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**EVIDENCE**

**Monday, February 13, 2012**

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**Chair**

**Mr. Dean Allison**



## Standing Committee on Foreign Affairs and International Development

Monday, February 13, 2012

• (1530)

[Translation]

**The Vice-Chair (Ms. Hélène Laverdière (Laurier-Sainte-Marie, NDP)):** Good afternoon. Welcome to the 20th meeting of the Standing Committee on Foreign Affairs and International Development today, February 13, 2012. Today we have two distinguished witnesses. I will ask them to be patient, as I see all these little smiles around the table. This is the first time I am chairing the work of the committee.

In the context of our study of the role of the private sector in achieving Canada's international development interests, we have the pleasure of having with us today Mr. John Sullivan, executive director of the Center for International Private Enterprise, as well as Mr. Chris Eaton, executive director of the World University Service of Canada.

Thank you for being with us today. We are eager to hear what you have to say to us. I am going to give you both 10 minutes to make your presentations, though the agenda is somewhat flexible. Gentlemen, you have the floor.

Mr. Sullivan, please proceed.

[English]

**Dr. John Sullivan (Executive Director, Center for International Private Enterprise):** Thank you very much. I really appreciate the invitation to be here. I'm thrilled that your committee is holding these hearings and looking into the subject, as you might expect. It's our life blood, so we're thrilled that you're doing this.

By way of background, I should mention that the Center for International Private Enterprise is an affiliate of the United States Chamber of Commerce. As you may know, the U.S. Chamber is one of the largest associations of private sector business. Our centre is funded by the U.S. government principally through the National Endowment for Democracy, which I will return to in a moment.

As we saw recently at the High-Level Forum on Aid Effectiveness in Busan, South Korea, it is becoming generally accepted that the private sector needs to be at the centre of development. It drives economic growth, job creation, innovation, and opportunity. However—and this also came out to some extent at the private sector forum that was held at the Busan meeting—many of the international development initiatives that are going on, including many of the ones of the U.S. government, really focus more on individual entrepreneurs rather than the institutional reforms needed to remove barriers to doing business and create the kind of enabling environment that drives entrepreneurship.

You have already heard from Hernando de Soto. He was here testifying before you. Hernando was our very first project in 1984. We helped him get started, and we continue to work with him. We just finished up a project working with Hernando in the indigenous regions of Peru, but we've also worked with him in Egypt and a number of other places. I wholeheartedly endorse what he's saying, which is very similar to my message.

I'd like to tell you what somebody said who taught both Hernando and me a great deal about this, and that's the Nobel Laureate, Douglass North. Doug has summarized the entire history of economic growth and development in one sentence. Now forgive me; it's a very long sentence. It should be.

Doug said that economic growth is about going from personal exchange, to where you can only do business with people you know, are related to, have some personal tie to, and therefore can trust, to being able to do business with strangers, and to get from here to here you have to put in place a whole set of institutions, and that's the enabling environment: a court system that will enforce contracts; property rights that can be enforced—as Hernando was talking about to a great extent; and bankruptcy.

A whole range of institutions needs to be in place, yet all too often in our development programs we focus more on trying to teach entrepreneurship. That's very important. We do it ourselves in Afghanistan, Peru, and elsewhere. But if you're just teaching entrepreneurship, you're not putting in place the institutions.

What you really need is the kind of institutional environment that Canada, the United States, and much of western Europe have. Yet in much of the developing world, as we see, corruption, red tape, favouritism, the lack of a voice, and the ability to affect policy and decisions really constrain the entrepreneurial sector.

Reducing poverty comes down to the policy reforms that expand access to opportunity and instill confidence in these market institutions. As Doug says, ultimately the rule of law binds a lot of this together in different ways, but for much of the world that has meant fully functioning democratic institutions creating that rule of law.

●(1535)

As I mentioned, we're an affiliate of the U.S. Chamber of Commerce, so you won't be surprised that our method of working is to partner with business associations, think tanks, sometimes with chambers of commerce, and other civil society organizations in the developing countries to build their capacity to affect law and regulation in public policy in areas like anti-corruption, advocacy, the management and strengthening of business associations, and corporate governance, which is incredibly important but, as we found out ourselves the hard way, is missing in so many of the developing countries.

Until the early 2000s, when the coalition that we were part of helped create it, there were no words for corporate governance in the Arabic language. It took two years to get that translated, and now we have an official seal issued by an Islamic institute with a stamp with the translation on it, and the translated words are now being used throughout the Middle East. That's a game changer.

Why do we do this? Well, because we found that these barriers to entrepreneurship are really what is keeping the majority of the population in so many countries trapped in that informal sector that Hernando talked about.

We've also found that top-down reforms tend not to work. We found something we called the reality gap. When fly-in experts come to a country, help create these institutions or write the laws, they then get translated into the local languages and passed by Parliament. They sit there like a hovercraft on water, never really touching it. We've actually measured the reality gap in some countries. It's the gap between what the law says on paper and what the real practices are. Unless you get the local business associations and private sector engaged, you can't see that gap; it just isn't visible to you.

One of the things that came out of the Busan meeting was a recommitment to public-private dialogue. In the joint statement between the public sector and the private sector that was issued during the Busan forum, they committed to five principles, and I'd like to just end by mentioning those: an inclusive dialogue for building a policy environment that is conducive to sustainable development—and by policy dialogue I mean dialogue, a two-way conversation between the public and the private sector; collective action, strengthening the associations and other CSO-NGO operations; sustainability, so that we know these institutions will stay in place; transparency; and finally, accountability for results.

I could give you lots of examples of programs that drive this kind of reform. My personal favourite is something that a coalition of Pakistani groups did, with which we were involved, where we changed the law. It was called the Trade Organizations Ordinance, basically the law on associations. Beginning in 2006, for the first time women can now form and be on the boards of trade associations in Pakistan. They have seven of their own, they're building more, and all of a sudden they have much more of a voice. Without voice, one doesn't get to accountability, one doesn't get these policy reforms, and there is no room for the private sector to move in and participate.

Thank you very much.

●(1540)

**The Vice-Chair (Ms. H  l  ne Laverdi  re):** Thank you for a very interesting presentation.

Please go ahead, Mr. Eaton.

**Mr. Chris Eaton (Executive Director, World University Service of Canada):** My comments will, I think, complement yours, John, but will be focused on a specific sector and an issue that is currently quite topical in the media, and that's mining and the role that mining plays in the development strategies of many of the countries in which my organization works.

My organization is a non-profit development organization that works on formal and non-formal education, livelihood, health, and governance issues in Africa, Latin America, and Asia. We have a particular focus on social and economic inclusion of marginalized women and youth. We also do a lot of work with the private sector, particularly with the tea industry in Sri Lanka, and on technical and vocational education and training in Sri Lanka, Vietnam, Afghanistan, Southern Sudan, and Haiti.

We are also one of the organizations that has received funding from CIDA and from a mining firm for development activities. Rio Tinto Alcan is the mining firm co-funding our project, which is located in the Bibiani District of Ghana, where Rio Tinto Alcan had a controlling share in the Ghana Bauxite Company. I'm going to talk a little bit about that, because I think it's important for the context of my presentation. This company is co-owned by the Government of Ghana, and, interestingly, as our project was commencing, Rio Tinto Alcan sold its share of this firm to a Chinese firm named Bosai but decided to continue funding our project nonetheless.

In my comments today I would like to draw upon our programming experience in Ghana and suggest ways in which the private sector, and the mining sector in particular, should be engaged in social and economic development issues. I would like to suggest a few things that I don't believe the government is or should be doing. I would also like to put forward an agenda of additional issues that I think CIDA should start tackling in ways that would contribute to the resolution of substantive development issues.

First of all, I'd like to emphasize that our project in Ghana is relatively modest in size, duration, and scope, and is focused on the development outcomes of just one of Ghana's over 200 districts. Ours is a three-year project with a planned budget of \$927,000, which comprises a \$500,000 contribution from CIDA and a \$427,000 contribution from Rio Tinto Alcan and WUSC.

I would also emphasize that this is a WUSC project, not an RTA project and not a CIDA project, although both RTA and CIDA are important funders of our initiative. As well, I would say that if Rio Tinto Alcan had not funded this project, it would still be worth doing, but it would be much smaller than it already is.

Our on-the-ground stakeholders for this project are the assembly and local government officials of Bibiani District, the communities in which we are initiating development activities, and the Ministry of Local Government and Rural Development. Given the size of our project and its focus on just one district, it needs to be thought of as a pilot in the sense that the lessons that are learned from this project should help to inform policies and practices at a national level and in other districts of Ghana.

Second, I would say more specifically that our project is focused on building the capacity of the district government to do three things: strengthen the quality of education in public schools, improve water and sanitation at public schools and community sites, and improve the employment outcomes of out-of-school youth through technical and vocational education and training.

