

CCIC's comments on the Report of the Standing Committee on Foreign Affairs and International Development:

"Driving inclusive economic growth: The role of the private sector in international development"

1. Introduction

On November 7, 2012, the Standing Committee on Foreign Affairs and International Development (FAAE) tabled its report on the role of the private sector in achieving Canada's international development mandate, following a series of hearings the Committee held to study the theme over the past year. Entitled "[Driving inclusive economic growth: the role of the private sector in international development](#)", the report provides a summary of the range of views that were presented at the hearings, and a series of recommendations to the Canadian government, and more specifically to the Canadian International Development Agency (CIDA). The report includes a dissenting opinion from the New Democratic Party of Canada and a supplementary opinion from the Liberal Party of Canada.

This brief analysis of the report, prepared by the Canadian Council for International Co-operation (CCIC), aims to identify the gaps in the report and some of the areas that require more attention and reflection, and also addresses some of the recommendations the Report makes to CIDA.

2. A much needed exercise

CCIC acknowledges the time and energy that the Committee has dedicated to holding the hearings and preparing the report. The global context for international development is rapidly evolving. New trends and actors are emerging. And official development assistance (ODA) is on the decline in many donor countries. Therefore exploring the most effective and efficient ways that current resources can contribute to poverty reduction is certainly a timely exercise. What role that the private sector (be it Canadian, multinational or developing country) can play in this process is an important question.

We recognize that there is a role for the private sector in development and that it can contribute to sustainable development. But we believe that this cannot be achieved without the significant involvement of key development actors - such as national, provincial and municipal governments, parliamentarians, and civil society. And we also recognize, like members of the Committee have, that the role of the private sector in development is a complex, multi-faceted and often sensitive one.

3. Comments on the report

3.1 CIDA's previous engagement with the private sector

CIDA already has a breadth of experience in terms of interacting with the Canadian private sector and forging partnerships for development, as well as promoting private sector development in developing countries. We

think it is therefore unfortunate that the Committee did not invite anyone from CIDA to speak to this experience.¹ For example, the Agency already has a “[Policy on Private Sector Development](#)” (2003) that is, in our opinion, quite comprehensive and robust. The Report references this, but does not explain how any new strategy would build on and complement this existing strategy – only that the policy needs updating.

CIDA has also learnt a lot from the experience with CIDA Inc. The program was transferred to Foreign Affairs in 2010 following an extremely critical internal evaluation that, among other things, pointed to a lack of concrete results. The new Investment Cooperation Program (INC) at Foreign Affairs has since been suspended following the identification of financial irregularities. Any strategy going forward should take this experience, the lessons learned from it, and existing policies into account.

3.2 Which private sector are we talking about?

The report lacks clarity in terms of which private sector it is seeking to promote – both in terms of origin (Canadian, multinational or developing country), and scale (for example, big corporations, cooperatives, or micro and small enterprises. Given that much of the controversy on the issue of the private sector and development has been clouded by this lack of clarity, it is unfortunate that this report missed the opportunity to shed light on this critical aspect of the debate.

Rather, the FAAE report confuses matters further by including NGOs as part of its definition of the private sector – when governments globally have recognized civil society as development actors in their own right, independent from government and the private sector.

National and foreign companies have a role to play in addressing global development challenges. The promotion of the local private sector in developing countries, and of national and regional markets and linkages, are a central part of a sustainable economic development strategy and one that CIDA is well positioned to support. Foreign companies can also be important players, especially when forging partnerships with domestic private sector actors and transferring skills and knowledge. Public-private partnerships, when done within the right framework, can benefit local communities in developing countries, and there is a role for CIDA in this; but it is only one path among many others that can lead to poverty reduction.

But for an increasing number of economies, for example in Africa, what the private sector now needs to bring is not so much growth and investment – which is already happening – but much-needed jobs – which is not. The 2012 Africa Progress Panel noted this dilemma.² The World Bank’s World Development Report 2013 also focuses on jobs – which it describes as the cornerstone of development. While it acknowledges that the private sector is the driver of growth and the main engine of job creation, it also notes that growth does not always spill over into job creation. This is the case in many of the countries where CIDA is operating and would therefore suggest that CIDA should focus more on jobs than growth. In this vein, “In resource-rich countries, massive investments in extractive industries support accelerated rates of growth and connections with international markets but generate little direct (or even indirect) employment and often little poverty reduction.”³ “In reality,” it notes, “micro- and small enterprises account for the bulk of employment [in developing countries], even in middle income countries.”⁴

¹ Former Minister of International Cooperation, Beverley Oda, did appear before the Committee on March 14, 2012, in the context of a standing order. The Minister addressed a range of issues including aid and the private sector in her response, but was never explicitly invited to appear before the Committee on this topic.

