

Helping Build Democracy that Delivers

Center for International Private Enterprise





The Center for International Private Enterprise is one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 1,000 local initiatives in over 100 developing countries, involving the private sector in policy advocacy and institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE provides management assistance, practical experience, and financial support to local organizations to strengthen their capacity to implement democratic and economic reforms. CIPE programs are also supported through the United States Agency for International Development.

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Introduction

The Center for International Private Enterprise (CIPE) supports reformers around the world who are advancing the cause of political and economic freedom. Democracy is the best hope for people everywhere to improve their lives. Since democracy flourishes in market economies, CIPE recognizes the vital role of the private sector in building prosperous, free societies. CIPE has found ways to nurture independent voices of reform among private sector partners. CIPE's proven advocacy strategies and capacity-building programs for business associations aid democratic development on two fronts. The first is the creation of effective, responsive institutions for good policies and good governance. The second is the grassroots involvement of all types of businesspeople who take ownership of the reform process itself.

Why is the business community important to democratic development? In a democracy, all parts of society must count, and businesspeople too must be free to express themselves politically. Often a majority of legitimate business interests are not represented in the political process. This is because business does not operate as a single entity. While a handful of powerful business elites and cronies may monopolize access to the government, smaller firms, competitive firms, and informal entrepreneurs will have very different interests (see figure 1). This broader business community must become engaged in the reform process to ensure that fair competition prevails and business involvement in politics is open and clean. Fair economic competition strengthens business diversity and pluralism, which creates a strong context for healthy political competition and checks on government power. Democracy flourishes in countries with open economies; equal opportunity; and responsible, prosperous businesses.

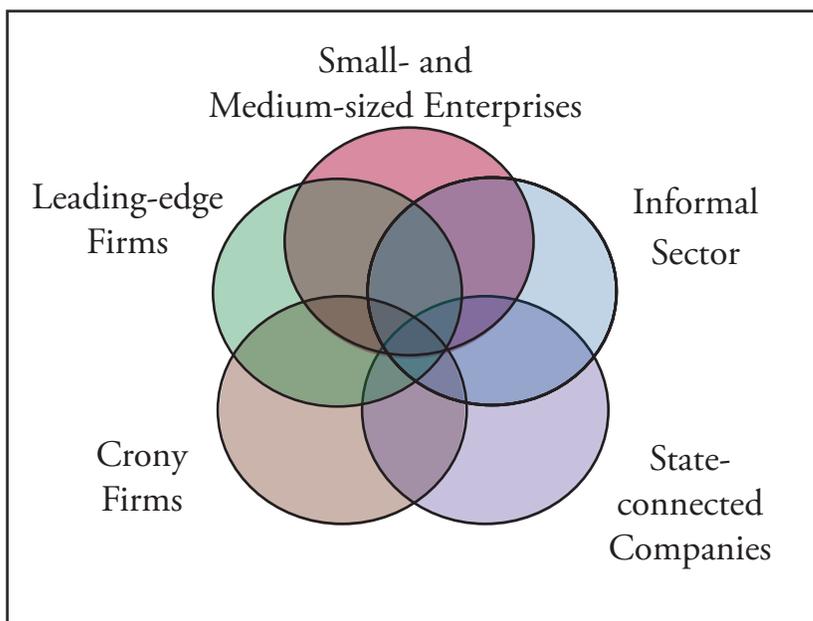


Figure 1. **The Diversity of Business Interests**

CIPE OVERVIEW

CIPE was founded by the U.S. Chamber of Commerce in 1983 in the belief that economic and political freedoms are intertwined. CIPE partners with business associations, think tanks, and other private sector organizations in countries where there is both a need for progress and an opportunity for reform. These strategic partnerships allow CIPE to provide management assistance, practical experience, and financial support to local organizations to strengthen their expertise while accomplishing key development goals. CIPE programs are supported primarily by the National Endowment for Democracy and the U.S. Agency for International Development. Since its inception, CIPE has supported more than 1,000 local initiatives in over 100 developing countries.

Mission

To strengthen democracy around the globe through private enterprise and market-oriented reform.

CIPE is unique among groups that support democratization in that it mobilizes the private sector—business communities, economic think tanks, business journalists—for reform by making “the business case for democracy.” CIPE maintains that countries need to build market-oriented and democratic institutions simultaneously, as they are essentially two sides of the same coin. Market economies, built on the principles of free enterprise and private property, cannot exist without democratic systems that protect property rights and institutions that reward private initiative. Democracy, in turn, cannot be built in the absence of free markets because they share the same foundation—fairness, responsibility, transparency, and participation. The reforms that help build market economies also help foster democratic institutions.

CIPE Objectives

- Promote development of the legal and institutional structures necessary to establish and maintain open market-oriented societies.
- Increase business participation in the democratic process.
- Support private voluntary business organizations and freedom of association.
- Implement programs that enhance business knowledge and strengthen the entrepreneurial culture of the private sector.
- Increase support for and understanding of the rights, freedoms, and obligations essential to a democratic private enterprise system among government officials, business people, and the general public.
- Expand access by the business community to information necessary for informed decision-making.

1 | Democracy that Delivers: Improving Governance

In many countries where democracy has made inroads and elections have been held, the majority of the population has yet to experience tangible improvements in their lives. In these countries, many may question the practicality of democracy or acquire a distorted understanding of what democracy really entails. They may become susceptible to populist or authoritarian appeals that are camouflaged as democracy. The best way to improve the lot of these people is to achieve greater reform and more complete democracy, not to compromise political or economic freedoms. The paramount need is for better governance. While elections create a basis for popular representation, a working, responsive government is the sine qua non for improving people's lives.

Similarly, in many countries where markets have been substantially liberalized, the majority of the population has yet to benefit from growth. The solution is not to roll back liberalization but to complete reforms by putting in place market institutions that promote responsible behavior and protect the economic freedoms of all. Citizens must be given the opportunity to participate in markets, to have their economic rights protected, and be part of the legal economy. These reforms depend on good governance.

