Strategies for Policy Reform

VOLUME 3

Case Studies in Achieving Democracy That Delivers Through Better Governance

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE
The Center for International Private Enterprise (CIPE) 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 civil society to build the institutions vital to a democratic society. CIPE’s key program areas include enterprise ecosystems, democratic governance, business advocacy, and anti-corruption and ethics.

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National Endowment for Democracy

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Major global trends are changing the way we approach international assistance and policy reform. Private sector-led growth has produced enormous opportunities, even as market freedom and access to opportunity remain uneven. Political upheaval has raised hopes for democratic freedoms, yet freedom too often is undermined by poor governance.

Governance reforms must adjust to these shifting circumstances. As a rule, effective reforms tap the power of free markets and the strength of citizen engagement. Each country, however, requires distinctive sets of solutions that reflect local capabilities, needs, and values. These solutions take shape through policy coalitions forged by local champions. Often, they benefit from international experience in convening dialogue and mobilizing support.

CIPE brings accumulated experience and tools from three decades of engagement in democratic and market reforms. It has built a track record of policy impact founded on private sector leadership, institutional analysis, and innovative partnerships. CIPE implements programs across its four areas of focus: Enterprise Ecosystems, Business Advocacy, Democratic Governance, and Anti-corruption & Ethics. These programs build the foundations of democratic market systems and create opportunities for citizens from many walks of life.

The case studies in the Strategies for Policy Reform collection embody real-world program experiences. Intended as inspiration and guidance for reformers, the cases capture a broad range of learning which may be adapted to new circumstances. They can serve as a playbook for think tanks, business associations, NGOs, or policymakers. Who knows what transformations may occur as a result of exchanging experiences across different parts of the world?
CIPE programs aim to improve the operating environment for businesses by building the institutions of a market economy, reducing barriers to doing business, and promoting an inclusive entrepreneurial culture that provides opportunities for all citizens. By prioritizing the development of enterprise ecosystems, CIPE helps establish a level playing field for entrepreneurs. Through its inclusive approach to entrepreneurship and policy engagement, CIPE helps ensure that democracy and the market economy are accessible to all segments of society.

In Bangladesh, CIPE partnered with the Bangladesh Women’s Chamber of Commerce and Industry (BWCCI) to expand economic opportunities for women and facilitate their involvement in the policymaking process. BWCCI developed a robust advocacy strategy and a Women’s National Business Agenda with thirty recommendations to improve the policy environment for women entrepreneurs. Achievements include increased lending to women-owned businesses, including collateral-free loans at a reduced interest rate.

In Nepal, Samriddhi, the Prosperity Foundation, focused on expanding access to economic opportunities for youth through the promotion of entrepreneurship and improvements in the business environment. Samriddhi’s Arthalaya School of Economics and Entrepreneurship educated over four hundred university students on markets and economic policy, and provided them with entrepreneurial skills training. Another Samriddhi initiative, the Nepal Economic Growth Agenda, recommended reforms in the areas of power generation, tourism infrastructure, and agriculture, a number of which have been adopted by the government.

To address the lack of opportunities among youth in Peru, CIPE partnered with Instituto Invertir to develop the Emprende Ahora youth leadership program, which provides rural youth with training in subjects related to democracy and the market economy. To date, the program has provided nearly 780 Peruvian university students with the tools to open businesses, generate income, and create local employment. Graduates have opened small businesses in their local communities, and have even taken the Emprende Ahora model and applied it to the high school context.
Enterprise Ecosystems

Empowering Women Entrepreneurs in Bangladesh

by Marc Schleifer and Maiko Nakagaki

Since the 1980s, a remarkable transformation has been underway in Bangladesh. Once the scene of chronic famine, the country is now food self-sufficient, and its economy has averaged around six percent growth in recent years. In the process, a booming, export-oriented garment sector has generated employment opportunities for urban women, and microfinance has emerged as a way to channel loans to rural women entrepreneurs.

Women-owned businesses have become drivers of women’s economic empowerment. They have been leaders in a vibrant service sector, which caters to new groups of consumers. Women graduates of Bangladesh’s universities have put their skills and knowledge to practice in the business world. Further, a large handicraft sector has emerged, with small women-owned firms selling high-quality goods and integrating into supply chains of international brands.

As entrepreneurs grow from micro- to small and medium-sized enterprises (SMEs), their financing needs are no longer met by microcredit, and they seek larger, commercial bank loans. This transition can be difficult for women, due to low financial literacy, as well as traditional norms that constrain borrowing and lending behavior. Further, in order to expand production, rent new facilities, employ workers, and enter export contracts, small firms often must move from the informal sector to the formal economy. In that process, women in particular face not only regulatory and governance hurdles, but other social barriers and discrimination as well.

Building an Organization for Businesswomen

Worldwide, business associations and chambers of commerce exist both to nurture businesses and advocate for a conducive policy environment. But in Bangladesh, the barriers for women entrepreneurs extended to the system of chambers and associations. The Trade Organization Ordinance—the law regulating business organizations—did not allow for the possibility of an association with only women members, which could support women in business. Women joined major chambers, but their voices were often marginalized and their unique needs often unmet. This changed when one successful and visionary woman entrepreneur, Selima Ahmad, challenged the system by founding a new entity, the Bangladesh Women’s Chamber of Commerce and Industry (BWCCI).
Despite resistance from established, male-dominated chambers, Ahmad finally received a license to register the new chamber in 2001. By 2006, when the Center for International Private Enterprise (CIPE) first encountered BWCCI, the organization’s membership had grown from 24 at its founding to over 300 members. Like many South Asian private sector organizations, BWCCI started largely as a training organization. BWCCI viewed its role as building business skills, to enable women to compete on an equal footing. The group also discovered that its unique constituency attracted the attention of international donors ready to fund projects, bringing much-needed revenue. However, donor-funded projects also brought the risk of diverting BWCCI from its primary mission of enhancing women’s entrepreneurship.

Thus, CIPE and BWCCI began a partnership with two primary goals. First, CIPE would provide training and technical assistance to the board and staff to ensure that the chamber focused on the needs of its members and built financial sustainability by growing its dues-paying membership. Second, CIPE encouraged BWCCI to shift from simply training individual entrepreneurs to engaging in policy advocacy that could lower regulatory barriers and expand opportunities for all current and potential women entrepreneurs. CIPE helped BWCCI understand that advocacy can be a cost-effective way to maximize impact.

As a result of this cooperation, BWCCI has instituted a range of leading organizational practices related to governance, management, and services. BWCCI developed a strategic five-year plan, an operations manual, and a membership development team. The organization’s services now include business development, administrative support, and trade promotion. The chamber has a tiered dues system to maximize revenue, and has boosted total fees for services. BWCCI stays in touch with its members through personal contact, phone calls, letters, newsletters, emails, and a robust website. An annual award, issued to the member with the most progressive business, promotes both the member and the organization.

BWCCI now boasts over 3,500 members in several national branches, and recently held its first-ever board elections. The Annual General Meeting gives members a chance to provide feedback to the board about the organization’s work. Ahmad—the organization’s visionary founder—took on a changed role working on international contacts, and BWCCI has its second president.

**Investing in Advocacy**

BWCCI built a policy advocacy coalition for women entrepreneurs through the development of Bangladesh’s first Women’s National Business Agenda (WNBA). First, BWCCI conducted a baseline assessment on women entrepreneurs in Bangladesh to serve as a starting point for policy recommendations. Next, BWCCI
held 32 advocacy meetings at the local and national levels, including meetings with national government bodies such as the Ministries of Industry, Commerce, and Finance; the Board of Investment; and the SME Foundation. High level meetings included the Advisor on Housing and Communication to the caretaker government in July 2008, the Executive Chairman of the Board of Investment, and the National Consultant for the Department of Women Affairs. In the process, BWCCI engaged chambers of commerce, deputy commissioner offices, the media, think tanks, and NGOs.

Then in March 2009, BWCCI launched the inaugural Women’s National Business Agenda (WNBA). The agenda divided policy recommendations into three categories, which covered 5 social barriers, 13 capacity building and training needs, and 12 financial barriers, for a total of 30 reform recommendations. This allowed BWCCI to organize its advocacy campaign more effectively by setting its top priorities. More than 180 organizations representing all six geographic divisions in Bangladesh endorsed the final agenda submitted to the government. BWCCI printed 4,000 copies of the document, and also printed the policy reform section in full page ads in two newspapers.

The advocacy produced a number of reforms, and the Central Bank issued instructions to commercial banks to increase lending to women-owned businesses, including through collateral-free loans at a reduced interest rate. However enforcement proved to be a challenge, as many banks had a poor understanding of these new clients, or were unwilling to follow the regulations. Alarmed with this implementation gap—a situation that occurs when laws on the books are not practiced in real life—BWCCI led a six month follow-up advocacy campaign to close the gap for women entrepreneurs in Bangladesh.

**Closing the Implementation Gap**

BWCCI worked with local government institutions, women entrepreneurs, and financial institutions to improve the implementation of national policies concerning access to finance and barriers to market entry for women entrepreneurs in all six regions of Bangladesh outside of the capital Dhaka. BWCCI conducted advocacy meetings in each of the regions, legal literacy sessions, and three regional key stakeholder meetings. These meetings helped women entrepreneurs from each region to voice the challenges they faced to public officials in a formal setting.

With this extended commitment, by 2014, the WNBA was showing results. According to the Central Bank, $93 million in SME loans has been provided to almost 10,000 women, helping create tens of thousands of new jobs. Three BWCCI board members have been nominated by the government to the boards of state-run banks, where they can further increase attention to women borrowers. Under a government refinancing scheme for SMEs, the Central Bank instructed
all commercial banks and non-bank financial institutions to disburse to women entrepreneurs at least 3 percent of targeted lending (representing 15 percent of SME refinancing loans). Overall, the proportion of women entrepreneurs in the country receiving commercial bank loans has increased from 19 percent in 2007 to over 50 percent. More than 65 percent of the country’s banks now have “dedicated desks” for women borrowers, staffed with specially-trained personnel who can cater to the specific needs of women entrepreneurs.

BWCCI also helped improve business processes for women. Favorable tax regimes were introduced for women entrepreneurs, and women can apply for a tax identification number at no cost. To reduce harassment and corruption when women entrepreneurs register or renew firms, City Corporation offices agreed to place citizen charters in their offices. These charters publicize information such as licensing fees, time limits, and required procedures. The mayors of several cities allocated dedicated space at municipal markets for women entrepreneurs, and in several cities women can quickly be issued trade licenses, which had once been a major source of demands for bribes. BWCCI successfully pressed the government to allocate $12 million from the national budget for women entrepreneurs, some of which BWCCI has received to train over 16,000 women, build a new training institute, and open seven regional resource centers for women entrepreneurs. Meanwhile, BWCCI has launched an ambitious plan to follow up on the WNBA, called “Empower 5000,” to develop 5,000 women in Bangladesh as new leaders and entrepreneurs by 2020.

**Conclusion**

BWCCI’s evolution and cooperation with CIPE offer several key points for reflection. CIPE identified a visionary leader who founded an organization dedicated to championing the cause of women entrepreneurs, but encouraged the organization’s growth and professionalization. The BWCCI story shows how the impact of limited development dollars can be maximized by investing in institutional and policy reform. Of course, policy advocacy is a slow and difficult process, and required dedicated and repeated effort to yield results. Recently, BWCCI has become a strategic partner, helping CIPE to build capacity and advocacy skills in other women’s chambers and associations across South Asia, sharing best practices and the lessons it has learned.

*The activities described in this case study were funded by the National Endowment for Democracy.*
Since the early 2000s, Peru has seen a period of sustained economic growth and poverty reduction, as well as three successive transitions of power via democratic elections. Despite this, not everyone believes their lives have improved as a result of democracy and free markets in their current form. The benefits of growth are unevenly distributed and have centered on the capital, Lima, while nearly half the population in the Andean and Amazonian regions of the country is still living below the poverty line. Public services have also not improved in many places. Young people in these regions are particularly dissatisfied with the opportunities available to them, leading to the development of negative attitudes towards democracy and the market economy.

In 2007, Instituto Invertir, a Peruvian non-profit organization with a mission to promote entrepreneurship and business development in a democratic context, developed an approach to address these negative attitudes and misperceptions among young people in regions outside of Lima. Beyond just teaching youth about democracy and the benefits of a free-market economy, Invertir wanted to provide young people with the necessary tools to become entrepreneurs and create opportunities not only for themselves, but also for their communities. Through close coordination with the Center for International Private Enterprise (CIPE), the EmprendeAhora youth leadership, democracy, and entrepreneurship educational program was born.

EmprendeAhora Program

EmprendeAhora was designed as a leadership and entrepreneurship training program to give university students from rural Peru the necessary tools and empowerment to open businesses, generate income, and create local employment. While these types of programs are fairly prevalent in Lima, nationwide programs directed towards youth from outside the capital area are fairly uncommon. After six years of implementation, EmprendeAhora has empowered nearly 780 young Peruvians who have acquired business and leadership skills that will allow them to become change agents in their regions. The model has proven incredibly effective thanks to an exhaustive application process, a comprehensive curriculum with practical application of skills, combined with a robust alumni network providing networking and mentorship opportunities.
- **Application Process:** After a competitive selection process that includes an aptitude and entrepreneurial attitude exam, submission of a business idea, a personal profile, and in-person interview, approximately 120 students from outside the capital, Lima, are brought together for 100 hours of classes over three months. Reaching beyond the capital city and commercial hub enables the program to spark entrepreneurship in places that are most in need of it, including rural areas and cities that are less developed and more susceptible to economic uncertainty and populist rhetoric.

- **Participants:** EmprendeAhora was always intended to be a program for individuals with demonstrated leadership potential and entrepreneurial qualities who reside in regions of Peru where opportunities for young people are limited. Over the years, the selection process has improved so that CIPE and Invertir continue to identify the best candidates from Peru’s regions. The selection of high caliber participants has paid off with alum advancing the case for democracy, free markets, and citizenship through their entrepreneurial and volunteer initiatives at the community level.

- **Curriculum:** The program trains some of the best university students from all over Peru in leadership, democracy, market economy, and business planning. EmprendeAhora lasts for three to five months totaling roughly 100 classroom hours) and the program is divided into three sessions. The program comprises classes; business plan coaching; lectures by successful entrepreneurs, leading academics, and political leaders; educational trips to large companies; workshops led by young leaders from Lima; and a closing ceremony. To graduate and receive a certificate, students are required to organize leadership and entrepreneurial workshops in their communities for high school or university students to share the knowledge and values from the program. Another requirement is the creation of a business plan, which provides a practical opportunity for students to apply the skills they have learned in the classroom to a real world situation.

- **Application of Skills:** Participants must design a business plan with other students from their region. Throughout the three sessions, students participate in a 12-week Virtual Business Plan Course with a personal coach (who is usually a successful business leader from their local region). The 10 finalists present their projects to a jury, and the best three plans receive cash prizes and the opportunity to present their proposed business plans in order to obtain financing from a local microcredit lending institution. Fellows also work in groups to produce a three to five minute video explaining what democracy means to them. This is an opportunity for students to apply their knowledge and understanding of democracy and engage other members of their community in a discussion.
Enterprise Ecosystems

■ Mentorship: Coaches from academia and the business sector help the students (virtually and in person) during the program and beyond to help them improve and implement their business plans. The alumni network can conduct online training and mentoring for new businesses.

■ Networking and Alumni Outreach: Over 15,000 people receive Facebook updates on entrepreneurship activities of program alumni. A separate Facebook group is very active with alums sharing news and event information. Invertir has also undertaken an initiative to directly contact every alumni via telephone or email in 2015. The alumni who have started their own businesses are invited to participate in entrepreneurship activities organized by CIPE and Invertir including Entrepreneurship Week, Venture Forum, and BID Challenge contest. They are also invited to participate in an annual EmprendeAhora Entrepreneurial Fair, where they are provided with a booth to show what they are doing as entrepreneurs. In September 2012, Invertir organized the first alumni conference to promote, strengthen, and consolidate the EmprendeAhora Alumni network. At the end of 2013, Invertir held a second alumni conference in Lima to consolidate the alumni network and pursue three objectives: define specific challenges and actions for strengthening the network across Peru’s 23 regions; build a space to integrate and network in order to encourage cooperation and project development; and develop content and tools that promote innovation in the products or processes of graduates’ companies and their business ideas. Over 200 alumni have attended these events.

