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THE DIALOGUE

FEATURED Q&A

Will Bureaucracy Reduction Efforts Pay Off in Brazil?



Supporters say new measures to simplify business will boost Brazil's economy, but some have expressed concerns about what the measures mean for labor rights and the environment. // File Photo: Christian Schnettelker, www.manoftaste.de.

Q Brazil's Senate has approved a deregulation package aimed at boosting the country's sluggish economy by simplifying business, including measures such as launching a fast-track process to open new firms, waivers for some permit requirements and expanding the acceptance of digital documents. The initiative's proponents say the measures will help to reduce Brazil's well-known bureaucracy, but critics have expressed concern over its implications for labor rights and environmental protections. How constricting is Brazil's bureaucracy, and how much can deregulation add to the economy? To what extent will the announced package help cut red tape in the country's business sectors, and should additional measures be considered? Are opponents' concerns well-founded?

A Joel Korn, president of WKI Brasil and senior international partner for the Americas at UPITE Consulting: "Bureaucracy and an outdated regulatory framework represent major hindering factors for economic growth, productivity, competitiveness and employment generation. Therefore, Congress' approval of long-overdue labor and operating measures to modernize business practices, including document digitalization in specific critical areas, must be seen as an important milestone to reduce the so-called 'Brazil cost' and to position the country in closer alignment with the OECD members. As an illustration, the mandatory manually recorded work card that has been in force for almost 90 years will finally give way to a digitally automated document. This long-awaited measure will prompt significant cost savings and productivity gains for private and public companies. Some contro-

Continued on page 3

TODAY'S NEWS

POLITICAL

Bahamas Death Toll Rises to 20 in Wake of Dorian

Twenty people are confirmed dead, and that number is expected to rise, after powerful Hurricane Dorian relentlessly pounded the Bahamas.

Page 2

ECONOMIC

Brazilian Senate Panel Approves Pension Reform

The Brazilian Senate's constitutional affairs committee advanced legislation to overhaul the country's social security system.

Page 2

POLITICAL

Guatemalan Gov't Declares State of Siege Following Soldiers' Deaths

Guatemalan President Jimmy Morales declared a state of siege in five provinces after suspected drug traffickers killed three soldiers. The measure includes a curfew, a ban on demonstrations and an increased ability for the military to detain people.

Page 2



Morales // Photo: Guatemalan Government.

the country's economic growth, an analyst at Moody's Investors Service said Wednesday in Mexico City, Reuters reported. The analyst, Ariane Ortiz-Bollin, said the state oil company's exploration and production activities need more funding than what President Andrés Manuel López Obrador's government has allocated to it. Ortiz-Bollin added that a lack of coordination on policy decisions in Mexico has rattled investors' confidence in the country, the wire service reported. "We believe that there is some lack of economic rationality in

“ We believe that there is some lack of economic rationality in government policy decisions, in particular in relation to Pemex.”

— Ariane Ortiz-Bollin

government policy decisions, in particular in relation to Pemex,” she said. Ratings agencies have criticized the López Obrador government's funding priorities for the state oil company. López Obrador, who took office last December, has increased Pemex's budget in order to discover and exploit new oil and gas fields. However, the government has also allocated large amounts of money to the company's oil refining business, which loses money, in an effort to produce more gasoline in Mexico and lower the country's level of fuel imports. In June, Fitch Ratings downgraded its rating for Pemex's debt to junk status, and a similar move by a second ratings agency would lead to forced selling of billions of dollars' worth of bonds. López Obrador has said his administration will provide Pemex with as much funding as it needs, and he has advocated spending cuts in order to dedicate more money to the state oil company. Last week, a senior Mexican government official said López Obrador is likely to allow Pemex to again enter joint ventures with the private sector, the Financial Times reported. López Obrador is also planning to revive exploration by private companies in deep waters of the Gulf of Mexico, the official told the newspaper. [Editor's note: See related [Q&A](#) in the April 12 issue of the Energy Advisor.]

FEATURED Q&A / Continued from page 1

versial issues, particularly related to labor rights, were removed by lawmakers in order to secure Congress' overwhelming support for this much-awaited deregulation package. While it is step in the right direction to reduce excessive restrictions in the country's business environment, other critical actions to strengthen the country's competitiveness must follow, such as streamlining the highly cumbersome tax system within the scope of the expected tax reform and a review of the regulatory agencies' competences. In sum, the microeconomic measures to improve the regulatory environment along with the imminent passage of social security and tax reforms, privatization programs and infrastructure investments and, last but not least, the gradual removal of trade barriers to shift the country away from a historically closed economy to an open and active player in foreign trade, constitute essential components of the economic team's agenda to enhance Brazil's competitiveness. Approval of reforms and liberalization policies are of paramount importance, especially within the context of an outlook for slowdown in international economic growth.”

