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DRIVING INCLUSIVE ECONOMIC GROWTH: THE ROLE OF THE PRIVATE SECTOR IN INTERNATIONAL DEVELOPMENT

Report of the Standing Committee on Foreign Affairs and International Development

**Dean Allison, M.P.
Chair**

NOVEMBER 2012

41st PARLIAMENT, 1st SESSION

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has the honour to present its

SIXTH REPORT

Pursuant to its mandate under Standing Order 108(2) the Committee has studied the role of the private sector in achieving Canada's international development interests and has agreed to report the following:

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DRIVING INCLUSIVE ECONOMIC GROWTH: THE ROLE OF THE PRIVATE SECTOR IN INTERNATIONAL DEVELOPMENT

Overview

Over the past year, the House of Commons Standing Committee on Foreign Affairs and International Development (“the Committee”) has conducted a study on the role of the private sector in achieving Canada’s international development interests. During that time, the Committee heard the views and recommendations of a wide range of Canadians and others on what is a vast, complicated and important subject. While the testimony covered a broad range of specific topics, the Committee has focused this report on core thematic issues relevant to the study.

The report begins by reviewing recent changes in the development landscape. It explains that even though the fundamental goals of international development have not changed, in a number of areas opinions have changed on the ways in which they can most effectively be achieved.

Private sector actors are increasingly being recognized as a major force in development. They drive economic growth through investment, employment and business creation, innovation and knowledge transfer, and other multiplier effects from their operations and activities. Ensuring that this growth is likely to contribute to long-term poverty reduction, however, requires private companies to include the poor as producers, suppliers, employees and consumers. Under the right circumstances, public-private partnerships that are based on the identification of complementary expertise and shared commercial and development interests are also an important tool that can harness the private sector’s contribution to such inclusive growth.

The report also makes clear that the public sector performs key functions in the pursuit of inclusive economic growth. Indeed, the link between governance institutions and development is a recurrent theme throughout the report. Public institutions create the conditions and rules within which sustained and inclusive economic growth driven by the private sector is possible. Beyond this enabling environment, strong public sector capacity is needed to ensure that authorities are able to deliver services and carry out their regulatory and other responsibilities in a transparent manner that strengthens the accountability ties between them and their citizens. The key message of the report is that it is the combination of increased private sector activity alongside good public policies and robust institutions that is most likely to lead to success.

While Canada has very little experience with public-private partnerships in its development work, others have amassed considerable expertise regarding the best practices required to ensure development impact and sustainable outcomes. These examples, which will be discussed in subsequent sections of the report, offer a number of lessons for Canada.

The report also includes two detailed case studies of sectors in which a number of witnesses argued that Canada has significant strengths and expertise that would enable it to have a positive impact on development outcomes. The first of these is financial services (see pages 59-68). The second is the natural resources sector (see pages 68-87). While each case study discusses the issues and challenges specific to the sector in question, both reinforce the need for a combination of responsible private sector activity and public sector regulatory and other capacity.

In considering the full range of private sector actors and activities that could be harnessed towards the realization of development objectives, the Committee has also identified a couple of areas — including engagement with diaspora communities — where it believes further work is needed.

The report concludes with a number of recommendations to the Government of Canada, which reflect the broad range of testimony the Committee heard. The Committee believes that these can help to guide an effective Canadian approach to international development in this new landscape.

CHAPTER 1: BACKGROUND — THE CHANGING LANDSCAPE OF INTERNATIONAL DEVELOPMENT

A. An Increasing Emphasis on the Role of the Private Sector in Development

The general idea that the private sector is central to development is not a new one. Indeed, the World Bank's 1989 World Development Report was entitled *Financial Systems and Development*. Over a decade later, the Commission on the Private Sector and Development issued its 2004 report to the United Nations Secretary-General, *Unleashing Entrepreneurship: Making Business Work for the Poor*, while the theme of the 2005 World Development Report was *A Better Investment Climate for Everyone*. Various development initiatives and trends throughout the 1990s and early 2000s also focused — at times successfully and at others less so — on issues ranging from international trade liberalization and market access, to infrastructure development and technological innovation in areas like agricultural production.

However, it is only in recent years that the private sector has arguably come to be seen as central to development efforts, and that the full range of activities and actors associated with the “private sector” began to be fully considered as part of development strategies. As one witness who appeared before the Committee, University of Ottawa senior fellow Carlo Dade, commented in a 2006 paper, “...it is not the role of the private sector that is new, but rather our awareness of its role.”¹

While the importance of the private sector to economic growth has long been recognized, until very recently, private sector actors were not seen as development actors. As a result, they were typically treated as a secondary consideration in terms of potential vehicles of development financing and in terms of sources of ideas and input in development debates and policies, in comparison with the primary and more established group of actors: recipient governments and bilateral and multilateral development agencies. However, attitudes about development actors have been shifting. Policy discussions are now increasingly addressing the role and importance of other actors in development, including private enterprises, global funds and foundations, and individuals.

This trend has been reflected in the evolution of major international debates and initiatives pertaining to development. In the 2000 United Nations' (UN) *Millennium Declaration*, which led to the adoption of eight Millennium Development Goals (MDGs), the private sector was mentioned only twice. The international community resolved to “develop strong partnerships with the private sector and with civil society organizations in pursuit of development and poverty eradication.” In an effort to strengthen the UN itself, world

1 Carlo Dade, [“The Privatization of Foreign Development Assistance,”](#) FOCAL, policy paper, July 7, 2006.

leaders also resolved “to give greater opportunities to the private sector, non-governmental organizations and civil society, in general, to contribute to the realization of the Organization’s goals and programmes.”² By 2008, however, the UN was supporting the Business Call to Action, an initiative which “aims to accelerate progress towards the [MDGs] by challenging companies to develop inclusive business models that offer the potential for both commercial success and development impact.”³ Some 45 companies are currently participating.

Ten years after the launch of the MDGs, world leaders convened for a high-level summit to review progress towards the goals, and adopted the resolution: “Keeping the promise: united to achieve the Millennium Development Goals.” It lists various measures and calls for action intended to promote national ownership of the development process, to strengthen policies related to MDG achievement, and to ensure that previous international commitments, including with respect to development financing, are honoured. Within this overall framework, the resolution mentioned to a much greater extent than in 2000 the need to include the private sector in development efforts, to mobilize private resources, and to pursue public-private partnerships. As such, world leaders resolved

...to work with all stakeholders and strengthen partnerships in achieving the Millennium Development Goals. The private sector plays a vital role in development in many countries, including through public-private partnerships and by generating employment and investment, developing new technologies and enabling sustained, inclusive and equitable economic growth. We call upon the private sector to further contribute to poverty eradication, including by adapting its business models to the needs and possibilities of the poor. Foreign direct investment and trade, as well as public-private partnerships, are important for the scaling-up of initiatives. ...⁴

The resolution also states that “Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital complements to national and international development efforts.”⁵

A similar expansion in emphasis is evident in agreements on the principles of aid effectiveness. In 2005, the Second High Level Forum on Aid Effectiveness led to the adoption of the Paris Declaration which articulated five principles: ownership, alignment, harmonization, managing for results and mutual accountability. This document contains

2 United Nations General Assembly, A/RES/55/2.

3 For further information, see, Business Call to Action, “[About Us](#).” The Business Call to Action “receives financial and in-kind support from nine partner organizations including the Australian Agency for International Development, the Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the UK Department for International Development, the US Agency for International Development, the United Nations Development Programme, the United Nations Global Compact, the Clinton Global Initiative, and the International Business Leaders Forum.” See: Business Call to Action, “[Frequently Asked Questions](#).”

4 United Nations General Assembly, A/RES/65/1, par 56.

5 Ibid, par 39.

two brief mentions of the private sector. With respect to national ownership of the development process, recipient (partner) countries committed to encouraging the participation of civil society and the private sector. Those same countries also committed to intensifying their efforts “to mobilize domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments.”⁶

By the time of the Fourth High Level Forum on Aid Effectiveness in Busan, South Korea at the end of 2011, however, the private sector had taken on a much more prominent role in the debate about the future of development. Leaders from various developed, developing and emerging economies, and representatives of development agencies, civil society and private organizations, issued an outcome document that attempts to broaden, in their words, “an agenda that has until recently been dominated by a narrower group of development actors.”⁷

The document outlined fairly familiar principles: ownership of development priorities by developing countries; a focus on results; inclusive development partnerships, and mutual transparency and accountability. However, the document also articulates a vision whereby aid is arguably situated as a key facilitating rather than the *underpinning* mechanism of development. Paragraph 28 of the outcome document states:

Aid is only part of the solution to development. It is now time to broaden our focus and attention from aid effectiveness to the challenges of effective development. This calls for a framework within which:

- a) Development is driven by strong, sustainable and inclusive growth.
- b) Governments’ own revenues play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve.
- c) Effective state and non-state institutions design and implement their own reforms and hold each other to account.
- d) Developing countries increasingly integrate, both regionally and globally, creating economies of scale that will help them better compete in the global economy.

6 Organization for Economic Cooperation and Development (OECD), [The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action](#), 2005/2008, par 25.

7 OECD, [Busan Partnership for Effective Development Co-operation](#), Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, November 29-December 1, 2011, par 7.

To this effect, we will rethink what aid should be spent on and how, in ways that are consistent with agreed international rights, norms and standards, so that aid catalyses development.⁸

As part of this overall vision, participants in Busan emphasized the importance of public institutions and effective policies. They also stated: “We recognise the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction.”⁹ Various pledges followed, such as calls to engage with business associations and trade unions, to “enable the participation of the private sector in the design and implementation of development policies and strategies...,” and to put in place innovative financial mechanisms to mobilize private financing. At the same time, however, Homi Kharas, a senior fellow with the Global Economy and Development Program at the Brookings Institution, has argued that the expanded recognition of the importance of new forces in development — such as new donors and private sector financial resources and innovation — has still not led to those same stakeholders being incorporated as real partners with respect to decision-making about international development. He wrote in June 2012 that “...while Busan signaled the expansion of the range of partners in development, it did not formalize their roles: the key international structures of accountability remain narrowly focused on traditional donors and partner countries alone.”¹⁰

The Group of Twenty (G20) has also recently addressed the role of the private sector in development, particularly from the standpoint of resources. At the 2011 G20 Summit in France, leaders welcomed a report that had been prepared for them by Bill Gates on financing for development. In so doing, they recognized “the importance of the involvement of all actors, both public and private, and the mobilisation of domestic, external and innovative sources of finance.”¹¹ The summit’s final declaration also discussed issues such as the scaling up and diversification of sources of financing for infrastructure, as well as issues pertaining to financial inclusion and access to financial services for small and medium enterprises around the world, the compliance of multinational enterprises with applicable tax laws, and transfer pricing legislation. As an example of a more specific pledge, the G20 leaders also stated that they “will work to

8 OECD, [Busan Partnership for Effective Development Co-operation](#), Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, November 29-December 1, 2011. The document states that: “The nature, modalities and responsibilities that apply to South-South co-operation differ from those that apply to North-South co-operation. ... The principles, commitments and actions agreed in the outcome document in Busan shall be the reference for South-South partners on a voluntary basis.” The countries, territories and organizations endorsing the Busan outcome document are listed [here](#). At the time of writing, some 160 countries and territories had endorsed the partnership, in addition to major multilateral organizations such as the African Development Bank, GAVI Alliance, Global Fund to Fight Aids, Tuberculosis and Malaria, World Bank, and International Monetary Fund.

9 Ibid.

10 Homi Kharas, [The Global Partnership for Effective Development Cooperation](#), The Brookings Institution, policy paper 2012-04, Washington, D.C., June 2012, p. 3.

11 Government of Canada, [“Cannes Summit final declaration.”](#)

reduce the average cost of transferring remittances from 10% to 5% by 2014, contributing to release an additional US\$15 billion per year for recipient families.” At the same time, the declaration stressed “the pivotal role” of official development assistance.¹²

There was a major announcement related to the private sector at the 2012 Group of Eight (G8) Summit in Camp David, Maryland, which builds on the group’s existing food security commitments from 2009 (private sector partners are already contributing an estimated \$3 billion to the G8’s work in this area).¹³ The United States announced the \$300 million initiative — the New Alliance for Food Security and Nutrition.¹⁴ It is intended to accelerate the flow of private capital to the agricultural sector in African countries, scaling up new technologies and other innovations to increase agricultural productivity, thus reducing the risks to vulnerable communities. It is a partnership between G8 nations, African governments, and the private sector targeting “inclusive and sustained agricultural growth.”¹⁵ In the Summit’s final declaration, while acknowledging their measurable progress against poverty in Africa following a decade of focused G8 efforts in that continent, the leaders of the world’s most important industrialized democracies declared that: “International assistance, alone, however, cannot fulfill our shared objectives.” At the same time, G8 leaders reaffirmed their “commitment to the world’s poorest and most vulnerable people,” recognizing the “vital role of official development assistance in poverty alleviation and achieving the Millennium Development Goals.”¹⁶

Overall, the above narrative demonstrates that the development community has clearly awoken to the role that private sector actors can and should play in development efforts. However, a consensus about the exact extent of that role has not yet emerged. It should also be noted that the growing recognition of the importance of the private sector is not the only change underway in the landscape of international development. Debates about roles, responsibilities, and approaches to development are also being shaped by the emergence of bilateral aid programs outside the traditional core of the Organisation for Economic Co-operation and Development (OECD) donor governments. In addition, there is increasing attention around new forms of development cooperation that include south-south partnerships.

12 Government of Canada, “[Cannes Summit final declaration](#).” At the June 2012 G20 leaders’ Summit in Los Cabos, Mexico, leaders were provided with a Progress Report of the G20’s Development Working Group, which is available [here](#). The report focuses on inclusive green growth, infrastructure and food security.

13 United States Agency for International Development (USAID), “[More than \\$3 billion in Private Sector Investment for the New Alliance for Food Security and Nutrition](#),” *Fact Sheet*, May 18, 2012.

14 See: Gayle Smith and Dr. Rajiv Shah, “[New Alliance for Food Security and Nutrition](#),” May 18, 2012.

15 Ibid.

16 Government of Canada, [Camp David Declaration](#), May 18-19, 2012.

B. Bilateral Aid Agencies and the Private Sector

As part of the trend described above, several bilateral and multilateral aid agencies have moved to increase their engagement with the private sector and emphasize the role that the private sector can play in overcoming development challenges. In September 2010, a number of these agencies issued a bilateral donors' statement “in support of private sector partnerships for development.”¹⁷ Signatories included the donor agencies of: Austria, Denmark, Finland, Germany, Japan, the Netherlands, Norway, the United States (U.S. Agency for International Development — USAID), the United Kingdom (Department for International Development — DFID), Sweden and Switzerland.

Among this list, the Committee was briefed on the strategies that are being pursued by two leading bilateral development agencies, USAID and DFID. These agencies are focusing considerable resources on private sector activity in poor countries and on public-private partnerships as innovative mechanisms in the pursuit of development results. The two examples offer interesting lessons for Canada, and their approaches are therefore described in detail next.

USAID

USAID, the largest bilateral aid agency in the world,¹⁸ has a long tradition of working with the private sector. This cooperation has intensified in the last few years as a result of the U.S. government's desire to achieve “resource efficiency.”¹⁹ In September 2010, President Obama signed a Presidential Policy Directive on Global Development, “the first of its kind by a U.S. administration.”²⁰ The Chief Innovation Officer and Senior Counselor to the Administrator at USAID, Dr. Maura O'Neill, described this approach for the Committee. She said that the President “challenged us to imagine the conditions where AID or aid are no longer needed.”²¹ The policy side of the President's Directive is focused on sustainable development, placing “a premium on broad-based economic growth, democratic governance, game-changing innovations, and sustainable systems for meeting basic human needs.”²² The Directive states that “Economic growth is the only sustainable way to accelerate development and eradicate poverty.” Similarly, the

17 The donors' statement may be viewed [here](#). See page 33.

18 In 2011, the foreign assistance budget for USAID and the State Department was over US\$31 billion. United States Government, ForeignAssistance.Gov, [U.S. Agency for International Development: Planned](#), Accessed: July 13, 2012.

19 See: James Stavridis and Evelyn N. Farkas, “The 21st Century Force Multiplier: Public-Private Collaboration,” *The Washington Quarterly*, Spring 2012, p. 7.

20 The White House, Office of the Press Secretary, [Fact Sheet: U.S. Global Development Policy](#), September 22, 2010.

21 Standing Committee on Foreign Affairs and International Development (FAAE), [Evidence](#), May 30, 2012.

22 The White House, Office of the Press Secretary, [Fact Sheet: U.S. Global Development Policy](#), September 22, 2010.

U.S. Government's 2010 *Quadrennial Diplomacy and Development Review* states: "We are changing the way we do business, shifting from aid to investment — with more emphasis on helping host nations build sustainable systems."²³

USAID Administrator Dr. Rajiv Shah has articulated the Agency's new approach in various forums, including in an October 2011 speech on public-private partnerships. In it, Dr. Shah argued that while there is no one "recipe" for success, there are three key ingredients for sustainable and broad-based economic growth: robust country institutions; human capital development; and, "the emergence of a strong and dynamic private sector." He argued that this third point is the most difficult aspect for traditional development actors. He said:

I know this is uneasy territory for many in the development community.

The early experience of corporate investment in the developing world was characterized by activity that notoriously caused great harm. Sweatshops, infant formula, Bhopal — all words that conjure images of corporations taking advantage of bad regulations, enriching elites and exploiting the poor.

Those early experiences led to a deep mistrust of the private sector, by developing countries and the development community alike.

As a result, our community became far less comfortable partnering with the private sector.

...

But the modern corporation has a much more enlightened understanding about the aligned interests it shares with the development community.

Walmart knows that when it partners with USAID to buy crops from subsistence farmers in Guatemala at fair prices, it helps lift these farmers from poverty while strengthening its own supply chain.

Coca Cola knows that our Global Development Alliance to bring clean water to communities around the world helps fight disease, while allowing the company to build bottling facilities in locations much closer to its customers. ...²⁴

Dr. Shah therefore urged the development community to "step out of its comfort zone and imagine new linkages with private sector firms."²⁵ The details of these partnerships will be discussed in another section of this report that deals specifically with that subject.

23 United States Department of State and USAID, [Leading Through Civilian Power: The First Quadrennial Diplomacy and Development Review](#), 2010.

24 USAID, "[Remarks by Dr. Rajiv Shah Administrator, USAID: Embracing Enlightened Capitalism](#)," USAID Public-Private Partnership Forum, Washington, D.C., October 20, 2011.

25 Ibid.

DFID

The United Kingdom has also increased the focus on private sector activity in its approach to international development. In an October 2010 speech, the country's new Secretary of State for International Development, Andrew Mitchell, described the rationale for doing so by articulating three key messages related to the future direction of British development policy:

- His first point was “that it is wealth creation, jobs and livelihoods above all which will help poor people to lift themselves out of poverty. Aid is a means to an end, not an end in itself.” While acknowledging that “there is no magic growth cocktail,” and that governments need to be humble about their role in encouraging economic growth, the Secretary indicated that DFID would work with developing countries to build competitive investment environments, to reduce barriers to market entry and trade, and to ensure a sound regulatory environment.
- The second point relates to the organization of DFID, which Secretary Mitchell indicated would be reconfigured to enable it to implement the vision outlined in his first point on poverty alleviation through wealth creation. The Secretary stated that DFID would need to become “a government department that understands the private sector, that has at its disposal the right tools to deliver and that is equipped to support a vibrant, resilient and growing business sector in the poorest countries.” In order to accomplish this goal, the Secretary indicated that DFID would “need to add new types of people with different skills.”
- Third, the CDC — the UK's development investment institution — would be repositioned “so that it rediscovers its development mission, and acts as an engine through which the British taxpayer supports inclusive investment in some of the poorest places in the world.”²⁶

The Secretary also indicated that he would be creating a new Private Sector Department within DFID as a reflection of these priorities. A comprehensive overview of DFID's approach was then set out in a May 2011 document entitled *The Engine of Development: The Private Sector and Prosperity for Poor People*.²⁷

In his presentation to the Committee, Gavin McGillivray, the Head of DFID's Private Sector Department, noted that even with DFID's increasing focus on the private sector, all of its activities must be for the purposes of reducing poverty in accordance with the

26 United Kingdom Department for International Development (DFID), “[Secretary of State for International Development Andrew Mitchell's speech on wealth creation at the London School of Economics on Tuesday October 12, 2010](#),” October 13, 2010. Further information on the CDC may be accessed [here](#).

27 DFID's strategy paper is available [here](#).

country's 2002 law, *The International Development Act*. In his words, "Everything we do, including our entire engagement on private sector development, is a means to an end, and that end is to reduce poverty in the poorer countries of the world."²⁸ He explained the connection between engagement with the private sector and the department's legislated mandate as follows:

...the evidence is strong, that poverty reduction is driven principally by economic growth. We know that economic growth is driven principally by successful private investment and private enterprise. So it's an absolutely legitimate means for those seeking to achieve poverty reduction to try to achieve more successful private investment and private enterprise in the poorer countries of the world.²⁹

Moreover, DFID's strategy document indicates that UK aid will continue to be untied. In other words, this new approach does not represent a shift whereby aid is being used to advance UK commercial objectives abroad.

Mr. McGillivray also told the Committee that his department has two broad strategic objectives with respect to private sector development. The first is to increase investment by improving the investment climate in low-income countries so that it will occur across a range of sectors that have the potential to benefit poor people (e.g. agriculture; infrastructure). He explained that increasing investment opportunities involves work with private sector actors ranging from multinational corporations to smallholder farmers. Moreover, he argued that creating this enabling environment for investment requires strong public institutions. The Department's second objective is to improve service delivery in those same countries by engaging with non-state actors. Such engagement is intended "to achieve more accessible, more appropriate, or higher-quality and more affordable basic services in, for example, health care, medicines, schooling, vocational training, water, sanitation, power, communications, and transport."³⁰ Lastly, DFID hopes that its new strategy will also help the Department to gain greater leverage from its own resources as well as efficiencies.³¹

28 FAAE, [Evidence](#), June 13, 2012.

29 Ibid.

30 Ibid.

31 DFID's strategy document also emphasizes that UK development assistance will be used carefully and as a catalyst with respect to private sector development. The document states: "We will only engage where public subsidy can add significant value. ... We will not invest our funds to support work that the private sector is already willing to undertake without our involvement. Scarce aid resources will only be used where we identify that markets, enterprise or institutions are significantly failing poor people and that our support could potentially offer tremendous and transformational opportunities." See: DFID, [The engine of development: The private sector and prosperity for poor people](#), 2011, p. 10.

CHAPTER 2: PRIVATE RESOURCE FLOWS TO DEVELOPING COUNTRIES

The private sector is being sought by the development community as a partner for a number of reasons, including its expertise, market-based approaches and technological innovation. However, various development agencies are also increasing their engagement with the private sector because of their growing awareness that it already is a major force in development. In previous decades, transfers of public resources — primarily official development assistance (ODA) — played a dominant role in the developed world's relationship with many countries in the developing world. Today, however, those public resources have been significantly exceeded by private flows, including in particular foreign direct investment (FDI) and remittances. According to several witnesses who appeared before the Committee, the ratio has flipped. Carlo Dade described this shift as follows:

If you look at 2008, at the difference between private flows for development and the remittances — this is money sent back home by immigrants and migrants to their communities of origin — and foreign direct investment, these were collectively about six times higher than all forms of official development assistance. This has been going on since back in the mid-nineties. So for over a decade now, the private sector has been the largest funder of development activities, broadly defined.³²

In the specific case of Haiti, Mr. Dade explained that even after the devastating 2010 earthquake, which triggered significant increases in ODA, “remittances are still a larger source of income in Haiti.”³³

Daniel Runde of the U.S.-based Center for Strategic and International Studies (CSIS) also described this change in the composition of resource flows using Canada as an example. He told the Committee that in 2009, Canada's ODA budget was around \$5 billion, while it was at the same time the source of \$12 billion in remittances and \$120 billion in total foreign direct investment in developing countries. As he said, when looking at these numbers, “You get a sense of this massive shift.”³⁴ USAID's Maura O'Neill provided a similar analysis of international money flows from a U.S. perspective. According to Dr. O'Neill,

In the 1960s, U.S. resource flows to the developing world totaled collectively about \$5.1 billion, with 71% of that coming from the public sector and 29% sourced from the

32 FAAE, [Evidence](#), March 26, 2012.

33 Ibid.

34 FAAE, [Evidence](#), December 13, 2011.

private sector. We've now seen those numbers completely flip around, where official development assistance is only about 17%, and the private capital flows are 83%.³⁵

In the particular case of the United States, even private philanthropy from U.S. sources to the developing world (estimated at US\$39 billion) exceeded the U.S. government's official aid budget (estimated at US\$30.4 billion) in 2010.³⁶

The implications of this shift for international development policy are significant. Noting that global remittances exceeded \$300 billion in 2009, Dr. O'Neill wrote to the Committee that, in her opinion, "if we can partner to direct these flows toward development we can accomplish more, faster and improve cost-effectiveness."³⁷ Daniel Runde similarly argued that the significance of private flows of money must be taken into account when policies towards developing countries are being crafted. As he put it to the Committee:

ODA is critical. ODA is important. But we have to think about ODA in the context of these much bigger forces going on in the world, and we have to be thinking about how we use ODA in this changed landscape. In other words, development agencies, with official development flows, have become minority shareholders in the business of development.

It's still critical, and ODA can do things that other resource flows can't. So I'm not saying we're privatizing assistance. I'm not saying we should get out of the development business. We need ODA, but we need to think about how we use it in the context of this changed world.³⁸

These changes are occurring at a time when flows of development assistance appear to be levelling off as the fiscal pressures generated by the effects of the global economic downturn that began in 2008 continue to be felt. Earlier in 2012, the OECD reported that development assistance from major donor countries to developing countries — totaling US\$133.5 billion — fell by 2.7% in 2011 compared to 2010, the first such drop since 1997. In fact, if debt relief grants and humanitarian aid are excluded, "aid for core bilateral projects and programmes" fell by 4.5% in that period.³⁹

Nevertheless, the increased aggregate volume of private financial flows to the developing world does not in itself ensure that development challenges are being

35 FAAE, [Evidence](#), May 30, 2012. These figures are confirmed by the 2012 report, [The Index of Global Philanthropy and Remittances 2012](#), which is published by The Center for Global Prosperity at The Hudson Institute. The Center found that, "In 2010, 82% of the developed world's total economic engagement with the developing world was through private financial flows, including investment, philanthropy, and remittances." See: p. 7.

36 The Hudson Institute, Center for Global Prosperity, [The Index of Global Philanthropy and Remittances 2012](#), 2012, p. 8.

37 "Testimony of Dr. Maura O'Neill, Chief Innovation Officer and Senior Counselor to the Administrator at USAID," Standing Committee on Foreign Affairs and International Development, Wednesday, May 30, 2012, p. 2.

