The Case for Business in Developing Economies

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Article at a glance

• Despite the key role of private enterprise in generating growth and development, companies are often unfairly painted as social outlaws who need fundamentally to change their ways.

• The increasingly flawed, unbalanced conversation about business and society has negative consequences and potentially very damaging impact on the development prospects of many countries.

• Instead of remaining on the defensive, corporations, business leaders, and business organizations should vigorously promote market economies and the role of companies as essential and powerful instruments of progress, innovation, and development.
Business on the Defense

Companies operating in more competitive markets are now responsible for most of what can be described as world prosperity. This is especially true in the wealthiest countries, but is also increasingly the case in those parts of the world where wealth remains rare and recent. The business contribution to economic progress arises from the combination of opportunities and pressures that a competitive market economy generates. Ensuring that markets are really competitive and that new and small companies can enter them easily are key components of maximizing the benefits of market economies.

Increasingly, however, many politicians, officials, experts, academics, and mainly non-financial journalists tend to view business almost exclusively through the prism of whether corporations are being socially responsible. The implication always is that business is an essentially malign power which needs to pay a social penalty to offset the negative consequences of its pursuit of profit. Overlooking the overwhelmingly positive effects of business on societies – jobs, taxes, innovation, services and products that people want, opportunities for women to work, etc. – they argue that business has in effect to redeem its inherently bad nature and pay reparations if it is to be regarded as socially acceptable.

Many of the assumptions of what can be called the corporate social responsibility (CSR) movement contribute to the moral delegitimation of business activity. A defensive position on the social role of business, especially by large multinationals, hardly helps to consolidate the acceptance of market economics and the positive role of business as instruments of economic progress and innovation.

On the other hand, many opponents of CSR refer to a seminal short article written by Milton Friedman in 1970, published in the New York Times in which he argued that “the social responsibility of business is to increase profits,”¹ that in a free enterprise system a corporate executive is an employee of the owners of the business, and thus directly responsible to them. In the vast majority of cases, those employers want to make as much money as possible while conforming to the basic rules of the society in question, “both those embodied in law and those embodied in ethical custom.” In his view, to suggest that an executive has a social responsibility is either pure rhetoric or requires that he must act in some way that is not in the interests of his employers.

Friedman is undoubtedly broadly correct when he asserts that the primary role of business is to run a profitable enterprise. However, his approach to the topic in the article is too narrow. He fails to provide useful insights into the realities of doing business in a multinational, multicultural world. There are at least six vital issues which Friedman and many of his rather fundamentalist followers in their approach to the role of business in society either do not deal with or gloss over too quickly.

They tend to ignore the situation of developing countries. Friedman’s article argues that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits; so long as it stays within the rules of the game, namely engaging in open and free competition without deception or fraud.” However, in many poorer countries, there are no “clear rules of the game.”

They assume a uniformity of ethics and culture. Friedman argues that an executive’s responsibility is to make as much money as possible while conforming to the basic rules of society. This instruction is not as simple as it might appear if one is running a company active in different countries, staffed by people from different nationalities who might and probably do differ on the nuances of ethics and custom.

The efficacy and existence of the state is taken for granted. Probably because they do not deal with the situation in developing countries, business
fundamentalists assume the existence of an effective state. In many societies across the world, weak states are often a greater threat to citizens’ lives than strong ones – anarchy is sometimes worse than authoritarianism.

They generally deal too hastily and briefly with the interaction of companies and communities at the local level. In both developing and developed countries, companies are part of the social fabric of a local place. Exactly how to play the most constructive role and use company resources most effectively requires more in-depth attention than his short article provides. Business does indeed need a “license to operate” from the local polity; how to do that is worthy of more intense focus.

The complexity of the debate about what is in a company’s short-term and longer-term interest is simplified. Friedman rightly argues that in many cases a company will call something a part of its social responsibility when it is in fact something the company is doing to promote its survival and success. However his example of fixing local government, in most or all developing countries would be an enormous challenge, going far further than Friedman’s notion.

