Research to Practice Policy Briefs

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The Development Impact of Extractive Industries: Policy Options for CIDA

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**Executive Summary**

Canada is home to 75 percent of the world’s mining and exploration companies. Local populations in mining areas tend to benefit little from the vast resources generated by the extractive sector. Instead, they often suffer from persistent poverty, human rights abuses, increases in violence, and environmental degradation. The companies that manage the extraction process are often deeply complicit in human rights abuses and political repression. Canadian companies are no exception in this respect. In addition, many countries that are particularly vulnerable to the resource curse are those where Canadian mining companies play a significant role. Canada therefore has an interest in this issue from both a commercial and development policy perspective. Its current policy response hinges on public-private development partnerships with mining companies and a system of purely voluntary frameworks to guide corporate conduct.

The briefing argues for a change in this approach because it suffers from a central flaw: While companies make only voluntary and non-binding commitments, government resources directly benefit their commercial operations. In the absence of binding oversight mechanisms, this is likely to entrench a status quo that is harmful to local populations and encourage risk-taking by mining companies. The opportunity cost of allocating public resources away from other sectors therefore cannot be justified. Instead, investments in industry monitoring, regulation and advocacy are more likely to yield positive results.

The briefing makes two sets of specific recommendations. The first aims at enhancing local development. CIDA has a significant contribution to make in advocating for companies to expand positive socio-economic linkages of the mining process itself. Companies could achieve rapid improvements through relatively straightforward interventions, including labour-intensive infrastructure construction methods and investments in environmental protection. Similarly, CIDA should also ensure that its know-how on community driven development helps enhance the quality and sustainability of existing partnership projects. The second set of recommendations relates to enhanced oversight in order to improve company conduct. CIDA should invest in expanding its capacity for monitoring corporate conduct. Based on the data generated, it should enhance advocacy for the development of legally binding regulations.

The briefing is structured as follows: First, it outlines the main challenges for Canadian policy with respect to extractive industry activities abroad. Second, it sketches the main tenants of the recent Government proposals to address these challenges. Third, it analyses the key weaknesses and potential pitfalls of the proposed policy. Fourth, it explores a number of alternative approaches to extractive industry regulation.
Summary Policy Brief

Policy Goal

To enhance CIDA’s support for local development where Canadian mining companies operate.

Significance

Local populations in mining areas tend to benefit little from the vast resources generated by the extractive sector. Instead, they often suffer from persistent poverty, human rights abuses, increases in violence, and environmental degradation. The companies that manage the extraction process are often deeply complicit in human rights abuses and political repression. Canadian companies are no exception in this respect.

Canada’s Interest in the Issue

Canada is home to 75 percent of the world’s mining and exploration companies. In addition, many countries that are particularly vulnerable to the resource curse are those where Canadian mining companies play a significant role. Canada therefore has an interest in this issue from both a commercial and development policy perspective. The current policy response focuses on public-private development partnerships with mining companies and a system of purely voluntary frameworks to guide corporate conduct.

Policy Recommendations

The briefing argues for a change in CIDA’s approach to the extractive industry sector. The present approach of forging private-public development partnerships is unlikely to improve development outcomes in production areas. It suffers from a central flaw: While companies make only voluntary and non-binding commitments, government resources directly benefit their commercial operations. In the absence of binding oversight mechanisms, this is likely to entrench a status quo that is harmful to local populations and encourage risk-taking by mining companies. The opportunity cost of allocating public resources away from other sectors therefore cannot be justified. Instead, investments in industry monitoring, regulation and advocacy are more likely to yield positive results.

Against this background, the briefing makes two sets of specific recommendations. The first aims at enhancing local development. CIDA has a significant contribution to make in advocating for companies to expand the positive socio-economic linkages of the mining process itself. Companies could achieve rapid improvements through relatively straightforward interventions, including labour-intensive infrastructure construction methods and investments in environmental protection. Similarly, CIDA should also ensure that its know-how on community driven development helps enhance the quality and sustainability of existing partnership projects. The second set of recommendations relates to enhanced oversight in order to improve company conduct. CIDA should invest in expanding its capacity for monitoring corporate conduct. Based on the data generated, it should enhance advocacy for the development of legally binding frameworks of industry regulation.
Introduction

