



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID AND MICROECONOMIC REFORM

SUMMARY OF USAID SUPPORT

ACTIVITIES REPORTED BY FIELD MISSIONS, JUNE 2004
Bureau for Economic Growth, Agriculture and Trade, Office of Economic Growth

SUMMARY

Microeconomic reform plays a large and growing role in USAID's programs to promote economic growth overseas. Almost every USAID field mission has implemented microeconomic reform programs, with extensive activities in well over half of the 75 countries where USAID has a presence. Both the number and breadth of microeconomic policy reform activities are increasing in every region and have reached a cumulative funding total of nearly \$3 billion.¹

USAID field missions have initiated more than six hundred microeconomic reform activities, covering the following nine categories of policies and regulations.²

- Investment approvals and processing
- Business operations
- Contract enforcement, dispute resolution, bankruptcy
- Labor markets
- Markets for credit or equity finance
- Import/export procedures
- Intellectual property rights
- Sector-specific regulations affecting investors
- Local/regional and national tax regimes

The impact of USAID's assistance in microeconomic reform is exemplified by its work in Jordan. As one of its projects following an Investors' Roadmap analysis, USAID supported the government in re-engineering its company registration process. As a result, the number of required forms reduced from five to one and processing time decreased from over two weeks to 30 minutes. Similar successes are found throughout USAID's programs, including in Morocco's court system, where the time to complete a case dropped from 227 days in 2001 to 97 days in 2003. In Ghana, because of USAID's intervention, the number of days to clear goods at the port is currently 3 days, down from 10 days in 2000.

The publicity generated by the recent publication of the World Bank's *Doing Business in 2004* has galvanized support for microeconomic reform throughout the world. *Doing Business* complements the World Economic Forum's *Global Competitiveness Report*, further expanding the resources available to countries and USAID field missions for designing and implementing effective microeconomic reform projects. The benchmarking approach of these publications stimulates peer pressure and spurs governments to action, providing an excellent opportunity for USAID to capitalize on this new momentum for reform.

¹ Estimate based on 66 reports from USAID field missions on their activities in this area over the past 15 years. This figure may underestimate activities that pre-date the current field mission staff who prepared the reports, but may overestimate the funds attributable to microeconomic reform in cases where it is only one component of a larger economic growth program.

² These nine categories are based on those used in the World Bank's *Doing Business in 2004* report and database.

USAID SUPPORT FOR MICROECONOMIC POLICY REFORMS

In June 2004, USAID surveyed its field missions to determine the extent of past and current engagement in microeconomic reform initiatives. The data confirm that USAID's long-standing commitment to microeconomic reform is amply demonstrated by the significant results achieved in countries throughout the world and by the increasing number, value, and importance of these activities in every region. Rarely is microeconomic reform a stand-alone project; rather, it is usually one component in a more comprehensive economic growth program, often with a sectoral focus. This shows that microeconomic reform is well-established as an essential element of USAID's strategy for economic growth, but it also presents a challenge to isolate and aggregate these activities.

USAID's approaches to microeconomic reform are diverse. Missions not only support legislative bodies and regulatory agencies, but also work to strengthen the capacity of local non-governmental organizations and business associations to advocate for reform. The most common reform activities undertaken world-wide aim to reduce the costs of business operations; the least common are those affecting labor regulations.

MICROECONOMIC POLICY REFORM IS INTEGRATED INTO USAID'S ECONOMIC GROWTH PORTFOLIO

USAID economic growth activities encompass the entire spectrum of private sector development needs – from direct firm support to improving the enabling environment. Typically, microeconomic policy reforms are part of larger, broader economic growth activities. In some cases, such as in Serbia, microeconomic policy reform is the central focus of the mission's economic growth portfolio.

For example, the USAID-supported Bulgarian American Enterprise Fund (BAEF) was designed to encourage investment and directly support businesses, but set aside a modest amount of funds for policy reforms that have resulted in considerable improvements in Bulgaria's microeconomic environment. The project developed mortgage finance legislation and pioneered mortgage lending programs in Bulgaria. BAEF also launched and supported the Special Purpose Investment Vehicle (SPIV) legislation to help create a secondary market for mortgage loans. The SPIV law was successfully adopted and banks now trade mortgage loan packages.

