

THE BROOKINGS INSTITUTION

THE PRIVATE SECTOR AND SUSTAINABLE DEVELOPMENT:  
MARKET-BASED SOLUTIONS FOR ADDRESSING GLOBAL CHALLENGES

Washington, D.C.  
Tuesday, November 1, 2011

**PARTICIPANTS:**

**Moderator:**

KEMAL DERVIS  
Vice President and Director, Global Economy and Development  
The Brookings Institution

**Panelists:**

BRUCE McNAMER  
President and Chief Executive Officer  
TechnoServe

C. DOUGLAS McMILLON  
Chief Executive Officer and President  
Walmart International

JANE NELSON  
Nonresident Senior Fellow  
The Brookings Institution  
Director, Corporate Social Responsibility Initiative  
Harvard University

\* \* \* \* \*

## P R O C E E D I N G S

MR. DERVIS: Good afternoon, everyone. Thank you very much for joining us. I think it's a very special day, we're very glad to be able to host Doug McMillon and Jane Nelson and Bruce McNamer for a discussion on development in the private sector, development and trade, what happens, you know, in this new globalized world where interdependence and supply chains have become so interwoven. It's a world where, I think, changes much faster than we can describe it very often, and yet describing the change and understanding what's happened, I think, is very important for an educated citizenry, for evaluating policies, for evaluating behavior, standards. So, if we can contribute to that this afternoon I think we'll be very happy.

We have a full house. There's an overflow room with lots of people in it, so the interest is huge and obviously the topic and the people we have, our guests, are the reason for this interest. So, let me welcome again, Doug McMillon. Welcome, Doug, and thank you very much for being here. Doug was appointed president and chief executive officer of Wal-Mart International. It has close to 5,000 stores I'm told, in 27 or maybe more countries outside the U.S. In a very kind of dramatic way it exemplifies modern trade and the international division of labor and cooperation. At the same time it faces difficult policy challenges, tradeoffs, and it wants to be and it has become a socially very engaged organization.

Doug served on the board of directors of the U.S.-China Business Council -- he serves there now, the executive committee and board of directors for Students in Free Enterprise, the Dean's Advisory Board for the Walton College of Business at the University of Arkansas, and the board of Crystal Bridges, an American art museum. He also serves on the boards of directors for West Mart, Wal-Mart Mexico, and Bharti Wal-Mart Private Ltd. in India and he has been recognized as a young leader by

the World Economic Forum.

So, he had started at Wal-Mart, I think, in the early '80s, '84. He knows the business, he knows the world, he knows the development challenge, and he's going to share his perspectives and some concrete examples with us.

We will then have a panel discussion. We will be joined by Jane Nelson, whom many of you know, a nonresident senior fellow at Brookings and a director of the Corporate Social Responsibility Initiative at Harvard University. Born in Africa -- oh, there you are -- and really working on development pretty much all her life.

And we have Bruce McNamer, the president and CEO of TechnoServe. He has a distinguished career both in the private and the public sector. He was a White House fellow at the National Economic Council and a Peace Corps volunteer in Paraguay and we're very, very happy to have you and, you know, you're representing your very special organization, which is very deeply involved in grassroots development here today also.

With that I'm going to ask Doug to come to the podium and give his remarks. Thanks a lot.

MR. McMILLON: Good afternoon, everyone. I'm excited and honored to have a little bit of time with you this afternoon. I'm going to talk about market-based approaches to global challenges, but first I'm reminded that a lot of you may not know very much about Wal-Mart. You may not have had any exposure; you may only know Wal-Mart through what you read in the newspaper or what a friend of a friend told you. So let me start by just telling you about my first day at the Wal-Mart home office.

I had worked for the company in 1984 and a couple of times after that just with summer jobs unloading trucks at a warehouse. Got a job as an assistant manager in one of our stores, and then got selected to be in our buyer training program.

So, in January of 1991, I'm what's called a buyer trainee, I show up for my first day of work, and they asked me to be in the lobby at 7:00 in the morning, so I'm there, and my new supervisor, the divisional merchandise manager, his name was Ray, comes by to pick me up to start my first day of work. Well, when he comes through the lobby the guy barely breaks stride. "Are you Doug?" "Yes, I'm Doug." "I'm Ray. Come with me."

So, we start walking down this supplier hallway in Wal-Mart and we're headed towards the cafeteria and in 1991 there was not an extensive buyer training program, so Ray looks over at me and says, "Pay attention. I'm going to give you your training orientation here this morning while we're walking to your desk. All right? You ready?"

So, we get to the cafeteria and we're about to get a cup of coffee because he wanted a cup of coffee and he said, "I'm going to tell you two things: first one is that the coffee in the cafeteria is really hot, so use two paper cups or it'll burn your hand. And the second one is, no matter what happens from here forward, if something's wrong, it's your fault. Fix it. Any questions?"

So, by the time that conversation ended I'm back at my desk and he points over and says, "That's where you need to go to work and the guy next to you is named Mike. If you have any questions, see Mike. Go to work."

I learned a lot from that first conversation: accountability, ownership, and this action-oriented bias that Wal-Mart has to move with speed. So, that's January of 1991 and fast-forward a little bit to a much larger company. I'm telling you that story in January of '91, we were about a tenth of the size we are today, Sam Walton was still alive, still visiting stores, still in our home office, still leading our Saturday morning meetings. So, Sam Walton, our founder, was still present and then we cross \$100 billion years later in revenue, and I'm not sure if that was the magical moment or not, but at

some point in time, as Wal-Mart became bigger, expectations changed and whereas we had been focused primarily on two stakeholders in our business -- customers and our associates, what we call employees -- we now had a situation where society in the U.S. in particular, but then increasingly around the world, had much higher expectations of us, and at first we did not understand that and we didn't embrace all stakeholders. In fact, our founder, Sam Walton, used to say, "If you serve customers well and you take care of associates, shareholders and everyone else will benefit, and if the papers in New York write something, it's really irrelevant. It doesn't really matter."

And that might have been true when we were the Cinderella story and a small company in small towns, but it was no longer true.

So, I'd like to give a lot of credit to our CEO at the time, a guy by the name of Lee Scott. Lee started asking us a question internally, "What if some of the criticism we're now facing," this would have been 2001, 2002, 2003, "is actually true? And what if we could become an even better company? Internally, we know our intentions are good and we think we're pretty good at some things, but what if we made a bigger change in the organization?"

And so what happened is we started listening to critics, which was not very fun. Some of you might actually have been some of those people. We started inviting people in -- NGOs, universities, other people that wanted to talk to us about the environment, about living wages, about benefits, salaries, everything related to our business socially and environmentally. And, again, our focus and our history had been in serving two stakeholders. But we had to go through this change, and as the criticism from some really smart people started coming in, we started recognizing that we actually could change, we could do things that were different than we had done before, and we created these small groups that were not in our organizational hierarchy called

“Sustainable Value Networks” and we started working on different subjects. We started working on toxins that were in our supply chain to try and get them out, we started working on different things -- packaging, for example -- around our supply chain, and inviting Environmental Defense and everybody that seemed to know something about these subjects to come in and advise us on how to make change, and then we started making it.

And started thinking about our business in three buckets: the first one is our mission of saving people money so that they can live better, that's the financial component of our business and we really believe that we add value to society by giving money back to customers that they can then use to go do whatever they want to with it -- help put their kids through college -- whatever it is that they want to do. And what I'm seeing around the world -- I'm traveling all the time to China, to India. I was in China and Japan last week and South America, I'm now in Africa more often -- I'm seeing that customers have a lot in common. And while there are some differences in what people like to eat and there are some differences in what music people might like to hear and some things like that, at the fundamental base of it, people are trying to figure out a way to help their kids have a better education, how to improve the standard of living of their family.