Through these more tangible outcomes, however, our project is attempting to do a few broader things, specifically to improve the ability of the district government to plan in a more open and participatory way, essentially helping the local government to establish ways in which it can integrate the ideas and priorities of community members with district plans and services, and be more accountable to local communities for the decisions they make.

As well, we're helping to establish a forum at a district level, through which the local government can better engage all mining companies operating in its district in order to resolve conflicts, enhance collaboration, improve local accountability, encourage greater investment, and ensure that the specific investments of mining firms are well integrated within the district's development plans, thereby reinforcing national policies and strategies in Ghana.

• (1545)

An important aspect of this work is the training and support that will be provided to district officials on the extractive industries transparency index, which Canada supports and which Ghana as well is a signatory to at a national level and is seeking to extend down to regional and local levels. Through our piloting of this training in Bibiani, we're hoping to contribute to this national effort but also to help the district's understanding of the taxes, mining royalties, and revenue sharing that could take place.

There are, of course, many things that need to be done to maximize the benefits that the Bibiani District and Ghana receive from mining operations, including two sets of issues on which we believe Canada could take a lead.

First, in Ghana, the national government notionally sets aside some of the royalties it receives from mining operations to fund the development plans of districts in which mining occurs. Unfortunately, the mechanism through which districts can call upon these resources is not yet established or operational. The framework, policies, and mechanisms that would allow this to happen need to be established, and this is an issue that the Ministry of Local Government has raised itself.

Canada has taken the lead on district planning, district capacity-building, and financing in Ghana in other areas. It could do so here as well, and in a way that reinforces efforts to extend this extractive industry's transparency initiative to the district level.

Secondly, there is no national level forum through which government, civil society, independent voices, and the mining community can regularly come together to discuss issues related to mining operations and practices, community relations and local development, corporate social responsibility, and the strengthening of district governance. There are forums of mining companies, separate networks of communities affected by mining, and disparate government and donor research and policy initiatives, but not a forum that brings all of these stakeholders together on a regular basis. We believe that such a forum would be helpful in unpacking and addressing mining issues and in setting a transparent agenda for action around which all stakeholders could invest.

Next, it's important to understand what our project is not doing. This is I think particularly important in the context of some of the media around this issue over the last several weeks. Specifically, this project is not taking on the mine site corporate social responsibility of Rio Tinto Alcan or of any other mining firm. Indeed, we do not believe it is the Canadian government's role to fund the necessary corporate social responsibility that mining firms must undertake in their catchment areas. CIDA-funded projects are not a substitute for this. They are not an alternative to the kind of CSR that a company must engage in around its mining operations. Mining companies can and should fund these activities themselves and build this within their business plans.

However, I would note that when a company contributes—such as Rio Tinto Alcan has done—to a larger common good beyond the immediate interests of its operations, this is a good thing. This is something that can be encouraged and supported by the government, particularly when it's linked to the better governance of the mining sector as a whole. In other ways, if we think about our own country, our own universities, hospitals, and arts communities would be smaller and fewer if it were not for good corporate donors. Ghana is no different.

Lastly, I'd like to suggest a few areas for further attention and investment by the Canadian government. Most importantly, I think we need to expand our support to the broader set of governance and capacity-building issues in the mining sector, tailored to the specific needs of civil society and national and local governments where mining occurs.

Second, we do need to invest in exploring and resolving issues related to small-scale artisanal mining, both near to and far from large mining operations, such as those of Canadian companies. This is a critically important and under-supported area affecting large numbers of artisanal miners, the communities of which they are a part, the royalties that governments receive—or do not receive, in this case—from mining, and the reputation of the mining industry as a whole.

Third, we need to continue to encourage Canadian mining companies to invest in public goods beyond, again, their specific mine site areas in the world in which they operate. We need to link this, I think, as much as possible, to the better governance of the mining sector itself, something in which Canada and Canadian firms have a strong vested interest, especially as business ethics come under greater scrutiny around the world.

•(1550)

Thank you.

**The Vice-Chair (Ms. H el ene Laverdi ere):** Thank you very much.

I will now give the floor to Ms. Sims for the first round of questions.

**Ms. Jinny Jogindera Sims (Newton—North Delta, NDP):** Thank you very much.

And thank you, to both of you, for your presentations.

I think all of us realize there is a role for the private sector to play, and you articulated it beautifully when you went on to talk about the corporate responsibilities that businesses have. In my community a few of the banks have gotten together and are doing amazing things with programming for our youth. It's really great to see that, but it's in addition.... It's not education. It's funding a lot of the extra-curricular activities that happen in the community, such as community soccer, community hockey, that kind of thing.

I was interested in something you mentioned, and I'm going to go to Mr. Eaton first, if I may. What really grabbed my attention was when you talked about the role that Canada could be looking at giving more attention to, that we could expand in. You talked about expansion in mining; in other words, supporting the development of small mines near where there might be large mines.

I think that's what you were saying. They are more family run—much, much smaller mines than your big mining companies. When I heard that, the question that came into my mind was whether that is the role of Canadian international cooperation development, or is that a role for international investments and work that mining companies would do or government would be doing with them? It just doesn't seem to be to be the kind of work that would tie in with international cooperation, with the kind of work we do through CIDA and all of those projects.

That intrigued me a bit. Could you expand on that for me?

**Mr. Chris Eaton:** Sure. There are hundreds of thousands of people already involved in the mining sector, in artisanal small-scale mining. It's generally not a family-run business, but rather large numbers of individual people often mining alluvial fields that are close to the surface. It's often in the diamond sector, but it's in a number of other sectors as well.

This is a largely ungoverned area. It's an area in which the infrastructure is not there for the mining to take place in socially or environmentally sustainable ways. It's an industry in which there's a high degree of exploitation. It's not well organized and, importantly, governments themselves, particularly in Africa, receive no revenue from it. There's no revenue gain that they get from the mining that people undertake, and there's no way to support and regulate the people who are actually involved in the industry.

It's about treating it like any other business sector that you would be involved in supporting. As a government, we are often supporting the development of various sectors of the economy. This is a sector that, if we think about it creatively, could impact upon large numbers

of people who would benefit greatly in terms of income they would receive from mining practices.

I would suggest thinking about it in the governance context, not in terms of supporting the operations of small-scale miners, but for setting up the regulatory framework, the institutional arrangements through which artisanal mining is better governed.

•(1555)

**Ms. Jinny Jogindera Sims:** So when you're talking about governance, and I've heard that a few times throughout your presentation, you talk about the training of community officials. In this case you're talking about not only developing institutions but putting some checks and balances in place. Capacity-building for self-governance is what you're actually talking about.

In that context, would that include training local officials? As you know, we're putting institutions in place in the area of human rights standards, the rights of workers versus the rights of the corporations, and also the kinds of environmental ups and downs...and I'm going to say both sides, the pros and cons in terms of the impact on the community.

Would that training of civil society be included, and would the training of the officials be in that broader spectrum of governance rather than just supporting that narrow vision?

**Mr. Chris Eaton:** I think it has to. It does and it has to. In the case of our project, it needs to look at all of the broad operations and impact that mining has within local areas and to help local government officials and communities understand how to negotiate. What does the law say in their country about these issues? What are the rights they have? What are the ways in which they can resolve conflicts before they become acute or violent, for example? And how can they foster ways of collaborating that are helpful to the benefits they get from the mining operations that occur in their areas?

**Ms. Jinny Jogindera Sims:** So in this context there would be not just institutional training and establishment; there would be advocacy training as well.

**Mr. Chris Eaton:** There could be. Ours is really focused on the district level government itself and is more embedded there, but it certainly can and should, in many instances.

**Ms. Jinny Jogindera Sims:** I think for me what really came home is that without advocacy, developing institutions and just letting them be is like that example you talked about of having some kind of a gap. I call it the top and the bottom, and then you get the middle, the vacuum in the middle.

So unless you have the advocacy part as an integral part of it, and you're just looking at institutions, what will happen is a lot of those policies will stay on paper, but they won't be given any legs.

So how do you ensure...as in Ghana, where the mining company has a wonderful policy of giving a percentage of the royalties to help developing communities where mining is occurring, but nothing is happening probably because very little is known about advocacy, about how to access that money and how to use it.

**Mr. Chris Eaton:** I would say that Ghana is relatively well governed, in general, on these issues, although—

**Ms. Jinny Jogindera Sims:** I'm talking about the advocacy part because the money is not used.

**Mr. Chris Eaton:** There's a lot that still needs to be done. I guess our approach to this issue in the context of Bibiani, this district where we are working, is to help the local government establish that platform where they can actually regularly interact with mining firms on these issues. As well, it's to help the local government know what the law suggests they have the right to. What can they expect? And what are some of the mechanisms through which they can collaborate more effectively with mining firms and identify problems that need to be resolved?

