

Development and the Private Sector: Canada's Approach

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by

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Acronyms and Abbreviations

AMC	advanced market commitment
CIDA	Canadian International Development Agency
CIDA-INC	CIDA's Industrial Cooperation Program
DFAIT	Foreign Affairs and International Trade Canada
DFATD	Foreign Affairs, Trade and Development Canada
NGO	non-governmental organization
ODA	official development assistance
PSD	private sector development
SME	small and medium-sized enterprise

Executive Summary

The role of the private sector in development and its possibilities for aid programming are currently increasing in importance in Canada and many other bilateral donor countries. With ongoing financial pressure in developed countries and increasing private financial flows to developing countries, donors are looking toward market-driven solutions to development challenges. This report examines Canada's current aid policies relating to the role of the private sector in development, including Canada's support for private sector development in developing countries and partnerships with the private sector to achieve development goals. It provides an overview of the evolution of Canada's private sector development aid and private sector partnership approaches since 1995.

The report finds two key shifts in how Canada approaches the private sector in development. First, Canada's latest approach to private sector development focuses on encouraging the conditions for growth to occur rather than targeting activities that ensure more equitable sharing of the benefits from growth. Previous private sector development policies explicitly recognized that there is no automatic link between growth and poverty reduction. They focused on structural barriers that inhibit people from benefiting from growth such as political, social, and economic exclusion, with empowerment as a key goal in order to ensure that the benefits from growth lead to broad-based development.

Second, Canada's new focus on partnering with Canadian private sector investors marks a distinct break from the past. Canada's current approach includes funding for Canadian investors' corporate social responsibility projects—activities that do not relate directly to the core business practices of private sector partners. In the past, Canada's work with the private sector focused on support for development-friendly commercial investments. Canada also supported innovative market-based solutions to development challenges, such as advanced market commitments for vaccines, which continues today.

The report analyzes the strengths and weaknesses of Canada's approach to the private sector and development and provides a series of recommendations for improving its efforts.

Introduction

Canada is increasingly looking to the private sector as a key partner in development. This approach is in line with trends in the international development community, where, in addition to *promoting* private sector development (PSD)—which entails support for the establishment and expansion of private sector activities in developing countries—donors are *partnering* with the private sector to leverage finance, innovation, and expertise for development.

Canada's support for PSD is not new. The Canadian International Development Agency (CIDA) has made such support a priority since the 1990s. Two main elements have traditionally characterized this priority: support for local PSD and finance for Canadian firms to carry out development-friendly commercial projects in developing countries.

Canada's PSD activities have typically focused on governance and institutional reforms at the government level 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, including a strong focus on empowerment and the most marginalized. However, Canada's most recent policy in this area, CIDA's 2010 *Sustainable Economic Growth Strategy*, shifts the focus to activities aimed at providing the poor with opportunities to help them meet the needs of businesses, with less focus on the structural barriers that inhibit the poor from benefiting from growth.

In terms of partnerships, CIDA partnered with the private sector through its Industrial Cooperation Program (CIDA-INC), Canada's bilateral development finance program, from 1978 until 2012, when CIDA-INC was suspended owing to financial irregularities. In the 2000s, Canada began supporting activities to incentivize the private sector to address development challenges in areas such as health and agricultural innovation. These activities were especially effective in areas that require technical expertise, such as the creation of vaccines.

More recently, the Canadian government has partnered with private sector investors in an attempt to leverage Canadian multinationals' foreign direct investment in developing countries. Shifting from its focus on development-friendly commercial investments, the government is moving into new territory through partnerships with the private sector abroad to deliver on development projects. In 2011, then minister of international cooperation Beverley J. Oda announced that 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 (CIDA 2011a). The following year, Canada’s parliamentary Standing Committee on Foreign Affairs and International Development released a report recommending that CIDA increase the number of partnerships it has with the private sector (see Allison 2012). These partnerships appear to have become a central component of the government’s vision for Canadian aid and its PSD activities.