HOW DEMOCRACY MUST DELIVER

To make a meaningful difference, democracy must deliver in three ways (see figure 2). First, the government must produce outputs in the form of social services, security, justice, and so on. For example, the government is expected to provide schools, roads, police, and vaccinations. Second, the government must facilitate economic growth to improve standards of living. This does not mean the government must direct the economy. Rather, it should uphold market institutions, create a positive investment climate, and allow the private sector to flourish. Third—and this distinguishes democratic governments from other forms of government—the government must be responsive to public needs and demands. This means, in addition to legislating policies that address public concerns, the government must follow through on these commitments. Proper follow-through depends on both an administration that is capable of implementing its policies as well as mechanisms for the public to hold the government accountable for its commitments.

For democratic governments to deliver outputs and policies that respond to real public needs, the capacity of the state and civil society must be augmented. Often, a state fails to perform its basic functions due to a tangled legal framework, the excessive discretion granted to officials, and the degrading influences of corruption on administration. The quality of a state is also shaped by the strength of civil society. A vigorous civil society can direct the state's focus to areas of greatest public interest and prevent the extension of state authority in areas that stifle private freedom and initiative. Civil society organizations form crucial links between society

and government. They channel citizen participation into the political process, providing the government with information about what it should be doing. They also monitor the government and channel information back to citizens, helping to hold government accountable and keep it responsive to citizens' needs. Government can also be more effective if it entrusts certain tasks to the private sector and concentrates on improving its own performance.

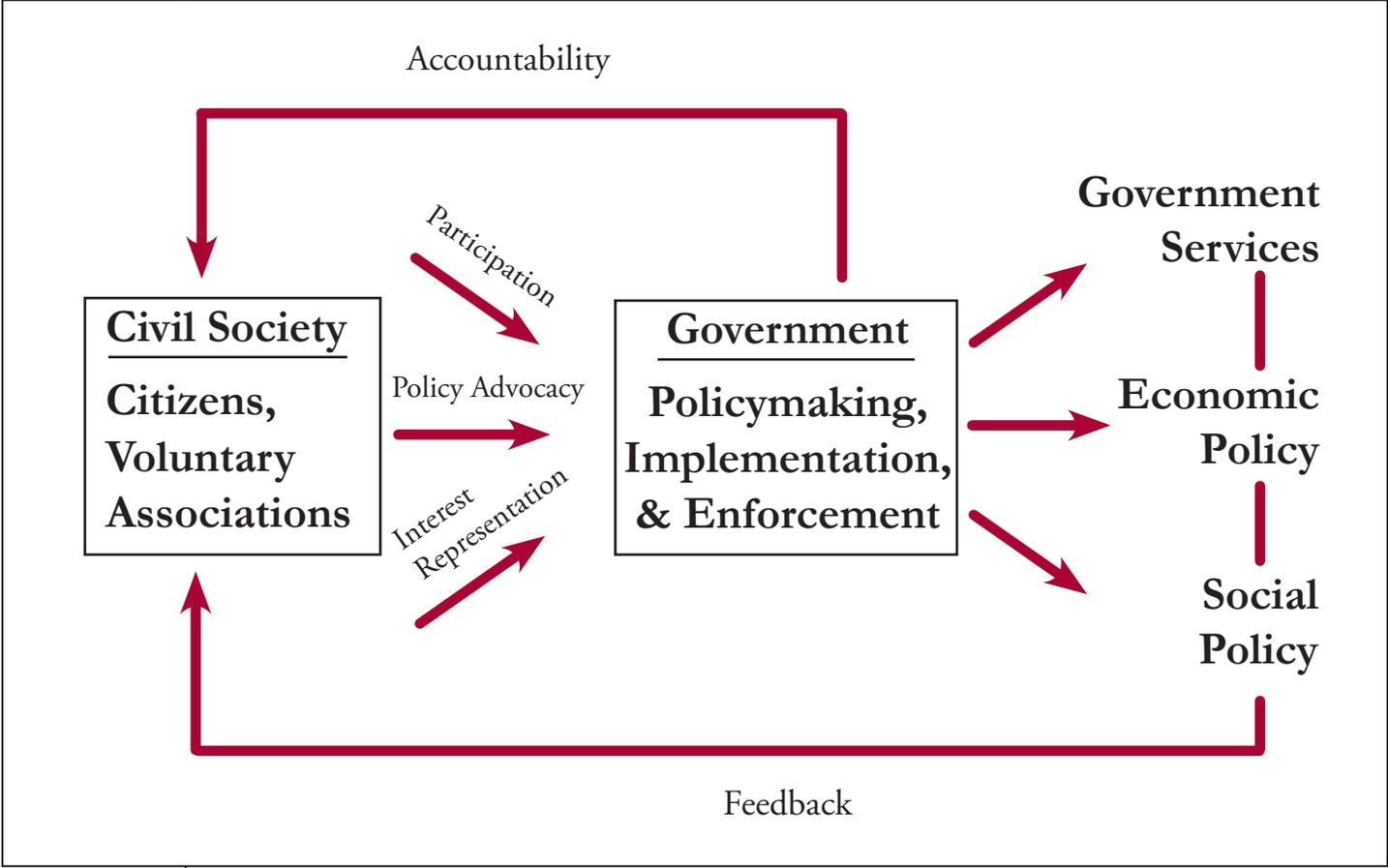


Figure 2. Democratic Governance Process

HOW CIPE PROGRAMS DELIVER

CIPE’s core program areas deal with improving governance, enhancing the capacity of civil society organizations, and aiding the participation of marginalized social groups in democratic processes. In the area of governance, CIPE supports programs that strengthen accountability and rule of law and expand public participation. Advocacy projects directed at legal and regulatory reform promote sound policy as well as its effective implementation. Legal and regulatory reforms that reduce administrative barriers to doing business serve to minimize incentives for corruption and boost the productivity of the private sector. CIPE tackles the supply side of corruption in its corporate governance programs, which inculcate values of responsibility, transparency, and accountability, all equally important in business and in government.

In the area of civil society, CIPE works closely with business associations and other private sector organizations to augment their capacity. Independent business associations are essential participants in the formation of sound economic policy and are therefore important contributors to overall social well-being. CIPE advises them on how to develop their advocacy strategies to facilitate better policies and governance, and how to mobilize their membership to become participants in the governance process.

