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About This Issue

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President Barack Obama addressed the Ghanaian parliament in Accra in July 2009.

In 2009, a new U.S. administration took office. Even as it confronted formidable problems, its top leaders spoke confidently to their counterparts in other nations, identifying "good governance" as a fundamental foundation for democracy, social justice, and economic development.

"With better governance, I have no doubt that Africa holds the promise of a broader base of prosperity," said President Obama in Ghana.

This principle has assumed growing importance in U.S. development assistance policy. The newest U.S. development agency, the Millennium Challenge Corporation, requires that recipient nations meet an array of good governance benchmarks. In these pages, top executives from that organization explain this new philosophy and how it differs from the past. Other articles will provide snapshots of these policies at work.

Leaders of many nations increasingly acknowledge the link between stable, predictable, honest government and economic prosperity. In this edition of *eJournal USA*, African leaders offer their thoughts about good governance in one article, and another African official explains how better trade policies boost economic opportunity. A prominent Peruvian economist explains how better governance can endow the poor with property rights that will aid an escape from poverty. Billions of people worldwide can achieve greater prosperity through the same methods, he argues. And a representative of the corporate world describes the conditions of governance that must be in place if large companies are going to make investments in the developing world.

To begin the discussion, we'll cite a definition of good governance as "participatory, consensus oriented, accountable, transparent, responsive, effective, efficient, equitable, inclusive, and follows the rule of law. It assures that corruption is minimized, and the views of minorities are taken into account and the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society." That definition first appeared in a United Nations publication a couple of years ago and is widely quoted.

Some other things we've learned in researching this publication: Good governance protects order and safety, without constraining individuals in pursuit of their opportunities and expression of their ideas. Good governance is rooted in the belief that citizens who thrive and prosper will spread their prosperity into their communities to employ, enrich, and inspire others.

Good governance stands in bright light and allows itself to be seen without cause for concealment or subterfuge. Good governance dispenses justice evenly, without regard to an individual's wealth, status, or connections. Good governance is not capricious or arbitrary, but constant, predictable, and applied in equal measure to citizens of all classes, colors, and religions.

The Editors

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Governance and Growth

GOVERNANCE

GROWTH

U.S. Foreign Assistance Enters New Era of Opportunity

An Interview With Darius Mans and Ken Hackett

Ownership, results, and accountability are the hallmarks of aid agreements that the Millennium Challenge Corporation (MCC) has formed with 19 developing nations. The agency, established by the U.S. Congress in 2004, has disbursed almost $7 billion in poverty reduction programs. This support is disbursed only to countries that demonstrate their capability to rule justly, control corruption, and create economic freedoms that will be attractive to the private sector.

Darius Mans is MCC's vice president for compact implementation and was serving as the acting chief executive officer of MCC when this interview was conducted.

Ken Hackett is a member of MCC's congressionally appointed board of directors. He is also president of Catholic Relief Services, the international humanitarian agency of the U.S. Catholic community. The two spoke with eJournal USA *Managing Editor Charlene Porter.*

Courtesy of MCC

Cape Verde entered a $110-million compact with MCC in 2005. Improving vendors' access to markets with road and highway improvements is one goal of the compact with the island nation off the coast of West Africa.

Question: Mr. Mans, how has MCC changed the game in the delivery of U.S. foreign assistance?

Darius Mans: MCC's principles in providing development assistance are based on the lessons of experience over the past 60 years. Our founders took a hard look at what was working and what wasn't and focused on three core principles.

One is the central importance of country ownership. Countries have to take responsibility for pursuing sound policies and defining their priorities for development, and they have to drive the implementation of programs. It's very important that the support the outside world gives is anchored in the country's own development priorities.

Second is the importance of ensuring that the assistance that is provided is focused on achieving very concrete results. On MCC's Web site *[www.mcc.gov]*, you'll see a "Results" page, which defines — for every compact we are supporting around the world, now in 19 countries — the concrete, tangible results these programs are aimed at achieving. It's very important that all of us be very focused on results, getting value for the investment of U.S. taxpayer dollars.

The third core principle is the importance of accountability, making sure that countries are driving the development programs and achieving value from the support they are getting. That accountability runs in two directions. One is making sure the countries are being held accountable for achieving the agreed results, but also very importantly, accountability within the country. Every compact is implemented and overseen by a local entity, often called the Millennium Challenge

Courtesy of MCC

The Koranco pineapple farm in Ghana offers technical assistance and vocational training to help small fruit growers launch their own enterprises. Working to develop agribusiness is one of the initiatives of Ghana's MCC compact, an almost $550-million agreement signed in 2007.

Account, and typically there are stakeholder groups that play a key role in providing oversight. MCC wants to be sure that within the societies themselves there is strong accountability for achieving the results we all have agreed are important.

Q: Mr. Hackett, you had been in the foreign aid field for decades prior to the formation of the Millennium Challenge Corporation, starting as a Peace Corps volunteer almost 40 years ago. How did you perceive the whole idea of MCC when it was first announced?

Ken Hackett: As this was evolving, I said to one of my staff who was participating in some of the discussions, "If this really turns into what it seems to be moving towards, this will be almost the ideal in terms of economic development, social development, and poverty reduction. I want to be part of it, if I can."

So I was lucky enough to be chosen for a seat on the board in the first year, 2004. I've been very pleased with the way the organization has evolved. The mission of the organization has moved forward, learning lessons and improving. It's been tremendously successful.

Q: Did you perceive the MCC proposal to be a game-changer at that time?

Hackett: Absolutely. This was a new way of undertaking development, as Darius said, built on a lot of lessons learned over the last 40 or 50 years. Other agencies haven't been able to learn those lessons. I saw MCC as an entity that was ready to apply new models, test them out, discard them if they didn't work, and move on. So now five years into it, we've evolved in a very positive way.

Q: One of the game-changing principles that MCC employed was the application of objective criteria in the selection of nations with which it would establish a partnership. Mr. Mans, please describe those.

Mans: Our program is premised on providing support to countries that have a demonstrable commitment to ruling justly, to investing in their own people, and to providing a business climate, grounded in economic freedoms, that is attractive for the private sector. We have 17 indicators in these three broad categories. One of the difficult hurdles in order to qualify for MCC assistance is a proven track record with respect to the control of corruption. For

MCC Countries

MCC has dedicated poverty reduction compacts with the following countries for a total commitment of nearly $7 billion.

Armenia
Benin
Burkina Faso
Cape Verde
El Salvador
Georgia
Ghana
Honduras
Lesotho
Madagascar
Mali
Mongolia
Morocco
Mozambique
Namibia
Nicaragua
Senegal
Tanzania
Vanuatu

Shops marketing the traditional crafts of El Salvador are getting support through the $461-million compact with MCC launched in 2006. Artisans are getting training in how to expand product designs, grow sales, develop new markets, and increase incomes.

us, that is fundamental because one of the clear lessons from development experience is that — without taking seriously the anticorruption agenda — investments and development assistance don't achieve very much.

MCC uses 17 policy indicators to score and select countries. Every year, the board looks at the performance of countries on those indicators. We do it in the following way: MCC ranks countries based on their performance on the 17 indicators in comparison to other countries in their income category. It's very important for countries to see where they stand relative to their peers. That has been an incredibly powerful incentive for countries to stay the course and continue reforms. They all look to see, "How are we doing?"

I was recently at a reception of the Government of Afghanistan, and if you look at their performance against the 17 indicators, they are very far from being eligible for an MCC compact. But the government official I met at that event not only knew about our indicators, but also said, "Give us time, we want to become eligible. That is what we are focused on achieving."

At an event co-hosted by MCC and InterAction on the margins of the U.N. General Assembly meeting in September, the Government of Sierra Leone said the cabinet uses the 17 indicators to set out their reform program because they want to be sure that one day they become eligible for assistance. Clearly, MCC's eligibility criteria have become a very powerful carrot and reward for performance. The countries we are supporting meet our criteria and give us a commitment to continue to maintain eligibility. They see the criteria as being an important anchor for their own programs for reform.

Q: Are you suggesting that the MCC criteria are conveying a message well beyond the nations with which you have compacts to other governments in the developing world?

Mans: Yes, this is what we call the MCC effect, and we see it in country after country.

Hackett: This is one of the most remarkable elements, this open and transparent process for selection. You'll even see the criteria for suspension and termination on the MCC Web site for anybody to read. You continually run into ministers of finance or planning who are questioning their counterparts in MCC countries: "How did you get into the MCC process? What do we have to do?" It's really created a wonderful and successful model.

Q: These criteria are markedly different from how aid decisions were made in the Cold War, for instance, aren't they, Mr. Hackett?

Hackett: Absolutely. We are now in a completely different situation. The expectations are that the distribution of assistance should be about a country producing results. The results should be visible, and the process transparent and sustainable. It is not just about being friendly. That's a positive and remarkable change.

Our European friends are also taking considerable interest in this model. The British, the French, and the Germans are taken with this whole idea. I hope there will be better and more robust opportunities for collaboration around this kind of model.

Q: Mr. Hackett mentions those criteria that can end a compact. How has your board put those into use in 2009?

Mans: The MCC model was tested this year and proved its durability. In a couple of countries, MCC has had to either completely terminate or partially suspend parts of a compact because of a pattern of performance in countries which simply do not meet our standards.

In Madagascar, because of a military coup, the MCC board had to make the very tough decision to terminate that program one year before its scheduled completion. It was difficult because Madagascar was MCC's very first compact. It was coming to the end of its fourth year with just one more year to go. They were well on their way to successfully completing the compact, but then the coup occurred in March 2009.

So the board, quite rightly, decided this is not the kind of country we should be partnering with and terminated the Madagascar program. Despite the recent termination, a tremendous amount was accomplished within the compact and for the people of Madagascar to reduce poverty through economic growth. We didn't get everything done that we set out to do, but it led to some positive and irreversible changes in the way the government does rural development.

Worldwide Programs

MCC has approved nearly $7.4 billion in programs that support country-determined programs relating to:

- Agriculture and irrigation
- Transportation (roads, bridges, ports)
- Water supply and sanitation
- Access to health services
- Finance and enterprise development
- Anticorruption initiatives
- Land rights and access
- Access to education
- Access to electricity

We also had some similar concerns in Armenia in the aftermath of the February 2008 presidential election. The elections resulted in a very violent aftermath which led to a real crackdown. The pattern of actions taken by the Government of Armenia was inconsistent with MCC's commitment to good governance. As a result, the board decided to put the road construction program on hold.

We've had similar stories in Nicaragua and Honduras in 2009. When MCC sees a pattern of actions that is inconsistent with the principles of MCC, inconsistent with the sound performance that originally made them eligible for funding, then the MCC board acts — even if that action means to end assistance. That's very different from the traditional approach of other donors.

Q: How do you think the board's actions on termination and suspension are being perceived? Are they sending out a cautionary message on the consequences of undemocratic or uncivil government action?

Mans: I think so. Consistently in country after country, what we have seen is that people have looked at the decisions the board has taken and recognized that this reflects a shortcoming on the part of governments. It is governments that are being held accountable for the actions they take. This is not some arbitrary and capricious act that the United States is taking for political reasons. It is instead based on a clear violation of the basic standards of trust and confidence that are at the heart of the partnership that we have in each country.

MCC compacts are designed to benefit the poor in those countries — and to reduce poverty through economic growth. In the cases of Madagascar, Armenia, Honduras, and Nicaragua, hundreds of thousands of people have benefited from MCC programs.

Q: Let's move on to some of your successes. I'll ask each of you for a favorite story about how you have seen MCC's compacts enable the mutual growth of good governance and economic development.

Mans: One we are proud of is Cape Verde, one of our very early compacts. It's a country that has a tremendous track record with respect to good governance in Africa. Even so, the government used the compact to improve their performance in good governance.

Through the compact, MCC provided assistance to support improvement in public financial management and procurement. The focus was to develop much better systems that would be used to provide oversight on implementing the investments being supported by the compact. Those investments were so successful that, in fact, I wish we had their financial management system in the United States. They can go to a map, show you where an investment project is taking place. They can drill down to tell you exactly what the progress is with the physical implementation of the project against the targets. They can go down to the level of invoices for absolutely every contract in connection with that project. They have very tight controls around the use of funding.

This was so successful under the MCC compact that the government decided to use this system as the platform for how the Cape Verdean government does business overall. The government also used the compact as an opportunity to accelerate its reforms regarding the business climate. The time and cost to start a business in Cape Verde have been slashed because of the commitment of this government to improving their performance. It's a partnership we are very proud of.

