



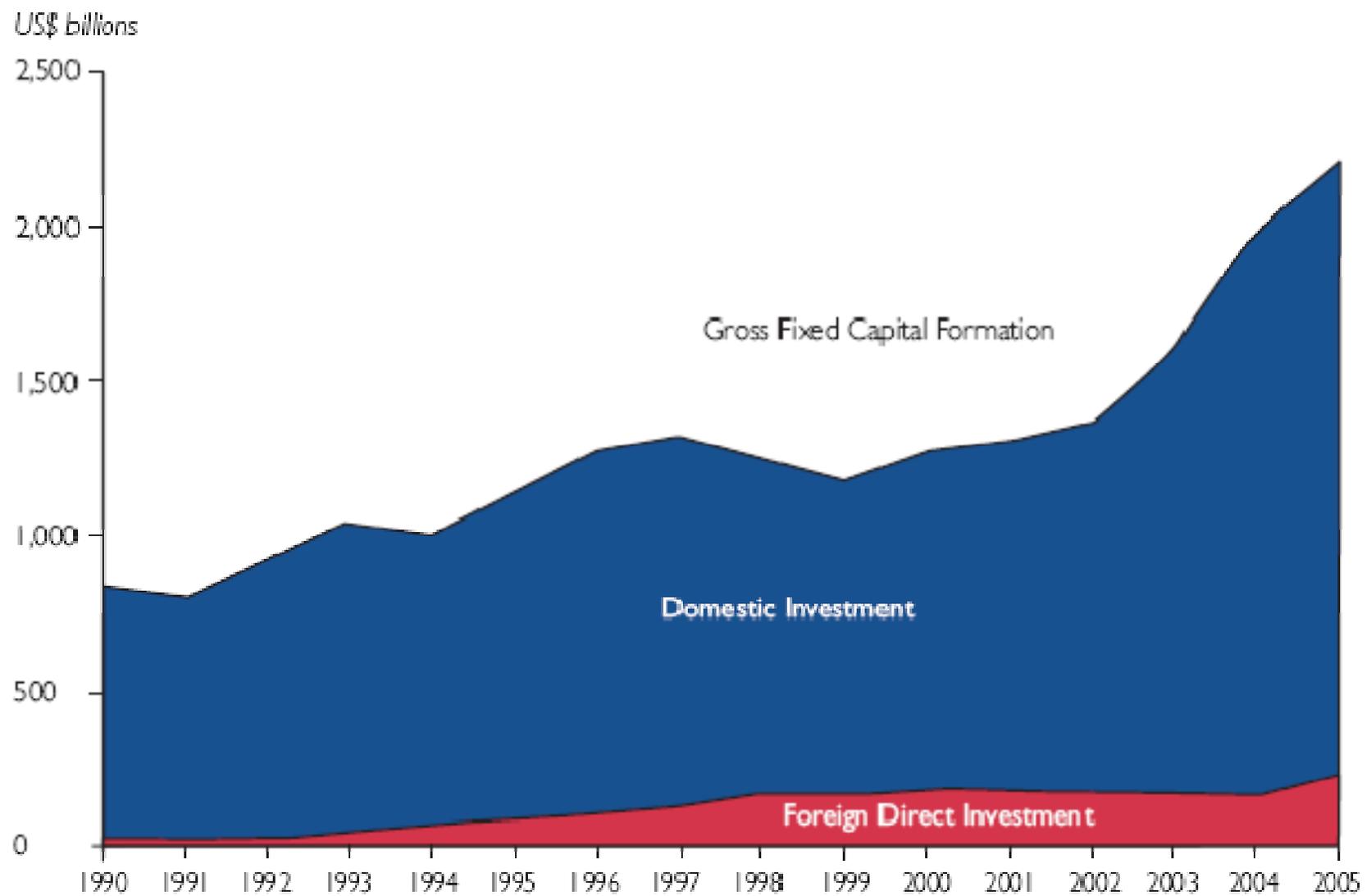
**USAID**  
FROM THE AMERICAN PEOPLE

# Laws and Regulations: What They Are & Why They Matter to Investors

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Office of Economic Growth  
Bureau for Economic Growth, Agriculture and Trade

