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Corporate Social Responsibility: Good for Business, Remarks to Business for Social Responsibility Conference, Washington, DC

Remarks by President Wolfowitz
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PROCEEDINGS

MR. WOLFOWITZ: Thank you, Aron. Thank you all. I'm very pleased to be able to join you here for BSR's annual conference, and thank you for this invitation.

Some of my friends--and I do have friends in the NGO community--would say corporate social responsibility is oxymoron. I don't think it is. I think, in fact, what you're engaged in is a very important kind of--perhaps one could call it cross-cultural dialogue.

One of my favorite examples of cross-cultural dialogue is the story about an American business consultant who was invited to Japan to give a speech at a big corporate event. And he decided he'd better get a consultant to advise him on his speech beforehand. So he went to someone who was an expert on Japanese culture. And this man said to him, "Look, the Japanese really like people who come across as modest. You may think it's excessively modest, but there's almost nothing that"--"no way you could begin your speech that would be too humble."

So he takes this advice in hand. He goes to Tokyo. He's meeting a large audience like this of Japanese men in business suits. And he begins by saying, "You know, I appreciate your inviting me, but I'm not really the expert. I'm sure there are 15 people in this audience who are more expert than I. And I'm sure I'm going to make some mistakes in the course of this speech, and I just want to apologize in advance and beg your forgiveness for any mistakes I might make."

At which point a thousand people burst into uproarious laughter. The poor guy is flustered, turns red in the face, manages to stagger through his speech, finally gets off the podium, and the manager of the company comes rushing up to him. He said, "Mr. Smith, we are so sorry, but you need to understand that before you came, we briefed all our staff, and we said, `Americans always like to start their speeches with a joke, so whatever he says, be sure to laugh.'"

[Laughter.]

MR. WOLFOWITZ: I do like to start with a joke, so thank you for laughing.

But on a very serious note, corporate social responsibility is a topic of vital importance to the World Bank Group in our efforts to fight poverty. It's a mission we must undertake responsibly, ensuring that we respect culture, protect the environment, and strengthen communities in the course of our work.

I understand that you covered a lot of ground today on pressing and timely issues--issues like how to respond to disasters and how to deal with emerging multinationals from big, successful developing countries like India and China. I'm also pleased to hear that you saw screenings on the innovative work in Bangladesh conducted by BRAC and the Grameen Bank.

I had the privilege, visiting Bangladesh this past August, of meeting a group of women and some small children whose lives had been transformed through small provided by BRAC and through community schools being run by BRAC. It is truly impressive to see how even modest interventions can improve the lives of thousands of families. It offers inspiration and valuable knowledge to our work to combat global poverty.

It seems that it wasn't that long ago when fighting poverty and fostering business were seen as, at best, unrelated and, at worst, at odds with one another. But, fortunately, I think our understanding has improved a lot in the last ten years or more, and today I think we know that economic growth, shared economic growth, is the only sustainable way to improve living standards, to give people the opportunity to escape poverty, and that the growth of the private sector is critical to creating the jobs that are essential to that growth.

We also know, including from poor people themselves, that jobs offer the most promising path out of poverty, and the private sector accounts for some 90 percent of jobs in the developing world.

So partly as a result of this new understanding, we've seen a bold change in the attitude of many governments to private investment, including foreign investment, but I want to keep emphasizing the importance, even greater importance of indigenous investment, and I will come back to that.

Most governments have moved from tight controls to actively courting investors. Private capital flows to developing countries are now running more than $300 billion per year. That means that for every dollar of official development assistance, there's more than $4 in private sector flows.

We're also witnessing changes in the pattern of foreign investment flows. In recent years, foreign direct investment by private firms from one developing country to another developing country, what you might call South-South investment, has grown four to five times faster than investments from developed countries to developing ones.

A host of new actors are also emerging on the development landscape. By conservative estimates, there are some 18,000 NGOs and nonprofits engaged in international development work, and that does not include the hundreds of thousands of smaller civil society organizations operating in developing countries.

Taken together, these trends represent one of the most dynamic eras in development that the world has ever seen. With the recent progress on debt relief along with the progress we hope to see in the Doha trade negotiations, there is a lot to be hopeful about. But there is still much hard work that lies ahead.

While more developing countries are seeking to boost the role of the private sector, progress remains slow. Let me highlight just a few of the specific challenges where I believe CSR initiatives could make an important contribution.

