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RESEARCH PAPER

BUSINESS ENVIRONMENT AND PRODUCTIVITY IN BRAZIL



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This report addresses the business environment in Brazil as one of the determinants responsible for the weak evolution of productivity in recent decades. After addressing this productivity performance, we define what constitutes the business environment, using as a reference the three ways in which the World Bank has been addressing the subject.

Next, we highlight how the business environment affects productivity in a country. Finally, we review some recent reforms in the country's business environment and available evidence on their likely effects on productivity.

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A country's business environment is the set of external conditions that affect companies throughout their life cycle, including economic, legal, and other factors. These conditions encompass, for example, the task of complying with the tax burden, the ease of opening and closing businesses, the weight of bureaucracy, the ease of access to credit, the resolution of legal issues, etc.

Productivity in a country has the business environment among its determinants, with the latter influencing both the performance of companies and the efficiency of workers. Structural, institutional, and regulatory conditions can accelerate or hinder economic growth and national competitiveness.

This report addresses the business environment in Brazil as one of the determinants responsible for the weak evolution of productivity in recent decades. After addressing this productivity performance, we define what constitutes the business environment, using as a reference the three ways in which the World Bank has been addressing the subject.

Next, we highlight how the business environment affects productivity in a country. Finally, we review some recent reforms in the country's business environment and available evidence on their likely effects on productivity.

1. The "productivity anemia" in Brazil

Productivity in the Brazilian economy has been exhibiting "anemic" performance over the last 4 decades - see Canuto et al. (2024), which serves as the basis for this section of the work. In the period from 1981 to 2019, according to the Conference Board Total Economy database, Total Factor Productivity (TFP) showed an average growth of 0.3% per year, while labor productivity grew, on average, 0.4% per year. Despite slightly higher averages in 2000-2010 (1.5% and 1.6% per year, respectively), the evolution over the 4 decades was modest. After the pandemic, the behavior of TFP maintained its.

Productivity is the main driver of sustained economic growth. There are two distinct methods for measuring productivity growth: the decomposition by factors of production, used below, and the decomposition by sectors.

In the latter case, Veloso et al. (2025) recently offered an analysis of sectoral performance from 1995 to 2024. They showed that the only sector that presented sustained growth in productivity per hour worked since 1995 was agriculture. Between 1995 and 2024, the average growth in productivity per hour worked in this sector was 5.8% per year. This was particularly the case between 2007 and 2014 (7.5% per year). In industry, however, the performance of productivity per hour worked since 1995 was negative, with a decrease of 0.3% per year. between 1995 and 2024. In the service sector, which accounts for more than 70% of hours worked and almost 69% of added value, productivity per hour worked also showed weak performance, with growth of only 0.2% per year between 1995 and 2024.

2. Decomposition of Productivity by Factors of Production

Let's look at a decomposition by factors. In a Cobb-Douglas production function, production is related to the factors of production as follows:

$$Y = AK^\alpha L^{(1-\alpha)}$$

where Y is the product (value added), A is the productivity term, or the efficiency with which inputs are used in the production process, K is the capital stock, L is the labor force, and α is the share of capital in income.

Calculating the logarithm and differentiating the equation above, we obtain:

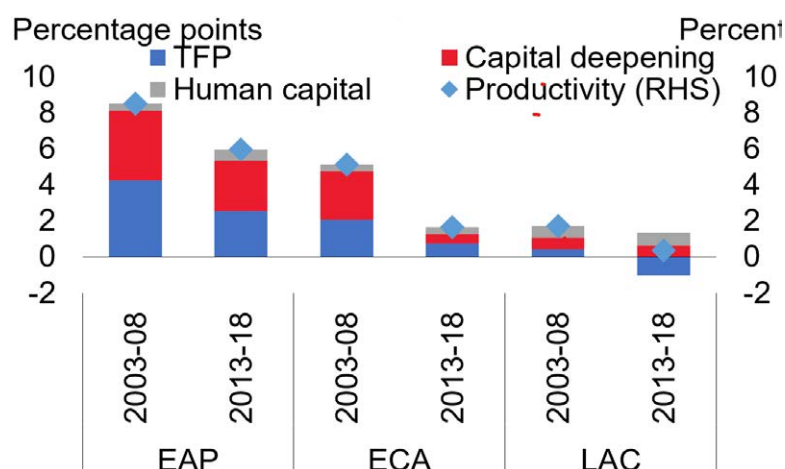
$$\hat{Y} = \alpha \hat{K} + (1-\alpha) \hat{L} + \hat{A}$$

where $\hat{Y}$ denotes the growth of the product; $\hat{K}$ and $\hat{L}$ denote the growth rates of capital and labor; α and $1-\alpha$ denote the share of capital and labor in income; and $\hat{A}$ is the rate of growth of productivity. This equation shows the growth of output $\hat{Y}$ as a weighted average of the growth of capital and labor, plus the rate of productivity growth. This latter term is commonly called Total Factor Productivity (TFP):

$$\hat{A} = \hat{Y} - \alpha \hat{K} - (1-\alpha) \hat{L}$$

This productivity term, which encompasses the entire economy, TFP, summarizes everything we don't know about the efficient use of inputs, including technological progress, machinery per worker, institutional arrangements, and structural transformation. This term often represents almost half of the total output growth. Both capital and labor are subject to diminishing returns. Therefore, lasting changes in output depend on productivity growth, including TFP.

Figure 1 illustrates the contraction in Total Factor Productivity (TFP) growth in East Asia and the Pacific (LAP), Europe and Central Asia (EAC), and Latin America and the Caribbean (LAC) after the 2008-09 global financial crisis.

