The Private Sector Building Economic Growth
As Joseph O’Keefe so aptly points out in our opening piece, it is wise for those of us in the development community to remember how important the private sector is to the work we do. In fact, for every $1 in net long-term flows to the developing world from official sources, the private sector now invests $2–$3. The private sector is, according to World Bank Chief Economist Nick Stern, “the strongest and, indeed, the driving force for sustained economic growth” in the world. And it is in creating the framework for the private sector to flourish, that many of us in the public sector find our most challenging and valuable work.

Having said this, privatization has had a sometimes rocky birth in many parts of the world. In infrastructure, privatization has increased coverage in some areas, yet has failed in others due to poor project design, unrealistic investment and pricing, and poor management of the political process. And although the distributional effects of privatization are less gloomy than often envisioned, according to John Nellis and Nancy Birdsall, the process has not been managed well from the social perspective. Governments, they argue, can do more to minimize the welfare costs of increases in inequality caused by privatization.

In this issue we look at both the successes and failures of efforts to stimulate the private sector and to use its efficiency gains to better help the poor. Much progress has been made, and, as we see here, much can be learned from the experience of the past decade.
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African trade unions participate in poverty reduction

UNION REPRESENTATIVES from nine African countries joined World Bank staff in Lusaka, Zambia, in January, for a 6-day capacity building workshop aimed at enabling trade unions to constructively contribute to Poverty Reduction Strategy Papers (PRSPs). The workshop was intended to provide the union delegates with a deeper knowledge of the policy issues that labor believes are important for poverty reduction. The workshop was organized by the German cultural organization Friederich Ebert Stiftung (FES), the Worker’s Bureau of the International Labor Organization (ILO-ACTRAN) and the World Bank’s Social Protection Unit. By the end of the week, these organizations pledged technical and financial resources to support the unions’ national plans.

Vaccines for African children

THE MERCK COMPANY FOUNDATION is soliciting proposals from academic institutions in developed nations, working in collaboration with academic institutions in Africa in infectious disease research or related areas of collaboration, to develop new training initiatives focused on increasing children’s access to vaccines in Africa. The Merck Vaccine Network—Africa (MVN-A) initiative will support the Global Alliance for Vaccines and Immunization (GAVI), a public–private partnership focused on increasing children’s access to vaccines in poor countries.

The objective of MVN-A is to establish sustainable vaccine training centers in Africa that will provide education and training in immunization services for national and regional immunization program managers. Training programs will use World Health Organization (WHO) and other GAVI partner or internationally available source materials in curriculum development. Funding will be at a maximum of US$200,000 per year. The training programs should help increase the number and skill level of immunization managers in the short term, while building a model for sustainable immunization delivery infrastructure in the long term.

For more information contact Dr. Elaine Esber (+1 215 652 8828, or elaine_esber@merck.com). Or visit: www.merck.com

Adolescent Health and Development

IN FEBRUARY A VIDEOCONFERENCE on Adolescent Health and Development in Africa (AHDA) was held between the World Bank headquarters in Washington DC and 16 countries in Francophone Africa (Active countries: Benin, Burkina Faso, Guinea, Senegal and Rwanda. The observer countries were: Burundi, Cameroon, Chad, Cote d’Ivoire, Congo Brazzaville, Congo, Democratic Republic, Mali, Mauritania, Niger, and Togo). Participant groups were varied and ranged from ministers to youths. The objectives of the conference were to highlight key issues related to adolescent health and overall development trends in a global, regional and local context; enable all partners to understand the strong linkages between adolescent health and development, and the specific issues and challenges in the context of the Millennium Development Goals; and increase the commitment and partnership between leaders, development partners and relevant stakeholders at national, regional and international levels.

The past decade saw a rapid growth in, and strengthening of, networks of many organizations and individuals working in the field of AHD. Most of these organizations work at four often very distinct levels—international, regional, national, and local/community. However, in most regions of the world, especially in developing countries, there

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has been a lack of a focused vision, sustainable linkages and coordination between organizations and stakeholders at the various levels.

For more information contact Laurence Sage, World Bank Institute, Human Development (lsage@worldbank.org)

Philippines and Argentina scheduled for air cleanup

Both the consumption and production of ozone-depleting chlorofluorocarbons (CFCs) will be completely eliminated in the Philippines and Argentina through two projects approved by the Multilateral Fund for the Implementation of the Montreal Protocol (MFMP).

The projects, worth a total of $18 million, will permit the Philippines to phase out 2,018 ozone depleting potential (ODP) tons of CFC consumption and Argentina to cease production of 3,101 ODP tons of CFCs when Montreal Protocol CFC phase out obligations take full force in 2010. Technical and financial assistance will be directed to a large number of small enterprises, especially in the servicing sector, which is the most difficult target group under MFMP conversion initiatives.

Small entrepreneurs in Afghanistan to get loans

In November 2002, the IFC began the process to make its first investment in Afghanistan in 29 years. IFC’s equity stake in the First Microfinance Bank of Afghanistan (FMBA) will help create a full service financial institution to provide credit and savings opportunities to the poor and small businesses in a market starved for financial services following war and the collapse of the Taliban regime. FMBA will provide loans from about $30 up to around $1,500 to individuals and groups of borrowers, catering to businesses and entrepreneurs in the retail trade and in small scale production.

For more information contact: ddodd@ifc.org

Mexican workers acquire skills

More than two million Mexicans have benefited from PROBECAT, an initiative that offers unemployed people short-term job training assistance to improve their work skills. PROBECAT is just one of the many efforts Mexico has been carrying out with the support of the Inter-American Development Bank and other multilateral institutions. These efforts, which are run by the federal Department of Labor and Social Security in collaboration with several state and municipal agencies and private sector groups and businesses, are helping people gain skills that can boost their productivity and make them more employable. All too often, Latin American job training services are state-run programs with few incentives to adapt to what the market requires. In Mexico, however, the Labor Department acts more like a matchmaker, helping firms link up with certified trainers who can supply the training they demand. The experience gained in supporting Mexico’s labor market modernization has helped the IDB promote similar programs in Panama, Guatemala and the Dominican Republic. Other programs are in preparation for Honduras and Nicaragua.

For more information contact: editor@iadb.org

Opportunities for the disabled will reduce poverty

The World Bank hosted a conference on Disability and Development, last December. The conference focused on how to prevent disability and integrating the already disabled persons into mainstream society is central to dealing with poverty. There are nearly 500 million disabled people in the world, 80 percent of them living in developing countries. Since they are kept from attending school or finding work, they tend to be among the poorest of the poor, especially women and children. Yet, creating opportunities for disabled persons could be easily achieved through constructing accessible infrastructure, which would provide them with access to education and employment. Participating in the conference were figures such as U.S. Senator Edward Kennedy and Queen Noor of Jordan.


Send your views and comments on Development OUTREACH to: devoutreach@worldbank.org
BY JOSEPH O’KEEFE

Suppose you were asked to reduce the vast, complex sea of economic, demographic, and environmental data in the debate about the prospects of the developing world down to, say, four telling facts. Which to choose?

Perhaps you could start with arguably the best-known, oft-quoted economic fact in the World Bank Group lexicon: roughly 3 billion people in the world live on less than $2 per day. Then you could add in a demographic fact: roughly 200,000 children are added to the global population each day, and some 9 out of every 10 of them are born in a developing nation.

On the environment? It would be a tough choice between citing climate change or highlighting biodiversity. Let’s say for the sake of argument that you choose a biodiversity fact: the world’s endangered tropical rainforests, which reside in the developing nations, cover 6 percent of the world’s land surface, but contain terrestrial and aquatic habitats that are home to more than half the known species of organisms.

So you have chosen three facts, and already they combine to form a provocative moral, political, and economic challenge. How is the world possibly going to ensure adequate food, water, clothing, housing, and education for so many people without destroying what’s left of the planet’s environment? Good start.

But what is your last telling fact? It would have to be some piece of information indicative of the way forward: how to get through this narrowing global bottleneck of lopsided income allocations, increasing material demands, and diminishing ecosystems. Perhaps the answer is something about—to borrow a phrase from WBG Chief Economist Nick Stern—"the strongest and, indeed, the driving force for sustained economic growth" in the world.

That answer? The private sector. The fact: The private sector is larger than the public sector in all but a handful of developing countries, and for every $1 in net long-term flows to the developing world from official sources, the private sector now invests $2–3. O.K.—you caught me—that’s actually two facts, but you get the point.

The reality of the global economy today is that—regardless of what one thinks about the vices and virtues of market-based economics and globalization—private enterprise is one of the largest and most powerful levers available to foster development in the foreseeable future.

This was not always the case. As recently as 1991, there was still a 1-to-1 ratio between official long-term flows and private flows to the developing nations. But it hasn’t been nearly that close since. In the heyday of the global economy, before the Asian financial crisis, the ratio had climbed at one point to roughly $9 in private sector flows for every $1 in official flows. Since then, the proportion has drifted back downward, but private sector flows still predominate and are likely to continue doing so (see Table 2.1).

This fundamental change in the architecture of development resources has been the driving force behind far-reaching transformations in the developing world, such as sweeping policy reforms, privatization programs, increased private sector participation in the delivery of basic services, experimentation with public–private hybrids, and, of course, the ascendance of "globalization" as a divisive political issue. Indeed, in a number of recent elections in developing nations, the attitudes of the leading candidates toward the role of the private sector and foreign direct investment have been wedge issues.

With so much focus on the role of the private sector throughout the developing world, this is the perfect time for Development Outreach to focus on the topic. The key question to ask about development in 2003 is how can the private sector be harnessed to provide economic growth and a sufficient quality of life to the world’s poor while preserving the global environment.

Posing such a question in no way discounts or disparages the essential and invaluable role of the public sector. Few serious-
minded people in development ever frame the public and private sector as antithetical or exclusive solutions anymore. Such a question is simply a frank acknowledgment that the levers of economic growth and poverty reduction have changed.

There is a growing body of research showing the many ways in which the private sector contributes to development. We know, for example, that the private sector is often capable of rapid job creation, which is a significant factor in upward income mobility, freedom from hunger, and human fulfillment. One of the obvious direct benefits of those jobs is the generation of tax revenue that governments can use to address the needs of their populations. We also know that private sector investment is more closely associated with overall economic growth than public sector investment. It also helps in intangible but critical ways, such as transmission of new technology and ideas, creation of competition that spurs efficiency, and empowerment of disadvantaged groups.

A cautionary note is in order, nonetheless. Recognizing the leading role of the private sector in economic development does not mean that the nature of its role is fully understood, that it can guarantee poverty reduction, or that it can be easily guided toward achieving other desirable goals, such as long-term job security for huge segments of society. In fact, one could argue precisely the opposite: the rapid, perpetual, and decentralized process wherein countless private enterprises enter the market, introduce products, conduct price-sensitive commercial transactions, and exit the market is inherently volatile and unpredictable.

This is all the more reason why the work of the scholars and writers in this volume is such a valuable contribution. Reviewing the empirical evidence about what works and what does not work in private sector–driven development is critical to making the wisest use of the public funds directed toward that purpose.

The International Finance Corporation, the private sector lending arm of the World Bank Group, grounds its strategy in this experience–based approach. For several years, IFC has had a strategy that emphasizes five areas of private sector investment found to have high developmental impact: financial services, infrastructure, information technology, health and education, and small and medium enterprises. These sectors accounted for more than 60 percent of the funds committed by IFC for its own account and held for others for the past fiscal year.

There are many paradoxes in private sector development that have yet to be solved. Replicating successful programs for the creation and growth of small and medium enterprises, which Harold Rosen discusses in his article, has proven enormously difficult. Likewise with structuring private participation in infrastructure projects, the topic that Michael Klein navigates for readers.