38 FAAE, [Evidence](#), December 13, 2011.

39 OECD, "[Development: Aid to developing countries falls because of global recession](#)," April 4, 2012.

addressed. This is particularly the case where FDI is concerned. A considerable proportion of FDI is directed at a select group of emerging economies and at specific economic sectors, including areas like natural resource development.⁴⁰ An ongoing task for those concerned with addressing development challenges is, therefore, harnessing the potential of private resource flows for broad-based poverty alleviation and inclusive economic growth. With that in mind, the following section examines the relationship between private sector activity, inclusive economic growth, and poverty reduction.

40 Jane Nelson, "The Private Sector and Aid Effectiveness: Toward New Models of Engagement," in *Catalyzing Development: A New Vision for Aid* Homi Kharas, Koji Makino and Woojin Jung, eds., Brookings Institution Press, Washington, D.C., 2011, p. 86.

CHAPTER 3: INCLUSIVE ECONOMIC GROWTH— THE PATH TO POVERTY REDUCTION

While the previous section outlined the quantitative reasoning behind the recognition that the private sector is a major force in development, this section adds the qualitative argument.

As noted previously, the international community came together in 2000 to forge a common blueprint for global development, the eight Millennium Development Goals (MDGs). At the highest level, they measure progress with respect to poverty and nutrition, universal education, gender equality, child health, maternal health, HIV/AIDS, environmental sustainability, and global partnership. The goals remain the most important source of international consensus on the overarching objective of development efforts: poverty reduction and improved quality of living. Each goal contains targets and indicators for monitoring progress until the intended realization date of 2015. So, for example, Goal 1 aims to eradicate extreme poverty and hunger. It contains several targets, one of which (Target 1.A) is to halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. One indicator then, for example, measures the proportion of a country's population living on less than a dollar per day.⁴¹

The essential question is, therefore, how to achieve these goals and meet these targets. There is now a broad consensus that long-term development — and thus, poverty reduction — cannot progress without economic growth. To put it another way, economic growth is essential to development. While the latter may seem a simple statement on its surface, such a foundational thesis is essential to determining the details — programs, priorities and partners — of a country's policy approach to international development. As Carlo Dade argued in his testimony: "The simple fact of the matter... is that no country has ever aided its way out of underdevelopment, but countries have grown their way out of underdevelopment."⁴² Key evidence that is often cited in support of this argument is the fact that hundreds of millions of people were lifted out of poverty in countries like China, India, and South Korea in recent decades, not as the result of international aid programs, but as a result of large-scale and multi-year economic growth.

While economic growth is essential to poverty reduction, such growth itself flows predominantly from private sector investment and the job and business creation that follow. In a 2011 speech, the Administrator of the UN Development Programme (UNDP), Helen Clark, underscored this point by declaring that "development is everybody's business." Arguing that governments should pursue broad partnerships to achieve

41 United Nations, "[Millennium Development Goals Indicators: Official list of MDG indicators](#)," effective January 15, 2008, accessed July 16, 2012.

42 FAAE, [Evidence](#), March 26, 2012.

development results, she stated that, "Economic growth, which is essential for development, is driven largely by the private sector. In many ways, businesses — from multinational corporations to micro, small, and medium sized enterprises generate the growth which can support MDG achievement."⁴³

As Wendy Hannam, an Executive Vice-President in International Banking at Scotiabank, told the Committee: "There's a growing consensus that growth, poverty reduction, and improving people's lives require a vibrant private sector and active partnership in economic development." Ms. Hannam pointed out that an estimated 90% of the jobs in developing countries are in the private sector.⁴⁴ In his testimony, Carlo Dade also underscored the primacy of the private sector's role in spurring economic growth:

...in terms of sustainably moving people out of poverty, giving people the power to make their own decisions and the resources to actually effect their own decisions, their own choices about health care, schooling, nutrition, and housing — that comes from the private sector. Governments are essential in this process to making sure growth in an equitable and proper enabling environment is there, but without the private sector creating wealth, the government would have nothing with which to work.⁴⁵

David Tennant, who runs an agricultural program in South Sudan driven by volunteers from Canada, told the Committee:

The simple answer to the question of private sector involvement is that it is imperative. We should assist countries such as the Republic of South Sudan to build their nation and strive for economic independence, while avoiding the well-intentioned mistakes of the past whereby many developing nations have become dependent on international aid.⁴⁶

Mr. Tennant also acknowledged, however, that "Although the answer appears simple, the application is not."⁴⁷

Indeed, other witnesses argued that while economic growth is essential to development, growth on its own is not enough to ensure poverty reduction and improved living standards. As Khalil Shariff, Chief Executive Officer of the Aga Khan Foundation Canada, explained to the Committee,

...there is now a very strong consensus around the pivotal role that economic growth plays in reducing poverty, and of course a central role that a robust private sector plays in underwriting economic growth. But you have also heard — and I think correctly — that

43 UNDP, "[The MDGs and Business: Potentials of the Private Sector for Achievement of the MDGs](#)," Remarks by Helen Clark, UNDP Administrator, Japan MDG Conference, Tokyo, Japan, June 3, 2011.

44 FAAE, [Evidence](#), March 12, 2012.

45 FAAE, [Evidence](#), March 26, 2012.

46 FAAE, [Evidence](#), April 23, 2012.

47 Ibid.

not all economic growth is the same and it does not always translate into poverty reduction.⁴⁸

Indeed, the Foundation's written submission to the Committee pointed out that "Growth is occurring in many countries but it is often divorced from marginalized communities." The submission went on to state, therefore, that "The private sector has a critical role to play in both linking the poor to growth and accessing basic services,"⁴⁹ both of which are key elements of development.

Thus, there has been growing consensus internationally that reducing global poverty depends on the facilitation of economic growth that includes the poor. One important aspect of this, as witnesses like Wendy Hannam from Scotiabank emphasized, is the need to ensure that poor people are being involved in formal markets, a concept known as "pro-poor growth."⁵⁰ Similarly, Khalil Shariff argued that for the private sector to contribute to poverty reduction, actors within the private sector must "maximize the multiplier effects of their investments" (e.g. an infrastructure investment that can catalyze other business development), they must pursue inclusive business models that "combine sustainable commercial and development objectives," and they must "look for ways to target marginalized segments of the population in order to amplify development impact."⁵¹

Throughout the Committee's hearings, witnesses also emphasized the importance of effective governance, arguing that without strong public institutions, economic growth will either be inhibited and/or proceed in a way that does not benefit most members of a society. For example, Bonnie Campbell, a professor in the faculty of political science and law at the Université du Québec à Montréal, told the Committee:

Investment in the private sector of itself does not translate into sustainable economic and social development. There is in fact no historical example anywhere on earth where sustainable growth, social and economic development, and poverty reduction took place through private investment in the absence of appropriate public policies and state interventions needed in order to plan, to regulate, and to monitor investment so that the presence of private investment would be harnessed to meet development objectives determined by the countries themselves.⁵²

Many witnesses emphasized that effective public institutions are necessary to ensure a sound enabling environment for private sector investment, and to manage the relationship between private sector activity and broader societal interests. For example, Fraser Reilly-

48 FAAE, [Evidence](#), May 7, 2012.

49 Aga Khan Foundation Canada, "Submission to the Standing Committee on Foreign Affairs and International Development," FAAE, May 7, 2012, p. 3.

50 FAAE, [Evidence](#), March 12, 2012.

51 FAAE, [Evidence](#), May 7, 2012.

52 FAAE, [Evidence](#), April 4, 2012.

King, a policy analyst with the Canadian Council for International Co-operation, argued that, "truly sustainable development" requires layers of "country-specific checks and balances."⁵³

It is precisely for these reasons that the Committee believes that both the private sector and the public sector are critical to implementing the vision of long-term poverty reduction through inclusive economic growth driven by private sector activity. In working to realize this vision, the respective roles that private and public actors should assume in order to maximize the efficiency, effectiveness and impact of development efforts will be outlined in the sections that follow.

As a final point, it is also important to note that the reality of global poverty has also been shifting. For one thing, it is estimated that over two-thirds of the world's poor people currently live in middle income countries,⁵⁴ defined by the World Bank as countries where annual per capita gross domestic product (GDP) is above \$1,000. As two development scholars, Andy Sumner and Ravi Kanbur, have pointed out, "This is a dramatic change from just two decades ago when 93% of poor people lived in low-income countries."⁵⁵

The United Nations has also reported that MDG 1 on poverty reduction has been achieved ahead of schedule. There are now an estimated 24% of people in the world living on less than \$1.25 per day, compared to 47% in 1990.⁵⁶ Nevertheless, despite aggregate indicators of progress, substantial disparities in living standards remain within and among countries. Therefore, in addition to lifting people out of abject poverty, a major challenge going forward is determining how to provide opportunities for a better life — social and economic mobility — to a large number of people who may no longer be living in abject poverty, but are struggling to get by on very limited incomes and working to increase them. The changing landscape of global poverty also reinforces the need for a focus on small and medium-sized enterprise development and institutional capacity-building in developing countries, many of which may be emerging from official low-income status but are

53 FAAE, [Evidence](#), May 28, 2012.

54 The composition of global poverty and the trends associated with it are of course the source of debate. For example, a July 2012 paper by development experts from the Brookings Institution and the Overseas Development Institute projects the following according to its abstract: "...by 2025, the locus of global poverty will overwhelmingly be in fragile, mainly low-income and African states, contrary to current policy preoccupations with the transitory phenomenon of poverty concentration in middle-income countries. Moreover, a smaller share of industrialised country income than ever before will potentially close the remaining global poverty gap, although direct income transfers are not yet feasible in many fragile country contexts." See: Homi Kharas and Andrew Rogerson, [Horizon 2025: Creative Destruction in the Aid Industry](#), Overseas Development Institute, July 2012.

55 Andy Sumner and Ravi Kanbur, "[Why give aid to middle-income countries?](#)" *PovertyMatters Blog*, *The Guardian*, February 23, 2011. Andy Sumner is a research fellow at the Institute of Development Studies at the University of Sussex and a visiting fellow at the Centre for Global Development in Washington, D.C. Ravi Kanbur is T.H. Lee Professor of World Affairs and Professor of Economics at Cornell University.

56 United Nations, [The Millennium Development Goals Report 2012](#), New York, 2012.

continuing to struggle with weak governance, large informal economies, and unequal opportunities.

Another aspect of global poverty is urbanization, which is accelerating.⁵⁷ In many developing countries, a significant proportion of that urban population is young, often under the age of 25 years. As Canada's then-Minister of International Cooperation, Bev Oda, told the Committee, ensuring employment and other opportunities for these young people, who will comprise "over 52% of the population in [developing] countries," is a critical development challenge.⁵⁸ On the other hand, a large youth population can also be seen as a source of potential. In highlighting the high economic growth rates registered by several countries in Sub-Saharan Africa in the last decade, *The Economist* noted that the demographic bulge comprising the people who will soon be entering their most productive years in Africa, an essential element of the economic success story in East Asia in the 20th century, "offers a huge opportunity to Africa today."⁵⁹ However, as the Minister suggested to the Committee, whether this demographic bulge will be a source of prosperity or instability hinges on the existence of opportunities for young people to build a better life.⁶⁰

57 According to data published by the United Nations, "the urban areas of the world are expected to absorb all the population growth expected over the next four decades while at the same time drawing in some of the rural population. ... Furthermore, most of the population growth expected in urban areas will be concentrated in the cities and towns of the less developed regions." See: United Nations Department of Economic and Social Affairs, "[Highlights](#)," *World Urbanization Prospects: The 2011 Revision*, New York, March 2012.

58 FAAE, [Evidence](#), March 14, 2012.

59 "[Africa's hopeful economies: The sun shines bright — The continent's impressive growth looks likely to continue](#)," *The Economist*, December 3, 2011.

60 FAAE, [Evidence](#), March 14, 2012.

CHAPTER 4: THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

The Actors

Understanding the role that the private sector can play in achieving Canada's international development objectives must begin with an understanding of what exactly constitutes the 'private sector.' As Carlo Dade argued during his presentation, the term "private" can be defined as "that which is not public."⁶¹

In broad terms then, there are four key groups of private sector actors relevant to international development:

- Multinational small, medium and large enterprises;
- Locally based small, medium and large enterprises;
- Individuals, including the self-employed, diaspora groups, volunteers, experts, etc.; and
- Non-governmental organizations.

Witnesses testifying before the Committee discussed the role of these different types of actors and, in some cases, expressed varying opinions on the relative importance of each for the achievement of development objectives. While some witnesses focused on the role of large international companies, others stressed the importance of nurturing local private sector activity as a catalyst for national growth. For example, Fraser Reilly-King argued that "The local private sector is key."⁶² Similarly, the central focus of the presentation given to the Committee by renowned Peruvian economist Hernando de Soto was on the legal system within developing countries (such as private property rights), and the linkages between that environment and opportunities for economic progress such that "the enterprising poor can take advantage of the global economy." Mr. De Soto's organization, the Institute for Liberty and Democracy, works to ensure that the necessary legal instruments are in place so that when foreign investment occurs, citizens in developing societies are in a position to take advantage of that investment, "hook into" it, and benefit from it.⁶³

61 FAAE, [Evidence](#), March 26, 2012.

62 FAAE, [Evidence](#), May 28, 2012.

63 FAAE, [Evidence](#), November 22, 2011.

Some others pointed to the impact a small number of individuals can have in addressing development challenges. For example, David Tennant described the positive effect that his organization, Canadian Economic Development Assistance for Southern Sudan (made up entirely of volunteers), has had in South Sudan. They have brought technical expertise in the application of mechanized farming using Canadian methods and related training support. The mechanized farm in South Sudan which the volunteers facilitated produced a yield of two tonnes of corn per acre in 2011, which was “the highest yield of any farm in the country.”⁶⁴ In fact, Mr. Tennant’s organization is selling its output to the World Food Programme. He told the Committee:

We have developed a good relationship with the World Food Programme over the past several years. The World Food Programme purchases our harvest through its Purchase for Progress program. They will purchase all we can produce, and have approached us to jointly venture in the construction of a storage facility. This would not only assist us but would serve to protect the crops in the region of Jebel Lado, where we are located.⁶⁵

As another example, the Honourable Jim Abbott, a former Canadian Member of Parliament, highlighted the contribution that retired Canadian parliamentarians and public servants could make with respect to capacity-building related to resource governance.⁶⁶

Overall, while the Committee received testimony on the role played by a range of private sector actors in international development, the study and witness presentations focused to a large degree on the role of private for-profit enterprises — both multinational and locally based — an emphasis that is therefore reflected in this report. However, this emphasis is not intended to minimize the contribution that other types of private sector actors can make to development efforts. Indeed, one of the later sections of this report outlines the need for further Canadian research related to diaspora communities.

The Activities

As was noted previously, the overall role of the private sector in development, in terms of both local private sector activity and foreign investment, is to generate wealth and stimulate economic growth. The private sector does so by creating jobs, mobilizing resources, introducing creativity and innovative solutions, and fostering skills development and training. The centrality of the private sector to development was articulated in the 2005 World Development Report, which stated in one its key passages:

Private firms — from farmers and microentrepreneurs to local manufacturing companies and multinational enterprises — are at the heart of the development process. Driven by the quest for profits, they invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90 percent of jobs, creating opportunities for people to apply their talents and improve their situations.

64 FAAE, [Evidence](#), April 23, 2012.

65 Ibid.

66 FAAE, [Evidence](#), June 20, 2012.

They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education, and other services. Firms are thus critical actors in the quest for growth and poverty reduction.⁶⁷

At the same time, many witnesses stressed that the private sector should not be viewed as a panacea that can solve all development challenges, or that one approach works in all countries and contexts. As Khalil Shariff reminded the Committee, "there are very few silver bullets in development."⁶⁸ Similarly, Dr. John Sullivan, Executive Director of the Center for International Private Enterprise, said that if he could leave one message with the Committee, it would be "that there's no model out there that's going to fit every different environment. You have to design it according to what's going on in the particular country."⁶⁹ Alex Counts, the President and Chief Executive Officer of the Grameen Foundation, also emphasized the need for flexible thinking when considering development, cautioning against a one-size-fits-all approach:

...how the private sector can interface with the public sector and international development efforts really defies easy categorization along the lines of 'it should be this way' or 'it should be that way'. Every sector, every country, and every moment in time is different, and those relationships, we think, should be recalibrated over time as times and sectors change.⁷⁰

In other words, as he noted, the exact role the private sector should play in development is "very context-specific."

While no list of private sector activities will be exhaustive, those that can have a significant positive impact on development, particularly from the perspective of sustainability, are listed next.

Core business operations and inclusive business models

Private sector enterprises can contribute to development through their core (i.e. normal) business operations. The poor can benefit from core business activity as employees, entrepreneurs, suppliers, distributing partners, and consumers. Some firms have also adopted "inclusive business models," which are the subject of a growing body of research that focuses on the links between business activities and development objectives. The idea is that certain types of operations can be deliberately designed to achieve commercial and development objectives. There are instances when a company's business operations can, for example, help reduce poverty through job creation and the transmission of enhanced skills and training (development objectives), while also leading

67 The World Bank, [World Development Report 2005: A Better Investment Climate for Everyone](#), The World Bank and Oxford University Press, 2004, p. 1.

68 FAAE, [Evidence](#), May 7, 2012.

69 FAAE, [Evidence](#), February 13, 2012.

70 FAAE, [Evidence](#), February 15, 2012.

to outcomes like “increased market share” and enhanced competitiveness for the company (commercial objectives).⁷¹

In her appearance before the Committee, Wendy Hannam of Scotiabank described inclusive business models as follows: “An inclusive business is one that seeks to alleviate poverty by including lower-income communities within its value chain, while not losing sight of the ultimate goal of business, which is to generate a profit.”⁷² In her assessment, “A real impact can be made by leveraging these for-profit businesses.”⁷³ As Jane Nelson, Eriko Ishikawa and Alexis Geaneotes argued in a 2009 report on Coca-Cola,

...there is growing recognition in both the corporate and international development communities that the most sustainable contribution that any company can make to poverty alleviation is to carry out its core business activities and investments in a profitable, responsible and inclusive manner.⁷⁴

As one practical example of such an activity, the banking giant Citigroup has identified an inclusive business practice pertaining to the costs associated with migrant workers sending remittances. Their “Remit as You Earn” program, which is part of the Business Call to Action,

...takes advantage of Citigroup’s global foreign exchange and cash transfer technology to allow employees to send remittances via salary deductions to home countries. In 2008, Citigroup joined the Business Call to Action with its commitment to make Remit as You Earn available to employees of the UK’s National Health Service (NGS), which employs an estimated 250,000 members of Diaspora communities. The service will enhance Citigroup’s exposure and reputation as an international payments provider while decreasing costs to remittance senders by an estimated 50 percent.⁷⁵

The Committee heard of various other examples of inclusive businesses, including from John Guarino, President of Coca-Cola Refreshments Canada. The concept of overlapping commercial and development interests was captured in his comment that “the health of our business depends on a healthy agricultural supply chain.”⁷⁶ That supply chain

71 Jane Nelson, Eriko Ishikawa and Alexis Geaneotes, [“Developing Inclusive Business Models: A Review of Coca-Cola’s Manual Distribution Centers in Ethiopia and Tanzania,”](#) Executive Summary, Harvard Kennedy School of Government and International Finance Corporation, 2009, p. 3.

72 FAAE, [Evidence](#), March 12, 2012. As the UNDP explains: “The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment.” See: UNDP, [“Executive Summary,”](#) *Creating Value for All: Strategies for Doing Business with the Poor*, 2008, p. 14. The concept of inclusive business therefore involves businesses “actively creating opportunities for poor people” through their core operations and “consciously” including them in their value chains. See: UNDP, [The MDGs: Everyone’s Business](#), New York, 2010, p. 4.

73 FAAE, [Evidence](#), March 12, 2012.

74 Nelson, Ishikawa and Geaneotes, [“Developing Inclusive Business Models: A Review of Coca-Cola’s Manual Distribution Centers in Ethiopia and Tanzania,”](#) p. 6.

75 Business Call to Action, [“Citigroup: Reducing the Cost of Remittances,”](#) 2012.

76 FAAE, [Evidence](#), June 4, 2012.

can be designed to incorporate local farmers and distribution networks, who can themselves be assisted by training and other skills development initiatives in conjunction with the company. He described various projects and company goals, including the aim of Coca-Cola (international) to incorporate five million women entrepreneurs worldwide across its value chain by 2020. Another initiative, which was the subject of the 2009 study cited above, saw Coca-Cola’s micro distribution centres in Kenya, Tanzania, Uganda, Ethiopia, and Mozambique provide a number of “business ownership opportunities for women....”⁷⁷ Mr. Guarino noted that “In Nigeria and Ghana, over 70% of the micro distributors are owned by women.”⁷⁸

Other examples were provided to the Committee by Khalil Shariff. He outlined the business practices of the chain of luxury Serena Hotels, which are operated by the Aga Khan Fund for Economic Development (AKFED) in various low-income countries in East Africa and Southern Asia. According to Mr. Shariff, the Serena hotels “have an explicit policy of minimizing environmental impacts while maximizing the socio-economic fallout benefits to the region.” He added:

Each hotel seeks to work with the community in a variety of ways, such as investing massively in training for local residents for employment, the reinvigoration of local designs and craft industries, locally sourcing goods and services, and cooperating with the community to recycle waste.⁷⁹

Mr. Shariff also articulated the hope that the presence of a Serena hotel in a fragile area like Kabul, Afghanistan could help to encourage other investors. He emphasized, however, that investment in fragile environments such as that one requires long-term thinking and acceptance of “a certain level of volatility.”⁸⁰

Another example of an inclusive AKFED project is a company, Frigoken, which operates in Kenya. This company has worked to help small-scale farmers by addressing the obstacles they face in marketing and exporting their products. Mr. Shariff explained that,

...Frigoken provides a range of services to Kenyan bean farmers — price guarantees, the provision of seeds, quality control, processing, transportation, and marketing. Today, Frigoken is the largest exporter of processed green beans from Kenya, most of which are sold on European markets. The impact is that not only does the company provide direct employment to 2,700 people, most of whom are women, it also now supports over 45,000 small-scale farmers in rural Kenya.⁸¹

77 Ibid.

78 Ibid.

79 FAAE, [Evidence](#), May 7, 2012.

80 Ibid.

81 Ibid.

Throughout his presentation to the Committee, Mr. Shariff emphasized the need for private sector activity that addresses the needs of, and provides opportunities for, what is known as the ‘base of the pyramid’ — the large number of poor people in a given developing country. He argued that, in the end, real poverty reduction in low-income countries requires private sector activity that can create “some kind of economic dynamic for marginalized communities,” so that they can have “the resources they need to be able to invest in their own futures.”⁸²

As noted, core business activities can also contribute to development when they specifically involve skills development and training opportunities. For example, Brent Bergeron, the Vice-President of Corporate Affairs at Goldcorp Inc., told the Committee of the impact of his company's operation at the Peñasquito mine in Mexico. There, some 43% of the drivers of large machinery hired by the company have been women because of their driving skills, which benefits the company's operation because the machinery lasts longer. Mr. Bergeron said that his company has "extensive training programs" where these women are “able to come in and not feel any type of peer pressure from working in a non-traditional type of employment.”⁸³

These compelling examples should not be taken as an indication that the commercial and development gains will be equal in all inclusive businesses, or that the inclusive element of a company's operations will represent the majority of its activities. In addition, not all private sector activity offers opportunities to address development needs explicitly. The overall idea is to maximize the benefits accrued from the private sector investment that occurs in countries around the world every day.

‘Inclusive business’ is still a relatively new concept in development theory and practice.⁸⁴ Work remains to be done to identify the inclusive business opportunities that

82 Ibid.

83 FAAE, [Evidence](#), February 29, 2012.

84 Some additional examples of research and work in the area of inclusive business models: UNDP, Growing Inclusive Markets, “[Case Studies](#)”; Caroline Ashley, “[Harnessing core business for development impact: Evolving ideas and issues for action](#),” *Background Note*, Overseas Development Institute, London, United Kingdom, February 2009; Shannon Murphy and Jane Nelson “[Business Partnerships for Development: The Case of the National Beverage Company in the West Bank and Gaza](#),” The CSR Initiative, Harvard Kennedy School of Government, 2010; International Finance Corporation (IFC), [Policy Note on the Business Environment for Inclusive Business Models](#), Washington, D.C., 2012; Beth Jenkins, Eriko Ishikawa, Alexis Geaneotes, Piya Baptista and Toshi Masuoka, [Accelerating Inclusive Business Opportunities: Business Models that Make a Difference](#), IFC, Washington, D.C., 2011; and, Jane Nelson and Dave Prescott, [Business and the Millennium Development Goals: A Framework for Action](#), 2nd edition, UNDP and International Business Leaders Forum, 2008.

are out there, to understand how to bring them to scale and replicate them across countries and regions,⁸⁵ and to measure their impact in terms of the degree to which they are helping people emerge from poverty. The testimony the Committee received undoubtedly represents only the tip of the iceberg on this subject; a broader range of inclusive business models and opportunities could be identified, particularly by the Canadian private sector. It will also be important to identify the synergies between inclusive businesses and viable and scalable public-private partnerships. Public sector expertise as part of such partnerships can help to incorporate a development perspective in private sector operations, and to emphasize the development potential of commercial operations. Indeed, a team evaluating the public-private partnerships (alliances) that had been undertaken by USAID commented that, “From the business perspective, alliances with a strong business case are more likely to be high-impact and sustainable versus the more passive philanthropic contributions.”⁸⁶

Tax revenues

One of the most obvious private sector contributions to national development is company payments of tax revenues and royalties. This is true not only from the perspective of investment by multinational corporations, but also in terms of countries building their tax base through the proliferation of locally based businesses. Tax revenues are a critical aspect of a country’s ability to build governance capacity and deliver services to their citizens. Private sector investment that can lead to higher tax revenues for developing countries is therefore intimately linked to development objectives.

However, neither the payment of adequate taxes by companies, nor their use for national development ends by recipient governments, is automatic. As some witnesses argued, there are a variety of reasons why this could be the case, including unbalanced or unfair royalty regimes, corruption, weak institutional capacity, and the use of the global financial system by certain multinational corporations to hide profits in some cases or to avoid the payment of significant taxes in local jurisdictions. During the Committee’s hearings, issues were primarily raised in the context of natural resource development, and are therefore dealt with in this report’s case study on that sector. However, one witness, Raymond Baker, the Director of Global Financial Integrity, argued that the need for increased transparency goes beyond payments made by the extractive industry. His organization estimates that in terms of illicit transfers, “approximately \$1 trillion a year

85 See: Christina Gradl and Beth Jenkins, “[Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems](#),” the CSR Initiative at the Harvard Kennedy School of Government, 2011. In the executive summary of their research, the authors write that inclusive business models “offer great promise: to enable business growth in markets that cover two thirds of the world’s population, while creating economic opportunity and better standards of living for the poor in the process. Yet while companies — and also donors, development banks and other players — have put much effort into creating such models, relatively few have gained significant scale so far.”