The changes in Canada’s approach to the role of the private sector in development reflect both domestic political priorities and international trends. This report examines the evolution of Canada’s private sector engagement over the past 20 years to demonstrate the two key shifts that have occurred in the country’s PSD and partnership efforts. In doing so, it historicizes and contextualizes Canada’s current approach to development and the private sector. The report concludes with key recommendations on how Canada can improve its PSD programming and private sector partnerships going forward.

Canadian Aid and the Private Sector: 1995–2001

Foreign aid policies

In 1995, the Canadian government released *Canada in the World*, which outlined the country’s three foreign policy priorities in an evolving world: “the promotion of prosperity and employment; the protection of [Canada’s] security, within a stable global framework; and the projection of Canadian values and culture” (DFAIT 1995, i). This document served as the foundation of Canadian foreign policy for the next decade. CIDA operationalized *Canada in the World* in 1996 with the release of *CIDA’s Policy on Poverty Reduction*, which prioritized poverty reduction and the empowerment of people as political, social, and economic actors within their own communities. The policy laid out six programming priorities for CIDA’s official development assistance (ODA), namely “basic human needs; women in development; infrastructure services; human rights, democracy and good governance; private sector development; and the environment” (CIDA 1996, 2). PSD activities were thus one component of a broad-based policy aimed at sustained poverty reduction and empowerment in developing countries.

Private sector development

In this context, CIDA developed a PSD policy with the goal of encouraging the growth of domestic businesses in developing countries. Its goal was to create jobs and other opportunities for people living in poverty. Over 1995–2001, CIDA’s PSD activities accounted for 15–20 per cent of total agency disbursements, ranking PSD third in funding among CIDA’s six priority areas at the time (CIDA 2002b).

Programs under the PSD policy aimed to benefit “more poor than non-poor people” and to do so in a way that empowered poor people as economic actors within their communities (CIDA 1996, 6). This meant combatting the sources of poverty, including “the lack of human, physical and financial capital needed to sustain livelihoods, and [the] inequities in access to, control of, and benefits from political, social or economic resources” (CIDA 1996, 2).

Empowerment was a critical component of CIDA’s approach. 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). As such, CIDA articulated several goals for PSD, including support for: local enterprises, particularly microenterprises, co-operatives, and small businesses; economic sectors that needed labour in locations where there were poor people looking for work; and participatory activities that ensured the empowerment of individuals and built sustainable economic capacity (CIDA 1996, 4, 8). Programming to support microfinance and microenterprise development received the largest percentage of PSD funding over 1992–95, at roughly 30 per cent (CIDA 2002b, 5).

Another important aspect of CIDA’s PSD efforts was the promotion of reforms to governance and economic institutions aimed at creating business-enabling environments for local entrepreneurs and foreign investors (CIDA 1996). Funding to enable reforms amounted to 14 per cent of CIDA’s PSD programming during the 1992–95 period (CIDA 2002b, 5). Policy-makers viewed investment as an important tool for technology and capital transfer, as well as a way to improve poor people’s access to productive resources. CIDA coupled these efforts with trade promotion at the national, regional, and global levels, under the logic that business-enabling reforms would facilitate private sector growth through entrepreneurship and investment and lead to long-term economic growth.

While this programming covered a wide range of activities, CIDA's 2002 PSD review found evidence that the most consistent poverty reduction came through programs “targeting microfinance and microenterprise development and small and medium enterprise development” (CIDA 2002b, 9). These programs resulted in gains including increased job creation in poor communities, better services for SMEs, longer survival rates for firms and jobs, and “improved economic development within communities” (CIDA 2002b, 10). They also led to higher wages, increased household incomes, better working conditions for women, and decreased vulnerability.