DLI Presentation  
Washington, DC  
April 15, 2010

# What Is Investment?



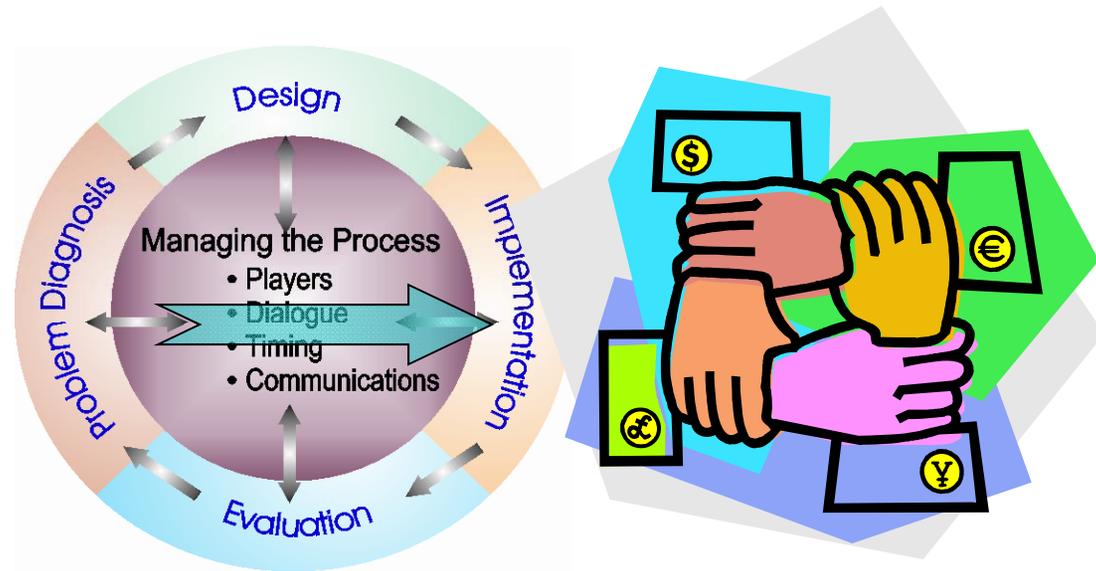
# What is Law?



Laws: Promulgations by an official government body  
That either *permit* or *prohibit* some form of behavior,  
and which the promulgating authority will enforce  
through benefits and sanctions.

