Artificial Intelligence for Better Regulation:

Opportunities and Challenges for Latin America and the Caribbean



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Summary

Latin America and the Caribbean have made progress in institutionalizing regulatory improvement policies aimed at strengthening competitiveness, promoting investment, and enhancing the relationship between the state, the private sector, and civil society. However, these efforts continue to face structural constraints stemming from the growing complexity of regulatory frameworks, gaps in the availability and processing of information, and limited capacity to generate evidence systematically and at scale. Artificial intelligence (AI) tools offer a clear path to address these gaps.

This technical note outlines concrete opportunities for applying AI to regulatory improvement, organized around three key functions:

(i) simplifying and reviewing the existing body of regulations (the regulatory stock);

(ii) regulatory drafting and rulemaking (the regulatory flow); and

(iii) oversight and enforcement.

The IDB is at the forefront of applying AI to regulatory improvement, drawing on its own developments and regional implementation experience that combine technological innovation, specialized expertise, and technical assistance to help governments adopt and scale these tools across the regulatory cycle.



1. Regulatory Improvement in Latin America and the Caribbean: **Progress and Challenges**

Countries across Latin America and the Caribbean have been intensifying their efforts to improve the quality of their regulatory and administrative frameworks in line with global standards, such as those promoted by the Organisation for Economic Co-operation and Development (OECD). In this process, regulatory improvement has become a key tool for boosting competitiveness, promoting investment, and enhancing the relationship between the state and citizens.

Numerous studies show that the quality of the regulatory environment influences economic performance: regulations that promote competition and reduce distortions foster the efficient allocation of resources and productivity (Nicoletti and Scarpetta, 2003; Aghion et al., 2021). However, regulatory complexity and administrative burdens can increase firms' entry and operating costs, discourage the creation of new businesses, and foster informality (Djankov et al., 2002). These costs disproportionately affect smaller firms and lower-income consumers (Crain and Crain, 2010; Broughel, 2024).

Clear and balanced regulatory frameworks, in contrast, reduce compliance costs and regulatory uncertainty, facilitating investment (OECD, 2018; OECD, 2021). Conversely, regulatory fragmentation and complex administrative procedures can cause delays in investment projects and affect productivity in key sectors. In Chile, for example, evidence shows delays associated with the coexistence of multiple sector-specific permits and complex administrative processes (CNEP, 2019; CNEP, 2023).

Against this backdrop, countries in the region have made progress in developing institutional arrangements aimed at improving their regulatory quality. Many have established specialized bodies responsible for overseeing the use of evidence in rulemaking (see Box 1).

Box 1: Institutional Arrangements for Regulatory Improvement in Latin America and the Caribbean

International experience shows that sustained progress in regulatory improvement is often accompanied by specific institutional arrangements responsible for coordinating, overseeing, and driving regulatory reforms.

Argentina: The Ministry of Deregulation and State Transformation was established in December 2023 to promote economic deregulation and greater agility in the private sector through the simplification of regulations and administrative procedures.

Bolivia: In 2026, the Tranca Cero ("Zero Bottlenecks") Program was established to deregulate the economy and streamline the state. Its implementation is led by the Ministry of the Presidency and coordinated through the program's Interministerial Committee.

Brazil: The Secretariat for Competitiveness and Regulatory Policy of the Ministry of Development, Industry, Foreign Trade and Services is the authority responsible for promoting regulatory improvement in the country through the PRO-REG program. The adoption of Regulatory Impact Analysis began in federal regulatory agencies in 2013; since then, the Regulatory Improvement Strategy has sought to progressively extend its use to the rest of the public sector.

Chile: The Ministry of Economy, Development and Tourism established the Division of Competition and Regulatory Improvement, which is responsible for coordinating the national regulatory improvement agenda and promoting regulatory review and simplification processes across public entities.

Colombia: The National Planning Department coordinates the country's regulatory improvement and regulatory quality policy. To this end, it promotes the adoption of Regulatory Impact Analysis, the review of existing regulations, and the strengthening of institutional capacities to simplify procedures and optimize the regulatory framework.

Costa Rica: The Directorate of Regulatory Improvement of the Ministry of Economy, Industry and Commerce is responsible for managing the National Regulatory Improvement System, which incorporates mechanisms for regulatory impact assessment, administrative simplification, and procedures review.

El Salvador: The Regulatory Improvement Agency of the Office of the Presidency of the Republic coordinates and oversees the national policy in this area, in accordance with the Regulatory Improvement Law. Its main tools include the National Procedures Catalog, impact assessments, and the development of a regulatory agenda.

Peru: The Public Management Secretariat of the Office of the President of the Council of Ministers is responsible for designing, developing, proposing, and implementing policies, plans, and strategies for administrative simplification and actions related to regulatory quality. It also proposes directives and guidelines and oversees compliance with them. It operates the Administrative Risk Center, the Single Procedures System, and the National Catalog of Information Services, as well as Regulatory Quality Analysis processes, administrative procedures assessments, and regulatory burden reviews. These tools make it possible to review the regulatory stock and promote the elimination of unnecessary requirements and procedures across different public entities.

Despite these institutional advances, significant gaps remain in the regulatory quality of Latin America and the Caribbean. International indicators show that several countries in the region still fall below OECD standards in areas such as the systematic use of regulatory impact analysis, the ex post review of regulations, the management of the regulatory stock, and the adoption of risk-based oversight approaches.[1] These gaps are partly attributable to two challenges: the growing complexity of regulatory stocks and constraints on generating and processing evidence systematically, in a timely manner, and at scale.

