United Nations Association in Canada

Association canadienne pour les Nations Unies

Canadian Private Sector & Development

Building from Dialogue with James D. Wolfensohn
President, World Bank Group (1995-2005)

A Report on the Canadian Visit
2005 March

Background: Canada & the World Bank

The United Nations Association in Canada (UNA-Canada) is a national charitable organization established in 1946. UNA Canada is a think-and-do-tank. Its mandate is to engage and educate Canadians in the work of the United Nations and the critical international issues which affect us all. The Blue Ribbon Speakers Series is one of the ways UNA-Canada meets its mandate. This is a series of nation-wide and international capacity-building and educational programmes and by providing fora for dialogue with international leaders. The Canadian Corporate Leadership Council for the UN (CCLCUN) is a United Nations Association in Canada (non-voting) membership-based programme designed exclusively for the Canadian business sector. It is a venue through which socially-minded corporations can become engaged in the work and issues of the UN while demonstrating their leadership in helping to foster a more socially conscious global corporate community.

On 2005 March 23, UNA-Canada's CCLCUN held an invitation-only event, in collaboration with the Royal Bank of Canada, to honour Mr. James D. Wolfensohn, out-going President of the World Bank Group (1995-2005). Co-hosted by Kathryn White, Executive Director at UNA-Canada, chief economist Craig Wright from Royal Bank Financial, and Peter Fabian, Chair of the CCLCUN, the exclusive engagement included a list of CEOs and senior executives from Canadian companies who had been acknowledged in some way for their attention to good corporate citizenship practices, including as signatories of the Global Compact; members of the CCLCUN; executives from the 50 Best Managed Companies in Canada and other representatives from the private sector associated with companies that display particularly high indices of corporate social responsibility. Guests included the Honourable Madam Justice Thea Herman, David Hemler from Microsoft Canada, Michael Nixon from the Chamber of Commerce, US Consul General Jessica LeCroy and Marcel Massé, Executive Director for Canada, Ireland and 11 Caribbean countries at the World Bank.

Over the past ten years, as President of the World Bank Group, James D. Wolfensohn has brought about major change in the way the world's largest development organization operates, firmly refocusing it on its main goal of fighting global poverty. He has led the modernization of the 60-year old institution through rapid decentralization of Bank activities to over 100 country offices, and through the adoption of cutting-edge business practices and technology. At the same time, there have been new and significant policy directions: most notably major efforts on debt relief, anti-corruption, the environment, the private sector, post-conflict reconstruction, HIV/AIDS, inclusion, disabilities and a broad range of social issues. By decentralizing the Bank, working more closely with other development partners such as nongovernmental organizations (NGOs), and placing greater emphasis on home-grown development planning, Wolfensohn has shifted the Bank closer to its client governments than ever before.

Canada is a founding member of the World Bank Group and actively supports its development activities worldwide. A strong proponent of multilateralism, Canada has

consistently been among the top 10 largest contributors (in terms of percentage of GDP) to the Bank's reserves and loan base. In monetary terms, as of June 2003, Canada had (cumulatively over all years of its membership) subscribed about US$10.8 billion to the World Bank Group.

While Canada is perceived to be deeply involved in shaping the work of the World Bank, it has representatives in Washington who often engage in sustained bilateral discussions with the Bank on priority development issues and policy coordination. "Addressing global poverty (is the) centrepiece of the World Bank Group's strategy under Mr. Wolfensohn's leadership and that is the focus upon which we ought to recognize the important role that can be played by private enterprise in international development" remarked Kathryn White.

Meanwhile, the Federal Government's most recent policy statement, released on 2005 April 19 in Ottawa, further accentuates Canada's clear commitment to a shared set of goals with the Bank on the elimination of poverty and the provision of sustainable livelihoods for less developed nations around the world.

With an expected GDP growth rate averaging 3.1 per cent in the 2005-08 period, and a real growth rate averaging nearly 3 per cent during 1993-2000, Canada's economy has been leading the G7 industrialized countries in GDP growth. A strong economy, coupled with abundant natural resources, a skilled labour force, and modern capital markets makes Canada a model for development globally. The country's success in balancing strong economic growth with continued investments in social services makes Canada a highly valuable development partner.