**Laws = Tools**

# What is Law?



# Why Does Law Matter?

## Balancing the Elements of Growth



The Shiman/Channell *Absolute and Universal* **Laws of T&I:**

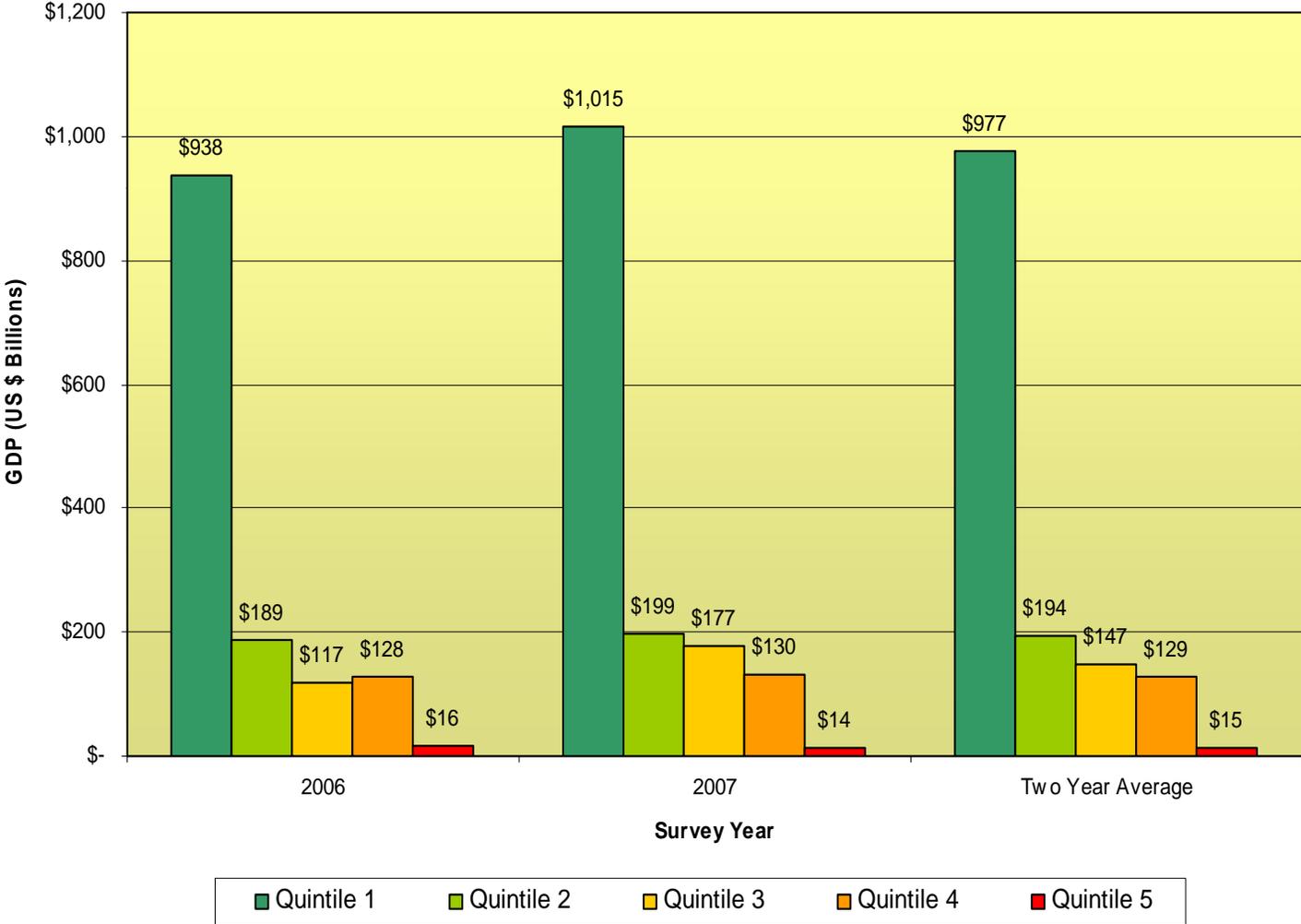
Revenues  $<$  Cost + Risk  Bankruptcy

Revenues = Cost + Risk  Subsistence

Revenues  $>$  Cost + Risk  Prosperity

# Laws and Regs Matter for Business Success

Average GDP by World Bank Doing Business Rank (By Quintile)