The accumulation of the regulatory stock—with a growing volume of rules, procedures, and obligations—increases the amount of information that governments must collect, organize, and analyze to understand the regulatory framework in force. In addition, regulation is often developed and administered in a fragmented manner across multiple public entities, making it difficult to build an integrated view of the regulatory stock and sustain systematic regulatory improvement processes.

In Colombia, for example, the process of consolidating the Single Regulatory Decrees involved reviewing nearly 10,000 regulations dispersed across several years.[2] In Argentina,

1. Organisation for Economic Co-operation and Development (OECD) (2024). Government at a Glance: Latin America and the Caribbean 2024. Paris: OECD Publishing.

the legal audit that preceded the deregulation phase lasted two years and involved reviewing 4,200 laws and 2,000 international treaties.[3]

Regulatory decisions also face increasing analytical demands. Identifying opportunities for simplification, evaluating alternatives and impacts, and targeting oversight requires specialized capabilities and processing multiple sources of economic, statistical, and administrative information, which are often scattered or incomplete. In several countries in the region, conducting ex ante evaluations can take more than a year and a half due to the technical complexity of the analysis and limitations in the available information. In practice, these implementation costs tend to result in exceptions, partial coverage, or limited application of regulatory improvement tools.

Ultimately, these constraints hinder the application of regulatory improvement tools with the coverage, frequency, and analytical depth required to address the growing complexity of modern regulatory frameworks.

2. Process for drafting Colombia's Single Sectoral Decrees.

3. La Nación (2023). El día en que Sturzenegger mostró la magnitud del paquete de reformas que anunciará Milei. 20 December 2023.



2. Artificial Intelligence as an **Accelerator for Regulatory Functions**

AI[4] is emerging as a technology with the potential to significantly expand the scope of regulatory improvement policies. The convergence of increasingly powerful language models, lower processing costs, and the growing digitalization of regulatory stocks creates a unique opportunity to scale regulatory functions that have traditionally been time- and resource-intensive.

These capabilities make it possible to analyze and draw on the information contained in various documents, turning large volumes of regulatory information into actionable knowledge: processed and structured inputs that directly inform regulatory decisions. This is particularly valuable in the regulatory domain, where much of the information relevant to decision-making is already embedded in regulations, procedures, and administrative documents (see Box 2).

Beyond the efficiency gains from processing information, AI also enables the development of new analytical capabilities for the regulatory function.

This includes identifying regulatory redundancies and contradictions, detecting complex patterns, prioritizing areas for reform, estimating regulatory risks, and facilitating the assessment of regulatory alternatives, among others.

To leverage these new analytical capabilities, however, it is necessary to integrate them into institutional arrangements, bureaucratic leadership, and governance mechanisms capable of translating these inputs into sustainable regulatory reforms.

In this regard, AI complements and enhances existing institutional capacities, enabling governments to develop regulatory improvement processes that are more continuous, systematic, and evidence-based.

4. Artificial intelligence (IA): A machine-based system that, for explicit or implicit objectives, infers from the data it receives how to generate outputs—such as predictions, content, recommendations, or decisions—that can influence physical or virtual environments. Different AI systems vary in their degree of autonomy and their ability to adapt after deployment. Source: OECD (2024), "Explanatory Memorandum on the Updated OECD Definition of an AI System", OECD Artificial Intelligence Papers, No. 8, OECD Publishing, Paris.

Box 2:
Why is AI particularly applicable to regulation?

Regulation is, in essence, a collection of texts and information: laws, decrees, regulations, administrative procedures, resolutions, technical reports, and other administrative documents. Together, these constitute a vast and continuously expanding regulatory stock.

Unlike sectors where AI relies on strictly structured databases, much of the regulatory stock already exists in formats that can be processed directly by language models.

Recent advances in natural language processing (NLP) and large language models (LLM) make it possible to retrieve, process, and synthesize large volumes of regulatory information, even in partially structured or dispersed formats. This enables faster and more comprehensive systematic reviews, strengthens evidence-based analysis, and enhances the capacity of authorities to design, implement, and evaluate regulations.

These capabilities enable, among others, the following applications:

- **Large-scale processing** of regulatory information.
- **Identification** of contradictions, redundancies, and regulatory burdens.
- **Traceability and monitoring** of the regulatory stock.
- **Prioritization** of regulatory reforms.
- **Analytical exploitation** of regulatory data across different stages of the regulatory cycle.
- **Cross-cutting regulatory analysis** across sectors and entities to identify interactions, inconsistencies, and cumulative regulatory effects.

In this context, AI not only automates administrative tasks but also transforms the regulatory stock into an analytical input and a strategic asset that can be leveraged to strengthen evidence-based public decision-making.

These capabilities are already being progressively incorporated into regulatory functions around the world.

According to recent data from the Cambridge Centre for Alternative Finance (2024), at least 170 regulatory authorities in more than 100 countries already use AI in various processes. These applications have been particularly visible in the financial sector, through

supervisory technologies known as SupTech, but have also expanded into sectors such as energy, transportation, the environment, and public utilities, albeit to a lesser extent. While cases can be found across different regions, the available evidence points to more consolidated adoption in Europe and certain Asia-Pacific economies, whereas in Latin America and the Caribbean and other regions implementation remains at an earlier stage.

In Latin America and the Caribbean, the adoption of AI in regulatory functions has been more gradual and sector-specific, dominated by pilot initiatives that yield positive results but remain limited in scale and long-term sustainability.

Although the region has doubled its AI talent pool over the past eight years and a growing number of public institutions are willing to explore emerging technologies, implementation of these tools within the regulatory function remains limited and concentrated in isolated cases.

