

Message from the Minister

Sustainable development is about creating the conditions—economic, social, and environmental—in which people, through their own efforts, can lift themselves out of poverty, build a better life for their families, and contribute to the progress of their communities. Economic growth is a crucial part of the equation, and private sector development is an indispensable engine of that much-needed growth.

A dynamic private sector generates gainful employment, expanding opportunities for people to earn income with which to satisfy their own material needs. It creates local suppliers of goods and services who can meet those needs right in their own communities. It also develops a tax base necessary to finance programs such as health care, education, and environmental protection, crucial to making development truly sustainable.



CIDA photo: Bill McCarthy

Minister Whelan stamps fabric during her visit to Ghana Regional Appropriate Technology Industrial Services (GRATIS).

This is why I am pleased to launch CIDA's new policy: *Expanding Opportunities Through Private Sector Development: Canada Making a Difference in the World*. It strengthens our contributions to pro-poor economic growth and improved standards of living for people living in poverty. It's a policy focused on results: the creation of more and better jobs and sustainable livelihoods; markets that function well; and a growing, thriving private sector.

Through this policy, CIDA will help entrepreneurs, large and small, in developing countries and countries in transition, to reach their goals. When the private sector functions well and equitably, everyone benefits, and that could make all the difference in the world.

The Honourable Susan Whelan
Minister for International Cooperation

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Abbreviations

CEAA	Canadian Environmental Assessment Act
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
DFAIT	Department of Foreign Affairs and International Trade
HIV/AIDS	human immunodeficiency virus / Acquired Immune Deficiency Syndrome
IFC	International Finance Corporation
IFIs	international financial institutions
ILO	International Labour Organization
ITC	International Trade Centre
MDGs	Millennium Development Goals
OECD	Organisation for Economic Co-operation and Development
PSD	private sector development
SMEs	small- and medium-sized enterprises
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization

1 Introduction and Overview

Growth is critical to development. Without significant broad-based economic growth, sustainable poverty reduction will not be achieved. Growth is thus a necessary—though not a sufficient—condition for poverty reduction. In this context, the growth of the domestic private sector and well-functioning markets in developing countries and countries in transition is essential.

The objective of CIDA’s private sector development (PSD) policy is to create more, better, and decent jobs and sustainable livelihoods by helping markets to function well and by stimulating the growth of the local private sector in developing countries and countries in transition.

In support of this objective, CIDA will pursue pro-poor economic growth—growth that actively engages and directly benefits the poor. It will be guided by a vision of sustainable development that recognizes the importance of governance, taking a long-term approach, and achieving the right balance among the social, environmental, and economic aspects of development.¹

Definition of private sector

The private sector is conceived as a basic organizing principle for economic activity in a market-based economy where:

- physical and financial capital is generally privately owned;
- markets, competition, and profit drive allocation and production; and
- decisions are made and risks are taken as a result of private initiative.

The scope of this Policy extends to rural and urban economic and market development, to a diverse range of enterprises and producers in the informal and formal economies, as well as to cottage industries and cooperatives engaged in market activities.

In order to effectively support the private sector, this Policy recognizes the need for diverse partnerships in pursuing PSD. CIDA’s partners in PSD include the private sector, business associations, the cooperative movement, and civil society (including not-for-profit organizations and educational institutions) in Canada and overseas, as well as multilateral institutions and other donors.

CIDA will take a results-based approach to private sector development.²

All PSD programming will be required to contribute to one or more of the following five expected results:

- increased incomes and improved productive capacities, including greater control by women over productive assets;
- sustainable enterprise expansion and the equitable creation of more and better jobs;
- sound and accountable private and public institutions to support well-functioning and competitive local and national markets;
- an enabling business climate conducive to supporting savings, investment, and the development of socially and environmentally responsive enterprise; and/or
- increased participation in regional and international markets and institutions by developing countries and countries in transition.

This results-based approach will enable CIDA to measure the performance of PSD initiatives more effectively and consistently, be accountable to partners and stakeholders, and adjust its PSD investments in different parts of the world in light of lessons learned.

Private sector development will reflect knowledge-based approaches:

- A common analytical framework addressing the pro-poor, business and governance dimensions of PSD programming will underpin all new country/institutional programming frameworks and other Agency initiatives aiming for PSD results.
- CIDA will strengthen its capacity for PSD programming and establish an institutional focal point for PSD within CIDA.



CIDA photo: Pierre St-Jacques

CIDA programming in PSD will apply recognized principles for strengthening aid effectiveness as presented in CIDA's policy statement *Canada Making a Difference in the World: A Policy Statement on Strengthening Aid Effectiveness*:

- CIDA will align its programming orientation within the locally owned poverty reduction and economic development strategies of developing countries.
- Full consideration will be given at the planning stage to untying the supply of required goods and services to provide opportunities to build the capacity of the local private sector.
- CIDA will work in collaboration with other donors and international institutions in pursuit of PSD initiatives while respecting the comparative advantages of its partners. In this context, CIDA will generally not take leadership of infrastructure projects, efforts in privatization, public expenditure management, reform of macro-economic policy or of the investment climate for foreign investment, recognizing the expertise and resources of the international financial institutions (IFIs) and other multilateral organizations in these areas.
- CIDA will work closely with other parts of the Government of Canada to put into action Canada's commitments to the greater coherence of policies affecting sustainable development and poverty reduction in developing countries. In this context, CIDA will support the formulation of trade policy positions sensitive to the needs of developing countries, and work to better integrate trade and development issues into Agency programming.

