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Chair

Mr. Dean Allison

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• (1530)

[English]

The Chair (Mr. Dean Allison (Niagara West—Glanbrook, CPC)): Pursuant to Standing Order 108(2), our study on the role of the private sector in achieving Canada's international development interests will begin.

I would like to welcome our witnesses who are here today. From the Royal Canadian Mounted Police, we have Stephen Foster, director of the commercial crime branch; and Gisèle Rivest, the officer in charge of operations of national interest and international corruption from the commercial crime branch.

I want to welcome both of you here today.

Mr. Foster, I believe you have an opening statement for us. I'll turn the floor over to you for that.

Supt Stephen Foster (Director, Commercial Crime Branch, Royal Canadian Mounted Police): Thanks.

Good afternoon, Mr. Chairman and honourable members of the committee. Thank you for inviting the RCMP to participate in today's proceedings. We understand that the committee is studying the role of the private sector in achieving Canada's international development interests.

In 2007 Canada ratified the United Nations Convention Against Corruption. The convention introduced a comprehensive set of standards, measures, and rules that all countries can apply to strengthen their legal and regulatory regimes to fight corruption. It calls for preventive measures and the criminalization of the most prevalent forms of corruption in both public and private sectors.

The convention also includes several measures to improve global collaboration against corruption. One of these requires that each member state establish a preventive anti-corruption body to enforce the appropriate anti-corruption policies, gather and disseminate knowledge, and assist foreign partners in the fight against corruption.

To help fulfill Canada's commitments under the convention, the Government of Canada provided funding to the RCMP for the creation of two RCMP international anti-corruption units. These units were established and implemented in the RCMP commercial crime sections in Ottawa and Calgary in 2008. Oversight of the program is provided by a commissioned officer at the RCMP headquarters commercial crime branch.

The two units are strategically located to cover eastern and western regions of Canada. Each seven-person international anti-

corruption unit focuses on detecting, investigating, and preventing international corruption. Their primary focus is on the offence of bribing a foreign public official, contrary to Canada's Corruption of Foreign Public Officials Act.

In addition to conducting investigations, the international anti-corruption units deliver prevention and awareness messaging to business and government communities. They also work closely with foreign enforcement bodies, as well as Canadian partners such as the Department of Foreign Affairs and International Trade, the Department of Justice Canada, and the Public Prosecution Service of Canada.

The commercial crime branch and other anti-corruption authorities recognize several high-risk areas related to international corruption. Five areas at risk of involving higher dollar values and prominent public officials are extractive industries, mega-construction projects, country-to-country development assistance, disaster recovery assistance, and government procurement contracting.

The levels of corruption vary from country to country. One reason for this is that countries have treated corruption differently. They have criminalized, enforced, and penalized corrupt activities differently. Another reason is that cultures of corruption develop over time, and once they exist, they persist. They become entrenched in the way business is done and in that way of life.

Corruption interferes with economic productivity as well as normal market forces. Corruption can result in contracting processes in which the successful bidders do not deserve to win. Corrupt processes do not provide the public with good value for public funds expended. Those who conduct business internationally need to be aware of the risks and eliminate or mitigate them. They need to conduct themselves with honesty and integrity.

There are instructive Internet resources available to assist businesses to operate internationally and avoid corrupt practices. Some of the best practices for internationally operating organizations include having robust internal controls and compliance policies, knowing the laws in the jurisdictions where they operate, having a code of conduct, delivering appropriate training, and knowing the agents or employees who represent their companies.

Transparency International's website includes an area devoted to the subject of how to fight corruption. The Organisation for Economic Co-operation and Development's website has an area on supporting the fight against corruption in developing countries. Foreign Affairs and International Trade Canada, the Canadian International Development Agency, Export Development Canada, and other Government of Canada departments have anti-corruption-related material and resources available on their websites.

The way to combat corruption on a global scale to the benefit of developing countries and internationally operating organizations is for governments and businesses to continue to work together to create a level playing field, a playing field without corruption.

Thank you.

The Chair: Thank you very much.

We're going to start with Mr. Dewar.

Mr. Paul Dewar (Ottawa Centre, NDP): Thank you, Chair.

Thank you to our guest for appearing today. My recollection is that when we were in the previous parliament looking at the whole issue of corporate social responsibility, the RCMP was able to bring forward their testimony to help us with that particular piece of legislation. It's good to see you back again to help us look at the study of the private sector when it comes to international development.

One of the matters we have of course been seized with most recently—and we in fact brought the issue up today in the House of Commons—is that of a Canadian company, one vice-president of which was recently arrested amid concerns around corruption and money laundering that were raised following investigations in another jurisdiction. I'm talking about Mr. Ben Aissa, who's been charged in Switzerland.

I'm wondering if you're aware of that case and if you can tell us whether the RCMP was involved in that case.

• (1535)

Supt Stephen Foster: The RCMP was aware of that case. In fact, I brought a copy of today's online *Globe and Mail* article with me.

With respect to actual matters that relate to the investigation, I would not say more than what the RCMP spokesman in the article said, which I could quote for you:

...would confirm only that the police force's Ottawa-based A-division, which handles international corruption investigations, had "received a request for assistance" in the case of Mr. Ben Aissa.

Mr. Paul Dewar: From that, can we assume that there were also investigations that were coordinated with Foreign Affairs here in Canada as well as overseas? In other words, were there RCMP helping with the investigation by the Swiss with Foreign Affairs here in Canada?

Supt Stephen Foster: I would just reiterate that we had received a request for assistance. That's what was confirmed by our media relations representative. Commenting further on ongoing investigations would be inadvisable on our part.

Mr. Paul Dewar: Many people have concerns when we have a company as prevalent and dominant as SNC Lavelin. We know, for instance, that this gentleman was working with the governments of

Tunisia and Libya. We know that in Libya, at the time, which concerned many of us—and this is prior to the demonstrations in the streets by Libyans—there were contracts for such things as building prisons. I'm not sure too many people would be comfortable with being in a Libyan prison under Mr. Gadhafi. But it seems to me there is a concern around countries that have had corruption in the past, and there's a need to keep an eye on Canadian companies that are involved in enterprise in countries where there are concerns.

Let's put aside this case for a second.

Do you track, and are you aware of a method in which the RCMP actually tracks, Canadian companies and their affairs in other countries? Or do you wait for the response to come from other jurisdictions, as was the case with SNC Lavelin, in which case it was the Swiss who in fact got in touch with us when we didn't initiate the investigation? In other words, do you track Canadian companies or do you wait for other jurisdictions to contact you?

Supt Stephen Foster: From the RCMP perspective, we work with open-source information. There are certain activities that might attract our attention in open-source information. As well, we're prepared to take complaint information or requests for assistance from other countries.

Mr. Paul Dewar: Do you ever initiate an investigation based on a complaint from citizens from other countries?

Supt Stephen Foster: There might be circumstances where we would, depending upon how credible the information is, how much it might have in the way of supporting documentation or supporting information from other sources.

Mr. Paul Dewar: You're aware of the new counsellor office that the government recently set up in response to concerns people might have regarding the operations of the Canadian extractive industries abroad.

Supt Stephen Foster: The corporate social responsibility counsellor?

• (1540)

Mr. Paul Dewar: Yes.

Supt Stephen Foster: Yes.

Mr. Paul Dewar: Have you had any requests from her to investigate complaints or companies?

Supt Stephen Foster: We've been in contact with her office, and I'll say we've received no referrals from her office.

Mr. Paul Dewar: So you've been in touch, but she hasn't contacted you, if I can put it that way?

Supt Stephen Foster: Yes.

Mr. Paul Dewar: I find that interesting, of course, Chair, because one of the concerns that people had was that there wasn't going to be enough reach in her mandate to be able to investigate. I find it interesting, considering that there have been requests for investigation, that this office and this officer has not contacted the RCMP—but that's for another day, perhaps.

Finally, I just wanted to comment on your comment that Canada recently has gone down in terms of its ranking in fighting corruption. We had previously been in sixth place, which is not number one. We'd all like to be number one in fighting corruption. But we're down to tenth place.

Were you aware of this change in ranking? What do you attribute it to?

The Chair: Could you give just a quick response? We have about 30 seconds.

Supt Stephen Foster: With respect to your question about going from sixth place to tenth place, I was aware of the change in the status. There are a couple of factors that are at play there. It's a corruption perception index, so it's what level of corruption is perceived. In part, more enforcement is going to be something that's publicized, so that would make the index go up in terms of perceived amount of corruption. At the same time, the actual enforcement might make it go down. So it's one of those things that has competing factors.

The Chair: Thank you very much.

We're going to move to Mr. Van Kesteren for seven minutes, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): In line with those questions, Mr. Foster, what other countries are in front of Canada? Do you know them offhand?

While you're looking that up, who determines the rankings? Is it a UN determination?

Supt Stephen Foster: Norway and Sweden might be countries that are in front of Canada at the present time. Transparency International is the actual operator of the corruption perception index. The information is available on their website. It goes back several years. They've changed the way the tool operates on a couple of occasions, which might have impacted different standings.

Mr. Dave Van Kesteren: So it's not a UN organization; it's a self-appointed...?

Supt Stephen Foster: It's an NGO, a non-governmental organization.

Mr. Dave Van Kesteren: Okay. I think that's important.