Friedman’s approach to democracy in this article appears naive. He argues that in a free society it is hard for “evil” people to do “evil,” especially since one man’s good is another man’s evil. In a majoritarian democracy, especially in a country with racial, linguistic, religious or other minorities, it is quite possible for a democratically elected government to adopt policies that have evil consequences for large numbers of people.

The reality of our global world and the role and impact of companies within society is more complex. The widespread demand for greater openness on the part of companies and the legitimate interest in the broader social impact of their operations and activities requires an expansion and adaptation of the basic Friedman formulation. In the book I try and develop a new and more nuanced approach. Central to this is the need to spell out the numerous and generally very positive impacts of companies just doing business: their direct and indirect impact.

The Direct Impact of Business

Companies are uniquely effective in making human effort productive. Specialized resources in the form of labor, raw and finished materials, capital and knowledge come together in a remarkable process that transforms these components into goods and services of greater value. In so doing they make a revolutionary contribution to the world in which we all live.

In the parts of the world where western-style prosperity remains elusive, big corporations are nevertheless at the forefront of creating the development that these countries need. Those who make development policy would best serve the interests of the poor by recognizing the power of private enterprise to promote economic growth and reduce poverty, and doing everything possible to help them attain these goals.

The following are just a few examples of many ways in which companies are making an impact in the developing world.

Coca-Cola in China

The impact of Coca-Cola on the Chinese economy in 2000 has been jointly studied by researchers of Peking University, Tsinghua University, and the University of South Carolina:
The Coca-Cola system directly employed 14,046 people. This included permanent, temporary, skilled and unskilled workers. More than 62 percent were skilled workers, most of whom were permanently employed.

Some 350,000 people were employed in the bottling system, and the sale of Coca-Cola products in China supported at least 50,000 jobs in wholesale and retail sectors.

About 414,000 direct and indirect jobs were sustained by Coca-Cola's production and distribution in China.

In 1998, the Coca-Cola bottling system injected 8.16 billion Renminbi (RMB) into the Chinese economy. This investment generated additional Chinese output of about 21.7 billion RMB.

In 1998, Coca-Cola bottlers paid 387 million RMB in taxes to the Chinese government. The additional economic activity stimulated by Coca-Cola's activities generated an additional 1.2 billion RMB in tax.²

Coca-Cola's presence has had numerous equally important qualitative effects on the Chinese economy. Many Coca-Cola bottling plants started off as inefficient and technologically backward state-owned enterprises. As a result of their association with Coca-Cola, they have been transformed into the market-oriented businesses that Coca-Cola requires. Managers of bottling plants have been made financially accountable, and have instituted better inventory and quality control, and cost management systems. They have learned to track consumer preferences, and pay attention to their product's distribution. Workers have learned that they will be rewarded for hard work. Prior to their association with Coca-Cola, managers tended to focus simply on increasing output, regardless of market conditions. Now they have been pushed into recognizing that the quality and acceptability of their products is a vital aspect of success in a more market-based system.

Coca-Cola has played a role in stimulating small business. Many vendors selling Coca-Cola products were previously unemployed. On average, 28 percent of the owners of retail shops and restaurants in Harbin, Guangdong province, Shanghai, and Xian were jobless before starting their ventures. Many subsequently depended on selling Coca-Cola products for their livelihood. In addition, among the 400 retailers canvassed at random, most agreed or strongly agreed that 'Coca-Cola products attract customers to the store.'³

Coca-Cola has also contributed to more substantial business development. For example, in 1986 the Zhong Fu Industrial Group began supplying bottles to Coca-Cola. It then began to follow Coca-Cola, setting up bottle making plants near every new Coca-Cola plant. By 1999 Zhong Fu had 36 plants across the country, and began to export bottles to Japan and South East Asia.⁴

Lastly, Coca-Cola has helped to strengthen and expand Chinese markets by providing training to tens of thousands of Chinese in its world-renowned...
marketing methods, and by investing its capital and experience in developing localized soft-drink brands.

