



Canadian International
Development Agency

Agence canadienne de
développement international

CATEGORY 501 ☐



ENABLING ENVIRONMENT STUDY

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Canada

Summary

CATEGORY 501 - ENABLING ENVIRONMENT STUDY

1. Introduction

The 501 category of Private Sector Development pertains to the mix of national policies (macro-economic, social and political) and institutional capacities (e.g., enforcement of the rule of law, effectiveness of regulatory instruments, pervasiveness of corruption) which are determinant in the shaping of conditions that are either conducive to, or hinder the development of the private sector in beneficiary countries. It is a critical segment of development programming given its potential to influence events from the sector to the individual firm level, for instance policies related to property rights or incentives to support the development of grass-roots savings and credit organizations. In addition, structural adjustment programs addressing inflation, fiscal deficits, the privatization of state enterprises, etc. help determine the extent to which a given country is “enabled” to accede to global markets and attract foreign direct investment.

Enabling environment is squarely positioned at the juncture of national and international PSD initiatives and thus has strong linkages to other PSD categories such as 504 Microfinance and Microenterprise Development, and category 505 Trade and Economic Integration. Furthermore, efforts to redefine the respective role of governments and private sector operators in the delivery of essential services (e.g., infrastructure, education, water and sanitation, etc.) as well as efforts to curtail corruption and improve the strengthening of capacities to develop sound policies (e.g., decentralization, increased influence of civil society in policies and decisions, etc.) are germane to CIDA’s programming related to Human Rights, Democratization and Good Governance. There are empirical studies which show that gains in these areas have a positive influence on economic growth and ultimately the reduction of poverty.

In 1996, the OECD’s Development Assistance Committee produced the report entitled, *Shaping the 21 Century: the Role of Development Cooperation* which states that enterprise-based economic growth is essential for decisive reductions in poverty over time. This document, influential among bilateral donors, asserts that development progress is contingent on a strong commitment to an effective policy environment and key development priorities aimed at pro-poor growth. The report also encourages donors to provide increased financial support for such policies, combined with an emphasis on participation and capacity-building.

2. Key Definitions and Project Typology

Enabling Environment addresses the physical, legal, regulatory and institutional framework within which businesses operate. CIDA’s definition of enabling environment refers to various initiatives aimed at establishing the conditions necessary for the development of the private sector, including:

- the development and implementation of policies designed to improve the investment and business environment such as procedural, regulatory, legal, sectoral, economic and financial reforms;
- restructuring the public sector to encourage the sound management of public resources, including where appropriate, privatization, the enhancement of government regulatory capacity, and

- strengthening of procurement and contracting functions to encourage the involvement of the private sector in traditional public sector functions such as infrastructure and the provision of social services;
- building capacity in public institutions, including the development of financial institutions that play a key role in private sector development.

Exhibit 1 below features a 12 cell matrix which served as a basis for our analysis of CIDA's programming with regard to enabling environment. It presents the distribution of CIDA-funded projects in enabling environment during the period 1989-1990 within the respective sub-categories.

Exhibit 1 :
Distribution of CIDA-Funded Projects in Accordance with Enabling Environment Typology

Category / Level of Intervention	Competitive Markets	Efficient Transactions	Efficient Public Administration	Efficient and Sustainable Infrastructure
Macro	37	8	25	2
Meso	57	9	20	2
Micro	56	48	17	27

For illustration purposes, we have provided distinctions among the three levels of intervention pertaining to the category related to Competitive Markets:

Macro Policies that ensure sound macro-incentives are in place for efficient markets in products, labor and capital, and which foster more diverse and sustainable external finance and resource inflows.

Meso Policies that facilitate empowerment, private initiative, risk taking, technological assistance, reducing barriers for entry and exit of firms, streamlining tax administration and licensing requirements.

Micro Government operations and other activities directly facilitating specific enterprise development, privatization, public enterprise reform and foreign direct investment.

