Foreword

At a meeting in May, 2002, the "Counterpart Organizations" — a congress of private business organizations throughout the world that share the objective of economic and social policies that champion growth and opportunity — determined to address jointly the question of global poverty. They were motivated by the common belief that, while global integration is a positive force, it needs to be harnessed by sound public policies to address the prevalence of dire poverty around the world.

This report is the result of that project. It consists of a series of recommendations by individual organizations among the Counterparts regarding policy areas that have the potential to alleviate global poverty. The recommendations are made by the specific organization with which they are associated and endorsed by the others who participated in the project. Background papers on many of these topics can be found through the websites indicated in this report.

The global business community has the responsibility to articulate a vision of how the forces of enterprise and free markets can provide a basis for addressing human need. In this report, the Counterpart Organizations attempt to fulfill that responsibility.

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Participating Organizations

The organizations appearing in this publication represent an international association of independent, nonpolitical research organizations comprised of business executives and members of the academic community. They share a common purpose: to use objective research methodologies to promote sound public policy conducive to international stability and global growth.

CE Círculo de Empresarios
Madrid, Spain

The Círculo de Empresarios is a non-profit, non-partisan, private association formed by individuals who hold senior executive positions in companies and share an interest in the major issues affecting Spain's economic and social well-being. The Círculo has consistently used sound research to defend the necessity of a modern, pluralistic society, based on the market economy as an essential factor for economic and social progress.

CEAL Consejo Empresario de America Latina
Buenos Aires, Argentina

Around 360 business leaders from 17 Latin American countries are members of CEAL, a non-profit network of large entrepreneurs established in 1990. CEAL's main objective is to foster regional integration and interchanges with other parts of the world through the active role of the local private sector. CEAL comprises all productive sectors and stimulates cooperation between businesses and other social actors.

CED Committee for Economic Development
Washington, D.C., United States of America

CED is a nonprofit, nonpartisan organization of business leaders and educators that has worked for 60 years to address critical economic and social issues facing American society and the world. Its purpose is to propose policies that bring about steady economic growth, increased productivity and living standards, and improved quality of life for all.

CEDA Committee for Economic Development of Australia
Sydney, Australia

CEDA was founded in 1960. It is an independent, nationwide, internationally-oriented non-profit association of about 900 business, academic, and other Trustees. CEDA's objective is to contribute to Australian economic development by promoting informed public discussion and dispassionate research. CEDA's pre-eminent research program covers a wide field of applied economic policy and other issues. In CEDA's view, economic development includes distribution and equity as relevant issues.

EVA Elinkeinoelämän Valtuuskunta
Helsinki, Finland

The Centre for Finnish Business and Policy Studies, EVA, is a think tank funded by Finland's private business interests. Monitoring public opinion and structural change in Finnish society and critically assessing the public sector are key fields of activity. EVA's activities are largely based on networking with outside contractors, who do much of the basic work.

IDEP Institut de l'Entreprise
Paris, France

Institut de l'Entreprise was created in 1975 as a private, independent, nonprofit organization, to promote the analysis and discussion of major economic, social and societal issues among leaders of the French business community. Many of France's largest corporations, as well as French subsidiaries of worldwide companies, are members of the Institut. Its Board of Directors is comprised of 20 Chief Executives who elect the Chairman and the Management Committee.

IW Institut der deutschen Wirtschaft Köln
Cologne, Germany

The Institut der deutschen Wirtschaft Köln (IW) ranks among Germany's leading economic and social policy think tanks. Funded by the private business sector, IW conducts research, provides information, and gives advice to public and private institutions. The aim is to shape both public opinion and government policy in a way that is conducive to private enterprise in a global market economy.

Foreign Investment

Reducing Global Poverty by Expanding International Trade and Investment — The Role of Domestic Adjustment Assistance

CIRCULO DE EMPRESARIOS

Círculo de Empresarios (Businessmen's Circle)

Madrid, Spain — The essence of economic growth and, therefore, poverty reduction in the developing world, lies in bringing resources to the worker, farmer, or peasant that make him or her more productive. These resources include skills and education, technology, and perhaps most importantly, capital.

Domestic saving and enterprise can provide a good share of this capital, but the reality of the world economy suggests that the task of development cannot be achieved without foreign investment. In fact, foreign investment conveys such associated benefits as the transfer of technology, needed managerial skills, knowledge of global business opportunities, and often education and skill-building. Moreover, foreign investment often leads to "structural exports" from the host country to the capital-exporting country, which earns the foreign exchange needed for more capital inputs or cheap imports.

The experience of the past decades shows these relationships. Nations open to foreign investment have grown more rapidly than their autarchic counterparts, and nations that have made the transition from autarchy to openness, such as China, have seen sharp increases in their growth rate.

