



SEVEN

ENDING GLOBAL POVERTY IS SERIOUS BUSINESS.

Mr. Chairman and Members of the Sub-Committee: Thank you for the opportunity to discuss Enterprise Solutions to Poverty and U.S. Aid Policy in Haiti.

Not so long ago if one spoke about competitiveness and private sector development as a core principle of economic development, they were met with something between indifference and antagonism. Now, the concepts are discussed in the corridors of the multi- and bi-laterals, and viewed as a critical part of any nation's strategy to help its people.

There are still many misunderstandings over the role of the private sector in national development, so, please allow me to respectfully brief you on a couple of foundational concepts concerning prosperity and a strong society. I have spent the last nearly twenty years working in developing nations, advising governments in the aftermath of crises, including Rwanda, Afghanistan, Colombia, El Salvador, Tartarstan, and Serbia. Based on this experience, I believe Haiti is now at a critical juncture in its development.

I also ask your indulgence. My comments are meant to be frank and evaluative; they are based on 30 years experience from grass roots development as a Peace Corps volunteer in Africa to my role as an advisor to some twenty presidents around the world.

What is Prosperity?

Prosperity is the ability of an individual, group, or nation to provide shelter, nutrition, and other material goods that enable people to live a good life, according to their own definition. Prosperity helps to create the space in peoples' hearts and minds so that, unfettered by the everyday concern of the material goods they require to survive, they might develop a healthy emotional and spiritual life, according to their preferences. Prosperity can only be achieved when a nation's leadership sets its own vision, and follows a self-determined path.

We can think of prosperity as a flow and a stock. Many economists view it as a flow of income; the ability of a person to purchase a set of goods, or capture value created by someone else. We use a notion of income called purchasing power.

Prosperity is also the enabling environment that improves productivity. We can therefore look at prosperity as a set of stocks. I have listed below the seven kinds of stock, or what I call, the Seven Forms of Capital, the last four of which constitute social capital. In this conceptualization we see all forms of prosperity falling into the following categories: *natural endowments* such as location, sub-soil assets, forests, beaches, and climate; *financial resources* of a nation like savings and international reserves; *human-made capital* which are buildings, bridges, roads, and telecommunications assets; *institutional capital* such as legal protections of tangible and intangible property, government departments that work with little hidden costs to the economy, and firms that maximize value to shareholders, and compensate and train workers; *knowledge resources* such as international patents, and university and think tank capacities; *human capital* which represents skills, insights, capabilities; and *culture capital* which means not only the explicit articulations of culture like music, language and ritualistic tradition, but also attitudes, beliefs and values that are linked to innovation.

Figure 1: The Seven Forms of Capital

	Representative Elements	Representative Examples
Cultural	<ul style="list-style-type: none"> ● Tangible Articulations ● Norms ● <i>Mental Models</i> 	<ul style="list-style-type: none"> ● Architecture, Music, Language ● Range of Acceptable Behaviors ● <i>Trust, Wealth Creation Attitudes, Long-term Thinking</i>
Human	<ul style="list-style-type: none"> ● Health and Population ● Education and Training ● Attitudes and Motivation 	<ul style="list-style-type: none"> ● Nutrition, Medical & Mental Health ● Primary & Secondary, Technical ● Self-responsibility, action-orientation
Knowledge	<ul style="list-style-type: none"> ● <i>Qualitative, Quantitative Data</i> ● <i>Frameworks and Concepts</i> ● <i>Knowledge Generation</i> 	<ul style="list-style-type: none"> ● <i>Statistics, Opinions, Records</i> ● <i>Theories, Processes, Procedures</i> ● <i>Universities, R&D, Market Learning</i>
Institutional	<ul style="list-style-type: none"> ● "Good, Clean Governance" ● Justice System ● <i>Connective Organizations</i> 	<ul style="list-style-type: none"> ● Transparency, No Hidden Costs ● Property Protection, Predictable Regulations ● <i>Chambers of Commerce, Unions</i>
Financial	<ul style="list-style-type: none"> ● Financial Systems ● <i>Private Wealth</i> ● <i>Public Wealth</i> 	<ul style="list-style-type: none"> ● Banks, Stock Markets ● <i>Bank Deposits</i> ● <i>Bank Reserves, Taxes, Duties, Macroeconomic Stability</i>
Man-Made	<ul style="list-style-type: none"> ● Transportation, Communication ● Power ● Water and Sewerage 	<ul style="list-style-type: none"> ● Roads, Ports, Telephone Systems ● Electric Grids, Generation Capacity ● Pipelines, Pumping Stations
Natural Endowments	<ul style="list-style-type: none"> ● Environmental Issues ● <i>Raw Materials</i> ● <i>Climate and Location</i> 	<ul style="list-style-type: none"> ● Conservation, Restoration ● <i>Agricultural, Mineral, Petroleum</i> ● <i>Proximity to Markets</i>