**Unilever in Indonesia**

Unilever produces more than 400 food, household and personal care brands (from Lipton's Soup to Dove soap); has operations in about 100 countries and sells in 50 more. As Unilever’s then-CEO Niall Fitzgerald has put it:

> The very business of doing business has a huge impact on society. Three quarters of our sales revenue goes straight out again to pay for goods and services for suppliers. And of the wealth we create each year by adding value to those goods and services, around 70 percent of it is channeled back into society through employee wages, shareholder dividends, government taxes and community investment. We generate employment. For every job we create in Unilever we indirectly create several more in our supply chains and distribution channels.

This assessment is borne out by an Oxfam study of Unilever's impact on Indonesia:

- **Unilever Indonesia’s core workforce** comprises about 5,000 people, of whom 60 percent are direct employees, and 40 percent are contract workers. Indirectly, the full-time equivalent of about 300,000 people earn a living from Unilever’s value chain.

- More than half of this employment occurs in the distribution and retail chain. This includes an estimated 1.8 million small stores and street vendors.

- The closer and more formally workers in the value chain are linked to Unilever, the more they benefit. Two thirds of the value generated along the chain is distributed to participants other than Unilever’s direct producers, suppliers, distributors, and retailers.

- Taxes paid by Unilever to the Indonesian government account for 26 percent of the value generated in the chain.

The Oxfam research included a case study of the production of Kecap Bango, a sweet soy sauce brand that Unilever had acquired. Because sales were growing rapidly, Unilever needed to find a steady and consistent supply of high-quality black soybeans. In partnership with researchers at a local university, it started to work with a small group of producers, offering them a secure market, credit, and technical assistance.

Some 95 percent of Indonesians use at least one Unilever product. Many are basic goods such as hand soap, laundry products and tea. Many of the company’s products have become affordable for people living in poverty, in part because they are sold in smaller packages.

Researchers conducted interviews in a number of communities living within one kilometer of Unilever Indonesia’s facilities. Of those interviewed, half claimed to have benefited directly from Unilever’s presence. These benefits included direct employment, increased sales in local shops, larger numbers of passengers for motorbike taxis, and opportunities to maintain or repair the bicycles or motorbikes of Unilever employees.

**SABMiller in South Africa**

SABMiller employs 8,611 workers in South Africa; its first round suppliers have created an additional 46,000 jobs, and these suppliers in turn have created further business and employment opportunities. On the basis of these multiplier effects, in 2005 SAB’s activities in the country created 362,000 full-time jobs, some 3 percent of the country’s total employment. Besides this, its output was estimated at 44 billion Rand (R) for 2005, some 3.3 percent of South Africa’s gross domestic product for that year. The taxes that SAB paid in that year amounted to R8.5 billion, with an
additional R12.2 billion collected from businesses linked to SAB’s operations. This total of R20.7 billion constituted 4.8 percent of total government tax revenue in 2005.\textsuperscript{10}

SAB produces a wide range of products at competitive prices. The company has an excellent record of continuous innovation in terms of brands and packaging, thus generating benefits for consumers that are difficult to quantify.

SAB’s creation of new business opportunities in South Africa has often been part of a deliberate plan. In 2007, the company spent R1.96 billion on commercial equity for more than 4,000 black suppliers. Its then managing director, Tony van Kralingen, asserted:

\textit{SAB’s focus on outsourcing key services and creating wealth for new players is not new. In 1987 we introduced our owner-driver project, which saw former employees of SAB form their own companies to distribute SAB’s product brands to the trade. To date, SAB’s investment of well over R3 billion has resulted in about 235 individual companies with 352 vehicles distributing some 60 percent of SAB’s volumes.}\textsuperscript{11}

This project has since been expanded to include Distribution Operators, involving owner-drivers who have more than one vehicle. Since 1995 SAB has invested more than R38.5 million to help launch more than 3,200 businesses. More than 85 percent of the businesses started since 2003 are still in business (some are now multimillion-rand enterprises), and almost one third supply goods or services to SAB.\textsuperscript{12}

\textbf{De Beers in Botswana}

Possibly the most dramatic example of a large multinational transforming the economic fortunes of a southern African country is that of the South African diamond mining conglomerate De Beers in Botswana. Diamonds account for 76 percent of Botswana’s export revenue, 45 percent of government revenue and 33 percent of gross domestic product. Since the discovery of diamonds in Botswana in 1966, GDP has grown by 7 percent a year on average. Debswana, a Botswana diamond company co-owned with De Beers, is the largest corporate contributor to socioeconomic development in Botswana. Without the legitimate diamond trade, Botswana would lose about $13 billion of revenue a year. The loss would impact on everything, from social programs to government investments in infrastructure.