Spain itself is a good example of the foreign investment success story. The Franco regime left Spain a pariah on the international scene after WWII. This political isolation excluded Spain from the Marshall Plan, and led to a policy of autarchy that was to be stubbornly maintained throughout the forties and fifties. The recovery of the Spanish economy was so slow under that policy that by 1959 Spain had still not reached its pre-war levels of output, and it could hardly pay for the imports of fuel and food that it needed to run the economy and feed the population.

The turning point came in 1959, when the measures known as the Stabilisation Pact introduced some flexibility to the economy, adopted a currency regime that was reasonably in line with that of most other European economies of the time, removed many of the limitations to travel abroad, and, perhaps most centrally, created an economic and regulatory regime in which foreign investment could take off.

The success of the abandonment of the policy of autarchy soon became spectacularly obvious. Migrants' remittances, income from tourism and foreign investment began to bring in previously unheard-of volumes of foreign exchange with which to pay for the import of capital goods that were to prove the key element in Spain's process of industrialisation. Moreover, this openness focused Spain's consciousness on the outside world and brought state-of-the-art technologies and know-how without which Spain would never have developed into the industrial and service-based economy it now is.

Photo: WHO/P. Virot

Other nations now face the same challenge, that of changing from an isolated, rural economy to a developed, globalised industrial and service-based economy. Autarchy, import-substitution, hostility to foreign capital, international isolation (both economic as well as political) and a command and control economic system that suffocate private initiative all have failed miserably in improving the lot of a country's citizens, whereas openness of minds, openness to foreign ideas, ways, technologies, investment, know-how, capital and markets have yielded impressive results. But to achieve the results, policy must embrace openness to foreign investment as a goal.

In the developing world:

- ***Countries must ensure the protection of property rights and a reasonable absence of corruption.*** It is obvious that investors will avoid countries where their investments may be at risk of confiscation or their activity at the mercy of capricious government officials enforcing arcane regulations. For much the same reason, investors will avoid countries so badly mismanaged that investments may become worthless by the economy's collapsing altogether.
- ***Countries must assure domestic and foreign investors equal treatment in the course of doing business.*** Investors will be dissuaded by the absence of a level playing field (particularly on issues such as taxation, reporting, disclosure, procurement) when competing with locals, particularly since many of these may be incumbents and partially or totally owned or controlled by government. They will also accept minimal demanding local-content clauses only if they actually suit their plans (in which case the requirement is redundant).
- ***Countries must compete for foreign investment by creating a favorable climate, not through subsidies or other "cost-sharing" techniques.*** Investors want to avoid unwanted and unwarranted government meddling in the way companies are run, obstacles to reinvestment, disinvestments or the repatriation of dividends, particularly those in excess of the treatment of domestic firms. They seek stable macroeconomic climates and trained workforces. These are the "high-road" approaches to encouraging investment. The "low-road" — subsidizing foreign investors through the tax code or other techniques — leads to a "race to the bottom" that works against economic growth in the long-term.

In the developed world:

- ***Developed countries should refrain from tax or regulatory treatments that discourage foreign investment.*** Restrictions on foreign investment, often in the name of "protecting" domestic workers, end up being counterproductive, as those industries will inevitably require ongoing protection. Moving low-cost activities to foreign locales is often necessary to maintain the competitiveness of domestic industries.
- ***Firms in the developed world should invest in the developing world using the same standards they apply to their home countries.*** The developing world should not be seen as an opportunity to circumvent environmental or workplace safety considerations or to evade social responsibilities to the workforce. Far-sighted firms understand that honouring their commitments to their workforces and host countries is a good business practice.

For more information on **Foreign Direct Investment,** visit www.circulodeempresarios.org

Anti-Corruption

Best Practices to Address the Negative Effects of Corruption on Developing Nations

Consejo Empresario de America Latina (Latin American Business Council)

São Paulo, Brazil — Corruption is an age-old problem that has caught the attention of policy makers and international institutions only in recent times. The actions of corrupt political elites in developing nations have trapped their countries in poverty and hindered sustainable development. In the developed nations, multinational companies and government officials often adopt these corrupt practices as a condition for doing business in countries plagued by corruption. These corrupt practices exist in wealthier nations as well.

Corruption is closely linked to the formation of monopolies in markets for goods and services, to a lack of proper accountability and transparency in decision-making, and to low income levels. High levels of corruption also lead to lower levels of investment and growth. This strong correlation is a result of the skewing of government budgets by public administrators and the unwillingness of foreign investors to cope with the "corruption tax."

Bribe Payers

At the same time businessmen and government officials in developing countries accept and demand bribes, their counterparts in more developed nations have accepted this practice as a way to increase their competitive position in emerging markets. Experts on global corruption agree that the actions of these multinationals must also be deterred in order to curb corruption globally.