Moving away from a conceptualization of prosperity as simply a flow of per capita income enables us to consider a broader system, and the decisions for investment in an enriched and enabling "high-productive" environment. Nobel laureate Amartya Sen suggests that, "The advantage of a stock view would be to give us a better idea of a nation's ability to produce things in the future."

Why Does Prosperity Matter?

We know that individuals around the world have vastly different purchasing powers, and countries possess stocks of wealth in different proportions. According to Thomas Sowell, "We need to confront the most blatant fact that has persisted across centuries of social history – vast differences in productivity among peoples, and the economic and other consequences of such differences."

There are intimate connections between poverty and malnutrition; but poverty is more insidious than statistics can indicate. Poverty destroys aspirations, hope, and happiness. This is the poverty you cannot measure, but you can feel. There is a rich literature on correlation between incomes and such progressive human values as: productive attitudes toward authority, tolerance of others and support of civil liberties, openness toward foreigners, self-esteem, sense of personal competence, interpersonal trust, and satisfaction with one's own life. Ronald Inglehart writes that higher rates of self-reporting of both objective and subjective well-being are correlated with the levels of national prosperity.

Most Aid Never has Impact

Eighty percent of assistance from the aid agencies, the not-for-profits, and the United Nations never achieves the desired goal of improving the wealth of nations; this is according to an aid agency that shelved their own report. Aid should be used in situations such as Haiti to mitigate the impact of natural disasters on vulnerable populations, but it has never been sufficient to lift nations out of poverty. In fact, there are reasons to believe the opposite.

The United Nations has 17,000 peace-keeping forces in Congo costing billions of dollars, but never addresses the underlying issues that caused the war: lack of governance, degrading poverty, and intolerance. The U.N. Millennium Village program created high expectations, but failed to coordinate with national governments. They have programs for visitors that officials call "Poorism." Tourists pay to visit villages and buy small crafts and agricultural products. One official showed me a brochure that sets rules for the busloads of visitors. The first rule is, please do not feed the villagers.

These places are less like the model villages of the new millennium and more like the Potemkin villages of the last millennium: Russian towns built like theatrical sets, with large fires that glowed in the distance to portray economic activity.

Not-for-profit organizations are uneven in their impact. Pioneers like Paul Farmer who founded Partners in Health, or Greg Mortenson of "Three Cups of Tea" fame, are respected for starting with only a vision, and accomplishing great things.

Other not-for-profit leaders, especially some of those who refer to themselves as Social Entrepreneurs, claim they borrow the best ideas of the private sector, and focus on innovation to serve the poor. Yet, they often spend more money on

public relations than on R&D and training their own staff; and they place their headquarters closer to media centers and the affluent rather than the needy. Their impact is tiny compared to the multilaterals, or faith-based initiatives, or even the development aid provided by the Pentagon.

Aid largesse can distort private initiatives, stifle democracies, amplify ethnic-based patron-client relationships, and promote corruption. Former Finance Minister of Afghanistan, Ashraf Ghani, who has been shortlisted to lead the U.N. and the World Bank, observes that aid can even “sever the sovereign relationship between people and their leaders.”

It is for these very reasons that Haiti’s private sector must be empowered.

What is Competitiveness?

Nations that do not create wealth for their citizens share much in common. Our evidence, and that of others, suggests that they are over-reliant on natural resources, including cheap labor; and that they believe in the simple advantages of climate, location, and government favor. Because of this they often do not build the capacity to produce differentiated goods and services that create greater value for demanding consumers who are willing to pay more money for these goods.

By focusing on these easily imitated advantages, on these lower forms of capital, they compete solely on the basis of price, and therefore, tend to suppress wages. It is exports based on poverty, not exports based on wealth creation; and the only competition they are in is to see which country can stay the poorest the longest until its society disintegrates.