Finally, CIPE works with segments of society that have been shut out of economic and political opportunity. Programs for marginalized groups complement efforts to reform governance institutions. CIPE believes small and informal business owners, women entrepreneurs, and youth must play a part in creating better governance. By developing their skills, building up representative associations, and championing their economic and political rights, CIPE programs engage these groups in governance, opening new opportunities for them. Whether by encouraging the government to be accountable for its policies and services, or by making the most of their economic freedom, these citizens themselves will bring about the benefits of democracy.

2 | Economic Underpinnings of Democratic Development

Democratic development requires progress on three levels: individual freedom, independent associational life, and institutions. Freedom allows individuals to develop their potential and shape their own destiny. Independent associations form the lifeblood of pluralism, necessary to healthy interest representation and restraints on authority. Institutions safeguard rights and maintain the processes of nonviolent, participatory decision-making and free and fair competition. When most people think about these levels within democracy, examples such as civil liberties, political parties, and elections come to mind. But in addition to these and other political essentials, there are also essential economic freedoms, associations, and institutions that underpin democracy.

On each level, the state of a society's economic life influences the quality of its political life (see figure 3). Economic freedom amplifies political freedom. An open economy with a dynamic private sector permits pluralism to flourish. Market institutions, like democratic institutions, promote the values and practice of fair competition governed by a common set of transparent rules.

Where economic freedom, an open economy, and market institutions are absent, the consequences for democratic development are severe. Autocrats expropriate the property of political opponents. Cronies of political elites dominate access to government resources and policymaking. Corruption distorts policy outcomes while corroding rule of law and legitimacy. State control over the economy renders citizens dependent and officials unaccountable. All in all, opportunities and resources for independent political action dry up.

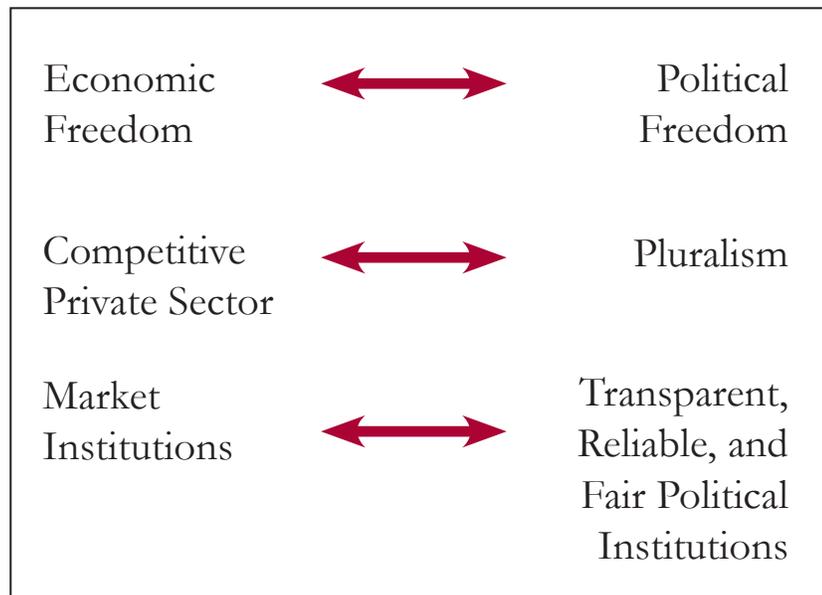


Figure 3. **Economic Corollaries of Democracy**

Political freedom cannot be grasped when economic freedom is out of reach. Thus, successful democratization depends on economic reform on multiple fronts, including the creation of market institutions, the advancement of informed debate on economic policy, and the empowerment of the private sector. A competitive, responsible private sector in an open economy provides an important counterweight to the state, injects dynamism into political discourse, and makes possible a vibrant civil society.

This chapter explains the essential linkages between democratic development and economic development led by the private sector.¹ It analyzes democracy in its component parts, describing the economic requirements for each component. The chapter concludes with the ingredients of a plan for action.

THE COMPONENTS OF DEMOCRACY

Recognizing that democracy is a multifaceted concept and that the quality of democracy matters, Larry Diamond and Leonardo Morlino have constructed a framework for evaluating the quality of democracies on eight dimensions.² Their framework, designed with consolidated democracies in mind, has relevance for countries undergoing democratic transformation, too. The following section outlines how the components of a market economy intersect with and reinforce the components of democracy.

- **Rule of Law** – Essential to the maintenance of both democracy and a market economy, the rule of law protects rights and guarantees commitments. Whether in economic or political life, the rule of law preserves individual autonomy vis-à-vis the state and reinforces the social capital needed to make open societies work. “Both economic reform and democratic consolidation encompass the creation of stable expectations and rules about behavior,” which provide guarantees to investors and competing political groups.³ Investors and entrepreneurs have often been ardent proponents of the rule of law and the institutions that sustain it. Once created, these have become available to all citizens for the defense of their rights.
- **Competition** – Robert Dahl has argued that competitive politics requires a pluralistic social order, which in turn requires a decentralized economy.⁴ This implies at a minimum that economic power be dispersed beyond the state sector, that oligopolies be kept in check, and crony business interests be denied preferential access to the government. Market economies, by permitting and encouraging open competition, stimulate greater pluralism and regular renewal. They therefore complement the marketplace of ideas and generate more sources of information.⁵ Moreover, a market economy, or capitalism as Peter Berger describes it, “provides the social space within which individuals, groups, and entire institutional complexes can develop independent of state control.... Capitalism creates space and opportunity for civil society.”⁶

Conversely, statism crowds out private sector competition and makes “community as well as individual advancement dependent on control of the state.”⁷ This can lead to unhealthy, unproductive, and even violent competition over state resources. Democratic competition, like market competition, must be open and legitimate, governed by universally applicable rules of the game with regard for the rights and property of individuals.

- **Participation** – Participation by citizens and civil society organizations brings meaning and life to democracies. Business groups, like other social and economic interests, have a right and a responsibility to participate in policymaking, debate, and other political activities. Business associations, as a key component of civil society, participate by representing business interests, sharing information with government and the private sector, educating the public on economic issues, and making policy recommendations.

In many countries, oligopolists or cronies abuse their access to government to obtain rents or block new entrants to the market. Therefore, it is crucial to broaden business participation to include smaller firms, competitive firms, and informal businesses. Their participation contributes to more progressive, effective economic policy and at the same time enlarges the constituency for democratization.