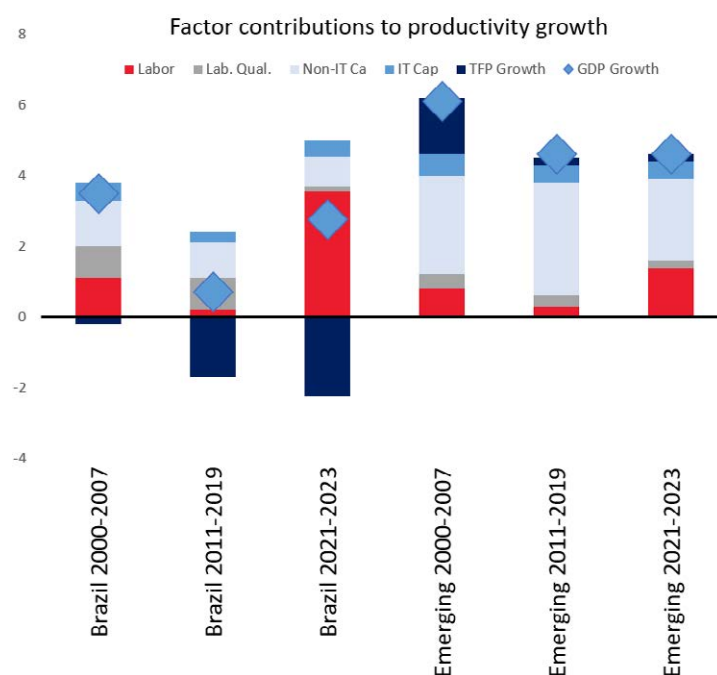
Figure 1**Factor Contributions to Regional Productivity Growth – EAP, ECA, and LAC**

Source: Canuto et al. (2024), based on Dieppe (2021).

Note: Productivity is defined as real GDP per worker (at 2010 market prices and exchange rates). Country group aggregates for a given year are calculated using constant GDP weights in 2010 US dollars. Data for multi-year periods show simple averages of annual data. Productivity growth is calculated as logarithmic changes. The sample includes 93 Low- and Middle-Income Countries (LMFCs).

The analysis here further differentiates between the quantity and quality of labor, as well as capital in information and technology (IT) versus capital in non-IT related activities (Canuto et al., 2024).

Figure 2 presents the contributions of labor, labor quality, non-IT capital, IT capital, and TFP to GDP growth.

Figure 2

Source: Canuto et al. (2024).

The negative trend in Total Factor Productivity (TFP) has worsened over the years, especially during the 2010s, and the elimination of contributions from IT and non-IT capital between 2021 and 2023 is a cause for concern. Two observations stand out: labor quality in Brazil appears to contribute positively to productivity growth, more so than in other BMRs, and IT investment appears to be lower than in these other countries.

Previous studies (e.g., Agenor and Canuto, 2015) have highlighted the importance of IT capital, or “advanced infrastructure,” for sustained economic growth. This is being reinforced by the ongoing digital transformation process and the increasing adoption of new technologies, such as AI, IoT, industrial robots, etc.

Figure 2 shows how the weak performance of average Brazilian worker productivity in recent decades has underpinned low economic growth. Without a systematic increase in productivity, real wage increases will be limited, the return on private investment in productive activities will be compressed, and the taxation necessary to cover public spending will be perceived as excessively high...

3. Readings on Low Productivity Performance

The recent trajectory of economic growth has been based primarily on the exploitation of natural resources and raw materials, with an emphasis on increasing labor and capital inputs, rather than improvements in TFP – with the exception of agriculture, as we mentioned. Although there have been extraordinary productivity gains in the agricultural sector (106.5% between 2000 and 2013, according to the World Bank (2016), and steadily at 3% per year since then), the overall process of structural transformation has made a minimal contribution. The surplus labor released by the agricultural sector has flowed mainly to the service sector, characterized by relatively low productivity levels. Consequently, the positive impact of structural transformation, when it occurs, has been attenuated (Canuto, 2021, chapters 16 and 21).

There are three main lines of understanding of the problem of low productivity performance in Brazil. To address it, different public policy proposals tend to unfold from them.

There are, for example, those who believe that the poor performance of average Brazilian productivity is associated with the set of goods and services produced in the country (Torezani, 2020). If we had more people employed in manufacturing or in technology-intensive services, the argument goes, the value of the average product per worker would be higher, even with the educational levels and general operating conditions of companies in Brazil in recent decades.

This belief underlies the opinion of those who advocate subsidies and trade protection for particular sectors. The burden imposed on others, in the form of fewer public resources available for other purposes or loss of access to better and cheaper products available outside the country, would be more than compensated by the expected gain from greater domestic operation in the protected activities. In general, they recognize that the costs will be higher and the effectiveness lower the broader, longer, and without trade-offs such a policy is.

One particular form of this belief is the argument of those who say that the situation would have been different if recent governments had forced the exchange rate, in real terms, to remain at levels undervalued relative to those set by the market. There would have been greater competitiveness and stimulus to manufacturing production, with supposed advantages more than compensating for the burden in terms of lower real wages – purchasing power – of workers. They must recognize that, to

prevent an inflationary acceleration from frustrating such attempts to force real devaluation, these would have required considerable fiscal tightening.

A second line of interpretation of the problem of low productivity blames the low levels of investment in fixed capital as a proportion of Brazilian GDP in recent decades (BNDES, 2024). Indeed, this rate has remained at or below 20%, and the expansion of the capital stock has contributed little to increasing labor productivity.

In some versions of this belief, there is an underlying notion that technological learning and worker productivity depend primarily on the machines and equipment operated by the worker. The following is a prescription that it is worthwhile to give tax or credit subsidies to private investment and even go beyond any spending limits on the fiscal side with public investments, since leaps in the volume of fixed capital and consequently in worker productivity would change the trajectory, establishing virtuous circles of economic growth and productivity that would eventually cover the fiscal damage.

The third line gives predominance to intangible factors, of a more horizontal scope and dissociated from goods and services in particular as in the previous cases (Canuto, Dutz and Reis, 2010) (Canuto & De Negri, 2017). Only with the improvement in such factors would there be productivity increases that would make both the greater fixed investments and the presence in productive activities with greater technological content and appropriation of value for the results of work sustainable and attractive. Investment and quality jobs would be more of a consequence than a cause. Beyond better educational levels and technical training for the general population, intangible factors include the availability of infrastructure and a business environment that does not involve waste and misallocation of resources.