Nigel Twose and Ziba Cranmer plumb two of the most fascinating paradoxes associated with global corporations. In many cases, there is an inverse relationship between their economic freedom—the ability to locate production facilities in far–flung countries, for example—and their social license to operate. The larger their operations grow and the more prominent their brands become, the more they are subject to formal and informal pressures from consumers to self–regulate their behavior.

The other seeming paradox is the "business case" for corporate social responsibility: the proposition that businesses can increase their own profits by spending more time and resources on the creation of public goods, such as clean air, clean water, health programs, and AIDS education.

In 1990, roughly 14 percent of the money lent by the World Bank Group went to private sector development. Today it is close to one third. The findings and research presented in this issue are, in a sense, small facts—like the facts cited at the start of this essay. But they are an essential step toward ensuring that we do a better job with each passing year to give those investments the greatest developmental impact possible.

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| TABLE 2.1 NET LONG-TERM RESOURCE FLOWS TO DEVELOPING COUNTRIES, 1991-2001 (billions of dollars) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net long-term resource flows | 124.2 | 153.7 | 220.9 | 222.4 | 260.2 | 306.6 | 341.4 | 336.7 | 271.8 | 261.1 | 196.5 |
| Official flows | 62.2 | 54.3 | 53.4 | 46.0 | 54.1 | 53.0 | 40.7 | 53.4 | 47.4 | 35.3 | 36.5 |
| Private flows | 62.0 | 99.4 | 167.6 | 176.4 | 206.1 | 276.2 | 300.7 | 283.3 | 224.4 | 225.8 | 160.0 |
| Capital markets | 26.4 | 52.2 | 101.0 | 86.3 | 99.3 | 145.5 | 128.2 | 105.0 | 40.1 | 59.1 | -8.3 |
| Debt flows | 18.8 | 38.2 | 50.0 | 51.2 | 63.3 | 96.5 | 98.1 | 89.4 | 5.6 | 8.2 | -26.8 |
| Bank lending | 5.0 | 16.3 | 4.1 | 9.3 | 30.9 | 32.2 | 45.6 | 51.9 | -23.3 | -6.1 | -32.3 |
| Bond financing | 11.0 | 11.1 | 36.7 | 38.1 | 30.7 | 62.3 | 49.6 | 40.9 | 29.5 | 16.9 | 9.5 |
| Other | 2.9 | 10.8 | 9.2 | 3.7 | 1.7 | 2.1 | 2.9 | -3.4 | -0.5 | -2.5 | -4.0 |
| Equity flows | 7.6 | 14.1 | 51.0 | 35.2 | 36.1 | 48.9 | 30.1 | 15.6 | 34.5 | 50.9 | 18.5 |
| FDI | 35.7 | 47.1 | 66.8 | 90.0 | 106.8 | 130.8 | 172.5 | 178.3 | 184.4 | 186.7 | 168.2 |

a. Preliminary
b. Estimate
Source: World Bank
Economists like privatization; the average citizen does not. Post-sale increases in firm profitability, higher returns to owners and investors, hikes in productivity and efficiency—these impress technicians. But the wider public is more struck by the apparent social costs. Privatization is seen as harming the poor, the disenfranchised and workers, raising prices for essential services, and giving away supposed national treasures to local elites, corrupt politicians, and foreign corporations and investors. For the general public, privatization is the prime cause of rapidly increasing inequality.

We take it as established that privatization has generally been good for efficiency and for new, private owners. What is known about its impact on the rest of society? At issue are the effects of privatization on the welfare of different income groups or households. This, in turn, depends on the prices groups and households face; their assets, including labor, human capital, land ownership and other physical or financial capital, and the return on these assets. We review the burgeoning literature and calculate that almost all privatization programs have done much more to enhance efficiency than
equity. At least initially, privatization has worsened wealth distribution and, to a lesser extent, income distribution. The increase in inequality varies across countries, from slight (in Latin America) to very large (e.g., in Russia and other transition economies).

Ownership

With regard to ownership, troubling or disappointing outcomes are common. For example, privatization in many transition countries was accomplished by a mass and rapid transfer of asset ownership from society at large (in theory) to a small group of agile, daring, often unscrupulous actors. One can argue that these assets are finally and necessarily being put to productive use, and that negative distributional consequences are regrettable, perhaps unavoidable and, it is hoped, temporary—but there is no doubt that ownership has become more concentrated, and asset distribution less equitable.

The ownership issue also causes concern in OECD countries. Following privatization of the electricity sector in Britain, for example, the new private shareholders, at the expense of both government and the taxpayers, captured the overwhelming bulk of the financial rewards generated by the substantial efficiency gains. Both government and consumers/taxpayers did reap some gains; the contrast is not winners to losers, but rather huge winners to very small winners.

To address the ownership issue, transition governments distributed vouchers to exchange for shares. In many other countries shares in firms being privatized were offered to employees, usually at a steep discount. Both tactics reduced citizen and employee resistance to privatization. In many cases sharp increases in share prices post-sale improved the income position of the shareholders, employee shareholders among them—but the number of people touched by such schemes is too small to make any difference to overall distribution patterns.

The distributional impact of vouchers has been particularly disappointing, not only in the infamous cases of Russia and the Czech Republic, but in Mongolia, Moldova, Kazakhstan, Lithuania and elsewhere. This is not in the sense of directly worsening the position of the recipients, who obtained the vouchers for free or at a nominal price, but rather in the sense of returns on the vouchers being so much less than anticipated or promised, and so much less than the amounts gained by the agile and/or dishonest few. Indeed, the principal distributional problem may be more psychological than financial. People were told, or it was implied, that the voucher was the means whereby the mass of state property would be equitably shared out among the citizens. This did not happen, and the disappointment and resentment engendered is still discernible and of political import in many transition countries, to privatization in particular, and to liberalizing reform in general.

Positive distributional outcomes in a few cases indicate that privatization does not inevitably increase inequity. For example, the Bolivian privatization program promoted both efficiency and equity, partly due to political foresight and clever program design, and partly to the stable macroeconomic situation prevailing when the program was launched, allowing authorities considerable financial latitude. The public’s perception of the program, nonetheless, remains negative.

Employment

In the run-up to privatization, public enterprise employment numbers tend to drop, sometimes greatly. Reductions generally continue post-privatization. One survey of 308 privatized firms shows employment reductions in three-fourths of cases reviewed. Details are scant concerning the jobs people find after dismissal from public enterprises. It seems that those lucky enough to keep or get new formal sector jobs earn the same or more in terms of salary, but work longer hours, with reduced fringe benefits and security of tenure. Females, the less educated and especially those older than 45 find it harder to obtain new jobs. Assuming that those dismissed derive most of their income from employment, we conclude that, at least in the short-run, the average employment effects of privatization have tended to worsen distribution (though these effects tend to be overestimated in the public’s perception).
Prices and access

UTILITY PRIVATIZATION generally results in network expansion and increased access to the service by the population, especially the urban poor; the rural poor are still generally left out. This is particularly the case in Latin America, e.g., in Peru, Argentina, Bolivia and Mexico. The increase in access is often substantial, and the rate of increase is far greater than before divestiture. Poorer segments of the population have benefited, disproportionately, from these coverage increases.

However, increases in access are often accompanied by increases in prices. The amount and structure of these price increases—partly due to the need for the privatized firms to raise their retail prices to cost-covering levels, and partly because inexperienced regulators have found it difficult to hold down or reduce tariffs in privatized infrastructure firms—are sometimes such as to produce, in the short-run, increased inequity. However, several recent studies in Latin America argue that the distributional benefits of increased coverage outweigh the negative impact of price increases.

Part of the price impact stems from the elimination of illegal connections to electricity and water networks. In Argentina, for example, 436,000 of the first 481,000 additional subscribers to the privatized electricity system were those who had had illegal hook-ups. In economic terms the shift from theft to paying status results in a clear welfare loss. On the assumption that a majority of those with illegal connections were lower-income people, the result is likely to be an increase in inequity.

Fiscal effects

ON AVERAGE, NET FISCAL EFFECTS OF PRIVATIZATION are receipts on the order of 1 percent of GDP over the period of peak sale activity. That is a substantial amount in a single year, but modest relative to the size of economies or even of government budgets over several years. In some countries, the critical fiscal benefit of privatization has been to eliminate direct budget transfers (that subsidized commercially unviable enterprises, or compensated for politically determined under-pricing of an enterprise’s service or products). That subsidy flow was substantial for politically visible public infrastructure services, such as energy utilities, railroads, and telecommunications; it caused rationing of under-priced services. This particularly affected poorer households, which often ended up without any services at all. The tax-financed subsidies provided benefits primarily to the non-poor in the form of employment at wages above the market, or under-pricing for those with access.

Many governments have used revenues from privatization to reduce the stock of public debt, a sensible application. But the distributional impact of privatization revenues is a function of the overall fiscal performance of a government, since even when revenues reduce debt stock, indiscipline on the fiscal side can lead to those revenues indirectly financing the government’s current expenditures or increasing its space to borrow more. It is argued that privatization revenues in the mid-1990s merely prolonged the period during which Brazil tried to sustain the nominal value of its overvalued currency and put off the day of reckoning, which finally came in 1998. The potential fiscal benefits were thus lost as government used reserves to protect the currency. The same failing has been suggested in the case of Argentina. Revenues from privatizations in the mid-1990s were significant over a period of three or four years; despite those infusions the government failed to generate the fiscal surpluses it needed. Both the national and sub-national governments kept on borrowing, and ultimately the privatization revenues were swallowed up in the collapse of the currency and debt default in 2002—with severely negative distributional consequences.

Conclusion

PRIVATIZATION’S DISTRIBUTIONAL RECORD is not nearly as bad as is popularly thought. But the process has often been poorly managed, particularly from the social perspective. Governments can and should do more in privatization to minimize the welfare costs of increases in inequality. They can do so without sacrificing efficiency objectives; indeed, we argue, short-term attention to equity concerns can boost medium-term efficiency. Societies can benefit from information to guide the policies that help determine the outcome on both dimensions. Some might choose an initially less efficiency-oriented approach, if only to diminish long-run risks to efficiency and growth that initial resulting inequities would undermine (through corruption or rent-seeking for example). Similarly, it may be worthwhile to minimize the perception that privatization is unfair, so as to preserve the political possibility of deepening and extending reforms. What seems clear from the first decade of post-privatization experience is that one cannot dismiss concerns with equity outcomes as irrelevant, as simply the natural and temporary price to be paid for putting assets back to productive use. We believe it is desirable and possible to design and implement privatization to maximize its potential for gains in distribution as well as efficiency and growth.

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Where Do We Stand Today with Private Infrastructure?

BY MICHAEL KLEIN

During the 1990s, investment worldwide in almost 2,500 private infrastructure schemes (new projects and privatizations) increased beyond all expectations from about US$20 billion in 1990 to some US$130 billion in 1997. It then fell back to about US$60 billion in 2001 (Figure 1). Both the boom and the decline were heavily concentrated in Latin America and East Asia (Figure 2).

Blaming privatization

Today investors are as nervous as critics of privatization are vocal. Both the nervousness of investors and the misgivings of critics are in large measure driven by the same underlying syndrome. In the beginning of the 1990s, tariffs for electricity services and water services covered on average only 60 percent and 30 percent of costs respectively (Figure 3). Privatization was seen as a way to help finance infrastructure investments as governments had run out of money. But while private parties might bring efficiency gains and thus reduce costs, it could not reasonably be expected that this would be enough to avoid eventual substantial tariff increases—given the state of government finances. This underlying syndrome has manifested itself in various ways and privatization has to some extent been blamed for unresolved underlying problems.