Thank you for coming.

Which countries or continents are most likely to be involved in corruption practices? Can you narrow it down for us? Where are you finding the most difficulty?

Supt Stephen Foster: When I first looked at this problem early in 2005, what I noticed was the areas that were mentioned in my opening remarks in terms of activities, so it's where those activities occur, where extractive industries operate, where there's developmental assistance, where there's disaster recovery assistance. Those are high-risk areas.

Mr. Dave Van Kesteren: You don't find, for instance—not to pick on anybody—eastern African countries as opposed western African, or South American countries as opposed to Central American? What kinds of governments are in place when you find corruption practices more prevalent?

Supt Stephen Foster: In my examination of the risk factors, I did not find that it was the type of government that was in place. I've written a paper that says you could look at a variety of factors, including the type of government, the education system, the health care system, the social assistance systems inside of countries. These might also be linked to whether or not there's a prevalence of corruption.

• (1545)

Mr. Dave Van Kesteren: Could you provide that information to the committee? I'd like to see that.

Supt Stephen Foster: It's not in a list format. It's in paper format as a document, but that's not a problem.

Mr. Dave Van Kesteren: Okay. Maybe we could see that.

Do you find that Canadian companies are cooperative? Obviously, this takes a level of cooperation if you suspect there's corruption taking place and it has to be reported, but do you find Canadian governments have a desire to operate on a level playing field that has respect for laws?

Supt Stephen Foster: Generally, the answer to your question is yes, I find they are respectful. They are interested. The anti-corruption movement globally has been gaining momentum. There's quite a bit of interest from other countries in looking to Canada for assistance in their anti-corruption enforcement and the corporate social responsibility side.

Part of the United Nations Convention against Corruption looked at those countries that are developed to also provide assistance in capacity building in other countries, in less developed countries.

Mr. Dave Van Kesteren: This is a UN charter. Do you find that across the board there is good participation from other countries as well? Canada is not the only extraction nation. Companies from Canada aren't the only ones. Do you find there's good cooperation? I'm going to pick on a country like China. Do you find they're involved in trying to root out this problem as well?

Supt Stephen Foster: My own experience is that yes, China is interested in the global anti-corruption movement. For a number of years China has chaired the International Association of Anti-Corruption Authorities, which is an association with affiliations to the United Nations' UNODC. It has provided them with support in terms of their governance and establishing that association in the first instance.

I do find that they are interested. They put on an annual anti-corruption seminar as well as an annual meeting, which usually has a workshop on the side. They get the anti-corruption authorities together, which would include the RCMP and quite a number of other countries in terms of participation.

Mr. Dave Van Kesteren: Obviously, if there is a problem and if it involves another country, you would need a good working relationship.

My next question would be, does that exist right across the board? If there's a problem with a certain country, if there seems to be an element of corruption with a certain individual, there are a number of countries that have extraction companies. Can you pick up the phone and speak to the Americans? Can you pick up the phone and speak to the Scandinavians, the Chinese, or whoever it is, and will they work with you in an investigation?

Supt Stephen Foster: There are not pre-established relationships with all countries. However, in some of the countries that you've mentioned there are existing relationships between investigators on the RCMP side and investigators in those foreign countries. If there wasn't an existing relationship, there would be an investigation where there was an opportunity for collaboration and cooperation to build that relationship.

Mr. Dave Van Kesteren: I think we've been at this since 2008 in the United Nations. I think that's when we joined.

Supt Stephen Foster: October 2, 2007.

Mr. Dave Van Kesteren: Would you say that we're heading in the right direction, that there's definitely improvement and we're starting to see some cooperation, that we're starting to make some headway?

Supt Stephen Foster: Yes.

Mr. Dave Van Kesteren: That's the answer I was hoping for.

Thank you.

The Chair: Thank you. That takes you to seven minutes.

Mr. Eyking for seven minutes, please.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Foster, for coming today. It's always fun to come to committees and answer the questions. I have three lines of questioning.

This extraction industry transparency initiative, I guess they call it EITI, was already brought up by the NDP. We had a witness here a few weeks ago who stated that one of the biggest problems in development in underdeveloped countries is, "Where's the money?" I think he mentioned \$1 trillion is floating around the globe in banks and in the wrong hands and is not going to where it needs to go in the development of countries and to the treasuries where it's needed.

There's a *Globe and Mail* article that was already mentioned. I think it's recognized that the European Parliament has signed on with this initiative. Norway, Australia, and the Netherlands are following, and Canada is kind of hanging back and not doing that. The United States has the Dodd-Frank initiative.

Is there any reason we're not signing on? Is there any particular reason that our government is probably afraid to get in there and do this? Is there a problem with our transparency here?

• (1550)

Supt Stephen Foster: I don't know that there's a problem with transparency in terms of Canadian companies and how they are operating or why they would be hesitant to join this particular initiative.

A number of organizations are pursuing anti-corruption on a global or regional basis, with international operations in mind. There's the Organization of American States, the OECD, the United

Nations, Transparency International, the Extractive Industries Transparency Initiative, and a few others I haven't mentioned.

As to whether the Extractive Industries Transparency Initiative is a good idea for them, I don't know that I would necessarily be able to comment for business.

Hon. Mark Eyking: You don't see any particular reason why we shouldn't.

It just seems like the right thing to do if all these other countries are doing it. You know, it kind of looks bad on us.

We don't have a law like the United States has that does what this initiative is doing. You would think that it would just be common sense to join up. It's kind of a motherhood thing.

Supt Stephen Foster: I'm not sure how businesses might analyze it. Would they say that on the one hand this is a very good thing to do and we should do it? Or would they, on the other hand, wonder whether, if they're overly transparent, they would still have a competitive edge. Would that be lost in the global marketplace?

What I'm saying is that I don't know, but I can see two sides to it.

Hon. Mark Eyking: Most of your line of work is, of course, investigating wrongdoing or whatever internationally.

Lately we've been getting a lot of groups, especially indigenous groups, from the Philippines and the Peruvian Amazon basin complaining about Canadian mining or extraction companies.

Yes, these are Canadian companies that are doing what the rules are in that country. But we have quite strict rules in our own country. Do you see that we should have more legislation to make sure that Canadian companies are following guidelines from Canada when they do extraction in these other countries? Do you think there should be tougher regulations or some protocol there?

Supt Stephen Foster: I wouldn't be in a good position to comment with respect to unspecified legislation that hasn't been proposed, nor am I in a good position to propose legislation with respect to how Canadian companies are operating abroad.

We are encouraging Canadian companies to have good corporate social responsibility policies, compliance policies, and transparency within those countries.

Hon. Mark Eyking: You don't have the capacity to investigate them and make sure they're doing that. They have to follow them on their own.

Supt Stephen Foster: If they run afoul of the Corruption of Foreign Public Officials Act in terms of bribing a foreign public official, we have the power to investigate that offence.

Hon. Mark Eyking: The present government is pushing for development and aid to be kind of handled by companies. That's what our project is all about.

Should there be legislation so that if that is taking place we can monitor these companies and how they're helping with foreign aid? Should there be better oversight? Should your department be involved in making sure that money goes right...?

SNC-Lavelin and how they're spending money is in the news right now, but that's not technically aid money. That being said, if it were aid money, would you have the capacity to follow those dollars?

Supt Stephen Foster: If an offence were related to that, we would be able to attempt, in the context of an investigation, to follow the funding that was, say, removed illicitly or used for a bribe.

What you described sounded like perhaps an ongoing regulatory function. I'm not sure I'd be able to comment with respect to whether that was required for legislation. I would perhaps direct you to ask the minister.

• (1555)

Hon. Mark Eyking: You probably don't have the legislative tools to deal with that at present.

Supt Stephen Foster: It sounds like they don't exist yet.

Hon. Mark Eyking: That's right.

If a company had aid money, and they were supposed to help with a water system, for instance, in Africa—I'm just using a hypothetical situation—and a complaint were made, would you have the tools to investigate? For instance, if that village said, "We didn't get our water system," and they put the complaint to you, do you have the capacity to investigate that?

Supt Stephen Foster: My understanding of your hypothetical is that it isn't something that's covered by the Corruption of Foreign Public Officials Act. It might be something that might be...it depends where the representation is made. If it was a representation made in Canada, with respect to how funds would be used in a foreign country and that caused the Government of Canada to part with that funding, then that could be investigated from here as well as a fraud.

Hon. Mark Eyking: Okay.

There is some grey area or tools that could be used.

Supt Stephen Foster: There are quite a number of offences in the Criminal Code that relate to fraud.

The Chair: Thanks, Mr. Eyking.

We're going to start our second round, which will be five minutes, and we're going to start over with Ms. Brown.

Ms. Lois Brown (Newmarket—Aurora, CPC): Thank you, Mr. Chair.

I'm going to be very quick, Mr. Foster, because I know that my colleague has some questions, too.

I have been in some countries where there have been some questionable practices. In fact, when I checked into a hotel in one country, I was told if I wanted to see money exchange hands to come downstairs at 2 o'clock in the morning, and bags of money would exchange hands. I could watch it.

I guess my question really is, what needs to be in place for anti-corruption strategies to work, and how can Canada be helpful in assisting developing countries to put in place anti-corruption strategies?