USAID COMMITMENT TO MICROECONOMIC POLICY REFORM IS SUBSTANTIAL, COMPREHENSIVE AND LONG-STANDING

More than 600 activities have been supported by USAID field missions amounting to nearly \$3 billion over a period of about fifteen years.³

The Asia/Near East region has implemented more than 200 activities over a fifteen year period totaling more than \$1.5 billion. The pace of this work is accelerating. Approximately half of the

³ See data quality concerns in footnote 1.

activities in this region are currently underway or recently concluded. Significant progress has been achieved throughout the region including in Vietnam, where USAID has been influential in the country's new Enterprise Law, Bankruptcy Law, and Customs Law among other policy areas.

The Europe/Eurasia region has also undertaken more than 200 activities, representing a total of more than \$1.2 billion over approximately ten years. Frequently, support for microeconomic policy reforms in the region began in the early 1990s. For example, USAID/Russia funded a Program on Natural Monopolies activity (\$5.5 million from 1994 to 1998), which facilitated structural policy reforms to improve the private sector investment approval process and address constraints in specific sectors. Russia is the most active mission in Europe/Eurasia with 23 activities completed and 11 activities currently in progress – together totaling over \$144 million in expenditures.

USAID missions in the Latin America/Caribbean (LAC) region have sponsored nearly 150 microeconomic reform activities, with a total life-of-project funding of more than \$300 million. Work in the LAC region is also deeply-rooted, dating at least back to 1987 with technical assistance to identify and eliminate constraints to private sector investment in Bolivia. In Ecuador, USAID assistance resulted in many structural reforms (including new intellectual property rights legislation) during the 1990-1998 period.

While the Africa region lags with around 80 activities and with total funding of approximately \$100 million over a period of approximately eight years,⁴ attention to the importance of microeconomic reform is increasing and missions report many activities in the planning stages. Projects in this region are often agriculture-related, such as reducing the government's control over agriculture prices in Kenya and facilitating the adoption of sanitary and phytosanitary regulations in Mali. USAID began to engage the Government of Kenya in policy reforms affecting trade and investment in agriculture in 1989. During the 1990s, several African countries benefited from *Investor Roadmap* diagnostic exercises.

Work on regulations affecting business operations is the most prevalent type of reform activity in every region. Activities in this category typically aim to remove or reduce administrative and regulatory barriers to private sector development. USAID works with entrepreneurs, business associations, and local and national government representatives to improve the legal and regulatory framework for businesses and to build support for further reform.

After business operations, reform priorities vary by region. Asia/Near East missions are focusing on sector-specific regulations and African missions on import/export procedures. Tax reform is a priority in Latin America/Caribbean and contract enforcement is a component of all Europe/Eurasia programs.

Both Latin America/Caribbean and Africa missions have demonstrated considerable success in the area of credit and equity finance, particularly in reforming regulations and legislation affecting non-banking financial institutions.

⁴ Unlike field missions in the other three regions, those in Africa tended to limit their reporting to funding for the current year. As a result, the "total" estimated for the Africa Region is lower than it would be otherwise. It is undoubtedly true that African missions have funded microeconomic policy reform activities at a lower level than in any other region – but the "gap" is much smaller than these estimates make it appear.

Across regions, reforming labor legislation and regulation is the least common activity undertaken.

The following table shows the distribution of USAID field missions by the number of microeconomic policy areas for which activities were reported.

Breadth of Microeconomic Policy Reform Activities*

Missions Engaged in Almost All Policy Areas (7-9)	Missions Engaged in Many Policy Areas (4-6)	Missions Engaged in Some Policy Areas (1-3)
Afghanistan	Albania	DR Congo
Central Asian Republics	Armenia	Ethiopia
Dominican Republic	Bangladesh	India
East Timor	Bolivia	Kenya
Egypt	Bosnia/Herzegovina	Madagascar
Georgia	Brazil	Malawi
Guatemala	Bulgaria	Mozambique
Honduras	Croatia	Nigeria
Indonesia	Colombia	Paraguay
Jordan	Ecuador	East Africa Region
Macedonia	El Salvador	Rwanda
Mongolia	Ghana	South Africa
Morocco	Haiti	Thailand
Nepal	Jamaica & Caribbean	West Africa Region
Nicaragua	Kosovo	Zimbabwe
Panama	Mali	
Philippines	Mexico	
Romania	Peru	
Russia	Southern Africa Region	
Serbia & Montenegro	Senegal	
Sri Lanka	West Bank/Gaza	
Ukraine		
Vietnam		
Zambia		

* Data does not include Cambodia, Guinea, Laos, Liberia, Pakistan, Sierra Leone, Tanzania, Turkey, Uganda, and Yemen

USAID'S SUPPORT FOR MICROECONOMIC POLICY REFORM TAKES MANY FORMS

USAID utilizes many different approaches to microeconomic policy reform including drafting or providing model legislation to governments; ensuring efficient and effective policy implementation by regulatory agencies; supporting the advocacy efforts of civil society and the private sector; and implementing diagnostic tools such as the Investors' Roadmap.