# The Impact of Business Regulation

Compared to advanced countries, businesses in developing countries face . . .

- **3x** administrative costs
- **2x** bureaucratic procedures and delays
- $\frac{1}{2}$  protection of property rights

## Poor regulation hinders business start up and operations

Registering a business takes **2 days** in **Australia**

. . . but **233 days** in **Guinea-Bissau**

Exporting requires **3 documents** in **Tanzania**

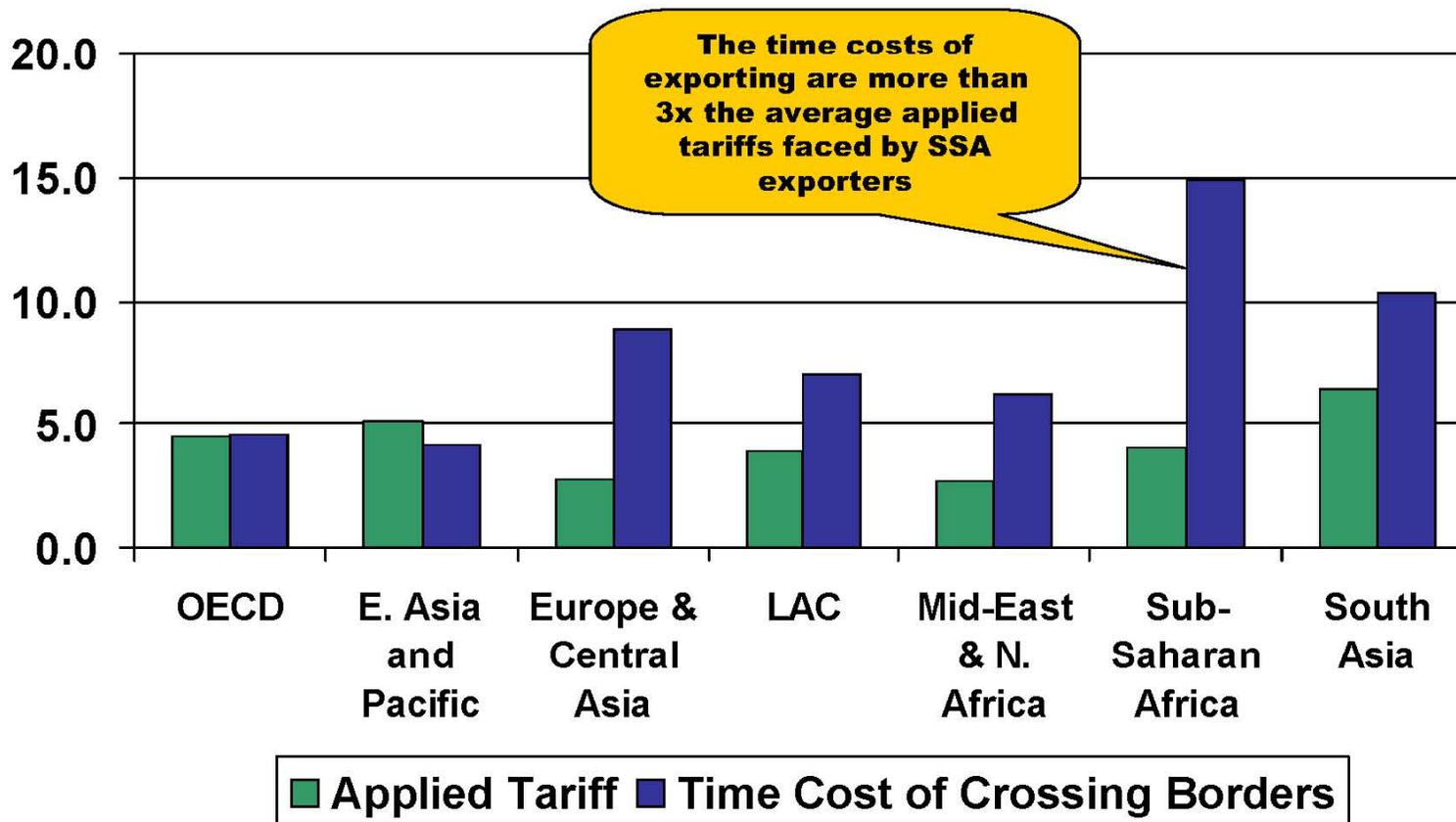
. . . but **16 documents** in **Zambia**