One of the recent stories from one of our customers in India was about how their family had just been able to move into a larger place and have an independent bedroom for each of their two sons and she was really excited about that because they were going to be able to study better in the afternoons, and she saw that as a better education for them. And she was in our store buying two comforter sets for their beds and talking about how excited they were going to be to have their own bedroom, which we can probably all relate to.

So, customers are largely the same, but we're going to have to change because of what's happening with population growth, cross seven billion on the way to nine, natural resources under pressure, efficiency is going to become more of an issue for all of us and that's going to create a need for Wal-Mart and for other companies to get even better than the second and third buckets of social and environmental sustainability.

As it relates to social sustainability what we've learned is that our supply chain is a system and that if we have a systems approach to what we do and connect people into our supply chain in a way that they benefit, everybody gets an opportunity. So, you see us work in areas now like the empowerment of women where we want to help female entrepreneurs and we want to help with training so women can increasingly have a more effective job in the factory that they work in or as a Wal-Mart associate, should they choose to do that, we have training centers in India, for example, to help create that situation, that the supply chain pulls them through.

Sustainable agriculture is another area where we have an opportunity to work more directly with farmers and partner with NGOs, and in some cases, governments, to help them learn more about how to use water, how to use pesticides, if they need to, to have better yield and more sustainable agriculture and connect them directly to our business. So, in China, for example, we have relationships directly with farms or with co-ops that now number over 800,000, and I've been on farms in China, a cherry farm in Dalian, I've been on farms in Central America and in other countries, and I've seen this direct-to-farm relationship make a difference because they get sustainable demand at higher prices, because we're able to pay them more because there aren't as many middle men in the chain. And we want to increase what we do there as it relates to direct-to-farm.

So, the social benefits of our supply chain get pulled along and then you

see us make changes with our environmental sustainability efforts. Specifically our big three goals are to be supplied by renewable energy, to eliminate all of our waste, to create zero waste, and to sell more sustainable products and more sustainable packaging, and we're working on all of those areas. And what Brookings suggested that I do today is to give you examples, so I'm going to give you five examples.

Here's the first one. This is a Wal-Mart Super Center that is operated in Guatemala City, and I've been to this store a couple of different times, and this is what our lighting looked like in the parking lot. We bought this business from someone else, and a year or two later this is what the parking lot looked like being powered through just standard incandescent bulbs, and here's what it looks like after as we implemented LED. So, here's before, and there's a person standing in a red shirt in the middle of that parking lot but you can't hardly see them, until now, if you can see the screen closely enough. This change, now enabled by technology, saves us 50 percent or more in energy because LED is more efficient than what we had, and has created a safer parking lot there in Guatemala City for our customers. This is an example where just thinking about things differently and stepping on the gas faster, bringing our scale, proving that size can be an advantage -- bringing our scale to technologies like CFL bulbs for our stores a few years ago, or LED lighting for our stores now, inside and outside, has helped accelerate the process and it benefits our business.

So, what we're trying to do here is move with speed and be the first one. So, we took this idea throughout Central America and now every country that we operate in, 28 of them has some sort of effort going on with LED in the parking lots and in some cases in the stores. So, there's one example.

As it relates to waste, we have a business in the UK that operates under the name of Asda, and Asda is leading as it relates to creating zero waste, so they have



focused on their food, corrugate, and plastic, and they are recycling more than 90 percent of the waste from our stores. And what they've done is taken recycling centers, like this one, and they put them next to our distribution centers or our depots so that we can back haul the loads coming from the stores and not have any larger footprint with that and capture all the waste.

So, we give our food away where we can in the UK and in the U.S. and other places. In fact, in the U.S., with Feeding America, we have not only taken our food and started to donate it to them, but we're also helping program to date with 195 trucks to be able to move it around -- 90 trucks this year. So, helping close that loop as it relates to waste for food and other things in the UK, and now in the United States, and increasingly in other markets. To create a zero waste situation is another example.

This young lady I got to meet a couple months ago and she lives in Costa Rica and her name is Jessica Aledio and she operates a hydroponics farm. The farm is about four times the size of this room. She makes lettuce and a few other things, and it's amazing. I had not spent much time on hydroponics farms growing up, but using no dirt, just water and these porous stones, she's creating a great product that we're selling in our store. So, this is an example of a more sustainable supply chain, it's an example of direct-to-farm, and she was producing, before we got involved, 500 units a week. And after our ergonomists, and we have ergonomists that work for Wal-Mart in Central America, she's now producing four times that and her income has gone from \$155 a week to \$640 a week, and she's employing a few other women in her hydroponic far.

I asked her why she didn't have any men working there and she said, "They're not delicate enough, and my lettuce is precious." And it did look good. I mean, you wanted to pour salad dressing on it right there, right then. It was really nice.

So, she's a very well educated, bright person who's now making even more and making progress in her life because of what's happening with a sustainable supply chain.

Here's another one of my favorite people. This is a young lady named Amandeep Kar, and I met her for the first time a couple years ago. And she lives outside of Amritsar, India, which is in the northwestern part of the country, and we had just opened a new Cash-n-Carry there in India. It was the first Cash-n-Carry that we had ever opened in the country, and she was working the farms, probably destined to get married at a very early age, as encouraged by her parents, and then this thing in her town opened called a Bharti Wal-Mart Training Center and she said, I think I would like to go there and see if I can create a job for myself.

So, she shows up at this training center, which -- we partnered with the Punjab estate there to create this training center. It's their building, our training, and our associates teaching -- we took basic curriculum and taught them some basics about business. And I've reviewed the curriculum, I've been in the classrooms, I've talked to the students, she was one of them. She passes the test and we employ Wal-Mart and Bharti, our partner there in India, as many of these people as we can to staff the stores that we have. We don't have as many stores as we would like. We've got a little over 100 now and we've employed a lot of these folks. Other businesses employ the ones that we don't take, to a large extent. And in her case, she passed the test, she got through the training center, she gets a job working in our Cash-n-Carry, and that's where I met her. And she walked up to me one day and said, "I just want to tell you how much of a difference the training center and Wal-Mart Bharti have made in my life." And I just recently found out that she's been promoted and she is now pursuing her MBA while she's in Amritsar. And I've talked to her a couple of different times and she cannot say

enough about how her life is different.

Now, today in India we're doing that for a few thousand people. We've created training centers in Brazil that are reaching larger numbers and we want to scale the training centers in emerging markets in particular to help find, and in some cases, train and develop the talent that we need to help grow our business. And a lot of them are women.

So, those are some examples of what Wal-Mart's trying to do from a practical point of view to create a situation where market-based solutions are truly sustainable and add value to societies and communities in addition to the environment while building an even healthier business. And I'm really proud of the journey that we're on. We're not perfect, but we're learning a lot. And some of you are helping us, and those of you that are I'd like to say thank you, Bruce, you and others, for what you're doing to help us figure this out, because we don't have all the answers, but we are convinced and have learned from practical application that we can create a better company financially and at the same time create a better bottom line from a social and environmental point of view.