Canada is home to more than 75 per cent of the world’s exploration and mining companies. This raises a number of concerns for development policy. Local populations in mining areas in particular tend to benefit little from the vast resources generated by the extractive sector. Instead, they often suffer from human rights abuses, increases in violence and environmental degradation. In many cases, the companies that manage the extraction process are deeply complicit in human rights abuses and political repression. Canadian companies are no exception in this respect. For Canada, private-public development partnerships are becoming the main response to this challenge. This has seen the Canadian International Development Agency (CIDA) co-finance community development projects with mining companies around the world. In terms of industry regulation, the government has relied on a system of purely voluntary frameworks to guide corporate conduct.

This briefing paper provides a critical perspective on this approach. Its central argument is that development partnerships are unlikely to improve the impact of resource extraction in developing countries. The main reason for this is that Canadian aid resources are allocated alongside extraction projects without asking companies for binding commitments in return. The policies therefore reflect attempts at supporting Canadian industry in foreign markets rather than furthering international development objectives. Given the record profitability enjoyed by extractive industries in recent years and the overall shrinking aid budget, the opportunity costs of this approach cannot be justified. Instead, investments in industry monitoring, regulation and advocacy are more likely to yield positive results. The brief is structured as follows: First, it outlines the main challenges for Canadian policy with respect to extractive industry activities abroad. Second, it sketches the main tenants of the recent Government proposals to address these challenges. Third, it analyses the key weaknesses and potential pitfalls of the proposed policy. Fourth, it explores a number of alternative approaches to extractive industry regulation.

Policy Challenges

The challenges associated with extractive industries in developing countries are legion. There is a large and ever-growing strand of research that focuses on the socio-economic effects of resource extraction. A smaller and less prominent strand focuses on the conduct of extractive industry companies in production countries. This section considers both in turn.

Socio-Economic Development

At the national level, the most prominent explanation for development failures can be found in the “resource curse” literature. Its central claim is that large natural resource rents have adverse socio-economic effects in states with weak formal institutions. Broadly speaking, the literature converges on three explanatory points. First, large and sudden inflows of foreign capital can crowd out other economic activity and hurt overall economic development. This phenomenon is often referred to as “Dutch Disease” (Rosser 2006). Second, resource revenues tend to be associated with the emergence of rentier states, which are defined by their economic dependence on natural resource-revenues and the fact that most of those revenues accrue to the central government. The fiscal independence from taxation enjoyed by central governments removes
grounds for domestic political contestation and bargaining. State elites need to pay no attention to preserving the tax base and in turn are insulated from demands for representation and voice from tax payers. Public policy making, therefore, tends to revolve around the allocation of economic rents as opposed to the economically optimal allocation of state resources (Beblawi 1990; Brautigam 2008; Karl 1997). Third, broadly speaking, natural resource rents tend to increase the likelihood of violent conflict. Most explanations focus on the financial opportunities and motives for armed rebellion created by natural resource endowments, as well as the secondary effects of economic deterioration brought about by rent-seeking (Collier et al. 2003; Fearon and Laitin 2003; Ross 2006).

One central insight of the resource curse literature is the importance of state institutions. In resource-dependent developing countries, these often suffer from weak capacity. For example, the main example of success in overcoming Dutch Disease is Norway. It restricts domestic expenditure and its sovereign wealth fund invests oil rents abroad, avoiding distortions in its small domestic economy. This approach, however, requires sophistication in policy development and the ability to implement policy against a range of societal interests claiming a share of natural resource wealth. Other oil-dependent countries, such as Angola, Nigeria and Equatorial-Guinea, however, have had less success in overcoming various symptoms of the resource curse. While their aggregate economic growth rates have often been substantial, other socio-economic and human development indicators have been lacking. In addition to economic management, political institutions are also required to manage conflict arising from disagreements over revenue allocation in a peaceful and legitimate manner, reflecting some degree of social consensus. This is rarely the case in African resource economies in particular, where politics is often dominated by a narrow set of elites with few opportunities for meaningful political participation. Finally, many resource-dependent counties are also significant recipients of foreign aid, often exacerbating some of the adverse effects of rapid rent inflows (Haglund 2011, 21).