Hackett: I'll take the Ghana compact, which is moving into its third year now. It is framed to address the real economic issues facing the majority of the agrarian community in that country. It operates in three different geographic areas, and one of those is where I spent my Peace Corps volunteer service in the late 1960s. So I have a special feeling for this program. When I saw what the government was envisioning for this part of the country and the farmers there, I said, "That's perfect! That's exactly what's going to change the economic dynamic for those farmers on the Afram Plains."

They are going to add a range of support services in the communities that will together lift the economic situation in a positive way. From production, to marketing, to health and community education, this is the comprehensive approach they envisioned. And I think it will bring some magnificent changes in that particular area and other areas of the country as well.

Because these plans are flowing out of consultations in the countries themselves, there is a much more dynamic, relevant approach. And generally I feel they are going to be more successful than previous models.

Q: You mentioned that some of these countries are approaching the end of their five-year compacts. What's going to happen then?

Mans: The board will be discussing this very issue in December, the question of second compacts with a given country. A couple factors will come into consideration: obviously, their performance on their first compact but also their continued eligibility: Do they meet the criteria for MCC funding?

If a country is to become eligible for a second compact, we need to squarely answer the question, "What is the exit strategy?" We do not want to have a 50-year relationship with a country. Instead, how do we ensure that we are not engendering aid dependence? How do we make sure that countries wean themselves off development assistance, become able to mobilize resources on their own, and attract the private investment that ensures sustainable, long-term growth?

Hackett: That's one of the challenges the board will have to deal with. But basically we want to see long-term sustained success in economic growth in these countries, because that's how you make an impact on poverty.

A related issue is that some of the problems we're facing in terms of overall economic and social development go across borders. The board and staff are asking questions such as, "Should MCC begin to think about regional investments that could change the dynamic in different ways?" These are things that we haven't dealt with yet, but we hope that we can look at some options and be transformative and ready to change and evolve as situations change.

Q: When elections change the party in power in the United States, it is common that the different political philosophies will also bring on significant change in certain programs, even abandonment of initiatives started under a previous administration. But in this case that hasn't happened after the 2008 election. Why?

Mans: A couple of reasons. Effective and smart aid is a core principle of the Obama administration's global development and engagement policy. In the president's speeches, whether in Prague, Accra, or Cairo, the importance of creating opportunity and building capable states rings through all those speeches. The administration has "walked the talk" on this and provided strong support for MCC in a couple of very concrete ways.

The president's request to the Congress for funding MCC included a 63 percent increase. That's a strong show of support because what MCC is doing is very consistent with where the administration wants to go in terms of global development.

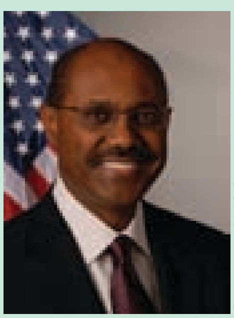
Second, we have a nominee to serve as MCC's next chief executive officer, Mr. Daniel W. Yohannes, which is also a very strong show of support from the administration for what MCC is doing. Mr. Yohannes has a background embodying what MCC is trying to do. He is an Ethiopian American who came to the United States at a young age and succeeded in business. He has a tremendous track record of management and philanthropy with a keen interest in development. And he is the nominee of the administration to lead MCC.

Both of these are concrete demonstrations of the administration's strong support for MCC.

Hackett: Before Secretary [of State Hillary] Clinton was named [to the cabinet], the four private board members called upon her in the Senate to ask her whether she would be a champion for MCC in the Senate. She said, "I really think MCC is the right concept and I will support it to the extent I can." Then a couple months later she became secretary of state and chairman of the MCC board. So I think we have support where it is necessary, and I am heartened that this administration has kept up one of the great new initiatives of our government.

Mans: As the acting CEO, it's great for MCC to see the strong engagement of the secretary as chair of the board and the tremendous interest and deep passion she has for development. She also sees MCC playing a strong role in the administration's focus on elevating development as a tool to advance U.S. interests and to support countries that are on the move in pursuing their development objectives. ■

Ethiopian American Takes Helm at MCC



Courtesy of MCC

Daniel W. Yohannes joined MCC in December 2009.

A former banker stepped into the job of chief executive officer for the Millennium Challenge Corporation (MCC) in December 2009 after appointment by President Obama and confirmation by the U.S. Senate.

Daniel W. Yohannes is an Ethiopian American who immigrated to the United States as a teenager. He is from the state of Colorado, where he had a career in banking before he became a private investor specializing in real estate, financial institutions, and the renewable energy sector.

Yohannes appeared before the Senate Foreign Relations Committee prior to his confirmation. He told the committee, "I'm confident that MCC's antipoverty partnerships worldwide will generate sustainable economic growth and opportunity, and this is fundamental to enhancing our collective security and common humanity for a more prosperous, peaceful world."

Yohannes continued, "It is challenging to replace patronage with partnership, to deliver smart aid that matters by encouraging some policies, country-led development, and sustainable results. MCC offers some important lessons on where to start. MCC lays an innovative foundation to address the complex problem of global poverty."

Though he has been in the United States for decades, Yohannes has not forgotten the challenges confronting his native Ethiopia. "I grew up with poor neighbors who wondered if they would eat that day or if they could afford immunizations," Yohannes told the Senate committee. "I came to the United States at the age of 17, determined to persevere against all challenges." ■

Improving Morocco's Fishing Industry

The Kingdom of Morocco has met the Millennium Challenge Corporation's standards for good governance and entered a compact with the assistance agency. The kingdom has developed a project to improve infrastructure supporting the fishing industry. Modernization of the delivery chain between the sea and the markets will profit fishermen and deliver a fresher product to consumers.

Harvesting the bounty of the sea is an ancient and honorable way to make a living in the Kingdom of Morocco. But despite their hard and dangerous work, this livelihood has not delivered a path out of poverty to fishing families, in large part because of the many hurdles that separate fishers from the most profitable markets.

Courtesy of MCC

Courtesy of MCC

Wholesale markets (top) and landing sites for fishing craft (right) are both set for improvement under the agreement between MCC and the Kingdom of Morocco.

It's a long way between that satisfying moment when a catch is pulled from the sea and when a beautifully prepared fish is placed before admiring diners. Poor seaside landing sites, inadequate processing facilities, lack of wholesale markets, and inadequate refrigerated transport are all difficulties that prevent the fisherman from getting the best possible rewards for his efforts.

The Millennium Challenge Corporation is working with the Kingdom of Morocco to improve and modernize the trip that the fishers' catch makes to market, allowing greater profit for them and delivery of a fresher and healthier product to Moroccan consumers inland.

The Small-Scale Fisheries Project is expected to benefit approximately 25,000 fishers, boat owners, wholesale fish merchants, mobile fish vendors, and their household members. One of the first steps in improving the delivery chain for this industry will be the construction of boat-landing sites equipped with the proper commercial infrastructure to move the catch efficiently and in keeping with environmental and sanitary standards.

The construction and modernization of six wholesale markets, mostly in the interior of the country, will strengthen market integration, support greater numbers of buyers and sellers, and result in a more efficient market price. Further, it is anticipated that investments to improve standards of hygiene, handling, and preservation of fish in the cold chain will contribute to the maintenance of the value of fish and greater sales.

Not only will the project boost the fishing industry, it may also improve the diets of Moroccans. With the creation of a more efficient and sanitary delivery chain, part of the catch that was previously used for animal feed will now end up on consumers' plates, providing an additional source of protein to the inland population. The benefits will be widely spread, and at the other end of the delivery chain, mobile vendors on specially equipped mopeds will be able to increase the value and volume of fish sold in their inland-marketing range. It is estimated that the incomes of the vendors will increase more than 60 percent, an increase that could go a long way towards lifting them out of poverty. ■

Texting for Profits

Courtesy of MCC

Rafik Smbatyan checks his cell phone to see what the markets are offering for his crop, a technology made available to farmers through an information service supported by the MCC compact with Armenia.

The Armenian government used Millennium Challenge Corporation support to improve the competitive position of farmers trying to sell their produce. Greater access to information gives Armenian farmers a better chance for profits in the marketplace.

Knowing how to get the best price for the product you are selling is a key element to success in the marketplace. It's true whether you are selling coal or coats.

Or cucumbers. That's what Rafik Smbatyan has to sell. But his problem was he didn't know how the market valued his product. Smbatyan grows cucumbers in the Gegharkunik region of Armenia. Since the collapse of the Soviet Union, only farmers with friends and relatives living near major wholesale markets had access to reliable information about current market prices. Farmers often sold their produce at reduced prices through intermediaries, losing profits because of their lack of up-to-date information.

Then ARMIS came into Smbatyan's life. That's the Armenian Agricultural Market Information System, a service that distributes daily fruit and vegetable prices from the large city markets, using text messages sent over the country's extensive cell phone network.

Smbatyan and other farmers pay a small fee for the service, allowing them to dial in a code to a market-specific phone number, which then triggers an automated text response from a central database of market information. This information puts Smbatyan in a much better position to bargain with food wholesalers, improves his competitive position in the marketplace, and increases profits.

"Thanks to this system, I was able to sell my cucumbers at a much higher price. Before this [system], I wasn't aware of prices and was constantly losing."

Of course, Smbatyan isn't the only farmer making use of ARMIS, funded by the Millennium Challenge Corporation. Hundreds are. "The list of crops has been enlarged, and plans are under way to include markets of other regions also," says information specialist Nora Alanakay.

Farmers received close to 3,000 SMS messages from the system in its first year. Smbatyan alone has exchanged close to 75 messages, attempting to get the most up-to-date market information. He'll be using the system more soon, as another crop of greenhouse vegetables matures.

In addition to the cell phone messaging, ARMIS maintains a Web site providing more information about food quality standards, agricultural sector developments, and new technology. Farmers have paid a small fee for the service, ensuring the long-term sustainability of ARMIS operations. ■

Africans Taking the Lead

African leaders see good governance as a key to economic development

The International Center for Documentary Arts

Rwandan President Paul Kagame is shown on the giant screens above the stage at the 2009 business conference sponsored by the Corporate Council on Africa. Kagame shared the stage with other African leaders discussing good governance.

In a Washington forum in September 2009, several African leaders shared a stage and expressed their views on the connection between good governance and economic development. Their combined voices made a strong statement that the tacit acceptance of corruption and government service for select elites alone is not acceptable in the 21st century. The officials spoke before a crowded hall at a conference on Doing Business in Africa sponsored by the Corporate Council on Africa.

Ghana President John Atta Mills

First of all, every political leader, especially in Africa, should ask himself or herself, "Why am I in power?" To me the answer is very simple. The only justification for being in power is to help improve the living standards of our people. Nothing else matters. The second question [is], "How do I do this?" By making sure you have the necessary resources, you have the manpower; you create the necessary environment to promote businesses, either locally or to attract foreign direct investment.

Foreign direct investment has no fixed allegiance or nationality. It goes where it is most welcome. Now for us in Ghana, we have realized that we cannot go it alone. The days of xenophobia are over; now there is economic interdependence among states. … Therefore, if you want to know why people want to invest, the reasons are many: They want markets, they want political stability, they want to make sure there is the ease of doing business, the cost is low. We found out that it is important for us to have regional integration. In unity lies strength.

We are a group of very poor countries, but we are very rich in natural resources, and, therefore, we have very common interests if we pool our resources. For example, if we strengthen cooperation amongst us, we can have common services, common infrastructure, common energy programs. We think, therefore in West Africa, the need for us to integrate is now more important than ever. …


© AP Images/ Seth Wenig

John Atta Mills, president of Ghana, speaks at the United Nations headquarters in New York in 2009.

The important thing is we should all realize, especially in West Africa, that the people who voted us into power don't owe us anything. They only want us to help them improve their standard of living, and it is important that we bear this in mind. Sometimes certain events, certain positions taken by us, political leaders, are helping our people to lose confidence in us. What do our people have? It is only hope for a better future, and we cannot disappoint them.

Rwanda President Paul Kagame

In Rwanda today, we are trying to do the best we can, to be the best we can be ourselves. We are working on the environment for business but also for citizens who participate.

I think what we have done to bring Rwanda toward greater prosperity from our tragic history of genocide is what other people can do also. It's not magic, stabilizing our country. It's making sure there is peace and security, building institutions of governance that will deliver the public good as required, and then interacting with the rest of the world. …

For us to be able to make it easy for people to do business in Rwanda, we had to take stock of what the situation has been in Rwanda, in the region, generally, on our continent. We had to identify … what they experience as difficulties or constraints for people to do business, whether in Rwanda or in our region. After we identified those obstacles, then we started working on removing them, … whether it was putting in place institutions that would deal with matters of investment and trade, or making sure the environment was conducive, or putting in place laws and regulations that would facilitate most efficiently and effectively establishing a new business. More importantly, having put all these in place, you have to make sure these policies work. If you don't follow through and make sure these policies serve the people they are supposed to serve, then things will go wrong.