For example, in both East Asia and Latin America, investors were initially hopeful that reform dynamics would unfold that would allow tariff reform to come about. However, particularly the big devaluations in East Asia and later Latin America revealed that the cost of capital was much higher than incorporated into tariff levels. Sudden and large tariff adjustments in the middle of a crisis turned out to be politically impossible in most cases.

From this perspective, it becomes understandable why most problems with private investment and most criticism plague retail electricity and water schemes. In telecommunications, where tariffs tended to be relatively high or in ports, airports and freight rail, where wholesale customers were affected, there has been relatively little criticism and not much of a boom-bust phenomenon. In IDA countries, the (modest) trend in private participation continues to be up, in part because investors were more realistic from the beginning (Figure 4).

The benefits of privatization

During the 1990s, it also became apparent that private participation could bring better oversight and management. The most detailed studies assessed what happened under priva-
tization compared to what would have happened without it (Galal et al., 1994; Shirley and Menard, 2002). They conclud- ed that well designed private schemes have brought clear bene-
fits—but not perfection. For example, in water, the most diffi-
cult sector, in cities as diverse as Buenos Aires and La Paz as well as Abidjan and Conakry service coverage has increased signifi-
cantly (Figure 5). Extended coverage tends to bring the biggest
benefits to households with lower incomes, as they previously had
to pay much more for the service by small informal vendors.
The cases where private participation failed, for example, in Cochabamba (Bolivia) and Tucuman (Argentina), tended to be plagued by poor project design, including unrealistic
investment and pricing provisions, and poor management of
the political process (World Bank, 2002).

Private infrastructure schemes
IT IS NOW CLEAR THAT PRIVATE PARTICIPATION in infra-
structure is no panacea—but neither is going back to the old
ways. Governments realize this. Out of almost 2,500 private
infrastructure schemes worldwide only 48 have so far seen the
exit of the private sector (20 of which are toll roads, mostly in
Mexico). Even for water in Cochabamba and Tucuman, the
respective authorities are again considering private schemes,
but better designed with more realistic investment and pric-
ing provisions.
This implies that countries can be better served with sound
structuring of private schemes that involves: a) developing
regulatory regimes and strengthening regulatory capacity; b)
improving the efficiency and accountability of service prov-
sion through sound contract design and targeting of subsidies,
for example, via output-based approaches (in output-based
schemes, funds are disbursed against achievement of con-
thtractually agreed outputs as opposed to traditional project
finance where the focus has been on financing of inputs); c)
ensuring the transparency of privatization or award processes,
for example, disclosure of public interest items in concession-
type contracts; and d) developing local financial markets.

Regulatory institutions
THE HARDEST PROBLEM OF ALL is to create regulatory institu-
tions that render tariff decisions legitimate to the citizens and
credible to investors. Private firms are not free from greed,
and regulators are often caught between politics and private
interests. Encouragingly a recent study of over 900 private conces-
sions in Latin America shows that even moderately well func-

Figure 2: Investment in infrastructure projects with private participation in developing countries, 1990-2001, by region.

Source: World Bank PPI Project Database.

Figure 3: Cost recovery in infrastructure under the public sector


Figure 4: Investment in infrastructure projects with private participation in IDA countries, 1990-2001

Source: World Bank PPI Project Database.

Figure 5: Investment in infrastructure projects with private participation in developing countries, 1990-2001, by region.
Privatization is no panacea. Underlying policy problems, like the level of tariffs need to be tackled and private schemes have to be designed well. Technically it is possible to do this, but politically it may be hard. While the clients will ultimately choose, development agencies must not lose sight of sound basics and walk away when clients are not able to pursue sustainable projects, whether public or private.

- In arguing for privatization, the benefits of private finance must not be oversold. The big issue is who pays at the end—will it be consumers or taxpayers? The private sector does not pay. It can only help finance. Financial engineering solutions and guarantee mechanisms that are not built on sound fundamentals of user fees or fiscal support will come to haunt clients and development agencies.
- It is necessary to support schemes that address the needs of the poor, particularly by extending service coverage, but also where possible by focusing subsidy schemes better.

The question is whether the skeptical citizens in client countries can be convinced. We know, for example, that overall support for privatization in the Latin American region has declined precipitously. Recently, a poll in Peru, specifically exploring public opinion on currently stalled electricity distribution schemes, found that only 21 per cent of citizens supported privatization generally. But when asked specifically what citizens felt, if privatization was done transparently, if investment commitments were adhered to and if prices were set by the regulatory process some 60 percent to two thirds supported privatization (Figure 6).

The challenge now is to do things right and to convince citizens of this.

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References:
Small and medium enterprises (SMES) make up the largest portion of the employment base in many developing countries and, indeed, are often the foundation of the local private sector. The entrepreneurs behind them could—and should—play a much larger role in development, but too often are held back by a lack of ready access to financing from local formal sector financial institutions.

Viewing these smaller firms as costly, high-risk credits, many commercial banks avoid lending to them, concentrating instead on "safer" options such as financing larger local or multinational corporations, or holding high-yield government bonds. While understandable given current realities at many banks, this approach unfortunately dims the prospects for sustainable development by ignoring the necessity of a bottom-up capital formation—a key factor in the job creation necessary for reduction of poverty and income inequalities. And we need not settle for it. Proven models of profitable small business banking do exist that can be transferred from country to country, scaled up over time, and then replicated more widely for considerable development impact.

Project Development Facilities

The World Bank Group SME Department, a joint effort of the World Bank and International Finance Corporation (IFC), is taking on this agenda, using several strategies to increase SME access to capital. This involves not only supporting the traditional WBG product of channeling of medium-term hard currency loans channeled through local banks, but also several new capacity building initiatives started by our multi-donor Project Development Facilities (PDFs) to improve commercial banks’ SME lending skills and thus help tap into a potentially large and lucrative domestic market.

IFC currently manages nine multi-donor IFC-managed SME facilities around the world. These facilities, typically funded 20 percent by IFC and 80 percent by our donor partners, are building the capacity of SME lenders in their target regions as part of a broader service package that also includes management training, technical assistance (TA) to businesses and business associations, and helping create greater employment opportunities through large company/small company linkages programs.

SME facilities around the world

In Vietnam, for example, the Mekong Project Development Facility (MPDF) is working to improve SMEs’ access to finance through a Ho Chi Minh City-based commercial Bank Training Center (BTC) it launched in 2001. This initiative began with MPDF analysis that identified internal obstacles keeping Vietnam’s banks from doing more profitable SME lending, leading to a BTC business plan that attracted seed capital of $100,000 from 10 private local banks serving mainly SMEs. These small banks lacked the resources to organize in-house training programs, but have now come together to create a for-profit solution that will provide fee-based training courses to themselves, their competitors, and similar banks in Cambodia and Laos. In its first year, the BTC provided top-quality commercial training courses to more than 2,700 local bankers, offering 30 different courses covering such important areas as Customer Focus and Service Quality, Credit Risk and Lending to the Household and SME Sectors, Risk Management in Banking, and others.

In its first year of operations, demand for the BTC’s cours-
The Mekong Project Development Facility (MPDF) is an IFC-managed multilateral SME development initiative based in Vietnam. It has helped increase local capital flows to SMEs by launching the Bank Training Center, a commercial venture owned by 10 leading private Vietnamese banks that offers training courses not only to its own shareholders, but other financial institutions as well.

**SHAREHOLDERS: VIETNAMESE BANKS**
- Housing Bank
- VN International JSB
- Asia Commercial Bank
- Sacombank
- East Asia Bank
- Military Bank
- Eximbank
- Techcombank
- Habubank

**BANK TRAINING CENTER**
- Fee-based training courses
- Skills development

**RESULTS:** More than 2,700 Vietnamese, Cambodian and Lao bankers trained in SME Finance.

es have vastly outstripped the supply, and the training center has been able to meet client needs while consolidating this demand to make its operations commercially viable. Initially led by a former head of Standard Chartered Bank’s external training center in Jakarta, this capacity building initiative is doing much to help local bankers learn the practical skills they need to lend profitably to small businesses. It thus has synergies with broader World Bank Group operations, supporting key objectives of the Country Assistance Strategy for Vietnam, and complementing IFC’s own recent investments in two BCT shareholders that are emerging as model financial institutions for the country, Asia Commercial Bank and Sacom Bank.

Similar objectives are being met in other countries as well. In keeping with IFC’s decision to cut back its direct SME lending in favor of generating more funds from domestic financial institutions, over the last year the PDFs have also recently held seminars to introduce local bankers in Bangladesh, China, India, Indonesia and Nigeria to successful foreign models of SME lending. This creates new opportunities for knowledge transfers that will enable them to take advantage of the vast underserved “middle” market represented by SMEs in their region.

In western China’s Sichuan province, where incomes lag far behind those of the more prosperous coastal regions, the China Project Development Facility (CPDF) organized an October 2001 lending workshop for the management of Chengdu City Commercial Bank. This institution has a solid track record in SME lending with 80 percent of its loanable funds concentrated in financing over 3,000 local SMEs. For a city like Chengdu that is home to more than 129,000 SMEs accounting for 99 percent of the total number of firms, the “Best International SME Lending Practices” conference was an important means by which Chengdu’s bankers and entrepreneurs could learn about successful SME lending models in other parts of the world, thereby overcoming the “access to knowledge” problem faced in many frontier markets.
Speakers at the Sichuan conference topics covered both credit risk management (a framework that outlines ideas on how to run an SME bank) and credit risk analysis (a framework that provides local banks with a systematic approach and effective set of tools to gauge an SME’s strengths and weaknesses). The awareness of SME needs generated at this seminar for local banks eager to better serve Chengdu’s booming small business sector has created strong demand for CPDF’s concentrated efforts to develop the supply side of the SME funding equation. CPDF has also finished training 100 credit officers at the China Construction Bank (CCB) Sichuan branch, strengthen their skills in SME lending. This will equip CCB well as it moves forward in its decision to enter the local small business market, a crucial source of job creation at a time when China is otherwise often shedding jobs through the restructuring of its large state-owned industrial enterprises.

A similar approach is being taken by the SouthAsia Enterprise Development Facility (SEDF), a newly launched initiative funded by the IFC and other donors, which has targeted its efforts towards greater SME financing from local Bangladeshi banks. In June 2002 SEDF kicked off operations with a conference similar to the one hosted by CPDF earlier, where it brought to Dhaka several SME finance experts and officers from highly successful SME lending institutions worldwide like Business Partners of South Africa, PlantersBank of the Philippines and the National Development Bank of Sri Lanka. Local banks have since responded very positively to SEDF’s access to finance program: Dhaka Bank Limited has already signed an agreement with SEDF to collaborate on training and TA on information technology (IT), marketing, human resource development and credit management. SEDF is also working with numerous other local financial institutions to make them aware of the profitability potential of Bangladesh’s large SME sector. For a country of 130 million that is one of the poorest in the world, development of the SME sector of 200,000 companies employing over 80 percent of the industrial work force represents a key means for sustainable job creation and economic expansion.

The Africa Project Development Facility (APDF) is pursuing this agenda as well. In Francophone West and Central Africa it has recently provided training in SME Credit Risk assessment to 241 loan officers from 66 different local and regional financial institutions spanning 13 different countries. Organized in cooperation with the European Union, this module begins with five days of group training, then leads to five more days of in-house training where the bankers learn to develop and adapt their new analytical tools, apply new skills to specific credit files, and work on the organizational aspects of SME portfolio management. Similarly, in Ghana APDF has brought in facilitators from the prestigious Lagos Business School in neighboring Nigeria to train 20 credit officers from a cross section of Ghanaian banks on topics such as The Entrepreneur-Beyond the Business Plan, Developing New Business Ventures, Challenges of Growth, and Determining Working Capital Needs.

