



A Report Card on Latin America's Bureaucratic Conundrum

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“Lethargic” best describes Latin America’s perennial challenge to grow its economy and create prosperity for its people, regardless of their socioeconomic status. The World Bank forecasts regional GDP will expand by 1.6% in 2024. GDP growth of 2.7% and 2.6% is expected for 2025 and 2026. These rates are the lowest compared to all other regions in the world and insufficient to drive prosperity.

While the region has made some progress on trade openness, it continues to be held back due largely to poor infrastructure, burdensome customs clearance procedures, as well as relatively high tariff and non-tariff barriers to trade. The reality is that while macroeconomic indicators are good barometers for providing “the big picture” of economic performance, they are not very useful in reporting the transactional performance of the productive sector.

Fortunately, for the second year in a row, the Adam Smith Center for Economic Freedom at Florida International, in cooperation with the Atlas Network, has published *The Index of Bureaucracy 2023*. The *Index* measures the impact of administrative bureaucracies on small businesses--- the overwhelming majority of private enterprises in Latin America.

To illustrate, it takes on average 3.7 months or 154 working days to start a business and 112 working days, or 43% of a worker’s time, to keep a company running. As in the case of the first survey, the disparity among countries is huge, with Costa Rica, Peru and Uruguay the least bureaucratic nations and Venezuela and Bolivia among the most. Specifically, the starting procedures are fastest in Paraguay, Peru and Brazil and longest in Venezuela, Panama, and Guatemala. For running a business Paraguay, Peru, Bolivia and Venezuela are the most burdensome and Panama, Brazil and Costa Rica the least.

Recognizably, bureaucratic reforms in Latin America are underway; however, their success depends on addressing structural economic issues, ensuring political stability, managing social tensions, and leveraging international partnerships. The region's progress in these areas will be crucial for achieving sustained growth and development.

Bureaucratic reform in Latin America faces several significant barriers that can be broadly categorized into political, economic, social, institutional and technological. In the political arena, there is corruption, political instability and the lack of political will. Economic and social

challenges include resource constraints and the absence of public awareness as well as public resistance to bureaucratic reform changes.

As we all know, long-standing practices, norms, and cultures within bureaucracies can hinder reform efforts. Then there are weak institutional frameworks, making it difficult to implement and sustain reforms alongside complex and outdated legal and regulatory frameworks which can impede the implementation of new policies and practices. Finally, there are technological challenges such as the digital divide. Disparities in access to technology and digital literacy can hinder efforts to modernize bureaucratic processes, and outdated technology and infrastructure can pose significant challenges to the implementation of new, more efficient systems.

The insurmountable bureaucratic challenges in the region are best illustrated in Brazil where a complex and complicated web of tax rules and regulatory policies at the federal, state and local levels are incredibly time-consuming and costly. The same holds for non-tariff barriers such as intellectual property protection and enforcement.

Moderate estimates of inefficiencies in procurement (including losses caused by corruption and delays), excessive civil service payroll and transfers that do not reach the targeted population, could amount to as much as 4.4% of GDP, or \$220 billion (about 16 percent of total spending) – enough to eliminate extreme poverty in the region.

Be that as it may, the good news is that most nations in Latin America are actively pursuing and implementing policies to reform their bureaucracies focusing on improving transparency, reducing corruption, and enhancing efficiency. For example, Chile has reformed its civil service to promote merit-based hiring and reduce political patronage. Colombia has implemented a public sector modernization program, while Uruguay, Brazil and Costa Rica have undertaken digital transformation to streamline access to public services for citizens. Often overlooked is the Dominican Republic where recently re-elected President Luis Abinader has placed a priority on the control of corruption, boosting government effectiveness, and strengthening the rule of law.

These country examples illustrate how various reforms in transparency, digital government, and civil service modernization can contribute to more effective and efficient bureaucracies in Latin America. From now through the remainder of the decade it behooves Latin America to elevate as priority areas: trade, digitization, red tape and corruption. Hopefully, the next *Index of Bureaucracy* report from the Adam Smith Center will manifest a continuation of meaningful reforms.

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