What we want to accomplish next builds on what is put in place today and builds on the self-belief that we can actually do these things. I speak not only of Rwanda, but of Africa, what Africa needs to do for itself. It will take Africa, and Africans ourselves, to take the lead in transforming our societies and developing our economies. Even though we may partner with different people, we must take the lead ourselves.

Infrastructure is very important in facilitating businesses. You cannot talk about increased volumes of trade when there are no roads, there are no rails, there are problems of air transport. Infrastructure of this kind is necessary. At the same time, you can't talk about increased investments unless you can show you will be able to supply electricity to industries. You cannot talk about communication and all that comes with it unless you are able to put in place the Internet and make that accessible nationally, regionally, or by linking to international systems.

Focusing on infrastructure and believing that we can actually do it is what we are building on. The other major focus is on how we uplift our people and bring them to participate in business at different levels. This is the best way to fight poverty, through business. This is our major focus in the next few years to come.

African Union Commission Chairperson Jean Ping

[Mr. Ping began his remarks citing the population of Africa, which exceeds 1 billion persons. The population of Africa is set to double by 2050, according to the Population Reference Bureau.] How can you think that such a continent is a problem? It is an opportunity. The size of the continent, as a continent, is 30.3 million square kilometers [roughly 11.7 million square miles]. … The

© AP Images/Thierry Charlier

African Union Commission Chairperson Jean Ping speaks to the media in this 2008 photograph.

continent is probably the most important reservoir of raw materials. So you see the problem is that today this same continent is divided by 165 borders in 53 countries. … So you can see the necessity for us to combine the efforts. … There is a necessity of having a free flow of transit, products, human beings, etc. You can imagine that we live in a world which is characterized, on the one hand, by globalization; on the other hand, by regional integration. [The European countries] had been fighting for centuries; the two world wars were there. Who could have imagined that this continent could be united in the European Union? But it is a necessity for them if they want to survive.

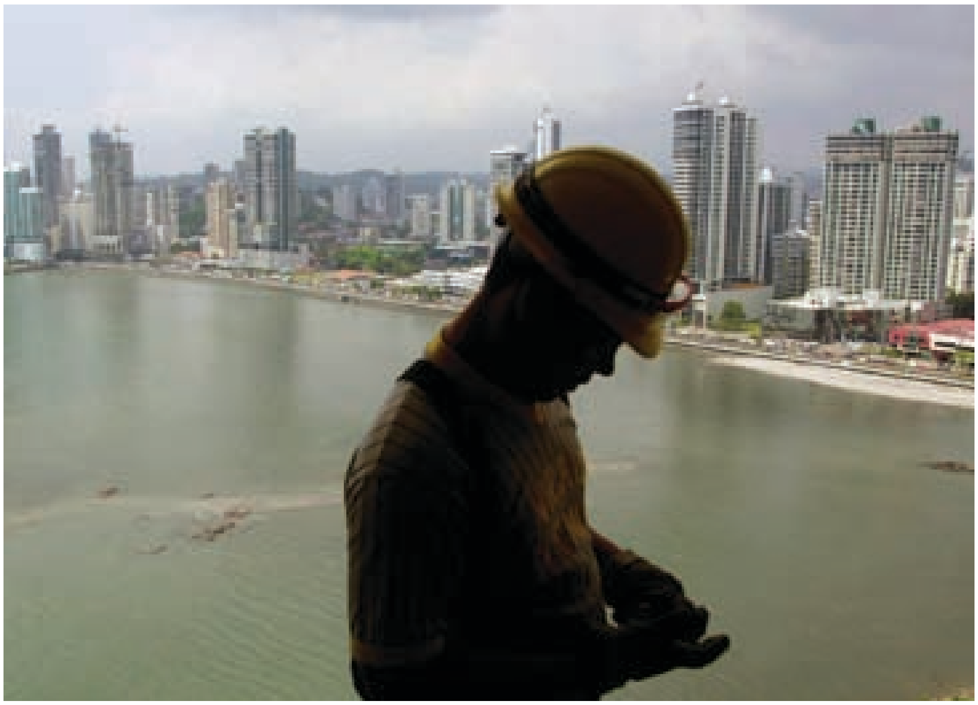
The dimensions of Europe are almost exactly those of the USA. If you take it into Africa, ECOWAS [Economic Community of West African States] is today about 390 million inhabitants. … So if there is an integration there, and the competition is possible, the integration is one of the best tools if we want to compete with the rest of the world. This country, the United States, the biggest economy, one of the biggest countries in the world, thought there was a necessity to unite with Canada and Mexico to have the NAFTA [North American Free Trade Agreement], to increase the dimension of this market. So for us it is an imperative today to increase the dimension of all of our markets.

There is for us a necessity to work together. It is a crucial issue for us if we want to survive. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

The Foundations for Sustainable Growth in Latin America

Liliana Rojas-Suarez



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The skyline of Panama City's financial district offers a scenic backdrop for this construction worker. Once considered a haven for criminals or drug smugglers attempting to launder money, Panama has been working to clean up banking practices and clamp down on corruption.

The nations of Latin America have been unable to sustain economic progress in recent decades, despite brief spurts of progress. Better governance and stronger institutional foundations can help improve economic growth, according to one prominent analyst.

Liliana Rojas-Suarez is a senior fellow at the Washington, D.C.-based Center for Global Development and the author of Growing Pains in Latin America. *She has a Ph.D. in economics and has held previous positions with Deutsche Bank, the Inter-American Development Fund, and the International Monetary Fund.*

Over the past three decades Latin American leaders have introduced a number of reforms designed to enhance and sustain economic growth. But that period, instead, has seen a series of economic crises:

- In the early 1980s, the inability of many countries to service their external debt halted foreign capital inflows, and growth rates plunged throughout the rest of the decade.
- In the early 1990s, market-based economic reforms and debt negotiations with external creditors brought economic recovery, until many countries suffered deep banking crises that stunted growth, starting with Mexico in 1995.
- Latin American countries grew significantly from 2003 to 2007, due to further reform efforts, improved financial regulation, and macroeconomic stability, but the recent global financial crisis overtook economic growth achieved earlier in the decade. Some countries are currently showing signs of recovery, but others, such as Mexico and the Central American countries, are still facing serious difficulties.

Thus, despite the impressive reforms of the last 20 years, most countries in Latin America have been unable to generate sustainable higher growth. Instead, the persistence of high poverty and income inequality indicators has caused discontent toward the market-based reforms among large segments of the population.

Problems in Achieving Sustained Growth

These developments beg a question that looks far beyond the current crisis: How can better governance help Latin American countries accelerate economic growth and ensure its sustainability? The answer lies in identifying the main foundations for growth in the region. Policymakers must identify the factors that can encourage the accumulation of physical and human capital, as well as improvements in technology that are needed to spur economic growth. Foundations for growth need to be appropriately recognized if policy makers are to design and implement adequate reforms for sustained growth. These foundations depend on the specific economic, social, and political features of Latin America.

Latin America has particular features that can guide the identification of the region's growth foundations. While there are undoubtedly large differences among countries, important characteristics of the region as a whole make Latin America unique, typified by three broad features. The first is of an economic nature: Latin America is the most financially open of the world's developing regions. The second is political: Latin America is the world's most democratic developing region. The third encompasses both the economic and the social arenas: Latin America is also the region with the greatest economic and social inequality.

Being *financially open* means that few restrictions (none in some countries) limit international capital flows. With a few exceptions (most notably Argentina, Ecuador, and Venezuela), Latin American countries have significantly reduced capital controls over the last two decades, starting with the so-called Brady Plan that allowed for the resolution of the debt crisis that had plagued the region. Financial openness facilitated the region's increased access to international markets. With very low domestic saving ratios, policy makers in Latin America sought to support their development efforts with capital inflows, especially with foreign direct investment. But greater financial openness implied a policy to let market forces assess the performance of the economy through the behavior of the international capital markets. Thus, increased integration into the international capital markets has increased both financing capacity and vulnerability to changes in foreign investors' perceptions of a country's creditworthiness.

On the political side, by several measures, Latin America is the most *democratic* region of the developing world. Latin America's democratization, on the rise since the 1970s, is due largely to the decline of military regimes. Of course, being the most democratic region in the developing world does not mean that all countries share the same degree of democracy. Indeed, some indicators give very low ratings to democracy in Bolivia, Ecuador, Nicaragua, Venezuela, and most recently Honduras. Nevertheless, the relatively high level of democracy in Latin America plays an important role in achieving sustainable growth. A significant proportion of voters must share in the benefits of reforms if they are to be sustainable. Further, any backlash against market-based reforms can be expressed through democratic processes and undermine the chances of further reform.

Skepticism about reforms is a consequence of the region's high economic inequality. Latin America has persistently had one of the most *unequal income distributions* since the 1960s, and its income inequality surpassed that of sub-Saharan Africa in 2005 (see United Nations University: *http://www.wider.unu.edu/research/Database/en_GB/wiid/*). Evidence suggests that income inequality over a certain level is likely to reduce growth, in general, and stymie the reform process in Latin America, in particular. In a region characterized by high levels of both democracy and inequality, the already tenuous backing of market-based reform could easily be destabilized by a shock of even lesser magnitude than the current economic downturn.

Courtesy of Liliana Rojas-Suarez

Liliana Rojas-Suarez is an economist with the Washington-based Center for Global Development.

Foundations for Growth in Latin America

These three characteristics of the region identify the foundations that reforms need to address in order to foster sustainable growth. Because Latin America has chosen to maintain a market-oriented growth model, the basic foundations to build from are those that create incentives for the functioning of those markets.

Secure property rights: This means protection of private property but also assurances that workers and entrepreneurs will be allowed to benefit from their investments, whether they are in human capital, plant and equipment, or research in new technologies. Essentially, the population needs to feel confident that

© AP Images/Natacha Pisarenko

These restaurant workers and about 30 colleagues took over a pizzeria in Buenos Aires when the owners were ready to abandon the business during Argentina's economic crisis of 2002. The government passed a law to help worker-run companies through cooperatives or under the state's ownership.

having the weakest property rights in the world. Two exceptions in the region are Chile and Costa Rica, which have strong institutional frameworks that have actually been getting stronger since the reform efforts of the 1990s.

Sufficiently equal opportunities: This foundation calls for a *leveling of the playing field* for market-based interaction to broad segments of society. This means reducing barriers to new businesses begun by people who don't have political or financial clout.

The majority of the region's population lacks access to financing, due to either inadequate regulatory requirements or impediments created by a weak institutional framework. For example, in spite of its good intentions to protect the poor, interest

the returns from their work and investment will not be unexpectedly seized by the state or the politically powerful. Securing property rights as a national policy of good governance sets clear rules of the game. Contracts will be respected and contract disputes will be resolved.

Property rights have been violated often in the recent history of the region. A well-known case is the freezing of bank deposits in the 2001 Argentinean crisis. In that episode, depositors suffered large losses in wealth.

Another example comes from Brazil, where, in spite of reforms to the legal system, property rights protection is weak. In a political climate where democratization has given greater voice to a large class of economically disenfranchised people, there are strong incentives to overlook the law as a way to ameliorate income disparities. For example, it has become accepted practice for landless peasants to trespass on rural land and for homeless families to trespass on urban land. Judges often bias their contract enforcement decisions to favor the poorer party. This weakened enforcement of law is a serious obstacle to productive private investment.

The global indices of property rights distinguish Latin America, together with South Asia and Africa, as

rate caps on banking loans have hurt the provision of credit to small enterprises. This is because, facing this constraint, banks prefer to lend to safer borrowers like large companies and wealthy individuals.

However, some reforms are strengthening opportunities. In Costa Rica, the increased liberalization of trade and the diversification of export activities have had positive effects on equalizing opportunities. Women in the textile sector, for example, have found employment in manufacturing where they previously had access only to lower productivity jobs. Also, in Brazil, changes in minimum age requirements and a new rule for calculating benefits made eligibility for pensions more nearly similar for poor and rich workers.

Sufficient economic and political competition to avoid dominance by elites: This foundation is important and distinct from the first two because, despite secure property rights and equal opportunities, the bulk of the state's resources might still be funneled to a relatively small favored group of individuals and companies, reducing incentives to invest for the politically unconnected investors.

An example of lack of enforcement of this foundation was demonstrated by the privatization of Mexico's public telephone company in 1990, which was implemented without an appropriate institutional framework and resulted in predatory behavior and the use of monopoly power.

