

# THE ELUSIVE QUEST FOR PRO-POOR GROWTH?

AN ANALYSIS OF CIDA'S SUSTAINABLE ECONOMIC GROWTH STRATEGY

## CCIC Discussion Paper

Written by

Brian Tomlinson, AidWatch Canada  
and Fraser Reilly-King, CCIC

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For additional information on CCIC:

Canadian Council for International Co-operation (CCIC)  
200-450 Rideau Street, Ottawa ON, K1N 5Z4  
613 241-7007 • [info@ccic.ca](mailto:info@ccic.ca) • [www.ccic.ca](http://www.ccic.ca)

Report written by Brian Tomlinson and Fraser Reilly-King.  
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## Acronyms

<b>AAA</b>	Accra Agenda for Action
<b>CCIC</b>	Canadian Council for International Co-operation
<b>CEDAW</b>	Convention for the Elimination of all forms of Discrimination Against Women
<b>CIDA</b>	Canadian International Development Agency
<b>CSOs</b>	Civil society organizations
<b>CSR</b>	Corporate social responsibility
<b>DAC</b>	Development Assistance Committee
<b>DFAIT</b>	Foreign Affairs and International Trade Canada
<b>DfID</b>	Department for International Development (UK)
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>G8</b>	Group of Eight
<b>G20</b>	Group of Twenty
<b>GAFFSP</b>	Global Agriculture and Food Security Program
<b>GNI</b>	Gross National Income
<b>HLF4</b>	Fourth High-Level Forum on Aid Effectiveness
<b>HRIAs</b>	Human Rights Impact Assessments
<b>ICT</b>	Information and Communications Technology
<b>IDA</b>	International Development Association
<b>IFC</b>	International Finance Corporation
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>LICs</b>	Low-Income Countries
<b>MICs</b>	Middle-Income Countries
<b>MDBs</b>	Multilateral Development Banks
<b>MDGs</b>	Millennium Development Goals
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PD</b>	Paris Declaration
<b>PPPs</b>	Public-Private Partnerships
<b>PSW</b>	Private Sector Window
<b>SEG</b>	Sustainable Economic Growth
<b>SEWA</b>	Self-Employed Women's Association
<b>SMEs</b>	Small and medium -sized enterprises
<b>TRTA</b>	Trade related technical assistance
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>WBG</b>	World Bank Group

## Executive Summary

In October 2010, the Canadian International Development Agency (CIDA) published its Sustainable Economic Growth Strategy (SEG) for the last of three thematic areas of focus – food security and securing the future of children and youth being the other two. CIDA’s thematic focus on “stimulating sustainable economic growth” is in keeping with renewed attention among a number of like-minded donors, and the emergence of new economic powers in the Group of 20 (G20), to “strong, sustainable and balanced economic growth” in development cooperation.

The intent is to make growth more inclusive of the majority of the world’s population and to establish a strong role for the private sector in fulfilling this mandate. It still sees an important role for the state in selectively intervening in the functioning of the market – key to correct market failures that affect poverty and social exclusion. But the policy shift also comes in the context of fiscal austerity programs that are shrinking aid budgets, are seeing donors trying to leverage flat-lined aid budgets in innovative ways that catalyze private sector resources and that are underscoring “value-for-money” of existing aid resources.

The Busan Partnership for Effective Development Cooperation, the key outcome of the Fourth High-Level Forum on Aid Effectiveness (HLF4), also gives prominence to the private sector as an equal partner in development, envisaging a role for it in “the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction.” The hope of donors is that this new approach will help drive growth and job creation, with the benefits and revenues generated trickling down to fight poverty. The fear among CSOs is that this will amount to nothing more than a “Washington Consensus +”.

It is in this context that CIDA is promoting a growth strategy that will generate revenue, create employment and lead to poverty reduction. The Strategy takes three paths: building economic foundations by strengthening the necessary legislative and regulatory environment for business; growing businesses by enhancing the financial viability, productivity and competitiveness of micro, small and medium-sized enterprises; and investing in the employment potential of people in the formal and informal sector through skills development and training. The Strategy also identifies a range of pre-conditions for sustainable economic growth. These include having effective policies and institutions, open and effective markets, large investment in infrastructure, capable human capital, equality of opportunity, and sound natural resource management.

In practice, in 2009/10, CIDA disbursed \$741.4 million for implementing the SEG Strategy or 22.3 percent of CIDA overall disbursements for that year. Disbursements through the SEG in 2009/10 were somewhat lower than in the previous two years. 12 of CIDA’s 20 program priority countries have SEG as a focus in their country strategies. More than 30 percent of disbursements are dedicated to the SEG Strategy in six priority countries (Afghanistan, Haiti, Caribbean Region, Indonesia, Ukraine and Peru). Several non-priority countries also have high dollar and percentage disbursements for SEG (Nicaragua, South Africa, Philippines, China, Nepal and Egypt).

The primary focus of these programs is on public economic management, and environment and natural resources (both related to the SEG path of building economic foundations). Almost all of the activities relate to supporting state financial and public sector management or large-scale private sector development. Aid-for-Trade spending makes up a significant proportion of CIDA commitments to this theme. Conversely, skills development, related to the SEG path of investing in people, represents only 3 percent of all disbursements for SEG in 2009/10. Corporate Social Responsibility projects are growing in numbers and value.

While the sustainable economic growth theme may only apply to CIDA programming, there are also growing connections between CIDA's SEG theme and specific Canadian aid programs supported through Finance Canada at the World Bank Group (WBG). Canadian priorities at the WBG have focused on three principal areas: 1) initiatives to boost investment in SMEs; 2) using the Bank's resources as an incentive to leverage private investments in global public goods (in particular agriculture and food security, infrastructure in low-income countries and climate finance); and 3) exploring how to better coordinate and integrate the public and private sector lending arms for the WBG. The SEG theme is also reflected in practice in many of the activities of Foreign Affairs and International Trade Canada (DFAIT), in particular the trade and investment priorities with developing countries and the focus on the extractive industries and corporate social responsibility.

So what of the Strategy itself? In general, it seemingly fails to build upon a large body of work around pro-poor economic growth, including previous CIDA policies for poverty reduction and private sector development, and past statements by the Organization for Economic Co-operation and Development (OECD) on best practices for pro-poor growth. It also would have benefited from setting out more clearly the analytical and methodological linkages between CIDA activities that promote sustainable economic growth and how those same activities contribute to poverty reduction.

Many of the underlying assumptions of the Strategy also seem misplaced.

Firstly, the SEG Strategy assumes that extreme poverty declines best "in countries that create and maintain robust economic growth". World Bank research does demonstrate that over time growth reduces some conditions of absolute poverty, but it also often accentuates inequality for poor people. Growth must target the poor directly to reduce poverty. The SEG Strategy therefore must pay greater attention to where growth is occurring – and ensure that it is in areas and sectors where poor people live and are economically active, and that it is having a positive effect on the livelihoods, assets and capacities of the poor. But conditions affecting poverty and inequality are also country specific – there is no one-to-one relationship between economic growth policies and the reduction of poverty and inequality. Consequently, states have a key role to play in ensuring that they – states and their citizens – actually benefit from growth (vs. private actors) and that public policies are in place so that these benefits are distributed equitably amongst all. Sustained economic growth and sustainable economic growth are also not interchangeable. The SEG Strategy seems to confuse approaches to economic growth that help governments benefit from sustained periods of high growth, with growth that is sustainable

from a social, environmental and human rights perspective as well as an economic one. Finally, while creating enabling conditions for business and private sector development, the SEG Strategy needs to focus on how aid resources can contribute to an enabling environment that allows business and the private sector to contribute to development and poverty eradication.

Secondly, the SEG Strategy assumes that investing in job skills for people and creating enabling conditions for business will contribute to economic growth in which “those living in poverty [...] reach their potential”. Strengthening economic management and improving legal and regulatory frameworks do lay important economic foundations for business. But in order for growth to benefit the poor, we must more directly target the needs of the poor (not just the business where they may get jobs). Investing in skills development is not enough, we must ensure that the poor are engaged in policy making processes that are accountable to their interests, and use economic, social and political strategies to empower people to move out of poverty and truly benefit from economic growth processes. CIDA’s SEG Strategy needs to say much more about linkages with political and social empowerment.

Thirdly, the SEG Strategy assumes that increasing employment in the formal economy automatically benefits the most impoverished people, women and other discriminated groups. The assumption is that formal is better. This may be the case, but there are a host of reasons that make people work in the informal sector – and large informal sectors exist in most of CIDA’s countries of focus. Moving people out of the informal sector into formal employment takes time. The SEG Strategy therefore needs to balance the attention it gives to the needs of the formal economy with equal attention to the needs, nature, size and challenges of the informal sector that provides employment for poor people, and particularly for women. This means building the skills and training of formal and informal workers, but also changing the underlying socio-economic conditions that keep people trapped in the informal sector. This occurs by strengthening the working conditions and social protection systems for the formal and informal sectors.

Finally, the SEG Strategy assumes that unlocking new areas of growth through trade and investment liberalization creates new opportunities for poor people in developing countries. While no country has developed by turning its back on trade and investment, the timing of such liberalization, particularly for highly vulnerable poor economies, has been a crucial consideration in the contribution of trade and investment to growth. The Strategy also has a bias towards external investment as a source of economic growth. Instead, focusing on domestic public savings, investment and taxation, in particular in infrastructure, education and health, will “crowd-in” foreign private investment. Trade and investment policies also need to differentiate between the needs and constraints of each economy, be rights, gender and equality aware, and promote aid-for-trade initiatives that better cater to the special and differential treatment developing countries require, rather than focusing on implementing existing trade rules, many of which have poorly served developing country interests. Finally, while the Strategy acknowledges the importance of corporate social responsibility (CSR) to natural resource management, it needs to go further, including acknowledging the rights of populations and communities affected by resource investments.

Recently, the SEG Strategy has more proactively turned its attention to women's economic empowerment. This is an essential condition for the contribution of economic growth to poverty reduction. Women however face many barriers and levels of discrimination, as noted in the Strategy. CIDA hopes to address this by working with like-minded institutions, increasing women's and girls' access to education and training, improving smallholder women farmers' productivity, targeting initiatives that increase women's economic opportunities, establishing equitable business and employment laws, and increasing women's access to financial services. CIDA needs to complement this approach with a focus on gender budgeting, gender disaggregated data, tackling legal and cultural discrimination against women in the economy, strengthening women's organizations, and taking account of women's domestic responsibilities. But ultimately, economically empowering women will fall short unless realizing gender equality and women's rights are at the heart of the Strategy.

