



# THE BUSINESS HUMANITARIAN FORUM ASSOCIATION

THE POSITIVE POTENTIAL OF THE PRIVATE SECTOR

**Remarks by James D. Wolfensohn, Ninth President of the World Bank**

**Prepared for the Award Ceremony of the  
Russell-Whitehead Business Humanitarian Award**

**New York, March 31, 2009**

## **Introduction**

Thank you. It is a great privilege to receive this award tonight, and I express my humblest thanks to George Russell and John Whitehead for bestowing this honor upon me. I have been a great supporter of the Business Humanitarian Forum (BHF) since its launch a decade ago, and believe passionately in the important work it has achieved.

## **The role of the private sector in post-conflict zones**

I want to start my brief talk here with a sobering statistic: when a peace agreement is reached to end a conflict in a developing country, 44 percent of the time the country will find itself back at war within 4 years. Why? There are certainly many reasons, but a central one is because coming out of a conflict there is a dearth of economic opportunity. The surest way to prevent former soldiers from taking up arms again is to give them jobs.

This is why as President of the World Bank, I championed creating economic opportunities in post-conflict situations. Many forget that the Bank's original purpose, when it was created out of the ashes of the Second World War as the International Bank for Reconstruction and Development, was as a post-conflict reconstruction agency. Since then it has obviously expanded and taken on a much broader agenda centered on reducing poverty, but addressing the challenges of post-conflict countries remains vital to the Bank's work, as conflict is often inextricably linked with poverty.

And so from East Timor to Sierra Leone to Bosnia, I oversaw the Bank's efforts to create economic opportunities in post-conflict regions and lay the foundation for both peace and growth. And it is a challenge I have continued to pursue since leaving the Bank, most notably as the Quartet's Special Envoy to the Middle East, for there will be no lasting peace in that region until residents of the West Bank and Gaza see real economic opportunities.

## **Explaining the Challenge**

Restarting economic growth in post-conflict areas is an immense challenge. The state is weak which means institutions are fragile, the rule of law is sometimes uncertain, while infrastructure, often in poor condition to begin with, has been greatly damaged. With the public sector unable to fulfill its role adequately, the onus falls even more than usual on the private sector to lead the process of economic recovery.

In such an environment, good investments can seem hard to find. And yet I know they are there, because the successes of BHF's ventures - such as manufacturing medicines and furniture in Afghanistan, or supporting the wood processing sector in Bosnia - demonstrate this potential. A major constraint, I believe, is that the majority of the private sector doesn't know this potential exists, and can't imagine profitable investments in post-conflict areas. They see headlines on the news of war and famine, and they don't see the point in investing the time or effort to research these countries, when all of the incentives are already in place for them to set up shop in China instead.

Thus the private sector tends to underestimate the economic potential which can be found in post-conflict areas, and consequently these countries struggle to gain investment. Paul Collier, a leading expert on conflict and economic development, loves to tell the story that a full decade after Idi Amin had been removed as the dictator of Uganda, after the country had put in place wide-ranging economic reforms and had made great strides in turning the country around, most foreign investors still believed Amin was president. Foreign investors did not know about all of the important work the country's economic team had done over the past ten years - what they remembered was the decade-old headlines about the country's troubles. Even today, I imagine many would be unaware of the incredible progress this country has made, reducing the rate of poverty from 56% to 31% between 1992 to 2005, achieved on the back of a rapid growth rate of 6.7%.

This is why the work of organizations such as your own is so important. By demonstrating the viability of businesses in environments where others may be unwilling to go, you can encourage investors to follow in your footsteps through your example. A small investment by BHF can thereby catalyze much larger investments by others. And just as BHF can act as a trailblazer to other investors, so will those investors who follow you eventually identify the path for others to follow. Ultimately, this will spur vitally needed capital, jobs and enterprise.

### **The Global Economic Crisis**

It is rare for me to speak on any topic in recent months and not link the topic back somehow to the crisis which has been ravaging our economy as well as those of nearly every other country on the globe in the past 7 months. Indeed, it would probably be considered an oversight if I failed to draw some connection, for there are few things - and few people - this crisis has left unaffected.