In addition to this macro-level perspective, resource extraction also has a profound impact on communities in production areas. There are three key areas to consider at this level. First, resource extraction causes extensive pollution. In the case of mining operations, for example, open-pit mining causes massive volumes of toxic waste, including acidic drainage from the mines and toxic metals in the mine waste excavated from the sites. Given is specific properties, this waste remains toxic and a potent threat to human health and the local ecology unless professionally treated. In particular, such treatment includes effective containment of sites from the surrounding environment, which requires the construction of large and expensive infrastructure installations. Those installations need to be maintained carefully in order to prevent large-scale breakdowns and everyday seepage (Coumans 2012, 4). As such, mining and ore processing represents one of the most pressing global pollution problem. Approximately 1.2 million people, particularly in Africa, are exposed to serious health risks by lead contamination from mining (Blacksmith Institute and Green Cross Switzerland 2011, 44).

Second, resource development projects cause local level economic and social dislocations. In addition to the direct health effects on human populations, pollution also has a direct bearing on poverty by destroying local livelihoods. Specifically, toxic waste can affect fresh water supplies and thereby make both fishing and farming impossible or significantly reduce yields. One prominent example of this danger is the Ogoni region of Nigeria’s oil producing Niger Delta,
where decades of oil leaks and gas flaring have poisoned farmland and severely diminished fish stocks (UNEP 2011). In addition, the rapid inflow of capital and outside labor (frequently better paid than local people) causes severe economic dislocations, such as increasing prices for food staples, other basic products and housing. Finally, the public health challenges associated with large scale labour flows are often inadequately attended to.

Third, mining often results in severe repression and local conflict. Given the socioeconomic dislocations experienced locally, communities frequently voice their opposition to projects. Those protests are often repressed violently by the state and the companies, eager to protect the revenues flowing from a particular site. This tends to result in a climate of significant local repression, regardless of the political regime in place at the national level. Nigeria is again a case in point in this respect. Repression in oil producing areas has consistently been severe, despite repeated successions to democratic governance nationally. In addition to this type of repression, specific sections of local communities are often pitted against each other in competition for scarce resources available locally. Such resources can include employment at extraction sites or the community outreach projects implemented by extraction companies themselves, the modalities of which are often deeply problematic and geared towards co-opting particular local constituencies (Mattner 2012).

In the absence of inclusive local governance institutions, the avenues of participation for local residents in mining related decision making are severely constrained. Given the profound effect of mining on local communities, local residents confront a difficult set of considerations when faced with the prospect of resource extraction projects. On the one hand, most are fully aware of the many serious risks created by such projects. On the other hand, poor communities are often desperate to find ways to increase the financial resources available to them. Many local residents hope that the trickle-down of resource revenues will be sufficient to compensate for the expected pollution and socio-economic dislocations. In most cases, however, the decision of whether a project is going ahead and how revenues will be allocated is imposed on local communities by the state and mining companies. While community participation processes have become a standard feature of extraction projects, they tend to focus on narrow and specific issues of project implementation modalities once a project has already been set in motion (Campbell 2012). This disempowerment of local constituents often leads to significant disaffection as local problems remain unaddressed.

**Company Conduct**

While the various manifestations of the so-called resource curse have received significant attention in policy and academic circles, the same cannot be said of the conduct of mining and resource companies themselves. Broadly speaking, this oversight coincides with the rise of interest in “governance” and corruption in development thinking, mirroring a shift to the domestic sources of underdevelopment (Shaxson 2007, 1124). This is despite the clear recognition that global companies have come to play an integral part in the domestic political economy of resource-dependent societies, and have often adapted their business models explicitly to protect their operations from political instability and local conflict. In many cases, this has had devastating effects on local societies. The paradigmatic example for this type of local engagement is the destructive role played by Royal Dutch-Shell in Nigeria, where the
company has been deeply implicated in political repression and severe human rights violations over the years (Frynas 2001). Canadian companies form no exception in this respect. According to a recent survey, Canadian mining companies were responsible for one third of the 171 high-profile incidents of alleged corporate abuse in the sector (Canadian Centre for the Study of Resource Conflict 2006). One high profile example in this respect are the abuses committed on behalf of the Canadian company Barrick Gold in Papua New Guinea by private security contractors, which included gang rapes and other forms of violence against the local population in mining areas (Human Rights Watch 2011).