- **Accountability** – Governments must be held accountable for economic performance. Not only does economic performance create a context for democratic transition and consolidation,⁸ it is also a subject of vital importance to people everywhere. If citizens are to enjoy tangible benefits from democracy, they must demand good economic performance and support policies that sustain it. A strong middle class and strong business organizations often lead the way in making such demands and holding government accountable.⁹

Spreading responsible practices throughout the economy is another way to buttress accountability in the political system. As individuals and corporations adopt values of responsibility and transparency, they come to expect the same from government officials. They also close off the space for corrupt exchanges, since well-governed corporations do not supply graft.

- **Freedom** – Political freedom cannot be achieved without economic freedom. Classical liberals fought for both kinds of freedom. They were primarily concerned about threats to freedom from the state. The same government that could arbitrarily seize private property could violate fundamental civil rights, repress opposition, and rule without the consent of the governed.

Freedom unlocks individual initiative and creativity, allowing individuals and societies to achieve their potential. Competition and choice in economic and political markets permit citizens to pursue their dreams and attain more of what they desire. A culture of entrepreneurship, based on initiative and risk-taking, promotes a political culture of citizen involvement and leadership. Freedom of information expands opportunity and improves decision-making in both types of market. Once channels are opened for the communication of economic information, it becomes very difficult to restrict the flow of other kinds of information.¹⁰

Diamond and Morlino list the rights to private property and entrepreneurship as “civil economic rights.” Another essential economic right is freedom of association, vital to private firms, business associations, labor unions, and other economic associations. The defense of these economic rights, by citizens, economic associations, and legal institutions creates a sound foundation for the defense of political freedoms.

- **Equality** – Democracy requires equality before the law and equality of opportunity. Market systems, too, are founded on equality of opportunity, often referred to as a “level playing field.” In other words, both systems are premised on opportunities to participate and be treated fairly. Two points of market systems are commonly overlooked. First, open markets are the best mechanism for job creation, which is how opportunity is created for a majority of the population. Second, in many developing countries a large informal sector constitutes a pool of entrepreneurial talent that is shut out of the formal market economy. The integration of this sector into the formal system would expand opportunity for some of the poorest segments of the population and give them a stake in a democratic, market-oriented system.
- **Responsiveness** – Responsiveness refers to democracies’ ability to produce the policy outputs desired by citizens. Economic performance requires good policies and also generates resources that support the implementation of policies. Functioning markets in particular benefit economic policy by providing price signals, which are unavailable in command economies. Independent business organizations are another valuable source of economic information. Moreover, business organizations can ease the burden on government by serving various private-sector needs directly. Accordingly, the government can create a more effective policy environment by supporting market formation and freedom of association in the private sector.

WHAT NEEDS TO BE DONE

Democracy without a market economy is almost inconceivable. There is no good example to be found of a consolidated democracy that lacks market institutions and an independent private sector.¹¹ While there is no single path from authoritarianism to democracy, it is evident that successful democratization entails the establishment of a market economy.

Because of the numerous interrelationships between economic and political development outlined above, the failure to reform economic institutions impedes democratic progress. Conversely, the promotion of a free, competitive private sector generates multiple opportunities to positively influence the political transformation. Here, in summary, are key steps to be taken:

- **Build market institutions** – Market economies are based not on the absence of governance but on a set of institutions. Property rights, contract law, and anti-trust law are important examples. These institutions should entrench values such as transparency, responsibility, and fairness, values which uphold democracy as well.
- **Build rule of law** – Market institutions facilitate individual initiative and commerce among strangers. To be effective, they must be backed by rule of law and enforced impartially.
- **Create space for the private sector** – Limit the scope of the state sector. Reduce burdensome regulations on doing business. Encourage the uninhibited flow of economic information. Allow freedom of association to voluntary business associations.
- **Develop private sector input** – Good economic policymaking depends on accurate economic information as well as micro-level perspectives. Engaging business groups in open, democratic debate serves the dual purposes of creating a new constituency for democracy while improving economic policy.
- **Develop political institutions** – The institutions of elections, governance, and representation are as important to the private sector as they are to citizens overall. They should sustain market institutions, and in turn will be sustained by them.

3 | The Role of Business in Democratic Development

Democracy is built and sustained by the participation of a wide range of citizens and interest groups. Together with other citizens and segments of society, the business sector must play its part in democratic development. As a key component of civil society, business possesses resources, human capital, and problem-solving capabilities that can benefit society as a whole. A politically engaged private sector can improve policymaking, represent legitimate economic interests, and defend democratic rights and institutions.

Business has a stake in democracy. Democratic governments are more likely than authoritarian governments to refrain from arbitrary seizure of property, protect the free flow of information, receive input on economic policy, and strive for a prosperous economy overall. Liberal democracies respect rule of law, individual rights and initiative, and transparent policymaking, all of which benefit the business community and society as a whole. Under authoritarian rule, a narrow set of economic elites may prosper, whereas in a democratic society a full range of businesses can capitalize on economic opportunity and serve the population.

THE PRIVATE SECTOR AND PLURALISM

An independent private sector contributes to democracy largely by expanding pluralism in society and in politics. “A vigorous social pluralism,” as Carl Gershman, president of the National Endowment for Democracy, has noted, “is vital at every stage of democratic development.” In society, voluntary associations provide “space for autonomous social and intellectual activity.” In politics, “they provide channels for citizen participation and a check on the unwarranted extension of government power.”¹²

In the course of its normal activities, an independent private sector increases diversity and pluralism within society. A multiplicity of competitive firms, serving varied needs and continually exchanging business, generates independent centers and networks of economic and social activity. Individualism flourishes in a competitive, entrepreneurial environment. When individuals come together in firms and trade associations, they develop organizational skills and self-reliance.¹³

Authoritarian governments frequently restrict economic freedoms, yet in so doing incur heavy costs. These costs affect the economy in general as well as the resource base and the legitimacy of the government. Coercion is not an effective means of inducing investment, fostering innovation, and allocating resources efficiently.¹⁴ As a result, some authoritarian governments, such as the former Korean and Taiwanese regimes, have refrained from stifling economic actors and so allowed room for social pluralism and the beginnings of democratization.