To highlight this tendency, Transparency International, publisher of the Corruption Perception Index (CPI), began publishing a Bribe Payers Index in 1999. The index ranks countries according to the perception of government officials and businessmen of the amount of bribes being paid to implement or maintain businesses in emerging markets. The results vary widely and reveal that many developed countries are not immune to corruption. The country with the highest level of bribe payment in 2002 was Russia, followed by China and Taiwan. The United States and Japan have similar scores, and rank 8th and 9th in the world. Australia has the best score among the 21 countries reported, followed closely by Sweden, Switzerland, and Austria.

Best Practices

The best practices presented here are examples of anti-corruption programs that have been successfully implemented. These could serve as guidelines for governments seeking to reduce corruption levels in their respective countries. The practices presented display a wide variety of measures; their common link is the fact that all of these best practices have produced tangible results that could be replicated in similar environments.

In the developing world:

- ***Focus reform on the most corrupt public sectors, such as the police or prison system.*** In 2001, Mexican President Vicente Fox created the "Comisión Intersecretarial para la Transparencia y el Combate a la Corrupción" (Commission for Transparency and Combating Corruption) to restructure the country's legal and institutional architecture. The commission was successful in modernizing Mexico's police force, prisons and customs, making them less prone to corruption. A proposal sent to Congress by the commission in September 2001 called for toughening the penalties for public servants proven to be corrupt and greater transparency in the government.

The Peruvian police were able to increase the number of traffic tickets by almost 200% by replacing most male traffic officers with female counterparts. The idea, initiated in September of 1998, was that female officers were stricter, fairer and less prone to accepting or demanding bribes.

- ***Increase transparency and visibility.*** During the Colombian presidential and legislative elections of 2002, the website Votebien.com (Votewell.com) was able to increase voter awareness by keeping voters up-to-date on the electoral process around the clock. The project envisioned an interactive portal where voters could read newsreels on the elections and discuss amongst themselves the campaign. Ultimately the page was able to bring more clarity to the elections and ensure its democratic nature.

A pilot program in the Campo Elias region of Venezuela from April 1998 to December 1999 successfully curbed corruption by implementing a series of government reforms aimed at implementing a participatory institutional framework. The program was able to raise local awareness regarding corruption by surveying the local community about what they thought should be done about it.

- ***Impose fiscal responsibility.*** Brazil passed a new Fiscal Responsibility Bill in 2000 imposing stricter budgetary limits on all public administrators in response to the fact that the municipal governments had together formed an internal debt exceeding that of the Brazilian foreign debt — much of it linked to mismanagement and corruption rings. The new law makes it harder for elected state and township leaders to skew government finances because all spending must not surpass the expected revenue. The law also forces local governments to set aside part of their revenues to pay for the pre-existing debts.

Rank	Country	CPI 2002	HDI Ranking 2001	Rule of Law	
				Score	Rank
17	**Chile**	7.5	39	7.8	24
32	**Uruguay**	5.1	N/A	N/A	N/A
33	**Costa Rica**	4.5	41	6.5	48
45	**Brazil**	4.0	69	4.7	88
45	**Peru**	4.0	73	3.9	111
57	**Colombia**	3.6	62	3.3	129
57	**Mexico**	3.6	51	4.0	108
62	**El Salvador**	3.4	95	3.6	117
67	**Panama**	3.0	52	N/A	N/A
70	**Argentina**	2.8	34	6.0	59
71	**Honduras**	2.7	107	N/A	N/A
81	**Guatemala**	2.5	108	N/A	N/A
81	**Nicaragua**	2.5	106	N/A	N/A
81	**Venezuela**	2.5	61	3.6	118
89	**Bolivia**	2.2	104	4.3	98
89	**Ecuador**	2.2	84	3.5	122
98	**Paraguay**	1.7	80	N/A	N/A

Source: Transparency International

Countries with lower scores on the Corruption Perception Index also usually exhibit higher levels of human development and sounder rule of law.

In the developed world:

- ***Create and maintain strong, enforceable statutes.*** In 1999 the Organization of Economic Cooperation and Development (OECD) adopted the Anti-Bribery Convention, which obliged its signatories to take significant action against individuals and companies that offered or accepted bribes while doing business internationally. As of February, 2003, 35 countries had ratified the Convention and 32 of those are subject to intensive investigations, through the judicial system, into their compliance with the aims of the Convention.

Countries of the developed world have also acted individually to encourage honest business dealings. In 1977 the United States government passed the Foreign Corrupt Practices Act (FCPA), to reduce the participation of U.S. firms in foreign corruption schemes and to increase international business standards. Today, American businessmen use the law to obtain foreign government contracts under the promise that they are delivering the best services at a lower cost (no bribe "tax").