Studies by Ipea (Institute for Applied Economic Research), organized by De Negri & Cavalcante (2014, 2015), have shed light on the subject. For example, one of them – (Miguez & Moraes (2014) – simulates what would have happened if, in 2009, Brazilian employment had the same sectoral composition as that of the USA: even with the sectoral productivity levels we had then, the average worker productivity would have been almost 70% higher. On the other hand, even with the sectoral employment structure of that year, that value would be almost 600% higher if the productivity in each sector in Brazil were the same as in that country!

Table 1 shows the potential gains in aggregate productivity growth that Brazil would have obtained if it had the same occupational structure as the US and Germany in 2009. These gains are much smaller than those it would have obtained if, despite maintaining its occupational structure, it had the sector-specific productivity levels of these advanced countries. Clearly, the intra-sectoral contribution outweighs the intersectoral contribution.

Table 1**What Would Happen with the Brazilian Productivity in 2009 If...**

...Brazil had the same occupational structure as:	Changes in aggregate productivity
China	-10,2%
Mexico	5,6%
US	68,3%
Germany	58,2%
...Brazilian sectors had the same productivity as:	
China	-48,2%
Mexico	-2,3%
US	576,9%
Germany	427,9%

Fonte: Miguez e Moraes (2014).

These results reinforce the belief that more general and horizontal factors predominate in Brazil's low labor productivity performance. The loss of opportunities through structural transformation should not divert attention from a more serious source of Brazil's recent disappointing performance: the weak performance of intra-sectoral productivity growth.

4. The Double Disease of the Brazilian Economy

To use a medical analogy, Brazil has been suffering from both productivity anemia and bloated public spending (Canuto, 2023). On the one hand, it has not enjoyed the type of productivity growth expected of economies at this stage of development—the achievement of easy efficiency gains, ranging from improved business organization to the rapid diffusion of imported technology. On the other hand, the appetite for expanding public spending has become increasingly incompatible with limited productivity gains, especially since spending has not had a significant effect on productive capacity, with investments in public infrastructure close to the minimum for its preservation (World Bank, 2017).

The slow pace of increase in Brazilian production per employee since the mid-1990s, as we saw above, is partly due to relatively low investment in physical capital. But, largely, to the slow pace of efficiency gains. Agribusiness is an exception, as we mentioned: productivity in Brazilian agriculture is growing well above the global average. But its proportional impact on GDP is not enough to offset Brazil's weak performance in industry and services. Which leads us to an obvious question: why is productivity growth so slow?

One reason is the lack of competition. A combination of poor transport infrastructure that limits geographic markets, differentiated state tax regimes, subsidies to specific companies, and quite high barriers to import competition makes the survival of inefficient companies more likely, at a price paid in terms of lower average productivity. Policies to support the private sector need to shift from compensating for high domestic costs to strengthening the adoption and diffusion of technologies.

There is also the issue of education and human capital development. In the case of Brazil, these could benefit from a less rigid allocation of public resources and the dissemination of successful experiences in states and municipalities – such as those in the state of Ceará, in the Northeast. Access to education for the population has improved in the last three decades. But quality still has a long way to go, as can be seen in Brazil's scores in the OECD's Programme for International Student Assessment (PISA) exams, which are far below those of Europe, North America, and East Asia.

5. Infrastructure

Brazil's infrastructure stock has been dwindling since 1990, when spending initially fell below the level needed to maintain it (about 3% of GDP). According to the World Bank (2022), Brazil needs to invest US\$778 billion (or 3.7% of GDP per year) to fill the infrastructure gap by 2030.

The causes are as clear as they are painful: budgetary constraints that favor politically motivated spending over investment, limited government capacity for project planning, and inadequate practices in public procurement, as well as in contract and asset management.

Although Brazil's GDP doubled in real terms between 1990 and 2016 (and population growth almost kept pace), the infrastructure stock grew by only 27%. Investments in infrastructure averaged more than 5% of GDP between the 1920s and 1980s, a period in which per capita income grew at an average annual rate of 4% and urbanization reached 60%. But in the last two decades, the pace of investment has fallen to less than 2.5% of GDP, even below its maintenance needs. Although access to electricity and telecommunications has improved since the 1990s, basic sanitation and transport networks lag behind those of its peers — even when Brazil is given the benefit of the doubt due to its enormous territorial extension and low population density (World Bank, 2017; 2022).

The fall in public investment has not been sufficiently offset by private investment in infrastructure — unlike other countries in the region, notably Chile and Colombia. The need for continued fiscal austerity in the future (see below) reinforces the need to develop ways to access private capital markets for financing public infrastructure. But it's not just about getting the money to accelerate the pace of public investment. Quality also matters, obviously, and mismanagement is a serious obstacle to success.

Let's look, for example, at the shortcomings in the allocation and operation of resources. In the transport sector, the preference for highways over railways generates enormous economic and environmental costs, equivalent to 1.4% of GDP, or 2.2 times the current annual investment in the sector. Meanwhile, operational inefficiencies in water supply have been around 0.7% of GDP, or more than three times the current annual investments in sanitation.

But the biggest barrier to improving efficiency in the selection and management of infrastructure projects is political. The way political coalitions have traditionally been built and campaigns financed in the country's recent past has led to the fragmentation of budget allocations for capital investments and the frequent selection of projects without analysis and evaluation (World Bank, 2017).

6. Trade Protection

Brazil has a long tradition of protecting domestic industry from foreign competition with the goal of industrialization – not to mention protection against powerful interest groups. The economy is trade-closed. Consider, for example, tariffs on imports. Weighted by import share, the average was 8.3% in 2015, the highest among comparable emerging and advanced economies (Canuto, Fleischhaker, and Schellekens, 2015). Arguably more importantly, tariff protection in Brazil is accompanied by non-tariff barriers and local content rules that also overshadow the efforts of comparable countries to inhibit foreign competition.

Brazil manufactures a range of goods that one would never expect from an economy at this stage of development. Before assuming that this is inherently benign – or a shortcut to industrial advancement – note that by not making efficient use of foreign-sourced parts, equipment, and technologies, Brazil is inherently one step behind in terms of productivity.