■ Incentives for Alumni: Past program participants, regardless of commitment to the program, need to be activated in order to remain engaged. Essay contests, involvement in candidate selection, the alumni conferences, and the opportunity to return for select EmprendeAhora training sessions all incentivize program alumni to remain engaged.

Impact

By bringing together university students from every region of Peru to learn about the benefits of democracy and the free market economy, and to receive training in entrepreneurial and leadership skills, EmprendeAhora has provided an economic alternative and encouraged civic engagement. To date, CIPE and Invertir have provided nearly 780 young Peruvians with business and leadership skills that allow them to become change agents in their regions. Over the years, program alumni have organized dozens of replica workshops on democracy and entrepreneurship, spreading the values of EmprendeAhora to more than 14,500 elementary, high school, and university students.
The 780 young participants are serving as positive role models for their peers and their communities have taken notice. Roughly 10 percent of program graduates are already implementing their own businesses, and that percentage is expected to double based on the number of students who are in the process of starting a business. Furthermore, alumni volunteers work with non-governmental organizations on social issues, and incorporate social projects into their line of business. Alumni are not just contributing to the country’s economic development, they are also motivated to play a role in the country’s social development.

Every alum carries a story about the personal impact EmprendeAhora has had on them. Two exceptional cases exemplify the goals of the program:

Antonella Romero Jimenez is a 25-year-old alum of the 2010 EmprendeAhora program from the Ica region. Before the program, Antonella had not given entrepreneurship much thought, but afterwards realized that she could set up her own business in the region where she lived, and decided to establish two cafes at local universities. After finishing her degree, Antonella began working for the Ministry of Production, where she developed a model EmprendeAhora program, Crea y Emprende, for high school students. The program is now being implemented by the Ministry of Production, supported by the Ministry of Education, and reached over 5,000 high school students from 10 regions of Peru and over 100 different schools during its first year. Meanwhile, Antonella continues to own and run her two cafes in the Ica region, where she has 12 employees—all young women between the ages of 19 and 22. Before, these young women worked on farms and were not focused on seeking an education, but now, as a result of working at the university cafes, they are able to finance their own higher education. Antonella came away from EmprendeAhora with the understanding that, “Entrepreneurship has an impact in our country: it fosters economic development and generates employment for ourselves and others in our regions.”

Videlmo Maluquish, a 2008 graduate from the Cajamarca region, also utilized his entrepreneurial spirit to improve the lives of others in his community. After completing his university studies he returned to his community and established BIOALTURA, a rural agricultural cooperative dedicated to the production and commercialization of aguaymanto, an indigenous South American fruit. BIOALTURA educates the 26 member families of the cooperative on best growing practices and facilitates domestic and international sales. One of the members of the cooperative, Amelia Lara de Fuentes, recalled that, “Before, we were the forgotten town...Nobody taught us how to improve our agriculture because we had no professionals in our community [Hualanga, Peru]. Now we’ve been blessed to have professionals in our community.” According to Amelia, after receiving training from BIOALTURA, she and her husband are not only earning
four times more than what they earned prior to cultivating aguaymanto, but she is also able to stay at home instead of travelling to the coast in search of work. Additionally, Amelia has been able to provide her children with a better education and work side by side with her husband; she has been empowered through her participation in the community’s main economic activity.

The alumni network of EmprendeAhora continues to grow and mature as they take on new initiatives and invest in the future of the program. As evidenced by Antonella and Videlmo, alumni continue to share the mission of the program with others around Peru and the region. In 2014, Paola Falcon, an alumna of the original 2008 class who hails from Huancayo, completed a three-month Global Competitive and Leadership Program at Georgetown University, a scholarship program for young people from Latin America. At a meeting between CIPE staff and Falcon, she expressed optimism that the changing culture of volunteerism and youth engagement will make Peru a stronger democratic and market-oriented society. The best testimony of the program’s impact came from a 2008 alum from Huancavelica: “Before I came to EmprendeAhora, I thought that the only way you improve things was to go out to the streets and make a total revolution against the government. Now I have realized that the only revolution that will change this country is the entrepreneurial revolution.”

The activities described in this case study were funded by the National Endowment for Democracy.
CIPE’s entrepreneurship programs help commonly excluded citizens, such as women and youth from rural areas, develop the skills to start businesses and contribute to economic and democratic development in their communities.

**Anil Parajuli, Nepal**

“It was Arthalaya that taught me it is important to get started and any small exchange that is based on voluntary exchange and value addition is a big contribution to the overall development of a society.”

Anil attended the Arthalaya program in early 2011 when he was pursuing his Bachelor’s in Development studies. After attending Arthalaya, he started a honey farm in Kathmandu called “The Busy Bee.” The farm produces and sells organic honey. Arthalaya inspired him to continue his education in entrepreneurship through pursuing a MBA in Entrepreneurship. He plans to open a resort near his honey farm once he graduates.

**Antonella Romero Jimenez, Peru**

“Entrepreneurship fosters economic development and generates employment for myself and others in my region. My company, Káva, provides jobs for 12 people—all young women between the ages of 19 and 22.”

Antonella participated in the EmprendeAhora program, an entrepreneurship and civic education program for university students. She learned how to create a business plan, which led to her opening cafes at two universities in the Ica region.
of Peru. She has also worked with the Peruvian government to create a model “EmprendeAhora” program, Crea y Emprende, for high-school students that has so far benefited 5,000 students from 10 regions of Peru.

**Amelia Lara De Fuentes, Peru**

“Before, we were the forgotten town. Nobody taught us how to improve agriculture because we had no professionals in our community.”

Amelia is a member of BIOALTURA, a rural agricultural cooperative dedicated to the production and commercialization of aguaymanto, an indigenous South American Fruit. The cooperative was set up by two graduates of the EmprendeAhora program. BIOCULTURA educates member families on best growing practices and facilitates sales. As a result of the knowledge and skills she has gained through participation in the cooperative, Amelia now earns four times more income than previously.
Improving the Environment for Entrepreneurship in Nepal

by Sarita Sapkota and Teodora Mihaylova

In 2006, Nepal emerged from a decade long insurgency and centuries-old monarchical governance. The country was undergoing a transition to democracy, characterized by elections and the adoption of a new constitution. Recognizing an opening in this new political context Samriddhi, The Prosperity Foundation was established to start a discourse on issues and agendas that help democracy deliver—a component that has been largely missing during past democratic transitions.

Samriddhi focused on expanding people’s access to economic opportunities primarily through the promotion of entrepreneurship, economic policy reform and improvement of the business environment. In order to strengthen the environment for entrepreneurship, Samriddhi employed a two-pronged approach. First, Samriddhi’s Arthalaya School of Economics and Entrepreneurship program educated and trained hundreds of aspiring university students on topics such as markets and policies and offered participants an opportunity to gain practical entrepreneurial skills. Second, Samriddhi’s initiatives known as the Nepal Economic Growth Agenda (NEGA) aimed to improve the policy environment for entrepreneurship.

Equipping Entrepreneurs with Skills and Know-How: Arthalaya School of Economics and Entrepreneurship

In order to improve the overall environment for entrepreneurship, Samriddhi recognized the need for educational programs that teach practical skills to aspiring business owners. An important element in furthering democratic and economic reforms is educating youth about the meaning of democracy and markets. Young people are a key demographic to target with training and educational programs because the future of freedom depends on the younger generation. In Nepal, the majority of the population is under the age of 35 and the educational system is based on outmoded Soviet economics.

Samriddhi carried out education programs that target young people and bring them closer to the policy debate taking place in mainstream political-economic discourse. It conducted youth training programs through the Arthalaya School of Economics and Entrepreneurship in partnership with the Center for International Private Enterprise (CIPE). The training programs consist of five-day workshops that promote the spirit and skills of entrepreneurship and familiarize young people with concepts related to economic freedom and policy reform.
The main purpose of the program is to help university students explore alternative ideas for addressing Nepal’s existing problems, emphasize the value of entrepreneurship, and help aspiring entrepreneurs open their own businesses. Students gain practical entrepreneurship skills through participation in mock business competitions. Topics covered in the workshop curriculum include rule of law and the business environment, incentive systems and human resource management, policy watch on government and markets, how markets function, the role of government in business, and leadership skills necessary to set up a business. Guest speakers, who are primarily entrepreneurs and businessmen, attend the Arthalaya workshops and speak about their personal experiences in business while also addressing technical topics related to economics and business.

So far, over four hundred university-level students have attended the program and have learnt about entrepreneurship, wealth creation, and economic freedom. More than two dozen students have started their own ventures and have become entrepreneurs and many are involved in actively promoting entrepreneurship in their schools and communities through activities such as writing blogs and articles and opening entrepreneurs clubs. More than 20 such entrepreneurship clubs have been brought into existence by Arthalaya graduates who organize activities to inspire their friends to become entrepreneurs and to promote networking and capacity building.

**Influencing the Policy Environment for Entrepreneurship: The Nepal Economic Growth Agenda**

Improving the environment for entrepreneurship in Nepal requires influencing the economic policy reform process through an emphasis on free market and democratic principles. Samriddhi undertook an initiative known as the Nepal Economic Growth Agenda (NEGA) in 2011 in partnership with CIPE and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). The NEGA is an annual effort to identify short-term as well as long-term policy bottlenecks that hinder Nepal’s economic growth. The initiative aims to bring attention to priority agendas and practical steps that could be taken to spearhead Nepal’s economic growth. Since the release of the first NEGA report and studies in 2012, a number of Samriddhi’s recommendations have been taken up by the government through commitments in public forums and the annual budgetary announcement.

The Nepalese authorities have responded favorably to Samriddhi’s recommendations in the areas of agriculture, hydropower development, tourism, the national budget, and foreign investment. Notably, 10 of the 17 policy recommendations have been adopted by the government.
Samriddhi’s research on hydropower development had a strong impact on government policies with the signing of the “Common Minimum Agenda for Hydropower Development” by all political parties and the commitment of the authorities to build transmission lines by 2018 for six major hydropower projects.

To improve tourism, NEGA recommended opening additional peaks for climbers, and the government recently agreed to open 23 peaks. The authorities also allocated funds for developing infrastructure for tourism in several remote areas of the country, covering all so-called “Development Regions.” These investments will improve tourism products, services, infrastructure, and facilities as well as increase tourist flows and state revenue.

The Nepalese government agreed with the NEGA recommendation to allocate 1.45 billion rupees ($14.5 million) for a commercialization of agriculture and trade project to improve agriculture production, processing, and marketing.

Samriddhi successfully argued against a proposed provision, which set a minimum threshold on foreign direct investment. The proposed Foreign Investment and Technology Transfer Act would have severely affected small scale investment, particularly in the IT sector.

Samriddhi actively advised the Nepalese government on the preparation of the annual budget and the final document contained approximately a dozen points that closely reflect the proposed recommendations.

Samriddhi’s economic research has become an important source of independent policy analysis in Nepal. With CIPE’s assistance, Samriddhi developed a series of six policy papers on so-called “cross-cutting” economic policy issues that affect the implementation of the Nepal Economic Growth Agenda. The papers covered state-owned enterprise reform, competitiveness, foreign direct investment, industrial relations, contract enforcement, and improving the business climate. Samriddhi produced these papers after extensive research by its own team, as well as consultation with various policy experts, academics, and business leaders.

Following NEGA’s success, Samriddhi was recently approached to be a knowledge partner in a reform oriented national economic summit organized by the Government of Nepal and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI). Samriddhi played an integral part in shaping the reform agenda for promoting investment in Nepal. It worked with the government and key stakeholders in the agriculture, energy, and tourism sectors for three months to identify key challenges in the sectors and develop policy recommendations.
With the declaration “A Commitment to Economic Reform,” the government pledged to improve entry and exit procedures, improve its performance in the Doing Business indicators, and eliminate unnecessary regulatory processes (starting with the agriculture, tourism, and energy sectors). This initiative is one of several examples demonstrating Samriddhi’s important role in Nepal’s policy reform process.

**Conclusion**

In a short period of time, Samriddhi has made the successful transition from an organization primarily focused on youth entrepreneurship training programs to a leading voice providing independent input into the policy process in Nepal. Samriddhi’s overarching goal has been to improve the environment for entrepreneurs through the adoption of a two-pronged approach.

First, Samriddhi focused on educating youth on the virtues of entrepreneurship and equipping students with the necessary knowledge and skills to understand how markets function, the role of government in regulating business activities, and how to start their own ventures. To date, over four hundred university students have attended the Arthalaya program. Engaging young people is a critical step in improving the public’s understanding and acceptance of market and democratic values.

Second, Samriddhi undertook the Nepal Economic Growth Agenda initiative, with the objective of improving the economic policy environment by identifying key challenges to entrepreneurship and providing recommendations to address them. In doing so, Samriddhi’s efforts are helping to ensure that Nepal’s democracy delivers economic opportunities to all of the county’s citizens.

*The activities described in this case study were funded by the National Endowment for Democracy.*
Through partnerships with local business associations, chambers of commerce, and think tanks, CIPE empowers the private sector to actively participate in the democratic process. CIPE programs provide capacity building and technical assistance to private sector organizations in order to equip them to advocate for economic reform and engage in policy dialogue with the government. Coalition building, grassroots outreach, and the national business agenda process have been effective in giving voice to a wide range of private sector needs.

CIPE partnered with the Afghanistan Chamber of Commerce and Industry and a coalition of 10 other sectoral business associations, including two women’s associations, to prepare and release a National Business Agenda. The 2011 business agenda unified the business community around a common set of priorities and gave the private sector a voice in the national policymaking process for the first time. The advocacy effort produced reforms in tax and tariff policy, improved infrastructure, and modernized customs processes in order to facilitate trade.

In Moldova, the National Business Agenda network, coordinated by the Institute for Development and Social Initiatives, institutionalized a culture of public-private dialogue and encouraged greater transparency and inclusiveness in the policymaking process. Their efforts, and CIPE’s business agenda approach, have led the Moldovan government to adopt the network’s legislative proposals related to clarifying rules for state inspections of businesses, simplifying tax collection procedures, and increasing transparency in customs procedures.

CIPE has helped foster a better business environment in Nigeria through public-private dialogue initiatives in seven states. CIPE’s work has built the capacity of coalitions of business and professional associations, which represent 130 business
and trade associations and more than a million individual entrepreneurs. These coalitions actively advocate for policy reforms that improve the states’ business environments and strengthen the relationship between the private sector and local governments.

In Senegal, the business association l’Union Nationale des Commerçants et Industriels du Senegal (UNACOIS) developed an evidence-based policy paper on tax reform for the small and medium-sized enterprise (SME) sector and held public-private dialogue meetings with government officials. The government adopted the association’s recommendations to reform the national tax code and better integrate the SME sector in the formal economy. Through a decentralized approach, CIPE helped UNACOIS build its capacity to represent the interests and needs of different regions, ensuring buy-in among the wider membership for the advocacy campaign.
Fostering a Culture of Public-Private Dialogue in Moldova

by Teodora Mihaylova

The National Business Agenda network is the leading voice of private business in Moldova, as well as a major advocate for the implementation of pro-growth economic policy. Through supporting the adoption of the National Business Agenda (NBA), CIPE partner Institute for Development Social Initiatives (IDSI) institutionalized a culture of public-private dialogue and encouraged greater transparency and inclusiveness in the policymaking process. Noteworthy successes include the adoption of more transparent laws on state inspections of business entities, simplification of tax collection procedures and the customs regime, and signing of a memorandum of understanding between the NBA network and the Ministry of Economy to provide ongoing assessment of the government’s economic reform initiatives. Overall, the government has adopted one third of the NBA legislative proposals.

The strategy to achieving these accomplishments has three elements. First, IDSI established the legal basis for institutionalized public-private dialogue under the Transparency in Decision-Making process law. Second, under CIPE’s guidance, IDSI and the NBA network organized the interests of the private sector and transformed the business community into an important stakeholder in the policymaking process by establishing the Strategic Council to act as spokesperson on behalf of all members in dialogue with the government. Finally, the network issues annual monitoring and evaluation reports tracking government progress achieved under each objective, marking the first time the authorities are being held accountable for their actions in the implementation of reforms.

CIPE Approach: NBA Coalition Building and Public-Private Dialogue

A national business agenda is a tool for unifying the business community and advocating for market-oriented reforms. Developed by the private sector, 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 through public-private dialogue.