3. Policy Framework

Enabling environment programming is consistent with the strategic orientations outlined in *Canada in the World*, notably the promotion of prosperity and employment as well as the projection of Canadian values and culture. Enabling environment is a centerpiece of the draft *Private Sector Development Policy* (revised in September 1999) and is addressed extensively in the *Infrastructure Policy*.

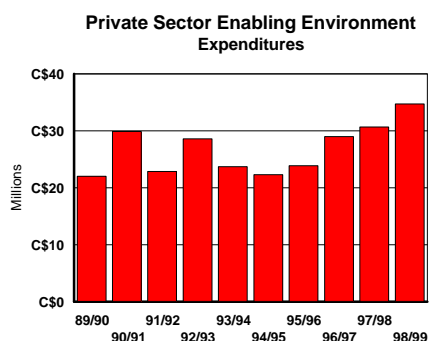
The *Poverty Policy* does not make a direct link between reducing poverty and the role of the enabling environment. However, it does indicate that “where private sector development can help reduce poverty by generating income and employment growth, CIDA will assist programs that support local enterprises, particularly micro-enterprises, cooperatives and small businesses”. Such interventions are associated with the 504 category of private sector development but may nonetheless be addressed at the national policy level (e.g., regulatory framework, monetary policy) in the context of enabling environment programming.

The *Policy on Basic Human Needs* mentions the importance of enabling environment and the links between enabling environment and governance. The *Policy on Human Rights, Democratization and Good Governance* lists relevant examples of real and potential interventions in governance that are particularly germane to enabling environment. We observed that enabling environment projects dealing with public sector reform usually cross well with initiatives promoting Good Governance.

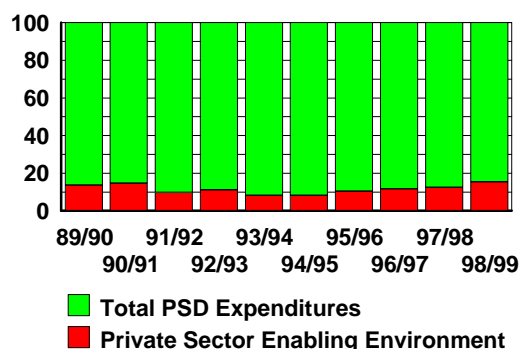
The *Gender Policy* makes only a modest connection to private sector development in general, without making any specific reference to the enabling environment. There are no specific references to the enabling environment in other CIDA policies which, generally speaking, do not add or detract from the draft *PSD policy*. While the PSD policy framework is coherent and has some cross-linkages to other CIDA priorities, other policies do not cross back to the draft *PSD Policy* or identify specific interventions which contribute to Private Sector Development. We noted that the more recent C/RPFs tend to make explicit references to poverty reduction, and in general, there was coherence between the coding of enabling environment initiatives and the strategic orientations of the C/RPFs.

4. Profile of Enabling Environment Programming within CIDA

Overall expenditures related to enabling environment in the period from 1989/90 to 1998/99 amount to \$267 million out of a total of \$2,095 million in PSD expenditures by the Agency. Enabling environment expenditures, as a share of total PSD expenditures, followed an up and down pattern during the first half of the study period. They reached their lowest point at 9% in 1993-94 (when other PSD expenditures were high) and peaked at 18% in 1998-99 as part of a gradual upward trend.

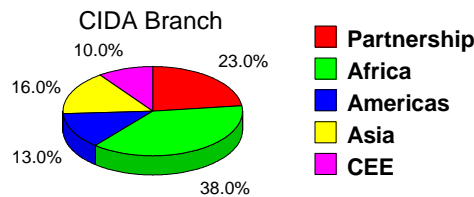


EE as a % of PSD Expenditures



Based on a reduced inventory of projects deemed to have a high degree of applicability to enabling environment programming (n = 206), the distribution of funded projects among the Agency's branches are as follows:

Distribution of projects, by branch



There has been only modest variability with respect to the geographic distribution of enabling environment programming within the Agency on the basis of project approvals over the ten year period. Approximately two-thirds of all enabling environment projects stem from bilateral programs, suggesting a relatively high degree of involvement of CIDA personnel in the design of enabling environment initiatives. The majority of the projects funded by Partnership Branch are either global, regional or Canada-based (one fifth were in specific countries) and these projects tend to involve events rather than specific interventions (i.e., conferences, symposia, etc.).