Frequently these approaches are combined, as in Nepal where USAID assistance focuses on energy sector reform. The process started with a review of Nepal's hydropower policy through discussions with private sector stakeholders and the Government of Nepal. USAID technical assistance developed options to streamline investment approval processes and is helping to draft a new hydropower policy.

Since 1995, Investors' Roadmap analyses have been conducted in every region. This tool identifies constraints on investment and business development through tracing all the steps required for an investor to become legally established and operational in a specific country – from business concept to commencement of production. USAID has also developed a Commercial Law Toolkit, among other diagnostic tools.

Field missions are adapting these tools to their specific needs and developing replicable innovations. For example, USAID/Jordan undertook an Entrepreneurs' Roadmap analysis as a specialized extension of the Investors' Roadmap. This project identified the costs and benefits for microenterprises to enter the formal sector and recommended a reform agenda for reducing these costs.

**USAID SUPPORT FOR MICROECONOMIC REFORM OFTEN INCLUDES THE ADOPTION
OF NEW TECHNOLOGY AND UPGRADING OF INFORMATION SYSTEMS**

Support to the Armenian State Tax Service (STS) demonstrates the effectiveness of blending technical assistance to improve the tax regime with reforming procedures and enhancing technologies. The Tax, Fiscal and Customs Reform Project included training STS staff to improve their capacity to administer tax legislation fairly, efficiently, and professionally. To enhance the technological capacity of the STS, the project developed, implemented, and conducted training on a new system to track taxpayer registration and ledger information to facilitate investigations of tax evasion. The project also prepared a complete, updated user's manual for the Armenian Tax Information Service (ATIS) and computerized eight tax offices in September 2003.

TYPES OF ACTIVITIES IN E&E REGION MISSIONS: RESPONSES FOR JUNE 2004

	ALBANIA	ARMENIA	BOSNIA & HERCEGOVINA	BULGARIA	CENTRAL ASIA	CROATIA	GEORGIA & AZERBAIJAN	KOSOVO	FYROM	ROMANIA	RUSSIA	SERBIA & MONTENEGRO	UKRAINE*
Private sector investment approvals													
Business operations													
Contract enforcement, dispute resolution, <i>etc.</i>													
Labor regulations													
Provision of credit or equity finance for businesses													
Import/export procedures													
Intellectual property rights (IPR) enforcement													
Sector-specific regulations affecting private investors													
Local/regional and national tax regimes													

* USAID/Ukraine reports for Belarus and Moldova activities.

Key

Green shaded boxes indicate activities at some time, including at least some underway

Striped boxes indicate only past activities in that area of microeconomic reforms

Blank boxes indicate no activities of that type.



TYPES OF ACTIVITIES IN ASIA & NEAR EAST REGION MISSIONS: RESPONSES FOR JUNE 2004

	AFGHANISTAN	BANGLADESH	CAMBODIA	EAST TIMOR	EGYPT	INDIA	INDONESIA	JORDAN	LAOS	LEBANON	MONGOLIA	MOROCCO	NEPAL	PAKISTAN	PHILIPPINES	SRI LANKA	THAILAND	VIETNAM	WEST BANK / GAZA	YEMEN				
Private sector investment approvals	Green	Green	Report pending.	Green	Green	Blank	Green	Green	Report pending.	Blank	Green	Green	Green	Report pending.	Green	Green	Blank	Green	Green	Report pending.				
Business operations	Green	Green		Green	Green	Blank	Green	Green		Blank	Green	Green	Green		Green	Green	Green	Green	Green		Green	Green	Green	Green
Contract enforcement, dispute resolution, etc.	Green	Blank		Green	Green	Blank	Green	Green		Green	Blank	Green	Green		Green	Green	Green	Green	Blank		Blank	Green	Green	Green
Labor regulations	Blank	Green		Green	Blank	Green	Blank	Green		Blank	Blank	Green	Blank		Green	Green	Green	Green	Green		Blank	Blank	Blank	Blank
Provision of credit or equity finance for businesses	Green	Green		Green	Green	Blank	Green	Green		Green	Blank	Green	Green		Green	Green	Green	Green	Blank		Blank	Green	Green	Green
Import/export procedures	Green	Green		Green	Green	Blank	Green	Green		Green	Blank	Green	Green		Green	Green	Green	Green	Green		Blank	Green	Blank	Blank
Intellectual property rights (IPR) enforcement	Green	Blank		Blank	Blank	Green	Blank	Green		Green	Blank	Blank	Green		Green	Green	Green	Green	Green		Blank	Green	Blank	Blank
Sector-specific regulations affecting private investors	Green	Blank		Green	Green	Blank	Green	Green		Green	Blank	Blank	Green		Green	Green	Green	Green	Green		Green	Green	Green	Green
Local/regional and national tax regimes	Green	Blank		Green	Green	Green	Green	Green		Green	Blank	Blank	Green		Blank	Green	Green	Green	Green		Blank	Green	Green	Green