The deployment of AI in the regulatory sphere shows varying degrees of maturity. In its initial phase, initiatives focused on document management—organizing information, synthesizing content, and handling massive volumes of regulatory text. While these uses yield significant efficiency gains, they represent only a fraction of the potential that AI offers for the regulatory function.

At more advanced stages, AI can support more complex tasks, including cost-benefit analysis with automated components, predictive modeling of regulatory risks, decision traceability (explaining how rules are formulated), and evidence-based prioritization of reforms.

These applications not only improve operational efficiency but also strengthen public officials' professional judgment by providing better-organized and richer evidence for decision-making (GAO, 2025; Harvard Kennedy School, 2024). Some of these applications are already being seen in specific contexts. Machine learning algorithms, for example, can detect patterns of regulatory noncompliance in real time, while natural language processing tools can review extensive bodies of regulation within hours, identifying inconsistencies, duplications, or legal gaps that would be intractable through traditional methods (Library of Congress, 2024).

In this context, the challenge for the region lies not merely in adopting these technologies, but in integrating them systematically into the regulatory process with a clear understanding of their value. This implies moving beyond exploratory uses toward applications that contribute directly to improving the quality of regulatory decisions and strengthening governments' capacity to manage increasingly complex regulatory frameworks. In order to achieve this, AI must be linked to specific regulatory functions, clear public policy objectives, and institutional capacities within the framework of an adoption strategy that allows for implementing, scaling, and sustaining its use over time.

3. Artificial Intelligence Applications across the **Regulatory Cycle**

Artificial intelligence can strengthen various functions across the regulatory cycle. The main opportunities for application fall into three areas: simplification and deregulation of the regulatory stock, regulatory rulemaking, and compliance oversight and enforcement.

These functions represent areas where AI can generate tangible public value, provided that its adoption is integrated into existing institutional processes and human regulatory judgment is preserved. This classification facilitates a gradual and pragmatic implementation, aligned with public policy priorities and each country's institutional capacities.



Table 1. Summary: The Regulatory Cycle and the Benefits of AI

	Regulatory Simplification	Regulatory Rulemaking	Oversight and Compliance
Scope	Review, simplification, and reform of the regulatory and administrative stock, including regulations, administrative procedures, and processes.	Design and drafting of regulations, including the assessment of regulatory alternatives, impact analyses, and consultation and coordination processes.	Monitoring, oversight, and enforcement of regulatory compliance through control, inspection, and risk management activities.
Challenge	Limitations to review the regulatory universe in an efficient, timely, and exhaustive manner.	Limitations to process evidence and evaluate regulatory alternatives, as well as to systematically incorporate inputs from public consultations and coordination processes.	Information asymmetries and capacity constraints to focus oversight actions on the highest-risk cases.
Benefits of AI	The use of data from official gazettes and catalogs of procedures allows identifying duplications, contradictions, and simplification opportunities at large scale.	AI facilitates the analysis of evidence, the assessment of regulatory alternatives, and the processing of public consultations, strengthening the quality and traceability of the rulemaking process.	Data interoperability and smart enforcement improve the process of detecting anomalies, prioritizing inspections, and strengthening risk-based supervision.

Source: Authors' elaboration.

3.1 SIMPLIFICATION AND DEREGULATION

Regulatory simplification initiatives have been relatively uncommon among governments of Latin America and the Caribbean. The most notable cases are Argentina and Colombia, countries that, through different strategies, promoted processes of elimination, modification, or merging of sectoral regulations.[5] These reforms face both political and technical challenges. On the one hand, they typically require political leadership, as they often entail removing regulatory barriers—such as registrations, permits, or authorizations—that can provoke resistance within the public administration and even from some private-sector actors. On the other hand, the accumulation of regulations, obligations, and requirements over time makes it difficult to identify which provisions are still necessary and which impose unnecessary burdens. Moreover, even when regulations are relevant, their complexity can make them hard for public officials, firms, and citizens to understand and implement.

Artificial intelligence offers new tools primarily to address the technical challenge and, indirectly, to strengthen governments' capacity to manage the political one.

AI does not replace the leadership needed to advance deregulation, but it can substantially accelerate the generation of diagnoses and technical evidence. This, in turn, reduces the costs associated with defining reforms and provides greater support for decision-making.

Using natural language processing (NLP) techniques,[6] large volumes of regulatory and administrative documents can be analyzed systematically to identify obligations, detect redundancies, contradictions, and regulatory burdens, and classify administrative requirements and procedures. These capabilities significantly expand the scale and speed of regulatory simplification exercises, transforming large volumes of regulatory information into usable evidence for decision-making.[7] As a result, simplification exercises that would previously have required months of highly intensive legal work are now feasible.

The outputs generated by these tools are subsequently validated by a human team, which determines the necessary modifications—a principle known as human-in-the-loop—ensuring that regulatory judgment remains in the hands of experts. One example of this potential is STARA (Statutory Research Assistant), developed by Stanford RegLab in the United States. When applied to the San Francisco municipal code—a body of regulations comprising nearly 16 million words—the tool identified 528 legally mandated reporting obligations and detected 174 redundant or obsolete provisions, accounting for 36% of the total (see Box 3, Case A). These results illustrate how AI can support regulatory review processes at a scale that would be difficult to achieve through traditional methods.

In this context, the IDB's Institutional Capacity of the State Division (ICS) developed RegLAC, an advanced analytics tool for regulations and procedures in Latin America and the Caribbean. It combines natural language processing, structured legal mapping, and economic inference to analyze large regulatory and administrative stocks and translate them into actionable inputs for prioritizing and designing simplification and deregulation reforms.