A nation’s ability to create both price and non-price value for consumers inside and outside the country is what determines its productivity, therefore its prosperity, and most importantly, its impact on the goals, assumptions, attitudes, and values of its people.

Three Recommendations for Haiti:

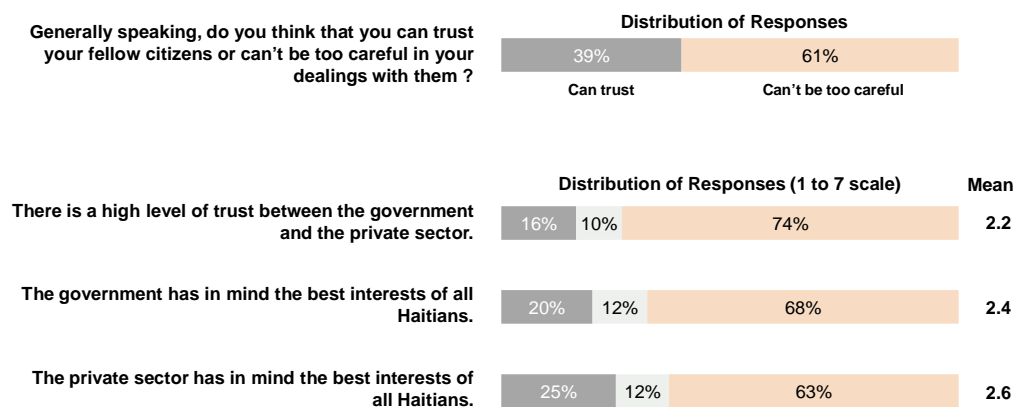
1. Invest in the Highest Forms of Capital: Institutions, Specialized Knowledge, Human Abilities, and Pro-Innovation Beliefs, a “Culture of Innovation.”

I will focus today on the last one. Pro-innovation beliefs include: competition is a

force for positive changes, wealth is a product of human initiative and not sub-soil assets, one may spontaneously socialize and trust fellow countrymen, and perhaps the most important of all, self-determination.

In Haiti, Interpersonal Trust is low, especially between the public and private sectors. The majority of respondents identify the lack of trust in Haitian society as a huge issue, with only 16% of respondents saying that there is trust between the government and the private sector.¹ Although the analysis focuses on the public and private sectors, our hypothesis is that this lack of confidence is widespread. This represents a major constraint to the articulation of a shared vision. Lack of trust in Haitian society is, perhaps, the greatest hidden tax on their economy.

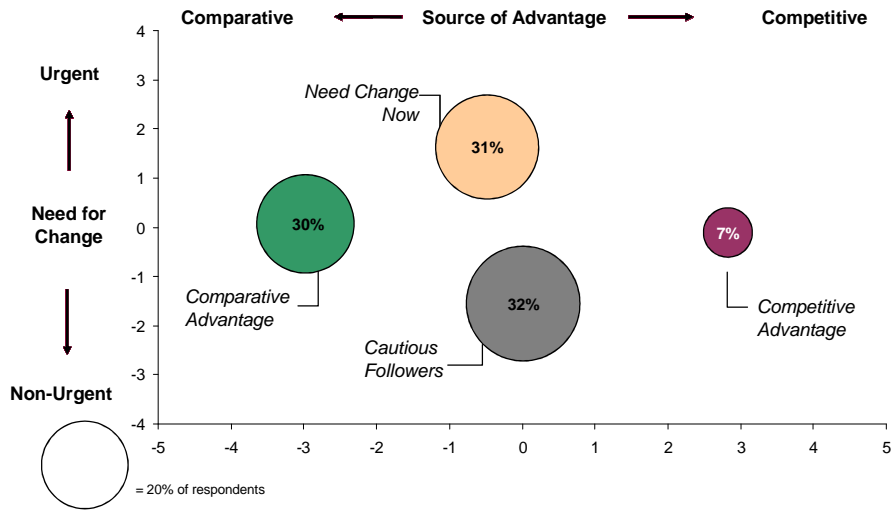
Figure 2: Haiti Competitiveness Survey Example



Four segments of opinion exist in Haiti with regard to competition. 30% of leaders surveyed want to see an immediate change; 32% are cautious followers and said they favor maintaining the status quo; 30% favored a comparative advantage based on cheap labor and low costs. Only 7% see the need to develop a competitive advantage based on innovation and productivity. These segments also point to the need to build a consensus around competitiveness.