In 1966, when diamonds were first discovered, there were only three secondary schools in the entire country. Forty years later, thanks to revenues from diamonds, there were 300. Moreover, every child up to the age of 13 receives free schooling. Thomas Tlou, a Botswana citizen, says: “At independence in 1966, Botswana was one of the poorest countries in the world. Thanks to diamonds, Botswana is now regarded as a middle-income country and provides its people with a good standard of living.”\textsuperscript{13}
renegotiation clause in its contract with De Beers to improve the arrangement. An estimated 70 to 80 percent of profits accrue to the government.\textsuperscript{14}

When indirect effects are taken into account, the diamond industry generates a quarter of the country’s jobs. Ancillary activities include security, catering, and maintenance. Without diamond mining, Botswana’s economy would be at a completely different stage of development. Debswana’s demand for electricity has boosted the growth of the Botswana Power Corporation, which has benefited non-mining sectors of the economy.

Debswana has established an active training and localization program, and funds Botswana students both at home and abroad. Most Debswana employees are citizens of Botswana. Similarly, the Botswana Diamond Valuing Company and the Diamond Trading Company Botswana are almost entirely staffed by Batswana.\textsuperscript{15}

\textbf{The Indirect Impact of Business}

Most discussions of business ignore a crucial dimension of the relationship between business and society, what I have called “in invisible corporate citizenship.” This involves the unintended consequences of doing business, which have far more impact than the vast majority of CSR initiatives. In rich, highly advanced societies, these processes are taken for granted to such an extent that their relationship to economic activity is rarely perceived. This relationship can be more clearly described and identified in a developing society or newly democratic market economy, where modern corporate activity is more recent.

At the World Economic Forum meetings in Davos, Switzerland, in January 2008, the unintended consequences of business activity were strongly evident. Indian and Chinese leaders were confidently talking about their companies and their countries in a way that would not have been the case even five years ago. This is a direct result of economic success and the expansion of domestic companies into the global arena. No one intended this to happen; it is one of the results of economic growth and corporate success in these countries – or “invisible corporate citizenship.”

There are numerous areas in which business existence and activity have positive unintended outcomes.

\textbf{Transforming the Prospects of Millions}

Companies make a subtle contribution to society that is generally overlooked. Firms are optimistic by nature, the very opposite of the fatalism that characterizes more traditional societies, or those that have labored for decades under socialist rule or other kinds of ineffective, corrupt, and debilitating governments that clamp down on initiative and achievement.

Companies – managers, entrepreneurs, institutions – turn ideas into realities, provide real-life choices, take good notions and make them work as viable, safe, affordable products that can be distributed to consumers throughout the world. In his study of the automotive, computer, electronic, and textile industries in South East Asia and Latin America, Theodore Moran has shown how foreign investment through companies can transform

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the overall development profile of an entire host country, thereby redefining the economic prospects of hundreds of thousands and even millions of workers who are not directly employed in foreign plants.16

Developing Domestic Business Sectors

At first sight it may seem as if the only contribution of foreign investors in developing countries is to employ unskilled or semi-skilled labor, thus augmenting local savings. Yet, investment by foreign firms in developing countries has hugely positive results. Its value goes far further than the much-needed provision of employment in those firms’ own plants and suppliers, and helps to change the range of productive activities taking place in their new host country. If this potential is handled well by the host government, increased foreign direct investment can transform the future of an entire country, and the life chances of all its citizens.

The relationship between the parent multinational company and its subsidiaries does not lead merely to a once-off contribution of even the most advanced off the shelf technology and business practices; it results in a continuous upgrading of technology and business practices in a dynamic process that soon embraces local supplier companies as well.