The bilateral programs with the most significant portfolios of enabling environment projects were as follows: China (19), Cameroon (16), India (13), Senegal (13) and Vietnam (12). It was noted that the enabling environment portfolio within these countries, as elsewhere, is overshadowed by a large volume of projects belonging to other PSD sub-categories.

In terms of the relationship between enabling environment projects and projects belonging to other PSD sub-categories or other CIDA priorities, the most frequent occurrences among projects coded less than 100% enabling environment are presented below in descending order of importance: Economic Integration (505); Capacity, Skills and Productivity Enhancement (502); Human Rights, Democracy, Good Governance (403); Canadian and Developing Country Private Sector Linkages (503); and, Infrastructure (302). Because the occurrences were drawn from an inventory of projects excluding initiatives that could be readily assigned to other categories and priorities (i.e., screened for "noise" related to coding), our analysis points to those areas where enabling environment initiatives have a significant degree of complementarity.

Efforts to group enabling environment initiatives on the basis of targeted results (as opposed to an activity-based perspective) produced the following five broad categories. Examples of actual projects supported by CIDA between 1989-1998 are provided for illustration purposes.

Projects focused on the strengthening of capacities to develop sound macro-economic policies:

Advisor to the Ministry of the Economy - Czech Republic
Economic Policy Management Training - PanAfrica
Monitoring Adjustment and Poverty - Bangladesh
Fiscal Policy Workshop - Vietnam
AESTAP/Amman Economic Summit - Jordan

Projects focused on supporting the implementation of reform initiatives:

Privatization Agency - Latvia
Restructuration de l'ITA - Sénégal
Labor Retraining Program - Hungary
Civil Service Reform - Egypt
Financial Markets Reform - China

Projects focused on the strengthening of skills of senior public sector managers:

Parliamentary Finance Committee Training Seminar - Ghana
École nationale d'administration publique - Francophone Africa
Management Education - China
Economic Development Institute Training Program - Multicountry
Training Program for Tax Administrators - Caribbean Region

Projects supporting sectoral/regional planning or specific studies:

Oil and Gas Sector - Pakistan
Remote Sensing Capacity for Agricultural Applications - Poland
Appui Forestier II - Cameroon
Cocoa Rehabilitation - Grenada
Supporting Local Government - Jamaica

Projects supporting the installation of specific PSD systems and instruments:

Bucharest Stock Exchange - Romania
Hanoi Land Information Management - Vietnam
Fair Trademark Labeling - Multicountry
Mortgage and Housing Corporation - Gaza Strip/West Bank
Insolvency Law - Russia

There is obviously some degree of overlap among the above categories (e.g., training related to policy development or sector plans feeding into macro-economic policies); however, the grouping of projects within the above categories is useful in order to grasp the types interventions pursued within an inherently fuzzy category of PSD programming.

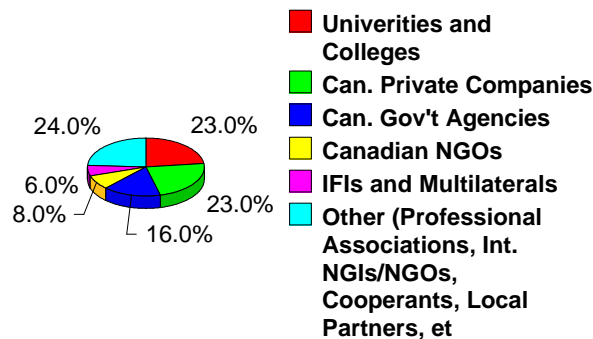
The activity tables produced in CIDA's Corporate Memory database provide additional information of a general nature with respect to supported enabling environment initiatives. The most frequently cited categories are as follows: Technical Assistance (103), Training (66), Policy Intervention (25) and Technology Transfer (18). While these categories generally mesh well with the types of initiatives presented above, one must exercise caution in assigning weights to the respective categories given that

the notions of technology transfer, technical assistance and training are not utilized in a consistent manner across the Agency (see PSD Technology Transfer Assessment Study).

