



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Foreign Affairs and International Development

FAAE • NUMBER 032 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Monday, April 23, 2012

—
Chair

Mr. Dean Allison

Standing Committee on Foreign Affairs and International Development

Monday, April 23, 2012

•(1530)

[English]

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

I want to thank our two witnesses....

Do you have some news for us?

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you, Mr. Chair.

I just have a quick point of order.

[Translation]

I submitted the following motion:

That the committee devote at least one public session to study Canada's position at the United Nations' arms control treaty negotiations, scheduled for February 2012; that the meeting(s) take place before the House rises for the winter break, so the study can be carried out prior to the negotiations; that the witnesses invited to appear at the meeting(s) include representatives from the Control Arms organization and the Department of Foreign Affairs; and that the committee's findings be reported to the House of Commons before it rises for the winter break.

Mr. Chair, when will we be able to discuss this motion?

[English]

The Chair: I suggest we debate it in our second hour.

Ms. Hélène Laverdière: Thank you very much.

The Chair: Okay. Thank you very much.

Back to the other business we're here for today, I want to thank our two witnesses. We have Mr. Raymond Baker, director of global financial integrity for the Center for International Policy, via video conference from Washington, D.C.

Mr. Baker, welcome.

Mr. Raymond Baker (Director, Global Financial Integrity, Center for International Policy): Thank you, Mr. Chairman.

The Chair: From Canadian Economic Development Assistance for Southern Sudan, we have David Tennant. He is the executive director.

Sir, welcome to you as well.

Mr. David Tennant (Executive Director, Canadian Economic Development Assistance for Southern Sudan): Thank you, Mr. Chairman.

The Chair: Mr. Baker, why don't we start with you? We'll give you 10 minutes. You can give us your opening presentation. We'll then move over to Mr. Tennant. After that we will open it up to discussion and questions.

We'll turn the floor over to Mr. Baker.

Mr. Raymond Baker: Thank you, Mr. Chairman.

I'm delighted to have an opportunity to appear again before the Standing Committee on Foreign Affairs and International Development. I have for many years greatly admired the work of CIDA and the objectives embodied in CIDA's pursuit of development. We are delighted to have CIDA in the task force on financial integrity and economic development, which we direct.

I'm also pleased to be here with Christopher Lawton, who is an intern at GFI and a graduate student here in Washington. He previously worked in the Canadian government for several years and will be returning there in June.

If I may, Mr. Chairman, I'd like to begin with a story.

I lived for 15 years in Nigeria, buying companies and building a group. In the late 1960s, in the midst of the Nigerian civil war, I had my eyes on a company that I wanted to purchase. It was a company that was owned by an expatriate family. It was a company that had been losing money every year for five years. I offered ten times the book value to buy that company.

Harvard Business School students later studying the case voted unanimously that this was a bad acquisition: I shouldn't buy the company; it was a dog. I had the pleasure of coming down to the front of the class afterwards and saying that not only did we buy it, but we paid off all of its debts in the first year and generous dividends to ourselves for years thereafter.

How did that happen? We purchased raw materials at world market prices. The previous owners of the business had been inflating the cost of their imported raw materials in order to take their profits out of Nigeria. We bought our raw materials at world market prices, earned our profits in Nigeria, and paid taxes on them. Ever since that experience, and many other similar experiences, I've been fascinated by the harm that is done to the capitalist system and to the process of development by the mechanisms through which we shift money across borders.

Now, I don't want anyone to think that I am anti-business. On the contrary, I believe in the free market system. I believe in free trade, free currency convertibility, and free movement of capital. I do add a proviso to that: provided it's legal. It is the illegal components of these financial flows that have fascinated me for many years.

After 35 years in international business, I segued into the think tank community of the Brookings Institution, wrote a book on this subject matter, and then formed Global Financial Integrity. In GFI, we analyze illicit money flowing across borders—illicit financial flows. Our estimate is that approximately \$1 trillion a year comes out of developing countries and moves into the richer countries. 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.

Now, this reality needs to be taken into consideration when we think about the role of multinational corporations in developing countries. This reality is a key element in our thinking about policy coherence. Policy coherence, of course, is a term that has been around for some years, and what it suggests is that we need to be consistent in the way we promote the activities of our multinational corporations and the way that interfaces with other parts of the policies of governments.

• (1535)

In order to progress policy coherence, I would like to suggest two steps that perhaps impinge upon the hearing we are involved in today.

First, we would urge that extractive industries publish their contracts with developing countries. Whether this can be done retroactively for contracts that are already in place would be problematic, but it certainly is possible to do it with new contracts. With such publication we can avoid a great many of the problems we experience, with strains between multinational corporations and developing countries.

I'll give you an example. There was a copper contract in Zambia under which Zambia received only 3% of the world market price in royalties. A very brave individual named Eva Joly went to Zambia and worked with Zambian officials to declare this contract void, because it was so one-sided. It was such an egregious contract that the contract was upset and renegotiated, and the Zambian government got a much higher percentage.

The second thing we would like to suggest that is relevant to today's hearings is greater transparency in the accounting by multinational corporations for their sales, profits, and taxes paid in developing countries. This really goes beyond the current publish-what-you-pay movement, which is aimed at extractive industries

publishing what they pay to governments in royalties, fees, taxes, and so forth.