Conclusion

No effort toward poverty reduction in developing nations is sustainable without growth of SMEs. One of the first steps toward a vibrant SME sector is the opening of more financing channels, and ensuring that they are focused on building strong partnerships and trust between SMEs and their local banks. This would have lasting impacts in helping local entrepreneurs obtain the capital they need to build their businesses and create more jobs in economies that sorely need new employment opportunities.

The International Finance Corporation’s Harold Rosen is Director of the World Bank Group SME department.

Shaela Rahman provided editorial assistance with this article.
As experience has shown, ensuring that all members of society benefit from economic reform is a complex and uncertain process. There is an urgent need to involve new communities and find better ways to create inclusive economic growth. The Multilateral Investment Fund (MIF) small demonstration projects are testing new concepts, advancing innovative ideas and broadening economic participation. Among the many development agencies striving to improve economic conditions, MIF is equipped with a mandate and resources that allow it to play a special role.

It is often difficult to identify whether the results of technical assistance arise from the approach taken in a given project, or whether the outcome is due to its unique circumstances. This can lead to a lot of frustration and wasted resources as models are tried over and over again, until there is sufficient experience to reach some conclusions about the effectiveness of a given approach. Also, people often struggle with very similar challenges and problems, quite unaware that others have identified lessons that can be usefully applied.

To help deal with these realities, MIF has introduced a new approach to private sector development in Latin America and the Caribbean. Instead of funding a number of unrelated projects, MIF is now delivering technical assistance via project clusters.

How Project Clusters work

Project Clusters are a concept whereby a series of projects are inter-related from their inception, and identified, developed, implemented and evaluated as a group. Cluster topics are identified based on demand from the region and on the experience gained with promising pilot initiatives. While projects have always been grouped in various manners on an ex post basis, the cluster approach extends this to a conscious method of identifying and delivering development assistance. Its underlying purpose is twofold—to build networks among those directly involved in addressing similar development challenges, and to increase the effectiveness of testing a given set of interventions.

Clusters start with a policy paper that analyses specific private sector issues, and suggests types of initiatives that could be undertaken by the cluster. After approval by MIF’s Donor Committee, this framework paper is widely shared with potential partner NGOs, business groups and public sector agencies throughout Latin America and the Caribbean. These partners propose specific projects for inclusion in the cluster so that their development effectiveness in addressing these concerns can be tested with sufficient concentration to obtain clear results.

Clusters are supported by a coordinator who regularly visits projects, fosters the sharing of experiences, and facilitates project implementation. A key aspect of the coordinator’s responsibilities is to report on lessons learned on an ongoing basis, so that best practices can be identified and shared among the partner agencies. Seminars, workshops and other events are typically organized to help build a network among those involved in implementing the initiatives and promote the identification of useful practices.

There are many advantages to the cluster approach. It strengthens project design and implementation, giving project teams, executing agencies, and those supervising implementation access to ongoing technical expertise; promotes communication among executing agencies facing similar challenges and helps build regional networks; and maximizes generic lessons learned and identification and dissemination of best practices.
Project Clusters in action

MICROFINANCE. Over the past decade MIF has invested in every instance of the region’s NGO micro-lenders transforming into regulated financial institutions. Technical assistance has been provided to over 40 microfinance institutions to strengthen financial and administrative processes, improve control of operations, and introduce specialized credit and risk management techniques.

In the Fall of 2001, the MIF approved a highly innovative project designed to link an Ecuadorian bank, Banco Solidario, with several Spanish financial intermediaries. The project is designed to both reduce the costs of remittances by Ecuadorians living abroad and at the same time provide more resources for microenterprises in Ecuador. The line of credit offered through this project is allowing Banco Solidario to reach out to about 2,000 entrepreneurs, with each loan averaging about $1000. Over the six-year life of the line of credit, the beneficiary microenterprises will be able to increase productivity through financing provided for working capital.

EQUITY AS A DEVELOPMENT TOOL. Since its first investments in 1996, MIF’s portfolio has grown to a commitment of $164 million in 33 funds, leveraging an additional $270 million. These funds are demonstrating the viability of such new financial products to finance small business start-ups and expansion, and are helping to expand the frontiers of private equity. MIF is building on this pioneering ‘market-maker’ role by supporting reforms in regulatory and legislative frameworks, and by helping remove barriers to small business financing.

The importance of equity investment in small firms is illustrated by the experience of Jolyka Bolivia S.R.L. Investments and financing from the EcoEnterprise Fund and Fondo de Capital Activo de Bolivia enabled the company to realize its vision of producing hardwood flooring products from managed Amazonian forests. Jolyka was founded in 1995 and received these investments in 2000. Today, Jolyka is the third largest exporter in Cochabamba. Its sales have increased 500% and it has generated 35 new jobs. Jolyka, by being committed to purchasing from sustainably harvested and well-managed forests, has created incentives for sawmills to become certified in responsible forest management.

QUALITY MANAGEMENT. As markets around the world become more closely integrated, there is a growing need for suppliers to adhere to international quality management standards (ISO) and food safety protocols. MIF’s 12 projects are building regional quality management capacity, working at
both the firm level as well as with the regulatory and institutional frameworks. A special focus of the projects is to ensure that smaller firms also benefit from the productivity enhancements that can be realized through quality management techniques. To date, more than 13,000 people have participated in general seminars to raise awareness, and 4,000 have been trained in quality management techniques.

**SKILLS STANDARDS AND CREDENTIALING.** Workplace based skills standards and credentialing systems improve worker mobility and modernize skill assessment. Employers cannot find enough workers already trained in needed job skills. Workers find it difficult to have their on-the-job experience appropriately recognized by new employers. MIF projects have been working in particular industry sectors with both employers and labor to develop occupational skills standards that allow both workers and employers to train and assess performance against industry-accepted criteria. These projects not only address the need to recognize and standardize on-the-job skills training, but also help create a more effective system of private sector specialized skills training by clearly identifying workplace needs.

An MIF grant to the Instituto de Hospitalidade in Bahia, Brazil, had an immediate effect on the life of Paulo Gomez. This 35-year-old father of three, had worked 50 to 60 hour weeks in a variety of jobs since joining the Bahia workforce at the age of fifteen. After seven years with his most recent employer, Paulo only made slightly more than minimum wage, hardly enough to support his growing family. When a tourism training program was introduced in his city, promising job skills and growth potential, Paulo decided to enroll. Within four months, he had the necessary skills to serve as a waiter in a hotel restaurant. Within a year, he became a supervisor, making more money than he ever dreamed of. Pablo enjoys working with people, and feels he now has a career. In Bahia’s growing tourism industry, there eventually will be dozens of quality restaurants and hotels competing for someone with his skills and positive attitude.

**ALTERNATIVE DISPUTE RESOLUTION.** Efficient resolution of commercial disputes is a key factor in small business competitiveness. MIF projects introduced ADR into the region through the establishment of a network of 16 centers offering a simpler, less costly way to resolve commercial disputes.

**REMITTANCES AS A DEVELOPMENT TOOL.** Untapped development potential of more than $23 billion in remittances flows annually into Latin America and the Caribbean alone. Remittances, funds sent by migrant workers back to countries of origin, are a key economic factor in many national economies, often accounting for more than 10% of a country’s GDP. Yet the high costs of transmittal coupled with low participation rate in the financial sector have curtailed the development potential of these massive flows. MIF is working to increase the development impact of these funds through lower costs, mobilizing savings and increasing the participation of migrant communities in the financial sector.

**CLEAN PRODUCTION.** Small businesses should see environmental management as an opportunity—not a cost. A series of Cleaner Production projects in the region, are helping to reduce pollution and waste at their source, by reducing or substituting inputs, recycling, and use of more efficient processes. Frequently, such measures cut costs, reduce liabilities and open new market opportunities. These compliment the many environmental initiatives MIF has funded over the years to enhance eco-efficiency and improve environmental management.

**Conclusion**

**THE FOCUS ON PILOTING NEW IDEAS** has enabled MIF to be highly flexible and responsive to the development needs as seen from the local level, resulting in the empowerment of NGOs and business groups that are determined to improve their economic future.

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Responsibility Breeds Success

BY NIGEL TWOSE AND ZIBA CRANMER

KHIEU THIEN THUAT IS MANAGING DIRECTOR of Coats Phung Phu, a medium sized footwear and apparel factory in Ho Chi Minh City, Vietnam. Once a state owned enterprise, it has been equitized and is currently a joint venture. Mr. Thuat is operating in an economy in transition, picking up signals from his buyers about price, quality and standards rather than from the state. His buyers are now primarily outside Vietnam: Nike, Adidas, Reebok, Timberland, Puma, Triumph, and Tommy Hilfiger. Anticipating buyer requirements for higher labor standards, Coats Phung Phu spent thousands of dollars to receive SA 8000 certification, the most stringent corporate social responsibility certification standard in the world today, and modeled after the ISO system of quality certifications. Mr. Thuat’s rationale, and the new and improved standards applied in his factory today, reveal the way that the global marketplace is learning to operate. Seattle may have botched an
Corporate Social Responsibility

Corporate Social Responsibility, or CSR, is an agenda as old as enterprise itself. But globalization now appears to be encouraging a market-driven cycle of CSR pressures that stimulates voluntary social, environmental and ethical improvements at the firm level. The World Bank has argued for some years that there is no locational race to the bottom for multinationals—that is, firms do not generally seek production locations based on lax regulations, weak enforcement, ease of pollution, or solely on the basis of cheap labor. Foreign investors tend to be concerned about the fundamentals (macroeconomic performance, governance and political risk) plus their reputation in markets where high standards are seen as desirable. This is the context in which the market-driven cycle for CSR is demonstrating how standards can be raised for sound business reasons. Under this model, firms that do not perceive a business benefit are under no obligation to undertake CSR activities, and will not do so.

The chain of market-based pressures and relationships that can produce a “CSR cycle” is not always logical, but an example of the CSR cycle involving an MNC with a broad global supply chain often looks like this:

- Multinational corporations selling in the industrialized countries of the world contract suppliers located in emerging markets to manufacture their products. Suppliers are most frequently located in countries where wage costs are low and the regulatory environment is often underdeveloped.
- Stakeholder groups draw media attention to environmental and social issues within a globalizing economy, increasing reputational risk for any firm that is unable to demonstrate supply chain integrity. The literature shows systematic evidence of multinational companies exposed by so-called anti-sweatshop campaigns being subsequently punished by the market through sharp decreases in share prices.
- An increasing number of consumers want reassurance about the integrity of the supply chain behind the products they buy.
- Firms respond to these pressures with CSR investments, often in the form of codes of conduct for their suppliers, working to ensure that these investments help protect reputation and where possible create increases in productivity, quality, and cost savings and the supply factory level.
- The end of the cycle for the multi-national corporation is often market reward or at the very least risk mitigation: maintaining brand reputation, an increased share of existing markets, access to new markets, and access to capital from socially responsible investment portfolios. For producers of these MNCs, one of the primary market rewards is maintaining or winning new contracts.

Of course, the drivers for CSR are not always sufficient to realize the market reward, civil society pressure does not target all industries or companies equally. The extent of these pressures helps determine the business case. This CSR cycle only tells half of the story, with the other half relating to the challenge of compliance by suppliers whose capacity in this area is often underdeveloped.

Emerging market producers embrace CSR

Across the world, a pattern is emerging of the kinds of firms for which the CSR agenda appears particularly relevant: supply chains involving suppliers of consumer goods in emerging markets where the regulatory regime is often weak selling to buyers with consumers in developed countries; buyers with a contract relationship to the producers and no ownership stake in the production facilities; buyers of “lifestyle” or image-oriented products with valuable brands to protect; labor-intensive manufacturing.