Given this, this Discussion Paper recommends the following:

1. Projects and programs related to the SEG Strategy should meet the criteria of the ODA Accountability Act;
2. CIDA should develop pro-poor accountability tools, in particular within the SEG, that build on existing best practice;
3. CIDA country programs, in particular those where SEG is a priority, should support measures that empower poor people to participate in policy-making processes that are accountable to their interests;
4. CIDA should develop specific indicators to measure compliance with gender equality (inclusion and empowerment of women), governance and environmental sustainability (including contributions towards climate change) in its country performance management strategies;
5. In strengthening skills and capacities for formal sector employment, CIDA should develop a balanced and integrated approach to the formal and informal sectors that includes strong social protection measures;
6. CIDA programs to improve skills and access to jobs in the formal economy should equally attend to working conditions, and the implementation of core labour standards and laws in that sector;
7. CIDA should coordinate a multi-stakeholder process to identify principles and a framework to guide its approach to the private sector, building on existing best practice;
8. CIDA's actions in support of an enabling environment for private sector development should be guided by the application of specific principles, and should demonstrate financial and development additionality. CIDA's projects and programs with respect to resource sector development should acknowledge the rights of populations and communities affected by such resource investments.
9. CIDA's support for an enabling environment for trade and investment in developing countries should be tailored to the needs and constraints of each economy, allowing for special and differential treatment for developing countries.
10. CIDA should work with partners, including CSOs, to develop human rights impact assessments (HRIAs) of trade and investment regimes.

## 1. Introduction

The quest for economic growth – be it sustainable, equitable, pro-poor or inclusive – is a complex and elusive one. Governments began 50 years ago experimenting with different formulas for promoting growth as the avenue for poverty reduction – through import substitution, export-oriented growth, and structural adjustment as captured by the “Washington Consensus,” and the “post-Washington Consensus”.

Since 2008, changes in political regimes among a number of bilateral donors, including Canada, and the emergence of new economic powers in the Group of 20 (G20), have brought renewed attention to “strong, sustainable and balanced economic growth” in development cooperation. The private sector is seen both as a source of new resources and as an equal partner in development – at a time of budgetary austerity for new aid resources and ahead of a final push towards achieving the Millennium Development Goals (MDGs) in 2015. The G20, as the “premier forum for international economic cooperation,” picked up this theme at their November 2010 meeting in the form of the “Seoul Development Consensus for Shared Growth”. Each meeting since has stressed development cooperation initiatives.

In October 2010, the Canadian International Development Agency (CIDA) published its Sustainable Economic Growth Strategy (SEG),<sup>1</sup> fulfilling its 2009 announcement to focus on three thematic areas – food security, securing the future of children and youth, and sustainable economic growth.<sup>2</sup> CIDA’s thematic focus on “stimulating sustainable economic growth” connects strongly with broader donor trends of renewed attention to economic growth. But the Agency’s approach is also rooted in past strategies for supporting economic growth and strengthening the role of the private sector in development, approaches which span several decades of past CIDA programs and projects focusing on governance, private sector development, and the environment. The 2010 Strategy differs in that it combines these elements together within a more explicit focus on growth and the private sector.

This CCIC Discussion Paper explores and assesses the different dimensions of the SEG Strategy. The paper starts by situating CIDA’s support for SEG within a broader global trend that is seeing development agencies lend greater focus to inclusive economic growth as part of their approach to development. It then provides an overview of the key objectives and priorities of the SEG Strategy, while also profiling current CIDA disbursements directed at sustainable economic growth in a separate section. Within the government, CIDA is not alone in allocating aid resources to this theme. Accordingly, the paper looks at the attention Finance Canada is giving to this theme through the resources it is allocating to various funding windows at the World Bank. The fifth section provides a substantive review of five key assumptions that seem to inform the approach and priorities of the Strategy. The

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<sup>1</sup> “CIDA’s Sustainable Economic Growth Strategy”, accessed August 2011 at <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NAD-9241625-RHC#pdf>

<sup>2</sup> A fourth area of focus on maternal and child health was announced at the July 2010 Canadian G8/G20 Summits, but its activities are subsumed under the “Children and Youth” strategy.

analysis in this fifth section is informed by the legislated purposes of Canadian Official Development Assistance (ODA), as identified in the 2008 ODA Accountability Act – poverty reduction, taking account of the perspectives of the poor and consistency with international human rights standards. The work of the Organization for Economic Co-operation and Development’s (OECD) Development Assistance Committee (DAC) also provides important policy guidance and best practices for donor promotion of “pro-poor growth”, and informs this section of the paper.<sup>3</sup> This review of assumptions and the final section on the SEG Strategy’s approach to gender equality and the economic empowerment of women creates the basis for several concluding recommendations for CIDA to consider as it implements the Strategy, and for civil society organizations as they engage with and monitor the outcomes of the Strategy for poor and marginalized populations.

## **2. CIDA’s Sustainable Economic Growth Strategy in context: The pushes and pulls towards a new economic growth paradigm**

CIDA’s SEG Strategy is not only an important reflection of the Canadian Government’s thematic priorities for ODA, but is also wholly consistent with shifts in broader donor policies since the 2008 global economic crisis. Like CIDA, other donors are increasingly framing their development strategies in terms of economic growth objectives, with the stated intent of making growth more inclusive of the majority of the world’s population, and establishing a strong role for the private sector in fulfilling this mandate.<sup>4</sup> These donor shifts towards economic growth strategies are also motivated by a critique that the MDGs, in their strong emphasis on social policy goals, have failed to give sufficient attention to the economic foundations for achieving progress.

The renewed emphasis on economic growth as the basis for development is also an agenda shared by many “emerging economies”. The latter are now playing an increasingly important role in shaping global policy discourse through the G20. While these countries had largely rejected the open trade and investment structural adjustment paradigm of earlier decades, they now promote the economic policy mix that resulted in decades of strong economic growth accompanied by advances in social indicators. The influence of this approach can be seen as Canada joined other donors among the G20 countries in November 2010 in a “common view” on “a path to strong, sustainable and balanced growth beyond the crisis” – articulated at the G20 Seoul Summit as “The Seoul Development Consensus for Shared Growth”.<sup>5</sup>

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<sup>3</sup> In 2006 ministers representing all donor agencies in the DAC, including Canada, endorsed “Promoting Pro-Poor Economic Growth: Policy Statement” at their April High Level Meeting. This Policy Statement was followed in 2007 by the DAC’s “Promoting Pro-Poor Growth: Policy Guidance for Donors”, which has five main sections – Key Policy Messages; Private Sector Development; Agriculture; Infrastructure and Harmonizing ex ante Poverty Impact Assessment. The DAC policy guidance was accessed August 2011 at [http://www.oecd.org/document/11/0,3746,en\\_2649\\_34621\\_47428619\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/11/0,3746,en_2649_34621_47428619_1_1_1_1,00.html).

<sup>4</sup> See Annex Two for some references to these donor policies.

<sup>5</sup> See the *Seoul Development Consensus for Shared Economic Growth*, <http://www.g8.utoronto.ca/g20/summits/2010seoul.html>.

A prominent feature of these recent policy shifts is an increased role for the state in selectively intervening in the functioning of the market – moves that are increasingly seen as essential to correct market failures that affect poverty and social exclusion. There is more attention to policies for job skills development, the selective use of capital controls, an increased focus on domestic resource mobilization and tax administration, greater priority to investments in agricultural productivity and concern for food price volatility, and the creation of a minimum floor of social protection – with the state and donors playing a more active role on all of these fronts. There are also growing calls for “green growth”, a “new green deal,”<sup>6</sup> and recognition that we are living in a worsening climate and food crisis that is disproportionately affecting the poor and marginalized.

These shifts are taking place in the context of fiscal austerity programs that are decreasing or freezing the resources allocated to aid budgets. In practice, this has meant that donors are paying less attention to the longer-term impacts of their resources on development, and are instead placing increased emphasis with the general public on approaches that demonstrate “cost effectiveness”, “value-for-money”, or “value added” of their limited resources, all within a short-term results horizon. These approaches are also accompanied by efforts to leverage flat-lined aid budgets through innovative financing mechanisms, using aid as the “capital base” to catalyze additional resources from the private sector and private foundations, or to engage them in innovative ways to identify solutions to development challenges. The hope is that this new approach will help drive growth and job creation, with the benefits and revenues generated trickling down to fight poverty.

Finally, the place of the private sector as equal partners in development has been affirmed at the 4th High Level Forum on Aid Effectiveness (HLF4) held in Busan, Republic of Korea, at the end of November 2011, through the *Busan Partnership for Effective Development Cooperation*. This declaration gives prominent place to “the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction”. Governments and donors will support this by improving “the legal, regulatory and administrative environment for the development of private investment [and] private sector development”, by ensuring “the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction” and by promoting “‘aid-for-trade’ as an engine of sustainable development”.<sup>7</sup>

This outcome at HLF4 is not unexpected. A year earlier, in the lead-up to Busan, at the September 2010 UN High Level Conference on the MDGs, eleven bilateral donors released a

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<sup>6</sup> See for example, “A Green New Deal – Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices,” The First Report of the New Green Deal Group, New Economics Foundation, July 2008; “Trade Union Statement to the “G20 Crisis Summit” - The Global Unions “Washington Declaration””, International Trade Union Confederation, Trade Union Advisory Committee, Global Unions, November 2008; “Put People First - Ensuring a response to the economic crisis that delivers democratic governance of the economy for: Jobs: decent jobs and public services for all; Justice: End global poverty and inequality; Climate: Build a green economy,” Put People First Coalition, April 2009.

<sup>7</sup> The *Busan Partnership for Effective Development Co-operation*,  
[http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME\\_DOCUMENT\\_FINAL\\_EN.pdf](http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_FINAL_EN.pdf)

“Statement in Support of Private Sector Partnerships for Development” through their participation in the Donor Committee for Enterprise Development.<sup>8</sup> In January 2011, a consensus paper on “A Common Agenda for Development Results” for Busan also emerged, authored by a number of like-minded donors, most of them conservative governments (Britain, Canada, Sweden, Denmark and the United States). Alongside results and value-for-money, transparency, and accountability, partnering with the private sector was one of the four top priorities: “It is the private sector that generates the jobs, builds the skills and generates the goods, services and wealth that the world’s poorest so desperately need.”<sup>9</sup> Finally, in coming to Busan, several donors (United States, the Netherlands, Republic of Korea, Sweden, and Germany) proposed a “Building Block” for future cooperation on private sector engagement in development.<sup>10</sup> These donors issued a Joint Statement on “Expanding and Enhancing Public Private Co-operation for Broad-Based, Inclusive and Sustainable Growth”, which was subsequently signed by 15 bilateral donors, including Canada, and a host of other organizations.<sup>11</sup>

CSOs are wary that all these policy shifts may signal a return to a slightly revised “Washington Consensus” set of growth-oriented structural adjustment policies promoted in the late 1980s. These policies included economic growth through free trade and financial liberalization, regional and global integration of domestic markets, policies to protect investors, and price stability – with the private sector, large infrastructure development, and public-private partnerships playing a prominent role on all fronts. They have long been critiqued as a failure for most developing countries.

CSOs in their proposals for Busan on the private sector stressed employment and livelihood-focused economic development strategies that are based on the recognition of social and economic rights, social inclusion, protection and dialogue. Development policies – and aid resources – should give priority to sustainable livelihoods for poor and marginalized populations in urban and rural settings and should create access to resources, especially for women, and vulnerable segments of society active in both the informal and formal economy. While acknowledging the importance of the private sector in development, if private sector firms are to be considered development actors they must be accountable to structures of

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<sup>8</sup> Bilateral Donors’ Statement in Support of Private Sector Partnerships for Development, September 22, 2010, accessed in July 2011 at <http://www.enterprise-development.org/download.aspx?id=1645>.