When we talk about country-by-country reporting, we're talking about something we think should be relevant to all corporations functioning in the developing world. By country-by-country reporting we mean reporting, in each jurisdiction, your sales, profits, and taxes paid. If this were to be required right now, what we would find are many corporations reporting losses or break-even points or very modest profits in a great many developing countries where they operate and at the same time reporting large profits in tax-haven entities where they don't operate. How does this happen? How do you report losses or extremely minimal profits where you have heavy investments and considerable staff and at the same time report high profits in places where you have no facilities and no staff? Of course, it is by taking advantage of the mechanisms available for moving money out of developing countries that this can be accomplished.

Those are just two of the steps that we think can be taken, not only by Canada but by other countries, to improve the relationships of multinational corporations in working with developing countries.

In Global Financial Integrity we are currently undertaking a three-year study, together with a Norwegian research institute and three institutes in the global south—one in Brazil, one in Nigeria, and one in India. We are seeking to analyze the whole of the external equation for economic development for poorer countries. That includes total money into developing countries, total money out of developing countries, and what's left over for developing countries, taking into consideration all licit and illicit flows, such as foreign direct investment, portfolio investment, remittances, *hawala* transactions, and more. We are seeking to come up with an estimate of the total external equation for development.

Our preliminary data indicates that we will be able to demonstrate quite credibly that the developing world is a creditor to the rest of the world and that there is in fact a net transfer from the developing world to the richer world. This case has already been made quite convincingly concerning Africa. We believe that we will be able to demonstrate it for the developing world as a whole.

• (1540)

This presents the 21st century with a rather large problem: the necessity to curtail illicit money flowing out of developing countries. These illicit funds do not present us with the way to build a secure and growing global market. Our ultimate objective must be to set the conditions for growth and prosperity for all of the world's people.

Thank you, Mr. Chairman.

The Chair: Thank you very much. Very interesting thoughts.

We'll look forward to some questions as we move forward.

We're going to now turn it over to Mr. Tennant.

Welcome, sir.

Mr. David Tennant: Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, on behalf of my organization, Canadian Economic Development Assistance to Southern Sudan, the acronym being CEDASS, I thank you for the opportunity to appear before you to provide our perspective on private sector involvement in developing nations.

Our organization, which has been working in South Sudan since 2006, is 100% populated by volunteers. They receive no stipend for their involvement, and they pay their own travel and accommodation expenses when they travel to the Republic of South Sudan.

The majority of our members are from the business and farm community. Notwithstanding that we are a humanitarian organization, we operate deploying a business model that strives for economic viability and sustainability. 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.

Although the answer appears simple, the application is not. Allow me to expand on that, Mr. Chairman.

When I appeared before the committee in 2008, I described a project that we intended to set up, which involved the creation of one of the first mechanized farms in South Sudan. As the committee is aware, the Republic of South Sudan became the newest nation in the world in July of 2011, following a referendum that resulted in over 90% of the South Sudanese population voting for independence from Sudan.

The challenges we have faced would take too much of the committee's time to explain. We have faced everything from tribal violence resulting in our compound being attacked, transportation costs and the existence of no roads, environmental challenges, bird infestations, and funding. Basically, when challenges have existed we have faced them, and more importantly, Mr. Chairman, we have overcome them.

In 2011 we achieved a yield of two tonnes of corn per acre, the highest yield of any farm in the country. This year we are targeting 2.5 to three metric tonnes per acre. If we are able to achieve this, we'll have attained one of our main objectives: economic viability. We will then be able to build on this and increase acreage and yield.

One of our volunteers, Mr. Stu McCutcheon, who farms approximately 2,000 acres in southwestern Ontario, is one of our volunteers who spent four months in the Republic of South Sudan last year. He will return again this year. Mr. McCutcheon believes that with the proper application of pesticide, fertilizer, and the proper seed, we can attain three to 3.5 tonnes per acre, which would then be close to, and in some cases equal to, Canadian standards.

Our other objectives are to train the people in the practical application of mechanized farming using Canadian methodology, provide humanitarian aid to the local population with the construction of a health clinic, and expand the training of the local community using a curriculum developed in Canada and with the approval of local educational authorities.

Our organization has called on the advice of Ridgetown College, for example, with some of our past challenges. We envisage a closer partnership with Canadian and Republic of South Sudan educational institutions to provide the foundation in the agricultural economy. Many of the training programs that exist do not recognize the need for long-term involvement by the student and applying the classroom to the farm.

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.

The challenges we have overcome and the successes we have attained have not been easy, but it is the application of the fundamental business principle of striving to achieve economic viability that has focused us to continually re-examine all aspects of our operation and make changes as required. With economic viability, coupled with these principles, we believe we will achieve another main goal, which is sustainability.

It is worth noting some of the achievements of our operation.

Our tractors and combine harvester have been in Sudan since 2008 and 2009. The tractors and combine were used equipment, sourced and shipped from Canada. As a result of our planned maintenance programs, they are still in good working order. By comparison, new tractors brought in to South Sudan in the past had a failure rate as high as 85% in the first year.

We have developed a pesticide program, which is successfully combatting what one farmer described as the most intrusive weeds he has come across.