While necessary, these three foundations alone are not sufficient to achieve sustained growth in Latin America. Because of the region's long history of recurrent economic crises and its reputation for extremely high levels of fiscal deficits and inflation rates, investors will tend to flee at the first sign of economic problems, exacerbating any crisis. Thus, for the market-based model to be sustainable in the region a fourth foundation is necessary.

Macroeconomic stability: Stability depends upon a well-functioning economy with manageable debt, price stability, and healthy fiscal accounts, enabling other reform to deliver sustainable growth. In the past, crises resulting from the lack of macroeconomic stability have led to severe recessions and fiscal adjustments. These adjustments generally led to cuts in social expenditures and in infrastructure spending, which harm the poor and diminish long-term growth prospects.

Latin America has made its greatest progress in laying this foundation in recent years. Since the early 2000s, many countries began to improve their fiscal positions and to reduce their levels of external debt. Moreover, central banks implemented anti-inflationary monetary regimes and accumulated large stocks of foreign exchange reserves as self-protection from adverse external shocks. In the most recent global fiscal crisis, Brazil, Colombia, Chile, and Peru have all benefited from these advances.

The region needs well-functioning markets, but that need may conflict with the expressed desires of large segments of the population. This is a clash that can threaten sustained growth. To resolve this conflict, the fifth foundation for sustained growth in Latin America calls for:

Broad sharing of the benefits from growth: If only certain segments of society benefit from increased economic growth, there may be a political backlash from those who do not. In Latin America, large numbers of people are either unemployed, pensioners, students, or other dependents. However, these people also need to benefit from growth-enhancing reforms. If they do not, they might become strong opponents of reforms.

This last foundation has been missing in most countries during the reform process of the 1990s and the early 2000s. For example, in Costa Rica, downsizing the public sector weakened many government programs that ensured the broader sharing of benefits, like education, public infrastructure, and social assistance. This helped to solidify an anti-reform political party.

The Way Forward

Strengthening these foundations needs to be a priority for Latin American policy makers if growth is to be sustainable. The good news is that practical and doable proposals are being pursued in many countries, and I describe them in my book *Growing Pains in Latin America* (2009). An important conclusion going forward is that, despite the commonalities regarding the foundations for growth, the reforms and policies that are needed differ greatly between countries in the region. No one-size-fits-all type of prescription can apply to the unique economic, social, and political characteristics of each Latin American country. ■

See Rojas-Suarez (ed), *Growing Pains in Latin America: An Economic Growth Framework as Applied to Brazil, Colombia, Costa Rica, Mexico and Peru*, (2009), Center for Global Development.

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Property Rights:
A Way Out of Poverty and War

Hernando de Soto

© AP Images/Silvia Izquierdo

Residents of urban shantytowns frequently lack legal property rights though their families may have lived in the location for generations. These children play in the Rocinha slum of Rio de Janeiro.

The world's poor are not without assets. Better governance will allow the poor to prove their assets and use them as leverage to achieve greater prosperity.

Hernando de Soto is a Peruvian economist and author of The Mystery of Capital. *He is the cofounder and president of the Institute of Liberty and Democracy (ILD), a nonprofit organization based in Lima that assists heads of state of developing and former Soviet countries in creating inclusive market economies by reforming property and business rights.*

Globalization has increased prosperity around the world, yet billions of people in developing countries are still stuck in poverty, ripe for social unrest and terrorist recruiters. According to the Commission on Legal Empowerment of the Poor, which I cochaired with former U.S. Secretary of State Madeleine Albright, two-thirds of the world's population — 4 billion people — cannot prove what they own, where they are employed, or what businesses they run. Without legal title to their houses, land, and small businesses, they cannot leverage these assets and are forced to operate outside the law in shadow economies. There, they create their own norms and practices that are so full of shortcomings that it is impossible to improve their lives. The Institute of Liberty and Democracy (ILD) calls this condition "extralegality."

Our mission is to help developing countries create inclusive market economies by giving all their people access to the legal tools that will help them pull themselves — and their countries — out of poverty: legal property rights, legal forms of business to divide labor and to prosper, and identity devices to allow expansion of their markets beyond family and friends.

Courtesy of ILD

Peruvian economist Hernando de Soto is president of the Institute for Liberty and Democracy and author of *The Other Path: The Economic Answer to Terrorism.*

to reducing poverty. Legal ownership means that you have collateral to go to a bank and qualify for a loan to build and expand a business. Whether it's ownership, whether it's credit, whether it's capital, whether it's identification, none of the things that make a modern economy are possible without legal property.

In every country where we have worked, we have found that the reason most people and businesses are operating in the extralegal economy is not that they are criminals or culturally unprepared for benefiting from a market economy, as some social scientists have claimed. Underground economies flourish because it is too difficult to enter the legal system due to bureaucratic costs, discriminatory regulations, and just plain bad law. Good governance is not just about providing social services and security; governments must also give their people an appropriate legal framework that will welcome them into the market and empower them to unleash the potential of their assets.

Governments in many developing countries seem to overlook the fact that close to 80 percent of their real estate and businesses are not legally recorded in their property systems and governed by the rule of law. In the United States, every piece of land, every house, every automobile, every airplane, every patent, every manuscript for a book or a film has its virtual counterpart recorded and described in documents and databases. This recorded existence makes the asset available to be used for collateral. An undocumented house or business in a shantytown, however, cannot be mortgaged.

In fact, the poor own the majority of the world's assets and enterprises — some US $10 trillion worth, by ILD estimates, doomed to remain "dead capital" unless it can be legalized to become governed and identified by standard rules. Many developing countries are still struggling to understand how the potential wealth locked in their own extralegal economies might be unleashed to benefit both the poor and the society at large.

The Power of Property Rights

Actions by developing world countries to establish clearer property rights and give their poor easier access to the legal means to record what they own will contribute

Poor people are blocked from accumulating capital in many countries. Without clear and secure property rights, they can't capture investment. Without a legal document to represent value, they are unable to use their homes to guarantee credit. Stuck in shantytowns with nothing to lose, the poor are ripe targets for terrorist recruiters who promise to protect their assets by using force. The ILD, in fact, helped put the Shining Path terrorists out of business in Peru by offering the poor the safer alternative of legal property. According to the Shining Path's leader, Abimael Guzman at the time, this strategy was meant "to turn the masses away from their historical objective." The general responsible for counterinsurgency operations in the early 1990s, Jaime Salinas, has since said that the ILD's ideas and activitivies were crucial to defeating terrorism.

With that success in mind, Afghan authorities, as well as Provincial Reconstruction Teams in Afghanistan and Human Terrain Teams in Iraq, have asked ILD to provide them with plans to adapt these strategies to their fight against insurgency and drug trafficking.

Globalization's Challenge

Globalization is here to stay, but it will remain an easy target for its opponents as long as only the elites are globalized. This is especially true in the developing world and the former Soviet-dominated nations. The challenge is to give the majority of the world's people and businesses a stake in international trade. That requires developing countries to give access to the legal tools that entrepreneurs in rich countries take for granted: property rights, limited liability, asset shielding, organizing management hierarchies, and the ability to issue shares.

The eagerness to create inclusive market economies is strong among the political leadership in developing and former Soviet-dominated nations. Thirty-five heads of state have invited the ILD to help them, and I have personally met with 32 of them. Since ILD's founding in 1984 and the successful property and business reforms in Peru, the institute has worked with 20 countries in Latin America, Africa, the Middle East, Central Asia, and the former Soviet Union.

Establishing the institutional framework for a modern, inclusive market economy is difficult work — complicated, laborious, boring, and not very romantic. An easily understandable system must be created that conforms to its beneficiaries' traditions as well as their territorial and business models. But God is in the details, as the saying goes, and that is also true for legal reform.

Worldwide Impact of ILD's Institutional Reform Program

We typically get requests for the ILD's multistage reform program from a head of state. ILD then sends in a small team and recruits much larger local teams, which we train in our methodology. The next and crucial step is a diagnosis of the country's legal and extralegal sectors. This requires comprehensive research in urban and rural areas to assess the size of the country's extralegal economy. When we report that information to the head of state, we also describe the characteristics of the extralegal economy, why people prefer it, and its value in terms of dead capital. Only with that information in hand can we move to the Reform Design and Implementation phases. As we advance, however, governments have a tendency to push us out, which is a healthy sign. The local teams then take over our work.

Client countries are often shocked by our findings of massive informality within their economies. But we also demonstrate that there is massive economic — and political — potential that they can tap by simply committing to institutional reform. The government's support is essential, especially to confront the opposition

Ecuador's Vice President Lenin Moreno (right) examines documents with Shuar indigenous leader Manuel Chuinda when the Shuar gained land titles in 2007.

of the bureaucratic and business elites that benefit from the status quo.

The best argument on behalf of legal property and business reform is that it works. Twenty years after the ILD's reform efforts in our native Peru helped formalize 1.7 million urban real estate assets and made it easier to create businesses, life has improved for our poor, and the middle class has grown significantly. Our GDP has been growing at about 8 percent per year recently. Much of that growth comes from construction, mining, and exports of agro-industrial goods. These sectors would not have been able to grow without solid property rights to land and mines.

Impressed by our achievements in Peru, the government of El Salvador invited the ILD to adapt those reforms in the aftermath of civil war. By the end of 2003, the ILD-designed real estate formalization system had brought 1 million Salvadorans under the rule of law, and also helped the peaceful settlement of ex-combatants and refugees on productive land. Today, the Salvadoran registry system handles more than US $800 million in mortgages yearly.

In 2004, the ILD submitted a report to the government of Egypt, funded by the U.S. Agency for International Development/Egypt. The government has since moved forward with 14 of our 20 reform proposals to integrate the extralegal economy into Egypt's economic mainstream. In 2009, the World Bank's *Doing Business* report rated Egypt as one of its "top reformers."

In the Philippines, President Gloria Macapagal Arroyo created the Urban Asset Reform Program, based on the ILD's 1999 to 2003 research. By the end of her government, she had issued four executive orders and initiated seven programs on land titling, tenure, mortgages, and other “asset reforms.”

Based on the ILD´s work in Tanzania in 2005-2007, the government has put institutional reform at the center of their MKURABITA program. The ILD’s influence has also spread to countries where we have never worked, such as Ghana, South Africa, Thailand, India, and Russia. In his 2005 State of the Union address, for example, then-President Vladimir Putin announced that he had titled some 350,000 dachas, based, according to his chief of staff, on the ILD Reform Program.

The ILD’s work has also influenced the protocols of large multilateral organizations. The World Bank’s popular *Doing Business* series was inspired by the ILD’s research in Peru. And just last year, the U.N. General Assembly voted to add the Commission of Legal Empowerment of the Poor’s recommendations to its agenda.

Developed nations should also not forget the importance of a thorough accounting of property rights. Look at the global financial crisis that began in 2008, triggered by a collapse of financial instruments derived from the subprime mortgage market in the United States. Pooled with other mortgages, and then sliced, diced, repackaged, and sold to investors around the world, these “derivatives” became untethered to their underlying assets; worse still, they were never documented, standardized, or registered in a way that they could be easily traced — as is the legal requirement for the rest of the property documents that account for everything else we own, from cars and houses to businesses and patents. In short, the financial community created its own “shadow economy” of an estimated US $600 trillion worth of financial instruments that we still have not located and weeded out. They became the infamous “toxic assets” that froze the global credit system, because banks and financial institutions were not sure which of their counterparts they could trust.

For us Third Worlders, most of our property documents are “toxic” — not registered, difficult to identify, and with a value so opaque that ordinary people cannot build trust in each other. While the U.S. economy has already begun to grow, most of our businesses operate in the face of a chronic credit crunch. That is why bringing the rule of law to emerging markets may be the most important measure that can be taken to help these countries end poverty. It is not possible in the 21st century to overcome poverty and exclusion without widespread legal business and property rights — the gateway to prosperity. ■

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Business Looks for Good Governance in Developing Markets

Scott Eisner

© AP Images/Tran Van Minh

This KFC restaurant is among the Western businesses that have moved into Ho Chi Minh City over the last decade as Vietnam has become more open to globalization.

"Foreign direct investment has no fixed allegiance or nationality," said Ghanaian President John Atta Mills at a recent business summit. "It goes where it is most welcome." President Mills knows that to attract capital investment from U.S.-based corporations and other multinationals, developing nations must offer political stability, rule of law, and a business-friendly economic climate. Corporate investment decisions are neither subjective nor arbitrary, but instead represent a hard-headed assessment of whether a given nation offers the good governance required for operations to thrive.

Scott Eisner is the executive director of the Africa Business Initiative for the U.S. Chamber of Commerce.

