The Institute of Ismaili Studies

"The Enabling Environment: An Urgent Challenge"

Keynote Address at the International Development Conference
His Highness Prince Karim Aga Khan
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Mr Chairman, Your Excellencies, ladies and gentlemen,

I am grateful to Mr McPherson for his kind and generous introduction, and I welcome this opportunity to share with a concerned and well informed audience some thoughts on the Third World today. To do so in the presence of my old friend Brad Morse gives me particular pleasure. To me, Mr. Morse is a symbol of a new pragmatism in development thinking that I sense in both the industrialised states and among the heterogeneous group of countries that are confusingly lumped together as the Third World. That term reminds me of a speaker who was explaining the role of UNDP. At the end of the speech, the Chairman thanked the speaker and said how glad he was to understand what UNDP did for the "underworld"!

As a development practitioner, I have a range of institutional responsibilities and interests in both the profit and voluntary sectors in Asia and Africa. While this has given me a broad and unusual perspective on Development issues, it has also given more chances than most to make mistakes! But I know from experience that neither profit nor non-profit ventures can be fully effective in serving societies unless there exists what I call an enabling environment for development.

Last October, the Aga Khan Foundation, together with the World Bank, the Government of Kenya, the African Development Bank and InterAction, sponsored a conference on "The Enabling Environment." The participants sought to determine how government, business and private voluntary organizations could work together to create the conditions of confidence, predictability and mutual trust that enable people and institutions to realize their full potential. It was the first time, to my knowledge, that the three sectors in Africa had met formally to discuss these common concerns. I was greatly heartened by the frankness of the discussions and the openness of all parties. There was excellent African participation, with an especially impressive private sector. It is encouraging to note that the Economic Council for Africa and groups in many countries have picked up this theme.

From these and other discussions, I am convinced we are in the midst of a sea of change in thinking about the development process in the Third World. For three decades, governments were at center stage. There was almost a blind faith in the ability of government to act as the locomotive of development. Governments were expected not only to educate the young and

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care for the sick, but, in many instances, to run vast segments of industry and to produce the savings required for investment.

While we must pay tribute to what has been achieved in much of the Third World during our lifetimes, the locomotive has run out of steam. Government capabilities and resources are stretched beyond the limit. And this is being recognized in all continents.

At the Enabling Environment Conference in Nairobi, there was general agreement on the need for new macroeconomic policies that would set more effective signals to spur the private and public sectors. Such agreement would have been inconceivable even five years ago. An extraordinary range of countries are now working to move towards better sets of prices, to reduce subsidies and market distortions. We have all witnessed the success of the Chinese providing incentives to 100 million farmers.

So the rules of economic life are beginning to change all over the world. In much of the Third World, the changes have been caused by necessity. Old patterns of production, and of providing social services, become insupportable in an age of high debt service and low commodity prices. The force of necessity has been buttressed by the intellectual logic of international development institutions, together with potent examples from Southeast Asia and from such countries as the Ivory Coast.

These policy changes are vitally important. They open the possibility for the release of human creativity and energies in a myriad of forms.

But I must share with you two deep concerns. The first is that the new policy environment in the Third World must be shown to work. It must provide widespread opportunity and benefits – and it must do so quickly. The adjustment processes in the new economic policies are causing hardships. Subsidies are being abandoned; services are being cut back; prices of staple foods and imports are rising. But if all political leaders can offer their peoples is an unending series of austerity measures and economic hardships, frankly we may lose the opportunity in this generation to help create broader-based, freer societies.

My second concern is that the policy changes taking place merely set the stage. The central question remains: How can the peoples of the Third World make use of these opportunities? There are many problems. In country after country, institutions have been eroded. Centers of higher education and research, once beacons of a new world, have sunk into a miasma of apathy and political interference. Too many cooperatives are moribund, inefficient or captured by the few. There is an unhealthy emphasis on the narrow interests of particular groups – the tribe, the caste, the sect – at the expense of the broader community. These problems are actually decreasing the capacity of Third World peoples to deal with the major issues of the Twenty-first Century.

So we have an opportunity and a challenge. I am convinced that the way we respond will influence the shape of the Third World for decades to come. I am equally sure that the heart

of the response must be a systematic and sustained effort to foster effective institutions–especially in the private sector. For institutions are the vehicles to unleash the creativity and energy of billions of men and women.

Muhammad Iqbal, the great Islamic poet-philosopher, once said: "For the individual to be bound to society is a blessing: it is in a community that his work is perfected."

Now that we are approaching acceptance of the macro model, we must address the micro mechanisms. It is here, I believe, that the United States has vast experience that is applicable. When the U.S. was roughly the same age as most Third World nations are today, Alexis by Tocqueville wrote: "Nothing, in my opinion, is more deserving of our attention than the intellectual and moral associations of America. . . In democratic countries, the science of association is the mother of science; the progress of all the rest depends on the progress it has made."

It is precisely this "science of association" that must be enhanced in the Third World today, in order to make use of the opportunities opened by the policy changes. We need competent and effective instutitions to handle not only today's problems but also tomorrow's challenges. How can many millions of small producers obtain access to inputs, credit, markets and the economies of scale that come about through association? How can we organize our health resources to provide cost-effective primary health care for all?

To answer these questions, I believe the voluntary sector has a great role to play. As in the United States, the voluntary ethos in the Third World is enormously powerful. The voluntary sector represents, and can develop, all that is finest in the human potential. It is now believed that 100 million people contribute their time and energies to the voluntary sector, working in health and nutrition programs, caring for refugees, experimenting with new approaches to income generation, and so on. In many countries, the voluntary sector can also stand as a courageous counterpoint to prevailing orthodoxy and to corrupt or tyrannical practice.