● (1545)

We've sourced a Canadian seed that complements a complete nutrition management and fertilizer program.

We've developed a fertilizing program that provides this virgin land with the nitrogen and phosphates required to achieve economically viable yields and to prepare additional acreage for cultivation.

We've trained key people in South Sudan in Canadian farming methods and equipment maintenance. Starting this year, there will be training on budgeting. We're in the process of creating an incentive program for our key in-country people. It will be based on accomplishing targeted yields, maintaining equipment, training members of the local community, and achieving cost budgets. The purpose is to provide them with knowledge of the business aspects of farming. We want to inspire them to develop their entrepreneurial spirit and we want to encourage a private sector mentality. This will again assist us in achieving sustainability.

One objective of any private sector involvement in developing countries must be, first, to create a business that makes money. This sounds obvious. However, we are all aware of businesses in the developed world that fail. The opportunity for failure in developing countries is exponentially higher; therefore, the opportunity for higher returns must be present to encourage investments.

Second is to establish training programs for the indigenous people, with no glass ceiling, so that the opportunity to progress through corporate ranks and/or to start businesses is not only allowed but encouraged. This will require that the host government insist on this type of activity.

Third is to be allowed to operate with a minimum of government interference but with government cooperation in cutting red tape.

Fourth is to target a percentage of the profits of the operation to community programs that benefit indigenous people.

Fifth is to recognize that the long-term benefits, and this is most important, have to be directed to the indigenous people.

The private sector does exist in the Republic of South Sudan. However, in many cases, the international involvement is discouraging. The local personnel are not given the opportunity to be trained. There appear to be no management programs. I am concerned that when the international companies have exhausted their involvement, they will exit with no long-term benefit to the indigenous people.

The potential for an agriculture industry in the Republic of South Sudan is huge. In a country where people are literally starving to death, it is ironic that their country contains thousands upon thousands of arable acres of land capable of sustaining a full range of crops. One only need think of Canada's agricultural industry, which was started by individuals planting small areas, to realize the potential if you have fertile land, rain, and heat.

In our watershed, which runs parallel to the Nile, there are 20,000 acres of arable land. Imagine if in the future we were able to farm this area and yield three tonnes per acre. The Republic of South Sudan's deficit in food this year is estimated to be 450,000 metric tonnes. This area alone could yield 60,000 metric tonnes. The climate allows for the potential of double-cropping, potentially increasing the yield even further.

When you have an economically viable and sustainable industry, it creates many other related jobs and companies that support it.

The traditional form of international aid, while in many cases essential, can keep the local communities from being entrepreneurial. They're at risk of developing a dependency on aid and having the urgency of developing their own industry diminished. We have seen an increase in this attitude since the end of the war and since their own country was established. We are seeing an unfortunate trend towards demanding from the international aid community that they provide their essentials and to provide wages based on their desires, not work performance, that are higher than what other nationals living in the Republic of South Sudan, such as Ugandans, Somalis, Eritreans, and Kenyans, will work for. There are many businesses being started by members of these other communities. We would sooner see the South Sudanese develop these small businesses.

Corruption is a major problem in developing countries, and it is present in the Republic of South Sudan. Many South Sudanese feel that the way to wealth is through government, which can provide opportunities to benefit from corruption. To the credit of the Republic of South Sudan, they have appointed an anti-corruption minister. Their stated policy is to bring those who participate in this activity to justice.

It can, however, be a problem, not only for the private sector but for donor countries. From our limited involvement and experience in this area, we believe that a middle class can be established. Local businesses that are seen to be successful without the use of corruption will then diminish this practice, and ordinary people, just like Canadians, will not tolerate corruption in their political leaders. We need to recognize that corruption is present in all countries, developed and developing alike.

● (1550)

We should not take the self-righteous attitude of using the existence of corruption as an excuse not to help. Rather, we must help to build a legitimate, viable, and sustainable economy that will itself help to control corruption. We have many South Sudanese who yearn for this, and we should do all we can to encourage it.

In the agriculture sector, governments are establishing policies that may inhibit the growth of a viable industry. Some countries have a reluctance to use seeds that are targeted to handle problems specific to geographic locations and on-site problems. As the committee knows, the North American agricultural industry has used hybrid seeds for many, many years, and that contributes to our farmers producing some of the highest yields in the world.

While we do not advocate enforcing our policies on host countries, we should by persuasion be convincing host nations of our proven and accepted methods. Not advocating this and recognizing the yields that exist in these host countries is providing an unsustainable subsidy to the agricultural industry.

The World Food Programme, which encourages local production, is all too often approached by local farmers needing \$900 per acre to cover their costs. Our sale price to the World Food Programme last year was \$400. The difference is simply yield. If the donor country is providing funds for the creation of a viable and sustainable agriculture, it should not be supporting policies that diminish this potential.

In the last 25 years the international community, to its credit, and as a testament to its generosity, has provided billions, if not trillions, of dollars to this continent. I ask you, has it worked?

In conclusion, Mr. Chairman, we wish to make it clear that we are a small organization with limited resources, but we have a group of very dedicated, passionate, and often stubborn volunteers, who have demonstrated that the private sector mentality, coupled with a desire to assist the people of Sudan in building a nation, can work.