86 Tom Dewar, et al., [Evaluating Global Development Alliances: An Analysis of USAID’s Public-Private Partnerships for Development](#), USAID, p. IV.

comes out of developing countries and moves into the richer countries.”⁸⁷ Regarding the latter figure, he explained that,

This money moves through three different means. Some of it is corrupt, that is, it is the proceeds of bribery and theft by government officials. Some is criminal — the proceeds of drug trafficking, racketeering, counterfeiting, and so forth — and some of it is commercial tax evasion.

Many people, particularly in the western press, think this problem is all about corruption in those countries over there. In our analysis, in the cross-border flow of illicit money, the corrupt component is about 3% of the global total. The criminal component is about 30% to 35% of the global total. The commercial tax-evading component, in which we are certainly involved, is about 60% to 65% of the global total.⁸⁸

While the initiatives outlined in this report’s case study, including the Extractive Industries Transparency Initiative, are important, they are not designed to address the general issue of illicit flows from developing countries. In addition to the publication of extractive industry contracts, Baker advocates for “greater transparency in the accounting by [all] multinational corporations for their sales, profits, and taxes paid in developing countries.”⁸⁹ As noted, many witnesses also underscored the importance of institutional capacity-building in developing countries as a means to enhance the likelihood that tax revenues generated by them from private sector activity are used to address societal needs such as health, justice and education.

Delivery and manufacturing

In some cases, the private sector can help with the delivery of development assistance and humanitarian relief, bringing efficiencies in the process. Stephen Brown, an associate professor at the University of Ottawa, noted that the Canadian International Development Agency (CIDA) has long used private sector contractors, including, for example, an engineering firm to implement its project to rebuild the Dahla Dam in Afghanistan.⁹⁰ Maura O’Neill told the Committee of USAID’s utilization of the private sector to assist with relief during the 2011 drought in East Africa. During the drought response, personnel from USAID were not allowed into the hard-hit area of Southern Somalia due to safety concerns. However, in that very region “people were dying in the tens of thousands.” Therefore, USAID “worked with private sector partners and others.” As Dr. O’Neill explained, “They were able to get into the supply chains and the traders, and we know that we saved tens of thousands of lives.”⁹¹ As a final example,

87 FAAE, [Evidence](#), April 23, 2012. In her remarks, Bonnie Campbell referred to a 2011 report from the UNDP which “suggested that for 38 of the 48 least-developed countries, \$246 billion between 1990-2004 has come out in illicit financing.” See: FAAE, [Evidence](#), April 4, 2012.

88 FAAE, [Evidence](#), April 23, 2012.

89 Ibid.

90 FAAE, [Evidence](#), May 7, 2012.

91 FAAE, [Evidence](#), May 30, 2012.

Dr. Christoph Benn told the Committee that the Global Fund to Fight AIDS, Tuberculosis and Malaria uses the private sector in various instances to implement programs and grants at the country level. He said that this system can be "very helpful, particularly in situations where the governments...are particularly weak."⁹²

In other cases, the private sector can manufacture or source products that are vital to development initiatives. One key example is the production of vaccines. The Global Alliance for Vaccines and Immunization (GAVI) was launched in 2000, bringing together governments, international organizations (e.g. the World Health Organization), the Bill and Melinda Gates Foundation, civil society and the private sector (the pharmaceutical industry). GAVI aims to ensure that cost-effective vaccinations are available for children in the developing world. As one part of this initiative, the pneumococcal Advance Market Commitment (AMC) was also launched to protect children against pneumococcal disease. Jean-François Tardif, Executive Director of Results Canada, explained to the Committee that the Government of Canada and other donors "provided a guarantee [a market] to those pharmaceutical companies that were willing to provide vaccines at a cheap cost around the world. That drove the cost of the pneumococcal vaccine to 5% of its original U.S. market price."⁹³ The AMC registered manufacturers — pharmaceutical companies in industrialized and developing countries — are a critical component of this process.

Expertise, ideas and innovation

Several witnesses argued that the private sector can make important contributions to development efforts through its expertise and innovative approaches and applications. Christoph Benn told the Committee of instances where the private sector has provided valuable input of this form to the Global Fund to Fight AIDS, Tuberculosis and Malaria. As one such example, he described how "The largest bank in Africa is providing free services for many of [the Global Fund's] implementers and is training them in financial management, helping them to manage currency exchange risks, and so on." As another example, Dr. Benn told the Committee that the Global Fund is working with the Coca-Cola Company to improve the Fund's supply chain management and logistics. He said that no company knows better than Coca-Cola how to get drugs and bed nets from the point of entry in a country to remote villages.⁹⁴ Dr. Benn emphasized that such companies do not provide the Global Fund with money; they provide expertise and training support. Another example that was brought to the Committee's attention involved a smaller-scale project, Brandaid, where major law firms in Canada and in the UK have provided their

92 FAAE, [Evidence](#), October 27, 2011.

93 FAAE, [Evidence](#), December 8, 2011. In terms of the involvement of pharmaceutical companies, GAVI explains: "In this pilot AMC, donors commit funds to guarantee the price of vaccines once they have been developed. These financial commitments provide vaccine manufacturers with the incentive they need to invest in vaccine research and development, and to expand manufacturing capacity. In exchange, companies sign a legally-binding commitment to provide the vaccines at a price affordable to developing countries in the long term." See: The GAVI Alliance, "[How the pneumococcal AMC works.](#)"

94 FAAE, [Evidence](#), October 27, 2011.

expertise in copyright and trademark law to artisans in Haiti to help them protect and obtain value for their work. The project also involved major advertising firms.⁹⁵

Carlo Dade argued that in the context of development, ideas may in fact be the most important asset that the private sector offers. He stated that private sector actors in general bring “creativity, dynamism, entrepreneurialism, and new ideas.” He also discussed the role of diaspora communities and remittances at length, arriving at a similar conclusion: “We found that the money being remitted was only one thing that was being transferred; ideas, knowledge, skills, and markets were also being transferred.”⁹⁶ Khalil Shariff emphasized the potential contribution of the Canadian private sector in this area, noting the capacity of Canadian companies in sectors ranging from agribusiness to financial services, including with respect to their “management approaches, knowledge, and technology, that we would consider simply standard forms of competent practice here but are simply not available in the developing world.”⁹⁷ To Mr. Shariff, knowledge transfer of best practices and techniques from leading companies holds significant potential for development impact given that “One of the severest forms of marginalization is marginalization from the global knowledge society, where your knowledge horizon is simply what you’ve inherited, not what is known in the world.” He argued that “...where Canada has gold standard practices that can be brought to bear, they should be, with a development mindset involved.”⁹⁸

The private sector is also the source of technological innovation that is critical to development. An important example is the growing use of mobile phones, both with respect to increasing access to financial services and in disseminating information. The opportunities generated by ‘mobile money’ will be addressed in this report’s case study on financial services. Mobile technology has also shown its relevance in responses to humanitarian crises. Ushahidi, “an open-source crisis-mapping software” that was first used to map post-election violence in Kenya in 2008, has more recently demonstrated the potential of crowd sourcing technology, which “draws on mobile phone communications and social media,” to help with disaster response in countries like Haiti.⁹⁹ Another example of technological advancement can be found in the health sector. A new, faster, simpler and more effective test for tuberculosis infection (known as the Xpert MTB/RIF assay) was developed by the medical device manufacturer Cepheid, the first major advancement in

95 FAAE, [Evidence](#), December 8, 2011.

96 FAAE, [Evidence](#), March 26, 2012.

97 FAAE, [Evidence](#), May 7, 2012.

98 Ibid.

99 See: Jessica Heinzelman and Carol Waters, “[Crowdsourcing Crisis Information in Disaster-Affected Haiti](#),” *Special Report*, United States Institute of Peace, Washington, D.C., October 2010. Ushahidi was started by [a non-profit tech company](#). As this publication explains: “This new source of intelligence pulled information from Twitter, Facebook, and blogs and received it via text message to create reports that were placed on a Web-based, interactive map available to anyone with an Internet connection.” The publication also states that: “Responders on the ground soon began to use [these reports and associated geographic information] in determining how, when, and where to direct resources.” See p. 1 and 2.

tuberculosis screening in developing countries since the 1880s. Perhaps most importantly, this new method is able to detect “drug-resistant forms of the disease.” A partnership involving the U.S. President’s Emergency Plan for AIDS Relief, USAID, UNITAID, and the Bill and Melinda Gates Foundation is now working to “significantly reduce the cost” of this new test “in 145 high-burden and developing countries.”¹⁰⁰ A series of innovations have also been introduced in the agricultural sector, including new and improved seed types, agricultural equipment and methodology.

Concluding Remarks on the Role of the Private Sector

While the private sector was traditionally seen more narrowly as a source of additional financing for development projects, the preceding section has underlined that its role in development is a much broader and more fundamental one. Beyond another resource for development assistance, the private sector can also make many important contributions to long-term development through day-to-day activities such as core business operations that include the poor, the payment of tax revenues and the design, manufacturing and even delivery of key products and services. More generally, the expertise, ideas and innovation that the private sector brings to the table means that it can contribute to the understanding of development problems and the framing of optimal strategies to overcome them. As Daniel Runde argued in his appearance before the Committee: “The private sector are development actors.”¹⁰¹

At the same time, development practitioners and businesses have been, and will continue to, test and seek to improve upon the best practices and modalities of private sector involvement in development efforts. This ongoing process reflects the complex and multi-faceted nature of the private sector’s role in development, a fact which was evident in the diverse presentations made to the Committee by witnesses. That testimony also made it clear that a full understanding of this topic requires recognition of the fact that private sector activity occurs within broader governance and institutional frameworks, an idea which will be elaborated upon next.

100 USAID, [“Public-Private Partnership Announces Immediate 40 Percent Cost Reduction for Rapid TB Test,”](#) USAID Press Office, August 6, 2012.

101 FAAE, [Evidence](#), December 13, 2011.

CHAPTER 5: THE ROLE OF THE PUBLIC SECTOR IN DEVELOPMENT

Previous sections of this report have argued that:

- Private sector actors are often underutilized as development actors. There remains significant room to enhance the international community's efforts to achieve its development objectives by identifying development interests that coincide with core business operations and by harnessing private sector expertise, technology, scale, supply chains and manufacturing capabilities, and delivery mechanisms.
- Private sector wealth, job and business generation is the key driver of economic growth. But, linking that growth to actual poverty reduction and other development objectives requires robust public institutions and policies.

The goal of this report is therefore not to suggest the replacement of all development activities currently performed by public authorities with private sector actors. Rather, it is to recognize how the private sector is already and could contribute to development through its core activities and competencies. It is also intended to increase the focus on the comparative advantages of the private and the public sectors to ensure that each is complementing the strengths brought by the other so as to enhance the efficiency and effectiveness of development initiatives. As Ross Gallinger, Executive Director of the Prospectors and Developers Association of Canada (PDAC), told the Committee: "Only through a group effort by the private sector, civil society, and government can we learn from our challenges and strengthen our combined quest for poverty reduction."¹⁰² Similarly, the Aga Khan Foundation Canada wrote to the Committee that "development requires the cooperation of governments, civil society and the private sector — **no sector alone is a sufficient engine** for the development process." The Foundation argues, therefore, that "Creative collaboration across sectors, rather than a rigid focus on any single sector, is required."¹⁰³

An approach that seeks to identify these comparative advantages allows for public resources (official development assistance), increasingly under strain in the current global economic climate, to be freed up to focus on the select activities where the public sector, and in many ways only the public sector, can make a critical difference in the quest to reduce global poverty and improve opportunities for better quality of life. Furthermore,

102 FAAE, [Evidence](#), November 17, 2011.

103 Aga Khan Foundation Canada, "Submission to the Standing Committee on Foreign Affairs and International Development," FAAE, May 7, 2012, p. 2.

public sector resources could catalyze further private investment in a sustainable way, for example, through regulatory reform in the financial sector, allowing for foreign direct investment.

A key area where development assistance can play an important role is the strengthening of public institutions, which are of critical importance to sustained development. Economic prosperity cannot be drawn from a vacuum. As the divergence in economic growth rates and quality of life indices between fragile states and stable ones indicates, prosperity is unlikely to result from a society that is plagued by insecurity, corruption, and underdeveloped human capital. As Jane Nelson, a senior fellow and director of the Corporate Social Responsibility Initiative at Harvard University's Kennedy School of Government, has argued, "even the most profitable, responsible, and innovative business practices can achieve little in tackling global poverty in the absence of good government, underpinned by political will and public interest."¹⁰⁴

Thus, while the previous section of this report outlined the role of the private sector in development, the following likewise outlines roles and responsibilities that must be fulfilled by the public sector to unlock countries' potential for economic growth.

Public Goods and Public Accountability

A society's economic potential is a function of its assets, human and capital. Myriad internal and external factors inevitably shape a country's economic trajectory. However, there is overwhelming evidence that sustained economic growth is aided considerably by the presence of a healthy and educated workforce, security, appropriate transportation and communications infrastructure, and a justice system that is impartial and capable of adjudicating disputes, upholding rights, and enforcing contracts. These factors all dramatically increase the chances both that investment will occur in a country and that its citizens and businesses will be able to benefit from that investment. Jean-François Tardif emphasized that given the private sector's profit motive, the public sector is best placed to provide such public goods.¹⁰⁵

Related to this issue, some witnesses argued that governments, and not companies, must be at the forefront of providing core social services. For example, with respect to natural resource companies, Karin Lissakers, Director of the U.S.-based Revenue Watch Institute, said that "Governments should be building the schools and providing the health clinics — not mining companies; it's not their business." Ms. Lissakers acknowledged that the provision of such services by companies can be beneficial. However, in the long-term, their doing so can have negative consequences for local accountability relationships and local governance and service delivery capacity since "...it

104 Jane Nelson, "Leveraging the Development Impact of Business in the Fight against Global Poverty," in *Transforming the Development Landscape: The Role of the Private Sector*, Lael Brainard, ed. Brookings Institution Press, Washington, D.C., 2006, p. 42.

105 FAAE, [Evidence](#), December 8, 2011.

takes the load off the governments.”¹⁰⁶ Professor Bonnie Campbell also highlighted the problematic consequences for accountability relationships that can result when mining companies in particular provide social services — including “service delivery, clinics, schools, roads, security, or rule-setting implementation” — in the areas in which they operate. She argued:

This sidestepping of the state, by suggesting companies can gain better social licence or legitimacy for their operations by offering social services, runs the risk of undermining — and this is a key point — a precondition for building responsible governments and the basis for democratic practices; that is, the need for governments to offer social services to their populations and to be held accountable by their populations.¹⁰⁷

These witnesses emphasized the need for strong accountability relationships between governing authorities and citizens, and between governing authorities and the private enterprises that operate within their jurisdiction.

Nevertheless, there is a critical accompanying point to this analysis: public goods require public resources. Governments need to have access to the necessary domestic resources that can enable them to provide these very services to their citizens. As was noted previously in relation to illicit flows of money from developing countries, the first step is the actual payment of taxes in accordance with a functional domestic tax system. The second key step is for the revenues received by governments to be managed and spent accountably and effectively, including through investment in public goods.

Enhanced transparency with respect to resource revenue flows and company payments to governments are an important aspect of strengthened fiscal capacity and, consequently, the provision of public goods. As is discussed later in this report, several initiatives at the international level and within national jurisdictions have been put in place with the aim of enhancing transparency. Such initiatives also empower citizens and civil society to monitor governments' use of collected revenues.

Witnesses emphasized that public sector aid agencies like CIDA can play an important role in providing capacity-building support in this area. As is discussed next, there is significant need in developing countries for assistance with programs ranging from those targeting the strengthening of the ability of parliaments to oversee the executive branch, to programs assisting governments with the creation of new royalty regimes, regulations, and tax codes.

Capacity and Institutions

Weak governance is a key impediment to development. Jack Mintz, the Palmer Chair in Public Policy at the University of Calgary's School of Policy Studies, framed his

106 FAAE, [Evidence](#), February 27, 2012.

107 FAAE, [Evidence](#), April 4, 2012.

overall conclusion on the Committee's study topic as follows: "...the real success in where the private sector can help contribute to growth and prosperity in a country depends very much on the strength of the public institutions and public policy in those countries."¹⁰⁸ This view was reinforced by other witnesses.

Ross Gallinger of PDAC told the Committee that "The biggest obstacle to development is capacity building." He added that, "The areas where the mining companies go have very little government oversight."¹⁰⁹ Professor Anthony Bebbington from the Graduate School of Geography at Clark University mentioned an example of such capacity limitations and "institutional constraints" in a developing country that has significant natural resources. He said that "El Salvador's office to regulate mining, for instance, only has three professionals to regulate the whole sector, and none are trained in environmental or mining sciences."¹¹⁰ The negotiation of deals that are beneficial for the jurisdiction in question requires government institutions that are capable of managing interactions with companies.

The importance of local capacity was also underlined by industry leaders. Brent Bergeron, the Vice-President of Corporate Affairs at Goldcorp Inc., told the Committee:

Our challenges often deal with the lack of capacity of local governments and businesses, the lack of capacity of national governments to provide essential services that are necessary for the social and economic benefit of local communities, and the lack of adequate skills and labour to provide services to the mining operation.¹¹¹

Mr. Bergeron explained that mining companies like his own have significant technical expertise in infrastructure development which can benefit areas near their project sites. However, he also said:

Where we lack the skills and knowledge is in the training of the human capital and resources needed to actually manage and deliver the services within the clinics and the schools that we build, and manage the funds that we directly transfer to communities.¹¹²

Overall, witnesses agreed that public sector aid agencies must take the lead in this critical capacity-building assistance. This is true because of the expertise that they bring to bear, but also because of the need to ensure the legitimacy of the work. Companies are for-profit enterprises; the profits and costs associated with their projects are directly related to the regulations and legislation put in place by host government institutions. For this reason, Dr. Sabine Luning, a professor in cultural anthropology and development

108 FAAE, [Evidence](#), December 13, 2011.

109 FAAE, [Evidence](#), November 17, 2011.

110 FAAE, [Evidence](#), February 29, 2012.

111 Ibid.

112 Ibid.

sociology at Leiden University, argued that capacity-building initiatives in newly resource-rich countries like Burkina Faso “should be centre stage.” She also pointed out, however, that “mining companies that have to be authorized and monitored by that same state cannot do this.”¹¹³ Referring to the example of Guatemala, Mr. Bergeron stated:

Can I go as Goldcorp and start training the Ministry of Energy and Mines? I can't do that. The credibility behind that is not right. However, I think it makes a lot of sense to have a government institution come in to take our experience here in Canada — Natural Resources Canada in terms of their experience — and bring that experience to Guatemala. That's why we're looking to partner with other organizations.¹¹⁴

With these issues in mind, Dr. Luning argued that capacity-building related to institutional development should be pursued through “bilateral public-public partnerships.”¹¹⁵

Another witness, Dr. Paul Romer, professor at the Stern School of Business at New York University, is so convinced of the central importance of institutions — or more precisely the “set of rules that structure how people interact with each other” — that he is working on initiatives that would see the creation of what could be described as enclaves of effective institutions in developing societies. Such “special zones” are envisioned as providing the rules and norms that are necessary to facilitate the economic advancement of individuals, but which may not at the time be sufficiently developed or protected in the wider society. A project along these lines is being proposed in Honduras:

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.¹¹⁶

In a letter to the Committee, the President of Honduras, Porfirio Lobo Sosa, indicated that “a stable environment with transparent rules and solid institutions” is necessary to enable the country “to create jobs to reduce social inequalities, provide the population with education, health, and public safety services, as well as with the infrastructure necessary for a real improvement in the living conditions of all Hondurans.”¹¹⁷

The proposed zone is, for example, intended to have its own courts, and in this case will be served by the Supreme Court of Mauritius as the court of appeal. This is the type of assistance that Dr. Romer envisions countries like Canada could provide. Similarly, the Honduran President wrote to the Committee that, “The international prestige

113 FAAE, [Evidence](#), March 28, 2012.

114 FAAE, [Evidence](#), February 29, 2012.

115 FAAE, [Evidence](#), March 28, 2012.

116 FAAE, [Evidence](#), May 28, 2012.

117 Letter from Porfirio Lobo Sosa, President of the Republic of Honduras, to Mr. Dean Allison, Chair of the House of Commons Standing Committee on Foreign Affairs and International Development, dated May 22, 2012.

of Canadian institutions makes them the ideal candidate to help our government to establish the [Special Development Regions].” Dr. Romer emphasized the intention that Honduran citizens will be “free to go operate in this new environment, but it’s not forced on anyone.”¹¹⁸ In moving from the abstract theory to the actual implementation of these ideas, it seems that some of the many issues that will need to be resolved include how the special regions will interact from a practical and legal perspective with the rest of the country, and how political legitimacy and accountability relationships will be built between those who choose to work in the special region and the various institutional arrangements that may be put in place as described above.¹¹⁹

The Enabling Environment for Private Sector Activity

A country’s policy, legislative, regulatory and governance conditions have a tremendous bearing on its ability to attract investment, facilitate business starts and expansion, and transform those activities into economic growth. The 2005 World Development Report states that:

A good investment climate provides opportunities and incentives for firms — from microenterprises to multinationals — to invest productively, create jobs, and expand. It thus plays a central role in growth and poverty reduction.¹²⁰

The report also noted, however, that:

A good investment climate is not just about generating profits for firms — if that were the goal, the focus could be limited to minimizing costs and risks. A good investment climate improves outcomes for society as a whole. That means that some costs and risks are properly borne by firms.¹²¹

It is precisely for this reason that the wider system of governance that underpins a country’s system of rules and regulations for private sector activity is just as important, if not more so, than the rules and regulations themselves.

At the highest level, witnesses emphasized that a proper enabling environment for private sector activity is predicated on the rule of law. John Sullivan of the Center for International Private Enterprise said that “Reducing poverty comes down to the policy reforms that expand access to opportunity and instill confidence in these market institutions.”¹²² Citing Nobel Laureate Douglass North, Dr. Sullivan noted the importance of

118 FAAE, [Evidence](#), May 28, 2012.

119 For further developments, please see Elisabeth Malkin, “[Plan for Charter City to Fight Honduras Poverty Loses Its Initiator](#),” *The New York Times*, September 30, 2012.

120 The World Bank, [World Development Report 2005: A Better Investment Climate for Everyone](#), The World Bank and Oxford University Press, 2004, p. 1.

121 Ibid, p. 2.

122 FAAE, [Evidence](#), February 13, 2012.

a society transitioning from having its economic dealings dominated by personal relationships to one where there is sufficient trust in the system that people will do business with any other member of society without the need for personal contacts. Hernando de Soto similarly described an economy governed by the rule of law for the Committee as follows: “In the end, the rule of law means that you are going to replace various little fragments of systems that could be called anarchic with one law. That’s the rule of law: when there is one system and there’s one standard for the whole nation.”¹²³ The transition to such a standard requires sound institutions like a fair, impartial and effective court system.

As part of building the rule of law, Hernando de Soto’s work singles out one key enabling factor for economic prosperity and poverty alleviation: property rights. He argues that property is the leverage — often as collateral — needed to access capital. Without this ability, the poor remain poor and outside of the legal economy, and the potential of their property, savings, and entrepreneurial initiatives to contribute to economic growth go unrealized.¹²⁴ As part of its broader work, the Committee has heard examples of weak systems of property law in countries like Haiti, where the lack of certainty and the confusion associated with the land tenure system has complicated plans for reconstruction.

More recently, Hernando de Soto has linked the events surrounding the outbreak of the Arab Spring to the persistence of large informal economies in countries like Tunisia and Egypt, corruption, weak enforcement of property rights, and prohibitive costs associated with accessing such rights. He wrote that:

In the wake of the overthrow of three autocrats, not enough credit has been given to the mighty consensus that triggered the uprising — the desire of a vast, underclass of people to work in a legal market economy. In the culturally diverse Middle East and [n]orth Africa, the one common thread is its informal economy. This is the key to future growth and indeed stability.¹²⁵

The young vendor, Tarek Mohamed Bouazizi, who had set himself on fire in Tunisia in December 2010, thus triggering the mass protests that would follow against the Ben Ali regime, had been working in the informal economy. His various crates of fruit and vegetables and electronic weight scale, in effect his livelihood, had been seized by a policewoman and two municipal officers. As de Soto told the Committee:

Worst of all, the right for him to have a stall — that would be his property right for work — was taken away, and any red tape he had initiated to title his house for use as collateral

123 FAAE, [Evidence](#), November 22, 2011.

124 See, for example, chapters from Hernando de Soto’s book, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* available [here](#).

125 Hernando de Soto, “The free market secret of the Arab revolutions,” *The Financial Times*, November 8, 2011.

in order to get credit to buy a pickup truck that would get him closer to the agricultural market was cancelled.

When you add it all up in terms of his life and his obligations, he had been bankrupted. He had been expropriated. He was ruined.¹²⁶

Overall, Mr. de Soto argued that just as the key impediments to economic prosperity in many developing countries are not technological issues, secure property rights cannot be thought of as simple land issues. These impediments are political issues.

Large informal economic sectors are a feature of many developing countries. The persistence of informal economic activity and the unwillingness of individuals to move into the formal sector reflect the absence of key enabling factors, or put another way, the presence of structural impediments. Dr. Sullivan highlighted some of the possible impediments that can exist using the example of Egypt:

In Egypt, for example, small businesses have to sign 26 post-dated cheques. The banks force them to do that. Why do they do that? Well, because the bankruptcy legislation is so bad that it can take half a year to get the collateral back. You can put up collateral; you just can't get it through the court system, whereas if you bounce that bad cheque, you're going to jail. So there's a real incentive to keep your loans paid up, or not take any out, but it has the effect of inhibiting people from moving into the formal sector or the formal sector firms getting any access to credit.¹²⁷

These types of structural impediments are captured by the World Bank's annual ranking of countries for ease of doing business, which tracks "key aspects" of a society's "set of rules affecting entrepreneurial behavior."¹²⁸ In 2012, Egypt places 110th out of 183 countries. For example, it typically requires 7 procedures over a period of 72 days to register property. Some 29 tax payments are required annually.¹²⁹

Such structural issues serve as disincentives for individuals to move from the informal to the formal economy, while simultaneously impeding business growth and productivity in the formal sector. One of the six recommendations put to the Committee by Wendy Hannam of Scotiabank was that CIDA should "directly engage in building basic financial infrastructure: property rights, secure transaction laws, collateral rights, credit

126 FAAE, [Evidence](#), November 22, 2011.

127 FAAE, [Evidence](#), February 13, 2012.

128 The World Bank [About Doing Business: measuring for impact](#). This explanation of the *Doing Business* rankings states that: "An entrepreneur's willingness to try a new idea may be influenced by many factors, including perceptions of how easy (or difficult) it will be to deal with the array of rules that define and underpin the business environment. Whether that entrepreneur decides to move forward with the idea, to abandon it or to take it elsewhere might depend in large part on how simple it is to comply with the requirements for opening a new business or getting a construction permit and how efficient the mechanisms are for resolving commercial disputes or dealing with insolvency."

