



Canadian International
Development Agency

Agence canadienne de
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SECTOR DEVELOPMENT PRIORITY REVIEW □
□
STATISTICAL PORTRAIT OF □
□
PRIVATE SECTOR DEVELOPMENT ACTIVITIES □
□
CONDUCTED BY CIDA FROM □
□
1989/90 TO 1998/99

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Summary

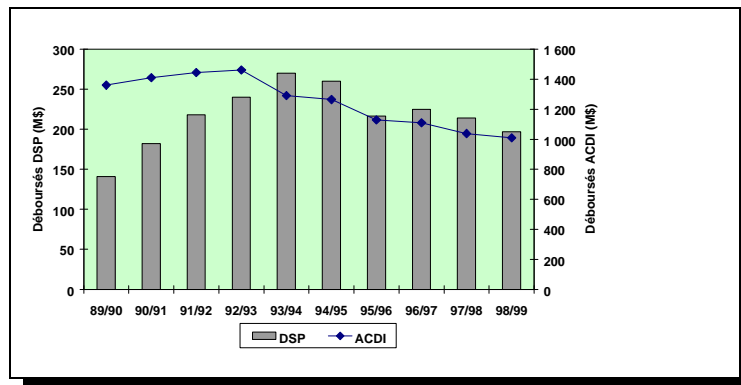
SECTOR DEVELOPMENT PRIORITY REVIEW STATISTICAL PORTRAIT OF PRIVATE SECTOR DEVELOPMENT ACTIVITIES CONDUCTED BY CIDA FROM 1989/90 TO 1998/99

1. Introduction

Private sector development (PSD) is one of the six development priorities that CIDA must pursue, as determined by the 1995 foreign policy statement, *Canada in the World*.

According to its mandate, Performance Review Branch (PRB) is responsible for evaluating the results of CIDA's private sector development activities, as it does for the other priorities. The approach adopted by PRB in conducting this review was to structure the analysis based on the five categories of activities that correspond to CIDA's expected results in PSD:

- establishing an enabling environment for the private sector (501);
- **PRIVATE** promoting capacity, skills and productivity enhancements (502);
- building linkages between the Canadian private sectors and those of developing countries (503);
- developing local enterprises to benefit the poor and women (504);
- promoting integration of the private sector into the world economy (505).



One of the key elements of PRB's methodology was to create, from information in corporate memory, a database of CIDA activities supporting private sector development from 1989/90 to 1998/99. This study, developed as part of the preliminary review of the evaluation of PSD, aims to use this database to provide a statistical portrait of disbursements allocated

by CIDA to the PSD priority.

2. General Overview

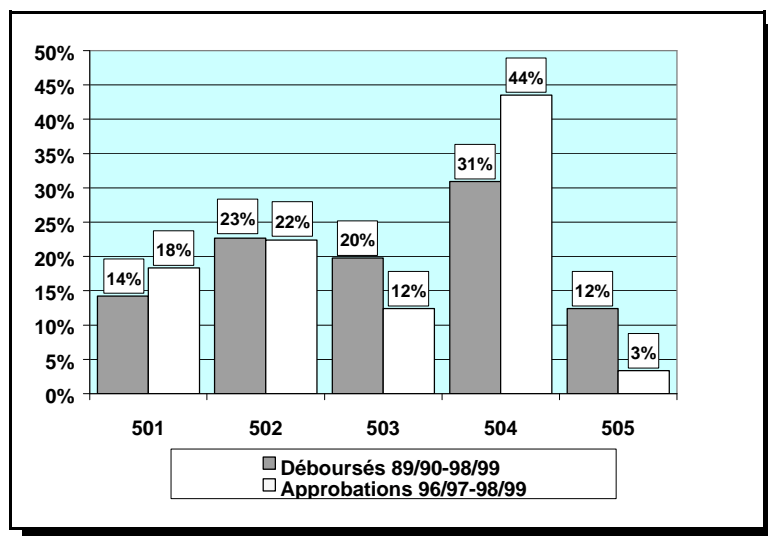
From 1989/90 to 1998/99, CIDA allocated a total of \$2.1B for the **PSD** priority, or 17% of its total estimated disbursements for the period (\$12.5B). In the past three years (1996/97 to 1998/99), for which statistical data are available by priority, disbursements for the PSD priority reached a level comparable to the Basic Human Needs (BHN) and Human Rights and Good Governance priorities, that is, about 20% of total disbursements.