Due to funding restraints we are limited in what we can do, but we know what we have accomplished has benefited the local community. If we had the financial resources available, we would do some of the following: accelerate the training and education programs with the establishment of an on-site training school; expand the acreage under cultivation; promote the potential of agriculture in the Republic of South Sudan to the Canadian agricultural community; and develop community-based programs for health and education.

We hope we will be successful to the point that the South Sudanese can take over the farm and continue to grow what we have started. Our ultimate objective, and may I say dream, Mr. Chairman, is to have the local Sudanese people thank us for our assistance in achieving viability and sustainability and tell us they no longer require our help.

I thank you for the invitation and your attention, and I'm happy to answer any questions.

Thank you, Mr. Chairman.

• (1555)

The Chair: Thank you very much.

We're going to start our first round of questions and answers with the opposition.

Madame Laverdière, for seven minutes.

[*Translation*]

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

I also want to thank both of our witnesses for their extremely informative presentations. My first question will be for Mr. Baker.

I was especially struck by something you said.

[*English*]

I'll say it in English. If you don't mind, I'll switch from one language to the other. It's the poor translators who suffer, but my notes are in English.

When you're looking at money going in and out of developing countries and you say that developing countries are our debtors, in a way I think it's quite understandable. The first duty of private companies is to their shareholders, who are usually outside of developing countries.

It reminded me of a French official who was talking about the independence of a specific African country, which I won't name.

[*Translation*]

He said that had they known how profitable it would be, they would have given the country its independence much sooner.

[*English*]

I don't think we have any problems with private companies making profits and taking these profits out of developing countries, although we'd prefer that they left more.

What we are studying here is the role that private companies can play in development, and I wonder what you would see as the limits of this role. Some private companies build schools or hospitals, but it

seems they're not able to build the infrastructure, what I call the legal infrastructure and management infrastructure, which will enable developing countries to provide a counterweight to that effect. This can only be done by a government-to-government kind of assistance.

Am I mistaken?

Mr. Raymond Baker: No, not at all.

Let me give an example of another company that pays no taxes in Africa. A study was recently done on SABMiller, which is a beer company. It has a number of factories around the world. A study of its activities in Ghana demonstrated that SABMiller reported no profits and paid no taxes in Ghana. This is despite the fact that it is a huge and successful business. How did it do it? It charged a royalty fee for the use of its brand names, which was extraordinarily large. It also charged a management fee to its subsidiary, and that money went to an entity that had no management inputs whatsoever. It was simply two mechanisms by which SABMiller reduced the profits of its entity and showed nothing.

I have no problem with a corporation paying dividends abroad. That's certainly to be understood. What I have a problem with is the use of mechanisms such as I have described to make either no profits or minimal profits or to indeed to have losses, while at the same time, vast amounts of money are shifted out of the continent. That is problematic, and that is the situation we address that needs to be changed.

To the second part of your question, 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.

Corporations run the risk of getting into trouble when their goals go too far beyond their responsibility to produce a product and make a profit. Now, there are some exceptions to that. During the apartheid days in South Africa, a number of corporations did encourage the government to move toward majority rule. In the worst of the HIV/AIDS epidemic in South Africa, many corporations set up their own health systems to help their employees last more than a year or two on the job. But those are things upon which you can attribute a cost-benefit analysis as a corporation.

There are some things that can be done, but I think all of the things corporations do have to be analyzed within that framework: what are the costs and what are the benefits to our primary mission, which is to produce a product and make a profit?

• (1600)

Mr. Paul Dewar (Ottawa Centre, NDP): My question, Mr. Baker, is to you as well.

I only have a minute to ask a question, so I'll be very direct. Are you in support of the legislation in the States, the Dodd-Frank provision, and is this something you've looked at?

Mr. Raymond Baker: We are in favour of the Dodd-Frank legislation, which is an extension of the publish-what-you-pay movement. Corporations should account for what they pay abroad. And I think there's a fair amount of agreement to that in many countries around the world.

The complexity in the Dodd-Frank legislation is that it calls for accounting on a project-by-project basis rather than on a country-by-country basis. That's a debatable point. The European Union has not yet moved so much toward project by project as toward country by country. But yes, I think the Dodd-Frank type of legislation and the legislation being considered in the EU Parliament is a step in the right direction.

The Chair: Thank you very much.

We're now going to move over to the government side. We have Ms. Brown.

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

Thank you, gentlemen, for being here. This is most interesting, and I think it's really helping us to formulate some of the conclusions that we are looking to put forward in our paper.

Mr. Tennant, you and I had the opportunity to talk in South Sudan, where I became acquainted with the work you're doing there. I want to say thank you. It's been amazing to learn about what you're doing.

That's really my role in my seven minutes. I'm turning this over to Gary Schellenberger, because I know he has lots of questions.

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

Again, thank you for both presentations today. I'm always enlightened by the various views we have.

Mr. Tennant, I have a couple of questions for you. I do know about your project. It wasn't until I saw your name on the docket today that I reflected back to some of the meetings. One meeting, I know, was held around the time when you had I think a tractor that was all in pieces and was put into a crate to be shipped to South Sudan. We don't think about it every day, but it came to me all of a sudden: what has happened in mechanization since that first tractor got there?

I know those things all cost money, so my first question is, how is this project financed?

