



# Strategies for Policy Reform, Volume 2

Engaging Entrepreneurs in Democratic Governance

**CIPE**



**Center for International Private Enterprise**



# **Strategies for Policy Reform**

## **Volume 2**

**Engaging Entrepreneurs in Democratic Governance**

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“The Center for International Private Enterprise’s (CIPE) latest book reveals its secret weapon for nurturing private enterprise throughout the developing and post-Soviet world: creating partnerships with the constituency most eager for democratic and market reforms - ordinary, grassroots entrepreneurs. Anyone serious about improving the business climate will benefit from reading these inspiring case studies.”

– **Hernando de Soto, President and Founder, Institute for Liberty and Democracy**

“Advocating for governance reform is one thing, accomplishing reform on the ground in each unique circumstance is another. Stimulating and encouraging the relevant public and private parties and organizations is the requisite bottom-up approach requiring study, care and patience. No one approaches CIPE’s sympathetic style and competence to effect change. This collection of stories about actual events and people in circumstances needing reform, are to be marveled, and hopefully emulated as models.”

– **Ira Millstein, Senior Associate Dean for Corporate Governance, Yale School of Management**



The Center for International Private Enterprise strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy. Since 1983, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.

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# Introduction

## Solving the Governance Challenge

Getting governance right means reforming public policy systems to support freedom and participation in government and markets alike. In democratic and entrepreneurial societies, governance mechanisms encourage citizen initiative and healthful dialogue on policy. Giving the private sector a voice in democratic dialogue promotes the emergence of internationally competitive economies as well as access to opportunity for all citizens. This is the essence of democracy that delivers.

*Strategies for Policy Reform, Volume 2* reveals how local reformers in partnership with the Center for International Private Enterprise (CIPE) have transformed policy dialogue in their countries to create a vibrant private sector and civil society. This volume presents models of effective, innovative reform programs that have enhanced democratic governance and the business climate to deliver tangible benefits to citizens. These approaches were all founded on the conviction that progress requires freedom and that the private sector must lead the way in creating institutional change to expand freedom.

Volume 2 contains a wholly new set of case studies from across the globe, representing a range of approaches tailored to the requirements of diverse constituencies and situations. Although every story is in some sense unique, patterns do emerge, such as the value of strategic planning for advocacy. The book is designed to illustrate important themes and lessons in reform planning, using a rich set of real-world examples. Enjoy the stories in *Strategies for Policy Reform*, and look for the lessons that might someday transform your own society.

## **Highlights of Policy Achievements**

CIPE and its partners have contributed to concrete improvements in the business environment by expanding business participation in democratic dialogue.

### **Global**

- Transparency International and CIPE promoted the first set of global principles for private sector programs against corruption, providing a foundation for the 10th principle of the UN Global Compact.

### **Africa**

- In Ghana, independent legislative alerts prompted amendments to the Serious Fraud Bill in protection of private property, as well as the country's first Freedom of Information Bill.

### **Asia**

- In the Philippines, 171 publicly listed companies participated in a corporate governance scoring system based on OECD principles; companies' scores improved from an average of 53 percent in 2005 to 72 percent in 2008.

### **Central and Eastern Europe**

- Coalitions representing three sectors of the Romanian economy advocated to increase freedom of information and reduce red tape in a campaign that created 2,850 jobs and over \$10 million in economic growth.
- In Kosovo, a think tank coordinated the first local private sector input into policymaking, leading to privatization of the three largest publicly owned enterprises.

### **Eurasia**

- By advocating for a new tax code, a business association in Armenia eliminated opportunities for corruption and lowered tax-related business costs by 12 to 15 percent.

- In Belarus, over 30,000 entrepreneurs and civil society supporters obtained a flat income tax rate of 12 percent and the elimination of government-owned shares in private businesses.
- Over 2,000 companies and 80,000 entrepreneurs formed Kyrgyzstan's National Alliance of Business Associations and advocated for a simplified tax code that generated a 40 percent savings for businesses.

### **Latin America**

- An advocacy campaign in Guatemala led the government to simplify procedures and lower the cost of registering a business, resulting in a 24 percent increase in the number of registered businesses.
- Improvements to legislation recommended by Colombian policy briefs ensured savings in natural resource management and strengthened an autonomous authority to enforce the Competition Law.
- Unprecedented public-private dialogue in Nicaragua stabilized energy costs and boosted development of the tourism sector.

### **Middle East and North Africa**

- A coalition organized by young Jordanian entrepreneurs obtained lower capital requirements for limited liability companies, leading to over 1,800 newly registered small and medium enterprises.
- An institute for business leaders launched Tunisia's first Center for Corporate Governance to train corporate directors and promote good governance practices.

### **South Asia**

- In Pakistan, CIPE took a lead role on a committee to revise the Trade Organization Ordinance, opening the way for genuinely representative trade bodies and the first women's

chambers of commerce.

- 23,000 Afghan high school students in 44 schools learned the fundamentals of free enterprise, encouraging more than 500 start-up businesses.

## **Lessons for Policy Reformers**

Policy reform involves many actors and processes, but some basic principles strengthen planning for change.

### **Involve the private sector in public decision making.**

Many economic and governance challenges cannot be solved without input from the private sector. The private sector provides essential information to policymakers on requirements for business growth and micro-level effects of policy. Active private sector organizations – such as business associations and think tanks – enrich civil society and expand pluralism in public life.

### **Understand the nature of the problem.**

Instead of treating symptoms, analyze the source of problems – such as rules that distort economic incentives and erect barriers to markets. Consider which groups benefit from the status quo and which have been excluded from participating in the system. Beyond technical analysis, be sure to consult businesspeople on the country's priorities.

### **Advocate for policy solutions.**

Persuasive, well-reasoned arguments have power to influence policies when backed by publicity, grass-roots support, and dialogue. In order for advocacy to serve the public interest, it should be conducted openly and transparently. Analysis and recommendations must be followed up with activities to engage policymakers and the public.

### **Prepare for advocacy.**

An effective advocacy campaign depends on advocacy skills, organizational capabilities, and a reputation for credibility. These are acquired through investment and experience. Investments in advocacy capabilities pay off in the form of new members and resources, as well as in policy victories.

### **Build bridges across sectors.**

Establish channels for dialogue between the private and public sectors; also across economic sectors, and between the private sector, civil society, and the media. Solicit input from key

stakeholders in the early stages of an advocacy campaign in order to ensure their “buy-in.”

**Build coalitions.**

Coalitions bring the advantages of increased numbers, visibility, resources, and credibility. Think vertically – organizing the grass roots – and horizontally – coordinating with other organizations. Not every coalition must be formally structured, but all should carry a common message.

**Adapt strategies to local conditions.**

Seek models of reform from other countries and adapt them to your situation. Good advocacy strategies work well in diverse settings, but the content and tactics of advocacy campaigns may differ.

## **CIPE's Approach**

In partnership with local organizations, CIPE applies powerful international reform practices to stimulate institutional reforms and sustainable change.

## **Sharing Models and Tools**

Some of the most effective models for policy advocacy have been refined and tested by CIPE and its international partners. Legislative advisory services, for instance – illustrated in this book with examples from Colombia and Ghana – trace back to a CIPE project in the Dominican Republic. They have been disseminated by CIPE throughout Latin America and the world. Similarly, the National Business Agenda process, pioneered by the U.S. Chamber of Commerce, has been adapted for CIPE projects as shown in examples from Belarus, Nicaragua, and Romania. Moreover, CIPE provided models for surveys in Armenia and Nicaragua.

## **Exchanging Knowledge**

CIPE has replicated successes by pairing partners with other accomplished organizations to share experiences and techniques. CIPE arranged a custom study tour for Kyrgyz representatives on association building in Ukraine. CIPE paired a Tunisian institute with a Brazilian counterpart to learn about founding a center for corporate governance. The Guatemala project showcased here incorporated insights from Venezuelan and Peruvian projects, by way of a CIPE conference on the informal sector.

## **Training and Technical Assistance**

Empowering private sector organizations to conduct advocacy is a CIPE priority. In Kosovo, CIPE assembled international experts in advocacy and organizational development to strengthen the leading think tank and business associations. Over three years, CIPE helped transform Romanian associations – boosting membership by 26 percent and increasing revenues by 20 percent – by improving their governance, professionalizing staff, and redesigning member services.

### **Facilitating Coalitions and Policy Dialogue**

CIPE has extensive experience in coalition building, which helped to mobilize Jordanian, Kyrgyz, and Romanian coalitions, among others. In Pakistan, CIPE facilitated private sector input into trade organizations reform by taking a lead role on a committee to draft new legislation, acting on the Ministry of Commerce's request.

### **Establishing Standards**

On a global level, CIPE has participated in prominent initiatives to promote standards for ethical business, notably with Transparency International's Business Principles for Countering Bribery. On a national level, CIPE assisted in the development of Tunisia's Corporate Governance Guidelines, ensuring that they met international standards.

### **Shaping Content**

CIPE contributes to the intellectual content of projects in a variety of ways. In the Jordanian example, CIPE staff arranged content discussions and edited draft policy papers. In Afghanistan, CIPE introduced a curriculum for entrepreneurship education, and has translated, adapted, and supplemented the curriculum to meet local needs.

### **Developing Projects**

In all its projects, CIPE guides project development to promote locally driven efforts that benefit from international assistance and experience. CIPE finds and develops talented local partners, assists with needs assessment and strategic planning, and helps convert reform ideas into feasible project designs. Following through, CIPE directs monitoring and evaluation to verify that project objectives are met and lessons are learned.

# Democratic Governance

Democratic governance consists of the decision-making processes that translate citizens' preferences into policy actions in order to make democracy deliver. Between elections, citizens must have avenues to participate in decision making, stay informed, and hold government accountable for its performance. High-quality governance is characterized by transparency, open dialogue, efficient regulation, and rule of law.

The post-conflict experience of Kosovo holds many lessons, chief among them that an administration must be attuned to the concerns of the population. Local input into decision making is essential to a successful reconstruction process. Think tanks can support reconstruction decisions with high-quality information and form bridges between civic interests and government.

In Nicaragua, a country known for political polarization, an unprecedented public-private dialogue coordinated by the national business federation provided a constructive forum for development planning. The process broadened the perspectives represented in the policy arena and expanded democratic dialogue.

## **Further reading:**

*The CIPE Guide to Governance Reform* (Center for International Private Enterprise)

# A Think Tank Bridging the Democratic Deficit

*by Andrew Wilson and Kim Eric Bettcher*

The Riinvest Institute for Development Research (Riinvest) was one of the first local private organizations to respond to Kosovo's governance needs following the conflict of the 1990s. Riinvest brought civil society and the business community into a governance process that had mostly neglected local input.

While international support initially targeted humanitarian needs, little attention was given to the effects of the war on Kosovo's private sector or to planning for economic reconstruction. The private sector was engaged in survival capitalism rather than investing in growth-oriented enterprises that could generate jobs. Civil society was well rooted and poised to address economic concerns, but had not gained access to the policy process within the UN administration. This disjuncture between civil society and the administration caused problems of accountability and a democratic deficit.

The key to resolving this democratic deficit was local engagement in the reconstruction process. The Center for International Private Enterprise (CIPE) joined with Riinvest to encourage the participation of local leadership in decision making, to develop advocacy skills, and improve the sustainability of Riinvest and selected business associations.

## **Early Steps**

Riinvest emerged as one of the few independent institutions with the capability to participate in developing Kosovo's reconstruction policy. Established in 1995 as a non-profit organization, Riinvest's mission is to promote economic development based on a philosophy of entrepreneurship. The institute has become known for its credibility, transparency, and non-partisan approach.

As early as 1997, Riinvest in cooperation with CIPE embarked on a landmark policy study that introduced a new standard of polling and analysis for economic planning. The 1998 report, “Economic Activities and the Democratic Development of Kosovo,” analyzed the state of Kosovo’s economy and the role of private enterprise in democratic development. This was the first such report in eight years to detail economic trends in Kosovo. “Without CIPE, the realization of our first and most important study would never have been possible,” said Dr. Muhamet Mustafa, the institute’s president. “CIPE’s recognition of Riinvest and the importance of our work came at a critical time for both Riinvest and Kosovo.” Through analysis of existing data, polling of over 300 enterprises, and research into alternative democratic and economic models, Riinvest formulated an economic reform strategy.