Key

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TYPES OF ACTIVITIES IN AFRICA MISSIONS: PRELIMINARY RESPONSES FOR JUNE 2004

	ANGOLA	BENIN	DR CONGO	ERITREA	ETHIOPIA	GHANA	GUINEA	KENYA	LIBERIA	MADAGASCAR	MALAWI	MALI	MOZAMBIQUE	NAMIBIA	NIGERIA	RWANDA	SENEGAL	SOUTH AFRICA	TANZANIA	UGANDA	ZAMBIA	ZIMBABWE	RCSA	REDSO	WARP
Private sector investment approvals																									
Business operations																									
Contract enforcement, dispute resolution, etc.																									
Labor regulations																									
Provision of credit or equity finance for businesses																									
Import/export procedures																									
Intellectual property rights (IPR) enforcement																									
Sector-specific regulations affecting private investors																									
Local/regional and national tax regimes																									

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TYPES OF ACTIVITIES IN LAC REGION MISSIONS: RESPONSES FOR JUNE 2004

	BOLIVIA	BRAZIL	COLOMBIA	DOMINICAN REPUBLIC	ECUADOR	EL SALVADOR	GUATEMALA & CENTRAL AMERICA	GUYANA	HAITI	HONDURAS	JAMAICA & CARIBBEAN	MEXICO	NICARAGUA	PANAMA	PARAGUAY	PERU
Private sector investment approvals	Green			Green		Green	Green		Light Green	Green			Green	Light Green		
Business operations		Green		Green	Green	Green	Green		Light Green	Green	Green	Green	Green	Light Green		
Contract enforcement, dispute resolution, etc.			Green	Green		Green	Green						Green	Light Green		Light Green
Labor regulations							Green		Light Green	Green	Green			Light Green		Green
Provision of credit or equity finance for businesses	Green	Green	Green	Green	Green	Green			Light Green	Green		Green	Green			Green
Import/export procedures		Green	Green				Green		Light Green	Green	Green	Green	Green			
Intellectual property rights (IPR) enforcement	Green		Green	Green	Green		Green							Light Green		Green
Sector-specific regulations affecting private investors	Green			Green	Green	Green	Green			Green	Green		Green	Light Green	Green	Green
Local/regional and national tax regimes	Green	Green	Green	Green		Green	Green			Green	Green	Green	Green	Light Green		Green

Key

Green shaded boxes indicate activities at some time, including at least some underway

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EXAMPLES OF USAID ACCOMPLISHMENTS IN MICROECONOMIC POLICY REFORM

REGULATIONS AFFECTING PRIVATE SECTOR INVESTMENT APPROVALS AND PROCESSING

In Bangladesh, USAID assistance enabled reform of the Board of Investment in the mid-1990s. Before this reform, registration of an investment project was a mandatory and time-consuming process, especially for foreign investors. After procedures for automatic registration were introduced in March 1994, approximately \$600 million of investment projects were registered with the BOI in the next two and half months. The highest annual figure prior to reform had been \$43 million for the entire year of 1993.

REGULATIONS AFFECTING BUSINESS OPERATIONS (E.G., PROPERTY REGISTRATION, CUSTOMS PROCESSING, LICENSING, INSPECTIONS, TRANSACTION FEES)

In Jordan, the Company Registration Initiative was undertaken pursuant to the 1998 completion of *The Investor Roadmap*. One aspect of business operation that was identified in *The Investor Roadmap* as a priority for reform was company registration. USAID provided the Government of Jordan with comprehensive support to re-engineer the company registration process. The key results included: number of forms reduced from 5 to 1; required data fields reduced from 35 to 7; processing time reduced from over two weeks to under 30 minutes; company registration system automated; standard operating procedures implemented; Companies Law amended; new Craftsman Law created to regulate sole proprietorships; amendments to the Law on Trademarks enacted; new regulation on trademarks enacted; and a new law and regulations on patents enacted.