•(1605)

Mr. David Tennant: Well, it's very simple, Mr. Schellenberger. Thank you for the question. It is funded by generous Canadians. We raise money. My own company and my family have taken on CEDASS as their charity of choice, and we raise money. It's not easy, because in this world and this economy, there are a lot of calls on charitable dollars.

I think the important thing—and where we differ I think from the traditional form of aid, which I don't discount in any fashion—is that we believe the best way to help people is to give them the opportunity to help themselves. This is why mechanized farming is so important in South Sudan.

The last time we spoke we did move a tractor. Since then, we've moved another tractor. We've moved a combine harvester. We've moved I think about five containers of farming implements and equipment to South Sudan, and the farm is working and it's working well. We have other challenges, there's no question about it, but these trials happen in any business and you plan to re-examine and to overcome.

Mr. Gary Schellenberger: What would it take to bring this project to the next level?

Mr. David Tennant: I think the next level we would like to see is one where we increase the acreage and develop a training program.

I was interested in Mr. Baker's comments and the question from the MP with respect to what happens in developing nations and the private sector. The reality is that if we can train indigenous people so that they can eventually take over these businesses, that has to be.... Any private sector company that goes into these developing nations must, either by moral persuasion or by legislation, realize that in the developing world the eventual beneficiary has to be the indigenous people.

With I think probably under \$700,000 we can move this farm to the point where it is producing and farming 500 acres to 600 acres of land. We believe we can increase the yields to between three tonnes and five tonnes per acre, which is phenomenal, and we have the opportunity to double-crop.

That is what is needed. It is not easy. I spend about 30% to 40% of my day working on it.

Mr. Gary Schellenberger: I do know one thing that happens a lot of times in some of the developing areas is that with the storage of the produce.... Just thinking back, I know there were some real problems with storage. Sometimes the crops are grown but spoil before they can all get to market. Has some of that been corrected?

Mr. David Tennant: Because of our relationship with the World Food Programme—and we have an extremely good relationship and work very closely with the World Food Programme—when we harvest, they are there within several days to take the produce into Juba, which, as you may know, is the capital city of South Sudan. So we don't have that problem, but the problem will arise.

This is why the World Food Programme has approached us. In a joint venture with us, they want to construct a storage facility that would be used not only for our farm but for other small and larger farms that will be created in the Jebel Lado area.

Mr. Gary Schellenberger: What could the Government of Canada do or what has it done to help accelerate your plan?

Mr. David Tennant: Well, it could give me a million dollars. That would be a nice gift.

Voices: Oh, oh!

Mr. David Tennant: I think we've had tremendous encouragement, not only from members of Parliament but also from government officials. We worked very closely with the Sudan task force prior to....

We have made applications to CIDA. We have not yet convinced them that our project is something that should be funded, but we will continue talking to CIDA in the hope that they will see that the private sector, coupled with the humanitarian aspect, is the best way to deliver aid to countries. It's not the only way to deliver aid to a country, but it is one of the premier ways to deliver aid to a country.

Mr. Gary Schellenberger: What's the major obstacle you face today?

Mr. David Tennant: I think there is instability in South Sudan. They're a young country, struggling with many issues, not the least of which is still the problems with the north. There has also been some tribal violence. I still think our major issue, though, from our very small and limited perspective, is funding.

• (1610)

Mr. Gary Schellenberger: As you go forward with this project, the idea is to have the Sudanese then take over the farm and carry on down the way. Does this look like a realistic idea right now?

Mr. David Tennant: I think it very definitely is. We have several Sudanese people who we are training in Sudan. It takes time, but they are starting to learn management principles. It's the application of these management principles that will allow them, as we did in our country years and years ago, to go down the road of entrepreneurialism and hopefully establish their own farm.

We also have to understand that the South Sudanese for 25 to 50 years have struggled to survive and have fought to survive. You almost in some cases, especially in the rural areas—we're in the bush, 30 miles in the bush—have to teach them how to work. You have to take it all the way.

So it's a slow progress, but to me it's a progress that can be achieved.

Mr. Gary Schellenberger: Thank you.

The Chair: Thank you very much.

We'll go back over to the opposition for the final questions in this round.

Mr. Eyking, seven minutes, sir.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Chair.

I thank both gentlemen for coming here today and for the work you're doing to help the people in need. You're in different categories but your missions are the same, and your successes are there.

I want to start off with you, Mr. Baker, and with some of the things you were saying. It's unbelievable how much of the money that should be in the hands of these people is escaping. I think you mentioned \$1 trillion. These are big numbers floating around.

How do we get more international standards out there? We have international standards out there on human rights and various things for different countries. Should we have international standards or a tribunal process that can deal with these countries? You see so much money escaping these poor countries, whether to Swiss accounts or wherever it goes. How can you really get a grasp on that money, and how can we maybe have some sort of process...?

We just recently visited the Netherlands. Of course, they have the international court there, the Hague, but they don't really deal with this kind of thing. Is there something that maybe the UN should be setting up here so that we can have some basic standards for these countries, or for the people or companies who are participating in these countries?

Mr. Raymond Baker: Thank you for your question. It's a huge question.