• (1600)

**Ms. Jinny Jogindera Sims:** Is my time up? I thought I'd only begun.

**The Vice-Chair (Ms. Hélène Laverdière):** Yes.

Ms. Brown, please.

**Ms. Lois Brown (Newmarket—Aurora, CPC):** Thank you very much, Madam Chair.

And thank you very much to both of you for appearing before us. Just so the committee knows, I had the opportunity to meet Mr. Eaton in Botswana and to see the WUSC program that's going on there.

I want to commend you for the work you're doing. My son-in-law is from Kumasi and he's finishing his Ph.D. in electrical engineering. He has a physics background. You may want to have a chat with him at some point—a brilliant young man.

My observation is that it's opportunity for education that is going to change Africa. And putting these kinds of things in place to ensure that they have the opportunity for education is going to move those countries forward.

When I was in Ghana I actually had the opportunity to meet a young man who is a hydrologist. Ghana is undertaking to map all of their underwater resources because they know there is going to be great potential there, and I'm sure WUSC has some interest in seeing that happen.

**Mr. Chris Eaton:** Very much so.

**Ms. Lois Brown:** Mr. Sullivan, if I may just bridge from where we were talking about what WUSC is doing, we had an intervention here some weeks ago from Jack Mintz. He said that Canada can contribute leadership for the economy, finance, and the extractive resources, and can help countries with public policy. That's not a direct quote; that's kind of my synopsis here. The handling of their natural resources is imperative. The right fiscal and regulatory policies will make this the most important part, and Canada has such a great record.

I just came back a few weeks ago from South Sudan, a brand-new country. They have no institutions in place whatsoever and yet they have huge resources in oil, in Abyei, and they know there are gold resources there.

Let's use South Sudan as an example. How would you see Canada helping, right from the ground level—no pun intended—to build the capacities that are going to give them the institutional resources they

need, to put these things in place so that WUSC, as an example, could come in and work?

Can you comment on that?

**Dr. John Sullivan:** It is a huge job and a huge undertaking.

One of the things that could be done, if Canada were interested in providing the support and working with the Government of South Sudan, is to take a look at the program they've put in place in Ghana for the oil industry. They've created a national committee, which is a public-private sector committee and has NGOs, private sector, and government officials, and what they're responsible for doing is to try to prevent Ghana from becoming Nigeria. In other words, it's to try to manage those resource flows in such a way that it benefits the country and is not just an occasion for massive corruption and leakage, and also for the kind of damage that happens when local communities don't see the benefit of what's happening in their community.

There's a clear example of a country that I think is doing a pretty good job. It could become a model for others.

**Ms. Lois Brown:** Could you enlarge then for us on the whole aspect of sustainability? That is going to be the most important... I mean, accountability falls into that, but the whole sustainability part of what we see happening in these countries is what is going to really move them forward, is it not?

**Dr. John Sullivan:** Sure. I'm convinced that's true.

Another dimension of sustainability is what you do with the resources. If you just use them for distribution and you just hand them out to the population, as they do, for example, in so many countries in the Middle East, you end up with nothing being invested.

Another thing that we hope this committee will do is to take a look, for example, at the Norwegian fund, which is one of the best and one of the first sovereign wealth funds created, and the way in which it invested the funds, in order to generate a resource flow, in order to see some return on the investment, rather than just using the funds as current income.

Sustainability comes a lot in that dimension, but it also comes in not allowing—I hope the Dutch don't mind this—what is known as the Dutch disease. It's what happens to a country when the resource flows distort the relative prices. What happens then is that the rest of the economy does not develop. That's a big danger for a country like South Sudan, which has to open up its entrepreneurial capacity and begin to see other types of industries develop. If the relative prices get distorted and the government uses the funds just to pacify the population, you don't get sustainability. You end up in a worse position than you were.

• (1605)

**Ms. Lois Brown:** Mr. Eaton, we see countries, particularly African ones, attending conferences like we have in Toronto annually for the Prospectors and Developers Association of Canada. I've been there, and I see that countries, not just African but many of the South American countries and many countries in Southeast Asia, are there en masse with all of the material that can present their country in the very best light possible. They're asking for Canadian extractive industries to come in and be of assistance to them.

Are we seeing that same kind of investment that WUSC is making? Are we seeing that same kind of collaboration in other places?

**Mr. Chris Eaton:** Mining is going to be an important sector for many countries. It already is for many countries and many more in the African context.

On mining, or resource extraction more broadly, I think the case of South Sudan is quite illustrative of all of this. To make the best out of that, to ensure that benefits the societies in which that occurs, is going to require a lot of things. It's going to require a lot of foreign investment on the part of Canadian companies and other companies around the world—hopefully by the kinds of Canadian company, of which we have very many, that are responsible mining companies. They are companies that are socially and environmentally responsible, and responsible in their relationships with the governments themselves.

It will probably require more than that, and I think there is a role here for both civil society organizations—and not just ones like ours, but ones that also relate to private sector particularly or private sector associations or industry associations—and also for government to invest in those institutional capacities that are necessary for the better governance of that sector.

Many people will ask whether that is in the interest of Canadian companies. They're going to deal with partners that are going to ask more of them. There are going to be more stringent regulations in terms of what they might have to do in countries. It will involve all of those things. But I think Canadian companies have a vested interest in the better governance of the mining sector in the countries in which we operate, particularly in the context of global competition.

I think you'll find that Chinese companies don't really care about the kinds of things we care about around this table, and that Canadian firms are particularly able to adhere to, to advance.... I think Canadian firms in particular have that vested interest in better local governance, and that is something that is going to require contributions from the mining sector itself, government, and civil society as well.

**Ms. Lois Brown:** I'm sure I'm done.

**The Vice-Chair (Ms. Hélène Laverdière):** Thank you very much.

Mr. LeBlanc.

**Hon. Dominic LeBlanc (Beauséjour, Lib.):** Thank you, Madam Chair.

Gentlemen, thank you for your presentations. I think all of us found them very interesting.

Mr. Sullivan, I find the work of your centre quite compelling. I think in a few minutes during your introductory comments you summarized in a very cogent and precise way what some of us have been thinking of and wrestling with at this table, and probably in other contexts before, which is how to help many of these countries develop durable, long-term institutions. I thought your notion was very compelling, that is, of the individual versus the institution, and the informal economy versus a more formal, regulated economy with

the ability to rely on institutions and structures that protect investment, protect a whole range of business activities.

Mr. Dechert and I were in Haiti last month with Madam Laverdière, and one of the things that struck us was the total absence of a land registry system, or any kind of land title system. You can imagine the ability to raise money or borrow money informally or formally if there's no clear title or any notion of real property. That's probably one of the more chaotic examples, but unfortunately they're not alone in having institutional failings, which exist around the world.

I'm interested about whether, Mr. Sullivan, you might offer us some thoughts on how we could persuade the private sector in Canada to partner either with NGOs or centres such as yours, or other institutions, and possibly with governmental agencies directly, to fund some of the development assistance that would be geared towards institution-building, capacity-building. It's a longer-term journey than simply a six-month or a 12-month project that builds a particular piece of infrastructure. It's often a much more complicated process. In your view, can the Canadian private sector work either with our governmental agencies directly or foreign partners in helping some of these countries build those institutions—build not only the entrepreneurial culture with the individuals, but the structures that can then support that culture and hopefully help them grow their own economies? I'm curious to see how the Americans leveraged private sector participation. It's not a tradition that perhaps we have in the same way here.

• (1610)

**Dr. John Sullivan:** Unfortunately, there isn't a lot of American participation either. I hate to have to tell you that, but it is true. The program that my colleague, Mr. Eaton, described, where a mining company got together with CIDA, is one that the United States has as well. It's called the Global Development Alliance.

You do find private sector companies partnering. They tend to do it in areas that are going to be directly related to their business model, because that's what the shareholders are going to want to see a return on investment for. For example, Coca-Cola has a Global Development Alliance project where they participate in developing water resources in several countries, water being a key part of their business model.

In the longer term, companies tend to invest and participate in countries where they're invested—that only makes sense—or where they think they're going to be invested. When you're talking about a country like Haiti, for example, it's going to probably have to be largely governmentally funded programs, although there are some private sector companies. There's an American chamber in Haiti, small but there, that has been involved in some initiatives over the years. But to really create the platforms to do this—to try to answer your question as to how they can create those incentives—is the key reason they held this private sector forum in Busan during the OECD-UNDP Fourth High Level Forum on Aid Effectiveness, and they have committed to creating a platform. That work is just now beginning. The first working group meeting, I believe, is not until March. But they have committed to try to build the architecture to put that in place.

I am still somewhat skeptical that there will be a large participation of the corporate sector in countries where you don't see a large amount of foreign direct investment. When you put on your shareholder hat or your pension hat or your other hats, you say to yourself, what do I want my investment to go for? I want it to go into places where I'm getting a return on that investment.

