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Chair

Mr. Dean Allison

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• (1535)

[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 commence. I want to thank our two witnesses for being here today.

We have with us Fraser Reilly-King, who is a policy analyst for aid and international cooperation with the Canadian Council for International Co-operation.

Mr. Reilly-King, thank you very much for being here.

From Corporate Knights Inc., we have with us Toby Heaps, chief executive officer and co-founder.

We'll get a chance to hear from both of you right now.

I'm going to start with you, Mr. Reilly-King. Can I have your opening statement? We'll then move to Mr. Heaps for his and then go around the room and ask some questions back and forth.

As I said, once you're done, we will fill out the rest of the hour with questions and comments.

Mr. Reilly-King, the floor is yours for 10 minutes, sir.

Mr. Fraser Reilly-King (Policy Analyst, Aid & International Co-operation, Canadian Council for International Co-operation): Thank you.

Firstly, thank you for inviting me to appear before the Standing Committee on Foreign Affairs and International Development on this important issue related to aid, the private sector, and development.

As Mr. Allison mentioned, I work for the Canadian Council for International Co-operation, which is a national platform of 92 Canadian voluntary sector organizations working globally to achieve sustainable human development. I am also the vice-chair of Reality of Aid, which is a network of 172 organizations that do independent assessment of aid policy and practice globally. We have a flagship report that we produce every two years. This year it will be on aid and the private sector.

CCIC has three messages for this committee that we feel complement a number of the previous interventions you have heard so far.

Firstly, the private sector is an important player in development, but it is not the new silver bullet. Secondly, we feel that ultimately it

is the development of the local private sector that must be prioritized in the context of aid. Finally, the private sector is often seen as a promising means of leveraging additional resources for development, but the committee should not lose sight of other substantial sources of development finance.

On my first point, the private sector is without a doubt essential, but it is not the new silver bullet for development, nor, we would argue, is it the engine of growth—at least not of equitable and inclusive growth. Rather, the private sector is one of a range of players central to development, alongside multiple layers of government, elected officials like yourselves, civil society, media, and citizens. Yes, the private sector contributes a lot through investments, loans, and production and job creation, but to contribute to truly sustainable development, country-specific checks and balances are also key.

In this vein, let us not forget the role of the state in promoting growth. The 2008 Commission on Growth and Development, which looked at 13 countries with sustained periods of growth over 25 years, put a number of key state functions at heart of this success: political leadership, industrial policies, managed exchange rates and capital controls, effective institutions and governance structures, a talented public service, strong domestic savings, public investment in infrastructure, health, and education, job creation, and social protection. Each country context is different, of course, but in all cases the state was the primary engine and the driver of growth, and the private sector merely the fuel, if you will.

But what kind of growth? The Africa Progress Panel report, which came out two weeks ago, noted that several countries in Africa—Ghana, Ethiopia, Uganda, and Tanzania, among them—are outpacing many of the emerging economies.

While this is very slowly helping to create a middle class, disparities are also growing. Still, half of Africa—386 million people—lives below the poverty line, so it's the equitable redistribution of growth and job creation that is the real challenge, and government, elected officials, the media, and citizens are all key to this, not just the private sector. In this vein, we would urge the committee to encourage CIDA to put equitable growth and job creation at the heart of its own growth strategy, in particular for smallholder farmers and for the 74 million young Africans who will need jobs in the next decade.

A second key message that we want to underscore is the notion of which private sector. This committee has heard from a number of individuals who have talked about different types of private capital flows and private enterprises.

For us, the private sector in the context of aid and international development should address two key issues. The first is using public resources like aid to stimulate growth and development of the local private sector, and more specifically, a diverse range of enterprises and producers in the informal and formal economies, as well as small and medium-sized enterprises and co-operatives engaged in market activities—all with a view to creating jobs and sustainable livelihoods. In fact, this what CIDA's own 2003 private sector development strategy proposes. We fully agree with this vision.

Secondly, aid must promote financial and developmental additionality. In other words, it must ensure that what aid resources bring is something that is otherwise not available through commercial lending practices. Aid needs to fill a financial and development gap. It also requires a robust framework to anticipate, track, monitor, and evaluate expected positive development outcomes in terms of private sector development—as some donors already do, but most do not.

Ultimately, then, it is about integrating the local private sector into a sustainable development framework, and it should not solely be about promoting the interests of Canadian companies overseas. Why? We need to separate Canadian self-interest in promoting Canada's economy from what is in the interests of developing economies. The two may not necessarily be mutually exclusive, but they are often very different.

Furthermore, putting Canadian private sector interests front and centre of Canada's development strategy contravenes the Paris Declaration on Aid Effectiveness, something that Canada prides itself on meeting. It also runs the risk of tying Canadian aid to development, just as Canada has ended this practice. Untying aid is a good thing, and we should not backtrack on this.

The Canadian public also believes this. In an Angus Reid survey that came out last week, while Canadians agreed that both the private sector and NGOs had an equally important role to play in development, 76% of Canadians in the poll felt that large multinationals should not be getting government funding for this.

This does not preclude the private sector from partnering with organizations where the core main mandate of both partners coincide, and you've heard from a number of organizations that do that. Desjardins' international development fund to support local credit unions is a good example, as is Teck Resources' project with the micronutrient initiative, or—I'm not sure if you've heard of this one—CARE Canada's initiative in Peru to promote small and medium-sized enterprises by working with Export Development Canada and using its expertise. These are all efforts that help advance long-term development outcomes and demonstrate the additionality I referred to above.

The difference between these projects and typical corporate social responsibility initiatives is good practice versus good intentions. CSR initiatives, as many have concluded—including the OECD and John Ruggie, the special rapporteur on business and human rights—

are at best limited, in particular when they respond to corporate dynamics rather than development dynamics, as several witnesses have already noted.

Finally, donors have been quick to recognize the potential of the private sector for leveraging additional resources for development, but other sources of finance offer just as much potential. Using the private sector to leverage resources may work well when it fills real gaps in a market. For example, Canada's advanced market commitment for the pneumococcal virus is largely seen as having created an affordable market for vaccines in the developing world that would have not otherwise been filled. This is not the only way to leverage further finance for development, and we would argue that it too has its limits.

A few presenters have already talked about domestic resource mobilization, or generating revenue through progressive taxation, royalties, and tariffs. To illustrate this point, while aid in Africa rose from \$12 billion in 2000 to \$36 billion in 2008, natural resource rents rose from roughly \$40 billion in 2000 to \$240 billion over the same time period. Such resource rents are a logical and substantial source of revenue. In December of last year, roughly half of Africa's mining ministers met in Addis Ababa and declared their intention to assert greater control over private sector mining operations and transfer the revenue to weaker areas of their economy.

Equally, addressing capital flight could seriously enhance the amount of revenue that stays in the continent and is put to use for sustainable development outcomes. In Africa alone, the continent has lost \$1.2 trillion to capital flight over the past four decades. In a 2008 report, Christian Aid estimated that the developing world loses approximately \$160 billion every year in corporate taxes through transfer mispricing and false invoicing—one and a third times more than global aid for that year.

At home the government could also formalize its matching arrangements around humanitarian assistance, or leverage the Canadian public's support for development through Imagine Canada's suggestion of a stretch tax credit. If donors are serious about ending the aid dependence of countries, in particular as aid budgets decline, then building effective institutions, promoting local private sector development, and addressing domestic resource mobilization and capital flight should be priorities.

Thank you.

• (1540)

The Chair: Thank you very much, Mr. Reilly-King.

We're going to move over to Mr. Heaps. The floor is yours for 10 minutes, sir.

Mr. Toby A.A. Heaps (Chief Executive Officer and Co-Founder, Corporate Knights Inc.): Thank you, Mr. Chairman.

It's an honour to be here today. I'm representing Corporate Knights. Corporate Knights is a Canadian-based media and financial products company. We're best known for a magazine we publish on sustainable business that's circulated in the *Globe and Mail*, and now we have a U.S. version in *The Washington Post*.

Globally, we rank companies. We presently have 2,000 large companies in our database, and we rank them on things ranging from safety to the per cent of their tax obligations met, to their carbon and energy productivity.

In our financial products purview, we have a suite of equity products and fixed-income products that are premised on bringing a new balance sheet into the 21st century, where you can take into account a company's social and environmental performance in quantifiable ways and then integrate that into your investment propositions.