5. Argentina launched an ambitious regulatory simplification and deregulation program in December 2023. By June 2026, the initiative had led to the elimination or modification of 2,589 regulations. https://ideas.repec.org/p/sad/wpaper/175.html. Colombia, meanwhile, began a process in 2014 to simplify and consolidate 10,000 dispersed decrees into 21 sector-specific decrees, bringing together all regulations in force within each sector. https://www.hklaw.com/en/insights/publications/2015/06/gobierno-compila-normas-de-naturaleza-reglamentari?

6. A branch of artificial intelligence that enables systems to "read" and analyze human language in a structured manner. These tools break down legal texts into smaller units (words, sentences, or clauses) and, using statistical learning models, identify semantic patterns, redundancies, or contradictions across regulations.

7. In practice, algorithms convert legal text into vector representations (embeddings) that capture the meaning of each term in its context. Using these representations, AI groups similar provisions, detects duplications, or flags inconsistencies based on previously trained rules.

RegLAC approaches simplification through two complementary dimensions. First, it conducts systematic legal audits of a country's regulatory stock by identifying regulatory barriers associated with regulatory ambiguity, administrative discretion, regulatory dispersion, and excessive administrative burdens. Based on the automated analysis of regulations gathered from official sources, the tool generates regulatory barrier matrices with traceability down to the level of specific articles, facilitating the prioritization of reforms and significantly reducing the time required for regulatory diagnosis.

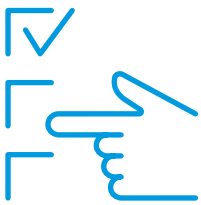
Second, RegLAC reconstructs administrative processes directly from regulations currently in force, identifying procedures, permits, and inspections and mapping them along the business life cycle. This enables the detection of duplicate controls, missing deadlines, excessive documentary requirements, and other sources of administrative friction. It also facilitates the design of simplified processes and the identification of the regulatory amendments needed to implement them.

RegLAC operates through an architecture of specialized AI agents that perform distinct tasks for the identification, classification, extraction, and validation of regulatory and administrative information. Each agent is trained to analyze specific aspects of the regulatory framework, including the detection of regulatory barriers, identification of administrative obligations, process reconstruction, and classification of legal instruments.

The outputs are subsequently subjected to automated quality and consistency controls, including cross-checks among agents, traceability validations against the original regulatory sources, and reviews of logical and legal coherence. This approach improves the precision of the findings, reduces classification errors, and ensures the auditability of the results used to design reforms.



Figure 1. Logic of the Advanced Analytics Tool for Regulations and Administrative Procedures in Latin America and the Caribbean



1

Identification of Sectors
(Agent 1)

Analyzes economic complexity, trade, and comparative advantages to identify sectors with the greatest growth potential.
Output: List of priority sectors.

2

Mapping of the Regulatory Stock
(Agent 2)

Identifies and organizes the set of applicable laws, regulations, and technical standards.
Output: Structured regulatory corpus.





3

Regulatory Review

Systematic analysis of the regulatory corpus using AI to identify, classify, and document regulatory barriers and procedures that present opportunities for improvement.





3a

Regulatory Barriers
(Agents 3-6)

Output: Database of barriers, each with a verbatim citation, the regulatory instrument with its number and year, an economic diagnosis, and a reform proposal.

3b

Administrative Procedures
(Agents 7-12)

Output: Database of each procedure, including the AS-IS workflow with quantified sources of friction, a TO-BE model, PlantUML diagrams with steps, requirements, processing times, obstacles, and actors.

Source: Authors' elaboration.

These capabilities were recently applied in Bolivia under the Tranca Cero simplification and deregulation initiative.[8] The tool enabled large volumes of sectoral regulations to be analyzed within weeks—rather than the months or years typically required by conventional methods—making it possible to highlight the main regulatory barriers and generate concrete proposals for administrative reform.

Beyond diagnosing problems, the methodology also contributed to redesigning administrative processes by producing optimized workflows and proposals for regulatory changes aimed at reducing the time, requirements, and number of interactions for citizens and firms. In its first six months of operation, RegLAC has been applied in seven countries, reviewing 3,582 regulatory provisions.[9]

AI can also contribute to a second dimension of administrative simplification: making regulations and procedures easier to understand and access. Generative models can transform complex documents into plain-language versions, reducing barriers to accessing information for citizens, businesses, and public officials. One example is Simplifica IA, developed by the city of São Paulo with technical support from the IDB. The tool uses language models to simplify legal opinions, memoranda, and administrative resolutions, significantly reducing the complexity of these documents and making them easier for users to understand (see Box 3, Case B).

The IDB is well positioned to support the region's deregulation and simplification agendas through three strategic areas of action. First, by providing artificial intelligence solutions designed to diagnose and quantify regulatory and administrative distortions. Second, by providing technical assistance to structure simplification programs that use AI as a management tool. Finally, by offering technical and methodological support to help governments assess AI solutions available on the market, adopt good practices, and build the institutional capacities needed to scale these tools sustainably.

Finally, the IDB can facilitate spaces for regional exchange to share experiences, promote peer learning, and support the definition of minimum standards for data quality and governance in the use of AI in regulatory processes.

8. Decree No. 5595/2026 establishing the Tranca Cero program.

9. The tool has analyzed regulations and administrative procedures in Bolivia, Argentina, Peru, Honduras, Colombia, Panama, and Ecuador.

Box 3:
Examples of Simplification and Deregulation

A. Statutory Research Assistant—STARA (United States)

- **Challenge addressed:** The accumulation of legal obligations scattered across the municipal code made it difficult to conduct systematic reviews and identify redundant, obsolete, or administratively low-value requirements.