Regulation is a traditional tool that governments use to balance the interests of firms with broader social interests. But in many countries--and I would say particularly in some of the poorest ones--regulatory frameworks are often outdated, inefficient, frequently they seem to be unchanged since colonial times. They burden firms--and I would say especially the smallest firms--with little, if any, benefit to the broader community.

One of the projects the Bank has been undertaking now for about three years, which is one of the more impressive things I think we do, is the Doing Business report, and that project shows that developing countries tend to have more cumbersome regulations than industrialized countries. For example, registering a small business can take more than six months in some countries, while enforcing even a simple contract can take years.

Tedious regulations encourage high levels of informality and more corruption. More than 90 percent of firms surveyed by the Bank report gaps between formal regulations and what happens in practice. In many developing countries, more than half the economy operates in the so-called informal sector.

This is the 2006 Doing Business report. It's kind of a fun read. It's not really a guide to foreign investors. I think of it more as a guide to governments to know where their problems lie.

As one illustration--and I think it's probably better to not name names in order to protect the guilty--one poor African country, with a generally good record, by the way, but where it costs one and a half times, 150 percent of annual per capita income to register a business, where it costs five times per capita income to have the minimum capital for a business--I'm not quite sure what minimum capital means, but it's not working capital. It means something you've got to put away, I guess, against potential creditors. And the regulations go on in that vein, and the net result is in a country of roughly 12 million people, only 50,000 work in the so-called formal sector.

What does that mean? Well, it means first of all that most of the people who are working in the private sector are working outside the law; particularly women are working in businesses that don't have to observe even the minimal labor practices that are required in that country. Most businesses aren't paying taxes, so these are pretty counterproductive regulations.

But the worst thing of all are the businesses that simply don't exist because those barriers are too high to get over.

I was meeting with the Prime Minister of another country today, talking about the Doing Business report. This man is a committed reformer. I'm very happy about that. And he was more than willing to listen to the fact that his country comes out way near the bottom of this group. If I start saying at which number, then I might as well tell you the name. And as we talked about it, I said, Look, you need to understand that, for example, if it costs, in his case, two and a half times per capita income to register a business, you know, in some countries two and a half times per capita income is $500. For most of the firms represented here, that's an expensive lunch. For a poor person in a West African country, it's two and a half times his annual income. The business never starts.

And I think something to recognize is that the obstacles to small businesses are very frequently different from the obstacles confronted by big businesses or big multinationals. It doesn't mean that improving the investment climate for the big businesses isn't important. I happen to believe it is, and I spent quite a bit of time when I was American Ambassador in Indonesia some 15 or 20 years ago representing concerns of American businesses with Indonesian regulators. I never took a case where I thought it was favoring an American company at the expense of the overall business climate in Indonesia. I felt generally in the cases that I was carrying it was helping the competitive climate for everybody, including for Indonesian businesses.

But until I went through some of the regulations in this report, it hadn't really hit me that none of the things that bothered American companies were the sort of things that would stop a small Indonesian businessman from setting up a shop. You just don't have to worry about fees in the range of $5,000. Delays of 120 days, get your stuff through customs, I did hear about that. That's annoying. But it isn't crippling the way it is for a small business.

And I'm encouraged, actually, at the kind of response that we're getting when we raise these sort of issues. The Finance Minister of Malawi--I think I can identify him--when I gave him some of these facts, he said, "Shame on us." And I said, "No, not shame on you. This is to inform you of what's going on. Now that you know what's going on, if you come back here a year from now and you haven't done anything about it, then shame on you." Because a lot of this I think is low-hanging fruit, as they say. But I was really encouraged.

And then another Minister--I better protect him; this is to protect the innocent. His country ranks at sort of the top of the bottom third. It's pretty low. And I actually thought he was going to come in to complain to me about our methodology. Instead, he came in and thanked me. Why did he thank me? He said, "I'm using the Doing Business report to work on the people in my country who are resisting change."

These rankings are not--as I say, they're not guides to foreign investors, and it's not competing one country to another. But if you see that your country is number 87 out of 124, it kind of gets your attention. And a little bit of competition I think is a good thing.