On an annual basis, PSD disbursements rose from \$140M in 1989/90 to \$270M in 1993/94. This growth can be explained partly by CIDA's integration of Central and Eastern Europe Division programs, which largely concern the private sector, but also the growth of PSD programs in other divisions. As of 1994/95, the overall development of PSD disbursements very closely followed that of all CIDA disbursements, with the amount gradually decreasing to \$200M in 1998/99.

Among the branches, Africa and the Middle East (AMEB) leads in PSD disbursements with 32% of the total, followed by Asia (28%), the Americas (13%) and CEE (11%). Partnership Branch disbursements accounted for only 7% of the total, not including Industrial Cooperation Division, whose share was 9%.

3. Analysis of PSD Disbursements by Category

Diagram ii - Comparison of 1989/90-1998/99 disbursements with 1996/97-1998/99 approvals



The diagram opposite compares the share of disbursements obtained from 1989/90 to 1998/99 for each PSD category, with approvals from 1996/97 to 1998/99. This comparison illustrates the changing priority attached to each category in the past three years.

During the review period, Category 504 (development of local enterprises) constituted CIDA's main area of PSD activities, with disbursements close to **\$600M** or 31% of the total amount. The number two area was Category 502 (capacity enhancements), with disbursements totalling **\$438M** (23%).¹ Category 503 (linkages between private sectors) ranked third with 20% of disbursements or **\$381M**. In the other two categories, 501 (enabling environment) and 505 (integration into the economy), disbursements totalled **\$275M** and **\$240M** respectively.

Analyzing disbursements by category yields the following highlights.

¹ This distribution stems from major corrections to the database, which mainly involved transferring disbursements for community development, cooperative, and microenterprise/microfinance projects from Category 502 to Category 504, making the latter the number one category.

Category 501 - Enabling environment:

- Category 501 comprises enhancements to the legal, regulatory and institutional framework in which the private sector operates. It includes support for macroeconomic and public management of the private sector, sector-wide policies, enhancements to the business environment, and infrastructure that allows the private sector to operate effectively.
- Bilateral program disbursements in this area of intervention (\$260M) mainly benefited **Africa**, which received **65%** of the total, or \$168M. Half was allocated for **lines of credit** to provide balance-of-payment assistance under structural adjustment programs.
- The largest 501 disbursements were allocated to projects supporting **macroeconomic reforms** (26%) and **sector-wide policies** (25%) in various areas, such as the finance, energy, agriculture and education sectors. Activities to enhance the business environment constituted only a small portion of disbursements (8%). **Infrastructure** projects represent 11% of 501 disbursements. However, several seem unrelated to the development of sector-wide policies. Activities focused more on management support and equipment procurement. Infrastructure disbursements declined considerably in the past five years, since most projects were approved before 1989.
- 501 disbursements have increased in the past five years, thanks mainly to the launching of several projects supporting macroeconomic reform (Ghana, Senegal) and sector-wide policies (Indonesia, Vietnam, Pakistan). Thus, of the \$331M approved in the past three years (1996/97 - 1998/99), 18% can be attributed to Category 501, for a total of \$61M, making this the third largest category (Diagram ii).

Category 502 -Capacity, skills and productivity enhancements:

- Category 502 is defined as promoting entrepreneurship and building the capacities of target groups to engage in business activities through training and skills development, and promoting the productivity of individuals and organizations. The category mainly concerns **three groups of projects**: i) educational services (which consist of scholarship programs and educational institution building); ii) direct small business support, focusing particularly on non-financial services; iii) enhancing production systems (through technology transfer and training).
- In the past decade, **educational services** have constituted the main component of private-sector capacity building, with nearly two thirds of 502 disbursements allocated to this group, and nearly half to educational institutions, through institution building activities that better enable them to meet market needs. **Asia Branch** has allocated the most resources to educational institution building projects, allocating 46% of its disbursements to this group (two thirds for projects executed in **China**).
- In comparison with the resources allocated to activities targeting educational services, amounts allocated to **small business support** totalled only **\$37M** over 10 years, or less than 10% of 502 disbursements. If we add the estimated \$41M² allocated to the **Canadian**

² Canadian Executive Service Organization (CESO) disbursements were not correctly recorded in the 502 database.

Executive Service Organization (CESO) in 1989/90-1998/99, total disbursements climb to \$85M. It will also be noted that the majority of disbursements allocated to this group concern **Africa and the Middle East**, except for the CESO program and a few projects in Asia. Moreover, projects that focus on **improving procedures**, representing 14% of 502 disbursements, mainly targeted the agricultural sector and were executed primarily by **Asia Branch**.