Enforcing a contract costs **6% of the claim** in **Korea**

. . . but **227% of the claim** in **Sierra Leone**

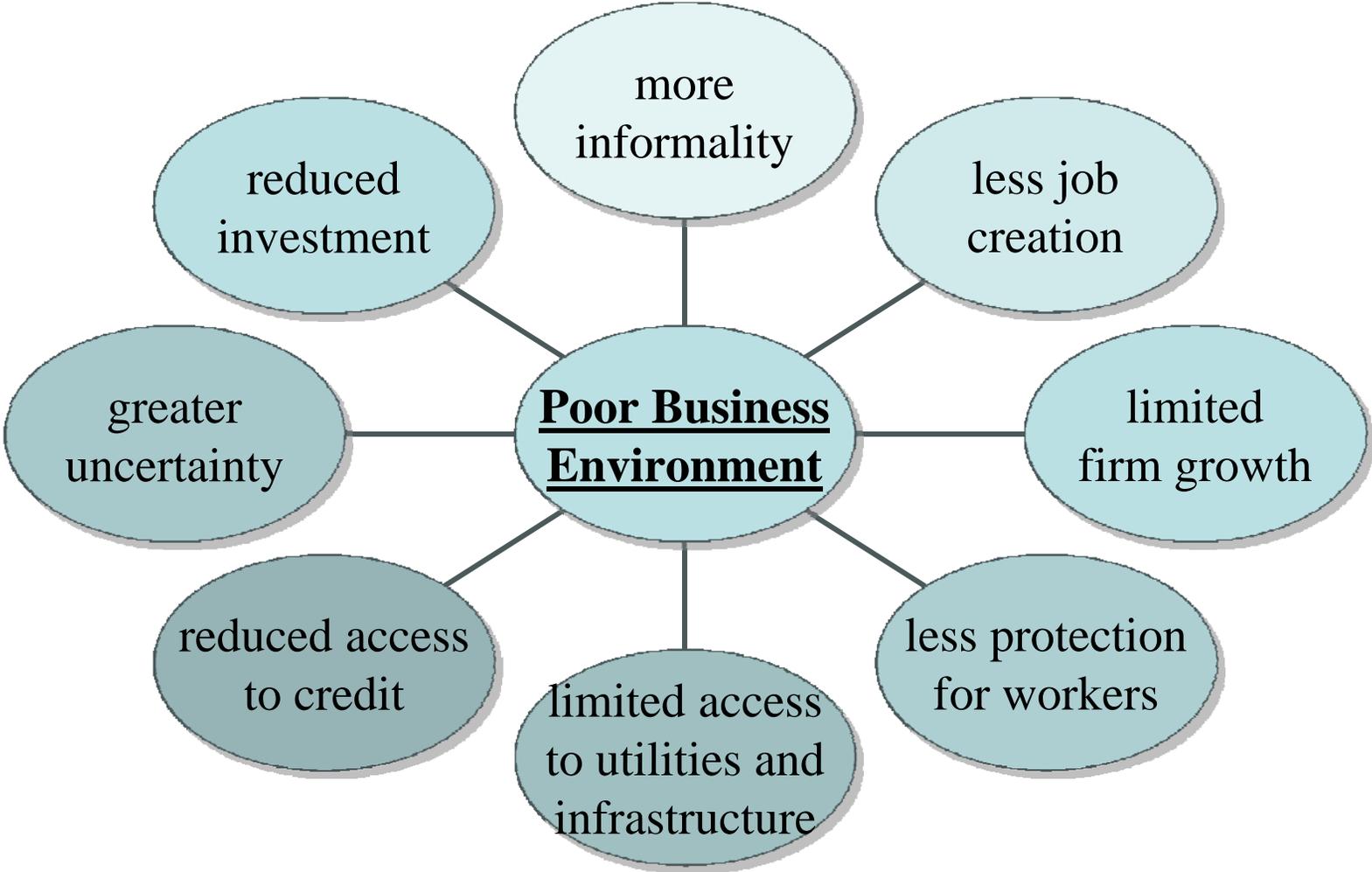
# Poor regulation is strangling the private sector

(Average Ad-Valorem Tariff Rates and Tariff Equivalent of Time)

