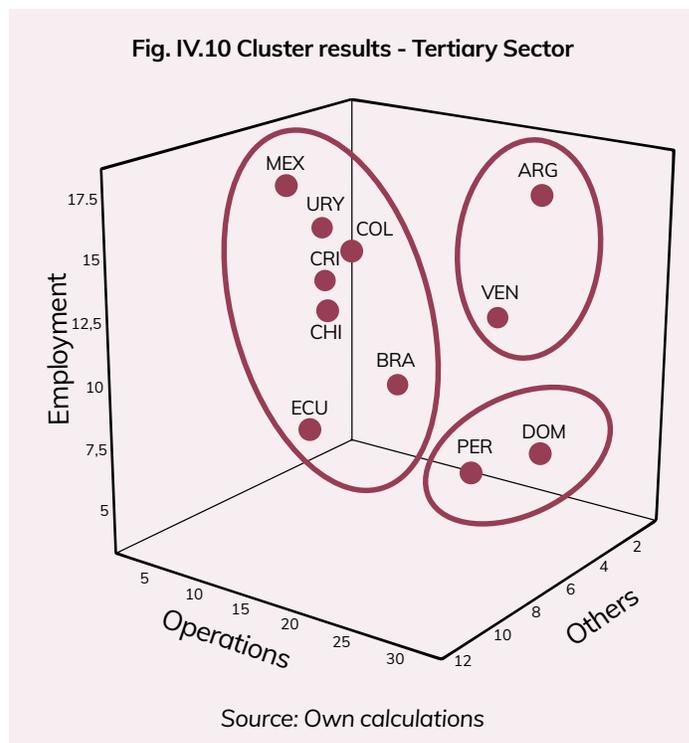
The results from the IB-LAT 2022 cluster analysis of the tertiary sector (see Annex C7 and C8), yielded three (3) groups:

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

Final thoughts



IBLAT
2022

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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“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 operation, 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.”

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ALEJANDRA COX, Ph.D.

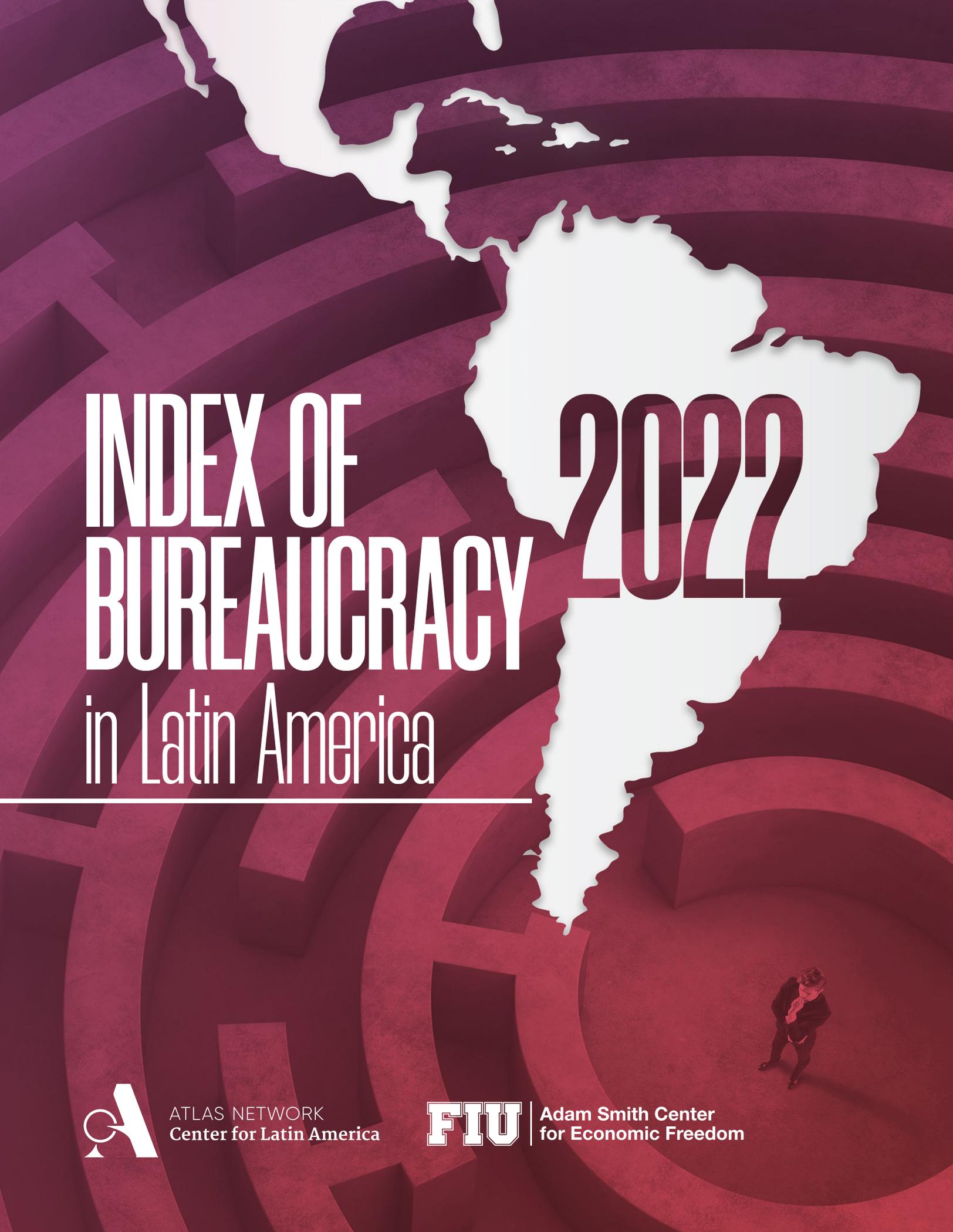
Presidente, Asociación de Administradoras de Fondos de Pensiones, Chile

“What cannot be measured, does not exist. The 2022 Latin American Bureaucracy Index 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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