

“Sustaining Development Digitally”

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WRI Digital Dividend Conference

Address by Stephan Schmidheiny

I am not an expert on digital anything – certainly not dividends. I am known among friends for once becoming so exasperated with a laptop I threw it out of the window of my farmhouse and watched it smash into its tiny components on the rocks below. (My staff secretly gathered up the parts and commissioned a sculptor to turn them into a lamp in the form of a jester, a motley fool, which may have been a comment on my computing abilities.)

There. Have I established my bona fides as something of a wide-eyed wanderer in the Wired World? Good. However, I took Jonathan Lash’s assignment anyway because I saw that this conference would be covered in experts, many of you the world’s best. And I thought I might play a useful role as a speaker of strong opinions but little technical knowledge. What does an active investor and philanthropist outside of the Internet industry think of digital dividends?

First, I want to make it clear that I am all for closing digital divides and for everyone earning lots of digital dividends.

My foundation, AVINA, is virtual. It has an office in Miami with only temporary desks for all but one of its chief executives. Incidentally, I no longer smash computers, but work in front of one for six to eight hours per day for AVINA’s sake. We have helped fund work at Harvard on how developing countries may judge – and improve – their readiness to go digital. We have funded Jose Maria Figueres’ work through MIT to set up Internet stations in remote parts of poor countries. And we fund the organization Endeavor to help start-up dot-coms in Latin America.

I tend to accept recent estimates from Goldman Sachs that e-commerce will eventually be adding about \$400 billion to the US GDP, and UNDP’s suggestion that it could add \$30 billion to Asian GDPs and \$15 billion to those of Latin American and African Countries. (Though personally, I would bet on higher growth rates in Latin America.)

So, I am a believer. But the trouble with this conference is that we are all believers here. To tell you that the implications of the Internet are astounding is like telling a Greenpeace conference that whales are actually fairly majestic creatures.

Thus I thought I would take a different approach and wonder aloud if we can really get from Here to There – from a Fairly Wired World to the Electronic Wonderland that will be described often from this podium.

I see two hurdles. One is Business. The other is Government.

It is odd that business should be a hurdle. The GDP growth predicted by Goldman Sachs is gained mostly through savings by heavy manufacturing companies – two-thirds of these savings through improved resource utilization. This fits in nicely with the concept of *eco-efficiency* – adding more value using less resources and producing less waste and pollution – which I and the World Business Council for Sustainable Development invented a decade ago to describe business’ main contribution to sustainable development.

But Big Business, the sort that governments listen to, remains suspicious of the wired world. They certainly want to take advantage of its cost-savings and its outreach potential, but otherwise they are a little like St. Augustine, who prayed: “Give me chastity... but not yet!” Their prayer is “Make me virtual... but not yet!”

Of course, when I speak of big business as an obstacle, I am not thinking of the big businesses in and around the Internet business. I am speaking of big old companies whose names do not appear in *Wired*

Magazine. If you doubt their ambivalence over the Internet, look at their web sites. Most are no more than filing cabinets from which corporate brochures may be downloaded – often accompanied by warnings that a download will take 30 to 40 minutes. The Web is not best used as a mailbox for paper-based information – as any 12-year-old knows.

The big companies' web illiteracy is partly due the ages of the people who make decisions over the style and content of company websites. I believe it is also because companies understand at some gut level that putting their business – internal and external - on the Internet is going to make its operations much more transparent. And Business is not ready for this – an issue to which I shall return. So big business is a user, but not a player in the move toward a digital world.

This matters tremendously. If we are going to create the greatest possible opportunities for all to earn their digital dividends, then we are going to have to foster the biggest and most complex partnership ever among governments, businesses and not-for-profit civil society organizations. You have heard of PPPs – public-private partnerships? I am speaking of the PPPP; that is “Public-Private Partnership Plus”. And all of the partners are going to have to act in radically new ways - ways that are going to make them very uncomfortable.

First, governments tend to be composed of lawyers, and lawyers tend to want to make laws and rules. Yet it is going to be the private sector which digitally links the world, which creates opportunity among poor people and poor nations. So governments will have to “back off” – to use the American expression. But not completely. They will have to cooperate with business and with other governments to create systems – communications systems, financial systems, payment and delivery systems – which are “inter-operable”, or compatible. But they must do this without laying down rigid technological standards, because innovation will soon make any standards obsolete. Governments are not comfortable with such subtlety and finesse.

Of course, the bottom line responsibility of governments is to see that their citizens are connected, and I hope all will follow Costa Rica's lead in guaranteeing universal access to the Internet for its citizens.

Another responsibility is to change some existing laws. Much is made of the many dot.com entrepreneurs of Latin America. But little is made of the fact that they all tend to live and work in Miami. They are fleeing the anti-entrepreneurial laws and conditions of their home countries; bad intellectual property rights laws, bad labor laws, bad tax laws, lack of financial market liquidity, and poor educational systems that do not produce the employees which they need.

I hope that their flight embarrasses governments enough so that they change laws hostile not only to dot.com entrepreneurs but to all entrepreneurs. My friend Hernando de Soto has documented how it took two people the best part of a year of full-time visiting of government offices to get a license to open a small factory – a factory which existed only in Hernando's imagination. This bureaucracy keeps the majority of enterprises in Latin America “informal” – that is, illegal, or at least outside the law. We are speaking here of poor business people – the majority – not of the middle class or wealthy. These entrepreneurs will be able to take advantage of few technological innovations – certainly not of digital dividends – until these anti-business rules and regulations are swept away.