Outline of the Policy Document

This policy statement elaborates on these directions. Chapter 2 describes the consultation process CIDA undertook in developing this policy statement and the key messages emerging from these consultations. Chapter 3 elaborates on the development results that all PSD programming will be expected to achieve, and on the initiatives CIDA will pursue in support of these results. Chapter 4 describes the steps CIDA will take to reinforce knowledge-based programming. Chapter 5 outlines the principles CIDA will follow to implement this Policy. Chapter 6 outlines the accountability framework underpinning this Policy, and Chapter 7 provides a brief conclusion.

Application of the Policy

This Policy applies to PSD programming from all branches of CIDA. In particular, this Policy applies to:

- the planning, approval, management, and evaluation of *initiatives*³ that aim to achieve PSD results; and
- the planning, approval, and evaluation of country and institutional development *programming frameworks* that aim to achieve PSD results.



CIDA photo: Robert Semeniuk

CIDA's efforts to promote PSD will recognize the critical role that environmental management plays in poverty reduction and will take into account commitments under the multilateral environmental agreements to which Canada is a party, including those addressing climate change, biodiversity, desertification, and toxic chemicals.

The Policy is also based on the understanding that reducing gender-based and other socio-economic inequalities can lead to the expansion of economic opportunities and sustainable growth. CIDA has considerable experience in responding to issues of gender equality in the context of development. Women and men face different social and economic constraints in responding to economic opportunities in the private sector. In general these constraints relate to women having less education and appropriate training, and less access to and control over collateral, capital, and financial markets. Women also have greater household and child care responsibilities. Taxation laws and regulations may include discriminatory provisions against women, while attitudes and beliefs may put up barriers to women's opportunities in the private sector. By recognizing and addressing these inefficiencies in the market and the social barriers to women's equal participation, CIDA will contribute to equitable and sustained economic growth.

The changing nature of conflict and the rapid globalization of the world's economy over the last decade have combined to make the private sector an important actor in many conflict-threatened or -affected societies. Conflict affects the livelihoods and security of the poor and undermines the conditions necessary for economic growth and sustainable development. While investment is a critical element in poverty alleviation and peacebuilding, investment that is not conflict-sensitive can worsen fragile situations. Therefore, CIDA's PSD initiatives must demonstrate an awareness of their socio-political implications as they relate to the peace and stability of a country or region.

2 The Consultative Process for Developing this Policy Statement

In September 2002, CIDA released a document entitled *Canada Making a Difference in the World: A Policy Statement on Strengthening Aid Effectiveness*. This document identified a number of principles to guide the Agency toward making more effective decisions in allocating aid and pursuing institution-, country-, and program-level initiatives. PSD was emphasized for its central role in helping developing countries and countries in transition to achieve sustainable economic growth. Equitable and sustainable economic growth, in partnership with CIDA's social and rural development priorities, represent essential ingredients for poverty reduction.



CIDA photo: François-Éric de Repentigny

The policy statement on strengthening aid effectiveness also identified the need for PSD to address the needs and priorities of developing countries and countries in transition. Given that each country's economy is unique, to be meaningful, development assistance must be rooted in the realities of the local market and thus address that market's particular mix of challenges and opportunities. In recognition of this diversity, CIDA released a consultation document entitled *Expanding Opportunities: Framework for Private Sector Development* on February 5, 2003. This consultation document was designed to illustrate the broad spectrum of PSD initiatives, and the multiple entry points for supporting them.

Between February 21 and March 31, 2003, more than 12,000 people visited CIDA's PSD consultation website. A further 320 participated in round table discussions during cross-Canada consultations in early March. CIDA received more than 100 written submissions through the course of the consultation period. These figures demonstrate the keen interest and support shared by CIDA's partners and stakeholders for helping developing countries and countries in transition to achieve economic growth through PSD.

In this limited space, it is not possible to capture the richness of the debate or the variety of views expressed; however, a number of common themes emerged:⁴

- **Responding to the needs and priorities of developing countries and countries in transition.** Participants in both the on-line and cross-Canada consultations welcomed this as the starting point for PSD initiatives. Country and local ownership of PSD was felt to be critical to ensuring equitable and sustainable results.
- **Pro-poor economic growth.** Many respondents expressed concerns that donors often assume economic growth will include a “trickle down” effect, although they do not clearly state how this will happen and what form this could take. The concept of pro-poor growth—wherein the poor are actively engaged in, and directly benefit from, the activities that generate economic growth as seen through a pro-poor or poverty lens—was viewed as an important addition to the design and implementation of CIDA's future PSD initiatives.
- **A focus on the Millennium Development Goals (MDGs).** There is growing empirical evidence that PSD is a critical strategy for achieving the first Millennium Development Goal of halving the proportion of people living on less than \$1 a day (US). Participants agreed that supporting locally based PSD may be one of the most effective strategies for fulfilling Canada's commitments to the MDGs.
- **A commitment to aid effectiveness and policy coherence.** Many were pleased to see the principles of strengthening aid effectiveness applied broadly to the private sector. There was general agreement that improving the effectiveness of current and future programming, in particular through more systematically pursuing and tracking performance and results achieved, was very important. This was seen as related to knowledge and the importance of “understanding the local context.” Many participants in the consultations encouraged the identification of linkages between CIDA's documents on strengthening aid effectiveness, agriculture, and the proposed PSD policy.
- **Avoiding the “one size fits all” approach.** Partners active in a variety of geographic regions noted that careful business and governance analyses, and flexible design and delivery models, are necessary on a project-by-project basis to ensure effective and sustainable PSD initiatives.
- **PSD entry points.** In the context of the PSD framework that CIDA presented, it was observed that donors must recognize the importance of supporting initiatives at multiple levels (informal, enterprise/transactional, national/macro, or global/international).