- **AI solution:** Stanford RegLab developed STARA (Statutory Research Assistant), an AI system designed to conduct systematic legal reviews (statutory surveys)—comprehensive compilations of all relevant legal provisions on a given topic, including supporting annotations and reasoning. STARA can reproduce statutory surveys conducted by human experts with a high degree of accuracy and even identify provisions that were previously overlooked. Stanford RegLab worked with the San Francisco City Attorney's Office to analyze the municipal code and city resolutions, covering a regulatory corpus of approximately 16 million words. The objective was to identify legally mandatory reports dispersed throughout the code, many of them accumulated over time and with decreasing administrative value.

- **Result:** The tool generated an initial list of 528 mandatory reports, which were subsequently validated by the technical team. Based on this input, the City Attorney's Office initiated a consultation process with municipal agencies to determine which ones no longer served a relevant public function. A total of 174 redundant or obsolete obligations were identified (36% of the total) and subsequently repealed or consolidated through a legislative proposal.

This case is pioneering in showing how language models trained on legal texts can detect redundant patterns or unnecessary clauses that may escape traditional human analysis.

B. SIMPLIFICA IA (Brazil):

- **Challenge addressed:** The high complexity and limited accessibility of the language used in administrative and regulatory documents made them difficult for public officials and citizens to understand, creating barriers to implementation and access to information.

- **AI solution:** In 2024, the city of São Paulo developed the "Simplifica IA" program, a generative AI tool designed to simplify administrative documents, with technical support from the IDB. The solution uses language models to transform technical opinions, memoranda, and resolutions into versions written in clear and accessible language. The tool was initially implemented across several municipal departments and integrated into administrative workflows.
- **Result:** The application reduced the complexity of certain administrative texts by more than 80 percent, making them easier for both public officials and citizens to understand (Prefeitura de São Paulo, 2024). The case demonstrates the potential of integrating AI solutions directly into day-to-day administrative processes, extending their impact beyond one-off regulatory simplification exercises.

3.2 REGULATORY RULEMAKING

The regulatory rulemaking process spans from diagnosing a problem to drafting the final regulation. Throughout this workflow, regulators must collect, process, and analyze large volumes of economic, social, legal, and sector-specific information, as well as assess different regulatory alternatives and their potential impacts before making a decision. Regulatory processes must also incorporate specialized knowledge and perspectives from multiple stakeholders, including different public entities, businesses, experts, and citizens through consultation and coordination processes.

These activities often require significant technical resources, lengthy processing times, and specialized capacities, which can lead to inconsistencies and disparities in the quality of regulatory analyses, as well as difficulties in incorporating input and feedback into regulatory design in a timely, consistent, and transparent manner.

First, AI can strengthen analytical capacity by facilitating the collection, organization, and synthesis of evidence for the assessment of regulatory alternatives. These tools can identify relevant patterns, structure information from multiple sources, and generate inputs for regulatory impact analyses, helping ensure that regulatory decisions are based on broader, more consistent, and more timely information. For example, the Government of Brazil has an AI-based regulatory cost calculator developed with support from the IDB,[10] which identifies obligations set out in regulations and estimates their costs, strengthening the systematic and scalable assessment of regulatory impacts during the rulemaking process (see Box 4, Case A). Similarly, Australia's Office of Impact Analysis has run pilots to help gather, structure, and

synthesize the information used in regulatory impact analyses, cutting analysis time and standardizing the quality and availability of inputs (see Box 4, Case B). Nevertheless, assessing market failures, weighing regulatory costs and benefits, and selecting the most appropriate alternative still require economic analysis and expert judgment—areas in which AI can provide support but cannot serve as a substitute.

Second, AI can strengthen public participation by systematically processing information from public consultations and interagency coordination processes.

These tools can classify submissions, identify recurring patterns, detect emerging concerns, and produce structured syntheses that make it easier to incorporate evidence and feedback into the regulatory process.

The Government of the United Kingdom developed Humphrey, a tool that enabled the analysis of more than 25,000 public comments, reducing processing times by more than 80% and improving the consistency and traceability of the analysis (see Box 4, Case C). Similarly, the Treasury Board of Canada Secretariat uses AI to analyze responses to public consultations and identify recurring themes and emerging risks (see Box 4, Case D).

The applications described above rely primarily on large language models (LLM)[11] and generative artificial intelligence (GenAI)[12] tools,which can analyze large volumes of information, synthesize complex evidence, and generate context-aware content. These technologies can be tailored to specific regulatory frameworks through techniques such as fine-tuning, prompt engineering, or information retrieval over relevant regulatory corpora. In all cases, AI serves as a cognitive assistant, expanding regulatory teams' capacity to collect, organize, and analyze information, process evidence, and manage consultation and coordination processes. The definition of regulatory objectives, the assessment of whether intervention is warranted, and the final decision on the design of the regulation, however, remain the responsibility of the competent authorities.

The IDB can support the region's governments in bringing artificial intelligence into regulatory rulemaking through technical assistance, methodological guidance, and support for evaluating and adopting technological solutions. It can also facilitate the exchange of experiences among countries and experts, promote peer learning, and help strengthen institutional capacities and governance frameworks that enable these tools to be used responsibly and transparently, in line with the principles of better regulation.

10. Developed under PBL BR-L1635 Institutional Reforms to Enhance Competitiveness and improve the Business Environment

11. Algorithms trained on large volumes of text that can understand and generate natural language with contextual coherence, traceability, and the ability to adapt to different domains.

12. A subtype of AI capable of creating new content—including text, code, images, or audio—based on patterns identified in training data and input information.