<sup>9</sup> The strategy entailed seven approaches: use donor resources to share risk and leverage additional investment; work with partner governments to create an enabling regulatory environment; promote partnerships between the private sector, government and civil society; prioritise women’s economic development; target technical assistance to domestic private sector partners to develop socially responsible practices; promote private, cost effective service delivery; and, promote the role that inclusive markets can play in promoting the MDGs.

<sup>10</sup> Private Sector Building Block, [http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/BB\\_Private\\_Sector\\_final.pdf](http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/BB_Private_Sector_final.pdf)

<sup>11</sup> “Expanding and Enhancing Public and Private Co-operation for Broad-Based Inclusive and Sustainable Growth - A joint Statement for endorsement by representatives from the public and the private sectors at the Fourth High-Level Forum on Aid Effectiveness”, <http://www1.ifc.org/wps/wcm/connect/1dc62200495568b588bfac849537832d/Joint+Declaration+on+expanding+and+enhancing+public+private+cooperation+for+development.pdf?MOD=AJPERES>; For the civil society input on this statement, see <http://www.eurodad.org/whatsnew/articles.aspx?id=4740>.

democratic ownership in developing countries. In their investment practices they should be guided by a set of binding international standards – internationally agreed development goals, sustainable development, decent work and human rights standards. Support for the private sector, according to CSOs, must not undermine the legitimate and key role of the state in promoting the equitable provision of public goods and services for all.<sup>12</sup>

These are all important dimensions of the changing global policy context in which CIDA is promoting and implementing its Strategy on sustainable economic growth.

### **3. An Overview of CIDA’s Sustainable Economic Growth Strategy**

#### **3.1 The Goals and Main Priorities for the Strategy**

The goal for CIDA’s SEG Strategy is “to create sustainable long-term economic growth that will increase revenue generation, create employment, and lead to poverty reduction in developing countries” [SEG Strategy, page 3].

CIDA’s investments will “directly support the sustainable economic growth of the industrial and business sectors in developing countries” [SEG Strategy, page 3]. The overall outcomes of the *Strategy* are seen to be “a stable foundation on which viable businesses and industries can thrive, increasing opportunities for employment in the formal economy for their citizens and their contributions to the public resources available for investment in the welfare of the population” [SEG Strategy, page 3].

In order to achieve its goal the *Strategy* identifies three paths:

- Building economic foundations by “supporting willing governments to build the necessary legislative and regulatory business, industrial and financial framework upon which sustainable growth can take place”;
- Growing businesses by “[enhancing] the financial viability, productivity and competitiveness of micro, small and medium sized private sector enterprises, resulting in increasing employment opportunities for the poor”; and
- Investing in people by “[improving] the employment potential of individuals to increase access to, and benefits from, opportunities in the informal and formal business sectors”. [SEG Strategy, page 3]

The Strategy states without elaboration that its three “paths” will integrate CIDA’s cross-cutting themes of gender equality, environmental sustainability and governance. It also recognizes the importance of making linkages with CIDA’s food security and children and youth strategies. But it provides little guidance on how these overarching goals are to be ensured in the programs that follow from the Strategy in coming years. Annex One summarizes in a table the priority activities that CIDA will support to achieve its objectives for each path of the SEG Strategy.

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<sup>12</sup> See BetterAid Statement on Private Sector and Development, November 2011, [http://www.betteraid.org/en/member-downloads/doc\\_download/423-statement-by-civil-society-organisations-on-private-sector-and-development.html](http://www.betteraid.org/en/member-downloads/doc_download/423-statement-by-civil-society-organisations-on-private-sector-and-development.html)

The plans for the three “paths” are informed in the Strategy by a summary of key conditions and barriers for achieving sustainable economic growth. These include the following:

- Effective policies and institutions, which include accountable transparent governments, strong public financial and economic management and allocation systems and measures to reduce corruption;
- Open and effective markets, focusing on a business environment for entrepreneurship and that is open to competition, to market expansion, to regional and global economic integration, outside knowledge, and that maximizes investment opportunities;
- Infrastructure investment, providing road, rail and port systems, energy and telecommunications that help facilitate getting more goods to market;
- Capable human capital, developing appropriate in-country knowledge and a skilled workforce commensurate with the demands of the economy;
- Equality of opportunity, promoting the full participation of women in the workforce; and
- Sound Environmental Management, with responsible management of natural resources and adaptation to climate change.

Interestingly, these conditions and barriers focus on “challenges limiting economic growth” [SEG Strategy, page 1] for actors in the private sector, but make only indirect reference to conditions affecting people living in poverty and how this might impede their contributions to sustainable economic growth. That said, the importance of access by the poor “to land and resources, security of tenure, and the capacities to use their assets productively and sustainably” and “fair and equitable labour laws and codes”, are addressed under action priorities for “building economic foundations”. [SEG Strategy, page 4]

### **3.2 A Profile of Current CIDA Disbursements for Sustainable Economic Growth**

CIDA has developed a baseline profile of its current programming for the sustainable economic growth thematic area.<sup>13</sup> According to available information, in 2009/10 CIDA disbursed \$741.4 million for SEG or 22.3 percent of CIDA overall disbursements for that year. Disbursements in 2009/10 were somewhat lower than in the previous two years (see Chart 1).

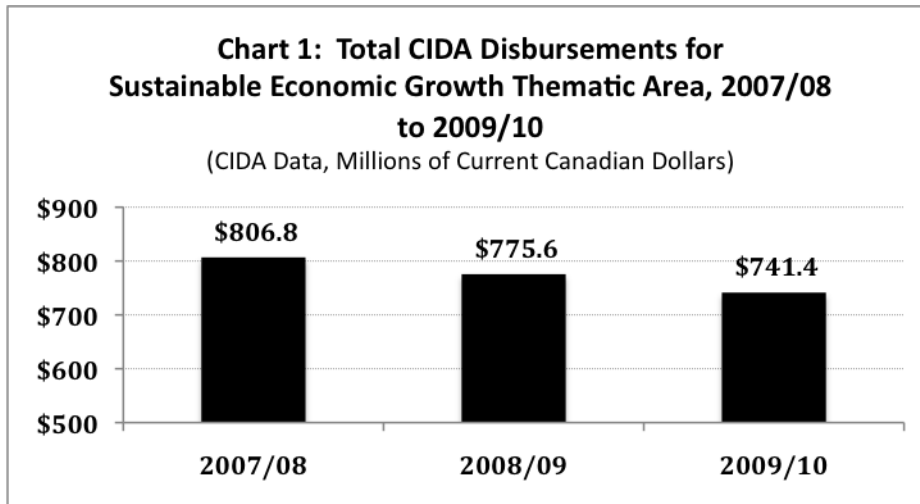
It is important to know that these figures are calculated from the allocation of CIDA’s ODA disbursements to various sector codes established by the OECD’s Development Assistance Committee (DAC).<sup>14</sup> As such, some of these codes were not designed to capture “sustainable economic growth”. For example, the code for “public sector policy and management” is included in total, while there are CIDA activities within this code that have little or nothing to contribute to the SEG theme. The stated scale of CIDA programming in the SEG theme (as is true with other themes) is based on assumptions about the relevance of DAC codes to the respective theme and

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<sup>13</sup> CCIC received “Annex 1: Baseline Profile – Global Analysis” under an Access to Information request. The document to which this is an annex was not provided. This review of trends is a summary of information provided by this *Baseline Profile*.

<sup>14</sup> Included activities are drawn from more than 100 DAC five-digit sector coding. These include specific education and training, water and sanitation, broad public sector policy and administrative management, energy policy and infrastructure and power generation, financial policy and business support services, activities in forestry, fisheries, small and medium enterprises, various industrial categories, including basic metals industries and minerals, trade policy and administration, tourism, rural development, and environmental policy and related activities.

should only be considered indicative and not definitive.



### 3.2.1 Current Country Focus for CIDA SEG Investments

Twelve of CIDA's 20 program priority countries have SEG as a focus in their country strategies.<sup>15</sup> This does not include Haiti and Afghanistan, where SEG is the largest single programming area, but according to the CIDA document, "their country strategies are aligned to broader government objectives rather than specifically to CIDA's thematic priorities".

SEG received more than 30 percent of disbursements in six priority countries (Afghanistan, Haiti, Caribbean Region, Indonesia, Ukraine and Peru). Given some of the very broad coding categories it is difficult to determine the degree of focus on activities more directly supporting private sector and economic growth *per se*. Several non-priority countries also have high dollar (more than \$4 million) and percentage disbursements for SEG (more than 30 percent): Nicaragua (\$8.2 m / 70 percent), South Africa (\$7.6 m / 53 percent), Philippines (\$7.4 m / 72 percent), China (\$6.4 m / 38.6 percent), Nepal (\$4.6 m / 73.8 percent) and Egypt (\$4.2 m / 39.9 percent).

Priority Country	Disbursement 2009/10 (Millions Cdn \$)	SEG as percentage of Country Disbursements 2009/10
Afghanistan	\$65.8	32.0
Haiti	\$44.9	56.8
Caribbean Region	\$24.6	59.0
Ghana	\$23.2	25.1
West Bank Gaza	\$15.8	25.9
Tanzania	\$13.1	18.6
Mali	\$13.0	14.0
Indonesia	\$12.5	63.7

<sup>15</sup> Caribbean Region, West Bank Gaza, Tanzania, Indonesia, Bangladesh, Ukraine, Peru, Vietnam, Mozambique, Pakistan, Bolivia, and Colombia.

Priority Country	Disbursement 2009/10 (Millions Cdn \$)	SEG as percentage of Country Disbursements 2009/10
Bangladesh	\$12.2	21.4
Sudan	\$10.2	18.4
Ukraine	\$8.7	50.7
Ethiopia	\$6.7	8.8
Peru	\$6.0	34.6
Vietnam	\$5.9	25.5
Mozambique	\$3.7	4.2
Pakistan	\$3.7	11.6
Bolivia	\$3.3	23.3
Senegal	\$3.3	10.4
Colombia	\$1.6	11.1
Honduras	\$0.8	4.5

Table 1: 20 Priority Countries and SEG Programming, 2009/10

### 3.2.2 Sector Distribution of SEG Programming

Chart 2 provides a breakdown of the main sectors in which CIDA is currently programming related to the SEG Strategy. As noted above some of these sector amounts may be focused on activities that go beyond CIDA's thematic goals for sustainable economic growth.

Close to a third of SEG disbursements are for “public economic management” (related to the SEG path: building economic foundations), with \$179 million in 2009/10 directed at “public sector policy and administration management”. The latter captures a quite broad area of programming and includes macro-economic management, regulatory frameworks, but also for example CIDA's own in-country Program Support Units. Smaller amounts were directed to public financial management and decentralization and sub-national government support. The “Baseline Annex” significantly points out that spending in this area in 2009/10 “was targeted more towards governance-type results than economic growth results” (“Annex 2: Baseline Profile”, page 1).