A Jaana Remes, partner at the McKinsey Global Institute, and Nicolas Grosman, head of economic research for Latin America at McKinsey & Company: “Inclusive growth in Brazil has remained elusive over the past decades, with GDP growth averaging just 2.4 percent annually between 2000 and 2016, well below high-performing emerging economies. While poverty has been reduced, almost two-thirds of the population remains vulnerable, with income levels below \$20 per day. Reigniting inclusive growth will require a virtuous cycle that fosters both productive investment and the expansion of well-paid jobs. High taxes and excessive red tape have created a 'Brazil cost' that harms competitiveness and limits growth opportunities particularly for small and mid-sized firms, which concentrate the

vast majority of jobs. The tax structure, in particular, puts disproportionate pressure on mid-sized firms, creating incentives for firms to remain small and informal. Reducing red tape is thus one key for unlocking the potential of squeezed firms and stimulating the creation of new businesses and jobs. This is especially important at a time when digital technologies are spawning tech start-ups with above-average wages that help facilitate access to technology, skills and solutions needed to reinvigorate the economy. Brazil already has some digital success stories, including financial technology firms such as Nubank or Stone Pagamentos, which are helping traditionally excluded households and firms to access financial services. Deregulation should not be pursued as an isolated desirable goal on its own. Governments, businesses and society as a whole will need to work together to build smart regulation that ensures inclusive and sustainable value creation by protecting labor and consumer rights and protecting the environment, even as it enhances competitiveness—and allows a digital spring to blossom.”

A Maurício Guetta, legal consultant at the Socioenvironmental Institute in São Paulo: “Regarding its environmental aspects, the approval of the legislation undermines the aspirations of the Brazilian and international societies for the preservation of the Amazon, which now is on fire. In this sense, there are three main environmental problems that we could find: 1.) the exemption of environmental licenses and the authorization for deforestation on activities that are considered low-risk. This measure is contrary to decisions of Brazil's Supreme Court; 2.) the automatic approval of administrative acts when the competent state agency does not act within the legal deadline, such as authorizations for deforestation and water-use permits, introducing the concept of 'silence gives consent' in environmental

Continued on page 4

FEATURED Q&A / Continued from page 3

public administration; and 3.) the exclusion of the adoption of measures in environmental licensing aimed at avoiding or mitigating environmental impacts considered indirect, such as deforestation from roads in the Amazon (approximately 95 percent of deforestation in the Brazilian Amazon occurs within a radius of 5.5 kilometers from roads, and this impact is classified as indirect in the measure)."

A **Thomas Rideg, president of M-Brain Americas Inc.:** "These steps are important to reduce Brazil's bureaucracy. Brazil has a pro-business and pro-trade government that is determined to boost the economy, and such a vision shakes up many established procedures that currently weigh on businesses but benefit many critics who have been in their comfort zones for

“ This process should be seen more as de-bureaucratization rather than deregulation.”

— Thomas Rideg

decades. This process should be seen more as de-bureaucratization rather than deregulation. Labor and environmental laws are important. Brazil currently has some of the world's most stringent environmental regulations, and they have been vital to making the country an example of clean energy and sustainability. However, Brazil's bureaucracy, when it comes to several business aspects, is extreme, and there should be plenty of room to simplify the country's overburdened processes related to opening businesses without damaging labor rights and environmental protections. Companies will save time and money in this process that is famously known as the 'Brazil cost,' and, ideally, the monies corporations previously

allocated for going through this red tape could potentially be allocated to corporate compliance efforts."

A **Adriana Piraíno Sansiviero, partner at Velloza Advogados:** "Some rankings speak for themselves when it comes to Brazilian bureaucracy. Brazil is 109th in the World Bank's ranking for ease of doing business. In the World Economic Forum's ranking for global competitiveness, Brazil ranks 72nd. In Global Transparency's ranking for corruption, Brazil is 105th. And last but not least, in Heritage's ranking for economic freedom, Brazil ranks 150th. Hence, while Brazil is a land of opportunities for entrepreneurship both in private and public sectors, including developments in infrastructure, it is also very bureaucratic, which automatically leaves room for corruption. Accordingly, any deregulation measures can obviously add a lot to the economy, since they can make Brazil an easier place for doing business and more competitive on a global scale, thus attracting more foreign investment. The package is quite large and is expected to cut red tape in many different ways: 1.) favor digital documents as opposed to hard copies, which is still an issue in Brazil; 2.) waive municipal permits as a requirement for companies with low-risk activities to begin operating; and 3.) automatically approve corporate documents for companies that adopt a model provided by state boards of trade, which are in charge of registering companies in Brazil. Opponents' concerns have political motivations rather than real reasons. They were able, for instance, to exclude from the legislation employees' option to work on Sundays, which today is only allowed for certain activities and with the package would be extended for any activity. We need that to boost our economy, which is on the brink of recession. Opponents also say environmental permits would be waived, but that does not make sense because permits are being waived for very low-risk activities."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org



Michael Shifter, President
Rebecca Bill Chavez, Nonresident Senior Fellow
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