As you will all remember, this crisis began locally: a burst housing bubble which wreaked havoc in our financial institutions. What we have seen since is a rapid diffusion of the crisis as its effects ripple out in every direction, causing real economy effects here in the US, creating contagion through advanced economies and, since the start of 2009, spreading chaos in emerging economies, such as those of Eastern Europe and some of Asia. Now the crisis has begun its next and arguably most ominous phase: casting a long shadow over the developing world.

The latest IMF predictions (published on 19th March) see emerging and developing countries as a whole growing by an insipid 1.5 to 2.5% in 2009. That is far from the robust 6-7% average growth rates recorded in the past couple of years and is not even equal to population growth, meaning GDP per capita growth will be negative in many countries. This aggregate figure masks more alarming stories in individual countries. In the past six months, the IMF has made emergency loans valued at \$65.8bn to 16 countries - 15 of which are emerging or developing.

Why should we be particularly sensitive to the effects of the crisis on developing countries? It is intuitive that shocks can cause the most harm in countries where people are already vulnerable. Moreover, research teaches us that these effects can be long-lasting. Evidence carried out by World Bank economists in Africa shows that child and infant mortality are substantially higher during growth decelerations than in normal times, but do not always improve during growth accelerations or recoveries. Stepping in to prevent growth collapses is therefore essential to the achievement of the Millennium Development Goals by 2015.

According to Martin Ravallion of the World Bank, 65m people will fall below the \$2.50-a-day poverty line this year as a result of the crisis. 53m will fall below the level of absolute poverty, or \$1.25 a day. As a result, it is estimated that between 200,000 and 400,000 more children will die every year between now and 2015 than would have perished without the crisis. Progress towards a richer, more equitable world has been set back years.

At this anxious time, what the developing world needs are investors with staying power, willing to weather the worst effects of the crisis and shore up their battered economies. But instead, the evidence suggests that investors are wavering: The Institute for International Finance estimates that net private capital flows to emerging economies, which reached a high of \$929 billion in 2007, fell to \$466 billion in 2008 and will represent a measly \$165 billion in 2009. Of the different types of private capital which are relied upon by developing countries, Foreign Direct Investment (FDI) is expected to be particularly small. By demonstrating your resilience and commitment to countries in which you are supporting enterprises, BHF can help encourage other investors to stay, providing much needed relief to economies by supporting employment and the continued flow of tax receipts.

As the economic crisis has evolved, so it has acquired new dimensions. One way of viewing the crisis' transformation to date is from a financial crisis to an economic crisis. However, there is no reason why the transformation should end here. The risk is that the economic crisis could now turn into a social crisis and from there to a political crisis, and even a security crisis. As the crisis evolves along each of these stages, its costs inevitably become greater and our ability to control it is reduced.

We have already seen early signs of the social and political fallout of the crisis in the worst affected countries: high unemployment and anger at Wall Street bonuses in the United States; civil unrest in Russia and in parts of Eastern Europe; the poverty estimates I have already cited; and two governments falling as a direct result of the crisis in Iceland and Latvia, with two more - Czech Republic and Hungary - on the verge of collapse.

In post-conflict countries and those with high levels of poverty, the risk of political and civil unrest is already high. Military coups in three African countries - in Guinea, then Guinea-Bissau and most recently this week in Madagascar - all in the past 3 months, serve as a reminder of the ease with which countries can slip into conflict.

I remain greatly concerned by the effect of the crisis on the poor and what chaos this crisis may sew over the months ahead. In particular, I fear that given our preoccupation with the crisis at home, our response to how the crisis will affect those in distant places will be slow and half-hearted. Against this backdrop, I am honestly cheered when I hear about the good work of organizations such as BHF.

Furthermore, I hope you recognize that your work is more important than ever given the situation the world faces today.

### **Conclusion**

With those thoughts, let me conclude now after thanking you all once again for this wonderful honor.