In order to give the private sector a more active role in the decision-making process, under CIPE’s guidance, IDSI built a network of private sector actors known as the National Business Agenda network, which represents the interests...
of 32 associations and chambers of commerce across Moldova. The network enabled the private sector to organize itself, prioritize important issues, engage the government in public-private dialogue and advocate for specific policy reforms in the areas of tax and customs law. The private sector established a Strategic Council for the network to take charge of the whole NBA process and speak on behalf of a broad range of private sector actors. CIPE and IDSI support helped the NBA network develop internal regulations, a code of ethics, and guidelines to ensure a transparent and open process for the members to communicate and make decisions about common policy priorities. The cross-sector membership and strong internal organization give the network and the council legitimacy and credibility to speak for the private sector and set policy priorities.

**NBA Advocacy Efforts in Moldova**

The NBA network aims to influence government practices in the field of business regulation and “build a fair and competitive environment that would stimulate business” in the country. The network recognized early on that in order to achieve its objectives, the private sector had to engage the government in direct and transparent dialogue on policy issues. They initiated dialogue by utilizing the existing legal framework, known as the law on “Transparency of the Decision-making process,” which stipulates that government agencies have to conduct public consultations on draft laws with civil society, including the business community. Over the past five years, the network has prepared a list of priorities for the business community and presented them to the Moldovan government. The private sector monitors the implementation of these recommendations and issues annual reports outlining progress under each objective.

In preparing the 2012-2013 National Business Agenda, CIPE and IDSI established four working groups to develop sector-specific policy papers in the areas of agribusiness, transportation, construction, and information technology. Building consensus among members allowed the network to hold targeted advocacy meetings with government officials and civil society and solicit the participation of key public servants such as the Minister of Finance, Chairman of the Parliamentary Commission on the Economy, Budget, and Finance and several advisors to senior level politicians. Today this platform is well-known among policymakers, the broader business community, and civil society. The goal of public-private dialogue is to bring government priorities in line with the objectives of the business community.

Advocacy efforts of the network include meetings, roundtables, and conferences with representatives from various government bodies and agencies, as well as media appearances. These meetings aimed to build and strengthen ties
between the business community and government result in greater advocacy for reform within the framework of the NBA. One of the main advocacy events is the annual NBA Conference hosted by IDSI and the Strategic Council that presents the priorities of the private sector for the coming year. Attendees include government officials, think tanks, business representatives, and the media. These meetings improve the state of public-private dialogue by clearly delineating the business community’s reform priorities. The December 2011 meeting instituted new cooperation between network representatives and the State Tax Service seeking the business community’s input on tax reform priorities for 2011–2015. In addition, the council participated in working group meetings at the Ministry of Economy that provided input to Moldova’s National Development Strategy 2020. Similarly, council members participated in consultations, chaired by the Minister of Finance, which discussed the fiscal budgetary policy for 2012–2013.

Private sector efforts resulted in the adoption of a more transparent law on state inspection of business, which clarifies the definition of state inspection agencies and reduces the duration of the inspection process from two months to five days. Effective March 1, 2013, the law reduces the number of inspections from 60 to 29 and introduces for the first time institutional responsibility for abuse by inspectors. Furthermore, an NBA representative from the National Association of Travel Agencies from Moldova met with the Minister of Economy, Valeriu Lazar, to discuss a proposed new methodology on price calculations for air transport. In July 2011, IDSI and the members of the NBA network sent an open letter to the Prime Minister, demanding more progress in economic, juridical, and administrative reforms. These efforts led to the inclusion of a representative of the network into the Prime Minister’s Economic Council. In mid-January 2013, the Ministry of Economy approached IDSI and the network with an official request to sign a Memorandum of Understanding soliciting the network’s independent assessment of the government’s economic reform initiatives.

Complementing the government outreach effort, IDSI staff and NBA network members appeared in the media numerous times, on radio and television, promoting the priorities and proposals of the NBA. An open letter to the Prime Minister generated great interest in the media and was headline news for several days. In 2013, IDSI and NBA representatives gave a total of 54 media interviews. CIPE support to IDSI and the NBA network helped establish a culture of democratic dialogue based on transparency and openness between the government and the private sector in setting reform priorities.

The recently released World Bank report titled “Moldova: Policy Priorities for Private Sector Development” highlights business constraints and proposals
for reform that are in line with the NBA. The report makes multiple references to the 2012–2013 NBA document, citing it as “reflecting the views of a broad range of private sector stakeholders” and reaches the same conclusion as the NBA network by calling for improved public-private dialogue in the areas of tax and customs administration.

**Monitoring and Evaluation of Government Compliance with NBA priorities**

The NBA network and IDSI issue annual monitoring reports. This is the first time in Moldova that the private sector has focused its efforts on holding the government accountable for the pace and quality of reforms through a highly participatory monitoring process. The reports show that the network evaluates government compliance with business community priorities through a variety of tools such as “meetings with the working group for monitoring the implementation” of the NBA priorities; “interviews with representatives of business associations and representatives of ministries”; distributing questionnaires to members that assess the level of implementation of NBA solutions; and examining government action plans, legislative changes, and other documents. The top priorities for the business community were reforming tax collections and customs administration. In the 2013 Evaluation Report, the NBA network and IDSI note “a more pronounced progress” in the government’s implementation of the priorities outlined by the business community. The report notes that partial progress has been achieved on five of the thirteen NBA 2012–2013 general priorities, marking a greater convergence between the government action plan and the priorities of the private sector than in previous years. The publication also notes that there is “greater openness of authorities to civil society and the beginning of a more effective public-private dialogue.” The five proposals that have either been adopted or are in the process of being adopted are:

- The government has established a one-stop shop for receiving tax reports and providing taxpayer services. Improvements include electronic filing of tax returns.

- There is an increase in transparency and predictability of customs procedures through the publication of up-to-date information on the website of the Customs Service regarding tariffs and non-tariff measures applied to imports, customs procedures, and required documentation. These efforts increase transparency around the calculation of the value of goods for customs.
- Export procedures have been simplified through introducing a one-stop shop for export operations, and establishment of customs clearance procedures for qualified businesses, reducing the number of physical and document controls as well as the overall transit time.

- The government recognizes the validity of international certifications issued by neighboring countries.

**Conclusion and Lessons Learned**

IDSI and the NBA Network institutionalized a culture of public-private dialogue in Moldova where it did not exist in the past. The key lessons to emerge from this experience are that a well-planned and successful National Business Agenda process mobilizes the private sector to outline barriers to business, provide a framework of policy priorities for reform, and offer specific recommendations to improve the business climate. Second, public-private dialogue grounded in existing legislation creates a space where public officials and business representatives can work together to align government and business sector priorities. Finally, producing annual monitoring and evaluation reports holds the government accountable for the pace and quality of reforms in Moldova.

*The activities described in this case study were funded by the National Endowment for Democracy.*
Since 2008, the Center for International Private Enterprise (CIPE) in Nigeria has focused on fostering a better business environment through regional public-private dialogue initiatives in the North Central Zone and Southeastern parts of the country, encompassing a total of seven states. Nigeria’s federal system of governance has allowed CIPE and local partners to focus their work on regional and local level advocacy initiatives as they create the best opportunity for reform. CIPE’s work has built the capacity of coalitions of business and professional associations (COBPAs) at the sub-national level, representing 130 business and trade associations and more than a million individual entrepreneurs. These coalitions are active advocates for policy reforms that improve their state’s business environment at the local level and strengthen the relationship between the private sector and local governments.

The federal system of governance in Nigeria makes the passage of any national legislation a very challenging and long-winded process. Grassroots work by coalitions of professional and business associations and engagement with government officials at the regional level allows the private sector to identify barriers to business and engage public officials in direct dialogue. These efforts yield legislative changes that improve both local level governance and the business environment.

CIPE and its local partners have addressed the need to educate parliamentarians through training sessions that provide public sector officials with the knowledge and tools required to legislate for a better business environment. These efforts have changed officials’ attitudes towards the business community and increased trust between the public and private sectors leading to tangible results. For example, multiple taxation has been reduced for small and medium-sized enterprises in Niger State. Public hearings for all legislative bills have been introduced in Kogi State to gather input from the business community and civil society before bills are passed in the House of Assembly. Additionally, in Enugu State there has been a reduction in the length of time it takes to process property registration, and illegitimate fees for business permits have been eliminated.

Southeastern Nigeria: Enugu Chamber of Commerce, Industry, Mines and Agriculture

Since 2008, CIPE has been working with the Enugu Coalition of Business and Professional Associations (ECOBPA) and its secretariat, the Enugu Chamber of Commerce, Industry, Mines and Agriculture (ECCIMA), to identify and
advocate for solutions to business challenges in South East Nigeria. Consequently, structured public-private dialogue is now the preferred forum of engagement between the business community and the public sector.

CIPE supported ECOBPA to conduct a written survey of 100 businesses in the six states of the South East Zone to obtain firsthand information on the experiences of business operators in the region based on six indicators: starting a business, registering property, obtaining a construction permit, enforcing contracts, tax administration, and security. Next, CIPE and ECOBPA developed a policy paper that reflected the survey findings and provided policy recommendations. The publication was distributed to 1000 senior government executives, legislators, and members of the private sector. CIPE and ECOBPA then hosted a public-private dialogue summit in Enugu titled “South East Business Environment: The Case for Reforms and Regulations,” which drew 210 representatives from the public and private sectors in the six regional states. A communiqué with recommendations was distributed to the regional governors and the permanent secretaries of the Ministries of Lands and Surveys, Commerce and Industry, Justice, the Economic Planning Commissions.

The most notable outcome of these efforts has been the institutionalization of public-private dialogue as the preferred forum of consultation between the business community and the regional government in Enugu state. Additional examples of impact include:

- The Governor of Enugu State signed the Certificate of Occupancy to the Commissioner of Lands, to facilitate more efficient registration of property.
- Enugu State is working to publish all required payments to register property and obtain a construction permit.
- The Attorney General of Enugu agreed to partner with ECCIMA to establish an Alternative Dispute Resolution mechanism to improve the process of settling business disputes.
- The Corporate Affairs Commission in Enugu state computerized its operations reducing the period required for business registration from several months to several days.

**CIPE Initiatives in North Central Zone: Training Coalitions of Business and Professional Associations**

CIPE has worked in six states in the North Central Zone—Nasarawa, Plateau, Benue, Kwara, Kogi, and Niger—providing technical assistance and building the capacity of the private sector through the formation of coalitions. The membership of these associations represents nearly one million individual entrepreneurs who collectively engage with local authorities to improve the climate for economic
growth and strengthen democratic participation in policymaking. Prior to CIPE’s partnership with these coalitions, private sector associations throughout the region had not held a formal dialogue with their state government officials or engaged in policy reform processes.

Based on earlier work in Southeastern Nigeria with the Enugu Coalition of Business and Professional Associations, CIPE proceeded to apply the coalition-building and training model to other areas of Nigeria. Initially, CIPE worked with local level coalitions in Nasarawa, Plateau, and Benue states, gradually incorporating coalitions in Niger, Kwara, and Kogi states to cover the entire North Central Zone. CIPE contracted the Jos Business School (JBS), based in Plateau State, to help support program planning and implementation.

CIPE and JBS conducted diagnostic assessments of 70 leading private sector associations in Niger, Kwara, and Kogi states. These assessments informed the curriculum for two sets of training programs that aimed to build the organizational capacity of 60 business associations in these states. The first training program for 30 representatives of business associations focused on association management with topics such as strategic planning, the role of business associations in a democratic society, membership development, and association governance. The second training program focused on advocacy basics, Nigerian lawmaking procedures, project design and proposal writing, and coalition-building. During the second training program, the participating associations formed coalitions through the election of a secretariat and steering committees.

CIPE awarded sub-grants to the secretariat of each of the six coalitions in the North Central Zone and worked with each coalition to develop and refine their advocacy plans and budgets. Each coalition identified and prioritized one or two of the most pressing policy concerns of their members, forming the foundation for their advocacy plans. A central component of CIPE’s work in each region was a public-private dialogue event at which the coalitions engaged members of their state Houses of Assembly, executive branch, and relevant state ministries on policy issues.

The six associations in the North Central Zone developed a mission statement and vision, strategic plan, and a Local Coordinating Committee that is subject to elections on an annual basis. Committees were established to implement their mission and vision in the areas of planning, marketing and public relations, advocacy implementation and evaluation, membership development, and finance and budget.

The coalitions engaged local governments in public-private dialogue in order to highlight business community concerns and improve regional economic conditions:

- **The Kogi Coalition of business and professional associations (KOCOBPA)** held a forum to address issues related to infrastructure and taxation, which was attended by representatives of select Kogi government ministries and members of parliament. The forum led to the creation of
a tripartite committee that meets regularly to address multiple taxation issues. The House of Assembly also established an Independent Budget Monitoring Committee to allow the business community to provide oversight on the effective execution of government projects. Acting on KOCOBPA’s recommendation, the Kogi Parliament has instituted the practice of holding public hearings for all legislative bills before they are passed in order to incorporate input from the business community and civil society. Thus far, 10 such public hearings have been held in Kogi State.

The Niger Coalition of business and professional associations (NICOBPA) efforts focused on reducing multiple taxation on businesses in their state. Following NICOBPA’s recommendation at the public-private dialogue roundtable, the Niger State government has revised tax collection methods so that businesses can pay their taxes directly to the bank accounts of tax agencies instead of to individuals posing as tax collectors. In instances when in-person payment of taxes is required, tax collectors wear state-issued uniforms and possess official photo identification. These changes make paying taxes more transparent and easier, and decrease the opportunities for fraud and corruption in the collection process. The consultation process resulted in Niger State tax authorities conducting periodic consultative meetings with NICOBPA and others to review and improve tax policies and the collection process. The improved relationship between the state government and the private sector also means that businesses are more likely to pay their taxes on time. For example, the Niger Chamber of Commerce instituted PAYE (Pay as You Earn) tax on their staff. NICOBPA has become a leader on taxation and provides advice to business owners on the issue.

The Nasarawa coalition of business and professional associations (NACOBPA) engaged the state authorities in an advocacy campaign highlighting the negative impact on local businesses of energy shortages. NACOBPA considered the issue of electricity availability and persuaded the government to increase power supply allocations to businesses from 17 megawatts to 33 megawatts, and to install 80 new electrical transformers. These measures have decreased the cost of doing business in the state and allowed for more productivity in the energy-intensive sectors of the regional economy.

As a result of the Benue coalition of business and professional associations (BENCOBPA) sponsored roundtable on Access to Credit, the Benue Ministry of Commerce and Industries re-activated the Small Scale Industries Credit Scheme, which provides access to loans for businesses in the state.

Training Programs for Parliamentarians

Public-private dialogue involves consultations between the business community
and state governments in order to resolve issues that hinder business activities. CIPE’s experience shows that an effective consultation process requires an informed public sector that understands the conditions needed for businesses to develop and operate successfully. CIPE and the Center for Entrepreneurship, Skills Acquisition and Sustainable Development, the non-profit arm of the Jos Business School, have worked to strengthen the capacity of public sector officials to draft effective economic legislation, improve dialogue with the private sector, and promote private sector-led growth in their states. CIPE provided training to members and staff of both the executive and legislative branches in the six states of the North Central Zone to help them better understand the democratic process and their role in improving the local business environment. CIPE sponsored workshops addressing a plethora of issues including economic and democratic reforms in Nigeria, the role of the state government, government policy support for the Nigerian private sector and state economies, and the legal and regulatory environment for business. Over 150 executive staff and elected officials have attended these workshops.

Following each training workshop, CIPE hosted a mock public-private dialogue session, where the newly-trained parliamentarians met and networked with business colleagues to build relationships. Participants acquired a better understanding of the role of business in a democratic society, challenges faced by the private sector in different states, and opportunities for policy reform to create a better business environment. House of Assembly representatives in Kogi and Kwara states pledged to work more closely with the business community either to review any laws that are impeding business growth or pass new laws that will encourage more private sector development. These sessions have built mutual trust and increased the inclination of public officials to engage in regular dialogue with the private sector.

Conclusion

CIPE and its local partners have supported and engaged in regional-level public-private dialogue in seven states in Nigeria to improve the business environment and promote inclusiveness in the policymaking process. CIPE has focused on building the capacity of regional coalitions to effectively engage local authorities in public-private dialogue. The coalitions, which represent more than one million individual entrepreneurs, now regularly engage with governments to identify solutions that improve the legal, regulatory, and security environment in their states and regions.

The activities described in this case study were funded by the National Endowment for Democracy.
CIPE has worked with local partners in Nigeria to build the capacity of coalitions of business and professional associations, representing 130 business and trade associations and more than one million individual entrepreneurs. These coalitions work at the sub-national level to advocate for policy reforms that improve the business environment in individual states and strengthen the relationship between the private sector and local governments.