But I bring all that up because I really believe that the strongest engine of job creation are the companies that don't exist yet and the small companies that are struggling to get finance and capital to grow into medium-size and large ones. And sometimes--I'm sure no one in this room is in that category. Sometimes the big businesses are part of the problem, not part of the solution. Sometimes they love these regulations because it prevents competition. Sometimes they love trade protection because it prevents competition. I think if we want to talk about corporate responsibility, corporate responsibility ought to start with accepting the fact that competition, fair competition, is in everyone's interest, and it's your job to do well competitively not to shut out your competitors.

I think there's nothing more irresponsible for corporations than to be opposing trade liberalization, for example. Please get out on the stump and advocate for a successful Hong Kong round to the Doha trade negotiations. As I said many times, the people who have most at stake, I think, in the Hong Kong trade negotiation round now are the 1.2 billion people in the world who live on less than a dollar a day. There is no one in Hong Kong at those negotiations who lives on anything close to a dollar a day. But they are representing the poor people of the world, and I think all of us have an obligation to remember that.

To strengthen the investment climate in general, we need to support regulations that encourage entrepreneurs to start businesses and help countries enforce those regulations. But it's not just the regulatory environment. Poor infrastructure and public services also pose major obstacles to the investment climate in many countries. That hurts the poor by stifling job creation.

I visited Rwanda in June, and I met a very impressive woman. She's Rwandan. She had a successful business here in the United States, very successful one. She went back to Rwanda to start a flower farm, growing beautiful roses to export competitively to the European market. In fact, one of my favorite quotes that I found in the last five months is

from her. I asked her, "Why did you go back to Rwanda?" And she said, "I came here to grow beautiful flowers on the ashes of genocide." It's a moving story. There are some 200 or 300 rural people, mostly women, who have terrific jobs on this flower farm.

Her biggest obstacles though are not regulations. Her biggest obstacles are electricity that's unreliable, that costs here about 5 percent of her crop. Her second biggest obstacle is how to get her flowers to Nairobi so that they can be transhipped to Europe. The challenges of being in a landlocked country with poor electricity and poor communications to the outside. So there are investments that are needed as well.

While governments have an important role in providing these services, experience with public-private partnerships in the 1990s, offer promising and innovative models for expanding service provision, we cannot underestimate the impact of corruption. It's a disease and no country, no country is immune from this disease. Whether it exists in government, in private sector or aid projects, corruption drains resources, and at its worst it scares away investors. It benefits the privileged and it deprives the poor. It threatens the prospects for a better life, especially in developing countries.

But let's remember, because some of this discussion about corruption, if you listen for it too long, you think, well, the problem with development is that all these developing countries have corrupt governments. Let's remember that there are two parties for every corrupt transaction. For every bribe taker there is a bribe giver, and very often the bribe givers in developing countries come from rich developed countries. So the developed countries share responsibility for dealing with this problem.

I think we in the World Bank have responsibility as well. In fact, I think every development institution does. All of us who are working to help the people in developing countries have a responsibility to safeguard every dollar, to ensure that it's spent as wisely as possible, and to set a standard that we can be proud of.

There are some promising signs that governments in a number of developing countries, particularly in Africa, are doing much more to fight corruption. When I visited South Africa, just two days before the President had dismissed his Deputy President, not because the Deputy President himself had taken a bribe, but because his adviser had taken a bribe. It wasn't a matter of legal responsibility, but political responsibility.

Elsewhere in Africa, in Nigeria, some senior officials have been sent to jail for corruption. So there is, I think, a much greater seriousness in the developing world about taking this on. And I think we in the multilateral institutions that help finance development and poverty reduction projects, need to strengthen our own vigilance. We must do everything possible to guard against and punish those kinds of activities that we are encouraging others to combat.

As I said before, for our part, I am committed to holding the Bank to the most rigorous standards. Our staff must maintain professionalism in their conduct and abide by rules and procedures. We will continue to guard against corruption and strengthen our efforts to root it out wherever we find it.

I think it's also important to note that there's been progress in the area of recovering stolen assets. A very notable event took place in September when the government of Switzerland returned $489 million to the government of Nigeria that had been stolen by the late dictator, Abacha. More of that kind of return of assets, I believe, can discourage wrongdoing in the first place, and embolden those in countries like Nigeria that are trying to fight corruption.

But punishing corrupters isn't the only solution. In fact, it probably isn't the best solution. I think the best solution is in fact improved transparency, improved accountability, so that corrupters know ahead of time that they can't hide. Prevention is much better than the cure. And businesses and civil society organizations, I think, can play an important monitoring and advocacy role here. So can a press. And anyone who says that the issue of press freedom is a purely political issue that has nothing to do with development, I don't think understands just how important accountability is to preventing corruption, or just how serious a threat corruption is to the development process.