The chamber does have another affiliate called the Business Civic Leadership Center. When I go to their conferences and programs, it's largely the corporate social responsibility arms of American companies that participate in that. That's pretty much their model. That's what they're focusing on.

**Hon. Dominic LeBlanc:** I think that makes eminent sense.

You're right, let's stay away from Haiti, because it's perhaps the most extreme example. But in other countries, if either through a corporate social responsibility engagement or a partnership circumstance like Mr. Eaton's, there is that willingness to invest....

Everybody identifies with a piece of social infrastructure—a school, a hospital. There is a sense that hopefully we've left something that's durable—tragically, it often isn't—but there is a sense that it's a contribution that governments, public agencies, or the private sector make to a community in which often they're doing business or in a region, or so on.

But your initial comments were very interesting around building institutions—something as simple as the rule of law, which in western countries we might take for granted, or a land title system on which one can then build credit.

How can we get people to think that's as valuable a contribution—to pick up on your earlier comments—as it would be to deal with a particular social or economic or infrastructure challenge in a particular country or region of that country?

• (1615)

**Dr. John Sullivan:** Mr. Eaton may have some ideas as well, but I imagine the thing to do is a demonstration example where you can show the corporations that are invested in a country and where the country itself would like to see this kind of public-private dialogue occur....

For example, Botswana—a country you mentioned earlier—was one of the leaders in Africa in creating the public-private sector forum, and many of the foreign direct investment companies participated. The gentleman who ran that program, Elias Dewah, works for us now and is helping us try to replicate that in Kenya and a few other countries in Africa, because it is a terrific example. If you bring people together annually during a large-scale forum where the private sector has a seat....

But to the point on capacity-building, which was mentioned earlier, you really have to work with these companies before that occurs, through their associations, through other mechanisms; otherwise they simply come in and complain.

We have put a program called the national business agenda into place in a number of countries, including, surprisingly enough, Iraq and Afghanistan, where we bring together the private sector—in this case, the indigenous firms, but in some cases in other countries the multinationals or foreign direct investment companies have

participated as well—to identify specific challenges and changes. Don't tell me, change the tax code. You could say it, but it's not going to have any effect. You have to have specific examples of reforms that could be put into place that are going to build these institutional changes that unlock value and will lead me to be able to invest more, will lead a firm to hire more, and will lead to greater production.

**Hon. Dominic LeBlanc:** And presumably lead those governments, then, to think that's a valid public policy initiative they can undertake for those same reasons.

**Dr. John Sullivan:** You have to be sure to give them credit. After they put in—

**Hon. Dominic LeBlanc:** You're not saying that politicians are looking for credit, Mr. Sullivan. That's a very cynical thing to say to a group of politicians. I can't believe I'm—

**The Chair (Mr. Dean Allison (Niagara West—Glanbrook, CPC)):** As a matter of fact, you're out of credit right now.

**Hon. Dominic LeBlanc:** It's totally foreign to me. I don't know if the chair is—

**The Chair:** You're out of time, you're out of credit.

**Dr. John Sullivan:** I hope I haven't offended you, but I tell the private sector that all the time—

**Hon. Dominic LeBlanc:** We don't recognize that at all. I can't imagine—

**Dr. John Sullivan:** —because they tend to forget.

**Hon. Dominic LeBlanc:** Thank you very much.

**The Chair:** That's all the time we have.

We're going to start our second round now, with Mr. Van Kesteren. You have five minutes, sir.

**Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC):** Thank you, Chair. Thank you both for being here.

The purpose of this study is multi-faceted. One of the things we all share—as a committee, and I think as people in general in western civilization—is wanting to help those who are less fortunate, or who aren't as far developed, to at least have a decent lifestyle. That's been frustrating. When we look at Africa, in general, there's been so little of that advancement that's taken place.

When we had Mr. de Soto here, he pointed out the very obvious fact that we expect them to be where we are, having gone through that whole process of history. We've obviously been through the parliamentary system and government in general, but also we've evolved with technology. We're expecting them to be at this plateau, when he had to discover all those discoveries and make our way up.

I, for one, am frustrated because I also went to Ghana. If we go back 100 years, most of us came from farms and lived on farms. But when you go to any African country, or any third-world country, the vast majority of people live in villages or live in cities, so they missed that key ingredient. I believe entrepreneurship is innovation, and innovation is taught on the farm better than anywhere else. We have a lot of very clever people who are good at selling wares, but lack that training. The horse is out of the barn.

The question goes to both Mr. Sullivan and Mr. Eaton. Have either of your organizations examined that? We know where the problems are, but now that we're in this situation, how do we get them to start to operate on the same economic scale and the same structural scale that we have in western civilizations—now that all those things have happened and you can't put the genie back in the bottle?

• (1620)

**Dr. John Sullivan:** I'm not quite sure I followed all of your question.

In Ghana—since we're using that country as an example—we work with the private sector foundation, which is an umbrella group that brings together the Chamber of Commerce, Chamber of Mines, and other associations. They, in turn, have reached out to the farmer associations, particularly in the northern part of the country, because so much public policy in Ghana is holding back farming innovation.

Particularly, one of the things.... The United States made this conditional in the Millennium Challenge Corporation program. You could not import the best seed varieties. You had to use locally grown seed. Guess whose idea that was? The seed manufacturers, of course—the domestic ones. They were putting up trade barriers that were inhibiting the natural process of innovation and growth in Ghana.

One of the best ways we found to begin this process was to try to diagnose and answer the same question Hernando asked: “Why do people do things the way they do?” All too often international development experts fly in; they have the model of the international best practice. They assume that the people in the country don't know that model, so they begin teaching it.

In reality, you have a whole variety of reasons that people do what they do. Hernando did his experiment. I'm sure he told you about it when he was here. He went around and tried to register a small business, and it took over 290 days. Well, if you go out and talk to people, particularly in the informal sector or in the small and medium enterprise sector, they'll tell you why they're doing what they're doing. And it often comes back to the lack of something. It's either the lack of an enabling factor....

In Egypt, for example, small businesses have to sign 26 post-dated cheques. The banks force them to do that. Why do they do that? Well, because the bankruptcy legislation is so bad that it can take half a year to get the collateral back. You can put up collateral; you just can't get it through the court system, whereas if you bounce that bad cheque, you're going to jail. So there's a real incentive to keep your loans paid up, or not take any out, but it has the effect of inhibiting people from moving into the formal sector or the formal sector firms getting any access to credit.

Our first step in almost all of these projects is simply to ask why it is being done this way. Often we find it isn't a simple question of lack of education or lack of exposure, but often a structural impediment, sometimes a very simple one.

Another one that Hernando found—I use him as an example all the time, because he's so brilliant at doing this—is the proliferation of notaries. The notaries form a lobby like the seed manufacturers. Even after he got a lot of his reforms through in Peru, they came out into the streets and tried to undo them, claiming it was alien to Peruvian and western civilization. “Look at France as our development model”, was their point, or “Look at Germany”, which is a country built at a very different level of development, using notaries and other kinds of things, whereas if you simplify the process, which is what he did in Peru, of course it costs the notaries a lot of money.

So analyzing the political economy and asking people why they're doing this is our first step in so many cases.

**Mr. Dave Van Kesteren:** That was my question.

**The Chair:** Thank you.

You were way over time, my friend. But the good news is we have these guys for two hours. So we'll circle back around.

**Mr. Chris Eaton:** Could I add an example to that, though?

**The Chair:** We're going to have to come back. I'm sure the question will be asked, because there's a good train of thought there.

Ms. Sims, five minutes, please.

**Ms. Jinny Jogindera Sims:** Thank you.

As I'm listening to this conversation, it's all very fascinating, but I sometimes think I am at a business development meeting, because when I really look at the purpose of our aid—and I'm talking about international development here—it is to reduce poverty. That's the primary driver. At times of crisis and otherwise, that's where Canadians want their funding to be going—to reducing poverty. I don't think its goal is to further private sector interests or short-term trade priorities. If that happens, that's wonderful. Yet a lot of the focus I've heard today has been on putting infrastructures in place or institutions in place that will help the mining companies or other companies that should go in.

When I've looked at public and private working together—and I've seen some projects in which they have worked well together—they've gone in and actually looked at the human rights issues. They've looked at the rights of workers. They've looked at the environmental impact. They've also looked at advocacy.

When I look at a wonderful institution like yours—I'm trying to learn more about it as well—you do work out there, but when I look at the report you did, the annual report for 2010, you're primarily funded through government sources and the National Endowment for Democracy, which in turn also receives money from the government. I'm not saying that's a bad thing, by the way, in this case, because it's what you do with that money.