² Africa Progress Panel (2012), *Africa Progress Report 2012 - Jobs, Justice and Equity: Seizing opportunities in times of global change*. Available on-line at <http://www.africaprogresspanel.org/en/pressroom/press-kits/annual-report-2012/>

³ World Bank (2012), World Development Report 2013: Jobs, pp. 88-89. Available on-line at http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf

⁴ World Bank (2012), p. 105.

3.3 Keeping the focus on CIDA's role and mandate

CIDA's mandate is poverty alleviation in developing countries. As the main federal department providing ODA, CIDA's work is governed by the [ODA Accountability Act](#). The Act lays out three criteria for ODA disbursements under the Act. These criteria are that such assistance contributes to poverty reduction; that it takes into account the perspectives of the poor; and, that it is consistent with international human rights standards. Any new endeavor or area of programming undertaken by CIDA should be consistent with CIDA's overall mandate and respect for the ODA Accountability Act.

Furthermore, for CIDA's support for the private sector to be positive and fully contribute to sustainable poverty reduction, it should do the following: focus on developing countries' private sector; be framed within clear and transparent guiding standards and principles; apply selection criteria and indicators that establish financial and developmental additionality⁵; and include a robust monitoring and evaluation mechanism able to demonstrate positive results and outcomes.

3.4 Commercial interests vs development objectives

The most recent OECD Peer Review of Canadian aid clearly stated that, "There should be no confusion between development objectives and the promotion of commercial interests."

The government currently places a strong emphasis on advancing the interests of Canadian companies overseas, through the promotion of trade and investment agreements, for example. This is logical in the context of trade and investment. But there is reason to be concerned that the government might also expect CIDA to move away from its core mandate of alleviating poverty by giving undue priority to promoting Canadian companies. This report does not appease that concern.

There is a strong focus in the committee's report on promoting "Canadian expertise" in developing countries, more specifically in the extractive and financial services sectors, and on CIDA working to create an enabling environment for foreign investments.

In the same vein, we are concerned with the suggestion of staff exchanges between CIDA and Canadian private companies. This would distort CIDA's mandate and role, and would significantly increase the already high potential for conflict of interest in public-private partnerships. The same goes for having CIDA provide loans and other financial incentives to Canadian private companies; there are other government agencies that are much better suited to playing this role. Furthermore, ODA should not be used to pave the road for business opportunities for Canadian companies in developing countries.

Canada is proud of its track record of untying its aid; any new private sector strategy should not reverse that track record. This should not preclude potential partnerships between Canadian, multi-national and developing-country companies, but CIDA must be extremely careful when treading this fine line.

3.5 Developing countries need to be in the driver's seat

The OECD also noted, in its most recent Peer Review of Canada's aid program that "CIDA needs to ensure that development objectives and partner country ownership are paramount in the activities and programmes it supports."

As experience has demonstrated, and as stated in the Busan Partnership for Effective Development Cooperation document (BPd) effective development needs to be driven by developing countries. It is a key to

⁵ Financial additionality refers to the extent to which aid funds target sectors and businesses that otherwise would not have funds available. Development additionality refers to the extent to which aid resources go to and for the private sector work towards eradicating poverty and achieving other development goals, such as the Millennium Development Goals.

success and recognition that citizens of developing countries are drivers of their own development, and not passive recipients. This most basic of aid effectiveness principles – that of country ownership – is not reflected in the Committee’s report, where development is still envisioned as being driven by foreign interests and actors.

Recommendation 6 of the Committee’s report reads, “The Committee recommends that CIDA offer technical assistance to developing country governments that enables more foreign direct investment for the purposes of private sector employment”. Such technical assistance can strengthen country systems if undertaken in a way that builds local government capacity to act in its domestic interests. In a context where a donor is prioritizing its own commercial interests, irrespective of a country’s priorities, the outcomes of such technical assistance will not be most beneficial to the developing countries.

4. Conclusion

In summary, the Committee’s report raises some concerns that could be addressed if CIDA took the following points into consideration in its engagement with the private sector:

- Stay true to CIDA’s mandate by making sure that Canadian commercial interests do not displace development objectives;
- Respect the ODA Accountability Act framework;
- Build on previous experience with the private sector – its existing private sector development policy, lessons learned from CIDA Inc. and private-sector development programs funded to date;
- Apply to such projects clear and transparent guiding standards and principles, selection criteria and indicators that establish financial and developmental additionality, and a robust monitoring and evaluation mechanism able to demonstrate positive results and outcomes;
- Focus on developing a strong and sustainable domestic private sector in developing countries;
- Ensure that any private sector strategy being developed is driven by developing country interests and actors.

CIDA is currently working on a Private Sector Strategy. We think it very important that all development stakeholders be consulted and a wide variety of experiences and views be considered in the elaboration of this strategy, especially voices from developing countries.

We look forward to reading the government’s response to the Committee’s report (to be published within 90 days or by February 5th) and will comment on it at that time.

CCIC will be launching a consultation process with its membership on the role of the private sector in development and we will try to address, through that process, some of the questions that the Committee’s report has left unanswered.