- **Particular areas of emphasis for CIDA's consideration in PSD.** A number of particular areas were highlighted as important for achieving PSD objectives. Although not an exhaustive list, this represents recurring messages from CIDA's PSD consultations:
 - the importance of supporting small- and medium-sized enterprises (SMEs), which represent the backbone of a healthy, diversified, and resilient economy;
 - the critical role local business organizations can play as support systems for budding entrepreneurs;
 - the essential need for an enabling legal, financial, and institutional environment to assist with, among other things, combatting corruption;
 - the importance of corporate responsibility;
 - the key role that credit and microfinance services can play in empowering women and supporting community economic development;
 - the importance of rural agriculture, producers, and cooperatives; and
 - the importance of access to international markets and international institutions that work in the interests of all.

This feedback has helped the Agency to identify key result areas that both guide institutional, country, and program initiatives to support pro-poor economic growth while maintaining sufficient flexibility in implementation such that the realities of the private sector in each individual, localized context can be reflected.



CIDA photo: Pierre St-Jacques

3

Development Results

CIDA must pursue its results-based orientation.

Setting development targets that are objective, measurable, and realistic should continue to receive sustained attention.... With clear targets, project follow-up should be centred on those targets and the [administrative and reporting] load lightened.

— *Développement international Desjardins*

The desired impact of CIDA's programming in PSD is to contribute to pro-poor equitable economic growth, and improved and sustainable standards of living of poor women, men, and youth in developing countries and countries in transition.⁵ The following outcome results were identified through analysis and evaluation of CIDA's experience in PSD programming, through consultations with CIDA's partners both overseas and in Canada, and in light of other donors' experiences and the supporting literature.

POLICY REQUIREMENT

- ▶ All PSD programming is required to contribute to one or more of the following five expected results at the outcome level:⁶

Private Sector Development Results:

I. Increased incomes and improved productive capacities, including greater control by women over productive assets.

This will be achieved through initiatives such as:

- increased access to credit and microfinance services;
- support for microenterprise and complementary services such as literacy, numeracy, and basic business and vocational training, especially for women entrepreneurs;
- productivity enhancement of small landholders and farmers, especially women;
- supporting environmentally sustainable agro-based processing and rural entrepreneurship; and
- enabling entry (by removal of barriers) of informal entrepreneurs or enterprises⁷ into the formal economy and markets.

Microcredit ... has proven to be an effective and empowering means of increasing women's economic self-sufficiency and self-esteem, contributing positively towards community development, and bringing women and their families, through the multiplier effect, out of poverty.

— *Jolene Zidkovich, York University*

II. Sustainable enterprise expansion and the equitable creation of more and better jobs.

This will be achieved through initiatives such as:

- facilitation of access to credit for SMEs;
- SME business development services and addressing obstacles to business expansion, particularly for women entrepreneurs facing systemic barriers;
- support for farmer, producer, marketing, and financial cooperatives;
- improved market and communications linkages, distribution systems, supply chains, and supplier development; and
- the application of environmentally responsible technology and knowledge transfer, modern management techniques, and sound corporate governance practices.

Canada has a comparative advantage in delivering PSD programming in the area of small business development. One reason why there is growth in Canada today, compared to other G7 countries, is just this "small business."

— *Malcolm Hatley*

III. Sound and accountable private and public institutions to support well-functioning and competitive local and national markets.

This will be achieved through initiatives such as:

- capacity building of business, sectoral, and professional associations; labour/trade unions; and self-employment associations;
- support for local and multisectoral networks and multistakeholder partnerships;
- rural market development and market institutions for agricultural staples;
- promotion of supply-chain linkages among microenterprises, SMEs, and large enterprises;
- building trade-related institutions, and strategic and sectoral competitiveness strengthening through improved quality control and grading capabilities, environmental management practices, and standards accreditation and certification; and
- support for innovation and leadership in corporate social and environmental responsibility.

CME stresses the invaluable role that strengthened local business associations can play in advocacy towards a more enabled business environment ... and in strengthening PSD through networking and capacity building of their membership.

— *Canadian Manufacturers & Exporters (CME)*

The expertise and experience that exists in Canada can help emerging cooperatives avoid costly mistakes and shave years off of the development process. This is one of the truly unique resources that Canada has to offer.

— *John Julian, Canadian Co-operative Association*

If local conditions are not conducive to the creation and growth of businesses, neither domestic nor international market demand will stimulate growth or create wealth.

— *John Treleaven,
Saskatchewan Trade and
Export Partnership*

IV. An enabling business climate conducive to supporting savings, investment, and the development of socially and environmentally responsive enterprise.