I'll stop there. Kemal, thank you. (Applause)

MR. DERVIS: Well, thank you very much, Doug, for getting us going and I think the examples were very powerful. Let's try to have a discussion starting with the panel and then opening it up to you here and I'll ask Jane to start, to react to what you heard, to share with us some of your experience working in this field, and then I'll turn to you later.

MS. NELSON: Thanks, Kemal. And thank you, Doug. I think I'd like to focus on three of the points and the pillars that Doug highlighted, which I think are -- if we're looking at any large company what their impact on development is, we should ask.

And the single most important message, which came up so clearly, is that it's fundamentally about the core business, and I'll say something about philanthropy just now, but I think we have made a very, very important transition in recognizing that what companies can do through core business operations, core business investments, core business models, is by far and away the single most important impact they're going to have on development, and it's how one harnesses those core business models that's the real challenge and opportunity.

I think the other thing we've really learned over the last ten years is that you can still have a very, very successful core business model but it might not help development or help poverty alleviation, and might even have a negative impact, so there are, sort of, I think some fundamental questions we should ask, which I think came out in different ways in your comments, Doug. And to me the three key questions are, first of all, is this a business model that is inclusive? But what I mean by inclusive, is there an explicit, sort of set of strategies and policies in place where the company is explicitly aiming to increase access to products and services or to livelihood opportunities in their value chain by including low income producers, low income employees, low income consumers? And is the company being explicit about that? And I think you gave a great example of, on the sort of small -- your farmer producers but you could look at the Unilever or Coca Cola with the small scale distributors, you can look at oil and mining companies with local content programs. You know, what are the companies doing to try and create that local economic livelihood opportunity, on the one hand, and then secondly, what are companies doing to include low-income consumers, if they're consumer oriented? And obviously a lot of the innovation we're seeing in new health technologies, water, distributed electricity technologies, where your company is developing explicit business models to reach lower income consumers in a way that's

commercially viable but really is understanding those lower income markets. And likewise with employees, and I think you gave a great example there of where you're not only sort of creating the local jobs and creating them at all levels, not just the entry level, but at senior levels of the countries the companies are operating in, but the sort of training the human capital development that really leaves something behind.

So, to me, that's the first question we ask about core business: how inclusive is it? I think the second question, which I think applies for every industry sector, is, sort of, how, not only efficient, but how resilient is the company's supply chain in terms of natural resources? And there I'm sort of thinking about things of how do we go beyond, you know, sort of traditional, say, energy efficiency or water efficiency, to take the systems approach that you talked about? You know, for companies to develop energy strategies and your carbon mitigation strategies and climate adaptation strategies and water management strategies along their supply chain, and your work to make local watersheds work better, not just water in their own companies. So, sort of the environmental resilience, I think, of the supply chain is the third question.

And then the third -- I mean, the second question. And the third question I think we need to ask is, how accountable and sort of transparent is the supply chain in terms of not only spreading international norms and standards in areas such as human rights, anti corruption, product safety, things like that, but also how transparent, then, is the company on -- and accountable, on reporting on, you know, the negative impacts or how it's managing those as well as the positive impacts?

And so to me that's, I think, the first thing we need to look at, you know, if we're sort of serious about saying companies can be partners in development. It's how are they mobilizing their core business operations and supply chains and sort of, first of all, how inclusive are they, how resilient and efficient are they from a natural resource

perspective, and then how, sort of, accountable and transparent are they in spreading, sort of, international norms and standards?

And I think of companies get that right and the specific issues that they're going to hit on and different developing countries are going to vary from industry to industry, but I think that is the core for any industry sector.

And then very, very quickly, I think the other two pillars, which you touched upon and which I do think are important, is the sort of the second area that I -- core business is the first area, the second area that I would call sort of catalytic or competence-led philanthropy and community investment. Philanthropy is tiny, as we all know, compared to the impact of the core business, but I think, again, we've seen some very interesting developments and we're just at the beginning of using, whether they're corporate philanthropic dollars or foundation dollars or, in some cases, donor dollars, to catalyze more, sort of, scalable, market-based solutions. And, so an energy company like Shell, the Shell Foundation, it's a nonprofit foundation, but it's trying to catalyze and scale sort of small enterprises operating in energy delivery in Africa. Or Abbott Laboratories is a healthcare company using its foundation to work with the government of Tanzania to sort of strengthen Muhimbili Hospital, which is the major referral hospital in Tanzania with information technology, logistics management, et cetera, and using philanthropic dollars, but aiming to have a more systemic impact.

So, sort of catalytic philanthropy is the second category, and then the last category, and I hope we can explore this one a bit more, which you didn't touch on, but I know your company is playing a leadership role here, is what I would call sort of pre competitive coalitions where you get groups of companies, often competitors, coming together to try and address the sort of systemic challenge that even a really large company like Wal-Mart can't address on its own. So, you know, an example would be -- I

think it's one that you're involved with -- the roundtable on sustainable palm oil where Unilever and a couple of Malaysian companies and the World Wide Fund for Nature got together and said, you know, we know this is a problem, it doesn't matter. We're the biggest companies in the world. We account for 40 percent of the palm oil trade, but each of us can't do it on our own. So, how do we set up a new type of coalition to actually sort of set the standards and certification, sort of, criteria that we can have more sustainable palm oil.

Or the extractive industries transparency initiative in the mining and oil sector where, partly pushed by nongovernmental organizations, I think it's a great example where the NGOs campaigned against the companies initially on greater revenue transparency in resource rich countries for the energy and mining sector and the joined with the companies and governments and investors to set up a coalition and a framework where it was easier for each company individually to become more transparent. And I think those sort of nontraditional coalitions between sort of leadership companies, nongovernmental organizations, and governments around some of the really difficult systemic challenges that we face is another very sort of important step that we're seeing in terms of business engagement, private sector engagement in development.

And so to me if a company says, we're interested in development, I think if you look at those three areas, the core business and what they're doing and do they really have explicit policies and sort of systems and incentives in place, you know, to mobilize the core business around development issues, do they have philanthropy programs that are really catalytic and led by their core competencies, and are they getting engaged in these new nontraditional coalitions often with their competitors are, you know, the three sort of, I think, to me key questions to ask.

MR. DERVIS: Thank you, Jane. As usual, very thoughtful and I think

we'll let Bruce give his perspective. Questions are accumulating, more material for you, but Bruce, thanks for being here and share your reactions to what you've heard.

MR. McNAMER: Thank you, Kemal. And thank you all. Just by way of quick background for those of you who don't know TechnoServe. We are an NGO focused, maybe paradoxically, on private sector development and have been doing that for about 40 years. So, market-based solutions is something we've been thinking about for a long time and very often in very poor places where we won't have the involvement of multinationals and real market opportunities are local or regional, but it always comes back to some basic principles around this having to be demand-led, this having to be relying on building the capacity of people to help themselves, and in more and more instances it is evolving to a model where partnership arrangements with companies like Wal-Mart or Coca Cola or Cargill are really where the real opportunities are in some very poor places.

So, we work in about 25 countries in Africa and Latin America and have been working with multinationals for a long time, but I would say it's only in the last ten years that you've seen these kind of models emerge that go beyond a kind of philanthropic approach that really do begin to embrace this notion of shared value, and these are in the strategic interest of some of the partners that we're dealing with, they really do leverage their core competencies in ways that can drive value for all of the participants.

Couple quick examples of some of the kind of work that we do, but then to come back, and I think critically to this catalyzing role that companies like Wal-Mart, but others can play in making development happen. So, I should say, by way of introduction, we work with Wal-Mart in many instances in different kinds of catalyzing arrangements. So, either it's supply chain development or entrepreneurship



development, as Doug was pointing out, working with women, for example, 1,000 women in Nicaragua who would be suppliers into Wal-Mart's supply chain with the right training.