2005 March 23: Remarks by Mr. Wolfensohn

It is becoming increasingly apparent that much of the current dialogue on the convergence between private sector interests and development points to the need for strong, credible and stable financial markets worldwide. As only one example, RBC senior management is showing increased awareness and interest in exploring opportunities for international expansion. Beyond self-interest, the international lens through which these executives, and many more throughout the country, examine and decide on international business opportunities is one that increasingly involves a regard for social and environmental impact as well as a high return on investment from a brand marketing point of view. While population grows at a significantly faster pace in developing and emerging economies, commented Wolfensohn during his address, it is imperative that Canadian businesses pay close attention to these and many other less obvious, and arguably more risky, opportunities. In his address, Wolfensohn spoke eloquently about the risk-ridden realities of developing nations that are threatened and challenged not only by economic underpinnings but also by unprotected exposure to disease, natural disasters, mass migration, civil war and hunger.

In reminding those in attendance that roughly one in three jobs in Canada depends on exports, and approximately 40% of the country's GDP is derived from trade, albeit

mostly with the United States, Wolfensohn clearly identified trade as an important means by which to leverage Canadian values and best practices towards development goals via business-to-business international transactions. He referred to the 'Canadian expertise' that is inherent in the export of Canadian goods and services that are intrinsically tied to the country's image as a responsible, caring and tolerant global player. As an example, Wolfensohn recognized Canada's leading role in bridging a tumultuous crisis in Haiti with the promise of a better future, partly by providing investment opportunities to Canadian businesses in a country desperately in need of stability.

It is important, Wolfensohn remarked, that countries and their populations cease to perceive the United Nations and its agencies as a "charity case" and that businesses view its extensive network and unparalleled presence around the world as an opportunity to expand and grow beyond national frontiers. Although simplistic as a characterization, a representative account of Canadian perceptions vis-à-vis the role of the UN and related international organizations revolves primarily around aid and basic needs programmes aimed at the poorest regions in the world and at countries suffering from civil upheaval or recovering from environmental disaster.

In posing the question "what next" to Canadians, Wolfensohn urged the audience to think in terms of long-term development and investment before thinking simply of aid programmes or reflex involvement at a time of crisis. In so doing, trade and trade-related activities clearly find themselves at the centre of a Wolfensohn-led debate on the role of the private sector in development.

In January 2005, *Time Magazine* interviewed Wolfensohn and asked about the private sector's role in development. He responded:

> '…it is vital not only in shaping world trade but in becoming an engine of growth and job creation. Our (the World Bank Group's) strategy is based on two pillars – investing in people and creating a stable business climate so that investment is facilitated and jobs are created. Working with the private sector is a central part of our group's activities. We know that we can only be effective in partnership with others.'

The ever-shifting debate over aid programmes and the right way to help the world's poor has acquired new focus. There is a new, overdue, and welcome focus on exploring ways by which to incorporate numerous agents in transactions in order to guarantee long-term, sustainable impact. It is no longer enough to point, with pride or criticism, at mere figures. Trade liberalization, accompanied by involvement by the private sector, is arguably the most important prospective member of this new dynamic.

Development: Aid or Trade Liberalization?

Considerable research has been conducted on the effectiveness of aid, with an emphasis on the destination and impact of aid flows. A wealth of cross-country studies has failed, however, to reveal conclusive assessments. While some argue that aid has had a large

positive impact, others find no effect or even a negative impact, and several offer refinements such as “aid works in a good policy environment.” The inconclusiveness of such work has led many to suggest ulterior motives behind the choice of methods for evaluating aid, such as randomized trials and scenario analysis.

The number of people in absolute poverty is not growing, however, and a growing number of countries can now access private capital markets for financing development. Increasing competition and lack of harmonization within this sector has created a greater focus on results and on the role of the private sector in international assistance. Private flows already eclipse official aid flows and many are questioning how private flows, such as remittances and charitable donations, can be combined with official aid to maximize results.

If there is a link between trade openness and development, a preponderance of literature will argue it is responsible for the growth in GDP in most emerging economies and the overall halt to the growth in the number of people living in absolute poverty worldwide. Bangladesh, China, India and Vietnam are unlikely to have grown as fast as they have, these propositions will argue, had they remained closed to trade and foreign direct investment (FDI). Interpretations of the connection between openness and development often include a link between openness and good governance. Assuming that corruption and bad governance drive out international trade and investment more than domestic trade and investment, one would expect that open economies would devote more resources to building good institutions and would display lower levels of corruption. According to Shang-Jin Wei from the Center for International Development at Harvard University, the data shows that "naturally more open economies" (as determined by size and geography) do exhibit less corruption, even after taking into account their levels of development.