There are two parts of the challenge of reform where I think CSR can play an especially valuable role. I have sort of alluded to one already. Reforms are often resisted by beneficiaries of the status quo, whether they are officials, privileged firms or other groups. The potential beneficiaries of reforms, including those small businesses that don't even exist yet, cannot simply stand by and watch. They need to speak up and be part of the solution.

I sometimes say the Doing Business Report is a way of giving voice to the voiceless, but I think you who represent medium and large corporations can also help recognize that you can give voice to the needs of others.

Secondly, I think reforms are more successful in an environment where there's less public suspicion about business. I think one of the reasons some of these excessive regulations exist is a general prejudice that business is bad. We know from opinion polls that that kind of suspicion exists in almost every country. Changing public perceptions is not just a matter, therefore, of building up brand loyalty for firms. It is also about fostering an environment in which governments can implement reforms that bring benefits to the whole community.

At the World Bank Group we've been supporting such efforts through programs and initiatives at three levels: government, firms and the global level. Let me discuss each of those.

First, helping governments to improve their investment climates. Improving the investment climate is one of the pillars of the World Bank Group's overall development strategy. We work mostly with governments through lending to support public investment and infrastructure, education and related services. We also help governments with policy and institutional reforms through analytical work, through training, and by sharing the lessons of international experience. That includes the Doing Business Project, which I mentioned, which benchmarks the regulatory environment in 155 countries. It includes other investment climate surveys of firms in developing countries to understand the main constraints that they face. This work has proven to be a strong catalyst for reform in many countries.

As part of our advisory work, we're working with governments on linking CSR with other reform initiatives. In Cambodia we provided support to the garment sector to help them meet international business standards, and now we are working with BSR in El Salvador on developing a similar scheme. We are also preparing, in anticipation of a successful Hong Kong trade round, to come forward with a substantial aid for trade package that will help countries develop the facilities that are necessary to take advantage of increased trade opportunities.

Second, we're working with firms to support socially responsible investments. The International Finance Corporation, or the IFC, the private sector lending arm of the Bank Group, works directly with firms in supporting sustainable private investment. It's a natural partner for BSR members. The IFC proves it is possible to combine socially responsible investment with profitability in the developing world. This past fiscal year the IFC posted its third consecutive year of record profits. That sends a powerful message to investors that viable opportunities do exist across the developing world. And we are proud to report that IFC's investments in Africa are not only profitable, but are expected to be one of the most rapidly growing areas of our portfolio.

We're also supporting the creation of socially responsible stock market indices, pioneering partnerships on corporate governance, biodiversity and renewable energy, and helping to transform small NGOs into sustainable commercial enterprises.

Finally, we're supporting the development of global standards. The Bank Group works closely with other UN agencies in supporting the development of global standards across sectors. In the CSR field, I am proud to report, that we have been among the innovators. Some 30 major financial institutions have voluntarily adopted IFC's environmental and social standards known as the Equator Principles. This represents a major step forward for environmental finance. It testifies to the role that development institutions can play in safeguarding the interests of the poor in their environment in partnership with the private sector. More than 80 percent of the project finance market now falls under the Equator Principles.

The Bank Group's work on investment climate and CSR has benefited enormously from close partnerships with a wide range of partners, including many of the organizations represented at this conference. We look forward to strengthening and expanding those partnerships. There is an urgent need for locally developed, locally owned solutions that link entrepreneurship and competitiveness with respect for social and environmental norms. I particularly encourage businesses, governments and civil society to work together to nurture this culture of social responsibility.

It's a collaboration that is in the self-interest of business and in the best interest of the poor living in developing countries. It is my hope that through our collective efforts we can build a thriving global business environment that creates opportunities and unleashes the entrepreneurial spirit of the poor. It is not only a moral responsibility, but a social, economic and political imperative.

Thank you very much.

[Applause.]

MR. WOLFOWITZ: I will be happy to take a few questions, and I guess if my eyes are good enough, I can do the calling on.

Start with you, and then you, and then we'll come up front.

MS. : If you could just wait one second, we'll get you a microphone.

MR. WOLFOWITZ: Okay. Then why don't you start there, and we'll get you second.