The money that disappears out of developing countries for the most part passes through a global shadow financial system that brings it finally into our western coffers. This shadow financial system was developed by us in the west, beginning in the 1960s. It now comprises tax havens, more than 60 around the world, secrecy jurisdictions allowing tax haven entities to be set up behind nominees and trustees such that no one knows who is the real owner.

These disguised corporations, mostly, now number in the millions around the world. Quite honestly, more of them are in the United States than anywhere else. Anonymous trust accounts are part of this structure. Fake foundations are part of this structure. Money-laundering techniques of various kinds are used. Then the mispricing of trade is the key element in the movement of the commercial tax-evading component of money abroad, which, as I said to you, is about 60% to 65% of the global total. This is the system that operates to facilitate the flow of this money out of developing countries.

Part of my reason for explaining that to you is to make the point that solving this problem is very much a two-way street. It's not just the poor countries that need to develop better tax administrations and customs capabilities and so forth. It's us in the west who need to curtail our receptivity to that kind of money, that comes so easily out of developing countries.

This is one of the things that distinguish us from some other organizations: we stress that the solution to this problem is a two-way street, with a very big part of the problem resting in our own western economies, to curtail our receipt of that money.

• (1615)

Hon. Mark Eyking: That being said, we have treaties for land mines and we have various international treaties. Should we have a stronger international treaty or a set of standards that we all should be encouraging, instead of trying to pressure each country to step up to the plate?

Mr. Raymond Baker: Oh, I agree. We need to have much stronger—

Hon. Mark Eyking: Where would that start? We're doing things with international banking and various things like that now, but where would you start with this process? Would you start it at the UN? Where would you start it? Would you start it at a finance ministers conference of the G-20 and say, okay, guys, there's...? Would you start it there?

Mr. Raymond Baker: There's a lot going on at the present time. The G-20 for the first time two years ago used the term "illicit financial flows". We've succeeded in getting that basic vocabulary into the thinking of the G-20, the UN, the World Bank, the IMF, OECD, and others.

It is not that difficult to curtail—we're not trying to stop, but curtail—the illicit money that flows out of developing countries, and with some pretty straightforward measures. I mentioned one: country-by-country reporting. There are other ways to do this as well. Making tax evasion a criminal offence would be a step in the right direction. Automatic exchange of tax information, such as the United States and Canada have had for a long time, would be extremely valuable.

There are things that can be done to strengthen our anti-money laundering legislation, as progressed by the financial action task force in Paris. The financial action task force, in its last meeting in February, said that tax evasion should be a predicate offence for a money laundering charge. The next step in that direction is to make it a criminal offence under any circumstances, whether attached to tax evasion or not. There are steps we can take and there are organs of international institutions working on these steps.

Hon. Mark Eyking: Thank you.

I have only a few minutes left.

Mr. Tennant, before I got into politics, I did work like you've been doing. It's amazing when you go to an area that has all the ingredients to water the land and so forth, but the key things are land rights, water rights, and people being protective of their property. Sometimes you give them the tools, but it's the rest of it, the infrastructure, the ownership of rights and various things....

It's even the financing, right? If they can't get microfinancing, it's hard for farmers to get going. Is that also one of the biggest issues there? You can bring the seed, you can bring the fertilizer, you can set up the irrigation systems, but it's still a fairly unruly place, where somebody would go in and steal their fuel or....

Is that something we should be pushing for? Should we be helping these countries set up the proper framework? Then people like you could have an easier job of getting farmers to invest their own money or to get microfinancing.

Mr. David Tennant: I think it's something governments should encourage.

Obviously, security is a big issue. I've never believed in martyrdom. Security is a big issue for us. We have been very fortunate. We're in an area where we've had one tribal outbreak. There are a lot of things happening, with the north agitating the tribes in the south, so it is a difficult country to work in.

But the key is to work with the local community. Those in the local community are the owners and the beneficiaries of the land, so we work with the local community. This year, we gave them a percentage. We worked with them in training. We helped them develop their own plots.

There now are banks coming in from Kenya—one of them being the Equity Bank, an agricultural bank out of Kenya—that are very keen on the microfinancing that will be required to build the agricultural industry. To me, the agricultural industry is an industry that is open to all of the people of South Sudan, whereas some of the industries, such as the oil industry, are not.

I think if you can encourage the agricultural sector with things like microfinancing, with security, with dealing with land rights.... South

Sudan has just gone through about three years of trying to develop land registration, and they're now on the cusp of that. But basically, the land is owned by the local people, and that's where you have to start.

• (1620)

The Chair: That's all the time—

Hon. Mark Eyking: I have just one more quick question, Mr. Chair, if everybody would agree. It's just a short one.

Are the water rights for the Nile going to be an issue? If you're going to be the breadbasket of central Africa—there are many countries on the Nile—are the water rights going to be an issue?

The Chair: A quick answer.

Mr. David Tennant: The quick answer is that Egypt believes it will, but I'm not sure about any of the countries that are tributary to the Nile. The Nile does not start in Egypt; it ends in Egypt.

So it could be a problem, but the reality is that in our area, we have a climate such that we do not at this point in time require irrigation. We have a very good climate of rain.

Hon. Mark Eyking: Thank you.

The Chair: Thank you very much.

We'll now move to the second round, which will be five minutes.

Mr. Van Kesteren, five minutes, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you to everybody for appearing.