This will be achieved through initiatives such as:

- support for the development of transparent, stable, and effective regulatory and legal structures governing private sector activity;
- strengthening the rule of law in areas such as commercial and labour codes, including for the benefit of informal-sector workers;
- support for anti-corruption efforts;
- increased transparency and efficacy of public sector procurement at the national and various sub-national levels;
- legal reform to improve access, management, and administration of land, with particular attention to gender-based discrimination in access and ownership; and
- strengthening government and institutional capacity to develop pro-poor growth policies, including analysis and development of policies for the informal economy.



CIDA photo: Pierre St-Jacques



CIDA photo: Pierre St-Jacques

V. **Increased participation in regional and international markets and institutions by developing countries and countries in transition.**

This will be achieved through initiatives such as:

- capacity building in analyzing, formulating, negotiating and implementing trade policy in developing countries and countries in transition;
- support for the participation of developing countries and countries in transition in regional trade bodies and the World Trade Organization (WTO);
- support for the participation of developing countries and countries in transition in IFIs;
- the provision of technical assistance for more secure trade, enhanced supply chain linkages, and local trade network development; and
- trade-facilitation initiatives such as technical assistance in customs administration, educating potential exporters about phytosanitary regulations, logistical and consumer taste issues, labelling requirements, and quality control.

The expected *output results* of CIDA's PSD programming will then be determined at the institutional, program, and project levels.

Performance indicators for outputs and outcomes must relate to the initiatives actually undertaken in a particular context.

At the core of this Policy is, therefore, a results chain with expected impacts, outcomes, and outputs defined at different levels. Performance will then be tracked in the local context as specified by locally appropriate and measurable indicators.

Governments can affect access; mastering trade policy establishes the environment in which it occurs. But trade, with all of its attendant benefits, will only occur if a seller, with an appropriate product and armed with the know-how of exporting and knowledge of the market, meets a buyer in need of that product and the two of them "do a deal."

— Dwayne Wright,
Trade Facilitation Office
Canada

4 Knowledge-Based Approach to Private Sector Development Programming

We very much appreciate the pro-poor framework and lens for assessing the contribution of economic growth to CIDA's overarching goal of poverty reduction and sustainable development and for setting CIDA's private sector development priorities. The challenge is to use the lens consistently and systematically in setting PSD priorities and implementing these priorities.

— *Canadian Labour Congress, and Canadian Council for International Cooperation*

Analysis: The Three Lenses

The implementation of this Policy requires specific knowledge of the real capacities, modes of operation, and internal relations found in the domestic private sector in developing countries and countries in transition. This includes understanding the constraints to growth, including existing infrastructure, linkages, market arrangements and access, and the level of services to the poor.

In order to account for how a proposed programming framework or initiative will achieve one or more of the five development results, it should be analyzed and assessed through:

- **A pro-poor lens.** Is the pattern of growth and its benefits inclusive of the poor?²⁸ CIDA supports pro-poor sustainable growth—growth that benefits poor women and men, boys and girls, and reduces the inequality of access to economic opportunities. The approach is rooted in the livelihood strategies of the poor, enabling more productive uses of their assets and capabilities. It looks for poor women and men, and developing countries and economies in transition more generally, to have the right to access and participate in markets on an equitable basis.

POLICY COMMITMENT: ANALYSIS AND LEARNING

To help with pro-poor, business, and governance lens analyses, a set of practitioners' analytic tools will be developed by CIDA, made available on the CIDA website, and improved over time.

The PSD pro-poor, business climate, and governance analyses should make reference to the lessons learned and good practices from CIDA's considerable experience in investing in the development of the formal and informal private sectors. CIDA will share these lessons as they become available.

The three analyses must also take into account specific and systematic data increasingly available on poverty profiles, governance and corruption indices, and business climates. Data sources from IFIs and multilateral organizations, from commercial sources and networks, and from civil society will be identified and sourced in the analytical tools.

- **A business lens.** What are the constraints on productivity, competitiveness, business expansion, and investment in a given country, region, or sector? Does the proposed programming target the actual needs of business? Does the proposed intervention make financial and business sense, and are the results likely to be sustainable?⁹
- **A governance lens.** What are the institutional, structural, and systemic constraints that impact on growth? Is the proposed private sector development programming intervention supported by a sufficiently enabling institutional and governance environment so that it can be expected to have sustainable impact?

POLICY REQUIREMENT

- ▶ Proposed new country/institutional programming frameworks aiming for PSD results must be supported by an analysis through the pro-poor, business, and governance lenses.
- ▶ Approval documentation for proposed PSD programming initiatives must present each of these three analyses.

CIDA as a Knowledge-Based Institution

In order to maintain sufficient capacity and knowledge for risk assessment and the application of lessons learned, CIDA will create and maintain an institutional focal point for PSD. The focal point team will be located in CIDA's Policy Branch, and will work in close collaboration with the network of CIDA's PSD specialists. It will work toward the implementation of more effective knowledge-based approaches to support CIDA's PSD work, including:

- adopting a partnership and open-architecture approach to knowledge and learning by means of effective sharing of “inside” and “outside” knowledge;



CIDA photo: Gerard Dolan

14 Expanding Opportunities Through Private Sector Development

- sharing the lessons from successes and failures in PSD initiatives with CIDA staff, partners, and other donors via CIDA's website;
- bringing international best practices to bear on CIDA PSD programming. CIDA will share knowledge with, and learn from, peers in other donor organizations and through the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD);
- representing CIDA in PSD-related donor and consultative fora; and
- in collaboration with all of CIDA's branches, build a multistakeholder knowledge network that will seek to engage the Canadian private sector and civil society, the public sector, and the participation of CIDA's field staff as bridges to consultative, collaborative, and learning relationships with business and professional associations and civil society in developing countries and countries in transition.