¹ "Haiti Competitiveness Survey" Haiti's Presidential Working Group on Competitiveness and OTF Group, May 2009, n=752.

Figure 3: The Four Segments of Haitian Society



Note: N=561 pour segments originels, N=752 for Haiti.
 Source: Segment definitions based on 1998 Monitor Company Surveys: El Salvador, Bermuda, United States, Palestinian Authority; Haiti data analyzed based on the segments from the previous four survey sets.
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2. Build Modern Institutions on Top of Traditional Values

Key elements of Haitian culture and society date back to independence. When Haiti won its independence, two national traits emerged. The first is a sense of fierce individual survival. For many Haitians, self-sufficiency takes precedence over working together to better their society. Second, there is a deep mistrust of foreigners, whom they perceived as occupiers and meddlers in Haiti's history. The great challenge, therefore, is how to layer modern management and institutions on top of these traits to come up with a uniquely Haitian model.

Another discussion that we could begin here is how the proposed multi-donor reconstruction agency can integrate aspects of Haitian culture, while introducing the transparency and accountability that the donors require. This could be a precursor to Haitian-managed institutions. Given the likely importance of this reconstruction agency, it will be useful to develop and introduce some case studies or lessons learned on how this should work.

3. Place the Locus of Responsibility for Haiti's Growth Strategy on its Private Sector

Over the past year, OTF Group has worked with Haiti's Presidential Working Group on Competitiveness (GC). Created by President Preval in January 2009, this group of twenty professionals from the private sector, government, and civil society initiated a process to develop a "Shared Vision for a Competitive and Prosperous Haiti"². This vision, finalized in November 2009, contains three broad recommendations to upgrade Haiti's competitiveness:

- *Create a Culture of Innovation and Competitiveness*: the GC firmly believes that national mindset change must be a cornerstone of Haiti's transformation. They envisioned an ongoing communications campaign to change mindsets and promote pro-innovation behavior.
- *Articulate and implement strategies for priority growth clusters*: creating and selling great products and services, usually in a different way than conventional wisdom would dictate, are at the heart of competitiveness and prosperity. The GC identified five priority clusters, which it believes will drive Haiti's economic transformation.
- *Implement "quick wins" to improve the business environment*: according to the IFC's "Doing Business" rankings, Haiti's business environment is among the worst in the world. The GC foresees close collaboration with the Government of Haiti to quickly reform the economy as Rwanda did in 2009.

Post-earthquake, we have renewed our partnership with the GC to develop a medium-term Economic Recovery Roadmap that reflects a broad consensus in the Haitian private sector on what is required to rebuild the country's shattered economy.

The Case of Rwanda

A mini-case study may illustrate some of the above strategy initiatives in a context of national renewal: President Paul Kagame of Rwanda says, "Sometimes, the best strategy is reconciling what others believe are opposites."

² "A Shared Vision for a Competitive and Prosperous Haiti", Presidential Working Group on Competitiveness and the Government of Haiti, November 2009.

He applies this strategic, contrarian attitude to the environment, justice, and economics; but in a very specific way. Paul Kagame builds modern institutions on top of traditional values.

Everywhere you stand in Kigali provides a long view of a peripatetic group of Africans, cooking fires, farm animals, and small expertly cultivated farm plots, an immaculate nation. There isn't a mango peel on the roads. The President made the importation of plastic bags illegal; he wants clean streets, and the bags are not biodegradable.

The last Saturday morning of each month, bus service is suspended and businesses close. All citizens, irrespective of class, gender and including the President himself, sweep the area in front of their homes. The tradition is called *Umuganda*, and means, "We work together." This initiative builds interpersonal trust and civic engagement.

In the aftermath of the genocide, modern courts were incapable of handling the hundreds of thousands of perpetrators. International legal advisors were flummoxed. Kagame introduced the traditional *Gacaca* system to give the perpetrators of the genocide the opportunity to tell the truth and ask the community for forgiveness.

President Kagame even asked those who took farms from the killers who ran away, to return them. Some say they will because the President asked them to do so; others say they will because God would not have spared them from the genocide to do otherwise.

The economy was a priority from day one. The economy shrunk for five years before the genocide. The President explained to me, "When economic scarcity occurs, human values deteriorate: with poverty comes mistrust, impatience, and intolerance."