One key challenge in this area is the lack of binding global frameworks of regulation. According to the UN Special Representative on Business and Human Rights, John Ruggie, this “governance gap” creates a permissive environment for companies because there is no effective system of sanctioning and redress:

The root cause of the business and human rights predicament today lies in the governance gaps created by globalization-between the scope and impact of economic forces and actors, and the capacity of societies to manage their adverse consequences. These governance gaps provide the permissive environment for wrongful acts by companies of all kinds without adequate sanctioning or reparation. How to narrow and ultimately bridge the gaps in relation to human rights is our fundamental challenge (Ruggie 2008, 3).

While Ruggie refers to all corporate activity, not focussing on extractive industries in particular, this challenge is particularly stark in the case of natural resource extraction, given the industry’s capital intensity and the potentially large financial rewards associated with successful projects.

This governance gap remains unaddressed. Instead, policy responses have remained voluntary and non-binding, ignoring the “sanctioning and reparation” issues identified by Ruggie. Instead, there now exists a large number of international voluntary codes of conduct, including the UN Global Compact, the Voluntary Principles on Security and Human Rights and the OECD Guidelines for Multinational Enterprises. In addition, individual companies have focussed on the concept of corporate social responsibility, ostensibly seeking to adjust their operational procedures in line with good practice relevant to the various manifestations of the resource curse. For example, there now exists a large volume of “best practice” guidelines intended to facilitate continuation of extraction and exploration activities, and to “do no harm” in terms of violence and conflict (Banfield, Haufler, and Lilly 2005; IPIECA 2008).

Given their voluntary nature, the implementation and local effect of these initiatives are difficult to verify and often contested. At the level of policy commitments, for example, natural resource companies are statistically more likely to commit to the UN Global Compact than other types of companies. This could potentially be attributed to the industry’s capital intensity and the significant sunk costs involved. They restrict exit in the face of conflict and political instability, and creates an incentive for companies to work towards improvements in the governance of states in which they operate (Bennie, Bernhagen, and Mitchell 2007). Other observers, however, have made different empirical observations at the local level. In many cases, corporate social responsibility policies do not result in sustained development benefits for communities in
production areas. Instead, approaches are primarily aimed at ensuring oil production can proceed without being disrupted by local communities (Frynas 2005; Mattner 2012). Broadly speaking, the literature recognises the difficulty involved in corporate self-regulation in the face of weak state regulation frameworks (Graham and Woods 2006).

**Current Canadian Responses**

The Canadian response to the issues outlined above is anchored in the Corporate Social Responsibility Strategy for the Canadian International Extractive Sector (Government of Canada 2009). In practical terms, the recent implementation of this strategy has revolved around two related components. The first aims to improve development outcomes by reorienting development aid funding towards private-public development partnerships with mining companies. The second seeks to improve company conduct. It relies on voluntary commitments on the part of mining companies instead of a more robust approach to industry regulation. The following section sketches these two components in turn.

**Public-Private Development Partnerships**

In recent years, the Canadian government has increasingly emphasised partnership collaboration with Canadian mining companies. In late 2011, CIDA announced a set of new project activities ostensibly designed to increase the development impact of extractive industry operations, representing a total financial commitment of $26.7 million. By and large, the envisaged activities were in the areas of skills training and livelihoods. Specifically, CIDA proposed four initiatives in mining countries:

- **Burkina Faso:** The project provides girls and boys aged 13-18 from 13 communities with training in job skills relevant in the mining sector-related labour market. It is implemented by Plan Canada. The total budget is $7.6 million over 5.5 years (CIDA $5.7 million, IAMGOLD $1 million, Plan Canada $900,000).

- **Ghana:** The project provides 400 young people with skills training. It also aims to strengthen local government capacity in the education and water sectors, affecting 134,000 residents. Co-funding is provided by Rio Tinto Alcan. The project is implemented by World University Service of Canada. The total budget is $928,000 over 3 years (CIDA $500,000, Rio Tinto Alcan $428,000).

- **Peru:** The project provides funding for small agricultural income-generating projects to 1,000 families. It is implemented by World Vision Canada. The total budget is $1 million over 3.5 years (CIDA $500,000, Barrick Gold $500,000).