QUESTIONER: My name is Kevin Sweeney. I'm a consultant. I also teach at Berkeley.

I have a question about the World Bank's credibility and it's linked to your own credibility. You ran a campaign--this will take 30 seconds and it is a question. You ran a campaign that said there were weapons of mass destruction there, it wasn't true. And you ran a campaign that implied there was an Iraqi 9/11 connection. And so credibility really matters in this work, and I wonder why would anybody believe you? Why would anybody believe the World Bank? And the real issue then is what are you doing to protect the World Bank's credibility, and does your personal history affect the World Bank's credibility?

[Applause.]

MR. WOLFOWITZ: Well, I didn't run the campaign on Iraqi weapons of mass destruction. It is something that the Clinton administration said. It's something the Bush administration said. I trust you know there's a long list of people who attested to it, and I wasn't the person who did the intelligence. I don't feel I have anything to apologize for.

I tell you what really strikes me is how everywhere I go in the developing world--it started with a trip in Africa--what people want to know is: do you care about our issues, and are you ready to get the job done? And the issue of Iraq comes up in places like this. It didn't come up in Africa.

What really strikes me too, by the way, and it's been a kind of surprise, is how many times I've been approached by African immigrants here in the United States in random encounters, in a shopping mall in Durham, North Carolina, at a drugstore in Cleveland Park, how attentive they are to what's going on in their part of the world. I mean the first time it happened I thought I was going to get asked a question like the one you just asked, but this drugstore clerk said, "Thank you for what you're doing for Africa, and be tough on these corrupt leaders. It's the only way to get the problem fixed."

There is so much work to be done in Africa, and my impression is what Africans want to hear is that we're serious about their problems, and believe me, I am serious about their problems. For me, it's the reputation of our institution and my personal reputation to get something done for the poor people of Africa.

[Applause.]

MR. WOLFOWITZ: Down here.

QUESTIONER: Mr. President, we appreciate your joining us for this discussion this evening. One of the reasons that so many companies have joined together in such a robust discussion here is that many companies recognize that their hard assets, their cash, their physical resources now may represent only about a quarter of their market value, that their soft assets, their reputation, their relationships with their stakeholders, the trust in which their communities hold them, account for about three-quarters of their market value of your ...

role of what the percentages are at the World Bank. If it's 25 percent hard assets and 75 percent soft assets in the corporate world, is it the same? Has the World Bank done a sufficient job of building up its soft assets? And how do you plan to leverage those soft assets of the World Bank to also create an atmosphere for robust economic and social development around the world?

MR. WOLFOWITZ: Boy, that's an essay question.

[Laughter.]

MR. WOLFOWITZ: My policy is if you ask two questions, I get to pick which one to answer, but that was all one question so I can't untangle it. I am going to give you a partial answer. I can't try to handle the whole thing.

In some respects, our soft assets, if you want to define them that way, are probably 80 to 90 to 100 percent of what we are. Our greatest asset ultimately are the people who work in the institution and the expertise and knowledge that they bring.

There is money, too, and I don't know how to--I mean, that's the hard part, and hard as in not soft. Okay, maybe that's 20 percent. I still think--and it depends a little bit on which of three categories you're talking about. Let me tell you--Category 1 is our first priority and those are the poorest countries of the world, particularly in Africa, and they need those hard assets. They desperately need investment in infrastructure. They desperately need drugs to fight AIDS and malaria. They need money to build schools and pay teachers. So maybe there, maybe it's 50-50.

Then there are the successful middle-income countries--China, India, Brazil, Mexico, South Africa. I just came from a fascinating six or seven days in China, and increasingly some people say, well, they don't need your money anymore, so what are you doing there? We don't do concessional lending to China anymore. China borrows from us essentially on--it's their money that they're paying us back with. But they want us there. They want us there mostly for the soft factor. "Soft factor" was a phrase that a very senior Chinese official used when I pressed him, what is it that the World Bank brings. And I asked several of my Chinese interlocutors this question. You know, you really don't need our money that much. It's 1 percent of the capital that's available to you, and as I said, you're borrowing it on virtually commercial terms, anyway.