This focal point and knowledge network will complement institutional relationships that exist between the Canadian Partnership Branch and Canadian partners.

CIDA will strengthen its institutional capacity in PSD by ensuring that each operational branch has a minimum of one dedicated PSD advisor and that, over time, the number of staff with a business education or background will be increased. This objective will be integrated into CIDA's overall human resources and training plans.

CIDA will maintain a capacity to provide guidance on environmental assessment and gender analysis at the strategic, sector, and project levels to enable pro-poor economic growth and PSD initiatives to better support sustainable development goals. Environmental and gender-equality advisors with knowledge of economic and business development will be designated and work closely with the PSD focal point team.



CIDA photo: David Trattles

5 Implementing the New Directions – Enabling Results

In order to enable the achievement of the above development results, CIDA must be flexible and adaptable in delivering PSD initiatives that respond foremost to partner-country needs and priorities.¹⁰ PSD programming will apply recognized principles to strengthen aid effectiveness through:

Focus and Strategic Choices

POLICY REQUIREMENT

- ▶ The process of defining or renewing country or institutional programming frameworks in those country/institutional programs adopting a PSD focus and aiming for PSD results must focus programming on a limited number of sub-areas. Synergy should exist between PSD sub-areas and between individual initiatives.
- ▶ Planning and approval processes for new country/institutional program frameworks and new PSD initiatives must include a strategic analysis of programming entry points.¹¹ Criteria for determining the effectiveness of these entry points in achieving expected PSD results should include the consideration of sustainability of project impact, comparative advantage of different donors (including IFIs), promotion of gender equality, and environmental impact.

PSD FOCUS COUNTRIES

CIDA's PSD website (www.acdi-cida.gc.ca/psd) provides a list of country and institutional programming frameworks that have made PSD, or more broadly, economic development, a priority. This list will change over time as country/institutional needs and priorities, and CIDA strategic choices evolve.

Stronger Partnerships

POLICY REQUIREMENT

- ▶ CIDA will align its country and institutional programming orientations within the locally owned frameworks identified by developing countries and countries in transition, such as national or local plans for poverty reduction and/or economic development. These could include rural development, industrial development, and trade strategies as well as technology, innovation, and entrepreneurial development strategies. CIDA's responsive mechanisms will be increasingly demand-led and aligned with local priorities.

More effective and innovative development initiatives are needed. CIDA will look to strengthen its partnerships with the private sector, voluntary sector, institutions, multilateral organizations, and other governments to mobilize greater resources, knowledge, and creativity. CIDA programming will also be open to supporting multistakeholder and tripartite

partnerships with participation by the private sector in developing countries and countries in transition, including support for locally sustainable networks.

Canada maintains membership in multilateral institutions including the WTO; IFIs and their funds such as the World Bank, the International Finance Corporation (IFC), and the Consultative Group to Assist the Poor (CGAP); and UN organizations and funds, such as the United Nations Development Programme (UNDP), United Nations Capital Development Fund (UNCDF), United Nations Conference on Trade and Development (UNCTAD), International Trade Centre (ITC), and International Labour Organization (ILO). Through membership in and contributions to these organizations, CIDA will pursue the achievement of the five development results laid out in this policy.



CIDA photo: Roger LeMoynes

Youth livelihoods need to be included in the policy, especially regarding Africa and AIDS orphans, as many youths are heading households.

— PSD Consulting Community (Ottawa)

Local Ownership, Participation, and Capacity Building

CIDA will support efforts toward enhanced access and equitable participation of all stakeholders, particularly poor and marginalized groups, in economic growth and in local economies and markets. This includes equitable access to labour markets and employment, and in accessing benefits and economic-incentives programs. It should be recognized that, particularly in the context of the HIV/AIDS epidemic, children are increasingly important economic actors and are often heads of households. CIDA will support children in economic roles providing their working conditions are not exploitative or dangerous.

Equitable and broad-based participation is also key at the policy level. This means enhanced participation by business, producer, farmer, labour, women's, environmental, and other organizations and by individuals in consultations about national plans and economic

development policies (including policies affecting the informal economy). CIDA will also support partner countries in including pro-poor growth, PSD, and trade and investment perspectives in their Poverty Reduction Strategy Papers.

In its delivery strategies, CIDA's PSD programming will adopt approaches for building and strengthening private and public institutions that support well-functioning and competitive local and national markets. CIDA will support capacity development, including human resource development, to increase productivity and competitiveness. Depending on local needs, this may focus on literacy, numeracy, and technical and vocational training. CIDA will also support South-South and triangular cooperation as a means of building capacity effectively.