But a couple examples from East Africa, one with Coca Cola company who launched their Minute Maid juices into East Africa about three years ago and in doing so began sourcing fruit from South Africa and the Middle East. Then there are two million fruit farmers in East Africa. Now, that's a business opportunity that's gone missing. Why? Because, actually, that market isn't working. It's not just as easy as, well, let's start sourcing here, because there is no viable supply chain into that sector. But it took a multi stakeholder collaboration with the Bill and Melinda Gates Foundation as donors, with Coca Cola standing ready to make a market, to be the source of demand for the product, and to provide technical skills, and then with an organization like TechnoServe to get in and begin working with input suppliers and organizing farmers and working with fruit processing companies to make that supply chain work. But that now is engaging about 50,000 fruit farmers in East Africa who will double their income over the next three years. It's really catalyzing the development of a processing sector that can produce to Coca Cola quality standards. And, by the way, Coca Cola stands to actually shorten its supply chain considerably and is able on that basis to actually operate more profitably in Kenya and Uganda.

A different kind of example, and Doug was talking about employee engagement, some work we've done with General Mills in Southern Africa -- Zambia, Malawi, and now in Tanzania -- and General Mills doesn't actually have operations in those countries. What General Mills has is long-term aspirations to operate there and in the short-term they have about 1,200 food scientists sitting in Minnesota who really would like to be engaged in a meaningful way in using their skills. So, what have they done? They have put together a program whereby with TechnoServe assistants on the ground,

they're interacting with now about 60 local processing companies, food processing, millers and food processors and packagers in these countries, small businesses, to provide them with technical skills, with advice on actually food science itself, on food processing, on food safety, on setting up and marketing new kinds of food products. All the things that General Mills does better than perhaps anybody in the world, and that's mediated through the involvement of TechnoServe staff who will first go to Minnesota and spend four months there and then come back and engage with the businesses themselves on actually what is their business plan, first of all, but then how do I broker these kind of interactions with General Mills. General Mills now has aspirations to take that to about 250 or 300 companies all up and down Eastern and Southern Africa and has brought on board Cargill and DSM as initial partners in a broader attempt to actually take this to scale.

USAID, fundamentally a partner in this in terms of recognizing the opportunity and then putting catalyzing funding to work to make that happen; General Mills, and now its partners, in terms of technical skills and expertise; and TechnoServe on the ground to help facilitate and make that happen. What these rely on fundamentally is partnership in a -- what we're trying to do is catalyze economic activity where it hasn't been there before and it relies fundamentally on partnership. And it's not clear who's catalyzing whom. I mean, Coca Cola stands to benefit and the Bill and Melinda Gates Foundation, this is part of their mission, and certainly 50,000 fruit growers in East Africa stand to gain from this catalyzing convergence. And I think the very interesting thing that we're seeing happening with Wal-Mart -- I mean, the old model for Wal-Mart would have been, come in here and solve the problem, put a lot of philanthropic money to work or you're not doing your sort of stand up job as a corporate participant. Well, guess what? Wal-Mart, more than anybody, stands ready to be the market. And ultimately, if we're

talking about market-based anything, there's got to be demand, there's got to be a market, and there's got to be a demanding market that will participate in these kinds of partnerships to make things happen where they wouldn't otherwise happen.

So, for me one of the most interesting things is how do you structure these partnerships and how do you do it in a way that fully leverages what each party brings to the table and understands their own incentives for participation and really leverages that to make development happen for the poor.

MR. DERVIS: Thank you very much, Bruce. Well, this gives quite a few questions and -- to you, really, in a way to react to, but let me add one from my side. When you look at this whole process, if you could put your finger on two obstacles, two problems that, you know, that slow this down or make it less efficient, less beneficial than it could be, you know, in terms of government policies, international trading system, or perhaps the educational systems that you face, the skill issues -- what would be, if you had two wishes, in a sense, you know, two areas, which are beyond your control as a company, which are more in the realm of policy, where would you say would, you know, would changes be most beneficial? So, let me add that, but I don't want to take -- first you deal with Jane and Bruce's, but let me add that question.

MR. McMILLON: Well, I'd like to answer it the way you asked it, but I'm having a hard time with it as I process it because, frankly, the barriers that I see are more internal than external, so I'll try to get around to the external if I can give you an informed answer there.

MR. DERVIS: Sure.

MR. McMILLON: But I'm not an economist and I don't spend a lot of time with government unless I have to. I'm joking, but kind of. Only joking, partially.

We've got a lot of people. Wal-Mart's got 2.2 million associates and in

each country where we operate, we have independent decision makers. We don't run our business from Bentonville, Arkansas in Brazil or in South Africa. So, imagine yourself in my chair and you've got buyers or merchandisers, people who are making supply chain decisions, spread into all these markets around the world, and what we need most is we need them to get it. We need them to understand that if they are systems thinkers and they can further our objectives from a societal and environmental point of view as they run their business, we're going to build a better business.

So, I spend a lot of time and we spend a lot of time evangelizing inside the company how to think about these things, so most of the barriers that I see are internal.

From an external point of view, rules, transparency, and simplicity and predictability would be very helpful. It is good to see things move forward as it relates to trade. That's certainly helpful. You know, sometimes we come up against resistance from a governmental point of view because people just don't know us as well or they may think, in the case of South Africa, where local manufacturing is a huge issue, they may think that our incentives are built in such a way that we want to import a lot of merchandise into Africa instead of make it there. And what we have to help explain to people is we're better off buying locally, for lots of reasons. One of the reasons is, the more that income levels locally go up, the more customers we have.

Another reason is that when we can buy locally, we tend to have merchandise that's more relevant to the customers locally. No customers buy a global item. They all buy local items. And then the third reason is related to lead-time. The closer it is, the longer we can wait to place our order, the better we have an accurate forecast. So, our system is actually built to buy locally and in the countries where we operate, 85, 90 percent, sometimes more than 90 percent is purchased locally, but that's

not the paradigm.

So, you know, one of the things that we have to work on, I guess, in summary, is communication, internal and external communication.

MR. DERVIS: What about some of Jane's points in terms of the coalition building?

MR. McMILLON: Yeah, her third point's a really interesting one about how we partner with competition and with others. You know, one of the most fun things that I ever got to do a few years ago was to call one of the primary competitors that we had and say, we're just about to put a new closed loop -- CO2 closed loop refrigeration system into one of our units in this particular geography -- it was in Savannah, Georgia -- and we would like to invite you to bring whoever you'd like to bring and tear it apart and study it and beat it. We were moving from Freon to CO2, which is better for the environment should there ever be a leak, and there were also some other benefits to it. It was cutting edge at the time, still a technology we're trying to figure out. And when I called the competitor and said, we've done something really good, I want you to come look at it and let's compete to try to make this better -- and, by the way, if you've got any good ideas, as it relates to the environment, you know, let us work on that as a friendly competition. And there was silence on the other end of the phone for a minute. Really? Yeah. Who is this? You know, and you're going to invite me to come see this? That was really a lot of fun.

And so I think both with our suppliers and in some cases with competition, scale can be used to create really positive change and sometimes our scale is not enough and we still need help from others. And I think it's a part of what we do now, we can get better at that, and it's been one of the key ingredients to making progress, whether it's collaborating with NGOs or it's collaborating, in some cases, with

supplies and occasionally competitors.