Finally, the consideration of the types of partners involved in enabling environment programming offered

some interesting insights. The distribution among the reduced inventory of projects is as follows:

Canadian Partners in EE Programming



The distribution of funded projects among the various types of partners, as well as the recourse to multiple partners within each category (over 100 in total) suggests that there is not a high degree of concentration in enabling environment programming within CIDA. Our analysis nonetheless revealed that certain types of organizations tend to gravitate towards a particular field of intervention. For instance, universities were frequently involved the training of public sector managers and policy development; Multilateral organizations including IFIs are most frequently involved in the implementation of reform initiatives; and Canadian Government Agencies were frequently involved in the installation of specific PSD systems and instruments. The latter category includes departments and agencies at the federal, provincial and municipal levels.

Canadian NGOs and Canadian private firms are specialized in the own right, however they were found to intervene in practically every type of initiative imaginable. As mentioned in the context of programming by Partnership Branch, projects involving Canadian NGOs are more likely to be involved in multi-country rather than bilateral initiatives, and that more than one third of the projects executed by NGOs consisted of Conferences, Seminars, Symposia and similar events.

5. Overview of CIDA's Experience

Over the last ten year period, CIDA has spread its efforts across the macro, meso and micro levels; however, our analysis revealed that the majority of projects where in the micro level, in support of various initiatives which help to make practical things happen on the ground (e.g., Guyana Business Advisory Program, Hanoi Land Information Management Project, Canadian Comprehensive Audit Foundation Fellowship Program, etc.). In terms of the characteristics of the types of initiatives supported by CIDA over the specified time frame, we observed that the most recent projects were focused upon the establishment of market economies and the role of the private sector. Earlier projects, on the other hand often related to industrial or economic development, including governmental involvement in certain sectors of the economy.

We noted that performance measurement mechanisms have been developed for the majority of the projects reviewed. In almost every project, immediate and intermediate results and spin-offs were adequately documented. Enabling environment projects at the micro and meso levels were often designed to ensure sustainability through long term linkages, and we noted that CIDA and its domestic partners were particularly effective on practical interventions of a technical nature. For instance, the UNB Centre for Property Studies stands out as a compelling example where a Canadian partner is recognized for having developed a world-class field of expertise. L'École nationale d'administration publique is another example of a Canadian partner which enjoys a strong reputation and is well positioned to provide continued support to developing countries in providing advanced training to public sector managers.

There appears to be a comparative advantage for CIDA with respect to meso and micro level initiatives where Canadian partners have been found to be effective in the facilitation of entrepreneurial activities, the introduction of new systems and processes and institutional development. CIDA has also made significant contributions to the establishment a limited number of independent policy fora or research institutions; for example, the Malaysia Institute for Economic Research, the Thailand Development Research Institute.

We observed that meso level projects often lead to longer term relationships for our universities as well as private sector operators (usually well established industrial firms). The Canada-China University Industry Project is an example of a project which focuses on building capacity in sectors where Canadian partners can be involved over the long term and where they have proven expertise (e.g., financial services, energy and telecommunications). The Indonesian Infrastructure Services Project had similar implications, where up front reviews and analyses are expected to lead to strategic knowledge of infrastructure development plans where Canadians may be well positioned to be involved over the long term.

CIDA's programming in Partnership Branch includes the promotion of partnerships between Canada and developing countries, based on a belief that countries need skills and know-how which often reside in civil society rather than the public sector. CIDA recognizes that it is important to create productive assets for the poor so that ultimately they can be part of a vibrant private sector, and to develop participatory partnerships from concept to implementation. Along these lines, the OECD's Development Assistance Committee encourages bilateral donors to strengthen indigenous capacities, engage as many people as possible, foster self reliance and self determination, build initiatives from the bottom up and mainstream women and marginalized people.