POLICY REQUIREMENT

- ▶ For all PSD initiatives, full consideration will be given at the planning stage to untying the supply of required goods and services, especially to local and regional suppliers, as a measure to provide opportunities for and build the capacity of the local private sector. Where necessary, this will be twinned with measures to strengthen procurement capacity to ensure fair, transparent, and best-value outcomes of the competitive procurement of supply.

Donor Coordination, Harmonization, and Best Practices

Increased donor coordination around frameworks such as Poverty Reduction Strategy Papers, Comprehensive Development Frameworks, and the UN's Development Assistance Frameworks results in better information sharing. Greater flexibility within CIDA's own programming, including through the harmonization of its instruments with other donors, is needed in order to support donor coordination. CIDA will seek to reflect and create internationally recognized best practices in its programming.

POLICY REQUIREMENT

- ▶ When working at the global/international level, CIDA shall endeavour to work in alliance with other donors and institutions, and on the basis of multilateral solutions, whenever possible.
- ▶ When working at the macro/national level, CIDA will generally not take the leadership of infrastructure projects, efforts in privatization, public-expenditure management, reform of macro-economic policy, or reform of the investment climate for foreign investment, recognizing that these are areas of comparative advantage of IFIs. CIDA will support these activities through its direct contributions to IFIs (including trust funds). CIDA programming in support of capacity development in these areas will be done only in collaboration or close consultation with other donors, including IFIs.
- ▶ When working at the sectoral/institutional level, CIDA will not support programming without best efforts in consultation with other donors. Approval documents for such initiatives must demonstrate what steps have been taken to ensure that donor initiatives in a sector regarding an institution or the strengthening of regulatory, trade, economic, and environmental management capacity are mutually supportive and non-duplicative.

- ▶ When working in developing countries or economies in transition on projects related to building up enterprise centres and the capacity for providing business development services, CIDA will endeavour to work in collaboration with other donors. Especially where other donors are providing financial assistance (i.e. loanable funds), CIDA can look to achieve complementarity by providing non-financial technical assistance.
- ▶ When working to support agricultural, rural, and informal-sector producers, CIDA will carefully analyze market arrangements, and current and future demand conditions in collaboration with other donors' research and analysis.¹²

Policy Coherence

**POLICY COMMITMENT:
POLICY COHERENCE – FOCUS ON TRADE AND DEVELOPMENT**

In concert with other government departments, CIDA will support the formulation of Canadian trade policy and negotiating positions to ensure that human development and poverty reduction objectives are incorporated into trade and investment negotiations such as the Doha Development Round at the WTO.

CIDA will better integrate trade and development issues into agency country/institutional programming frameworks and support increased trade-related capacity building in order to expand the market opportunities of local private sector enterprises in developing and emerging economies.

By strongly supporting the *Monterrey Consensus*, Canada has affirmed its intent to put into action commitments toward better coherence in how various Canadian policies affect sustainable development and poverty reduction in developing countries and countries in transition.

Working closely with the Department of Finance, Department of Foreign Affairs and International Trade (DFAIT) and other parts of the Government of Canada, CIDA will seek to influence approaches of PSD initiatives funded by IFIs, UN organizations and the WTO, both at the field level and through Canada's participation on the boards of these multilateral institutions.

Much work remains to be done on devising ways to improve coherence not merely among economic instruments and institutions, but also with social and environmentally mandated instruments and institutions in areas such as human rights, core labour standards, gender equality, global and cross-border environmental issues, migration, peace and security, and corporate responsibility. CIDA will contribute to policy research in advancing these issues.

6 Accountability

Evaluation

PSD programming will be evaluated against expected results at the program, institutional, and sectoral levels. Evaluations will focus on producing “lessons” to inform more effective future programming.

This Policy is centred on the achievement of better development results from PSD programming and will be reviewed in five years.

CIDA’s Obligations

As a department of the Government of Canada, CIDA is bound and guided by a variety of legal instruments and international agreements. In addition, CIDA has a number of Agency policies in place whose application is required conjointly with this PSD Policy. For example:

- Projects and activities resulting from PSD initiatives may be subject to environmental assessments pursuant to the *Canadian Environmental Assessment Act (CEAA)*. Such assessments may be carried out either as prescribed in the applicable legislation in the host nation in compliance

One needs to be concerned about the quality of economic growth, not only the quantity. This region [Atlantic Canada] has learned this harshly through, for example, the collapse of our fishery.

— Ian McAllister,
Dalhousie University



CIDA photo: David Barbour

with the CEAA or as prescribed in the CEAA. CIDA will consider undertaking an environmental assessment in cases when the CEAA may not apply, when potential environmental effects warrant, in accordance with *CIDA's Policy for Environmental Sustainability*. CIDA also will ensure that major program proposals, such as country development program and/or institutional program frameworks arising from the PSD Policy and requiring Ministerial approval, undergo a strategic environmental assessment in accordance with the *1999 Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals*.

- Canada has ratified a number of the ILO's core labour standards as per the *ILO Declaration on Fundamental Principles and Rights at Work* and supports certain agreements such as the *UN Global Compact*, which, among other things, aim to protect and improve the rights, freedoms, and conditions of workers. Specifically, Canada has ratified ILO conventions guaranteeing the freedom of association, the right to organize, and equal pay for men and women for work of equal value. It has also ratified ILO conventions to protect workers from forced labour and from discrimination. CIDA's efforts to support PSD must recognize these commitments and seek to ensure they are not violated through any of its activities. CIDA's work should also be informed by the ILO's current work regarding the informal economy.
- Canada has ratified the OECD Convention on *Combating Bribery of Foreign Public Officials in International Business Transactions*, and is required to apply and monitor commitments under the Convention. The *Corruption of Foreign Public Officials Act*, and related amendments to other acts, implement Canada's commitments under the Convention.