And part of the answer would be, well, look, there's still some very significant poverty in China, by some estimates 300 million people in China have escaped poverty in the last 20, 25 years. It contributes to this record--just so you know, there is success in this fight against poverty. The last 20 years, more people have made their way out of poverty than at any time in history, and 300 million of those people are in China. But there are still 150 to 200 million, depending on where you want to draw the line, who are living in extreme poverty even there. And they say you bring--you, the World Bank Group, bring a lot of expertise on how to take some of our wealth and some of your money--but it's mostly ours--and apply it most effectively to poverty reduction programs, in education, in health, in reclaiming some devastated landscapes that I saw in western China in the environmental area.

But when this senior Chinese official talked about the soft factor, he meant, I think, something else. In fact, he elaborated. And one of his colleagues, when I pushed him and said, you know, what is it that you get from the World Bank, first he went through what I thought was a kind of standard answer, not a bad one, but what caught my ear in his answer was he said, "The World Bank has helped to change the concept and ideology of development in China."

Well, when a Chinese official uses that word "ideology," you know he's talking about something important. So I said, you know, "What do you mean by the concept and ideology of development?" And here he seemed to depart from whatever was the prepared script, and he began to talk about his own experiences, and he began to talk about how the Bank had introduced them to modern accounting practices and modern procurement practices and how to do contracts and protect yourself from corruption.

We know corruption is a problem in China, and there are places where it's a severe problem. But it was very interesting to hear this official speak from his own experience over 20 years of learning from the interaction with the World Bank, I'd say through the World Bank with the rest of the world about how to manage modern economies.

We opened a--we participated in the first renminbi bond, a panda bond issue in China. They're learning through the World Bank from the rest of the world things about how to broaden financial markets. We sometimes call ourselves the Knowledge Bank, and I have told people that implied--let's get away from that, it's a little too arrogant. It implies we know and we go and tell other people.

But we are a conduit of ideas for those developing countries that want to learn how it's done in other places, and they may decide that how it's done in other places has nothing to do with their circumstances. Or they may say we need to adapt it in some form.

But I think it's an extremely encouraging fact that for all of the progress China has made in the last 25 years, for all they can be justifiably proud of what they've done, they still feel a real value in working with the world and working through the World Bank with the world in this soft factor. So I think it's the soft piece that's huge.

And there's one last thing, which is not unimportant, and I first encountered this at Gleneagles when the G-8 group wanted to find a framework in which to talk about facilitating investment and technology transfer in clean energy that would be not in competition with but sort of in parallel with the more difficult political negotiations at the UN Climate Convention. And there what we're doing is bringing experts together, getting innovative ideas about financing. And I think that's almost entirely the expertise of an institution that knows how to put funds together, how to manage the funds when they're put together, how to spend them in an efficient way, and how to do it in a way that is hopefully free of the kind of corrupt practices we're trying to get rid of.

That's all--i think it's the human capital, the intellectual capital of the organization, and I think it's a very, very valuable asset that, frankly, particularly in this world where it's not that easy to have a multinational organization that functions well, and I think we have one.

Did you get a mike to the fellow in the back? Oh, we got him already. Right here in front. Sorry.

QUESTIONER: I'm Felix [inaudible] with the publication [inaudible] Development International. Mr. Wolfowitz, as effectively the head of a multilateral agency, I'm curious to know what messages you have for the private sector in terms of collaborating with the World Bank more, because obviously you can provide thought leadership to opinion formers in governments, in the private sector, but you can only really do so much. So to actually implement [inaudible] the fight against poverty in terms of closing the 90/10 health gap, education, what message really do you have for the private sector to help implement many of your goals?

MR. WOLFOWITZ: I think it depends partly, too, on what you mean by the private sector. If you mean in sort of the conventional use of the term, I think the most important thing would be to come to the IFC with good, bold ideas about investments to make in frontier parts of the world where you might otherwise find it hard to get financing but where the project makes sense and where we should be in the business of taking on a little more of that risk.

But if you mean private sector more broadly, which I think is anything outside of government, then I think the fact is that, if you want to call it, the non-commercial private sector, what's more commonly called civil society, is a crucial engine of growth.

I still believe that one of the best books ever written about a developing country was written 180 years ago by Alexis de Tocqueville. It's called "Democracy in America," and it's a fascinating, astute analysis of the United States. And he says if you want to understand why the United States is doing as well as it was, in the 1830s, I think, you not only need to understand the laws and the Constitution, you need to understand certain attributes of the society, one of which, he goes on at some length, is the American tendency to form associations. That was his way of putting it.