REGULATIONS AFFECTING CONTRACT ENFORCEMENT, DISPUTE RESOLUTION, CLAIMS AGAINST PLEDGED COLLATERAL, BANKRUPTCY PROCEEDINGS

In the Philippines, USAID provided assistance to the Supreme Court and Philippine Judicial Academy to strengthen and institutionalize alternative dispute resolution systems at various levels, thereby increasing judicial transparency and accountability, and improving case management in the courts. USAID also supported a pilot project on case flow management in Pasay City court. The activity aimed to implement a system of managing cases that will result in expeditious resolution through effective monitoring and strict observance of time limits in the conduct of case events from filing to disposition. The information technology systems to support the electronic tracking of cases were put in place and court personnel were trained on the use of the system. The activities successfully facilitated the processing of court cases, decreased litigation time and expenditures, and decongested court dockets.

LABOR REGULATIONS

In Ghana, USAID assistance enabled the passage of a new Labor Act in 2003. USAID activities successfully helped to forge agreement on the need for labor market flexibility. USAID facilitated the process of reforming labor market rules to promote transparency and flexibility, as well as the codification of the agreements on changes. The new Labor Law embodies clearer, more flexible and manageable labor regulations.

REGULATIONS AFFECTING THE MARKET FOR CREDIT OR EQUITY FINANCE FOR BUSINESSES

In Georgia, USAID implemented a project to establish a sound, regulated and efficient banking system. Substantial amendments were made to banking laws, which considerably strengthened the independence of the central bank and its ability to revoke the licenses of failed banks. Accounting policies for commercial banks were harmonized with International Financial Reporting Standards (IFRS). At the same time, the project assisted commercial banks in implementing IFRS and developing banks' risk management, internal control procedures, MIS capacity, and management reporting. The bank inspection units of the Central Bank received training in procedures to standardize evaluation methodology. The activity resulted in increased trust in the banking sector, improved financial services and credit availability. From 1999 through 2003, the real value of deposits from the private sector increased by more than 200 percent, while the real value of loans to the private sector increased by more than 150 percent.

IMPORT/EXPORT PROCEDURES

In Ghana, USAID facilitated stakeholder sessions that led to recommendations for streamlining procedures for clearing goods at the ports. As a result, the number of days required to clear goods at the ports reduced to the current average of 3 days, down from 10 days in 2000.

INTELLECTUAL PROPERTY RIGHTS (IPR) ENFORCEMENT

In Ecuador, USAID supported the Policy Dialogue and Implementation Program from 1990 to 1998. Under Phase I (FY 1990-1994), the program successfully helped Ecuadorians to formulate productive discussions on major stabilization and structural reforms, including legislation in areas such as tariff reform, capital markets development, foreign investment, facilitation of exports, etc. The project's successes included intellectual property rights (IPR) legislation, considered to be the best in the region. Seminars and interviews were conducted with government officials and private sector leaders, universities and other interested parties.

SECTOR-SPECIFIC REGULATIONS AFFECTING PRIVATE INVESTORS

In the Caribbean, USAID funded the Organization of Eastern Caribbean States (OECS) Telecommunications Reform Project (\$2 million total). Deregulation of the telecommunications sector funded under this program resulted in the break-up of a telecommunication monopoly. The

program supported the establishment of new legislation and regulations for the sector as well as a regulatory board, the Eastern Caribbean Telecommunications Authority (ECTEL). Training was provided to the ECTEL Board, telecommunications ministries and other relevant persons in the sector. As a result of the sector deregulation, foreign direct investment in telecoms has increased by over \$180 million in the Eastern Caribbean over the last three years.

LOCAL/REGIONAL AND NATIONAL TAX REGIMES

In Tajikistan, USAID worked with the Ministry of State Revenues and Duties to develop a Central Taxpayer Registration system for a new national taxpayer register, which will form the basis of tax accounting and compliance control for the Ministry. This is the first step in implementing a taxpayer service unit and developing a single taxpayer identification number similar to a U.S. social security number. This will reduce the administrative burden on firms which import and/or export.

A comprehensive list of the field missions' reports of initiatives in support of microeconomic reforms and associated impact data is available from EGAT/EG.