- **Colombia, Peru and Bolivia (Andean Regional Initiative for Promoting Effective Corporate Social Responsibility):** The project aims to strengthen local government and community capacity to implement development projects near extraction sites. It also aims to improve dialogue between communities and the private sector. The total budget is $20 million, borne exclusively by CIDA (CIDA 2011).

**Corporate Social Responsibility**

With respect to company conduct, Canada has focussed on developing voluntary standards and
guidelines in partnership with the private sector. As envisaged in the Corporate Social Responsibility Strategy, for example, an Office of the Extractive Sector Corporate Social Responsibility Counsellor has been established. The Government has also been party to a number of initiatives intended to discuss issues of corporate social responsibility with the private sector. In this context, CIDA and, to a more limited degree, other government departments are charged with monitoring the conduct of Canadian companies abroad, facilitating and encouraging adherence with applicable voluntary standards.

In late 2011, the Government announced the creation of a Canadian International Institute for Extractive Industries and Development. The Institute will be housed at a Canadian university and will “[...] undertake policy research to identify best practices in extractive sector management for individual countries, and arrange technical assistance for governments and communities in developing countries [...].” Like CIDA’s proposed projects, the Institute will facilitate partnership between the Federal government, mining companies and non-governmental organisations. While the announcement implied that the Government would fund this endeavour, it provided no details on fiscal commitments.

By contrast, the Government has no plans to strengthen the legal frameworks governing the conduct of Canadian companies abroad. Parliament rejected private member Bill C-300 (An Act Respecting Corporate Accountability for the Activities of Mining, Oil or Gas Corporations in Developing Countries) in 2010, which would have set binding standards on corporate conduct and would have ensured compliance monitoring by Government agencies (Coumans 2010; Parliament of Canada 2009).

Policy Analysis

The following section analyses the effect of current policy on local development in mining areas. This focus on the local level corresponds with the thrust of Canadian policy as outlined above. The section first considers the potential contribution to community development and then turns to the conduct of Canadian companies.

Development Effectiveness

The activities proposed under the partnership policy are unlikely to make a sustainable contribution to community development and to help local communities overcome the challenges created by mining. First, the proposed projects represent only narrowly-circumscribed, small-scale initiatives targeted at limited numbers of beneficiaries. This pales in comparison with both the socio-economic distortions and the large revenues created locally in the course of the production process. By contrast, no efforts appear to have been made to enhance the development effect of companies’ daily production activity. One crucial challenge of mining operation is the lack of economic linkages between the sites and the surrounding communities. This is left entirely unaddressed by the partnership approach even though this is where development agencies are most likely to have the most to contribute. For example, much could be achieved by finding ways to train and recruit local labour for service industries that do business with production sites. Similarly, working with local farmers to develop ways for sustainable food production for the needs of mining labour could yield significant results. Efforts
could also be made to train and employ local people in safe environmental clean-up activities (see recommendations below). This approach of providing technical assistance and incentives to redesigning the production process itself is more likely to yield returns than the relatively disconnected projects currently envisaged.

Second, it is unclear whether the proposed projects respond to the needs of local communities. Specifically, there are question marks about the extent to which communities were involved in the choice of project activities and whether those activities have the backing of the local people (Coumans 2012, 7). It is equally unclear what respective role will be played by the different project partners in deciding implementation modalities. However, employing participatory methods in the early stages of project conception and involving communities in implementation is the key to creating high-impact, sustainable programs. Given the significant resources at the disposal of companies in what is otherwise a scarce fiscal environment, it is not unreasonable to assume that the focus may be on the agenda set by company managers on the ground.

CIDA’s operating experience in Peru leaves little room for optimism in this regard. By and large, it appears that activities were designed primarily to facilitate extraction projects. For example, senior Peruvian officials have reportedly expressed in private that they have come to perceive Canadian government officials as representatives of Canadian mining companies intent on furthering corporate interests, rather than work towards development or corporate social responsibility objectives (Bebbington 2012). In addition, a detailed field research report on CIDA’s partnership with Barrick Gold at the Lagunas Norte mine in Peru describes the genesis of the project as follows:

This project seems to fulfil the basic social needs the company is looking to address, as well as the Canadian embassy’s interest to work in CSR, rather than the needs of the local population. The project was implemented in a very top-down way, based on the mine’s desire to re-grow the forests, and CIDA’s need to work in CSR and promote the good initiatives of Canadian mines. Consultation with local actors is non-existent and the project is led exclusively by external actors (cited in Coumans 2012, 7).

