

Development and the Private Sector: Canada's Approach

Two main elements have traditionally characterized Canada's approach to the private sector and development in developing countries: support for local private sector development (PSD) and finance for Canadian firms to carry out development-friendly investments. The Canadian government's PSD activities have typically focused on policy and institutional reforms to create business-enabling environments, support small and medium-sized enterprises (SMEs), facilitate trade integration, and promote activities aimed at addressing the political, social, and economic barriers to people's participation in the economy. The government's most recent policy in this area, however, shifts the focus to activities aimed at providing people with opportunities to meet the needs of businesses, with less focus on the structural barriers that inhibit the poor from benefiting from growth.

In addition to these PSD activities, the government's engagement with the private sector has included support for activities aimed at leveraging private sector expertise to address development challenges in areas such as health and agriculture. More recently, however, in an attempt to leverage the development impact of Canadian multinationals' foreign direct investment, the government has begun establishing partnerships with the Canadian private sector to deliver development projects.

In 2011, then minister of international cooperation Beverley J. Oda announced that the Canadian International Development Agency (CIDA) would be partnering with non-governmental organizations (NGOs) and mining companies—spending C\$26.7 million—to support projects directed toward reducing poverty in Latin America and Africa. Julian Fantino, who succeeded Oda between July 2012 and July 2013, argued that private sector investors can play a role in achieving sustainable development and Canada would be broadening the scope of its opportunities and expectations for partnerships with the private sector in development. These partnerships appear to have become a central component of the government's vision for Canadian aid and its PSD activities.

This policy brief examines the evolution of Canada's private sector engagement over the past 20 years, focusing on the assumptions behind the government's PSD programming and its approach to partnerships. In doing so, the brief historicizes and contextualizes Canada's current approach to development and the private sector. It provides recommendations on how Canada can improve its approach to PSD programming and partnerships with the private sector going forward.

Based on a longer NSI report by the same title, this policy brief examines Canada's policies on the private sector in development over the past 20 years. It highlights key policy shifts during this period, including an increasing focus on market-driven approaches to support development and partnerships with Canadian private sector investors abroad to achieve development objectives.

Canadian aid and the private sector: 1995–2001

In 1996, CIDA released *CIDA's Policy on Poverty Reduction*, which identified the priorities for Canadian aid to be poverty reduction and the empowerment of people as political, social, and economic actors within their own communities. PSD activities were one component of the policy. The policy outlined that CIDA's work on PSD should encourage the growth of domestic businesses in developing countries and job creation, and programs should be aimed at benefiting "more poor than non-poor people" and combatting the sources of poverty, including "the lack of human, physical and financial capital needed to sustain livelihoods, and inequities in access to, control of, and benefits from political, social or economic resources" (CIDA 1996, 2, 6). The policy stated that there "is no automatic link between economic growth and poverty reduction" and that the empowerment of people living in poverty is key for ensuring that economic growth promotes development (CIDA 1996, 8).

CIDA partnered with the private sector through its Industrial Cooperation Program (CIDA-INC) from 1978 until 2012. CIDA-INC was designed to meet Canada's commercial objectives and development goals. CIDA-INC programming included concessional loans and professional services for Canadian firms for the establishment of "long-term business relations with developing countries in order to promote and support sustainable socio-economic development and poverty reduction" (CIDA 2007, 2).

However, difficulties existed in fulfilling CIDA-INC's objectives and CIDA's broader priorities. For example, the bulk of CIDA-INC finance went to rapidly developing countries, mostly in Asia. The program did not align with CIDA's focus on countries in Africa and the Middle East that had more acute development financing needs (CIDA 2007). CIDA-INC's attempt to meet development

goals by supporting commercial interests was also often ineffective, with "[n]either agenda .. served" (CIDA 2002, 14).

Expanding opportunities: 2002–09

In 2003, CIDA released *Expanding Opportunities through Private Sector Development*, which formalized the agency's approach to PSD. Based on CIDA's 2002 PSD review and extensive public consultations, the policy made the assumption that economic growth is a necessary but not sufficient condition for long-term poverty reduction. According to the policy, for PSD programming to be effective, it must benefit and empower marginalized groups such as the poor and women.

The policy outlined CIDA's intention to continue focusing on structural reforms to improve local public and private institutions, facilitate local investment and savings, and increase access to international markets and capital. It also articulated support for sustainable enterprise expansion and other job creation strategies to increase numbers of jobs, especially for the poor and women (CIDA 2003, 2). It continued CIDA's focus on pro-poor growth and the promotion of microenterprises and SMEs, while encouraging women's empowerment and environmental sustainability. The policy also noted the importance of listening to recipient countries when developing programs and avoiding the application of a "one-size-fits-all" approach (CIDA 2003).