MR. DERVIS: I'm going to ask you another economist question. Sorry about it, but, you know, economists worry about exchange rates all the time, okay, and you're this incredibly global, international business working all over the world in 28 countries and trading and all that. Do you kind of worry about exchange rate? Does it --

MR. McMILLON: Not much.

MR. DERVIS: Not much. I think that's a fascinating answer. All economists in this room: please note.

MR. McMILLON: You know, exchange rates move, I can't predict them, and our management team, my supervisor, my CEO, Mike Duke, holds me accountable to constant currency performance. So, when the currencies go in my favor I get no credit --

MR. DERVIS: At least he doesn't hold you --

MR. McMILLON: If he did I'd probably be fired by now. If it goes in our favor, I get no credit. If it goes the other way, I don't get any blame. I manage a constant currency business.

Now, it does impact things, to a large extent, as it relates to sourcing. So, our business in South Africa is we ship non-food related merchandise into the region when it's based in the RAND creates fluctuation for customers. That's a problem. In the UK, when we're buying in dollars sometimes for Asda business, we create some pressure there and we don't do a lot of hedging because we would get it wrong. We try to just run a basic business and when currency moves, we explain it to our investors and it is what it is.

MR. DERVIS: So, within the existing fluctuations, it's a little bit of an annoyance here and there, but it's not really a big problem.

MR. McMILLON: I explain it, but I don't spend much time on it.

MR. DERVIS: All right. Any follow up points?

MS. NELSON: I've got two questions for Doug, both sort of about incentives, external incentives and internal incentives. You mentioned investors. It would be interesting to hear how you're communicating with your investors about your, now, your very global sustainability strategy and if you see the investor community beginning to shift more in this area. And then secondly the sort of internal incentives, particularly with your buyers, I do a lot of work with the toy industry and I know you're, I think, doing some very interesting things with your buyers to align their incentives more towards better conditions in factories and sort of, you know, better opportunity for factory owners to get the sort of labor conditions and sustainability issues right. And I'd be interested to hear.

MR. McMILLON: Maybe the second question first as it relates to factory management and engagement. One of the keys to success is having more of a long-term arrangement. By the way -- can I ask them questions too?

MR. DERVIS: Yes.

MR. McMILLON: Okay. No one told me the rules when we were coming up here that all the questions might be coming this way, so I might have a couple going that way. And so there's a minimum qualification, that's one thing. And buyers are not allowed to work with factories who are on the red and orange side of things.

When a factory makes a mistake, we try to understand what that mistake is and help them to correct it. In the past, if we were too punitive and moved too quickly, it actually created more harm. So we, in some cases, where we understand what happens, we'll stick it out and help somebody get better. And we also help, in some cases, with energy management and some other things, and so buyers do get engaged

in that. Our sourcing team gets engaged in that, and that's an important part of what we do.

What was the first question?

MS. NELSON: The investors. The investigated --

MR. McMILLON: Yeah, there are two groups, right? There's a group that cares and a group that doesn't.

MS. NELSON: That's tiny.

MR. McMILLON: Right. And the group that cares is pretty vocal and we care about that and we've invited them in more frequently too to hear their criticism and listen very carefully to it and do everything that we can to try and further that level of interest in our company. And on the other side, we actually do talk about it, so when we have our investment community together in different conferences, our main one is in October, I, and others, will stand up and talk about what we're doing as it relates to the environment, for example, but tie it back to financial performance very quickly and directly.

So, whereas personally I think one of the reasons I'm still at Wal-Mart, and hope to be at Wal-Mart for a long time, is because I see the benefit of scale being used for good in some of these areas. Some of the investment community actually doesn't care as much and has more of a short term mindset, but so what I get to do is connect those two dots and say, listen, you may not care as much about this, but I do, and let me tell you what we're doing here, and now let me translate it through to the 50 percent savings on energy efficiency through LED lighting. And then they go, oh, okay, I get it, I care. As long as you're not off the reservation as it relates to managing the financial aspects of this business, I support what you're doing, and most of them get the reputational benefit as well that comes with some of this. And when we're talking with



governments, the easiest way that I have ever seen to have a strong government relationship -- to have strong government relations, maybe better said, is to have goal alignment. So, when we're meeting in China, and I've met with ministers from various parts of that government, and we talk about energy efficiency, there are strong voices within the government in China that care about that. And when we talk about direct-to-farm and creating more sustainable agriculture, they actually care about that.

Now, ultimately, in their case, it goes back to having a harmonious society. For us, it's running a good business. But there are things that actually do line up that if we both -- if we work on them, it furthers their interest as it furthers ours, and that's a way to avoid conflict and have a right to grow in a country. And it's important to us.

MR. DERVIS: Great. Well, maybe we'll turn to the audience now. Please, raise your hand. You'll get a mic. But before you ask the question -- make it brief and focused please -- do identify yourself.

So, we'll start over there. Yeah? And maybe we'll take two or three and then we'll turn back to the panel.

MR. JOCHNICK: Okay, thanks very much. Chris Jochnick with Oxfam America. That was fascinating, Doug, and I wonder if I could just follow up on a couple of those last questions. One had to do with the incentives and what's really driving this. You know, it's very easy on the environmental side to make the case for the kinds of efforts, and they've been really quite ambitious, that Wal-Mart has made. It's tougher on the social side, and you've touched a little bit on that, but I wonder if you can be a little bit more specific about the sort of arguments that you have to make in terms of convincing your suppliers and your buyers and your investors that -- the sort of social work that you're doing -- not social work, the work that you're doing on the social side is also good for the bottom line. And one of the arguments that people will make is that a stable or a

prosperous community is good for business, and Wal-Mart maybe is big enough that you can make that, but I'm just wondering if that's -- the second thing is, Jane had also touched on this question of transparency and accountability for a lot of the things that you're doing and you haven't really touched so much on that. I wonder if you can give us the sense of how important is it for Wal-Mart to be held accountable for the kinds of efforts that you're making and how does that happen? Where do you see that moving?

MR. McMILLON: As it relates to -- I'm sorry, I'm going to have to write these down.

MR. DERVIS: Okay, maybe we'll take two at a time and then --

MR. McMILLON: I was in China last week and I have jetlag, so you may have to remind me of some of the questions.

MR. DERVIS: All right, we'll take --

SPEAKER: Hi. Thank you so much for the great work that you're doing, all of you, in this area. And I was curious -- you made some comments, but it hasn't been discussed in the area of gender. Why are you focusing on women and business in particular with your latest wonderful initiative? And we know that women and girls make up more than 70 percent of the poor, but they also represent over 70 percent of the influence in purchasing decisions, so I'm sure there's a good business reason there.

MR. McMILLON: You just answered your question.

SPEAKER: Okay, thank you.

MR. DERVIS: Always skillful to make one's point in the form of a question. (Laughter)

Let's take one more. There was somebody -- yeah.

MR. HERSHEY: I'm Bob Hershey, I'm a management consultant. To what extent are you able to get more consensus and transparency by making some of

these decisions with the communities over the internet?