While economists and statisticians will agree that long-term sustained growth depends on innovation (R&D) and technological change, politicians and policy analysis may continue to view international aid in its traditional form as a primary means to an end related to international development. Anecdotal evidence from China, India and Vietnam, however, suggests that without trade openness and relatively free access to capital and goods markets, countries will likely experience stalled growth opportunities in the long run.

Development & the Private Sector

How might trade liberalization and the inclusion of the private sector in efforts to help poor countries develop be a source of sustainable growth? Mainly through openness and competition improvements that provide new sources of employment in export industries, channel people from non-trade to trade sectors and cause high firm turnover that ultimately raises productivity through specialization. Foreign direct investment (FDI), funneled into export industries in emerging market economies, can thereby be a channel for transferring skills, technology and capital.

In Latin America, Scotiabank provides an example of Canadian business expansion abroad as it lays a strong foundation for future growth while helping build much needed credible and sustainable financial markets in the region. Scotiabank has had offices in the Spanish-speaking Americas since opening its first branch there in 1906, and is adding to its network by making strategic acquisitions. While new investments have been generating modest returns, Scotiabank has generated positive externalities for the Latin American region by building financial market credibility and continuing to invest in upgrades to credit processes, technology and productivity methods with expectations of enviable earnings growth in the near future.

Imports also embody technologies and provide an opportunity for importing countries to raise productivity as long as they can provide the educational requirements necessary to capture the benefits of this externality. Education and labor market flexibility are thus crucial complements to trade liberalization and openness in ensuring the ability of emerging economies to capture the extended benefits of FDI.

While the benefits of an open economy are clear to most Canadians, the framework allows for the opportunity to transfer excess capital resulting from domestic savings towards viable and responsible investment opportunities abroad. These opportunities are those that include all the financial decision-making processes that are a part of a prudent investment management approach, but also the selection and management of investments based on issues of sustainability or social responsibility.

Development & Foreign Direct Investment

During his visit to Toronto, Mr. Wolfensohn emphasized the need to understand and promote the intrinsic link between finance and development. Until the 1970s, most financial capital flowed among developed economies. Subsequently, lending to developing country governments (mostly known as sovereign debt) was characteristic of capital flows worldwide until the early 1990s, when private flows to emerging market economies (EMEs) began to outweigh official flows. The world has witnessed numerous currency crises occurring as a result of over-lending and over-borrowing, resulting primarily from a lack of transparency that characterizes numerous financial transactions worldwide. However, the familiar problem of poor transparency in capital markets, and the resulting risk-ridden decision-making among investors, can be resolved with a greater inflow of private sector capital. This in turn can reduce the necessity for international organization lending, like through the International Monetary Fund (IMF), which tends to be characterized by preferential, often unrealistic, lending terms and repayment conditions.

Arguments suggest that capital market liberalization works best by directing scarce resources from savers (in reality from financial speculators) to where they are most needed (where there are investment opportunities) while the risk is borne and rewarded by the investor/saver him or herself. Foreign capital inflows may help offset economic cycles since domestic investors/savers can also diversify their own investments abroad

and savers and investors can continue to spend during economic downturns at home. In turn, the development of a financial sector in emerging economies is crucial in order to attract FDI and portfolio investment, which in turn can help finance domestic projects that can help guarantee better living standards in the future.

The largest Canadian affiliates abroad are located in the United States and, similarly, the largest foreign affiliates in Canada are from the United States. Interestingly, in financial services the United Kingdom is the most important host and home country for the largest affiliates. The United States and the United Kingdom are therefore Canada’s main investment partners, in terms of FDI stock, with France overtaking the United Kingdom in 2002 (inward stock), and Barbados ranking third (outward stock). Together, Canada's NAFTA partners -- the United States and Mexico -- account for a declining share of Canadian outward stock (about 48 per cent in 2002 – as seen below, down from about 61 per cent in 1990), as Canada's outward FDI is increasingly diversified across regions.