For more information on **Corruption and Global Poverty,**
visit www.ceal-int.org

The Role of Women in Development

An Examination of the Potential for Economic Growth and Poverty Alleviation through Best Practices Aimed at Increasing Women's Economic Participation

CED

Committee for Economic Development

Washington, DC — The Chinese adage "women hold up half the sky" captures the contribution of women to economic development. In most societies women are productive agents in the economy as well as taking primary responsibility within families for the education and health of its members. Yet many countries overlook women's potential contribution to economic and social advancement. In general, women face greater difficulty than men in securing necessary resources — education, physical and financial capital, and land — that would make them more productive and allow them to earn higher incomes. Improving women's access to resources would likely:

- Lower fertility rates
- Decrease incidence of child and maternal mortality
- Increase life expectancies
- Contain the spread of HIV/AIDS
- Reduce malnutrition, and
- Improve overall health and well-being of all parts of society

Eliminating gender inequalities would not only improve these conditions, but it would also directly improve the condition of women globally, which in many societies is exceedingly harsh, and includes extreme forms of violence such as sexual assault, mutilation, sex-selective abortion, and infanticide. Here the important contributions of women to economic development are introduced to illustrate the opportunity cost developing countries face when not investing in women.

Women's Role in Production

Making up at least 50 percent of the global population, women already have a significant role to play in agricultural and industrial production. In many low-income countries women contribute to subsistence farming and earn supplemental income through production and trade in the informal sector.

This activity generates significant income for many developing countries; some estimates suggest that small-scale trading by women in the informal sector accounts for as much as 30 to 50 percent of GDP. However, labor force participation varies across regions, dipping as low as 27 percent in the Middle East and Africa, leading to different outcomes in overall economic growth patterns.

Photo: WHO/P. Virot

Worldwide, rural women are responsible for more than 55 percent of food growth. In developing countries, they comprise about 67 percent of the agricultural labor force; however, the rates also vary across region and usually indicate subsistence work. Studies have shown that women are relegated to subsistence farming and kept from increased mechanization often as a result of traditional divisions of labor based on gender. Agricultural changes have often stalled because both men and women refuse to do more or different work than is customary or work that is traditionally performed by the opposite sex. Because women are already accustomed to working in agriculture in most developing countries, their potential to improve the performance of this sector is substantial. Increased focus on the role of women in agriculture could improve the effectiveness of rural development programs. Such programs, domestic, international, or bi-lateral, would be more likely to increase food security, reduce (rural) poverty levels, and raise living standards if their programs were oriented toward women's roles and needs, including promoting necessary legal and social changes concerning women's rights.

Led by the successful emerging markets in Asia, many developing countries have excelled in the import of basic manufactured goods. Female workers make up a substantial portion of the low-wage labor force employed in the manufacture of these products. Industrial employment in many cases allows women greater possibilities of breaking

Percentage of Females Employed in Industry, Selected Countries (1994-97)

Malaysia	30
Honduras	27
Korea	21
Thailand	17
Bolivia	16
Hong Kong	15
Philippines	13
Jamaica	12
Pakistan	11
Zimbabwe	10
Bangladesh	8
Kyrgyzstan	7
Ethiopia	2

Source: UNDP, Human Development Indicators 2001

restrictive gender roles and attaining greater spatial mobility and personal autonomy than they might have had, had they remained in the agricultural or informal sectors. Wages earned by women in manufacturing are, on average, two-thirds lower than those of men performing the same function. This is due in part to child-bearing and rearing roles that reduce the overall time women can spend working, but it is also a function of low skill levels compared to their male counterparts, attributed to lower levels of investment in education, health, and training for women and girls common in many developing countries.

Women's Role in the Family

In addition to playing a direct role in economic production, most of the world's women consider it their duty to provide for the basic needs of the family, often placing their family members' needs before their own. Where women are able to attain higher incomes and more education themselves, they are often able to achieve greater equality in the sharing of household decision making and ensure the next generation has more opportunity.

Examples throughout the world provide evidence of the link between women's level of education and income and the quality of their children's care, education, health, mortality, and nutrition. One study concluded that women's education, health, and reproductive autonomy effects child survival rates at least as much as, if not more than, the country's overall level of industrialization. In Brazil, increased income by women contributed to a 3 percent increase in food expenditures as compared to a 0.6 percent increase due to income generated by men. Investing in women not only improves current prospects for economic development, but also contributes to future growth.

Best Practices

Development experts agree that increasing the economic participation of women would promote more rapid economic and social development. Despite women's extensive and varied responsibilities, they face significant constraints that impede their ability to contribute to the health and well being of themselves, their families, and their national economies.

Policy makers and the development community of developing and developed countries should:

- ***Remove barriers on women's access to resources.*** Enabling women to gain access to and control of important resources — education, physical and financial capital, and natural resources — would lead to gains in productivity and economic progress. To be most effective, domestic and international development aid programs should:
- ***Promote needed social, legal, and cultural changes*** that support women, especially in property rights law, labor policies, and education and health policies.
- ***Focus aid on women's needs*** with programming designed specifically to provide support for women's already established income earning and care giving roles.
- ***Promote increased transparency and accountability*** in development programs to ensure that funds intended for women reach them.