MR. DERVIS: Doug, Bruce, and Jane, any --

MR. McNAMER: Just a quick observation on the power of the Internet or SMS or mobile technologies in very poor places. I think it has simultaneously been massively overhyped and not hyped enough, and I think some of the value that we're starting to see it unlock is in this question of transparency at a very local level. And just one small example, getting farmers to aggregate to sell their product to a market is one of the most important things you can do, and yet the constraints to do that are often trust-based, it's like, I can't trust the treasurer of my co-op. I might have a bad experience with that. Well, what IT technologies, mobile, and Internet technologies is they begin to give you a platform that you can distribute to people that begins to make transactions recordable and observable in way that transparency is increased for all members. And guess what? If you can do that, you've gone a long way to unlocking a lot of market power for people. And that's just one of the little dimensions to what is actually happening out there that is, you know, a little bit further behind than maybe where we thought we'd be in like, gosh, this stuff is great, five years ago, but this stuff is coming and it's powerful.

MS. NELSON: And I think building on that, obviously on the consumer side as well, you know, I mean, we're already sort of seeing that in practice, you know. You were talking about sort of the stories behind the products and actually being able to go around, you know, with your mobile technology and find out about the products you're buying, so I think it's going to help in informing, you know, consumers as well. And initiatives like the Extractive Industries Transparency Initiative are beginnings slowly to sort of move from being a club of sort of governments, large companies, and investors to how do we get the information out to citizens in countries where there's often a resource

(inaudible), so that they know how resource revenues are being spent.

So, I think it's going to play a big role on the transparency front and obviously a potentially big role on the innovation front, sort of, actually allowing, sort of, open innovation platforms, so, you have your General Electric with their (inaudible) imagination program have had a couple, now, sort of online sort of challenges, basically, around your particular sort of energy issues, you know, again sort of coming back to this idea that they don't have all the knowledge on energy innovation and it could be a start up enterprise, you know, in Mali that might have some ideas. Actually using technology as an innovation space I think is as well going to be important.

MR. McMILLON: As it relates to accountability, when we started this transformational change, it was done by Lee Scott, our CEO, and he stood in front of the leadership team at Wal-Mart and uncharacteristically gave a speech. We don't usually do read speeches very much, certainly not internally, very rarely, I can only remember one. So, Lee stands up and says to all of us, we're going to change the company and we have three big environmental goals and here's what they are, they were the three I mentioned earlier, and he said, and I have no idea how we're going to do it, but we're going to be supplied by renewable energy, we're going to create zero waste, we're going to sell more sustainable products, and you have to figure it out.

And that evolved after some work to some more specific and quantitative goals with deadlines, and now what we do is we come forward with our annual report and we give an update on here's where we stand and we are very transparent about where we're not achieving our goals. We think that's really important.

We've been a target of criticism for lots of different things. It would be horrible for this company if we set these big targets and then didn't achieve them and somebody called us on it and said you guys didn't do what you said you were going to

do.

Now, in some cases, we needed technological improvements to actually be able to achieve some of the things we wanted to achieve, so we're dependent on some innovation. So, I like what we're doing where we're saying, on these ten goals, these eight, we're green, check the box, we're making progress, we're on target. On this one we're yellow, and here's why, and here's what we're working on. And on this one, we're red, we're not sure we're going to make it. And here's what we're trying to do right now to either change that goal or move in a different direction because we've learned something.

And I think just as a human being ought to be that transparent and honest, a corporation has to be too, and so I think we are creating a situation where people can hold us accountable, but also not letting low goals stand in our way, because the easiest thing to do would just to be able to set a bar that's so low we know we can achieve it, and then we won't really make any progress. But instead, by making, you know, setting really high expectations around things and then being honest about where we fall short, we think we'll make more progress. But accountability is key for sure, and buyer incentives are important.

One of the toy examples, most recently, that I really like, because I hate those little wire ties that come in your toys you get at Christmas, those of you that have kids know what I'm talking about, it takes like 15 minutes to get a toy out of a box and it's very frustrating, one of the buyers said, do we really need those, and when you think about the carbon footprint of that metal all the way back times how many toys we sell around the world, it's a huge number. So, we worked together with some of our suppliers and others and created a biodegradable paper wrap, and we're using few of them, and I haven't heard of any toys falling out of their boxes, and it's great.

So, those little changes create buyer incentives because customers like the product better, their sales and profit go up as a buyer, and we praise them. So, we'll bring somebody forward at a meeting and say, look at what this person did, and that's very rewarding inside of our company, probably in most cases more than just financials.

MR. DERVIS: Great.

MS. NELSON: Can I just add a comment on the accountability and transparency thing? I think two other interesting trends we're seeing is -- and you at Oxfam have been part of one of these -- is the third party verification of reporting, and I think, you know, that's an unstoppable train. I think increasingly corporate responsibility reports are going to need either, you know, sort of accounting firm type third party verification, or we're going to sort of see more of the type of partnerships, and it's completely coincidental, I didn't know he was going to be here, but that Oxfam and other NGOs are doing where, you know, you're actually doing joint reports with companies. And I have one here that Oxfam did with the Coca Cola company and SABMiller, and, you know, sort of challenging to get to sort of common views around the difficult issues that the company faces in its supply chain, but another example of where I think there's shared learning but there's also greater sort of transparency and accountability resulting from it.

So, I think that sort of third party verification and sharing of what the company says is a major trend. I mean, again, information technology will play a role in that, and then I think a secondary of where we're seeing interesting developments is in sort of traceability of particular products. Conflict minerals is an area we're seeing it, sort of, electronics where -- you know, again, technology is enabling us more and more to trace the sort of commodity content of certain products, and I think that's going to be something we'll see more of and then consumers are going to be able to get the

information on the content of those products.

MR. DERVIS: Well, we'll take another round of questions.

MS. JACKSON: Hi, I'm Selena Jackson from the World Bank. First of all, thank you for this very interesting program. It seems to me that the public sector has an important role to play in encouraging public/private partnerships along these lines, be it bilateral donor agencies or entities such as my own, the World Bank. I'd like to know maybe even from you, our moderator, given your background in government and UNDP and the World Bank, what can be done? How do you overcome some of the obstacles to making these partnerships work? And how can we do this even better?

MR. DERVIS: All right. Thank you, Selena. Yes? Right there.

MS. KLEIN: Hi, Indra Klein, with Family Voices of D.C. Question with regard to the cultural awareness component. I'd like to talk -- and this is particular for TechnoServe and for the Wal-Mart International, is what programs did you put in place with regard to human rights issue, code of ethics, that were -- I mean, I'm thinking U.S. oriented companies coming into another international entity with different cultural values and beliefs, how were you able to merge the two and make yourself compliant maybe where the U.S. standards are concerned?

MR. DERVIS: Do we have -- yeah, and one more.

MS. GINDER: Hi, I'm Mary Beth Ginder with AREVA, and I had a question, Doug, for you, about how you deal with people, either within your company, at the highest levels or down to your front line employees, who don't buy into the sustainability sort of hype? And what are some ways that we can get those people on board, especially given that while there are some metrics that you can use to show that sustainability is good for the bottom line, some things, such as employee engagement, are much harder to measure.

MR. DERVIS: All right, we'll turn back to the panel.

MR. McMILLON: I'll take the associate engagement question first. What happened inside Wal-Mart is that once we went through this change we started having quarterly milestone meetings in our auditorium, 500 people connected by video conference to other countries, and we started celebrating success stories, and some of the internal associates who really got this -- some of them were buyers, some of them were what we call divisional merchandise managers, where they might lead a department -- started getting highlighted for progress and months to follow and the first year or two, what we saw is some of those people were the most frequently promoted, and actually the positive incentives, I think, made more progress than anything that's punitive. It's hard to assess someone's environmental consciousness, sometimes, in an objective way, but what we found is the people who do good work tend to have a better perspective, tend to be more holistic in their approach to the business anyway, and they naturally become leaders. So, those positive rewards, I think, have worked to a large extent.