This is not intended to minimize the displacement that would be associated with opening up. Some producers simply would not be able to compete. Furthermore, the total gains tied to productivity gains would not be distributed evenly across regions and income strata, making it imperative to adopt complementary policies to facilitate labor mobility, professional retraining, and the creation of new jobs. None of this would be easy or politically straightforward. But maintaining the status quo is a recipe for stagnation.

The causes of the lack of competition and low productivity performance go far beyond trade protectionism. Inadequate investments in infrastructure (as noted earlier), a difficult business environment, distortions in long-term financing, and the inefficient use of public resources in education are at the top of the list. Brazil responds to corporate demands to reduce its costs, but mainly in extremely inefficient ways that do not address the root of the problems. According to a World Bank estimate, the fiscal cost of policies designed to compensate for government-induced impediments to efficiency would reach almost 5% of GDP at the time (World Bank, 2018).

In addition to the agenda of overcoming these domestic barriers to greater competition and increased productivity, much could be done in trade policy, even in a global scenario where unilateral gestures towards openness would hardly be reciprocated.

The tariff structure could be simplified by reducing the number of tariff levels and easing restrictions on the import of intermediate goods and capital goods, such as industrial machinery. - Local content requirements for finished goods, a significant non-tariff barrier, need revision.

- The tax burden on exports could be mitigated.
- Restrictions on the import of financial and professional services, which serve as essential inputs for production and export, could be eased.
- It should be noted that, although Brazil is part of the Mercosur customs union, which includes Argentina, Uruguay, and Paraguay, there is nothing in that agreement that prevents additional initiatives within the group to reduce non-tariff barriers and, more generally, to reduce barriers in relation to third countries.

The result could be significant. Simulations in a World Bank report suggest that, with the combination of better alignment of non-tariff barriers within Mercosur and a 50% reduction in tariffs with countries outside the regional bloc, real income would increase enough to lift almost 6 million Brazilians above the poverty line of US\$5.50 per day. Again, however, it is important to remember that the total gains would not be distributed evenly among regions and income strata, making it imperative to adopt policies to compensate for this imbalance.

Trade liberalization through tariff reduction would also complementarily strengthen business competition – a dimension with limited presence throughout Latin America and the Caribbean (Vostroknutova et al., 2025). Tariff liberalization could provide productivity and growth gains. Such impacts are more evident in input markets than in product markets, highlighting the need for competition policies along the value chain to maximize the positive effects in product markets (Canuto, 2021).

7. Low Private Investment in R&D

Despite all the initiatives and public spending to support R&D, the results have been disappointing. The innovation performance of Brazilian companies remains relatively low (Queiroz et al., 2025). There is low competitive pressure among companies, which fails to stimulate the forces of creative destruction and offers inadequate incentives for innovation in the private sector.

Brazilian government spending on R&D, around 0.65% of GDP, is in line with government spending observed in OECD countries (0.67% on average from 2015 to 2020). On the other hand, company spending (around 0.60%) is significantly below the OECD average (1.83% in the same period). Companies invest relatively little in R&D in Brazil. The "inward orientation" mentioned above in the discussion on trade seems to be important in this regard.

Another factor explaining Brazil's "productivity anemia" lies in the quality of the business environment, the subject of the next sections of this chapter.

8. What is the business environment in a country?

Business environment is a general term for the conditions under which companies operate in a given country or region. It encompasses everything that favors or hinders the creation, operation, and development of companies within a country (World Bank, 2020; 2024).

Regulation and the burden of dealing with it is a basic item of the business environment. They determine the ease of opening, operating, and closing companies. Labor and commercial laws under which companies operate may or may not burden and hinder the operation of companies. The complexity of the tax system with which companies have to deal also comes into play.

Legal certainty and institutional stability also have consequences for the operation of companies. The predictability of rules and the degree of protection of contracts and property directly affect the calculation of risk-adjusted benefits and costs used by companies in evaluating investments and decisions with long-term results.

The presence of corruption and transparency in business-government relations are also important. The presence of corruption tends to lead to public spending – and consequently the private sector counterpart – being allocated to corruption rather than the most efficient and effective allocations.

The availability and quality of infrastructure – transportation, energy, telecommunications, internet access – also affect the operation of companies. The poorer the condition of the infrastructure, the greater the burden in terms of wasted material and human resources employed by companies.

Access to financing is another component of the business environment. The availability and cost of credit, as well as collateral requirements, have a direct impact on the creation, operation, and growth of companies within a country.

Just like labor legislation, the qualification of the available workforce also affects company operations. The human capital available in the labor market matters for the execution of tasks in companies.

A key chapter of the business environment concerns the ease of integration with international markets. Beyond tariffs and non-tariff barriers, the degree of facilitation of trade with foreign countries – exports and imports – also conditions the operation of companies.

Finally, in this illustration of what constitutes the business environment, it is worth including macroeconomic conditions – macroeconomic stability, inflation levels, exchange rate predictability, etc. Risk-adjusted benefits and costs for business investment decisions are directly affected by such macroeconomic conditions, as is the burden of dealing with them.

9. The World Bank's three approaches to a country's business environment

The concept of "business environment" has occupied a central role in the economic analyses carried out by the World Bank. The institution pioneered the establishment of comprehensive indicators for measuring, comparing, and monitoring business environments. This environment is seen as a relevant factor among those that affect the productivity, competitiveness, and sustainability of the private sector in developing countries.

Three main instruments have been used by the World Bank to study this environment: the annual Doing Business (DB) report, discontinued in 2021; the Enterprise Surveys (ES), in operation since the 2000s, conducted over multi-year periods varying by country; and, more recently, Business Ready (B-READY), launched in 2023 as a successor and reformulation of the DB. Although all three instruments share similar objectives—assessing the obstacles faced by businesses and promoting evidence-based reforms—they adopt distinct methodologies, perspectives, and definitions of what constitutes the business environment. Let's examine them.

9.1. Doing Business and the Normative Approach to the Business Environment

Launched in 2003, Doing Business has become an international benchmark for assessing the regulatory environment of countries. Its main objective was to measure, in a comparable way between countries, the regulations that affect companies throughout their life cycle. It measured the ease of doing business in a country based on specific legal and regulatory criteria, making it possible to compare regulatory

environments between economies using standardized benchmarks.