For more information on **Women in Development,**
visit www.ced.org

Education Policy

The Role of Education and Distance Education in Reducing Global Poverty

Committee for Economic Development of Australia

Melbourne, Australia —

Universal access to quality basic education is essential for the alleviation of poverty in developing countries. Obtaining an adequate education is vital for individuals if they are to benefit from economic growth and development. In most developing countries, however, access is still limited. Girls, ethnic minorities, orphans, people with disabilities, and people living in rural areas often have low rates of participation. In all developing countries these groups constitute the majority of the population. Furthermore, education policies in some countries function to increase rather than alleviate differences in the living standards of the affluent and the poor.

Photo: Rich Marchewka

Appropriate policies and practices can turn education into an instrument for reducing poverty and the vulnerability it confers. Education increases employment prospects and labor mobility, improves the health and nutrition of parents and children, and reduces fertility and child mortality. It also empowers the poor and disadvantaged to participate in civil society and politics.

Successful poverty alleviation through education requires best practice in both system-wide education policy and classroom practice. Furthermore, it must be part of a coordinated approach by government as a whole to alleviating poverty; education must be addressed along with such other relevant issues as macroeconomic and fiscal policies, public health care for children, and promoting equity.

Specific obstacles to effective education programs differ significantly by country and region, and a universal policy template cannot be designed. However, many of the problems faced by developing nations share similar features. Many of these countries would benefit from capital-market reform to enable the poor to gain access to equity for funding human capital investment. Infrastructure development is necessary in most such countries to enable the monitoring of learning resources and educational quality. The capacity of institutions to manage change should be expanded, and lastly, new technologies should be employed to improve the quality of and access to education.

Among the most important tasks facing policy-makers in developing countries is determining the appropriate allocation of investment funds between different levels of education. In the developing world, relative social and private returns to investment in education vary by region, and policy should be designed both to maximize social returns and to facilitate an appropriate level of private investment.

Because social returns are highest for investment in primary education in all regions of the developing world (see Tables 1 and 2), primary education should be made a priority for public funds, and efforts to improve the cost-efficiency of secondary and tertiary education should be intensified.

Important and thus far under-utilized options for enhancing the cost-effectiveness of education programs for all levels are information and communications technologies (ICTs). ICTs have the potential to dramatically enhance access to learning resources for distance-learners and educators, as well as aid in the monitoring of education quality. However, a widespread, stable infrastructure must be established in order for ICTs to be effective in the developing world.

The following broad policy recommendations are designed to improve the cost-effectiveness and accessibility of education programs:

Table 1: Social Rate of Return to Investment in Education

	Primary (%)	Secondary (%)	Tertiary (%)
Africa	26	17	13
Asia	27	15	13
Latin America	26	18	13

Table 2: Private Rate of Return to Investment in Education

	Primary (%)	Secondary (%)	Tertiary (%)
Africa	45	26	32
Asia	31	15	18
Latin America	32	23	23

Source: (Psacharopolous, G. *The return to education: An international comparison*, Amsterdam, Elsevier, 1972)

In the developing world...

- ***Programs with high rates of social return should have the highest priority for public funding.*** Programs dedicated to early childhood education, education of girls and women, basic literacy and life-skills development education for youths and adults, and the provision of equal access should receive special attention.
- ***The quality of education programs should be improved and monitored.*** Policies should focus on improving the quality and availability of instructional materials and teachers, monitoring and evaluating school and system performance, and strengthening educational administration and budgetary management.
- ***Barriers to access should be removed.*** Providing universal access to education will not in itself ensure universal attendance. Policy should function, among others, to gain community support for and involvement in schools, effectively integrate female students, administrators, and teachers, and offset opportunity and transportation costs faced by families with school-age children.
- ***Innovation in education policy should be explored, and successful innovations should be taken to scale.*** The dramatic reforms necessary in most developing countries require innovative and locally relevant approaches to curricula and teacher training. Many such reforms are funded at least in part by the World Bank or national development agencies such as AusAid. This external funding necessitates a commitment from host governments to take successful innovations to scale.
- ***Sources of funding and the provision of services should be diversified, and appropriate private provision of education should be encouraged.*** Policies toward this end would include the development of simple national regulatory frameworks for providers of private education, government grants to non-public providers that are more cost-effective than public providers, and the payment of fees or granting of vouchers to gain access for qualified poor students to programs delivered through such private providers.

For more information on **Education Policy and Global Poverty,**
visit www.ceda.com.au

Information Technology

The Role of Information and Communication Technology in Reducing Global Poverty

Elinkeinoelämän Valtuuskunta
(Centre for Finnish Business and Policy Studies)

Helsinki, Finland, — Information and Communication Technology (ICT) plays a major role in all aspects of national life: it is rapidly transforming our lives, the way we do business, access information and services, communicate with each other, and inform and entertain ourselves. It fuels the global economy. It can also contribute to poverty reduction, if it is tailored to the needs of the poor, used in the right way and complemented with other sectoral efforts.