I'll turn it over to my colleague and let him put his questions, and maybe we can wrap all of these in together. Is that okay? Is he going to have time?

The Chair: He'll get some time.

Ms. Lois Brown: He's going to have time? Okay.

I'll turn the floor over to you.

Supt Stephen Foster: Your question was, what needs to be in place?

Ms. Lois Brown: What needs to be in place for anti-corruption strategies to work, and how can Canada help developing countries build anti-corruption strategies?

Supt Stephen Foster: If I understand, your question is quite broad, but I think the United Nations Convention against Corruption is an anti-corruption strategy. The Organisation for Economic Co-operation and Development, their anti-bribery convention is also part of a strategy.

The cooperation between enforcement, government, and the private sector are the things that need to be in place, and they seem to be coming in to place, if I understood your question.

Ms. Lois Brown: As the RCMP, are you available if a request comes from a government to assist in capacity building? That's one of the things that Canada is doing, and doing well. I've met with other parliamentarians in other countries, in developing countries, where they're asking for assistance in building the structures they need, and Canada has been generous in giving that assistance.

Is the RCMP available through any kind of a mechanism to assist in giving them that kind of direction?

Supt Stephen Foster: To the extent that the RCMP has been asked, where it has been possible, we have assisted with capacity building. For example, in relation to Mexican authorities, we provided them with the expertise of one individual from the commercial crime branch to assist them in creating their own course, using their own laws, using their own subject matter. We provided them with the expertise to build their own course in their own context.

In relation to China, we've provided them with ongoing assistance in terms of understanding how Canada delivers its international anti-corruption program in terms of the enforcement side, with the two dedicated teams that we have and a focus on not only the enforcement but preventing, detecting, investigating, and prosecuting.

• (1600)

Ms. Lois Brown: In cooperation with those strategies, do we need to see judicial systems in place as well?

Supt Stephen Foster: Could you slightly elaborate on your question?

Ms. Lois Brown: Pinpointing anti-corruption is of no assistance to a developing country if there aren't mechanisms to prosecute that. So having judicial systems in place...I expect you would need to see that working as well.

Supt Stephen Foster: Yes. You would need to see that working as well. That is part of the work that's done by the United Nations in relation to the United Nations Convention Against Corruption.

And the OECD's anti-bribery working group does peer reviews. Part of that peer review process is a review of the enforcement side, the prosecution side, to make sure there are laws in place that criminalize domestic corruption and international corruption in terms of bribing a foreign public official.

The Chair: Thank you.

Ms. Lois Brown: I think I'm finished.

The Chair: Oh, you're finished all right. And Mr. Dechert is finished as well. We'll get him next time.

Mr. Harris, five minutes.

Mr. Jack Harris (St. John's East, NDP): Thank you, Chair.

Thank you, Superintendent, for joining us today. I have a question for you.

I'm not suggesting this is your fault, but you're here, so maybe you can help answer the question. It wasn't just Transparency International that criticized Canada; the OECD, the Organisation for Economic Co-operation and Development, of which we are a member, was also very critical. What they said last March was that Canada has only....

The treaty, I know, is recent, but we have an anti-bribery law that is 12 years old. The only company ever convicted of that was fined less than the amount of money it paid in bribes to a U.S. company.

I want to know what kind of message that sends to Canadian companies doing business abroad, particularly in countries where money is flowing overnight in the hotel lobbies, as Ms. Brown suggested, and where I suppose Canadian companies might feel disadvantaged if they don't engage in that practice.

Is that kind of history with these companies sending a bad message? How do we fix that? Is it all based on complaints, that if you don't get any complaints you can't do anything?

Supt Stephen Foster: Not all of what we do would be based on complaints. In part we operate from open-source information, so intelligence.

With respect to the OECD having criticized what Canada is doing, in part that's as a result of the Government of Canada's policy with respect to advising them or providing details with respect to ongoing investigations. For the purposes of attending the OECD meeting on Canada's ongoing phase 3 review of Canada's implementation of their convention, I had counted the number of ongoing outstanding investigations. It was 34.

In addition, there was very favourable reporting with respect to one of the prosecutions from the Calgary International Anti-Corruption Unit on the amount of the fine that had been levied in that case and the impact that would have on Canadian corporations and their understanding that Canada was—

Mr. Jack Harris: You're suggesting there's been a second conviction.

Supt Stephen Foster: —taking this seriously.

The first conviction you're referring to is what, sir?

• (1605)

Mr. Jack Harris: It's the Hydro Kleen case.

Supt Stephen Foster: Hydro Kleen. Yes. The second conviction was a guilty plea last June by a Canadian company headquartered in Calgary, which was fined a total of just short of \$9.5 million, including the victim services surcharge.

Mr. Jack Harris: So things are stepping up.

One of the concerns in the OECD report was that “Canada's ability to prosecute these investigations will be in jeopardy” unless resources are set aside to deal with the volume of cases expected to follow.

Are you satisfied that your organization has sufficient resources to investigate and prosecute claims? Or, as the OECD says, is the enforcement still lagging by not having enough resources?

Supt Stephen Foster: The OECD might have characterized it as “insufficient resources”. We do have the two seven-person teams in Calgary and Ottawa. They're overseen by an officer at RCMP headquarters. By design those teams are embedded with the commercial crime sections, and they can draw on the resources of those sections. While they're fully engaged themselves, they have additional capacity in terms of the commercial crime section resources that are available to them.

Mr. Jack Harris: A year ago you had 20; now you have 34 investigations and you have 14 people in two different cities. Is that causing you a delay in having these investigations result in prosecutions? Or what seems to be the reason it takes so long?

I know that commercial crime is a complicated matter, but you're satisfied that you have enough resources for the 34 cases you have, I take it.

Supt Stephen Foster: Yes, that's my....

Mr. Jack Harris: I have one more question. Transparency International suggested that Canada lacked sufficient jurisdiction to prosecute citizens accused of bribery abroad in terms of what they call “nationality jurisdiction”.

Are you aware of that concern?

The Chair: That's all the time we have, but go ahead and answer the question.

Supt Stephen Foster: I am aware of that concern. Our current jurisdiction is based on territorial jurisdiction as interpreted in *R. v. Libman*. The way that jurisdiction is interpreted is that if it's something with a real and substantial link back to Canada—so a decision made here, the money came through here, or there's a subsidiary in another country controlled from Canada—all of that provides an extraterritorial jurisdiction but not nationality jurisdiction, which I think is the criticism.

Mr. Jack Harris: That's not Canadians abroad doing things. Okay.

Thanks.

The Chair: Thank you very much.

We're going to move to Mr. Dechert for five minutes.

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

Thank you, Mr. Foster, for being here today.

If a Canadian company is asked by a foreign government official for a bribe, who can they report that to in Canada?

Supt Stephen Foster: They should be able to report that to the RCMP.

Mr. Bob Dechert: And then what would the RCMP do with that information?

Supt Stephen Foster: If it's reported to the RCMP, the complaint would be referred then to one of the international anti-corruption units, whether in Calgary or in Ottawa.

Mr. Bob Dechert: From there, I would assume, there would be some communication to the relevant police force in the particular jurisdiction.

Supt Stephen Foster: In terms of the particular jurisdiction and trying...?

Mr. Bob Dechert: Right.

Supt Stephen Foster: There might be. In the first instance, the primary jurisdiction for investigation would be, if it's an offence under the Corruption of Foreign Public Officials Act, our investigative unit.

Mr. Bob Dechert: But this situation would be where a Canadian company is asked for a bribe, wants to know what to do, and they come to you. There is a process in place to bring that to the attention of the relevant authorities in that country?

Supt Stephen Foster: Oh yes.

I'm sorry, I'd misunderstood your question.

Mr. Bob Dechert: My view, from having practised in commercial law for over 25 years in Canada, is that Canadian companies want to do the right thing, and from time to time they do get asked for these kinds of payments from foreign officials. They just want to know what they can do to protect themselves against any allegation that they're doing something improper. They want to know that they're playing on a level playing field with their foreign competitors.

The next question I have for you is if a Canadian company suspects that one of its foreign competitors is paying a bribe to a foreign government official in the third-party jurisdiction, can they report that fact to the RCMP?

•(1610)

Supt Stephen Foster: They could report that fact to the RCMP. They could report it to the police in the foreign jurisdiction, if they so chose. It would depend upon the actual jurisdiction.

Mr. Bob Dechert: My experience has been that in some cases, in these particular types of jurisdictions, the Canadian business person would have the view that reporting that sort of thing in that jurisdiction would (a) probably not be very helpful and nothing much would be done about it, and (b) might be very harmful to their particular business interest.

What else could a Canadian company do? If they had that information that one of their foreign competitors was making this kind of a payment, I suppose they could go to the country of origin of that foreign competitor and report it there. Or is that something the RCMP would do for them?

Let's give an example. Let's say there was a Swiss company involved and it came to the attention of a Canadian company that there was a payment made by a Swiss company to a third-party government official. Would the RCMP, if it were given that information, then report that to the Swiss authorities?

Supt Stephen Foster: Not necessarily. It would depend upon how credible that information might be, what it might line up with, and what supporting facts or documentation might be related to the particular complaint. We wouldn't necessarily immediately try to interfere with what might be a contracting process in a foreign jurisdiction where it's, say, an improper use of the police. There is occasion for public mischief.