129 The World Bank, International Finance Corporation ["Ease of Doing Business in Egypt, Arab Republic,"](#) *Doing Business*, 2012.

bureaus, small and medium enterprise tool kits, financial literacy, regional regulatory harmonization, and financial regulation.”¹³⁰ She went on to explain why these pieces of the enabling environment for business and economic development are so important from her perspective. She said: “we in the lending business need to rely on property rights. We need to be able to rely on collateral. Where this doesn't exist, we can't make loans. When we can't make loans, we can't fund those business owners who are trying to make a living for their families and grow their businesses.”¹³¹

A number of witnesses emphasized that public sector development assistance can play a key role in helping to create an enabling environment for private sector activity in developing countries. Dr. O'Neill of USAID told the Committee: “We are huge believers in one of the values that official development assistance — and probably only official development assistance — can do; that is, to help strengthen the enabling environment for businesses to grow, whether it's small businesses or it's large businesses.”¹³² Similarly, in response to a question from a Committee member about the limitations of the role that private companies can play in development, Raymond Baker, Director of Global Financial Integrity, responded with the following:

...I don't know how private corporations can contribute very much to the development of the legal structure within a country. Yes, they can encourage the development of the legal structure. But in the final analysis, it's not their function; it is the function of government-to-government exchanges.¹³³

However, as Dr. Sullivan pointed out, imposing reforms from the outside is not a quick or effective solution to these challenges. He told the Committee:

We've also found that top-down reforms tend not to work. We found something we called the reality gap. When fly-in experts come to a country, help create these institutions or write the laws, they then get translated into the local languages and passed by Parliament. They sit there like a hovercraft on water, never really touching it. ... It's the gap between what the law says on paper and what the real practices are.¹³⁴

Therefore, while capacity-building support from external sources is critical to efforts aimed at instilling the institutional conditions that can stimulate economic growth in developing countries, it must be tailored as just that — support. The international consensus on the principles of aid effectiveness, articulated in Paris in 2005, in Accra in 2008 and in Busan in 2011 emphasize the importance of national ownership of and responsibility for the development process. Development assistance targeting economic governance is no different than assistance directed towards strengthening a country's

130 FAAE, [Evidence](#), March 12, 2012.

131 Ibid.

132 FAAE, [Evidence](#), May 30, 2012.

133 FAAE, [Evidence](#), April 23, 2012.

134 FAAE, [Evidence](#), February 13, 2012.

health system. It is much more likely to become self-sustaining if it is designed to align with plans and priorities that are established locally.

Start-up Financing

In certain cases, public financing can be critical in the early stages of a development initiative, enabling it to get off the ground and then be expanded upon by the private sector. This was true in the case of microfinance, a topic that is explored in greater detail in this report's case study on financial services. To summarize the key point briefly here, Larry Reed, the Director of the Microcredit Summit Campaign, described the history of the microfinance industry from the 1990s to the present day. In so doing, he explained how the industry grew from an asset base of around \$400 million a decade ago — based on funding from government sources and private donations — to “a combined asset base of over \$8 billion” today based on an infusion of private money. Government was needed to provide the initial lead role and to build the industry to the point where social and financial returns would be possible. He told the Committee:

When we started, no major bank was making loans to poor people, so the non-governmental sector had to get involved. It was motivated by wanting to help people in poverty move out of poverty. In doing that, they developed techniques and systems that for-profit organizations were able to apply, and then they found that this could make money, so they began to get involved.¹³⁵

To Mr. Reed, the lesson that should be drawn from the microfinance industry is that “government funding can be used to leverage private funding so that the overall impact is much greater than either the private sector or the government could do on their own.”¹³⁶

He thus argued that by working together, governments and the private sector “can create a market where none existed before, or where none existed at a scale the private sector could involve itself in.”¹³⁷ Microfinance is not the only example where such a partnership can be effective in catalyzing activities that are intended specifically to address the needs of the poor. The public sector's role in guaranteeing a market for vaccines in developing countries as part of GAVI's Pneumococcal Advanced Market Commitment was mentioned in a previous section of this report.¹³⁸ Mr. Reed also cautioned, however, that the formation of a new market should not be seen as the end of the public sector's involvement. With respect to the specific case of microfinance, he sees an important role for the public sector in strengthening the rules of behaviour in the industry and in

135 FAAE, [Evidence](#), March 14, 2012.

136 Ibid.

137 Ibid.

138 GAVI Alliance “[How the pneumococcal AMC works.](#)”

establishing “metrics for the social side of the investment” to ensure that the public good intended from the investment actually results.¹³⁹

Concluding Remarks on the Role of the Public Sector

Building on the report’s previous section on the role of the private sector in development, this section has emphasized the following key points about the role of the public sector:

- There is a critical role for the public sector — including governments in developing countries and bilateral development agencies in countries like Canada — to play in unlocking a country’s potential for economic growth.
- In broad terms, the public sector should provide public goods and put in place an enabling environment that allows business activity to flourish, while also ensuring that economic growth contributes to the public interest.
- Governments in developing countries will not be able to provide public goods to their citizens unless they are able to generate tax revenues from economic activity, which requires: a private sector that is not stifled; institutions that are capable of negotiating contracts and other issues with private firms and putting in place the necessary policies, legislation and regulations to govern key economic sectors (including an effective tax system); the fair and full payment of taxes and other royalties by firms; and, accountable and transparent public use of the domestic revenues that are generated.
- While it is ultimately the responsibility of local authorities to establish and uphold the rules that govern economic activity within their borders, international aid agencies like CIDA can provide critical support for capacity-building that targets economic governance and institutional development.

The Committee is aware that implementing these steps is a difficult and long-term endeavour. It also understands that this formula does not guarantee success. Not all governments and institutional actors have the best interests of citizens in mind. Not all businesses are efficient, capable of seizing opportunities that are created, or looking to include the poor in their operations. However, it seems that an approach that seeks to maximize the comparative advantages of public and private sector actors, as part of one overarching strategy, could in most cases present an effective path to the achievement of international development objectives.

139 FAAE, [Evidence](#), March 14, 2012.

CHAPTER 6: PUBLIC-PRIVATE PARTNERSHIPS

The Concept

The international development community has increasingly recognized that many development challenges can be overcome more effectively if governments do not act alone. A number of development agencies are thus seeking to leverage the expertise, technology, scale and financing of private sector actors through various partnership mechanisms. As Maura O'Neill of USAID told the Committee, "...no one host country, one company, NGO, or donor, however large, can afford to do this alone. That is the basis of what we believe partnership is about: using the assets of each of us in a smart way that accelerates development goals cheaper and faster."¹⁴⁰ There is also evidence that businesses themselves are seeing the benefits of working with government agencies and non-governmental organizations in order to achieve mutual interests. In his appearance before the Committee, the President of Coca-Cola Refreshments Canada, John Guarino, expressed this sentiment by stating that: "We believe that no company can have a significant impact in sustainability by working or thinking alone. Instead, we must rely on partnerships that connect business, government, and NGOs."¹⁴¹

Several witnesses underscored that partnerships are intended to bring together the skills, approaches and capabilities of public and private sector entities so as to enhance project inputs and create the conditions where outcomes are possible beyond those that could be delivered by any one partner on its own. Partnerships come in varying sizes and forms. As Dr. O'Neill explained, they are based on the existence of overlapping interests:

Where USAID is interested in guaranteeing access to clean water, major beverage producers see the need to protect the source of their needed product input. That's where our development goals and their profit goals overlap. When a company is concerned with supply chain stability, or when global demand requires a company to dramatically increase its sourcing, USAID seeks to improve opportunities for smallholder farmers or youth entering the workforce.¹⁴²

Furthermore, partnerships are not limited to one public sector aid agency and one company. They can involve various bilateral and multilateral aid agencies, and different companies, industry associations and NGOs.¹⁴³

140 FAAE, [Evidence](#), May 30, 2012.

141 FAAE, [Evidence](#), June 4, 2012.

142 FAAE, [Evidence](#), May 30, 2012.

143 Jason Saul, Cheryl Davenport and Avery Ouellette [\(Re\)Valuing Public-Private Alliances: An Outcomes-Based Solution](#), USAID, Private Sector Alliances Division, Mission Measurement, LLC, 2010, p. 5.

A concrete example of such cooperation is Project Nurture, one of Coca-Cola's international initiatives discussed by Mr. Guarino. The project has worked to encourage over 50,000 farmers in Kenya and Uganda to grow mangoes and passion fruit for use in fruit juice beverages that are sold locally, instead of importing the same fruit from afar. The company partnered with the Bill and Melinda Gates Foundation and Technoserve (a non-profit business organization), bringing the expertise and resources of each partner to ensure that the fruit met the necessary quality standards. The Foundation has been providing the training and the company the specifications. Mr. Guarino said, "We work with them in the communities in terms of looking at the soil, what needs to be added to the soil, and how to plant." Another critical aspect of the project is that Coke guaranteed that they "would buy the output."¹⁴⁴ Overall, the project benefits the company and local farmers, given that it helps Coke to ensure that it "can source enough juice to meet the demand," building its business, while simultaneously "creating sustainable livelihoods at the farm level."¹⁴⁵ Mr. Guarino also pointed out that "A third of the participating farmers are women."¹⁴⁶

Another example is the Zinc Alliance for Child Health, which was announced in Canada in June 2011.¹⁴⁷ It involves:

- CIDA;
- The Micronutrient Initiative (MI) — an Ottawa-based NGO; and
- Teck Resources, a diversified resource company headquartered in Vancouver, which has major business units focused on copper, steelmaking coal, zinc and energy.

Christina Dendys, the Director of External Relations at MI, explained that this public-private-civil society partnership is intended to address a major development challenge: vitamin and mineral deficiencies that negatively impact that health of children in many countries around the world. With respect to the specific challenge being addressed by the Zinc Alliance, she explained that diarrhoea kills over 4,000 children every day. But, "a new and extremely powerful treatment for reducing diarrheal disease" is available which combines oral rehydration salt (ORS) with zinc supplements.¹⁴⁸ A representative of

144 FAAE, [Evidence](#), June 4, 2012.

145 Ibid.

146 Ibid.

147 See: Micronutrient Initiative [Government of Canada, Teck and Micronutrient Initiative announce partnership to implement lifesaving zinc treatment programs](#).

148 In addition to these problems of acute deficiency, chronic zinc deficiency also leads to stunted growth in children and foodstuffs that "are deficient in terms of quality and quantity." See: testimony of Doug Horswill, [Evidence](#), December 6, 2011.

another partner in the alliance, Doug Horswill, Senior Vice-President for Sustainability and External Affairs at Teck Resources, told the Committee:

The world challenge is not that there is an insufficient quantity of zinc in the world. It's really about distributing it and getting it into the hands of the mothers who look after their children and understand the need to get zinc into their diets. ...¹⁴⁹

Christina Dendys told the Committee that, "Teck is providing MI with \$5 million in new funding to scale up our zinc and ORS programming. Their generous contribution is being matched three to one with funds from CIDA..." She framed the zinc partnership as "integral" to meeting her NGO's mission.¹⁵⁰ Doug Horswill described the benefits of the partnership as follows: "With our resources, MI's knowledge and capability on the ground, the support of CIDA, [and] other partners as we go forward...we can strengthen health programs around the world."¹⁵¹ He also expressed hope that the alliance will lead to the mobilization of some additional private sector resources.

It is important to underscore that partnerships are not just about leveraging financing; bringing together different types of expertise is arguably just as important. Mr. Guarino highlighted this fact in describing the rationale of Coca-Cola partnering with USAID on water issues in Africa. He told the Committee: "We are not the experts, in that we are a business first and support the community second. They allow us to be more effective. We take their expertise on how we can do things properly in that town."¹⁵² Carlo Dade also emphasized the fact that partnerships facilitate exchanges of knowledge, which serves to strengthen all the participants involved. Referring to some of the criticisms that have been raised about CIDA partnerships with private sector extractive industry companies, he argued: "The private sector is already involved. By working with them, you're not subsidizing them. You're not giving them money. Just like working with the diaspora, you're helping to make them better development actors. Likewise, they help make CIDA a better development actor."¹⁵³

Daniel Runde argued that while partnerships should not be viewed as a "panacea," they do "enable public actors to leverage non-traditional resources to address problems through market-based means." Based on this analysis, he expressed to the Committee his belief "that partnerships with non-state actors, including diasporas, philanthropic and religious groups, and for-profit companies, are a central part of the future of international development."¹⁵⁴ Yet this should not be taken as implying that partnerships should be the sole form of development cooperation going forward. Daniel Runde noted that recognizing

149 FAAE, [Evidence](#), December 6, 2011.

150 Ibid.

151 Ibid.

152 FAAE, [Evidence](#), June 4, 2012.

153 FAAE, [Evidence](#), March 26, 2012.

154 FAAE, [Evidence](#), December 13, 2011.

the benefits of partnerships does not mean that they should be treated as a blanket approach to tackle all development challenges. Rather, they are an important tool that has been underutilized by most development agencies. Because of their very nature of solving problems “with synergies”¹⁵⁵ they can, in the right circumstances, lead to results that would not be possible through other cooperation mechanisms (e.g. government-to-government assistance) in solving development challenges.

The USAID Model

In addition to various other initiatives being pursued by USAID,¹⁵⁶ one of its key mechanisms for partnerships with private sector actors is its Global Development Alliance (GDA).¹⁵⁷ Since the creation of the program more than 10 years ago, USAID has become a leader among development agencies in this field. When USAID was peer reviewed by the Development Assistance Committee of the OECD¹⁵⁸ in 2011, the review found that “The US has become a leader in creating public-private partnerships. Its approach recognises the importance of private sector flows to developing countries, and ways in which official aid can be used as a lever to maximise development benefits.”¹⁵⁹ It is for this reason that USAID receives so much attention in this section of the Committee’s report. Its model provides years of hard evidence for CIDA in terms of examples, lessons learned and best practices.

Dr. O’Neill told the Committee that USAID currently has “283 active partnerships...which have an estimated value of about \$8.8 billion.”¹⁶⁰ For a partnership to be considered a GDA, it must meet the following criteria and characteristics:

155 Ibid.

156 Other relevant USAID initiatives include: Development Innovation Ventures (DIV) and Grand Challenges for Development. Various arms of the U.S. government’s foreign policy establishment also engage with the private sector in development, including the Department of State’s Global Partnership Initiative and International diaspora Engagement Alliance, the U.S. President’s Emergency Plan for AIDS Relief, the Millennium Challenge Corporation, and the Overseas Private Investment Corporation (OPIC). For further information, see: Holly Wise, “[U.S. Government Engagement with the Private Sector on International Development](#),” A Report of the CSIS Project on U.S. Leadership in Development, Center for Strategic and International Studies (CSIS), February 2012.

157 USAID, “[About GDA Model](#),” Office of Innovation and Development Alliances (IDEA).

158 The [Development Assistance Committee](#) of the OECD comprises 24 members of the largest bilateral aid programs in the world: Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Japan, South Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The World Bank, International Monetary Fund and United Nations Development Programme also participate as observers. According to the DAC, its [peer reviews](#) “provide in-depth examinations of development systems and policies, including lessons learned...” Each DAC member country receives a peer review approximately every four years.

159 OECD, [The United States: Development Assistance Committee \(DAC\) Peer Review 2011](#), 2011, p. 36.

160 FAAE, [Evidence](#), May 30, 2012.

- “At least 1:1 leverage (in cash and in-kind) of USAID resources;
- Common goals defined for all partners;
- Jointly defined solution to a social or economic development problem;
- Non-traditional resource partners (companies, foundations, etc.);
- Shared resources, risks and results, with a preference for increased scale of impact; and
- Innovative, sustainable approaches to development.”¹⁶¹

As was noted above, partnerships are intended to create shared value, advancing private and development interests. Therefore, not all possible combinations of public and private resources and expertise would fulfil this criterion. Explaining the process that USAID engages in to identify suitable partnership opportunities, Dr. O’Neill told the Committee that there must be an appropriate balance of interests. She said,

If a tremendous amount of benefits accrue to the private sector partner but little or nothing accrues to the country or to the people who live there, then that would not be a public-private partnership we would be interested in.

On the other hand, if all the benefits accrue to the locality, we know that there is a high likelihood that the private company will exit that opportunity well before the term of it. We’re looking for that balance where they truly overlap — and to be honest with ourselves about where there’s a bridge too far.¹⁶²

The process itself is critical. Dr. O’Neill explained that USAID has a system that makes it very easy for prospective partners to bring forward ideas, using a process that is nimble enough to allow for a significant amount of screening work to be done up front. It is based on an “open call 365 days of the year for a five-page concept note.” She added:

That tends to separate the people who are serious players and really want to partner with us from those who are just trolling for opportunities. We ask in that five-page paper what development outcome you might share with us, how much money and other resources you’re willing to put up, and what you would like from us. That gives us an opportunity to start from where they’re at. Sometimes that is far from where we finally negotiate a deal, but it actually gives us a point of contact. We understand at the front end what’s important to them, what they are willing to do as part of this partnership, and what they are expecting from us. ...¹⁶³

161 USAID, “[About GDA Model](#),” Office of Innovation and Development Alliances (IDEA).

162 FAAE, [Evidence](#), May 30, 2012.

163 Ibid.

USAID partnerships are not limited to U.S.-based companies. Dr. O'Neill told the Committee that her agency engages in partnerships "with businesses in both developed and developing countries, small businesses as well as large." She also said: "More often than not, we have partnerships with large businesses, which can be in-country or all around the world. So long as we share a development goal, we're fine with whoever it is."¹⁶⁴ While noting USAID's requirement for a minimum 1:1 matching investment, she reported that "on average" the leverage that has been generated "over the last decade has been four to one."¹⁶⁵ In terms of final decisions on partners, USAID engages in a process of due diligence whereby several facets are examined. She told the Committee:

We do extensive due diligence on each of our partners. We make a judgment call on whether there are any black spots on their record, whether they're significant enough that we want to walk away from a deal, or whether we see a change in management and the way they are going forward. So it is a very important part and an extensive part of our analysis of whether we would walk away from a deal or whether we would enter a deal.

The other thing that's of consideration to us is to what extent the indigenous people benefit or are harmed by any public-private partnership. It's incredibly important to us that the indigenous people who live in the area in which this public-private partnership will take place are advantaged by this rather than disadvantaged.¹⁶⁶

She added that USAID's other criteria is determining whether a prospective partnership could "risk damaging the U.S. government's reputation."

Dr. O'Neill provided the Committee with details regarding two partnerships that have been undertaken by USAID involving Canadian companies:

- One, related to mobile banking in Haiti, is discussed in this report's case study on financial services.
- The other, which began in 2011, involves Canadian mining company Barrick Gold and is focused on economic development issues in Peru. As she explained, the project has seen the creation of "two economic centres in northwest Peru, where 30% of the residents are living below the poverty line." Dr. O'Neill told the Committee: "Barrick matched our investment of \$590,000 over a three-year period to establish an economic centre in La Libertad, and in Ancash they contributed another \$270,000." The project's target "is the creation of 800 permanent jobs and \$4.8 million in incremental sales." She underscored, however, that "most importantly, long after we've gone, long after the mining company's gone, the kind of

164 Ibid.

165 Ibid.

166 Ibid.

infrastructure that will allow long-term sustainable markets for these farmers will remain.”¹⁶⁷

She described a variety of other examples of partnerships which illustrate both the range of possible partners that CIDA could be approaching, and the breadth of development sectors that can benefit from a partnership approach:

- An initiative in Afghanistan partnering with a cell phone company. Police officers are now being paid salaries via cell phones (mobile money). This initiative has helped to cut corrupt middlemen out of the payment process, thus increasing the salary that is actually pocketed by the policemen, while also reducing the inefficiencies and absenteeism associated with the time involved with receiving payments through traditional banks, which are rare in Afghanistan. Partnering with the mobile operator was a critical element of this initiative as only the company, not the U.S. government agencies operating in Afghanistan or the Government of Afghanistan itself, had the infrastructure to implement mobile payments.¹⁶⁸
- A partnership to tackle what are known as neglected diseases (e.g. intestinal worms). In this example, USAID recruited what many would consider an unconventional partner: a hedge fund based in the United Kingdom. The foundation established by this hedge fund has attracted \$2 billion, which is funding the distribution throughout Kenya of deworming pills donated by pharmaceutical companies. The project is predicated on an evidence-based study that was conducted on the impact these pills can have regarding improvements in school attendance records.¹⁶⁹
- Various partnerships involving NGOs as implementing partners. As just one example, Dr. O’Neill told the Committee how USAID partnered with the Coca-Cola Company and an NGO following the 2010 earthquake in Haiti. Dr. O’Neill explained that for the purposes of one of its juice brands, Odwalla, Coca-Cola “wanted to source more mangos from Haiti.” Despite that country’s “huge production of mangos,” the fruit was not of export quality and thus could not be used for making juice. So, USAID “partnered with an NGO to work with the local farmers and the processing so that they could teach them the world-class standards for mangos.”

167 Ibid.

168 Ibid.

169 Ibid

She explained that as a result of this work, the company “could be in the position to buy more [fruit].”¹⁷⁰

These are just a few examples of USAID partnerships initiated in the last decade.¹⁷¹

Many of the other witnesses who appeared before the Committee focused their remarks on three pilot partnerships that CIDA launched in 2011 with mining companies and Canada-based NGOs. Witness opinions were divided on those specific projects, as is noted in greater detail in the report’s case study on natural resources. Without seeking to minimize that debate, it is important to emphasize, as the above information demonstrates, that partnerships can involve a wide range of companies, foundations and civil society organizations, and they can be designed to address an equally wide range of development challenges from agricultural productivity to watershed management.

Key Lessons and Challenges

As a number of reviews of USAID partnership initiatives make clear,¹⁷² while the value of public-private partnerships has been demonstrated, some work remains to be done to ensure that they are a consistently effective tool of development policy. For any development agency seeking to harness the full potential of partnerships, challenges must be addressed from the perspectives of:

- Structure — ensuring that a development agency has the appropriate staff skill sets, procedures and decision-making authorities in place;
- Communications — ensuring that all parties understand their respective interests and the objectives of a partnership, that consistent contact points are in place within a development agency for prospective businesses and NGOs, and that input and feedback can flow between the parties throughout the project life cycle; and
- Evaluation — developing the appropriate indicators and other tools to monitor and measure a partnership's outcomes.

170 Ibid.

171 Detailed information on other GDA partnerships that were in place as of 2006 are provided in the following USAID publication: [The Global Development Alliance: Public-Private Alliances for Transformational Development](#), Office of Global Development Alliances, 2006.

172 See, for example: Tom Dewar, et al., [Evaluating Global Development Alliances: An Analysis of USAID's Public-Private Partnerships for Development](#), USAID; Jason Saul, Cheryl Davenport, and Avery Ouellette, [\(Re\)Valuing Public-Private Alliances: An Outcomes-Based Solution](#), USAID, Private Sector Alliances Division, Mission Measurement, LLC, 2010; and, Daniel Runde et al., [Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC](#), CSIS, Washington, D.C., October 2011.

The formation of a partnership is not an end goal in itself. Partnerships are a mechanism that can be very effective when pursued under the right circumstances and according to clear guidelines. Like any other tool of policy implementation, they must be continually evaluated to determine their development impact, particularly in comparison to other possible cooperation mechanisms.

Witnesses who appeared before the Committee highlighted some of the key lessons learned from the experience of agencies such as USAID and issues that must be resolved in the formation of a successful partnerships strategy. The Committee has used these points of view to help formulate its recommendations regarding the approach that it believes CIDA could take with respect to partnerships, which will be detailed in the final section of this report.