That's civil society. That's people getting together for common purposes, not directed by government, but motivated by some combination of self-interest and commitment to a cause higher than yourself. There's an interesting mixture of civic responsibility and (?) self-interest that goes into that. And I think--I'm told you had some demonstrations here about Grameen Bank and BRAC in Bangladesh. They're really amazing organizations. The government didn't get in their way, but I don't think government had much to do with their getting going.

There's a little bit of a tension--I don't think a healthy civil society is one that is basically funded by the international community. But I do think seed money can be important. I think--and it's one of the areas where the Bank does a certain amount, usually with what we call trust fund money. We are, for better and for worse, much more geared to working with governments or with profit-making businesses. But I think we are looking at--and we in the last ten years have made some progress in figuring out ways to provide at least some of that initial input that can get-- maybe the Grameen Bank of the future, get it off the ground.

And I guess I'd one other thing to that list. It's not really in your question, but it is worth remembering that there are different levels of government, and I think on the whole, assistance that gets down closer to the level of the people, at least in big countries, it's a particular challenge. I was just in Russia. What is it, 13 time zones and just an enormous range of difference in talking to Vice Governors from districts as far apart as Habarosk (ph) and Komie (ph), which is up north, the Arctic Circle, and Sebastopol, I think, down in the southwest. The differences are enormous. And we're trying to work with the Russian Government and with these oblast governments to figure out ways to give them more

control over the resources, because I think ultimately you get better results and more accountability when it's done that way.

So that's--anyway, those are the [inaudible] I think of.

I think we have time for maybe two more. Right there.

QUESTIONER: Good evening, President Wolfowitz. Thank you for coming and speaking with us. My name is Karen [inaudible]. I'm with Ethical Investment Research Services. We provide research for the socially responsible investment community.

My question is about your emphasis on overregulation in developing countries, and one of the issues that's been identified by scholars like Hernando de Soto and others is this issue of dead capital, so even though countries have thriving businesses that are functioning in the informal economy, their owners are unable to leverage that capital.

So when we talk about dealing with this issue of overregulation, how does the World Bank propose to recommend ways for businesses who are coming into a formal economy to enjoy a structure that allows them to be regulated to the point where they're actually able to leverage the assets that they have, and particularly in the global economy, to leverage the credit that could be available to build businesses? It seems to me that there needs to be an infrastructure, an institutional infrastructure built and to replace that system of overregulation, and who would oversee that? Is that a matter of microcredit? Is that another issue of localization of regulation?

I'm just curious how you would recommend that countries go about building that infrastructure so that businesses and individuals can enjoy private property rights, enforce contracts, and be able to actually leverage the assets that they actually have.

MR. WOLFOWITZ: Another tough one. But let me--I want to talk about the premise of the question, because if I left the impression that the problem is simply overregulation, then I spoke too fast and too simply.

The problem is excessive regulation of the wrong kind and sometimes inadequate regulation. In fact, if you stop and think about what de Soto is talking about, in part he's saying there is no way of regulating property ownership so people can't use those--convert that dead capital into live capital.

It's not the elimination of laws. It's the elimination of bad laws, and sometimes it's the creation of good ones.

I met recently with the Prime Minister of Ukraine and was happy to be able to congratulate them because somehow they were able to recover and rebid a state company that had been auctioned initially for $800 million and reauctioned it for $4.8 billion, a six-fold increase. Well, you know there was something--inadequate regulation in that first auction. Privatization, a bad kind is really quite terrible, and if you look at the Doing Business report, you'll see that registering property is one of the things that we're looking at. You want it to be easy, but you want it to be doable. Enforcing contracts, that's regulation, not deregulation. If you can't enforce contracts, then it's very hard to have successful business relationships.

But in the core of your question, I think, which is how do you unlock that dead capital, I think the--what's that phrase, think global, act local? I mean, the solutions are going to be local. The solution in Burkina Faso where I visited and where I just felt there was a crying need for small businesses to be able to have access to that very dead--that dead capital we're talking about, but the solution's going to be different from what it was in Peru or what it might be somewhere else.

We're actually working with de Soto. I've been very impressed for a long time by his ideas. I think actually part of the challenge is taking those 30,000-foot ideas and getting them down to ground level, and then at ground level the implementers have to be local people. If local people don't believe in them and support them and campaign for them if they're in the private sector and implement them if they're in government, then it's not something the World Bank will impose on them. That kind of imposition, I think, doesn't work very well.