Though the Canadian private sector benefited from some of the programs during this period, CIDA's review noted that the thematic area of PSD had “little to do with the Canadian private sector” (CIDA 2002b, 11). Canadian commercial interests drove only 12 per cent of CIDA's PSD activities, primarily through CIDA-INC and Renaissance Eastern Europe, a program aimed at encouraging Canadian private sector investment in the post-communist bloc. In fact, PSD programming based primarily on commercial rationale, including funding requested by developing country partners, accounted for only 16 per cent of Canada's PSD funding. This programming included efforts to facilitate Canadian commercial investment and to promote economic integration and enterprise linkages. The remaining 84 per cent of funding was reserved for programming with development goals as its overriding rationale (CIDA 2002b, 11).

CIDA-INC

Direct private sector partnerships were largely carried out by CIDA-INC. Established in 1978, CIDA-INC was designed to meet both Canada's commercial objectives and development goals (CIDA 2002b, 14). The program's objectives included establishing joint ventures and increasing Canadian private sector investment in order to facilitate technology transfer, private sector commercial linkages, and the building of public-private infrastructure projects (CIDA 2007, 2). CIDA-INC provided finance through investment and professional services mechanisms, which each included study and implementation phases. This programming included concessional loans to 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).

In terms of overall spending, CIDA-INC captured a relatively small portion of the aid budget. It averaged around 10 per cent of PSD funding, or 2–3 per cent of the CIDA's

total budget, between 1995 and 2005 (CIDA 2007). Over time, however, differences between CIDA-INC's objectives and CIDA's broader priorities created challenges (CIDA 2007, 2). For example, the bulk of CIDA-INC finance went to rapidly developing countries, mostly in Asia, while CIDA's efforts focused on countries in Africa and the Middle East that had more acute development financing needs (CIDA 2007). CIDA-INC also struggled to achieve its basic objectives. As CIDA's 2002 PSD review noted, CIDA-INC's attempt to meet development goals by supporting commercial interests was often ineffective, with "[n]either agenda . . . served" (CIDA 2002b, 14).

Making a Difference, Expanding Opportunities: 2002–09

Foreign aid policies

In 2002, the Canadian government released *Canada Making a Difference in the World*, which sought to demonstrate Canada's commitment to the Millennium Development Goals. The document reaffirmed CIDA's approach to PSD and incorporated elements of the new international consensus. For example, it continued past programming that promoted poverty reduction, women's empowerment, environmental sustainability, and a focus on microenterprise and SME development. New to CIDA's approach was the incorporation of the 2003 Rome Declaration's¹ commitment to ensuring country ownership of development plans, with recipient governments, citizens, and NGOs taking a central role in developing aid goals and strategies (Canada 2002a).

¹ While the 2003 Rome Declaration on Harmonisation focused predominantly on streamlining donors' activities through improved division of labour among donors and better use of joint strategies, it also included important commitments relating to country ownership and donor alignment with country strategies.

Private sector development

In 2003, CIDA released *Expanding Opportunities through Private Sector Development*, which formalized the agency's approach to PSD. Based on the 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. It 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). Consistent with previous strategies, it focused on pro-poor growth and the need for aid to promote the development 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. In retrospect, the recognition that growth does not automatically lead to poverty reduction and the specific focus on pro-poor growth and empowerment are especially significant given the predominance of Washington Consensus neo-liberal policies during the period.

The 2003 PSD policy was the logical continuation of past programming and previous policies. This policy represented a nuanced understanding of the role of the private sector in growth and development. It recognized that investment and PSD alone would not necessarily reduce poverty and called for PSD programming that would empower the most marginalized people in recipient countries and help break cycles of poverty. 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.

CIDA-INC and emerging partnerships

Over 2002–09, CIDA-INC declined in importance within the agency. While CIDA-INC received 642 proposals from industry and approved 333 of them for a total of C\$60.8 million in 1995–96, interest in the program declined in the following years. 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 to only 166 approved proposals out of 269 requests, for a total dispersal of C\$34.2 million or just over 1 per cent of CIDA’s budget (CIDA 2005; CIDA 2007).