Mr. Tennant, we had a conversation about four years ago now, I think, and Jeff was in my office as well. It's amazing; I know at that time you had another project, and perhaps you could quickly tell us about your first project. What happened, and what's it doing today?

Mr. David Tennant: It was a project around a product that was indigenous to South Sudan, called gum arabic. It's a hydrochloride and it's harvested similar to the way you harvest maple syrup; that's the closest I can get to it. It has wide-ranging, myriad uses in industry. It grows in a very narrow band across north Africa.

The quick version of the story is that we developed that industry. We developed an association for the Sudanese, with an American company, one of the largest processors of gum arabic in the world. When we had taken it as far as we could take it, we introduced the two parties. Subject to the world economies, in terms of whether it's a commodity.... That is now being run by the Sudanese.

Mr. Dave Van Kesteren: Wonderful.

I want you to tell us again, you're all volunteers? Everybody has just given their time?

Mr. David Tennant: I have two of my volunteers here today. Jeff Lang is our chairman, and the young blond guy across there is now known as the “Birdman of Jebel Lado”. We had a problem with bird infestation over there. We like to think we're creative in solving the problems. He went over there and captured some hawks. He owns a company called Predator Bird Services. He scared away all the pesky birds. We did not go to South Sudan to feed birds; we went to feed people.

We have a tremendous group of volunteers, and nobody is paid.

Mr. Dave Van Kesteren: Incredible story.

Are you familiar with Masara in Ghana, a corn company?

Mr. David Tennant: No, I'm not.

Mr. Dave Van Kesteren: We visited that a year ago, and it's much the same. They've introduced different practices and they've increased....

One of the areas they're very strong in, and you mentioned that, is the storage. Obviously you can produce corn, but if you sell it right at that time, you're going to get the lowest price. Of course, the best thing to do is to store that corn and then to trade.

What other countries in the area, or in the world—I guess I'm looking broadscale, down the road—would become hard-core customers of the corn that you produce in Sudan?

Mr. David Tennant: It would include Somalia, Eritrea, many of the sub-Saharan countries, and Ethiopia.

If I may say as well, Mr. Van Kesteren, one thing that's happening in some of these countries that bothers me—I'm European, so I can perhaps say this—is I think the European influence, where they're against hybrid seeds.

Here's a very quick comparison. A farm that has opened is owned by the president's nephew and joint-ventured by a Thai company. Their methods have created a yield of half a tonne per acre. They have all of the equipment and all of the money they need. Our yield is two tonnes per acre, and we can get to three and a half tonnes per acre.

These host countries must understand that in North America, in both Canada and the United States, we've been using hybrid seeds for years. Our yields this year were because of one thing: we used a seed that was capable of resisting the pesticide that we used to kill the weeds that are completely intrusive.

That's something I think the Canadian government should be working on.

Mr. Dave Van Kesteren: That leads me to my final question. When MPs come to visit, and I'm suggesting that some of the MPs just go out there, what can we do to help you? You mentioned Ridge college, which is actually Ridge campus in my riding. Art Schaafsma has been working with your project too.

What can we do as members of Parliament when we visit the government and try to alleviate some of those problems? Where can you direct us? And is that a suggestion, possibly, that you'd like to see some help in that area?

• (1625)

Mr. David Tennant: Yes. As a matter of fact, I carry a request from the Minister of Agriculture for the Republic of South Sudan. I met with her before I left in January. She asked if we could sponsor even one student to come to Canada, to someplace like Ridgeway college or the University of Guelph, to study agriculture and to study our methods.

With respect to our American guests, North Americans do agriculture better, I think, than any country in the world and any continent in the world. If we can take the people from over there and bring to them our Canadian methodology, our seed development, our pesticide, our fertilizer development, I think Sudan can become, although perhaps not in my lifetime, the breadbasket of Africa. It was once.

The Chair: Thank you very much.

We'll move back over to the opposition and Mr. Dewar, sir, for five minutes.

Mr. Paul Dewar: I just have a quick follow-up question for Mr. Baker.

I was intrigued by your comments about the Dodd-Frank approach. You mentioned the EU. I was just wondering if you would recommend that approach to us here in Canada. We're doing a report. I was just wondering what your comments and opinions are on that.

Mr. Raymond Baker: Yes, I recommend the publish-what-you-pay movement, the efforts by the extractive industry's transparency initiative, and what is incorporated in Dodd-Frank. I'm less concerned about whether the accounting is done on a project-by-project basis or a country basis. I think that is a question that remains to be most effectively answered. But 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.

Mr. Paul Dewar: Thank you.

Madam.

Ms. Hélène Laverdière: Thank you very much.

Obviously, all this money that flows out of developing countries, in particular in relation to extractive industries, is a major impediment to their development. You said that it's a two-way street. There are things developed countries can do.

I would like to know a bit more about the things developing countries can do, some of which you mentioned, inside their countries to prevent that outflow. Do you have any views on how we can help them do that?

Mr. Raymond Baker: Most developing countries can certainly strengthen their anti-money laundering legislation, which is not particularly effective in many countries.

Another area where many countries can be strengthened is in their financial intelligence units, their FIUs. Many countries in Africa have FIUs that are functioning only very, very marginally. South Africa happens to have a superb FIU that has indeed offered to be of assistance to other African countries establishing financial intelligence procedures.