Capital must be generated first and foremost on a local basis.

— *Développement international Desjardins*

Guiding Instruments

Canada supports the promotion of international standards and principles for responsible corporate behaviour. As an entity of the Government of Canada, CIDA is committed to supporting the implementation of the OECD's *Guidelines for Multinational Enterprises*. As such, CIDA has a responsibility to promote the guidelines, and encourages all partners to become familiar with these and respect them. This should include the analysis of best practices, information dissemination, and ongoing support of the work of the Canadian National Contact Point to manage inquiries and complaints of corporate behaviour in relation to the guidelines.

Canada supports the implementation of the goals established at the 1995 Beijing Fourth World Conference on Women as set out in its *Platform for Action*. Twelve areas of concern necessary for advancing the status of women and girls were agreed to at the meeting. Action in the areas of poverty reduction and enhanced economic opportunities for women and girls are particularly relevant in the context of this Policy. The *Platform for Action* and CIDA's *Gender Equality Policy* offer guidance on the planning and implementation of CIDA PSD projects. CIDA supports greater equality between women and men in rights, decision making, and access to and control over the resources and benefits of development,

including, among other things, increased control by women over productive assets (land, capital, credit, technology, skills) and increased access to decent work.

Guidance on environmental impact issues is also provided by Multilateral Environmental Agreements, to which Canada is party. These include the *United Nations Framework Convention on Climate Change*, the *United Nations Convention to Combat Desertification*, the *Convention on Biological Diversity*, and the *Stockholm Convention on Persistent Organic Pollutants*.

7 Conclusion

In fulfilling Canada's commitments of tackling global poverty and achieving the internationally agreed MDGs by 2015, CIDA must intensify its efforts to support sustainable pro-poor economic growth in the developing world. There is growing empirical evidence that the development of the private sector is a critical strategy for achieving the first MDG of halving the proportion of people living on less than \$1 a day (US).

The objective of CIDA's PSD programming is to create more, better, and decent jobs and sustainable livelihoods by helping markets to function well and by stimulating growth of the private sector in developing countries and countries in transition.

CIDA will take a results-based approach to PSD. The five PSD results set out in Chapter 3 of this Policy provide the orientation for CIDA's PSD programming. In implementing this Policy, CIDA is also making a commitment to knowledge-based approaches: to continue learning from our experiences together with our partners in development. The policy reaffirms CIDA's commitment to integrating gender equality and environmental sustainability in all of its PSD programming.

In implementing this PSD Policy, CIDA will follow through on its commitment to Canadians to make development assistance more effective through more focused and strategic choices, increased attention to local priorities and local needs in developing countries and countries in transition, stronger partnerships and better donor coordination, and in fostering greater coherence in Canada's policies that affect our developing- and transitional-country partners.

Appendix – Key Concepts

corporate social responsibility – A concept whereby a business recognizes that it has an impact on the well-being of all its stakeholders, and therefore integrates social and environmental concerns into its business operations and its interaction with those stakeholders.

decent jobs – Decent work means productive work in which rights are protected and that generates an adequate income with adequate social protection. It is also sufficient work, in the sense that all should have full access to income-earning opportunities. It marks the high road to economic and social development, a road on which employment, income, and social protection can be achieved without compromising workers' rights and social standards (Source: ILO).

development results – CIDA's development results form a part of the Key Agency Results, on which CIDA annually reports to Parliament in its Departmental Performance Report. CIDA's development results encompass four core areas: economic well-being, social development, environmental sustainability and regeneration, and governance.

enabling environment – This refers to the economic, physical, legal, regulatory, and institutional framework within which business operates. The establishment of an enabling environment is regarded as a critical element in the encouragement of private enterprise—local and foreign—to develop and flourish in a given country, thereby becoming the engine of growth. A positive enabling environment can be defined as the existence of a competitive internal market that is connected to the global economy, guided by well-defined legal and regulatory frameworks, and supported by a strong and growing human capital base and viable infrastructure.

gender equality – Gender equality means that women and men enjoy the same status and have access to equal conditions for realizing their full human rights and potential to contribute to national, political, economic, social, and cultural development, and to benefit from the results. Gender equality is therefore the equal valuation by society of both the similarities and differences between women and men, and of the varying roles that they play.

informal economy – The informal economy, or informal sector, is characterized by economic activities that are small-scale, highly unregulated, and usually undertaken by self-employed women and men.

project sustainability – Project sustainability is a concept that extends beyond the financial sustainability (generating revenues to cover costs over a finite time horizon) of a particular business proposition. Institutional sustainability should not be too narrowly interpreted as the ability to survive without any subsidy, but rather the ability to survive because funding is available to continue the initiative beyond the period of CIDA funding. Project sustainability addresses the question of whether the results achieved by the project in the short and medium terms will endure to the longer term. CIDA's *Framework for Results and Key Success Factors* elaborates on how sustainability is to be targeted and measured with an emphasis on: 1) identifying what results will continue, 2) local ownership's commitment to results and methods, 3) resourcing commitments, 4) the adequacy of institutional capacities, and 5) how conducive institutional, national, and international environments are to the maintenance of results.