Box 4:
Examples of Regulatory Rulemaking

A. Regulatory Cost Calculator (Brazil)

- **Challenge addressed:** Difficulty in systematically identifying, classifying, and measuring the regulatory costs associated with new regulations. Because the obligations that generate these costs are dispersed across complex legal texts, their review often relies on manual processes, limiting the ability to conduct consistent and scalable regulatory assessments.
- **AI solution:** The tool, based on natural language processing, identifies regulatory obligations imposed on firms, classifies them by type and stage of the business cycle, and estimates regulatory costs using statistical parameters and standardized methodologies inspired by OECD models. It includes automated processes for extracting and structuring information, noise-reduction algorithms, and expert-trained models. The solution was promoted by the IDB under loan BR-L1635 to strengthen regulatory assessment capacities.
- **Results:** Applied in sectors such as telecommunications and oil and gas in Brazil, the tool reduced the manual effort required for regulatory analysis, improved the consistency of cost estimates, and enabled more scalable, evidence-based regulatory assessments.

B. PILOT—Office of Impact Analysis (Australia)

- **Challenge addressed:** Preparing regulatory impact analyses is resource-intensive and time-consuming due to the manual collection and synthesis of economic, legal, and sector-specific evidence.
- **AI solution:** Under the Policy for the responsible use of AI in government (2024), the Australian Government has promoted generative AI pilots across key agencies, including the Office of Impact Analysis (OIA), which oversees the quality of regulatory impact analyses. The OIA has explored language models to support the collection, structuring, and synthesis of information relevant to regulatory analysis, automating tasks such as the review of economic evidence, the identification of potential impacts, and the organization of technical inputs needed for policy formulation (Australian Government, 2024).
- **Results:** The pilots have reduced the time required to prepare regulatory impact analyses and improved efficiency during the diagnostic phase, making it easier to process large volumes of information. They have also helped standardize the quality of the inputs used.

C. Humphrey (United Kingdom)

- **Challenge addressed:** Manually processing large volumes of citizen comments submitted through regulatory consultations is time-consuming and limits the ability to conduct systematic analysis.
- **AI solution:** The UK Government developed Humphrey, an AI tool that reviews and synthesizes responses to public consultations. In its initial application, Humphrey analyzed more than 25,000 comments from the consultation on the non-domestic smart meter policy. Language models were used to classify responses, group submissions by topic, identify recurring arguments, and produce structured summaries. The system also preserves traceability between its outputs and the original comments, enabling technical teams to verify the results. The tool was implemented in a controlled environment as part of a pilot evaluated by the AI in Government Programme, with continuous human oversight.
- **Results:** The tool reduced processing times from weeks to hours and generated a structured synthesis of the submissions received. An official evaluation by the AI in Government Programme reported reductions of more than 80% in analysis time and improvements in processing consistency while maintaining traceability of the results (UK Government, 2024b). The report also established ethical governance indicators, including algorithmic traceability, continuous human review (human-in-the-loop), and bias monitoring, and proposed their gradual integration into future public consultations (UK Government, 2024a; 2024b).

D. Treasury Board of Canada Secretariat (Canada):

- **Challenge addressed:** Difficulty in processing and synthesizing large volumes of citizen comments from public consultation processes, limiting the systematic incorporation of feedback during the design of regulations.
- **AI solution:** The Treasury Board of Canada Secretariat has used AI tools to analyze responses to public consultations as part of the federal public-sector AI strategy, including consultations related to financial regulation. These tools can process large volumes of text and organize submissions by topic, helping identify risk patterns, recurring concerns that may otherwise go unnoticed, and emerging issues. This supports regulatory decisions grounded in evidence rather than isolated perceptions.
- **Results:** AI enabled the structured synthesis of consultation submissions, facilitating their analysis and use as an input in policymaking (Government of Canada, 2025).

3.3 REGULATORY OVERSIGHT AND ENFORCEMENT

Regulatory oversight and enforcement are essential functions for ensuring that regulations are effectively implemented and produce the expected outcomes. Regulators, however, typically operate under information asymmetries vis-à-vis the entities they oversee, and they must process growing volumes of data from filings, reports, transactions, and other sources to detect potential instances of noncompliance. Since supervisory resources are limited, authorities must also decide where to target inspections and control actions, concentrating their efforts on the highest-risk cases.

First, AI can strengthen regulators' capacity to process and analyze large volumes of information, identifying patterns, anomalies, and early warning signs of noncompliance that would be hard to detect through traditional methods. These capabilities make it possible to analyze data from transactions, filings, regulatory reports, and even nontraditional sources such as satellite imagery or online information—significantly broadening supervisory coverage and narrowing information asymmetries. For example, Mexico's National Banking and Securities Commission developed a platform combining data infrastructure with machine learning models to analyze transactional data reported by financial institutions, generate alerts, and identify atypical transactions, thereby strengthening the supervisor's monitoring capacity (see Box 5, Case A). Similarly, the Australian Securities and Investments Commission uses AI tools to extract information from regulatory documents, detect potentially misleading communications, and monitor fraudulent online platforms—making it possible to oversee information sources that were previously hard to process given capacity constraints (see Box 5, Case B).

Second, AI can strengthen risk-based supervision by identifying patterns associated with noncompliance and prioritizing the cases that call for regulatory attention. These tools help direct inspections and control actions toward the areas most likely to be noncompliant, optimizing the use of scarce resources and making supervisory decisions more consistent. The United Kingdom's Financial Conduct Authority has explored the use of machine learning and anomaly detection techniques to strengthen surveillance of market abuse and improve the early identification of irregular conduct in increasingly complex financial environments (see Box 5, Case C). These capabilities open the way toward more predictive, risk-based oversight frameworks—optimizing scarce resources, broadening supervisory coverage, and strengthening the consistency of regulatory enforcement processes. They may also promote greater regulatory fairness by applying more systematic and transparent criteria when selecting cases for oversight.