With the availability of online pricing data I think there's adequate opportunity to strengthen customs administrations. They can look at imports and exports and see if that invoice conforms to a reasonable measure of world market pricing. That kind of data is becoming much more available, and customs officials and ports officials and tax officials can make use of that kind of data. We've certainly advocated that this kind of information, which is becoming more readily available, be taken up by the developing countries themselves.

Ms. Hélène Laverdière: Thank you very much.

Mr. Tennant, thank you for your interesting presentation. I have a quick question for you.

You mentioned something about companies exiting a country and what happens afterwards, but you didn't have an opportunity to go into great detail about this. I was wondering if you could talk a bit more about that and if you have any examples to give us.

•(1630)

Mr. David Tennant: I'm not sure I can give you specific examples. One of the things that bothers me in South Sudan is the operators of the oil fields, who, in my opinion, will take the money and take the oil with very little benefit to the people of South Sudan.

There are large tracts of land, I believe in the north, being leased to companies out of China that will simply take the product to China. I know that in Juba, where the Chinese are heavily involved in construction, they use convict labour from China. You get a choice: you can go to jail in China or you can go to work in South Sudan.

The training programs are non-existent, which means that when the oil fields are depleted, none of the local indigenous people are trained. That should always be the objective of the international community, whether the business is large or whether the business is small. Maybe not so much in developed countries, but when you're dealing with developing countries, there must be a moral imperative for large or small companies that are working in these areas.

The Chair: Thank you.

We're out of time, but I know that Nina wanted to ask a quick question to wrap up.

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

Thanks very much to both of you for testifying before our committee and sharing your knowledge with us.

Mr. Tennant, like you, I have spent a lot of time in Africa. I have lived in a country called Liberia and have travelled extensively both as a private citizen and as a parliamentarian in visiting Kenya, Rwanda, Burundi, and Nigeria, among many others. From these travels, what I have gained is a better understanding of the great potential of both the African land and the African peoples. There is a tremendous economic opportunity just waiting to be realized.

The Sudanese people need jobs. They need employment. Can you give us some insight into what can be done to encourage companies to take risks and to go into countries such as Sudan?

Mr. David Tennant: Well, if you're talking about the private sector, I think it's the opportunity to make returns, to make a profit. I think that's number one. I'm not a tax expert and I'm not an international money expert, but I think if you can give incentives for specific areas, for specific areas for training and for specific areas that allow the indigenous people to take over...

The other thing that we should also realize is that the indigenous people have a responsibility here and the host governments have a responsibility. We're seeing it in Sudan, where people are saying: "You're the international aid. We demand this. We demand that." You have to at some point say, "You have to work for it."

We can help build nations. For years Canada has helped through CIDA, through its governments, in building nations, but we can't do it... We can help and we can create an environment, but the people who have to build their nation are the indigenous peoples of that nation, just the same as Canada built this nation.

Mrs. Nina Grewal: Mr. Tennant, from your experience in Sudan, what kinds of opportunities do foreign corporations provide to local populations in Africa?

Mr. David Tennant: As an entrepreneur myself, if I were a lot younger... It's like an entrepreneurial sandbox in that there are opportunities in almost all of the sectors. I think the biggest opportunity for Canadians is in the agricultural area. I'd love to be able to promote to Canadian farmers the opportunities in South Sudan.

Mrs. Nina Grewal: Thank you.

The Chair: Thank you.

Madam Laverdière, one last question.

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

Thank you very much again. The way I understand what you're saying is that it is not to rely so much on foreign companies that come in, maybe for drilling, and then move out, but to rely on building the local entrepreneurship as a means of development. That brings up a question for me, because we've heard from some extractive mining companies, for example, that were talking about doing training around their activities. But obviously the training cannot be training in the extractive industry or in the mining sector, because when the mine closes, all these people have no means to reintegrate into the market forces.

I would like to know if you have any comments on that.

•(1635)

Mr. David Tennant: I think that in a country like South Sudan, where they have a myriad of... They have tremendous mineral resources—not just oil—but if you start training programs where the people have the opportunity, just as we do in the western world, where we have the opportunity... There's a company in Canada called EllisDon, which I think we all know about, and EllisDon has probably created and fostered more construction companies than any school or university. Why? They went, they were well-trained, and they decided to go out on their own.

That's a simple answer, but if you focus on that area, that's what I mean. It's not about waiting till the particular product is depleted. It's about bringing in these people when the international company goes in and starting the training programs then, so that they can achieve independence.

The Chair: Thank you.

Mr. Baker, do you have any final thoughts?

Mr. Raymond Baker: I agree with much of what Mr. Tennant has said about the importance of training. I indicated to you that I lived in Nigeria for 15 years and built a group of two manufacturing companies, a trucking business, and a financial holding company. I had a consulting practice on the side and so forth. I sold my last investment in Nigeria only three years ago.

Certainly, training has to be a key part of what we do. What I have turned my own attention to over the last 15 years is seeking to engender a higher level of responsibility in the way that many companies approach their business in the developing world, and I think we're making considerable progress in that connection.

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

Mr. Tennant, thank you as well.

We had very good testimony today. We thank our guests for coming.

With that, we will suspend the meeting.

[Proceedings continue in camera]

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>