

Seminar on the “New Vision for Sustainability: Private Sector
and the Environment”

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“New Strategy for Environment and Private Sector”

Speech delivered by

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Ladies and gentlemen,

It is a great honor for me to have been invited by our fellow friends from the IADB to be here with you today, and have the opportunity to share my views on sustainable development with such a distinguished audience.

Some of you may wonder why would a Mexican industrialist be so interested in pursuing the cause of sustainable development? Let me talk about that:

This all started for me during 1990, when a good friend of mine, Dr. Stephan Schmidheiny, invited me to join him and 46 other business people to draft the official business position on sustainable development to be presented at the Earth Summit at Rio de Janeiro on 1992. As a team, we produced a book called *Changing Course*. At that time, sustainable development was perceived by most people as anything but a business topic. When we started, many of us were not sure of what the final outcome would be. What I can tell you now, many years later, is that in the exercise of articulating our views regarding “the big picture” of how our planet could develop on a sustainable way, we became truly aware of the importance of our role and the enormous responsibility that it implied for many of us.

Ten years later, things have changed dramatically. Today, no-one in its right mind would even consider any development that is sustainable without the committed participation of the business sector. This is true for the entire planet, but it is particularly crucial in the developing world.

Since the early discussions of our pioneer small group, we reached the conclusion that even though sustainable development is the same goal for everyone, the path to get there has to be different in countries with different levels of development. The challenges to tackle are not the same, and since the origin of our setbacks is also different, so are the priorities to be set in order to reach sustainability.

Since I am a Latin American, a developing region, full of potential, full of promise, loaded with a wealth of natural resources, and crowded by numerous, young, energetic and potentially very creative people. Our condition is almost paradoxical, since the same elements that, under certain circumstances could be our major blessings, could easily become our worst nightmare. And we are just at the point where by making the right decisions we can take a very promising path towards a healthy and sustainable development. I, very honestly, think that there is no region in the world, in this particular point in time, that has the opportunities that we have to achieve a sustainable future. And this thought fills me up with optimism.

As every opportunity does, ours comes associated with tremendous challenges. The most difficult ones are derived from our demographic composition. We have a population of 502 million people. 53% of them (291 millions), are under 24 years of age. We understand the pressure and anxiety of our young population demanding education, training, jobs, opportunities for the future. And, we also understand the need and commitment to provide such opportunities. We owe it to them, and we owe it to ourselves. We also know what would happen if we fail. We are beginning to see the consequences in the cities, in the mountains and in the news.

Today, we have the capacity to produce \$3,940 dollars a year as a per capita Gross Domestic Product (GDP). This figure is six and a

half times less than the average GDP per capita of developed countries (25,510 U.S. dls). Our income is also very unevenly distributed. The picture becomes seriously scary when we consider that we have 291 million youths to raise, educate and generate employment for. Some estimates tell us that the creation a new productive job would require about 20,000 dls in capital investment. How many millions of dollars would we need to generate all of these jobs? How are we going to do that on \$3,940 dollars per capita a year? And then, how much more would we need to invest in human capital if we want these people to be able to hold productive jobs.

As a businessman from the region this is an issue that worries me VERY much. The problem is serious, severe an urgent. Our countries have to provide the means to incorporate the largest majority of its people to the economy in a productive manner. We have to train them for that as well, which is in itself another great challenge. And we have to do all of that during the next few years. They cannot wait. They are already here, and either our society is able to provide schools and jobs for them, or they will become another lost generation.

The urgency of the problem, is in itself another major source of concern. We all have experienced that very often when compulsively responding to the urgent, we loose sight of what is important. We set up ourselves in a mode of survival, and surrender our ability to design and construct better solutions. That is why the need to stop, think and plan, instead of only automatically responding to the urgent.

I would like to emphasize that poverty and ignorance in our countries have more than purely social and/or economic consequences. They actually are the most difficult enemy to fight if our goal is to develop our societies in a sustainable manner. This is; Being able to satisfy our present needs without sacrificing the ability of our future generations to satisfy theirs. Let me give you an example of what I mean: If we compare some of the primary sources of climate change green house gas emissions in the United States and in a country like Mexico, we find that while in the U.S., extended, if not to say abusive, overuse of transportation is a major source of green house gas emissions, while in Mexico, the principal source comes from poor agriculture (traditional slash and burn ancient practices).

What does this tell us? While in some countries the challenge may be consequence of great abundance, in others the challenge is the result of poverty and ignorance. The sustainability of our planet is being simultaneously damaged by extremes of the spectrum, and we cannot eradicate both with the same rule. This is what I meant earlier when I said that we all shared sustainability as a goal, but the path to get there had to be different for countries of different levels of development. We will never be able to fight global warming by setting a rule that indiscriminately diminishing the use of fossil fuels, or setting limits to economic growth. This may be appropriate for some countries, but for others, as painful as it may seem to recognize, our environmental problems have a very deep social component, and we have to face it as such.