We also are working with some leading Canadian businesses from the resource, financial services, and manufacturing sectors to create a council for clean capitalism. We define clean capitalism as an economic system in which the prices fully reflect social, ecological, and economic benefits and costs, and actors are fully aware of their impacts.

As far as my presentation here today goes, I have a fairly simple message and it comes back to first principles.

If we take a step back and we ask where we are strong in Canada economically and what we are strong at, we come away with a pretty resounding focus on the resource sector and on financial firms. Within the TSX 60, our main blue chip composite index, 63% of the firms are either financial firms, material-orientated firms, or energy firms. If you look around the world, you see where Canada is strong and plays a pivotal role in the development of many emerging economies.

We have just initiated a study and we've uncovered over 20 countries around the world where a Canadian-based company is the number one private foreign investor in that economy. That's a pretty staggering statistic considering we're only a few per cent of the global GDP. We're making a comprehensive assessment of that, and we'll have a better idea at the end of the summer of exactly how many countries we're the number one foreign investor in. We play a pivotal role.

To my colleague's comments around corporate social responsibility, that's not really where the action is. Where the action is, and what the world needs from an international development perspective, is finance, specifically finance for infrastructure and for energy, and resilient forms of energy at that. The various agencies, whether it be the International Energy Agency or the OECD, estimate that over a trillion dollars of extra finance is needed each year for renewable energy in order to avoid catastrophic climate change scenarios and

also to meet the energy security needs of economies around the world, including developing economies.

Presently, emerging markets have a key problem. The best forms of energy, in many cases for them, are renewable forms of energy, but often the capital costs are prohibitive. The cost curve when you want to make an investment in energy infrastructure is much more pronounced at the front end of the cycle, if you're going to invest in renewable energy, than it is if you're going to invest in fossil fuel energy. With fossil fuel energy, you have to keep paying variable costs for inputs like coal, oil, or gas, whereas with renewable energy, it's mostly at the front end.

The trouble is that most developing economies cannot get cheap credit. They pay exorbitant rates of interest on the international markets, and this is where Canadian companies and the public sector can play a really pivotal role. There are trillions of dollars of finance, there is a new emerging field called green bonds, which HSBC classifies now as a \$174 billion market globally. TD Bank is a leading player in this field.

If you marry up our financial capacity with our resource penetration—so you map out all of the economies around the world where Canadian companies play a major role, then you look at those economies and you see what their infrastructure needs are—what they're asking for in terms of the finances they need to develop their infrastructure and use the EDC, which is interested in ramping up their activities in this base to provide more finance to credit enhance some of these propositions so that instead of paying really high rates of interest they are paying rates of interest that are on the AAA tranche, would make the capital costs much more affordable and make these projects much more doable.

• (1545)

There is a national economic benefit that would accrue to our country from doing this is. Sometimes development advocates proclaim against tied aid. There are a lot of cases to suggest against it, but the Export Development Corporation of Canada is a former tied-aid, and has been a remarkably successful form of tied aid for generating jobs and prosperity for our economy.

When you look at where the world economy is going now, more and more capital is being invested in renewable energy infrastructure and water infrastructure. The western markets are often not at the front end of this. The Asian Development Bank and China are doing a bunch of stuff here. The U.S. is starting to do some things. Canada has a huge opportunity to ramp up our portfolio of credit enhancement products, specifically out of EDC, from less than 1% to the 5% or 10% range. That would really position us well in those economies. There's massive potential to marry up EDC with the strength and interest of our pension funds to also invest in these areas.

I would encourage the committee to look at options. A paper came out today from HSBC on these types of financial products. It is a good reference point and provides many examples for marrying up EDC credit enhancement activities with catalyzing infrastructure investments in developing countries where Canadian resource companies are prevalent.

We can look at home, right here in Newfoundland and Labrador, to find an example to apply elsewhere. With the fishery collapse, their economy has experienced the trauma that can happen when you run up against the wall as a single development. They put in place the really interesting approach of resource conversion. Resource conversion has become a popular concept internationally as of late, and I expect it will stay there.

Newfoundland and Labrador is taking their fossil fuel assets and generating cash from them. They're using that to invest in renewable energy—transmission and generation projects that will last for hundreds of years, long beyond when their fossil fuel assets are gone. They're doing this at a much more accelerated rate with the support of credit enhancement from the federal government. The federal government is helping to backstop the billion dollar loans Newfoundland is getting to build their infrastructure.

Using that model of resource conversion and applying it internationally for development purposes is not a silver bullet by any stretch, but it would have the most impact in catalyzing enhanced prosperity for countries around the world. It would also be good for Canadian businesses.

Thank you kindly.

• (1550)

The Chair: Thank you very much.

We're going to start with the opposition.

Mr. Saganash, the floor is yours for seven minutes.

Mr. Romeo Saganash (Abitibi—Baie-James—Nunavik—Eeyou, NDP): Thank you, Mr. Chair.

Thank you to both witnesses today. I truly appreciate your contribution to the work of this committee.

I'll ask my first question to Mr. Reilly-King. Earlier this month we had an official from CIDA before the committee to testify. I asked him what CIDA's approach to implementing the ODA Accountability Act was, given the three criteria we have under the act.

His reply to that question was the following, and I quote: So at CIDA, in our approach to this act, this is job one.... This is integral to everything we do.

Given your experience, Mr. Reilly-King, and the work you have done over the years, would you agree with that statement?

Mr. Fraser Reilly-King: I would like to think that the ODA Accountability Act is integral to everything that CIDA does, but we've done a number of access to information requests over the past three years to get a better sense of how CIDA has both interpreted the act and implemented it. It's unfortunate that we had to use access to information, but it has been very difficult to get a sense from bureaucrats in the government of how it's being implemented.

I think CIDA has interpreted the act by saying, "We already do this. We already promote poverty eradication. We already promote human rights. We already consult with the poor", but they haven't actually developed any mechanisms to evaluate or really translate that into its core practice.

For example, at the end of CIDA's sustainable economic growth strategy it says that all program activities within this strategy are compliant with the ODA Accountability Act. We submitted an access to information request to establish how CIDA had come to this conclusion. The access to information request turned up no documentation, meaning that while CIDA asserted it was compliant with the act, it actually hadn't developed any tools to evaluate or assess this, or determine how programs were truly going to be compliant with the act.

I think the principles of the act are maybe integral to CIDA's practice, but it's hard to get officials to even talk about the act these days.

• (1555)

Mr. Romeo Saganash: Is it your view that the third review to Parliament and the Government of Canada official development assistance...? The point is driven home in your report that it falls short of the spirit and intent—and I would add "letter" to that—of the ODA Act. Can you expand on that a bit?

Mr. Fraser Reilly-King: It's similar to my previous intervention that through access to information we looked at what different tools CIDA might have developed to implement the act. While early access to information talked about the possibility of developing various tools, as far as we know nothing was ever concretely developed. I guess it's neither in the spirit nor the letter of the act.

Mr. Romeo Saganash: You've also recently completed the analysis of the program cuts by country, made by CIDA, that showed three of the CIDA countries of focus: Colombia, Peru, and Ukraine, which rank in the top half of the human development index, remain completely unaffected. Whereas 10 of the 13 countries affected lie in the bottom quarter of the HDI ranking. Have you been able to determine why this move was made?

Mr. Fraser Reilly-King: The government hasn't yet put out its official cuts to this. This is just based on media reports or leaks on what the government is supposedly going to cut. I think probably the government would argue that it's an attempt to be more focused and effective, and also to respond to development needs and Canada's own foreign policy and development objectives.

Our biggest concern, and this is not a trend that's unique to Canada, is that in the context of aid cuts an increasing number of donors are moving away from low-income countries to middle-income countries. Especially in the context of the Africa Progress Panel report Canada would be ideally situated to respond to some of Africa's needs. We have a focus on growth as one of our strategies, on children and youth, and on food security. Where the most number of jobs need to be created in Africa is among the youth population. As I mentioned 74 million young people are expected to be looking for work in the next decade. CIDA already has a focus on smallholder farmers, and the report also identified addressing the needs of smallholder farmers as a key priority.

I already mentioned the youth population. Canada has a children and youth approach. It's difficult to know why Canada is moving away from low-income countries toward middle-income countries especially when a number of the countries were in Africa, as I mentioned, and Canada seems very well placed to address those needs.

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

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

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

Thank you to our witnesses for being here today.