BUSINESS ASSOCIATIONS AS CIVIL SOCIETY ORGANIZATIONS

Businesspeople can play an active role in democratic development if they unite to demand good governance and good policy. Voluntary business associations constitute an important segment of civil society. By representing business interests and facilitating private sector participation in open policy debate, they engage the business community in democratic processes. This serves the dual ends of nurturing business support for democracy and bringing pressure to bear on government to respond to democratic processes.

The positive effects of business associations have often been overlooked due to the prevalent belief that all collective action by business involves attempts to redistribute public wealth without generating productive value. In fact, collective action by business can improve government policy and eliminate regulatory distortions that encourage corruption. There are two keys to improving social wellbeing and augmenting democracy through concerted business action. The first is that associations should support and demand policies—not favors—that benefit a broad spectrum of firms and entrepreneurs. Such policies are good for the economy as a whole, including workers who benefit from job creation, and consumers who benefit from cheaper, better goods and services. The second key is that associations should set an example of good democratic practice by making their demands transparently—not behind closed doors—so that all can learn, debate, and ultimately hold government accountable for policy decisions.

DEMOCRATIC FUNCTIONS OF BUSINESS ASSOCIATIONS

There are several positive functions independent business associations can perform that help create or consolidate democratic systems. First, associations represent business interests. They determine the preferences of businesses, then aggregate, reconcile, and channel them to produce cohesive recommendations on policy. Because the private sector is so diverse, associations play an essential role in building consensus and articulating the voices of smaller economic players. Representation by business associations complements interest representation by political parties and may draw attention to economic issues that are not priorities on the partisan agenda.¹⁵

Second, organized business can act as a counterweight to the state, resisting abusive or arbitrary state action and demanding accountability. Also as part of civil society, businesspeople and their organizations participate in the open exchange of opinions and public debate. Business organizations both contribute to the plurality of expression and provide a public platform such that business articulates its opinions openly and participates transparently in policymaking.¹⁶

Third, by sharing data with the government, business associations support better-grounded economic policymaking. Associations share a variety of information with their membership, too, including information on legal and regulatory processes and their rights and obligations. Associations serve as a forum where members can exchange views and experiences on matters of common concern to the business community and society.¹⁷

Fourth, businesses acting in concert can solve governance problems, thus lightening the burden on the state. A number of problems within the private sector can be handled through self-governance and services provided by associations. On occasion, associations assist governments with policy implementation.¹⁸

Finally, associations can institutionalize business involvement in democratic processes. When diverse members of the private sector, from leading corporations down to grassroots small businesses, see that they have a voice in decision-making and that they can be a force for positive change, they can become an important constituency for democracy.

4 | The CIPE Business Model

CIPE operates according to a “business model” that describes the logic of the CIPE approach to reform and outlines how CIPE pursues its mission (see figure 4). The model is grounded in political and economic theory, has mutually reinforcing components, and is directed at the practical application of reform principles. It aligns staff activities with the mission and bestows coherence on CIPE operations as a whole. The model reflects CIPE’s core competencies as well as CIPE’s commitment to meaningful, enduring reform that serves the public good.

Strengthen democracy and support market-oriented reform – Recognizing that political and economic freedom are intertwined, CIPE concentrates its reform initiatives at the nexus of the two. CIPE’s programs pursue both objectives simultaneously.

Empower private sector organizations – CIPE works in partnership with private, voluntary business organizations, typically business associations or think tanks. CIPE aids their organizational development so that they may participate in the democratic process as self-sustaining, integral components of civil society.

- Business organizations provide information and services that strengthen the private sector and entrepreneurial culture.
- CIPE enhances business associations’ capability to involve their membership in democratic policy dialogue.