More broadly, CIDA’s partnership activities have already generated considerable local controversy in Peru. In a letter to Canada’s International Development Minister dated 10 February 2012, indigenous leaders asked CIDA not to pursue its proposed projects with Barrick Gold on account of past conflict with the company over its record of community relations in mining areas. Instead, they called for finding ways to address mining-related issues in a more comprehensive manner that would go beyond small, narrowly-circumscribed community projects (Arnold 2012).

**Company Conduct**

CIDA’s partnership approach provides little incentive for companies to improve the development impact of extractive industries and their overall conduct in production areas. As such, the proposed public-private partnerships suffer from a central flaw: While companies make only voluntary and non-binding commitments, government partnerships directly benefit their
commercial operations. In the absence of binding oversight mechanisms, this may end up further entrenching a status quo that is harmful to local populations and encourage risk-taking on the part of the companies in the following two ways.

First, the positive publicity created by development partnerships helps companies gloss over environmental pollution and conflicts over revenue allocation in production areas. This deflects public attention away from the way in which daily operations of specific projects are managed, and towards the purportedly charitable activities of the companies involved. While this may not necessarily mean that specific instances of misconduct are hidden, it certainly does help move public debate away from issues that are unfavourable for the companies. This is a common strategy adopted by oil companies around the world. In the oil fields of the Niger Delta, for example, western oil companies have gone to great length to publicize increases in their spending on local development projects. At the same time, however, rampant pollution continues unabatedly and funds earmarked for development activities often end up in the pockets of long-established oil-company cronies. Given the apparent lack of popular participation in the design of the pilot projects, there is no guarantee this might not also happen in the context of CIDA-funded activities.

Second, operating in partnership with CIDA implies an ethical stamp of approval for particular projects. This can encourage risk taking on the part of companies. In the event that local conditions deteriorate or a particular project generates unfavourable news for the company, this can represent an invaluable hedge against reputational risks. In essence, the companies can claim that they did their best to minimize harm and maximize the development impact of the project by partnering with CIDA. The World Bank’s experience in Chad offers some insights in this respect. In supporting the development of the country’s oil fields, its role was initially to mitigate social risk by designing and overseeing an elaborate system of oil-revenue management. Ultimately, however, the World Bank was unable to oversee the application of these mechanisms, and the government began to use oil revenues to finance civil war and repression. Oil companies can claim, however, that they did their best to avoid this outcome – and therefore continue to operate in Chad regardless of the now widely documented adverse effect of oil production on local populations. Once entrenched locally, companies have no incentive to improve their local production processes in a way that may benefit local communities (Mattner 2011).

In this context, CIDA and the NGO project partners are left with few avenues to influence company conduct. For one, neither command the requisite institutional capacity to monitor the conduct of their corporate partners in production areas. Furthermore, threatened with budget cuts itself, CIDA is unlikely to challenge project implementation and suspend the disbursement of pre-committed funds in the event of company misconduct. The development NGOs involved in project implementation suffer from similar constraints and are even more dependent on the funding generated in the course of project implementation. They may be forced to take a back seat by this imbalance in financial power and their own dependence on funding from the companies. This creates a real risk of both CIDA and NGO co-optation into company-led production approaches.

**Recommendations**
This final section proposes a set of general recommendations as an alternative to the current Canadian policy framework. The main thrust of these recommendations is to focus on enhancing the local socio-economic linkages of the production process itself while monitoring company compliance with relevant international standards. While some of the recommendations would require additional financial commitments, the overall approach would be considerably more cost effective than the present policy of co-financing community projects with companies.