During this period, Canada also began making use of innovative financing mechanisms to engage the private sector in addressing 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. In 2007, the government doubled the commitment to US\$200 million (Department of Finance Canada 2007). AMCs create incentives for industry to create and produce particular products, in this case vaccines that meet a specific need in developing countries. Donors make commitments to purchase the product and release the funds only once the product has been developed. Donors see AMCs as cost-effective, results-based mechanisms for leveraging private sector expertise to solve development challenges. Canada’s commitment to the pneumococcal AMC represents one of its first examples of partnering *with* the private sector for development.

Sustainable Economic Growth and New Partnerships: 2009–13

Foreign aid policies

In 2009, the Canadian government announced a new set of thematic priorities for CIDA: sustainable economic growth, food security, and children and youth. Upon announcing the new priorities, Oda argued that “growing the economy is the best way to help people lift themselves out of poverty permanently,” indicating that CIDA would support projects that increase growth, “particularly through the private sector” (CIDA 2009). The 2010 *Sustainable Economic Growth Strategy* that followed had three main priorities for action: building economic foundations, growing businesses, and investing in people (CIDA 2010).

Private sector development

The priorities in the 2010 strategy are similar to CIDA’s programming for PSD in the previously discussed periods. “Building economic foundations” focuses on support for

government accountability and transparency and the establishment of legislative and regulatory frameworks through which sustainable growth can take place. Such focus is reminiscent of CIDA's previous focus on governance and institutional reforms. "Growing businesses" prioritizes support for micro, small, and medium-sized private sector enterprises, with the goal of increasing employment opportunities for the poor. "Investing in people" means targeting skills and vocational training to enable individuals to gain access to and benefit from employment opportunities (CIDA 2010, 3). Gender, environmental sustainability, and governance serve as crosscutting themes. The strategy also has a strong focus on the private sector, seeing it as the driver of sustainable economic growth. PSD activities have been a significant part of CIDA's spending during the period, accounting for 23.9 per cent of total expenditures in 2010–11 and 28 per cent in 2011–12 (CIDA 2011b; CIDA 2012b).

While the programming entry points outlined in the *Sustainable Economic Growth Strategy* are similar to CIDA's previous work on PSD, notable differences exist between this policy and CIDA's previous PSD policy. In the past, CIDA's programming was explicit that the link between growth and poverty reduction is not automatic. In order to ensure that the poor benefit from growth, CIDA targeted sources of poverty, including structural barriers, and focused on pro-poor programming that would benefit the most marginalized and very poor. In contrast, the 2010 strategy assumes that sustained economic growth would automatically benefit the poor, breaking from earlier assumptions that growth led to poverty reduction and development only if it benefited 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 (CIDA 2010).

This change in assumptions is significant when what it means for programming is considered. Recognizing the inherent limitations in donor reporting to the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) reporting system, one analysis of CIDA's allocations for sustainable economic growth suggests that the lion's share—nearly one-third of the 2009–10 budget—went to building economic foundations with very little going toward the "investing in people" priority (Tomlinson and Reilly-King 2011). This programming allocation differs from those of the past, when the focus was much more on support for businesses and individuals.

The focus on building economic foundations intensified under Julian Fantino, minister of international cooperation between July 2012 and July 2013. In a speech to the Economic Club of Canada in November 2012, he stated that CIDA would continue to help countries develop regulatory and legislative frameworks to be business-friendly. The agency has a special advantage, argued Fantino, because “CIDA takes an upstream approach to economic growth [to help] make countries and people, trade and investment ready” (CIDA 2012a). Fantino argued that CIDA can play a role in laying the groundwork for business ventures between Canadian companies and developing countries: “CIDA can help develop the capacity [of developing countries] to negotiate [business and investment deals] with other countries, implement international commercial agreements with Canada and other trading partners, and help firms benefit from these agreements. We will be doing more of this in the future” (CIDA 2012a).