As a first point, while emphasizing the need for Canada to draw on the experiences of public aid agencies like USAID, DFID and the GTZ and BMZ in Germany, which have an institutional history with partnerships, Carlo Dade told the Committee flatly: “Staff are key.” He recalled his previous experience working on partnerships with USAID, having been brought on board because of his expertise working with the private sector. Mr. Dade argued: “It’s a particular skill set. Development agencies do not have this. It has to come from outside or it has to be trained.”¹⁷³ Wendy Hannam of Scotiabank recommended to the Committee that it is important to “ask whether CIDA is currently structured to have the flexibility and mandate to effectively engage with the private sector.”¹⁷⁴ Similarly, when referring to the Zinc Alliance for Child Health described above, Daniel Runde posited that the ability of development agencies like CIDA to work more strategically with the private sector will “require some significant organizational change.” He said, “Examples like the zinc initiative are the sorts of things CIDA needs to be putting on steroids, if you’ll allow me to use that expression.”¹⁷⁵

On the issue of staffing and skills, Dr. O’Neill emphasized that a successful partnerships strategy requires “top support and incentives.” She told the Committee, “If people don’t see it as part of what they are going to be evaluated on they’re not going to do it...”¹⁷⁶ In her written submission to the Committee, she recommended that regardless of the internal incentives used by a development agency, “providing training and setting up quality safeguards are valuable.”¹⁷⁷ Carlo Dade also argued that given the “disruptive”

173 FAAE, [Evidence](#), March 26, 2012.

174 FAAE, [Evidence](#), March 12, 2012.

175 FAAE, [Evidence](#), December 13, 2011.

176 FAAE, [Evidence](#), May 30, 2012.

177 “Testimony of Dr. Maura O’Neill, Chief Innovation Officer and Senior Counselor to the Administrator at USAID,” Standing Committee on Foreign Affairs and International Development, Wednesday, May 30, 2012, p. 7.

nature of any new public-private entity to status quo practices, such an entity has to be protected.¹⁷⁸

Dr. O'Neill also pointed to key lessons that her agency has identified in the process of initiating partnerships. She told the Committee that there needs to be "an easy on-ramp for partners so you become the preferred partner."¹⁷⁹ On a related point, Carlo Dade emphasized that many Canadian companies are already engaged in partnerships with agencies like USAID or the International Finance Corporation arm of the World Bank. Despite the lack of expertise within CIDA on partnerships in comparison to these other agencies, he argued that Canadian companies would ideally prefer in many cases to partner with CIDA, but there have been insufficient opportunities to do so to date. He told the Committee that these companies are "proud to be Canadian. They want to extol that virtue and enhance the Canadian brand, and they want to bear the cost. You're not doing them a favour. They're already doing these projects. They're doing CIDA a favour in terms of bringing them along."¹⁸⁰

Again, the partnership aspect must be emphasized throughout the process. A publication by Committee witness Daniel Runde and his colleagues at the Center for Strategic and International Studies argues for private sector actors to be involved in the planning and design stages of a project, instead of being brought in at the end when all the project decisions have been made by development agency officials. The authors note that "Not allowing partners in at the front end discourages a larger number of partnerships."¹⁸¹ In general, they argue that if public sector development agencies are to be successful in engaging with the private sector, they need to shift their overall mindset from seeing themselves as the "biggest wallet with the largest rule book" to that of a "catalytic wallet with a flexible rule book."¹⁸²

Dr. O'Neill also discussed the importance of honesty and clarity when approaching partnerships. She underscored the importance of having "candid discussions about the core competencies of each partner and their motivations" and advised: "...don't fall in love with the deal. Be willing to walk away from it if you smell a rat or you don't think the objectives align sufficiently." Overall, Dr. O'Neill stressed a focus on three elements in a partnerships strategy, "impact, scale, and sustainability," noting that, "If you don't think about those at the very beginning, they won't miraculously happen in a partnership or when the partnership is coming to an end."¹⁸³

178 FAAE, [Evidence](#), March 26, 2012.

179 FAAE, [Evidence](#), May 30, 2012.

180 FAAE, [Evidence](#), March 26, 2012.

181 Daniel Runde et al., [Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC](#), p. 11.

182 Ibid, p. VI.

183 FAAE, [Evidence](#), May 30, 2012.

Referring to the trend in the development community and at CIDA to increase engagement with private sector companies, several witnesses emphasized the need for an evidence-based approach to partnerships. Alex Counts, of the Grameen Foundation, made the general comment that “It’s very easy to be patting yourself on the back and saying you’ve got a private sector solution — it’s reducing poverty or claiming some other thing — but there should be an accountability mechanism to figure out if you’re really doing that.”¹⁸⁴ Others also stressed the need for greater transparency in CIDA’s rationale and justification for pursuing partnerships. Kenneth Georgetti, President of the Canadian Labour Congress, pointedly expressed his organization’s disagreement with the premise “that partnering with the private sector to fund foreign-aid projects is the best way to improve the lives of the world’s poor.”¹⁸⁵ He also argued that, “At the core of any analysis about poverty is the question of jobs.” With this in mind, he went on to ask:

So where’s the analysis to show the impacts of company operations on full-time and part-time jobs that will be created or lost, and what is the quality of those jobs, and what are the conditions of the work environment and the human rights in the workplace? What about the livelihood issues for community well-being? What other scenarios for investment or for CIDA expenditures would create more jobs than the paltry few that have been talked about here? I repeat, where is the analysis on all of this?¹⁸⁶

Professor Stephen Brown also raised concerns about the new CIDA corporate social responsibility (CSR) pilot partnerships and questioned whether they are an appropriate and effective use of public development funding. He stated: “CIDA claims these partnerships will improve the effectiveness of aid, but I have not seen any convincing arguments yet.”¹⁸⁷

CIDA’s approach to partnerships will thus need to incorporate a clear statement of objectives in terms of development outcomes and robust monitoring and evaluation mechanisms to track and measure them. Those results, along with the original objectives of the partnership, and the contributions and roles of each involved party will need to be transparent. It is important to underscore here that monitoring — testing the results of an initiative and making future decisions based on those results — is an integral part of private sector work culture. When Doug Horswill appeared before the Committee to discuss Teck Resources’ contribution to the Zinc Alliance for Child Health, he explained: “...as part of a company engaged in this and just learning it, I think that last point is the key one — measuring, monitoring, reporting, and keeping transparency. That’s how we run our business. That’s how this business needs to be run.”¹⁸⁸

184 FAAE, [Evidence](#), February 15, 2012.

185 FAAE, [Evidence](#), February 27, 2012.

186 Ibid.

187 FAAE, [Evidence](#), May 7, 2012.

188 FAAE, [Evidence](#), December 6, 2011.

As a final point, identifying partnership opportunities in low-income countries in particular will, in many cases, likely require creative solutions, including working with locally based companies in sectors such as agricultural productivity for small-holder farmers. On the communications side, it will also likely require an organizational mentality on CIDA's side of reaching out to private companies, and to NGOs and foundations, with partnership ideas, rather than waiting for those ideas to be brought to the agency through traditional bidding processes. Initiatives like those to increase the poor's access to financial services through mobile banking are already being pursued by the private sector, so it is a matter of CIDA and other development actors getting involved to provide support and expertise to maximize the development impact of those initiatives. However, partnerships that aim to, for example, expand the availability of health care services in rural areas, will likely require a far greater degree of conceptual work and initiative on the part of the agency.

Overall, the Committee drew from this testimony the importance of flexibility, transparency and realism in the process of identifying partners and partnerships. On flexibility, it is clear that the type of private sector actors that bring the business practices and expertise that are so coveted by development agencies will not wait patiently at the doorstep for a cumbersome bureaucracy to make up its mind. If it is private sector efficiency and creativity that is desired, the process of selection and communication on the public sector side must adapt to meet the realities of the private sector's work culture. Regarding the last two points — transparency and honesty — it is equally apparent that the expectations and contributions of all involved partners must be made clear throughout the process of decision-making and project execution. Not all partners or partnership ideas are viable from a practical perspective — the probability that the proposal will deliver the desired outcomes in a cost-effective manner — or desirable from the perspective of alignment with an agency's development mandate, which must be the bedrock underpinning all of its funding decisions.

CHAPTER 7: CASE STUDIES

While testimony before the Committee addressed a wide range of topics, a number of witnesses focused on two sectors, financial services and natural resources, which are an important aspect of development in many countries. These two sectors are also ones where Canada has particular expertise, and where the Canadian private sector is heavily involved internationally. They are thus the subject of the two case studies that follow.

Financial Services for the Poor

The Committee received a significant amount of testimony during its hearings regarding the contribution that financial services provided by private sector actors and regulated by governments can make to development. Overall, witnesses argued that:

- Financial services are an important element in the alleviation of poverty and the integration of the poor into formal economies;
- Best practices have and are still emerging in the provision of microfinance; and
- While no “silver bullet” can ever address all the challenges associated with access to finance, technologies such as cell phones and “mobile wallets” can greatly reduce the financial and other costs of bank accounts and related transactions.

Given the strong reputation and global links of the Canadian financial sector, it is likely that it can play an increasingly important role in the provision of financial services to the poor in developing countries in the years to come.

The Government of Canada, for its part, has played a lead role over the decades in supporting the provision of microfinance services to the poor. Larry Reed of the Microcredit Summit Campaign and others underlined the important role that governments must continue to play in this area. He told the Committee that “The challenge, I think — especially from the government side, when it is investing — is to shape the market such that the incentives and the rules of the game are set up so that the public good for which the government was investing continues to happen, even as private sector players come in and begin to become the dominant funders in the market.”¹⁸⁹

189 FAAE, [Evidence](#), March 14, 2012.

The Need for Financial Services

According to the World Bank, among the “key lessons” learned about the financial needs of the poor over the decades include the fact that, “Poor people, like everyone else, need permanent access to financial services.” It added that “access to micro-credit is not sufficient; the poor also need access to savings, insurance, and payment services.”¹⁹⁰

Recent decades have seen a significant increase in the provision of such financial services. However, survey data released by the World Bank in April 2012 indicates that three quarters of the world’s poor — some 2.5 billion people — still do not have a bank account. While nearly two thirds of the “unbanked” cited poverty as the reason for their lack of an account, about a third also cited the costs or travel and other difficulties associated with such accounts.¹⁹¹

From Microcredit to Microfinance

'Microfinance' is the provision of loans and other financial services to the very poor. It is an important tool that has helped millions of poor people in developing countries — particularly women — gain more control over their finances and, therefore, their lives.

Modern microfinance gained prominence in Bangladesh, where the Grameen Bank founded by Muhammad Yunus in the early 1980s successfully and sustainably provided credit without collateral (microcredit) to the rural poor. As American microfinance expert David Roodman later explained, Muhammad Yunus “...was the first leader of the modern microcredit movement to operate in a relatively businesslike way: to mass-produce and charge the poor enough interest to cover most operating costs so that the bank could expand to serve more people.”¹⁹² Both Muhammad Yunus and Grameen Bank were awarded the 2006 Nobel Peace prize in recognition of their work.¹⁹³

190 The World Bank, “[Microfinance](#),” *Community Driven Development*.

191 The World Bank, [New Database Shows Three Quarters of the World’s Poor are “Unbanked.”](#) Press Release 2012/400/DEC, April 19, 2012.

192 David Roodman, “[Think Again: Microfinance](#),” *Foreign Policy*, February 1, 2012. [David Roodman](#) is a Senior Fellow at the U.S.-based think tank, the Center for Global Development. In his 2003 book, Muhammad Yunus described Grameen Bank’s self-sustaining model as follows: “Grameen Bank has made a profit every year since it came into being except in 1983, 1991, and 1992 – proving that businesses with social objectives can and do work. (Since the bank’s operations began in 1983, it did not make a profit that year. The years 1991 and 1992 were years of massive rehabilitation for Grameen Bank members after a devastating cyclone hit Bangladesh in April 1991...)” Mr. Yunus also wrote that: “Grameen Bank provides three types of loans: income-generating loans (with an interest rate of 20 percent), housing loans (with an interest rate of 8 percent), and higher education loans for the children of Grameen families (with an interest rate of 5 percent). All interests are simple interest, calculated on a declining balance method.” See: Muhammad Yunus, *Banker to the Poor: Micro-Lending and the Battle Against World Poverty*, New York: Public Affairs, 2003, p. 236.

193 Following a long dispute with the Government of Bangladesh, Mr. Yunus resigned as head of the Grameen Bank in May 2011.

While attention long focused on the provision of *microcredit* to the poor, the focus in recent years has increasingly moved to *microfinance*, which includes other important and related services such as savings and insurance. Representatives of Opportunity International Canada, for example, told the Committee of Opportunity International's broader portfolio of work. It is a microfinance network that works with governments and non-governmental actors "to provide scalable, sustainable microfinance services, including loans, savings, training, insurance, and other financial services, to reach the lowest echelon of the economically active, with a focus on increasing their income, improving food security and access to education, and creating jobs."¹⁹⁴

The modern microfinance industry is an interesting and arguably unique combination of for-profit and not-for-profit actors. Larry Reed of the Microcredit Summit Campaign told the Committee that the microcredit movement began in the 1980s as an initiative of non-governmental organizations (NGOs) that saw the need to provide credit services to the poor when the private sector was not doing so, and were initially supported by governments such as Canada and by private donations. By 1996, some six million people were being reached by microcredit, and the Microcredit Summit Campaign set a goal that year of reaching 100 million people by 2006; this goal was actually reached in 2007.¹⁹⁵ According to the latest Microcredit Summit Campaign Report, as of December 2010, some 3,652 microfinance institutions reported reaching 205 million clients, 138 million of whom were among the poorest when they took their first loan. Of these 138 million clients, 82% were women.¹⁹⁶

While the microfinance movement was started by NGOs and financially supported by governments, for-profit actors eventually entered this area, and now have become its dominant funders. Mr. Reed told the Committee that whereas a decade ago, governments were the main source of the roughly \$400 million devoted to microfinance, the combined asset base of over 100 microfinance investment funds in the world now is over \$8 billion.¹⁹⁷ Nevertheless, Mr. Reed emphasized that this area still sees a significant amount of "blending" of NGOs with a mainly social orientation, and for-profit enterprises with a mainly commercial one.¹⁹⁸ Chris Dunford of Freedom from Hunger agreed, telling the Committee 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."¹⁹⁹

194 FAAE, [Evidence](#), March 14, 2012.

195 Ibid.

196 See: Jan P. Maes and Larry R. Reed, "Executive Summary," in [State of the Microcredit Summit Campaign Report 2012](#), Microcredit Summit Campaign, Washington, D.C., 2012.

197 FAAE, [Evidence](#), March 14, 2012.

198 Ibid.

199 FAAE, [Evidence](#), April 30, 2012.

Wendy Hannam told the Committee that Scotiabank acquired its microfinance expertise through the acquisition of a bank in Peru, one of the countries with the most experience in that sector. After researching local markets and taking a grassroots approach in the years that followed, Scotiabank essentially transferred the skills and knowledge developed in Peru to branches in other countries in the Caribbean and Latin America, including Chile, the Dominican Republic, Guatemala and Jamaica. She said that:

Microfinance has been shown to be an important driver of economic development in underserved communities. It is a key tool for supporting the goals and aspirations of women in particular. Approximately 60% of our microfinance clients in Peru are women. It also helps to grow the formal economy by providing accessible financing to people who would otherwise have to turn to informal channels.²⁰⁰

She noted that while women make up a large percentage of the bank's microfinance customers, it no longer directly targets these services toward them; an earlier program in Jamaica that had done so has now been converted into the bank's traditional business model, which in her opinion "...speaks to the success of the program."²⁰¹

Given Canada's longstanding development cooperation with Haiti, the Committee was particularly interested to hear of the practical work being done by Fonkoze, which is the largest microfinance institution in Haiti. Fonkoze currently has over 900 employees, 60,000 credit clients representing a \$16 million credit portfolio, and 270,000 savers with a \$26 million portfolio. In 2011, it also processed some \$96 million in remittances from the Haitian diaspora in Canada and elsewhere.

Fonkoze provides microfinance services to women through 46 branches across the country. Katleen Félix explained that the founding principle of Fonkoze is that women — who make up 99% of Fonkoze's customers — are the backbone of the economy, and must be supported in their fight against poverty. Fonkoze has established some 1,750 credit centres across Haiti where women can receive credit, but also financial and health-related training. Other key Fonkoze principles are that all Haitians must participate in the country's economy, and that there will be no democracy in Haiti if the people do not have access to financial services including credit, savings and insurance.²⁰² She also explained that Fonkoze offers a range of products to women in Haiti that are designed in stages according to their personal circumstances, and built around the idea of a "Staircase out of Poverty."²⁰³

200 FAAE, [Evidence](#), March 12, 2012.

201 Ibid.

202 FAAE, [Evidence](#), February 15, 2012.

203 Ibid.

Strengthening Microfinance

While there has been great success in providing microfinance services to the poor over the decades, the last two years have seen controversy and increased scrutiny in this area. The controversy has centred on the fact that as microfinance services have continued to grow, a number of countries such as India have reportedly seen over-indebtedness, harsh collection practices and even suicides on the part of clients. Less high-profile have been questions related to the actual impact of microfinance on lifting people out of poverty, given the lack until very recently, of scientific studies or specific measures to track this.

Larry Reed told the Committee that the microfinance industry has worked to address recent controversies in several ways. One of these includes training people in new higher standards of behaviour based on principles such as fair and respectful treatment of clients and the prevention of over-indebtedness.²⁰⁴ Another includes focusing on metrics that measure the “social good” that flows from microfinance, rather than simply using traditional financial performance measurements.²⁰⁵ Alex Counts of the Grameen Foundation emphasized the importance of accountability mechanisms when working on development issues, telling the Committee that among many other tools now being developed, the Progress Out of Poverty Index is a “simple survey tool that can show trends about whether people are just trading water or are actually getting out of poverty.”²⁰⁶

In a 2012 study, David Roodman — who Muhammad Yunus has called “the most consistent and articulate analyst of microcredit in recent years”²⁰⁷ — made a number of observations about the supporting arguments for, and the realities of, microfinance. Overall, he argued that even if microfinance does not achieve some of the broader claims made for it in the areas of women’s empowerment or lifting people out of poverty, it does succeed in the very real and important task of “*leveraging modest subsidies to build financial institutions and industries that give millions of poor families more control over their finances.*”²⁰⁸

Commenting on all of these recent debates, Chris Dunford told the Committee that:

...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

204 The Smart Campaign, [Client Protection Principles](#).

205 FAAE, [Evidence](#), March 14, 2012.

206 FAAE, [Evidence](#), February 15, 2012.

207 Center for Global Development, “[Due Diligence: An Impertinent Inquiry into Microfinance](#).”

208 See David Roodman, *Due Diligence: An Impertinent Inquiry into Microfinance*, Center for Global Development, Washington, D.C., 2012, p. 6.

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.²⁰⁹

In early 2011, chief executive officers of a number of international microfinance organizations began to discuss the future of the industry, and eventually established a Microfinance CEO Working Group. In a January 2012 report, this group wrote that: “At this moment, microfinance has an opportunity to build on past successes, learn from, and respond to the challenges it faces in order to be a more responsive, responsible, and transformative industry.”²¹⁰

After Microfinance: the Formal Sector and Sustainable Development

Many large financial institutions in Canada and elsewhere have recognized the potential of the microfinance market both for its own sake and as a means to help people in the developing world graduate beyond microfinance within the formal economy. Jean-François Tardif emphasized the important characteristics that large for-profit entities can bring to microfinance through capital for lending, as well as expertise and technology. In terms of that expertise, he noted the work of Développement international Desjardins, a non-profit organization established by Quebec's largest financial organization — the Mouvement Desjardins — some 40 years ago to increase financial inclusion in the developing world through the provision of financial services.²¹¹

Testifying before the Committee, Yvon Bernier of Développement international Desjardins explained that his organization “cooperates and acts extensively in partnership with the Canadian International Development Agency” on issues related to the provision of financial services in developing countries. He argued that the lack of financial services prevents growth in the private sector in developing countries. Microfinance should therefore “be considered as overall leverage for sustainable economic development, rather than simply as microcredit.”²¹²

Jean-François Tardif used the example of Scotiabank's operations in Central and South America to argue that the formal financial sector can also play a key complementary role in graduating clients beyond microfinance to the formal financial world.²¹³ Similarly, Wendy Hannam argued that the best way to get people out of poverty is through “pro-poor growth,” which means involving the poor in economic growth through formal markets. She said:

209 FAAE, [Evidence](#), April 30, 2012.

210 Microfinance CEO Working Group “Road Map for the Microfinance Industry: Focusing on Responsible and Client-Centered Microfinance,” January 2012.

211 FAAE, [Evidence](#), December 8, 2011.

212 FAAE, [Evidence](#), December 6, 2011.

213 FAAE, [Evidence](#), December 8, 2011.

The banking sector has a critical role to play. Generally it alleviates poverty and inequality by enabling economic growth through the provision of credit. In addition, the institutional infrastructure of the financial sector contributes by bringing down the cost of information, contracting, and transactions, which in turn accelerate growth.²¹⁴

In practical terms, she also added that:

Perhaps most important, banks directly address poverty by providing access to basic banking services in a formal market, acting as a force of inclusion. In most developing countries, access to formal financial services is limited to 20% to 50% of the population. There is now growing awareness that access to a wide set of financial tools, such as savings products, payment services, and microfinance, provides the poor with much greater capacity to increase or stabilize their income, build assets, and become more resilient to economic shocks while increasing family security.²¹⁵

While Scotiabank provides microfinance services — which it defines as loans of less than \$2,000 for clients with revenues of less than \$100,000 — it also provides more sophisticated services, including those designed for customers who have moved beyond microfinance. According to Ms. Hannam, “We track, and we’ve seen migration from the microfinance, which is really just a family owned business, to creating jobs, growing into small businesses. We’ve seen a big migration...”²¹⁶

Mobile Banking and Knowledge Transfer

A number of witnesses discussed the potential for existing technologies such as mobile phones, which are widely available in the developing world — although apparently predominantly to men²¹⁷ — to establish infrastructure that can be used for inclusive mobile banking and other purposes. The most high-profile of these systems is M-PESA. It was launched in Kenya in 2007 with the support of DFID. By 2011, DFID was speaking of building on “the enormous success” of this “revolutionary mobile banking platform.”²¹⁸ Beyond the notable fact that around 25% of Kenya’s economy now flows through it,²¹⁹ M-PESA has also become the foundation for the development of a high technology sector in that country, where there are 74 mobile phones for every 100 Kenyans and nearly 99%

214 FAAE, [Evidence](#), March 12, 2012.

215 Ibid.

216 Ibid.

217 See: Isobel Coleman, “[Mobile Technology and Global Economic Growth](#),” *Democracy in Development Blog*, Council on Foreign Relations, May 10, 2012.

218 DFID, [The Engine of Development: The Private Sector and Prosperity for Poor People](#), 2011, p. 14.

219 “Let us in: Mobile money would transform even more lives in poor countries if regulators got out of the way,” *The Economist*, August 25, 2012.

of Internet subscriptions are phone-based. That sector is centred on developing applications for mobile phone technology.²²⁰

In her testimony, Dr. O'Neill of USAID argued that mobile banking was "perhaps the most important development game-changer in decades":

To give you some sort of context, there are 500,000 bank branches worldwide, and there are five billion mobile phones. Almost two billion people have access to a phone but no bank account, so they have no ability to participate in the formal financial sector or to start businesses that have access to a bank in order to grow over time. If we could turn every mobile phone into a bank branch or a cash register for small businesses, we believe the economic benefits of financial inclusion could be transformative for poor countries in the world. We're already seeing quantifiable results of this hypothesis in Kenya. Within five years, 70% of the country's adult population has gained access to the financial and banking system through MPesa, the mobile operator's money market.²²¹

Khalil Shariff told the Committee that in 2003, the Aga Khan Fund for Economic Development established a mobile phone company in Afghanistan called Roshan. It now reaches close to 4 million subscribers across that country. He explained that:

...Roshan now provides mobile money transfer services, which extends financial services to the 97% of Afghans who can't access banks. We're also using Roshan today on the not-for-profit side to support telemedicine, allowing Afghans to access health expertise from around their own country, and indeed from around the world. Another measure of Roshan's multiplier effects is the fact that it is one of the largest taxpayers in the country, contributing approximately 5% of the government's total domestic revenues.²²²

Alex Counts likewise emphasized the value of new and emerging technologies. He told members of a program in Uganda that uses mobile phones not only to download critical information, but also to aggregate and provide information about farmers and their crops to outside companies, which are then in a better position to integrate these farmers in their operations. In his words, "The mobile phone, put in the hands of people out on the field, poor people themselves, can be a way of capturing and aggregating that information that can remove a lot of the friction from the process between the private sector and the poor and allow partnering in ways that mutually benefit each other."²²³

Wendy Hannam similarly expressed her enthusiasm for mobile banking, which she argued is "going to transform the world." She told the Committee that "Increasingly we will be able to distribute loans onto the phone, and people will be able to make payments,

220 "Upwardly Mobile: Kenya's Technology Start Up Scene is about to take off," *The Economist*, August 25, 2012.

221 FAAE, [Evidence](#), May 30, 2012.

222 FAAE, [Evidence](#), May 7, 2012.

223 FAAE, [Evidence](#), February 15, 2012.

again, through these distribution outlets, through the phones.”²²⁴ She explained that in the case of Haiti, before mobile phones,

...the only way for a family member in one community to transfer funds to a family member in another community a hundred miles away was to physically take that cash and find what they hoped was a trusted taxi driver or bus driver or somebody who would get the funds there. Sometimes they wouldn't get there. When they did get there, it was often at quite a cost: 20%, 30%, 40%. ...²²⁵

While only 10% of the population of Haiti has a bank account, some 85% of households have access to a mobile phone. Dr. O'Neill explained that when the devastating 2010 earthquake wiped out almost all of what had been very limited financial infrastructure in Haiti, the idea emerged to try to quickly develop mobile banking as a replacement. USAID and the Gates Foundation therefore set up a challenge grant to reward the first to bring such a service to market; the winner was Scotiabank and a Haitian mobile phone company, Digicel.²²⁶ Dr. O'Neill told the Committee that, “In a country where there were fewer than two bank branches per 100,000 people, we've seen nearly a doubling of accessible financial services in less than two years.”²²⁷

In late 2010, Scotiabank and Digicel launched a “mobile wallet” service under the brand name TchoTcho Mobile that allows Haitians to transfer funds for just pennies per transaction. At the end of 2011, TchoTcho Mobile had more than 473,000 users and handled almost 10,000 transactions a day in a country where just 4 million people have cell phones.²²⁸ This service has been both profitable and effective in making microfinance more widely available, winning international awards for development innovation. Scotiabank plans to launch similar services in other Latin American and Caribbean countries.²²⁹

Wendy Hannam also told the Committee that over the past year Scotiabank had held a number of discussions with CIDA in order to share information and identify areas for enhanced collaboration. She stated that “...we've had some very good discussions. We definitely see opportunities to partner, to work together more closely on the ground when we're both doing work in the countries, to share what we're doing, to share best practices and knowledge.”²³⁰

224 FAAE, [Evidence](#), March 12, 2012.

225 Ibid.

226 FAAE, [Evidence](#), May 30, 2012.

227 Ibid.

228 FAAE, [Evidence](#), March 12, 2012

229 Ibid.

230 Ibid.

Mobile payment and related systems thus have significant development potential. Nevertheless, some challenges remain. In August 2012, *The Economist* magazine noted that while more than 120 operators now offer some sort of mobile money service in various countries and another 90 are expected to soon join them, none has yet achieved the success of M-PESA. There are a number of possible explanations for this situation, ranging from the dominant position of the carrier that launched M-PESA in Kenya, to barriers to entry related to the regulation of mobile money systems in many countries.²³¹ In any event, Kenya's experience will provide important lessons for those interested in this technology and in replicating M-PESA's success and bringing such a model to scale in other countries. While arguing that currently "...the enthusiasm for cell phone-based financial transactions is outpacing the reality of it," Chris Dunford told the Committee that "it's still an extremely active area of experimentation and it's very promising."²³²

Natural Resources

Among the topics that saw the most discussion before the Committee was the role of the natural resources sector — particularly mining operations — in the achievement of development objectives. The testimony before the Committee in this area was polarized, reflecting longstanding debates. The following provides an overview of key points from that testimony. While witnesses highlighted many challenges related specifically to the extractive sector, the solutions advocated by most, particularly the need to strengthen the capacity of local governments, were often those that have been emphasized in other contexts throughout this report.

Overall, witnesses agreed with the potential of natural resources to contribute to economic growth and poverty alleviation in developing countries. They also underlined the fundamental need for host governments to be able to transparently and accountably carry out their social, economic and regulatory responsibilities, and for mining and other industries to work closely with local communities throughout the resource development process. At the same time, however, a number of witnesses argued that large-scale mining operations can in fact complicate the process of development, particularly when governments lack the capacity to carry out these responsibilities.

Given that Canadian companies are world leaders in mining and other resource extraction, the question of how to ensure that the natural resource sector effectively contributes to realizing development objectives is an important one for Canada's foreign and development policies. Khalil Shariff told the Committee that:

...it is inescapable that mineral wealth in the developing world is going to be a major driver of the future of these countries. That is not the end of the question; that is the beginning of the question. The issue now is, what supports are we ready to provide the

231 "Let us in: Mobile money would transform even more lives in poor countries if regulators got out of the way," *The Economist*, August 25, 2012.