The report gauged the severity of existing conditions and probed business owners’ perspectives on the factors inhibiting a turnaround. It found that industrial production had decreased by 65 percent since 1989 and investment by 69 percent. Business owners cited uncertainty and the political situation as the biggest obstacles to investment. A majority were unable to keep informed of changes in legislation affecting their investment decisions. Based on the results of the study, Riinvest developed a program for small and medium-sized enterprise (SME) development coupled with better access to credit.

**Riinvest brought civil society and the business community into a governance process that had previously neglected local input.**

In 2000, after the expulsion of Serbian forces, it again became necessary to take stock of the economic situation. Riinvest constructed a new survey of 300 target enterprises, which mirrored the 1997 sample. In their responses, the business community expressed concerns that some of the UN administration’s proposed solutions, in areas such as customs and taxes, would become obstacles to business development. The economic policy of the administration, having been approved in the absence of input from businesses, opened a gap between policy groups and the business community. The business

community requested policy changes to assess tax and customs payments evenly for all businesses, rebuild efficient customs and fiscal policies, reduce customs and fiscal burdens on business, and reduce interest rates.

Riinvest held workshops in the seven regional centers of Kosovo to establish dialogue and increase the understanding of reform issues among the business community. Local business leaders were joined by municipal officials, UN representatives, non-governmental organizations, and media. Some 200 participants in total examined the institutional reform environment, the support system for SMEs, and the representation of the interests of the business community. The international community considered the survey outcomes and recommendations as valuable inputs for policymakers in developing their implementation strategies.

### **Elevating Civil Society**

From 2000 to 2002, CIPE raised the ability of Riinvest and civil society to participate in policymaking. Riinvest first formed a business advisory board to ensure that the project reflected local priorities and concerns in its strategy for private sector development. The board was composed of entrepreneurs, business leaders, economic policy and legal experts, and independent analysts. Riinvest then developed a strategic plan in consultation with the advisory board that addressed development of Riinvest's research capabilities, professional standards for its products and services, brand image, and self-sustainability.

CIPE supported all aspects of institutional development and training. Seven international experts made ten visits to Riinvest to provide technical assistance in research and advocacy techniques and organizational development. CIPE and Riinvest supported the formation of over 10 new business associations and delivered a major training event for business association leaders on key aspects of association development. Technical assistance to individual associations facilitated their involvement in the policy process.

Turning to advocacy, Riinvest held five roundtables on privatization, taxation policy, SME financing and development,

pension system development, and local economic development. The roundtable series provided a unique vehicle for policy debate among policymakers, the business community, experts, civil society, and media. The roundtable on local economic development included participation from representatives of Kosovo's new parliament and government, to whom it introduced the value of independent policy advice. The results of each roundtable were distributed to a broad group of policy and business leaders, and publicized through media coverage.

This dialogue increased local input into decision making and supported the newly established Kosovo Government and Parliament with adequate expertise on reform issues. It resulted in a number of policy achievements. The creation of the Kosovo Trust Agency to administer the privatization process was approved. This created constructive pressure to approach the privatization process seriously. Tax policy was improved to widen the tax base and include taxes on property, not just on businesses. Finally, competition was encouraged in the SME credit market through the creation of an Association of Banks and advocacy for mortgage regulation.

## **Lessons in Democratic Governance**

In the absence of political feedback mechanisms, Riinvest acted as a proxy for democracy: it polled the business community and channeled their opinions to policymakers. In doing so it raised concerns of importance to private sector development that had otherwise been ignored. Not only did Riinvest raise issues, it maintained continuity and focus on the reconstruction agenda as international personnel and priorities shifted.

The challenge in a post-conflict setting is to balance the requirements of the emergency phase with the need for sustainable economic development. The sooner a governing administration can engage the local business community in policy planning, the better. The private sector should not be considered as simply a vehicle for service delivery but rather as an integral component of civil society with rights and responsibilities. Preparing a fragmented private sector to contribute in a policy role, however, takes time and effort. In the interim, think tanks can fill certain

gaps in information and dialogue, and assist business associations in their development as civil institutions.

Following through on some of its earlier work, Riinvest has prompted the reshaping of publicly owned enterprises (POEs). A law adopted in June 2008 requires all POEs to comply with Riinvest's corporate governance code and has launched a privatization process of the three largest POEs: the Electricity Corporation of Kosovo, the Post and Telecommunications Corporation of Kosovo, and Pristina International Airport. There is no looking back for Riinvest. Says Mustafa, "Ten years of repression couldn't dampen the entrepreneurial spirit and energy of the Kosovar people, and now we are looking at a whole new world of opportunity."

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# A Dialogue for Development

*by Ngozika Amalu*

For three consecutive years, from 2006 to 2009, the Nicaraguan business community has promoted investment, entrepreneurship, and economic growth by means of a National Business Agenda (NBA). In a country with a history of political polarization, this dialogue on common economic concerns has shaped a path toward better democratic governance. The national business federation – the Superior Council for Private Enterprise (COSEP) – used the Center for International Private Enterprise’s (CIPE) business agenda process as a constructive response to the return of the leftist Sandinista government. Through this process, COSEP succeeded in broadening the perspectives represented in the policy arena and expanding democratic dialogue with the government. The Nicaraguan government came to recognize the positive contributions that private enterprise can make to employment and investment, leading to areas of public-private consensus on economic legislation.

## **A Wakeup Call and an Opportunity**

In 2006, Daniel Ortega of the Sandinista Nationalist Liberation Front (FSLN) won the Nicaraguan presidential elections. In comparison with earlier Sandinista rule and the civil war of the 1980s, this transition raised the question of whether a more democratic, less contentious leftist government might emerge. Although Nicaraguans enjoyed a number of democratic freedoms such as freedom of the press, free enterprise, and the right to private property, the FSLN was generally unsupportive of free market policies and business expansion. Additionally, business associations played a minimal role in policy formation, thus leaving the private sector perspective excluded. What became evident to business leaders was the need for an organized, issues-based voice to represent the private sector vis-à-vis the government.

Over 100 organizations nominated COSEP to lead a broad national dialogue. COSEP, an umbrella organization

of 11 affiliated chambers of commerce representing over 40,000 members, served as the leading representative body of Nicaraguan business with a membership base large enough to galvanize support for reform. COSEP partnered with CIPE to support democratic dialogue by using a National Business Agenda (NBA).

The NBA project enhanced governance in Nicaragua by opening the way for working groups featuring public and private sector representatives, allowing for legislative monitoring of the National Assembly, and strengthening the capacity of the business community to participate in the policy arena. In 2006, COSEP presented its agenda to the government and received the public support of President Ortega, who committed to work towards its implementation and integration into the National Development Plan.

**The Nicaraguan Government came to recognize the positive contributions that private enterprise can make to employment and investment, leading to areas of public-private consensus on economic legislation.**

## **Finding Common Ground**

The crux of COSEP's efforts to develop an effective public-private dialogue lay in its drawing of parallels between the goals of the business community and those of the Nicaraguan government. Initially, the Sandinista government was not keen on working with the private sector, nor did it see the positive contribution that a thriving private sector could bring to Nicaraguan economy and society. COSEP saw an opportunity to educate both private business leaders and public officials on the ways they could benefit each other.

Rather than taking a business-centric approach to reform by demanding lower taxes, COSEP explained to the government that its goals were to develop a public-private partnership and to achieve economic growth and poverty alleviation. The government came to realize that the public and private objectives were not so far apart – a thriving private sector creates jobs and promotes capital formation, thereby eliminating poverty

and furthering growth. As explained by Erwin Krüger, former president of COSEP, “The private sector accounts for the majority of Nicaragua’s employment... This means that it has a large stake in the country’s development, just as the government has a stake in seeing the private sector perform well.”

COSEP coordinated the formation of working groups to discuss legislation affecting sectors reflected in its membership, such as tourism, industry, agribusiness, and so on. Each working group consisted of 10 private sector leaders and 10 government representatives, and was co-chaired by the president of a business association and a high government official. Public-private meetings were held on average eight to ten times per week, a remarkable level of activity since the two sides had hardly met before at all. In addition, the president of COSEP met consistently with President Ortega, Vice President Morales, and senior economic advisors on a monthly basis. Within the context of this project, over sixty public-private meetings took place.

## **Results of the Dialogue**

Public-private dialogue through the NBA process allowed the private sector to delay the approval of laws that threatened business activity and to introduce constructive modifications to current laws. For example, COSEP introduced changes to the Energy Stability Law to ensure Nicaraguans had consistent, affordable access to electricity and to stabilize long-term energy costs. Also, by successfully championing the approval of the Water Draft Law, COSEP extended the right for businesses to acquire private property in coastal areas, in order to boost development of the tourism sector. Close cooperation between public and private sector officials facilitated several compromises. In the case of the Minimum Wage Law, the business community and the government agreed to settle on a middle ground for the national minimum wage, with both sides relenting on their initial positions.

COSEP’s efforts provided a footing for democratic governance not only by fostering dialogue, but by changing perceptions of a market economy and increasing the capacity for business advocacy on policy. The willingness of the FSNL government

to negotiate with the private sector and implement a number of its legislative recommendations signaled the leadership's openness to constructively engage with private sector leaders. Although the relationship between the public and private sectors is still fragile, President Ortega openly endorses the NBA and maintains his commitment to working with the private sector. During the course of the NBA project, COSEP's membership grew from eleven to sixteen chambers of commerce and business associations.

COSEP's advocacy effort also saw improved public perceptions of the business community. With CIPE's support COSEP took two public opinion polls. The 2006 poll showed that the margin of public confidence in the private sector was at a level of-3 points. The December 2008 poll showed the confidence margin had increased to +15 points. This improvement in public perception of the private sector raised support for the reforms championed by COSEP and provided more encouragement for a populist government to support these reforms. Business leaders now seek to highlight the social value of their ventures, making their case more appealing to government officials. As COSEP looks to the future, it will seek new, nontraditional partners and new media outlets to improve its image and capacity for advocacy.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# Business Associations

Business associations play vital roles in civil society and democratic governance by representing legitimate economic constituencies, defending freedom of association, and contributing to transparent, open policy processes. Associations not only equip individual businesses to succeed in a market economy, they encourage the flow of information and facilitate collective action for improved policy and governance. In order to participate effectively in policymaking, associations must develop their internal governance, acquire advocacy skills, and build their network of members and coalition partners.

As seen in Pakistan, the quality of representative bodies influences the way they respond to their members' needs. Reform of the Trade Organisations Ordinance enhanced freedom of association in Pakistan by circumscribing government interference in chambers of commerce, and improved governance of the chambers themselves to make them more competitive.

Effective coalitions often make the difference between success and failure in advocacy campaigns. In Kyrgyzstan, the formation of a National Association of Business Associations provided a vehicle for businesses across multiple sectors to tackle issues of wide-ranging importance and improve the business environment.

**Further reading:**

*Business Associations for the 21st Century* (Center for International Private Enterprise)

# Reform of the Trade Organization Ordinance

*by Kim Eric Bettcher*

Recognizing the importance of the legal framework for Pakistan's trade bodies, the Center for International Private Enterprise (CIPE) prompted legal reform in 2006 to address the problem of overregulated, inactive chambers of commerce. As in many other countries, Pakistan's legal system exerted strong influence on the responsiveness of chambers and associations to member needs and the quality of governance in the business community.

## **Implications of Poor Association Governance**

As of 2005, two fundamental challenges were hampering the development of the country's chamber system. First, the government had excessive discretionary authority to interfere in the operation of chambers; and second, the chambers, being heavily politicized, suffered from poor internal governance. The combination of these two challenges produced weak, misdirected chambers and associations.

From the Pakistan Federation of Chambers of Commerce and Industry (FPCCI) down to regional chambers and associations, trade bodies lacked a clear direction and structure. Professional management was mostly absent in associations, while members were uninvolved. Instead of providing services to members or advocating to government on economic policy issues, associations focused on promoting the interests of individual businesspeople or industries. Their leadership and membership were frequently in dispute. In fact, a number of fake chambers had been created solely for political motives, in order to influence FPCCI elections.

The Trade Organization Ordinance of 1961 – still the prevailing legislation in 2005 – empowered the government to intervene in association affairs, yet did not set criteria to limit interventions. The government could revoke the license of a trade body or exempt it from licensing and registration

requirements as it saw fit. The government also exercised control over amendments to associations' articles and bylaws. If in the government's view a trade body was not properly managed, the Director Trade Organization could nullify election results, remove members of the executive committee, and appoint an administrator for up to three years.