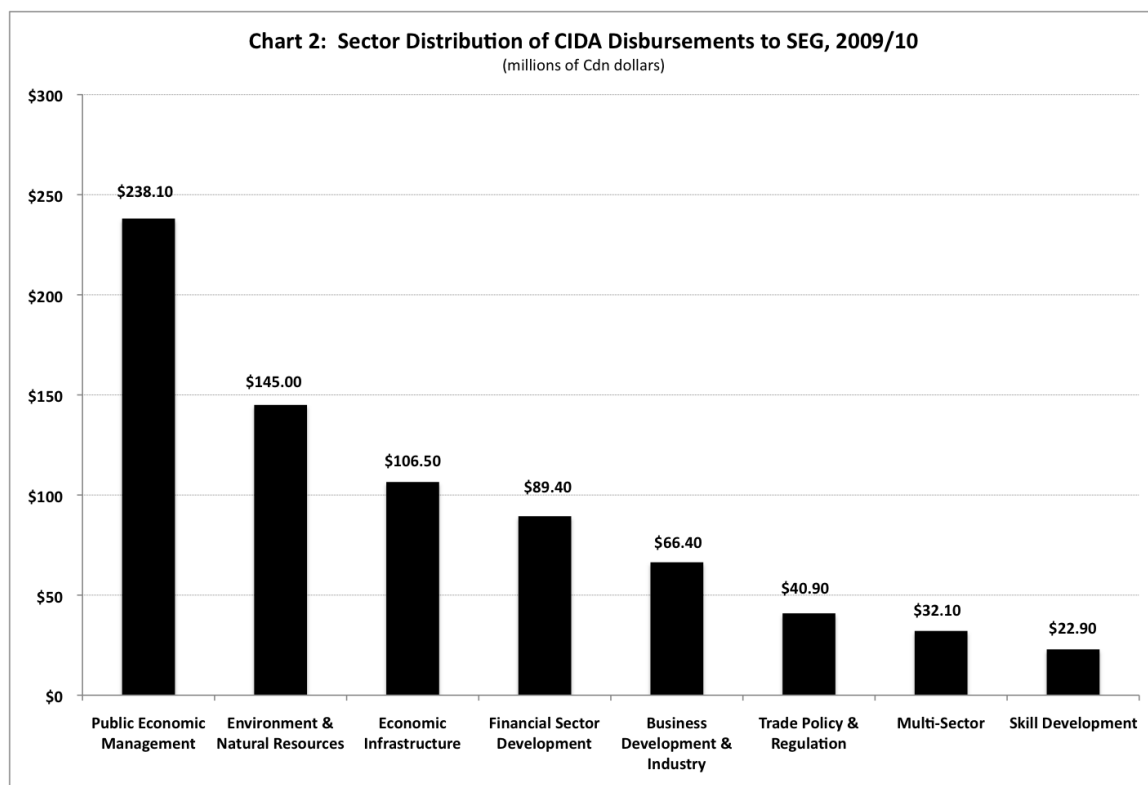
The next largest component of SEG disbursements in 2009/10 was “environment and natural resources” (again related to SEG path: building economic foundations). Much of the programs captured by these codes were developed with environmental objectives in mind, not necessarily sustainable economic growth. Almost all of it was spending for “environment and water resources” (\$133 million). According to the “Annex 2: Baseline Profile”, “in the extractive resource area, CIDA oriented its efforts through strengthening capabilities of local governments”, mostly in Peru and Bolivia and for multilateral efforts (Extractive Industries Transparency Initiative (EITI) and ARPEL). (“Annex 2: Baseline Profile”, page 4).<sup>16</sup>

Of the other components, “Economic Infrastructure” includes a mix of transportation infrastructure, energy projects (\$263 million in 2009/10), and communications and

<sup>16</sup> EITI – Extractive Industries Transparency Initiative ([www.eiti.org/](http://www.eiti.org/)); ARPEL – Regional Association of Oil, Gas and Biofuels Sector Companies in Latin America and the Caribbean (<http://www.arpel.org/>).

Information and Communications Technology (ICT). (Of note, infrastructure related to water and sanitation, and social infrastructure such as schools and hospitals, are funded through the Children and Youth Strategy.) “Financial Sector Development” mainly focuses on micro finance spending (\$36.8 million) and financial policy management (local governance program in Ghana). “Business Development and Industry” includes business support services (\$44.3 million) mainly for small and medium -sized enterprises (SMEs). Also included are value-added processing activities for agricultural products. “Trade Policy and Regulation” includes activities in support of regional trade agreements and multilateral trade negotiations (\$8.8 million) as well as customs and tariff reforms (\$10.6 million).

Almost all of the activities captured in the “Baseline Annex” relate to supporting state financial and public sector management or large-scale private sector development. Along with aspects of support for micro-finance and SMEs, only \$22.9 million is invested in “Skills Development” (plus \$19.9 million from education and training linked to other program activities), related to the SEG path: investing in people – a path that most directly touches the lives of people living in poverty. Skills development represents only 3 percent of all disbursements for SEG in 2009/10.



### 3.2.3 Aid-for-Trade Investments

According to CIDA, in 2009/10 Aid-for-Trade spending<sup>17</sup> associated with the SEG Strategy

<sup>17</sup> “Aid-for-Trade” covers the trade policy and regulation program activity of the SEG strategy, but also the economic infrastructure component (economic infrastructure program activity) and building productive capacity (business

was \$315 million, which makes up a significant proportion of CIDA commitments to this theme.<sup>18</sup> According to the DAC, Aid-for-Trade enables developing countries to take advantage of the benefits of trade liberalization. However, the DAC includes a very broad sweep of aid expenditures, not only public sector development and management of trade policy, but also investments in economic infrastructure, productive and financial sector investments, resource sector investments, among others seen to be essential to trade strategies. CIDA's expenditures on "Aid-for-Trade" are reflective of this breadth.

#### 3.2.4 Corporate Social Responsibility Projects

"Corporate Social Responsibility projects", while not a separate DAC code, have been an area of SEG programming that has received attention in recent months. In October 2011, Prime Minister Harper announced the creation of the Canadian International Institute for Extractive Industries and Development, which is intended to support and build natural resource management capacity in developing countries in the mining sector. It will do so "through a partnership between the Federal government, Canada's private sector and Canadian civil-society organizations".<sup>19</sup> This Centre will be part of a wider Corporate Social Responsibility (CSR) initiative by the government, "A Corporate Social Responsibility Strategy for the Canadian International Extractive Sector".<sup>20</sup> CIDA will play a significant role in supporting technical assistance and capacity building. In September 2011 CIDA's Minister announced three pilot projects with Canadian CSOs and private sector partners worth \$26.7 million in support of the CSR Strategy and CIDA's Sustainable Economic Growth priority.<sup>21</sup>

## **4. Sustainable Economic Growth in Canada's Contributions to the World Bank Group**

The sustainable economic growth theme may only apply to CIDA programming, but there are close connections between CIDA's SEG theme and specific Canadian aid programs supported through Finance Canada at the World Bank Group (WBG). While it is beyond the scope of this paper, the SEG theme is also reflected in practice in many of the activities of Foreign Affairs and International Trade Canada (DFAIT) such as Canada's trade and investment priorities with developing countries, its strong focus on the extractive industries and its approach to corporate social responsibility.

In April 2011, the Finance Minister, Jim Flaherty, as Canada's representative on the

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development and industry, environment and natural resources, and financial sector development program activity, as well as the Food Security Strategy's agriculture-oriented programming). In all, it covers 5 of 7 of the program activity areas of the SEG.

<sup>18</sup> CIDA, "Annex 1: Baseline Profile – Global Analysis", SEG Strategy, Document released to CCIC under Access to Information, August 2011.

<sup>19</sup> Backgrounder, Building capacity in developing countries in the area of natural resources management, 27 October 2011, accessible at <http://pm.gc.ca/eng/media.asp?id=4436>.

<sup>20</sup> For details see, <http://www.international.gc.ca/trade-agreements-accords-commerciaux/ds/csr-strategie-rse-strategie.aspx?view=d#9>.

<sup>21</sup> For details see, <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/CAR-929105317-KGD>.

Development Committee of the World Bank, commended, “the World Bank Group support, including through the International Finance Corporation and the Multilateral Investment Guarantee Agency, for initiatives that help poor countries achieve sustainable economic growth through private-sector development. These initiatives are consistent with the Canadian International Development Agency’s new Sustainable Economic Growth Strategy.”<sup>22</sup> Canadian priorities at the WBG have focused on three principal areas of interest: 1) initiatives to boost investment in SMEs; 2) using the Bank’s resources as an incentive to leverage private investments in global public goods; and 3) exploring how to better coordinate and integrate the public and private sector lending arms for the WBG.<sup>23</sup>

Canada currently contributes \$20 million to the SME Finance Innovation Fund, administered by the World Bank’s International Finance Corporation (IFC). In 2011, Canada is looking to the WBG to develop additional innovative private sector funding facilities for SMEs.

Canada is also supportive of the World Bank’s “Innovation for Private Sector Participation in Development” program that uses the Bank’s financial resources to create financial incentives (“pull mechanisms”) to leverage private sector investment in global public goods. For example, Canada is looking to other bilateral and multilateral donors as partners to develop mechanisms in agriculture similar to Canada’s Advanced Market Commitment for Pneumococcal Vaccines. The intent is “to create a new mechanism that would encourage private-sector-led innovation to benefit farmers in the developing world.”<sup>24</sup>

#### **4.1 Agricultural Innovation for economic growth**

Although food security is one of CIDA’s three thematic priorities on its own, the SEG Strategy also references agriculture as a potential important source of developing country growth, which Canada pursues at the Bank as part of its Bank SEG strategy.

Canada has played a leading role in establishing the Global Agriculture and Food Security Program (GAFSP) Trust Fund at the Bank. The GAFSP is a multi-donor trust fund set up in 2010 to coordinate the political and financial commitments on agriculture and food security made by the G8+ at the 2009 L’Aquila summit. Its five objectives are closely related to the SEG priorities: 1) scale up agricultural productivity; 2) link smallholder farmers better to global markets and value chains; 3) reduce risk (for example in food price volatility); 4) improve investments in

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<sup>22</sup> Development Committee, “Statement by Mr. James M. Flaherty, Minister of Finance, Canada, on behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines”, DC/S/2011-0023 (E), April 16, 2011, accessed in August 2011 at [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22891426/DCS2011-0023\\_E\\_-Canada.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22891426/DCS2011-0023_E_-Canada.pdf)

<sup>23</sup> The focus on the private sector has also gained increasing hold at the Multilateral Development Banks in the past decade. Over the past ten years, the IFC has seen its investments in the private sector increase four-fold. (Bodo Ellmers, Nuria Molina and Visa Tuominen, *Development diverted: How the International Finance Corporation fails to reach the poor*, EURODAD, December 2010.) The Multilateral Development Banks (MDBs) as a whole have increased their lending, investment and guarantee portfolios in the private sector from 21 percent of their total development related portfolios in 2003 to 35 percent in 2008 – or from US\$9.6 billion to US\$27.7 billion. (Guillermo Perry, *Growing Business or Development Priority? Multilateral Development Banks’ Direct Support to Private Firms*, Center for Global Development, April 2011, p.5.)