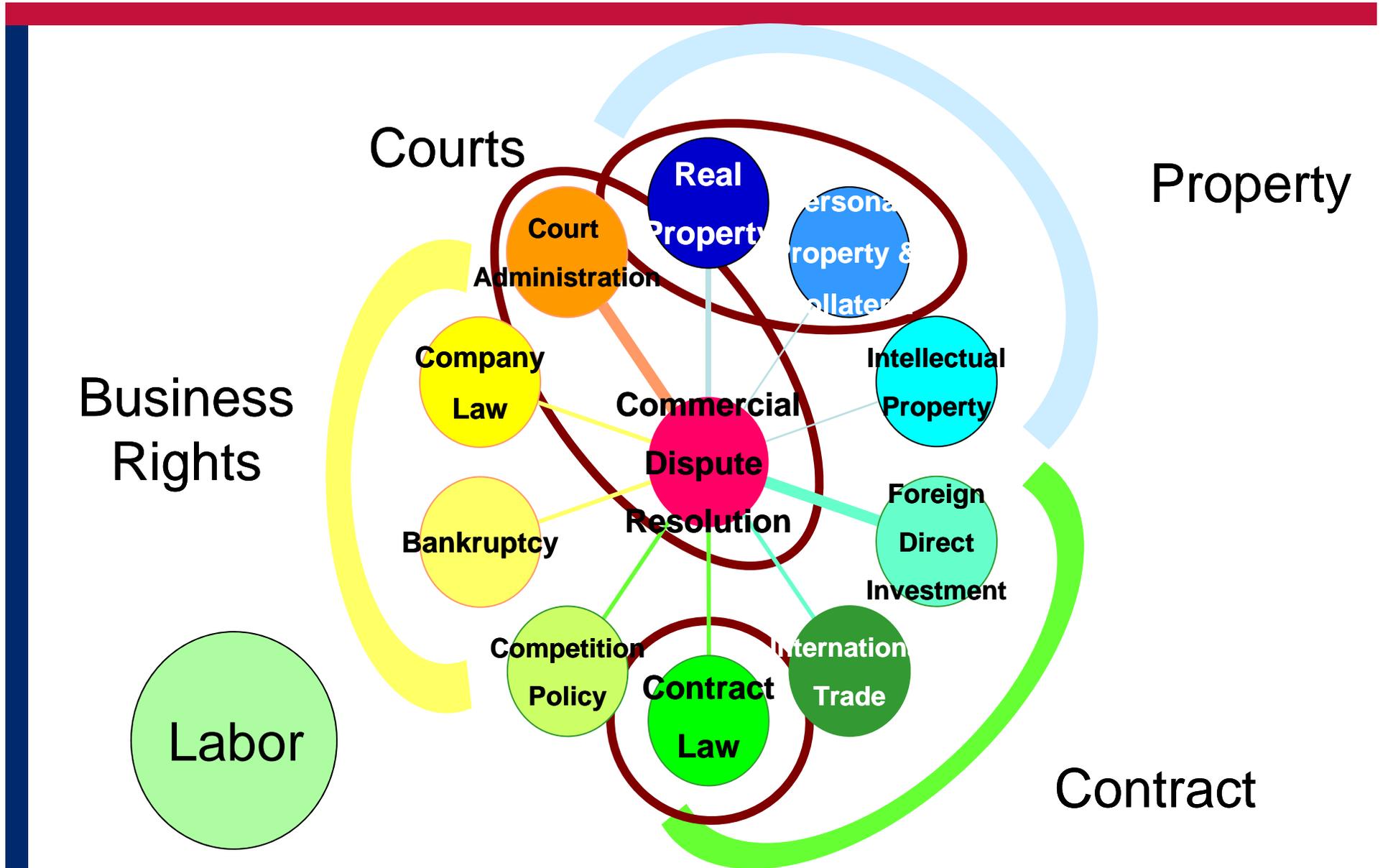


Source: Hummels 2007

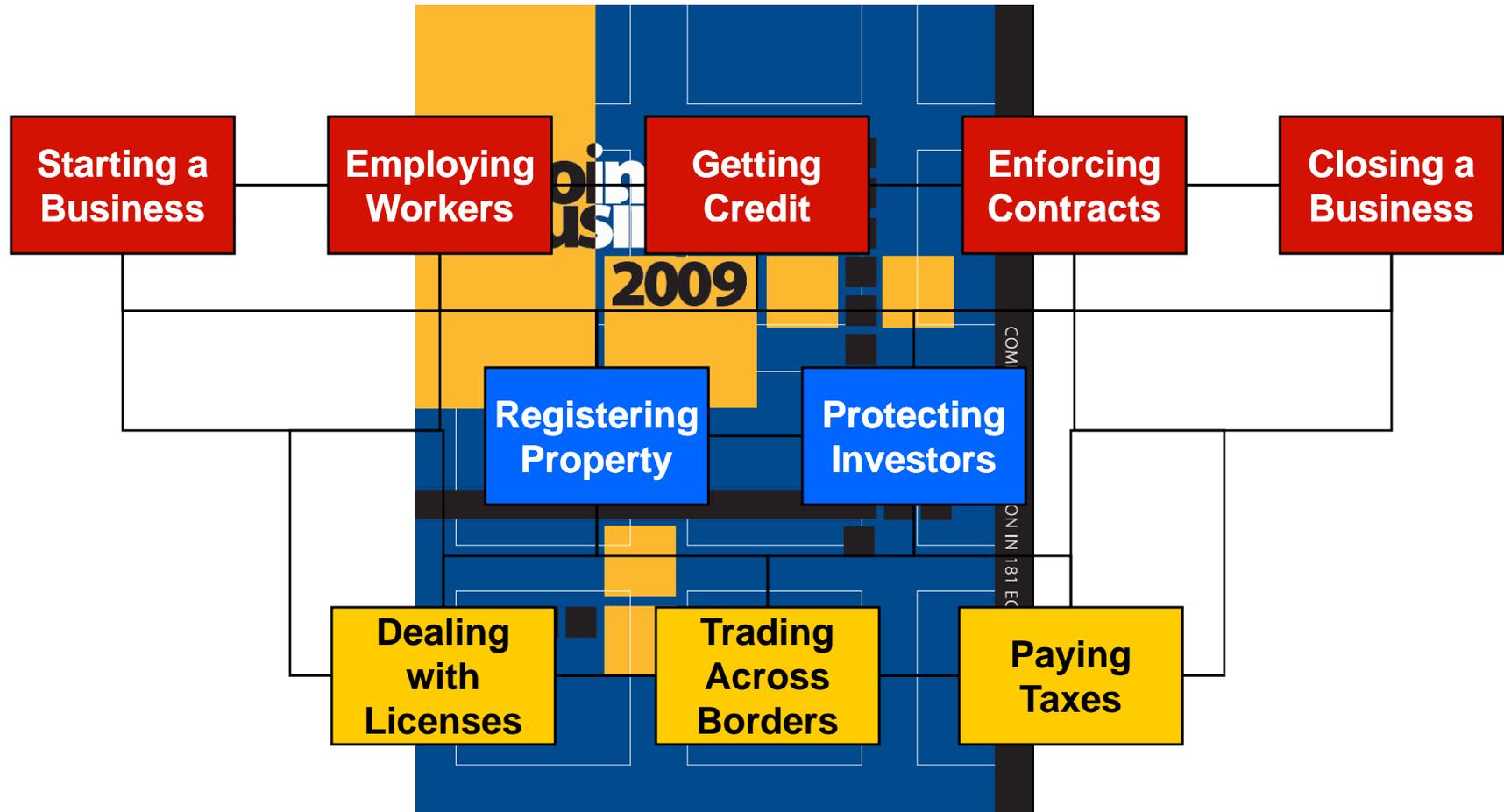
# Consequently . . .