## **Toward a More Representative Association Framework**

CIPE took a lead role in a committee established by the Ministry of Commerce in April 2006 to review the 1961 Directorate Trade Organization (DTO). On August 6, the cabinet, after approving the committee's proposal to create a new trade bodies law, requested that the business community, led by the committee, draft new legislation for approval by Parliament. To seek input from the business community and promote widespread ownership of the new law, the committee held consultative meetings with stakeholders in all four provinces in the cities of Karachi, Lahore, Peshawar, and Quetta in August and September.

Following the committee's recommendations, on December 30, 2006, the Government of Pakistan abolished the DTO and issued a new Trade Organizations Ordinance (TOO). The new law enhanced freedom of association and created new self-governance mechanisms. It also provided for depolarization of the trade bodies through a transparent election process and the development of professional management within all trade bodies in Pakistan.

Under the new law, the Director General Trade Organization has been created with proper staffing and guidelines to facilitate the operation of genuine trade bodies. Whereas the 1961 law required the framing of rules which were never introduced, in the 2006 TOO well-defined Rules of Business were established with specific timelines for actions to be taken in processing applications or complaints. In addition,

**“The new law will encourage the growth of a more representative and better equipped set of trade organizations in Pakistan that can advocate more effectively for economic reform.”**  
– CIPE Pakistan Country Director Moin Fudda.

the new law strengthened licensing procedures to eliminate fake or dormant organizations, and trade bodies were encouraged to follow a self-regulatory system. All licenses granted under the 1961 law were revoked and existing trade bodies required to re-apply for licenses under the new law within three months. Subsequently, 152 bodies filed for registration and at least 30 defunct chambers were eliminated.

The new law stands to have the greatest impact on women in business, who are now allowed to form chambers in each province. The first two women's chambers of commerce, the Northern Punjab Women's Chamber of Commerce and Industry and the Southern Punjab Women's Chamber of Commerce and Industry, were registered in July and August of 2008. The reforms also opened up greater inclusion of women on chambers' boards of directors, which has invigorated chamber activities directed toward women. The Lahore Chamber of Commerce and Industry, for example, created a women's resource center that attracted 34 new members in the month after it opened.

CIPE Pakistan Country Director Moin Fudda noted, "The old law hampered the development of a competitive chamber system, while the new law will encourage the growth of a more representative and better equipped set of trade organizations in Pakistan that can advocate more effectively for economic reform." It is anticipated that the revised legal framework will move Pakistan's chambers in the direction of a mixed model, in which jurisdictions and responsibilities are more clearly defined and competitive chambers can flourish by offering services to their members. Better internal governance of the chambers and associations, together with reduced political interference, should produce more effective associations, an improved policy environment, and strengthened rule of law.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# A Coalition to Improve the Entrepreneurial Environment

*by Ngozika Amalu*

Across Kyrgyzstan, the Bishkek Business Club (BBC) and the Center for International Private Enterprise (CIPE) enhanced private sector participation in policymaking by uniting the business community behind an advocacy coalition. In 2007, BBC and CIPE launched the National Alliance of Business Associations (NABA), an organization of 30 business groups representing more than 2,000 companies and 80,000 entrepreneurs in Kyrgyzstan. Advocacy by BBC and NABA members resulted in legislative reforms that improved the environment for doing business in Kyrgyzstan and broadened civil society awareness of legislation.

## **A Challenging Environment for Business**

In the mid-1990s, Kyrgyzstan operated as an authoritarian regime with the business community playing a marginal role in policymaking. Economic policies were formed without concern for their effect on the private sector. Such undemocratic policymaking resulted in heavy bureaucracy and systemic corruption, driving up operational costs for businesses and forcing entrepreneurs into the informal economy. The 2005 ouster of President Akayev brought little relief for the private sector. Business organizations struggled to generate effective public-private dialogue and broaden their membership base within a politically unstable environment. For business leaders it became obvious that in order to see true economic growth and for businesses to operate efficiently, an intervention had to come from within the private sector.

For six years, CIPE has partnered with BBC to strengthen business association advocacy in Kyrgyzstan. BBC, an informal advocacy group of respected businessmen, aimed to accelerate market reform and democracy by improving the environment for entrepreneurship. The partnership consolidated interaction among business leaders, strengthening their capacity for

advocacy and initiating Kyrgyzstan's largest grassroots coalition for reform.

## Capacity Building through Coalitions

Although previous advocacy efforts had established constructive ties between BBC's business allies and government representatives, BBC witnessed large-scale protests were having greater effect. BBC thus saw the need for a more broadly based business voice that could advocate on well-reasoned priorities instead of street protests. Building on the foundations of the Coalition for Fair Taxation – established in 2006 to present policy recommendations on tax code reform – BBC launched the National Alliance of Business Associations (NABA) to mobilize a business voice on a wider set of issues.

NABA united business groups from across Kyrgyzstan into an alliance that would serve as a platform to organize and conduct advocacy on three priorities for reform: taxation, inspections, and hostile takeovers. In order to facilitate growth of the coalition, NABA embraced an informal and transparent membership structure. Members paid no dues, and were free

to join and leave the alliance at their own discretion. In this way, NABA remained highly responsive to issues of private sector concern, with yearly reform objectives based on the priorities of NABA's member associations. The alliance emphasized transparency in the election of its secretariat, the selection of new members, and the identification of reform initiatives.

To strengthen the young alliance, BBC representatives and CIPE consultants travelled within the region to exchange knowledge and lessons learned from similar CIPE association building projects. As part of a study tour, the Executive Director and Chairman of BBC travelled to Ukraine where CIPE's partner the Institute for Competitive Society (ICS) shared its experiences in coalition-building and designing a business agenda. The exchange between BBC and ICS motivated the launching of

**The reforms to the tax code championed by BBC resulted in a simplified tax reporting system that generated 40 percent savings for entrepreneurs.**

an outreach campaign to enhance public support for reform in Kyrgyzstan. Holding meetings with members of the Coalition for Fair Taxation as well as national and regional trade associations, BBC shared lessons learned from Ukraine and explained the concept of a business alliance for reform.

By 2009, NABA included 30 member associations, each representing thousands of companies across Kyrgyzstan. Ultimately, the sheer number of private sector voices calling for reform made it difficult for Kyrgyzstan's leaders to turn down their recommendations. With strategic input from CIPE consultants and partners in the region, BBC advocated for pro-business reforms that helped improve Kyrgyzstan's ranking in the World Bank's "Doing Business" index. BBC and NABA were able to accomplish substantial legislative results; namely, the institution of a tax code reform, a law on inspections, and an anti-raiding policy to protect private property rights.

## **Simplifying the Tax Code**

In a survey of 300 businesspeople, respondents ranked the tax system as the second greatest barrier to entrepreneurship, following corruption. Entrepreneurs called this the "taxation pressure," referring to the numerous inconsistencies and contradictions in taxation. BBC met with stakeholders and decision-makers to discuss revisions to the tax code and monitor the progress of their recommendations.

The reforms to the tax code championed by BBC resulted in a simplified tax reporting system that generated 40 percent savings for entrepreneurs. In addition, the value-added tax was decreased from 20 percent to 10 percent and a zero percent tax on export goods was instituted, both of which helped to stimulate Kyrgyzstan's economy. Finally, a presumption-of-innocence rule for taxpayers was passed, requiring tax administrators to respect the business rights of entrepreneurs.

## **A Law on Inspections and an Anti-raiding Policy**

In an effort to curb corruption, BBC and NABA proposed a Law on Inspections. Passed in 2007, this law required inspections to be registered with the Ministry of Economic Development, thus eliminating the opportunity for government officials to

carry out unlawful inspections. The law also introduced general rules for inspection procedures, such as allowing a period of 3 to 30 days for entrepreneurs to address the errors found in any inspection reports. The law resulted in a reduced number of inspections, and a more business-friendly environment.

Another cause for poor business performance in Kyrgyzstan was the practice of government-sanctioned raiding of private property. Due to existing loopholes in the Administrative code and a weak court system, government officials could easily confiscate property from business owners, targeting businesses that were successful or owners who spoke up against government policies. BBC and its partners presented a detailed report on raiding, outlining how the legal system could easily be manipulated, and recommending measures to reduce such manipulation. The report was promoted by NABA and backed by business leaders, as well as by judges and lawyers. After extensive meetings with ministers and other government officials, in December 2008 President Bakiyev signed a decree “On Strengthening the Protection of Private Property,” taking the first steps towards accepting BBC recommendations.

## **The Role of Association Building**

A key component to the success of this project was the wide support it gained from business associations across Kyrgyzstan. NABA's member associations create about 400,000 jobs and make over \$2 billion in investments. These numbers made NABA a powerful coalition advocating for reform in Kyrgyzstan. The legislative strength of this coalition was demonstrated by its successful advocacy for a reformed tax code, a law on inspections, and an anti-raiding policy. These successes reduced barriers to entrepreneurship in Kyrgyzstan, lowered the cost of doing business, and protected business rights to property. NABA's initiative established a participatory policymaking arena in Kyrgyzstan and fostered an environment more conducive to private sector growth.

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*The activities described in this case study were funded by the National Endowment for Democracy.*



# Legislative Advisories and Advocacy

A legislative advisory service analyzes proposed legislation and provides simple cost/benefit assessments of its impact. This service provides a mechanism for private sector organizations to express their views on economic issues and take part in national economic policymaking. It also helps legislators make informed decisions and educates the public about economic measures being considered by its government.

In Colombia, a series of monthly policy briefs served as the basis for technical advice to the Congress and expanded public debate on legislative initiatives. Rigorous analysis was effective when followed up by frequent meetings with Congressmen and their staff.

A legislative advisory service in Ghana was distinguished by its gathering of diverse private and public perspectives in policy roundtables. The institute hosting the roundtables used them to encourage participation and to shape the recommendations published in its legislative alerts.

An association in Jordan further built a coalition of business and political leaders in order to advance discussion on the issues in its policy papers. In so doing, it brought the voice of the private sector to the policy arena.

**Further reading:**

“Legislative Advisory Services” (CIPE REFORMToolkit)

# Economía y Política: A Legislative Initiative

by Guillermo Perry, Víctor Saavedra, and Omar Barreto

Since 2004, the Foundation for Higher Education and Development (Fedesarrollo) has provided legislative advisory services to Congress by offering inclusive, impartial, and comprehensive assessments of policy discussions in Colombia. Although the constitutional reform of 1991 attempted to curb executive power by creating the Constitutional Court and placing more authority in the hands of Congress, legislators lacked the analytical capacity to assume a leading role in shaping policy. Ideological and political factors rather than thoughtful arguments and economic analysis dominated the discussion of public policies and policy initiatives. Unfamiliar with the technical aspects of economic analysis, Congressmen and other policy-makers lacked the skills to make informed policy decisions. Thus technical considerations in drafting and debating laws came predominantly from the Executive, and most proposed and approved legislation originated in and was shaped by the executive branch.

Building on its advisory programs in Argentina and Peru to help policymakers analyze complex economic reform legislation, the Center for International Private Enterprise (CIPE) partnered with Fedesarrollo – a non-governmental think tank dedicated to promoting a representative and participatory policymaking process in Colombia. In order to enhance the public debate on legislative initiatives and to provide technical and independent advice to Congress, Fedesarrollo published monthly policy briefs entitled *Economía y Política*. These detailed assessments of laws, court decisions, and key policy issues increased the knowledge of those involved in the elaboration and approval of bills, resulting in specific changes to legislation. Through *Economía y Política*, Fedesarrollo encouraged policies that advance general welfare and the ideals of democracy, rather than individual interests.

## Advisory Services to Congress

The *Economía y Política* service used three main instruments to influence law making. The first was rigorous analysis and monthly publications on the overall legislative agenda, specific draft laws, court decisions, and important issues neglected by policymakers. To identify the subjects of the legislative alerts, Fedesarrollo staff monitored the legislative agenda with the assistance of respected non-governmental organization publications. This monitoring, coupled with consultations with the media and policymakers, indicated the most pressing topics and the ones Fedesarrollo would analyze. The *Economía y Política* team then coordinated careful study of the bill to be considered, revealing how the law compared to its legislative precedents and other laws it would modify. Examinations of international experiences and available technical literature provided analytical context.