The developing world is the last growth frontier for many major corporations, and the U.S. business community is avidly seeking opportunities there. The benefits of investing in developing nations are many: lower-cost labor, abundant natural resources, and large consumer markets to name a few. In a global economy, however, these countries are often anomalies for sophisticated companies to operate in. Seemingly insurmountable problems — such as political instability, uneducated workforces, murky business environments, and poor infrastructure — are preventing American companies from competing for the last marketplaces where they might continue expansion. The potential

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The logo for Coca-Cola is a common site in Shenzhen, China. This U.S.-based company has a global presence rivaling that of any multinational corporation, providing beverages in more than 200 countries.

problems simply may outweigh the opportunities in many companies' internal cost-benefit analyses. Twenty years ago, the U.S. Chamber of Commerce developed a simple document titled "Twelve Rules for International Investors: What goes into a U.S. company's decision to invest overseas?" Its aim was to explain to foreign governments the criteria that U.S. multinationals use when gauging whether and where to invest abroad. *Forbes* magazine has used these rules in preparing its annual "Best Countries for Business" report.

Good Governance Attracts Investment

Some of the criteria for attracting investment — the size of the domestic market or the availability of raw materials — are realities that governments cannot change at will. Either a country is blessed with natural resources, or it is not. If an internal market is small, no law can be passed to make it big.

But many other criteria are entirely within the realm of government action. Are taxes, tariffs, and regulations onerous? Is doing business simple, straightforward, and easy? Is corruption rife? Is the judiciary fair and efficient? Governments can enact and enforce laws that will create a good operating environment for business and make their nations more attractive investment destinations.

For instance, companies need reasonable guarantees that their investments will be secure regardless of the political winds within a particular national economy. In most industries, if a corporate executive believes that the company's people, facilities, and other investments would be unsafe because of an ongoing political situation or recent political upheaval in a given country, the firm will not invest there. The risk is too great.

Interestingly, American companies are not necessarily looking at democratically governed nations as potential investment destinations. Political stability with a nonviolent regime is generally sufficient for companies when looking at a nation's governance as part of its matrix in determining where to invest. Security of investment is requisite.

In addition to political stability, having an educated workforce is key to attracting foreign direct investment (FDI). American companies operate with a unique business model. The majority of Fortune 500 companies (an index of top companies compiled annually by a respected business periodical) enter a new market with a long-term view. By and large, these companies expect their international branches to be self-sufficient, and they want them to employ local workers. They recognize that local people can navigate their own domestic business environment more easily than expatriates, and they know that improving the local standard of living and the local economy will ultimately lead to a larger consumer base.

A large part of the success of American companies internationally is based on their nonimperialistic mode of investing. This cooperative outlook can be an enormous benefit to an investment destination with the potential to provide employment for the locals. Understandably then, it is imperative for a country's population to have the education or technical background to be employed by a major American firm. Companies find that lack of education is one of the biggest hurdles in the developing world, and many of them find it necessary to include a

© AP Images/Altaf Qadri

In May 2009 Wal-Mart Stores, Inc. opened its first outlet in India. The retailing giant operates almost 4,000 stores in 15 nations worldwide.

technical school or training course as part of their initial investment. This adds to the cost of doing business, as well as to the timeline for getting that business running.

Aside from political stability and a skilled workforce, companies that are considering investment in the developing world require a number of other basic necessities in order to invest in a particular nation. Investors need transparent processes for establishing and doing business in a country. The requirements cannot change without notice. Further, American investors need to operate within a system that has a level playing field. All American firms are bound by the Foreign Corrupt Practices Act, and so they cannot pay bribes without risking penalty by the American justice system. Therefore, it is difficult for American companies to compete in a nation that operates on a bribe system.

Another baseline element needed to attract private sector investment is transparent and reliable rule of law. Corporations need assurance that a country's justice system works. They must have confidence that if they are sued or need to take legal action, a fair outcome can be achieved.

A Good Business Environment

Beyond those basic elements, companies are looking for a business-friendly environment. The executives who participated in the U.S. Chamber of Commerce's 2009 study, *A Conversation Behind Closed Doors: How Corporate America Really Views Africa*, said that many developing nations vying for the attention of investors are making positive changes to their domestic business environments. These are the countries that will be attracting FDI. Simple adjustments — such as making multiple-entry business visas affordable and easy to obtain — go a long way with possible investors. Offering an effective "one-stop shop" that guides investors through the local process of establishing a business makes it less daunting.

Clearly, some countries succeed wildly in attracting international investment, as in the case of Panama or Rwanda. For instance, the Panamanian government offers foreign and domestic investors a range of incentives, including tax credits and fixed-rate import duties. And this year Rwanda was named by the World Bank as the fastest global business reformer in terms of the ease of doing business.

Singapore is another compelling example. A small island state with no natural resources to speak of has become an industrial powerhouse with one of the highest standards of living in the world. Or consider the difference between South Korea and its northern neighbor, which arguably enjoys a better resource endowment. South Korea is now home to one of the largest and most dynamic economies in the world and a prosperous society, while North Korea's state-controlled economy is reliant on international donors to feed its people.

As a cautionary example, recent actions by the government of Ecuador reveal the price of antibusiness policies in terms of forfeited investment and jobs. The business climate has deteriorated as the Ecuadorian government undertook the largest uncompensated expropriation of a U.S. investment anywhere in the world in recent decades (the 2006 seizure of US $1 billion in oil field assets); interfered in a judicial proceeding of major significance; raised tariffs; and is now threatening to seize the intellectual property of international companies. The results are clear: Foreign investment as a percentage of GDP in the 2005-2007 period was among the lowest in the Latin American region (alongside Venezuela and

© AP Images/Mary Ann Chastain

BMW built its first auto manufacturing plant outside of Germany in the U.S. state of South Carolina in the 1990s. Better access to the U.S. market and stability of government were among the factors influencing BMW's decision. This 1996 photo shows German Defense Minister Volker Ruehe (left) and South Carolina Governor David Beasley in a Z3 Roadster during a tour of the BMW auto plant.

Bolivia), according to the U.N. Economic Commission for Latin America and the Caribbean.

Another huge detraction for companies researching investment in a particular country is the absence of basic infrastructure. The untapped potential of Africa's agricultural sector is a quintessential example. Sub-Saharan Africa has massive tracts of arable land and is home to an enormous variety of agricultural products; however, a large amount of the food grown never makes it to market. A lack of road infrastructure in this region prevents efficient transport of produce, so frequently crops rot before they reach buyers. If a reliable network of rail and roadways linked farmland to ports and major urban marketplaces, countless major agricultural companies would be investing there.

Electric and telecommunications infrastructures are as important in the global economy as transportation. Can vendors and buyers and employees and employers communicate in a timely manner? The old adage has never been truer — time *is* money. On a recent textile factory tour in Ethiopia, I was told that in order for the factory to receive a new design, an employee had to download it in a city that is a four-hour drive away, burn it to a CD, and drive the four hours to deliver the new order. If any alterations are made to the design, the process repeats itself. This is clearly not a cost-effective way to run a business, but in a country with very limited Internet access, it is reality.

The majority of characteristics that the American private sector looks for in prospective investment destinations are not capital-intensive. Instead, the necessary changes require the determination of the nation's government to become an attractive place for doing business. If a country can achieve political stability and clamp down on corruption to create a transparent business environment, educating citizens and building out the necessary infrastructures will follow — either from private investment or through international assistance. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Strength in Numbers: The Power of Regional Trade

Mweusi Karake

© AP Images/Sayyid Azim

Ethiopian coffee growers sort through newly harvested beans. The nation's membership in COMESA gives growers access to more markets in the region.

Nations of eastern and southern Africa have been working for most of this decade to build an alliance to strengthen their position as an economic and trading force. They recognize that good governance and consistent policies throughout their region will create a better atmosphere for business and trade. An improved business climate will provide their people greater opportunities for jobs and prosperity.

Mweusi Karake is the head of public relations at the Common Market for Eastern and Southern Africa (COMESA), working from the organization's headquarters in Lusaka, Zambia.

Neighboring nations of the world are teaming up in regional trade groups, improving access to regional markets, and strengthening their economic integration. By committing the partners to clear and enforceable rules, these organizations promote transparency and good governance. The trend is marked by a string of acronyms stretching across the globe — APEC, Asia-Pacific Economic Cooperation; ASEAN, the Association of Southeast Asian Nations; NAFTA, the North American Free Trade Agreement; and, of course, the world's most advanced regional market, decades in the making, the EU, the European Union.

Now, here comes COMESA [coh-MAY-suh], the Common Market for Eastern and Southern Africa.

COMESA has 19 member countries: Burundi, Comoros, Congo Democratic Republic, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. Fourteen of these states are already in a free trade area.

Trade development among our member nations is the cornerstone of our agenda, and we have pursued a variety of steps to liberalize and facilitate trade throughout our region in a process that economists call "integration." We also have a vision for our relationship to lead to a common market and achieve monetary union, following the same course as the Europeans.

The COMESA Free Trade Area [FTA] gives us a type of trade bloc in which our countries have agreed to eliminate tariffs and quotas when we trade among ourselves. The next step for us in this process of economic integration will be to form a "customs union," whereby we retain our free trade arrangements but also adopt a common policy for an external tariff imposed on goods imported from nonmember nations. Our heads of state finalized the key instruments to create the Customs Union in June 2009.

We envision that this union will improve commerce and trade in Africa in a variety of ways. For example, today goods being imported from Japan to Rwanda pass under the eyes of border officials at multiple points — as they are off-loaded from a ship at Mombasa, Kenya; when they pass overland from Kenya into Uganda; then again, as they pass the national border into neighboring Rwanda. They receive a final inspection from officials in Kigali. Under the Customs Union, the goods will simply be inspected and cleared only once in Mombasa. We believe reduced inspections for goods will benefit both business and the consumer, streamlining trade, reducing costs, and eliminating opportunities for corruption that can arise at each inspection point.

Strength in Numbers

With a regional population of 400 million and a gross domestic product of almost US $420 billion, ours is an attractive region for investment and trade in this globalized world.

Enhancing regional trade arrangements allows our member nations to better prepare themselves to become fully engaged as active players in the global economy. This training in regional commerce allows industries to grow at a manageable pace until they are ready to graduate into the larger world of global trade. In addition, regional alliances of nations with a unified position wield more clout when they step into international fora than does an individual nation pursuing an isolated national position.

© AP Images/Khalil Senosi

African leaders attend the 2007 COMESA summit. Seen here from left are Zimbabwean President Robert Mugabe, King Mswati III of Swaziland, Ugandan President Yoweri Museveni, and Ethiopian Prime Minister Meles Zenawi.

The arrangement promotes good governance because it promotes transparent, competitive, and rule-based trade. COMESA has created institutions to ensure that rules agreed upon by member nations are respected. The COMESA Court of Justice, for example, allows aggrieved parties, be they individuals or countries, to seek redress.

The court was established by the COMESA Treaty in 1994 as one of the organs of COMESA. Currently, the court is composed of 12 judges, coming from 12 different member states of COMESA. The judges of the court are persons of impartiality, independence, and integrity, who also fulfill the conditions required for holding high judicial office in their respective countries. The court's independence is demonstrated by the fact that the COMESA Secretariat and other COMESA institutions have lost cases before the court.

To provide additional protections for free market principles and property rights protection, COMESA has set up the Africa Trade Insurance Agency (ATI), which covers risks that investors may perceive arising from the political atmosphere. Member countries of ATI must contribute money into the insurance fund, a scheme that creates incentives for countries to deal with investors responsibly.

Through ATI, COMESA covers investments that might be seized and nationalized by an overzealous government. ATI also covers losses that an investor might incur through other government action, inaction, or interference. This insurance also covers losses caused by war, civil disturbance, civil commotion, or terrorism.

Economic Benefits of Integration

This process of economic integration has gained wide acceptance in both economic theory and practice since the end of World War II. In many parts of the globe, regional agreements have created more favorable environments for the development of good governance, the private sector, improved infrastructure, public institutions, and civil society. As this development progresses and matures, economic integration in a region is also thought to contribute to enhanced peace, security, and improved interaction with other world regions.

Certainly some interests may stand to lose in this process. For example, countries that were highly dependent on import duties may incur temporary losses in the short run when the Customs Union becomes fully operational. We are prepared to mitigate and adjust to those losses and are already doing so. In September 2009, COMESA disbursed close to 15 million euros to Rwanda and Burundi for their losses incurred due to the removal or reduction of import duties under the East Africa Customs Union arrangement for the June 2008-June 2009 financial year. COMESA is also looking at how to mitigate possible social costs, such as the loss of national jobs among clearing and forwarding agents whose numbers will diminish as the number of inspection points for goods is reduced.