- Finally, 502 disbursements remained relatively steady in 1989/90-1998/99, but declined in the past three years, for all groups of projects, except small business support. Disbursements in this case can be attributed mainly to the CESO program. It will also be noted that scholarship programs almost entirely disappeared.

Category 503 - Linkages between the Canadian private sectors and those of our developing country partners

- Category 503 focuses mainly on promoting **direct investment** by Canadian firms in developing countries, especially by creating joint ventures, and establishing **ongoing economic relations** with developing countries, including independent trade relations and exchanges.
- During the ten-year period, it must be noted that the majority of disbursements were allocated to the investment mechanism of the **Industrial Cooperation Program (INC)**, which represents 50% of disbursements, compared with the various bilateral programs. Among the latter, disbursements for Africa and the Middle East Branch and Asia Branch were relatively significant (22% and 18% respectively). Disbursements for Americas Branch were less significant (only 8%).
- The largest group of disbursements in Category 503 concerns direct investment, with 61% of the total, shared by **INC's investment mechanism** (\$191M) and **Enterprise projects** (\$42M) to create joint ventures in three Asian countries (Malaysia, Thailand and the Philippines). Activities to **promote economic relations** represent 39% of 503 disbursements. They consist primarily of lines of credit (32%), various activities to promote Canada's economic interests (4%) and projects to achieve these benefits through technology transfer (3%).
- Note that 503 disbursements declined sharply in recent years. This is reflected in the level of approvals of new 503 disbursements, which now represent only 12% of the total (see Diagram ii). This decline is attributable mainly to the bilateral branches and Partnership Branch. The level of approvals for Industrial Cooperation declined only slightly by comparison.

However, this partner was the main stakeholder in terms of disbursements for small business support. We have thus assumed an average annual disbursement of \$4M.

Category 504 - Development of local enterprises (micro-enterprise and microfinance)

- Category 504 comprises activities to generate sustainable income for the poor and poor women. These activities were executed mainly through: i) **community-based development** and rural development projects, which represent 33% of 504 disbursements; ii) projects to establish **local enterprises** (25%), that is, micro-enterprises and cooperatives; iii) and projects to provide credit, mainly through **savings and credit unions** (17%). Furthermore, a significant portion of 504 disbursements (22%) can be attributed to **counterpart funds** generated by lines of credit or by food aid programs used to finance small local initiatives.
- The majority of 504 disbursements were made by **Asia Branch** (40%), particularly for major rural and community-based development projects. Disbursements by Africa and the Middle East Branch (25%) focused mainly on support for the cooperative sector. Americas Branch (19%) benefited from several lines of credit, generating counterpart funds to support local development.
- By comparing the share of 504 disbursements obtained from 1989/90 to 1998/99 with approvals from 1996/97 to 1998/99 (Diagram ii), we can see that CIDA attached greater importance to this category, which obtained 44% of new approvals, or \$144M, but only 31% of disbursements for the decade.

Category 505 - Integration into the world economy

- Category 505 concerns development activities to integrate national economies and private sectors into the world economy.
- Although **\$240M** in disbursements were allocated to Category 505, examining the content of the PSD database leads us to conclude that CIDA actually funds very few activities focusing directly on integration into the world economy. Thus, if we exclude CEE data, **83%** of Category 505 consists of **lines of credit** and food aid programs, disbursed mainly in **Africa** prior to 1995. This seems to be mainly program aid related to policy reform as part of structural adjustment or simply balance-of-payment assistance, which it is somewhat difficult to link directly to the integration of national economies.
- Furthermore, 505 disbursements grew rapidly in Asia and Africa starting in 1990/91, peaked at \$57M in 1993/94, but totalled only \$5M in 1998/99. This decline coincides with budget cuts that affected lines of credit, the main mechanism for 505 activities. This decline is also reflected in the fact that only 3% of new project approvals involve Category 505 (Diagram ii). We may conclude that Category 505 is not justified by a sufficient volume of pertinent activities and may be merged with Category 501.

4. Key types of partners

More than half (53%) of PSD disbursements, excluding CEE disbursements, were made through **private firms** which are CIDA's partners in all categories of activities, but with a particularly high proportion for Category 503 (83%) due to INC, and 505 (86%) with line-of-credit management. **Government agencies** also played a key role (18%), especially for Category 501, where CIDA or DFAIT was responsible for managing certain lines of credit.