With respect to enabling environment programming involving multilateral organizations, the following pattern emerged from our analysis: multilateral organizations, particularly the IFIs, tend to assume a leadership role at the macro level (i.e., policy development and implementation of reform) due to the costs and comprehensive nature of such projects and on the basis of the experience they have acquired in many countries. A combination of multilateral and bilateral donors tend to play an important role at the meso level where institutions and frameworks affecting the private sector and/or specific aspects of a market economy are being transformed. At the micro level, both multilateral and bilateral donors are involved, however there is considerable scope for bilateral donor involvement in virtue of ongoing relationships with constituent enterprises re: technology, business associations, etc.

Our review of a sample of CIDA-funded projects implemented by multilateral organizations revealed that the strategic driver is usually the structural adjustment program in effect in the recipient country. For instance, CIDA's contribution to the Economic Recovery Project in Uganda in the form of balance of payment support was formally contingent on compliance with conditionalities and targets negotiated by the World Bank. In most instances, CIDA's contribution to multilateral initiatives such as the joint UNDP/World Bank Energy Sector Management Assistance Program (ESMAP) is earmarked for the assignment of Canadian advisors and experts, travel and subsistence costs, as well as equipment and training. On other types of multilateral reform initiatives such as Land Privatization in the Ukraine, Financial Markets Reform in China and Privatization Links in Russia, there does not appear to be a substantive involvement of Canadian partners. Rather, CIDA appears to be making a financial contribution to a sector wide initiative sponsored by various donor organizations.

Recommendation 1 : It is recommended that future enabling environment projects supported by CIDA be pitched at the micro and meso levels where projects tend to have a more direct and lasting impact on private sector enterprises and/or where Canadian partners have established strong institutional and/or business linkages which are expected to last for years to come. CIDA should avoid getting overly involved in macro level projects unless there is a clear role to be played by identified Canadian partners. More importantly, the supported initiative must be fully integrated with a multi-donor effort relating to a group of reform measures or a specific sector.

The foregoing is in line with the key findings of the PSD Sector Studies in Jamaica, the Philippines and Haiti undertaken as part of the PSD Preliminary Assessment. The evaluation teams acknowledged that, in principle, CIDA should support various initiatives which contribute to a sound enabling environment. However, in order for such interventions to be effective, the authors emphasized that CIDA must endeavor to coordinate its policies, programs and projects with those of other influential donors in the recipient country.

6. Lessons Learned

The state of the art is evolving as lessons are learned, responses to globalization and liberalization are better understood and experiences of other bilateral and multilateral donors are documented. Programming in this area should be regarded as "work in progress" in light of the multidimensional and complex nature of the enabling environment, particularly in the case of transformations from "command" to "competitive" market based economies. Each journey of transition or development model presents a different challenge to those involved.

Experience has shown that countries that establish a sound enabling environment are more likely to attract domestic and foreign investment and that these investments are allocated in a more effective and efficient manner to private business operators, to develop infrastructure and facilitate transfers of technology. Legal and institutional reforms facilitate enhanced transparency, lower transaction and operating costs, and strengthened private property rights thereby improving the deployment of a country's resources. Public enforcement mechanisms are an integral part of a sound legal system via formal institutions which provide financial and regulatory services on a permanent basis.

In a recent large scale review of the effectiveness of aid programs entitled *Assessing Aid-What Works, What Doesn't, and Why*, the authors assert that countries with good policies, including low inflation, budget surplus, openness to trade, institutions with little corruption, strong rule of law and effective bureaucracies are usually successful at mobilizing domestic and foreign investment which in turn contribute to GDP growth. Based on an empirical analysis of the relationship between donor assistance and private investment, the study which was sponsored by the World Bank concluded that enabling environment programming acts as a magnet to attract private investment by a ratio of almost \$2 to every \$1 of foreign aid. Conversely, in highly distorted environments and/or in settings where there is a lack of confidence in reform initiatives among domestic and foreign investors, foreign aid initiatives, particularly those associated with the enabling environment have a tendency to "crowd out" private investment.