In 1998 OECD member countries agreed to define the ICT sector as a combination of manufacturing and services industries that capture, transmit and display data and information electronically. Thus, the ICT "sector" transcends the traditional dichotomy between manufacturing and services, and can be found everywhere in the economy.

ICT can play an important role in reducing poverty. Economic growth, of course, is paramount to creating the resources for social development, but ICT can not only accelerate that growth, but also ensure that it will be widely shared.

ICT already serves this function, but it too often serves as a dividing line among social groups or classes, as well as among nations. While there has been progress in reducing some of the gaps, the digital divide still exists. It mirrors the position of various social groups within a country and among countries: between economically more- and less-developed regions, between urban and rural areas, between poor and the well-to-do, between the educated and the illiterate, between men and women, and between the young and the old. There is also a digital divide between industrial sectors.

There are many ways, however, that ICT can contribute to poverty reduction. But the ultimate goal of ICT is not only about overcoming the digital divide, but also enforcing and furthering the process of social inclusion, which is required to transform the social environment that reproduces poverty. Technology can assist in this process, but efforts should not be limited to it.

Accomplishing these objectives will require a partnership between the developed and the developing world.

Photo: WHO/P. Virot

In the developing world:

- ***ICT should be used to provide access to markets and market information.*** ICT can increase the efficiency, competitiveness, and market access for developing country firms. It can play a major role in enhancing the activities of the poor and increasing their productivity. It can help to increase the availability of market information and lower transaction costs of poor farmers and traders. It can also link producers to customers and allow them to reach consumers they would otherwise never find.
- ***ICT should be used to help perfect legal and property rights.*** ICT systems can help keep

Indian Postmen Bring Wireless Communication to Previously Isolated Locales

A subsidiary of the national telecom company of India has recently harnessed the existing postal route to expand access to wireless technology in remote areas of the country. In cooperation with the postal service, the company aims to operate "mobile centers" out of 170,000 village post offices. Each serving 3 to 4 villages, these centers could eventually allow the entire Indian population of over 1 billion to have access to the wireless network.

records of marriage, parenthood, and property in a cheap and readily available form. This allows poor people in the developing world to demonstrate their claim to property as a basis for finance.

- ***ICT should be used to deliver services more broadly and efficiently.*** The two most pressing needs in developing locales are education and public health. ICT helps to provide these services more broadly in two ways. First, it lowers the unit cost of providing these services by leveraging the service provider — whether a teacher giving a reading lesson or a doctor providing remote diagnoses. Second, it allows services to be offered in distant locations, often rural ones in which the local population is dramatically underserved.
- ***ICT should be used to promote democratic institutions.*** ICT can play a major role in supporting a culture of democracy, democratic processes and civic values that uphold a democratic system. In Honduras, the poor used ICT to prevent the destruction of their habitat. An organization of small-scale fishermen sent Congress a video of the illegal destruction of their mangroves by politically powerful commercial farmers, raising awareness of and protesting against the loss of their livelihoods and habitat. For the poor, getting access to even the most common type of government information or documentation can also be a nightmare requiring multiple visits, waste of time and bribes. ICT can be used to get rid of such malpractices and to speed processing of documents. These and other similar ICT interventions have to be introduced together with broader governance reform programs, such as legislative reforms. They cannot act as a substitute for such reforms.

Brazil Works to Harness Computer Technology to Promote Education and Active Citizenship

By using recycled donated computers, the Committee to Democratise Information Technology (CDI) has created 110 sustainable and self-managed community-based "Computer Science and Citizenship Schools" in some of the country's urban slums. The schools train 25,000 students per year, giving them skills that will better prepare them for jobs, as well as providing social education about human rights, non-violence, environmental issues, and health and sexuality. According to representatives of the schools, the training has increased participants' interest in school and helped them stay out of illicit activities.

- ***ICT will improve the social return to other forms of investment.*** The returns to other social investments are often improved in the presence of ICT. Education becomes cheaper to offer and the uses of literacy increase. Roads and other infrastructure become more valuable as farmers learn when to bring their products to market. Microlending becomes more productive as borrowers perfect their assets and reduce their risks.
- ***Governments must work with the private sector to make ICT happen.*** ICT has high social returns, but governments cannot put ICT in place. This requires an animated and competitive private sector with the incentive to create and manage ICT infrastructure. Freer trade in services has the prospect of accelerating this sector, by allowing foreign providers to bring hardware and software-based solutions to information and communications problems.