Fantino’s remarks align with the assumptions of the 2010 strategy. It states that growing the economy is the best first step to help people lift themselves permanently out of poverty and focuses on supporting the establishment of the right opportunities through growth and matching individuals with the right skills to take advantage of these opportunities (CIDA 2010). As Brian Tomlinson and Fraser Reilly-King (2012) point out in their review of the 2010 strategy, unlike previous policies, there is no mention of the structural causes of poverty or ongoing inequalities in terms of access to and control of political, social, and economic resources. With the exception of the references to women (and then only their economic empowerment), the strategy is relatively silent on empowerment, focusing rather on giving the poor tools and skills to integrate themselves into markets and benefit from growth. 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 require efforts to empower individuals. While previous policies targeted programming in areas where the poor live and aimed to improve their access to productive resources, the 2010 strategy focuses more on ensuring that people have the necessary skills to meet the demands of markets and the needs of businesses.

CIDA-INC and direct partnerships

Following a review of CIDA-INC, the Canadian government announced that it would move the program from CIDA to Foreign Affairs and International Trade Canada (DFAIT) in 2009. Oda argued that the move would “help build stronger partnerships with Canadian firms, and make the new program even more effective in achieving Canada’s development objectives” (DFAIT 2009).

In 2011, Minister of International Trade Ed Fast instructed DFAIT to carry out a comprehensive review of the program, which revealed some financial irregularities. These irregularities required action by the government to recover taxpayer funds and led to the suspension of the program in May 2012 (TCS 2012). While Canada's concessional development finance program has been suspended, the government supports a number of other ways to partner directly with the private sector through aid (see Reilly-King 2012, 189–91). Indeed, through its aid programming, Canada has sought to position itself as a leader on “encouraging more private-sector-led development” (DFATD 2013a). In June 2013, the government launched a new private sector web page (DFATD 2013a). Arguing that “many developing countries are not fully benefiting from the opportunities that can be generated by a robust private sector” ... nor from private financial flows, the government emphasized its role in building the right economic foundations in developing countries to encourage private-sector-led growth (DFATD 2013b). The web page also states that the government is leveraging local, Canadian and other international private sector actors in its efforts. Finally, it lists several headings for private sector partnership opportunities, including investment for development, partnerships for development, and innovation for development.

However, it is unclear what each of these categories actually mean for potential partners as there are no accompanying guidelines nor has there been a competitive call for proposals specifically geared to private sector partners or for the priorities listed on the web page. The web page lists an email address for potential partners to “support engagement and facilitate dialogue,” and points out that all of the government's programming processes are open to the private sector, including calls for proposals (DAFTD 2013b).

The amount of information on each priority is limited, making it difficult for potential partners to decipher exactly what kind of opportunities exist under each area of work. Under each heading, the web page lists a particular challenge, followed by an action to address the challenge. For example, under “investment for development,” the web page states that there is a need for capital and expertise to grow business, and as such, the government is supporting market-oriented incentives for private sector investments that will lead to development impact. This characterization seems similar to what CIDA-INC was mandated to do – promote commercially sound investments in developing countries that are likely to have a positive development impact. Yet, the web page then lists support for the Mennonite Economic Development Associates – a civil society

organization – in Ethiopia, as an example. This project will provide capital and skills training for women entrepreneurs in the textile industry, which is similar to the type of programming CIDA has used in the past to promote private sector development or what is characterized as growing businesses and investing in people under the 2010 *Sustainable Economic Growth Strategy*.

Canada is supporting a number of other partnership mechanisms aimed at private sector development. Canada contributes to multi-donor funds and programs, often administered by the World Bank, to encourage private sector initiatives or public-private partnerships. In 2010, Canada 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 (CIDA 2011b). CIDA has made direct investments in micro, small, and medium-sized enterprises, smallholder farmers, and women entrepreneurs (Reilly-King 2012, 190).