The applications described above fall within the broader field of supervisory technology (SupTech), which uses AI and advanced analytics to strengthen regulators' monitoring and enforcement capabilities. At this stage of the regulatory cycle, the most commonly used technologies are machine learning[13] and anomaly detection. These technologies can identify behavioral patterns and classify regulated entities by risk level using historical

data on inspections, sanctions, and compliance reports.

In this area, the IDB's work focuses on strengthening risk-based oversight systems through technical assistance to develop regulatory data architectures, interoperability standards, and governance frameworks for the responsible use of AI. It can also facilitate the exchange of international experiences, promote peer learning, and support the assessment and adoption of technological solutions that can strengthen regulatory oversight and compliance.

13. A core AI technology that uses supervised, unsupervised, or reinforcement learning algorithms to identify patterns and improve performance over time.

Box 5:
Examples of Regulatory Oversight and Enforcement

A. National Banking and Securities Commission (CNBV) (Mexico):

- **Challenge addressed:** Financial oversight is constrained by information asymmetries and the fragmented processing of large volumes of transactional data reported by regulated entities.
- **AI solution:** Under the international RegTech for Regulators Accelerator (R^2A) program, the CNBV developed a centralized data platform that receives transactional data directly from financial institutions through secure application programming interfaces (APIs). The platform combines advanced analytics with machine learning models to generate alerts, statistical reports, and risk dashboards. The system can identify unusual transactions and customers and support the prioritization of on-site inspections, improving resource allocation and the supervisor's response capacity. By combining robust data infrastructure with predictive analytics, the CNBV reduced information asymmetries and strengthened the traceability of regulatory compliance (di Castri, Grasser and Kulenkampff, 2018). The CNBV is among the first authorities in the region to deploy artificial intelligence and SupTech to strengthen financial oversight.

- **Result:** The platform improved access to and processing of supervisory information, facilitating the detection of atypical transactions and supporting more targeted, risk-based oversight. These tools help prioritize resources and target inspections while keeping decision-making under human oversight.

B. Australian Securities and Investments Commission (ASIC) (Australia)

- **Challenge addressed:** High volumes of unstructured information in financial markets, including prospectuses, reports, and digital content, make it difficult to identify risks, noncompliance, and fraud in a timely manner.
- **AI solution:** ASIC uses algorithms to extract key information from disclosure documents, including prospectuses and annual reports, and classify them by risk, significantly reducing the time and effort required for review. It is also developing AI tools to identify misleading or noncompliant material in promotional communications. In addition, it uses rapid-response capabilities, including its fraudulent website takedown service, to scan for and quickly dismantle illegal and fraudulent platforms targeting online investors.
- **Result:** Improved risk detection by enabling oversight of data sources that were previously beyond analytical capacity (ASIC, 2024; GL Solutions, 2025).

C. Financial Conduct Authority (FCA) (United Kingdom)

- **Challenge addressed:** Detecting market abuse in increasingly complex financial environments, where the volume of data and sophistication of trading strategies make it difficult to identify irregular conduct in a timely manner.
- **AI solution:** According to its AI Update (2024), the FCA is exploring how anomaly detection techniques and other machine learning methods can strengthen market abuse surveillance, particularly in response to increasingly complex trading strategies. The document emphasizes that the use of AI in this area must be managed within robust governance and model risk frameworks, with particular attention to data quality and provenance, transparency, and the ability to explain model outputs.
- **Result:** These capabilities show potential to improve the detection of irregular conduct in complex financial markets by expanding the capacity to monitor and analyze data.

4. Cross-Cutting Enablers: Conditions to Scale and Sustain Adoption

Implementing AI in regulatory processes is not a purely technological exercise: it requires institutional enabling conditions to scale solutions, ensure their sustainability, and safeguard the legitimacy of the regulatory process.

Consistent with the Artificial Intelligence Framework for the IDB Group,[14] responsible AI adoption rests on three interdependent pillars: (i) institutions and governance, (ii) data and infrastructure, and (iii) people. In the regulatory sphere, these pillars are the core enabling conditions for embedding and scaling AI use effectively and responsibly.

4.1 INSTITUTIONS AND GOVERNANCE

Adopting AI in the regulatory function requires governance mechanisms to manage the risks associated with these technologies and ensure their responsible use.[15] In the regulatory sphere, one of the main challenges is ensuring that the analyses, recommendations, or alerts produced by AI systems are consistent with the principles of better regulation—and that, when they inform public decisions, they can be understood, audited, and justified. It is also essential to preserve the role of public authorities as ultimately accountable for regulatory decisions, so that AI serves solely as a tool to support analysis and never as a substitute for regulatory judgment.

Key risks include the use of incomplete or poor-quality information, the reproduction of biases present in the data, the limited explainability of some models, and the misuse of automated outputs in processes that call for technical judgment or regulatory discretion.

14. Inter-American Development Bank (IDB). 2025. Artificial Intelligence Framework for the Inter-American Development Bank Group Washington, D. C.: IDB.

15. In Latin America and the Caribbean, the adoption of these frameworks is still at an early stage. Fewer than one-third of countries have formal guidelines for the responsible use of AI in the public sector, and only a small number have made progress in developing specific strategies for algorithmic transparency and data governance (OECD, 2023; ECLAC, 2024).

