



THE BUSINESS
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FORUM

THE POSITIVE POTENTIAL OF THE PRIVATE SECTOR

“Humanitarian Action: The Role of Governments, International and Non-Governmental Organizations”

Presentation by Ambassador John J. Maresca, President, Business Humanitarian Forum, Geneva, March 2, 2006

I would like to talk to you this morning about the difficult task of meeting the world's humanitarian challenges in the 21st Century, about why new approaches are needed, and especially about why all elements of society – including in particular the private sector -- will have to join together if we are to have any hope of succeeding in meeting these challenges.

So I am going to ask you to change your perspective, or at least to broaden it.

First a word about terminology:

The terms “humanitarian action,” or “humanitarian aid” or “humanitarian challenges” are sometimes used to mean solely the kinds of donated assistance that are made available, for example, after a disaster, or in response to a specific problem. As important as these aid programs and emergency assistance certainly are, in reality most of the world's humanitarian problems are very long-term challenges like conflict, hunger, disease, lack of safe water or education, and so forth. These are problems that have been with us throughout time.

Sadly, most of the world's humanitarian problems are very long-term, are on-going, and cannot be fixed by aid programs and emergency assistance. They require economic development if they are ever going to be solved.

The term economic development usually refers to investments that ensure economic growth and wider availability of jobs. But this type of activity is rarely referred to as “humanitarian aid,” and investment is almost never included in the meaning of “humanitarian action.” But, I submit to you, the best kind of “humanitarian assistance” is actually investment that brings economic development and real jobs.

A relatively new term – social investment – tries to capture the notion of investments that aim to achieve social objectives, in addition to just making money. If you are interested in this area, I recommend that you look at last week’s edition of The Economist, which has a special section on this subject. Because it is a relatively new concept, it is not yet well-defined, but it is worth reviewing the various elements that relate to this field. At the same time, some specialists, including myself, argue that any investment is socially-oriented, because it creates jobs and helps to overcome poverty. So the “social investment” terminology may be somewhat redundant.

A second preliminary point is that the Millennium Development Goals (the MDGs), which were approved by the United Nations in 2000, have existed since then as the stated overarching objectives of mankind. Most of these are humanitarian goals, and it should be recognized that it was a genuine achievement for mankind to have been able to pull together, and to agree on, our joint objectives for the world. The UN should be congratulated for having achieved agreement on these objectives; without the UN, I do not know how mankind would have been able to agree on our joint objectives for our world.

But setting goals automatically poses the practical question of whether they are achievable. Can we reach these goals? Cutting world poverty in half by 2015, etc? And the answer is, I think, quite clear: We cannot hope to reach these goals without radically changing our approaches.

For example, we have to understand that economic development is a basic element in overcoming humanitarian problems. We need new policies, we need to engage all elements of society, and above all we need to find new ways to harness the energy, the creativity and the resources of the private sector, for economic development and jobs where they are needed most.

Why? Because the world's humanitarian challenges are growing, while the resources available for dealing with them are actually declining, by as much as 12% per year in real terms. And by the way, conflicts are the greatest multiplier of humanitarian problems, so every time a conflict breaks out somewhere in the world, it sets back our ability to reach the MDGs. And we simply have no alternative in the world which can bring to bear such vast additional energy and resources as the private sector. More than half of the world's 100 biggest economies are not countries at all; they are companies.

More importantly, it is the private sector which, through investment and the formation of enterprises, offers real jobs to people. Only the private sector can create lasting job opportunities, and create wealth. You can't get wealth at the post office. It is this feature of the private sector – its natural function of investing and creating wealth and jobs, which makes it so indispensable if poor countries are to be able to lift themselves out of poverty and overcome their humanitarian problems.

But the fact is that the private sector is commonly omitted from discussions of humanitarian issues. Let me cite one example: the title of this conference lists governments, international organizations, and non-governmental organizations as interested in resolving humanitarian problems. But it doesn't even mention business or the private sector. This is not unusual; humanitarian issues are often considered to be separate from issues of economic development.

Another example: A month or so ago the UN General Assembly agreed on the establishment of a Peace-Building Commission, to help in the reconstruction of societies after conflict, or to help prevent conflict. A late draft of the text instructed the Commission to consult closely with civil society and NGOs, but did not mention the private sector. It was only when I called this omission to the attention of a colleague in New York, and he called a national mission to the UN to point it out, that a reference to consulting the private sector was inserted in the draft.

I am not saying that aid programs are somehow wrong, nor that public or international efforts to meet humanitarian needs are somehow misguided. On the contrary, they are desperately needed, especially in emergencies. What would the victims of the Tsunami have done if emergency assistance had not been forthcoming?