DB analyzed formal rules and administrative procedures in ten areas, which roughly correspond to the life cycle of companies. These included starting a business, obtaining credit, paying taxes, connecting to the electricity grid, registering property, protecting minority investors, obtaining building permits, enforcing contracts, trading abroad, and resolving insolvencies.

The Doing Business approach was essentially "normative." The business environment was defined as the set of rules and regulations that shape the interactions between businesses and the government. The indicators assessed aspects such as the number of procedures required to perform the tasks in the life cycle of the aforementioned companies. It measured the *de jure* regulatory performance for a standardized company, covering more than 190 economies annually until 2020.

This definition implied a view where the business environment is, above all, a set of legal and administrative structures. "Favorable" rules — simpler, less costly, more predictable — favor the growth of the private sector, while "unfavorable" rules impose costs, uncertainties, and barriers to business activity.

It was based on expert opinions (lawyers, accountants, government officials) using hypothetical case scenarios. The data reflected existing laws and regulations, not necessarily their implementation. Country rankings became popular among policymakers and investors for benchmarking purposes.

However, this approach was the target of criticism. On the one hand, it led to an understanding that formalization and the reduction of state intervention would be almost universal paths to improving the business environment. On the other hand, it neglected aspects of practical implementation, institutional quality, informality, and the lived experiences of companies.

Reports on Doing Business in subnational cases (states/provinces, municipalities) varied widely, particularly in cases of large countries. It was precisely a scandal over the selection of more favorable subnational cases in China that, in 2021, led to the Doing Business report being discontinued (World Bank, 2021).

9.2. Enterprise Surveys and the Empirical Approach to the Business Environment

Enterprise Surveys (ES) offer a different approach to assessing the business environment. Since the 2000s, these surveys have directly captured the perceptions and experiences of formal businesses in dozens of countries through face-to-face interviews with thousands of entrepreneurs and managers. Unlike the DB, which worked with hypothetical companies and legal data, ES are based on real companies, spread across different sectors, sizes, and locations.

The business environment, according to this perspective, is understood as the set of factors—regulatory, institutional, social, and economic—that affect the daily functioning of companies. ES measure the incidence of practices such as corruption, crime, power outages, difficulties in accessing credit, unfair competition from the informal sector, infrastructure, workforce quality, and the quality of public services. This approach emphasizes practice rather than norms. For example, while the DB might indicate that opening a company takes five days, the ES might show that, in practice, the process takes weeks due to administrative delays or informal requirements. ES also reveal the heterogeneity of the business environment within the same country, something that the DB only did through application in some subnational cases in large countries.

In addition, ES allows for detailed analyses of how different groups of companies—for example, women-led, small versus large, located in urban or rural areas—face different obstacles. This wealth of data makes ES particularly valuable for formulating more inclusive public policies based on concrete evidence.

ES are conducted periodically (every few years) by country. There are ES in more than 140 countries, with varying time intervals. In the case of Brazil, for example, without ES since 2009, a survey initiated in 2024 is still ongoing.

9.3. Business Ready and the Integrated Approach to the Business Environment

Business Ready (B-READY), introduced in 2023, represents an attempt by the World Bank to consolidate and overcome the limitations of previous instruments. B-READY defines the business environment as the sum of three main components: the regulatory framework (laws and regulations), public services (implementation and delivery capacity), and operational efficiency (agility, predictability, and cost of interaction between businesses and the government).

The new program combines normative elements of Doing Business with practical aspects observed in the Enterprise Surveys. It covers ten thematic areas throughout the business lifecycle—from opening to closing—and seeks to measure not only what is written in the law, but also how it is implemented and perceived.

The B-READY methodology includes data collected from local experts, peer-reviewed, and supplemented with surveys of service users—such as accountants, lawyers, business owners, and consultants. This triangulation allows capturing the difference between the norm and practice, something not contemplated by the DB. Furthermore, B-READY introduces indicators of governance, transparency, predictability, and institutional capacity, elements that were absent or secondary in the previous ones.

9.4. Multiple lenses for the same phenomenon

Each of these three instruments brings distinct implications for the design of public policies. The DB was effective in generating rankings and encouraging high-impact reforms, such as digitization of records and tax simplification. It offered a normative and comparative lens, useful for short-term reforms and global benchmarking. Its simplicity and comparability made it a powerful instrument of international peer pressure, despite risks of distortion and manipulation. As the aggregate indicator – the overall ranking of countries – gave equal weight to the items, some countries even implemented strategies to improve the index through concentrated efforts on items that were easier to change, without taking into account the magnitude of the overall impact of such changes.

Enterprise Surveys, in turn, provide a more granular and realistic diagnosis of the problems faced by companies. They provide an empirical lens, revealing how real companies experience the regulatory and institutional environment. The empirical approach allows policymakers to understand which reforms are most urgent from the companies' point of view and where there are implementation bottlenecks. However, its complexity and less frequent periodicity make it difficult to use as a continuous monitoring tool.

B-READY seeks to reconcile these two approaches. It proposes an integrated lens, combining norms, practices, and institutional capacity. It provides comparability between countries while incorporating the dimension of implementation, governance, and operational efficiency. This combination can offer a more

accurate picture of the business environment and allow for more effective diagnoses for institutional reforms. The definition and approach to the business environment vary according to the analysis instrument adopted.

10. The Business Environment in Brazil According to the World Bank

Brazil exemplifies the differences between these approaches. Let's look at the most recent data available for Brazil from each of these sources: Doing Business 2020, the 2009 Enterprise Survey, and the inaugural B-READY 2024 report.

In Doing Business 2020, the country ranked 124th, with a negative highlight on the time it takes to pay taxes and register property. In the 2009 Enterprise Survey, the main obstacles pointed out by companies were the tax burden, informality, insecurity, and poor infrastructure. The first results of B-READY 2024 for Brazil point to advances in process digitization and systems integration, but maintain reservations about regulatory complexity, slow licensing, and public governance challenges.

The combination of data from the three sources reveals that Brazil's problems are not only in the rules, but above all in their unequal application and the low predictability of the institutional environment. Although all these initiatives aim to assess the conditions for the functioning of the private sector, their approaches, methodologies and, consequently, results, differ significantly.