This has been a most interesting study for our committee, and I think it would be fair to say that every one of us on this committee wants to see progress on emerging economies and how Canada can best help in getting emerging economies up and running. I think all of us share that same sentiment; it's a matter of how we get there.

It was interesting to hear some of the things you've said today. I was particularly interested in your comment, Mr. Reilly-King, that CIDA's doing some good things. Certainly our objective is to help and to be there in times of need.

You know, Canada is the only country that is current with all of its payments to the global fund. We made a contribution of \$50 million last year to GAVI Alliance, over and above our other contributions. Canadians also made a contribution in east Africa last year to a desperate humanitarian need—\$142 million went into the east Africa drought relief fund. Currently we have about \$42 million that has gone into the Sahel region. Canadians respond with tremendous generosity when we are called upon to assist.

But those are always the things that are urgent and the things we can't predict. So how do we help these countries get themselves to a point where they in some measure can respond to their own challenges, and how can Canada support that?

Mr. Heaps, you were talking about a council for clean capitalism, and I would like to hear more of that. We are not in any way averse to knowing what the total costs are when things are going on. Obviously that has to be part of an assessment that needs to be done whenever a company is going in, and to help countries make those assessments.

You also talked about the need for—I'm sorry, maybe it wasn't you, maybe it was Mr. Reilly-King—political leadership, effective institutions, and civil service, but you probably don't disagree, Mr.

Heaps, that those things need to be in place. When you are doing this council for clean capitalism, are you helping countries make those assessments, and helping to build those institutions that can start making the assessments themselves?

• (1600)

Mr. Toby A.A. Heaps: The agenda for the council is emerging. There are two priority areas that have been identified, and one of them is dealing with unplugging financial flows toward important infrastructure—renewable energy infrastructure and transmission infrastructure. The other one is related to getting more honest accounting so we have more of a total wealth approach to how we calculate our gross domestic product here.

Then, it's also looking at the impacts that investments in our development programs have overseas, borrowing from the World Bank's methodology, which now includes taking into account the effect their investments in foreign countries have on the overall capital stocks of the economies, including the natural capital stocks and social capital stocks. That's key, because if you don't put the issue in the form of a number on the balance sheet, it gets left out of consideration when boardrooms are looking at it.

Ms. Lois Brown: I've been in several African countries. I was in Bangladesh and nobody has telephones or land lines. Everybody is using a cell phone. So the infrastructure that is going to have to go in is going to be very different from what we have historically had to build in our own country. You would agree with that, I'm sure.

I look at countries in Africa where solar energy is now becoming more and more the norm. When I was in South Sudan, it was solar-powered lights for all of their street lights that are going in.

I wonder if you can talk about how that's going to impact the need for infrastructure dollars. How do we move forward with these countries in the areas of initiating their economy, because that kind of infrastructure is going to be critical?

Mr. Toby A.A. Heaps: What's going on within the international bond markets right now is really interesting. Just to step back, if we look at global capital markets and how they've changed in the last decade, a decade ago equity markets—stocks—were twice as big by volume as bonds. Now the international bond market is valued at \$95 trillion, and it's roughly twice the size of the global equity market. There has been a shift in terms of the importance of capital flows, and bond markets are the primary vehicle.

To answer your question on how we might be able to get involved, most countries have development plans, whether it's Mexico or the Congo. The Congo, for instance, has plans to enhance its energy generation from the Congo River, which has approximately one-twelfth of the world's hydro energy capacity right there on one river. It's a massive river. It could power a substantial portion of Africa, even on its growth trajectory. They need substantial capital to properly build the hydro generators and the transmission lines to get the energy to the domestic market and to the export markets. They don't have the capital right now to do it themselves.

There are two choices available to them. One is to make a deal with the Chinese. The Chinese will say that they'll build it in exchange for mineral concessions. Then they box us out, and they get the mineral concessions on advantageous terms.

Another way is emerging. The Asian Development Bank has done this in many cases, and the World Bank has done about 20 of these deals. For example, a country could say that they need to raise \$2 billion to finance all the costs of a project, and they'll make it a sovereign issue. But they have junk status in terms of their credit rating, so they'll make an arrangement whereby Canada will backstop it. If they don't pay the money back, we could be on the hook for part of it, so in return, SNC-Lavalin and Brookfield and Boralex and other large Canadian firms get front-of-the-line access to build it.

This is how the world works. I'm not saying that I'm the biggest fan of the tied-aid approach, but nations, if they're going to put their credit on the line, have to have some benefit.

In terms of the financial risk to our country, because we have a really solid financial standing in the international community and some might worry about what this might do to it, the way EDC does these things when they backstop a loan is to reinsure it out. They sell off all the risk, and it doesn't come back to bite us. You can ramp it up slowly, see how it goes, and make sure that the Canadian companies are getting the business. The deal flow in this area is the fastest-growing area of deal flow in the world on a per cent basis.

• (1605)

The Chair: Mr. Heaps, I'm going to have to cut you off. That's all the time we have. It's very interesting. Maybe someone else will pick it up.

Ms. Murray, welcome back to committee. I'll turn it over to you, for seven minutes.

Ms. Joyce Murray (Vancouver Quadra, Lib.): Thank you very much. It's great to be here. Thank you to the presenters for very interesting information and two very different but complementary perspectives on the issue.

I don't disagree with Ms. Brown that people around the table want to help these countries get to where they're on their own feet and are able to drive their own development. I would say that cutting CIDA by \$377 million by 2015 isn't the primary way we do that, mind you.

In talking about the partnerships with the private sector, one concern—I would imagine—is whether that money would go toward creating corporate social responsibility or other partnerships in the countries they're investing in, which they would or should be doing anyway.

How would one ensure additionality?

Mr. Fraser Reilly-King: Maybe I'll come back to some of Ms. Brown's comments and what Toby has said.

I just want to pick up on this issue of tied aid and Export Development Canada. What Export Development Canada provides isn't tied aid. Export Development Canada provides loans, guarantees, etc. It has nothing to do with aid, which is grants to low-income countries.

I think there is potentially some role for EDC to play in helping to create domestic bond markets, in backstopping, and in encouraging further investments in sustainable energy or renewable energy projects, etc. That's what I was talking about. That's a market and a gap that needs filling.

How can CIDA go about doing this? I'll take the first part of your question.

Ms. Joyce Murray: I have two other questions, so please be as brief as possible.

Mr. Fraser Reilly-King: A key message that I also wanted to bring is about balance. Not only has CIDA cut its funding, but it's also shifted increasingly away from providing support to governments, bilateral funding, and civil society organizations, and increasingly towards multilaterals. We need support for multilateral initiatives like the ones Ms. Brown talked about, but I think it's a question of balance. When you're trying to get governments to stand on their own feet, taking away money from governments to try to do that isn't helpful. You want to be focusing on things like domestic resource mobilization. The IMF, itself, has said that Mali, for example, should increase the royalties that it should get from natural resource revenue.

In terms of CSR, I think CSR is an obligation of private companies. As I said, for the most part it comes from within their own corporate interests and it's guided by their corporate interests. Where CIDA maybe has a role to play is where it can tap into the core business model of a private-sector organization and partner it with other organizations. But when it's not core, it's not going to work.

• (1610)

Ms. Joyce Murray: What you just said about supporting countries is what I just heard in a speech by former Governor General Michaëlle Jean about Haiti. I visited Haiti with a multi-party delegation and saw just how much money is being poured in and how little long-term resiliency and self-responsibility is really occurring. Her key comment is that this aid has to be partnering directly with the company, walking side by side down this pathway with the country, with the national government, and not about private sector investments as the leading point.

I'd like to ask Mr. Heaps, when you're talking about financing alternative energy—under the United Nations Framework Convention on Climate Change one of the six or seven envelopes or chapters was exactly about that—how do we finance these countries in their alternative and clean energy and efficiency, so they can reduce greenhouse gas emissions and address that upfront cost of new types of energy, especially when fossil fuels are so heavily subsidized in so many countries, including Canada?

Are you suggesting that because Canada has pulled out of the Kyoto Protocol this could be something that we're trying to go it alone through CIDA as a model for helping finance this infrastructure and clean energy? If that's what you're suggesting, can you comment on whether that's effective compared with working on this in partnership with the international community through a protocol like the Kyoto Protocol?