Canada's aid budget has been frozen. It cannot go up. We're actually falling behind, and that's what we're hearing from many of our partners. We are anticipating further cuts in the budget. There is a budget coming up. We're worried. We're not sure if that's going to happen. Really, with such a shortfall in our aid budget just because we're frozen—and by the way, we haven't gone up to our commitment of 0.07%—my biggest fear is that the government will look at ways of doing work with the private sector in such a way as to mask some of the underfunding and in a way that will not actually put into place long-term development. It will not be addressing poverty in a long-term, sustainable way, but rather with what could be very short-term interventions. You go in with a mining company. You're there for four, five, or ten years maybe. Then you're gone.

I have a lot of fears about our aid being so closely tied to one particular industry. It's not being driven by the community, as you said. It's not coming up from the grassroots. It's once again coming from here, and with a very corporate agenda and softened social responsibility.

What role do you think the public sector has to play in our international work, or do you think the private sector can do it all? Expand on that for me.

• (1625)

**Mr. Chris Eaton:** Who would you like to speak?

**Ms. Jinny Jogindera Sims:** I'd like both of you to make a comment.

**Mr. Chris Eaton:** All of the work that we are doing in the context of this initiative in Ghana and elsewhere is to ensure that local people in Bibiani, and Ghana as a whole, benefit to the greatest extent possible in terms of the investments that are being made by binding firms in that country. So our work is to help strengthen the governance around that sector so that Ghana benefits from it, so that people in Ghana benefit from it, so that people in Bibiani District, where there are five mining firms operating, also benefit from those operations taking place there, and not just have royalties go to the national government, for example.

Our initiative is to try to connect those different pieces together so that not only does the national government get its royalties, but people at the local level get their royalties, so that people at the local level are able to work out conflicts, enhance collaboration, and increase local investment in the areas in which they are operating. And I think Ghana itself has indicated that natural resource extraction is going to be an important part of its national development strategies. So I think we need to help them in that respect.

Where does Canadian funding come in and not come in? Well, again, it's not happening in our project, but I think there are lots of things that companies have to do to get their social licence for operating in the areas where they are, investments that they need to make in the sustainability of operations, in terms of social environmental sustainability, and often they will also do some small projects around their mine that are much more concrete, such as a school or a clinic.

I don't think Canadian funding is needed for that. I think those are all things that Canadian companies and mining companies can and should do themselves.

But were there opportunities to both leverage Canadian mining funds or the funds of non-Canadian firms towards greater social goods, I think that's a worthwhile thing to do. In general, I think it's also worthwhile doing that if the investments are investments that, again, enhance the governance of that sector. By enhancing the governance, what we mean is enhancing the benefits that people actually derive from the investments that are being made.

• (1630)

**The Chair:** Thank you.

Mr. Sullivan, I'm sorry, we're out of time, but we'll circle back.

That's the problem. We've got a three-minute question, and we need about ten minutes to respond.

Mr. Dechert, you have the last question for this round.

**Mr. Bob Dechert (Mississauga—Erindale, CPC):** Thank you, Mr. Chair.

Thank you, gentlemen, for being here.

I'd like to start with Mr. Sullivan. You mentioned the need for different kinds of laws—the rule of law. In general, you mentioned bankruptcy and solvency laws, for example. I know that a law firm that I was previously associated with often got mandates from organizations at the World Bank to help countries like Russia, after the fall of the Soviet Union, Vietnam...and to develop bankruptcy and solvency laws into property protection laws.

A lot of countries, as you've pointed out, have the laws on the books, but I think you also mentioned there's a reality gap between what's written in the statute and the enforcement on the ground. I was wondering if you could give us an example of a successful situation that you're aware of where that kind of reality gap was identified and then was remedied through some kind of outside intervention, whether it's a partnership between a government and a private sector organization or entirely a government organization.

**Dr. John Sullivan:** Keeping in mind the time limits, and thanking you for the question, I'll be telegraphic.

In Russia, thanks to support from USAID, we were able to partner with the Russian Chamber of Commerce and the Russian Association called OPORA to establish 16 coalitions at the local level across Russia that brought in 22,000 Russian corporations, and they did a couple of different things. They created self-defence mechanisms to help firms protect themselves against extortion—bribery requests. They went after the local property markets, which were often being misused by the local governments, again extracting extra money in order to get access to the land, and also putting in place laws and regulations. They're trying to remedy laws and regulations that have been created at the national level but weren't being put in place at the local level.

So it comes back to advocacy. It comes back to equipping people with the skills to know how to do this, and collective action, all parts of that Busan agenda.

There are a number of other countries where the same kind of thing happened. In the country of Georgia—classic example—international best practice is actually a myth. There is an international best practice, but you can't download it on a country. So they brought in a whole group of outside experts to write the administrative code of Georgia, which they did, based on international best practice, translated it into Russian and Georgian, passed it through, and forgot to do any of the training programs or community mobilization. We were able to work with a couple of Georgian think tanks and associations to begin putting pressure on local government, saying this is the law, you've got to implement it. And when they didn't, we went to the newspapers and to the national government.

It can be done, but all too often we just don't think about doing it.

**Mr. Bob Dechert:** In your view, is that important for sustainable economic development in any country?

**Dr. John Sullivan:** Absolutely.

**Mr. Bob Dechert:** These are things we can do to help them sustain their growth for the long term?

**Dr. John Sullivan:** In the Philippines right now, Jesus Estanislao, the former finance minister for Cory Aquino, has built a sustainable organization. It's called the Institute for Solidarity in Asia. He has mobilized people through a model cities program using the Harvard balanced scorecard. They're not funded. Those people are volunteering their time and effort to do it. Once you've put them together, once they've learned how to do this, they're not going to go back and shut up and sit down.

• (1635)

**Mr. Bob Dechert:** Thank you.

If I have more time, Mr. Eaton, you mentioned the World University Service has been active in Haiti and Afghanistan.

Could you give us an example of some of those projects?

**Mr. Chris Eaton:** Our work in Haiti and Afghanistan is specifically in the technical and vocational education sector. That work is a little more mature in Sri Lanka, where we've been working for the last 15 years with the government and with industry associations around the standards and the focus of technical and vocational education and around systems of accreditation. It's to take an informal kind of industry training and civil society training that occurred in the country and try to organize it and raise the level and project it forward in terms of the growth needs of the country in ways that benefit large numbers of people.

I would point to that example.

**Mr. Bob Dechert:** You mentioned the training of local officials in the mining industry, specifically taxation and royalty structures to benefit local government. Are you advising local governments on how to draft those laws or set up that system of royalties so they can benefit from them?

**Mr. Chris Eaton:** The laws are drafted at a national level, not the local level. There's a process in place already to take this extractive industry's transparency index at a national level and bring it down to a local level, so that's what we're experimenting with at the moment. We would like to work with the district government and the national government—and we've had some discussions in this respect—to try

to make the royalty sharing happen, which isn't happening right now, even though it's on the statutes.

**Mr. Bob Dechert:** So you help them negotiate those royalty agreements?

**Mr. Chris Eaton:** That's already established, but it's establishing the policies and mechanisms through which district governments will be able to call down the resources that they already have the right to, but are not yet getting.

**Mr. Bob Dechert:** I see.

Thank you.

**The Chair:** Thank you, Mr. Dechert.

Ms. Brown, third round, five minutes.

**Ms. Lois Brown:** Thank you very much.

And again, thank you, gentlemen, for being here.

I would like to go back to something my colleague said about the reduction of poverty. Every Canadian wants to see the reduction of poverty around the world; we just approach it from a different philosophical strain.

I read the book by Dambisa Moyo, *Dead Aid*. You've obviously both seen that. I'll ask you to comment on it, if you would.

We know that since the end of the Second World War—and we'll use Africa as an example because it's a continent that everybody has sympathetic feelings for—\$1.23 trillion has gone into Africa, and yet we have not generated the kind of change that we would want to see or alleviated the kind of poverty that we think should have come with that kind of an investment. As Ms. Moyo says, first of all, we should be giving clear-cut deadlines for use of the aid dollars. She puts a five-year timeline on it and says if you can't start building capacity in that time, you're not doing things right.

We don't want to condemn people to becoming welfare states. We need to see them move out of that. I wonder if you could both comment on how your organizations—and I'm particularly interested in what's happening with the chambers of commerce—are providing that mentorship to entrepreneurial people in countries around the world who are getting aid from us to help them build out of capacity.

I heard what you in particular said, Mr. Sullivan: they're not going back to the old ways because they're making demands of their national governments to put the structures in place. The lights have gone on when they've started to build these structures.

Do you have any comments?

• (1640)

**Mr. Chris Eaton:** I think Dambisa Moyo makes a very powerful point, which really speaks to the lack of accountability between government leaders and the populations they represent, and how aid can distort that accountability. It can actually undermine the accountability that needs to take place. From my perspective, she may be a little bit overly pessimistic about the opportunities for doing that, but strengthening that voice is critical, as well as funding the institutions that allow all of that to happen.