Mr. Bob Dechert: Is there anything under the United Nations convention that would help a Canadian company in that situation? What I'm trying to get at, as I think you understand, is that Canadian companies every day are faced with these situations in which they know that in order to bid on a contract, their foreign competitors are making these kinds of payments. They don't want to make these payments, but they want to see a level playing field. Does the international law give them an ability to level that playing field?

Supt Stephen Foster: In some respects, the complaint process might; it would depend upon the particular circumstances. If there were an organization or government department involved, it could complain to the government department in that foreign country, to the police in the foreign country, or to corresponding government departments or police in Canada. There are some international organizations that you could also complain to. If it were something that involved an international loan from a multi-jurisdictional-supported banking operation, you could complain to that organization as well.

With a sufficient body of evidence or complaints, I would see that being actioned and as levelling the playing field.

Mr. Bob Dechert: In your opening remarks you said that the convention requires each member state to establish a permanent anti-corruption body to enforce appropriate policies and to gather and disseminate knowledge and assist foreign partners to fight against corruption.

Does the RCMP provide any information to the Canadian public on these anti-corruption measures and Canada's participation in this convention?

Supt Stephen Foster: I'll ask Staff Sergeant Rivest to answer this one.

S/Sgt Gisèle Rivest (Officer in Charge, Operations of National Interest and International Corruption, Commercial Crime Branch, Royal Canadian Mounted Police): Just this last year alone we did 72 presentations. In attendance were more than 6,000 people. These are to companies, to the mining industry, to schools as well. We're trying to get law professors interested and incorporating it into their curriculum.

Mr. Bob Dechert: Is this available on the RCMP website or some other website?

S/Sgt Gisèle Rivest: Yes. We have a pamphlet. I have a copy here, and you can get it on the website. We've distributed posters to make people aware.

The Chair: Thank you, Mr. Dechert.

We'll move over to Mr. Schellenberger.

Mr. Gary Schellenberger (Perth—Wellington, CPC): Thank you.

Thanks for your presentation today and for being here.

How prevalent are the issues of bribery and corruption in developing countries? What are the major challenges related to the work in these areas?

• (1615)

Supt Stephen Foster: Do you mean the prevalence in terms of what Canadians see or the prevalence in terms of what might be seen globally by other—

Mr. Gary Schellenberger: I mean in terms of what might be seen in these countries.

Supt Stephen Foster: My understanding is that it can be quite prevalent. I don't have an actual measurement. Developing countries are at higher risk. Their public officials might not be paid enough and then are looking for additional sources of income. But I don't have anything that would tell you, here's the measurement of the risk in developing countries.

Mr. Gary Schellenberger: Okay.

When it comes to bribery and corruption, it's not only in developing countries that it happens; it can also be happening in developed countries. Is that correct?

Supt Stephen Foster: Yes.

Mr. Gary Schellenberger: And maybe even more so?

Supt Stephen Foster: It could be happening in developed countries, and more so.

Mr. Gary Schellenberger: Are any industries more prone to this problem than others?

Supt Stephen Foster: There are some, as I'm sure you're aware and have seen in the news, related to extractive industries, construction, government procurement... Almost any transaction in which a large dollar value is going to be moved between two parties, whether domestically or internationally, presents an opportunity for corruption, so the opportunity is there.

Mr. Gary Schellenberger: To what extent is the RCMP involved in outreach to Canadian private sector companies that are active in developing countries, as it works in this area?

S/Sgt Gisèle Rivest: Getting back to what I was saying earlier, we do a presentation and we try to outreach all the time.

I think it was last summer that we hired a student to identify companies at risk and send a letter to all the companies to advise them of the law and ask them whether they were interested in having a presentation.

Mr. Gary Schellenberger: How do Canada's efforts to combat bribery and corruption compare with those of other countries, such as the United States and the United Kingdom?

Supt Stephen Foster: I'm somewhat familiar with what's done in the U.S. and which agency has responsibility there and the amount of work they're doing. I would say, given the size of the United States, that what we're doing is comparable.

The U.K. recently amended its legislation, and at the most recent OECD—their most recent update for their phase 3 review—they were asked to again amend their legislation, although it wasn't clear to me that it would have.... They did one amendment, and then they were amending soon thereafter. It didn't seem to me that this would have been entirely demonstrated as being needed at that point in time.

The U.K. and their current regime has been praised internationally for what they have. From our perspective, in Canada we have dedicated resources, unlike many of the other OECD or developed countries.

The Chair: Thank you.

That's all the time we have.

Madame Pécelet, you have five minutes.

[*Translation*]

Ms. Ève Pécelet (La Pointe-de-l'Île, NDP): Good afternoon. My thanks to our witnesses for joining us today.

Under the current act, for a company to be found guilty, the crown has to establish a link between Canada and an offence committed in a country other than Canada. Sometimes, the legislation is very specific. Human trafficking, for example, or sex tourism when Canadians go to other countries. The offence is then considered to have been committed in Canada. So these things have to be specifically written into the act. At the moment, it is not mentioned in the CFPOA. In most cases, there has to be a link of that kind.

Can you tell us about the way in which the RCMP can establish such a link? Take, for example, the case of a mining company with activities in other countries that commits an offence, never mind whether it is SNC-Lavalin or anyone else. A link with Canada has to be established in order for the company to be found guilty, correct?

• (1620)

S/Sgt Gisèle Rivest: I think we answered that question when we talked about the type of jurisdiction. There have to be more links than just the fact that a Canadian is involved. Maybe money changed hands where the offence was committed, whether in Canada or elsewhere. It depends on the case. It depends on a lot of things.

Ms. Ève Pécelet: It was mentioned earlier that you currently have 24 cases. Is it a problem for the RCMP and the crown to prosecute companies? Are there obstacles to having businesses found guilty?

S/Sgt Gisèle Rivest: I would not say obstacles. However, proving corruption is not easy. It takes a huge amount of time. That is probably why no more cases have gone to court. They take a lot of time to prove.

Ms. Ève Pécelet: The OECD report that my colleague referred to earlier recommends that Canada “clarify that police and prosecutors may not consider factors such as the national economic interest and relations with a foreign State when deciding whether to investigate or prosecute allegations of foreign bribery”.

So we have to clarify the act and indicate that political relations should have no influence on the court cases, and so on. Can you comment on that conclusion in the OECD report?

S/Sgt Gisèle Rivest: Not really. But following on from what we have done with OECD and DFAIT, we have asked companies and NGOs what they think of the OECD suggestions. Improvements need to be made, certainly, and we are working on that at the moment.

Ms. Ève Pécelet: The report says that the act must be amended to make it clear that it applies to all international business, not just business for profit.

Is that also included in your consultations?

S/Sgt Gisèle Rivest: Yes. We are studying the matter right now.

Ms. Ève Pécelet: You mentioned NGOs, but have you consulted the general public? Don't you find it a little strange to consult companies about something that...

[English]

prosecute the companies?

[Translation]

S/Sgt Gisèle Rivest: The consultations are quite extensive. We have brought experts in the area to the table and asked them for their opinion.

Ms. Ève Pécelet: Okay. Thank you.

[English]

The Chair: Thank you very much.

Mr. Schellenberger, you have one quick question?

Mr. Gary Schellenberger: I do.

If you expected bribery and corruption in a country that you wanted to do business in, would it not be prudent to make the request to the RCMP instead of to the corrupt government where you wanted to do business? And if so, what could the RCMP do to that foreign government?

Supt Stephen Foster: At what stage of your business transaction would that be?

Mr. Gary Schellenberger: I'm a businessman and I want to do business in country A, a developing country, and I suspect bribery and corruption is happening. If I were to go to the local government, the people there would probably be the corrupt ones. If I came to you, what could you do other than advise me not to do any business there? Is there anything the RCMP could do in that particular case, because it is a foreign country?

Supt Stephen Foster: I think what you're describing is perhaps outside the area of activity where we would be involved. That sounds like it's in advance of the business transaction. That's perhaps the domain of some other government department, perhaps DFAIT and the trade commissioners or Export Development Canada or CIDA, but it would not necessarily be the RCMP at the start of a business transaction.

• (1625)

Mr. Gary Schellenberger: Okay.

Thank you.

The Chair: Thank you.

To our witnesses, thank you very much for being here today.

We're going to suspend for a few minutes to set up our video conference for our next meeting.

Thank you very much.

- _____ (Pause) _____
-
- (1630)

The Chair: Could we have all the members back to the desk?

I want to welcome Freedom from Hunger's Christopher Dunford, senior research fellow, who is video conferencing all the way from Sacramento, California.

Welcome, sir. We're glad to have you here today.

We'll ask you to make your opening presentation, and then we'll take some time to go around the room and have the members ask questions to follow up.

I will turn it over to you, sir. You have 10 minutes. We look forward to hearing your presentation.

Mr. Christopher Dunford (Senior Research Fellow, Freedom from Hunger): It's an honour to be called to appear before this committee, especially as an American with only tangential connections to Canada.

My name is Chris Dunford. I've been the president of Freedom from Hunger, based in Davis, California, just outside Sacramento, for the past 20 years.