Mr. Toby A.A. Heaps: Sure. There are many avenues. This is consistent with working through initiatives within the international community. What I was speaking about with the credit enhancement is a little bit different from the Kyoto Protocol clean development mechanism in that this isn't about Canada donating and paying the whole shot, it's just about us lending our balance sheet so that countries can get a lower cost of capital, and in return for that, we could get some of the business.

Where it also gets interesting is that there are some products out there now with things called "carbon kickers". The way it works is we could do the deal with, say, Mexico, which has a \$5 billion infrastructure plan to reduce carbon that involves subways and trains, and we could do a deal where we would help to backstop their bond issue for \$5 billion to do it, and our companies would get some of the contracts and then we would also get some of the carbon credits that might accrue, because it's been approved under the UNFCCC framework. So it could be a kicker.

Presently, financial markets don't put any value on carbon credits, so it would have to be a kicker. I'm not suggesting that we should do this as a substitute for engaging internationally, but it's entirely consistent and complementary to that kind of approach.

Ms. Joyce Murray: Do I have time still?

The Chair: You have 20 seconds. Do you have a comment?

Ms. Joyce Murray: Okay.

In this total accounting approach, an important approach, what are we doing in Canada? If we are saying we should be helping a total accounting approach in another country, do we not need to start actually developing and using that in Canada first?

The Chair: Mr. Heaps, just a quick response.

Mr. Toby A.A. Heaps: We have the best data set in the world on natural capital. There's a gentleman named Rob Smith at Stats Canada who's been tracking all these data series. It's not presently integrated into any system of national accounts, and there are some initiatives trying to get that done, but there's a massive potential for us to lead.

The Chair: Thank you very much.

That completes our first round.

I think we have time for a second round, so why don't we start with Mr. Dechert for five minutes.

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

Gentlemen, thank you for being here today and sharing this information with us.

My first question is for Mr. Reilly-King. You are probably aware that coming out of the G-8 conference a little over a week ago at Camp David, President Obama launched the new alliance for food security and nutrition. As part of that initiative many multinational companies have been pledging their contributions. As such, I understand the pledges currently stand at about \$3 billion.

Some of these companies have committed to more than handouts, and they're providing their expertise in various areas. For example, Vodafone intends to establish the connected farmer alliance in

Tanzania, Mozambique, and Kenya, to increase the productivity, incomes, and resilience of over 500,000 smallholder farmers by strengthening the communications between the farmers and the agribusinesses they deal with—I guess to sell their produce—thereby decreasing their cost of doing business.

Can you comment on that initiative and how you feel about it?

• (1615)

Mr. Fraser Reilly-King: Last week was our AGM, so I wasn't able to read as much as I wanted to on the G-8 initiative. If some of these initiatives are core to the business operations of the company involved, they're willing to bring their expertise and some money, and they're of benefit to countries, then I think they can only be helpful. That said, I want to emphasize that they need to be core to their interests, to their business model, because that's going to ensure good development practice, but they also need to respond to a gap or a need that's been identified.

One of the biggest gaps in food security is addressing the needs of smallholder farmers. I think in Africa around 60% to 70% of the population are farmers. Despite Canada's admirable contributions to the L'Aquila initiative—it was one of the first to complete all of its commitments there—this is still a key problem. Smallholder farmers still haven't been addressed. There's still a huge number whose needs aren't being met. This was one of the things that came out in the Africa Progress Panel.

It's good that these initiatives are moving the agenda forward, but it would be even better if they responded to genuine needs and demands.

Mr. Bob Dechert: So if there were private sector companies that could lend their expertise in helping smallholder farmers connect with markets, lower their costs of production, and increase their productivity, presumably that's something you would support.

Mr. Fraser Reilly-King: I think it's a good direction, as long as it's sustainable.

Mr. Bob Dechert: You mentioned in your opening comments that the development of local private sectors in these countries is key. We know that companies from different countries often work in different ways when they're developing, say, resource industries in those countries. I understand that many Chinese companies, for example, rather than training people locally will often bring in lots of temporary workers from China and other places to work in those resource industries. Canadian companies, for example, are much more likely to train local populations in the skills they need to work in those companies.

CIDA has a number of initiatives where they use the expertise of Canadian companies to help develop local private companies as suppliers to those Canadian companies that are active in developing the resource industries in those countries. For example, CIDA is in partnership with World Vision and Barrick Gold in Peru, which is providing 134,000 residents with educational services, water, and sanitation. I wonder if you can comment on that project and what Barrick Gold is doing there, compared to what you know about Chinese resource companies and what they might be doing in those countries.

On another example, in Burkina Faso there's a project between Plan Canada and IAMGOLD that is providing 10,000 youth with skills training. I wonder if you can comment on that. Are these initiatives, where the Canadian government is partnering with private companies, producing results that wouldn't otherwise be produced if it were left to a resource company from another country—or with no support at all?

The Chair: Can you do that all in under 30 seconds, Mr. Reilly-King?

Mr. Fraser Reilly-King: The local private sector is key. China has a very bad track record in Africa, and I don't think we can really compare the actions of Canadian companies to Chinese companies. We would probably all expect Canadian companies to be the best in practice.

I'm less familiar with World Vision and Plan Canada. I looked at the intervention made by WUSC, and one of the things I think is positive about that project, which I think they've done in collaboration with IAMGOLD.... IAMGOLD isn't even operating in the country anymore. There are still resources committed to this. The operations are taking place 200 miles away from where the mine is.

WUSC is beyond education, health initiatives, and training initiatives. It's working with local government to try to ensure that the real benefits from that project come to the local community. So it's trying to take the royalties that the country gets and bring them down to the local level. So I'd say that the practice there is guided less by corporate interests than by development interests.

• (1620)

The Chair: Thank you.

That's all the time we have.

Sorry, Mr. Dechert. We may catch you in the last round after Mr. Saganash.

Mr. Romeo Saganash: Thank you, Mr. Chair.

I'd like to come back to Mr. Reilly-King and his recently completed analysis of the budget cuts.

You state from that analysis that it is extremely difficult to assess what exactly the criteria were for making this decision.

The analysis also mentions that Colombia, Peru, Indonesia, and Bangladesh have become important trading partners for Canada in recent years. To that list we can add Ukraine and Honduras, which recently concluded FTA negotiations in August 2011.

Some might see it as mere coincidence that more and more of our aid and development dollars are going to countries where we have increased economic interests. What are your thoughts on this change in direction? Is it the right direction we are taking in all of this?

Mr. Fraser Reilly-King: It's difficult to say whether it's the right direction. It's the direction that the current government has taken.

But just to go back—you raised this issue before—it's fine if the government decides that it wants to pursue trading initiatives with different countries, but ultimately when it comes to development and aid money—and especially in the context of the ODA Accountability Act—I hope that the government, through CIDA, will

prioritize the countries that have the greatest needs. In this context that would be low-income countries. They are the ones that need the most money. There are still populations within middle-income countries that need it, but I hope the government will continue to prioritize those that need the resources most.

[Translation]

Ms. Ève Péclet (La Pointe-de-l'Île, NDP): Thank you very much.

Mr. Reilly-King, you raised a good point: local development. Developing countries are often almost controlled through humanitarian aid. Countries that provide humanitarian aid tell themselves that developing countries don't have the resources for local development and that they will work on that for them. Based on how we currently view international aid, I fear that there will be even more patronage if that aid is provided by private companies. Developing countries are told that, since they are lacking the necessary resources, we will give money to our companies so they can work on local development in those countries' stead.

In international development, we should instead try to fund local companies, and not give money to a company that may not be familiar with all the needs of the population and the public institutions. This is a matter of public institutions and good governance. These issues are not at all part of those institutions' policies.

This has to do with the direction humanitarian aid is taking. Is this the right direction to take in terms of humanitarian aid? Should we not, as Mr. Reilly-King said, invest in private local development instead of using major private companies for large-scale development?

[English]

Mr. Fraser Reilly-King: Earlier I referenced CIDA's private sector development strategy from 2003, and it puts the development of the local private sector at the heart of its strategy. I think if you haven't already you should read that part of the private sector strategy, and I think it's something that Canada should continue to do.

Ultimately to be sustainable.... A number of individuals will comment about how aid hasn't been effective. We need to put in context that aid is a very small resource. A huge amount of direct foreign investment or capital is fleeing countries, tax isn't accrued in countries. So aid can only achieve so much. We would hope that the small amount of resources it's used for would prioritize the needs of low-income countries to help develop the local private sector.