What I would say is that natural resource extraction done in the wrong context can have the same effects. I think Nigeria is an excellent example of that. Botswana and Ghana are different examples of it because of the accountability and governance structures that have been established. That's an area where we need to consider more investment, to ensure that people actually benefit in the long term from those kinds of investments when they take place.

**Dr. John Sullivan:** I agree. There are actually now about 17 African countries that have had sustained growth and are doing fairly well. They are documented very nicely in a book by Steven Radelet, who is currently the chief economist at USAID. Prior to that, he helped set up the Millennium Challenge Corporation account, which uses the mechanism you are talking about.

I asked Steven what he thought of that argument. He said a couple of interesting things. One, that in some cases it's overstated. In a fair number of cases where aid just pours into a country—and I hate to say this, but I'm afraid Iraq and Afghanistan are going to be examples, particularly Afghanistan—where aid has flowed in at such levels, it has distorted the local price mechanism and acts like the natural resource curse. It acts like oil.

How do we avoid that? Well, in the case of Afghanistan, I'm not sure it could have been avoided, given the conflict situation. You have to build the local capacity. You have to get the business associations together and mobilize membership in order to really begin to see that demand for good governance occur.

Botswana is an excellent example of a country where this has happened. BOCCIM, the Botswana Confederation of Commerce, Industry and Manpower, took a really strong lead role, right from the very start, in demanding good, sound economic policies. It's a great example. It's right there in the centre of Africa—not the centre, but as a leading country.

**The Chair:** Thank you, Mr. Sullivan.

We will move back to Ms. Sims.

**Ms. Jinny Jogindera Sims:** Thank you very much.

I want to go back to Mr. Sullivan. I know you didn't get a chance to answer my last question. I won't repeat the whole question, but I do have a short one for you this time. Your centre gets a lot of its money from the government. How critical is that source of funding for you? What kind of impact does it have on the way you do your work, in that the vast majority of funding comes from the government?

**Dr. John Sullivan:** It's critical. Otherwise, we wouldn't be doing the work, obviously. Where I would draw the distinction, though, and this is one of the things.... The National Endowment for Democracy was created in 1983 as a result of President Reagan's Westminster speech. It's a unique institution in that the funding comes from Congress to us and to three other organizations—the International Republican Institute, the National Democratic Institute, and the AFL-CIO's Solidarity Center—as well as to a whole host of NGOs and human rights groups funded directly by the endowment. It is money that comes as a congressional appropriation.

The thing that is unique, and it's one of the reasons why CIPE can do what it does...we do not operate at government direction. The policies, procedures, strategies, and projects are all self-generated.

The executive branch has an oversight role, and it has an auditing role. We have to coordinate with them, but it isn't the same as if we were being funded by USAID. Having that national endowment—and there are several of them now around the world. The United Kingdom has the Westminster Foundation for Democracy. The European Parliament has for some time been considering it, but I think eventually will create a European head. There are several of these in different countries around the world. The reason that model is so important is that it gives you a certain degree of insularity from the day-to-day policy interests of a particular government, whether that's a government of your flavour or a government of somebody else's flavour. It becomes a much longer-term, strategically driven operation.

**Ms. Jinny Jogindera Sims:** Thank you.

I'm going to pass it over to Madam Laverdière. I will come back with an advocacy question later.

• (1645)

[*Translation*]

**Ms. Hélène Laverdière:** Thank you. I am going to try to be very brief.

If I understood what my colleague Ms. Brown said, she spoke, among other things, of the role that businesses can play in training, and in the implementation and setting up of structures to guide operations, and so on. She spoke about the role private enterprise can play in that context.

I don't want to put you on the spot by starting a big debate. However, that said, we realize that it would be difficult for private businesses to provide training to civil society on how to defend their interests against private enterprise. That seems somewhat illogical. Moreover it would be difficult for private enterprise to be at the heart of the implementation of the regulatory and legislative structures that would apply to private enterprise.

However, something was mentioned repeatedly in your presentations which I found very interesting. Private enterprise can help bolster the capacities of associations of private enterprises. However, we still have a long way to go with regard to strengthening the capacities of other organizations and associations in civil society. Where do you see the boundary? I think that Mr. Eaton also mentioned that there are a lot of activities that private enterprise can undertake under the banner of social responsibility. That is a part of the corporate image of companies. We don't have to do that for them. However, should we want to go further, how do you think we should balance government involvement and that of private enterprises that are moved by good will and just want to help out? I am sorry about my somewhat muddled question.

[*English*]

**Dr. John Sullivan:** You do it differently in every single country. If there's one message I can leave, it's that there's no model out there that's going to fit every different environment. You have to design it according to what's going on in the particular country.

In some countries, for example, Pakistan, there is a growing social responsibility movement in the private sector. It's in its early days. We actually helped develop a handbook for responsible business.

There is also the UN Global Compact. They have organized compacts in various countries. You can see which companies tend to sign up and engage in the UN Global Compact. I'm a member of one of the working groups, and I think Georg Kell has done a terrific job of pulling the compact together and bringing that model around the world. But it's principles-based, like the OECD principles of corporate governance or the principles for multinational enterprises. It's not a specific model for a particular situation. So you have to look at the principles and ask how they match up to the local environment.

It also makes a great deal of difference what kind of foreign direct investment you're talking about. I take your point that you're talking about the foreign direct invested companies.

One of the messages that Secretary of State Clinton delivered at Busan, which I think had a pretty profound effect on the audience, was to beware of companies that show up more interested in extracting minerals than developing the country.

Guess who she had in mind?

**The Chair:** Thank you.

Mr. Williamson, you have five minutes.

**Mr. John Williamson (New Brunswick Southwest, CPC):** Thank you.

Thanks for coming.

I think you'll agree that institutions are important because they demonstrate that the culture and geography aren't barriers to growth or poverty reduction. Ms. Sims talked about looking for solutions to reduce poverty, which is certainly an admirable goal and the whole point of development. Yet at the same time it seems to dismiss the importance of institutions, which I think are everything when it comes to development, because without them it is very difficult to develop, and perhaps impossible.

I want you to take a step back, get out of the nitty gritty and what's happening on the ground today, and talk about Africa versus Asia. Go back 50 or 60 years and show the development of institutions in these areas. At that time GDP per capita in some Asian countries was lower than in Africa. Through the building of institutions they grew over time to where we see them today. We see parts of Asia that have living standards on par with western countries. Africa is falling further and further behind, not developing, and not growing.

I think this is important, because when we face scarce resources and budgetary pressures and have to put aid dollars in certain countries, it is best to focus on incentives to get countries to develop institutions that will allow them to realize growth so they are less dependent on aid dollars and are pulled out of poverty.

• (1650)

**Dr. John Sullivan:** Were you directing that at Mr. Eaton?

**Mr. John Williamson:** At either one of you, if you want to take 90 seconds each. I'll have no other questions, so you have the rest of the time.

**Mr. Chris Eaton:** Well, I think there has been an under-investment in institutions, I think both generally and certainly on behalf of Canada in terms of the way in which it thinks about

poverty in many countries. I would also say that our understanding of how to actually build institutions has not been very good and has not been very strong, particularly when we've taken a cookie-cutter approach to building institutions, as opposed to a more detailed diagnosis of what's needed and what works within particular countries.

I would also, though, caution us not to be too pessimistic about Africa. Those 17 countries are supposedly the next 17 emerging countries. We work in Botswana: it's a middle-income country. Ghana is soon to be a middle-income country. In Rwanda, you can register a business in one day. Those guys are serious about the development they are doing, in part because the ambition is at a national level, but also because of the institutions they have formed.

**Dr. John Sullivan:** I would agree with all those points.

The other thing that I think is really important to keep in mind is that in Asia they started with the import substitution model of development, which so many countries adopted based on Raúl Prebisch's work, which was a tragic flaw.... But what the successful Asian tigers did was to quickly switch to an export incentive-driven model of development and remove a lot of the support in subsidies for their national champions.

Africa unfortunately didn't do that for a long time, and they also got trapped in the Fabian socialism that they imported, that Kwame Nkrumah and others imported into Africa. It was a whole generation before they abandoned that model of development—

**Mr. John Williamson:** But that is a failure of institutions.

**Dr. John Sullivan:** Yes—

**Mr. John Williamson:** That's putting in place the wrong institutions and getting it completely backwards and trying to develop in a way that is counter to.... I agree that there are no best practices. I made a terrible mistake by referring to Africa as a single entity. There are certainly examples of success, but there are examples of absolute failure as well, as there are in Asia, I suppose. But when you see some of the broad growth models tied to institutions, it shows that this really is key, above just directing aid at countries.