Significant gains have already been achieved by our member nations and their citizens. The elimination of barriers to intra-COMESA trade has contributed to phenomenal growth in our region. Trade increased five-fold from US $3 billion in the year 2000 to US $15 billion in 2009. Goods such as food products and building materials are moving across the borders of COMESA nations in the greatest volumes.

Our FTA has catered also to the small cross-border trader under the COMESA Simplified Trade Regime (STR), mainly women and youth who trade in small quantities. Crossing national borders by bus, truck, bicycle, and even on foot, these traders carry goods normally valued at less than US $500 and, thus, are not required to present a certificate of origin for the goods.

© AP Images

Vanilla pods are sorted in Madagascar, another COMESA member.

These transactions are minute in the grand scheme of global commerce, but they make a substantial difference in the lives of the people who trade in small quantities of products such as maize meal, sugar, beans, and beverages. Because women are very active in this level of commerce, the small cross-border trade contributes to providing food for children and fees for their schools. We all know that women's income has a direct bearing on the welfare of our homes, particularly in rural households.

The Next Step

A COMESA Customs Union (CCU) will build on the success of the last decade, resulting in an enhanced flow of goods and services as producers take advantage of the larger markets to distribute and sell their goods. Greater trade will result within the region as Customs Union producers hold a price advantage for their goods over those imported from nonunion countries. The CCU nations will come to agreement on harmonizing their respective tax polices so the regional playing field will be leveled, and efficiency in production and competiveness will increase. Other policy agreements are likely to result, sending a message to the global investment community that stability and certainty are improving throughout the region, creating a more favorable atmosphere for investment.

Establishing, operating, and consolidating the CCU is work that still lies before us, and it will require determination and unwavering commitment from political leaders in both the executive and legislative arms of government. Judiciary systems must also rise to their role as protectors of the regional laws, so that companies and investors know that their interests under the law will be protected in the implementation of integration programs.

The stakeholders in our future — the public and private sectors and civil society organizations — must recognize that this process is in the best interest of our families, our countries, and our region. The COMESA Customs Union can serve as an important building block for continental progress. If we do not work together in an organized and orderly manner, Africans will not be able to engage successfully with a globalized world.

An African renaissance must be supported through ever-stronger African institutions that promote a united, strong, and free continent with a global voice and a role in global processes. COMESA is an institution working today to bring that vision into reality. ■

The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. government.

Naga City Works for Transparency and Accountability

An Interview With Jesse Robredo

Courtesy of Randyvic Villaflor-Naga City Visitors Center

The City of Naga publishes the *Citizens Charter* every three years, detailing the city's duties and responsibilities to the people.

A medium-sized city in the Philippines has developed a reputation as a model of good government practice. It is not a reputation earned through a single act or declaration, but through one action after another, month after month, year after year. Naga has served its people consistently and reliably, winning their confidence and trust.

Jesse Robredo has been the elected mayor of the city of Naga for most of the last 20 years. He came into city government with two advanced degrees and experience working in a consumer foods corporation.

Naga has received more than 150 awards — international, national, and regional — for its sound and innovative practices. It has been recognized for cost effectiveness by Foreign Direct Investment *magazine and for its excellence in public service by the United Nations. Mayor Robredo governs the city with a 13-member city council, and he talked with* eJournal USA *managing editor Charlene Porter.*

Question: Mr. Mayor, how do you describe the connection between good governance and economic development?

Jesse Robredo: It's important to us that we demonstrate good governance practices in order to secure the confidence of our constituency and the taxpayers. Confidence will encourage businesses to invest in the city. Confidence will encourage them to pay the necessary taxes so that we can use the money for investing in infrastructure and investing in other activities related to promoting the development of the city.

Good governance means applying the rule of law, being transparent in all the transactions at City Hall, setting metrics in all that we do, and making these metrics known to everyone. We're making City Hall accountable to certain measurable standards that we have to convey to the residents of the city.

It's not just saying, "Oh, we practice good governance in Naga." Instead, we say, "These are the specifics of how we do it. This is what you can expect of the city government. These are the obligations required of us as we serve the people and develop the city."

Q: Give me some examples of those specifics you mention.

Robredo: Since 2001, we have been issuing what we call the *Citizens Charter*. We passed a local law requiring City Hall to have the *Citizens Charter* updated every three years. That charter tells you exactly what the city government is going to do for residents of the city. For instance, issuance of business permits, issuance of building permits, who is responsible, what are the fees, and the like.

All that information is published in a book. The book is distributed to residents of the city so they know exactly what they can expect of their City Hall. This minimizes corruption significantly. When you know the procedures, when you know who is responsible for the procedures, it makes the system transparent and accountable.

We have another local law that compels us to have nongovernmental organizations and representatives present in everything that we do in the city. That law, in fact, establishes what we call the Naga City People's Council. It is a federation of all nongovernmental organizations in the city. This council nominates their representatives for committees of the city government. In the committee in the city council, they are part of the quorum. They can vote; they can debate with the elected officials. That law was passed sometime in the mid-1990s.

Prior to that, we did the first-ever referendum in the Philippines when people were asked to vote on certain development issues that would have long-term impact on the development of Naga. So we called the vote, and I think it was the first and only time a local government unit asked people to vote on development issues. The citizens were asked, first, whether they would like the city to put up a new commercial district; second, if they would allow the city to borrow money to fund this new district; and third, whether the city should impose what we call a color coding of tricycles [motorcycles with side cars]. These are motorcycle public utility vehicles, and we wanted to color code them to facilitate passenger access and delineation of the different routes. It was a traffic management issue.

When we conducted the referendum on the new commercial district, essentially we were trying to build stakeholdership for that idea among the public. Significant public money was needed to develop it, so that was why we had the vote. After that vote, support for the project was not just from the city council but all throughout the city. We had to ensure continuity of support for the project. When you have that, you promote predictability, stability, and inspire business confidence.


Courtesy of Randyvic Villaflor-Naga City Visitors Center

Mayor Jesse Robredo says, "Good governance means applying the rule of law, being transparent in all the transactions at City Hall."

Q: You mention the actions the city took to create transparency in permitting and regulation of businesses. Transparent policies are very attractive to businesses as they consider expanding their operations to new areas. Have these Naga City actions paid off with business investment?

Robredo: The biggest mall operator in the Philippines is Shoemart, or SM. They set up a mall in the new commercial district, creating 2,000 jobs and an investment worth 1 billion [Philippine] pesos [US $21.3 million]. The reason they were able to do this was because of the referendum that established Central Business District 2. Central Business District 2 was legislated by city government and developed so we can create more space for commercial development in the city. That referendum ensured constituency support.

The outcomes really are supported by the processes. When we invest infrastructure money, we always say we need to do more with less, so that we can do more. When you save government money, government is able to do more. So for us, it is a combination of using legislation, engaging the constituencies, and securing support so that we'll be able to come up with new areas and sites for development. When you do that, and people realize they are getting their money's worth, you go back to the cycle of collecting taxes.

We raised taxes twice in the last five years. On both occasions, the Chamber of Commerce passed resolutions effectively saying, "City Hall, go ahead, raise property taxes." This speaks of how we have changed the attitude of city residents. When taxpayers are saying, "Go ahead, raise taxes," it tells you they are confident about how their money is being spent, they're involved in the development of city planning, and they are willing to share the burden. That's the most important aspect of how we do our work in the city.

Q: How big a city is Naga?

Robredo: Around 160,000 live in the city full time, but the daytime population is about 300,000 to 350,000 as people come into the city to work and study. We have three universities, and most of the jobs in the region are in the city. The computation of national government fund transfers to the city is based on the nighttime population, so you might say we're getting the shorter end of the bargain. But in the bigger view, these people contribute to the economic development of the city, so we don't mind it.

Q: As you were growing up in the Philippines, Ferdinand Marcos was in power. His era is now recognized as being seriously corrupt. What influence might those years have had on your philosophy about governance?

Robredo: When I was younger, my career path was geared towards working in a private company and moving up the corporate ladder. But when Senator Benigno Aquino was assassinated in 1983, I joined a left-leaning organization, and it dawned on me that there are more important things in life than getting a good corporate job.

I joined the marches in Ayala Avenue in protest of the death of Senator Aquino. After Marcos left, I was asked if I was interested in working in government. I was able to take a one-year leave from my company, and they allowed me to return home to Naga to work in government. After a year of working in the government, people asked me to run for mayor. So I said, "Why not?"

Q: And you were only 29 years old?

Robredo: Yes, when I took over during my first term, I was only 29. I served three terms from 1988 until 1998. Then I was out of office for three years because of term limit laws. Then I was reelected in 2001, and I'll serve until 2010.

Q: So as the People Power movement forced Marcos out of power, you became a young man with greater visions for his country?

Robredo: That's correct. And as they say, you better put your money where your mouth is. I was single then; it was a good time for me to work in the government without too much pressure from family and with more time to think about what I could do for the community and the city.

Q: You have received significant recognition and attention for the policies that you have worked to put in place there. What kind of ripple effect are your actions and the attention you have received causing in other cities and communities in the Philippines?

Robredo: We have what we call the People's Empowerment Law of the city. Now they have passed a similar law in probably five other cities in the country and several more towns. So the concept of sharing power and empowering the constituency is a trend that will continue in the future.

The People's Empowerment Law recognizes the contribution of organized groups in the city. There's a people's council and they have a voice in all the committees of the city. The more difficult challenge is how you engage regular households, where people aren't interested in policy but are just interested that garbage is collected, street lights are functioning, and roads are paved. The basic services provided. So we said, “Let’s come up with another form of engagement that will allow the regular household to talk to us.” So we passed the I-governance law: “I” stands for information openness, inclusive governance, interactive engagement, and innovative management.

The budget of the city is published and is accessible to anyone. These tools are catching on elsewhere in the Philippines. In 2001 we passed the first citizens charter in the Philippines, and now there is a national law that requires everyone to have a citizens charter.

We have another project: Reinventing the City School Board. We are partnering with a nongovernmental organization, the Synergeia Foundation. Basically the focus is improving the quality of public education by enhancing parent participation and empowering the schools. So these are innovations that are more related to governance rather than just bringing in new resources.

I’ve gone to other provinces to advocate and to speak on these issues as a resource person. So we’re competent and confident enough to be a resource city in all of this. ■

The opinions expressed in this interview do not necessarily reflect the views or policies of the U.S. government.

Building High-Impact Businesses

Elmira Bayrasli

Courtesy of Endeavor

Andy Freire (left) and Santiago Bilinkis built Office Net, the largest office supply business in Latin America, with support from Endeavor.

Entrepreneurs can neither thrive nor contribute to general prosperity if bribes and false financial statements thwart their business. But there are promising entrepreneurs in developing countries who want to operate with transparency and honesty like those in the developed world. Endeavor, a nonprofit organization, finds those entrepreneurs, directs them to the capital and counsel they need, and so empowers business people with vision, drive, and dreams to create jobs and prosperity in their communities.

Elmira Bayrasli is the vice president of policy and outreach for Endeavor, based in New York City.

Everyone envied Andy Freire and Santiago Bilinkis. Right out of university during the 1990s, both had respectable, well-paying corporate jobs in their native Argentina at Proctor & Gamble, a multinational manufacturer of personal-care and household products.

Jobs were, and still are, hard to come by in emerging markets like Argentina. There were few innovators willing to take risks and create jobs. So, in the local way of thinking, anyone who did have a job was lucky. But Andy and Santi quit their corporate jobs and focused their energies on starting an office supply sales company, OfficeNet. Their idea was inspired by a business model popularized by the computer manufacturer Dell: market office supplies to customers through catalogs. Because they wouldn't maintain a storefront, they would save on overhead and be able to offer customers competitive prices.

"Crazy," was the response they got from almost everyone.

Andy and Santi were told that in order to get deliveries on time and acquire customers, they would have to pay bribes and falsify financial statements. The practice sounds dishonest to Western business people, but it wasn't at that time and place. That was simply the way business was done in Argentina.

Andy and Santi would not pay bribes, grease palms, or falsify financial statements. They wanted to run a business ethically, transparently, and in service of the customer. They dreamed of replicating the success story of Tom Stemberg, the Boston entrepreneur who started the multimillion-dollar office supply store Staples. Andy and Santi wanted to make OfficeNet the Staples of Latin America. And that is exactly what they said to Linda Rottenberg back in 1998 when she was just kicking off Endeavor.

The Seeds of Endeavor

Endeavor was Rottenberg's idea to help emerging market entrepreneurs, an idea born one day when she was riding in a cab in Buenos Aires. She learned that her driver had an engineering degree. Why was he driving a cab? she asked. Why wasn't he an entrepreneur?