In terms of partnerships with the private sector for development, the web page highlights partnerships for development and innovation for development. Under partnerships, the government emphasizes its partnerships with civil society and the private sector, including its work with Canadian mining companies (discussed in more detail below). In terms of innovation for development, the web page points to Canada's support for advanced market commitments and challenge funds. Indeed, Canada now supports a number of challenge funds and innovative financing mechanisms aimed at harnessing private sector innovations to resolve development challenges. In addition to its ongoing support for the pneumococcal AMC, Canada is supporting Grand Challenges Canada, which "is dedicated to supporting bold ideas with big impact in global health" (Grand Challenges Canada 2013). Grand Challenges Canada is a fund that supports development innovation through financing collaboration between researchers in Canada, developing countries, and the private sector. Canada has also established AMCs to encourage agricultural innovation in developing countries and address global agriculture challenges through projects that target harvest management and nutritional fortification of staple crops (CIDA 2012b).

The most significant policy shift during this period, however, was the move by CIDA to partner with the private sector to offer direct support for corporate social responsibility (CSR) initiatives aimed at addressing local development challenges in developing countries – an area that falls under what the 2011 government web page on the private sector calls "partnerships for development." In 2009, the Canadian government released

its CSR strategy for the Canadian international extractive sector (see DFAIT 2009b). 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. It cited CIDA's goals relating to capacity building and job creation as a rationale for greater engagement by CIDA with the private sector, notably the extractive sector.

In 2011, as part of CIDA's sustainable economic growth strategy and Canada's CSR strategy, Oda announced that CIDA would partner with NGOs and mining companies to deliver development projects (CIDA 2011a). Noting that Canadian extractive firms are among the largest in the world, she announced that "CIDA is supporting Canada's Corporate Social Responsibility (CSR) Strategy for the Canadian International Extractive Sector with initiatives that will contribute to sustainable economic growth, create jobs and long-term poverty reduction" (CIDA 2011a). These projects included funding work by Canadian NGOs Plan Canada, World University Services Canada, and World Vision Canada, which are working with Canadian extractive firms IAMGOLD, Rio Tinto Alcan, and Barrick Gold, respectively, to deliver development projects in communities impacted by mining. Further explaining the rationale for this policy, Oda noted:

As more and more developing countries see foreign investment as the means to economic growth and our Canadian extractive sector represents a major part in that growth, CIDA can play an important role to help countries achieve their aspirations. Encouraging partnership with the private sector and civil society organizations provides an opportunity for our government to help companies fulfill their corporate social responsibilities and benefit those in need. (CIDA 2011a)

While this new approach may help people living in communities affected by Canadian mining operations, it has led to controversy in Canada's development community, especially among Canadian NGOs (see Tremonti, McCarney, and Brown [2012] for an overview of this debate).

For some observers, partnerships between the Canadian government, Canadian private sector, investors, and NGOs are a unique opportunity to harness and support the Canadian private sector to ensure that Canadian aid dollars are used effectively to produce broad-based development results (Eaton, McCarney, and Toyce 2012). Others argue that these partnerships benefit Canadian mining companies which compete for access to natural resources and disregard their operations' impacts on local

populations (Leblanc 2012). CIDA's support for CSR activities raises the question of whether the Canadian government is financing activities that the private sector should be doing without government support. The lack of transparency on how and who CIDA engages with and the absence of a clear policy and process for determining private sector partners have been key targets for criticism (Tremonti, McCarney, and Brown 2012; see also OECD 2012).

In addition, the CSR activities that CIDA is supporting are not necessarily related to the core business practices of partnering firms. Bilateral donors are increasingly looking to the private sector as a partner in development and some donors see such partnerships as opportunities to support their domestic and national firms (see, for example, Kindornay and Reilly-King [2013] and Heinrich [2013]). Many donors are targeting core business practices of companies in their partnerships (Kindornay, Higgins, and Olender 2013).