As it relates to cultural awareness and code of ethics, when I was learning how to be a buyer years ago when I would go to factories, I would see the Wal-Mart code of ethics and the JC Penny code of ethics and the GAP code of ethics and blah, blah, blah, and the factories were having such a hard time even understanding what all the rules were, and I think a lot of progress has been made over the last few years with coalitions coming together to set one standard code of ethics. They were very much the same anyway. And that has helped create a situation where execution level is going up and what we've found is that a supplier who takes a short cut as it relates to the environment tends to take shortcuts in other places, in quality and other areas that ultimately harms us. So, we're looking for somebody who has very high ethical standards



and it shows up in their payment of overtime, the way they treat toxins, the way they package their goods, those are the factories that we are searching for, rewarding when we find them, and growing our business with, and they get rewarded over time not only by Wal-Mart, but by their people as well. People who take shortcuts don't tend to last.

MR. McNAMER: I might comment on your question about facilitating public sector involvement. I think oftentimes our corporate partners find themselves stymied when they try to -- when they actually design something that might have some real element impact and then come up against the kind of bureaucracy that does inevitably prevail in public institutions, and I think a couple fundamental things can help to overcome that. One is some notion of a -- call it a one-stop-shop -- for facilitating these public-private partnerships, because all too often the responsibility doesn't reside anywhere, and so one part of the bank or USAID might want to get something done but is stymied by another. So, if there were one empowered -- and USAID in their GDA, their Global Development Alliance, does have the makings of that. I think the other is fundamentally around some procurement reform. I think so very often the Bank and other institutions who very much would like to partner with the Wal-Mart's of the world, particularly, or the Cokes or others, they themselves are hamstrung by a process that says, well, if we're actually going to do this partnership arrangement with you, we've got to open this up to a big bidding process and it's going to take six months to a year and by the time we ever get around to structuring this partnership, you've lost interest or you're long gone.

So, I think thinking carefully about procurement reform would be helpful in that context.

On the cultural sensitivity, I would just say that it's helped, I think, for companies like Wal-Mart, for organizations like TechnoServe that ultimately they're in the

country. I mean, TechnoServe staff is 95 percent local. So a sensitivity to sort of cultural norms, traditions, is sort of inherent and our business analysts are Ethiopian or they're Kenyan. But I'd say another thing about almost -- it's not a paradox, the work that we do, particularly with multinationals, tends to raise the level in terms of standards within the supply chain, not the opposite. It is, you know, if you're actually going to be selling to the Coke bottler, there are these particular safety and labor and other standards to which you must conform, which would never be required by a local buyer of those kinds of goods and services. I don't want to be a Pollyanna about this, it's not all as good as that, but even some of these pre-competitive coalitions you see forming in the cocoa sector, for example, with the big world cocoa virus, to think about issues like slavery in the context of the cocoa supply chain. It can be a, you know, force for good, and I don't mean that as ironically as this might indicate. It actually is a force for change and can be that very much.

MS. NELSON: I think I'm just on the public sector thing, building on Bruce's comments, procurement reform and as he said, the sort of dedicated units, which I think we've definitely seen in the UN, Kemal, and you've helped to sort of move that along where, you know, you do have the sort of private sector focal points now and it's still not easy, but it's certainly easier than it was. But I think also the incredibly important role that the private sector -- the public sector paid, and particularly the Bank, you know, the whole doing business model and framework and how, you know, it's not any sort of a generic model, but now sort of adapted to how it relates to agriculture, how it relates to healthcare, and so working with governments to create that local, enabling environment for either the domestic private sector or foreign investors to come around key sort of development sectors in sort of market-based approaches, I think, is one of the single most important things, certainly the Bank does. And then finally, the whole world of

catalytic financing and new models of funding, whether it's, you know, first-loss tranches or bonds market commitments or credit guaranties or innovation funds and challenge funds, you know, a relatively small amount of public finance can catalyze either domestic business or foreign investors around particular areas such as, you know, health, energy, water, et cetera, and I think, you know, we're just beginning to see the potential of that playing out.

MR. DERVIS: Well, Selena, since you also directed the question to me to some degree, I mean, I think I would repeat something that Doug said that, you know, predictability, rules that are transparent and easy to understand, that are enforced in an equitable way, I think from a policy standpoint, and I know the World Bank and others have emphasized that, is very, very important. Rules that change suddenly because of one pressure group or one change, I think, are generally very disruptive to all kinds of business. So, I think that's something that Doug said and I would very much agree with.

The second point I'd like to make is, you know, competition, I mean, we believe in markets as a creative force, as something that drives progress. There's no doubt about that. The whole evidence in history is on that side, but they have to be reasonably competitive markets. So, and then there, public policy has an important role to play so that the framework allows competition, allows entry of new players, doesn't protect old players against new players, and creates rules that, you know, foster competition. And I think that's a second point, which I think is very important and sometimes isn't there.

And maybe the third point, maybe the most difficult point, maybe somewhat more controversial, I do believe public policy has to look at the whole picture and progress benefits a lot of people but sometimes some people get hurt in the process, some adjustment, you know, is difficult for some people. And I think public policy has to

foresee that, try to foresee it, and try to smooth the transition, not to stop it, because, you know, that would stop productivity, growth, development, the spread of prosperity, but I think taking -- trying to help those who get -- who have a difficulty in the adjustment process and trying to facilitate their own retraining or, you know, redirecting their energies into some other field, or just taking care of them if nothing else can be done, if they're a certain age, and so on, I think is very, very important.

I mean, we are now living, you know, a storm in the Arab countries, in the Middle East, and I worked many years at the World Bank and, you know, doing business in many of these Arab countries was ranked great, performance was wonderful. Well, the people there didn't quite think the same. And I think it was an example of missing some part of the picture. And I think, I'm not a specialist on retail and so on, but, you know, the retail sector in many developing countries is going through an incredible transformation, from very, very small and really inefficient provisional services, but within a certain social fabric and in a certain structure of employment towards much larger units, much more economies of scale, and much more trade oriented. And, you know, that process, I think, needs to be managed partly by the private players themselves, and we've heard about what they're doing, but I think partly also by social policy.

We have some more time. Yes, way back in the --

MR. WOLF: Hi. Daniel Wolf with the Southern Africa Trade Hub project. I was wondering, Doug, maybe you could talk about some of the actions you were thinking about for Southern Africa to make sure those local producers maintain that value chain, kind of keeping that supply chain short. And then maybe, Bruce, you could touch on some of the successes you've had with your corporate partners to do the same.

MR. McMILLON: Yeah, from a Wal-Mart point of view, food is relatively straightforward. It needs to be purchased and processed locally just for obvious reasons,

and so as the business that we've invested there grows the food business, our local procurement will go up. What's more challenging is non-food and manufacturing, and in that part of the world, as you probably know as well as I do, there's some weakness in different industry sectors, historic strengths have become weaknesses. One of the things that the government was really interested in was what can we do to help create a more -- a faster growth rate in non-food. And what we couldn't do, that some wanted us to do, was to set specific percentage procurement targets. So, please commit to X percent in apparel being made locally, X percent in electronics being made locally, and for several reasons, we can't do that. We can't create those industries by ourselves; we can't tell a branded manufacturer where to put a factory.