**Over 80 percent of congressmen who responded agreed or strongly agreed that *Economía y Política* had a positive impact on the economic legislative agenda.**

Each policy brief analyzed causes and impacts of the problem in question, assessed possible solutions, and prioritized courses of action. The drafting was informed by meetings with experts and policymakers. Fedesarrollo shared the final version of the brief, including recommendations, with congressmen, magistrates of the Constitutional Court, academics, public servants, and journalists. An abbreviated version of *Economía y Política* was published in national media, first in a law journal and subsequently in a daily newspaper.

The second instrument used to influence law-making were open debates organized by Fedesarrollo and the Institute of Political Science. The debates featured panels with national authorities, experts, leaders of associations, and Congressmen directly involved in drafting bills under review. From July 2008 to July 2009, seven debates were held; each addressed a law, court decision, or economic issue raised by *Economía y Política*'s monthly briefs. After hosting a debate on the draft Competition Law,

Fedesarrollo spoke in Congress to the members of the Committee reviewing the law and several of their recommendations were accepted.

Finally, Fedesarrollo held periodic breakfast and lunch meetings with Congressmen and their staffers to present the preliminary results of its assessments, and to discuss recommendations on bills. These meetings aimed to overcome the weaknesses in communication between Congress, political actors, and the public. The meetings also served as an arena for Congressmen to indicate their policy priorities and subjects on which they sought analytical support and advice.

### **Fedesarrollo's Influence on Natural Resource Management and the Competition Law**

The 1991 Colombian Constitution recognized that revenues from the exploitation of natural resources belong to the sub-national governments of the region in which production or transportation of these resources took place, and are not to be assigned by the national government. In 2008, as a strategy to guarantee financial stability for regions dependent on natural resources, the Ministry of Finance presented a bill to Congress that forced sub-national governments to save part of their resources for the future. *Economía y Política* analyzed the bill and proposed recommendations to ensure that it would produce savings for the regions in question and not establish the state development agency as an intermediary. The policy brief also pointed to technically superior legal precedents that could serve as examples for resource management. The government drafted a new law that accepted most of Fedesarrollo's recommendations, and the impact of *Economía y Política* was openly recognized by the vice Minister of Finance.

In September 2008 *Economía y Política* was invited to analyze the bill on Competition Law. Based on the policy brief and debate session held on this bill, Congress accepted a number of Fedesarrollo's recommendations. The proposals put forth by Fedesarrollo strengthened the Superintendent of Industry and Commerce (SIC) as the chief authority monitoring adherence to the laws on competition. Primarily, proposals adopted from

Economía y Política defined the role of the SIC in relationship to other authorities in particular sectors of business, and encouraged a system whereby regulated companies made financial contributions to support the SIC. These reforms clearly delineated the role of an autonomous body in enforcing the Competition Law and established a unified system of regulation.

## **Supporting Policy Decisions**

In order to evaluate the achievements of Economía y Política, Fedesarrollo administered a survey to the Congressmen of the Economic Commission and received 21 responses. The survey found that over 80 percent of Congressmen who responded agreed or strongly agreed that *Economía y Política* had a positive impact on the economic legislative agenda, and the same percentage indicated that they had taken the monthly briefs into account in their positions or voting. Members of Congress reached out to Fedesarrollo to request additional information or issues of *Economía y Política*.

In an environment where public and informed policy analysis of draft laws is almost non-existent, *Economía y Política* provided one of the few technical assessments of policy debates with wide circulation and readability. The project presented Congress, the Constitutional Court, civil society groups, media professionals, and the public in general with reliable information and analysis on legislative reforms related to socioeconomic issues. Though it is hard to know whether the briefs helped to change positions of individual legislators, the briefs encouraged an atmosphere of policy debate based on analysis of facts and not sentiments.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

## **Source**

This case is an abbreviated version of a paper presented by the authors in July 2009 at a Latin America Think Tank Seminar hosted by CIPE and Fedesarrollo in Bogotá.

# A Source for Policy Alternatives

*by Ngozika Amalu*

For two decades, the Institute of Economic Affairs (IEA) has played an instrumental role in developing healthy policy discourse, strengthening legislative decision-making, and stabilizing the democratic process in Ghana. As a center for policy analysis and dialogue, the Institute has made profound contributions to the reform process and redirected laws that stood in the way of economic and social freedoms. In its early years, IEA adopted one of its most powerful advocacy tools: a legislative advisory service patterned after Latin American programs of the Center for International Private Enterprise (CIPE). IEA's legislative successes resulted in an amendment to the Serious Fraud Bill, the repeal of the Criminal Libel Law, increased media freedom, and the emergence of Ghana's first Freedom of Information Bill, in addition to countless other legislative interventions that expanded government transparency and protected the right to free enterprise.

## **Filling a Democratic Void**

In 1989, when IEA was founded, Ghana was far from the symbol of democracy and good governance in West Africa that it is today. The Institute immediately became a critic of the military regime's policies and an advocate for the restoration of civilian leadership. In 1992, the changeover from military to civilian government established Ghana's Fourth Republic and indicated the country was on course for a genuine political and economic transition. However, the democratic structures in place were still frail. There was no opposition party represented in Parliament, and the new members of Parliament – 99 percent of whom had no previous parliamentary experience – lacked sufficient capacity for the difficult task that they had accepted.

In addition, Ghana's weak civil society organizations did not possess the level of organization or advocacy skills necessary to hold the government accountable to its duties.

What the transition needed to become sustainable was a crucial component of the democratic process: the input and participation of a wide spectrum of organizations that could ensure effective legislation.

Beginning in 1992, IEA and CIPE spearheaded a governance and economic reform agenda through an Advocacy and Legislative Advisory Service to Parliament. IEA carried out in-depth research and widely circulated its analyses of the economic impact of bills under consideration, as well as laws already in place. In addition, the Institute encouraged open discussions of policy issues among the business community, non-governmental organizations, Parliamentarians, the media, and other key stakeholders in the policy process. The initiative brought a new standard of inclusive, issue-based discourse to the Ghanaian political scene.

## **A Three-pronged Approach to Reform**

IEA implemented its legislative reform programs in three phases. First, the Institute carried out careful research and scrutiny of Parliamentary bills. With the guidance of a board of directors – consisting of chairmen of Ghanaian business organizations, members of chambers of commerce, experienced economists, and other business leaders – IEA identified which laws were most important to private sector development and which would have the broadest support. In so doing, IEA ensured from the start that its reform objectives reflected the priorities of the business community.

**IEA's legislative successes resulted in an amendment to the Serious Fraud Bill, the repeal of the Criminal Libel Law, increased media freedom, and the emergence of Ghana's first Freedom of Information Bill.**

Once laws were identified, researched, and assessed, IEA held meetings and roundtables with public and private sector leaders in order to raise awareness of its studies' findings and to encourage participation in shaping its recommendations. This phase of the process was of unique importance to Ghana's policy environment, as it was at first the only forum for individuals representing diverse opinions to engage in candid

debates and influence legislation. “IEA is something completely new for Ghana,” stated the President of the Ghana Association of Industries in 1994, “a place where we can build a culture of coming together to make the country’s future.”

IEA used the meetings as occasions to shape its publications before officially releasing them. In these gatherings, the main ideas behind IEA’s reform recommendations were raised and debated, and compromises were forged. In some instances, the discussions raised awareness of issues that were not part of the legislative alerts but were of importance to the participants. For instance, IEA’s Roundtables were the first to address the problem of the monopoly held by the state-run social security system, SSNIT. The Institute called for de-monopolization of SSNIT and brought public scrutiny to its financial records, which revealed poor administration and misuse of the pension system. IEA’s campaign led the government to establish a new Pensions Commission, which introduced a public-private pension system.

Following research and dialogue, in the third phase of its advisory programs IEA published legislative alerts, newsletters, and governance reports. These it circulated to the executive, legislative, and judicial branches of government, as well as to business leaders, academics, political parties, labor unions, and the media. The publications were aimed to review current laws and address any shortcomings, to draw attention to the governance needs of the country, and to make suggestions on the best way forward.

## **Transforming Legislation**

Publications in IEA’s monthly Legislative Alerts series were crucial in amending the Serious Fraud Bill, which would have extended the government’s anti-corruption mandate by permitting officials to look into individuals’ finances and confiscate private assets without opening a formal investigation. Recognizing the threat this authority would pose to private property rights and the right to due process guaranteed in the constitution, IEA successfully advocated removal of these provisions before the bill was passed.

Perhaps the strongest testament to the efficacy of IEA’s approach was in the repeal of the controversial Criminal Libel

Law. This law dating back to Ghana's pre-independence days had become a tool for governments to suppress the media and public criticism of government actions. In its legislative alerts, IEA called for the law to be revoked and for independent bodies to monitor and try libel cases. After years of advocacy, the law was repealed. Out of this effort came the Freedom of Information Bill sponsored by IEA, which called for all national information (exempting national security) to be made available to the public. The bill has received executive approval, was presented to Parliament, and rose to prominence in public debate.

Through its advocacy and legislative advisory program, IEA created a pluralistic, influential policy forum and increased public awareness of market issues. For a time, IEA served as the single source of policy alternatives to a one-sided Parliament that issued laws without any outside deliberations. "If it weren't for the Institute," said one parliamentarian, the Parliament would not have been as effective.

Taking advantage of the changing political climate in Ghana, IEA used its forum to encourage transparent and responsive governance. Not only did the Institute prompt the recall, amendment, or reconsideration of laws, IEA changed the ways in which civil society in Ghana organized itself, bringing new participants to the policy roundtable. It also educated and informed decision makers. Moving into the 21st century, IEA and CIPE shaped new forums for dialogue, most notably by sponsoring the 2008 presidential election debates, distinctive for their focus on economic, governance, and social issues. Even as its methods have evolved, however, IEA has remained a leader in advocacy powered by research and dialogue.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# A Voice for Young Entrepreneurs

*by Ngozika Amalu*

Public participation is essential to achieving sustainable economic reform in a democratic process. Because the business sector plays a crucial role in growing the economy, representatives of business groups must be included in economic policy deliberations. In Jordan, however, few non-government bodies would bring business concerns to policy debate, or promote an independent and transparent review of policy. The Young Entrepreneurs Association (YEA) of Jordan, a membership-based, non-government organization, has stepped in to fill this gap as an articulate representative of the private sector.

YEA was founded in 1998 to encourage an entrepreneurial spirit and enhance the environment for business startups. In 2006, YEA partnered with the Center for International Private Enterprise (CIPE) to promote private sector advocacy and bring policy affairs to public attention. This partnership established Sawtouna, meaning “our voice,” as the analytical and advocacy arm of YEA. Through Sawtouna, YEA published policy papers and pursued a rigorous advocacy agenda aimed at easing the process of starting a business. As a result, the government adopted legislation to improve the environment for start-ups and encourage private sector growth in Jordan. The initiative enhanced YEA’s presence as an independent private sector advocacy group, and fostered an inclusive dialogue for future reform.

## **The Emerging Private Sector**

When King Abdullah of Jordan assumed leadership, he carried out an assertive economic reform program, which had a number of successes. A strong information and communications technology sector emerged, several public industries were privatized and made more efficient, and Jordan joined the World Trade Organization. However, these reforms did not alleviate the economic hardships of most Jordanians. The government still

lacked sufficient accountability and responsiveness towards its citizens.

YEA and CIPE sought to bring the voice of the private sector to the policy arena in order to ensure that reforms addressed the concerns of business. With Sawtouna, YEA focused the bulk of its efforts on improving the startup environment for small and medium enterprises. Sawtouna emphasized throughout its campaign that the pursuit of entrepreneurship should be open to all.

The primary method used by Sawtouna in its advocacy effort were the discussions and recommendations published in policy papers. Out of six papers, YEA focused its resources on promoting the subjects of two papers: one on reducing the minimum capital requirements for limited liability companies; and another on reducing and clarifying the requirements for registrations and licensing.

**YEA successfully championed an amendment to Jordan's Companies Law. The reduction in the minimum capital requirement led to over 1,800 newly registered small and medium enterprises.**

The first paper prompted the reduction of the minimum capital requirement. YEA successfully championed an amendment to Jordan's Companies Law, which reduced the capital requirement for businesses seeking limited liability status from 30,000 to 1,000 Jordanian dinars. This amendment stimulated business activity and encouraged previously extralegal operations to join the formal sector. By the end of 2008, the reduction in the minimum capital requirement led to over 1,800 newly registered small and medium enterprises.