232 FAAE, [Evidence](#), April 30, 2012.

developing world in order to help them manage their natural resources well in a way that will be a force and an engine for national development? That's the question, and I don't think we've got clear answers.²³³

Commenting on the fundamental need to strengthen host government capacity in this area, Karin Lissakers of the Revenue Watch Institute similarly underlined that "... this is a complex business. There is no single solution. You need to address a number of core issues simultaneously to have any sustained beneficial impact."²³⁴

Natural Resources and Development

As the history of Canada has shown, natural resources can play an important role in the development of local and national economies. As a result of its experience, Canada is a leader in mining expertise and operations both within the country and internationally. At the international level, Pierre Gratton of the Mining Association of Canada (MAC) told the Committee:

Canada's mining sector is one of the country's most significant outside investors, responsible for about 10% of Canadian direct investment abroad, while the total value of Canadian mining assets abroad is valued at \$109 billion. Two-thirds of these assets are in the western hemisphere, just under 50% of which is in just three countries: Mexico, Chile, and the United States.²³⁵

To illustrate the size of this industry, Ross Gallinger of PDAC testified that "There are 1,600 Canadian companies listed on the TMX; there are probably 700 listed on the Australian Stock Exchange and somewhere around 200 on the New York Stock Exchange."²³⁶

Natural resource abundance represents a potentially significant economic engine for developing countries, given the benefits that can result such as direct tax and royalty transfers to local authorities, as well as employment and service purchasing, related business creation, and community development programs. Karin Lissakers told the Committee that her organization focuses specifically on the oil, gas and mining sectors precisely because, in her words, "...if you look at the numbers and the investment flows, you can see that these mineral resources have the potential to transform positively the many poor countries that have a lot of wealth in the ground."²³⁷

In his testimony, Ross Gallinger pointed to the cases of Ghana, Chile and Botswana as examples which demonstrate the positive results that mining can bring to

233 FAAE, [Evidence](#), May 7, 2012.

234 FAAE, [Evidence](#), February 27, 2012.

235 Ibid.

236 FAAE, [Evidence](#), November 17, 2011.

237 FAAE, [Evidence](#), February 27, 2012.

developing countries.²³⁸ Brent Bergeron of Goldcorp told the Committee that his company is one of the largest taxpayers in Guatemala, paying close to \$80 million in taxes and royalties last year both to the federal and, voluntarily, the local government.²³⁹ Doug Horswill of Teck Resources discussed the local benefits that have resulted from his company's operations in Chile and its partnership at a mine in Peru, which include taxes, direct employment of local citizens and multiplier effects in terms of indirect employment and suppliers.²⁴⁰ In Burkina Faso, the IAMGOLD mine is the country's largest private employer, with 2,200 employees.²⁴¹

At the same time, examples unfortunately also exist where the presence of natural resource wealth has not contributed as it could have to sustainable development.²⁴² Catherine Coumans of MiningWatch Canada argued in a submission to the Committee that there is "expanding research that details the ways in which large-scale mining *itself creates* very serious and long-lasting development deficits, both at national and at local levels in many developing countries."²⁴³ She and others, such as Karyn Keenan of the Halifax Initiative Coalition, argued that the ways in which large-scale mining has taken place in countries without adequate capacity to either provide for their citizens or to regulate the industry has led to negative environmental impacts and social conflicts at the local level, as well as more general development deficits at the national level.²⁴⁴

Similarly, Karin Lissakers told the Committee that "...in many cases minerals have actually been adverse to economic development and social and economic equity."²⁴⁵ She argued that "the pathology of the so-called resource curse" includes very weak institutions, significant corruption and, as a result of both of these, the negotiation of bad deals. She said:

While companies are often blamed, we think a partnership and an agreed governance structure that addresses the underlying institutional weaknesses in the resource-rich

238 FAAE, [Evidence](#), November 17, 2011.

239 FAAE, [Evidence](#), February 29, 2012.

240 FAAE, [Evidence](#), December 6, 2011.

241 FAAE, [Evidence](#), March 28, 2012.

242 According to Canada's 2008 *Federal Sustainable Development Act*, "'sustainable development' means development that meets the needs of the present without compromising the ability of future generations to meet their own needs." The Act adds that: "The Government of Canada accepts the basic principle that sustainable development is based on an ecologically efficient use of natural, social and economic resources and acknowledges the need to integrate environmental, economic and social factors in the making of all decisions by government." See: Department of Justice Canada, [Federal Sustainable Development Act](#), S.C. 2008, c. 33.

243 MiningWatch Canada, "CIDA's Partnership with Mining Companies Fails to Acknowledge and Address the Role of Mining in the Creation of Development Deficits," Brief prepared for FAAE's Study on the Role of the Private Sector in Achieving Canada's International Development Interests, January 2012, p. 2

244 Ibid and FAAE, [Evidence](#), May 30, 2012.

245 FAAE, [Evidence](#), February 27, 2012.

countries can change the trajectory for the better in a way that benefits both the investors and the resource-producing countries.²⁴⁶

According to Stephen Brown of the University of Ottawa, “What is needed is a better understanding of the two sides of resource extraction as a development strategy, and effective ways to minimize the harm while maximizing the benefits.”²⁴⁷ Pierre Gratton of the Mining Association of Canada told the Committee that:

We have seen examples of significant resource investment in extraction. We've seen places where the results of this investment have not been shared across the population base, where there are examples of corruption, and where we haven't seen the development we thought this investment would bring...

Over the last number of years, largely through ICMM, the International Council on Mining and Metals, we have been looking closely at this issue, the so-called “resource curse”. We have tried to identify ways in which we can ensure that this does not happen. It's by no means certain that the resource curse is going to happen. It's not certain that investing in Africa in a mining project is going to make the country worse off. It can make it better off... The question then becomes: how do you do development right? How do you do it in a way that ensures the likelihood of lasting economic benefits?²⁴⁸

Overall, many witnesses agreed that the minimization of the harm and maximization of the benefits associated with natural resource development both depend substantially on efforts to strengthen the capacity of governments at the national and local levels in countries where mining takes place.

The Central Importance of Institutional Capacity

As noted, witnesses drew strong connections between natural resource development and the fundamental need for national and local governments to be able to transparently, effectively and accountably manage the development of those resources in ways that benefit their citizens. The fact that many countries lack such institutional capacity, however, raises significant challenges.

Professor Anthony Bebbington of Clark University argued that:

The appearance and the expansion of large-scale mining changes so much, so profoundly, that achieving development in such a context becomes particularly complicated and difficult. While these transformations do not make development impossible, they are of such a magnitude that any effort to foster development cannot simply focus on projects. Instead, it must focus on institution-building and regulation. It must also get sequences right.²⁴⁹

246 Ibid.

247 FAAE, [Evidence](#), May 7, 2012.

248 FAAE, [Evidence](#), February 27, 2012.

249 FAAE, [Evidence](#), February 29, 2012.

While arguing for the need to address institutional issues aggressively and systematically early on, he also acknowledged that, “of course one can’t postpone extraction of natural resources indefinitely until institutions have been built...” Even with this reality in mind, however, he noted that:

...there is a sense, and I think cases like Nigeria and other historical examples support that sense, that if the extractive economy grows very quickly without significant progress in building institutions to regulate that economy and use resources transparently in ways that foster stronger relationships between governments and citizens, then it’s very difficult to catch up after the fact. Once the incentives have been distorted, once politics functions on the basis of access to rents, it becomes very difficult to turn that around after the fact.²⁵⁰

Representatives of the mining industry agreed on the importance of institutional capacity, and on the fact that this is often lacking in developing countries.

In order to underline the importance of companies being able to cooperate closely with local government institutions and other stakeholders in achieving economic and social growth, Brent Bergeron of Goldcorp began by telling the Committee about the company’s operations in Canada. Goldcorp has a \$1.8 billion mine under construction in northern Quebec, and had recently signed a collaboration agreement with the Cree nation of Wemindji for the development of the project, which included joint committees dealing with issues such as jobs and skills creation, education, and economic and business development activities. He stated that Cree leaders had earlier used the funds derived from the James Bay hydro project to invest in skills development and businesses that are now capable of supplying Goldcorp and other projects in the region. As a result, Cree companies received 81% of the total contracts awarded at Goldcorp’s mine in 2012, for a total value of \$ 39.7 million. He added:

The most important aspect of the development activities was to increase the capacity of these communities to negotiate collaborative agreements with large multinational companies, in this case Goldcorp. With this collaborative agreement the Cree Nation will directly benefit from the success of the mine. This is the model we strive for at all of our international operations, and we have encouraged Cree officials to also reach out to local communities to share their positive experience where we operate.²⁵¹

It is important to recognize, however, that successful mining operations like this one are built upon decades of national experience and take place in a country that has strong institutions at different levels of government, regulations, and other checks and balances — factors that are often not yet present in the developing world. This difference was reflected in Mr. Bergeron’s comments regarding Goldcorp’s operations abroad. He said:

250 Ibid.

251 Ibid.

...challenges do exist when our company attempts to replicate similar collaboration agreements in other areas of the world. Our challenges often deal with the lack of capacity of local governments and businesses, the lack of capacity of national governments to provide essential services that are necessary for the social and economic benefit of local communities, and the lack of adequate skills and labour to provide services to the mining operation.²⁵²

Ross Gallinger of the PDAC likewise told the Committee that “The areas where the mining companies go have very little government oversight.”²⁵³ This is particularly the case in remote areas, which is often where mine sites are located. He noted that, in many cases, there are gaps between formal laws and regulations and the capacity at the local level to enforce them.

Chris Eaton of World University Service of Canada (WUSC) also argued for an emphasis on the local and district levels of governance. He said that “...we need to expand our support to the broader set of governance and capacity-building issues in the mining sector, tailored to the specific needs of civil society and national and local governments where mining occurs.”²⁵⁴ He noted, for example, that in the case of Ghana, the national government “notionally sets aside some of the royalties it receives from mining operations to fund the development plans of districts in which mining occurs.” He added, however, that “Unfortunately, the mechanism through which districts can call upon these resources is not yet established or operational.”²⁵⁵

The practical challenge is, therefore, how to effectively build local and national institutions and governance capacity in the natural resource sector while resource extraction is taking place. After all, the concept of building “capacity” is much easier to invoke than to put into tangible practice.

Given the number and significance of Canadian companies in the global mining industry, the demand from various countries for support with institutional development, and the specific challenges posed by resource governance, many witnesses told the Committee that Canada can play an important role in this area. Daniel Runde (CSIS), for example, argued that Canada has opportunities to export its expertise in the natural resource sector given its demonstrated strength and know-how. He told the Committee:

Canada is world renowned for managing extractive resources in responsible ways, and this is an important Canadian export that needs to be further embedded in development cooperation. I think about provincial governments that have stewarded their resources very well. This is one of the holy grails of international development.²⁵⁶

252 Ibid.

253 FAAE, [Evidence](#), November 17, 2011.

254 FAAE, [Evidence](#), February 13, 2012.

255 Ibid.

256 FAAE, [Evidence](#), December 13, 2011.

There are compelling reasons for providing this assistance. The most obvious and important one is the causal relationship between institutional strength and societal benefit from natural resource development, which was described at length above. Beyond this development rationale for ensuring strong resource governance, however, a number of witnesses also argued that there are other reasons for providing this capacity-building support. As the extractive sector comes under increasing scrutiny, both companies and even countries such as Canada face “reputational risk” if they do not ensure that the highest social, environmental, human rights and other standards are followed in operations around the world.

Resource Governance and Revenue Transparency

In addition to the general need for capacity-building support, a number of witnesses emphasized the specific need to address institutional capacity with respect to the management of resource revenues, arguing that this is an area where development agencies like CIDA can and should play a significant role. As Karin Lissakers told the Committee, “Transparent and accountable government is the other major component that is going to transform these resources into development.”²⁵⁷ Such governance can, she argued, “greatly increase the chances that these resource-rich countries would become self-sustaining, self-funding, successful economies.”²⁵⁸ The Honourable Jim Abbott told the Committee that,

The dividends of good extractive governance are a peaceful society, investor confidence, a diversified economy with forward and backward linkages to the extractive sector, economic growth, improved social infrastructure, shared prosperity, and a positive corporate social response. That’s a list that any of us would want to be associated with.²⁵⁹

Capacity in the area of resource governance is critical because it affects the ability of countries that have significant natural resource development underway to negotiate fair deals with companies to the benefit of their citizens. Karin Lissakers used the examples of Cameroon and Tanzania to illustrate this point:

Cameroon gets maybe 12 cents on the dollar per barrel of oil it produces. Norway, by comparison, gets 78 cents on the dollar. Tanzania, where there are large Canadian mining interests, produces about a billion dollars worth of gold each year but only gets roughly \$100 million of tax revenue out of it.

257 FAAE, [Evidence](#), February 27, 2012.

258 Ibid.

259 FAAE, [Evidence](#), June 20, 2012.

She therefore argued that:

A rebalancing is critical. It is good for the investors, to attract investors, because it's the investors who have the technology and the capital to develop these resources, and it also generates a fair share of the economic grants for the governments. That means these governments must have the technical capacity to negotiate effectively, to oversee the concessions, and to manage the revenues.²⁶⁰

While government capacity is important to resource governance, some witnesses stressed that parliaments are also a key piece of the puzzle. For example, Jean-Paul Ruszkowski of the Parliamentary Centre argued that "...the need of emerging economies is mainly to acquire the tools to help governments, parliaments, and stakeholders reach a common understanding of the opportunities offered by the extractive industries and to mitigate the risks associated with them."²⁶¹ He added that "An important way to achieve a balance between the different views on this is to enhance the capacity and the knowledge of parliamentarians so that they can contribute to good governance in the industry sector."²⁶² He noted that parliamentarians must play a key role at all stages of the resource extraction process, from deciding whether or not to extract the resources, through negotiating the best deal, to developing those resources and optimizing the revenue derived from them.²⁶³

Karin Lissakers made similar points on the importance of parliamentary capacity, noting that, "...in the end, parliaments should have the oversight responsibility for their own governments' actions."²⁶⁴ She added that her organization, Revenue Watch, was "very encouraged" by work it has done in Tanzania, where basic workshops for parliamentarians who sit on relevant committees had helped to transform what had been a "rubber-stamp Parliament" to one that was beginning to ask questions of the government regarding the development of the country's natural resources. The Parliament went so far as to send back a recent mining bill because it believed the royalty structure was strongly unfavourable for Tanzania and that the law in general lacked sufficient oversight mechanisms. The Parliament has now also asked the government to present its overall plan for the long-term development of the country's gas sector. She referred to this action as "a systemic game changer." She underlined the symbolic and practical importance of having the Parliament "in public ways, through public hearings and public discussions, demand accountability and explanations and descriptions of policies."²⁶⁵

260 FAAE, [Evidence](#), February 27, 2012.

261 FAAE, [Evidence](#), June 20, 2012.

262 Ibid.

263 Ibid.

264 FAAE, [Evidence](#), February 27, 2012.

265 Ibid.

Another important challenge related to extractive operations and resource governance is corruption, which can take many forms, including the payment of bribes and the diversion of resource revenue by individuals in a given country for their own benefit. While obviously not limited to this area, Superintendent Stephen Foster of the Royal Canadian Mounted Police told the Committee that extractive industries were one of a number “high-risk areas” for international corruption because they combined high dollar values and prominent public officials.²⁶⁶ In addition to providing prevention and awareness messages to Canadian industry and officials, RCMP international anti-corruption units established in Ottawa and Calgary in 2008 focus on “detecting, investigating and preventing international corruption.”²⁶⁷

The Growing Body of Disclosure Requirements

The past decade has seen important progress related to revenue transparency in the extractive industries. An example is the Publish What You Pay coalition, which has advocated for greater transparency and accountability in the oil, mining and gas sectors. The coalition now comprises more than 600 civil society member organizations.²⁶⁸ Over the years, it has broadened its call from an initial focus on revenue disclosure by both firms and governments to also include “...transparent and accountable management and expenditure of public funds as an essential way to addressing the poverty, corruption and autocracy that too often plague resource rich countries.”²⁶⁹

A key initiative at the international level that involves multiple stakeholders is the Extractive Industries Transparency Initiative (EITI). The EITI aims to improve transparency and accountability by using a “robust yet flexible” methodology to monitor and reconcile extractive industry payments and government revenues at the national level in each participating country.²⁷⁰ While the EITI is a global standard, the process in each country is overseen by a multi-stakeholder group that includes representatives from governments, industry and civil society.²⁷¹ Karin Lissakers expressed her support for the EITI because it “gives civil society a seat at the table, [which] strengthens the accountability mechanisms internally in developing countries...”²⁷²

Arguably the most prominent and influential national initiative in this area has occurred in the United States. In 2010, the omnibus *Dodd-Frank Wall Street Reform and Consumer Protection Act* became law; it contains a section (1504) which requires all

266 FAAE, [Evidence](#), April 30, 2012.

267 Ibid.

268 Revenue Watch Institute, “[Publish What You Pay](#).”

269 Publish What You Pay, “[History](#).”

270 See: Extractive Industries Transparency Initiative (EITI), “[Factsheet01](#).”

271 See: Transparency International, “[The Extractive Industries Transparency Initiative \(EITI\)](#).”

272 FAAE, [Evidence](#), February 27, 2012.

companies listed with the United States Securities and Exchange Commission (SEC) to report the payments they have made to the U.S. or other governments as part of the commercial development of oil, natural gas or minerals. This disclosure is required on a country-by-country and project-by-project basis, and according to the type of payment.

Finalizing the rules required to implement these new provisions proved to be both a difficult and time-consuming exercise, which was not completed by the SEC until August 2012. One important element of the new rules is the precision around which types of “payments” require disclosure on the part of companies. The definition captures:

- Taxes;
- Royalties;
- Fees (including license fees);
- Production Entitlements;
- Bonuses;
- Dividends; and
- Infrastructure Improvements.²⁷³

Now that the rules have been completed, U.S., Canadian and other companies listed in the U.S. will be required to report annually for fiscal years ending after September 30, 2013.²⁷⁴

Karin Lissakers expressed her support for Dodd-Frank-type requirements, adding that “The EU is moving ahead to replicate this type of legislation.”²⁷⁵ Raymond Baker of Global Financial Integrity likewise argued for greater transparency on the part of all multinational firms operating in the developing world. In the specific case of the extractive sector, he told the Committee:

273 U.S. Securities and Exchange Commission, [“SEC Adopts Rules Requiring Payment Disclosures by Resource Extraction Issuers,”](#) 2012-164, August 22, 2012.

274 Ibid.

275 FAAE, [Evidence](#), February 27, 2012. According to the Revenue Watch Institute, in September 2012, the Legal Affairs Committee of the European Parliament “voted on amendments to the European Accounting and Transparency Directives, to require oil, gas, mining and forestry companies listed on EU stock exchanges as well as large private companies to disclose their payments to governments, country by country and for each project.” The press release also states that, “Members of the European Parliament will now discuss the proposal with European Council members, before submitting a final version of the directive to the full parliament for a vote, anticipated early next year.” See: Revenue Watch Institute, [“EU Pushes for Transparency for Oil, Mining Payments,”](#) September 18, 2012.

...I don't think there's any question that extractive industries need to account, in very careful terms, for what they are paying to the governments where they are established. They need to move toward full reporting of sales, profits, and taxes paid in countries in which they're functioning.²⁷⁶

While many Canadian companies are also listed in the United States, and will therefore be covered by the Dodd-Frank law, the rest will not be covered unless Canada moves to adopt similar requirements.²⁷⁷ On this point, Karin Lissakers stated:

As a matter of levelling the playing field for companies, we think it's important that major jurisdictions like Canada adopt similar legislation or regulatory requirements through their provincial regulators. ...Canada is particularly important, because, as you know, more than half the world's mining companies list in Canada. Canada, a major mining and oil country itself, should lead by example. We hope your government will support such legislative requirements.²⁷⁸

When asked about the industry's position on mandatory reporting requirements, Pierre Gratton noted that "...there's an increasing recognition that transparency is good for business."²⁷⁹ Recalling that support for the EITI is a requirement for membership in the International Council on Mining and Metals, he added that "the bigger companies have bought into this conceptually."²⁸⁰ He noted that his organization's members "are all companies that are dual-listed on the New York Stock Exchange, so they all fully expect to have to comply with Dodd-Frank and aren't squawking about it. They're just waiting for the rules." He also told the Committee that "...it's starting to be seen as actually good business to have these payments to government published,"²⁸¹ but he added that such reporting requirements could be more onerous for smaller firms.

In early September 2012, it was announced that the Mining Association of Canada and the Prospectors and Developers Association of Canada had joined with Publish What You Pay Canada and the Revenue Watch Institute to form a Resource Revenue Transparency Working Group. The aim of the group is

... to develop a framework for the disclosure of payments to governments for Canadian oil and mining companies operating domestically and internationally by June 2013. Once complete, the working group will make policy recommendations to federal

276 FAAE, [Evidence](#), April 23, 2012.

277 While other federal reporting regimes may be possible, the fact that securities exchanges in Canada are regulated provincially would complicate efforts to establish an exact replica of the Dodd-Frank regime in Canada.

278 FAAE, [Evidence](#), February 27, 2012.

279 Ibid.

280 Ibid.

281 Ibid.

government policymakers and/or provincial security regulators for the Canadian adoption of mandatory disclosure requirements based on the framework.²⁸²

In announcing this new working group, the Deputy Director of the Revenue Watch Institute argued that:

Current disclosure regimes don't produce the same information across exchanges and for all companies...Ideally, Canada's response will improve upon existing reporting standards and create a framework that will level the playing field by holding all companies to the same high standard of reporting, regardless of where they operate.²⁸³

For her part, the Director of Publish What You Pay Canada stated that "Our hope is that we will mimic or exceed the type of regulations we see under Dodd-Frank..."²⁸⁴

Corporate Social Responsibility

In the course of discussing the natural resources sector, a number of witnesses addressed the issue of corporate social responsibility (CSR), with some revisiting debates that had previously been voiced on this subject before the Committee.²⁸⁵ While this report does not attempt to provide a comprehensive examination of debates about CSR, it does highlight those concerns that are most relevant to the Committee's study of the broader issue of the role of the private sector in development.

Over the decades, corporations in various sectors have increasingly accepted that they have human rights, environmental and other responsibilities to the societies in which they operate. Then-UN Special Envoy for Business and Human Rights John Ruggie argued in 2008 that "CSR occupies the space between the requirements imposed on companies by law, and prevailing social expectations of the corporation's role in society. Social expectations typically evolve more rapidly than the law, and they define what is sometimes called a company's 'social license to operate'." He added that "The gap between the requirements of legal compliance and prevailing social expectations is particularly wide in countries with weak governance and weak rule of law. In that setting, it may take companies a while to figure out that legal compliance by itself is not enough to operate successfully."²⁸⁶ Anthony Bebbington similarly told the Committee that when considering mining operations, legality alone is not sufficient to ensure legitimacy.²⁸⁷

282 Canada Newswire, "[Canada's mining Industry joins forces with NGOs to improve transparency](#)," Ottawa, September 6, 2012.

283 Ibid.

284 Shawn McCarthy, "[Miners urge new rules, more transparency](#)," *The Globe and Mail*, September 5, 2012.

285 See: FAAE, *Evidence*, [2nd](#) and [3rd](#) Sessions, 40th Parliament. "Study: Bill C-300, An Act Respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries."

286 John G. Ruggie, "[The Business of Business is Business: Against the Proposition](#)," *The Economist Debate*, Gotham Hall, New York City, November 2, 2008.

287 FAAE, *Evidence*, February 29, 2012.

In the particular case of the history of CSR and the extractive industries, Dr. Luning reminded the Committee that "...CSR was primarily developed as a response to resistance against mining operations. Loss of livelihoods, ways of life and threats in local communities triggered resistance, and CSR was a response to this."²⁸⁸ As in other sectors, companies in the extractive industries have taken steps over the years in an attempt to address these issues, adopting a wide range of CSR norms and practices. While the implementation and effectiveness of CSR remains a contested subject for many in the development community, the core principles of CSR are now widely accepted.

The past several years have seen the emergence of a number of frameworks and initiatives related to CSR, which both codify internationally accepted standards and promote best practices. The Committee was told by representatives of the mining industry that Canadian companies adhere to a growing number of frameworks and programs.

While CSR is a complex and multi-faceted issue, several key points are worth noting:

- There exist a wide range of CSR frameworks and initiatives, developed by intergovernmental organizations, industry associations, civil society organizations or some combination thereof (multi-stakeholder);
- These mechanisms may combine a number of key elements, including human rights, the environment and social responsibilities, or focus on particular issue areas; they may also be context-specific, as in the case of operations in weak governance zones; and
- CSR frameworks provide guidance to companies rather than additional legal obligations.

Some key examples of CSR frameworks, guidelines and tools that are relevant to the extractive sector include.²⁸⁹

Applicable to Multiple Sectors

- [OECD Guidelines for Multinational Enterprises](#) (Intergovernmental) — Comprehensive guidelines updated in 2011, agreed to by 44 governments. They are recommended for multinational enterprises operating from or in adhering countries in areas such as: the environment, disclosure of information, human rights, employment and industrial

288 FAAE, [Evidence](#), March 28, 2012.

289 For further information, see: International Standards Organization (ISO), [ISO 26000 - Social Responsibility](#), Annex A, 2010; Industry Canada, "[Corporate Social Responsibility](#)"; and, Foreign Affairs and International Trade Canada, Corporate Social Responsibility, [Building the Canadian Advantage: A Corporate Social Responsibility \(CSR\) Strategy for the Canadian International Extractive Sector](#).

relations, combating bribery, consumer interests, science and technology, competition, and taxation.

- [United Nations Global Compact](#) (Intergovernmental) — a UN initiative directed at businesses that want to align their operations with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- [International Finance Corporation \(World Bank\) Performance Standards on Environmental and Social Sustainability](#) (Intergovernmental) — updated in 2012 and composed of eight performance standards in areas such as the environment, labour, land acquisition and Indigenous peoples, all of which International Finance Corporation (IFC) clients are expected to meet throughout the life of an investment by the IFC.

Applicable to Specific Sectors

- [Extractive Industry Transparency Initiative](#) (Multi-stakeholder) — multi-stakeholder initiative involving governments, companies, civil society organizations and investors that supports disclosure and verification of company payments and government revenues in the oil, gas and mining sectors.
- [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#) — (Multi-stakeholder) Recommendations to assist companies that may source minerals or metals from conflict-affected and high-risk areas to help them respect human rights and avoid contributing to armed conflict.
- [Voluntary Principles on Security and Human Rights](#) (Multi-stakeholder) — The only human rights guidelines designed specifically for oil, gas and mining companies. These provide guidance for companies on how to maintain the security and safety of operations, while also respecting human rights and fundamental freedoms.
- [Equator Principles](#) (Single-stakeholder) — Financial industry standards used to determine, assess and manage social and environmental risk in project financing.
- [International Council on Mining and Metals Sustainable Development Framework](#) (Single-stakeholder) — Sustainable Development framework composed of 10 principles that was developed after a consultation process with stakeholders. All ICMM members are required to implement these principles.