The 124th position among 190 economies evaluated by the Doing Business 2020 report regarding the ease of doing business reflected a score of 59.1 out of 100 in the aggregate index. The indicators in which Brazil performed worst were "Paying Taxes" (184th place), "Starting a Business" (138th place) and "Registering Property" (133rd place). On the other hand, it performed relatively better in "Protecting Minority Investors" (61st place) and "International Trade" (108th place).

The main obstacle identified was the tax system. In 2020, it was estimated that a Brazilian company spent an average of 1,501 hours per year to comply with its tax obligations, compared to a world average of 234 hours. This inefficiency not only represents a high operational cost, but also discourages investment, especially from small and medium-sized enterprises. Opening a business was also considered bureaucratic, requiring multiple registrations and relatively long deadlines, even after reforms such as the implementation of the "Redesim" system.

In contrast, the ES conducted in 2009 interviewed 1,441 Brazilian companies in the manufacturing and service sectors, allowing for a more empirical and comprehensive view of the challenges faced. Unlike the DB, which focused on formal rules and used a hypothetical company as a basis for analysis, the ES records the concrete experience of real companies of different sizes and regions.

Among the main obstacles identified by Brazilian companies in the 2009 survey were:

- High tax burden: cited as the biggest obstacle to business by 30% of respondents.
- Competition with informality: mentioned by 18% of companies as a critical challenge, reflecting the size of the informal economy in Brazil.
- Access to financing: 17% of companies reported difficulties obtaining credit, especially among small businesses.

- Insecurity and crime: 8% of companies considered this a significant problem, with costs associated with private security and losses due to theft.
- Infrastructure: Frequent power outages and logistical difficulties directly impacted productivity.

Other aspects were also addressed by ES and help to better understand the Brazilian business environment at the time. For example, 14% of companies reported having suffered power outages in the three months prior to the interview, with an average of 6.8 interruptions per month. About 9% indicated that bribes were solicited in public bidding processes, pointing to governance problems.

In turn, the inaugural 2024 Business Ready (B-READY) report analyzed 54 countries, including Brazil, based on three main pillars: Regulatory Framework, Public Services, and Operational Efficiency. The analysis covers ten thematic areas, corresponding to the life cycle of a company, including: starting a business, obtaining licenses, infrastructure, access to credit, insolvency resolution, among others.

Although the B-READY report has not yet released an overall numerical ranking like Doing Business, it offers a deeper and more contextualized diagnosis. Brazil will be incorporated starting with B-READY 2026.

Unlike DB, B-READY includes the perspective of rule implementation, not just formal legislation. It uses data provided by experts, but also validations with users (business owners and accountants), in addition to incorporating indicators on the efficiency of public services and institutional capacity.

The comparison between the results of Doing Business 2020 and the Enterprise Survey 2009 for Brazil reveals a convergence on the main obstacles: high tax burden, bureaucracy, informality, difficulties in accessing credit, and infrastructure failures. However, each tool highlights different aspects — formal rules (DB), lived practices (ES), and implementation capacity (B-READY). The combination of these instruments provides a more complete picture of the country's business environment.

11. How the Business Environment Affects a Country's Productivity

As we indicated at the beginning of this chapter, productivity, in economic terms, refers to the efficiency with which factors of production—such as labor and capital—are used to generate goods and services. Total factor productivity (TFP), specifically, captures gains that are not explained solely by increased use of inputs, but by technological, organizational, and institutional improvements.

In the long term, almost all GDP per capita growth comes from increases in productivity. Countries that manage to improve their institutions, invest in human capital, modernize their infrastructure, and create an environment conducive to innovation tend to experience substantial productivity gains.

A favorable business environment positively affects productivity through several channels (Cavalcante, 2015)(Canuto & De Negri, 2017):

- Reduction of costs and waste: excessive bureaucracy, regulatory instability, and corruption impose additional costs on companies, diverting resources from productive activities. When these barriers are removed, companies can operate more efficiently.
- Incentive for investment: predictable and well-regulated environments increase the expected

return on productive investments, leading to the modernization of capital and the adoption of new technologies.

- Efficient allocation of resources: economies with clear rules allow capital and labor to move to more productive sectors and companies. Distorted environments, on the other hand, keep inefficient companies in the market.
- Innovation and learning: healthy competition forces companies to innovate to survive. Environments that protect monopolies or hinder the entry of new competitors reduce this incentive for innovation.
- Formalization and scale: simple rules and proportional taxation favor the formalization of companies, which improves access to credit, technologies, and markets. Formal companies have greater access to productive inputs and a greater capacity to grow.

Small and medium-sized enterprises (SMEs) are often more sensitive to the business environment than large companies, as they have fewer resources to deal with regulatory complexities or face barriers to entry in formal markets. Complicated environments discourage the growth of SMEs, perpetuating low levels of aggregate productivity.

Business environment reforms that reduce compliance costs, simplify tax payments, and improve access to credit can have substantial impacts on the average productivity of the economy by boosting the growth and efficiency of SMEs.

International studies consistently demonstrate that countries with better business environment indicators have higher levels of productivity:

- Data from Doing Business showed that countries in the top 20 of the ranking tended to exhibit labor productivity levels 2 to 3 times higher than countries in the bottom half of the list.
- Reports from the OECD, the World Bank, and the IMF suggest that improvements in governance, regulatory transparency, and the digitization of public services have measurable impacts on total factor productivity (e.g., Vostroknutova et al., 2025).
- The experience of countries like Singapore, Estonia, and South Korea shows that properly planned and executed institutional reforms can trigger virtuous cycles of productivity, growth, and inclusion.

One can point to direct and indirect effects of the business environment on productivity. For example, bureaucratic obstacles to opening businesses raise the entry costs for new firms into markets, which tends to discourage competition. Lower levels of competition weaken the selective mechanisms by which more productive companies replace less efficient competitors and thus raise average productivity.

Indirectly, the quality of the business environment also affects productivity through its effect on the risk-adjusted cost-benefit calculation of private investments. Higher rates of investment in tangible assets (fixed capital) and intangible assets (innovation, workforce training) lead to higher levels of productivity.