<sup>24</sup> Statement by James Flaherty, *Op. cit.* 22.

agriculture; and, 5) improve sustainable agricultural resource management. Canada has contributed \$230 million overall, including \$50 million for a private sector lending window to finance small and medium size agri-businesses and farmers in developing countries.<sup>25</sup>

#### **4.2 Investing in infrastructure in Low Income Countries to facilitate growth**

One of the biggest Canadian ODA investments is the replenishment of the International Development Association (IDA), the World Bank's grant and concessional loan window for Low Income Countries (LICs). For the period 2011 – 2013, Canada is committed to providing Cdn\$1.4 billion.<sup>26</sup> The focus at IDA is on “pro-poor growth”; however, there is no apparent poverty lens in determining its investment policies. IDA priorities stress hard infrastructure (energy, transport, water and sanitation and information and communication technologies) “as bottlenecks to growth”. It also promotes improvements to soft infrastructure – policy, institutional and structural reforms to promote an environment conducive to private sector development, including Public-Private Partnerships (PPPs). Finally, it supports greater investments in human capital (improving health services and education) and social protection (worker's rights, pensions, social services for vulnerable groups, cash for work, cash transfers and temporary price subsidies).

#### **4.3 Climate Finance**

Canada has also prioritized the establishment of the World Bank Group climate funding facilities that enhance private sector participation in addressing climate change, including its 2010/11 contribution of Cdn\$291.5 million to the IFC to catalyze private investment in a broad portfolio of clean energy projects.<sup>27</sup> This, the government is including as ODA and states that it contributes to the SEG Strategy “by enabling low-carbon energy development, a key component of sustainable economic growth”.<sup>28</sup> In December 2011, Environment Minister Peter Kent announced \$800 million in new and additional climate change financing for the period 2011-13, although it is unclear what proportion of this will go to the IFC.

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<sup>25</sup> There is some tension on the GAFSP steering committee, which has CSO representatives, over how to deal with the two streams of GAFSP – public and private. The public stream is channeled through governments, and in theory targets smallholders and poverty reduction with the decisions made by development agencies such as CIDA who have a focus on, and experience with, poverty-reduction. The private stream, on the other hand, will be overseen by Finance Canada, and channeled through the IFC to private companies and financial institutions, whose poverty-reduction credentials are not as strong. In theory, the PSW should help private sector actors overcome the hurdles they face in dealing with smallholders to offer better service on a cost-recovery basis. In practice, there is much skepticism over whether the private sector can actually reach smallholders effectively, and even if so, whether the IFC and this fund are the appropriate mechanism.

<sup>26</sup> World Bank, “Table 1: Contributions to the Sixteenth Replenishment”, in *Report from the Executive Directors of the International Development Association To the Board of Governors – Addition to IDA Resources: Sixteenth Replenishment*, February 15, 2011, page 86, accessed in August 2011 at [http://siteresources.worldbank.org/IDA/Resources/IDA16\\_Report-English-Final.pdf](http://siteresources.worldbank.org/IDA/Resources/IDA16_Report-English-Final.pdf).

<sup>27</sup> Canada has also invested \$100 million to the Bank's Climate Investment Funds (CIFs), although these do not have a specific private sector orientation.

<sup>28</sup> Finance Canada, “Consultation Paper - Department of Finance Consultation on Official Development Assistance”, December 2010, accessed in July 2011 at <http://www.fin.gc.ca/activty/consult/oda-ado-eng.asp>

## 5. The Assumptions of CIDA's SEG Strategy

The SEG Strategy affirms that poverty reduction is the overarching goal that informs all CIDA's programmatic strategies. However, the *Strategy* would have been more informative if it had set out more clearly the analytical and methodological linkages between CIDA activities that promote sustainable economic growth and how those same activities achieve results for poverty reduction.

The SEG Strategy asserts that "all activities associated with the development and implementation of this strategy are in compliance with the ODA Accountability Act", which requires all CIDA ODA disbursements to be focused on reducing poverty [SEG Strategy, page 7]. But no evidence is presented to substantiate this assertion, particularly with respect to the Act's requirement for "consistency with international human rights standards" for ODA disbursements.<sup>29</sup> In this regard, the *Strategy* seemingly fails to build upon a large body of work, including previous CIDA policies for poverty reduction and private sector development, on the nature of these linkages and the importance of human rights considerations.

While there is broad agreement that growth is essential to making progress in development, it cannot be assumed that all growth is good growth for development. Drawing upon decades of lessons from their respective development agencies' experience, OECD DAC ministers, including Canada's then Minister for International Cooperation, agreed in a 2006 *Policy Statement* that "both the pace and the pattern of growth are critical for long-term and sustainable poverty reduction" [emphasis added].

This DAC overview of "best practice" observes that "developing countries with similar rates of economic growth have experienced quite different levels of economic poverty reduction, due to initial conditions and whether growth occurs in areas and sectors where the poor live and are economically active".<sup>30</sup> The *Statement* summarizes the importance of "pro-poor economic growth" for donor and government actions to reduce inequality, improve social protection, reduce vulnerability for the poor, and focus on the causes of market failures that hurt the poor disproportionately.<sup>31</sup>

Given the significance of country patterns of economic growth, it is important to ask in what ways CIDA's SEG Strategy reflects "best practices" experience of donors for pro-poor economic growth. What then are some of the underlying assumptions about growth, poverty and rights, which currently inform this *Strategy*? What are the implications for implementation in the coming years?

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<sup>29</sup> The ODA Accountability Act directs the Minister to be "of the opinion" that the *Strategy* is "consistent with human rights standards", which are defined by the Act as those which are "based on the international human rights conventions to which Canada is a party and on international customary law". The relevant human rights standards include not only United Nations (UN) and regional human right conventions, but also International Labour Organization (ILO) core labour standards. An Access to Information request for documents that would substantiate the claim in the *Strategy* was returned with the note that no documents could be located on this topic.

<sup>30</sup> OECD, DAC, *Promoting Pro-Poor Growth*, A Policy Statement, 2006, accessible at [http://www.oecd.org/document/55/0,3746,en\\_2649\\_34621\\_46582839\\_1\\_1\\_1\\_1.00.html](http://www.oecd.org/document/55/0,3746,en_2649_34621_46582839_1_1_1_1.00.html).

<sup>31</sup> DAC, *op cit.*, p 2.

**5.1 SEG Assumption #1: What is good for economic growth, is good for government development strategies, and is good for all citizens.**

**5.1.1 Growth must target the poor to reduce poverty**

The *Strategy* makes the assumption that “extreme poverty declines faster and most sustainably in countries that create and maintain robust economic growth” (SEG Strategy, 1). Economic growth, whatever its foundations and form, is seemingly sufficient to reduce poverty. World Bank research demonstrates that growth does over time reduce some conditions of absolute poverty, but it also often accentuates inequality for poor people.<sup>32</sup> With twenty years of significant growth, Ghana for example, has recently moved to “low middle income” status, and has reduced infant mortality and increased school enrolment. Nevertheless, the numbers of people living in poverty on less than \$1.25 a day decreased only slightly from just over 7 million, to just under 7 million, despite rising per capita income.<sup>33</sup>

The economic basis for growth is also critical for its impact on the lives of poor and marginalized people. UNCTAD’s *Report on Least Developed Countries (LDCs) 2010* estimates that after a substantial commodity boom between 2002 to 2007 in least developed countries, more than 50 percent of the population of LDCs still lived in absolute poverty. But more surprising, “the number of extremely poor people living in LDCs actually increased by over 3 million per year during the 2002–2007 period of high GDP growth rates”.<sup>34</sup> The *SEG Strategy* therefore must pay greater attention to where growth is occurring – is it in areas and sectors where poor people live and are economically active, and is this growth having a positive or negative effect on the livelihoods, assets and capacities of the poor?

**5.1.2 States have a key role to play in ensuring that public policies bring the benefits of growth to all**

The *Strategy* acknowledges that “each country has its own mix of constraints, challenges, and opportunities to stimulate sustainable economic growth” [SEG Strategy, 4]. But conditions affecting poverty and inequality are also country specific – there is no one-to-one relationship between economic growth policies and the reduction of poverty and inequality.

Along with many others, the Nobel economist Amartya Sen points out that Gross National Income (GNI) as a measure of economic growth is a poor predictor of poor peoples’ well-being: Bangladesh has a GNI per capita half that of India, but has achieved better performance than India on a range of basic social indicators important for poor people. Social Watch measures human well-being through a “Basic Capacities Index” (BCI) for improvements in child mortality, reproductive health and primary education. It found that

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<sup>32</sup> Francisco Ferriera and Martin Ravallion, “Global Poverty and Inequality: A Review of the Evidence”, World Bank, Policy Research Working Paper #4623, May 2008, accessible at [http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349\\_20080519142850](http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166093&entityID=000158349_20080519142850).

<sup>33</sup> BOND, “Growth and Development: A Discussion Paper”, July 2011 accessible at <http://www.bond.org.uk/news.php/196/growth-and-development-paper>.

<sup>34</sup> UNCTAD, *The Least Developed Countries Report 2010*, Geneva, November 2010, page 6, accessible at <http://www.unctad.org/Templates/Page.asp?intItemID=1397&lang=1>.

between 1990 and 2010 world exports multiplied five times, global income more than doubled, but the average BCI increased by only 10 percent in these 20 years.<sup>35</sup>

Sen, using India and Bangladesh as examples, argues there has been too much focus on India's fast rate of economic growth and integration into globalization and not enough on policies that distribute growth: "living conditions will benefit greatly from higher economic growth, particularly if the country uses [growth] as a means of doing good things, rather than treating economic growth and high per capita income as ends in themselves". For Bangladesh "the imaginative activism of Bangladeshi NGOs", the advancement in women's rights, and "committed public policies of the government" were more important factors than Bangladesh's slower economic growth in affecting conditions for poor people.<sup>36</sup> The UNDP's Human Development Report 2010 generalizes this conclusion: "These varied pathways to human development show that there is no single formula for sustainable progress—and that impressive long-term gains can and have been achieved even without consistent economic growth."<sup>37</sup>

Markets and growth can be indiscriminate in determining who benefits. As the 2008 *Commission on Growth* reminds us, in the early stages of growth (and in fact in many Low (LICs) and Middle Income Countries (MICs)), there is a natural tendency for income gaps to widen – governments must address this through social protection and welfare systems.<sup>38</sup> This places a significant responsibility on governments to ensure that the benefits that derive from growth are distributed equitably. Furthermore, the SEG Strategy assumes that growth creates revenue for governments to do so (which in principle it can); but there is considerable evidence that without major tax reform, including checking international illegal capital flight and improving the capture of revenues from resource extraction, southern governments are largely ill-equipped to do so.<sup>39</sup>

### 5.1.3 Sustained economic growth and sustainable economic growth are not interchangeable

The SEG Strategy seems to confuse approaches to economic growth that help governments benefit from sustained periods of high growth, with growth that is sustainable from a social, environmental and human rights perspective as well as an economic one. The latter shifts the focus away from growth as an end in itself to growth as a means to integrating resiliency into development programs and projects, creating sustainable livelihoods, promoting

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<sup>35</sup> Social Watch, "Basic Capacities Index 2011", <http://www.socialwatch.org/node/13749>.

<sup>36</sup> Amartya Sen, "Quality of Life: India vs China", *New York Review of Books*, May 12, 2011.