Wal-Mart is not going to be able to call up Sony and say, quit making merchandise here and start making televisions in this place. That just doesn't happen. So, we couldn't agree to those procurement targets. But what we can do is an awful lot of training and investment in training and work with local suppliers to create predictable demand so that they can invest capital and grow.

Having a longer-term point of view, not a one-year point of view or even a three-year point of view, but a longer-term point of view around things like apparel or electronics, home appliances, for example, we would like to be able to buy those locally for the reasons that I mentioned earlier, and if we can find someone who's got the right technology, the right environment as it relates to their ability to produce quality product at a value, we want to lean towards them and invest in them, with purchase orders, basically, so that they can go out, raise that capital, and grow their business. That would be in our best interest.

So, we've got this supplier fund that's been set aside that's almost \$15 million U.S. dollars. That's a start towards trying to make sure that we are doing the right

things and we're trying to partner with others, in some cases NGOs and equity funds, to help find the right suppliers that we can grow into medium sized businesses and maybe someday larger businesses.

MR. McNAMER: To answer your question, there's an interesting thing happening for TechnoServe around this shortening the supply chain for local markets, and that is for the longest time the big providers of finished goods and foods into local markets were local companies, and so that was our bread and butter, it's how do you build a viable value chain, commercial supply chain, that actually can serve these local markets. And our relationships with multinationals were almost by definition strengthening the supply chain, the consumers for which ultimately were in the developed world. And I think what we're seeing increasingly, as in the Coca Cola example I cited, as in the case of Wal-Mart locating in places that five, ten years ago, they didn't contemplate doing business, is that now you have multinationals procuring locally for local sale. And more than anything else, that just opens up a whole new set of possibilities. There's this virtuous cycle, which is you now have a middle class -- an emerging middle class in some of these countries, it makes it worth the corporate multinational while to be locating there. They are now the source of demand for local entrepreneurs and local farmers, and that itself creates this interesting set of opportunities to kind of lift everybody up in that process.

MR. McMILLON: So, Bruce, the first time I met you, you were at a white board taking us through the supply chain for coffee in a country in Africa -- was it Kenya?

MR. McNAMER: Ethiopia.

MR. McMILLON: Ethiopia -- and you had government leaders and multinational CEOs sitting around in this small group charting it out. So, as you do that, as you break down the supply chain into pieces, where do you find the weaknesses? I

got asked earlier today about microfinance and even larger financing for suppliers, and I don't know much about that and where people are finding funding, but you have this great view and can decompose a supply chain. Where are we falling down?

MR. McNAMER: Well, the answer is, you know, everywhere, but it actually depends on -- no, because I think part of the answer is, it really depends on the supply chain. In coffee, for example, the real opportunity, it turns out, was in local milling of coffee, not in local roasting, and in farmer aggregation. But in cashew processing in Mozambique, it turns out that the real opportunity, instead of constraints, were around actually getting capital and know-how into the entrepreneur's hands to actually do processing locally. But to your point, I think there's some cross-cutting things across value chains and it does come back to some very basic things, you know, a sort of consistent regulatory policy framework to do business, one; two, provision of capital, I mean, capital into these supply chains at all levels. It just doesn't happen. It doesn't happen at the input side, there are inadequate models for getting microfinance and other credit to farmers, to small holder farmers, to entrepreneurs who want to set up businesses. You know, in many of these countries the only basis for borrowing is serious collateral, usually in land and often in contexts where, particularly for women entrepreneurs, they can't get title to land. So, how do you think about different financing arrangements, trade finance, et cetera?

So, I'd cite that. And then finally, it's human capital. Very often it is at all levels. And of course, that's what we work on a lot, but it's -- you may have a great business plan, the highest aspirations in the world, you may be whip smart, but there's nothing intuitive about building a business or management or taking advantage of the opportunity that a Wal-Mart as a buyer may represent as a small holder farmer, as a business owner, and it's only by finding low-cost ways to kind of get knowledge and

know-how into the heads and hands of those people that you're really going to unlock value. And that's across -- those things are across these specific value chains.

MS. NELSON: I'd like to start off with a question. Are you saying, as more of the commercial banks, the standard banks, the standard charters, the cities of this world are saying they're going by microfinance, wanting to do small enterprise lending, I would assume one of the lowest risk sources of small entrepreneurs are in the value chains of Wal-Mart and Coca Cola and Unilever and those same banks are the commercial bankers to these big companies, and yet that connection doesn't seem to be being made? Or is it -- are we going to see more of that?

MR. McNAMER: I think you're going to see more of it made. I think a small producer or a farmer producer group or company that is approaching a bank saying, I have an offtake agreement with Bharti or with Mass Mart or Wal-Mart in a particular country, has so much better an opportunity to bring finance into that business based on that set of commercial understandings and contracts than if you don't have that kind of -- not guaranty, but quasi-guaranty source of demand, and I think that really represents an enormous opportunity. And that's the lead edge. I mean, once banks start lending into agriculture, into small business, there's skill building that happens there, there's a comfort with risk that happens there, there's a leveraging effect of that, which is you get it right a few times and now it's competitive to lend into the sector, whereas now the banks are all collectively standing back and saying, we don't do agricultural finance.

MS. NELSON: These big companies should be putting more pressure on their commercial banks.

MR. McNAMER: Good.

MR. McMILLON: Put pressure on banks.

MS. NELSON: They're part of the supply chain. Yeah.



MR. DERVIS: Doug, maybe the one last question, that I'll take the privilege of the chair to ask, you know, there's a lot of worry one senses in the advanced countries, in Europe, in the U.S., that somehow the growth in parts of the developing world is kind of overtaking the established, you know, prosperity and positions in the advanced, richer countries. It's a leading question like the lady over there, but how do you explain, from your point of view, and you know, you live in the heartland of the U.S., you know the U.S. very well, how do you kind of share with a U.S. audience, with citizens of this country, the view that this is not a win-lose type of thing, but that, you know, everybody can actually gain from the world economy, from trade, and from all that? There's suspicion here and you're in the middle of it, in a sense. How do you convince -- you know, we talked about development and you gave us very good examples of an Indian lady or an African worker profiting from this. How does the U.S. citizen profit from it or benefit from it?

MR. McMILLON: Well, I don't think it's a situation where you subtract from one and add to the other. It's not that relationship. But the opportunity for the U.S., Canada, the UK -- those are the developed markets -- Japan -- that we're in, is enormous because Brazil can be a customer, China can be a customer. And the key, the two words that come to my mind are education, which I think is a central issue, and the marketplace is clearly global, and if you're going to compete with someone from another country, education is fundamental. And then the other word is innovation. It's a fact that with population growth and with middle income levels rising around the world, and some of the statistics from the emerging markets are very encouraging about the number of people who will enter the ranks of middle income in the coming years, we do have to innovate to figure out how to create the situation where people can, now that we're connected by technology and travel and everyone can see what everyone else has, they get the

opportunities that I had and that other people had to have a better life. And I want that for them, not to the detriment of a developed market -- I have two children, 18 and 15. What I tell my guys is, you're going to have to compete, but you've had to compete before. So, you better show up, you better work hard; you better get a good education. But that's not any different than it was, you know, when I was growing up, it's just in a bigger population, which I look at as more opportunity.

MR. DERVIS: Great. Well, thanks a lot, Doug, Bruce, and Jane.

Thanks a lot for being with us. Thanks to all of you for coming and let's give a round of applause to our panelists.

(Applause)

\* \* \* \* \*

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012