Figure 1. FDI flows, 1990-2002
(Billions of Canadian dollars)

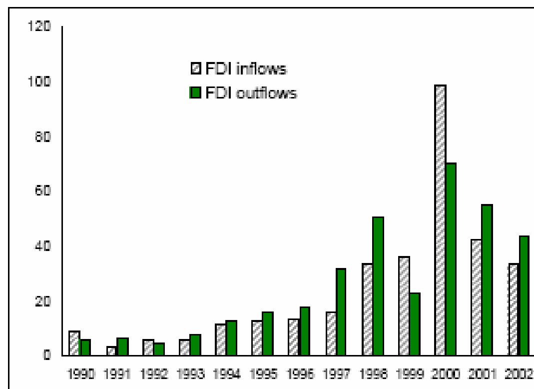
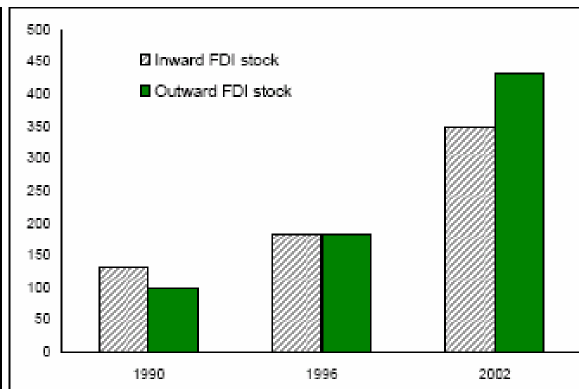


Figure 2. FDI stock, 1990, 1996 and 2002
(Billions of Canadian dollars)



The tertiary sector has increased in importance for outward flows (accounting for about 48 per cent of the total in 2001), while for inward flows, mining accounted for more than half of the total.

Development: Natural Resource Abundance & Trade

Canadian and international popular belief points to the Canadian comparative advantage in terms of its undeniable access to world markets and its cultural sensitivity for doing business with the world. On a more practical note, theory may encourage countries to foster a comparative advantage in their development path by producing products and offering services that make use of factors in intensive abundance. In its development of the natural resource sector and related export activity, Canada may appear to illustrate this theory well. The Canadian example can be paradoxical, however, in that it contradicts theories that support the development of natural resource exploration and trade primarily in developing countries.

Increasingly, multinational enterprises (MNEs) provide the vehicle for much of the industrial trade between countries. However, since few developing countries produce

MNEs, only a few have access and enter these industry trading networks. Many more countries are chosen as locations of production because of relatively lower costs of production, primarily vis-à-vis labour. Indeed, in the cases where MNEs acquire firms in developing countries these firms are often integrated into the networks of the parent and cut off from other domestic firms, making it more difficult for developing host countries to develop local networks, or perhaps disrupting local networks where they already exist. This limited access and home-bound orientation is the most-widely observed practice of the majority of Canadian firms, as well as of the natural resource sector.

While overall trade patterns between developed and developing countries show a prevalence towards the flow of finished or partially finished goods, attracting capital flows (especially FDI) remains the primary target of most developing nations. These countries are scaling up their efforts to attract and benefit from export-oriented FDI, and the intense competition for such investment is leading some of them to adopt a more targeted approach to FDI promotion, particularly in the framework of their own development objectives. The basis for successful targeting is a good understanding of a location's relative strengths or its comparative advantage and factor abundance relative to other countries. UNCTAD (United Nations Conference on Trade and Development)[1] emphasizes that any effort to promote export-oriented FDI needs to be well integrated into a country's overall development strategy

Banro Corporation provides an example of a Canadian-based gold exploration company that has gained a reputation in Canada through its four wholly-owned properties along a major gold belt in the Democratic Republic of the Congo (DRC). The Company has, to date, identified 2.01 million ounces of measured and indicated resources, plus inferred resources of 6.0 million ounces, and an exploration programme is currently underway to fully delineate and extend Banro's total resource base. DRC policy promotes the exploration of the country's abundant natural resource base and Banro illustrates the dynamic by which Canadian enterprise has the potential to play a significant role in development. An underlying challenge will be the capacity of the governments of emerging economies to develop governance mechanisms for their relationships with the private sector . Further, as long as the governments of developing countries like the DRC continue to focus primarily on developing export-oriented sectors only, capital flows and direct investments will tend to be mainly for the development of primary natural resources, or for the competitive advantage of multinational firms with financial operations in developed country networks.

[1] Established in 1964, UNCTAD promotes the development-friendly integration of developing countries into the world economy. UNCTAD has progressively evolved into an authoritative knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development.

Development: Natural Resources, the World Bank & Civil Society

Corporate operations face a new reality throughout the world. Social issues are increasingly affecting the future of their core business. Issues include how to demonstrate compliance with requirements to manage the social impacts of operations on communities; to reduce the risks to production posed by local disputes and tensions; and to improve the contribution operations make to local and regional development

Evidence is growing that these issues might be resolved through a collaborative effort between business and the wider society. The major oil, gas and mining corporations of the world increasingly operate in regions characterized by poor communities and fragile environments. More effective use of external relationships to ensure the visible contribution of these investments to poverty reduction and local environmental management is critical. Those companies that successfully develop their relationships to this end build a competitive and reputation advantage, both locally and globally.