The policy did not specifically target the private sector—Canadian or other—as an implementation partner, though it did mention the private sector as one partner among many. Over 2002–09, direct partnerships through CIDA-INC declined. An evaluation

showed that businesses found the program to be overly bureaucratic and it was often difficult to reconcile CIDA's development objectives and countries of focus with businesses' investment priorities (CIDA 2007). Consequently, project financing had almost halved by 2004–05 (CIDA 2007).

During this period, Canada also began making use of mechanisms designed to leverage private sector finance and expertise in addressing broader development challenges. For example, Prime Minister Stephen Harper announced in 2006 that Canada would support an advanced market commitment (AMC) to create a vaccine for the pneumococcal virus with a US\$100 million contribution.

Sustainable economic growth: 2009–13

In 2010, the Canadian government released its *Sustainable Economic Growth Strategy*. The policy included PSD programming that was similar to past activities, with a focus on governance and institutional reforms, supporting businesses, and investing in people through skills training.

However, the assumptions behind the *Sustainable Economic Growth Strategy* diverged from those undergirding previous policies on PSD. In the past, CIDA's programming was explicit that the link between growth and poverty reduction is not automatic. In contrast, the 2010 strategy assumes that sustained economic growth will automatically result in poverty reduction and benefit the poor.

The policy states that growth will generate the resources that governments need to invest in people's well-being and employment opportunities. It targets the conditions that will lead to growth rather than specific initiatives that ensure people benefit from growth. The strategy states that growing the economy is the best first step to help people lift themselves permanently out of poverty and focuses on the establishment of the

right opportunities through growth and matching individuals with the right skills to take advantage of these opportunities (CIDA 2010). The challenges that people face are linked to a lack of opportunities and appropriate skills and there is no recognition that structural barriers and ongoing inequalities stifle people's opportunities to contribute to and benefit from growth.

In terms of partnerships with the private sector, a number of changes occurred. A review of CIDA-INC revealed financial irregularities, leading the government to suspend the program in May 2012. During this period, the government expanded its support for activities aimed at harnessing private sector innovations for development. In 2010, it supported the SME Finance Challenge Fund, an initiative of the Group of Twenty which engages the private sector to find innovative ways to finance SMEs. In addition to Canada's ongoing support for the pneumococcal AMC, Canada has also established AMCs to encourage agricultural innovation.

The most significant policy shift during this period was the move by CIDA to partner with the private sector to offer direct support for corporate social responsibility (CSR) initiatives that aimed at addressing local development challenges in developing countries.

In 2009, the government released its CSR strategy for the Canadian international extractive sector. While the document is not a strategy that guides CIDA, it includes an extensive discussion on the role that CIDA can play in promoting CSR in the sector. In 2011, noting that Canadian extractive firms are among the largest in the world, Oda announced CIDA's support for NGO-mining company partnerships.

The central factor differentiating much of this recent programming from CIDA's past PSD efforts is the new approach to partnering with Canadian firms to support development projects linked to private investments. In earlier periods, CIDA partnered with Canadian firms to leverage their expertise in areas such as medical and engineering technologies, which helped them to navigate developing country markets and bureaucracies to gain new investments. While CIDA is continuing this form of private sector engagement, it now also partners with Canadian private investors already in developing countries to help them meet sustainable development and CSR objectives.

Conclusions

There have been a number of significant changes to the way that Canada approaches the private sector and development over the past 20 years. Historically, CIDA's perspective on growth and development recognized that growth is a necessary though not sufficient condition for development and that development efforts should target exclusion and inequality in order to benefit the poor. Canada's most recent approach to the private sector, economic growth, and development represents a shift in conceptualization and priorities, aimed at providing the poor with opportunities to meet the needs of businesses, with less focus on the structural barriers that inhibit the poor from benefiting from growth.

The other recent shift relates to partnerships with the private sector for development. Alongside its support for innovative private sector-inspired solutions in areas such as health and agriculture, the Canadian government sees itself as having a role to play in enhancing the development impact of Canadian investors abroad by supporting their CSR activities. Given the profitability of Canadian firms operating abroad, the justification for funding these activities has been called into question. In order to ensure that Canada's work with the private sector results in the greatest development

impact, two key recommendations arise from this research.

- **Establish transparent policies for Canada's partnerships with the private sector.**

Policies on Canada's private sector partnerships should be transparent, communicate the objectives of the partnerships, establish clear eligibility criteria for potential partners, and demonstrate results and lessons learned. Policies should be informed by Canada's previous experiences under CIDA-INC to ensure that development objectives are achieved through partnerships with the private sector.

- **Demonstrate how partnerships with the private sector support activities and development outcomes beyond what the private sector would or should do on its own.**

Partnerships with the private sector offer innovative ways to combine public and private human and financial resources to achieve development outcomes. However, the public sector has the responsibility to ensure that the funding it provides to the private sector supports innovative activities and development outcomes that the private sector is unable to undertake and achieve on its own.

References

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