Transmission Belts of Human Rights and Modernity

One part of the corporate transmission belt conveys the latest manufacturing and marketing techniques. However, modern companies also bring with them what one might call the associated “software” of effective corporate cultures and human relations practices based on 21st-century notions of individual rights and responsibilities. When a multinational enters a new society, it needs to select and then train its workforce to ensure their productivity, which requires that employees are satisfied with their working conditions and their future prospects.

Empowering Individuals

According to the American electronics multinational Motorola, its operations in China for example are guided by the same beliefs that underpin its activities elsewhere: respect for individuals, and uncompromising integrity in everything they do. Every Motorola worker receives a booklet describing the company’s “I Recommend” program which encourages workers to suggest improvements in the workplace. Chinese language posters persuade workers to speak out if there are dangerous conditions in any part of their plant, or some process that can be improved. Motorola wants its managers “to take the initiative, exert leadership, assume responsibility, manage rapid change, and work in teams.”17 All of this is typical of western companies, but what is the norm in a western democracy is built upon very different values and assumptions about individual action and behavior than a Chinese worker would typically learn by working in a state-owned enterprise and living in Chinese society.

New Values and New Ideas in Closed Societies

What are the values and ideas that Motorola and other western employers are communicating to their new employees in China and elsewhere through learning on the job?

• Speak up if something is wrong or not efficient.
• Merit counts.
• Work in teams and share information.
• Take responsibility, problems can be solved, and individuals matter.
• Assume leadership by speaking out and thinking differently – reason and facts matter.

There can be no doubt that the presence of foreign companies and investors in countries such as China is helping the spread of new and radical ideas in a closed society. That is not the intention of these companies, but it is a consequence of their
approach to running their businesses. The values, ideas, and practices inherent in modern western business practice can profoundly influence workers, their families, other networks, and ultimately the wider society.

**Business and Institution-building**

**Foreign Direct Investment and Legal Reform**

John Hewko worked in Moscow, Kiev, and Prague as a partner in the global law firm Baker and McKenzie. In this capacity he served as legal adviser to the Ukrainian parliament, and member of the drafting committees of the original Ukrainian foreign investment laws. Based on this experience, he argues that foreign investors are not passive spectators in the legislative and institutional reform process. Instead, foreign investment has been a “dynamic force in the forefront of the push for change, and an agent for such reform.”

Foreign investors often end up facilitating legislative and institutional changes in ways that are more efficient, relevant, and cost-effective than the efforts of the international development community. Hewko notes that foreign investors are not altruistic, and their interests may not always coincide with those of society as a whole or with those of domestic investors. He is therefore not suggesting that the legislative and institutional reform process should be left exclusively to foreign investors; domestic institutions, especially representative governments and other local and even international organizations have important roles to play. Yet, the foreign business community and its legal and accounting advisers represent the most efficient mechanism for identifying inadequacies and problems in existing commercial legislation and regulations.

**Building Institutions and Professions**

Serious foreign investors play a vital role in training and educating individuals, and in developing a cadre of citizens who understand and accept new practices and concepts. They transfer to employees not only valuable business know-how and technical expertise but also expose them to a certain work ethic, business practices, ethical standards, and codes of conduct. Over time, these actions create a critical mass of citizens who have been inculcated with a reform mentality, and who could support and demand reforms in the country’s laws and enforcement institutions.

Foreign investors are also extremely effective in providing training and transferring know-how. Almost all post-communist countries now have a significant number of well-trained, sophisticated accountants and auditors. According to Hewko, this is due almost exclusively to two factors: foreign investors, and the then Big Five accounting firms. The same phenomenon has occurred on a smaller scale with respect to the legal profession in the host countries. Compared with this, the influence of training programs funded by the international development community has been insignificant.