Developing good external relationships with communities, non-governmental organizations (NGOs), public authorities and international aid agencies is not new. What is new is strengthening these relationships to the point where organizations drawn from across the three sectors of society – business, government, civil society - 'pool' their complementary resources, knowledge and skills to jointly address complex social problems. This is the concept of **tri-sector partnerships** introduced by the Natural Resources Cluster of Business Partners for Development (BPD): a voluntary collaboration to promote sustainable development based on an efficient allocation of complementary resources across business, civil society and government.

According to BPD, tri-sector partnerships offer something more than conventional public relations or stakeholder consultation. While these activities can improve a company's image, they do not necessarily lead to collaborative action. 'Pooling' resources signals a commitment to go beyond consultation and dialogue and do something practical, together.

Canadian Policy Input

Doing something practical together requires government policy aligned with the concept of collaboration and cooperation with the private sector and civil society. Relevant policy can help foster common international rules in trade and finance that promote trade openness and can lead to growth through integration and macroeconomic stability. Governments take collective action and harmonize policy through global and international institutions, including the IMF (vis-à-vis an international financial system), the WTO (vis-à-vis a world trading system) and regional integration and institutions.

Economists have tools at their disposal that allow them to measure efficiency but little that allows them to measure equitability. Decision-makers, mainly politicians and government agents, receive information mostly about efficiency but are mandated to

consider equity issues in order to make optimal decisions – recognizing issues of equity. The problem arises when trade agreements supporting globalization are justified by economic theory and rely primarily on corrupt or constrained decision-makers for wealth re-distribution.

The sustained balance of payments surplus in Canada presents a clear and ready-made opportunity by which to engage Canadian business in the process of heightening Canada's role in developing economies, while ensuring responsible and return-driven private sector decision-making. While policy should encourage long-term lending and foreign direct investment through the provision and maintenance of simple channels for capital flows, the maintenance of a stable currency and continued provision of preferential tax rules that encourage investment in emerging market economies are policy areas crucial to the involvement and growth of Canadian private investment in developing countries. Most Canadian investment abroad, and investment in Canada by foreign entities, involves the developed world (figures 3 and 4).

Figure 3. FDI inflows by region, 1990-2001
(Billions of Canadian dollars)

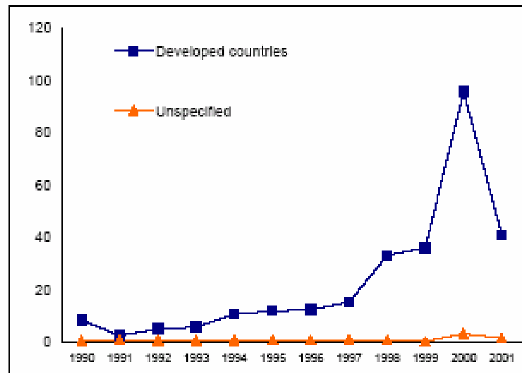
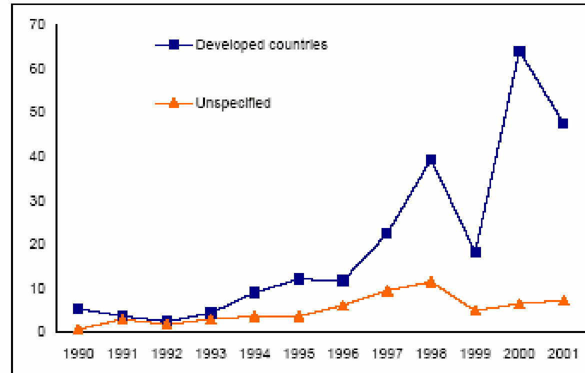


Figure 4. FDI outflows by region, 1990-2001
(Billions of Canadian dollars)



Canada's aid programmes need to incorporate the private sector in order to better address developmental issues abroad. This has been reinforced by the report of the UN Commission on the Private Sector and Development, co-chaired by Canadian Prime Minister Paul Martin and Former President of Mexico, Ernesto Zedillo, entitiled *Unleashing Entreprensurship: Making Business Work for the Poor*. While maintaining a focus on helping meet the most basic needs in these countries, policy could well formally incorporate private sector agents in the strive towards a recipient country's long-terms sustainability and growth. Supporting private sector development abroad is seen as crucial to this objective. The private sector is seen as driving economic growth and the improvement of living standards in developing countries. In this scenario, a dynamic private sector creates jobs and incomes, generates wealth and ensures resources are used efficiently.