The Committee was provided with an example of the operation of one such framework — the Equator Principles — by Ross Gallinger of PDAC:

There are two aspects that a company has to go through in entering into a developing country. We'll use Peru as a good case.

If you're looking at financing your operation — because an operation can be anywhere from \$500 million to billions of dollars in investment — you will probably have to get money from the banks. Most banks are connected to the Equator Principles, which require you to follow International Finance Commission (sic) guidelines on development. One of the processes is the requirement for an environmental impact assessment. It gives you the scope of what needs to be looked at in terms of water, air, and land aspects. It determines what your activities will be and how you will ensure that there's no significant environmental impact. Even Peru has that kind of process for the development of an environmental impact assessment.

What's also included is a social impact assessment of the potential social effects and how they are going to be mitigated.²⁹⁰

Most CSR-related programs implemented by mining companies occur at the local level near mine sites. They are aimed at both mitigating negative impacts and maintaining positive relations with local communities. In terms of consultations with local populations, Brent Bergeron of Goldcorp explained that his company consults with local aboriginal and other residents in two ways. In addition to consultations through municipal and provincial governments, he said:

We also consult with them at the mine operation itself. We bring people to the mine operation, we explain a lot of the technical issues they don't understand regarding how a mine operates, and then we actually discuss with them community grievance mechanisms.²⁹¹

He added that the company's "investments also include funding community development projects, which are an important part of our social licence to operate in communities and countries."²⁹² Doug Horswill of Teck Resources stated that his company "focuses on building local relationships, business relationships, and other relationships to support development. We don't move ahead without community support, so you build that any way you can."²⁹³

While company-funded CSR programs cannot address all challenges in developing countries, they can lead to positive health, education and other impacts for citizens in certain cases. Even in this regard, however, Ross Gallinger stressed the importance of local engagement. He argued that there is a need to take an inclusive approach to development work, suggesting that rather than a company unilaterally moving to build a service like a school in a local area, the focus should be on sustainability, with the company saying to the community: "How can we work together so that you can build your

290 FAAE, [Evidence](#), November 17, 2011.

291 FAAE, [Evidence](#), February 29, 2012.

292 Ibid.

293 FAAE, [Evidence](#), December 6, 2011.

livelihood, your capacity, and you can use this operation and what we're doing as a springboard to going forward?"²⁹⁴ While such engagement with local communities is critically important, he also acknowledged that it would always be a challenge. In his words:

...there's still always going to be something that might come up, an incident that occurs. It's how companies deal with that, moving forward. It's always going to be a challenge. Communities will change as well. Generational aspects will change. The youth will come in and their expectations will be completely different.

We constantly have to have this conversation. We constantly have to figure out how we can work together with those communities so they can truly feel they're also benefiting from the development that's going on.²⁹⁵

Beyond such day-to-day challenges, CSR projects can be problematic on other levels. Most practically, depending on how they are designed and planned, they may be unsustainable after the company that provides them exits the area. Brent Bergeron told the Committee that:

Mining operations are often called upon to provide many basic services to our employees in communities where foreign governments have traditionally not been able to perform. In addition to job creation, our company also invests in many activities related to health, education, and business creation...The very fact that our company funds many infrastructure projects also creates challenges for us with local and national governments by creating a dependence on the management and operation of these facilities. While our company has the ability to provide funding for the operation of the facilities, the strategy is not sustainable in the long term.²⁹⁶

An even deeper problem may emerge if such projects blur responsibilities and undermine accountability relationships, causing local residents to look to companies for the provision of necessary services rather than their governments, or causing local governments to focus more on revenue-generating companies than on their citizens. As was noted in a previous section of this report, witnesses including professors Sabine Luning and Bonnie Campbell argued that such distortions in accountability relationships work against the development of strong and legitimate governments.

Natural Resources and Public-Private Partnerships

In 2009, the Government of Canada adopted a Corporate Social Responsibility Strategy for the Canadian International Extractive Sector, which CIDA has since played a role in implementing. In September 2011, the Minister of International Cooperation announced that as part of this strategy and the Agency's broader focus on sustainable economic growth, CIDA would spend some \$26.7 million over 5 years on an Andean

294 FAAE, [Evidence](#), November 17, 2011.

295 Ibid.

296 FAAE, [Evidence](#), February 29, 2012.

Regional Initiative (ARI) for Promoting Effective Corporate Social Responsibility (\$20 million), and also enter into partnerships on 3 specific pilot projects with non-governmental organizations and major mining companies (\$6.7 million). The 3 pilot projects are:

- A 3-year project in Ghana, co-implemented by World University Service of Canada (WUSC) and co-financed by Rio Tinto Alcan, designed to provide skills training to 400 young people and to strengthen the ability of the local government to provide education and clean drinking water (CIDA contribution: \$500,000; WUSC/Rio Tinto Alcan: \$428,000);
- A 5.5-year project in Burkina Faso, implemented by Plan Canada and co-financed by IAMGOLD, designed to implement job skills training in mining and other sectors in 13 communities (CIDA: \$5.7 million; Plan Canada: \$0.9 million; IAMGOLD: \$1 million); and
- A 3.5-year project in Peru, implemented by World Vision Canada and co-financed by Barrick Gold, designed to increase the income and standard of living of 1,000 families affected by mining operations (CIDA: \$500,000; World Vision/Barrick Gold: \$500,000).²⁹⁷

These three pilot projects were the subject of debate during the Committee's hearings. While the benefits of the projects were not often disputed, a number of witnesses argued that these arrangements did not reflect the best possible use of public development funding, either because they risked further blurring the lines of responsibility between the public and private sectors, or because they effectively subsidized CSR work the companies should have paid for themselves. Stephen Brown, for example, said that "we're not asking if it's worthwhile to train 1,000 people. We're saying if we have a limited amount of money, where is that money best spent? The answer is not clear that it should be spent with World Vision and Barrick Gold in mining-affected communities."²⁹⁸ He added:

My main message here is that the use of public funds with private corporations for the goal of development — and by development I mean poverty alleviation and fighting inequality — must be done only with extreme care, and my concern is that the current partnerships with these mining companies and NGOs do not meet the standard of an effective use of public development funds.²⁹⁹

297 The Canadian International Development Agency (CIDA), "[Minister Oda Announces Initiatives to Increase the Benefits of Natural Resource Management for People in Africa and South America](#)," September 29, 2011.

298 FAAE, [Evidence](#), May 7, 2012.

299 Ibid.

Kenneth Georgetti of the Canadian Labour Congress said of these pilot projects that,

The CSR projects do not in any way implement company accountability principles as understood by the international community dealing with these issues. We're worried that these projects will serve instead to gloss over local conflicts that have already emerged or will arise as a result of any investment project.³⁰⁰

Carlo Dade, however, argued that it was a mistake to view partnerships with the private sector as a subsidy. In his words, "...there's this cross-fertilization, not subsidization. It's a complete misunderstanding of the situation to think of this as subsidy. I can tell you that everyone who works on the issue would agree on that point."³⁰¹ For his part, Pierre Gratton (MAC) told the Committee that "All three partnerships will help address the most fundamental obstacle to ensuring that benefits from large-scale private sector investment in the developing world are optimized, that obstacle being lack of capacity."³⁰² He added:

The debate that's taken place here in recent weeks around this has given these three projects more notoriety than they deserve, in the sense that these projects very much developed bottom-up. This was not a question of companies going to CIDA and lobbying for money and then finding a partner. These were projects that were identified by the NGOs in question on the ground in these countries. They were looking for partners. The companies identified themselves as potential partners. The NGOs did a lot of their due diligence on the companies. I think it probably worked both ways.

Once they developed a project, CIDA expressed an interest in it.³⁰³

The then-Minister of International Cooperation confirmed this, telling the Committee that "These are projects that were developed with Canadian organizations. The Canadian organizations then made a proposal and request to CIDA."³⁰⁴

Chris Eaton of WUSC defended his organization's project in Ghana on a number of levels. He underlined that it was a WUSC-initiated pilot project supported by Rio Tinto Alcan and CIDA; that it was focused on strengthening the capacity of the local government in one district of Ghana to deal with issues including education, water and sanitation, and unemployment; and that it was not meant to replace CSR programming by Rio Tinto Alcan, which in any event had ceased its operations in the district in question as the project was commencing, but had decided to continue funding it nevertheless.³⁰⁵

300 FAAE, [Evidence](#), February 27, 2012.

301 FAAE, [Evidence](#), March 26, 2012.

302 FAAE, [Evidence](#), February 27, 2012.

303 Ibid.

304 FAAE, [Evidence](#), March 14, 2012.

305 FAAE, [Evidence](#), February 13, 2012.

While admitting he was less familiar with the other two pilot projects, Fraser Reilly-King of the Canadian Council for International Cooperation (CCIC) said of the one in Ghana that:

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.³⁰⁶

Dr. Luning stated that while partnership projects like WUSC's in Ghana may have tangible development benefits, it was important to distinguish between the responsibilities of the public and private sectors:

The new public-private partnerships should not lead attention away from two central tasks, one for public actors, the other for private enterprise. For the public actor, the Government of Canada, the tasks should continue to be focused on bilateral public-public partnerships that are crucial for institutional development, in particular in young mining countries such as Burkina Faso. For the private enterprise, for Canadian or other multinational large-scale mining initiatives, the focus should be on proper processes of negotiation with local populations and a focus on social and environmental mitigation in order to prevent economic exclusion and development deficits.³⁰⁷

Brent Bergeron stated that his company supported partnerships between CIDA, mining companies and NGOs partly because they help decrease local dependence on companies, an issue that was referred to previously:

A strategy to decrease ... dependence needs to be implemented, and Goldcorp does believe that leveraging the skills of the Canadian government and NGOs will decrease the dependence and, therefore, increase the overall development activities in foreign countries. This is why we suggest that a trilateral partnership could be established with the Canadian government and NGOs, which are more capable of performing economic and social development activities.³⁰⁸

As noted above, Pierre Gratton told the Committee that the essential question pertains to how development can be done in a way that ensures lasting economic benefits:

That's where I see these CIDA partnerships as pointing a way forward. Companies work with others who know international development and the benefits of aid better than the mining industry does. By partnering with them, you enable more creative approaches to ensuring that the value and jobs associated with the extractive industries flow more broadly to the communities in and around the mine and beyond.³⁰⁹

306 FAAE, [Evidence](#), May 28, 2012.

307 FAAE, [Evidence](#), March 28, 2012.

308 FAAE, [Evidence](#), February 29, 2012.

309 FAAE, [Evidence](#), February 27, 2012.

Overall, testimony before the Committee on the role of the natural resource sector in development reflected both longstanding debates in this area and new perspectives. While the challenges raised were often specific to the sector, consensus in the testimony on the need to strengthen the institutional capacity of governments, parliaments and communities reflected ideas that have been emphasized in other contexts throughout this report.

CHAPTER 8: AREAS REQUIRING FURTHER WORK

In the course of its hearings, the Committee was provided with an introduction to some compelling ideas which it believes warrant more in-depth work by the Government of Canada. The following sections provide an overview of what the Committee heard and why it feels further attention and action is merited regarding:

- Diaspora communities and remittances; and
- Innovative development finance mechanisms.

Remittances and the Role of the Diaspora

Several witnesses argued that diaspora groups have the potential to make a significant contribution to the achievement of development objectives. In 2012, the International Organization for Migration and the Migration Policy Institute jointly published a handbook entitled *Developing a Road Map for Engaging Diasporas in Development*. This handbook reviewed best practices and challenges, providing a menu of options in six key areas in which “Diasporas have played an important and positive role...”:

- Remittances;
- Direct investments;
- Human capital transfers;
- Philanthropic contributions;
- Capital market investments; and
- Tourism.³¹⁰

Canada has an important role to play in enabling such diaspora activity, given that it is home to a significant number of diaspora communities with language skills and knowledge of local cultures and markets around the world. Canada is second only to the United States among OECD donor nations in terms of overall sources of remittance flows to developing countries.³¹¹

310 Dovelyn Rannveig Agunias and Kathleen Newland, [Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries](#), 2012, p. 111.

311 Hudson Institute, Center for Global Prosperity, [The Index of Global Philanthropy and Remittances 2012](#), p. 19.

Carlo Dade told the Committee that diasporas are “one of the principal private sector actors.”³¹² While CIDA has worked with Haitian and other diaspora groups for many years, he argued that the Government of Canada needs to significantly increase its understanding of diaspora communities, and improve the flexibility and creativity with which it deals with them in the pursuit of development objectives. He argued that this engagement will require a change of both perspective and perhaps even personnel in CIDA. But, he said that there is “huge potential” in helping to professionalize such groups as development actors, noting that “we see this potential being realized in projects. USAID, the French, the Spanish are using these projects to increase development outcomes...”³¹³

Facilitating Remittances

Diaspora groups have long been recognized as an important source of financial resources for developing countries. According to the World Bank, officially recorded remittances amounted to some US\$372 billion in 2011, and are expected to reach \$467 billion by 2014.³¹⁴ The primary impact of remittances has traditionally been at the level of families. Carlo Dade told the Committee that even without a direct focus on development projects:

This is money that goes to pay for nutrition, education, health care, and housing. This is not wasteful spending, as some of the more paternalistic elements of the academic community view remittances. These are investments in human capital development. This is the same sort of thing that CIDA is trying to fund. If you improve human capital there's a direct impact on development; it's extremely important what the diasporas are doing.³¹⁵

He added that while the amount varies by country, estimates are that 5 to 15% of total flows are also directed towards collective development projects. In practical terms, he noted that the Montréal-based Regroupement des organismes canado-haïtiens pour le développement (ROCAHD) for example, has financed the building of schools, health clinics and other collective projects in Haiti.³¹⁶ Katleen Félix of Fonkoze also spoke to the Committee of the Haitian diaspora, which she said remits \$1.8 billion annually to that country.³¹⁷ As noted earlier in the report, remittances from the Haitian diaspora to Haiti following the 2010 earthquake in fact exceeded all international assistance combined.

312 FAAE, [Evidence](#), March 26, 2012.

313 Ibid.

314 The World Bank, [“Remittance flows in 2011 — an update,”](#) *Migration and Development Brief 18*, April 23, 2012.

315 FAAE, [Evidence](#), March 26, 2012.

316 Ibid.

317 FAAE, [Evidence](#), February 15, 2012.

At the same time, given that the Canadian government does not report official remittance statistics, discussions of remittances originating from Canada must rely on figures generated by developing countries and on other estimates.³¹⁸ Carlo Dade stated that despite years of advocating for a change in collection and reporting methods, “we still...don’t have figures for remittances from Canada, and that’s something that really needs to be addressed.”³¹⁹ Noting that the characteristics of diasporas differ depending on their country of origin and residence, he added: “We know extremely little, almost nothing, about this phenomenon in Canada, so research is desperately needed...we just haven’t done the research. But there’s huge potential...”³²⁰

Given their impact, donor governments that are home to diaspora groups have typically focused on facilitating remittances. Daniel Runde told the Committee that in order to increase transparency, the UK’s DFID used aid money to publicize the cost of sending money through Western Union and other services, after which the costs began to decrease.³²¹ Carlo Dade argued that,

A lot of the work in reducing costs has already been done. The systems set up by the Inter-American Development Bank and by groups like Fonkoze are already in place and are being used in Canada. It’s simply a matter of making sure that groups here have access to these systems.³²²

While this may be true for remittances to Haiti and other countries in the Caribbean and Latin America, work remains to be done with respect to the broader issue of the connection between diaspora communities and international development. Dr. O’Neill told the Committee that members of the Filipino diaspora in Canada pay almost twice as much to send money to the Philippines as their counterparts in the United States. She wrote that: “In the US, remittance fees to the Philippines average US\$7.66 per transaction (or 3.8 percent of the total amount sent); in Canada, Filipino migrants spend CAD\$14.78 (or 7.39 percent of the total amount sent).” She said that 16% of that country’s GDP comes from remittances. Underlining the potential of mobile banking to facilitate remittances, she added that:

318 For a 2009 discussion of the difficulties in obtaining estimates of remittances from Canada, see: Emiko Todoroki, Matteo Vaccini and Wameek Noor, *The Canada-Caribbean Remittance Corridor: Fostering Formal Remittances to Haiti and Jamaica through effective regulation*, World Bank Working Paper No. 163, 2009. One helpful source that uses figures from the World Bank and developing countries themselves to construct comparable estimates of remittances from major OECD donors is published annually by the Hudson Institute’s Center for Global Prosperity. While the 2012 edition of this publication estimated that remittances from Canada totaled \$US14.7 billion in 2010, even this is likely an underestimate since it does not include information on remittances to Afghanistan, for example. See: The Hudson Institute, Center for Global Prosperity, [The Index of Global Philanthropy and Remittances 2012](#), 2012, p. 19.

319 FAAE, [Evidence](#), March 26, 2012.

320 Ibid.

321 FAAE, [Evidence](#), December 13, 2011.

322 FAAE, [Evidence](#), March 26, 2012

...we are testing a system where diaspora living abroad can now use mobile money networks to transfer a portion of their remittance directly to educational institutions in the Philippines to pay school fees for their relatives, as opposed to simply sending cash money. This is a win-win. The migrant knows that the money is being spent for the purpose they intended and we leverage these remittances for development outcomes.³²³

A number of other options exist for facilitating remittances. For example, the 2012 handbook for engaging diasporas in development that was cited above included the following menu of program and policy options related to remittances:

- 1) Strengthen remittance infrastructure
 - Inform the diaspora about existing remittance transfer mechanisms;
 - Create more efficient channels of remittance transfer; and
 - Strengthen the financial institutions that migrants already use.
- 2) Provide opportunities for more productive investment of remittances
 - Cross-sell complementary financial services such as remittance-backed mortgages; and
 - Securitize remittance flows.³²⁴

A number of these strategies would likely be useful in the Canadian context.

Broader Partnerships

While remittances will remain an important contributor to the achievement of development objectives, diaspora groups are increasingly being viewed more broadly as development actors: a source of ideas, knowledge and skills that are relevant to a number of issues.

In her testimony, Dr. O'Neill told the Committee that "We have really reached out, particularly in the diaspora... because they have huge skills and are very motivated to go back to help their home countries in some way."³²⁵ In May 2011, U.S. Secretary of State Hillary Clinton announced a new strategy for diaspora engagement at an inaugural Global

323 "Testimony of Dr. Maura O'Neill, Chief Innovation Officer and Senior Counselor to the Administrator at USAID," Standing Committee on Foreign Affairs and International Development, Wednesday, May 30, 2012, p. 5-6.

324 Dovelyn Rannveig Agunias and Kathleen Newland, [*Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries*](#), 2012, p.113.

325 FAAE, [*Evidence*](#), May 30, 2012.

Diaspora Forum, which also saw the launch of a new platform for partnership called the International diaspora Engagement Alliance (IdEA).³²⁶ By 2012, IdEA had over 1,500 diaspora community partners, and had launched three regional entrepreneurship competitions, in Africa, Latin America and the Caribbean.³²⁷ CIDA provides funding to this Caribbean Idea Marketplace, which also receives additional funding from Scotiabank.³²⁸ In her opening remarks at the second Global Diaspora Forum in July 2012, Secretary Clinton stated that:

...I am particularly delighted to welcome our friends from Canada, because working together on diaspora issues makes perfect sense, since both of our countries have been blessed by having so many people from all over the world add to our diversity and our efforts. And so for me, having Canadian involvement in this just makes good sense.³²⁹

CIDA has cooperated with diasporas in a number of ways over the years, funding groups directly when they have experience implementing development projects, and encouraging them to partner with experienced organizations both in Canada and in their home countries when they do not.³³⁰ At the same time, Carlo Dade noted that many countries have established bureaucracies to deal specifically with diaspora groups, and that it is generally easy to develop initial contacts. However, he also said that,

...there are these great networks. It's low-cost and easy to tap into, but it requires a change in culture; it requires a change in thinking about development. You really have to change the people on the official development side to become more flexible, more creative, and more entrepreneurial in their thinking. It requires a huge leap of faith, to some degree, by the development community to be able to work with these groups, and that's been a major obstacle. It's been overcome at the [Inter American development bank]. It's been overcome at USAID. It's been overcome in Europe. Canada, as the honourable Minister of International Cooperation noted, is late to the table on this. I think even CIDA recognizes that they're the odd man out in the international development community.³³¹

Daniel Runde suggested to the Committee that Canada could “engage with diasporas in a number of ways.” In addition to leveraging volunteerism on the part of diaspora communities, he suggested the possibility of using “CIDA money in very limited amounts to build the capacity of diaspora communities to organize themselves better so they can

326 United States Department of State, Office of the Spokesperson, “[Secretary Clinton to Host Global Diaspora Forum](#),” Washington, D.C., July 23, 2012. See also: “[International diaspora Engagement Alliance](#).”

327 See: International diaspora Engagement Alliance, 2012 Global Diaspora Forum: Moving Forward By Giving Back, “[Event Report](#).”

328 International diaspora Engagement Alliance, “[Caribbean Idea Marketplace](#).”

329 International diaspora Engagement Alliance, 2012 Global Diaspora Forum: Moving Forward By Giving Back, “[Hillary Clinton’s Remarks at the Second Annual Global Diaspora Forum](#).”

330 See: Dovelyn Rannveig Agunias and Kathleen Newland, [Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries](#), 2012, p. 34.

331 FAAE, [Evidence](#), March 26, 2012.

do these sorts of things, I'm not saying huge amounts of money, but small capacity-building grants to do that."³³²

More generally, Khalil Sharriff argued that as a result of its demography, Canada has an opportunity to assist members of diaspora groups who are educated and who have developed particular competencies that can contribute to the development of their home countries. In a suggestion that might apply more broadly to the issue of harnessing the diaspora for the achievement of development outcomes, he argued that "... the asset we have in Canada to underwrite human resource potential in the developing world through the diaspora is very, very important. I think we should start experimenting as widely as we can to see what might work."³³³

Innovative Financing Mechanisms

Several witnesses argued that the Government of Canada could explore innovative mechanisms to provide financing to developing countries and development initiatives. While such mechanisms can involve specific stand-alone institutions or instruments, they can also entail creative use of existing ones.

Development finance institutions are among the mechanisms currently used around the world for this purpose. Such institutions can be multilateral, as in the case of the World Bank's International Finance Corporation (IFC) — of which Canada is a founding member — or bilateral, as in the case of institutions established by other donor countries. As one paper explains:

Development finance institutions (DFIs) occupy an intermediary space between public aid and private investment... Distinct from aid agencies through their focus on profitable investment and operations according to market rules, DFIs share a common focus on fostering economic growth and sustainable development. Their mission lies in servicing the investment shortfalls of developing countries and bridging the gap between commercial investment and state development aid.³³⁴

The world's oldest bilateral development finance institution is the UK's CDC Group plc (public limited company), which was established in 1948. Its Website explains that:

CDC does not provide aid. Instead, our job is to invest UK money in a commercially sustainable way in the poorer countries of the developing world.... Helping businesses to grow and, in doing so, creating opportunities for people in the poorest nations to help themselves, is at the heart of what we do.³³⁵

332 FAAE, [Evidence](#), December 13, 2011.

333 FAAE, [Evidence](#), May 7, 2012.

334 Thomas Dickinson, "[Development Finance Institutions: Profitability Promoting Development](#)," available on the OECD Website.

335 CDC Group, "[CDC's Role in Development](#)."

The CDC has a balance sheet of some US\$4.2 billion, is self-financing through its profits, and has received no new government money since 1995. While it operated for a number of years on the basis of private equity funds that it invested in poorer countries, Gavin McGillivray of DFID told the Committee that the CDC had been “very substantially reformed” over the last 12 months, and had just published its new strategy at the end of May 2012. He said that “Under the reform of CDC, it will focus its business more closely on sub-Saharan Africa and South Asia. It will be able to deploy more flexible funding instruments — not just private equity but also debt guarantees and direct investment. It will be able to take more risk and it will be driven by development impact.”³³⁶

He also outlined a number of the ways in which DFID cooperates with the private sector that are relevant to financing. Among other mechanisms, he noted that DFID runs several “challenge” or competitive funds whereby it shares the costs and risks of an initiative with private enterprise. He added: “Another way we share the costs and risks with private enterprise in doing business in more difficult markets is through funding of equity and guarantees.”³³⁷

In the United States, the Overseas Private Investment Corporation (OPIC) was established as a separate agency of the U.S. government in 1971. It too operates on a self-sustaining basis at no net cost to American taxpayers. According to its Website, OPIC

...mobilizes private capital to help solve critical world challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets, catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.³³⁸

In his testimony before the Committee, Daniel Runde argued that Canada could do more in this area. He said:

Canada needs to develop development finance tools similar to those of the International Finance Corporation and most of the other G-7 nations. The ability to share private risk in complex contexts such as Haiti and Afghanistan will be critical in the future for Canada. These are instruments that are not currently used on a bilateral basis. They provide project finance to for-profit infrastructure projects. They support loan guarantee programs, or even make available the use of grant instruments at CIDA to share risk, especially in some of the more complicated contexts. That is going to be important.³³⁹

Noting that there was probably no appetite for creating new bureaucracies in an environment of fiscal restraint, he added his opinion that “CIDA could perfectly well have

336 FAAE, [Evidence](#), June 13, 2012.

337 Ibid.

338 Overseas Private Investment Corporation (OPIC), [“Overview.”](#)

339 FAAE, [Evidence](#), December 13, 2011.

some additional instruments that can allow for this...”³⁴⁰ Wendy Hannam of Scotiabank recommended that “CIDA should have flexibility to fund feasibility studies, co-invest, or assist in risk mitigation for private sector projects.”³⁴¹

For his part, Toby A.A. Heaps of Corporate Knights argued that Canada was well placed to assist developing countries that need large amounts of capital for sustainable energy and other infrastructure projects. Noting that the international bond market is now roughly twice as large as the equity market, he argued that, among other mechanisms, the Government of Canada could increase the credit enhancement products provided by its export credit agency, Export Development Canada (EDC), from less than 1% to the 5% or 10% range. This would have the effect of “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.” He stated that “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.”³⁴² Adding that our financial system is predisposed to continue financing what it has financed in the past, he said:

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...

In the specific case of Canada, he went on to suggest that,

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.³⁴³

Overall, while innovative instruments as described above cannot be the only source of capital for developing countries, the ability to harness new and additional financing through them could be an important source of future development efforts.