**Business Empowers Women and the Poor**

**A Silent Revolution**

Helen Rahman of Shoishab, an Oxfam-funded organization working in Bangladesh, maintains that the emergence of the country’s textile industry during the past 20 years has significantly improved the status of women. According to her, the garment industry has stimulated a “silent revolution of social change.” It used to be unacceptable for women to work outside their neighborhoods, and those who left the countryside to go to the city were assumed to be prostitutes. Now it is acceptable for women to rent a house together. Moreover, their income gives them new-found social status and bargaining power.

The social benefit of employing women in low-skilled jobs in export factories extends beyond increased individual status and autonomy. When women work, a larger proportion of their household income is directed towards health, nutrition, and education, which reduces the intergenerational
transmission of poverty. Working in factories also appears to militate against early marriage, and may raise awareness of family planning.22

New Networks, New Opportunities

Factory development creates new opportunities for the advancement of women. In 1999-2000 Linda Lim, professor at the University of Michigan Business School, visited Nike factories in Vietnam and Indonesia, and interviewed management personnel in Singapore, as part of the university’s response to student protests triggered by media reports about conditions in those factories. Besides confirming the positive findings of others, she notes that in her previous studies in Malaysia a significant portion of women factory workers used the networks they had developed at work to provide goods and services to one another; one of the attractions of factory jobs was the access it provided to much wider networks that could be used for these commercial purposes.23

Business activities strengthen markets and, because suppliers in those markets need and depend on customers, they also create consumer power. By treating people as individuals, and opening up jobs to women (and other previously excluded groups), companies are providing women in many developing regions with opportunities they have never had before.

Concluding Remarks

The current conversation about business and its role in society ignores the hidden dimension of “invisible corporate citizenship.” We have only touched the surface – one could find many more examples around the world of how ordinary business activities are changing people’s lives without this ever once being discussed in a corporate boardroom or documented in an annual report – and certainly not acknowledged by any business critic. This article has briefly illustrated the profound contribution that ordinary business activities can make in countries struggling to improve their circumstances.

In order to function effectively, modern businesses require independent networks, associations, and communities of interest. The business sector contains many different players, thus creating a diversity of interests which contributes to greater pluralism generally. Ordinary business activities can therefore be said to have five major unintended consequences: changing a country’s development path; boosting forces of modernization; strengthening civil society; expanding human rights and rule of law; and unleashing pressures for democratization. In this sense, business is a constant agent of social change. Economic rationality inadvertently leads to individuals with modern attitudes and institutions of civil society. They in turn inadvertently facilitate human rights, pluralism and democracy. “In this sense, the market – in its capital raising, skills allocation, workplace training, institution building and goods trading sense – is a stalking horse for democracy.”24

The debate about corporate power and responsibility is vital because it bears on the role of market dynamics in the world economy and individual nations, the place of business organizations within the market, the relationship of both the market and business organizations with politics, the nature of development and modernization, the best route out of poverty, and the relationship of all of this with the global community. Yet, we need a new framework and a different, more positive, language for describing the contribution of business to social progress. Only when we have such a framework will it be possible to correctly situate business misdeeds as aberrations rather than symptoms of the inherently evil nature of corporations. What is vital is to fully appreciate the nature of development and progress and place business, markets, civil society, and state actors within this frame; ensuring that the discussion affirms rather than undermines markets;
and is developmentally sensible and economically rational.

Business leaders, their organizations and their advisers need to build a more compelling, positive, and exciting set of ideas within which to locate companies as a part of the civil world. This means they need to stand up for business, stand up for globalization, and stand up for markets and market-based approaches to dealing with poverty and development. They need to firmly place the responsibility for many challenges on the state rather than accept an exaggerated view of what more business has to do.

Capitalism has produced an ongoing revolution that has transformed the human condition, overwhelmingly for the better. Millions of people have been lifted from dehumanizing poverty to a decent life, and this process is continuing today in one country after another. Business leaders and their organizations should stand up for what they do achieve and be proud of the immensely effective role profitable competitive enterprises have across the globe. The facts are on their side.

Endnotes

3. Ibid.
4. Ibid.
8. Ibid.
9. Ibid.
11. Ibid.
12. Ibid.
13. Quoted in ibid.
15. Ibid.
22. Quoted in Moran 2002:15.
23. Ibid: 3.


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