While Canada and the World Bank share a strong belief that trade is critical to foster economic growth and development, government policy should continue to work towards stable and credible financial markets worldwide. Canadian businesses, as seen perhaps by the examples of Scotiabank and Banro, can play an important role in this regard. Indeed Canada has taken steps to help the world's least-developed countries to strengthen

economic growth through trade by eliminating tariffs and quotas on most of their exports to Canada, starting in 2003, and has provided funding for trade-related technical assistance and capacity building through the World Trade Organization's *Global Trust Fund*. However, while Canada has been a partner with the World Bank in working to eliminate unsustainable debt in the world's poorest and most debt-burdened countries, the government ought to pay close attention to the need for financial market development that arises immediately after debt burdens are alleviated or eliminated.

(It is interesting to note here that,, two weeks after hosting the President of the World Bank in Toronto, the United Nations Association in Canada hosted in Ottawa the Columbia University economist and current Director of the Millennium Project, Jeffrey Sachs, who publicly called for the poorest indebted countries to simply stop paying their foreign debts, as part of his advocacy for poverty reduction through debt alleviation.)

Conclusions

It is often the case that strategies of multinational companies are intrinsically linked to broader competitive and institutional contexts at the regional level and national levels. Further, it is clear that FDI-driven foreign enterprise presenting opportunities for scale and scope economies are considered abundant. In reality, however, the Canadian private sector seems barely to capture the benefits to a country whose very identity is built upon consensus seeking and notions of fair enterprise. As with the case of Banro, the majority of activity involving foreign direct investment and private sector enterprise beyond Canadian borders involves simple acquisition of existing firms and expatriation of earnings. On the other hand, the Scotiabank example provides an opportunity to recognize added value options that involve positive development-related externalities in a particular host country or region.

UNCTAD reports that growth in developing countries has been directly or indirectly linked to the expansion of MNEs operating in export-oriented sectors. Exports, it is argued, are not enough to foster development and must involve local value-added if investments are to yield long-term development gains. Foreign direct investment, and the subsequent establishment of credible and stable financial markets allowing the flow of capital from rich saving countries to emerging economies appears to be the better option. To pick up on Wolfensohn's assertion, government action at the domestic and international levels can help emphasize the importance of financial market stability in the developing world.

Greater cooperation between private sector enterprise and government aid programmes are a clear means by which to ensure the convergence of traditional assistance with long-term gradual economic and social prosperity. Political stability often breeds in the backyard of economic prosperity and thus creates a clear path towards better living conditions through trade and economic relations between developed and developing nations.

A tri-sector partnership approach builds on the idea that each sector in society has core competencies and resources that are complementary to one another. In the context of managing social issues, these include:

- **government authorities** – strategic coordination through local Development Plans; new decentralized powers; budgets for public services; a role as broker or capacity builder;

- **natural resource companies (including those in the fields of oil, gas and mining)** – employment provision, procurement/supply chain management; local infrastructure; capital equipment, technical skills, logistics management; a performance-led work ethic, best international practices, capacity for advocacy;

- **civil society organizations** - local knowledge, capacity to mobilize community participation, tools and methods to ensure relevance to local needs, and independent monitoring.

Bringing these unique yet complementary resources together into a tri-sector partnership can lead to the following business benefits:

- new robust channels of communication which increase the opportunities to prevent local disputes and manage social risk;
- a more durable local 'social license to operate' (e.g. long-term access to site); and
- a new management tool to help close the gap between the social compliance requirements of regulators, investors and Corporate HQs, and the social performance of operations on the ground.

It is important to note that referring to any type of cooperation as a partnership suggests a relationship between state and non-state parties that may be inaccurate in terms of legitimacy and status. The term, Wolfensohn explained, undermines both the special political status of governmental institutions under international law and their (democratic) legitimacy. With deep political implications, 'partnerships' may implicitly downgrade the role of governments and intergovernmental organizations and upgrade the (political) status of private actors, in particular that of the MNEs involved in cooperation models. This conflict of rhetoric highlights the important point in any discussion about private sector and government entities: they are complementary but intrinsically different at all levels. As a result, greater Canadian private sector involvement in development requires first and foremost the embrace and active participation of business leaders in what can be perceived as a genuine win-win opportunity to capture better returns for all.

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