**Dr. John Sullivan:** Oh, that's absolutely right. There are countries in Africa that could go either way. Right now, Senegal, unfortunately, is one of those. There could be a role for Canada, in its participation in the community of democracies, or for Canada with the U.S. and other countries, to try to convince Mr. Wade not to do this, not to run again, and to actually take the Mo Ibrahim Prize, do the right thing, and stick with the constitution—let the institution work.

**Mr. Chris Eaton:** The other thing Asia did that Africa has not done sufficiently was an initial huge investment in agriculture, in thinking about agriculture as that initial engine for growth. That just hasn't occurred to the extent that it still needs to in Africa, where industry is often very nascent, and where if you don't get the agricultural sector actually working, performing much better, and being much more productive and much more innovative with the private and public investments that are needed for that, you're not going to have strong and sustained growth.

**Mr. John Williamson:** Thank you.

**The Chair:** Thank you.

We're going to start our fourth round.

Ms. Sims, five minutes, please.

**Ms. Jinny Jogindera Sims:** Thank you very much.

I think we can agree on one thing: we do need to focus on institution development. Even when we're looking at Haiti, we realize that in order to make a move, you need to address the land issue, and you need to address the safety issue and establish some kind of rule of law so people can have that security side—and also look at people living in some of those camps.

At the same time as we're developing these institutions, I think what keeps coming back to me is this: what kinds of institutions are we going to help build? Are they going to be the kinds of institutions that meet the needs of the industry—I don't mean to pick on mining, but it's just that you're here today—or are they to meet the needs of the community for long-term sustainability? There's a big difference between the two. For me, advocacy and addressing human rights issues, such as the right to safety, security, and food, and also the right not to be raped—all of those issues become very important. Whenever we talk about institutions, I just see these clinical kinds just supporting industry, whereas for me the institutions have to support the humanitarian side as well, and the human rights issues.

What work has your organization done in that particular area?

• (1655)

**Dr. John Sullivan:** In the area of institutions for local development, to my mind, when you look at the informal sector and you realize that these are largely people trapped in poverty, and that 80% of the work in many countries is done by women, there really isn't much you can do without addressing that issue of livelihood. All the rest of it is going to depend on that, so we've concentrated a lot in that area. We've also spent a fair amount of time working on women's entrepreneurship, generally speaking, not just in the informal sector.

On top of that, one of the key issues—and this is where the UN Global Compact has done a lot as well—is trying to give real meaning and substance to the work of John Ruggie, who has led the way to creating a bridge. It has to be a win-win solution. It can't be a win for this side or a win for that side, if you're going to have sustainability. Everybody's going to have to lock in to it, if you want it to continue.

What I think John Ruggie has done in working with the UN and creating the business principles for human rights—the responsibility to protect, etc.—is that he has really created a framework that the international business sector has bought into. We've helped promote those. As I said, I produced a book in Pakistan—produced actually by Pakistanis in Lahore, who were holding seminars around the country to work on it.

There is one thing I would recommend, and again, perhaps Canada's government can help here. Hernando de Soto has already drafted the law on what can be done to create titling, property rights, and most importantly, when you realize Haitians don't have identity.... It's not just that they don't have land, but they don't have

identity cards. How do you get insurance? How do you get into school? How do you get in and out of the country, except by smuggling, without an identity card? You have to create these identities.

**Ms. Jinny Jogindera Sims:** I'm really pleased to see your focus on women and the returns we get from investing in developing women.

I'm going to hand it over to Mr. Larose, if I have a minute or two left.

[*Translation*]

**Mr. Jean-François Larose (Repentigny, NDP):** Thank you for your presentation. My question is for Mr. Sullivan.

I simply want to mention that I greatly appreciate your point of view on the complexity of each place, country, province and municipality. Each one has its own identity and characteristics. I worked in the area of information and I have also worked in Mexico. I used to tell the people I taught there that I was there to teach them things, but that they also had a great deal to teach me. I also told them that I hoped that one day, Mexico would have the opportunity of teaching things to Canada.

Things always have to go both ways. As for all the information you gathered, I was wondering if some approach had been developed that would lead to our enrichment. We have so much to learn. We should not look down on other countries, but rather do the opposite and seek to find the information that would also allow us to grow as a society.

[*English*]

**Dr. John Sullivan:** Yes. We actually have developed something called our knowledge management program, because we found, as I said and as you agreed, every situation is unique, but nevertheless there are general principles that you can learn from one situation to another.

Working in Haiti for a couple of years, Hernando de Soto learned a lot, himself, but he also brought an awful lot. He was working with CLED, which is a private sector think tank that we were also working with. We had a tremendous number of success stories. We provided technical assistance and we provided financing, but a lot of the genius behind these stories came from local ownership and local innovation.

So we have a knowledge management program, and we've also developed something called the Development Institute, where we've captured some of this on film and tried to create a college course, which we're now using in one or two countries to pass along these messages.

That's a key part of what has to happen. You have to keep recycling this. It also has to be built on very strict and sound evaluation, so that you have data to show what these folks have been able to do.

• (1700)

**The Chair:** Thank you very much.

We'll move back over to Mr. Van Kesteren.

**Mr. Dave Van Kesteren:** In northern Ghana, they have an incredible potential for agriculture, for one thing. Yet you see these huge tracts of land that are unproductive, and there is nothing happening. I understand that these are tribally held lands.

There were many things as a visitor that you get frustrated seeing. One is education. When I visited a school, I thought I got there during recess. After half an hour, you realize that they're not in recess.

There was a Dutch company, and you may be familiar with them. They've started to enable farmers to take larger tracts of land. They give them equipment, seed, and fertilizer, and then they hold the seed. How do we convince those who hold the land to let it go? I think that's the biggest problem in northern Ghana in agriculture.

Before we went to Tamale, we visited with the MPs, and they just about pleaded with us to help them build roads and railroads. The Chinese are doing it, and they were basically asking us to do it before they do. They don't want them to do it, to have that happen to them. It was kind of pathetic. Do we, as governments, focus on those things? You'll have criticisms that you're helping the mining companies and all those others. Yet to these people, that was the most important thing: roads and railroads.

It's on those two things, the agriculture and the issue with the Chinese.

**Dr. John Sullivan:** I think that's what the Millennium Challenge Corporation compact for Ghana is trying to focus on. The thing that is really nice about the compact is that it's based on the premise that help will be given once they've already gotten to a certain level. Of course, there are areas in which it could be improved. For example, it doesn't reach the least developed countries.

Anyway, that's an incentive in the Millennium Challenge compact. The other thing that is nice about it is that they've built it much like the Marshall Plan in Europe. How slow some of these compacts operated was a subject of congressional criticism. Of course, they didn't have the same human capital that we did in Europe after World War II, but the idea was that the compacts would be built by the people of the country, not simply designed in an aid mission or in a foreign capital.

This has made a huge difference, and I think that's one of the things the Ghanaian compact is focused on.

**Mr. Chris Eaton:** I think you focused on a couple of key bottlenecks that are present in many countries. One is land title. Who has access to land and how do they use it? That one is really tricky, particularly in the Ghanaian context, where local leaders have a lot of rights over land that they are reluctant to give up, even though they are not fully using the land themselves. Unlocking that puzzle, for which I have to admit I have no clear solutions, is an important task for the government and local community leaders to work on.

Another problem is basic infrastructure. Basic infrastructure is something that, in many respects, has become a bit of a dirty term in the development we invest in here in Canada. Yet it's critical. It's critical for agricultural development in particular. Think about market access. It provides access to improved seeds, fertilizers, and technology that allows for agricultural innovation and productivity growth.

**Mr. Dave Van Kesteren:** Would you agree that we have to identify different areas of the world? If we talk about the Asian revolution, isn't there a difference in the way people are raised in a Confucian-type lifestyle, as opposed to an African system? Do you identify those and then recognize that because there is a difference you need to have a different approach? That's the point I was trying to get out earlier on.

• (1705)

**Dr. John Sullivan:** Yes, we do. We don't do this in Washington, by trying to figure out what the dominant cultural pattern might be in a country. Instead, we first identify partners in countries. This is why we're slower to get going in some countries than others.

We rarely start organizations—although we've had to in Iraq, Afghanistan, and a few other places, simply because they didn't exist. They were not allowed to develop. Normally, we try to find the organization. Sometimes it's a chamber of commerce; often it is not. In much of the developing world, the chambers of commerce are simply an arm of the government. You have to know what the difference is. The first thing is being able to recognize the right organizations, and the second is to be able to build the capacity of these local organizations and let them help set the agenda. They don't set it completely, but they're a big part of the agenda-setting. Discussions on these issues you're talking about is vitally important.

**Mr. Chris Eaton:** Certainly in our experience you always also find people who are innovative, entrepreneurial, in most of the societies in which we work. It's identifying groups of those individuals and working with them in terms of strengthening the kinds of things they are doing, developing them, and helping them to be examples in the societies they come from, in ways that other people also emulate.