That doesn't mean that large companies shouldn't engage in philanthropy. It's great if companies want to invest large amounts of money in pursuing interests that advance development in countries, or there's also the possibility.... I think there are some good public-private partnerships out there, as long as they start with the needs of local individuals. When they are top down, when they're supply driven, they're not going to work. But first and foremost, as I said, especially given declining aid resources, prioritizing the local private sector is key.

• (1625)

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

Ms. Grewal, you're going to start but probably for three or four minutes, and we'll cut you off. Thanks.

Mrs. Nina Grewal (Fleetwood—Port Kells, CPC): Thank you, Chair.

Mr. Heaps, I understand that during your December 2009 committee appearance, you told members that no company can succeed in a society that fails. You stated that you have faith that there is a strong self-interest for companies to engage in commerce in a way that strengthens social and critical stability. You also stated your support for Canadian companies in the aspect that companies must be at the heart of big solutions, or there will be no big solutions.

Can you describe why private sector investment is so critical to the development of less developed nations and how the private sector can contribute to the alleviation of the overall problems of health, education, and poverty?

Mr. Toby A.A. Heaps: Sure. Thank you for your question.

When you look at the scale of investment that we need to help these economies emerge and be able to feed their citizens and keep them healthy and give them jobs and give them electricity so they can read at night, the scale is many orders of magnitude beyond what direct aid could ever do.

Direct aid, as Fraser says, plays a valuable role in places where people are starving and in some disease eradication, but as far as helping countries rise and achieve sustainable development, the private sector is where the capital flows are. In context, the \$95 trillion for global bond markets is many times more than any aid budget, and the bond issues are growing every year.

Our financial system is plugged up in many ways and in need of plumbing. It tends to finance what it's financed before with some exceptions like mortgage-backed securities in the U.S. So it looks at track records for this type of new investment, for this country, and it has a bias toward financing what it's financed before and with whom it's financed before.

If we want to achieve sustainable development in relevant timeframes, we're going to have to scale up private sector finance, redirect the trillions of dollars that are already flowing, and start tilting them toward more sustainable development investments. That's where we can make the biggest contribution, and that's what's so exciting about being Canadian. We have penetration in more countries. We have more countries with penetration in us, and we have more stable financing than almost any country in the world. So if we can marry all those things.... EDC is a great institution to work through, it is superbly well positioned to lead this new vanguard of sustainable development, but it will need a nudge to ramp it up.

The Chair: Thank you.

That's all the time we have.

I want to thank Mr. Heaps and Mr. Reilly-King very much for their discussion today.

With that we are going to suspend so we can let these witnesses go and bring our other witnesses for our next hour. Thank you very much, gentlemen.

•(1625) _____ (Pause) _____

•(1635)

The Chair: Let's get started with our second hour.

I'd like to welcome Mr. Romer here today to talk to us a little bit about some of the things he's been working on. Mr. Romer is with the Stern School of Business in New York City. I know that he's done some work with the Macdonald-Laurier Institute here in Ottawa.

I'm just going to turn it over to you, sir. We'll give you 10 minutes or so to make your opening presentation, and then we'll go around the room and maybe follow it up with some questions.

Once again, thank you for coming up here today and spending some time with us. We look forward to hearing what you have to say.

Dr. Paul Romer (Professor, Stern School of Business, New York University, As an Individual): Mr. Chairman and members of the committee, it's a great pleasure to be asked to come to testify here.

There is one part of my career you didn't mention, and maybe you don't know. I spent the middle year of my graduate education at Queen's University in Kingston. It was actually the most productive year of my graduate career, so I have a special fondness for Canada.

I want to start by saying that I'm here to describe an initiative of the government in Honduras that I've been advising on. The President of Honduras sent a letter, which will be available in the original Spanish, with an English and French translation, indicating how much he appreciates the interest expressed by Parliament in this experiment Honduras is undertaking and how much he values Canada as a potential partner as this project goes forward.

To step back and motivate what they're doing, let me describe for you a more familiar context of domestic unemployment. Suppose you saw massive amounts of persistent unemployment in your society. A natural impulse to deal with that would be the charitable impulse to try to put people on what we used to call the dole, or welfare, to provide income support for people who aren't working. If that's a pervasive problem, it will, of course, be a very expensive program for a government to maintain. And it's actually one that we now know can be quite harmful, since the additional disincentives to work that those kinds of charitable grants can offer can actually end up keeping people out of the labour force, which reduces their skills and reduces their sense of accomplishment and dignity.

In a case like that, we know that instead of that expensive and harmful solution, there's another very low-cost solution, which is to identify the impediment that is preventing people from working, to recognize that every human has the capacity for creating value and being productive, and to remove that impediment so that all those people who were idle can become productive. We get the benefits of their labour, but especially, they get the benefits of the extra skill and the hope and the dignity that come from work.

In the national domestic context, it seems obvious to us that the role of the government is to remove those impediments and to then let people produce as they can. It's not generally the role of the government to provide assistance or replacement income.

We have worked our way in North America through that kind of line of logic in recent decades, but we haven't yet gone through a comparable transition in our thinking about development assistance. When we look at people in poor countries, we still reach too quickly for the solution that involves the gift, the charity, or the aid. There are clearly some circumstances in which this is appropriate. Humanitarian aid in times of crisis can be the difference between life and death, and is something we should certainly stand ready to provide. But it's not the solution when we see chronic, persistent poverty in poor countries, and we see people who are not productive and who are not acquiring skills.

The other thing that is revealing is that this is not something that represents a flaw of the people. For example, when someone from Honduras who was idle or who was working at a very low wage in Honduras moves to Canada or to the United States, the person comes to a new environment and earns much more immediately on arrival. So we don't need to look inside the people for the immediate impediment. We have to ask what it is about the environment that's holding everyone back.

The jargon economists use for the potential impediments is "institutions". I don't like that language, because I think it obscures. I think the right language to use here is "rules". Every society, every group of people, follows a set of rules that structure how people interact with each other.

• (1640)

Those rules are partly codified in law, but they're also instantiated in our norms about right and wrong.

The rules that a Honduran can get access to if she moves to Canada involve both the legal requirements for honesty, but also the prevalent social norms about honesty and about trust. The challenge in a country like Honduras that wants to reform is that it can copy the laws of Canada easily enough, but it can't copy the norms of Canada, at least instantly.

Even if people in Honduras know they would all rather live in a society with high levels of trust, where people are more honest and where trade can take place much more easily because of that trust and honesty, they're looking for a mechanism to escape from a set of rules that were bequeathed to them by a history of colonial imposition of near-feudalism in the early stages in Honduras and of persistent fear of opportunism and violence—fear by peasants of landholders who might take advantage of them, might repress them, and fear by landholders of peasants who might engage in land invasions and takings.

What the leadership in Honduras has concluded is that in that kind of circumstance, if the key is to develop norms of, for example, trust and honesty, sometimes a neutral third party can come in as the trusted arbiter and can help create the conditions of safety, which they can then use to build honesty and trust and engage in the process of rapid development, which they know they're capable of. The government has amended their constitution and passed a law to create the potential for what they're calling a reform zone, where in that zone, foreigners could come in and undertake some of these key conditions—create these key conditions that help establish trust and safety and help evolve the norms of honesty.

To go back to the point in the beginning, this is something that doesn't cost the foreigners anything. If anything, I think any foreign government that wants to be helpful in this project should immediately.... Someone asked earlier today: what can donor nations do to help? I said don't be donor nations. Don't think about giving money. That's not what's relevant. We heard in the testimony before that the money here is just a pittance compared to the value that can be created, but things like providing the seed of trust, from which broader social trust can grow, can be enormously valuable.

I'll give you one specific example of how this is playing out, and then perhaps we could turn it over to more general discussion.

The legislation providing for this special reform zone says that courts will be created in this new zone. Right now in Honduras the courts and the police are not trusted, and for good reason. Many of the police and courts and lawyers engage in bribes and do not enforce the law honestly. A lawyer told me once that when he is in a proceeding and the judge doesn't ask for the bribe, he knows he's in trouble because the other side has already bribed the judge and won the case.