<sup>37</sup> UNDP, Human Development Report 2010, The Real Wealth of Nations, Web Summary, <http://hdr.undp.org/en/reports/global/hdr2010/>.

<sup>38</sup> Commission on Growth and Development, "The Growth Report – Strategies for Sustained Growth and Inclusive Development", The International Bank for Reconstruction and Development/The World Bank on behalf of the Commission on Growth, 2008, p. 7, accessed August 2011 at [http://www.growthcommission.org/index.php?Itemid=169&id=96&option=com\\_content&task=view](http://www.growthcommission.org/index.php?Itemid=169&id=96&option=com_content&task=view). The *Growth Commission* brought together 19 leaders mainly from developing countries and two academics who consulted widely and examined the experience of growth and development oriented towards poverty reduction, productive employment, health and education.

<sup>39</sup> See documents and analysis by the CSO International Tax Justice Network at [http://www.taxjustice.net/cms/front\\_content.php?idcatart=2&lang=1](http://www.taxjustice.net/cms/front_content.php?idcatart=2&lang=1).

sustainable resource and energy management and use, green jobs, environmentally sensitive business practices and equitable redistribution of the benefits of growth.

The SEG Strategy does recognize the importance of environmental sustainability, but limits CIDA's approach to one of "environmental management", with policies and regulations to improve natural resource management and sustainable resource use [SEG Strategy, 2]. For example, it points to agriculture as a key driver of economic growth for developing countries, requiring "improvements in agricultural productivity and innovation" [SEG Strategy, 2]. The implementation of the *Strategy* should link such approaches to improved productivity with the centrality of smallholder farming. The latter requires more attention to economic roles of women in rural economies, the requirements of ecologically sustainable agriculture, with corresponding access to financial services, agriculture inputs and research appropriate to small farms.

The *Strategy* has nothing to say about due diligence in financing for large infrastructure (roads, dams, power plants etc) relating to conditions affecting local populations and for long-term environmental sustainability. What measures are in place to assess the implications for the rights of small farmers, of indigenous peoples, or other marginalized populations affected by these developments? CIDA urgently needs to update its environmental and climate change strategies, bringing on board analytical tools to measure the ecological footprints of various approaches to SEG and resilience to climate change for vulnerable populations to promote green economic growth.<sup>40</sup>

#### 5.1.4 An enabling environment for development, not just for business

Finally, the *Strategy* draws attention to essential issues in governance and accountability, which are important for empowering poor people to participate in their society and economy. But the focus is mainly on creating enabling conditions for business – balanced laws and regulations to govern economies, integration into regional and global markets, or financial and economic management. Rather than only addressing the conditions for creating an enabling environment for business and private sector development, the SEG Strategy needs to focus on how aid resources can contribute to an enabling environment for business and the private sector to play a role in eradicating poverty and reducing inequalities. The difference is subtle, but significant.

In what ways can CIDA implement the Strategy "to create the right conditions and institutional frameworks" that respond to appropriate country-specific mix of policies for poor people? This question speaks to SEG Assumption #2.

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<sup>40</sup> See BOND, *op. cit.*

**5.2 SEG Assumption #2: Investing in job skills for people and changing enabling laws for business conditions contributes to economic growth in which “those living in poverty [...] reach their potential”**

5.2.1 The needs of the poor (not business) at the centre of the growth strategy

The *Strategy* recognizes that the poor must have “access to land and resources, security of tenure, and the capacity to use their assets productively and sustainably” [SEG Strategy, 4] to fully enable participation in economic growth and the formal economy. Such conditions can empower the poor and particularly women and youth. Yet the priorities for CIDA investments in the *Strategy* (and the current trends in program spending) seems limited mainly to actions that focus on strengthening good economic management and improved legal and regulatory frameworks only for business.

These aid expenditures in laws and regulations are important for the economic foundations for business. But the ODA Accountability Act requires that CIDA pro-actively ensure that poor and marginalized populations benefit from these investments in ways that protect and fulfill their rights. How could CIDA go beyond its current (and minimal) expenditures on skills training? What additional measures beyond those outlined in the *Strategy* are needed to strengthen the capacities of those living in poverty to “reach their full potential” through economic growth?

Empowering the poor to benefit from economic growth requires not only appropriate policies, but also inclusive processes to generate such policies to the benefit of all citizens. The 2006 DAC *Policy Statement on Pro-Poor Growth* calls on donors to assure that the poor are “informed and empowered to participate in a policy making process that is accountable to their interests [...] rather than determined by narrow vested interests”.<sup>41</sup> The important stress on governance [...] should highlight processes in which all voices are heard, not just the formal business sector, with accountability mechanisms with checks and balances to prevent corruption and collusive policy-making.

In an accompanying guidance note for the DAC *Policy Statement*, UK academic Rosiland Eyben elaborates economic, social and political strategies to empower people to move out of poverty and truly benefit from economic growth processes.<sup>42</sup> She points out that poor people can and have been incorporated into growth and the formal economy without themselves gaining from new growth opportunities.

In a matrix, highly consistent with the application of human rights standards, Eyben sets out ways that donors such as CIDA can strengthen the inclusion of the poor in sustainable economic growth by:

- Enabling economic empowerment through 1) Strengthening the poor’s access to and control of productive assets; 2) Promoting decent paid and unpaid work; and 3) Making product and capital markets work better for poor people.

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<sup>41</sup> DAC, *op. cit.*, page 3.

<sup>42</sup> Rosiland Eyben, “Empowerment and Pro-Poor Growth: Policy Guidance Note” A Draft Policy Note produced for the OECD DAC POVNET, December 2010, mimeo.

- Enabling political empowerment through 1) Strengthening the capacities for direct political representation of poor people; 2) Supporting collective action (civil society, cooperatives, unions) for economic, social and political change, recognizing that political empowerment of people living in poverty is both complex and long-term.
- Enabling social empowerment through 1) Promoting social inclusion and non-discrimination; 2) Strengthening capacities for critical awareness among social actors of conditions affecting the lives of poor and discriminated populations; and 3) Stressing the importance of human capacities for the poor through equitable, responsive and accountable service delivery (in education and health).

CIDA's SEG Strategy hints at programmatic priorities with investments in some areas that enable economic empowerment, but it needs to say much more about linkages with political or social empowerment. In this regard, the implementation of the *Strategy* could benefit from tools developed for an earlier 2003 CIDA *Policy on Private Sector Development*, which are highly consistent with the ODA Accountability Act.

In the 2003 *Policy*, CIDA was to pursue "pro-poor economic 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."<sup>43</sup> CIDA developed the "Pro-Poor Lens" as a tool to address the extent to which the pattern of growth is inclusive of the poor (men and women).<sup>44</sup> It asks how the poor participate in economic activities, how growth has impacted them, and what social organizations help leverage economic opportunities for the poor. All these questions are essential to "due diligence" to assess the impact of growth and the private sector on the socio-economic and political rights of people living in poverty.

### ***5.3 SEG Assumption #3: Increasing employment in the formal economy automatically benefits the most impoverished people, women and other discriminated groups.***

#### ***5.3.1 Engage with the informal economy***

CIDA's SEG Strategy puts considerable emphasis on improving the institutional and regulatory context and supporting infrastructure that will strengthen the formal business sectors. This in turn increases formal sector employment (SEG Strategy, 3) and presumably in turn stimulates growth and investment. Formal is better.

Lack of entrepreneurship is not one of the causes of poverty in most developing countries. As the economist Ha-Joon Chung recently points out, developing countries are teeming with entrepreneurs, many working in highly vulnerable micro-enterprises – between 30 percent and 50 percent are self-employed in the non-agricultural sector. There are good reasons why these economies remain largely informal. Many in the informal sector are very

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<sup>43</sup> CIDA 2003, *op. cit.* page 6. See also CCIC's review of the Policy in "A CCIC Review of CIDA's Policy to Strengthen Private Sector Development", August 2003, accessible at [http://www.ccic.ca/resources/archive\\_aid\\_2003-09\\_expanding\\_opportunities\\_e.php](http://www.ccic.ca/resources/archive_aid_2003-09_expanding_opportunities_e.php)

<sup>44</sup> See *Ibid.*, and CIDA, "Lens Analysis Tools: Supporting CIDA's PSD Policy", Draft 5, January 25, 2005, mimeo. The other two lens were a business lens and a governance lens.

vulnerable in the face of significant political, social and economic challenges that test these informal entrepreneurial skills.<sup>45</sup>

While the *Strategy* acknowledges the importance of “the informal sector” in the context of moving people out of this sector into formal employment, the *Strategy* needs to recognize that this is a slow process, and balance the attention it gives to the needs of the formal economy as much as to the needs, nature and size of the informal sector for poor people, and particularly for women.

In many countries where CIDA intends to focus activities for the *Strategy*, the informal sector is essential to the livelihoods of “the most impoverished” – the stated beneficiaries of this *Strategy*. In Haiti for example, this sector accounts for almost 60 percent of Haiti’s Gross National Income (GNI). For 16 of the 20 CIDA countries of priority where data is available, a highly diverse informal economy produces more than 45 percent of GNI on average. Moreover in all of these countries the size of this sector has been growing in the most recent years studied.<sup>46</sup>

Informal employment is not a short term residual category to be addressed through interventions that focus mainly on the promotion of business investment in the formal economy. Many people in developing countries – and in CIDA’s countries of focus – generate their livelihoods as either self-employed workers, informal wage workers, or unpaid family members, including as child labourers. According to the UNDP, a large proportion of children between ages 5 and 14 are child labourers – 34 percent in Ghana, 21 percent in Haiti, 19 percent in Peru, 16 percent in Vietnam, for example.<sup>47</sup> CIDA’s SEG Strategy makes no mention of child labour, a strange omission given the Agency’s focus on securing the future of children and youth.

The *Strategy* will give priority to activities that strengthen support for the development and growth of micro, small and medium size private business, including micro-finance, as a path towards the formal sector. But except by implication that “formal is better”, the *Strategy* does not acknowledge recent concerns that many microfinance programs have not been able to demonstrate positive impacts on economic conditions for the poor, with little evidence that they have empowered women.<sup>48</sup> It also does not question whether skills training to allow “informal economy workers” to access formal employment is sufficient. The *Strategy* must address the needs and nature of their challenges.

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<sup>45</sup> Ha-Joon Chung, “Poverty, Entrepreneurship and Development”, UN WIDER Newsletter, October 2010, accessed August 2011 at [http://www.wider.unu.edu/publications/newsletter/articles-2010/en\\_GB/10-2010-Chang/](http://www.wider.unu.edu/publications/newsletter/articles-2010/en_GB/10-2010-Chang/).

<sup>46</sup> Data from Friedrich Schneider, “Shadow Economies of 145 Countries all over the world: What do we really know?”, CREMA Research, Switzerland, June 2005, accessed August 2011 at <http://www.crema-research.ch/papers/2005-13.pdf>.

<sup>47</sup> See the UNDP, Human Development Report 2010, Table 12.

<sup>48</sup> Durvendack, M., Palmer-Jones, R., Copestake, JG., Hooper, L., Lake, Y., Rao, N. “What is the evidence of the impact of microfinance on the well-being of poor people”, London: EPIL-Centre Social Science Research Unit, Institute of Education, University of London, August 2011. A Study for DFID, accessible at [www.eppi.ioe.ac.uk/cms/Default.aspx?tabid=3178](http://www.eppi.ioe.ac.uk/cms/Default.aspx?tabid=3178).