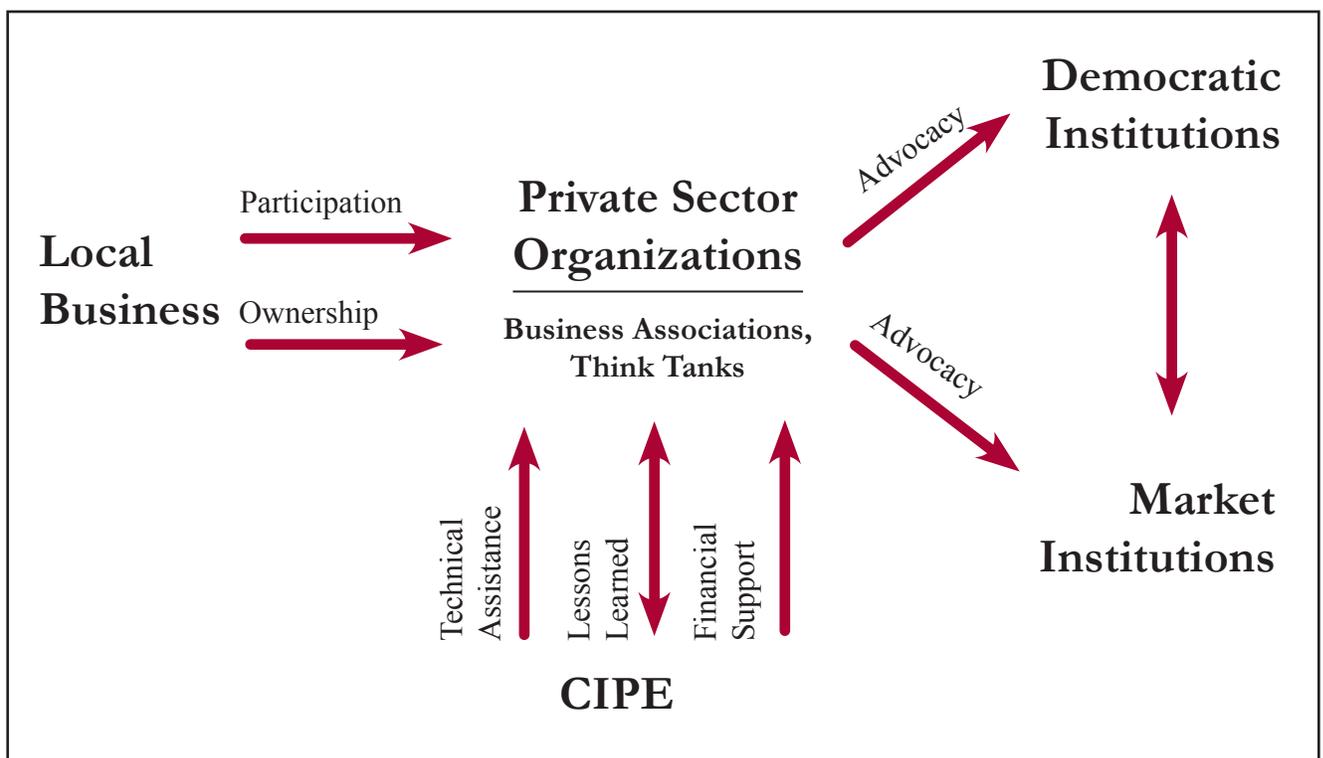


Figure 4. The CIPE Business Model

Promote institutional reform – Institution-building is a long-term process that yields long-term benefits. Well-designed, appropriate institutions serve as the foundations of economic growth and good democratic governance. The institutions of successful market economies and democracies both rest on clear, transparent rules that foster stability, opportunity, and freedom.

Focus on advocacy that strengthens markets, advances legitimate business interests, and promotes business participation in democratic processes.

- Research and analysis without recommendations and follow-through are not enough to spur change.
- Private sector participation in the public policymaking process, from the grassroots up, is key to success.
- Through its own policy advocacy, CIPE increases support for and understanding of the rights, freedoms, and obligations essential to a democratic private enterprise system.

Reinforce local ownership and accountability for all aspects of project management.

- The project should be of strategic importance to the partner organization. The partner organization should commit its own resources to the project.
- Potential partner organizations should initiate the program ideas. They should stay faithful to their objectives, not follow a donor's agenda.
- CIPE rarely participates in the creation of completely new organizations.

Apply lessons learned from one part of the world to help face challenges elsewhere. CIPE deploys appropriate expertise and models for the practical implementation of reform principles.

5 | Lines of Work

Unlike a typical grantmaking organization or development agency, CIPE operates through three distinct lines of work, bringing to bear financial, intellectual, and human resources as appropriate to local conditions and reform needs. In many cases, CIPE guides local partner organizations that conduct their own programs, in this way providing the assistance they need while building ownership and sustainability. Second, CIPE cultivates reform leaders and shows them how to build organizational capacity to support reform initiatives. Finally, in places where democratic and market values and principles are largely absent or poorly understood, CIPE spreads the reform message.

Partnership programs – Local partners—typically business groups and think tanks—take the lead with these programs. They identify the needs and formulate solutions. CIPE provides management assistance, practical experience, and financial support in the form of grants to strengthen partners’ expertise while accomplishing key development goals. Partnership programs include:

- needs assessment and agenda setting;
- development of a business plan (program of work);
- implementation; and
- comprehensive evaluation and follow-up.

CIPE’s staff of regional and technical experts provide ongoing guidance and technical assistance. Partnership programs advance policy advocacy, business services, educational programs, and other development goals. Partner organizations must have a grassroots constituency and a detailed action plan and typically provide matching funds to projects.

The Value of Partnerships

Having local partners participate actively and take initiative in programs builds ownership of reform. Partners also incorporate essential local knowledge of institutional arrangements and needs in project design.¹⁹ Active participation on CIPE’s part enables the transfer of technical and managerial capabilities to the partner organization as well as the sharing of effective international reform practices. Moreover, partnerships form the basis of enduring intellectual relationships.²⁰

Professional and organizational development – In many newly democratic countries, business organizations often lack the experience and institutional capacity to provide assistance to members or to contribute to the policy debate. CIPE’s management training for business associations is designed to share basic management techniques with association executives

worldwide. Executives learn and discuss practical ways that their organizations can support small businesses and general community economic development, how the organization can promote business ethics, and the basics of strategic planning. Think tank leaders, too, can receive training in strategic planning and advocacy. CIPE also offers educational programs in business and economics, as well as specialized skills training, to journalists, corporate directors, entrepreneurs, and youth. Training programs are led by practitioners and designed with local input.

Business Association Management Training Program

CIPE's management training program shares basic management techniques with association executives worldwide. Modeled after the U.S. Chamber of Commerce's continuing education program, it was adapted for international use based on CIPE's experience.

To deliver the program, CIPE draws on its 25 areas of expertise in association management and a pool of experienced practitioners, normally current and former chamber of commerce and association executives. Participants learn about the role of business associations in a democratic society, public policy advocacy, strategic planning, financial management, business ethics, membership development, and small business development, among other topics. As a result of the training, business associations benefit from knowledgeable professional staff, stronger leadership, sound management practices, improved credibility and image, and an enhanced capacity to conduct advocacy efforts and pursue their missions.

Policy advocacy and knowledge management – CIPE's policy advocacy and knowledge management programs promote understanding of the ideas and principles of democratic, market-oriented reform. CIPE uses both print and electronic media to provide policymakers, business leaders, educators, and others with valuable information on how they can manage the reform process and to inform them about CIPE programs and events. CIPE's *Economic Reform Feature Service* magazine carries in-depth articles on issues relating to economic reform and its connection to democratic development. The Forum on Economic Freedom website (www.cipe.org) serves as a clearinghouse of resources and case studies on reform and provides access to CIPE's network of reformers. Magazines, television broadcasts, radio programs, and specialized websites further CIPE's strategic efforts in countries where reforms are not well established.

6 | Program Themes

CIPE has eight subject areas of expertise, all of which relate to democratic development.

Democratic governance – Democratic governance requires that government is held accountable; that citizens are consulted and their interests taken into account; and that policies are implemented swiftly, correctly, and consistently. Good governance is marked by efficient bureaucracies, predictable rules and laws, fair enforcement, transparent business opportunities, and potential for ongoing policy improvement through public-private dialogue. CIPE's efforts in this area are directed toward creating and strengthening institutions of accountability, increasing public participation in government, reforming government agencies, and strengthening judicial systems.

Legal and regulatory reform – Democratic governments need participatory input from the advocacy efforts of a wide range of organizations in order to legislate effectively. CIPE's national business agenda (NBA) approach encourages private sector leaders to come together, discuss issues of concern, identify common interests, and develop proposed solutions. The NBA approach helps identify laws and regulations that hinder business activity and offers concrete recommendations to remove these barriers and improve the economic climate. In addition, legislative advisory programs assess the economic impact of specific legislative proposals.