Mr. Thuat had seen the CSR cycle in action in Vietnam’s athletic footwear industry. Allegations of sweatshop abuse frequently arise in the apparel and footwear sectors, which are dependent on image-oriented products, labor intensive, geographically mobile and highly price competitive. In 1997, a leaked audit report by international buyers was heavily critical of sweatshop conditions in footwear contractor plants in Vietnam; it received wide media exposure in the US and Europe. The global brand companies—the buyers—responded by introducing CSR codes of conduct down their supply chains, with the objective of ensuring acceptable working conditions in response to activist groups, concerned consumers and stockholders.

The brand companies were clear about the prime benefit they sought for themselves: reputation assurance. Supplier factories’ prime benefit has been holding on to existing contracts or gaining new business from CSR-sensitive buyers, but there is emerging evidence, much of it anecdotal, that accept-
The inclusion of a CSR code has brought supplier factories additional business benefits. Such reports fit the general pattern of CSR-derived productivity and quality improvements reported across 60 countries and 240 businesses by IFC in their recent report 'Developing Value' (see References).

For the buyers, business benefits fall into three broad categories: protecting their brand against existing or potential civil society attacks; promotion of brand as sustainable products, niche market and price premium; and inclusion in socially responsible investment portfolios. For the suppliers, the benefits appear to be: maintaining or winning contracts; improving productivity, innovation and quality; declining employee turnover; and improving social 'license to operate.'

In parallel with these business benefits, we see clear evidence of development gains from CSR-derived improvements in labor standards, such as: improved quality of life and health for workers and their families; improved enforcement of the labor law through this complementary market-based mechanism; and improved national competitiveness—as more companies implement CSR activities, the reputation of the country as a safe place to invest for CSR sensitive firms will increase. The benefits achieved by an individual firm that undertakes CSR activities clearly vary.

**Codes of conduct to achieve higher standards**

These CSR-derived gains are generally achieved through CSR codes of conduct. CSR codes for supply chains emerged in the early 1990s, with the first created by Levi Strauss in 1991.
in direct response to concerns about labor conditions in supply factories in developing countries. Codes stipulate the social, environmental and ethical requirements for suppliers, require monitoring of their implementation, and regular independent audits; in this way, they help firms implement standards that go beyond those that are enforced locally. We estimate there to be perhaps 1,000 codes in existence today, developed by individual multinational companies on a voluntary basis, depending on their business needs.

The content of those initial codes varied widely, but today their content is converging rapidly around standards established by the International Labor Organization. Most codes cover approximately 10 points, and represent principles corresponding to the ILO Core Conventions including: forced labor, child labor, freedom of association and collective bargaining, discrimination, as well as health and safety, wages and hours of work. This content also overlaps strongly with national legislation, including the labor code in Vietnam. It seems that the primary development gain of CSR codes is not to create higher labor standards, except in those countries where national labor law is less than international norms. Instead, and arguably more usefully, they provide an instrument and accompanying process that supports enforcement of laws governing working conditions.

Key challenges

Over the last 10 years of development and expansion of business-to-business CSR codes, three key challenges have emerged:

The first challenge is one of inefficiencies and confusion. Inefficiencies have emerged as a result of industry structures characterized by shifting contractual relationships among suppliers and buyers with a lack of long-term business relationships, and suppliers with multiple buyers. Increasingly, each buyer has its own code of conduct. CSR training requirements, buyer monitoring and external verification audits. The result is overlap and repetition, with unnecessary burdens on both the buyers, who generally cover the cost of monitoring, and the suppliers who have to allocate time. Confusion about CSR among suppliers has two consequences. First, it serves as a barrier to entry for suppliers wishing to be proactive in addressing CSR as a means of attracting or retaining clients: it is not clear how they can best demonstrate compliance to a range of potential CSR-sensitive buyers. Secondly, despite some convergence in code content (especially in labor content), significant discrepancies remain in monitoring, auditing processes and remedial action. Confusion can undermine CSR code implementation.

The second challenge is insufficient business justification for making the required CSR investments. Some issues can be addressed through a cost-benefit analysis framework, but it is likely that for some actors, the business case does not exist—the risk of market sanction and the benefits of CSR implementation are not sufficient.

The third challenge is an evolution away from top-down enforcement by buyers to strategies that incorporate empowerment, capacity building and training. The evidence seems clear that a top-down policing approach to CSR compliance is insufficient. A supplier who is only implementing CSR standards because of buyer insistence can find ways to evade compliance without too much fear of detection. A number of buyers have now acknowledged the need for shared ownership of CSR standards throughout the supply chain, including: a focus on the business rationale; capacity-building support at the factory level, for management and workers alike; and an emphasis on the role of workers as guarantors of CSR implementation.

Trade unions have long argued that empowered workers are key to ensuring implementation of CSR standards because of their continuous presence at the worksite and their stake in the outcome. Some buyers and suppliers are undertaking experiments to increase the involvement of workers in their CSR implementation strategies through NGO-style participatory techniques. For example, Union Footwear in Thailand was encouraged by their primary buyer Nike to implement supervisors’ skills training using a participatory interactive methodology developed by the Global Alliance for Workers and Communities, focused on communication skills and factory culture issues, and then tracked productivity. According to an interview with factory management, they found 5-10 percent improvements in lines where supervisors had received the training. They also tracked sick leave patterns after health training and health clinic improvements introduced by the Global Alliance: sick leave declined from 4 percent a day to 2 percent. Similarly, Lian Thai, an apparel factory in Thailand, has monitored the correlation between health inputs (training on nutrition, exercise, first aid and peer counseling) with visits to the factory clinic; these fell from 70 to 80 patient visits per day to 5 to 10.

Results show the way

Mr. Thuat of Coats Phu Phung is convinced that the money invested in improving the work place and in achieving SA 8000 certification was well spent. Their results are impressive, both in terms of sales and employee satisfaction. Mr. Thuat’s conviction of the direct correlation between CSR investment and productivity gains has not gone unno-
CORPORATE GOVERNANCE refers to the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, the board of directors, the controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital.

The OECD Principles of Corporate Governance provide investors and other stakeholders with a general framework for assessing the adequacy of the legal regulatory and institutional environment, and the strengths and weaknesses on governance of individual companies. The OECD principles identify the key issues on corporate governance: the rights and equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the responsibilities of the board of directors. They are universally applicable to all types of corporate governance systems in countries at all levels of economic development. Although the key issues are highly relevant for all types of companies, the OECD Principles were written for the case of publicly listed companies.

Since they were issued in 1999, the OECD Principles have gained acceptance throughout much of the world as an appropriate framework for analyzing the corporate governance environments of different markets and as a starting point for developing approaches to evaluate the effectiveness of governance of individual companies. However, as a consequence of the universal applicability of the Principles, they do not
provide detailed prescriptions for good corporate governance for particular countries or companies. The challenge for an international investor in the private sector such as International Finance Corporation (IFC) is to take this framework of international best practices of corporate governance and use it to add value to the wide spectrum of emerging market companies.

Why corporate governance matters for IFC clients

IFC involvement provides an opportunity to enhance the transparency of capital markets, strengthen private savings, and adopt a more democratic approach to shareholding.
—Nicanor Restrepo, President of Suramericana, IFC client in Colombia. IFC Annual Report 2002.

Good corporate governance improves access to capital for client companies. Much of the attention given to corporate governance issues in emerging markets among policy-makers and academics has focused on the role governance can play in improving access for emerging market companies to global portfolio equity. An increasing volume of empirical evidence indeed indicates that well-governed companies receive higher market valuations (Klapper, 2002). However, improving corporate governance will also increase all other capital flows to companies in developing countries: both domestic and global capital; both equity and debt; and both publicly issued securities and private capital sources.

In addition, regardless of the need to access capital, good corporate governance will bring improved performance for IFC clients. Improved governance structures and processes will improve decision-making within the company, ensure effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and their sources of finance.

Why corporate governance matters for IFC

Corporate governance is a priority for IFC because it presents opportunities for IFC to manage risks and add value to clients. In addition to the benefits to individual client companies, working to improve corporate governance contributes more broadly to IFC’s mission to promote sustainable private sector investment in developing countries.

As an investor, it is in IFC’s interest to reduce the risk of investments by improving the governance of investee companies. In the worst corporate governance environments, poor governance standards and weak enforcement continue to be a barrier to investment even for IFC with its mandate to work in frontier markets. Improving corporate governance of investee companies allows IFC to work in high risk environments. It should also bring an increase in the market valuation of companies and attract more investors.

In recent years, IFC has worked with some of its highest-profile clients to improve their governance. By establishing best practices among high-profile clients, IFC is able to have a positive demonstration effect that benefits other companies. By working with individual clients, IFC helps to increase the investment flows to developing countries.

Improving corporate governance contributes to the development of the public and private capital markets (Claessens, 2002). Poor governance undermines the integrity of publicly traded securities and discourages the use of public markets as a means to intermediate savings. Poor standards of governance, particularly in the area of transparency and disclosure have been a major factor behind instability in the financial markets across the globe. This was seen in the case of the East Asian financial crisis of 1997, where so called “crony capitalism” combined with macroeconomic imbalances to bring an end to decades of outstanding economic growth. Most recently, poor corporate governance failed to prevent mis-management and fraud that led to the dramatic corporate failures in the USA.

IFC’s comparative advantage in corporate governance

IFC is able to add value to clients in the area of corporate governance because of the expertise it has developed in this area over many years, advising governments, clients and others, and structuring investments across a wide range of markets and industries.

IFC plays a leading role in the global policy dialogue on corporate governance and provides technical assistance to regulators, stock markets and others. In the former Soviet Union and China, IFC manages a series of large donor funded technical assistance projects that help companies formalize their governance and improve their transparency. IFC staff organize corporate governance events and carry out advisory work across the world, such as co-sponsoring the OECD Roundtable in Latin America and establishing Networks of Institutes of Directors in East Asia, Central and Eastern Europe and Latin America. IFC staff work with the Global Corporate Governance Forum, with particular responsibility for assisting the work at the Forum’s Private Sector Advisory Group (PSAG) of leading experts on corporate governance from across the OECD and emerging markets. In this capacity, IFC has convened meetings of investors representing $3 trillion in Brazil, Russia and China.

Probably most important is IFC’s accumulated experience
as an investor in developing countries since 1956. Although the term "corporate governance" has only become widely used in the mass media over the past five years, IFC has worked on the key issues of corporate governance at the grass roots level for decades—structuring client companies, appraising investment opportunities, and nominating board members. This practical experience allows IFC to tailor global principles to the realities of the private sector in developing countries. Development banks and other investors working in emerging markets now look to IFC for leadership on corporate governance issues in developing countries.

Sustainability and corporate governance

Corporate governance is one of the pillars of IFC’s focus on sustainability, along with environmental and social safeguards. A company that is well governed is one that is accountable and transparent to its shareholders and other stakeholders, such as, employees, creditors, customers and the wider society. Better corporate governance increases the likelihood that the enterprise will satisfy the legitimate claims of all stakeholders and fulfill its environmental and social responsibilities. Accordingly, it ensures the long-term, sustainable growth of companies, which is necessary to economic growth.

Mike Lubrano is Principal Financial Specialist and Head of the Corporate Governance unit of IFC.

References
Hi-tech Booms in Russia

While It Bombs in the West
IT COMPANIES IN RUSSIA have seen rapid growth and expansion over the last year or so, even while the tech sector in the United States and Europe has been languishing," said IFC’s Adam Portnoy, a Senior Investment Officer in IFC’s Global Information & Communication Technologies Department.

Over the last year, IFC has made a number of investments in the Russian IT market, including a $12 million investment in Information Business Systems, Russia’s largest IT company, and a $1.5 million investment in Evarti, an early-stage financial services software company. IFC recently approved a $6 million investment in Ru-Net Holdings, a leading Russian IT services company, and the IFC IT team is planning on making further investments over the next 12 months. All of this activity has resulted in IFC being widely recognized today as the leading investor in the Russian IT industry.