The second paper received the endorsement of the minister of trade and industry, who requested that Sawtouna formulate a detailed plan for legislative action on the subject of licensing and registration. To this effect, two research papers were presented to Parliament, one on temporary business licenses and the other on implementing a silence is consent rule. These reforms will circumvent bureaucratic bottlenecks and expedite the licensing and registration process for new entrepreneurs. CIPE supported

Sawtouna's research and drafting process by offering content discussions and editing the draft papers.

## **Coalition Building**

Using past CIPE projects as examples, YEA developed a wide communications network and built a strong coalition to enhance Sawtouna's capacity for reform. Promoting a more interactive approach to advocacy, the initiative launched a website for posting and discussing policy papers. To bring credibility to Sawtouna's recommendations, YEA created a coalition of business leaders, politicians, government officials, and influential private sector organizations. Within this coalition, YEA secured the support of two former prime ministers, along with the minister of industry and trade and the minister of cultural development. In 2008, YEA brought together a group of 11 organizations representing different sectors of Jordan's economy to sign a memorandum of understanding in support of Sawtouna's advocacy. This enthusiastic private sector support that the project galvanized, coupled with the close working relationship between Sawtouna and members of parliament, was a driving force for the success of the initiative.

In the phases following the completion of the policy papers, Sawtouna actively reached out to members of parliament and the business community. Sawtouna hosted roundtables and forums with private sector leaders and high profile ministers. These meetings not only emphasized the necessity for reform and ensured recommendations were reviewed, but established YEA as a well-researched and articulate voice for the private sector. The result was that the Ministry of Trade and Industry assigned Sawtouna to work with the Companies Control Directorate, and then invited YEA to join the National Committee for reforming Bankruptcy Law. YEA was subsequently asked to support Jordan's progress in intellectual property rights by contributing research to a position paper on Jordan's intellectual property legislation, later submitted to the U.S. Trade Representative by the American Chamber of Commerce in Jordan.

*The activities described in this case study were funded by the National Endowment for Democracy.*

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# National Business Agendas

A national business agenda (NBA) is an excellent tool for unifying the business community and advocating for market-oriented reforms. Developed by the business community, NBAs help improve the climate for business and investment to spur economic growth. They identify laws and regulations that hinder business activities and offer concrete policy solutions to remove these barriers. In doing so, NBAs set the legislative and regulatory priorities of the private sector and clearly communicate them to policymakers.

A National Business Agenda can coordinate advocacy on multiple sectors' interests in order to present a united front, as well as to address concerns of common importance. In Romania, such an agenda highlighted the need for transparent policymaking while also making recommendations that produced jobs, tax relief, and growth in participating sectors. A grassroots advocacy tour publicized and strengthened this effort.

In Belarus, a three-way partnership combined a support network of business associations with the expert policy analysis of two think tanks in order to advance a National Business Platform. The platform's focus on economic growth gave business, civil society, and government a common basis for dialogue on reform. In this way, the National Business Agenda opened a door for future policy exchanges.

**Further reading:**

*National Business Agenda Guidebook* (Center for International Private Enterprise)

# Opening the Doors of Policymaking

*by Kim Eric Bettcher*

The Center for International Private Enterprise (CIPE) assembled Romanian business coalitions to promote transparency and public input in government, eliminate bureaucratic restrictions on entrepreneurship, and nurture markets in the tourism, technology, and light manufacturing sectors. Through the Open Doors Advocacy Campaign (2002–2003), CIPE coordinated three grassroots coalitions representing these sectors, which compiled and promoted their policy recommendations in a unified business agenda.

## **The Romanian Business Climate**

For the first seven years of its economic transition, Romania was slow to build the foundations for private sector growth. Private enterprises became legal in 1990 but languished in a difficult institutional environment. Red tape, corruption, inadequate access to information, and underdeveloped markets thwarted emerging entrepreneurs.

The government accelerated reforms in 1997, including privatization. Yet, it continued to favour state-owned enterprises, especially inefficient heavy industries, at the expense of smaller private companies. Private businesses faced unfair competition from the state sector, which often monopolized information, raw materials, and energy. Romania had “become a leading example of the perils of special-interest politics.”

Far from providing entrepreneurs with the conditions needed to operate freely and profitably, the Romanian government continues to develop legislation that favors established interests [that] can circumvent the democratic process at the expense of small and medium entrepreneurs who struggle to have their voices heard in policy development circles.

A congeries of independent business associations formed to pressure the government to remove restrictive or contradictory laws as well as create new laws and policies that would nurture entrepreneurship and a market economy. These associations were too divided to articulate or promote their common interests and were weakened by competition from established chambers of commerce, which tended to be aligned with the state sector. CIPE performed a diagnostic assessment of over 20 business associations in July 2000. The diagnostic revealed more than 60 percent of associations had limited, if any, involvement in the public policy arena; the remainder focused on sector-specific issues. Businesses tended to rely on individual connections within government rather than coordinated policy advocacy.

## **The Open Doors Advocacy Campaign**

In 2002, CIPE brought together a number of its Romanian partners in the Open Doors Advocacy Campaign. This coordinated initiative involved three coalitions representing distinct economic sectors, which compiled their recommendations into a single policy document and pursued a joint campaign.

**Largely due to the efforts of business association advocacy within the framework of the Open Doors Campaign, Romania passed a Freedom of Information Act.**

The sectoral coalitions identified and prioritized general issues such as corruption, bureaucracy, taxation, overregulation, freedom of information, and lack of transparency. Each coalition also identified and prioritized issues pertaining to its own sector. For example, firms in the tourism industry opposed the 3 percent tourism tax assessed on top of the 19 percent value added tax. They also wanted the government to establish regional tourism bureaus. The information technology and communications sector sought a reduction in employee taxes for IT firms, as well as the creation of an information technology park. The light manufacturing sector was concerned about the high level of taxation on profits (21 percent) and high export duties, and also desired a labor code that was fair to employers and employees alike. Each coalition unveiled its legislative agenda in a press event featuring senior government and business leaders.

The coalitions then launched a grassroots advocacy tour of 10 cities to create support for their legislative agendas. This advocacy tour not only generated a great deal of positive press, it convinced many government officials that popular support could be obtained for the reforms necessary to rejuvenate the economy. The Open Doors Campaign garnered over one thousand individual signatures from business leaders and 40 supporting organizations with an aggregate membership of more than 3,000.

Following through on the advocacy tour, the coalitions held Advocacy Days in 2002 and 2003, during which a total of 300 business participants had the opportunity to meet with government officials and attend public hearings. These events highlighted the importance of public involvement in policy decisions, transparent legislation, freedom of information, and accountability in government. Although sector-specific issues were also featured in the campaign, the recommendations were presented as part of a single package in order to demonstrate that the private sector was speaking with a unified voice. The campaign generated pressure on policymakers to respond to an informed, representative, and transparent set of business recommendations of wide significance to the economy.

## **Outcome of the Campaign**

Largely due to the efforts of business association advocacy within the framework of the Open Doors Campaign, Romania passed a Freedom of Information Act. Several ministries embraced initiatives to systematically reduce unnecessary bureaucratic constraints. Further, the Ministry of Small and Medium-Sized Enterprises (SME) approved development of a strategic plan for SME competitiveness. Thirteen specific changes to the Romanian Labor Code, recommended by a panel of experts after a public hearing, were submitted to the Minister of Labor. The minister agreed the recommendations were appropriate and established a private sector task force to analyze sections of the law prior to the creation of the implementation norms.

Coalitions for the individual sectors also obtained many of the changes they wanted. The Ministry of Tourism approved the creation of regional tourism bureaus, which within a year

after their formation were already generating hundreds of thousands of dollars through their promotional activities. Also, the 3 percent Special Tourism Tax was cancelled as of June 2003. The government passed a law to create three technology parks. Employee taxes for information technology workers were reduced and within 18 months Romanian IT companies had added over 1,500 new jobs. In the manufacturing sector, the coalition obtained amendments to the labor code that it had sought.

Reforms advanced by the Open Doors campaign created an estimated 2,850 jobs and over \$10 million in economic growth, not counting the effect of the reduced tax regime on tourism and information technology companies. From 2002 to 2003, wages rose in the information technology industry by nearly 38 percent, in the tourism industry by 28 percent, and in light manufacturing by 18.6 percent. Industry experts acknowledged that changes in laws, many of which were proposed by the coalitions in the Open Doors campaign, led to these wage increases.

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*The activities described in this case study were funded by the United States Agency for International Development.*

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# A Business Agenda for Economic Liberty

*by Ngozika Amalu*

In 2005 the Belarusian business community came together to protect private enterprise and support change through constructive advocacy with the government. Since the mid-1990s, entrepreneurs in Belarus had experienced restrictive legislation and high corruption, and had seen an era of stifled growth due to flawed economic policies and a hostile political environment. The Center for International Private Enterprise (CIPE) partnered with the Minsk Union of Entrepreneurs and Employers (MUEE) and two think tanks – Analytical Center “Strategy” (ACS) and the Institute for Privatization and Management (IPM) – in an effort to mobilize private sector support for legislative reform. This three-way partnership combined a support network of MUEE member associations together with the expert policy analysis of ACS and IPM in order to advance a National Business Platform. The initiative boosted private sector participation in the policymaking process, reduced government control over businesses, and established a low, flat income tax rate.

## **Developing a Civil Society Network**

Modeled after the U.S. Chamber of Commerce’s National Business Agenda process, the Belarusian National Business Platform (NBP) united entrepreneurs, business associations, academics, and other non-governmental organizations behind concrete policy issues. At the very beginning of the process, CIPE and its partners organized a four-day seminar for 35 representatives of business associations from across Belarus to help the business community establish a united vision and organizational guidelines for a coalition. Using the experiences of CIPE partners in Russia, Romania, and Ukraine, seminar participants formed a core business coalition called the Confederation of Entrepreneurship of Belarus and selected six priority areas for reform. In addition, a project committee was created to organize discussions of the NBP among business leaders, academics, and other civil society leaders. The project

committee members raised awareness of the NBP at conferences and exhibits, informing key stakeholders and the public of the coalition's activities.

This grassroots effort was an important strategic component of the initiative, one that filled the void of information in Belarus on how and why a market economy functions. A series of 27 seminars in six cities, hosted for small business owners, managers, journalists, and local government representatives, raised awareness of the need for market reform and explored ways to improve the business environment. As part of a door-knocking campaign, university student volunteers distributed over 15,000 copies of the NBP to small and medium-sized businesses in their communities.

The project rejuvenated a “freedom movement” in Belarus that broadened civil society support to include non-governmental organizations, political parties, the media, and educators, along with business associations. Between 2007 and 2009, the coalition grew from 12 to 30 member organizations; in addition, over 30,000 active participants were involved in drafting the 2009 NBP compared to 12,000 in 2007. Within the Confederation of Entrepreneurship of Belarus, the associations gained a total of 223 new members in the first two years of the project.

**With nearly half of the 2008 recommendations adopted in full or partially by the government, the NBP improved the business environment and motivated increased public participation in reform.**

## **Participatory Policymaking through Public-Private Dialogue**

Once united around a concrete set of policy issues, the partners were able to present recommendations from the private sector in a clear and cohesive message through the NBP. The project committee organized working groups to monitor the adoption of the Confederation's recommendations and the impact of legislation, as well as to rally support for the NBP. Working group members took part in public-private commissions contributing to legislative revisions on administrative procedures, fines, taxation, and licensing. Based on the 2007 NBP recommendations, the

working groups advocated for simplified licensing procedures that shortened the time for issuing new licenses and limited the conditions under which licenses could be revoked. In addition, the 2007 recommendations saw tax reductions of up to 50 percent for businesses in rural areas, which revitalized the business environment in Belarus' stagnant rural industries. The 2008 NBP stimulated a further reduction and established a flat income tax of 12 percent.

Legislative advocacy through the NBP resulted in a general reduction of government control over businesses. Responding to the 2007 NBP, President Lukashenka announced reforms aimed at liberalizing the Belarusian economy and increasing investment. A 2008 presidential decree removed the "golden share" provision from business regulation, effectively eliminating government ownership of shares in private firms. Following this landmark decision, the 2008 NBP championed the removal of government mandated prices, allowing for prices to be set by competitive markets, a move estimated to save Belarusian businesses up to \$40 million.

