

**Roundtables on the Government's Corporate Social Responsibility Strategy
for the Canadian International Extractive Sector
July 29-30, 2009**

Issues Paper

Natural Resources and Developing Countries

Natural resources are critical to developing countries. A number of developing countries depend heavily on natural resources for export earnings. Four of Canada's countries of focus¹ - Mozambique, Peru, Bolivia, and Tanzania - rely on exports from the mining sector for at least 10 per cent of their total export earnings. Investment in the extractive sector in developing countries represents a significant share of total inward flows of foreign direct investment.

Despite gaps in data related to the importance of the extractive sector for Government revenue across a range of developing countries, the importance of the sector is very clear. For instance, in Peru, in 2006, annual income tax revenue from mining companies was 43 per cent of total Government revenue.

Because of the scale of extractive-sector projects, if developing countries are to develop their natural resources sector, foreign direct investment by multi-national enterprises is in most cases a pre-condition. Investments in the extractive sector are usually so large that the capital-mobilizing capacity of international companies is essential. In some cases, for example readily accessible oil deposits, the technology is not new and in those cases state-owned enterprises are often responsible for development and operation of the resource. However, in cases where the technology is more advanced, for instance when deep-water deposits of oil and gas are discovered, advanced technology and experienced managerial capacity are required, and they are typically found in international companies.

The extractive sector is inherently risky, for all parties. Firms have to make large investments in a sector, which is characterized by unstable prices and where the costs of an investment are recouped only after a number of years of operation. They have to operate in environments where national and local Governments have only limited capacity in terms of regulation and enforcement of environmental and labour standards.

The resource sector is subject to significant variability in prices and, consequently, export and budgetary revenues. Revenues from natural resources have been used to fuel conflict. Investment required to make development of natural resources possible is inflexible - both in terms of location and in the nature of other physical and human capital.

¹ The countries of focus are Afghanistan, Bangladesh, Bolivia, the Caribbean Region, Colombia, Ethiopia, Ghana, Haiti, Honduras, Indonesia, Mali, Mozambique, Pakistan, Peru, Senegal, Sudan, Tanzania, Ukraine, Vietnam, and West Bank/Gaza

How to enable developing countries to derive greater benefits from their natural resources

A framework for thinking about how natural resources issues should be addressed has been proposed by the United Nations Economic Commission for Africa (ECA). Although the framework has been prepared in light of the experience of African countries with mining, it can be applied to all parts of the extractive sector in a wide variety of developing countries.

Under the ECA Framework, strategies to address the creation, investment, distributional, governance and macroeconomic challenges of natural resources management, and to "mainstream" natural resources wealth into growth and poverty reduction in developing countries should include:

- Creating a stable and predictable policy, legal and regulatory framework and a competitive fiscal regime with a view to attracting and retaining the required level of investment in the sector, creating wealth, and promoting employment.
- Achieving better natural resources revenue allocation and redistributing the benefits of mineral wealth through improvements in the governance and management of revenue flows deriving from natural resources, and through decentralization of decision-making and resource allocation.
- Enhancing governance systems, organizational and institutional capacity in sectoral ministries, in the ministries of finance and planning, and in local Governments.
- Forging partnerships between public, private (mainly mining companies) and local stakeholders to improve community livelihoods and to maximize other socio-economic and development outcomes.
- Empowering communities in regions dependent on the extractive sector to be able to make informed decisions and to better participate in their own development.
- Encouraging extractive-sector companies to behave in a more socially and corporately responsible manner with a view to improving the social relevance of the extractive sector.

The Government's Corporate Social Responsibility Strategy and CIDA's role in it

The Government's Corporate Social Responsibility (CSR) Strategy is designed to address the role of firms in the broader context of the challenges set out above. It has four elements:

- promotion of voluntary international CSR performance guidelines for Canadian extractive-sector firms operating internationally

- a CSR Centre of Excellence
- creation of the Office of the Extractive Sector CSR Counsellor
- initiatives to enhance the capacities of developing countries to manage their natural resources in an efficient and responsible manner

Although CIDA will contribute to work in all four areas of the Strategy, most of CIDA's attention will be given to the fourth element. The Department of Foreign Affairs and International Trade and Natural Resources Canada are leading on the other three elements of the Strategy.

CIDA has experience in natural-resources management, most notably in the Americas. In Peru, for example, CIDA has worked extensively with the Government, mining companies and affected communities to develop and promote regulatory requirements for social and environmental management. CIDA's support has included the provision of tools and expertise in the mining and hydrocarbon sectors, and support for social, environmental and multi-stakeholder dialogue, community participation and conflict resolution.

CIDA has assisted Bolivia in establishing a tax collection unit that administers hydrocarbon taxes generating over US \$1 billion in annual revenues; most of these monies are subsequently re-invested in public services.

In addition, CIDA is developing an Andean Regional Initiative which will strengthen regional and local Governments and community capacity to plan, develop and implement sustainable development projects for the well-being of the communities, and will enhance communities' capacity for engagement with extractive sector firms.

Linked to the Government's overall Strategy, CIDA is establishing an internal focal point with expertise in extractive sector development issues. CIDA will continue to provide support to developing countries to enhance their capacity to manage their extractive sectors. It will work in collaboration with like-minded donors to advance more responsible and sustainable approaches to extractive sector development in the developing world. This will allow CIDA to more effectively identify and support strategically-targeted initiatives that enhance the capacities of developing countries.

Moving Forward

The CSR Roundtables are the first step in the process of identifying strategically-targeted initiatives to enhance the capacities of developing countries. This will be set in the context of the thematic priority of Economic Growth, one of three priorities recently approved by the Government for CIDA's programming, along with Children and Youth and Food Security. Researchers, advocates and practitioners in the voluntary sector, and private-sector firms operating in developing countries all have knowledge and experience which they can share. It is also hoped that the exchange of ideas in the Roundtables will permit participants to identify new initiatives which they themselves might take.

Issues for Discussion

1. What are your perspectives on the Government's CSR strategy?
2. How do you envision the private sector, CIDA and NGOs working together in implementing the Government's strategy and achieving good development results in a country?
3. What recommendations do you have for CIDA?

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