Cavalcante (2015) compared the business environment of 81 countries between 2005 and 2011 using indicators obtained from the World Bank's "Doing Business" report. His study estimated, via panel model, the causal relationship between the business environment indicator and the capital stock per worker in the countries. He showed the existing association between the business environment and investments. Complementarily, he calculated the relationship between capital stock per worker and labor productivity.

The results found by Cavalcante (2015) showed that better business environments stimulate investment by presenting a positive and relevant relationship between the business environment and capital stock. These increases would be on the order of 80% if Brazil reached the rankings of the United States and Canada, and above 40% in comparison with Chile and Mexico. Its investment levels could be around 15% higher if the country reached the level of China. In turn, each 1.0% increase in the capital stock per worker would lead to an increase of about 0.5% in labor productivity (Cavalcante, 2015, pp. 451-2).

Curado and Curado (2018) also address how the quality of the business environment in a country is among the determinants of its economic growth. They review the empirical literature then available on the subject, organized into two blocks: on the role of the business environment in the emergence of new companies and the direct effect of the environment on a country's growth rate. They empirically demonstrate the existence of a causal and statistically significant economic relationship between the business environment and economic growth.

An unfavorable business environment like Brazil's negatively affects productivity in the country and the external competitiveness of its companies. World Bank reports have consistently shown how a typical Brazilian company is forced to spend human and material resources on activities that do not generate value. This implies, in addition to burdens for companies, a reduction in productivity in the use of the set of productive resources in the economy as a whole.

Productive companies grow less than they could, and inefficient companies remain in the market. Brazil ends up having a high proportion of companies with very low productivity, even compared to other emerging economies, such as Mexico and Chile (Veloso, 2024).

12. How the Business Environment in Brazil Has Evolved

The Brazilian business environment has seen improvements in some of its components, but with risks of setbacks in others. It is worth highlighting the slight reduction in Brazil's distance from the "best practices" frontier among the 190 countries included in the DB ranking, until it was discontinued in 2021 (Canuto, 2018; 2023).

Among the recent favorable changes in the Brazilian business environment, the following should be highlighted:

- **Tax Reform (Constitutional Amendment No. 132/2023)**

Promulgated in December 2023, this reform – to be implemented slowly and gradually – will bring a significant change to the Brazilian tax system, one of the points most responsible for difficulties in the operation of companies in the country's context. Among the main changes is the unification of taxes: 5 taxes (ICMS, ISS, IPI, PIS and Cofins) were unified into two: the Contribution on Goods and Services (CBS) and the Tax on Goods and Services (IBS), both established in the form of value-added taxes (VAT). The reform will simplify the tax system and eliminate cumulativeness.

The tax system has always been a key item on the agenda for improving the business environment, since the complexity of the current system greatly burdens the simple task of fulfilling its obligations and, not by chance, Brazil occupied the 184th position among 190 countries in the latest editions of the World Bank's Doing Business report.

The tax system that is about to be changed, even gradually, tends to establish a distorting bias to the extent that it pushes business decisions towards paying less taxes at the expense of seeking productivity gains. Taxation at the source favors inadequate geographical allocation of resources in the presence of "tax wars" between federative units.

The current cumulativeness of taxes, in turn, leads companies to produce goods or services that could be obtained more efficiently by other companies and acquired as intermediate inputs in the market (Velo, 2024a). In addition to eliminating cumulativeness, the exemption of investments and exports should favor increased productivity and greater international insertion of companies.

Cavalcanti Ferreira et al. (2024) estimate the effects of a tax reform creating a national VAT. They highlight two: the elimination of the heterogeneity of rates between different products and sectors, which tends to lead to inefficiency in the allocation of factors of production, as well as the elimination of cumulativeness in taxation, which in turn makes intermediate goods more expensive and leads to efficiency losses. Their results suggest an increase of up to 7.9% in GDP.

The annual report produced by the International Monetary Fund (IMF) on the Brazilian economy ("Article IV") last year also included simulations on the effects of Brazil's tax reform. According to its estimates, the elimination of cascading taxation could increase GDP by up to 6%, in addition to increasing formalization in urban and rural areas by 6% and 7%, respectively. The report finds a decrease in the tax burden on the poorest families, even taking into account the high number of exceptions (IMF, 2024) (Velo, 2024).

- **Economic Freedom Law (Law No. 13,874/2019)**

Enacted in September 2019, this law aimed to reduce bureaucracy and increase legal security for entrepreneurs. Among the main measures are: the simplification of processes, through the waiver of permits and licenses for low-risk activities; digitization, with the facilitation of the use of digital means for document archiving and electronic signature.

- **Business Environment Law (Law No. 14,195/2021)**

Promulgated in August 2021, this law aims to improve the business environment through various measures, such as the Unification of Tax Registrations, with the integration of federal, state and municipal tax registrations into the CNPJ (National Registry of Legal Entities). In addition, the opening of companies was facilitated with the simplification of the processes of registration and legalization of companies. It also made it possible to create an Integrated Asset Recovery System (SIRA), through a system to facilitate the identification of assets and debtors and expedite the recovery of credits.

- **Basic Sanitation Legal Framework (Law No. 14,026/2020)**

Approved in July 2020, the new regulatory framework for basic sanitation has as its main objectives to universalize services. It established the goal of reaching 99% of the population with access to drinking water and 90% with sewage collection and treatment by 2033. It opened space for the participation of the private sector through bidding processes and concession contracts. It also strengthened the National Water and Basic Sanitation Agency (ANA) as the regulator and supervisor of the sector.

- **The New Judicial Reorganization and Bankruptcy Law (Law No. 14,112/2020)**

Enacted in December 2020, this law updated the legislation on judicial reorganization and bankruptcy, introducing some innovations, such as: the possibility of creditors presenting a reorganization plan; facilitating access to financing during the reorganization process; allowing negotiations of tax debts with the Public Treasury; and creating more agile procedures for micro and small businesses.