Successful adjustment has occurred when countries undertaking reforms have been able to move easily from low to higher value added activities. Countries implementing structural adjustment tend to fall into two broad categories: those that have emerged from severe disequilibria into sustained growth, and those that are trapped in a cycle of low saving, low investment and low growth. Many of the countries that were not able to make a successful transition failed to relax entry and exit barriers for investment.

With regard to those components of structural adjustment programs aimed at improving a country's access to the global economy, there are several empirical analyses that demonstrate a strong correlation between trade liberalization, exports and economic growth. Studies by international economists have demonstrated that sustained economic growth reduces poverty on a 1:1 basis.

It is acknowledged that reform initiatives become vulnerable to criticism when the economy of an adjusting country fails to improve noticeably, even though stagnant or negative growth levels may be due to international market forces, rather than the pace and rigor of reform initiatives. Macro-economic stabilization and structural adjustment is increasingly predicated on the ability of the adjuster to withstand or cope with exogenous shocks, such as droughts and adverse movements in external terms of trade.

Ownership and/or strong domestic support for reform initiatives are increasingly recognized as prerequisites for success. In the previously mentioned study *Assessing Aid*, the authors concluded that successful reform depends primarily on a country's institutional and political characteristics rather than factors which can be controlled by donor agencies (i.e. analytical work, number conditions, funding levels, etc.). Based on the experience of several countries implementing structural adjustment programs, the study revealed that the success or failure of structural adjustment loans could largely be predicted by a country's underlying institutional and political features, including whether the leader had been democratically elected and how long the government had been in power. The data suggests that a newly elected government committed to reform has a greater probability of success than an authoritarian government in power for a long time.

Enabling environment projects seeking profound reform at the macro level are heavily dependent on country-level commitment by the host government, including its overall attitude about private sector development and the extent to which the recipient government "stays the course" or "has the resources to make it happen". Both policy and technical projects may encounter difficulty and/or resistance during their implementation. These projects are often confronted with resistance due to historical or cultural considerations or yet again because of the resistance of groups with vested interests who stand to lose if

certain proposed reforms are implemented (e.g., subjecting monopolies to internal or foreign competition, elimination of subsidies, etc.).

With respect to the issue of “where does one start, what should be the first steps”, there is no generalized model for the sequencing of enabling environment interventions. Countries are at different stages in the development of a market economy and will require different approaches to be taken. The reform process is best conducted on a flexible basis, adapting to country needs and responses throughout the reform process. Policy changes rarely unfold neatly and they usually require further action by policy makers. It is therefore important for governments to recognize the need for timely and decisive policy responses which build upon the effects of earlier changes. Accordingly, there has been a shift away from the pursuit of the “right” policies in recent years, and more emphasis is being placed on the policy development process itself.

In order to keep political opposition at bay, it can nonetheless be helpful to target “easy wins” during the initial reform process (i.e., relatively straightforward and painless reforms such as the liberalization of currency exchange, financial markets reform, etc.) in order to build public confidence which will allow the government to ride out the more difficult parts of the reform process. For reform to take root, it must be possible to demonstrate that reform measures are actually working. A major study on the implementation of structural adjustment programs undertaken in several countries, including Bolivia, Chile, Poland and Turkey concluded that foreign aid in the form of enabling environment programming supported governments implementing reforms “to survive long enough to solve problems”.

In recognition of the necessity to cushion vulnerable groups from the shocks of structural adjustment programs, the IMF renamed its Enhance Structural Adjustment Funds (ESAFs) as Poverty Reduction and Growth Facilities (PRGFs). The latter require that assisted countries not only commit to specific reform initiatives, but that they also develop a national anti-poverty strategy which is directly linked to the reform program.

6.1 Lessons from the Asian Financial Crisis

The Asian Financial Crisis came as a surprise to most observers because the affected countries had for the most part enjoyed significant economic growth over several years and were favored by international investors who heavily invested and lent in the region.