Participants in a CIPE-supported public-private dialogue event in Nigeria in August 2014 focused on access to finance for women entrepreneurs. Dialogue participants included representatives from CIPE partner the Association of Nigerian Women Business Network, the Central Bank of Nigeria, the Nigerian National Assembly, the African Development Bank, and the Small and Medium Enterprises Development Agency of Nigeria.
Business Advocacy

Initiatives have included:

- providing parliamentarians with the knowledge and skills required to legislate for a better business environment;
- working with the private sector to develop policy proposals and regulatory reforms to improve the conditions for entrepreneurs to start and grow businesses; and
- advocacy and coalition-building training for chambers and business associations to improve their ability to represent their members and to effectively engage local authorities in public-private dialogue.

Participants in an advocacy training workshop for leaders of women’s business and professional associations in Nigeria.
Formalizing Public-Private Dialogue with the Small and Medium-Sized Enterprise Sector in Senegal

by Teodora Mihaylova and Erica Poff

As Senegal’s largest and most representative and well-organized business association, l’Union Nationale des Commerçants et Industriels du Senegal (UNACOIS) has played a significant role in the country’s policymaking process in recent years. This case study identifies two key achievements. First, the Senegalese government adopted the association’s recommendations to reform the national tax code, Le Code General des Impots du Senegal, which established a more uniform, equitable, and proportional tax code for the small and medium-sized enterprise (SME) sector. Second, UNACOIS worked with the Ministers of Tax and Customs, Commerce and Industry and the Prime Minister to establish a mechanism for regular public-private dialogue on issues related to the SME sector, economic development, and food security challenges.

Issue Identification

In recent years, Senegal has experienced popular protests and high rates of unemployment and corruption; it also has one of the largest informal sectors in Sub-Saharan Africa. In this challenging political and economic context, CIPE partnered with UNACOIS in 2011 to empower small and medium-sized enterprises (SMEs) to engage in public-private dialogue and to better serve the needs of UNACOIS members. UNACOIS has 70,000 members, the overwhelming majority of whom are small and medium-sized businesses operating in the informal sector. As a first step, UNACOIS identified and prioritized the issues confronting its members along with policy recommendations to address member needs. To achieve this, UNACOIS divided its national membership into four regions—North, South, Centre and West—and conducted regional dialogue sessions for members in each of these four regions. Complementing these regional discussions were two cross-regional business agenda forums that synthesized the regional policy concerns into one policy recommendation document.

The primary issues to emerge from the regional dialogue sessions and cross-regional forums were the need to address the complex tax code (with different tax rates for SME operators in different provinces and districts of Senegal) and high tax rates, both of which were major causes of informality in the SME sector. With CIPE’s support and expertise, UNACOIS developed an evidence-based white paper with recommendations on tax reforms for the SME sector. This was the first
effort by UNACOIS to include the views and interests of all its members in one comprehensive document. UNACOIS supported its tax code recommendations with an analysis of the prices of core goods and services of its members, an examination of the relative costs for the provision of these goods and services, and a projection of the relative profit margins of UNACOIS members based on the prices and costs. Soliciting input from members through elected leadership in the regions facilitated the flow of information between national and regional branches. UNACOIS distributed hard copies of the white paper to all regional offices and expanded the organization’s website to include a new section on policy advocacy that included regular updates.

Following regional consultations and the publication of the policy paper, UNACOIS participated in high level meetings with public officials from the Ministry of Commerce and Industry, and the Ministry of the Informal Sector. The main public-private dialogue event was a roundtable, which attracted 93 attendees from the Ministries of Finance, Employment, Taxes and Customs; members of the Parliamentary Committee on Tax and Customs; members of UNACOIS’s national and regional leadership teams; the Senegal National Employers’ Associations; and media representatives. The objective of the roundtable was to raise understanding among government officials of the country’s SME policy concerns and recommendations. In conjunction with the roundtable, UNACOIS conducted three national-level meetings with the Ministry of Tax and Customs, and two with the Ministry of Finance and the Economy, to advocate for their recommended tax reforms.

Results: Reforming the Tax Code and Establishing a Mechanism for Regular Public-Private Dialogue

UNACOIS’s partnership with CIPE yielded two concrete results. The first was the adoption of the SME tax reform recommendations by the Ministry of Tax and Customs. The ministry submitted UNACOIS’s recommendations to Parliament as part of the Parliament’s comprehensive review of the Code General des Impots du Senegal (Senegal Tax Code). On December 31, 2012, the Parliament of Senegal passed legislation to reform the Senegal Tax Code, which included all of UNACOIS’s recommendations. This resulted in a more streamlined tax code for SMEs in Senegal with tax rates that are more proportional to their profit margins. Importantly, a more uniform and proportional tax code for the SME sector will help formalize Senegal’s informal sector, which in turn will expand the government’s tax base and promote accountability and transparency.

As a direct result of the new tax regulations, informal sector operators have reported a decreasing number of disputes with local authorities. Prior to the legislative changes, one of UNACOIS’s main services to members was
to intervene in court on behalf of informal sector members whose businesses were shut down or goods confiscated by the police due to their informal status and not paying any taxes. On average, UNACOIS’s national headquarters intervened in over 200 cases per year. Within one year of the new Code taking effect, UNACOIS has been involved in only two such cases. Now that these informal members have an avenue for complying with local business regulations, such as payment of taxes, they are able to operate more freely and without fear of interference by local authorities.

The program’s second major impact was establishing a mechanism for regular and ongoing public-private dialogue between UNACOIS and the government on issues related to the SME sector, economic development, and food security challenges. The quality of the tax code recommendations and the process that led to the recommendations, which demonstrated the extent of UNACOIS’s national scope and grassroots reach, provided credibility to UNACOIS in the eyes of senior government officials including the Minister of Tax and Customs, the Minister of Commerce and Industry, and the Prime Minister of Senegal. UNACOIS’s potential as a valued partner was clearly demonstrated and led the Government of Senegal to engage the private sector on finding solutions to the country’s persistent food security challenges. This unprecedented partnership is intended to leverage UNACOIS’s broad-based nationwide membership to improve the supply-chains of imported goods to all parts of the country. The aim is to create efficient, coordinated import and distribution channels that will subsequently lower the costs of basic commodities and the cost of living for all Senegalese. To this end, government officials seek meetings with local UNACOIS members and branches throughout Senegal to obtain SME input on agricultural policy.

A more recent example of the ongoing public-private consultations is UNACOIS’s formal partnership (PPP) with the Senegalese Ministry of Small and Medium Enterprises to progress implementation of the Emerging Senegal Plan (PSE). The PSE is a multi-decade, comprehensive economic development plan initiated by Senegal’s President in 2012. UNACOIS’s involvement will ensure that Senegal’s informal SMEs have a voice in the reforms that affect them most.

UNACOIS has also achieved policy reforms through dialogue with government at the regional level. In April 2011, UNACOIS members from the Central region organized a meeting with the Tax and Customs Bureau of the Mbour district to discuss how multiple and random taxation is a major burden to their enterprises. The meeting led to the suspension of tax payments in the district until the tax code had been effectively streamlined and the mode of payment clarified. Similarly, UNACOIS members from the West Region hosted
a series of meetings with the regional Tax Department Office to highlight the issue of multiple taxation among UNACOIS members in the region. As a direct result of a series of meetings with UNACOIS, the regional Tax Office eventually suspended a number of taxes, pending the findings of a government investigation into their legality.

UNACOIS’s issue advocacy has contributed to a democratic culture of inclusion, accountability, and transparency in Senegal where the government has committed to soliciting the participation of the private sector in the policymaking process on economic issues.

**CIPE’s Role**

Throughout the partnership, CIPE has provided training and assistance in various aspects of association management, including the role of an association in a democracy, the governance structure of an association, membership development and retention, and basic advocacy. This support has helped build UNACOIS’s capacity as a leading private sector association in Senegal, often at the forefront of policy dialogues about issues that affect its members and the broader private sector.

CIPE helped UNACOIS develop the methodology to segment its membership by region, provided input in the preparation of the member survey for use at the regional dialogue sessions, advised UNACOIS on how to collect information on members’ policy needs, and helped develop and edit the final version of the white paper on tax reform. CIPE also helped moderate group discussions at the regional dialogue forums. Finally, CIPE provided technical assistance to help UNACOIS prepare for meetings with the Ministry of Tax and Customs and the public-private dialogue roundtable.

**Lessons and Success Factors**

- A decentralized approach was key to the success of this initiative. Instead of identifying the needs and interests of its membership across the country based on information available from members in Dakar only, UNACOIS segmented its membership by region and then actively involved each region in the public-private dialogue process. This not only ensured buy-in among the wider membership for the advocacy campaign on tax reforms, but also contributed to better representation of members’ interests at the national level.

- Regular, ongoing public-private dialogue between UNACOIS and the national government is an important tool to ensure that Senegal’s most vulnerable entrepreneurs—SMEs and informal sector operators—have a voice and are able to participate in the policymaking process.
The development of a comprehensive, evidence-based white paper with clear and actionable policy reform recommendations strongly contributed to UNACOIS’s success because it established their image as a professional and knowledgeable partner that the government could trust. Molding this image is particularly important for organizations that work with large informal sector populations, who are often unfairly stereotyped as unprofessional and disorganized.

The causes of informality in Senegal are wide-ranging and complex. Instead of developing a broad program to address informality, UNACOIS instead chose to intensively focus on one major issue affecting formalization—taxation. Taxation is an issue that is as equally important to the public sector (in that it generates much-needed revenue) as it is to the informal sector (informal businesses face having their businesses closed due to lack of payment). Because of these shared interests, UNACOIS was able to gain the buy-in of both stakeholders to work towards meaningful reforms. In addition, by tackling one issue at a time, UNACOIS ensured the transition towards formalization would not be too jarring or burdensome for either the government or the informal operators. As a result of these approaches, UNACOIS managed to achieve tangible success, resulting in greater tax revenue and less business closures, while also opening up opportunities for future reforms that will continue the process of formalization in Senegal.

*The activities described in this case study were funded by the National Endowment for Democracy.*
Giving the Private Sector in Afghanistan a Voice in Policymaking

by Teodora Mihaylova

The objective of the Center for International Private Enterprise (CIPE) in Afghanistan has been to advance democracy by building the infrastructure for informed and effective public-private dialogue. For the first time, the Afghan private sector gained a voice in the policymaking process through the development of the 2011 National Business Agenda (NBA), which included specific policy recommendations to improve the business climate, promote transparency, and create new jobs. CIPE worked with the Afghanistan Chamber of Commerce and Industry (ACCI), the national apex chamber, and a coalition of 10 other sectoral Afghan business associations, including two women’s business associations, to prepare and release the NBA. As a result, the private sector organized around reducing barriers to economic activity and the adoption and implementation of policy reforms.

The NBA Process

A national business agenda (NBA) unifies the business community to advocate for market-oriented reform. NBAs improve the climate for business and investment and spur economic growth by identifying barriers to business, and offering concrete policy solutions. They set the legislative and regulatory priorities of the private sector and clearly communicate these priorities to policymakers. Developing an agenda allows for coordinated advocacy to address shared concerns.

In 2009, CIPE organized a business attitude survey of 738 Afghan businesses, which identified three leading factors most adversely affecting private sector growth: a lack of security (78 percent of respondents), corruption (53 percent), and a lack of electricity (44 percent). The survey results were the foundation for the development of the NBA.

The NBA, as noted, was developed in partnership between ACCI and a coalition of 10 other sectoral business associations. The associations represented the major sectors of the formal Afghan economy, and included women entrepreneurs. An Advisory Committee was established, chaired by ACCI, with representation from each of the other 10 participating associations. The Advisory Committee provided guidance for the NBA process, oversaw its work, and approved the final set of recommendations.
Business Advocacy

To ensure that the NBA reflected the views of the Afghan business community, the Advisory Committee hosted regional meetings in late 2010 in the country’s five largest cities, with a total attendance of 1,300 businesspeople. Participants were divided into sectoral committees reflecting the major commercial sectors of their regions. Each committee identified specific issues to address, and provided relevant policy recommendations. Based on the results of these regional NBA meetings, the Advisory Committee selected the final set of recommendations for inclusion in the NBA. Launched in March 2011, the NBA gave the Afghan private sector a voice in the policymaking process, and offered policy recommendations to improve the business enabling environment.

Tax Policy

Tax policy has been a major challenge for business, as determining actual tax liability in Afghanistan is extremely difficult. A common complaint is that the process of submitting balance statements to the tax authorities for the purposes of calculating tax liability is unclear, as there is little understanding of the actual tax rules. The private sector is also subject to multiple taxes, including up-front business receipt taxes to customs officials at the border, and numerous other legitimate and so called “unofficial taxes” throughout the year.

The business community recommended that Article 75 of the Tax Law, on balance statements, be revised to eliminate these requirements and be replaced with a system of fixed taxes for small businesses. The business community urged the government to re-establish a “tax holiday” for new companies, which exempts these businesses from tax liabilities during their first three to five years of operation.

The advocacy committee of the Afghan Cabinet amended Article 75, allowing small businesses to pay a fixed tax to the government, instead of an annual income tax based on net profits. The “tax holiday” recommendation for new businesses led to the institution of a tax exemption for craftsmen for a period of five years. Additionally, new investors are provided with land free of cost and enjoy a tax holiday for ten years.

Tariff Policy

The private sector view is that tariff policy should support domestic industry and production, and should be determined by the Ministry of Commerce and Industry and the ACCI. The NBA recommends that sectoral associations work in tandem with ACCI to identify specific goods and materials that deserve review, and that tariffs be lowered on these items.
To support domestic industry, the government increased tariffs on carpets and furniture. Tariffs on machinery and raw materials were reduced to zero, to encourage the import of these goods. Additionally, a committee with representatives from the Customs Office, the Ministry of Finance, and ACCI was formed to review tariff policy on a regular basis.

Lack of Land and High Rent for Businesses

The legal ambiguity related to owning and leasing land can adversely affect businesses. One contentious issue in Afghanistan involved the lack of land required for establishing and conducting business, even in areas specifically set aside for commercial and industrial use. The NBA recommended that the government provide more land to industry, and do a better job of organizing industrial parks to meet business needs. Businesses identified unaffordable rents and short leases as impediments to the development of the economy. The authorities were urged to ensure that government land leases were of sufficient length to allow businesses stability and predictability.

The Ministry of Commerce and Industry implemented the NBA recommendation to extend the validity of business licenses from one year to three years. Furthermore, the amount of time required to obtain a business license was reduced from one month to two days. In response to the recommendation to ensure greater clarity on land-leasing, the government allowed the term of contracts for land leases to be extended without renewed bidding every three years, as long as any increase in price is adjusted to current market rates. Finally, the government is prioritizing investments in industrial parks and is making strides towards reclaiming government-owned land for business.

Lack of Credit and Banking Reform

A lack of credit on reasonable terms prevents many businesses from getting loans; additionally, high interest rates and collateral requirements are impediments to business. In CIPE’s 2010 Afghanistan Business Survey, 73 percent of the 738 businesses surveyed said that they had not sought in the past year to borrow funds to launch, start, or expand a business. Proposed banking reforms included reforming bank guarantee requirements to lessen the financial burden on companies seeking to expand.

The Afghan Central Bank drafted a new Islamic banking law and an industrial banking law. To address concerns over the difficulty of obtaining loans, the Central Bank amended the collateral registry to accept moveable property as a guarantee for establishing credit. Five banks in Afghanistan have signed agreements with ACCI stipulating that they will provide low-interest loans to small and medium-sized enterprises (SMEs) at two to six percent interest, while ACCI will act as
a guarantor on behalf of the businesses receiving loans. ACCI will also provide these SMEs with assistance in preparing business plans and facilitate the required procedures for obtaining a loan.

**Trade Facilitation**

Trade facilitation refers to the simplification and modernization of trade laws, procedures, and infrastructure, with the aim of reducing transaction costs and delays in international trade, especially those borne by businesses. The NBA recommended building modern infrastructure at border crossing points, including storage facilities and laboratories for the purpose of testing product safety. Businesses reported paying multiple custom duties on imported goods. The NBA recommended the elimination of duplicative customs charges assessed on the movement of goods to new jurisdictions, and that the payment of customs duties at the first border crossing should be valid for the entire country.