Many international advisors told him that exporting green coffee was impossible because the Vietnamese and Brazilians were flooding the market, and Rwanda's logistics made it hard to compete. Still, there were 500,000 subsistence farmers whose traditions and lives would be ruined if Rwanda gave up on coffee. Kagame decided that Rwanda would invest in washing stations, advanced transportation logistics, and new distribution relationships. Recently, they exported some of the finest coffee in the world to Costco and Starbucks.

His own tourism operators insisted that he lower the price of admission to the game parks to compete with the Kenyans. Kagame, instead, raised prices to attract only the world's best tourists, and then built roads, lodges and invested in guides so they could create a one of a kind experience.

The facts speak for themselves: The economy has grown at an average of 8% since 2001, grew at 11.2% in 2008, and around 7% in the throes of 2009. More importantly, wages in these sectors increased by up to 30% each of the last nine years. Women represent 56% of the legislature and hold the key cabinet posts, and this summer, the nation looks forward to free and closely scrutinized national elections.

One Recommendation for the USA:

The United States' aid procurement systems exist for a time in which we no longer live, and must be changed and upgraded.

There are features of successful aid programs:

1. A shared vision by both the provider and recipient,
2. Disbursement through national and indigenous institutions,
3. Investment that increases competence beyond applying for aid,
4. And, no parallel donor structures that undermine all of the above.

According to some leaders in the developing world, the United States Agency for International Development (USAID) is one of the worst at meeting these criteria; the U.K.'s DFID is the 'best of the West.'

In addition, the few firms that supply services to USAID, and to a lesser extent, the multilaterals represent an oligopoly. Their largest departments are, almost without exception, their legal departments; they have no R&D departments and virtually no training for consultants. Their core competence is attracting former USAID managers, and drafting winning proposals. This latter competence should not be underestimated; it represents a barrier to entry for new firms, spinouts, carve outs, and mergers—all signs of healthy competition and innovations. Consultants are considered mediocre by the American private sector. In fact, one might consider the vendors to USAID to be little more than

Head Hunters, possessing little intellectual capital and a lamentable record of achievement.

1. US aid, to be effective, should be untied to American providers. Japan, the UK, and many other nations already do this. It creates real competition, fosters innovation, and in the case where consultants are chosen from other developing nations, sources more relevant skills, saves money, and creates development impact, twice.
2. Aid vendors should be punished for poor performance and rewarded for superior performance. This avoids the “over responsibility” inside the proposal, and the “under responsibility” over the outcomes of the project. Consistently poor performers should be forced by competitive global market forces to leave the industry.

Mr. Chairman and Members of the Sub-Committee, Haiti is crippled by natural disasters, by models of government-private sector relations and wealth creation that are archaic, but also, by a culture that is fatalistic, event driven, intolerant of new ideas, and paternalistic.

Haiti’s challenges will *never* be surmounted by the current approaches: massive infusions of aid, top down regulatory advice, and decisions taken in the metropolises of wealthy nations. America’s foreign aid vision lacks coherence, is uninformed, does not balance the past with the future, and is over-influenced by donor fashions, entrenched vendors, and sentimentality concocted by PR executives with skinny passports and foisted on the American public.

Before the earthquake, my foundation, the SEVEN Fund, identified some of the best entrepreneurs in Haiti. Their personal narratives of achievement under difficult conditions, are not only inspiring, they could be a much-needed salve on the wounds of a nation. We are reaching out to them even now to make sure that they have what they need to resume their businesses, and that we document through film over the next three years, their rise to prominence and productivity once more.

We in the United States should do more of this; it is what we can do better than anyone: focus on “Enterprise Solutions to Poverty.” The greatest thing we could do to build international trust, encourage self-determination, and help poor people is to stop protecting industries where the rich nations have lost authentic competitive advantages. We should broaden our definition of international security from geo-strategic to upgrading firm-level relationships between our

societies; and, we should bond with the thousands of entrepreneurs in Haiti and other poor nations who are already successful and give them 'rocket fuel' by connecting them to global networks of productivity, trade and investment. The best way to create many new entrepreneurs is to show that great ones, though few in number, are already there to emulate.

Thank you, Mr. Chairman, for this opportunity to speak to you. Please do not hesitate to have your staff ask me to focus deeper into any or all parts of my comments. I will be at your service.

Respectfully,

Michael Fairbanks