**Get Companies to Do Better**

**Focus on improving the production process.** This is the central recommendation and conclusion of this policy brief. Because of the large footprint of mining operations in host communities, the potentially largest opportunity for positive change lies not in development projects but in changes to the way in which companies organise production. Rapid improvements can be achieved through relatively straightforward interventions. There are many tools available to effect positive change in local communities, as well as myriad relevant performance standards and operational guidelines that mining companies could follow. In particular, guidance is available in the area of environmental impact mitigation and community driven development. From this perspective, what is missing is the will to act on those insights and to enter into binding agreements that enforce compliance with those standards. As a development agency, CIDA is well placed to channel this know-how to companies and at the same time to advocate for enhancements by drawing attention to the existing tools.

First, investments in environmental protection would improve human health and agricultural livelihoods by reducing pollution. This would also prevent conflict, because local people would no longer be forced to compete for company resources as the only means to ensure survival. The technological prerequisites generally exist, but sometimes require considerable expenditure. Companies often shy away from this financial commitment, particularly in countries where regulatory frameworks are weak (Tamuno 2010, 1). Second, companies should focus less on community development projects and more on creating employment, especially through infrastructure construction. The infrastructure projects that accompany mining operations are typically managed by company contractors using minimal local labour. Instead, contractors could be required to use the labour-intensive construction methodologies that are standard practice for aid agencies working in post-disaster reconstruction efforts. Similarly, efforts could be made to enhance training opportunities for local communities to help them access the many low to medium-skill employment opportunities created on the margins of mining operations, particularly in the service sector.

**Ensure the quality and sustainability of the proposed partnership projects.** With respect to the existing projects, the key challenge is to ensure adequate community participation in the planning and implementation phases. Care also needs to be taken that daily project management responds to the development needs of local communities rather than the operational interests of mining companies. Participatory appraisals in particular would be useful in identifying specific community preferences, even if the broad contours of the partnership programs have already been determined. Similarly, community representatives should be enabled to take the lead in project steering committees at the local level. While such community driven approaches are by no means a panacea to the broad challenges created by resource extraction, they presently
represent the best available approaches to enhancing the effectiveness of projects. Operational guidance is widely available and CIDA is well placed to feed knowledge from its own community development portfolio into the partnership projects. In addition, senior management should encourage project staff to advocate on behalf of local communities if the need arises. Finally, but crucially, CIDA should ensure that projects are evaluated rigorously at the end of each implementation cycle, and that evaluation results are openly available. This is often not the case with corporate community projects in the extractive sector. Specific undertakings to this effect should be included in all project agreements, including detailed dissemination plans and agreements on public access to evaluation results.

**Shift project funding responsibility for partnership projects to companies.** Reliable funding is a crucial element of project sustainability. Companies have strong incentives to make investments in community projects even in the absence of public partners. Good relations with local communities can help prevent local violence, which often slows the progress of extractive projects. For this reason, there is no need for public funds to supplement company resources. If any, the role of agencies like CIDA should be to contribute project and program specific operational knowledge, and to provide quality assurance and oversight. CIDA should therefore negotiate with companies to reduce its own fiscal commitments to the projects. Funds could then be reinvested in the activities detailed below. If this is not possible because binding partnership commitments have already been made, CIDA should advocate for commitments on the part of companies to ensure that community projects are placed on a firm, predictable long-term footing.

**Strengthen Oversight**

**Strengthen oversight of Canadian companies operating abroad.** Only governments have sufficiently large financial resources to compel real change in an industry that has benefitted from record profits in recent years. Development NGOs in particular are unlikely to possess the ability to engage in critical dialogue while also receiving funding from mining companies to implement joint projects. There is little point in the Canadian government reducing its leverage over Canadian companies by committing funding to partnerships without asking for tangible commitments in return. In the absence of local regulation frameworks in mining areas, CIDA should not shy away from using its participation in development partnerships to encourage companies to comply with the relevant performance standards. An explicit commitment to international standards should form part of the partnership agreements. Ultimately, this requires a willingness on behalf of CIDA to cancel its partnerships in the event that companies fall short of expectations. In the event that partnership projects had to be canceled, CIDA could commit to continuing to work with the NGOs involved, thereby reducing their risk of engaging in critical dialogue with the companies and losing project contracts as a result.