### 5.3.2 Build skills alongside strengthening working conditions and social protection systems for both the informal and formal economies

The informal economy is a “survival economy” for people living in poverty, and should not be idealized as a “development economy”. Ultimately addressing the challenges posed by a large informal economy is much more than a question of generating skills and employment for a marginalized sector of the population; it is also a question of social justice. CIDA needs to give priority to interventions that generate not just skills, but also change underlying socio-economic conditions that keep people trapped in poverty in the informal sector, and often in debt.

A key factor in moving beyond wide-spread economic informalization is economically empowering people through efforts to organize informal workers, including cooperatives and unions such as the Self-Employed Women’s Association (SEWA) in India. Best practice suggests an integrated approach that also includes strong social protection measures to reduce risk, access to education and basic health care. The UK’s Department for International Development (DfID) has noted the complementary and essential role social protection schemes have to play around any strategy for sustainable, poverty-reducing growth and in reducing the vulnerability of poor and marginalized populations to economic transitions. These schemes can support key investments in improved and more accessible health care and education, can help to protect incomes and livelihoods through employment guarantee and insurance programs, and can help generate a more stable environment during periods of economic transition.<sup>49</sup> The OECD has also demonstrated that such schemes can be affordable, if well designed and implemented, and can deliver lasting benefits, if backed by strong domestic political will and commitment and long-term donor technical and financial commitment externally.<sup>50</sup> The assumption in the SEG Strategy is that empowerment and legal protection only comes with formalizing the economy. Rather, the Strategy should take account of a path from informality to formal employment for poor people seen as a continuum over the long term. This path requires appropriate country level processes that are inclusive of the poor and that start from their situation and needs.

The Strategy identifies the importance of labour laws and codes to regulate formal employment, but should give greater attention to actual conditions of work in the formal economy for many who live on the margins of poverty. The International Labour Organization (ILO) Decent Work Agenda provides an important reference on this and for CIDA to apply core labour standards in the implementation of its Strategy at the country level: creating access to productive employment and income opportunities, respecting the right to work, promoting systems of social protection, and strengthening voices of workers and all stakeholders through social dialogue.<sup>51</sup> Advancing labour rights is essential to tackle the precariousness, poor quality and poverty-level remuneration of work for many people in the formal economy.

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<sup>49</sup> DfID “Social protection and economic growth in poor countries”, A DfID Practice Paper, March 2006, <http://www.gsdrc.org/docs/open/SP16.pdf>

<sup>50</sup> OECD DAC POVNET, Promoting Pro-Poor Growth: Social Protection, endorse by DAC Ministers, May 2009, accessed November 2011 at <http://www.oecd.org/dataoecd/63/10/43514563.pdf>

<sup>51</sup> See Heather Gibbs and Anna Nitoslawska, “Decent Work and the ODA Accountability Act” in CCIC, *A Time to Act*, *op. cit.*, pp 91 – 95.

Working with both the informal and formal economy, promoting core labour standards in employment policies, should underpin CIDA's strategies for pro-poor initiatives towards sustainable economic growth.<sup>52</sup> CIDA could be working to strengthen dialogue between not only the private and public sectors, but also support the involvement of trade unions and other CSOs in broad social dialogue on sustainable growth plans.

#### **5.4 SEG Assumption #4: Unlocking new areas of growth through trade and investment liberalization creates new opportunities for poor people in developing countries.**

##### 5.4.1 Timing and staging is key in terms of trade and investment liberalization

The *Strategy* promotes "government policies [in developing countries] that open markets to trade and infrastructure investments to deepen integration into the local, regional and global economies" as a one-size-fits-all approach [SEG Strategy, 4]. In support, it makes the questionable claim that Canada's own history demonstrates the importance of open trade and free markets (although governed by prudent policy and sound regulation).

What the *Strategy* omits to say is that timing matters. Canada and the United States, not to mention the more recent experiences of the Asian "tiger economies", benefited at different stages and for prolonged periods in their economic development from degrees of state-directed protectionist trade and investment policies, and loose intellectual property regimes, with gradual and graduated exposure to trade liberalization. These policies deliberately built diversified industrial bases with strong internal economic linkages in North America as they have more recently in Asia prior to exposing themselves to global competition.

Sustained and high growth economies have never been "free-market purists", opening up to global markets at different times and according to different economic circumstances. They all have had government direction for industrial policies that target new or existing sectors, sometimes with managed exchange rates, capital controls, temporary subsidies, and varying degrees of reserve accumulation.<sup>53</sup> While no country has developed by turning its back to international trade and investment, the timing of opening an economy, particularly for highly vulnerable poor economies, has been a crucial consideration in the contribution of trade and investment to growth.<sup>54</sup>

##### 5.4.2 Focusing on domestic public savings, investment and taxation will "crowd-in" foreign private investment

The *Strategy* has a seeming implicit bias towards external investment as a source of

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<sup>52</sup> Interestingly CIDA's 2003 *Policy* on the private sector quoted the ILO definition of Decent Work and stated that CIDA is "bound and guided by a variety of legal instruments and international agreements, including ILO core labour standards as set out in the ILO *Declaration on Fundamental Principles and the Right to Work*".

<sup>53</sup> Commission on Growth, *op. cit.* p. 7.

<sup>54</sup> See Gauri Sreenivasan and Ricardo Grinspun, "Global Trade / Global Poverty: NGO Perspectives on Key Challenges for Canada, An Introduction", CCIC, May 2002, pages 6 – 8, accessed August 2011 at [http://ccic.ca/what we do/trade human rights e.php](http://ccic.ca/what_we_do/trade_human_rights_e.php).

economic growth, and generating policies conducive to an open environment. While it acknowledges that growth can help governments mobilize greater domestic resources, it ignores the importance of domestic savings and investment and progressive taxation. One of the key conclusions of the 2008 *Commission on Growth* is the following:

“High-growth economies typically set aside a formidable share of their income: a national saving rate of 20–25 percent or higher, is not unusual”, and that “capital inflows over the past several decades have a mixed record. Our view is that foreign saving is an imperfect substitute for domestic saving, including public saving, to finance the investment a booming economy requires.”<sup>55</sup>

A focus on domestic savings also supports domestic investment in infrastructure, education and health, which as the Commission also notes, crowds in private investment.<sup>56</sup> But without significant support for tax reform and for domestic tax policies that direct a portion of the profits realized by foreign investment to government, the revenue assumptions of the *Strategy* for government will not be achieved.

#### 5.4.3 Trade policies need to be country specific and require special and differential treatment

Trade and investment policies should be tailored to the needs and constraints of each economy, which require special and differential treatment for developing countries in trade rules. Often, when countries are too dependent, on commodity exports for example, their manufacturing sectors decline along with formal job opportunities. The 2010 UNCTAD Report on Least Developed Countries points out that, for such countries to benefit, trade and investment liberalization policies must be tailored to strengthen domestic industrial growth.<sup>57</sup>

As noted above, CIDA makes significant SEG investments in aid-for-trade initiatives and directly supports trade policy capacity building in developing countries through trade related technical assistance (TRTA). These initiatives need to be conscious of the concerns that aid-for-trade initiatives are too often focused on ensuring implementation of existing trade rules, many of which have poorly served developing country interests. TRTA should focus on building capacity for developing countries to develop their own approaches to trade policy that match their own economic challenges.<sup>58</sup>

#### 5.4.4 Investment policies cannot be rights, gender, and equality blind

The UN Special Rapporteur on the right to food, Olivier De Schutter, has drawn attention to “growing evidence that trade and investment policies can have important impacts on

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<sup>55</sup> Commission on Growth and Development, *op. cit.* p. 3.

<sup>56</sup> *Ibid.*, p. 6.

<sup>57</sup> UNCTAD, *op. cit.*, pages 7, 30, 35

<sup>58</sup> CCIC, “Trade-Related Capacity Building (TRCB) and Technical Assistance (TRTA): Capacity Building for Whose Agenda?” NGO Perspectives on Key Challenges for Canada, September 2003, accessible at [http://www.ccic.ca/files/en/what\\_we\\_do/002\\_global\\_trade\\_paper\\_6.pdf](http://www.ccic.ca/files/en/what_we_do/002_global_trade_paper_6.pdf)

human rights, particularly economic and social rights”.<sup>59</sup> Many of the developing countries of priority to CIDA, particularly in Latin America, are highly unequal societies and resource dependent economies. The ability of poor people, marginalized populations, and discriminated women to take advantage of new economic opportunities from international trade and investment is highly conditioned by their unequal access to assets and skills (land, credit, health, and education).<sup>60</sup> While this inequality is acknowledged, the *Strategy* would benefit from recognizing the implications of CIDA’s programmatic approaches and priorities on these issues of inequality.

Human rights bodies, independent experts and civil society organizations have been calling for the implementation of human rights impact assessments (HRIAs) to ensure that trade and investment regimes support the realization of human rights.<sup>61</sup> The recently ratified Canada-Colombia bilateral free trade agreement was accompanied by a unique new treaty requiring each government to carry out an annual assessment of the human rights effects of the agreement, albeit after the treaty has already begun implementation.

#### 5.4.5 Support for resource investments must pro-actively acknowledge the rights of affected populations

With respect to resource development, the Strategy directs CIDA to “build national and local capacities in managing natural resources and the environment in a sustainable and socially responsible way to support economic growth [emphasis added]” (SEG Strategy, 5). It positively calls for the application of corporate social responsibility principles for the natural resource industry (SEG Strategy, 4). But the Strategy should go further to reference specific principles and how they might influence CIDA’s actions in these countries, at a minimum the revised OECD Guidelines for Multinational Enterprises.<sup>62</sup>

The seeming orientation of the Strategy’s approach to corporate social responsibility leaves the investment *per se* unquestioned since it contributes to economic growth. A comprehensive approach to corporate social responsibility acknowledges the rights of populations and communities affected by such resource investments to be engaged in discussions of the scope, location or acceptance of such investment, as part of their human right as affected populations to have free, prior and informed consent.

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<sup>59</sup> Quoted in Berne Declaration, Canadian Council for International Co-operation, and Misereor, “Human Rights Impact Assessment for Trade and Investment Agreements, Report of the Expert Seminar, June 23-24, 2010, Geneva, 2010, accessed August 2011 at [http://ccic.ca/what\\_we\\_do/trade\\_human\\_rights\\_e.php](http://ccic.ca/what_we_do/trade_human_rights_e.php).

<sup>60</sup> See Dani Rodrik, “The Global Governance of Trade as if Development Really Mattered”. Background paper prepared for UNDP Trade and Sustainable Human Development Project, 2001. United Nations Development Programme.

<sup>61</sup> See Berne et al, *op. cit.* for an overview of this approach.

<sup>62</sup> These *Guidelines* were referenced in CIDA’s 2003 policy statement on the private sector in development.