Governments are nervous about collecting taxes in a wired world. *How* does one tax the added value of information? *Where* does one tax a virtual corporation? A new report from the Washington-based Institute for International Economics (IIE) notes that:

“The new international marketplace is network-driven and information rich. Value is created around the globe in complex, real-time interactions. In contrast, tax and tariff laws are based on domestic jurisdictions, simplistic notions of the value chain, and contiguous production and consumption.”

The report calls upon governments to “recognize that the Internet and electronic commerce warrant a regime shift”. It suggests progressive taxation on wages, stock options, etc, as these are forms of income least changed by the Internet and most under the control of governments. I and many of my colleagues at the World Business Council for Sustainable Development have long called for a different sort of tax shift, away from taxes on good things like employment and towards bad things like pollution and waste. E-commerce provides yet another motive for governments to make that shift.

E-commerce gives governments another reason to do something they should have done long ago – get serious about education. Never before has education been so crucial to individuals’ abilities to seize opportunities and to nations’ abilities to compete in the global market. Yet children don’t vote, so governments are almost as quick to cut education budgets as environment budgets.

This is where business – and a new role for business – come in. I am forever telling my business colleagues in Latin America that their region can hardly compete in a global, wired marketplace with educational statistics only slightly better than those of sub-Saharan Africa. Education must become the number one issue for business in all nations – to produce both the workers and the savvy consumers necessary for E-commerce. I know business is not comfortable getting involved in “social” issues, but I insist that education is now a business issue as much as a social issue.

Let us turn to another part of that PPPP: the NGOs, civil society organizations, not-for-profits. The communications revolution is already greatly improving their efficiency and lowering their costs. It is not hard to imagine a time when digital mini-cams are aimed at a company’s or a government’s activities 24-hours a day and the results streamed onto a not-for-profit, campaigning version of CNN. Thus we are not talking of increased transparency; we are talking of almost complete transparency.

Can business turn this new transparency into an opportunity, in which everyone, everywhere is a potential customer, but everyone also has a voice in how the company is run? I am not sure. Can governments build new, radical forms of democracy, of participation, on this new technology? I am not sure. But I do know that the Brundtland Report argues that sustainable development requires that individuals and organizations have access to information, have the right to be consulted and participate in decision-making, and have rights to legal remedy and redress. The Internet is on target on the first requirement, could be very helpful with the second, and can at least spread the alarm effectively when people and groups are denied due legal process. The recent Aarhus Convention, under which European governments guarantee transparency and access to environmental decision-making, is a model which other regions should emulate.

Our own innocent-looking friends in the World Resources Institute, organizers of this conference, are among the chief radicals in this revolution. Witness their Global Forest Watch, which allows NGOs using GPS and other information technologies to monitor deforestation and illegal logging, to determine which companies are participating and to what extent, and to put it all on the web. One of the most interesting findings of this work in Gabon was that the country’s president was involved in illegal logging through a company he owned. Where can we hide!? Where will it all end!?! (This alarm is slightly tongue-in-cheek, as my foundation has been a major and proud funder of WRI’s forestry work.)

Few non-governmental, not-for-profit organizations are as digitally savvy as WRI. I shall describe another in a minute. Yet most NGOs still have a long way to go before they are using the new technologies efficiently to provide their stakeholders with clearer paths toward development opportunities and cleaner environments. And they will have to stop being ideological opponents of a global market and help us all find ways in which such a market can increase opportunities for the poor – as WRI is clearly striving to do.

Having spoken of some obstacles, let me close by explaining why I care so deeply that these obstacles be overcome. I look at the digital divide in terms of sustainable development, a concept I got dragged into when I became principal adviser for business at the 1992 Earth Summit.

Sustainable development requires education. It requires more efficient use of resources. It requires new forms of taxation. It requires more open forms of democracy based on access to information, to participation in decision-making, to legal redress. The Internet promises progress in all of those areas.

Sustainable development, because it is about meeting the needs of both the present and the future, will also require economic growth – but growth with much greater equity of opportunity. My foundation, AVINA, partners with leaders to carry out their projects for sustainable development in Latin America. As I mentioned at the start, one organization it funds is Endeavor, a not-for-profit which has been very successful at creating dot.com successes and even some very young dot.com millionaires in Latin America. Aside from the fact that many of these are already becoming the new philanthropic activists in their regions, how in the world does this promote sustainable development? Surely this is not the kind of economic growth required to meet the needs of the over one billion people existing on the equivalent of less than a dollar a day.

Here is the connection. People in Latin America tend to focus on issues of wealth redistribution rather than wealth creation. Thus they call for a redistribution of resources rather than for a redistribution of opportunities to create resources. This is also true of Africa, much of Asia – and I think this is a misconception of many of the more radical young people in the US and Europe.

The Internet and associated hardware and software are the best tools we have had since the steam engine for creating wealth and redistributing the opportunities to create it. But wealth creation requires a positive mindset. So I am trying to create examples, trying to create an entrepreneurial environment, a wealth-creating mentality. More, I want to see Latin America (and much of the rest of the world) create wealth not from raw materials and natural resources – of which we have a dwindling supply - but from our limitless reserve of creativity, intelligence and information. Nothing can do more than information technology to de-materialize our economic growth.

E-commerce offers us great possibilities for sustainable economic progress. That, to me, is its most important dividend.

Thank you.