Business association development – Business associations are integral to successful policy reform, participatory processes, and private sector development. In many cases, before associations can effectively participate in the formulation and implementation of economic reform agendas, they must undergo their own transitions to become viable institutions. CIPE supports their organizational development through executive management courses and educational materials; technical assistance on advocacy strategies and organization governance; and support for market-oriented member services.

Combating corruption – Corruption impedes the development of markets, drives away investment, increases costs of doing business, and undermines the rule of law. CIPE's projects that attack the demand side of corruption seek to reform ambiguous legal systems, implement standards for government agencies, make a link between cultural norms and rule of law, and curtail government employees' discretionary authority. On the supply side, projects address private sector involvement in corruption, in part by improving corporate governance mechanisms.

Corporate governance – Corporate governance plays an important role both in attracting investment and establishing a healthy private sector, and in building democratic societies by instilling core values of transparency, fairness, accountability, and responsibility. CIPE initiates and supports programs to educate corporate directors on fundamental corporate governance principles; educate shareholders on their rights and responsibilities; and raise public awareness

of the need for effective corporate governance practices. CIPE partners have crafted national codes of corporate governance that meet high standards while recognizing local business realities.

Informal sector and property rights – When policies reduce entry barriers and excess regulation for businesses while providing incentives for them to become legal, informal businesses can transition quickly into the formal sector, contributing to job growth, the tax base, and economic growth. CIPE and its partners reduce informality by reforming business registration procedures and ensuring that private property rights are accessible to all citizens, clearly defined, and strongly enforced.

Women and youth – CIPE’s programs that enhance the participation of women and youth in economic and political roles recognize that they are emerging leaders. CIPE focuses on building skills through entrepreneur programs and management courses; supporting associations that provide networking, services, and forums for issues affecting women and youth; and educating new leaders, enabling them to build on business success to assume a greater role in community development and the political process.

Access to information – Access to information and a free and independent media are vital for educating citizens on public policy issues and helping them hold government accountable for its actions. CIPE works with local partners toward greater transparency in government, freer voice for reformers, and greater public understanding of democratic, market-oriented principles. CIPE’s programs help improve the professional skills of journalists, support print publications and media initiatives, and allow greater access to government information.

7 | CIPE's Value Added

The one thing that CIPE does, something so many other institutions have often lost sight of, is partner with local people. We don't come with [just a] message, we come with tools, and we help local people in various countries understand that these tools are available to create market-based institutions—in a way that is compatible with their cultures and interests. We don't tell people what to do. We help them understand the problems, come up with solutions, design strategies, and implement them locally.

– Amb. John A. Bohn, Former Chairman of the Board²¹

CIPE is distinguished among organizations that support democratization by its private sector expertise. As an affiliate of the U.S. Chamber of Commerce, having extensive experience with international private sector partners, CIPE understands business and has extraordinary access to business leaders.

CIPE works closely with local private sector partners to build the civic institutions vital to a democratic society. CIPE has crafted a unique set of development tools that strengthen the capacity of partner organizations, such as business associations and think tanks, and guide them in policy advocacy and other democratic processes. Typically, partner organizations identify local needs and formulate solutions. CIPE provides them with management assistance, practical experience, and financial support in the form of grants. CIPE's staff and network of experts participate actively in all phases of programs, offering ongoing guidance and technical assistance.

This partnership approach to development has proven effective in a wide variety of country environments. Grantmaking is a powerful tool that can and should be married with others to improve the efficiency and effectiveness of projects. Without advice and assistance, many reform organizations lack the professional and strategic capabilities to deploy funds wisely and execute programs convincingly. With assistance, they can develop into leading, sustainable organizations that will carry on reform after the funding relationship has ended. CIPE refrains from actually managing projects, encouraging local ownership instead. Wherever possible, it strives for balanced partnerships, adding value as needed.

CIPE's repertoire of activities and resources is described below.

Knowledge Sharing Network

Partners benefit from more than two decades of experience and innovation in CIPE programs. CIPE has often found that approaches to reform that worked in some countries can be successfully implemented in others. The transfer of knowledge across regions expands the portfolio of strategies available to partners and spreads reform concepts. Concepts that have been tested successfully by reformers in other countries enjoy credibility that theories from Washington often cannot match. Most reform partners know what needs to be done and why.

What they require are practical methods for executing reform and advice on building their capacity. Equally important, partners avoid costly mistakes by learning about challenges others have faced. CIPE's knowledge management initiative supports program officers as they work with partners to apprise them of suitable options and focus their efforts on realistic targets. Increasingly, CIPE facilitates direct knowledge exchanges among its partners in different regions of the world.

Professional Expertise, Concept Leadership, and Practical Resources

CIPE views itself as both a grantmaking organization and a think tank. With input from outside experts, CIPE has compiled and developed a strong knowledge base for democratic reform, policy advocacy, association management, and private sector development. It has also played an active role in shaping international standards for good governance and responsible business practice. For instance, CIPE teamed up with Transparency International and Social Accountability International to help develop the Business Principles for Countering Bribery, published in 2002. The following year, CIPE co-published the book *Corporate Governance in Development* with the OECD Development Centre, which demonstrated how "improved corporate governance can contribute to a country's ability to achieve sustained productivity growth and lasting democratic political institutions."²²

CIPE's knowledge is captured in an array of resources, including proprietary training materials available from the Association Forum Online; the Forum on Economic Freedom web site; the *Economic Reform Feature Service* magazine; handbooks and toolkits on program themes like corporate governance and anti-corruption; and case studies on reform. CIPE's information resources and in-house expertise constitute extremely valuable nonmonetary benefits for partners and amplify the effectiveness of grants administered by CIPE.

Strategy

Program officers analyze country background conditions and track regional trends to develop a regional strategy. They typically know what good work has already been done in a region, what types of advocacy strategies have traction, and which institutions are susceptible to positive change. CIPE complements partners' more focused understanding of local reform needs and actively assists their strategic planning processes.