Regarding export promotion, Canada supports a number of NGOs that work with the private sector, such as the Trade Facilitation Office of Canada, which works with Canadian fair trade company Brandaid Project to promote the export of Haitian artisanal products, and Quebec's SOCODEVI (Société de coopération pour le développement international / Canadian Cooperation Society for International Development), which works with US company Green Mountain Coffee to help coffee producers from Honduras sell their fair trade coffee in Canada. Canada's approach to private sector partnerships thus far seems to focus on the delivery of social and community projects, or CSR. This approach stands in stark contrast to the approaches of Canada's peers, such as Sweden and Denmark, whose support aims to tap into supply chains, establish buyer-seller relationships between companies in the global North and the South, and test innovative business models through risk sharing with the private sector (see, for example, Sida [2012] and Danida [2012]). These approaches work to ensure the long-term sustainability of results, newly formed partnerships, and ways of doing business long after donor financing has ended.

The central factor differentiating much of this recent programming from CIDA's past PSD efforts is the new approach to partnering with Canadian private sector investors to support development projects linked to private investments. This approach represents a key shift. The Canadian government has indicated that it will continue this kind of support. In an April 2013 meeting with representatives of the World Bank Group, International Monetary Fund, and Canadian business leaders, Fantino noted the important role that partnering with private sector investors can play in achieving

sustainable economic development objectives (CIDA 2013b). He elaborated on this point in a speech later in the year, commenting that ODA accounted for less than 15 per cent of global financial flows into developing countries, falling far behind remittances and foreign direct investment. He argued, therefore, that Canada's engagement with the private sector was changing, as "we are broadening the scope of opportunities and expectations, for private companies in particular, to become bigger partners in development" (CIDA 2013a).

There are a number of differences between Canada's past and present approaches to partnerships with the private sector, representing a key shift. In earlier periods, CIDA typically 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 sector investors already in developing countries to help them meet sustainable development and CSR objectives, rather than promoting development friendly commercial investments. The danger in this policy shift is that it risks turning development projects into appendages of private sector investments, whether by the extractive sector or companies working in other areas. This approach also puts less of an emphasis on the extent to which Canadian investments abroad are development friendly in the first place and it does not necessarily lead to engagement with the core business practices of potential partners. Finally, the approach has the potential to subsidize private CSR activities with ODA, meaning that taxpayers are supporting activities that are the private sector's responsibility.

DFATD and the Future of Canadian Aid: 2013 and Beyond

In the 2013 federal budget, the Canadian government announced the amalgamation of CIDA with DFAIT, creating the Foreign Affairs, Trade and Development Canada (DFATD) (Canada 2013, 240–41). The government cited improving policy coherence as an important reason for the change.

Members of the Canadian development community expressed concern that the amalgamation may mean development priorities become increasingly secondary to Canada's diplomatic and commercial interests (Oxfam Canada 2013; World Vision 2013; CBC News 2013). Their concern is that without a strong political commitment to development, one guided by clear principles like those in the Official Development Assistance Accountability Act, the amalgamation will have little effect on development results. Others, however, pointed out that the institutional change makes sense, having the potential to bring the “development voice” to the proverbial table on questions relating to foreign policy and international trade, thus ensuring greater policy coherence and ultimately stronger development impact (Chapin 2013; Paris 2013; Westhead 2013).

CIDA's 2011–12 report to Parliament on ODA clearly indicates the role that the government sees for aid in the future. It states: “Canada's official development assistance advances Canada's foreign policy objectives: 1) increasing economic opportunity through international engagement; 2) mitigating security risks; and 3) promoting Canadian principles and values such as freedom, democracy, human rights and the rule of law” (CIDA 2012b, 1). The subordination of development to other goals in the report gives weight to concerns that Canada's development objectives may become increasingly secondary to foreign policy and trade objectives. While the report makes clear that Canadian aid aligns with Canada's foreign policy and trade objectives, it does not unpack the relationship between aid objectives (namely poverty reduction) and Canada's foreign policy and trade goals more broadly (such as pursuing economic opportunities for Canada). Nevertheless, the report provides a clear signal about the role that the government sees for aid—it is a tool for pursuing national interests. The merger of CIDA and DFAIT into one department can be seen as an institutional manifestation of these apparently linked policy 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. The assumptions undergirding policies on growth, the private sector in development, and partnerships for development have changed. 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. In addition to Canada's support for development-friendly investments and innovative private sector-inspired solutions in areas such as health and agriculture, the view that private sector investors with no direct connection to development activities can be important partners for the development has gained traction. The push toward greater involvement by the private sector in development is intensifying internationally and the Canadian government has made it clear that it will continue to look for opportunities to partner with it. This report highlights a number of issues that need to be addressed moving forward, including engaging partners on their core business practices, improving transparency on partner selection, and ensuring that aid supports initiatives that otherwise would not have occurred and development results that would not have been achieved without government support.