So how can you escape from conditions where everyone knows this is wrong, but it's so prevalent and so pervasive and no one knows whom they can trust? One provision in this new reform zone is that it will have its own courts. The judges who staff these courts can be appointed from anywhere in the world, but Mauritius has agreed that its supreme court will act as a court of appeal for the new courts in this zone in Honduras. The informal agreement at this point is that the zone will compensate the supreme court through filing fees or whatever mechanism they work out, so that this doesn't impose any net costs on Mauritius.

• (1645)

But what Mauritius can do then is provide the neutrality and credibility of its legal system as the anchor, through the appeals process, of a new judiciary that can be put in place immediately in this new zone.

You might ask, why implement this just in a special zone? Why not do this for all of Honduras? The answer is that this kind of participation by a foreign body would be objectionable to some people in Honduras. Rather than say this is a measure that will be forced on all people of Honduras, what the government has said is that it will create a new place where this will be available to people, and if you as a Honduran citizen feel comfortable going into that zone and getting matched with an employer who might come and hire people in that zone—you might use infrastructure that is funded by investors looking for a return on their investment in the airport, port, or power system—you are free to go operate in this new environment, but it's not forced on anyone.

That possibility of choice in opting in is important not just for initial acceptability of this kind of change, but also because it means that these new norms and these new rules have a legitimacy that comes from universal assent to those norms that they never would have had if they were imposed on some people who didn't want them—not just norms but legal arrangements. The idea is to create the space and use the resources, which don't really cost anything but which can provide so much as the nucleus for creating the kind of opportunities that people have to move to North America to get now. Create that in the zone, and then as it succeeds, find a mechanism to let that system, if it is judged to be attractive to the rest of Honduras, spread throughout the country and hope it is a model for the rest of the world about how social reform can take place. And incidentally, how we can provide urban environments and opportunity for the billions of people who want to move into urban areas.

That is the venture. The example of what Mauritius has done is an indication of the new style of development assistance that a country like Canada could provide. With that hint of the possibility that things could be very different from what we are used to, perhaps I should turn it over to the members of the committee for questions.

The Chair: Thank you very much.

We're going to start with the opposition.

Mr. Saganash, please, for seven minutes.

Mr. Romeo Saganash: Thank you, Mr. Chair. Thank you for your presentation. I appreciate that.

I have to tell you that I was sent the link just before the weekend, before leaving for the bush for fishing back in northern Quebec, and I watched you on video and the example you gave about Hong Kong. It was quite amusing having to watch you way up north in northern Quebec over the weekend.

First I have a very quick question. Is this idea of charter cities applicable to Canada and first nations in a first nations setting? How does it differ from the third party management policy we have in this country for first nations communities?

• (1650)

Dr. Paul Romer: That is a very good question, and it's one that comes up in the U.S. context as well.

There are several elements in play here. One is the notion of autonomy, and giving some geographic space an autonomous system of government. We see things that more or less are like that with various first nation arrangements in North America.

The other element in this proposal, though, is the purely economic imperative of urbanization as the path to opportunity. Almost everything people do is more productive in a dense urban area. The only exceptions are things like farming or mineral extraction, which require lots of land.

The key here is not just to provide conditions of trust and opportunity and employment, but also all the benefits that come from a dense urban productive environment and living environment.

This zone in Honduras will be open to migration from all of Central America and Latin America—even all of the world. For example before 2008, a million people a year left Central America

and Latin America to come to the United States. At a flow of a million people a year, this zone could get to the size of a city of 10 million people within about 10 years.

The difference in the legal environment in Canada, I'm sure, and the United States is that no one right now is willing to contemplate letting millions of people who want to move into cities come as landed immigrants or permanent residents in our countries. For a variety of reasons, we're not ready to contemplate that kind of inflow.

You could create a special autonomous region in Canada or the United States, but it wouldn't have a viable chance to become a city of 10 million people that is a global hub that can compete for the best talent of the future.

Mr. Romeo Saganash: The assumption, Mr. Chair, is that the model of cities is the ideal development model for this idea—so therefore it assumes that rural areas, and small communities are not—and that if you want prosperity you need to move to a big city to get it.

Here in Canada we hear this argument all the time. It is aimed at people who are living in rural areas, on reserves, like most of my people. As someone who was born in the bush and has lived off the land and partakes in the traditional way of life of my people, the idea that I should abandon that connection to the land and home is not one I see as respectful of who I am as an aboriginal person in this country.

Would you agree that most of the social development problems that exist in rural communities, such as poverty, poor diets, substance abuse, and crime, also exist in cities?

Dr. Paul Romer: We see all of those problems in both high-density and low-density environments. To be sure, we should always respect traditions and individual preferences that can lead to many different choices. But the challenge I see when I look around the world is that something like three billion to five billion people will want to move into cities in this century. That is more people than have moved into cities in all of human history. Without making a judgment about whether they're right or wrong, I think policy-makers around the world have to accept the fact that these billions of people want to move to cities. If that's what they want, the imperative is to try to create the conditions where they can do so in safety and health, and with opportunity, inclusion, and dignity.

There will always be people who work in agriculture, minerals, and traditional lifestyles, and live in less-dense areas. People may move back and forth. These are not lifetime commitments. Someone might spend a period of time in a dense area saving money, and then use it to move back to a less-dense area. But around the world as a whole, the reality is that there is a tsunami of urbanization coming.

That gives us the chance to create a number of entirely new communities under these new conditions, and to use that as a chance for reform and progress we wouldn't have if we didn't have the chance to create new communities.

This proposal does not have any immediate easy answers for problems we see in some rural communities. That is its own problem that deserves its own attention. But it is a proposal that can get us out of thinking about aid as charity and into thinking of aid as the costless facilitation of the development of these new norms that support modern, dense social life. Enormous benefit around the world will come from that kind of facilitation—benefit for people from the developing world who can take advantage of it, but also benefit for the people from the developed world who can finance things like infrastructure, outsource the manufacturing activities, and trade productively with these growing centres around the world.

● (1655)

The Chair: Thank you very much. That's all the time we have.

Mr. Williamson, you have seven minutes.

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

I find your ideas interesting, but can you explain on a practical level where, if anywhere, these ideas have been put into place? I just heard about Hong Kong, but has China tried this, or other parts of Asia? Give us some practical ideas to bring it home and take it out of the world of theory a little bit.

Dr. Paul Romer: Mauritius is a country few people know. I first started studying Mauritius because they used a zone like this to get out of the trap of extremely high barriers to trade and to open the economy up. The way they did it was that they created something they called a zone. All you had to do to be in the zone was self-identify and say that this firm was in the zone. If you said that you were in the export processing zone, what that meant was that you could freely import any goods with no limits, no quotas, and no tariffs, but you had to export all of your output. That was the one restriction. You couldn't sell anything domestically.

You could also operate under different labour law restrictions from in the rest of the economy. No firm was required to join this zone, and no worker was required to work in the zone. A number of firms entered the zone, so to speak. A number of workers, especially women, who had never had access to the labour market, got jobs in these firms that came in from overseas. Then eventually, some of these women became entrepreneurs and started their own local firms. As the Mauritian economy saw how beneficial trade could be for the people who engaged in it, they eventually lowered the trade barriers throughout the entire island.

It is a case of reform that people can opt into, which then gets accepted within the society as a whole as legitimate, because nobody feels that it was forced on them. This is why I first started studying the history of Mauritius.

The more relevant example would be Shenzhen, which is one of the four special economic zones Deng Xiaoping started, with the same view that he wanted to create places where foreign firms could be matched with Chinese workers. Rather than force that on any city or Chinese worker, he created some places where this could be done.

The president, Hu Jintao, recently referred to Shenzhen as a miracle, because it went, in about 20 years, from total GDP in the order of \$10 million to a GDP of more than \$100 billion a year.

It's the success of the Shenzhen model, both on its own terms and in terms of persuading the rest of China to adopt the market model and let foreign firms come in, that I think has persuaded developing countries around the world to look at special zones as the way forward.

Mr. John Williamson: I agree with you.

You were saying that it was done not to force it on others in China. I'm not sure that the Chinese government has ever been fearful of forcing any of its reforms on its people. Was it not done, these four regions, as kind of a test case? The results have been, as you said, spectacular. The growth of wealth in China, as well as population, has occurred in these areas. Elsewhere, is it fair to say that there's been very little growth, or has it just not been nearly as dramatic as it has been in these areas?

● (1700)

Dr. Paul Romer: What's happened is that the success that happened first in the special zones quickly migrated to other parts of China. They kept adding more zones, and then even some of the interior cities started to copy the arrangements in the zones. So now we've seen rapid growth throughout all of China, but following a model that was pioneered first in—

Mr. John Williamson: Are there six zones now? How many zones are there?