These changes resulted from an extensive dialogue between the private and public sectors. Private sector leaders met continuously with government ministries and officials to draft legislative amendments and to discuss how these reforms could benefit state-run industries as well as the private sector. For example, in September 2008, the Belarusian government introduced a profit margin cap of 30% on all imports; this was to cover duties, transportation and handling costs, and retail profits. The legislation would have bankrupted thousands of Belarusian importers and left even more people unemployed. In response, IPM and ACS analysts came together to show how this legislation would negatively affect state businesses and decrease competitiveness. One hundred-and-twenty importers organized by MUEE brought these findings to the government, which after meeting with the business community ultimately withdrew the law.

## Finding Space for Dialogue

Just as a grassroots alliance was built among civil society members, the project became a means for participatory reform based on dialogue between the public and private sectors. In order to achieve this it was essential for IPM, ACS, and MUEE to emphasize their focus on economic growth. Straddling the line between remaining committed to civil society's demands for reform and productively engaging with the government was important. This was achieved by mobilizing civil society participation while highlighting the role that the government could play when open to reform.

In discussions with business leaders, CIPE's partners would quote Lukashenka to show that some positive steps had been achieved towards private sector reform. For instance, in December 2008 Lukashenka stated that "the state should leave the spheres where effective government management is not possible." Such quotes demonstrated that the government did not reject the idea of free enterprise promoted in the NBP, and encouraged the private sector to dare to conceive of a market system in Belarus. Business leaders also used Lukashenka's own words as leverage when dealing with local officials, pointing to statements from the president that called for reforms in administrative and bureaucratic procedures.

The level of unified civic participation in public policy achieved through the National Business Platform and its number of positive legislative outcomes were unprecedented in Belarus. The NBP's goals were even incorporated into the political opposition's platform. With nearly half of the 2008 recommendations adopted in full or partially by the government, the NBP improved the business environment and motivated increased public participation in reform. Beyond its tangible legislative achievements, the NBP united entrepreneurs behind a clear message for reform and opened a door for civil society to engage in future policy exchanges.

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### Source

Jaroslav Romanchuk, Presentation at CIPE, April 30, 2009.



# Anti-corruption

The participation of the private sector in the fight against corruption is key to success. The most effective anti-corruption programs engage the private sector in institutional reforms that promote competitive markets and good governance. The business community can take positive action both in the public arena – by advancing legal and regulatory reforms and transparency in government – and in the private sector – through improved corporate governance, better information, and voluntary standards.

As part of the fight against corruption, companies must take voluntary measures to ensure integrity in their operations and prevent bribery. The Business Principles for Countering Bribery have given guidance to companies and created a new basis for industry and international standards. The principles not only raised awareness and consensus on the issue of corruption, they also provided a framework for implementing counter-measures.

Often, the best response to corruption is to reform laws and rules that grant excessive discretion to bureaucrats and create incentives to pay bribes. In the case of Armenia, tax reforms proved key to eliminating discretion and ambiguity while lowering costs for businesses.

**Further reading:**

“Combating Corruption: A Private Sector Approach” (CIPE REFORMToolkit)

# The Business Principles for Countering Bribery

*by Aleksandr Shkolnikov*

The Business Principles for Countering Bribery (Business Principles), developed by Transparency International (TI) and Social Accountability International (SAI) in a multi-stakeholder process, have been recognized as a key global anti-corruption standard. The Center for International Private Enterprise (CIPE) provided support for field testing and revisions of the principles, as well as their dissemination internationally. The principles provided the basis for major international efforts such as the Partnership Against Corruption Initiative (PACI) Principles of the World Economic Forum, and provided an important foundation for the 10th Principle of the UN Global Compact on Anti-Corruption. Moreover, the Business Principles have helped companies struggling with bribery and extortion to establish more comprehensive measures against the risk of bribery.

## **Shaping the Principles**

Work on the Business Principles started in the late 1990s, when private sector attitudes towards corruption began to change. For a long time the global private sector had regarded corruption as a public sector issue, waiting for governments to take charge of anti-corruption initiatives. Companies often avoided discussions on corruption and in some countries bribes were actually tax deductible. The Anti-Bribery Convention of the Organisation for Economic Co-operation and Development (OECD), adopted in 1997, marked the beginning of a change in global attitudes towards corruption. As intolerance to corruption grew and the costs of corruption on businesses became more understood, companies began looking for solutions that would improve transparency and help manage the risk of bribery.

The adoption of the OECD anti-bribery convention convinced TI and SAI of the need for an initiative to help the private sector establish mechanisms for integrity and the prevention of bribery. At the time, there was no available set of principles or management systems-based approach for combating bribery.

TI and SAI therefore developed such an initiative and a set of voluntary guidelines that would provide a concrete pathway for companies to clean their own ranks. TI and SAI coordinated a broad-based Steering Committee, involving leading businesses and civil society representatives from around the world to develop the core principles. These guidelines, which became known as the Business Principles for Countering Bribery, have shown themselves to be a practical and flexible implementation tool for use in various ways: by companies in benchmarking their own practices, by civil society as a basis for crafting local codes, and by chambers of commerce and industry for the purposes of education and raising standards.

**“True commitment to these rules can help achieve the level-playing field that still eludes business in many markets.”**  
– TI Program Manager  
**Susan Côté-Freeman**

“The message of the Business Principles is simple,” according to TI Program Manager Susan Côté-Freeman, “Enterprises should prohibit bribery in any form and implement a comprehensive program ensuring enterprise-wide compliance with this prohibition. True commitment to these rules can help achieve the level-playing field that still eludes business in many markets.” The principles cover the key forms of bribery such as kickbacks and facilitation payments as well as the channels that may be used as subterfuges for bribes such as political and charitable contributions, sponsorships, gifts, hospitality, and travel expenses.

The Business Principles detail how businesses should apply their program to business relationships. They emphasize the leadership role of the board of directors and senior management, the development of a culture of anti-bribery among employees, effective communication of the program, appropriate training, and maintenance and audit of effective internal controls.

### **Testing the Principles**

To secure support for the principles, it was important that they reflect the realities of doing business. TI and its

partners conducted several field tests representing a spectrum of implementation conditions, and held a consultation with interested parties. In its efforts to make the Business Principles known and encourage their use by business, TI engaged with international financial institutions, government regulators, and other entities that supported anti-corruption and corporate social responsibility initiatives.

One of the key challenges faced by TI was finding the right companies that were prepared to field-test the tools. This challenge was magnified by resource and time constraints. Moreover, in distributing the principles around the world, capitalizing on the early interest of the private sector and moving towards concrete programs was a challenge. CIPE's participation in the process provided private sector input from developing countries and different sized firms, as well as a link to chambers of commerce and business associations, important allies in anti-corruption measures.

Once the principles were developed and successfully disseminated around the world, the need for additional resources surfaced. CIPE supported TI in developing implementation documents, evaluation guidelines, and, most importantly, verification tools to ensure that commitments made under the principles actually translated into real action. Later, an edition focusing specifically on small and medium sized enterprises was also developed.

### **Putting the Principles into Practice**

Once introduced in countries around the world, the principles led to a number of important local initiatives that began to transform how the private sector treated the issue of corruption. In Lebanon, for example, the workshop introducing the principles to the business community led to the creation of a local task force on corporate governance, which eventually adapted the principles to the local context. In Argentina, leading water sector companies signed an anti-bribery sector agreement based on the principles. The agreement captured 80 percent of the companies involved in the water distribution sector.

In 2006 the Business Principles were recognized by the World

Bank and the U.S. Government's Overseas Private Investment Corporation as a model for anti-bribery programs. The principles influenced other leading anti-corruption and corporate social responsibility initiatives, such as the 10th Principle of the UN Global Compact, and were used as a basis for the anti-bribery principles of the Partnering against Corruption Initiative (PACI) convened by the World Economic Forum. The dissemination of the principles further spurred the International Federation of Inspection Agencies (IFIA) to develop the IFIA Compliance Code for all its members, based on the Business Principles.

The Business Principles have been adopted by a considerable number of companies around the world and provided a new basis for corporate transparency and anti-bribery reporting. For example, the FTSE4Good index for socially responsible investment introduced anti-bribery criteria based on the Business Principles. Indices such as the Dow Jones Sustainability Index refer to the Business Principles, as does the UK's Business in the Community Index, an initiative that groups 800 top UK companies committed to having a positive impact on society.

In all, the Business Principles for Countering Bribery have emerged as one of the leading anti-corruption tools available to the private sector. Although corruption pressures faced by companies are always complicated by the nuances of a country's institutional fabric, the Business Principles provide a concrete anti-corruption framework that companies in any part of the world can begin to implement themselves, without waiting on governments to do it for them.

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*CIPE's support for the activities described in this case study was funded by the National Endowment for Democracy.*

# Fighting Corruption through Tax Reform

*by Ngozika Amalu*

After the fall of the Soviet Union, a lack of transparency and accountability in the Armenian fiscal system, together with unclear and duplicative terms of taxation, allowed officials to manipulate the system while placing businesses in constant violation of ambiguous laws. Abuse of tax laws in Armenia seriously impaired the business and investment environment and stalled the democratic process. In 2006, the Association for Foreign Investment and Cooperation (AFIC) partnered with the Center for International Private Enterprise (CIPE) to combat corruption through increased advocacy and public and private sector cooperation on tax reform. AFIC initiated a research and advocacy program that increased democratic dialogue between the government and civil society, resulting in reforms to tax laws that had enabled the perpetuation of corrupt practices. AFIC initiated the adoption of a new unified Tax Code and successfully advocated for reforms to eliminate opportunities for corruption, thereby lowering tax-related business costs by 12 to 15 percent.

## **Identifying the Taxation Problem**

AFIC conducted a thorough analytical study in order to identify specific inefficiencies within the tax system that gave rise to corruption. Using CIPE models, AFIC carried out an anonymous survey among 205 entrepreneurs and business associations. The survey helped to identify loopholes within the tax system, while analysts researched existing anti-corruption and taxation studies from within CIPE's network of think tanks. Ambiguous legislation and frequently changing laws, as well as unnecessary bureaucracy were two of the major problems highlighted by the study.

AFIC established a coalition of business associations, chambers of commerce, and NGOs to be the main engine of advocacy and awareness building for anti-corruption and fiscal reform. The coalition synthesized the findings of the survey

into concrete policy recommendations, then advocated for these reforms through meetings with legislators, tax officials, business associations, and NGOs. In the first year of the program, the coalition held five public-private roundtables with 106 participants. In this way AFIC established a participatory policy dialogue on the issue of tax reform as a means for fighting corruption.

## Promoting Fair Taxation

In order to maintain the momentum of public and political support, AFIC ensured a steady flow of information to taxpayers on reforms and project results. In addition to circulating two publications – Recommendations for Armenian Tax Reform and a Tax Mini-Manual – AFIC created a webpage in both Armenian and English where it posted information on tax policy, and invited experts and policymakers to comment and make suggestions for reform.

**AFIC successfully advocated for reforms to eliminate opportunities for corruption, thereby lowering tax-related business costs by 12 to 15 percent.**

Through targeted legislative amendments, the project had a remarkable impact on the creation of a new tax system to combat corruption. In August 2008, Armenia's National Assembly adopted a legislative reform package that included recommendations from AFIC; among these was an amendment to the Law on Simplified Tax. Under the previous simplified tax law, large businesses were able to misrepresent their annual revenues in order to qualify for lower taxes. AFIC's recommended revisions to this law restricted the ability of large businesses to manipulate the tax system, and simultaneously promoted the growth of small and medium enterprises that need and benefit from tax breaks. Other amendments approved by the National Assembly allowed businesses to mail in their tax information, and another created a modernized, computer-based system through which tax documents can be filed and processed. Together, these aimed to shrink the opportunity for bribe-seeking by diminishing the need for face-to-face interaction between businesses and tax authorities. All of these reforms reduced bureaucracy and the

amount of time needed for businesses to complete their taxes, thus also reducing the attractiveness of corruption as a means to expedite tax procedures. According to AFIC's survey of entrepreneurs, these tax reforms lowered tax-related business costs by 12 to 15 percent; this reduction in costs was seen primarily through lower demands for facilitation payments.

