

Competitive Edge

When sustainable development does not imply a single formula

by Jaquelina Jimena

Some days ago I noticed that the former president of the United States Bill Clinton and business leaders launched a sustainable development initiative in Latin America called The Clinton Giustra Sustainable Growth Initiative (CGSGI). This has come about thanks to the major financial commitment of two prominent philanthropists, Frank Giustra and Carlos Slim Helú.

Giustra, a Canadian businessman, has pledged a minimum of US\$100 million to the effort, as well as one half of all of his future earnings from his work in the natural resources sector. He has also been the driving force bringing together a coalition of mining industry and non-industry actors that will make the program possible. CGSGI will work with participating companies from the mining industry, which will have a key role in the initiative.

The mining industry is working in remote areas in the search for minerals, areas that lack established industry and have little or no infrastructure. Therefore, mining companies have a tremendous influence on these areas, and are, in part responsible for the wellbeing of the communities.

As the news release said, the CGSGI initiative will focus its efforts on Latin America and other parts of the developing world, and will identify opportunities to assist local leaders in addressing social, economic-, and environmental issues in a cost-effective, scalable-, and sustainable way, consistent with the foundation's proven track record on health and development elsewhere in the developing world. CGSGI will engage other partner organizations, NGOs-, and national governments as necessary to develop programs at costs that can be borne by local communities.

“This is a very interesting initiative in the region,” I thought. However, we need to recognize that economic growth fueled by the market economy around the world is not a single, monolithic problem.

In the developing world, in the absence of enforceable contract law, local commerce is conducted by a vibrant extralegal or informal sector (i.e the black market). This is the primary face of the private sector in most developing countries. These firms in the informal sector are unable to grow because they cannot attract capital. They remain small, local and often inefficient. There are contract enforcement systems that are local. Each slum might have its own unwritten but clearly understood rules. Enforcement might be the privilege of the local “strongmen”.

This is the paradox. Poor countries in Latin America might be considered rich if we take into account trapped assets. They may have a vibrant private sector and market economy, although this private sector is informal, fragmented and local. Ironically, these economies

tend to be high- cost, with poor access to credit and inefficient systems of management. However, not all poor countries have a poor legal structure. Some merely lack the ability to enforce the laws.

What, then, is the problem? I believe that the real problem is how bureaucracies deal with citizens. Bureaucrats use microregulations to control access, transparency, and therefore time.

Transparency is a word much bandied about in corporate circles. But what does it have to do with developing nations, which are most plagued by disease, corruption, poverty, crime and various other ills? Billions of dollars are poured into addressing these issues year after year in the developing world, with little impact. How can a country break out of this vicious cycle when poor governmental practices are standard, when citizens do not trust their government, and corruption is accepted as a daily part of life?

A key part of the solution is to create transparency, and eliminate uncertainty and risk in commercial transactions.

First, it is necessary to consider a system of laws that allows for ownership and transfer of property. Second, a process for changing the laws governing property rights that is clear and unambiguous. Third, as societies become more complex, a system of regulations that accommodates complex transactions. And fourth, institutions that allow laws to be implemented fairly, in a timely fashion, and with transparency.

I believe, however, the means for pursuing real sustainable development is not a single formula. Each country has its own road to travel. Easy prescriptions, suggesting that enacting laws will suffice, are as naive as suggesting that contract enforcement provides adequate protection even without the necessary laws.

The path toward a fully functioning market economy will be different depending on the point of departure for each country. Each country and economy might need a different mix of the four elements that I have pointed out. The goal should be to increase the elements of a society in such a way that a vibrant private sector can flourish.

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