Afghanistan has established the Afghan National Customs Academy, which trains customs officials on management skills and the use of new technologies. The office has increased the efficiency of customs and somewhat reduced corruption, reflected in a three percent revenue increase, despite an overall reduction in trade. The most significant improvement is enhanced infrastructure at border crossings, such as warehouses, where goods can be safeguarded, and laboratories for ensuring product safety. The government has built oil laboratories at seven border crossings and secured funding for building four more laboratories for quality checks on construction materials. The modernization of customs processes is underway, with the design of an electronic payment system, which will ensure greater transparency and quicker processing of transactions; for instance, the customs office in Jalalabad is now computerized.

**Burdensome Laws, Regulations and Administration**

The NBA identified burdensome laws, regulations, and administration as impediments to business and proposed the extension of the validity of business licenses from one year to three or five years. The Ministry of Commerce and Industry extended the validity of such licenses to three years. The processing time for business licenses was reduced from one month to two days and the procedure was shortened from thirty-two steps to eight steps. Similarly, the procedure for issuing export licenses was simplified, and the required signatures were reduced from 45 to six.

**Lack of Infrastructure**

The absence of reliable water and electricity is a major impediment to doing business in Afghanistan. Industrial parks lack basic infrastructure, such as paved
roads, running water, power, sewage systems, and health facilities.

In accordance with the NBA recommendations, the government improved electricity supply and other necessary infrastructure at six existing industrial parks, and announced the creation of seven new industrial parks around the country. The government is spending $17 million on the development of Sarshahi Park in Nangarhar province and another $6 million was allocated for the construction of industrial parks in Logar and Maidan Wardak provinces. A new industrial park was constructed in Mazar and 180 hectares of land were allocated for an industrial park in Herat province. The Afghanistan Investment Support Agency (AISA) equipped the Juma Mohammad industrial park in Kabul with reliable electricity and allocated $10 million for the construction of a paved road to the park.

To improve security, AISA allocated $1 million for the construction of protection walls around the industrial parks in five provinces. To increase the supply of reliable and affordable electricity, the Ministry of Power and Water decreased the price of electricity for industrial parks from nine to six Afghanis per kilowatt-hour.

The management of industrial parks has improved and become more efficient. Previously, the Ministry of Commerce and Industry and AISA managed the country’s industrial parks. The two administrative units merged, streamlining the decision-making process for land distribution and infrastructure improvements. Finally, AISA allocated $1 million for maintaining the infrastructure of industrial parks in Kabul.

**Conclusion**

While many international donors work in Afghanistan, CIPE and its partners have brought a unique element to the reform effort by focusing on improving the business environment in partnership with local private sector leaders. CIPE’s partners represent the authentic voice of the Afghan business community. The most significant improvements in the business climate achieved by CIPE’s partners focused on the governance, infrastructure, and security of industrial parks; reducing the cost for business licenses; reforming and modernizing the customs regime; and reducing tariffs on essential raw materials and machinery for production. CIPE’s contribution transcends the actual reforms enacted and extends to establishing a process and mechanism for policy reform, and boosting the capacity of the business community. CIPE and its partners have improved the business climate and strengthened democratic governance by helping build a more open, transparent, diversified, and prosperous economy in Afghanistan.

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Democratic governance—the decision-making processes that translate citizens’ preferences into policy actions—is a crucial component of ensuring that democracy delivers for all in society. Strong democratic governance is characterized by transparency and accountability in both the public and private sectors. An open, participatory policy process responds to citizen and business needs and promotes higher-quality regulatory solutions. To this end, CIPE’s democratic governance programs promote open, informed public decision-making and principled corporate governance.

CIPE partnered with the Development in Democracy Foundation to organize the first-ever televised presidential debates in Paraguay. The four leading candidates presented their policy agendas to the electorate and engaged in a discussion on the issues. The debates were broadcast simultaneously on all seven public television stations and one cable channel, as well as on 500 radio stations. Over 3.4 million people tuned in to watch and 72 percent of viewers surveyed said they were hearing the candidates’ policy proposals for the first time.

In Yemen, CIPE and local partners sought to strengthen the country’s fragile transition to democracy by building legitimacy and agreement on economic reforms. CIPE partners organized outreach to political parties, the business community, and civil society which resulted in a broad-based policy consensus among diverse stakeholders and created a roadmap for economic and political reform.

CIPE has supported the Institute for Solidarity in Asia to implement the Performance Governance System for local governments across the Philippines. The system improves municipal performance, financial transparency, and political accountability through an accreditation process. Cities that implemented the system reduced poverty rates, increased the size of the middle class, and invested more in education and housing.

In Pakistan, CIPE and local partners produced a guide to corporate governance for family-owned enterprises that outlines the benefits of adopting good governance practices. In Palestine, CIPE partnered with the Palestine Governance Institute to raise the profile of corporate governance and help the local private sector understand the critical role of corporate governance in improving the performance and profitability of firms.
Introduction

In 2008, Paraguay’s political system emerged from 60 years of one-party rule when the Electoral Alliance won the elections and ousted the Colorado Party from power. With the end of the single five-year term of President Fernando Lugo in sight, elections were scheduled for April 2013. The upcoming presidential elections presented the perfect opportunity for the Center for International Private Enterprise (CIPE) and the Development in Democracy Foundation (DENDE) to strengthen democratic governance in Paraguay. CIPE and DENDE conducted a nationwide survey to gauge public opinion on the most pressing issues for voters and organized two televised presidential debates where the leading candidates presented their policy agendas to the electorate and engaged in a discussion on the issues. The presidential debates ignited genuine policy dialogue in Paraguay for the first time, while informing over 3.4 million voters and strengthening the country’s fragile democracy in the process.

Lack of Policy Dialogue and Political Competition

With the transition to democracy in 1989 and the reform of the electoral code, traditional political parties in Paraguay had become less focused on substance, devoting all their organizational effort and economic resources to electoral politics. As a result, powerful political patronage machines developed to win elections, both within the parties and in contests between parties. As the political parties evolved in this fashion, discussion of public policies all but disappeared from electoral campaigns. When former President Fernando Lugo of the Patriotic Alliance for Change was elected in 2008, he had not presented a single public policy program for his government and did not develop one until six months into his administration.

In the aftermath of President Fernando Lugo’s sudden impeachment in mid-2012, the Development in Democracy Foundation (DENDE), a non-profit organization with a mission to promote economic growth and development policy, came up with a plan to address the lack of policy dialogue in Paraguay’s electoral campaigns. With no incumbent on the ballot, and no clear frontrunner, there was a willingness on the part of the political parties to try something new. In an effort to avoid another hollow campaign season in advance of the April 2013 election, CIPE began working with DENDE to identify what Paraguayan voters were inter-
ested in knowing about the economic proposals of the presidential candidates, and to organize public presidential candidate debates in which the candidates could present their plans.

**“Paraguay Debate”**

Under previous projects, CIPE strengthened DENDE through capacity building in order to enable the organization to facilitate dialogue between political parties, civil society, and the private sector. Furthermore, CIPE shared best practices and lessons learned on the importance of participatory democratic governance from similar projects conducted in Argentina, Colombia, and Mexico. CIPE staff traveled to Paraguay to provide additional technical assistance during the execution of the project.

In the run-up to the election in April 2013, DENDE formulated a strategy to contribute to democratic dialogue between political parties, the private sector, and civil society, with the ultimate goal of organizing presidential candidate debates. The effort was led by a steering committee made up of well-known individuals from diverse segments of society, including a journalist, economist, lawyer, businessperson, and academic. This committee was responsible for developing survey questions, deciding which policy recommendations to discuss at public forums, and synthesizing results into unified policy proposals that would serve as the focal point for the candidate debates.

The first step involved working with a variety of civil society and private sector organizations to conduct nationwide surveys of Paraguayans via email and mobile phone to identify general policy priority areas. The public surveys were key to ensuring that the planned candidate debates were focused on issues important to the general population. Roughly 5,365 Paraguayans responded to DENDE’s email and mobile phone surveys and indicated which political, economic, and social policy issues were most important to them. These results were then distilled and discussed by five civil society and private sector working groups during a series of interactive forums. This process culminated with the compilation of a document containing 46 specific policy proposals, which were then shared with representatives from every political party. The proposals ranged from incorporating domestic (household) workers into the social security system to provide them with health and retirement coverage, to strengthening the management of education policy by imposing a more participatory, efficient, and coordinated mechanism between the national, departmental, and local levels.

With the policy priority areas set by the survey results and working groups, DENDE worked with the Center for Regulation, Norms, and Communications Studies (CERNECO) to organize a series of televised presidential debates that would create a platform for candidates to present their views on the issues. With
agreement from the political parties, this effort culminated with the two official Paraguayan presidential debates on March 17 and 24, 2013. Four presidential candidates participated in the debates covering the topics of governance and economic development (which included the national budget, tax framework, investment, public-private alliances, commercial policy, governance and security), and social and environmental policy (which included poverty, education, health, and environment). Candidates included Efraín Alegre from Alianza Paraguay Alegre, Horacio Cartes from Asociación Nacional Republicana, Mario Ferreiro from Avanza País, and Miguel Carrizosa from Patria Querida.

**Impact**

DENDE’s working groups established a dialogue process between the private sector and broader society that allowed it to build, with broad democratic participation, public policy proposals that were then addressed by the presidential candidates. Additionally, through mobile phone and email surveys DENDE was able to incorporate public input in the policy recommendations that served as a sample for discussion in the presidential debates.

The impact of the democratic dialogue process was most significant for civil society, particularly because it acquainted citizens with the processes involved in public policy formulation such as research, participation, and systematization. The process itself promoted dialogue, deliberation, and consensus and consequently generated management guidelines that civil society groups will use for years to come. The debates themselves amplified and improved citizens’ access to information, educated the electorate on the issues, and promoted greater interest in candidates’ proposals as opposed to their personalities. Presidential candidate Mario Ferreiro said,

“The debate is part of a citizens’ right to access information about the plans of each candidate. The debate can contribute to the diffusion of each presidential candidate’s plans in a short, clear and simple format.”

This project also fostered better coordination among civil society organizations and the business sector, and incorporated the media in an effort to create a more democratic discussion of candidates’ policy proposals. The debate was broadcasted simultaneously on all seven public television stations and one cable channel, and on 500 commercial and community radio stations. As a result of the public debates, approximately 3,400,000 citizens received information about the candidates’ public policy proposals, 71 percent of whom heard them for the first time. Overall, this initiative helped provide much-needed tools for information-gathering, solid analyses, and recommendations to policy leaders and decision-makers, while also providing a channel for citizens to voice their concerns and opinions to these leaders.
Lessons Learned and Best Practices

The lessons learned from this initial effort can be applied to two main categories—the democratic dialogue process and the candidate debates.

Democratic Dialogue

- **Use of mobile technology**: Mobile phones proved a useful medium for expanding the scope of citizen feedback and provided an effective complement to the more targeted email survey. The mobile phone survey reached 150,000 subscribers and yielded a three percent response rate. The email survey yielded a better 14 percent response rate, but only reached 7,000 people.

- **Include strategic actors**: To create a truly representative democratic dialogue, it is important to include government and political party representatives as well as strategic actors from the private sector and civil society. Each of these groups are fundamental in a democracy.

- **Involve the media and journalists from the start**: Democratic dialogue can be greatly enhanced by including the media in the process. The media has the ability to reach remote areas of a country that might otherwise not be informed, leading to an increase in the number and diversity of survey respondents—again, promoting a more representative democratic dialogue.

- **Advanced research**: Democratic dialogue is generally designed with a methodology to address politically controversial and technically complex issues. In this sense, extensive prior research helps set the environment for dialogue, and can be distributed and exchanged among participants before the dialogue sessions take place. This facilitates an orderly dialogue and participation, and allows those involved to identify points of convergence.

- **Accurate recordkeeping**: Developing and documenting technical procedures to monitor the democratic dialogue development process, as well as to evaluate, organize, and record activities and results are crucial to its success.

Candidate Debates

- **Universal inclusion**: The Paraguayan presidential election featured 14 candidates. Due to a number of constraints, DENDE only invited the four candidates with the highest rating in the polls—resulting in some criticism. By including all presidential candidates in the debates, an organization can avoid being labeled as favoring certain candidates over others. Also, including all candidates ensures that viewers are informed by all possible alternatives, and doing so helps strengthen freedom of expression and access to information.
- **Allow media attendance at debates:** Although the debates were widely broadcast in Paraguay, the impact could have been greater if journalists were allowed to attend the debates. At the same time, DENDE could have avoided media criticism by doing so—eliminating a diversion of attention from the actual debates. Providing the media with pre- and post-debate information is crucial to the success and coverage of the event.

- **Increase the number of debates:** The impact of the two debates is evident, but this impact could have been expanded to include organizing a series of debates instead. The ability to cover additional topics at subsequent debates could more adequately address the issues that were most important to the general public.

- **Efficient management and disseminating results:** When undertaking a similar project, it is essential that organizers understand the importance of having efficient management tools and staff. After each debate, the host should summarize the relevant information and distribute it through the media. It is also important to create a full transcript and summary of the debate, including which candidates participated and the public policy proposals presented in the debates.

*The activities described in this case study were funded by the National Endowment for Democracy.*
In the lead-up to Paraguay’s 2013 election, CIPE worked with the Development in Democracy Foundation (DENDE) to identify what Paraguayan voters were interested in knowing about the economic proposals of the presidential candidates. DENDE then organized two presidential debates that were broadcast live nationwide via television and radio. More than 3.4 million Paraguayans tuned in to the debates and 71 percent of those surveyed said they were hearing the candidates’ economic proposals for the first time.

Candidates in Paraguay’s 2013 presidential election debate in an event organized by DENDE.

“Paraguay still has a long way to go before it can hold an ‘ideal’ debate…Nevertheless, it is important that today we delve deeper into areas such as public policy, and not just during this debate.”

“It is this process that will allow us, in perhaps two more cycles, in perhaps ten years, to have the debate that we need.”

—Raul Ayala, Executive Director, DENDE
Building a Shared Vision for Economic Reform in Yemen

by Ali Ayadi and Matthew Goodwin

Following the 2011 popular uprising that toppled a decades-long authoritarian regime, Yemen began transitioning to democracy. The uprising was largely in response to the systemic failure of the previous regime to adopt policies capable of generating economic opportunity.

Private sector and civil society participation in policymaking is key to strengthening Yemen’s business environment, spurring economic growth, and ultimately safeguarding Yemen’s democratic transition. To overcome the poverty, inequality, and patronage that fragments society and undermines the long term viability of the transition process in Yemen, civil society, the business community, and political leaders need work together to build consensus on a roadmap for reform.

Yemen’s National Dialogue Conference (NDC) is a six-month consultative process composed of 565 delegates, representing rival factions and marginalized groups, designed to include all relevant stakeholders in rebuilding the political and legal framework that governs Yemen. The NDC is unique among countries in the region; its outcome will determine the country’s institutional framework and transitional trajectory.

To help build legitimacy and agreement on economic reforms and ensure buy-in from Yemeni citizens, the private sector, and government officials, the Center for International Private Enterprise (CIPE) and its local partners the Political Development Forum (PDF), the Studies and Economic Media Center (SEMC), and the Human Rights Information & Training Center (HRITC) launched an initiative to strengthen the business community’s capacity to advocate for needed reforms. CIPE partners are leading activities with three distinct constituent groups: PDF with political parties; SEMC with the business community; and HRITC with civil society. As a result, private sector representatives proposed recommendations during the NDC process with the government, which produced policy changes in the areas of security and investment law. Throughout this process, the private sector joined with civil society and political parties to build a unified and inclusive vision for democratic and economic reforms.
Articulating a Unified Vision

Historically Yemen lacked a vision that outlined a path for political and economic reforms and included the viewpoints of important stakeholders. Building a comprehensive vision for economic reforms based on an extensive consultation process with civil society, political parties, and the business community brought legitimacy to economic reforms and strengthened democratic governance in the country. Furthermore, consultations with stakeholders provided buy-in for reforms and created a unified vision for Yemen’s transition process.

The development, outreach, and implementation of the private sector vision was the result of a multi-step process. First, CIPE helped its local partners prepare a draft private sector vision of economic reform based on the views of a select group of business leaders. Next, the partner organizations set up a structure for consultations and engaged in advocacy activities with the wider private sector. The PDF, SEMC and HRITC engaged in parallel outreach activities with civil society groups and government officials in order to build an inclusive vision for economic reforms. Stakeholder recommendations were outlined in a document that created a blueprint for Yemen’s economic transition.