CIPE concentrates on institutional changes that create a supportive environment for democracy and respect local realities. This institutional approach directs reform efforts where they can have widespread, enduring impact on society. CIPE always seeks multiplier effects in its projects to benefit a broad constituency and catalyze continuing reform. Program officers think strategically about how to match need and opportunity. To do this, a program officer must understand the institutional environment, assess the strengths and weaknesses of the local private sector, and coordinate as necessary with other partners and donors. The officer makes the links between individual reform projects and the overall process of democratization.

Finding and Developing Local Talent

One of the most important ingredients of a successful partnership is a good partner. A good partner has strong motivation; a commitment to democratic, market-oriented reform; understanding of a country's key issues and institutional challenges; a vision for reform; talented leadership; and the ability to work with grassroots constituencies and other reformers. CIPE identifies local talent by dispatching program officers to assess the state of civil society and organizational life. Officers interview stakeholders, scout out reformers at conferences and CIPE training programs, and consult with CIPE's partner network. When local talent lacks the clout or the organizational capacity to achieve reform, CIPE develops talent through training and technical assistance so local actors can pursue effective advocacy in a sustainable fashion. The fact that international donor organizations engage with former CIPE partners is a testament to CIPE's abilities as a talent scout. A number of CIPE's partners have risen to national leadership roles.

CIPE Staff Activities

- Promoting and marketing CIPE's purpose and goals to potential partners
- Identifying organizations that are interested in potentially partnering with CIPE
- Exercising due diligence by assessing the suitability of these organizations as partners
- Assisting potential partners in developing project concepts, planned outcomes, budgets, and evaluation plans
- Assisting potential partners in developing management systems that comply with Federal Government standards
- Maintaining contact with partners throughout the life span of their projects
- Providing technical assistance to partners throughout the life of each project
- Routinely participating in the conduct of partner activities
- Monitoring and reporting on partner activities
- Developing new program concepts
- Developing strategies based on their analyses of current events and U.S. policy objectives

Source: J. A. Hunter & Co.²³

Program Development

Program development is an art that partner organizations must master to become sustainable. CIPE assesses a partner's needs in this area, often with a diagnostic study, and tailors its help accordingly. A partner requires strategic planning to outline its overall objectives and determine where policy advocacy fits within that framework. It must assess the organizational capacity required to achieve its advocacy goals, and think about how advocacy serves its members and strengthens the organization. Sound leadership and governance are required. CIPE helps the partner find a good synergy between organization and program goals and ensures that the foundations for professional program work are in place. CIPE also guides partners—many of whom have limited experience with international donors—in the technical aspects of formulating, submitting, and executing proposals, including budgeting and management plans.

Technical Assistance

In addition to program development, CIPE officers and experts extend other forms of technical assistance to help professionalize and modernize private sector organizations. CIPE promotes cutting-edge practices employed by the U.S. Chamber of Commerce and other leading business associations worldwide. CIPE trains association executives in association governance, financial management, project management, membership development, communications strategies, reporting, and self-evaluation. Beyond training, ongoing contact between officers and partners helps solve problems that arise during organizational transformation. As mentioned below, CIPE also acts as a facilitator for grassroots participation and coalition building.

Facilitating Dialogue and Building Coalitions

Although policy advocacy must be undertaken by partners themselves, CIPE occasionally acts as a neutral facilitator for policy dialogue. This is particularly valuable in societies where trust is scarce and civil society is unaccustomed to participating in governance. For example, CIPE brought together representatives of all of Iraq's major political parties—which had never gathered before—for a nonpartisan training session on creating economic policy platforms. In Pakistan, CIPE brought stakeholders together to discuss challenges facing the information technology industry. This meeting was the first of its kind between the software producers' association, the financial sector, and government officials. Often, CIPE helps private sector organizations form grassroots advocacy coalitions on important issues, such as through its national business agenda approach.

Due Diligence

Due diligence must be performed to ensure that democracy assistance grants are used wisely and effectively. Due diligence poses special challenges when grants are disbursed internationally. Program officers must delve into partners' backgrounds and verify their information. To do so, they examine their funding history, visit their facilities, assess their organizational capacity, and inquire with local stakeholders. In other words, they ensure that partners are legitimate, capable, and oriented toward democratic reforms consistent with CIPE's mission.

Monitoring and Evaluation

Once an award is made, due diligence is followed up by project monitoring. Program officers verify that project objectives are being met and evaluate which partners and programs are having the greatest impact. They also ensure compliance with U.S. federal regulations and grant agreements. Program officers revisit the country from time to time and reacquaint themselves with the organizations, their progress, and the evolving institutional environment. When partners encounter obstacles, program officers can often help devise solutions to keep projects on track. In some cases, however, it may be necessary to cut funding to a nonperforming organization.

Evaluation encompasses more than assuring tasks are completed and individual project objectives are met. CIPE staff and independent experts evaluate and report on the broader impact of programs on democratic development. CIPE shares with partners a long-term view of historical reform processes as well as theoretical reform principles for understanding change.

Sustainability

A unique aspect of CIPE's operational strategies and procedures is its focus on fostering the sustainability of grantee organizations and on building a worldwide community of business organizations.

– J.A. Hunter²⁴

CIPE looks beyond the term of a project in its relationship with partners. It is vital to build sustainable reform organizations and initiatives to promote local ownership and enduring change. CIPE prepares its partners to find new sources of funding and provides a platform from which they can communicate their message internationally. In some countries, such as Romania, CIPE participates in the creation of independent institutes of organization management that provide ongoing training and technical assistance to private sector associations in CIPE's absence.

CIPE's proven method to engage people in the policymaking process, build the capacity of democratic institutions, and facilitate democratic and market-oriented reforms has empowered the private sector while expanding freedom, opportunity, and social well-being. The unique approach to sustainable development that runs throughout its work has enabled CIPE to have a positive impact both on the capacity of its partner organizations and the political and economic progress of over 100 countries. Business participation in democratic processes has yielded improved governance, a better business climate, and robust private sector support for democracy.

Ultimately, CIPE knows that "democracy must deliver," meaning government must respond to the needs of its citizens and be held accountable for its actions. This is the only way to ensure that countries experience sustainable economic growth and democratic consolidation. CIPE's contribution has been to nurture independent voices of reform and give them the tools to take ownership of democratic change. Working together, CIPE and its partners have made significant strides towards achieving this goal, and will continue their efforts to strengthen democracy and market economies throughout the world.

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