I am simply saying that we need a broader range of activities, that we need new approaches, and that we need to involve all sectors of society if we are to succeed in addressing these problems. And I am arguing that poor countries need to be equipped to deal with their own humanitarian problems thru economic development.

Ultimately, I am arguing that economic development and job creation is the most valuable form of humanitarian assistance. What is needed most is encouragement and stimulation of the private sector, especially the local private sector, with its job and wealth-creation features. This is what is needed over the long term to overcome humanitarian problems. It's really very simple: if you give a head of household, whether male or female, a job, they can usually resolve their other problems. And if you can help a poor country to lift itself out of poverty, it can begin to address its other on-going problems, itself.

But businesses are understandably reluctant to invest in post-conflict countries, where there are lingering questions of stability, and in very poor countries with overwhelming humanitarian problems. To overcome this reluctance, there have to be special incentives for business investment, both foreign direct investment, and investment by local entrepreneurs, including independent entrepreneurs and those who have foreign partners. This will help to attract businesses to invest where investment is needed most.

What can those responsible for reaching our humanitarian goals do to make better use of the positive potential of the private sector for economic development where it is needed? There is an enormous range of possibilities, and what I will suggest are simply a few of these possibilities. One quick answer is what I call the three F's: Flexibility, Facilitation and Financing.

Flexibility means being prepared to assist local entrepreneurs in what they want to do, not some artificial list of possible business ventures that is imposed from outside. Entrepreneurs are better able to judge what they can do to make a profit than outsiders.

Facilitation means helping local entrepreneurs with the things they need, such as preparing the paperwork necessary to establish a business, or get a commercial loan, or find equity partners, or clients in other countries. Incentives can be offered in many different ways – from tax breaks to waiving of import duties on material to be used to create enterprises, etc.

And Financing means making the amounts of funding that entrepreneurs need available to them in simple ways that are understandable and do-able. This is not micro-financing, because the amounts of money needed are substantially larger – typically \$200,000 to about \$ one million to start a business.

Another answer that is getting a lot of attention these days is cooperation -- cooperation among different sectors of society and different types of organizations – which goes under the heading of Public-Private Partnerships. This is an important and infinitely varied type of activity, and it has been recognized as a valid approach for addressing problems that are otherwise too difficult to overcome.

I don't mean what I call "Cheshire Cat" arrangements, of which there are many. These are carefully-negotiated partnership agreements, resulting in some type of document, with a flashy signature ceremony, a photo op, etc. And then . . . nothing happens. Like the Cheshire Cat in Alice in Wonderland, the elements that were agreed, even the people who signed the document, slowly disappear. Until nothing is left but the smile.

What I mean is real, concrete arrangements, for real, concrete work, with real, concrete results. Sadly, these are still very rare.

This is, of course, what the BHF, and a few other similar groups, are trying to do. But the work is difficult, and there is little help or even encouragement. On the contrary, there are barriers that need not be there, and that could easily be removed.

These are just a few examples of what can be done. Ultimately, what is needed is a new approach, or new approaches, which give a much higher priority to developing and encouraging the private sector to invest in the least developed economies and post-conflict societies. This is much harder than just giving humanitarian aid, just as

it's harder to make money than to give it away. But it's the only way to reach lasting solutions.

This encouragement should build on and institutionalize the 3 "F's" I mentioned earlier. Especially needed is training for would-be entrepreneurs in these regions, plus a totally new approach to the kind of mid-level, high-risk, venture-type financing that is required by local entrepreneurs.

Financing should include some possibility of grants for local entrepreneurs. After all, grants are awarded for conferences on the problem; why shouldn't there be grants to actually do something about the problem? Another possibly useful device would be virtually cost-free loans for local entrepreneurs and partners up to a certain level. For example a ½ % interest rate could be charged to the local entrepreneur, with donor governments making up the difference between this level of interest and a sustainable, government-sponsored interest rate of 3 or 4 %. This probably would be cheaper in the long run, for the donors, than just giving aid.

Women need special encouragement as business leaders. Very often they have more of the needed business instincts than men do: willingness to work hard; determination; frugality; carefulness about details, etc. These are qualities that are needed in business. But many poor societies do not encourage women, even hold them down. The BHF is undertaking a special program to encourage and support women interested in business, to give them role models and big-sister encouragement, while respecting the societies in which they live.

These are just a few ideas, and much more can be done. The private sector is infinitely creative and infinitely resilient. It is also cautious, just as you would be if your own money was at stake, and it needs to be encouraged in new and special ways to invest in the world's poorest countries.

But encouragement and facilitation will go a long way toward bringing the private sector's investment and job creation skills where they are needed most, to help to overcome humanitarian problems.

Thank you.