Just recently, I moved into a new role as senior research fellow. In that role, I'm charged with gathering what we and similar organizations have learned about supporting the self-help efforts of people who are so poor that they are chronically hungry. That's important to keep in mind, as that frames the rest of my remarks.

So that's about 1 billion people, mostly in developing countries, particularly South Asia and Africa. This number is far greater than the number suffering from catastrophic famine due to natural or man-made disasters. The primary cause of their chronic hunger is deep chronic poverty. These billion people correspond roughly to the number living on less than the World Bank's \$1.25 U.S. a day, which is the World Bank's cut-off point for deep poverty.

Now, it's important to understand that these are not passive victims. They have the resilience and resourcefulness of the human spirit, and they have each other for mutual aid and solidarity. So the most appropriate development intervention, therefore—rather than replacing these considerable self-help assets—is support to enable chronically hungry people to help themselves and their families.

Freedom from Hunger has been working in this arena for more than 65 years. We've learned that the most cost-effective, sustainable way to support the self-help efforts of very poor families is a combination of microfinance, education, and health services delivered to groups of women living in very poor communities.

We've developed this combination as an integrated service delivery package and have provided training and technical assistance to a wide variety of organizations: credit unions, rural banks, microfinance institutions, and non-financial NGOs. We've helped them adopt and then adapt this delivery model to the particular circumstances of the local populations they serve. In effect, we're a wholesaler of innovation to the retailers of services to the poor.

As of the end of 2011, our worldwide staff of only 50 have been training and providing technical assistance to about 150 local organizations in 19 countries, with emphasis on francophone West Africa, where we have had long-term productive partnerships with several credit union federations started and still supported by the Mouvement Desjardins, and also on the Andean countries of South America, as well as India, the Philippines, and Mexico.

These partners—our partners—are delivering this combination of microfinance, education and health to well over 4 million women these days. When we count the number of their family members, that comes to almost to 30 million men, women, and children. Now, this is of course a drop in the bucket, compared to the 1 billion chronically hungry poor, but our purpose is to create a powerful demonstration of what can work for these people.

I'm going to make three points, but for background to those points, I should point out that Freedom from Hunger is a classic charity in its ownership, governance, and funding structure, even though we operate much like a consulting firm—but with a very clear social purpose.

About half our funding comes from individual Americans. The other half comes from private grant-making institutions, including the Toronto-based MasterCard Foundation, with the appropriate blessing of Revenue Canada, I hasten to add. We have never received funding from CIDA or other parts of the Canadian government, and don't expect to, so you may say that we don't have a dog in that fight; however, some of our developing country partners have received and do receive CIDA support in some way.

My first point is that the problem of chronic hunger and support for self-help of the poor is fundamentally a social service problem that in more developed economies is the purview of public sector efforts. However, there are some social services, such as financial services to the poor, that are much more effective and sustainable for the long term when they are delivered by the private sector—in which I include the private cooperative sector—albeit with appropriate government oversight and regulation, especially when saving services are provided. Of course, we all know that the past few decades are littered with failures of government efforts to provide retail financial services to the poor.

• (1635)

My second point is that the poorer the clientele of a microfinance service provider, the more these clients face severe problems that are not being addressed by the usual specialized services, such as education, health, agricultural extension, business development services, and so on, especially in rural areas and marginal peri-urban neighbourhoods. A microfinance provider may be the only social service in town.

There's often a strong business case for the microfinancier to push the boundaries of their standard business model and skill set to provide non-financial services as well as financial services, especially education and training and facilitation of access to whatever services are provided by whatever other organizations are in the local area, including government.

For example, it's clear that a healthy client is more likely to be profitable than a sick client, or a client with sick children. Our market research in Burkina Faso and Benin found that one-third of the annual income of very poor households is spent on dealing with just one disease—malaria. That's an enormous financial impact that a microfinancier cannot ignore.

We've shown such microfinanciers how they can provide their clients—and their staff, for that matter—with effective education for prevention and treatment of malaria, as well as access to insecticide-treated mosquito nets and even clinical services for malaria and other disease treatment when they're locally available. This can be done for only a small, marginal cost that reduces their annual profit by only a couple of percentage points, say from 24% to 22% per annum, to cite an average for five microfinance providers in five countries on four continents that are providing these kinds of health protection options.

My third and last point is that not all microfinanciers are the same in their business motives. Many are strictly commercial and profit oriented, especially in more developed regions like eastern Europe and central Asia, but equal or more numbers, especially in Africa or south Asia, are motivated primarily by social objectives.

Even as they operate as commercial entities with the same imperative to cover all their true costs and generate a profit—call it a surplus if they have a cooperative or non-profit structure—they and their lenders and investors, or members, are willing to sacrifice a few percentage points of profit in order to achieve measurable social objectives, such as improvement in family food security and health status.

In thinking about microfinance as a private sector social service delivery infrastructure, it's very important to discern the difference between primarily commercial and primarily socially motivated microfinance providers. Regardless of their driving motives, almost all microfinance providers claim to be socially motivated, but only those that are truly so motivated in their daily business practices are likely to literally go the extra mile and make the extra effort to deliver an effective combination of both financial and non-financial services that are required to truly support the self-help efforts of the chronically hungry poor.

Those are my opening remarks, and I'd be very pleased to hear your questions and concerns and try to answer some of them.

The Chair: Thank you very much, Mr. Dunford.

We're going to start with the opposition.

Mr. Saganash, welcome.

Mr. Romeo Saganash (Abitibi—Baie-James—Nunavik—Eeyou, NDP): Thank you, Mr. Chair, and thank you to our guest for his very important presentation.

I think the numbers you mentioned are pretty staggering, and this is an important area in which there is still a lot of work to be done. The various initiatives taken over the years have been helpful, I believe. Many have received praise for the positive results they have achieved throughout communities in developing countries. I've visited many of them over the years.

Thank you for that presentation, and thank you for the various initiatives that you've spoken about quite eloquently.

This is my first question. I know you've mentioned this in passing in your presentation, but should the private sector be playing a bigger role in international development efforts?

• (1640)

Mr. Christopher Dunford: Well, I can really speak only for the financial services area, where the private sector is already the dominant actor.

In fact, the general sentiment in financial service circles, particularly microfinance in developing countries, is that the government should play a less active role than it has historically done.

On the other hand, microfinance is a relatively new industry—and it's fair enough to call it that, even for those who are socially motivated and reaching truly poor people. As such, it's going through what you might call a shake-up period in which mistakes are being made, new models are being developed, and there's a lot of learning going on. Part of the learning is about what role government needs to play in regulating microfinance without stifling microfinance.

As I mentioned, particularly in the case of those institutions that accept savings deposits from the public, regulation is absolutely mandatory. But banking regulation, as it's typically done, tends to be problematic for microfinance institutions, which require more latitude to charge higher rates, because it's more expensive to reach the poor, but at the same time not to abuse that right by charging excessive amounts in order to attract profit-seeking investors.

Mr. Romeo Saganash: Thank you. I have a second question.

You choose to work in parts of the world where poverty is endemic, especially in rural areas of developing countries where people have few resources, including natural resources, of course.

We are seeing with this government presently a new development in priorities focusing on countries in which Canada has political or mining interests. Development aid in Canada is increasingly politicized rather than focused on addressing that very issue you spoke about, extreme poverty. For example, we recently learned that CIDA will be cutting its funding to several countries, including Benin, Bolivia, Nigeria, Rwanda, Zimbabwe, and so on.

Can you expand on how your organization chooses the countries in which it operates? Is it based on need over other interests?

Mr. Christopher Dunford: It's based both on need and opportunity. As I said, we train other local organizations on how to develop and adapt a service package that includes microfinance. There has to be a fairly active civil society in which there are local organizations that have sufficient management capability and the proper social motivation, from our perspective, to be good partners

that are eager to learn what we know how to show them to do. Also, they need to have the capability of taking what they learn and expanding that to reach large numbers of people.

That opportunity to work with organizations that can reach large numbers of chronically hungry people is a very important concern. Clearly, within any country we would hope to partner with organizations that are reaching the very poor, as poor a population as they can. In an extremely poor country it might be problematic to have sufficient civil society with sufficient capability to partner with us. We can understand why that might be problematic for aid agencies, in particular, to work in such countries. But there are countries that are better off, and I mentioned that we work in India, the Philippines, and Mexico, which are clearly middle-income countries and yet have major pockets of poverty, even chronically hungry poor. It is the same with the Andean countries. Only in francophone west Africa and Ghana, where we work, is it very clear that we're reaching countries that have very large proportions of their population in the chronically hungry category.

Mr. Romeo Saganash: In these microfinance institutions and cooperatives, can you give us a sense of how important it is for local ownership and capacity building in these communities? Could you elaborate on this and give us a sense of what is the importance of these areas?

Mr. Christopher Dunford: Local capacity, as I mentioned, is tremendously important. I'm not sure I could say that local ownership is as important as local capacity, in other words, ownership of a microfinance institution as a private sector institution. Often they are commercial entities that are shareholder owned. In those cases, the shareholders may very well be external agencies or individuals.

Generally, when they are individuals, they are local to that country. They are nationals. When they are external agencies, of course, they can provide a major infusion of capital. I'm referring actually to official development assistance agencies and multilaterals, not just bilaterals but multilaterals like the Inter-American Development Bank.