Dr. Paul Romer: They've quickly expanded to 14, and now it's hard to count.

Mr. John Williamson: I appreciate hearing about some real examples that have worked.

I appreciate what you're saying about institutions and the reference to rules or norms. I'm curious, though. I think one of the challenges for countries like Canada is to work with nations around the world that are putting in place these rules and norms that are beneficial to growth and development. Is it Canada's role to encourage countries to embark on these zones, if you like, or these charter cities? Or is it really up to the home nations to decide on their own if they want to go in that direction?

Dr. Paul Romer: I think the initiative should always come from the developing economy, not from Canada or anyone like Canada or Mauritius. It has to be under conditions where this is a voluntary act by the developing economy, because again, the legitimacy is the central element in this strategy.

If in 10 or 15 years someone says this arrangement was not legitimate, that it was imposed, that it was a taking of some sort, then you could lose all of the potential benefits that are contemplated here. Instead of having the trust and respect for the law that comes from legitimacy, instead you'll get opposition and potentially even violence.

To anticipate a question that often comes up, I've been asked many times whether we create a zone like this within Haiti. My answer is that it would be very beneficial for many Haitians if they could move into a zone where conditions of trust could be ensured by something like the mechanisms that I'm describing, but right now the Haitian government is really subject to a military occupation. It's a humanitarian military occupation, but the government is totally dependent on security forces controlled by other governments.

It's hard to argue that any decision the Haitian government took right now to, say, create a special zone with special arrangement was a truly voluntary arrangement. Unfortunately, sadly, I just don't think this arrangement could be proposed in Haiti now, but it could be proposed perhaps in the future once there is a government in Haiti that has the power to do so.

Mr. John Williamson: I'm curious to quickly get your thoughts on what the minimum requirements are. The government wouldn't even be democratic, but it would have to, for example, have a commitment to the property rights, rule of law, free trade....

What other elements do you think are vital to this growth model?

The Chair: If you could, just give a quick response.

Dr. Paul Romer: Sure.

I think one of the reasons why it would be good if Canada or nations like Canada, like other nations, participate in this is that they could set some standards and expectations. One that I would argue very strongly for is the notion of inclusion in the sense of equal treatment under the law. I think we should not tolerate places where, on a permanent basis, you have second- and third-class citizens with different legal rights.

The Chair: Thanks.

We're going to move back over for the last question of the first round.

Ms. Murray.

Ms. Joyce Murray: Thank you.

Thanks for coming to help us understand about this opportunity.

On a personal note, I want to congratulate the Stern School of Business at NYU for your commitment to the offbeat and the innovative. My son, Baba Brinkman, was commissioned to do *The Rap Guide to Business* by NYU, and spent some time with members of your faculty and your students.

I have two questions. One of them has to do with creating the space for opportunities and special development zones. That goes hand in hand with what Michaëlle Jean said would help in Haiti; it's really working with the government and not creating an über-government network of NGO and development money. I think this sounds like an exciting prospect, offbeat and innovative, maybe.

However, we also heard earlier from witnesses that the key is that some of the intangibles, some of the things that money can't buy... We heard that Canada's help, if it's international development interest, should be about equitable growth and job creation, and not income-unequal job creation. It should be within a sustainable development framework, a total accounting approach.

Could you comment on how Canada can respect the sovereignty of a country like Honduras, which may not have a big commitment or capacity on those things, but still be making that a criterion of our assistance. That's one question, and I'll just put the second one out now also.

In terms of providing the seed of trust, I do have to comment that there are some things that Canada is eroding in terms of being an international beacon of trust and honesty. You may not be aware of it, but there is a big investigation by Elections Canada on potential systemic election fraud in the last federal election. There are other issues. The Auditor General publicly and the Parliamentary Budget Officer were talking about two sets of books, information not disclosed—

● (1705)

Ms. Lois Brown: I have a point or order, Mr. Chair.

There have never been two sets of books, and the Auditor General said there are not two sets of books.

The Chair: I don't think it's a point of order anyway.

Continue, Ms. Murray.

Ms. Joyce Murray: This is about trust, and the Parliamentary Budget Officer did say that, so it's a concern that...

The scale at which we're seeing this in Canada, I want your comment as to whether that would affect Canada helping develop the norms for trust and honesty.

Lastly, if there's time, Haiti is developing a zone on the north coast like you're describing and potentially thousands of jobs. I'm wondering why you're saying that country might not be ready. If they are developing that, would it not be helpful to have some help with capacity-building on institutions and democracy?

Thanks.

Dr. Paul Romer: Like it or not, Canada is still a beacon of good governance and trust around the world. A sign of what's so admirable is the self-criticism and the investigations. Complacency about good governance would be a very bad sign, but rigorous attention to this is what it takes to maintain it.

In Haiti, the zone that's being proposed is not large enough to develop a major urban metropolis and may suffer, therefore, from the limits in scale and the degree to which it's really more of a private effort rather than an effort with a strong government that provides services that governments should provide.

The criteria are an interesting question. I think this assistance and legitimacy and moral authority that Canada could bring to help establish some new environment, some new effort, is something that shouldn't be granted carelessly. It's appropriate for Canada to set some criteria about inclusion, for example; that I think is so important. You won't participate if there's not a commitment to some of those things. But on the other hand, one also has to allow that ultimate decisions about how it wants to move forward have to come from the developing country.

So a country like Honduras can make a proposal for how it wants to develop, and then Canada could evaluate it seriously with an open mind, but then decide that perhaps this isn't one you want to participate in. But if not that one, there will certainly be others.

The Chair: Thank you very much.

That completes our first round. We'll start into our second round, five-minute rounds of questions and answers.

We'll start with Mr. Dechert, five minutes, please.

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

Thank you, Professor Romer, for your appearance here today. This information is very interesting.

I was very struck by your description of the legal system in the special zone in Honduras that's mentioned in the letter you provided to us.

We've certainly heard from a number of witnesses through this study about the problems that developing countries have with their legal systems. Corruption in the legal systems tends to hold back the development of their economies. It seems as if you found a solution here.

First, how was the Honduran government convinced to go along with this, to essentially cede sovereignty over the legal system in a specific area of the country to judges and a court of appeal from another country?

Second, with respect to Haiti, we've heard a lot that one of the most significant problems in continuing the recovery from the earthquake and developing the economy is that there is a significant problem with the land title system in Haiti. I wonder if something like this could be a solution to that problem. Could you have an outside organization take over the land title registry system in Haiti and sort it out, so that business can begin to raise money based on mortgages on those properties?

I understand that part of the problem today is that, for every piece of land in Haiti, there are two or three or five people claiming title to it, and that retards the economy because people can't use that as leverage for capital to make investments in business. Maybe you could comment on those things.

• (1710)

Dr. Paul Romer: On the question of how, this arrangement was imagined, proposed, and put forward by Hondurans themselves. They sought me out because they could see I had been thinking about something similar, so they asked me to help them. But they saw this as a way out of the kind of trap they had been in, especially after this traumatic episode of a coup with the previous president, Zelaya. So there is a new administration that is committed to reconciliation and asking the hard questions about how to rebuild trust.

To be clear, they have in no sense ceded sovereignty of this land to any other kind of government.

Mr. Bob Dechert: The judicial system...?

Dr. Paul Romer: Importing government services, so to speak, is not the same as granting sovereign status of Mauritius within this

zone. It's just leveraging the credibility of their courts to help them solve problems in their judicial system.

It is possible that a similar arrangement could be tried in a place like Haiti. Honduras also has this problem. Many developing countries have the problem of lack of clarity in title. If people fear that the decisions about ownership are influenced by bribes, they will be very hesitant about allowing the judicial system to come to a final decision, and they'll be very fearful about attempts to resolve these questions. Delay might be safer than a resolution.

The key in Haiti, as well as in Honduras, is for it to be a body that is trusted and clearly neutral—honest and not influenced by any of the affected parties.

The other challenge is that in Honduras people will voluntarily opt into this arrangement. In Haiti, if you impose this as the dispute resolution mechanism for all the land in an area you want to try to use for industrialization, many people might become emotionally very opposed to the process because it's imposed on them and they feel it's illegitimate.