AFIC's approach highlighted how combating corruption requires attention to the underlying causes that produce incentives and opportunities for corruption. In the case of Armenia, poor fiscal policy created both the supply and the demand for corruption. By making fiscal reform the issue, AFIC simultaneously addressed the supply and demand sides of the problem and tackled a fundamental source of mistrust in public institutions. At its core, the unified Tax Code eliminated bureaucracy and opportunities for wide discretion in tax administration, thus creating fewer occasions for tax officials to demand bribes, and fewer incentives for businesses to supply bribes as a means of expediting procedures. AFIC's experience also highlighted the need for wide private sector support in order to dismantle systemic corruption. "Quite an interesting atmosphere of cooperation of business associations and business support organizations with state government bodies has already formed," said AFIC Deputy Chairman Gagik Poghossian, "and I hope that this cooperation will be lasting."

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# Corporate Governance

Corporate governance has become an essential tool for improving corporate performance and advancing the development of market-oriented democracies. Good governance practices maintain the integrity of business transactions and in so doing strengthen the rule of law and democratic governance. A powerful antidote to corruption, corporate governance clarifies private rights and public interests, preventing abuses of both.

Strong governance can give companies a competitive advantage, but this depends on the availability of accepted reference points for companies and investors alike. In the Philippines, a scorecard system motivated companies to change their practices and pointed them in the direction of specific improvements. Best-reforming companies used the system to raise standards, while the stock exchange used it to gather data and inform investors.

In Tunisia, a set of governance guidelines and an index similarly motivated improved corporate performance, and additionally supported revisions to the commercial code. Pivotal to the design and application of these guidelines was the incorporation of ideas from a broad range of stakeholders, through workshops, an advisory council, and a new Center for Corporate Governance.

**Further reading:**

“Corporate Governance for Emerging Markets” (CIPE REFORMToolkit)

## Raising Standards through Scorecards

*by Catherine Tai*

Following the Asian financial crisis in 1997, the international community witnessed an emerging focus on corporate governance as a way to guard against further crises. In the Philippines, the Institute of Corporate Directors (ICD) has since become the leading training institution in corporate governance and directorship. ICD developed an innovative scorecard system that establishes uniform standards for companies and motivates continuous improvement.

Boards of Philippine corporations frequently lack directors who are truly independent from management, compromising their ability to provide adequate oversight of corporate activity and represent the interests of all shareholders. Philippine boards further often lack strong audit committees, making it easy for corporate officers to keep certain transactions off the books or pay bribes. Establishing accountability and transparency in the private sector serves as an important basis for improving governance in public life, and that is the fundamental challenge facing Philippine democracy.

Since 2005, ICD has promoted better governance by scoring Philippine companies on their practices and developing the business sector's understanding of the Principles of Corporate Governance, established by the Organisation for Economic Co-operation and Development (OECD). The scorecard program helps companies assess how their governance compares to international and regional practices, provides a road map to concrete improvements, and recognizes corporate leaders in governance. With the support of the Center for International Private Enterprise, the program has engaged 171 publicly listed companies and branched out to financial institutions, the public sector, and family businesses.

## The Governance Scorecards and Their Results

The corporate governance scorecards have demonstrated marked improvements in company compliance with best practices since the scorecards' launch in 2005. The scorecards rank firms on their level of disclosure in annual reports, proxy forms, codes of ethics, and other public documents. Scoring consists of five weighted categories that correspond to the OECD Principles:

- disclosure and transparency (25 percent)
- board responsibilities (25 percent)
- rights of shareholders (20 percent)
- equitable treatment of shareholders (20 percent)
- role of stakeholders (10 percent).

Scoring is conducted by independent evaluators trained by ICD, who are students of the Ateneo Law School. In order to assure buy-in, companies also perform a self-assessment as a preliminary step. ICD validates the scores and provides recommendations to each participating company on how to improve its corporate governance practices.

**“This is one big step  
our stock market  
has to take to be  
globally competitive.”  
– Philippines Stock  
Exchange President  
Francis Lim**

A large and growing number of Philippine firms employ the scorecard, and have shown steady overall improvement. Participation rose from 49 listed companies in 2005 to 171 in 2008. These companies reached an average score of 72 percent in 2008, a significant improvement from an average of 53 percent in 2005.

Gains in average performance were driven largely by top-reforming companies. One such company, Cebu Holdings Inc., jumped from a score of 51 percent in 2007 to 92 percent in 2008. It did so by implementing each of ICD's specific recommendations, including restructuring its compensation committee to add more independent directors, implementing an annual assessment of the board and CEO, and publicizing shareholder meetings. Leading companies like the Ayala Corporation, a family conglomerate, have seized upon the changes as a means to attract equity from

abroad. Ayala came second in the 2008 results with a 98 percent score.

ICD has engaged companies through effective partnerships with regulators. The Central Bank of the Philippines, for instance, requires directors from all banks to undergo an ICD corporate governance orientation. Directors and senior officers within the insurance sector are likewise required by the Insurance Commission to take a corporate governance orientation. Crucially, the Securities and Exchange Commission and the Philippines Stock Exchange (PSE) require all publicly listed companies to participate in the scorecard project. Said PSE President Francis Lim, “I hope the partnership will translate to cultivating a culture of corporate governance among our listed companies. This is one big step our stock market has to take to be globally competitive.”

ICD received positive feedback from participating companies in a survey it conducted. Participants considered the scorecards effective at promoting corporate governance by building awareness among managers and officers and by challenging corporations to improve their scores. Companies reported that their ICD scores were eagerly anticipated and that reaching higher benchmarks was a real motivation. The surveyed companies agreed that they benefited from participating in the scorecard project and incorporating governance practices into their systems and procedures.

Meralco, the largest electricity distributor in the Philippines, stressed that “an external assessment such as the scorecard provides the necessary ‘push’ for reform in corporate governance; the scorecard provides the necessary checklist to balance the corporation’s view on corporate governance.” Ayala Corporation commented that “it certainly enhances and promotes corporate governance; the scorecard is a tool for measuring the company’s success in its practice and compliance with the principles of good corporate governance.”

## **New Directions**

ICD continues to innovate and extend the program. At the 10th Asian Roundtable on Corporate Governance co-hosted by

ICD with the OECD in September 2009, Dr. Jesus Estanislao, chairman of ICD, presented the institute's ground-breaking initiative to apply its corporate governance scorecard program to commercial banks and state-owned enterprises (SOEs). The Central Bank of the Philippines has asked ICD to craft a specialized scorecard for commercial banks.

State-owned enterprises (SOEs), which receive sizable subsidies from the Philippine government, exhibit significant room for improvement in their performance. Of particular concern, political interests often wield undue influence over appointees at the helm of SOEs. In response, ICD together with the Philippines Department of Finance developed a specialized corporate governance scorecard for SOEs. ICD's scorecard process, the first of its kind in Asia, is now widely regarded as a useful tool for helping SOEs comply with the OECD's Guidelines for SOE Governance, as directed by the Office of the President in 2007.

Finally, to satisfy publicly listed companies that have met the scorecards' requirements and are seeking further improvement, ICD initiated the performance governance system. The system, which aims to institutionalize governance processes in each company, rests on the belief that governance principles require more than simple box-ticking and should permeate a corporation. In conjunction with this new system, ICD has created corporate governance circles in which the best companies of each sector come together to provide support and knowledge to other similar businesses. These leaders in corporate reform provide an example to many sectors of the Philippine economy and others across Asia.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# Building a Center for Corporate Governance

*by Ngozika Amalu*

Building strong and sound democratic institutions involves implementing corporate governance standards that establish a culture of accountability, transparency, and fairness. In 2005, the Center for International Private Enterprise (CIPE) joined l'Institut Arabe des Chefs d'Entreprises (IACE) in a partnership that promoted good corporate governance practices and furthered awareness of corporate governance in Tunisia. With CIPE assistance, IACE developed a Corporate Governance Guidelines manual and a Corporate Governance Index to assist businesses seeking to implement good governance standards. Then in 2009, IACE launched the first Center for Corporate Governance in North Africa, to serve as a center for expertise, training, and awareness-raising on governance practices. These initiatives led to amendments to Tunisia's commercial code that promoted good corporate governance practices, and encouraged a number of Tunisian companies to take steps toward better governance and improved transparency.

## **The Corporate Governance Void**

In the late 1980's, the Tunisian government initiated a number of economic liberalization policies aimed at widening private investment. However, little was done to improve transparency and accountability, or encourage participation in decision-making. It was not until 2002 when the Batam Group nearly collapsed and was rescued by government intervention, that business leaders realized the importance of good corporate governance and ethical business practices. Although Tunisia made progress toward private sector development and economic freedom, poor governance practices continued to pose a threat to democratic reform and the sustainability of growth.

IACE, a think tank that promotes entrepreneurial culture and provides guidance to young business leaders, recognized the need to promote awareness of business ethics and to demonstrate the benefits of corporate governance to Tunisian firms. In 2006, CIPE and IACE commissioned a survey of 500 family-owned

firms in Tunisia. The main findings showed that although the majority of Tunisian companies agreed good corporate governance was important, 63% were reluctant to adopt good governance practices because they perceived this as an exposure to tax risk and because there were few financial incentives to do so. These results demonstrated the need for a standardized and widely promoted guidebook on corporate governance.

## **A Business Manual for Governance**

For a full year IACE consulted with private sector leaders, academics, and government officials, holding 36 public-private meetings to assess the results of the 2006 survey and develop the Corporate Governance Guidelines.

The guidelines were presented in a manual with practical steps to assist business managers and directors in implementing good corporate governance. CIPE worked with IACE on structuring the guidelines, as well as providing examples of different approaches from CIPE partner organizations and ensuring that the guidelines were based on international standards. IACE launched the Corporate Governance Guidelines in June of 2008 at a national conference.

**Amendments to the Commercial Code, based on recommendations from the Corporate Governance Guidelines, provide more protection for minority shareholders, and require greater financial transparency from firms.**

IACE proactively sought feedback on the new Corporate Governance Guidelines from both the private and public sectors. The Institute held four workshops: the first with financial institutions, banks, auditors, and accountants; the second with the board of directors of Tunisia's largest firms; the third with managers of family-owned businesses; and the fourth with government agencies. Maintaining plurality throughout the process was important to ensure broad-based support from the government and the private sector, and wide implementation of the guidelines.

## **Raising Awareness**

The Corporate Governance Guidelines became a launching point for a number of IACE initiatives. Based on the guidelines,

IACE hosted training-of trainers and training-of-consultants workshops to prepare experts who would go on to train company directors, consultants, and managers on corporate governance best practices. IACE also developed a Corporate Governance Index to help companies recognize gaps and areas for improving their practices. The Index was based directly on the guidelines and on feedback from the European Confederation of Directors' Associations, an organization representing ten European Institutes of Directors.

On an international level, the European Institute of Corporate Governance (EICG) registered the Guidelines in its online index, and IACE's Executive Director was the first Tunisian to be included in EICG's network. Recognition from the EICG provided the exposure and credibility needed in order to raise awareness and implementation of the Corporate Governance Guidelines.

At least 13 companies have improved transparency and accountability as recommended by IACE. In particular, The Poulina Group, one of Tunisia's largest family-owned businesses, announced the salary of its president at the company's general assembly and in the media. Also, strong support from the Central Bank encouraged the Financial Markets Council (CMF) to incorporate components of the Corporate Governance Guidelines in its listing regulations to enhance transparency and accountability. The CMF now requires that listed companies publish any business agreements on both the CMF Board and the Tunis Stock Market official bulletin. On the legislative side, the Ministry of Finance introduced six amendments to the Commercial Code based on recommendations from the Corporate Governance Guidelines. These amendments provide more protection for minority shareholders, and require greater financial transparency from firms.

### **Establishing a Home for Good Governance Practices**

Taking advantage of the momentum from the Corporate Governance Guidelines, with CIPE's assistance, IACE launched Tunisia's first Center for Corporate Governance (CCG). In order to establish the ICG, IACE set up an Advisory Council of twenty

high-level stakeholders representing both the public and private sectors. Current members of the Council include representatives from the Ministry of Finance, as well as the president of the CMF.

The Advisory Council, in consultation with IACE and CIPE, provided leadership and guidance in the form of research and advocacy towards the establishment of the CCG. Of crucial importance was the extensive feasibility study carried out by IACE. In order to assess international standards and outline the mission and vision of the CCG, IACE participated in an international study tour with CIPE's partner the Brazilian Institute of Corporate Governance (IBGC). The four-day knowledge exchange was an opportunity for IACE to learn from the Brazilian experience in creating a corporate governance institute, and gain insights from Brazilian private companies and academics, as well as IBGC's board members. The feasibility study outlined not only the services that the CCG would offer but also indicated a strict management and communications structure.