There are also a large number of what are called microfinance investment vehicles. These essentially are pools of capital that individuals have put together into a company. That company then makes equity investments or loans to microfinance institutions. When they make equity investments, they take an ownership position.

So far, I don't see that that's problematic, as long as local management in fact is nationals and they have the capability to run a good organization that can achieve the objectives of the organization.

• (1645)

The Chair: Thank you very much.

We're going to move over to Ms. Brown for seven minutes.

Ms. Lois Brown: Thank you, Mr. Chair.

Thank you, Mr. Dunford. It's very interesting to hear you speak.

I was in Bangladesh three years ago. I actually had the opportunity to meet with Muhammad Yunus for an hour and to speak with him about his organization and his view. I've read his book, *Banker to the Poor*. I've started his second book, but I can't say I've finished it yet. But I've had some very interesting conversation.

The one thing I know about Grameen and BRAC, which work in Bangladesh, is that they are definitely for-profit organizations. In fact, Mr. Yunus, in his book, talks about 20% interest rates they charge for microfinance loans.

I've also been in Burkina Faso, Benin, Togo, and Ghana, where you're working.

I'd like to know a little bit more about the source of capital you have for doing the microfinance. Is there a trickle-down effect?

When I was in Bangladesh, they introduced us to some of the women. They referred to them as *shasta shabika*. They are women who have been trained by the banks themselves to be the ones who can diagnose the first stages of tuberculosis. They are the ones who are able to give the medications and to keep people getting their medications regularly. It's actually becoming a business for some of these women. They are taking extra training as, really, what we would call public health nurses in its infancy. But I look at that and say there is a trickle-down effect that microfinance is actually having in the community.

I wonder if, first of all, you could talk about where the capital is coming from. You say you've got investors. What is the rate of interest that is charged to the women who are getting these microfinance loans? Is there a trickle-down effect in society that is causing a ripple effect with other business starting up?

Mr. Christopher Dunford: To the first question, Freedom from Hunger does not itself have investors; as I said, we're a classical charity. However, we did spin off or help create a sister organization called MicroCredit Enterprises, which is one of these microfinance investment vehicles—to make a clear distinction between an MFI, a microfinance institution, and an MIV, which is a microfinance investment vehicle.

I'll use the example of MicroCredit Enterprises because I'm on the loan committee of that organization, so am fairly familiar with its loans—it doesn't make equity investments. The loans that it is making to microfinance institutions in these various countries are earning for MicroCredit Enterprises about 8% per annum, when it's a U.S. dollar loan. When it's a local currency loan, the actual percentage rate may vary. Usually it's higher, because there's a higher risk in lending in a local currency; there are currency risk issues.

Regarding the kind of income that an MIV makes, this is a very competitive market now; there's a lot more capital chasing after good microfinance institutions to loan to or invest in than there are of such in existence right now. Even though there are many of them—thousands of them—only a few hundred are really suitable for these kinds of international lending and investment.

Most of these institutions either started as charities in their own right and built up a corpus of lending capital or their loan portfolio was built from donations and then from retained earnings from the interest they charge to the clients. So they are basically gaining their

capital from charitable or subsidized sources as well as from earnings they make on the loans to the poor themselves.

We like to work, in West Africa in particular, with credit unions. That's a very different capital mobilization model, in that they are mobilizing capital primarily from the towns and the cities, from the middle class, and we've shown them how to invest that capital as loans to groups of women in more rural villages. In essence, it's capital being moved from towns into the rural areas of the same country.

Turning to your second point, I'm very familiar with the *shasta shabika* model. It's very much one of the health protection options, as I call them, that microfinance institutions can adopt. BRAC, in Bangladesh, is probably the worldwide model for this kind of integrated service, and much of the work we do with microfinance institutions and similar institutions elsewhere is modelled to some extent on the BRAC model.

Keep in mind, though, speaking to your point about the trickle-down, that we're trying to work very much with institutions that are making their loans to the poorest people they can possibly reach, so there shouldn't be trickle-down in terms of the direct impact of the loans. Only a certain proportion of the community may take these loans.

You wonder what happens to the other members of the community who don't find the loans attractive or otherwise don't join one of these programs. We do see a ripple effect out into the rest of the community, but the effects are modest.

In terms of new business formation, the *shasta shabika* is an example of new business being fostered by the microfinance institution itself, helping them become a seller of local health products locally. In order to do so, they can take a loan from BRAC or from one of our partners to buy their inventory and then sell it with a markup.

• (1650)

Ms. Lois Brown: Somewhere in Ouagadougou I have a credit union account that has money in it that is being lent to people in the microfinance area. I haven't even received a statement from them, but I have money there. So it is interesting.

Mr. Christopher Dunford: Excellent.

Ms. Lois Brown: From my studies in economics I know that principle number six is that productivity is the principle for success in raising the standard of living of any country. As we see these microfinance businesses start to take hold in many of the developing countries, we see the productivity rising, and in some places rising very quickly, because these people are now masters of their own fate. They are taking responsibility for their own lives. It was very exciting to see, when I was in Bangladesh, in Benin, in Burkina Faso, in Togo, all of these microbusinesses providing real economy and opportunity for families in these countries. It was very exciting.

The chair is telling me I'm out of time.

The Chair: Thank you, Ms. Brown.

We're going to move back over to the opposition.

Mr. Eyking, you have seven minutes.

Hon. Mark Eyking: Thank you, Mr. Chair.

Thank you, Mr. Dunford, for joining us here today.

In many of these war-torn or poor, undeveloped countries, what happens many times is that the men are displaced, or they're not usually in the picture as much as women in driving the family initiative or a business initiative. So many times the biggest opportunity is with the women of the community, even though they have a lot of responsibilities already.

I have a couple of questions.

Is there a correlation between the provision of microfinancing services and empowering women? That would be my first question.

Mr. Christopher Dunford: Yes, there is definitely a correlation, in the sense that when you see women join one of these groups, initially the typical member is very shy and reluctant to speak up in the group meetings, especially if there is a foreigner in attendance. It's quite remarkable that a few meetings later, or after a month or two of their participation, you can see a marked difference in their self-confidence and willingness to speak up, and in other, softer manifestations of empowerment.

Their actual decision-making power within their household and within their community takes longer and is more problematic. It depends very much on the microfinance institution and the effort it puts into training these groups to help them become self-managed, and for the women themselves to control what's going on—that's what's most empowering. But just the act of taking a loan and successfully repaying it can be very empowering, at least in some dimensions.

• (1655)

Hon. Mark Eyking: I guess, especially for their daughters sitting around a kitchen table and seeing what their mom can do, that kind of stuff helps the next generation.

Are there enough programs in the microfinancing world tailored for women? Are there programs that take into consideration, when they're doing the business model, that she might still have to take care of the kids and do a whole bunch of stuff like that? Are there programs that are tailored that support women that are different?

Mr. Christopher Dunford: Yes, they are, but to answer your question of whether there are enough, there's not a good classification of microfinance programs that distinguishes how effective they are at helping women take advantage of the microfinance opportunities. Generally, the programs that are most successful are those that also provide education in the form of engaging the women in topics that are of real importance to them, such as the health of their children and their own health—particularly as it relates to maternity, breastfeeding, and such—but that also address the kinds of businesses and provide some education in the basics of business for the kinds of very tiny businesses that they typically pursue. The “microfinance with education” programs tend to be fairly effective.

There's certainly not enough of such programs, because there are an awful lot of women who do not have the opportunity to even join. Then of course there is the issue of the men in the households, and that's perhaps a different question.

Hon. Mark Eyking: This year, 2012, is the year of cooperatives. Only 70 or 80 years ago, many rural areas of Canada were...probably not similar to underdeveloped countries, but we were in pretty rough shape, and cooperatives helped pull a lot of rural communities and other communities across Canada into prosperity and into working together. Many times you see these communities sharing an irrigation system or equipment or whatever; it's very important.

Are there enough programs out there that can help cooperatives? Do you see that as a big need?

Mr. Christopher Dunford: There's certainly a big opportunity, to the extent that there's an active cooperative movement in a country. Francophone West Africa has a very active financial cooperative movement, which is why our partner of choice in francophone West Africa is the credit unions or the savings and credit cooperatives.

I should say that the women who come together in these groups, which are ideally of 15 to 30 members... They are in effect pre-cooperatives; they're not formally registered as such, but they are following the same cooperative principles. That size is truly ideal.

Hon. Mark Eyking: It's traditional for them to work together.

Mr. Christopher Dunford: It is, so in essence we're just providing more structure and discipline to a model that they already follow as part of their culture.

Hon. Mark Eyking: It's something that should be worked on more, I guess. Or programs should be encouraged within government and with the financial institutions...?

Mr. Christopher Dunford: Right, but there really is a difference in the kind of cooperative I'm talking about, which is, as I said, a pre-cooperative. It's small enough for the women to really know what each other is doing, both outside the meetings and during the meetings, so they really can engage in cooperative governance.

Larger cooperatives, such as credit unions that have thousands of members, or agricultural cooperatives that have hundreds of members, may be somewhat more problematic as far as benefits to the individuals in those cooperatives are concerned. So it depends on the cooperative. It depends on whether it's a financial cooperative, an agricultural cooperative, or whatnot.

But there are opportunities for cooperatives to receive loans and to really make progress—if it's an internally well-managed cooperative.