There is no question that our greatest challenge as business people in the region is the generation of wealth, jobs and opportunities. The business sector is the only social actor capable to generate value added. So, by definition our principal social function is to create wealth. There are, however, different ways to generate it. Our history is full of examples, some of them terribly dramatic, of instances in which by trying to solve a short term cash problem we ended up creating worse problems for the future, in some cases the damage to the environment or to our social tissue has been irreparable. We have already made enough mistakes to know that we have to do things different, we have to do things right.

We need all social actors fully on board. And in order for this to happen, it is absolutely indispensable to set the right economic policy schemes. We certainly need to encourage economic growth, but not just any growth, it has to be qualified within sustainable development parameters.

In order to change course, we first need to get the right signals, from governments as well as from financial institutions. The market should promote sustainability instead of working against it. Everyone in society should receive the right signals or incentives, so we can then expect from them, the right behavior.

Until now, many of our economic signals lead us into the wrong path. The fiscal systems rely on taxing what is good for humans like paying salaries, saving part of our income, or wealth creation. This same fiscal authority turns around and uses that income to subsidize fuel consumption, the use of clean water, that is not recycled or treated, the use of pesticides, the disposal of garbage. Governments go into the political nonsense of subsidizing citizens of large cities, a terrible example is the capital of my country, where clean water is pumped for more than a thousand meters, to be almost free, and then discarded without treatment, public transportation is also subsidized, education is not paid by local government like in the rest of our country, the University in Mexico City, one with the lowest academic standards, with the highest cost per student, is also the only Mexican University where even the wealthiest students pay a tuition of two pennies per semester. With all of these signals it is difficult to understand why any Mexican would want to live anywhere but Mexico City.

In the future our societies have to develop a new and rational set of economic incentives, which would help us go towards eco-efficiency. Eco-efficiency is a key instrument that has been promoted since Rio by the business community, it means better business, increased profitability, productivity, and competitiveness, while reducing the negative impact on the environment. Eco in eco-efficiency stands both for economic and ecological. But, as I said, we need better market signals that promote eco-efficient performance.

What is the role of international financial institutions such as the IADB or the WB in this endeavor? These institutions are the ones that can better exercise their influence and support sustainable development in the region.

We need to have coherence and consistency in our economic policy instruments. It is almost impossible to expect responsible use and preservation of our natural resources when their use is being subsidized. We must never forget that a subsidy is an open invitation to overuse.

Subsidizing the use of water? Subsidizing the use of fossil fuels? And then expect people to refrain from use when they are being subsidized? seems a little naïve and totally unrealistic. On the other hand, expecting people to invest in eco-efficiency when capital investment is being fiscally penalized seems equally contradictory. Expecting important job creation when employment is being penalized with taxes?

We need to be consistent and have the right incentives for the right behavior, and the right penalties for the wrong one. What we cannot do, is to continue with a scheme full of inconsistencies, contradictions, mixed signals and the like. This is another important area of opportunity for the international financial institutions to exert influence in working together with our governments.

I would like to add some particular issues where I think the IADB, in particular, could help to make a difference for the sustainable future of Latin America:

We should not forget that the IADB, and other organisms, such as the IMF, have the power to send important signals to the global economy. These signals are of great relevance to our governments. The IADB could help tremendously to raise the profile and “status” of sustainable development as priority areas of concern for our governments. We have to simply recognize that the profile of sustainability among our governments tends to be very low. In most cases, it doesn’t even make it to the economic cabinets. And if something is not included in the agenda of the economic cabinet, for all practical purposes, does not exist. In rethoric, most governments in the world support sustainable development. The Latin American Governments are not the exception, but how many of them translate that rethoric in real economic decisions? That is the issue, and it is certainly one where the IADB has the possibility to exercise great influence. I would like to invite Mr. Iglesias and his collaborators to think about what I just said and help us out in the process of gear shifting.

The IADB exercises another very important element of leverage: its financial power. In this regard, consistency in signals is just as important as it would be for our own governments. The IADB needs to be consistent and avoid financing projects that are environmentally questionable. Some projects, such as dams, are very hard to justify in terms of sustainability. I would very seriously advise to review that.

There is one particular program for which I would like to commend the IADB and its authorities: It is about their program to support eco-efficiency in small and medium enterprises (SMEs). The IADB displayed great vision by instituting such program, particularly given the fact that more than 90% of total businesses in Latin America are SMEs, and they employ more than 70 % of the total labor force. My most sincere congratulations, and if anything I would just recommend to keep it on and, extend it to other eco-efficient firms.

The IADB's resources can make a very significant difference in Latin America, and because of this, it is particularly relevant to make sure that they are not spent in negative events, such as excessive and unnecessary bureaucracies. We all know that bureaucracies have the inherent capability of reproducing and perpetuating themselves. We should be prepared to continuously monitor our structures to make sure that they exist to support the mission, goals and priorities of the organization and not the other way around. I invite the IADB authorities to think that the learner the better an organization can perform.

Finally, I just would like to reiterate to all of you that it is a great pleasure for me to be here today, sharing my thoughts and concerns with you. And I hope that together, all of us, can come up with concrete solutions for a more sustainable future in Latin America.

Thank you very much.