## 6. CIDA, women's economic empowerment, gender equality and women's rights

The SEG Strategy acknowledges the importance of gender equality as a “cross cutting” issue for its three pillars. Women represent nearly half the world's workforce, make up more than half of those working in the informal sector, and are deeply involved in the often-unpaid care economy. The economic empowerment of women is an essential condition for the contribution of economic growth to poverty reduction. Women however face many barriers and levels of discrimination, as noted in the Strategy, in such areas as legal rights to assets, access to productive credits, and basic rights to participate in the economy with equal access to opportunities and benefits. The Minister for International Cooperation, working with UN Women, committed at a recent conference (October 2011) to take measures to break down these barriers.<sup>63</sup>

While identified as a cross-cutting issue, it is not clear to what degree gender equality considerations are central to the priority actions identified in the Strategy. The Strategy could have drawn attention to the fact that men and women are connected to a country's economy in different ways. Most women for example must balance demands of poorly paid often-informal work with unpaid care and domestic work.

The Minister pointed to several ways that CIDA will place particular emphasis on women's economic empowerment.<sup>64</sup> These include the following:

- Work with like-minded institutions to break down the barriers that impede women's economic empowerment.
- Increase access to education and training opportunities, including demand driven-skills, for women and girls;
- Improve the productivity of smallholder women farmers to achieve food security;
- Target initiatives that increase women's economic opportunities;
- Work to establish equitable business and employment laws, standards and regulations; and,
- Increase women's access to financial services, markets, and information on how to increase productivity.

Some additional areas of programming could be pursued that also reflect a priority to the economic empowerment of women in sustainable economic growth:

- Gender budgeting to ensure government policies and budgets reflect women's specific concerns;
- Collection of gender disaggregated data to determine appropriate policies and approaches to stimulating sustainable economic growth;
- Measures to tackle legal and cultural discrimination against women which restrict women's participation in the formal economy;

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<sup>63</sup> For details, see <http://unwomen.cida.gc.ca/eng/home.html>

<sup>64</sup> CIDA, “Conference on Women's Economic Empowerment, Ottawa, October 3-5, 2011” Joint Statement of Action, October 6, 2011, accessed at <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/NAT-106144810-036>.

- Strengthening women’s organizations to enable women to transform the terms of their participation in the economy, and create the enabling regulatory framework that protects their rights; and
- Measures that take into account women’s domestic responsibilities in designing training and skills programs.

The focus on women’s economic empowerment is not only a key element of CIDA’s SEG Strategy, but also of the *Draft Joint Action Plan for Gender Equality*, which was launched at the Busan High Level Forum on Aid Effectiveness. Canada has endorsed this Plan. But in Busan a number of women’s organizations raised concerns that the Plan “instrumentalized” women’s untapped potential as an avenue to economic growth, rather than a strategy for realizing women’s fundamental human rights. In response to the Busan Gender Action Plan, women’s groups noted that, “Women’s rights will not be fully enjoyed by women in all our diversity simply by facilitating entrepreneurship of women.”<sup>65</sup> The Draft remains open to comment. The approach for the Action Plan, like the SEG Strategy, should be grounded in rights, and more specifically in the Beijing Platform for Action and the Convention for the Elimination of all forms of Discrimination Against Women (CEDAW).<sup>66</sup>

## 7. Conclusions and Recommendations

CIDA’s thematic focus on sustainable economic growth raises the potential for important initiatives by the Agency that address the economic conditions that sustain poverty and inequality. We have pointed to some analytical foundations that will strengthen this orientation as CIDA initiates programs in many countries to implement the main priorities for the *Strategy*. CCIC offers the following recommendations for consideration and discussion by its members and with CIDA officials.

### 1. Meeting the criteria of the ODA Accountability Act

Projects and programs related to the SEG Strategy must explicitly demonstrate that they meet the three criteria of the 2008 ODA Accountability Act and the rationale for all three criteria should be available in the narrative description in the project browser.

### 2. Developing pro-poor accountability tools

CIDA should review and reactivate the use of pro-poor analytical tools (similar to those developed to implement the 2003 *Policy on Private Sector Development*), taking on board best practices identified in the work of PovNet at the OECD DAC. The determination of country priorities for SEG should be based on an analysis of areas and sectors where poor

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<sup>65</sup> BetterAid, *Position on the proposed Busan Joint Action Plan on Gender Equality and Development*, November 30, 2011, [http://www.betteraid.org/en/member-downloads/doc\\_download/472-position-on-the-proposed-busan-joint-action-plan-on-gender-equality-and-development.html](http://www.betteraid.org/en/member-downloads/doc_download/472-position-on-the-proposed-busan-joint-action-plan-on-gender-equality-and-development.html). Evidence of many women’s organisations suggests that this approach can instead sometimes exacerbate inequalities and rights violations.

<sup>66</sup> “Getting the Busan Gender Plan on the rights track”, Robert Fox, Oxfam Canada, <http://ccic-cci.blogspot.com/2011/11/what-was-to-be-showcase-announcement-on.html>

people live and are economically active, and the impact of growth (positive or negative) on their livelihood, assets and capacities.

### **3. Governance processes that engage people living in poverty**

CIDA country programs that give priority to SEG should invest in governance processes that strengthen the capacities of poor and marginalized populations to be informed about economic growth options. These programs should support measures that empower these populations to participate in policy-making processes that are accountable to their interests. CIDA's initiatives should also include support for collective civic action (civil society, cooperatives, unions) for economic, social and political change, recognizing that political empowerment of people living in poverty is both complex and long-term.

### **4. Indicators for gender equality, governance and environmental sustainability**

CIDA should develop specific indicators to measure compliance with gender equality (measures for the economic, social and political inclusion and empowerment of women), governance and environmental sustainability (including climate change) in its country performance management strategies, with quantitative and qualitative indicators to measure the impact of SEG initiatives – and make both publicly available.

### **5. Address the linkages between the informal and formal sectors**

In strengthening skills and capacities for formal sector employment, CIDA should assess the complex linkages between the informal sector and the formal sector, including the role of small and medium –sized enterprises, with a priority to addressing and changing conditions that relegate the majority of the poor to the informal sector in many countries. Best practice suggests an integrated approach that also includes strong social protection measures to reduce risk and access to education and basic health care. CIDA should also balance its focus on policy and regulatory reforms that lower the barriers to entry for the formal sector, with a more direct approach that supports innovative efforts to organize informal workers, including through cooperatives and unions.

### **6. Working conditions and core labour standards**

CIDA programs to improve skills and access to jobs in the formal economy should equally attend to working conditions, and the implementation of core labour standards and laws in that sector.

### **7. Developing a private sector strategy**

As an input to CIDA's current efforts to develop a private sector strategy, CIDA should coordinate a multi-stakeholder process to identify principles and a framework to guide CIDA's approach to private sector development, taking account of the 2003 *Policy on Private Sector Development*.<sup>67</sup>

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<sup>67</sup> BetterAid at the Busan HLF4 provided some proposals along these lines. See BetterAid, *Response to the "Joint*

## **8. Corporate social responsibility**

CIDA's actions in support of an enabling environment for private sector development should be guided by the application of specific corporate social responsibility principles, including but not limited to the revised OECD *Guidelines for Multinational Enterprises*. CIDA support for development initiatives led by the private sector should demonstrate two dimensions of additionality: 1) Financial – ODA funds must target appropriate sectors and businesses that otherwise would not have funds available from the private sector; and 2) Development – ODA resources must be allocated consistent with the ODA Accountability Act, with a focus on poverty reduction, taking account the view of the poor and international human rights standards. This means that CIDA's support for CSR projects needs to be premised on the condition that such projects are closely integrated into and support local development policies and programs as this will ensure that they will be sustainable in the longer term, that CSR initiatives will also contribute to benefiting populations outside the immediate project area, that they will be locally owned and include built in mechanism of accountability. In particular, CIDA's projects and programs with respect to resource sector development should acknowledge the rights of populations and communities affected by such resource investments to have free, informed and prior consent.

## **9. Supporting domestic industrial development**

CIDA's support for an enabling environment for trade and investment in developing countries should be tailored to the needs and constraints of each economy and to the importance of domestic industrial development to sustainable growth. The latter often requires special and differential treatment for developing countries in global rules that guarantee open trade and investment regimes.

## **10. Implementing human rights impact assessments**

CIDA should work with partners, including civil society organizations in developing countries and Canada, to develop and improve capacities to undertake the implementation of human rights impact assessments (HRIAs) to ensure that trade and investment regimes support the realization of human rights.

## Annex One: Activities Supported by CIDA’s Sustainable Economic Growth Strategy

<b>A) Building economic foundations<sup>68</sup></b>	
<b>Goal</b>	<b>Focus of activities</b>
Build the necessary legislative and regulatory business, industrial and financial framework upon which sustainable growth can take place.	<ul style="list-style-type: none"> <li>• Build and strengthen sound, transparent financial and economic management capacity, systems, policies, regulations and services at the local, national and regional level;</li> <li>• Develop and improve effective regulatory and policy regimes that foster competitiveness, economic growth and investment, and reduce corruption;</li> <li>• Help governments, businesses and industries integrate into regional and global economies;</li> <li>• Promote the accountability and capacity of local governments to develop plans and strategies;</li> <li>• Develop policies and capacities that support environmentally sustainable natural resource use and management and climate change adaptation – especially in the extractive and agricultural sector – while also promoting economic growth (securing land tenure, increasing agricultural productivity, promoting environmentally friendly agricultural practices, strengthening value chains, improving market access, and promoting corporate social responsibility).</li> </ul>
<b>B) Growing Business</b>	
<b>Goal</b>	<b>Focus of activities</b>
Enhance the viability, productivity, and competitiveness of micro, small and medium-sized private sector enterprises, resulting in increased employment opportunities for the poor.	<ul style="list-style-type: none"> <li>• Provide micro, small and medium sized enterprises (SMEs) with micro-entrepreneurships training and business development support services;</li> <li>• Help SMEs to meet international standards, better integrate into local and global value chains, and move from the informal to formal sector;</li> <li>• Enhance access of business to innovations and technologies that can increase productivity and</li> </ul>

<sup>68</sup> Drawn from “Stimulating sustainable economic growth – CIDA’s Sustainable Economic Growth Strategy”, CIDA, October 24, 2010, and “Report on Plans and Priorities”, CIDA, for the period ending March 31, 2012.

	<p>sustainability;</p> <ul style="list-style-type: none"> <li>• Reduce the barriers for women to productively participate in the economy, in particular through quality basic education for girls and marginalized children, and vocational and entrepreneurial skills training for youth and women;</li> <li>• Increase access to microcredit, insurance and other financial services, in particular through local, national and regional savings and credit institutions.</li> </ul>
<b>C) Investing in People</b>	
<b>Goal</b>	<b>Focus of activities</b>
<p>Improve the employment potential of individuals to increase access to, and benefits from, opportunities in the informal and formal business sectors.</p>	<ul style="list-style-type: none"> <li>• Increase access to essential demand-driven skills training programs and knowledge necessary for employment, in particular among women and youth, that includes literacy and numeracy skills;</li> <li>• Provide greater workplace learning opportunities, including among small holder farmers, that gives them the knowledge and skills to increase their productivity and revenue generating potential;</li> <li>• Support results-based learning initiatives that will stimulate business growth, market expansion and productivity, and increased employment opportunities for the poor.</li> </ul>

## **Annex Two: Donor Statements on Economic Growth and Promotion of the Private Sector**

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