"There are a number of reasons why IFC is investing in the Russian IT sector," said Portnoy. "Russia has an enormous amount of scientific talent inherited from the Soviet Union, and there is a lack of capital available for Russian companies in this sector. IFC believes that Russian IT companies will benefit from the continued growth of the Russian economy, resulting in profits for investors. And IFC plays an important role by supporting an economic sector that has been in decline since the end of the Soviet Union," he said.

With the end of the Soviet Union in 1991, Russia inherited nearly all of the Soviet Union’s scientific resources. Because the Soviet Union was focused on advancing the country’s space and military-industrial sectors, the scientific establishment was one of the largest in the world, with one-third more scientists than in the United States (Mereu, 2002). Because the Russian education system continues to be heavily weighted toward math and science, Russian scientists are often considered the best in the world. Consequently, Russian IT companies present an attractive investment opportunity because these businesses can draw upon Russia’s large "intellectual resource" of world-class scientists and engineers.

"These scientists and engineers also cost considerably less than comparable professionals in western markets, which makes Russia a very attractive market for offshore software development," said Portnoy. Scientists’ salaries currently rank 10th out of the 11 employment categories in Russia, ranking above only those working in arts and culture. In practical terms, scientific professors often earn less than $100.00 per month (Mereu, 2002).

Since 1991, Russian spending on scientific research and development has diminished from over 2 percent of GDP during the Soviet Union to less than one-third of 1 percent of GDP today (this decline is worse when taking into consideration that overall GDP has declined significantly over the same time period). Today there are only about 426,000 scientists practicing their profession in Russia, compared to over 800,000 during the Soviet Union (Mereu, 2002). "There is a limited amount of capital available for investment in Russian IT companies. Overall, there are only a few private equity groups operating in the market and the vast majority of them are focused on making investments in diversified industries, rather than technology companies e.g. Delta Capital, Baring Vostok Capital Partners, Quadriga Capital & Norum," said Portnoy.

There are only two small funds operating in Russia that are focused on making investments in IT companies—Mint Capital, which has a $21 million fund operating in Moscow and the Russian Technology Fund, which has a $5 million fund operating in St. Petersburg. "There were some other investment funds operating in Russia that focused on technology, but they have either shut down or stopped all technology investing in the aftermath of the collapse of the Internet bubble in 2001, e.g., Sun Capital, Orson Capital, NetBridge, LV Finance and Sputnik Funds. So really, there has been very little investing in Russian IT companies over the last couple of years," said Portnoy.

Apart from providing capital to an industry that is currently not receiving much financing, IFC’s investments also serve as a catalyst for further investment by the private sector in Russian tech companies. For example, both Intel Capital and Draper Fisher Jurvetson (large Silicon Valley–based technology venture capital groups) have recently expressed interest in investing in Russian IT companies.

Since the Russian economic crisis of 1998, the Russian economy has grown at a healthy rate with GDP growth last year of 5 percent and an expected GDP growth of 4 percent in 2002. This economic growth has been supported by the relative political stability of President Vladimir Putin’s administration. In addition, Russia has been somewhat insulated from the global economic slowdown because its oil exports have generated strong revenues. As the economy continues to grow, the market for IT products and services increases as public and private enterprises begin looking for ways to increase efficiencies in order to better compete in the global marketplace.

According to International Data Corporation (IDC), the entire Russian IT industry was approximately $4.1 billion in 2001, and the fastest growing segment of the industry is IT services. IT services represent a segment of the industry that generates high operating margins because it provides value-added services to its customers, such as hi-tech consulting and software development. According to IDC, these services represented 20.7 percent of the overall Russian IT market in 2001, and this segment is expected to grow at a compound annual growth rate of 24.7 percent over the next five years.

"These growth rates are much higher than forecasted growth rates for North America and Western Europe over the same time period. So, Russian IT companies, especially services companies, can provide investors with the opportunity to generate higher returns than from making investments in western IT companies," said Portnoy.

Elika Trifonova is a member of the Corporate Relations Team, IFC.

References:
BY RODERICK MACDONELL

Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information upon it.
—Samuel Johnson

TRANSPARENCY AND FREEDOM OF INFORMATION has made such robust inroads in two Southeast Asian nations that it cost Joseph Estrada his job as president of the Philippines two years ago, and it almost sparked the demise of Thailand’s Prime Minister, Thaksin Shinawatra, shortly after he came to power in 2002. In both cases, corruption allegations unearthed through transparent government policies or freedom-of-information laws were central to the controversies.

With that kind of impact, it is no wonder the World Bank, the International Monetary Fund and other donors are "pressing countries to adopt access to information laws as part of an effort to increase government transparency and reduce corruption." (Bannisar, see References). There are now 48 nations that have access laws, with India being the latest to join the Freedom of Information Act (FOIA) club. Indeed, the World Bank Institute recently published The Right to Tell, in which contributors Roumeen Islam and Joseph Stiglitz argue that enacting a FOIA can be a signal of a government’s commitment to openness, but that these laws can be effective only if there is a genuine commitment to transparency, or political will, backing them up.

The journalists in the Philippines and Thailand have clearly demonstrated the effectiveness of transparency laws in
their countries and their probes into Estrada’s and Thaksin’s undeclared wealth have given high profile to the media and their use of access laws. In the U.S. and Canada, which respectively adopted access laws in 1966 and 1983, it was expected that the legislation would primarily provide citizens with an ability to hold their governments to higher levels of accountability, which it has.

**Commercialization of access law**

**BUT TODAY THE BIGGEST USERS of those nations’ laws are from the business sector, users who are either seeking government procurement contracts or are members of a regulated environment and are trying to divine their regulators’ strategies. In both countries, an industry of business interests has evolved which peppers, and in some cases, bombards governments with FOIA requests. Developing nations pondering the enactment of FOIA requests should expect a similar outcome—that their FOIA officials will find themselves primarily servicing the access requests of commercial interests seeking to get a leg up on their competitors. Some might object to this commercialization of access law use but a case can be made that the heightened transparency that leads to better prices for government procurement, translates into better value for taxpayers’ money.

The volume of business users of the American and Canadian laws is so significant that a U.K. group carried out a study into the phenomenon prior to the 2000 enactment of the U.K.’s information act (more later on the U.K. study, titled Freedom of Information and Business).

The numbers from the U.S. and Canada speak for themselves. In the U.S., the federal government responded to 1,959,959 FOIA requests in 2000, an estimated 550,000 of which were filed by businesses (Hammitt). In Canada in 2001 there were 21,625 access requests made to the federal government, of which 9,237, or 43.4 per cent, came from business (Statistical Tables, 2001-2002). It cost the Canadian government $23,361,545 (Cdn) in operating costs for that country’s access law, or about 80 cents per citizen, while administering the U.S. act cost $286 million or about $1 per citizen (Access to Information, 2002).

**The "suppliers"**

**WHO IS MAKING ALL THESE BUSINESS REQUESTS and why? There are two classes of business FOIA users in the U.S., says Harry Hammitt, a former president of the American Society of Access Professionals, who publishes a semi-monthly newsletter titled Access Reports. These classes, he says, are the “suppliers” and the “regulated.” The "suppliers" are those businesses seeking contracts to sell goods and services to government, the "regulated" are those subject to the monitoring and oversight of a wide array of government agencies such as the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA).

As government is the largest single purchaser of goods and services in the United States, there are thousands upon thousands of government suppliers, from those involved in NASA space launches to those who supply stationery to the Commerce Department—all of which have competitors and an interest in acquiring industrial intelligence that will better position them to win the next government procurement deal. Under the U.S. FOIA, the contract with the firm that tendered a winning bid is accessible to anyone who requests it, even foreign competitors. For obvious reasons, a supplier’s Trade Secrets are not made available and are blacked out or otherwise removed from the documents made available to the requester. To reduce FOIA officials’ labor costs, the U.S. law does not allow for copies of losing tenders to be accessible.

Hammitt says suppliers are typically anxious to review a winning bid, both to learn the unit prices of goods sold to the government, and since price is not always the sole factor in determining the chosen bid, to get a sense of what the government “liked and disliked” about a firm’s tender. This information helps competing firms tailor their next bid when it comes time for a new contract to be put out to buy computers or Jeeps or munitions, or whatever product or service is up for grabs. The U.S. Department of Defense (DOD) was hit with an avalanche of such FOIA requests in the 1980s during the last major American arms build up under then president Ronald Reagan, with firms in a frenzy to determine why DOD preferred their competitor’s tender, and what they should do to win the next contract. Hammitt opines that the same mad scramble will likely occur again this year as the U.S. gears up for a possible war with Iraq.

**The "regulated"**

**THUS, THE MOTIVES AND INCENTIVES BEHIND the FOIA requests of government suppliers are quite clear. But what**
about those industries that have nothing to sell government, but who are regulated by government agencies? Drug firms which are regulated by the Food and Drug Administration (FDA), are one example of an industry with an insatiable need to know. The object of their hunger is pure regulatory intelligence, and they are prepared to pay thousands of dollars in FOIA search fees and wait many months to obtain reports of inspections carried out into their rivals’ dealings with the FDA, a body that yields almost as much clout over drug companies as a prison warden over inmates. Hammitt cites the example of a Pharmaceutical Company “Y”, which is the subject of an inspection by the FDA. By finding out what the FDA inspectors were seeking at Company “Y”, Company “X” is able to prepare itself to ensure it will pass muster when FDA inspectors come knocking at its laboratory. It’s called due diligence. The pharmaceuticals are “looking for insights of government policy as a practical matter.”

The pharmaceuticals’ appetite for FDA intelligence is such that FOI Services Inc., a ten-person firm in the Washington suburb of Gaithersburg, Md. has been mining the FDA for 27 years now, digging out a wealth of information for the drug industry. The firm’s website (www.foiservices.com) states that, “Since 1975, FOI Services has specialized in delivering unpublished U.S. Food and Drug Administration documents acquired under the Freedom of Information Act. To date over 160,000 documents have been acquired, covering the full range of products regulated by the FDA, including medical devices and diagnostics, pharmaceuticals, biologics, veterinary products and foods.” Cinde Cuevas, a senior information specialist with FOI Services Inc., says the firm’s clients “request through us to remain anonymous. They include pharmaceutical companies, medical device manufacturers and law firms. We make FOIA requests for clients primarily to the FDA for drug approval information, adverse drug events reported to FDA, medical device approval information and copies of FDA inspection materials.”

The drug firms operate in a competitive and highly secretive environment and do not want the FDA or their competitors to know who is inquiring into their rivals’ dealings with the federal regulator. So using firms like FOI Services gives them cover. The skill of firms such as FOI is to have a sufficiently intimate understanding of government to know where to direct FOIA requests, an accomplishment in itself given the size of the U.S. government, along with an ability to draft access requests to ensure that the requests zero in on the specific documents needed by their customers.

The big ones

If Pfizer’s merger with Warner-Lambert is approved, the new company will be the world’s second-largest pharmaceutical house. Top companies, by 1998 sales, in billions of dollars:

1. **Glaxo Wellcome** (after merger with SmithKline Beecham)
   - **$26.6**

2. **Pfizer** (after merger with Warner-Lambert)
   - **$23.8**

3. **Johnson & Johnson**
   - **$23.7**

4. **Bristol-Myers Squibb**
   - **$18.3**

5. **American Home Products**
   - **$13.5**

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SOURCE: Hoover’s

The case of Canada

IN CANADA, with one-tenth the population of the U.S., access experts are fewer in number, and the volume of requests is considerably lower. Ken Rubin of Ottawa, one of that country’s expert FOIA applicants, has been making a living for twenty years making access requests. He reports that there too, pharmaceuticals are significant users of the act. As in the U.S., Canadian pharmaceutical firms also seek anonymity, he says; they are also adamant about protecting information they provide the federal regulator, Health Canada. Rubin says drug companies are so concerned about the sanctity of their trade secrets that they hire experts to submit access requests to the federal government into their own companies, just to see the kind of information the government releases, and whether any of that material is proprietary information that the government should not be providing to others.