The Center for Corporate Governance was launched in the summer of 2009 to provide training and certification for directors, and to raise awareness of corporate governance in Tunisia's public and private sectors. The CCG will build upon the principles and applications of the Corporate Governance Guidelines, establishing a nucleus to promote good corporate governance practices throughout Tunisia.

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*The activities described in this case study were funded by the National Endowment for Democracy and the Middle East Partnership Initiative.*

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# Informal Sector and Youth

Youth and the informal sector represent two constituencies with tremendous potential to contribute as citizens, entrepreneurs, and leaders. They require access to opportunity; and to obtain opportunities, they must have a part in the shaping of their political and economic systems. Giving them a stake in society allows them to develop new ideas and ventures on their own initiative for the betterment of communities.

Addressing economic informality requires consulting marginalized populations on the barriers they face in business and public life. A campaign in Guatemala to raise understanding on this issue resulted in simplified procedures for registering a business and the beginning of formal property rights for indigenous people. Such reforms had immediate results on business activity, and in the longer term act to extend the rule of law.

Youth face a variety of challenges, and especially need to understand how they can create economic opportunities through entrepreneurship. In Afghanistan, entrepreneurship education for high school students has introduced them to fundamental market concepts and prompted intense interest from hundreds of students who have pursued business ideas.

**Further reading:**

“Reducing Economic Informality by Opening Access to Opportunity” (CIPE REFORMToolkit)

“Promoting Youth Development: Policy Options and Reform Recommendations” (CIPE ECONOMICReform Policy Paper)

## Overcoming Exclusion

*by John A. Zemko and Martin Friedl*

From 2004 to 2007, the National Economic Research Center (CIEN) changed the perception of the informal sector in Guatemala and influenced reforms that encouraged business registration and property formalization. Three-quarters of Guatemala's work force, and the majority of the indigenous population, operated in the informal sector. Because the state was never designed to serve informal sector groups, it excluded them from legal, economic, and policy processes. Apart from the tax authority, government institutions were practically non-existent for informal businesspeople, even the courts and security. Most businesspeople experienced high transaction costs and low benefits from formal institutions.

Given the cultural and institutional realities in Guatemala, CIEN's Economics Director Hugo Maúl identified two priority tasks for overcoming exclusion and strengthening democratic institutions. First, Guatemala "must recognize, be familiar with, and respect the existence of plurality and cultural processes that make it possible for people of different cultures to live together peacefully. Second, it must complement the informal institutions with formal institutions that promote the positive aspects of informal arrangements."

### **Assessment of the Informal Sector**

The Center for International Private Enterprise (CIPE) hosted a one-day conference on the informal economy in 2005 to bring the benefit of CIPE's partner experiences in Latin America to the Guatemala program. Lessons from Venezuela's Center for the Dissemination of Economic Knowledge enriched CIEN's advocacy framework, while Peru's Institute for Liberty and Democracy guided the program's research methodology. CIEN also studied existing evidence on the economic practices and realities of Guatemala's indigenous communities.

In an effort to gain deeper insights into the informal sector, CIEN conducted a survey among 1,200 informal businesspeople in five cities. The survey addressed perceptions of the benefits of becoming formal, the presence of state institutions, and the relationship between ethnicity and informality. CIEN's findings indicated that informality was not a cultural phenomenon in Guatemala, but rather was caused by the absence of a state presence, high transaction costs in becoming formal, and the exclusion of various groups – including but not limited to indigenous groups – from policymaking.

CIEN separately interviewed 200 entrepreneurs selected from among indigenous broccoli producers, informal vendors, and women handicraft exporters in order to assess obstacles to joining the formal economy and operating a business. The interviews focused on the costs and benefits of becoming formal and how people in the informal economy perceived the central and local government. They revealed, for instance, that the costs of formalizing a business in some cases represented more than 18 months' profit.

**CIEN's public advocacy campaign produced significant changes to reduce the barriers to formalizing a business. The number of registered businesses jumped by 24 percent.**

CIEN also held six focus groups with more than 100 informal entrepreneurs at “La Terminal” market in Guatemala City, following the model of CIPE's National Business Agenda approach. These focus groups gathered grassroots input on the most important obstacles to doing business and ways to remove them. This process allowed the entrepreneurs in the market to reach a consensus on their priorities and incorporate their preferred solutions into a credible advocacy document.

## **Advocacy Campaign**

CIEN published its research findings in its book *Informal Economy: Overcoming the Barriers of an Exclusionary State*. The book recommended a set of governance reforms such as increasing transparency in policy formulation, improving communication channels with the informal sector, raising the

central government's presence at departmental and municipal levels, and encouraging citizens' participation in politics. Instead of greater regulation and tax burdens in response to informality, CIEN called for tangible benefits in exchange for formalization. CIEN specifically recommended reforms to reduce the cost of formalizing real estate and businesses, recognition of informal commercial practices, and revisions to the minimum wage and labor regulation.

To raise awareness of the benefits of business formalization, CIEN held a conference and presented the book at meetings in six cities with association leaders. Its active media campaign – comprising 7 press conferences, 11 television shows, 21 radio shows, and 32 articles – reached an audience of perhaps several million. With the cooperation of the National Institute of Statistics, CIEN's evidence convinced policymakers and the public that informality is the rule rather than the exception in Guatemala.

CIEN reached more than half the members of the Guatemalan Congress by sharing its research and recommendations in an edition of its legislative bulletin. It also approached several Congressional committees, among which the Committee on Indigenous Affairs was particularly receptive. CIEN's visit to this committee influenced the Congress to reform the laws regarding titling and land registration.

La Terminal market's business agenda was first presented to participants from the focus group meetings and market leaders. The agenda was then presented at a general assembly of La Terminal's informal vendors in addition to more than 400 people at town hall meetings. The agenda even guided a public debate on informality, organized by CIEN, among indigenous and informal leaders, an academic expert, the President of the Economic Commission of the Congress, and the Director of Economic Planning for Guatemala City. After several months of negotiating, CIEN helped informal vendors and municipal authorities agree to changes in policies for cleaning, security, and the organization of vendors on streets and sidewalks.

## Impact on Business Registration and Property Rights

CIEN's public advocacy campaign produced significant changes to reduce the barriers to formalizing a business. In 2006, the government implemented a "single-window" system for registering a new business, which reduced paperwork by 90% and the number of required office visits from 15 to just three. The cost of registering a business dropped to less than \$50. With these changes, the number of registered businesses jumped by 24 percent between 2006 and 2007. Most of the 8,000 new firms represented businesses that were previously informal, now joining the mainstream economy.

The dialogue with the congressional Committee on Indigenous Affairs, bolstered by CIEN's media campaign, set the stage for approval of the Cadaster Law in 2006. This law on titling and land registration was the first step in the formalization of property rights in Guatemala, especially among indigenous communities.

Using statistical evidence later published in its book, CIEN demonstrated that the system of property titling imposed high transaction costs on informal owners. With the cooperation of the Association of Housing Builders and Developers, CIEN's legislative recommendations resulted in a reduction of a 12 percent tax on property transfers to 3 percent. The reforms to facilitate the registration of property boosted the construction of homes by 40 percent. Continuing its advocacy, CIEN produced another victory when Congress passed the Real Estate Guarantees Law. This law opened up access to credit for thousands of small businesses by allowing them to use non-fixed assets (in addition to land and buildings) as collateral.

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*The activities described in this case study were funded by the National Endowment for Democracy.*

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# ***Tashabos*: An Education in Entrepreneurship**

by *Xiaohang Liu*

Focusing on Afghanistan's development after decades of war, the Center for International Private Enterprise (CIPE) has helped prepare thousands of Afghan youth to participate in the revival of their economy. Back in the 1970s, General Motors published a textbook in Spanish called *Empresa: How the Private Enterprise System Works*. Its goal was to teach Latin American employees the principles of market economics and free enterprise. Subsequently adopted by the U.S. Chamber of Commerce, in 2005 CIPE translated the curriculum into Dari and renamed it *Tashabos* – meaning entrepreneurship – to better resonate with Afghan communities.

An expanding program to educate Afghan high school students in the basics of entrepreneurship, as of 2009 *Tashabos* reached 23,000 students in 44 schools. Within a few years of its introduction, numerous girls and boys who had participated in the program were already applying their knowledge. According to surveys of participants, *Tashabos* has led to the formation of more than 508 new businesses by students who applied their classroom knowledge to the real world. Another 86 students have improved their families' businesses. Not everyone enrolled in the program will eventually become an entrepreneur, but each participant receives a valuable understanding of economic concepts such as savings, investment, and risk. In fact, a large number of students are now considering careers in the private sector, a healthy reversal from past years when a great majority of students preferred working for the government.

## **The Birth of *Tashabos***

The Afghan Ministry of Education, assisted by CIPE, first launched a pilot version of *Tashabos* in May 2005. It was implemented in two Afghan secondary schools and received positive feedback from students, teachers, and parents. Since

then, the Ministry of Education and CIPE have expanded the program repeatedly, eventually reaching 23,000 students.

Originally, *Tashabos* was a one-year course for 10th graders, using primarily the textbook. The text – one of very few books which Afghan students get to keep – describes the successes of a married couple who capitalize on their knitting skills to build a full-scale manufacturing business. Through this story, the course teaches the concepts of supply, demand, capital, investment, and risks. After the first year, CIPE developed an advanced, second-year curriculum for students in 11th and 12th grade levels. The advanced course goes beyond the general concepts and offers more complex materials on business administration, finance, and marketing. It also incorporates practical exercises so that students can apply what they learn to actual entrepreneurship.

**Tashabos has led to the formation of more than 508 new businesses by students who applied their classroom knowledge to the real world.**

As enrollment in the course increased, CIPE stepped up its teachers' training, especially for the advanced classes, and launched improvement initiatives, such as updating and adding new content. At the same time, CIPE closely monitored the progress of *Tashabos*, conducting surveys on the students' gains in knowledge, evaluating the proficiency of teachers, and assessing the impact of the curriculum on both students and parents, many of whom were able to take advantage of their children's understanding of entrepreneurship.

## **Business Stories**

The impact of *Tashabos* can be observed in the streets of Kabul. After taking the entrepreneurship course in his high school, a 19-year old man named Sadaar applied the concepts of competitiveness and risk to his father's bakery. His idea was simple: a greater variety of bread products to attract a larger customer base. Since then, due to Sadaar's initiative sparked by *Tashabos*, the bakery greatly increased sales and added three bakers on staff, thus creating employment while offering customers more choices.

Similarly, a 16-year old student named Muslim conducted a market analysis based on his lessons and opened his own business to sell prescription glasses and contact lenses. He obtained start-up capital not only from his father but through borrowing. His business idea helped Muslim move up the value chain, as he purchased machinery that fits lenses into frames instead of importing prefabricated frames with lenses.

Some *Tashabos* teachers creatively combined education with real-life experiences. The Zinab Kobra High School for girls encouraged students to display and sell their unique handicrafts at the school. One 10th grade student, named Shabnam, was inspired by her sales at school to develop a tailoring business – after she first opened a beauty shop: “Before I started in the *Tashabos* 10th grade class, I worked as a beauty shop assistant, but after I studied *Tashabos*, I learned from the characters ‘Omid and Lima’ in the textbook story about how a person could improve, so I took the risk, hired 10 people and opened a beauty shop.”

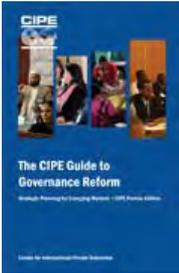
Beyond the tangible benefits of *Tashabos* – such as generating profits, increasing family income, and creating employment -- the program has educated students about a concept of greater importance: the free market. These young Afghan high school students have learned how to participate in a free market economy and make the best of their current conditions. Moreover, as they learn about private enterprise, they also obtain a glimpse into freedom and democracy. This new entrepreneurial mindset is expected to become a key element in Afghanistan’s future.

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## More from CIPE

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- **Francis Fukuyama, Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies, Stanford University**

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It has been said that building market democracies is a journey not a destination. If so, this book is a road map, a highly useful manual for the architects of successful societies."

- **J. Brian Atwood, Dean, Humphrey Institute of Public Affairs, and former Administrator, U.S. Agency for International Development**



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