"What's an entrepreneur?" the driver asked. He had never heard the word "entrepreneur" because back in the 1990s the word didn't exist in Spanish.

Rottenberg set out to find emerging-market entrepreneurs with big visions, passion, and high-impact potential. She wanted to provide them with the mentors, networks, and tools to help them take their enterprise to the next level.

This support would enable high-impact entrepreneurs to scale up their businesses, building a vibrant, investment-friendly private sector and a robust middle class. At the same time, she envisioned that these entrepreneurs could become inspiring role models in their communities and their countries.

Rottenberg had seen the miracle that microfinance had performed throughout Latin America. With loans of just $50 or $100, millions of recipients were able to start businesses and work their own way out of poverty. Maybe the same strategy could help struggling businesses become major enterprises.

Rottenberg knew multimillion-dollar investments were being poured into the big firms in emerging markets, owned by wealthy families. But no investors were willing to risk capital on promising entrepreneurs like Andy and Santi. They'd started a business but needed additional support to grow.

Endeavor helped Andy and Santi strengthen the operations, management, and financing of their company. Endeavor helped them get capital to grow their business without paying bribes or resorting to unethical business practices. Endeavor put Andy and Santi in touch with Tom Stemberg from Staples to advise them on building and expanding OfficeNet.


Courtesy of Endeavor

Linda Rottenberg (left) is the cofounder and chief executive officer of Endeavor. She is seen here with Leila Velez, a cofounder of Beleza Natural hair salons, a company that expanded with Endeavor support.

By 2004 Staples had bought OfficeNet and helped it become the largest office supply business in Latin America. More importantly, it changed the playing field in Argentina. Impressed by Andy and Santi's example, other Argentine businesses started keeping a single set of accurate accounting records and refused to pay bribes. They paid suppliers and delivered services to customers on time. They were eager to replicate OfficeNet's success.

By 2007 OfficeNet had created 700 jobs.

Endeavor Expands

Today Linda Rottenberg's dream has become reality in 11 emerging-market countries around the world: Argentina, Brazil, Chile, Colombia, Egypt, India, Jordan, Mexico, South Africa, Turkey, and Uruguay.

Along the way, thousands of hopeful business people have worked their way to a new prosperity, like Leila Velez from Brazil.

Leila grew up in a *favela* in Rio de Janeiro. Her father was a janitor and her mother a maid. By all accounts, Leila's future was bleak, but she had a bigger dream.

With her cousin Zica, Leila developed an in-store "hair care experience," centered around a product they created, a hair relaxer that wouldn't be sold on store shelves. Leila and Zica wanted to open a salon, and women interested in the product would come to have their hair treated by a professional.

"Crazy," people told them. "Poor people in the *favela* won't pay to have their hair done," they were told. Leila and Zica knew otherwise. "Poor people want to feel beautiful too," Leila told me one day.

Neither Leila or Zica had chemistry degrees. They had never worked in a research and development lab. But from years of working in beauty salons, they began to create their own hair-relaxing solution. They didn't get it right the first couple of times. Their husbands' hair fell out after treatments with one formula, and the experiments continued.

Eventually, however, the product worked, and they called it Beleza Natural. They set out to open their first salon. Within their first year of operation, the hair care experience they'd invented had become so popular that women waited up to four hours to have their hair treated with Beleza Natural.

Leila and Zica knew they had created something high impact. And then they met Endeavor.

Endeavor helped connect the hair care entrepreneurs to top business leaders in Brazil. Those business leaders guided the Beleza Natural pair to open their own manufacturing facility and encouraged them to open up other salons throughout Rio. Most importantly, as Leila says, "Endeavor gave me the confidence to believe in my dreams, to think big, and believe that I can be a big business leader too."

Today Beleza Natural employs more than 1,000 people. The company operates six salons in Brazil and a manufacturing facility. In 2008 it generated more than US $30 million in revenues.

The Endeavor Guide to Success

In screening thousands of candidates for its assistance, Endeavor has come to recognize that those with high-impact potential come into the process at different stages, in different industries, and with varying support needs. There's no one-size-fits-all definition of a "high-impact entrepreneur," but as a rule, Endeavor looks for visionary entrepreneurs running high-potential businesses that demonstrate innovation and have annual revenues from US $500 thousand to US $20 million. Endeavor's portfolio includes IT-providers, engineers, architects, fashion designers, and even butchers.

Once selected, Endeavor provides high-impact entrepreneurs with services customized for each entrepreneur. Over the past 11 years, Endeavor has built a dynamic VentureCorps, a network of local and international business leaders who provide experienced advice, contacts, and support to meet the specific needs of entrepreneurs. Endeavor's services focus on providing mentorship to local and global business leaders, managerial talent from blue-chip companies and top business schools, and access to difficult-to-penetrate networks.

Endeavor is fundamentally a development model: Our mission is to enable high-impact entrepreneurship to thrive in developing countries, as it does in North America. Consider, for example, Silicon Valley. The California community that has come to be known as a well of information technology innovation is not just a bunch of tech-entrepreneurs in the same place. It's a community that supports entrepreneurs and includes universities with great research and development capacity, investors willing to take real risk, advisors who provide critical support, and a community that celebrates entrepreneurship.

In 2006 I met *New York Times* columnist Thomas Friedman in Uruguay, where he was meeting with a number of Endeavor entrepreneurs from that country. He was learning for the first time about Endeavor's work to unleash high-impact entrepreneurship around the world.

I sat next to him and could see how engaged he was with the entrepreneurs and their ideas. A few weeks later, he exchanged messages with Endeavor's CEO Linda Rottenberg. They talked about how Endeavor's efforts represent the embodiment of the principles Friedman described in his 2005 book about globalization, *The World Is Flat*. Endeavor is making communities more secure, while also helping countries move out of international aid into international investment.

In a revised edition of *The World Is Flat* released in 2007, Thomas Friedman included a chapter about Endeavor's work. In it he describes Endeavor's model and how it is encouraging promising entrepreneurs to pursue their dreams.

"Too often, we have antipoverty debates but not pro-entrepreneurship debates." Friedman wrote. "The inspirational power of a local business success story is incalculable: There is no greater motivator for the poor than looking at one of their own who makes it big and saying: 'If she can do it, I can do it.'" ■

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Reforms Promote Business in Indian Cities

Mierta Capaul and Jana Malinska

Photo by Adam Jones, adamjones.freeservers.com

A shopkeeper tends his stall in the market in Madurai, India.

Government policies go a long way toward enabling or impeding the success of business enterprises. In a federal state, those policies can vary widely from one jurisdiction to the next. A publication released this year by the International Finance Corporation and the World Bank examines India's frequently significant differences in local government practices and policies relating to business regulation. The report covers regulations that affect seven stages in the life of a small to midsize domestic enterprise.

Mierta Capaul and Jana Malinska are co-authors of Doing Business in India 2009. *The report was produced by a World Bank Group team at the request of the Department of Industrial Policy and Promotion of India's Ministry of Commerce and Industry. Further information on the full report and its many researchers and contributors is available at* www.doingbusiness.org/india.

Consider this scenario: A young Indian returns from her studies abroad with a great idea for a new business, but she needs to decide where to set up shop. Going through the official procedures to start her company would take the least time in Noida (30 days). But business permits and fees would cost the least in Patna (38 percent of income per capita) — only about half as much as in Mumbai. What if she needs to build a warehouse and hook it up to utilities? Obtaining all the permits needed would take about 80 days in Bengaluru and Hyderabad, twice as fast as the average of 161 days found in the member states of the Organization for Economic Co-operation and Development. It would take six months longer in Kolkata. And what if the new entrepreneur's business dealings should lead to a dispute that needs to be resolved in court? That process tends to be time-consuming across India. But while it's likely to take 20 months in Guwahati, it could take four years in Mumbai.

All Indian cities have a similar legal and institutional framework, but local regulations and local implementation of national laws vary. The economic reforms of the 1990s gave the states greater autonomy, especially in land and licensing matters. This contributed to the large variations in local government regulations and practices across India — variations that matter for business activity.


Courtesy of USAID

Indian women are turning excess produce into mango bars, using a solar dryer. The small business enterprise began with support from the U.S. Agency for International Development.

Doing Business in India 2009 studies business regulation from the perspective of a small to medium-size domestic firm. It examines 17 locations across India, including Mumbai, to measure which reforms have worked, where, and why. The report looks at seven topics of local jurisdiction and practice: starting a business, dealing with construction permits, registering property, paying taxes, trading across borders, enforcing contracts, and closing a business.

Toward Business-Friendly Regulation

India owes much of its economic success to liberalization reforms initiated in 1991. Opening up to trade and investment and pursuing deregulation, privatization, and tax reforms helped boost average economic growth to 8.5 percent a year in 2005-2008 and lift 300 million people out of extreme poverty.

Still, recent growth has failed to create enough jobs to absorb the huge increase in India's labor force. A study by the Indian Ministry of Statistics shows that 90 percent of the labor force is still employed in the informal sector, with little job and income security. The faster pace of growth in richer states widens the already existing gap with poorer states. Promoting inclusive growth is one of the key development objectives in India's 11th Five-Year Plan.

To help unleash the potential of local entrepreneurs, national, state, and municipal governments need to continue working toward a regulatory environment that encourages firms to operate in the formal sector and to grow. Reforms that cut red tape, clarify property rights, and streamline regulatory compliance can yield big payoffs for firms and workers. The good news is that regulatory reforms are taking place. But their pace has varied across the country, and India still has a way to go to compare favorably with international good practices.

Gains in the Business Environment

Doing Business in India 2009 records significant business reforms at the national, state, and municipal levels in 14 of the 17 locations it benchmarks. These include computerizing records, putting business and tax registration online, and setting up "single-window systems" for applications — all making it easier for businesses to comply with rules and regulations.

Registration of a business is the first contact a new entrepreneur has with government regulators, and the reforms have made the registration process easier. A Ministry of Corporate Affairs initiative, MCA21, made business registration electronic. Getting a company name approved now takes two days in all 17 cities, down from four to six days in 2006. The electronic copy of the certificate of incorporation is available in two to three days, compared with nine to 10 days in 2006. Bhubaneshwar and Hyderabad made value added tax (VAT) and professional tax registration easier by introducing single-access points, and Patna and Ranchi reduced the stamp duty on incorporation documents.

Local governments also reformed processes for dealing with construction permits. Computerization and greater administrative efficiency accelerated approvals for building permit applications by 25 days on average. Bengaluru, Gurgaon, and Hyderabad introduced effective single-window systems for building permit applications. Ahmedabad and Chennai made it possible for builders to submit their plans electronically for automatic scrutiny against the building rules and zoning plans. Along with Bengaluru and Hyderabad, they also enabled builders to track their applications online. In 10 of the 17 cities, the application forms are available online — saving businesses at least one trip to the municipality, and an entire afternoon that might otherwise have been spent in traffic.

Bengaluru is the best performer in the ease of dealing with construction permits. Globally, the city would rank 72nd out of 181 economies, ahead of Italy (81) and just behind Norway (67). Its example shows that a city can adopt environmentally beneficial policies without imposing an extra burden on business. The Bengaluru Municipal Corporation reserves the right to order the planting of two trees on plots larger than 200 square meters at the time the building permit is approved — no separate visits are necessary. In Mumbai, by contrast, entrepreneurs have to visit the Tree Authority twice and wait a month for the Tree Committee's meeting to get an approval when building a warehouse.

How long entrepreneurs have to wait to register their property also depends on where their business is located. If in Jaipur, the building will be registered and ready to house new business in 24 days, five times as fast as in Bhubaneshwar, where it takes 126 days. Jaipur is among the cities that computerized their land records, making it easier for entrepreneurs to search for encumbrances and register their sale deeds. Gurgaon, India's top performer in registering property, increased the speed of property transfers by developing customized software and training registry employees. Several states cut their stamp duty rates, such as Delhi (from 8 percent to 6 percent for men and from 6 percent to 4 percent for women), to encourage entrepreneurs to formally register their property.

Overall, the report finds, it is easiest to start and operate a business in Ludhiana, Hyderabad, and Bhubaneshwar, and most difficult in Kochi and Kolkata. But for governments committed to reform, it is the pace of reform that matters, not the absolute ranking. While some locations perform better than others in the overall ranking, even the lowest-ranking ones have some areas of good practice. For example, while Kolkata ranks last overall among the 17 locations benchmarked, it has the second lowest business start-up costs. For other cities, that's a practice worth emulating.

National Reforms in a Global Context

National reforms have increased the efficiency of tax systems. In 2005 the national government began introducing a uniform VAT rate in all Indian states, eliminating some of the cascading effects caused by local taxes. By 2008 all states had adopted the VAT system. In 2007 the central sales tax rate was cut from 4 percent to 3 percent.