Several key recommendations for the Canadian government arise from the analysis.

- **Address political, social, and economic barriers that inhibit people from benefiting from growth in PSD programming.**

Canada has legislation which says that Canadian aid must focus on poverty reduction, take into consideration the perspectives of people living in poverty, and align with international human rights standards.² As such, a key goal of Canada's PSD and

² See Official Development Assistance Accountability Act, S.C. 2008, c.17 (2008).

economic growth programming should be to increase the impact of growth on poverty reduction. Growth and investment promotion alone are insufficient to ensure broad-based development. Despite high levels of growth in Africa, for example, significant job creation and shared poverty reduction has not occurred (APP 2012). A 2012 report by the Africa Progress Panel pointed out that almost half of Africans still live on less than US\$1.25 per day regardless of buoyant growth over the past decade, adding that “the current pattern of trickle-down growth is leaving too many people in poverty, too many children hungry and too many young people without jobs” (APP 2012, 8). The report stressed the need to target the sources of inequality, including structural barriers. Indeed, the importance of inequality has gained international consensus based on the recognition that high levels of growth have not always led to broad-based development. Inequality is a key focus in ongoing deliberations on the post-2015 development agenda.

- **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, and establish clear eligibility criteria for potential partners, moving beyond what is currently available on the private sector and development web page. The Canadian government has repeatedly stated the importance of value for money to its aid programming. Value for money, an important goal for Canada’s partnerships with the private sector, necessitates a competitive process that selects partnerships based on clear and transparent criteria. Public communication of results and lessons learned would also provide a basis to improve future programming.

- **Inform new policies by using Canada’s previous experiences under CIDA-INC to ensure that development objectives are achieved through partnerships with the private sector.**

Canada’s Standing Committee on Foreign Affairs and International Development recommended that CIDA (and now presumably DFATD) work more closely with the private sector through the provision of loans and by utilizing other financial mechanisms (Allison 2012, 100). A review of CIDA-INC demonstrated the difficulties that exist in attempting to achieve commercial and development objectives simultaneously. At this point, it is unclear how DFATD would be any better at meeting development objectives

through support for commercial investments than its predecessor. As DFATD moves forward on implementing the recommendations of the Standing Committee on Foreign Affairs and International Development, its policies and programs will need to be informed by past lessons learned to ensure that both commercial and development objectives are served by partnerships with the private sector. As noted in the OECD-DAC's 2012 peer review of Canada, there is a need to ensure that development objectives remain front and centre in partnerships with the private sector (OECD 2012).

- **Demonstrate how partnerships with the private sector support activities and development outcomes beyond what the private sector would and/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.

- **Harness the core business practices of private sector partners.**

By harnessing the core business practices of private sector partners, partnerships have a greater potential to lead to long-term development results. When development-friendly approaches and activities become an integral part of Canadian firms' core business practices, the likelihood of ensuring long-term sustainability once donor funding has ended is higher.

To conclude, the amalgamation of CIDA with DFAIT presents an opportunity to better coordinate programming and policies and better balance Canada's foreign policy, trade, and development objectives. It also, however, creates the potential for aid money to be used to support trade and investment interests, rather than to achieve its stated purpose—poverty reduction and sustainable development. The Canadian government will require DFATD to articulate development objectives. A clear framework that outlines how these objectives will be achieved in conjunction with foreign policy and trade objectives must be elaborated.

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