For more information on the **Role of Information and Computer Technology in Alleviating Global Poverty,** visit www.eva.fi

Corporate Social Responsibility

How Good Corporate Behavior Can Combat Global Poverty

Institut de l'Entreprise (The Enterprise Institute)

Paris, France — The globalization of trade and investment that began after World War Two has accelerated, driven by the internationalization of the firms that conduct these activities. But firms today are being questioned precisely because of the part they play in this process. In western countries, consumers and non-governmental organizations have demanded that firms publish full and reliable information about the social and environmental conditions of production and sale of goods and services, in order to direct purchase decisions. Trade unions have made minimal social standards one of their major demands. And investors have increasingly demanded not only profitability, but also transparency and ethics. The most valued firms often are those that are not only financially performing, but also the most sincere in displaying their methods, even in social and environmental fields, which investors take as a proxy for a long-term orientation that will earn returns over time.

Photo: WHO/Sven Torfinn

How can firms in the developed world navigate this dilemma? The answer lies in the area known as "corporate social responsibility" (CSR), that is, the commitment by corporations who trade and invest in foreign countries to operate according to standards and practices that allow globalization to become a positive force for all parties involved. Institut de l'Enterprise has just completed a landmark study of some twenty firms of French origin, all of which are deeply involved in international competition, to investigate the practices they employ to resolve this problem. This pragmatic approach aims at allowing us to understand what "corporate social responsibility" means and how it relates to the notion of "sustainable development."

As has been noted in France and elsewhere in the industrialized nations, firms have gradually come to incorporate this perspective into their activities. They have often come to consider CSR not as a constraint but as an opportunity, and are doing so not only because they see it as a means to enhance their image, but also because they think this perspective complements their investments in developing nations in the long run. CSR tends to become a matter of policy in managing risks inside the enterprise.

The following best practices emerge from our review:

In the developed world:

- ***Firms should actively work to train local labor.*** Firms, too, search for new sites of production based on cheap labor. But these new facilities typically employ the newest and most efficient methods of production, which require growing skill levels and the training of local labor. This demand grows as firms generally tend to limit expatriations for financial reasons. A model can be found in a firm like Accor which has, among others, a business university in Brasil. Every year, 3,000 Brasilian employees are taught not only basic principles of the corporation's culture, but also the primers of reading, writing, and arithmetic.
- ***Firms should base compensation policies on long-term objectives.*** Lower labor costs are often the main if not unique target of relocation. But minimal wages are often counterproductive: they provide no incentive to build skills, they do not build local purchasing power, and labor costs are rarely the sole or even dominant consideration in determining long-term plant costs. As a consequence,

forward-looking multinational companies often have a more favorable policy than that suggested by the local labor market.

- ***Firms should respect local culture.*** Firms should fit in harmoniously with local culture. Local partners and employees must see the firm's commitment to the local culture as credible. Projects should ensure the support of local populations to take part in development projects with definite goals such as building, restoring and equipping schools.
- ***Firms must maintain proper relations with local authorities.*** Investors expect political stability and judicial safety from the countries that harbor their investments. This can ultimately be delivered best by a functioning democracy. Companies can support this trend with a strict policy against corrupt practices, which allows the firm to build up an image of honesty and credibility, with beneficial commercial effects in the longer run.
- ***Firms should make every effort to employ the same environmental standards as they would in their home countries.*** Loosening environmental standards may lead a large number of firms to relocate all or part of their production to less advanced countries. Yet this practice leads to local political opposition and undermines the benefits of a firm's local citizenship. Moreover, as environmental regulation becomes more global in scale (for example, the need to contain greenhouse gasses) clean facilities in developing nations may become assets in a strategy for regulatory compliance.

For more information on **Corporate Social Responsibility,**
visit www.idep.asso.fr

This study, directed by the CEO of Total, Thierry Desmarest, has been carried on by the Institut de l'Enterprise in partnership with Accor, Air Liquide, Areva, AXA, BNP-Paribas, Carrefour, Crédit Agricole, Danone, Lafarge, PSA Peugeot Citroën, Sanofi-Synthelabo, Schneider Electric, Siemens France, Sodexo, Total, l'Union des Industries Textiles and Veolia Environnement. Its results will be submitted to a seminar gathering company managers and teachers of economics, organized on October 23rd and 24th, 2003, at the Lycée Louis Le Grand in Paris.

Trade Policy

How Free Trade Raises the Standard of Living in Developed Nations

Institut der deutschen Wirtschaft, Köln
(Institute for German Economics)

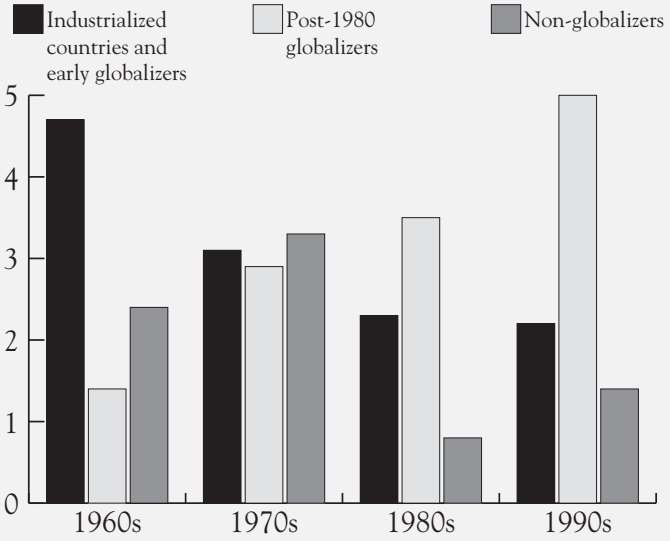
Cologne, Germany — Trade has great potential for stimulating international development and alleviating global poverty. Yet developing and least developed countries today face internal and external trade barriers that significantly limit their ability to compete internationally in the industries that form their comparative advantage.