The majority of Category 504 disbursements were made for **NGOs** (28%) and **cooperatives** (21%). Three cooperatives (DID, SOCODEVI, CCA) received \$163M from bilateral sources and Partnership Branch over a ten-year period. Finally, we note the significant involvement of **educational institutions** (universities 23%, colleges 16%) in executing Category 502 activities. We should mention the key role of the Association of Canadian Community Colleges (ACCC), which obtained \$65M in disbursements, including \$13M from Partnership Branch.

5. PSD disbursements - Central and Eastern Europe Branch

PSD disbursements by CEE Branch are addressed specifically because this branch takes a different approach in coding its PSD activities, but also to reflect the special nature of its programs, which do not meet CIDA's six priorities, but rather its own priorities. CEE's two PSD priorities are:

- **supporting countries in making the transition to a market economy;**
- **developing trade relations and investment between CEE countries and Canada.**

PSD disbursements by CEE Branch totalled **\$234M** from 1989/90 to 1998/99, corresponding to 36% of the Branch's total disbursements and 11% of CIDA's PSD disbursements. PSD disbursements by CEE Branch declined in the past two years.

PSD activities as part of CIDA's cooperation with CEE are executed through three different programs:

- i. the **technical cooperation program**, which mobilizes the largest share of PSD disbursements (about 70%);
- ii. the **multilateral program**, which represents about 20% of PSD disbursements;
- iii. the **Renaissance Eastern Europe (REE) program** (similar to INC's investment mechanism), which accounts for about 10% of CEE's PSD disbursements.

CEE PSD projects have been reclassified based on the PSD category to which they appear to belong.³ This allows us to identify the following highlights:

- The largest share of Category 502 (37%) reflects the key components of technical cooperation: educational activities by universities and colleges (MBA programs), activities by private firms and NGOs (CESO) to strengthen human resources, and CEE enterprises.
- The largest share of Category 504 (19%) reflects Canada's efforts to create small businesses and cooperative networks, virtually non-existent in these countries until now.
- The smaller and more realistic share of Category 503 (reduced to 20%) reflects the fact that, apart from the REE program, relatively fewer PSD activities immediately aimed to promote investment and trade relations.
- The large share of Category 505 (18%) includes many activities that do not involve integration into the world economy, but rather transition to a market economy. These activities could have been coded under Category 501 or 502.
- A relatively small share of disbursements were made to private firms (30%), a large share to universities and colleges (24%) and NGOs and cooperatives (15%). Significant disbursements (7%) to government agencies involved in various technical cooperation projects should also be noted.

6. Main countries of intervention

Analyzing the database for **bilateral programs** shows that disbursements are fairly widely scattered for Africa and the Middle East Branch and Americas Branch. In both cases, the five main recipient countries obtained less than 50% of total disbursements. However, a higher concentration is seen for Asia Branch and CEE Branch. Asia Branch allocated 74% of its PSD disbursements to five countries, including more than one fifth to Bangladesh with \$135M. The five main CEE recipient countries obtained 86% of PSD disbursements. Russia alone accounted for nearly half, or \$81M. Note that 95% of PSD funds for CEE Branch went to Eastern European countries, to Russia and to the Ukraine. Note also that one quarter of disbursements to Africa were made to two countries, Ghana and Cameroon. The Leeward and Windward Islands were the main recipient country for Americas Branch with 20% of PSD disbursements.

7. PSD disbursements - Partnership Branch programs

PSD disbursements attributable to Partnership programs, not including Industrial Cooperation projects, represent **9%** of total PSD disbursements from 1989/90 to 1998/99, or **\$157M**. However, Partnership PSD disbursements have increased since the beginning of the review period. They were allocated mainly to two categories of activities, Category 504 (63%) and Category 502 (21%).

³ A detailed description of the reclassification of CEE PSD activities to the five categories is presented in the Category 503 preliminary review report.

Detailed examination of these disbursements shows, moreover, that a large share correspond to program funding for partner institutions and organizations. It was estimated, somewhat arbitrarily, that a certain percentage should be allocated to PSD. We note that Category 504 disbursements focus on the three cooperative organizations (DID, SOCODEVI, CCA). There are several different types of disbursements by partners in 502 activities, including NGOs (45%) and universities and colleges (40%).

8. Funding mechanisms for PSD activities

The very significant use of **responsive mechanisms** to identify projects is definitely one of the highlights of PSD activities from 1989/90 to 1998/99. Analyzing the database thus leads us to conclude that nearly half of PSD disbursements are the result of **responsive mechanisms** (48%, including Partnership Branch disbursements), compared with **46%** for **proactive mechanisms**. Disaggregating disbursements by category shows that responsive mechanisms were particularly important for Category 502, 503 and 504 activities, and for CEE programs.