Hon. Mark Eyking: Do I have more time, Mr. Chair?

The Chair: You have one minute.

Hon. Mark Eyking: Could you give me some examples of some of these cooperatives that have been working in the underdeveloped countries?

Mr. Christopher Dunford: Generally, the most successful examples, as I alluded to, are the financial cooperatives in West Africa and some other countries. When it comes to reaching out into rural areas and to poorer communities, the financial cooperatives have been more successful than have the agricultural cooperatives. There are always isolated examples of successful agricultural cooperatives, but they tend to be more problematic.

• (1700)

Hon. Mark Eyking: Why is that?

Mr. Christopher Dunford: I'm not a student of cooperatives per se, so I don't know that I can give you the texture of what works and what doesn't work in agricultural cooperatives.

Hon. Mark Eyking: But there is evidence that the agricultural cooperatives are not as successful.

Mr. Christopher Dunford: That's correct.

Hon. Mark Eyking: Is there any particular reason?

Mr. Christopher Dunford: I alluded to the reason that I think is most commonly cited. I'm not sure how much hard evidence there is, but generally it's the size. When it gets over a certain size, then the ability of all the members to really participate in governance is diluted, and that opens up the opportunity for corruption, for things to happen in secrecy, for money to be absconded with, and so on.

Hon. Mark Eyking: Thank you very much.

The Chair: Thank you very much.

We're going to start our second round, which will be five minutes of questions and answers, with Mr. Williamson.

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

Mr. Dunford, thanks for being with us here today. It was good to hear your insight.

I want to back up a little bit and get your thoughts on some questions. At the end of the day, what you and other groups involved with microcredit are really trying to do is develop markets in these countries—or rather, you're trying to use the power of the market, if you like, to help countries develop.

Would you agree with that assessment? Why do you do it this way as opposed to just giving money to education or some of the other building blocks of societies or countries?

Mr. Christopher Dunford: You'll recall in my opening remarks that I made reference to the fact that microfinance for people who are so poor that they're chronically hungry really should be regarded as a social service, in the sense that poor people are engaged in financial transactions generally in the informal sector with relatives, friends, money lenders, shopkeepers. Poor people need to do a large number of financial transactions to smooth their consumption, as the economists would say, so that they have enough money to buy enough food to get through each day.

You hear about people living on \$2 a day or \$1 a day, but that money doesn't come in on a nice regular payment of \$2 a day. It comes in maybe \$4 on one day and no dollars for the next three days, and then maybe \$6 the following day, and so on. They have a problem of being able to intermediate with other sources of funding

to borrow, to save, and to depend on each other's mutual help in order to get by, to stretch their money to make sure they have enough food on the table, if they have a table, every day.

Microfinance for the poor needs to be seen more as building a social infrastructure for social service. The fact that it starts with financial service rather than with health or education is because financial service is something the poor are very accustomed to paying for, and often at a high premium; they're not accustomed to paying for health and education and other such services. As a result, it's difficult to build a delivery infrastructure that's self-sustaining in a private sector sense by focusing on education and health and other such services. It is possible to do it when focusing on financial services.

What this means is that microfinance for poorer people tends not to be a market development or an economic development activity. It's much more about creating the social service infrastructure that can help these people take advantage of whatever economic opportunities are made available by true economic development. You do have a higher-level loan type service generally to what are called SMEs, small and medium enterprises, which in rural areas would be agricultural. There's a value chain between the producers and the consumers. If that value chain is developed, powered by small and medium enterprises, agricultural development, then the poorer elements of that population can tap into that value chain if they've taken care of their basic financial, health, and education needs in order to be able to move away from the margin of survival to actually take advantage of whatever economic opportunities are there.

We should see a distinction between poverty reduction through economic development and poverty alleviation through social service.

Mr. John Williamson: I agree with you, but in the end you are in fact creating a market. You're putting in place the rules and institutions so that people can come together, trade, and increase their holdings of resources, of money, of savings.

Would you agree with that characteristic, that in fact you're creating a market?

• (1705)

Mr. Christopher Dunford: Yes.

Mr. John Williamson: I think that's important. Tell me if you think I'm wrong or if you think I'm off track. That's important because those rules and institutions are so important for development to happen. It's difficult to point to countries that have lifted themselves out of great poverty without those rules and institutions. We're finding that microcredit works because it is built on voluntary trade and in bringing people together. Would you agree with that, broadly speaking?

Mr. Christopher Dunford: Yes, absolutely. I appreciate your clarification.

The microfinance movement worldwide definitely is creating a more structured and dependable market for financial services for the poor, giving them access to services they didn't have before. Microfinance institutions are superior to money lenders and friends and relatives as sources of capital primarily because they have many features of the banks, although the banks might find it uneconomic to reach such people. They have many features of the banks. They're rule bound, they're reliable, and they're fairly impersonal, so that people can do business with them without having to share their family secrets with the rest of the community, as is often the case with friends and relatives, certainly, and even money lenders.

It's really creating a more formal market for financial services in communities that have not had such a formal market before. That is a huge improvement in itself. There's no question that microfinance has achieved that. Whether it has achieved true economic development in the sense of moving the poor into the marketplace in a substantial way with true businesses, that's still debatable.

Mr. John Williamson: Fair enough. And that's something we will see over time, I suppose. Anyway, I appreciate it, and keep up the good work.

I should introduce myself. My name is John Williamson. I just appreciate your comments today. Thank you for joining us.

The Chair: Thanks, Mr. Williamson.

We're going to move over to the opposition. Mr. Dewar.

Mr. Paul Dewar: Thank you, and thank you to our guests for joining us today.

I have to lay out a bit more of the equation here, because I think as important as microfinancing is—and you touched on this earlier—it's one aspect of dealing with, as you put it, those who are the extreme poor and the billion that we often talk about who are hard to reach. I think many people have put forward ideas around how we can drill down and get to people who are often abandoned, and certainly microfinancing has its place.

I also find it interesting that you're working in a part of the world that is French-speaking, and you have partnered with a Canadian institution as well. I just think that's kind of an interesting dynamic. We have someone from California talking to us here in Canada about how you're connecting with someone in Quebec and doing development, which I guess is something we can be proud of here, and good on you.

Would you agree that we shouldn't look at taking microfinancing and putting it at the head of the line, versus investing in the eradication of TB, or malaria, or supporting capacity of health services?

Mr. Christopher Dunford: Yes, I would agree that certainly microfinancing needs to be seen as one tool in a multi-tool kit for economic development in general, and in particular in relation to helping the very poor. It's just one tool. However, there is one argument, which I think is a pretty strong one, that I've alluded to for putting microfinance at the head of the queue. It has the potential—and in some cases has clearly done so—to create a delivery infrastructure, a social service delivery infrastructure, that is self-sustaining and that the poor themselves are willing to pay for that infrastructure.

This is done to the extent that that infrastructure can be used to deliver other services, either by the microfinance institution itself or by other institutions that are using that same infrastructure—and when I refer to infrastructure, I am referring to the softer human infrastructure. Just imagine. You have in the developing world every day these groups of women, mixed groups of men and women, and more individual contacts between men and women and microfinance institutions. There's this interaction occurring between an outside agency and people living in very low-income communities, and it's creating a social intermediation in which trust is built between outsiders and insiders in these communities.

That's an infrastructure, if you will, that enables the delivery of services, initially microfinance services because that's immediately in demand. But when you offer other services alongside the microfinance services, or encouragement to use other services at these microfinance meetings, whether they be one on one or in groups, they in fact are creating a social infrastructure for service delivery. In that sense, it might be worth giving prior consideration, in terms of what comes first, to get the microfinance institution in there first, and then take advantage of that infrastructure, if in fact it's creating true social intermediation.

• (1710)

Mr. Paul Dewar: You wouldn't advocate taking away funding for already pre-existing programs to be replaced by—

Mr. Christopher Dunford: No.

Mr. Paul Dewar: I say that because I'm in the opposition here. We have a government that's capped its development aid budget and is cutting back on things like funding the TB projects that we've done in the past.

Of course, as a politician I want to make sure we're clear about what we're talking about, not replacing one for the other, but certainly advancing the idea of microfinancing, its value, as opposed to saying that we can cut our aid budget on the one hand, and, oh yes, by the way, we can sprinkle around some microfinancing and look as if we're having a great impact.

That's my job to point that out, not yours, and I have just done that.

Finally, I just want to ask you about microloans, because I think a lot of people would be surprised when they hear the rates that are charged for microloans. Could you just touch on what's the average? And of course people will want to know why the cost is so high.

Mr. Christopher Dunford: Sure. This is, of course, a very controversial area, particularly with the advent of profit-maximizing investors investing in microfinance. There have been some spectacular examples in India and in Mexico of investors making a great deal of money when an IPO is issued for a microfinance institution.

The issue for interest rates is that it is more expensive to reach the poor. Quite often you have to take the bank to them, which means you equip a credit agent with a motorcycle and off they go into the hinterland, or even if it's in an urban area, it requires leaving the bank and coming to the community. That, by itself, requires special training, special support, transportation, and so on, so it's more expensive, plus the economies of scale are not so favourable in that it costs as much to make a thousand dollar loan as it does to make a hundred dollar loan. If you have a whole bunch of hundred dollar loans, that's problematic from the point of view of making enough money to cover your costs.