340 Ibid.

341 FAAE, [Evidence](#), March 12, 2012.

342 FAAE, [Evidence](#), May 28, 2012.

343 Ibid.

CHAPTER 9: RECOMMENDATIONS FOR CANADIAN POLICY

The previous sections of this report have drawn attention to several broad arguments regarding the Committee's study topic. These include:

- The private sector comprises a number of actors: large, medium and small-sized for-profit firms; individuals; and non-governmental organizations.
- An understanding of the private sector's role in development must encompass both the activities of multinational firms and firms of all sizes based in developing countries.
- For-profit firms can make a substantial contribution to meeting international development objectives, particularly through inclusive business models.
- Private resource flows — including foreign direct investment and remittances — now dominate the developed world's economic relationship with developing countries; those resources need to be harnessed more effectively for development objectives, particularly given the scale of the challenges that need to be overcome. These challenges cannot be overcome by governments acting alone.
- Public and private sector actors can complement each other in the pursuit of development interests by partnering and enabling each other to focus on their unique approaches, skills, expertise, etc.
- Maximizing the contributions of private firms — local and multinational — requires a strong enabling environment for private sector activity within developing countries, conditions and rules which must be established and implemented by public sector authorities. This is an area where official development assistance can play a significant role.
- Ensuring that economic growth is inclusive — benefitting the poor and local communities in developing countries and helping them to emerge from poverty — requires strong institutions and public accountability mechanisms, another area where official development assistance should play a significant role.

In short, the private sector's role in development is significant, multi-faceted and complex.

In 2003, under a previous government, the then-Minister of International Cooperation launched a Canadian International Development Agency (CIDA) “Policy on Private Sector Development.”³⁴⁴ In May 2009, the then-Minister of International Cooperation, the Honourable Bev Oda, announced that “sustainable economic growth” would be one of the three priority themes for development assistance provided by CIDA, alongside food security and children and youth.³⁴⁵ Then, in October 2010, the Minister released CIDA’s strategy for “Stimulating sustainable economic growth.”³⁴⁶ This document is focused on overcoming the obstacles to sustainable economic growth within developing countries, by building economic foundations, growing businesses and investing in people. While it does mention that CIDA will work with development partners that include “Canada’s civil society and private sector” to implement this strategy, it does not discuss why or how.

The Committee believes that as a foundation for an increased engagement with the private sector, CIDA needs to develop an updated and comprehensive strategy that addresses the full range of activities and actors involved, the connections between them, and the mechanisms that should be put in place to ensure that CIDA is able to engage effectively with the private sector to achieve Canada’s development objectives. The issues addressed in such a strategy would be relevant to all three of CIDA’s priority themes. The Committee is also mindful of Canada’s *Official Development Assistance Accountability Act*, which under section 4 (1) states that: “Official development assistance may be provided only if the competent minister is of the opinion that it (a) contributes to poverty reduction; (b) takes into account the perspectives of the poor; and (c) is consistent with international human rights standards.”³⁴⁷ Therefore:

1. The Committee recommends that the Canadian International Development Agency (CIDA) publish an updated and comprehensive policy position on the role of the private sector in achieving Canada’s international development objectives. This document should address in detail the ways in which private sector actors — enterprises, individuals and non-governmental organizations — can contribute to inclusive economic growth in developing countries within a framework of effective governance, strong public sector institutions and sustainable development (i.e. development that takes into account

344 CIDA, [Expanding Opportunities Through Private Sector Development: Canada Making a Difference in the World](#), 2003. The objective of that 2003 [strategy](#) was “to create more, better, and decent jobs and sustainable livelihoods by helping markets to function well and by stimulating the growth of the local private sector in developing countries and countries in transition.”

345 CIDA, [“Canada Introduces a New Effective Approach to its International Assistance,”](#) Toronto, Ontario, May 20, 2009.

346 CIDA, [“Minister Oda unveils CIDA’s Sustainable Economic Growth Strategy,”](#) Toronto, Ontario, October 25, 2010. The strategy is available [here](#).

347 *Official Development Assistance Accountability Act*, S.C. 2008, c. 17. [Version accessed current to August 16, 2012.]

social, economic and environmental aspects). It should also articulate a strategy that, among other things, outlines:

- **How CIDA will adapt internally in order to implement this policy position and engage effectively with private sector actors;**
- **The Agency's overall approach to public-private partnerships; and**
- **Any new development finance tools that may be required.**

Witnesses, as well as the then-Minister of International Cooperation,³⁴⁸ argued that CIDA is behind other development agencies in the pursuit of public-private partnerships. The Committee believes that such partnerships offer a number of benefits as a development cooperation mechanism. The Committee has taken into account these advantages, as well as the challenges and lessons which were discussed in this report, in formulating the following recommendation:

2. As part of the overarching policy recommended above, the Committee recommends that CIDA pursue appropriate public-private partnerships as an important tool of its development programming. The Committee further recommends that CIDA's approach to partnerships with private sector companies should incorporate:

- **Non-governmental organizations (NGOs), foundations, and associations, other bilateral and multilateral development agencies, and developing country governments, as additional partners where appropriate;**
- **A robust and transparent mechanism of due diligence to identify partners and viable projects;**
- **A simple and year-round procedure to allow companies, NGOs and foundations to submit project proposals;**
- **An office within CIDA that is dedicated to communication and engagement with the private sector, providing a consistent contact point for prospective partners and ensuring a timely response to all project proposals;**

348 FAAE, [Evidence](#), March 14, 2012.

- A process that involves partners in the planning and design stage of projects, when appropriate;
- A requirement for partners to match CIDA resources at least 1:1 with financing or in-kind contributions;
- Clear, detailed and publicly available statements on the objectives of each project that is undertaken and the contribution being made by each party; and
- A process to monitor each project which would assess its outcomes against the project's established objectives, and its broader contribution to poverty reduction through inclusive economic growth.

3. The Committee recommends that CIDA consider offering loans and utilizing other financial instruments to enable private sector led, sustainable economic growth in developing nations.

4. In order to ensure that CIDA has the expertise to engage effectively with the private sector, in compliance with existing Government of Canada conflict of interest rules and guidelines, the Committee recommends that it:

- Provide appropriate training to existing staff;
- Explore ways in which the Agency can increase its recruitment of staff who have experience working in the private sector; and
- Consider the possibility of staff exchanges with Canadian companies.

Throughout this report, institutions and rules, particularly where economic governance is concerned, were also highlighted as key determining factors in inclusive economic growth. Therefore:

5. The Committee recommends that CIDA reallocate attention and resources to working with developing countries to help them establish the institutions, regulations and policies that provide an enabling environment for sustainable economic growth.

6. The Committee recommends that CIDA offer technical assistance to developing country governments that enables more foreign direct investment for the purposes of private sector employment.

A number of specific issues, concerns and recommendations regarding the natural resource and financial services sectors were also brought to the Committee's attention, as documented in this report's two case studies. On those two sectors:

Natural Resources

7. The Committee recommends that the Government of Canada restate its support of the internationally recognized Equator Principles for corporate social responsibility.

8. The Committee recommends that CIDA work to strengthen institutional capacity — including taxation, regulation, monitoring and reporting functions — in developing countries with significant natural resource sectors, focusing in particular on strengthening governance and consultative processes at the local level to improve development outcomes.

9. As part of recommendation 8, the Committee further recommends that CIDA support work to strengthen democratic oversight capacity in developing countries with significant natural resource sectors. Such support could include the establishment and maintenance of a network and/or roster of retiring and retired Canadian public servants interested in such work.

10. In light of recent developments in other jurisdictions, the Committee recommends that the Government of Canada review the policy recommendations, when completed in 2013, of the Resource Revenue Transparency Working Group related to mandatory disclosure requirements for payments that are made by Canada-based natural resource companies to governments in developing countries.

Financial Services

11. The Committee recommends that CIDA work with financial institutions and mobile phone companies to help facilitate the expanded availability in low-income countries of financial and information services based on mobile platforms.

12. The Committee recommends that CIDA continue to provide development assistance for microfinance initiatives, but that it focus its support on those institutions which have demonstrated results in lifting people out of poverty and in reaching the poorest and most vulnerable members of society, and on those institutions that have demonstrated reputable practices with respect to interest rates and client indebtedness.

13. In order to implement recommendation 12, the Committee further recommends that CIDA help microfinance organizations to establish standards of behaviour for the industry and metrics to monitor whether social objectives are being realized from microfinance products.

Finally, the Committee heard compelling testimony regarding the importance of remittance flows from Canada to developing countries. Therefore:

14. The Committee recommends that the Government of Canada establish a statistical profile of remittance flows from Canada and explore all possible mechanisms to reduce the costs within Canada associated with sending remittances to developing countries.

APPENDIX A LIST OF WITNESSES

| Organizations and Individuals | Date | Meeting |
|---|------------|---------|
| Prospectors and Developers Association of Canada Ross Gallinger, Executive Director | 2011/11/17 | 11 |
| Institute for Liberty and Democracy Ana Lucia Camaiora, Legal Director Hernando de Soto, President Manuel Mayorga, Executive Director International Affairs | 2011/11/22 | 12 |
| Développement international Desjardins Yvon Bernier, Vice-President Consulting Expertise | 2011/12/06 | 15 |
| Micronutrient Initiative Christina Dendys, Director External Relations | | |
| Teck Resources Limited Doug Horswill, Senior Vice-President Sustainability and External Affairs | | |
| Brandaid Project Cameron Brohman, President and Co-Founder | 2011/12/08 | 16 |
| Results Canada Jean-François Tardif, Executive Director Katy Kydd Wright, Director of Campaigns | | |
| As individuals Jack Mintz, Palmer Chair in Public Policy School of Policy Studies, University of Calgary Robert Schulz, Professor Haskayne School of Business, University of Calgary | 2011/12/13 | 17 |
| Center for Strategic and International Studies Daniel Runde, Director Project on Prosperity and Development | | |
| Center for International Private Enterprise John Sullivan, Executive Director | 2012/02/13 | 20 |
| World University Service of Canada Chris Eaton, Executive Director | | |

| Organizations and Individuals | Date | Meeting |
|---|-------------|----------------|
| Fonkoze (Foundation kole Zepol) Katleen Félix, Project Director Haitian Diaspora Liaison, Zafèn Projects | 2012/02/15 | 21 |
| Grameen Foundation Alex Counts, President and Chief Executive Officer | | |
| Canadian Labour Congress Kenneth V. Georgetti, President Lucien Royer, National Director | 2012/02/27 | 22 |
| Mining Association of Canada Ben Chalmers, Vice-President Sustainable Development Pierre Gratton, President and Chief Executive Officer | | |
| Revenue Watch Institute Karin Lissakers, Director | | |
| As an individual Anthony Bebbington, Professor Graduate School of Geography, Clark University | 2012/02/29 | 23 |
| Goldcorp Inc. Brent Bergeron, Vice-President Corporate Affairs | | |
| Scotiabank Wendy Hannam, Executive Vice-President Sales and Service, Products and Marketing, International Banking | 2012/03/12 | 26 |
| Microcredit Summit Campaign Larry Reed, Director | 2012/03/14 | 27 |
| MicroEnsure LLC Keith Weaver, Member Board of Directors | | |
| Opportunity International Canada Doris Olafsen, Executive Vice-President Dale Patterson, Member Board of Directors | | |
| As individuals Oscar Calderon, Graduate Research Assistant School of International Development and Global Studies, University of Ottawa | 2012/03/26 | 28 |

| Organizations and Individuals | Date | Meeting |
|--|-------------|----------------|
| Carlo Dade, Senior Fellow School of International Development and Global Studies, University of Ottawa | 2012/03/26 | 28 |
| As an individual | 2012/03/28 | 29 |
| Sabine Luning, Professor Cultural Anthropology and Development Sociology, Leiden University, Netherlands | | |
| As an individual | 2012/04/04 | 31 |
| Bonnie Campbell, Professor Faculty of Political Science and Law, University of Quebec in Montreal | | |
| Sandstorm Gold & Sandstorm Metals & Energy Ltd. | | |
| Nolan Watson, President and Chief Executive Officer Founder, Nations Cry | | |
| Canadian Economic Development Assistance for Southern Sudan | 2012/04/23 | 32 |
| David Tennant, Executive Director | | |
| Center for International Policy | | |
| Raymond Baker, Director Global Financial Integrity | | |
| Freedom from Hunger | 2012/04/30 | 34 |
| Christopher Dunford, Senior Research Fellow | | |
| Royal Canadian Mounted Police | | |
| Stephen Foster, Director Commercial Crime Branch | | |
| Gisèle Rivest, Officer in Charge Operations of National Interest and International Corruption, Commercial Crime Branch | | |
| As an individual | 2012/05/07 | 36 |
| Stephen Brown, Associate Professor School of Political Studies, University of Ottawa | | |
| Aga Khan Foundation Canada | | |
| Khalil Shariff, Chief Executive Officer | | |
| As an individual | 2012/05/28 | 37 |
| Paul Romer, Professor Stern School of Business, New York University | | |
| Canadian Council for International Co-operation | | |
| Fraser Reilly-King, Policy Analyst Aid & International Co-operation | | |

| Organizations and Individuals | Date | Meeting |
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| Corporate Knights Inc. Toby A.A. Heaps, Chief Executive Officer and Co-Founder | 2012/05/28 | 37 |
| Halifax Initiative Coalition Karyn Keenan, Program Officer | 2012/05/30 | 38 |
| U.S. Agency for International Development (USAID) Maura O'Neill, Chief Innovation Officer and Senior Counselor to the Administrator, Office of Innovation and Development Alliances | | |
| Coca-Cola Refreshments Canada Sandra Banks, Vice-President Public Affairs and Communications John Guarino, President | 2012/06/04 | 39 |
| Engineers Without Borders Canada James Haga, Director of Advocacy | | |
| Government of the United Kingdom Gavin McGillivray, Head of Department Private Sector Department, Department for International Development (DFID) | 2012/06/13 | 42 |
| As an individual Hon. Jim Abbott | 2012/06/20 | 44 |
| Parliamentary Centre Jean-Paul Ruszkowski, President and CEO | | |

APPENDIX B LIST OF BRIEFS

Organizations and Individuals

Aga Khan Foundation Canada

Bebbington, Anthony

Campbell, Bonnie

Canadian Co-operative Association

Canadian Labour Congress

Mining Association of Canada

MiningWatch Canada

Parliamentary Centre

U.S. Agency for International Development (USAID)

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 11, 12, 15-17, 20-23, 26-29, 31, 32, 34, 36-39, 42, 44, 46, 47, 50](#)) is tabled.

Respectfully submitted,

Dean Allison, M.P.

Chair

Dissenting Opinion of the New Democratic Party of Canada

There is no doubt that in the last thirty years there has been a significant shift in the role of the private sector in international development. New Democrats recognize that economic growth is essential for sustainable poverty reduction. However, not all economic growth is necessarily sustainable, nor does it necessarily lead to poverty reduction.

During this study no officials from the Canadian International Development Agency (CIDA) came to testify on CIDA's existing "Policy on Private Sector Development" ⁱ or "Sustainable Economic Growth Strategy" ⁱⁱ, nor does the report refer to these policies in any substantial manner. We believe that this is a significant oversight of the Committee and this report.

Official Development Assistance:

New Democrats believe that the goal of Canada's international development should first and foremost be poverty reduction as prescribed by the Official Development Assistance (ODA) Accountability Act.

We note the May 2012 finding of the OECD Development Assistance Committee (DAC) peer review that "Canada lacks a clear, top-level statement that sets out its vision for development co-operation."

We recommend that the Government of Canada implement all recommendations from the 2012 OECD DAC review, including the recommendation that Canada establish "a clear, simple and consistent vision for Canadian [international development] – one that is anchored sustainably within its foreign policy and that remains stable over the long term". This should include a clear reference to the ODA Accountability Act and how the government's implementation of the Act is consistent with the Act's three criteria.

The Committee heard about the importance of public funding for overseas development aid and that Canada's aid is getting smaller as a proportion of Canada's wealth.

We recommend that Canada immediately restore the aid budget, in the short term maintaining ODA at 0.31% of GNI, with a view to setting a timetable for reaching the goal of 0.7% ODA to GNI as soon as possible, as the OECD DAC review recommended.

Private Sector and CIDA:

As the report acknowledges, there are many different types of private sector actors. Like many witnesses, we believe CIDA's emphasis of private for-profit actors should focus on local businesses in developing countries. Development assistance is important in stimulating growth and development in the local private sector. CIDA's Sustainable Economic Growth Strategy focuses on strengthening support for the local development

and growth of micro-, small-, and medium-sized private sector businesses, with a special emphasis on women and the poor in developing countries.

The report does not take into account CIDA's existing policy on private sector development, nor does it acknowledge the recent OECD Principles for Public Governance of Public-Private Partnerships. The 2012 OECD DAC Peer Review noted that "Canada needs to ensure that development objectives and partner country ownership are paramount in the activities and programmes it supports". As the DAC has advised other members, there should be no confusion between development objectives and the promotion of commercial interests.

We recommend that CIDA continue its strategy to grow local businesses through strengthening support for the local development and growth of micro, small, and medium-sized private sector businesses, with a special emphasis on women and job creation for the poor.

We recommend that CIDA maintain and update the 2003 Policy on Private Sector Development incorporating into it the ODA Accountability Act, OECD Principles for Public Governance of Public-Private Partnerships and recommendations from the OECD 2012 DAC peer review.

We further recommend that Canada implement the recommendation from the 2012 DAC peer review that Canada "use analysis and broad consultation to develop a strategy for working with the private sector and ensure that this gives a clear rationale for Canada's engagement, and includes well-defined aims, strategic objectives and transparent procedures for partnerships with private sector enterprises."

We do not agree that public-private sector partnerships with Canadian or foreign companies should be a core aspect of CIDA's development programming, but rather believe that partnerships should complement existing development programming. CIDA already has three strategic priorities. It does not need a fourth.

Furthermore, a separate parallel submission process for funding partnership proposals should not be established. We see no reason why CIDA should be asked to establish a responsive funding mechanism for private-public partnerships just as it has removed such mechanisms for funding civil society. CIDA should continue to improve the existing competitive funding process to ensure that the best proposals are selected, or return to responsive programming for all project proposals.

We therefore recommend that public-private sector partnership proposals are submitted under the a directive call proposal process as is done for non-governmental organizations and CIDA continue to work to improve the process to ensure the best proposals are selected under a fair, predictable and timely process.

However, we do agree that partners should be required to match CIDA's resources 1:1 with financing or in-kind contributions.

We recommend that CIDA establish the following: clear criteria for the types of companies with which they will engage; a clear procedure against which it determines the financial additionality of submitted proposals; detailed, publicly-available standards (benchmarks and indicators) to measure the development outcomes of proposals flowing from ODA Accountability Act; and an equally transparent monitoring process, to ensure the partnerships comply with these standards.

While we agree that CIDA should have the expertise to engage effectively with the private sector, the committee heard no evidence to suggest CIDA lacks this capacity. In addition, we are concerned with the recommendation regarding recruitment of employees from the private sector and staff exchanges under the Interchange Canada Program, which could lead to potential conflicts of interest. Above all, robust, transparent and public mechanisms must exist to avoid potential conflicts of interest.

Most witnesses agreed that strengthening governance frameworks in developing countries will help to ensure that private investment will be of net benefit to developing countries as a whole and contribute to poverty reduction. Governance is already a crosscutting theme at CIDA, focusing on human rights, rule of law, democratization, conflict prevention and public sector capacity building. The committee heard no evidence about the initiatives CIDA has undertaken to help developing countries strengthen their governance frameworks.

We recommend that CIDA continue to work with developing countries to strengthen governance frameworks and ensure that development assistance contributes to sustainable development in accordance with the ODA Accountability Act.

The report recommends that CIDA consider offering loans to enable private sector growth in developing countries. The committee did not hear any testimony about the controversial Investment Cooperation Program (INC), which was transferred to DFAIT from CIDA in 2010. Its objective “is to support responsible, developmentally beneficial, private sector engagement in developing countries leading to sustained economic growth and poverty reduction”. Yet a 2007 evaluation of the INC program noted a “tension between the ability of the INC program to deliver on CIDA's mandate, priorities and policies while responding to the profit-driven objectives of the Canadian private sector”ⁱⁱⁱ. In May 2012, the Minister of International Trade suspended the INC program due to financial irregularities and it is currently under review. CIDA should not offer loans to enable private sector growth in developing countries.

The report also recommends that CIDA offer technical assistance to developing countries to enable more foreign direct investment. Again, the committee heard no evidence that CIDA does not offer this assistance under CIDA's Economic Sustainable Growth Strategy.

The committee heard from several witnesses who argued that public funds from CIDA should not be used to promote the interests of Canadian businesses overseas, nor

should it finance activities that the private sector should do anyway, such as reversing environmental damage it caused.

Private sector in development

Some witnesses pointed out that the interests of private sector actors, the Canadian government, and developing economies are all different. As already noted, the latest OECD Development Assistance Committee peer review advised Canada that “there should be no confusion between development objectives and the promotion of commercial interests.”

We recommend that the Canadian Government ensure that Canada’s self-interest in promoting its economic interests remain distinct from its international development programs and goals.

The committee heard about negative development outcomes that can stem from some economic development, including social conflict, environmental degradation, human rights violations and corruption. Some witnesses pointed out that Canada lacks an effective framework to ensure Canadian companies respect international human rights, labour, and environmental obligations when operating overseas. We note with concern the evidence heard surrounding the negative practices of Canadian mining companies overseas. New Democrats continue to support initiatives that strengthen transparency, accountability, and responsibility of Canadian companies who operate overseas.

We recommend that the Government of Canada, in cooperation with key stakeholders, adopt a strong effective legal corporate accountability framework for Canadian companies operating abroad, including clear standards with robust sanctions for non-compliance; a strong independent oversight body; and access to judicial remedy.

We further recommend that the Government of Canada encourage and support key stakeholders, provinces and territories to develop a mandatory mechanism for disclosure by companies of the payments they make to foreign governments.

Conclusion

Most of the recommendations contained in the committee report do not reflect evidence heard during the study. CIDA officials did not appear before the committee to discuss its policies, initiatives and activities relating to the private sector. We believe that it is irresponsible for a majority of committee members to put forward recommendations without that knowledge. It is particularly alarming that this report recommends that CIDA consider a program similar to one that is currently under suspension for financial irregularities and was found to be at odds with development goals in departmental evaluations.

The private sector plays a significant role in international development and CIDA already recognizes this in their Policy on Private Sector development and Sustainable

Economic Growth Strategy. Any future partnerships between CIDA and the private sector should follow international best practices, like the *OECD Principles for Public Governance of Public-Private Partnerships*. However, the Canadian International Development Agency is currently undergoing \$320 million in cuts over the next three years. CIDA has also been missing a clear and coherent vision for development, shifting its focus and priorities every year. Implementing public-private partnerships should not be a priority for CIDA at the moment. CIDA's priority should be to refocus and redouble its efforts to develop a sustainable long-term vision coherent with Canada's foreign policy that puts poverty reduction at the heart of international development.

ⁱ Canadian International Development Agency, "[CIDA's Policy on Private Sector Development](#)," July 2003

ⁱⁱ Canadian International Development Agency, "[Sustainable Economic Growth Strategy](#)."

ⁱⁱⁱ Canadian International Development Agency, "[Executive Report on the Evaluation of the CIDA Industrial Cooperation Program](#)," December 2007.

Supplementary Opinion from the Liberal Party of Canada **Private Sector Actors and the Canadian International Development Agency**

The Liberal Party of Canada agrees with the great majority of this Report and would like to commend the Committee for its work and diligence. The Committee heard from many witnesses with different backgrounds who were able to give Committee Members an array of opinions on how to harness the resources Private Sector Actors invest in foreign countries to better help the people in developing and under-developed countries.

The Liberal Party of Canada agrees that the Private Sector offers enormous untapped potential to help under-developed and developing countries establish sustainable and inclusive economic growth. However, as Khalil Shariff told the Committee: “you have also heard –and I think correctly – that not all economic growth is the same and it does not always translate into poverty reduction”¹. Thus, the Canadian International Development Agency (CIDA) has a role to ensure the work accomplished by Private Sector Actors has a truly positive impact for everyone in the communities where they operate.

Consequently, there are three recommendations in this Report which the Liberal Party of Canada find problematic or that should be improved to better harness the potential of the private sector and ensure the emphasis remains on poverty alleviation.

Recommendation 10

We appreciate that the Committee has stated the importance of revenue transparency in recommendation 10 and would like to further endorse action on revenue transparency.

The Committee has heard mining industry representatives voice their support of revenue transparency. Pierre Gratton, President of the Mining Association of Canada, stated the following: “I think by and large it's not only seen as the right thing to do, but it's starting to be seen as actually good business to have these payments to government published.”²

Brent Bergeron, representing Goldcorp Inc., echoed this sentiment in regards to reporting requirements: “We think they're extremely important. We want to try to get as much information out as possible.”³

Revenue transparency is an important tool for development as it helps create a relationship of trust between the private sector and the communities in which it is present. By requiring companies to disclose, it discourages governments from approaching companies for bribes, as the public disclosure of all payments will make it easier to track instances in which corruption is occurring. This helps to ensure that the profits from the projects help to establish development in the communities.

We therefore recommend the following:

¹ FAAE, [Evidence](#), June 5, 2012.

² FAAE, [Evidence](#), February 27, 2012.

³ FAAE, [Evidence](#), February 29, 2012.

That the Government of Canada demonstrate leadership in terms of revenue transparency and take pro-active measures, in partnership with Provinces if needed, to establish a reporting mechanism for payments made to foreign governments consistent with Canadian laws, regulations and practices.

Recommendation 3

Although we were pleased to see the terms “sustainable economic growth” included in recommendation 3, the use of the term “loan” is very worrisome. The Liberal Party of Canada agrees that CIDA may need other financial instruments which it does not currently have to achieve its objectives. This is evident in recommendation 1, which recommends a strategy that outlines, amongst other things, “Any new development finance tools that may be required”.

However, recommendation 3, as drafted, opens the door for CIDA to act as a financial institution for private sector actors operating abroad. We consider this problematic. The Government of Canada already has many tools which enable loans. While this may not have been the spirit of this recommendation, the wording is such that it could blur the responsibilities between public and private partners.

Consequently, the Liberal Party of Canada opposes recommendation 3.

Recommendation 6

Although we appreciate the intent of recommendation 6, it seems to be redundant as CIDA already offers technical assistance to developing country governments. In fact, government resources for technical assistance are going to be decreased within the \$377 million cut to CIDA by 2014-2015, cuts which the Liberal Party of Canada have strongly opposed.

Also, many of the recommendations in this report deal with CIDA helping to develop the rule of law, transparency and democratic institutions in foreign countries. The Liberal Party of Canada believes this is where CIDA should be maintaining its focus.

As currently drafted, recommendation 6 gives the impression that CIDA could interfere in foreign governments’ land use policies, taxation policies, etc. This should not be a goal or an objective for CIDA. The focus needs to remain on development, poverty reduction and institution building.

Consequently, the Liberal Party of Canada opposes recommendation 6 as drafted.