In March 2012, CIPE and SEMC brought together 15 business leaders, including business owners, executives, and leaders from the Yemen Business Club, the Yemeni Chambers of Commerce and Industry, and local Chambers of Commerce. These participants developed a coordinated “Private Sector Vision,” which articulated the business community’s priorities for democratic governance and economic reform in Yemen. The vision later served as a tool for Yemen’s private sector and civil society to contribute to the political discourse surrounding the National Dialogue Conference.

To increase consensus around the vision, representatives from each of the governorates were appointed to join a private sector taskforce. Taskforce representatives met with local business association leaders to identify and incorporate additional suggestions on needed economic reforms. Based on input from these meetings, the taskforce worked with CIPE and SEMC to draft policy papers on priority issues, including: (1) Security and Rule of Law; (2) Stakeholder participation in the NDC and drafting of the new constitution; (3) Youth and Unemployment; (4) Infrastructure; and, (5) Public-Private Partnership.
Building Support, Gaining Ground

As the vision initiative’s profile grew, taskforce members were invited to represent Yemen’s private sector at the Friends of Yemen donors’ conference in Saudi Arabia. At the conference, the taskforce presented the vision and proposals for public-private partnership on security sector reform and distribution of external aid. As a result of participation in the conference, the taskforce is now recognized as the legitimate representative of Yemen’s private sector both inside and outside Yemen.

Continuing to build support for the vision, CIPE partners and members of the taskforce met with policymakers and relevant stakeholders to advocate for reforms. They met with Yemen’s Minister of Interior and top security officials to discuss security and rule of law issues and present a policy paper on private sector needs for security sector reform. The Minister and security officials agreed to form a consultative body with the private sector and civil society to engage them in important aspects of security sector reform, such as the lack of professionalism among security forces and the general lack of security.

During a meeting with CIPE partners and taskforce members, Mohammed Saleh Hussein, head of the General Investment Authority, committed to partner with the private sector and civil society to amend specific laws that undermine the investment environment. Such laws included the 2010 investment law, and byzantine business registration laws that create a disincentive to launch new businesses. After the event, Hussein established a working group to gather feedback from the business community on amendments needed to reform the investment laws and to help craft new policies to promote investment.

Engaging Civil Society and Political Parties

In parallel to SEMC’s work to engage the private sector, HRITC focused on civil society and grassroots stakeholders, including tribal leaders, local councils, media, academics, and youth. First, HRITC surveyed individuals who participated in the 2011 uprising, asking them why they participated in the uprising. The primary factors included unemployment, corruption, low wages, inadequate economic policies, and political marginalization. CIPE and HRITC then held a forum for business and civil society leaders to discuss the economic factors behind the revolution identified in the study and potential solutions to the problems. Next, CIPE and HRITC held conferences across Yemen using the results of the study to guide discussions. These events highlighted links between democracy and economic growth, the importance of public-private partnership, and the role of the private sector in supporting democracy.
While SEMC focused on the business community, and HRITC on civil society, PDF concentrated its efforts on political groups. It worked with the Private Sector Vision taskforce and the Federation of Yemeni Chambers of Commerce and Industry to prepare a policy paper on how the private sector could advance vision objectives in the NDC through advocacy and participation in the various NDC sub-committees. The taskforce then shared the policy paper with leaders from the NDC. CIPE and PDF brought together private sector and political party leaders and helped them reach consensus on how to use reform issues identified in the vision to form an advocacy agenda and build the political parties’ economic reform platforms.

The Business Community: A Partner in Reform

As a result of the work by CIPE and its partners, three representatives from the taskforce were invited to become the sole representatives of the private sector in the National Dialogue. Members included taskforce president Ahmed Bazara who was asked to head the Sustainable Development Working Group, one of the nine committees tasked with making recommendations for constitutional changes and the only committee focused on economic issues. This working group used the vision to support its discussions. In this way, the work of CIPE and its partners positioned private sector leaders to be some of the most influential figures shaping the future business environment in the country.

Recognizing the need to empower Yemeni women, CIPE has worked to include women from various sectors of society in its efforts in Yemen. Multiple women serve on the Private Sector Vision Taskforce, including businesswoman Nejat Jumaan who was one of three members of the taskforce chosen to represent the private sector as a part of Yemen’s NDC Sustainable Development Working Group.

CIPE’s work helped members of the taskforce gain tremendous credibility and empowered them to engage in the ongoing political transition. A number of government officials, such as Minister of Industry and Trade Saadeddine bin Tableb, Minister of Information Ali Ahmed Al-Imrani, and the new Chairman of the General Investment Authority Yahya S. Mohsen, vowed to continue to support the taskforce as it contributes to Yemen’s ongoing transition. Members of the Constitution Drafting Committee, including Dr. Maeen Abdulmalik Saeed, Dr. Antelak Al Mutawakil, Dr. Mohammad Musa Al Ameri, and Dr. Ahmed Atiya, reached out to the members of the taskforce to solicit their input during the constitution drafting process.
After the National Dialogue Conference concluded, President Abd Rabbu Mansour Hadi issued a decree setting up a national authority to monitor the implementation of its outcomes. The new committee was established to ensure that the provisions of the NDC are implemented on the ground.

**Conclusion**

The overarching objective of the initiative undertaken by CIPE and its partners in Yemen has been to build broad-based consensus among diverse stakeholders and create a roadmap for economic and political reform. The Private Sector Vision that was developed was vital to activities carried out during the National Dialogue Conference process and continues to serve as a rallying point to organize the private sector during the next phases of Yemen’s transition. The unprecedented level of consultation and input with the private sector, civil society, and political parties ensured a high level of legitimacy and buy-in for reforms.

The involvement of the private sector in the national dialogue is an important achievement because it strengthens the role of business in national policymaking and enables the Yemeni government to tackle mounting economic concerns with a better understanding of the microeconomic conditions in the country. As Yemen enters the next phase of its transition, the private sector will continue to implement reforms through legislative advocacy that strengthen the economic platforms of political parties and directly address concerns identified in the Private Sector Vision.

*The activities described in this case study were funded by the National Endowment for Democracy.*
Instituting Improvements in Public Governance in the Philippines

by John Morrell

At a conference held in Manila in 2013, the city of San Fernando presented the results of its work with the Institute for Solidarity in Asia (ISA), CIPE’s longtime public governance partner in the Philippines. The mayor of this bustling city of 250,000 in central Luzon explained that the city had reduced the poverty rate by nearly 70 percent since partnering with ISA, lowering the percentage of the city population living in abject poverty to two percent (compared to a national average nearly six times that). By 2013, more than 50 percent of San Fernando’s population were classified as “middle class”, up from 38 percent in 2005 (the national average is 19 percent). Moreover, the city had built an additional 6,300 housing units, made record investments in education, and private investment in the city was booming.

The mayor proudly boasted that the city’s motto of “Kaya Natin ‘To (Yes We Can)” was increasingly true.

San Fernando is one of a growing number of cases of remarkable improvements in public governance in the Philippines as a result of undertaking ISA’s Performance Governance System (PGS), a rigorous accreditation program that requires participating organizations to reform and strengthen their governance practices with the goal of improving organizational performance, financial transparency, and political accountability. Since 2004, CIPE has worked with ISA to develop and promote the program for local governments across the Philippines.

When a city adopts the PGS program, city officials work with a broad-based community group to design specific public policy goals, an action plan to accomplish them, and performance metrics by which to measure progress. The program requires a city to implement a series of reforms that fundamentally transform its policymaking processes and bureaucratic structures, and its staff must complete a rigorous training regimen. ISA recruited an initial group of eight cities to adopt the PGS, and their success, and the successes of nearly 40 additional local governments that adopted the program over the years, led CIPE and ISA to apply this methodology to central government agencies beginning in 2010 and state-owned companies in 2013.

By institutionalizing community input in local policymaking processes and by making public agencies more transparent and accountable, this project is strengthening the incentives of public officials to improve the quality and reliability of public services.
The Performance Governance System—Initial Focus on Local Government

The Performance Governance System is a rigorous accreditation program modeled after a management methodology developed at Harvard Business School. Initially conceived as a tool for corporations, CIPE and ISA adapted this conceptual approach to local governments in the Philippines.

As mentioned above, when a city adopts the PGS, government officials and a community consultative group design the city’s “scorecard,” which consists of specific public policy goals, an action plan to accomplish them, and performance metrics by which to measure progress. Requiring formal adoption by a city’s chief executive and legislative body, a city’s scorecard becomes a locally-owned initiative.

To guide and monitor a city’s progress on institutionalizing the PGS into city planning, ISA laid out a four-stage “pathway”:

1. The first stage is for the city to set up its community consultative group and corresponding city planning team, and for these bodies to jointly form a long-term strategic plan, or “scorecard.”

2. Second, the city’s bureaucratic departments, activities, and budget allocations are aligned with the long-term objectives laid out in the city’s PGS scorecard.

3. The third stages is considered achieved when the city is recognized by ISA to be performing in relation to its specified targets, to have an office in charge of strategy execution, and to be using the scorecard as the framework for its public reporting.

4. Finally, ISA certifies a city as having institutionalized the PGS when the city demonstrates dramatic, sustainable achievement in one or more of the areas specified in the city’s PGS scorecard.

LED Toolkit

As CIPE’s partnership with ISA unfolded, new elements were added to the system, such as a Local Economic Development (LED) toolkit. This toolkit helps local policymakers target the institutional factors that drive local economies.

In many (if not most) emerging markets around the world, local governments take a “transactional” approach to local economic development, such as giving customized tax holidays and regulatory abatements to incentivize individual companies to invest in their city. The LED toolkit takes an “institutional” approach to facilitating inclusive economic growth by seeking to change the policy and sociopolitical environment in a given locality in ways that make that locality an enticing investment destination. Specifically, this toolkit helps localities develop and implement public policy aimed at local economic development by breaking down the broad concept of LED into five distinct and tangible components:
Democratic Governance

- Investment in people (schools, public health, etc.)
- Investment in physical infrastructure
- Development of the SME sector
- Attraction of private/commercial investment
- Improved local competitiveness (streamlined processing of business licenses, simplified and predictable regulatory code, etc.)

To begin this process, ISA helps a city conduct a “regional competitiveness study” to learn how its local policy environment compares with neighboring jurisdictions. City officials then incorporate this five-point model into their overall PGS program.

Breakthrough Results at the Local Level

The city of San Fernando, Pampanga was among the first localities to implement a PGS initiative. It took nearly five years for the city to complete the pathway. In addition to the accomplishments outlined above, the volume of resources mobilized through public-private partnerships in San Fernando rose from 19 million Philippine pesos (PHP) to nearly 150 million PHP, and the length of time required to register a business fell from two weeks to two hours. As a result, the city was able to double its spending on elementary education. In February 2009, San Fernando received the Galing Pook (“Great Place”) Award from President Gloria Arroyo. The city was also named the “Most Business-Friendly City in North Luzon.”

Balanga, a city of 150,000 on the Bataan Peninsula, used frameworks introduced by the PGS and ISA public financial management training to develop a comprehensive urban development plan aimed at making Balanga the country’s leading “university town.” Balanga’s community consultative group identified the five universities located within the city as unique resources on which the city should capitalize. The city invested in extensive pedestrian infrastructure to link the various campuses to each other, and leased public land adjacent to the campuses for private investments in hotels and retail. The entire city was re-zoned to attract investments targeted at the university populations. Improved public services include a redeveloped public market and the construction of the city’s first-ever public library.
The City Administrator of Balanga said the PGS made the city government “more transparent in the provision of public services.” The mayor explained that “ISA and the PGS help us make capital investments in a more strategic way, geared towards accomplishing real goals, as opposed to the ad hoc nature of city spending prior to the PGS. ISA also taught us to develop performance metrics so that we can empirically measure progress, and how to mobilize public-private partnerships.”

Masbate City, a small coastal town in the Bicol region, adopted ISA’s local government reform program in 2008 with the primary aim of developing the local economy. This is a very common aim cited by cities that adopt the PGS. Masbate’s local community consultative group identified the city’s seaside tourism potential as a long-term driver of local economic development. To cultivate local tourism industries, the city sought to become a “marine sanctuary.” Due in large part to ISA training for city staff, Masbate was able to improve management of its coastal resources to such an extent that the locality was accredited as a marine sanctuary by the Department of Environment and Natural Resources. This accomplishment is highlighted in a marketing campaign promoting tourism in the city.

**Application to Central Government Agencies**

The exceptional impact of the PGS on the quality of local government performance, and on the improved transparency and inclusivity of local governance, prompted the Office of the President to reach out to ISA in 2010 to request that the PGS methodology be applied to central government agencies. An initial group of six agencies adopted the PGS, five of which were cabinet ministries.

In congressional oversight hearings in early 2012, the appropriations committees of both the Philippine Senate and House of Representatives lauded the Department of Social Welfare and Development, the Department of Health, and Department of Public Works and Highways as the government’s top-performing cabinet departments. All three use the PGS as their management system. Both committees requested quarterly updates from each of these departments on their respective PGS pathways.

Within three years, the number of central government agencies working on a PGS pathway reached 26.
Conclusion

Democracy must deliver in three ways. First, the government must produce outputs in the form of social services, security, justice, and so on. Second, the government must facilitate economic growth to improve standards of living. Third, the government must be responsive to public needs and demands. 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. CIPE’s ongoing initiative with ISA is making invaluable contributions to the Philippines in each of these areas.

Chairman of the Philippine National Competitiveness Council Guillermo Luz said at an ISA event, “What does the PGS mean for the average Filipino citizen? Two words: savings and quality. For example, progressing through the PGS has improved the ability of government agencies to deliver high quality public works on time and on budget.” Such improvements in public governance help make democracy deliver, and making democracy deliver for citizens is the core of CIPE’s strategy for consolidating democracy in the Philippines.

The activities described in this case study were funded by the National Endowment for Democracy.
Corporate Governance in Family-Owned Companies in Pakistan

by Moin Fudda

Family-owned firms face a unique set of challenges that are rooted in an organizational structure that prevents these enterprises from attracting and retaining high quality human capital, obtaining lower cost debt and equity capital, and ensuring long term competitiveness and sustainability. The recent growth in family-owned enterprises, which are the backbone of Pakistan’s economy, has created a demand for tools to help these companies be more competitive. Corporate governance practices provide a means for ensuring sustained company performance and embedding the values of accountability and transparency in organizations. The Center for International Private Enterprise (CIPE) partnered with the Pakistan Institute of Corporate Governance (PICG) and the Institute of Chartered Accountants of Pakistan to assess the needs of this particular sector and create the Corporate Governance Guide for Family-Owned Companies.

Family-Owned Companies in Pakistan

In the last decade, Pakistan has experienced a sizeable increase in the number of unlisted companies, particularly family-owned organizations. The rise in numbers of unlisted companies has fueled the growth of Pakistan’s private sector while simultaneously increasing the importance of good governance for businesses. Currently, the Code of Corporate Governance applies only to companies listed on the stock exchanges. However, extending the concept of good corporate governance is vital to the sustainability of unlisted companies.

The controlling shareholders of a family-owned company belong to the same family and participate substantially in the management, direction, and operation of the company. Differing visions and objectives among family members can create conflicts and compromise the governance of the firm. The potential for conflict grows as the family structure shrinks or expands, and as the company changes, particularly with the advent of the second and third generations. Around only 15 percent of family-owned enterprises continue to survive to the third generation. Of those that do, 85 percent either disintegrate or completely vanish before the fourth generation takes the reins.

Challenges stem from the inability of family-owned firms to attract and retain high quality personnel, implement a succession plan, and raise capital. These factors negatively affect a company’s long-term competitiveness and survival. In Pakistan, among the 22 families prominent in business in the 1950s and 1960s,
only a few have managed to retain their prestigious position. The shortened lifespan of a family-owned company is mainly due to the following attributes:

- Clear lines of succession do not exist or are complicated by the importance of familial relationships.
- Loose organizational structures do not attract and retain quality human resources.
- Personal interest in the success of the business leads to an unwillingness to take risks such as expanding and diversifying into new business ventures.

Benefits of Good Corporate Governance Practices

Instituting good governance mechanisms can alleviate problems, and help companies sustain growth and overcome short lifecycles. Good governance has a positive impact on the performance of companies and enables them to move into the next phase of the business lifecycle. As companies grow and become more conversant with good governance, their ability to attract capital from external sources also improves, allowing them to expand, diversify, and acquire other businesses in a sustainable manner.

The principles of good corporate governance are as useful for unlisted companies as they are for listed companies. In countries like Pakistan, where a corporate governance code has been established for listed companies, these principles can be practiced by family-owned and unlisted companies as well. Some countries—including Egypt, Turkey, Belgium, and Finland—have also developed indigenous, voluntary corporate governance guides for unlisted, family-owned companies.