Those are the basics, but there's also a good deal of difficulty in really understanding what microfinance institutions actually charge, what the true effective interest rate is. Even the providers of such loans often don't really understand the true APR of their loans. There's a movement afoot to really become much more transparent about this so that the poor, when they have alternative sources of financing, can compare them more on an apples-to-apples, and oranges-to-oranges basis.

You asked about the average. It depends on the country. Mexico is very high, so 80% APR would probably be typical. In Bangladesh it would be maybe 20% to 30% APR.

The Chair: Thank you.

Ms. Brown.

Ms. Lois Brown: Thank you very much.

Thank you, Mr. Dunford.

I'd like to explore that a little bit more. I have a business background, and I do understand risk and loans and what it costs to borrow money. There is a cost attached to it, and microfinance is a business form. They have to assess their risk on a continual basis. In some of the microfinance projects I saw, women were able to access enough money and they bought a dozen chickens. They started with a dozen chickens, they multiplied their flock, and they were selling eggs to the whole village. They created quite a business.

First of all, I want to set the record straight that Canada has not cut back on the money we are giving for vaccinations. In fact, last year we gave \$50 million to the GAVI Alliance, and they are working to ensure we eradicate such things as tuberculosis. So the Government of Canada is very intent on putting those kinds of investments into countries.

I want to go back to something we talked about a little bit earlier. When I talked about the trickle-down effect, you said they're at the bottom, and you used the words "ripple effect". You've just talked about people who are the managers who are going out into the communities. They're the ones who are getting the training on handling the money and doing the accounting part of it for the actual business that is borrowing the money.

I wonder if you can talk about those types of jobs and how they're impacting society. What I saw in Bangladesh again were people who were being trained to go to the villages, to take stock of what loans were out, and then to make new loans if that was necessary, to accept the repayment, and to take that back to the bank.

That's a whole different level of money management that is starting to take place in that society. I wonder if you can talk about the value of this to the development of that country.

● (1715)

Mr. Christopher Dunford: Well, I don't know of hard evidence, but it certainly seems to me that this must be a major impact, especially in more rural areas that are served by microfinance institutions, but also in urban areas that are served by multiple microfinance institutions. There's often quite a bit of competition in the more urban areas amongst microfinance institutions, and they are hiring large numbers of people. I think the estimate is something like 3,500 microfinance institutions worldwide, and that doesn't include credit cooperatives and such. All of these institutions are hiring more staff as a result of the need for those staff to be making smaller transactions, going out into the rural areas and such.

Now, there are two impacts. The obvious one is that these people are getting jobs and they are getting career development. They're learning skills. But in addition, this is a way in which the young to middle-aged people of these countries can engage in giving back to their own communities, because they very often come from these same areas. Often that's a requirement, that they speak the local language of the communities they're serving. So they very often are from these communities, and this gives them an opportunity not only to earn money themselves, which can be channelled back to their relatives, perhaps, in similar communities, but it also gives them an opportunity to engage in their country's development, and they really are inspired by that.

This is particularly true when they're more than loan officers, when they are actually engaged in an educational process with their clients. They develop a relationship of listening and engaging with their lives in a way that can only be beneficial, not just to the clients but to them as individuals and to those they talk to elsewhere in the society. That engagement with the poor and what their lives are really like, getting past stereotypes, can really be a very important factor in the development of a country.

So I'm glad you brought this up, because it is an important impact of the development of the microfinance industry.

Ms. Lois Brown: I'll make just an observation, since I'm running out of time. I have been in these countries. Particularly in Bangladesh, even though they don't have hydro, they don't have the infrastructure for hydro or for telephone, everybody has a cellphone and everybody is connected. So their opportunity to connect with a much broader sector of society is changing exponentially. I expect that we are going to see many of these impacts happen with microfinance as well, that not only are they doing their own business in their own locale, but because they're connected by cellphone now to other places, they have the opportunity to develop other markets.

The Chair: Thank you very much.

We're going to finish off today with Mr. Dechert.

Mr. Bob Dechert: Thank you, Mr. Chair. Thank you, Mr. Dunford.

I'm going to start off by following up on what my colleague, Ms. Brown, was just talking about, in terms of technology that makes payment mechanisms easier to do, especially in developing countries. We've heard a lot from other witnesses about cellphone payment mechanisms.

Could you comment on how that plays a role in microfinance, from your perspective?

Another question is on the role that diaspora groups can play. One of the great strengths of the Canadian economy, as in the United States and many other places, is that we have people here from around the world, from many of these developing countries that we're trying to assist, who have become successful here in Canada. We're interested in ways that we can motivate and assist diaspora groups with providing microfinance, helping them make remittances in a more cost-effective way to their friends and relatives in these countries so that those funds can be put to use in microfinance.

I wonder if you've had any experience in the United States working with diaspora groups from any of these countries. Could you comment on that?

• (1720)

Mr. Christopher Dunford: With regard to your second question, relating to diaspora groups, I can't say that Freedom from Hunger has had direct experience. Clearly this is a major opportunity for microfinance institutions that we are aware of. Many of them are, in fact, becoming very involved in facilitating transfer payments from people in the U.S. or Canada to countries like Haiti and Nicaragua and such.

This is a new area for microfinance institutions.

Regarding payment transactions through cellphones and other technologies, this is not, of course, exclusive to microfinance institutions. It's a pioneering area. There are a lot of cellphones out there. Most of them are very primitive. They're not smart phones. People will often have cellphones even in rural areas that are beyond the normal reach of cellphone service.

You have to be careful to assess the number of cellphones out there in terms of how many of them are actually being used effectively, much less being used for transfer payments and such. But it's very promising, and certainly there is a lot of very active experimentation. The Gates Foundation is particularly pushing this as a way for people not only to do transfer payments and financial transactions, but to save, to open savings accounts and save regularly, and even to receive loans.

There is the spectacular example of M-Pesa in Kenya. It's not entirely clear that the relatively unique combination of circumstances that made M-Pesa so successful is readily available yet in other countries.

So the enthusiasm for cellphone-based financial transactions is outpacing the reality of it, but it's still an extremely active area of experimentation and it's very promising.

In some cases, people see this as a way of working around the limitations of microfinance institutions and the need for the high-touch nature of microfinance as it's been traditionally developed. I find that a little alarming, because a lot of the benefits, the softer

benefits, of microfinance are in the interpersonal interaction between staff of the institution and the people at the community level.

So it remains to be seen, but I think what we'll see and are seeing already is that the cellphone or some kind of device like that in the hands of field agents can be used as a way of improving their work, so that they're more effective as trusted intermediaries for the people they are working with in the field and as a source of information beyond financial information.

Mr. Bob Dechert: Thank you.

In your view, how important are remittances from diaspora groups to the development of economies in these developing countries? Do you have any—

Mr. Christopher Dunford: Oh, they're huge.

I'm no expert on it. I read the same materials you do, no doubt. Remittances far exceed official development assistance. It depends on the country, though.

We have been involved in Haiti, and I've often said that the greatest hope for Haiti is the Haitian diaspora and the support they can get from their overseas relatives.

Mr. Bob Dechert: You mentioned in your comments the importance of education, and you've just mentioned the importance of remittances. What is your view on temporary foreign worker programs, where people go from developing countries to developed nations, work for a while, and then go back home taking some of the skills and hopefully some funds and capital with them. Is that a good model?

Mr. Christopher Dunford: I hesitate to judge it a good model, but it's certainly a common model in some countries.

Certainly in the Philippines you see this quite a lot. In Thailand I've seen it a lot. Those are the two Asian countries I'm most familiar with.

We've seen, just as an example, that Filipinos or Filipinas who have worked overseas come back with a certain amount of capital, and they look for an opportunity to invest it. They become moneylenders, on the softer side of moneylending, you might say, because they are deeply embedded in the community, and they see an opportunity to help business people in their community by providing them with access to capital that they wouldn't have otherwise.

So you see people bringing money back and finding creative ways to set themselves up in business, not just building a big fancy house that looks remarkably fancier than the one next door. You see that as well, but you do see them investing in businesses that benefit the economy.

• (1725)

Mr. Bob Dechert: Do they bring back business skills that are helpful?

Mr. Christopher Dunford: That I couldn't say, because many of them are engaged in low-skilled work overseas, but they are certainly bringing back a much larger world view, and that sense of connectedness to the bigger world certainly is a benefit.

The Chair: Thank you, Mr. Dechert.

Thank you very much, Mr. Dunford. It's a very interesting topic today. Thank you for your presentation. I found it very useful.

You can go, but the rest of us here can't go.

Madame Laverdière stepped down as vice-chair, so we need to elect a new vice-chair.

Mr. Dechert.

Mr. Bob Dechert: I would like to propose Mr. Dewar as the new vice-chair of the foreign affairs committee.

The Chair: Are there any other nominations?

Seeing none, I'll call the question.

All those in favour of Mr. Dewar?

(Motion agreed to)

The Chair: It's a slam dunk. Look at that.

You needed this help during leadership. You could have been....

Some hon. members: Oh, oh!

Mr. Paul Dewar: That's right.

The Chair: At any rate, thank you very much, everyone. We'll see you Wednesday.

We are adjourned.

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