International experience suggests that these risks can be mitigated through gradual—and, where appropriate, experimental—approaches to adoption that incorporate continuous human oversight (human-in-the-loop), output validation, documentation of AI-assisted decisions, periodic audits of models and data, clear accountability arrangements, and guidelines for managing errors. In Bolivia, for example, the AI tools used to support regulatory review exercises incorporate specific protocols for handling the information analyzed, systematizing results, documenting the processes performed, and carrying out final validation by the responsible specialists—ensuring that the regulatory decision remains under human control. AI should therefore be viewed as a tool that supports the regulatory function rather than as a substitute for the state's technical and public judgment.

4.2 DATA AND INFRASTRUCTURE

Adopting AI in the regulatory function also depends on institutions' capacity to access, organize, and reuse regulatory information systematically. Although current technologies can analyze regulatory documents in a variety of formats, including unstructured text, the quality and usefulness of their outputs still depend on the availability and accessibility of the information fed into these systems.

In many countries of the region, regulatory information is scattered across different institutions, levels of government, and document repositories. Regulatory stocks often suffer from fragmentation, incomplete metadata, inconsistent versions, and limited traceability of amendments, repeals, or relationships among regulations. These shortcomings make it difficult to build a comprehensive view of the current regulatory framework and constrain the use of AI tools for tasks such as regulatory review, identification of regulatory burdens, and comparative analysis. They also constrain the integration of information from multiple sources needed to conduct more robust regulatory impact analyses or develop risk-based oversight systems that combine regulatory, economic, administrative, and compliance data.

Sustained AI adoption in the regulatory function therefore requires strengthening the regulatory information infrastructure through integrated repositories, common standards for classifying and cataloging regulations, interoperability mechanisms across institutions, and appropriate protocols for quality, privacy, and cybersecurity. These capabilities make it possible to connect information from different public entities, improve the traceability of the regulatory framework, and support the development of AI applications that are more accurate, scalable, and useful for regulatory decision-making.

4.3 PEOPLE

Sustainably adopting AI in the regulatory function requires human and organizational capacities to incorporate these tools effectively in regulatory processes. While the availability of specialized technical talent remains important, a key challenge is building in-house capacity to identify use cases, interpret results, and use these tools to support regulatory decision-making.

In the regulatory sphere, this means strengthening competencies that combine regulatory knowledge, analytical skills, and an understanding of both the potential and limitations of AI. For example, the teams responsible for regulatory simplification, regulatory impact analysis, or risk-based supervision need to be able to ask the right questions, validate the outputs of AI systems, and critically assess the evidence these tools produce. Effective AI adoption depends as much on technical skills as on institutional capacity to integrate these new instruments into existing workflows.

AI adoption may also entail organizational changes, new mechanisms for collaboration between regulatory specialists and technology teams, and continuous learning opportunities to share experiences and good practices. Regulators can strengthen this process through training programs, communities of practice, specialized units, and methodological tools that support the design, implementation, and assessment of AI projects in the regulatory function.



5. Conclusions

Artificial intelligence is driving an unprecedented shift in how governments perform their regulatory function.

By enabling the analysis and leverage of volumes of information that were once too complex or cost-prohibitive to process, AI does more than just streamline existing tasks—it scales up how broadly, deeply, and frequently governments can design, review, and oversee regulations.

The shift is particularly relevant because much of the regulatory function involves processing large amounts of legal, economic, and administrative information.Traditional approaches relied heavily on manual processes that were time- and resource-intensive, while recent advances in language models enable governments to work directly with large volumes of regulatory text, even when the information is not fully structured. As a result, governments can carry out continuous assessments that were previously too costly, slow, or difficult to standardize at scale.

These capabilities have direct implications for the different regulatory functions. In regulatory simplification, AI enables governments to review large regulatory inventories in considerably less time, facilitating efforts to streamline and review the regulatory stock that were previously infrequent or too costly to undertake. In regulatory rulemaking, it offers new opportunities to strengthen ex ante analysis and expand the availability of evidence for assessing regulatory alternatives. In oversight and enforcement, it enables a shift toward more preventive and risk-based approaches, reducing information asymmetries between regulators and regulated entities.

The potential impacts of these technologies extend beyond operational efficiency gains. They can also strengthen the effectiveness of the regulatory function by expanding the state's ability to identify distortions, prioritize reforms, and sustain more continuous and evidence-based processes. In this regard, AI not only reduces the costs of processing information but also structurally changes the scale and depth at which governments can develop regulatory improvement policies.

AI also offers an opportunity to redefine traditional regulatory assessment methodologies by facilitating access to and processing of information that was previously difficult or costly to use. This can significantly expand the ability to incorporate economic, legal, and administrative evidence at different stages of the regulatory cycle. At

the same time, it opens new opportunities for collaboration among governments, academia, and the private sector to develop tools, capabilities, and technological solutions tailored to the region's regulatory challenges. It also allows regulatory teams to focus their efforts on regulatory design and innovation and on the analysis of complex cases, among other areas.

In this context, the IDB can help government across the region integrate AI throughout the regulatory cycle by combining technical assistance, tool development and adaptation, capacity building, and the exchange of international experiences. This support can span the analysis and simplification of regulatory and procedural inventories, the use of AI in rulemaking, and the strengthening of risk-based oversight systems. The Bank can also help establish the enabling conditions needed to implement and scale these solutions, including data architectures, interoperability, and governance frameworks for the responsible use of AI in regulation.

Nevertheless, AI should be understood as a tool to support the design and promotion of better regulatory outcomes, not as a substitute for the state's institutional capacity. Its impact will depend on the existence of appropriate institutional arrangements, technical capacities, data governance, and public leadership to translate these analytical inputs into effective regulatory reforms. Technology can amplify existing capacities, but the sustainability and legitimacy of regulatory improvement processes will continue to rest on institutional design and on governments' ability to implement and sustain reforms over time.



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