Rubin has filed thousands of access requests in the 20 years of Canada’s access law. Sometimes as an entrepreneur/activist, he seeks potentially explosive information that he then turns around and sells to a news organization for a few hundred dollars. This form of check-book journalism has served to inform Canadians about numerous issues and events of public importance including a controversial sale of nuclear reactors to China; the abysmal safety standards of a Canadian airline that went out of business after one of its jets crashed in Saudi Arabia in 1991 killing 263 passengers and crew; and reports showing that many of Canada’s soldiers are in poor physical condition.

The U.K. study found that, like the U.S., many Canadian businesses are “trying to determine the missing ingredients in their bids for government business or to find out what the government needs and wants.” “There was a good measure of public interest in business users acquiring information that could lead to more competitive pricing,” the report stated. “Business checking on business can help consumers.”

Rubin and his counterparts, according to a government report, are resented by the federal civil servants responsible for implementing the access act because of the work they cause these officials and the resulting costs to Canadian taxpayers. Based on the $23,261,544 (Cdn) annual administrative costs of the act, and the 21,275 requests in 2001-2002, each access request cost taxpayers an average of $1,093.

But Alasdair Roberts, an expert in Canada’s access law, said the administrative costs of access need to be kept in...
perspective. For example, in 1998, when the administrative costs were $22 million, the federal government spent $350 million for procurement of advertising services, publishing and printing services and public relations and public affairs services. "Governments never complain about the high costs of public affairs services," says Roberts, who is the Director of the Campbell Public Affairs Institute at Syracuse University.

The case of the U.K.

IN THE U.K. where the study was done on the business side of FOIA, Robert Hazell, director of the Constitution Unit of the School of Public Policy, University College London, wrote in the foreword to the think piece:

Freedom of Information is full of surprises. One of the surprises is that it is generally used far more by business than by public interest groups or campaigning organizations. I first discovered that when I studied the introduction of the new FOIA laws in Australia, Canada and New Zealand in the mid-1980s on a civil service travelling fellowship. Business there had initially viewed FOIA with hostility and suspicion but, while still regarding it as a threat, they also quickly learnt to exploit its opportunities.

The study contains some comforting words for British business people. One key message is that "FOIA enables business to find out more about the real needs of its public sector customers and the proposals and performance of its competitors. New entrants seeking government contracts have most to gain from FOIA. Established suppliers are likely to feel more threatened, and will want their information protected."

The study has some useful words for a prime minister or justice minister of a nation contemplating an access law. "British companies can learn from the experience in the USA, Canada and Australia. In the USA there is substantial use of FOIA requests by business, particularly in relation to government contracts. After early problems and scare campaigns, American business is now well educated in how to protect its information."

To quote Andrew Carnegie: "While the law [of competition] may be sometimes hard for the individual, it is best for the race, because it ensures the survival of the fittest in every department."


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ticed. Diep Thanh Kiet is President and CEO of WEC Saigon, a much smaller apparel factory. He tells the story of the factory as it used to be: poor working conditions, with terrible heat and no toilets: "We received many complaints from staff and workers for overtime working, bad relationship between mid managers and workers. Many workers left the company." With support from IFC and the Ho Chi Minh City government, WEC Saigon chose to take the highroad and improve standards as the mechanism to distinguish themselves from their competitors. They have trained the workforce and the management, invested in remedial upgrades, and applied for SA 8000 certification which they hope to achieve by the third quarter of 2003. "Workers will be satisfied and faithful to the company; we can set up a long term plan with any trouble for the human resource. The customers have confidence that their products will be produced with a standard of social responsibility."

The Government of Vietnam is studying these examples carefully, as they try to position Vietnam as a responsible location for sourcing and investment. They have organized seminars to understand how market-based CSR pressures work, and plan to improve the advice and training available to Vietnamese factories seeking to institute CSR programs. The government is careful to maintain its role as a supporter of CSR, recognizing that if it ever attempted to impose a particular CSR standard or approach across all companies, an individual firm would lose its flexibility to anticipate and respond to market forces. But the widespread growth of CSR codes shows evidence that there are business benefits to be gained: that there is a growing market for goods and services where the integrity of the supply chain can be assured and that, conversely, major firms fear consumers will shun their products if the firm is seen as having poor labor conditions. From the perspective of Vietnamese footwear and apparel producers and of the Government of Vietnam, CSR activities appear to be sensible investments into a value-added market segment with the potential for growth.

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Ziba Cranmer is a consultant to the CSR Practice, PSAS Department, The World Bank.

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BY RICK STAPENHURST

THE MEDIA CAN PLAY A CRITICAL ROLE in promoting good governance and helping to curb corruption by investigating and reporting incidences of corruption in a professional and ethical manner (World Bank Institute, 1999). A core component of the World Bank Institute’s anti-corruption program, WBI has been training journalists in investigative reporting for nearly eight years—and during that time, more than two thousand journalists have been trained.

Program reviews and evaluations suggest that such training is having an impact: skills levels are higher and both the quality and quantity of press reports on corruption are increasing. Yet journalists are telling us that there are additional constraints to their investigating and reporting incidences of corruption, chief of which is the heavy hand of government in...
restricting media independence, be it through the deployment of the law as a form of deterrence—e.g. through charges of contempt of government, seditious libel and criminal defamation, economic restrictions on the independent media and the detention of journalists, editors and publishers without trial. These and other restrictions often lead to a more insidious type of restriction: that of self censorship, where the media itself refrains from reporting certain news for fear of government reprisals. Not only does Article 19 of the United Nation’s Declaration of Human Rights call for the freedom of opinion and information, but more recently, freedom of expression was endorsed as one of the underlying principles of good governance across the Commonwealth (Commonwealth Heads of Government Meeting, 2001). But how can the media thrive and play the role of democratic watchdog if its actions are constantly under surveillance by government?

A common criticism one hears is that in many developing countries the press acts in unprofessional ways and is itself unaccountable. How can government officials, and others, seek redress from a media which abuses its own power and publishes unsubstantiated allegations against them? Indeed, the media itself is often considered to be corrupt, prejudiced and dishonest.

Self-regulation vs. government regulation

MANY OF THE PROBLEMS which surround media independence stem from a single question: Should media be encouraged to regulate itself, or are statutory means of government regulation necessary? Generally, opinion is polarized, with the media supporting the former option and governments the latter (Commonwealth Press Union, 1999).

It is, perhaps, easy to understand both sides of the argument. From a government point of view, the media can often seem over-intrusive, careless of the effects of their output on those it concerns and in some cases possessing a tendency to misreport and misstate at every opportunity. On the other hand, the media’s preference for self regulation stems from a belief that statutory methods often imply heavy-handed control, censorship or the encouragement of self-censorship, and the fear that the very organizations that are most often the subject of hard investigation—governments, state institutions, political leaders—are writing the rules on how they may be covered.

According to the World Bank, certain factors are more likely to determine the success of self-regulatory commissions (World Bank, 2002):

- the decision to set up such a commission needs to originate with the media itself and reflect a desire by the media for self regulation;
- commissions must carry sufficient weight that media organizations feel obliged to comply with their decisions;
- commissions require leadership and a genuine desire among the media profession to improve on their work;
- developing ethical guidelines that balance media freedom and independence with responsibility; and
- standards must be applied consistently, in order to maintain legitimacy.

To promote the concept of media accountability and self regulation in the countries of the (British) Commonwealth, at least, WBI teamed up with the Commonwealth Press Union (CPU) and the United Kingdom’s Foreign and Commonwealth Office to facilitate a series of inter-linked two-day regional seminars over the past 18 months, drawing together some of the champions for change within the media environment in those regions and providing a forum for discussion with guidance and advice from experts from the Commonwealth Press Union. Britain’s Press Complaints Commission and, in Africa, from the World Bank.

Some findings

RECENTLY COMPLETED, participants in this series of seminars confirmed the findings in Islam’s study (World Bank, 2002)—namely that successful media self-regulatory systems are underpinned by consensual ethical guidelines and codes of conduct. While the World Association of Press Councils, the grouping of statutory press commissions has advocated a uni-

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**THE KEY ELEMENTS OF SUCCESSFUL MEDIA SELF REGULATION AS DETERMINED BY PARTICIPANTS AT THE CPU/FCO/WBI SERIES OF WORKSHOPS**

1. The system should not be controlled by State
2. It should be independently funded
3. It should be voluntarily delivered by universal industry commitment
4. It should reflect national culture
5. It should protect the right of the individual
6. It should uphold freedom of expression, the public’s right to know and the media’s right to publish without prior restraint
7. It should provide quick, free and easy resolution to complaints
8. It should not be overly legalistic or bureaucratic—while at the same time pursuing the principles of natural justice
9. There should be significant lay membership, independently selected, on adjudication panels
10. The code of conduct should be written/approved by the industry itself

*Source: Beales, 2002*
iversal code of conduct, participants in the regional seminars throughout the Commonwealth quickly dismissed the notion of creating a pan–Commonwealth code. They argued that because of historical differences and because local social, cultural and ethical issues vary greatly from region to region and country to country, it would be more appropriate to develop a blueprint which could be adapted to national or regional needs. For example, in some countries, journalists have little formal training and are often underpaid; here, a Code with a strong ethical tone—aimed at raising professional standards within the profession—may appear irrelevant and end up being ignored. Here, perhaps, a Code of Practice, highlighting what is not acceptable, rather than a prescriptive Code of Ethics might be more relevant.

Similarly, while privacy is a universal issue, it does not have a universally high profile across countries, especially regarding the lives of the powerful—presidents, premiers and tribal chiefs—whose health and private lives are often guarded by a combination of intimidation and tradition. The death of an African tribal chief, for example, may meet the public interest requirements of most modern codes of practice, but under tribal custom publishing the news might be discouraged or forbidden ahead of ritual ceremonies. More thorny issues include media coverage of ethnic conflict—just before the CPU–WBI seminar in Ghana, a tribal chief was murdered and the government imposed a news blackout for fear of inciting civil unrest.

This begs the question: what should a Code not cover? In southern Africa, participants argued that the media should not cover issues such as AIDS or female circumcision, for fear of offending local concepts of taste and decency despite the fact that these are among the important issues of the day. The final decision as to the nature and content of a Code must be determined in each country—with the media itself recognizing that the final sanction is the judgment of readers, listeners and viewers who can vote with their feet. Indeed, editors and managers are usually well aware of the damage they could do to the credibility of their organizations if they cross the lines of public acceptability too often. (Beales, 2002).

Despite very substantial regional and national differences, it was found that there was a strong commonality in the problems faced across the Commonwealth press—and that there was therefore usually a corresponding similarity in the solution. These common key principles, listed in the Box, can be summarized as: recognizing the duty of the press to attempt to persuade the government and civil society that self-regulation is faster, more accessible, more flexible and has greater moral authority than a government-operated regime, which in any case would run counter to generally accepted notions of the media’s role as watchdogs (Beales, 2002).

Three prerequisites

Claude Bertrand (World Bank Institute, 2001) stated that for the media to play its full role in democratic development, there are three prerequisites: private ownership of the media, self-regulation and a media ethics regime. Certainly, through the CPU–WBI seminar series, it was found that the strength of self-regulation is that—through self-financing and homegrown codes of conduct—the media is able to enhance editorial freedom and head off potential political interference and legal constraints, which in turn may promote higher professional standards and greater responsibility. For the state, too, there are some powerful attractions: not least of which, following the adoption of the principle of press freedom as one of the tenets of good governance by Commonwealth Heads of Government in 2001, is the demonstration of modern democratic nationhood.