However, I haven't come across a whole culture in which people aren't interested in growth, or better education for their children, or a higher income, or business, for that matter. My last few years were in Afghanistan. And in Afghanistan they'll buy, sell, buy, sell, buy, sell you before you know what's going on—the most entrepreneurial people I have ever met.

**The Chair:** Thank you. We're going to keep moving along because everyone wants to keep asking questions.

Madame Groguhé.

[*Translation*]

**Mrs. Sadia Groguhé (Saint-Lambert, NDP):** Thank you, Mr. Chairman.

I thank the witnesses for their presentations. I found them very instructive and interesting.

I am going to ask a question that involves the population, but first of all I would like to say a few words about the development models that we have seen in the past. I think that those models may have been misguided, in that they targeted the states and not necessarily the populations.

As for the African continent, I would say that Africa is very diverse and multi-faceted. I believe, as Mr. Sullivan pointed out, that it is really important to tailor our interventions according to each context and each population with which we work. That is an important point to consider. You also talked about the importance of promoting democracy. However, the government has dissolved the Office for Democratic Governance within CIDA. In my opinion, that is a great loss with regard to the promotion of democracy.

I'd also like to open a brief parenthesis. Last weekend, in Edmonton, I met students from the African community. In the context of the Black History Month, they held conferences discussing their vision of Africa, the Africa of yesterday, today and tomorrow. The great potential in that African community was high on the list of important things I took away from that conference. I think we are going to have to help realize that potential and that it would be important to do so. Their point of view is that we have to give power back to the population. We hear about better governance. We do have to encourage states to put in place better governance, but we especially have to see to it that local populations are given back their power. I am getting to my question and it is addressed to you, Mr. Sullivan.

How can you guarantee that all of the local populations will have a voice? Are the measures aimed at entrepreneurs really sufficient to ensure that development will be of benefit to the whole population? How can that be achieved?

• (1710)

[*English*]

**Dr. John Sullivan:** First of all, let me say that I can't guarantee anything. It's up to the people of the country to guarantee it. But I also don't want to leave the impression that I think everything should flow down to, and be part of, an entrepreneurial delivery mechanism. There are other aspects of development that have to be put in place—the rule of law, for example, and educational systems. There are a whole lot of things that need to be done. It's simply that the part of this global task that we specialize in deals with the issues of entrepreneurship, economic growth and development, and rule of law, so that's what I've been focusing on. There certainly are a huge number of other areas that need to be put in place as well.

One of the things I have discovered in my travels around the world, though, is that you often find the same people, the same innovators, who are the leaders of the chamber of commerce and who are also the leaders of the rotary club. The rotary club doesn't have the same mission as the chamber of commerce. It has a different mission. But these community leaders...that spirit of entrepreneurship often does translate over into other areas as well. Almost by definition, if you look at the great philanthropists of the world, they have their roots in entrepreneurship, but they're not necessarily about the business of only doing entrepreneurship. I think the answer has to be that you have to build a community spirit.

I recommend heartily Estanislo's program, the Institute for Solidarity in Asia. He's organized the nurses' association. He organized all kinds of different civil society groups in a framework to set targets for improving their cities, at the city level, and then took it to the national level. These cities have a competition, and he

awards a prize to the model city of the year. International groups have won prizes as well.

There are different approaches out there, but it all comes back to trying to find the association. Association doesn't mean simply entrepreneur. There are all kinds of professional societies out there, which can become part of this collective action framework, and can also become part of its mobilization process. But that is the heart of democracy.

**The Chair:** Thank you very much. That's it on the time.

We're going to move over to Ms. Brown.

**Ms. Lois Brown:** Thank you very much, Mr. Chair.

I have a comment and then a question. When I was in South Sudan, I learned that the state owns all of the property. Because the control of a certain sector of land is conferred on a tribal chief, it is at the whim of the chief as to whom he assigns that property for agricultural purposes, and his whim may change from one year to the next. So all of the investment that an individual has made—and all of the labour is done by females, so all of the work that she has done—this year may be for naught next year for an investment for her family. I see that as problematic for the long-term development. Consequently, there is a desperate need for land ownership and property rights and institution-building in a country like South Sudan.

That's not my question.

Earlier, I mentioned that my son-in-law is from Ghana, from Kumasi. He came here to do his doctorate. He's finishing a doctorate in electrical engineering, and he has a very entrepreneurial spirit. He is in the process of developing a company, looking for investors right now, that will go back to Ghana. He's not likely to go back and live there himself long term, but he certainly wants to develop a business that will impact and assist Ghana in moving forward in energy production.

My question is this. We've seen a great outflow of some of the brightest minds in emerging or poverty-stricken economies, so how are we able to harness the resource of the diaspora from various communities to help growth? They understand the cultural impacts. They understand better than we ever can the needs of their own country. Are we able to harness that resource to go back to these countries and help them develop?

• (1715)

**Mr. Chris Eaton:** I think that opportunity is greater now than it ever has been. Fifty years ago, if you left home and came to Canada, it would be very difficult to have an ongoing relationship with people in your home village or home country. That is so much easier today, in part because of social media, the Internet, ICTs, and also the availability of cellphones, which are ubiquitous across Africa, including in rural areas.

One of the things we need to look at is the tremendous remittances that are now going back to many of the countries from which people have come. One of the programs we have is a student refugee program. That's brought over 1,200 people over the last 20 years, mainly from southern Sudan and Somalia, and integrated them into Canadian society through post-secondary education.

What we're now seeing, in the southern Sudan context, is that these Sudanese Canadians with excellent educations are now contributing back to their own societies. They're going back and either forming either part of the government or the business community, but they're also sending huge remittances back home.

There are mechanisms we could use to develop that. I don't know if you have examples of chambers of commerce that link countries together, for example, or trade associations or informal groupings of people that help to foster this kind of work.

**Dr. John Sullivan:** There are a number of bilateral chambers where they have a large proportion.... The Afghan-American chamber, for example, has really tried to mobilize the Afghan diaspora to this end.

I think it is an underutilized resource. The remittances are certainly there. A lot more could be done, though, if there was more of a process whereby one could reach out to the diaspora community to try to link them together.

**The Chair:** Are there any other questions?

Ms. Sims.

**Ms. Jinny Jogindera Sims:** I'm glad you brought that up. The diaspora has a huge role to play when you're looking at development in countries outside of Canada. I've certainly seen two or three of them work very, very effectively and be of great assistance in the country.

At the same time, what starts off very much as a humanitarian way to help develop I've seen has sometimes ended up trying to make that country more like the country they're living in now. It goes back to not really understanding that basis: even though you might have been born in that country, because you haven't grown up there you don't have that understanding of the culture or community. I have seen that and how there is that disconnect.

I really want to go back to a comment you made earlier about the importance of our not giving up on Africa. At times we hear comments: "We've put so many billions into Africa and we have very little to show for it." I would say that every person who is not hungry, who has survived and now has children, would say they have a lot to show for it.

We may have to look at how we assist in Africa and how effective we are with our aid rather than moving away. This year we cut bilateral aid for sub-Saharan Africa, so a number of countries—eight African nations—are not part of our focus work.

Maybe since I grew up and now I see images of Africa—those are the ones that often come to mind when you see the poverty, the

changes in climate, and the impact of all of that—it makes today meaningful for me. You said let's not say that aid is not working in Africa and there is a need for us to invest in Africa, so thank you for that.

That's not a question but a comment I wanted to make.

● (1720)

[*Translation*]

**Mrs. Sadia Groguhé:** I have one last question on the informal economy and the official economy.

What methods could be used to integrate those two?

[*English*]

**Dr. John Sullivan:** You had the world's leading expert here, Hernando de Soto, answering this question. I can simply repeat a little bit of what he said.

In Kenya right now we're working with an association of the informal sector to try to give them voice. There is a bill in front of the Kenyan sessional Parliament that has been supported by several ministers. We're hoping it will pass this year. I hope the recent arrests don't slow this down and sidetrack everything in Kenya, that in fact the parliamentary session will continue.

To me, changing the structure is the best thing that could be done for the informal sector. Now, that being said, you have to still recognize that even though you may have removed a lot of the barriers, unless you improve government services and unless you give the informal sector an incentive to want to migrate into the formal sector, it won't. If the cost is still higher than the benefit.... You have to remove barriers and make governance work in order to create the incentive for people to say, oh, yes, it's better over here.

There are cases in countries around the world where people have gone from formal sector jobs and opened up companies in the informal sector, because the return on investment was higher there. And a lot of it comes down to doing what you do because of your incentives.

**The Chair:** I want to thank everyone.

Dr. Sullivan, thank you very much.

Mr. Eaton, thank you very much for taking time to be here today.

This was a great session. I apologize for being late, but I saw your opening remarks, and I've had a chance to read those as well.

That's all we have for today.

The meeting is adjourned.







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