It's a very important point that the same person who would voluntarily move to Canada, if they were free to do so, might violently resist an attempt to impose Canadian systems on his or her community. It's just the reality of the way humans work that a choice to opt in has a moral significance that completely changes things, compared to the imposition of something against one's will. My fear about Haiti is that you'd have problems with legitimacy and violent opposition if it were imposed.

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

Madam Pécelet, you have five minutes, please.

• (1715)

[Translation]

Ms. Ève Pécelet: Good afternoon. Thank you for your testimony.

I am mostly wondering about governance. One of the things you talked about is a judicial system, but you did not mention what happened in Madagascar, where the same kind of situation took place. So here is your chance to comment on that. You gave the example of Hong Kong. However, the same thing was attempted in Madagascar, but the population was strongly opposed to it. The president actually even had to resign.

What are you doing in terms of democracy? What democratic system, what type of governance or model will be imposed on those people? Thinking that a population will be prepared to abandon sovereignty across its land and adopt a system different from the one already in place seems rather excessive to me.

[English]

Dr. Paul Romer: One of the sad things about being a poor country is that the worldwide press never bothers to get the facts right about anything that happens in a poor country.

In Madagascar, Daewoo gave a statement to the *Financial Times* saying they had a deal to lease large tracts of land in Madagascar at zero payment to the government in exchange for the construction of some infrastructure.

The government had never accepted that deal. The *Financial Times* did not even ask for comment from a government official. The *Financial Times* subsequently published a retraction from Daewoo saying, well, this is what we were asking for but nobody from the government ever agreed to it.

The fact that the president had given away large amounts of land to Daewoo was used as a pretext for a coup that was clearly engineered by other forces for other reasons. No one has even bothered to correct the facts about Daewoo and the land.

Now it is true that I had some conversations with President Ravalomanana prior to the coup about the idea of trying to build a city, but this would be on a very small piece of land compared to what any of these agricultural projects involve. There was never any public discussion of the charter city proposal in this coup period. I know that there are reports out there, but the facts are very different from the ones that are often cited.

[Translation]

Ms. Ève Pécelet: So you do not agree that it was an attempt to establish a special regulatory zone. Could you answer with a yes or no?

[English]

Dr. Paul Romer: I had conversations with President Ravalomanana about this idea. We both agreed that it offered a promising future for Madagascar, but there was never any agreement, and this was never the source of any popular protest because it was never publicly disclosed. The popular protest you're referring to was about a report of an agricultural development deal between Madagascar and Daewoo, and as I said, it was a purported deal that was not in fact a deal.

[Translation]

Ms. Ève Pécelet: You talk about poor countries and the way that type of new zone, new regulation, will help revolutionize things and fight poverty. Are we talking about a deregulation zone? I feel it is clear that this is a free zone or the equivalent of the free zones many countries have. What would be the difference between a new zone, a new regulation, and a free zone that, in most developing countries, enables companies to exploit workers?

Free zones in Jordan were actually discussed at a meeting of the standing committee on international trade. Workers are exploited and human rights are violated on a daily basis in Jordan. So, what is the difference? Sir, I am sorry, but I would really like you to tell me what kind of a system you will use to fight corruption and tax evasion. Even Canada—which is a developed society and an example, as you say—is losing billions of dollars every year because of tax evasion. What will this new governance revolutionize? Literacy, nutrition and health have been brought up, but I don't see how this new type of governance will change things.

• (1720)

[English]

The Chair: That's all the time we have, but I'll let you answer the question, if you could, as quickly as you can.

Dr. Paul Romer: I think the best way to capture the essence is that if one could create in Honduras the conditions that Hondurans seek out in Canada and the United States—the infrastructure,

employment opportunities, educational opportunities, the physical safety for their children—it would be an extraordinarily beneficial opportunity for Hondurans. And the point is that it could also be a good investment for all of the private firms who help to create those conditions.

All it takes to unleash this is the seed of a legal system and trust that can create both the laws and the norms that we take for granted here but that Hondurans don't have access to.

The Chair: Thank you very much.

We're going to finish up with Ms. Brown for five minutes.

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

Thank you very much for being here. This has been most interesting

Mr. Romer, I don't know whether you are aware that Honduras is still one of Canada's countries of focus for our foreign development money. We have chosen 20, and over the next little while we will be analyzing how the countries have been able to use the money, because capacity-building is obviously one of the very important things we have to look at. I mean this in the best possible terms, but there's no sense in continuing to put money someplace where it can't be properly or effectively used, and just churning the same problems over and over. To look for those countries where we know we can do good and be effective and the money will help grow capacity is one of the important tools we need to use to analyze.

I should let you know that not only is Honduras one of our countries of focus, but there are many Canadian NGOs working in Honduras. We have language ability in many cases, which has been helpful in being able to work there. In Newmarket—Aurora, my constituency, a group of men who are retired from their own professions as engineers and architects are developing schools in Honduras. It was very exciting to bring them here to Ottawa to meet with the ambassador from Honduras and have lunch.

When we talk about capacity-building in the country, we had Hernando de Soto as an intervener to the committee, as I'm sure you're aware. I'm sure you're very familiar with his writing. He talked about the extralegal economy and how people can't access capital to grow these businesses.

You're setting up a special zone where businesses will be able to work, compete, and hopefully develop their products for export. We have a free trade agreement that we're negotiating with Honduras, so that will create jobs. But I wonder if you can speak to the key pieces of legislation that need to be developed for this zone to work. Are the judges for Mauritius helping to craft that? Is there opportunity for Canada to be involved in some of that development?

Dr. Paul Romer: When you say legislation, do you mean rule-making in Honduras?

Ms. Lois Brown: Absolutely.

•(1725)

Dr. Paul Romer: This initiative is at an early stage. There is lots of opportunity for interested parties to influence the decision-making process and to influence decisions, such as, for example, what the default commercial code will be within this zone. Even if Mauritius is the court of appeal, it need not be Mauritian law they're adjudicating when they're deciding a commercial dispute.

For a commercial code, there are a variety of different codes from around the world one could select from. I think the more interesting area is regulatory law. For example, if this is a place where you're going to offer opportunities for firms to make a profit by providing water, by providing power, by operating the airport, and by operating the seaport, there needs to be a body of regulatory law. The firms coming in need to know how their activities will be regulated. Using existing systems of law and processes will provide a lot of confidence for potential investors.

That's one area.

In the area of policing, I think this is not something that should be a charitable gift. The zone government should feel free to try to propose to the Mounties or to the Ontario Provincial Police an arrangement whereby they might contract with them for some staffing or some training to set up the policing in the early stages.

There is also a kind of governing board that will oversee the development of this zone in the early stages. I think it would be very interesting if anyone within either the government or the private sector were to suggest names from Canada, or names of people Canadians respect, who might sit on this kind of governing board. It will be very important in setting the tone and the standards in the early stages.

At many different levels, I think there are ways for the government to participate. It may be worth keeping in mind the example of the Supreme Court of Mauritius, because that strikes many people as novel at first. We're used to volunteer efforts and NGO efforts. This idea of one government kind of crossing a border

and participating somehow with another frightens us, because it feels like colonialism. It feels like invasion. It sounds risky. But done right, it could be enormously beneficial.

I think we should open our minds to voluntary arrangements of this kind that could be undertaken. I can assure you that any expression of interest from the Canadian government would be warmly received by the Honduran government.

Ms. Lois Brown: It will be. It's a mentoring process that's being put in place as well as help with the adjudication. There's an opportunity for a mentoring process between the judicial participants.

Dr. Paul Romer: You could think of it as exporting government services that might then facilitate other kinds of, you know, private sector participation by Canadian firms.

The Chair: Thank you very much.

Mr. Romer, thank you very much for being here today to discuss that.

Just before I finish the meeting, I want to mention that there are a couple of informal meetings this week. We have a parliamentary delegation from Bosnia tomorrow morning at nine o'clock. I know that the notices went out. It's in Centre Block. Then we have some parliamentarians from Indonesia who are requesting a meeting on Wednesday, before question period, from 1:00 to 1:45, right here in this room. If you can make it, that's great.

The last thing I want to mention is that as far as your Ukrainian report goes, we're going to look at trying to have it distributed on June 4. There's going to be a working copy to talk about for consideration at the meeting on June 6. We're trying to get you that information as quickly as we can so that we can work on it. We're anticipating looking at crafting the report on June 6.

Thank you very much.

With that, the meeting is adjourned.

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