Economic theory suggests that a widespread reduction in trade barriers has the potential to raise the standard of living for all participants. However, trade liberalization must be accompanied in developing countries by structural reforms designed to foster and sustain economic growth.

The costs and benefits of trade liberalization as experienced by developing countries remain disputed by some policy-makers and academics alike. Critics have charged that the economic growth resulting from liberal trade policy affects only the upper class in the developing world, thereby aggravating existing income inequalities. But the statistical evidence shows that the increase in global income inequality observed from the 1950s through the 1970s leveled off in the 1980s and may even have declined thereafter. Much of this decline in the growth rate of global inequality can be attributed to the economic success of the two most populous countries — China and India — both of which adopted reforms toward less restrictive trade regimes in the 1980s.

Photo: WHO/P. Virot

Globalization and growth go hand in hand — Average annual percentage growth rate of per capita GDP —



Industrialized countries and early globalizers: 24 OECD countries, Chile and Asian "Tiger" countries (Hong Kong, Singapor, South Korea, and Tiawan)

Post-1980 globalizers: 24 developing countries that represent the top third on a list of 73 developing countries ranked according to the change in the ration of trade to GDP between the late 1970s and the late 1990s

Non-globalizers: the remaining 59 countries

Source: Dollar and Kraay, 2001b

Empirical evidence supports the notion that by increasing their trade intensity, globalizing countries achieve much stronger economic growth than non-globalizers. (See figure.) Empirical evidence also shows that growth does increase the incomes of the poor one-for-one with overall income. Thus, liberalizing international trade appears to represent a useful strategy for addressing global poverty. If countries fall behind, this is regularly due to a lack of openness and market-oriented reforms.

In practice, it will require the cooperation of both the developed and the developing world to reduce global

poverty through trade. The following policy recommendations for developing and developed countries address the current trade regime, as well as potential weaknesses of a more liberal trade regime:

In the developing world...

- ***Governments of developing countries should implement policies complementary to trade liberalization that are tailored to minimize temporary discomfort resulting from industry shifts.*** In order to ensure that poor workers employed in previously protected sectors are not unduly harmed, policy should be designed to promote labor and product market flexibility and investment in basic education.
- ***Policy should be designed to enhance the capability of domestic business to seize the increased export opportunities.*** Policy should address problems related to overvalued exchange rates, anti-export biases, and missing or underdeveloped credit markets that limit the ability of exporters to expand and invest. Transportation and communication infrastructure should be improved to contain the costs of these services. Additionally, exporters should be educated about international product standards and available marketing tools to improve the international competitiveness of their products.
- ***Trade barriers should be lowered to facilitate trade among developing countries and to increase market access for least-developed countries.*** The trade barriers in developing nations are now, on average, higher than in developed nations.

In the developed world...

- ***Barriers to the import of agricultural and labor-intensive goods should be eliminated, with special attention paid to excessive tariffs and tariff escalation.*** While natural resources and high-technology products face relatively low tariffs, tariffs for agricultural products and textiles are, on average, three to seven times higher.
- ***Export and domestic agricultural subsidies should be phased out to eliminate incentives for the overproduction of agriculture.*** Inefficient overproduction of agricultural products by industrialized nations depresses the global prices of these goods, thereby lowering the incomes of poor farmers in developing nations.
- ***Phase-outs of import quotas on textiles and clothing should be accelerated, and antidumping duties should be avoided.*** Industrial countries have postponed the WTO-mandated liberalization of sensitive products until the end of 2004. Developed nations should not increase other forms of protection, such as antidumping duties, as competition from developing nations suddenly rises.
- ***Unconditional free market access should be granted to least developed countries' exports, and preferential treatment given to other developing countries should be made more generous, transparent, and less bureaucratic.*** Many of the trade initiatives in developed countries that purport to favor least developed and developing countries in fact include high barriers to "sensitive products" of particular interest to these countries.
- ***The Doha round of WTO negotiations should confront existing biases in the trading system against exports from poor countries.*** These negotiations should address the distorted trade in agriculture and the tariff peaks, tariff escalation, and non-tariff barriers to exports of particular interest to least developed and developing nations.

For more information on **Trade and Global Poverty,**
visit www.iwkoeln.de