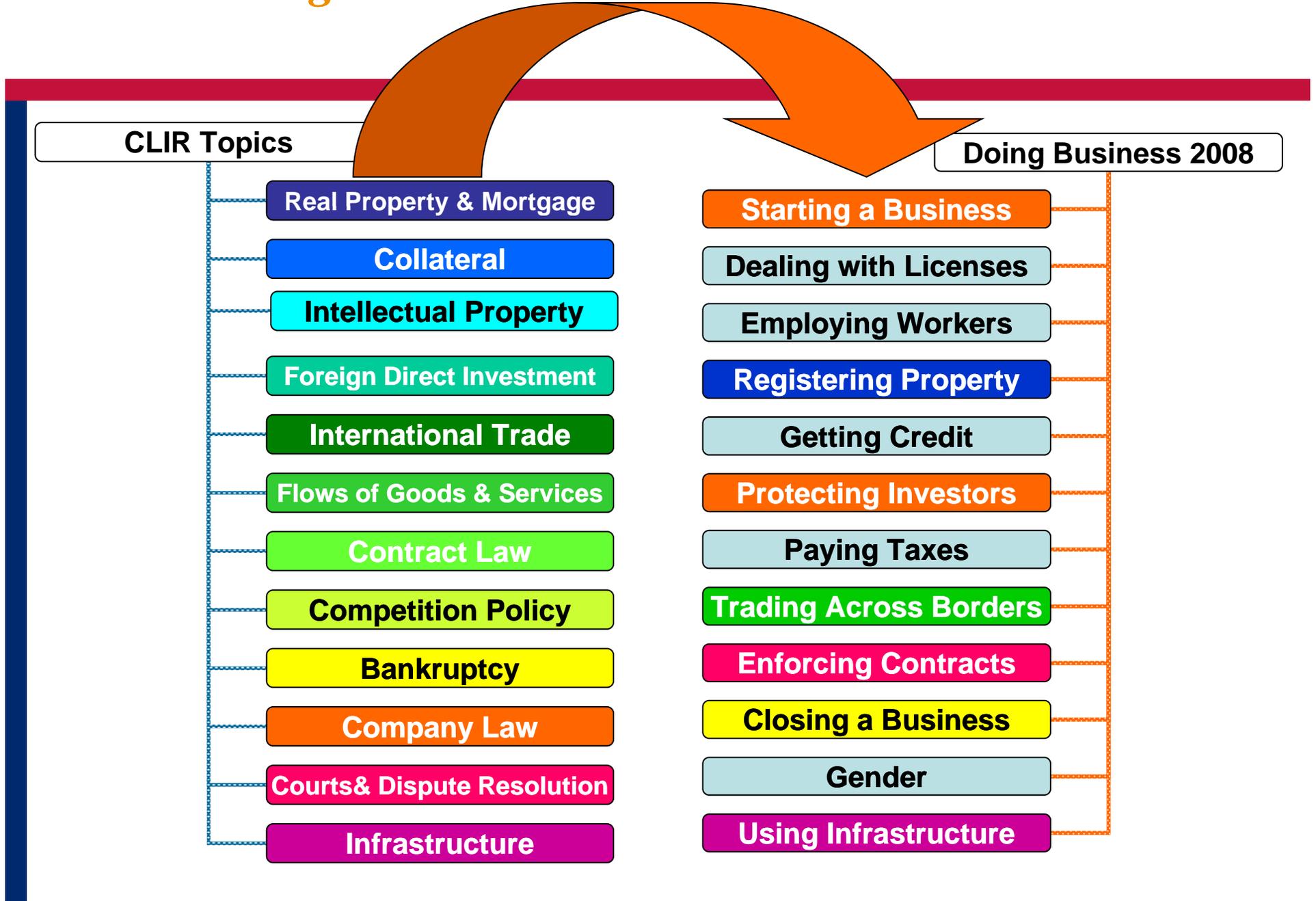
# Important Tools: Foundational Laws



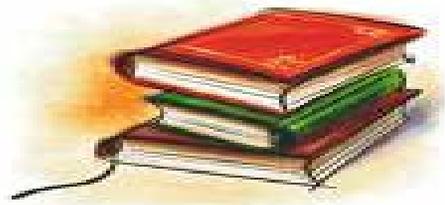
# The Neglected Stepchild: *Regulation*



# CLIR to *Doing Business* Crossover



# But Laws Are Not Enough: The CLIR Approach



**Black Letter Law**



**Implementing Institutions**

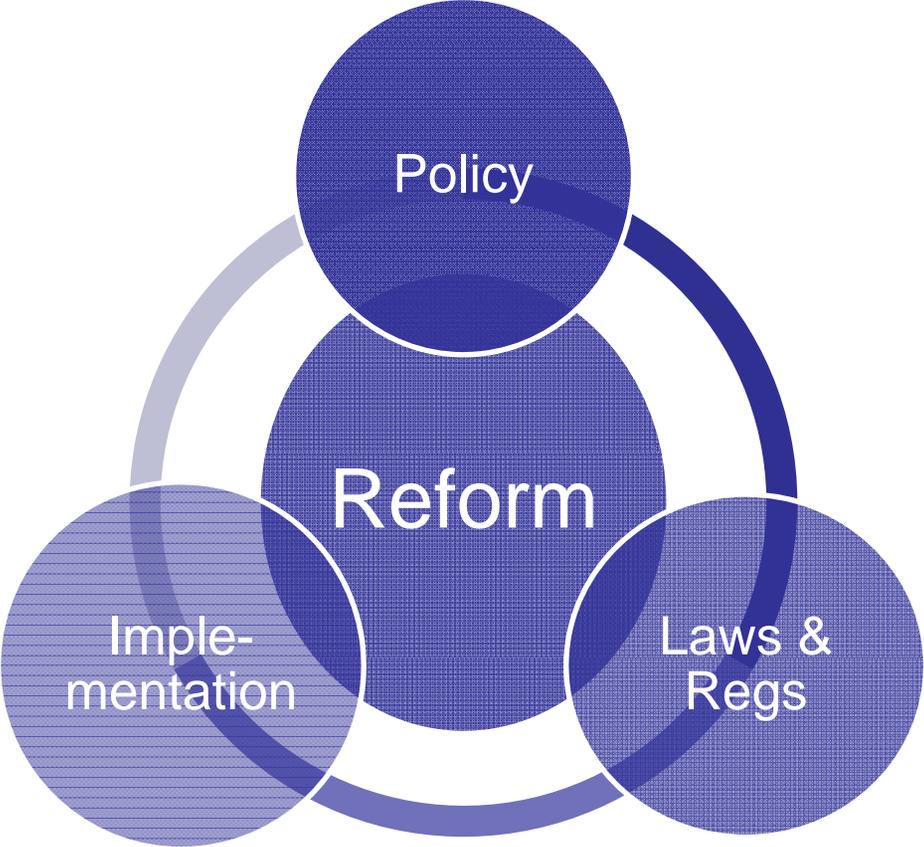


**Supporting Institutions**



**Social Dynamics**

# Reform: One System, Three Parts



# From Policy to Law to Reform

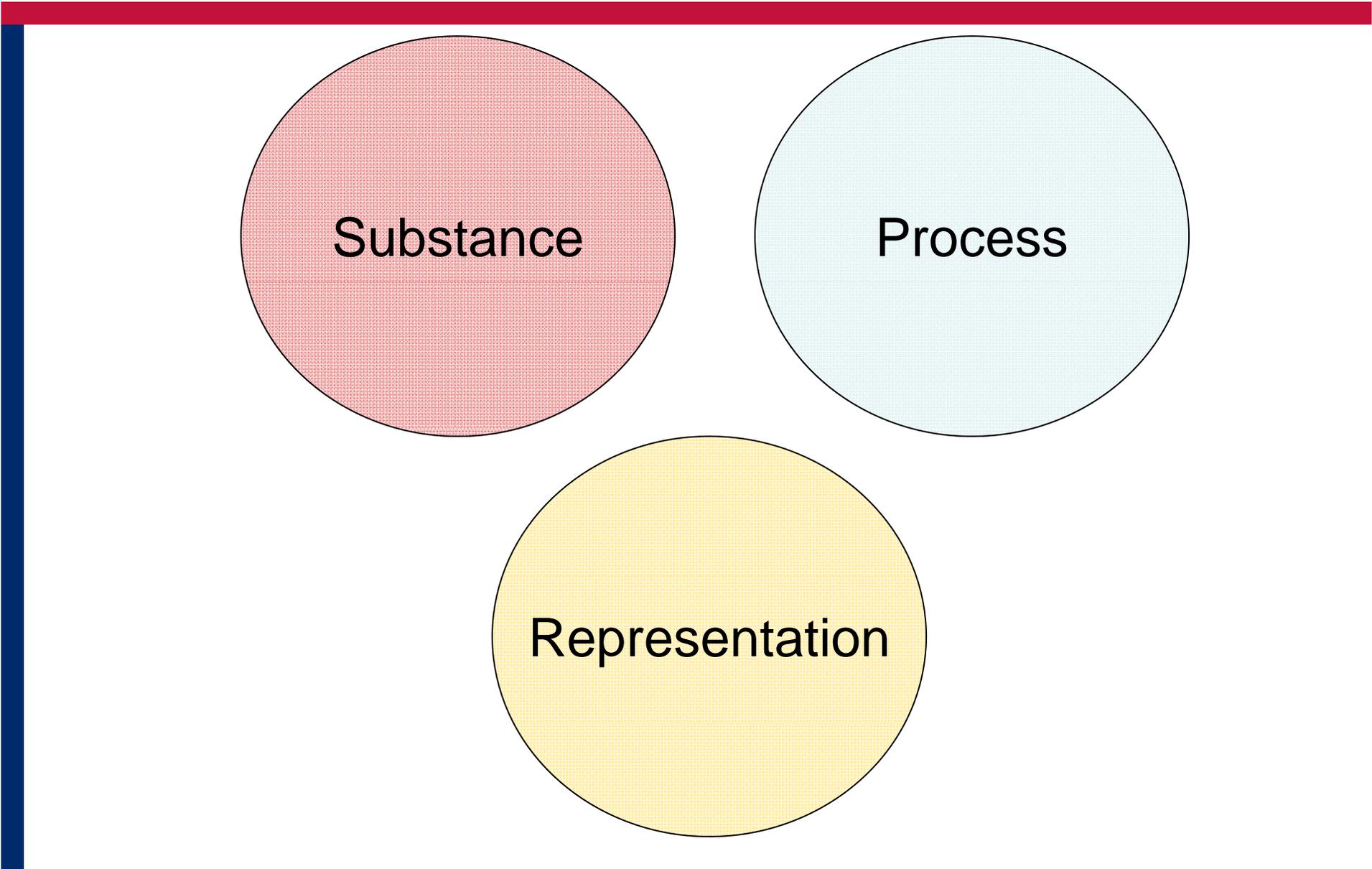
## Where to start



## Three Guidelines

- **Demand**  
Private Sector
- **Demand**  
Government
- **Demand**  
Donors

# The Ultimate Challenge: *Legitimacy*



Substance

Process

Representation

# Pursuing Systemic Change: EG Portfolio Implications

## Issue to address

## USAID project

Access to credit

**RISK**

- Microfinance program
- Collateral registries

Entrepreneurship

**SMEs**

- Business registration program
- Employment regulations

Trade

**CUSTOMS**

- Business procedures and practices

Agriculture

**INVESTMENT  
CLIMATE**

- Land registration
- Contract enforcement

# Lessons Learned



# MISTAKES

IT COULD BE THAT THE PURPOSE OF YOUR LIFE IS  
ONLY TO SERVE AS A WARNING TO OTHERS.