**Create legally binding frameworks.** Given the weak regulatory frameworks in most mining countries, particularly at the local level, it is unlikely that further work on voluntary standards will make sufficient difference to the conduct of companies. This would require the development of an enforceable legal framework for corporate conduct as well as the capacity to monitor compliance. The draft mining ethics bill, which was defeated in Parliament in 2010 after much industry lobbying, would have provided this framework. While CIDA’s specific role is not to
make laws and regulation, it can play an important role in this by documenting problems and communicating the need for binding frameworks to political decision makers.

**Invest in monitoring capacity.** CIDA should attempt to make investments in the monitoring capacity required to assess company performance and document breaches of existing voluntary standards. In practical terms, expanding monitoring capacity could begin by focussing on the proposed partnership projects. CIDA could make small additional grants to expert NGOs already operating in the three mining areas to pay specific attention to the companies involved in the partnerships. Those grants could also be funded by companies as a pre-condition for the partnerships going forward. Alternatively, CIDA or Natural Resources Canada could develop their own in-house monitoring capacity. This would be required if legal frameworks of regulation were to be enacted and would be the preferable approach in the long term.

**Support community advocacy.** Ultimately, addressing the challenges emanating from extractive industries hinges on finding ways in which communities can obtain a just share in natural-resource revenues. To support this process, CIDA should work directly with local communities in their efforts to negotiate with mining companies and their own governments. Pursuing this strategy would require a long term commitment to identifying relevant actors both in Canada and in mining countries, and to slowly enhance their skills and capacities. In most places, advocacy networks already exist and are often linked closely with civil society groups in Canada. Strengthening those networks would go a long way in levelling the playing field between multilateral corporations and local communities.

**Conclusion**

The main argument advanced in this policy brief is that private-public partnerships are unlikely to improve the development impact of Canadian extractive industries. They commit public resources and capacity in ways that are beneficial for the private sector without asking for anything in return beyond nonbinding statements and voluntary commitments. In addition, CIDA allocations directly benefit companies’ commercial operations. They therefore perpetuate a status quo that is often harmful for local populations without containing adequate safeguards. A focus on enhancing socio-economic linkages of the mining process itself, along with monitoring and enforcement of binding performance standards is significantly more likely to yield positive results. While government allocations to international development are decreasing overall, CIDA is making investments in areas dominated by companies which are facing no such shortage of funding. This is difficult to justify.
Annotated Bibliography


This academic expert testimony to Parliament argues that any effort to foster development cannot focus on distinct development projects, but rather needs to focus on institution building and regulation. It also expresses worries about the increasingly prominent role of CIDA in promoting Canadian mining companies abroad.


The article draws attention to the shortcomings of CSR strategies which attempt to respond to problems of risk and legitimacy faced by mining companies without addressing the underlying structural problem which give rise to such problems in the first place.


This study reviews the corporate social responsibility record of Canadian extractive industries. It shows that adherence to recognized international frameworks is inordinately low, despite government efforts to promote specific CSR principles.

- Coumans, C. 2012. *CIDA’s Partnership with Mining Companies Fails to Acknowledge and Address the Role of Mining in the Creation of Development Deficits*. Ottawa: Mining Watch Canada. Brief prepared for the House of Commons Standing Committee on Foreign Affairs and International Development’s Study on the Role of the Private Sector in Achieving Canada’s International Development Interests.

This submission to Parliament provides an effective critique of CIDA’s development partnership policy with the extractive sector. It aptly reviews the key issues.


This insightful case study argued that Shell successfully responded to protests over oil pollution and human rights violations in the Niger Delta through a combination of company sponsored repression, co-optation of local leaders and spin for international consumers. This highlights the potential dangers of public-private partnerships with the extractive sector in volatile regions.


This report contains an up-to-date review of the empirical evidence on the resource curse. It finds
a strong negative correlation between non-fuel mineral dependence and GDP per capita


This UN report draws attention to the lack of enforceable frameworks to govern the conduct of international companies. The report provides a framework based on three core principles: state duty to protect against human rights abuses by third parties, including business; the corporate responsibility to respect human rights; and the need for more effective access to remedies.
General Bibliography


Coumans, C. 2012. CIDA’s Partnership with Mining Companies Fails to Acknowledge and Address the Role of Mining in the Creation of Development Deficits. Ottawa: Mining Watch Canada. Brief prepared for the House of Commons Standing Committee on


Parliament of Canada. 2009. “Bill C-300, An Act respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries, First Reading.”