But I tell you, I think the most powerful mechanism in the development field is example, demonstration by example. And a lot of my career has been spent in East Asia, so maybe I'm influenced overly by the East Asian example. But it is the--I mean, it's the spectacular development success of the last hundred years. There have been

successes in South Asia and South America also, but the East Asian one is so impressive. And stop and think about it. It started in Japan, and for a long time Japan was the only successful developing country, the only developed country outside of Europe and North America.

I think it's not too much of an oversimplification to say the Koreans said, well, if they can do it--and I won't add all the expletives that would have gone along with that statement--if they can do it, we can do it. And before you knew it, you had the little tigers, not just Korea but Singapore and Hong Kong and Taiwan. And I think, speaking a little bit metaphorically, that in the mainland of China in the 1970s, it began to be increasingly difficult to say our problems are colonialism, yeah, the Opium War was terrible, the Japanese invasion was terrible, but Singapore and Hong Kong and Taiwan suffered from the same horrible history, and look, they're doing awfully well. So China started to change, and that was the big dramatic one.

But China's change has influenced people elsewhere, and I will end this sequence by telling you when I was Pakistan talking to some villagers from a small village called (?)-tabarak, I asked them if they could reproduce the success in their village elsewhere in Pakistan. And this one woman, who was obviously very bright--I assume she didn't read the international media because she didn't speak English. But she knew a lot, and when I asked that question, she said, "Why not? The Japanese have done it. The Chinese have done it. Why can't Pakistan do it?"

And my hope is ten years from now someone in Africa will be able to say, "The Rwandans have done it. The Burkinabes have done it. The Ethiopians maybe have done it. Why can't we do it?" It is seeing that this thing works in one place, especially if it's someplace next door, someplace that has a similar culture, someplace that has similar problems. And if you have any doubt about what Africans do, talk to the African immigrants in this country or, I imagine, anywhere in Europe. Give people a chance to give their children a better future by working hard, and it's incredible what people will do.

Last question. I should have ended it there, but last question. You're near the aisle, sir, you win--or ma'am. Sorry. Can't see well.

QUESTIONER: Throughout much of the conference, we've heard about the miracle of microfinance, demonstrating leadership in development in communities and local--that civil society is demonstrating leadership in working with local communities, and I was just recently in Berlin, and I was struck by how they've invited the best of designers into the massive job of rebuilding that city. And I'm wondering what role the World Bank has to play in bringing the same sort of innovation to large-scale projects like building infrastructure across countries in Africa.

MR. WOLFOWITZ: I guess it--the shortest answer I can give you is that starting around the middle 1990s, I think we started getting scared of infrastructure projects. And this is something where you've got to wrestle out the--I think the reaction to NGOs was a little extreme by the World Bank and other development institutions. I think it's very important to pay attention, it's very important to listen. But at the end of the day, you also have to recognize that some of these decisions are tough decisions, and if you say we're not going to build any dams because dams always--somebody gets hurt, well, the people who would have benefited from the electricity are hurt instead. And, you know, there is a tendency in life, in personnel practice, in all kinds of things, to do the soft-hearted thing to avoid hurting the person that you can see in front of you, and as a result the silent beneficiaries who would have benefited from the project that didn't happen don't see it.

The result is that when I was named for this job, I was kind of surprised that every African leader I met with, the first thing on their mind was infrastructure. We need infrastructure, we need it desperately, we need it on a regional basis. The World Bank has got to get back into infrastructure projects. Actually, that was when I first learned that we'd ever gotten out.

We've started getting back in, and we're trying to learn some of the lessons of the past so that we don't repeat the same mistakes and get out again. I mean, big infrastructure projects are targets for corruption. Everything is, but, you know, flies like honey, and big infrastructure projects have a lot of money. We've got to work on that very hard.

There is a tendency too often to build a big road and not build the feeder roads, to build a sewage plant and forget about the piping to get the sewage to the plant. Okay, those are correctable mistakes, but as I said in talking about my rose farmer in Rwanda, she needs electricity and she needs transportation. And we need to do it responsibly. We need to think about long-term environmental consequences. And we do need to engage with the NGO community, especially if we're making decisions that do involve some of these hard choices to do the best possible job of communicating why it has to be done.

But it's definitely very much on the agenda with Africa, and it's particularly regional infrastructure that the Africans are interested in.

Thank you very much.