South-South and triangular cooperation – South-South cooperation is cooperation between developing countries in order to share ideas, skills, and lessons learned with each other without the involvement of developed countries, thereby empowering the developing nations. This cooperation can take place between governments, between actors in civil society, or between organizations in the private sector. Triangular cooperation is the name given to South-South cooperation when it is supported financially by donors.

strategic level of programming – CIDA's PSD Policy Framework sets out five conceptual levels at which PSD initiatives can choose to engage: the informal sector level, enterprise/transactional level, institutional/sectoral level, macro/national level, and global/international level. For further discussion and examples, see Chapter 2, CIDA's *Expanding Opportunities: Framework for Private Sector Development*.

sustainable livelihoods – The sustainable livelihoods approach to development values the wide range of activities people do to make a living, as well as their many assets and capabilities. In other words, the root of human development and economic growth is “livelihoods.” As such, the approach looks at ways to generate income, produce sufficient and nutritious food, manage the environment, and empower rural people, including women—all aimed at promoting sustainable human communities.

untied aid – Aid tying refers to the practice of a donor requiring that its aid be spent on procuring goods and services from the donor country itself. Definitions of tied aid, untied aid, and partially untied aid are based on a concept of potential eligibility of countries other than Canada to access CIDA funds. For example, if a contract results from competitive bidding limited to Canada, it is fully tied, whether costs are incurred or not in the recipient country or in another country. If a contract results from international competitive bidding, the aid paying for the contract will be classed as untied (or partially untied) even if the contract is awarded to a Canadian entity as a result of the process. Local-cost financing and local consulting services, budgetary support, mission-administered funds, and Canada's contributions to the IFIs and UN (except some trust funds) are also untied. Untying aid has long been identified as a measure of donor countries' commitment to aid effectiveness, value for money, and sustainable development policies toward developing countries. The proportion of official development assistance that is untied is explicitly identified as an indicator of Millennium Development Goal 8 (Develop a global partnership for development).

well-functioning markets – Well-functioning markets are competitive, accessible to potential participants (including poor women and men market entrants), and domestically integrated through supply chains, distribution networks, adequate infrastructure, and information flows. Well-functioning regional and global markets can also serve to expand opportunities. CIDA recognizes the inefficiencies in the market caused by gender inequality and the social barriers to women's equal participation, and will support efforts to address these in order to promote equitable and sustainable pro-poor economic growth.

Notes

CHAPTER 1: Introduction and Overview

1. The conceptual framework for this Policy is further elaborated in the background document *Expanding Opportunities: Framework for Private Sector Development*, available on CIDA's website at www.acdi-cida.gc.ca/psd
2. Managing for results is the prime responsibility of public service managers. Managers must effectively manage resources, measure performance regularly and objectively, and account for performance toward the achievement of results. This requires continuous learning and adjusting to improve efficiency and effectiveness so that managers may be accountable for their performance to higher management, Ministers, Parliament, and Canadians.
3. The term *initiative* is used to refer to all CIDA expenditures through the three business delivery models: directive, responsive, core funding/institutional support.

CHAPTER 2: The Consultative Process for Developing this Policy Statement

4. For additional details on CIDA's PSD consultations, see www.acdi-cida.gc.ca/psd

CHAPTER 3: Development Results

5. This impact statement is linked to the Key Agency Result related to Economic Well-Being.
6. In the programming context, the expected outcome result can be stated in locally specific terms, for example, increased number of jobs created for, and businesses formed by, Palli Davidro Bimochon Foundation (formerly Rural Bittaheen Institution) members (mainly women) in rural Bangladesh. Additional expected outcomes can also be set given the context.
7. Constraints such as cultural and institutional restrictions on property ownership and income, household and child care responsibilities, lack of social protection, lack of voice, and an inability to influence decisions are additional obstacles faced by informal-economy workers, often even more so by women.

CHAPTER 4: Knowledge-Based Approach to Private Sector Development Programming

8. Not all initiatives have to be targeted directly on the poor. Institutional, governance, and policy interventions that affect structural or systemic factors of poverty can be as important. The point of the pro-poor analysis is to explain how (directly or indirectly) the proposed intervention is anticipated to affect poor men, women, and youth. See also CIDA's *Policy on Poverty Reduction*.
9. See also Project Sustainability in the Appendix.

CHAPTER 5: Implementing the New Directions — Enabling Results

10. This is why CIDA's Policy does not prioritize one type of PSD initiative or one sector of intervention over all others across all CIDA programming countries. Nor does CIDA's Policy aim to characterize which "type" of country should be selected for PSD programming. The choice of whether a country or institutional program strategy will have a PSD focus must be undertaken in consultation with CIDA's country/institutional partners in development in a donor-coordinated and evolving context.
11. Programming can take place at various levels: informal/micro, enterprise/transactional, institutional/sectoral, macro/national and global/international. They are described in Chapter 2 of *Expanding Opportunities: Framework for Private Sector Development*.
12. Linkages between private sector development and agricultural development need to be better recognized. See also CIDA's policy statement *Promoting Sustainable Rural Development Through Agriculture: Canada Making a Difference in the World*.

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