Yet the voluntary sector in the developing world is a fragile reed. It generally lacks resources and even selfconfidence. Organizations are often too small and too poorly managed to be effective. Governments occasionally try to control or even intimidate them. And this sector has a tendency to follow a "charity" approach rather than directing itself to the major developments and changes needed for the future.

There is another dimension that is also important. Strengthening of individual institutions is not, in my view, sufficient. The development challenges of the next century–cities of 20 million people with their housing and infrastructure needs; feeding and clothing 7 billion people while improving the environment; providing jobs for an additional 100 million men and women each year-mandate an integrated approach. Institutions must find ways to work together more closely, to develop new visions to address these issues.

Let me cite a few examples. There is a tendency to separate the profit sector from the voluntary. But the potential for close and effective links must be enhanced. The business sector has much to offer, especially in terms of management and technology. The majority of the scarce managerial talent in the Third World lies in private business. How can we apply some of that talent to the broader social and economic problems facing the future? My own network of social service organisations derives much of its strength from professional and business men and women who volunteer their time and expertise to oversee the management of these organisations.

The business and voluntary sectors can work together to unleash the creative energies of the informal sector, the many millions of tiny producers. In the far north of Pakistan, amidst the highest mountains of the world, I have sponsored a rural development program that is creating effective Village Organisations among nearly one million scattered and isolated people. These organisations provide the forum, the skills and the discipline for people to be able to determine their own futures. In four years, they have accumulated nearly $1.5 million in savings. Infrastructure projects, constructed and maintained by the villagers, have irrigated thousands of acres of new land and built link roads to markets. From each village, representatives have been trained in a range of productive skills. And the Village Organizations are being linked to the modern banking sector and to large companies for input supply, quality control and help with marketing.

It is my profound conviction that steps to strengthen institutions and the linkages between them are critical to the freedom of the individual to be creative and productive in a socially responsible manner. This is the essence of the Enabling Environment. In the textbooks, most discussion of freedom centers on the prevention of absolute power. It is about checks and balances. The time has come to evolve concepts and practices of “positive freedom,” the links between individuals and institutions and the rules of the game that encourage mutual trust, promote cooperation, unleash human potentials and make possible a whole that is greater than the sum of the parts.

Clearly, the principal burden of responding to this challenge lies with the Third World itself. The peoples of the developing world have a vast task to define a vision of the future – to design the institutions and systems, the skills and technologies that will permit the vast majority to participate actively in the development process. To this audience, however, I can ask what the West can offer. And I would like to hazard some suggestions.

I believe the Third World deserves strong political support as it embarks on this adventure in freedom and pluralism. Forty years ago, Western Europe was faced with a similar challenge to that I see for the Third World today. The United States responded with the Marshall Plan. The level of funding was certainly generous. But even more significant was the tangible sense of international solidarity that enabled Europeans to have the courage to invest in their own futures. Today, the Third World needs this kind of psychological boost to mobilize their societal strengths, to withdraw savings from mattresses and bangles and put them to use, and to face up to the difficult decisions ahead.

Second, I would like to see a broadening of the dialogue on the support and strengthening of institutions. For example, much of the strength of the voluntary sector in the U.S. stems from the stability of its financing. Both Europe and the Third World can learn from the experience of fiscal incentive to stimulate the voluntary effort. Again, developing countries are now recognizing that a proportion of their state enterprises are expensive and inefficient milestones. Let us learn more about the Western experience with privatisation and the private provision of effective social services.

I must also re-emphasise the time dimension. These experiments must show results quickly. I am not there to discuss the vital issues of debt finance or aid flows. But I should note that growth is a lubricant for individual and institutional development. It is also clear that efforts to develop private business would be enhanced by an expansion in world trade and a concerted effort to reduce discrimination against the products of millions of small producers from the Third World.

I am impressed by the large and growing number of examples of Western corporations and voluntary organisations that are already providing assistance – particularly in management and technology–to the private sector in the Third World. Just one example in a sensitive area, the Saint Petersburg Times is twinned with Nation Newspapers of Kenya to assist in the development of a competent, free and responsible press in East Africa. But I am convinced that much more must be done. We need imaginative intellectual leadership to make this a mass movement in which a huge range of Western organisations feels they have a stake. Surely, this is a challenge that Chambers of Commerce and associations of voluntary organisations, perhaps collaborating with universities and aid agencies, could take up.

Finally, let me state my conviction that the indigenous voluntary sector must be encouraged to enlarge its role in the development process. These agencies have the potential to draw hundreds of millions of people into direct participation in development. They can be cost-effective and innovative. But I have already noted that indigenous voluntary agencies often have weaknesses. Can we not combine Third World and Western resources in a concerted effort to improve the management, quality of work and effectiveness of indigenous voluntary agencies? Because they have received so little attention in the past, a relatively small effort to nourish this sector could pay high dividends. Above all, these agencies require a solid funding base. Would it not be possible to increase the proportion of aid funds that go directly to them? Would it be reasonable to suggest that 10 percent of the World Bank's profits should be used to strengthen indigenous voluntary agencies?

The influence of American ideas and of the generosity of its people has been profound over the last 40 years. In a world that is changing, unpredictable and often frightening, there are inevitable temptations to look inward and withdraw. This evening I have tried to share with you my belief that a vital opportunity is at hand. The opportunity exists to create, in much of the Third World, an enabling environment to bring out the very best of the human potential.

An Ayat in the Qur‘an says: “Verily, God does not change man's condition unless they change that which is in themselves.” We must show greater faith in the ability of the individual to be creative. We may be at a point in history in which the people of the Third World are both willing and able to act. We all share a responsibility to help create an environment to make this possible.