Good governance directly addresses the issues facing family-owned companies by:

- integrating the strengths of family and business;
- improving shareholder relationships through effective communication and conflict management;
- systemizing wealth distribution mechanisms;
- supporting growth and business diversification;
- managing ownership and leadership transitions;
- developing the next generation of managers, shareholders, and family members;
- improving credibility; and
- attracting lower-cost debt and equity capital.
In Pakistan, family-owned companies are often private, limited companies. Shares are held by a small group of people and there are limits on transferability. When this small group of people, however, is a family in conflict, the company suffers from a lack of objective analysis on the part of independent directors. Creating mechanisms like family constitutions and family councils can manage corporate governance apart from the family so that the business does not suffer. Additionally, good governance practices can assist in creating a more sustainable organization by delineating methods for generational transitions and succession planning.

**Corporate Governance Guide for Family-Owned Enterprises**

While family-owned companies are the backbone of Pakistan’s economy, these businesses are generally unaware of the principles of good corporate governance, or work in a relatively less open environment. Promoting basic principles of good governance for family-owned companies will support the development of a strong economic sector.

In November 2006, CIPE, in partnership with the Pakistan Institute of Corporate Governance (PICG) and the Institute of Chartered Accountants of Pakistan, organized a seminar on corporate governance aimed at unlisted companies, which was attended by 150 participants including owners of family businesses. Encouraged by the high level of stakeholder interest, the three organizations hosted a roundtable on the subject, which was chaired by the Chairman of the Securities & Exchange Commission of Pakistan. The participants decided to develop a Corporate Governance Guide for Family-Owned Businesses. A focus group, comprised of members of each of the organizations and representatives of family-owned businesses, was formed to develop a framework and prepare the guide based on stakeholder input.

After a round of deliberations, which took place at five focus group meetings, a framework was prepared. The framework was then discussed at two roundtables: one in Karachi, attended by stakeholders from Sind and Baluchistan, and another one in Lahore, attended by a large number of stakeholders from Punjab, Khyber Parkton Khawah, Azad Kashmir, Gilgit Baltistan, and Islamabad. These efforts led to a draft guide, which was then published on the three organizations’ websites for two months to solicit stakeholder input. The comments and suggestions received were incorporated and the final version of the guide was approved in June 2008.

To mark the launch of the Guide, CIPE invited Abdul Razzak Dawood, the former federal commerce minister and Chairman of the Pakistan Business Council, to be keynote speaker at an event where he shared his views with 100 business leaders of family-owned enterprises. Dawood manages his own businesses in the engineering, chemical, and power sectors and is chairperson of Pakistan’s first
family-owned multinational company. In his keynote address, Dawood observed that:

“Corporate governance is necessary for the creation of human, intellectual, and financial capital. I am a strong believer that good corporate governance is not a cost, but rather a value addition, an investment in the future of the company.”

The Corporate Governance Guide for Family-Owned businesses is the first guide of its type in Asia. It provides in simple language a corporate governance framework, based on the OECD’s internationally recognized principles, which is practical and adaptable for both listed and unlisted companies. The publication contains recommendations applicable to enterprises of different sizes, ages, types of business, composition of shareholders and family dynamics, and is a resource for progressive, medium to large sized, unlisted, family-owned companies in Pakistan and internationally.

**Adoption of the Guidelines by National Foods**

National Foods is an example of a family-owned company that has placed an emphasis on improving firm governance. It has maintained an annual growth rate of at least 20 percent since its founding in 1971. At first, National Foods was a spice business, but it now supplies more than 700 food products. The company has become a household name in Pakistan as a result of a successful marketing strategy combined with an array of quality products. Since its founding, National Foods has employed good governance and management practices, which established a good working relationship among the founders and prevented conflict. The first generation owners structured the organization into departments and identified human resource functions, roles, and responsibilities. These undertakings provided the foundation for the further professionalization and increased competitiveness of National Foods.

Under the leadership of the second generation, National Foods increased the number of its shareholders and listed the company on the stock exchange. Corporate governance allows a greater level of freedom for professionals while providing them with standards to follow and key performance indicators to achieve. In order to grow a business, family managers need to delegate responsibility and authority to professional managers. Today, the company’s governance structure is also complemented by the Code of Corporate Governance issued and enforced by the Securities and Exchange Commission of Pakistan. In the words of Abrar Hassan, CEO of National Foods, “corporate governance has helped National Foods with better access to capital and finance through investors by imparting confidence in the company through transparent practices.”
Corporate governance guidelines address one of the major weaknesses of family-owned firms, which is successfully managing family succession. National Foods treats family employees and non-related employees equally and recruits leadership based on merit. Successful companies master the art of attracting the best and brightest people through a professional human resources team. National Foods’ strategy centers on continuous recruitment of recent graduates and developing the company’s reputation as a professional working environment. The family does not expect that the third generation will lead the company but instead encourages interested family members to play a role in business development.

National Foods’ experience shows the advantages of listing large family businesses on the stock exchange. Listing a company creates exit mechanisms while freeing up capital to invest in other ventures. Becoming a public limited company has enabled National Foods to develop a culture and reputation that allows them to compete with multinationals. Adherence to the Code of Corporate Governance has also helped the board develop a vision of its roles and responsibilities.

In conclusion, National Foods has successfully undertaken the process of diluting ownership through public listing, divesting to new shareholders, and delegating management functions. Its experience exemplifies the positive outcomes that eventuate from transforming family owned enterprises into public limited companies. The adoption of these guidelines has guided the company on a path of growth and professionalization.

Lessons Learned and Conclusion

Corporate governance is crucial for defining the respective roles of shareholders as owners on one hand, and managers on the other. By establishing good corporate governance practices, companies are able to reduce conflicts, motivate employees to perform at higher levels, and strengthen accountability mechanisms—thus stimulating the company’s growth and ability to profit. Companies that adhere to a Code of Corporate Governance are better able to respond to the demands of an ever-changing business and political environment, with increased accountability and transparency. Above all, well-governed companies are best positioned in the global marketplace to attract more equity and low-cost debt capital.

The activities described in this case study were funded by the National Endowment for Democracy.
Achieving Democratic Gains through Corporate Governance in Palestine

by Hisham Awartani and Stephen Rosenlund

Since its establishment in 2011 as the first independent civil society organization devoted wholly to the promotion of good corporate governance in Palestine, the Palestine Governance Institute (PGI) has created and expanded the space for democratic dialogue and debate in the Palestinian Territories (West Bank and Gaza). The keys to PGI’s success have been a commitment to strong internal governance, a focus on assessing and understanding its constituencies’ challenges, and a strategy of helping private sector actors achieve reforms that have a multiplier effect on society. Private sector institutions that have strong internal governance have greater capacity, and speak with more credibility, to bring about the governance reforms they seek from their public sector counterparts. As a leading forum for democratic discourse in Palestine, PGI has provided the impetus for governance reform in both the private and public sectors and has voiced evidence-based positions on controversial governance-related issues.

The Heightened Profile of Corporate Governance in Palestine

The space for vibrant public policy-making in the Palestinian Territories is extremely limited, as public sector governance is hamstrung by a complex web of geopolitical factors. The Palestinian Legislative Council has been unable to meet since 2007, and while the President’s term expired in 2009, he is still in office due to the ongoing political stalemate between rival factions. Private sector development opportunities are limited by this environment of political stagnation, along with ongoing security challenges. Undeterred by these obstacles, PGI has waded into the governance gap with purpose and urgency. Where others see reason for despair, PGI has succeeded in advancing governance reform in the private sector and civil society as a means of addressing Palestine’s economic and social challenges.

Why, one might ask, have PGI and CIPE decided to focus on corporate governance in Palestine, when there are so many other pressing challenges? The answer lies in the deep conviction that improving the corporate governance of companies and related private sector institutions lends credibility to democratic processes, with the potential to yield market-oriented reforms. Such institutional reforms offer tangible benefits, not only to the citizenry and private sector actors who are seeking democracy that delivers, but also to the public sector institutions seeking to build democratic legitimacy. Ultimately, by strengthening the foundation for good corporate governance and authentic democratic interactions, PGI will enhance the prospects for sustainable development in Palestine.
PGI’s standing as an independent voice in civil society enables it to foster democratic governance where it is otherwise scarce. Thanks in large part to PGI’s work, debating corruption is no longer taboo in Palestine. Rather than engage in finger pointing and character assassination, PGI’s strategy has been to diagnose and offer solutions to the key enablers of corruption, namely weak governance structures and irregularities in the performance of private and public sector institutions. This institutional approach has garnered PGI tremendous credibility and has created space for key stakeholders to discuss real governance challenges. Chambers of commerce and business associations routinely call on PGI to address the particular governance challenges facing their diverse members, from farmers and accountants to women entrepreneurs and insurance executives.

Firms participating in PGI’s events across Palestine have asked PGI to help them assess their own governance structures and practices and develop appropriate reforms. In one recent example, the Hebron Chamber requested that PGI partner with it to convene a conference on corporate governance specific to the concerns of the Hebronite business community. Another prominent example from the public sector is a customized program to educate Council members about their oversight responsibilities delivered in response to a request from the majority leader of the Palestinian Legislative Council (PLC) (Palestine’s de facto Parliament). Similarly, PGI has helped numerous executive branch agencies and bureaus become more effective counterparts to their private sector constituencies, mainly through the fair exercise of their legal and regulatory mandates.

**Turning Internal Governance into External Effect**

When PGI was established in 2011, it already had a solid foundation on which to build. For ten years prior to PGI’s establishment, its predecessor the Center for Private Sector Development (CPSD) introduced the concept of corporate governance to Palestine. With strong technical and financial support, both from CIPE and other partners, CPSD undertook a wide range of research and advocacy activities aimed at strengthening the Palestinian Authority’s nascent democratic institutions, mainly by enhancing the role and voice of the private sector in economic policy-making. After a decade of accomplishments, however, it became apparent that CPSD should be transformed into an independent and exclusively governance-focused institution.

CPSD’s reincarnation as PGI was a recognition that the most effective route to bring about reform in Palestine was promoting good governance, both in the private and public sectors. And in order to become a credible voice on matters of governance, the newly-established PGI had to be well governed itself. In the three years since its establishment, PGI has achieved considerable improvements in its own organizational governance. PGI’s independent board of directors,
representing a broad cross section of the private sector, academia, and civil society, meets regularly and plays an active role in governing the organization. PGI is guided by a strategic plan that keeps the organization mission-oriented and faithful to its priorities. The substantial investments PGI has made in governing itself internally have set an example to other institutions in Palestinian society, and have positively affected the external environment for reform.

Knowing and Understanding the Private Sector’s Challenges

PGI’s strategy acknowledged that in order to create a culture of corporate governance in Palestine, it first had to understand the challenges and priorities of the business community. In its first three years, PGI conducted comprehensive surveys of hundreds of listed and family-owned enterprises across the Palestinian Territories. PGI staff met with the owners and managers of firms (small, medium, and large) in individual meetings and workshops in cities and towns throughout Palestine. Through these activities, PGI identified the obstacles and opportunities that firms face in adopting better corporate governance practices. During this early period, PGI did not just assume that firms were fundamentally interested in corporate governance, and indeed the research revealed that many businesses simply saw no need to change.

Advancing Governance Through Guidelines

Corporate governance can seem a nebulous concept to business owners. The need for governance structures, particularly among small family-owned firms (the predominant ownership model in Palestine), was not initially perceived as a priority. To generate new ways of thinking about corporate governance, and in order to make governance principles more accessible to members of the Palestinian business community at all levels, PGI played a leading role in developing two sets of guidelines—one for listed firms and another for family-owned enterprises. Input from businesses generated through surveys, existing legal and regulatory frameworks, and international best practice were taken into account in the drafting of the guidelines.

Furthermore, the guidelines were written with their audience very much in mind. In order to advance reform, PGI recognized that these publications needed to speak to the business community, and give the owners of firms both a rationale for change and a set of concrete, practical steps to implement sound corporate governance practices. For example: weighing the relative merits of different forms of companies; balancing the familial nature of firms with a commitment to professionalism and sustainability; improving firms’ performance through effective oversight by general assemblies and boards of directors; achieving transparency through disclosure and reporting; and enhancing employee performance through evaluation.
The guidelines have made an impact in numerous ways, as evidenced by considerably greater interest in internal audit, a pronounced improvement in the quality of annual reports produced by firms, and tangible reforms in relation to the stature and performance of boards of directors (as opposed to an excessively dominant role for just one or a few individuals). The number of firms now listed on the Palestine Stock Exchange (PEX) has risen 22 percent since CIPE’s program with PGI began in 2011—an important indicator of PGI’s (and before it CPSD’s) effectiveness in developing the Corporate Governance Code, which applies specifically to publicly traded shareholding companies. Similarly, the Capital Market Authority (CMA), which is a long-time partner with PGI in its comprehensive governance campaign, has recently released a Code of Conduct for its own board members and employees. This is as an important prerequisite to the CMA’s role as a model of governance for the firms and institutions it oversees.

Educating the Next Generation

Another significant component of PGI’s strategy for reform has been to address the educational prerequisite for creating a culture of corporate governance in Palestine. This is particularly vital since there is no formal course of instruction in corporate governance at the university level in any local higher-education institutions. PGI is working hard to bridge that gap. To ensure that the next generation of leaders enter their professions with a strong grounding in corporate governance, PGI designed and presented a seminar series for students in the business and law faculties at universities across the Palestinian Territories.

This educational campaign has gained significant momentum in a short period of time. After an initial foray in which PGI convened one or two seminars a year, increased demand for the seminars resulted in PGI presenting five seminars in the subsequent year, and eight seminars in 2014. Each seminar is typically attended by 60–100 students and faculty. At least two universities have expressed interest in offering a semester-long course on corporate governance in cooperation with PGI. As with the rest of PGI’s work, the impact of this initiative is only beginning to be felt, as the young emerging leaders educated through this program take up their roles in the private sector and professional life.

Best Practices for Achieving Reform

Helping private sector stakeholders understand the critical role of corporate governance in improving the performance and profitability of firms has been a key element in the success of PGI’s reform efforts. Business leaders in Palestine increasingly understand that modernizing corporate governance produces tangible benefits for their firms both in terms of improved business operations and increased credibility as contributors to public policy reforms. A private sector
that has its own house in order is more capable, and better positioned, to engage in democratic processes targeted at advocating for their interests and holding policymakers and regulators more accountable.

Furthermore, PGI promotes open dialogue and gives voice to all sides of an issue before staking its own position, and as a result is acquiring an increasingly credible image as a non-partisan and highly professional advocacy institution. In Palestine, where governance and reform issues can attract heightened interest and emotions, PGI’s credibility as a convening authority for democratic debate is vitally important.

The activities described in this case study were funded by the National Endowment for Democracy.
Systemic corruption impedes market development, drives away investment, and erodes the legitimacy of laws and political leadership. CIPE and its partners combat corruption by improving integrity standards, advocating policies that limit opportunities for corruption, and designing institutional reforms that level the playing field. The business community takes collective action both in the public arena, by advancing public sector reform and transparency in government, and in the private sector, by strengthening compliance standards for companies.

The Thai Institute of Directors (IOD), with guidance from CIPE, has built a coalition of Thailand’s largest businesses and most influential business associations united in their commitment to tackle the “supply side” of corruption. Coalition members all sign the Collective Action Against Corruption Declaration and pledge to take tangible, measurable steps to proactively reduce corruption risks. IOD estimates that the coalition’s member companies now represent nearly 20 percent of the Thai economy and more than one million employees.

In Armenia, CIPE partnered with the Association of Foreign Investment and Cooperation (AFIC) to combat corruption and improve the operating environment for small and medium-sized enterprises. CIPE and AFIC galvanized small business engagement in the policy process through collective action by a grassroots coalition of business associations and chambers of commerce. Key outcomes include adoption by the government of an SME law that streamlines tax reporting requirements, a new risk-based approach to state inspections of businesses, and increased predictability in the regulation of lease agreements.
Tackling the Supply Side of Corruption in Thailand

by John Morrell

Corruption is widespread in Thailand, hindering business activity and impeding economic growth. According to Transparency International’s Corruption Perceptions Index, Thailand ranks 102 out of 177 countries and territories. Since 2010, under the guidance of the Center for International Private Enterprise (CIPE), the Thai Institute of Directors (IOD) has built a coalition of Thailand’s largest businesses and most influential business associations united in their commitment to tackle the supply side of corruption. Coalition members all sign the Collective Action Against Corruption Declaration and pledge to take tangible, measurable steps to proactively reduce corruption-related risks. These steps include implementing anti-corruption policies and compliance programs, providing guidance on business conduct to managers and employees, and disclosing internal policies and experiences to help disseminate and promote best practices. Significantly, a company submits to an external evaluation that verifies whether it is meeting its commitments. The IOD estimates that member companies now represent nearly 20 percent of the Thai economy and more than one million employees. By establishing uniform standards of conduct and sharing anti-corruption experiences and practices, this campaign is leveling the playing field for business and increasing transparency and accountability in Thailand.