Two years ago, media self-regulation was relatively rare in developing Commonwealth countries: South Africa and Trinidad and Tobago were among the exceptions, although some countries, such as Ghana had opted for semi-autonomous regimes, often financed by parliament. Today, the situation is very different: a number of countries, such as Sri Lanka, Nigeria and Kenya, have embarked on comprehensive self-regulatory schemes while others, such as Malawi and Mozambique are more tentatively taking steps in that direction. Even in quite difficult situations, such as Zimbabwe, the lobby is growing for a new media commission to replace the under-funded one which collapsed a year ago; editors from both the government and opposition media are uniting and a codes of conduct has been adopted in principle by many journalists and media houses.

While much has been achieved, much more needs to be done—and the road to self-regulation is strewn with obstacles: intransigent governments; divided press industries; lack of funding; lack of public support and poor motivation.

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A Brazilian engineering and construction firm with a strong presence in this country, Odebrecht is investing one million U.S. dollars in a pioneer program to fight AIDS among the workers it employs under several of its contracts in Angola.

The program, launched this past September, will cover about 30,000 people, counting workers and their immediate families at the firm’s various projects in Angola. The initiative, planned to last 18 months, is getting technical support from the IFC, the private sector arm of the World Bank, an agency that has quite a bit of experience in programs of this type. To assess the new program of fighting AIDS at Odebrecht in Angola, Sabine Durier, of the “IFC Against AIDS” program, and Sérgio Leão, an engineer responsible for all the Brazilian company’s health and environment programs, visited Luanda in August and September. Durier and Leão worked alongside Dr. Vera Michel, a physician who is in charge of this pioneer program in Angola.

Talking with ANGOLENSE, Dr. Michel said the purpose of the program is to determine the prevalence of AIDS among Odebrecht workers in Angola and their families, to train educators and leaders to inform people about the risks of the disease, to increase the use of condoms and to improve medical treatment for women, especially pregnant women, in order to reduce mother-to-child transmission of HIV. Demonstrating that the model of this program can be used at Odebrecht projects in other countries is another of its general goals.

According to Biagio Cersosimo, administrative and financial director of Odebrecht (Angola), who accompanied Dr. Michel to the interview, the company originally thought of investing the money in the overall fight against the disease in this country, but since it would be difficult to assess the results, they decided to apply it on more limited scale, i.e., only to its contracts. There are five of these: Capanda, Águas de Luanda, Luanda-
Sul, Canal da Matala, and Mausoléu, plus the Catoca and SDM diamond-mining projects in which Odebrecht has an interest.

Fifteen positive cases

Fifteen cases of AIDS have already been detected among the company’s Angolan and Brazilian workers, the majority among the former. However, and in answer to our reporter’s question, Cersosimo assured us that no one is being discriminated against for having contracted the disease. On the contrary, they get every possible support to enable them to stay on the job, except in cases where their health is very poor. In that event, they stop working but are not abandoned by the company, which continues to provide assistance until the worker recovers, if that happens.

Dr. Michel interrupted to say that they do not yet know how prevalent AIDS is among Odebrecht workers. She doesn’t believe they have even an approximate idea of the true situation, since testing is voluntary and very few people are willing to be tested. But, as people become aware that testing is confidential and that no one is dismissed merely because they are sero-positive, there will be a much greater willingness to take the tests. “This will encourage people to take the tests,” the administrative and financial director of Odebrecht (Angola) emphasized, hopefully.

One of the people in charge of Odebrecht’s anti-AIDS program in Angola took advantage of the opportunity to announce that the Capanda Project was selected as the site for the first studies of the prevalence of the disease at the company, since it affords the best conditions, at the moment, in terms of health care infrastructure. Even so, as he confirmed, submission to the tests will remain voluntary. This is why Odebrecht will redouble its efforts to publicize the objectives of the program and increase awareness so that people change their attitudes about the vital need to participate.

Since there is no cure for the disease, Odebrecht is placing great emphasis on prevention. So much so that, besides the publicity and awareness campaigns, it has already ordered about 120,000 condoms, including female condoms, for distribution to their workers.

At the same time, treatment of sexually transmitted diseases - which, as we know, facilitate infection with the AIDS virus - is also being given priority.

Asked what Angola gains from this initiative by Odebrecht, Cersosimo said that “it gains a lot.” In his opinion, if everyone does a little bit, a multiplier effect kicks in, that can do much to reduce transmission of the disease to an acceptable level. He cited the example of Odebrecht’s involvement in the campaign against polio to illustrate how important it is that someone take the first step. “Given the shocking figures about people with AIDS (in Angola and the world), we can’t stand idly by,” he emphasized. He believes that Odebrecht’s action is an example that could very well be followed by other big (foreign) companies that do business in Angola, especially the oil companies. In the case of Odebrecht, which has spent some of its profits on social projects, much of the credit goes to the efforts by Dr. Octacílio Carvalho, the company’s local president, an activist in philanthropic causes.

Dr. Michel appealed to big companies to support the authorities in their battle against the pandemic, since government spending alone cannot get the job done. “Together, the companies could help tremendously,” she added.

Salas Neto is a reporter for the newspaper, Angolense, Luanda, Angola.

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Looking for development information, networking opportunities, likeminded partners, a professional exchange? Reaching those goals is as close as your computer screen. A network of development websites will take you to the four corners of the world and will put you in touch with a multicultural cornucopia of knowledge.

**PRIVATE SECTOR DEVELOPMENT** is a World Bank’s site, which aims to provide opportunities for the poor through market-friendly, enterprise-led growth, and to provide better services through efficient delivery systems and smart subsidies. It includes resources such as Private Sector Advisory Service, Private Participation in Infrastructure, Partnerships, and others. It also features rapid response buttons to request advice and information. 

**BIZ/ED** (Institute for Learning and Research Technology, University of Bristol) is a unique service for students, teachers and lecturers of business, economics, accounting, leisure/recreation, and travel/tourism. The site contains: Internet resources (a searchable and browsable catalogue of over 3000 quality checked Internet resources); Learning Materials (worksheets, resource databases, presentations, glossaries, case studies, interactive questions, and more); Data (data sets and data skills materials for economics, business and finance); Virtual Worlds (large-scale learning resources, including a Virtual Factory and Virtual Economy); Current Topics (a magazine style section with newsletters, daily economics and business news). 
Visit: [www.bized.ac.uk](http://www.bized.ac.uk)

**PARALEGALS AND ADVICE OFFICE** is a website, which provides free advice on laws and procedures that affect poor communities in South Africa as well as organizing tools for NGOs, and includes a range of resources from small business law to violence against women. Though South Africa based and produced, this web model could be adapted to other contexts.

**KIDS DEVNEWS** is a monthly e-publication geared toward 10-15 years old. Each issue revolves around a different development topic that affects young people around the world. The crux of the site is a monthly feature story, reinforced by ”Global Snapshots,” depicting the issue. The site also links to appropriate quizzes as well as multimedia products (radio releases or public service announcements). There is also a ”Talk Back” button, giving children an opportunity to voice their opinion and ask for more information. The site is an initiative of the World Bank’s External Affairs division in collaboration with WBI’s Development Education Program.

**SME: WORLD BANK GROUP SMALL & MEDIUM ENTERPRISE DEPARTMENT** combines the market perspective of the International Finance Corporation with the policy expertise of the World Bank to promote local small business growth in developing nations. The site offers Small Business News from around the world and a variety of departments, such as Project Development Facilities, Capacity Building Facility, Business Enabling Environment, E-Business and Linkages, Diagnostic Tools, and SME Publications.
Visit: [www.ifc.org/sme](http://www.ifc.org/sme)

Nobel Prize winner and former World Bank chief economist, Joseph Stiglitz, discusses the effects of globalization on the population of developing countries. His position is that globalization and foreign aid have already helped alleviate poverty worldwide, and can be a positive force for future development. But he also argues that for this force to succeed the institutions that govern globalization, such as the International Monetary Fund, the World Bank, and the World Trade Organization, must increase transparency and listen to the suggestions and concerns of their clients.


Known for his original and courageous thinking on matters ranging from the treatment of animals to genetic screening, Peter Singer now turns his attention to the ethical issues surrounding globalization. In this provocative book, he challenges us to think beyond the boundaries of nation-states and consider what a global ethic could mean in today’s world. Singer raises novel questions about such an ethic and, more important, he provides illuminating and practical answers.


The book illustrates the negative consequences arising when an accumulation of wealth by minorities that dominate the market combines with an increase of political power by a disenfranchised majority, citing specific examples in Indonesia, Russia, Sierra Leone, Bolivia and the Middle East. The author blames the West for promoting a version of capitalism and democracy unsuitable to the political and economic transitions in the developing world. As a result, the author warns, we will continue to witness violence and bloodshed within the developing nations struggling to adapt the free market and democratic policies exported by the West.


In this comprehensive narrative of the political and economic evolution of Africa since 1960, Rotberg explains the critical events, players, and policies in the continent’s tumultuous shift toward democracy over the past forty years. A selection of his writings, which appeared in American, African, and European publications, is printed in the book along with Rotberg’s commentary after-the-fact.


This book focuses on public–private partnerships that seek to expand the use of specific products to improve health conditions in poor countries. It includes case studies of partnerships involving specific diseases such as trachoma and river blindness, international organizations such as the World Health Organization, multinational pharmaceutical companies, and products such as medicines and vaccines. The authors examine the organizational and ethical challenges of partnerships and suggest ways to address them. Individual chapters draw lessons from successful partnerships as well as troubled ones in order to help guide efforts to reduce global health disparities.


This book enables the reader to understand labor markets in developing countries and shows how to forecast the need for skills in those countries. The main thrust of this book is to re-examine the manpower planning debate in developing countries, which has been quiet since the 1970s and 1980s. The author argues that the over-simplified and non-flexible forecasting models of the past should be supplemented with better data and improved labor analysis. In conclusion he produces a new model for analyzing the needs of labor markets.
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New Delhi, India  
www.cseindia.org

24-26 Training 2003 Conference & Expo  
Atlanta, GA, USA  
www.trainingconference.com

24-27 UNCTAD Conference on Trade and Development  
Geneva, Switzerland  
www.unctad.org

**MARCH**

4-6 Water Week 2003 — “Water and Development”  
Washington, DC  
www.worldbank.org/waterweek

16-23 Third World Water Forum  
Kyoto, Shiga and Osaka, Japan  
www.worldwaterforum.org

19-21 Annual Conference on Development Economics in Europe  
(ABCDE–Europe)  
www.worldbank.org

**APRIL**

14-15 China Business Summit  
Beijing, China  
www.weforum.org

**MAY**

6-8 Fourth Workshop on Sustainable Use Convention on Biological Diversity  
Addis Ababa, Ethiopia  
www.biodiv.org

23-24 World Economic Forum  
Geneva, Switzerland  
www.weforum.org

29-31 Global Forum on Governance  
Seoul, South Korea  
www.oecd.org

**JUNE**

11-13 Africa Economic Summit  
Durban, South Africa  
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contact: africasummit@weforum.org
Labor Market Policies
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This two-week course is designed to provide participants with a solid grounding in the key issues that arise in the labor market. It covers the design and execution of government policies to address key labor issues and, through extensive use of case studies, exposes participants to policy instruments that different developing and industrialized countries have used with varying degrees of success.

Conducted in English, the course comprises nine inter-related and complementary modules, as well as expert sessions on selected topics, and participant presentations on incorporating labor market issues in country poverty reduction strategies.

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