India has also improved its legal and regulatory framework in ways that have eased contract enforcement and bankruptcy in the past two decades. In 2008 the Supreme Court of India allowed electronic filing of cases. E-filing systems are being planned for the state high courts in the near future and eventually in the district courts as well. A new Web site, Indian Courts *[http://www.indiancourts.nic.in]*, provides a single point of access to information relating to the Supreme Court and all 21 high courts. Litigants can check the status of their cases and browse information on each court's judgments, rules, and judges.

Despite the reforms, India's regulatory environment still has a long way to go before reaching international benchmarks that will help unleash entrepreneurial forces. Across the 17 cities, business start-up takes 12 procedures and 34 days on average — 10 procedures and one month more than in Australia, ranked third on the ease of starting a business. The main sources of delay are procedures to register the company for taxes, social security, and health care. Enforcing a contract takes 961 days on average. That's faster than elsewhere in South Asia, but slower than in Brazil (616 days) and in Hong Kong, China (211 days), the global leader in the ease of enforcing contracts. Compared with economies worldwide, cities in India lag most in the ease of closing a business and paying taxes.

The *Doing Business in India 2009* study has limitations. *Doing Business* rankings do not tell the whole story about an economy's business environment.

The indicators do not account for all factors important for doing business — for example, macroeconomic conditions, infrastructure, workforce skills, or security. But improvements in an economy's ranking do indicate that the government is creating a regulatory environment that is more conducive to business. And there is no doubt that the study provides a useful road map for governments who are serious about regulatory reform.

States today compete fiercely for industry. That should lead governments to reform business conditions in ways that benefit all entrepreneurs — rather than taking the easy way out by offering special incentives and land to a few big enterprises. Moreover, global competition is becoming increasingly local. It is not only countries that compete with each other but, increasingly, specific locations — Kolkata versus Monterrey (Mexico) or São Paulo (Brazil), rather than India versus Mexico or Brazil. Local governments seeking to fully exploit the potential of local businesses — and convince investors that they offer more profitable opportunities than competitors — may need to pick up the pace of reform. ■

For information on the report's data, methodology, and contributors, visit www.doingbusiness.org/india *and* www.doingbusiness.org.

Additional Resources

A selection of books, articles, and Web sites

BOOKS AND ARTICLES

Åslund, Anders. *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia and Central Asia*. New York, NY: Cambridge University Press, 2007.

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INTERNET SITES

U.S. Government

Millennium Challenge Corporation
http://www.mcc.gov/

Overseas Private Investment Corporation (OPIC)
http://www.opic.gov

U.S. Agency for International Development (USAID), Global Development Commons
http://www.usaid.gov/about_usaid/gdc/

U.S. Department of Commerce, International Trade Administration
http://trade.gov/index.asp

U.S. Department of State, Office of Development Finance
http://www.state.gov/e/eeb/ifd/odf/index.htm

Private Sector

Center for Global Development (CGD)
CGD is an independent, nonprofit policy research organization that is dedicated to reducing global poverty and inequality and to making globalization work for the poor.
http://www.cgdev.org/

Center for the Study of Democracy (CSD)
CSD at the University of California, Irvine, sponsors research and education aimed at improving the democratic process in the United States and expanding democracy around the world.
http://www.democ.uci.edu

Common Market for Eastern and Southern Africa (COMESA)
COMESA, through its 19 member states, works to achieve sustainable economic and social progress through increased cooperation and integration in all fields of development, including trade, customs and monetary affairs, transport, communication and information technology, industry and energy, and environment and natural resources.
www.comesa.int/

The Corporate Council on Africa (CCA)
A Washington-based initiative that partners U.S. businesses with small to medium operations in southern Africa, the CCA has enabled more than US $1.5 billion in transactions and created more than 17,000 jobs in the decade of its existence.
http://www.africacncl.org

Economic Strategy Institute (ESI)
ESI is dedicated to assuring that globalization works with market forces to achieve maximum benefits rather than distorting markets and imposing costs.
http://www.econstrat.org

Endeavor.org
Endeavor is a 10-year-old, U.S.-based organization that gives entrepreneurs in emerging economies advice, guidance, and support to launch high-impact businesses that will lead to economic development in their communities.
http://endeavor.org

Global Integrity
Global Integrity provides in-depth reports on the state of public integrity and corruption in 25 countries.
http://www.globalintegrity.org/2004/country.aspx

Globalisation Institute
This think tank was founded in 2005 with the aim of examining how globalization can be harnessed to work for the world's poorest people.
http://www.globalisationinstitute.org/index.php

Institute for Liberty and Democracy [Instituto Libertad y Democracia] (ILD)
ILD offers technical assistance to governments to develop legal tools that enable citizen participation in both local and international markets.
http://www.ild.org.pe
ILD studies conducted in each of 12 countries in Latin America reveal the size and practices of their extralegal economies.
http://www.ild.org.pe/idb/executive_reports

International Finance Corporation (IFC)
IFC, part of the World Bank, fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.
http://www.ifc.org/

The Library of Economics and Liberty
The library is dedicated to advancing the study of economics, markets, and liberty, offering resources in economic thought for students, teachers, and researchers.
http://www.econlib.org/index.html

Opportunities for the Majority Initiative
This initiative promotes and finances market-based, sustainable business models that engage private sector companies, local governments, and communities in the development and delivery of quality products in low-income communities in Latin America and the Caribbean.
http://www.iadb.org/topics/om/index.cfm

Transparency International
This global civil society organization is considered a leader in the fight against corruption, and it publishes the annual Corruption Perception Index.
http://www.transparency.org

U.S. Chamber of Commerce, International Division
The Chamber's International Division works in collaboration with 112 American Chambers of Commerce operating in 99 countries to expand global engagement.
http://www.uschamber.com/international/default.htm

World Movement for Democracy
The World Movement for Democracy is a global network of activists, academics, policy makers, and funders who cooperate in the promotion of democracy.
http://www.wmd.org

FILMOGRAPHY

***Africa Open for Business* (2005)**
Running time: 60 minutes
Producer: Carol Pineau
Summary: This documentary challenges the stereotypes and proves Africa cannot be easily defined. It profiles companies in Nigeria, Kenya, Ghana, Lesotho, Senegal, Botswana, Uganda, Zimbabwe, and Somalia.

***The Business of Development* (2004)**
Running time: 14-part television series
Producer: World Television
Summary: Over the past decade, sustainable development and corporate social responsibility have become core concerns for businesses, large and small. Companies are going beyond main business activities to seek creative solutions for development.

***Commanding Heights* (2002)**
Running time: Three-part television series
Producer: WGBH/PBS (Public Broadcasting Service)
Summary: This PBS series tells the inside story of the world economy, the struggle between governments and markets, and the battle over globalization.

The Mystery of Capital Among the Indigenous Peoples of the Amazon
http://www.ild.org http://www.ild.org.pe/idb/executive_reportspe/indigenous-peoples-amazon/video
Running time: 28 minutes
Producers: Bernardo Roca Rey and Hernando de Soto; Institute for Liberty and Democracy Production
Summary: Hernando de Soto presents a documentary of significance with findings from indigenous communities in Alaska, Canada, and the Peruvian jungle.

***The Power of the Poor With Hernando de Soto* (2009)**
http://www.ild.org.pe/news/the-power-of-the-poor-PBS
Running time: 60 minutes
Producer: Free to Choose Media; John Templeton Foundation
Summary: TV documentary examines how Hernando de Soto's ideas and the ILD's legal reforms in Peru helped defeat terrorism and assisted other developing nations around the world in their own fight against poverty, exclusion, and terrorism.

***Wide Angle: Ladies First* (2005)**
Running time: 55 minutes
Producer: WNET Wide Angle
Summary: This film depicts Rwanda as a model of feminist opportunity because of a constitution that mandates women hold at least 30 percent of all positions in government and other decision-making positions.

PUBLICATIONS FROM THE BUREAU OF INTERNATIONAL INFORMATION PROGRAMS

***Democracy in Brief*.** Washington, DC: U.S. Department of State Bureau of International Information Programs.
http://www.america.gov/publications/books/democracy-in-brief.html

eJournal USA: "Entrepreneurship and Small Business," vol. 11, no. 1 (January 2006)
http://www.america.gov/publications/ejournalusa/0106.html

eJournal USA: "Markets and Democracy," vol. 13, no. 6 (June 2008)
http://www.america.gov/publications/ejournalusa/0608.html

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http://www.america.gov/publications/ejournalusa/1206.html

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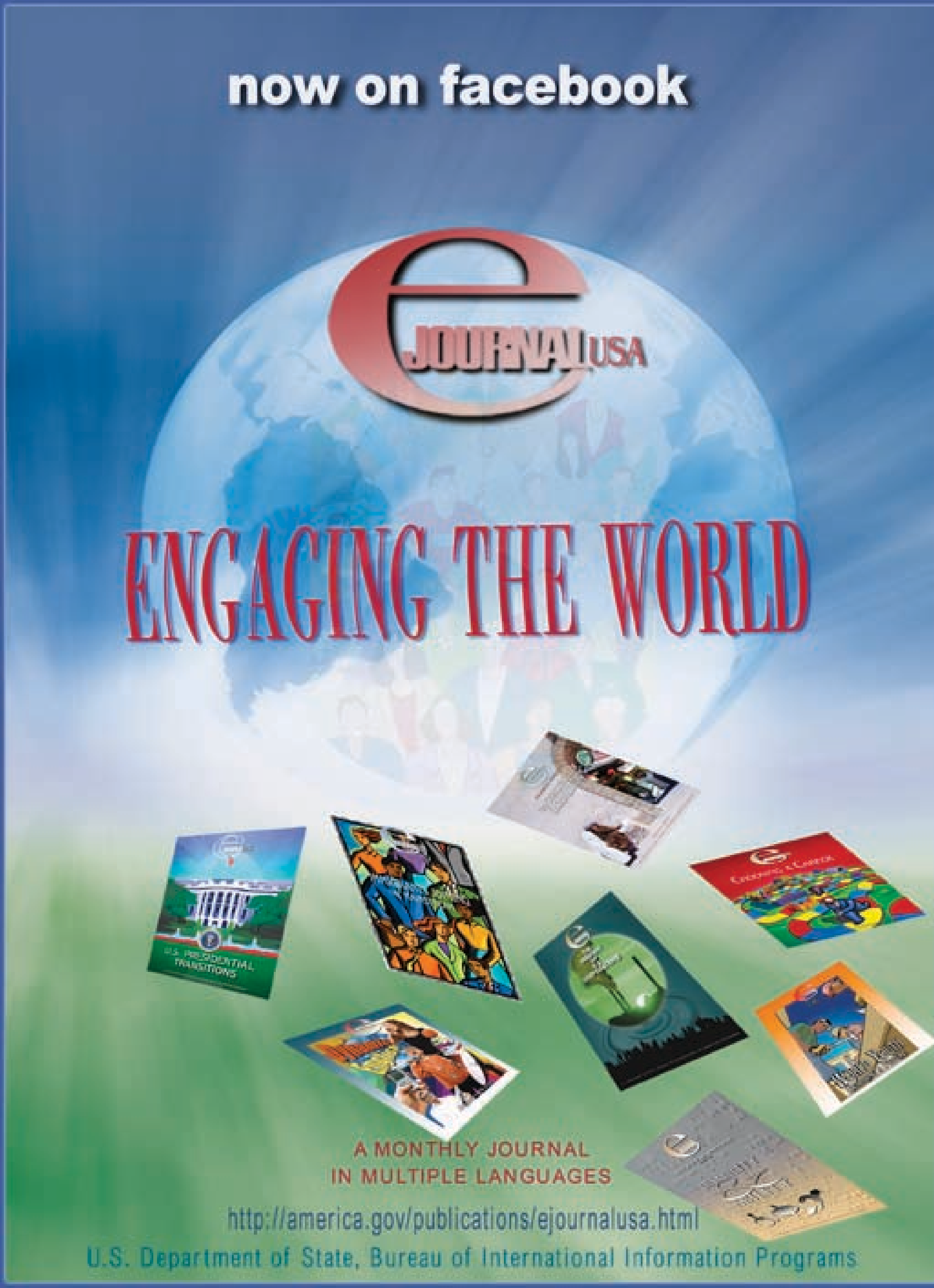
http://www.america.gov/publications/books/human-rights-in-brief.html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A MONTHLY JOURNAL
IN MULTIPLE LANGUAGES
http://america.gov/publications/ejournalusa.html
U.S. Department of State, Bureau of International Information Programs