Background

In emerging markets and fragile democracies, increased attention is being paid to the economically disruptive and politically destabilizing impact of corruption. The vast majority of reform efforts focus on the public sector, such as regulatory reforms, disclosure requirements, and the creation of new oversight bodies. Many anti-corruption advocates overlook the role of the private sector in a country’s fight against corruption, believing that business interests fuel corruption. However, a mounting body of evidence shows that high levels of corruption harm the private sector, with smaller businesses suffering the most. In Thailand, CIPE’s work is demonstrating not only that private businesses are interested in reducing corruption, they can be mobilized to take concrete steps against it.

Corruption is perhaps the most destabilizing issue facing Thailand. It has been the principal stated justification by the military and by the courts for the dissolution of elected governments. In Thailand, public perceptions and allegations of corruption can undermine government to such an extent that elected governments lose legitimacy in the eyes of competing segments of society.
In 2009, the government of Thailand began exploring possible collective action approaches to combating corruption, and interest in this concept rapidly grew. In June 2010, CIPE launched a project with the IOD to cultivate private sector support for anti-corruption strategies. The CIPE-IOD project galvanized the burgeoning interest in collective action and translated it into a viable private sector campaign that is rapidly gaining momentum.

**Initial Steps**

Through meetings with various governmental, donor, and corporate stakeholders to discuss potential collective action, CIPE learned that two key factors were frustrating the country’s efforts to initiate a collective action program. First, while all agreed that this initiative would fail without the full support and buy-in of the Thai business community, there was no consensus on how the business community could take the lead, and no private sector champions were emerging.

Secondly, there was limited understanding of what “collective action” meant, with initial discussions focused almost exclusively on integrity pacts. Because integrity pacts are highly complex and limited in scope, and because other collective action strategies (that are more feasible and easier to implement) were not pursued, early efforts to design a collective action program did not go far. With the aim of harnessing the widespread but disjointed interest in collective action in Thailand, CIPE approached IOD to explore potential partnership opportunities, and in June 2010, CIPE and IOD launched a project to design private sector approaches to combating corruption.

Initial steps included a series of workshops at which CIPE provided examples from around the world where CIPE partners are pursuing collective action approaches to fighting corruption (initiatives not limited to integrity pacts). These case studies illustrated successful efforts to strengthen national corporate governance standards, and to promote the adoption of anti-corruption declarations, stronger internal codes-of-conduct, and business ethics pacts within the national business community.

To determine which forms of collective action would be most applicable and relevant to the Thai marketplace, IOD conducted a survey (which CIPE helped design) of its member companies—and the member companies of other business associations—to document the private sector’s experiences with and opinions on corruption. This survey found that Thai businesses both large and small were interested in taking practical steps to contribute to a national anti-corruption effort.
Collective Action Against Corruption Declaration

CIPE equipped IOD and the private sector coalition with an array of collective action tools, based on examples from CIPE’s partners and programs around the world. IOD emerged as the local leader for the campaign and designed a strategic roadmap for implementing a collective action program within the Thai business community. At a large conference that attracted considerable media attention, several dozen of Thailand’s most prominent firms and business associations pledged to support this initiative and to sign IOD’s Collective Action Against Corruption Declaration. IOD’s position and reputation within the business community was invaluable to establishing the credibility and business value of this initiative.

When a company signs the declaration and joins IOD’s anti-corruption coalition, the company pledges to take tangible and measurable steps to proactively reduce corruption-related risks. These steps include the implementation of anti-corruption policies and compliance programs that are in line with international best practices, and companies providing guidance on business conduct to managers and employees. Additionally, coalition companies pledge to disclose and share their internal policies and experiences—even with competitors—to help disseminate and promote best practices. Perhaps most significantly, a company must submit to an external evaluation that verifies whether or not it is actually doing what it has promised to do.

Developing Content

CIPE and IOD developed curriculum for new anti-corruption training courses for companies. The first is a one-day course for corporate directors and senior executives that provides instruction on anti-corruption and corporate compliance concepts. Participants also learn how they can establish high-level compliance protocols that reduce the likelihood of company employees resorting to corrupt business practices.

The second course is for corporate staff with duties related to compliance and internal controls. At this two-day program, which is more technical in nature, participants learn how to assess corruption risks and how to design internal controls that address these risks. Both courses were in such demand by companies that IOD began charging participation fees. This is not only a testament to the value companies place on these issues, but also provides a dedicated source of revenue which helps ensure the long-term sustainability of this collective action initiative.

Numerous events have garnered a high level of media attention and public awareness of this initiative. This has helped IOD continue to attract new members to the coalition, which now consists of the largest Thai and multinational
corporations in the country, along with the Thailand’s most influential business associations. CIPE and IOD estimate that the coalition companies (not including the business associations) represent over 15 percent of the entire Thai economy.

**Certification**

Finally, CIPE and IOD developed a new methodology for certifying compliance by member companies. The certification process consists of a self-evaluation by coalition companies, an external audit to verify this evaluation, and final approval by a panel of experts. The panel of experts is a 12-member committee comprised of former business executives, former government regulators, and corporate governance experts. IOD serves as the secretariat for the committee. The compliance self-evaluation audit is built into a company’s annual audit. When coalition companies undergo their required annual audit, the auditor is provided a short checklist which verifies that the company is in compliance with all requirements laid out in the *Collective Action Against Corruption Declaration*. In this way, the company is following through on its anti-corruption commitments. Companies that do not pass the certification are given time to address outstanding issues. Continued noncompliance results in removal from the coalition. To date, nearly 60 coalition companies have completed the certification process and another 15 have submitted applications to do so.

This process of formally verifying that companies live up to their anti-corruption promises, and sanctioning those that do not, ensures that the CIPE-IOD collective action initiative is one of the most robust and comprehensive private sector anti-corruption efforts in the world.

**Conclusion**

As a result of the CIPE-IOD partnership, collective action is no longer an abstract concept in Thailand—it is an actual movement within the business community to attack the supply side of corruption. By establishing uniform standards of conduct to which companies must adhere, and by facilitating the sharing of information on anti-corruption experiences and best practices, this anti-corruption campaign is leveling the playing field and increasing transparency and accountability in the Thai marketplace. This reduces the likelihood that businesses engage in corruption. In other words, this collective action initiative is changing “the way things are done” in Thailand. To date, the coalition stands at 325 members; 157 of the member companies are listed on the Stock Exchange of Thailand (SET). This represents more than 25 percent of all listed companies and these member companies make up more than 50 percent of the stock exchange total capitalization. CIPE and IOD estimate that the coalition represents nearly 20 percent of Thai GDP and more than one million employees.
The success of the anti-corruption efforts in Thailand are outlined in the following best practices and lessons learned:

- Private sector collective action cannot be a government-led or donor-led initiative. To achieve local buy-in, it must be viewed as a genuinely local effort.

- Private sector collective action against corruption involves much more than integrity pacts. These efforts must include a plan and roadmap that is in place at the outset of the collective action effort, including the key elements of the effort, before steps are taken to recruit members to the coalition.

- Standards and requirements of coalition companies should be specific and measurable, so that companies understand their commitments, and their compliance can be verified.

- Generating positive media coverage of the collective action effort provides a strong incentive for companies to join the coalition.

- When public sector action is not possible (for whatever reason), the only way to make progress in the fight against corruption is to mobilize the private sector.

The activities described in this case study were funded by the National Endowment for Democracy.
CIPE and the Thai Institute of Directors (IOD) launched its anti-corruption program in June 2010, and have since built a coalition of companies dedicated to upholding high standards of corporate governance, compliance, and anti-bribery protocols.

Thai CEOs at the November 2010 signing of the Collective Action Coalition pledge to fight corruption in Thailand, on the eve of the 14th International Anti-Corruption Conference.

To date, more than 400 companies have joined the coalition, including the largest Thai and multinational businesses in the country. This coalition of companies represents nearly 20 percent of Thai GDP, and more than one million Thai employees.

In his remarks at the opening ceremony of the 14th International Anti-Corruption Conference, Thai Prime Minister Abhisit described IOD’s initiative “as a viable approach to promote fair competition,” and highlighted its potential to “provide tangible business incentives” for firms to reject corrupt practices.

Bandit Nijathaworn, president and CEO of IOD and a former deputy governor of the Bank of Thailand, stated that “the Thai private sector is fully aware that tackling corruption is key to the sustainability of Thai businesses and the economy in the longer term. The CAC initiative offers a workable and visible vehicle for companies to directly participate and help promote integrity and a level playing field for Thai businesses.”
Combating Corruption through Collective Action in Armenia

by Teodora Mihaylova

The Center for International Private Enterprise (CIPE) partnered with the Association for Foreign Investment and Cooperation (AFIC) in 2006 to establish a grassroots coalition of business associations and chambers of commerce, known as the Business Advocacy Network (BAN), with the aim of improving the environment for small and medium-sized enterprises (SMEs) in Armenia.

CIPE and AFIC have combated corruption in Armenia through a series of targeted reforms focused on the adoption of a new SME law, a reformed law on state inspections of private sector entities, and improved regulations protecting the rights of SMEs in commercial property transactions. With CIPE support, AFIC galvanized SME engagement in the policy process through collective action resulting in an improved operating environment for SMEs in Armenia, reduced corruption risks, lower costs of doing business, and increased transparency and accountability in governance.

Combating corruption through collective action

Corruption is a systemic problem that plagues the entire post-communist world, rooted in weak rule of law and lack of private property rights (Anders Aslund “From Crime Toward Law” in How Capitalism was Built: The Transformation of Central and Eastern Europe, Russia, the Caucus, and Central Asia, Cambridge University Press 2012, p.283). Corruption can best be addressed by building responsive institutions that protect private property rights and ensure law and order. These institutions are “crucial for economic growth and particularly for investment,” because they “diminish transaction costs” (Anders Aslund, p. 284) and improve the business environment.

Since gaining independence from the Soviet Union in 1991, Armenia has suffered from widespread corruption and the dominating role of oligarchs in politics. In 2001, 95 percent of all business entities in Armenia lacked any kind of formal representation to advocate for pro-business reforms to government.

While corruption takes a heavy economic toll on the Armenian private sector, no individual company can take a stand against bribery on its own. Through advocating for targeted reforms and by working together, chambers of commerce and business associations can act in concert to reduce corrupt behavior.
CIPE and AFIC established a grassroots reform network of local business associations and chambers of commerce, called the Business Advocacy Network (BAN), in order to address challenges associated with corruption. CIPE staff facilitated training sessions on coalition building and organizational management and guided AFIC in developing the BAN’s institutional framework to ensure the network’s effectiveness and sustainability as the voice of small business. AFIC is a leading member of the BAN, acts as network spokesperson, and provides network leadership. The 32-member network is unprecedented in Armenia and has provided a key voice for business in policy dialogue related corruption issues.

In order to tackle the corruption challenges through collective action, the BAN Secretariat developed an advocacy strategy based on consultations with members and their constituents in order to gain a better understanding of the barriers faced by Armenian companies and the legislative environment affecting their business activity. As a founding member of the BAN, AFIC led analysis efforts, which included surveying business community representatives in Yerevan and three other provinces in order to formulate the network’s reform priorities. The top reform priorities for BAN members were identified as SME development, tax and customs policy, inspections reform, European integration, and property rights.

Under AFIC’s leadership, BAN members held a series of meetings and roundtables involving both private sector representatives and government officials to promote reforms to small business laws and draft legislation, with particular focus on the SME State Support Law. BAN held a series of advocacy roundtables to present to government the concerns and recommendations of the SME business community. Representatives from the Ministry of the Economy, SME Development National Center, the State Revenue Committee, and civil society organizations participated in the roundtables.

Developing the network’s strategy and sustainability plan, and building an advocacy agenda, were necessary prerequisites for addressing the corruption challenges facing Armenia through collective action and improving the policy environment for small businesses.

Publicizing the network’s policy positions and activities was another important element of the advocacy campaign. In their role as the network’s spokesperson, AFIC shared information through the publication of a monthly electronic newsletter “The Voice of the Entrepreneur,” which contained updates on legislative and administrative changes and news about network advocacy activities. AFIC also launched a website to increase the visibility of the network and its members’ activities and provide a steady flow of information to interested groups on the position of the business community on a variety of issues. In addition, AFIC published a report titled “The Role and Importance of Business Advocacy Network in Improvement of Business Environment,” which summarized the
outcomes of surveys, interviews, and roundtables conducted within the framework of the project and described the network’s role, mission, and business advocacy strategy.

**Legislative Impact**

Various legislative reforms were pursued to promote a better business climate for SMEs in Armenia. One of the key successes of the reform process was the implementation of a new SME law in January 1, 2011; BAN played a major role in drafting, and advocating for, the new law. The law includes provisions that streamline tax reporting requirements by implementing e-reporting; the provisions also help to ensure that SMEs benefit from state support programs.

Furthermore, the network institutionalized the voice of small business in public-private policy dialogue by advocating for the creation of an SME Development Council. Established in 2011 and chaired by the Prime Minister, the council is composed of representatives of government, SME support organizations, and international financial institutions. BAN members hold six of the council’s 12 seats. The establishment of the council was an important step in the reform process, after years of the government failing to consult SMEs on relevant legislation and regulation. The SME council has successfully amended SME support laws through working with government ministries and political parties in the National Assembly.

BAN members were able to utilize their position on the SME Development Council to advocate for simplified leasing procedures for small businesses. The time and costs businesses faced in obtaining notary verification of lease agreements was a major impediment to local property transactions. As of January 1, 2012, SMEs have no longer been required to provide notary verification of leases, and the payment for state registration of leasing contracts is now a fixed amount rather than a percentage of the transaction. These changes have benefited SMEs by reducing the costs of renting premises. Moreover, the more predictable regulatory environment has further decreased opportunities for corrupt behavior.

One of BAN’s top advocacy priorities was reform of the state inspections law. Inspections impose considerable administrative and regulatory costs on businesses, and unclear guidelines and overlapping authorities among inspections agencies provide opportunities for bribery. Initially, inspection reform seemed a daunting task as any change in the system would affect some 19 different government inspection bodies. Collective action through the network overcame considerable opposition in the Armenian government to reforms and provided essential private sector support by publicly explaining the private-sector case for reform. A BAN representative provided key private sector input to the government’s Inspection Reform Coordination Committee, led by the Ministry of the Economy.
In July 2011, the President signed the Law on Changes in the Law on State Inspections. The new legislation introduced a risk-based approach to state inspections of business entities, categorizing businesses by level of risk in particular inspection areas. Businesses with higher risk are subject to more frequent inspections while lower risk ones are subject to fewer, less frequent inspections. The legislation reduced the number of state inspections of small businesses while also decreasing the corruption risks faced by the private sector.

BAN also strengthened its own sustainability as a coalition promoting dialogue on market reform at all levels. As a result of the network’s advocacy and policy achievements, its membership increased from 16 to 25 organizations. BAN has become the primary representative of the small business sector in civil society calling for democratically-oriented reforms to bring Armenia in line with European standards.

Conclusion

CIPE’s partnership with AFIC established the Business Advocacy Network and strengthened the role of the private sector in Armenia’s economic policymaking. In order to advance private sector priorities, AFIC identified legal and institutional structures that propagated corrupt practices, developed recommendations for reform, and garnered broad support within the private sector to advocate for those reforms.

The Business Advocacy Network provided a platform for impactful collective action by small and medium businesses to advance concrete policy changes, improve the business environment in Armenia, and eliminate opportunities for corruption.

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Strategies for Policy Reform volume 3 features two case studies which took the first and third places in the international multi-stakeholder case studies competition held by the Global Partnership for Effective Development Co-operation. The winning case “Empowering Women Entrepreneurs in Bangladesh,” focuses on the Bangladesh Women’s Chamber of Commerce and Industry partnership with CIPE to promote economic growth and women’s empowerment through advocacy for women’s entrepreneurship. The other finalist, from Senegal, describes the engagement of small and medium-sized enterprises in public-private dialogue.