In the case of access to credit, the lack of adequate guarantees has always been evident in the high Brazilian banking spread. Credit market reforms from the 2000s onwards, such as fiduciary alienation, payroll-deducted loans, and the Bankruptcy Law, improved the use of collateral, which reduced interest rates for individuals and companies (Veloso, 2024b). The improvement of information available to creditors has made access to credit easier.

- **The New Guarantee Framework (Law No. 14,711/2023)**

The approval of the new guarantee framework in 2023 also constituted an improvement in the business environment, increasing the legal security of guarantees and facilitating a faster recovery of collateral in case of default. Additionally, with digital certificates of origin, importing goods has also become faster.

The electronic duplicate was officially approved in Brazil with the enactment of Law No. 13,775, on December 20, 2018. The implementation of the electronic duplicate was planned to occur gradually, considering the size of the companies. In August 2023, the Central Bank and the National Monetary Council published new resolutions to improve the regulation of electronic duplicates, boosting their implementation in the country. The adoption of the electronic duplicate tends to increase security and reliability in commercial transactions, reduce fraud and facilitate access to credit, especially for small and medium-sized enterprises.

- **Positive Credit Registry (Complementary Law No. 166/2019)**

It is also worth highlighting the conclusion of the processing of the bill that reformed the Positive Credit Registry in Brazil. Complementary Bill (PLP) 441/2017, which made the inclusion of consumers and companies in the Positive Credit Registry automatic, was approved by the National Congress and sanctioned without vetoes by the presidency in March and April 2019, respectively. The measure aims to expand access to credit and reduce interest rates, especially benefiting good payers.

Opening up space for greater competition in the supply of credit services in retail, including via fintechs, would also contribute to improving the terms of access to financing. Facilitating such access, on a sustainable basis and not dependent on favors from the public sector, will not only improve the business environment, but may also strengthen the basis for greater economic growth.

- **Labor Reform**

Approved in 2017, the labor reform introduced significant changes in labor relations, aiming to make regulations more flexible and reduce litigation. Corbi et al. (2022) estimated increases in aggregate Total Factor Productivity (TFP) as a consequence of the decrease in labor disputes, particularly in the case of labor-intensive companies.

The annual Article IV report produced by the IMF on the Brazilian economy last year also provided

estimates of the effects of the labor reform on employment and production levels in the country. The report points to the impact of the reduction in labor lawsuits as leading to an increase in the total factor productivity (TFP) of Brazilian firms of around 5% in aggregate. The effect was particularly pronounced, as would be expected, in labor-intensive companies, which showed a 15% increase in TFP (IMF, 2024).

The implementation of certain reforms is what explains the Brazilian improvement in the latest DB cases (Canuto, 2018; 2023). Online business registration and licensing reduced the time and costs of opening a company in São Paulo and Rio de Janeiro, the two Brazilian cities used as a benchmark by the World Bank for the DB in Brazil. The report also captured the increase in the level of reliability in electricity supply in São Paulo made possible by investments in “smart grids”.

The rise in the ranking was not greater because many other countries had already been prioritizing the reduction of inefficiency resulting from unfavorable business environments for some time and had been implementing reforms to improve them. The point we would like to emphasize is the importance of improving the business environment itself, in absolute terms, thus reducing the burden in terms of wasted resources.

The position in rankings is merely a consequence of a country's relative situation with respect to the indicators monitored by “Doing Business,” while the absolute level of inefficiency is what affects productivity in the country. Brazil's absolute distance from the efficiency frontier in the various indicators of the DB report remained large. Regardless of rankings in the DB or other approaches that generate rankings between countries, Brazilian productivity and economic growth will be the biggest beneficiaries of improvements in the business environment.

It is worth drawing attention to dimensions of the Brazilian business environment whose change would have significant effects on productivity. Distortions abound, either remaining or recently created, such as credit subsidies, tax exemptions for specific sectors, and local content policies.

In addition, reducing high barriers to foreign trade would also offer a high premium in terms of increased productivity and growth. Brazil remains one of the most trade-closed economies in the world, due to high tariff and non-tariff barriers (Canuto et al., 2015). For this, it pays a high opportunity cost in terms of unrealized productivity gains (Canuto, 2023).

13. Business environment and productivity in Brazil

The relationship between the business environment and productivity in Brazil has already been the subject of studies, using international comparisons as an instrument for this purpose. Using DB indicators as a basis, Mation (2014) pointed out how Brazil's business environment remained practically at the same poor level between 2003 and 2014, with no improvements in almost any of the components. Meanwhile, most countries achieved significant improvements in their business environments.

Regarding the relationship between productivity and the business environment, the author observes how the strong correlation between the two variables does not necessarily imply complete causality. Indeed, when controlling for fixed effects, the magnitude of the impact of the business environment on productivity is reduced sixteenfold, indicating that unobserved fixed factors underlie the high correlation between business environment and productivity.

In any case, fixed-effect regressions suggest that a 1% improvement in the business environment, that is, a 1% approach towards the world frontier of best practices, would provide an increase in productivity of USD\$ 110 per worker.

Although the impact seems small, Mation (2014) notes that, given Brazil's distance from the frontier of best practices, the accumulated result of improvements would be significant. In his simulations, it would be enough for the environment in Brazil to reach a median performance, like that of Chile at the time, to enable an 11% increase in average labor productivity. Reaching Japan's level would allow for an increase of up to 29% in Brazilian worker productivity. During the period analyzed by them, Brazil remained far from international best practices, placing itself in the second quartile of the distance-to-frontier indicator distribution. The results of their exercise showed a high potential for growth from relatively simple environmental reforms – compared to other structural reforms – and short-term impacts. The financial costs associated with the necessary reforms are also insignificant when compared to investments in other variables usually related to growth, such as improvements in education and infrastructure.

14. Concluding Remarks

There are many possible explanations for the decades of weak productivity performance in Brazil: macroeconomic volatility, low savings and investment rates, average workforce qualification, insufficient public investment, poor allocation of resources among sectors and companies, among others mentioned here.

Among these explanations are weaknesses in the business environment. While improvements have been made in the tax and credit and finance areas – whose fruits are yet to be seen in the future – trade closure and the limited nature of business competition remain areas of the business environment where contributions to productivity can be achieved through reforms.

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