The root cause of the crisis appears to have been inadequate financial regulation coupled with liberalization of capital flow at a time when there remained weaknesses in legal and institutional foundations of long term finance. The maturity structure of domestic bank assets and liabilities became mismatched - the capital inflow consisted of short-term borrowing by banks - and as a result they were borrowing short and lending long. Furthermore, the level of foreign liabilities to domestic banks rose sharper than their foreign assets, which led to a buildup in foreign debt in the banking sectors. Also, there was over investment in real estate sector in some countries.

The Asian financial crisis underscores the importance of a sound regulatory and supervisory function especially at such time as the financial sector is liberalized. This experience is relevant to CIDA’s efforts to assist countries in transition as well as other developing countries. Hence, responses increasingly focus

on the goal of continuing to attract foreign investment all the while avoiding the devastating impact of excessive short term foreign investment which can be precipitously pulled out of a country.

Other lessons which can be drawn from the Asian financial crisis include the consideration of enabling environment projects as combined social, financial and economic propositions; the need to include institutional strengthening and the need to build up locally operated monitoring and evaluation capacity. In addition, the magnitude of the effects of the Asian financial crisis (1% decline in global growth according to IMF estimates) suggests that the singular project approach should be substituted by large-scale coordinated programming among bilateral and multilateral donor organizations. Consortia with the World Bank, the ADB and similar organizations should be encouraged in the event of an emerging crisis. The IFIs were and will be the prime players in affected countries in terms of remedial programming. They are CIDA's natural partners with respect to any future interventions at the macro level in private sector development and governance, particularly with respect to the enabling environment. NGOs are the logical partners on direct social remediation.

6.2 Project Design and Implementation Strategy

There is a requirement in CIDA's Bilateral Road Map that program officers ascertain the state of enabling environment for all PSD initiatives. We noted that many of the Principles for Effective Programming featured in the Roadmap are particularly relevant to enabling environment programming.

Although the files that we reviewed did not explicitly refer to models and conceptual frameworks for an enabling environment, projects mostly referred to elements of private sector development which fit within an enabling environment model. Policies, planning frameworks and project documents show the role and place of enabling environment as a basis for focusing large-scale support to beneficiary countries and project history shows that CIDA is consistent in proceeding with enabling environment projects only when a country accepts the concepts embodied in enabling environment. Furthermore, there is a consistent pattern of project development based on a good assessment of existing capacity so that enabling environment initiatives can be sustained over the long run.

We noted that risk analyses are undertaken in the planning phase of enabling environment projects and are generally comprehensive and consistent. Key distortion factors in the enabling environment are usually recognized in the project documentation and are often equated to "gaps" in the establishment of an enabling environment. In terms of mitigating risk, we observed that enabling environment projects require in depth economic planning and analysis of the recipient country from the outset. Such analyses are time consuming and costly. They may also lead to the conclusion that a country is not sufficiently committed to reform and/or the country is deprived of conditions associated with good governance. Such situations compel donor organizations to make hard choices on whether or not to proceed with enabling environment projects or programs.

In *Assessing Aid*, the authors argue that in situations where good governance does not prevail, donors should be forthcoming with policy advice but should not be too eager to provide substantial financial assistance. The authors are quite categorical in asserting that financial assistance must be targeted more to low-income countries with sound economic management, as experience has shown that reform initiatives have usually failed in highly distorted countries.

The authors of the aforementioned report go on to suggest that donor support can still be provided to countries lacking good governance, provided that there are stringent conditions attached to the assistance. It is preferable to have fewer conditions which emphasize the most important reform measures to be addressed, and there needs to be a clear agreement between donors and the recipient on the grounds for non-disbursement. Another approach to be considered where there is a lack of good governance, is to elicit the participation of civil society on key policy issues and possibly to promote the establishment of a dialogue with the middle civil service of the beneficiary country which tends to be more technocratic than political.

Among other design issues related to enabling environment programming, there is the issue of deploying short and long term advisers, and the possible tradeoffs that must be made. The working assumption is that the short term adviser is more likely to be a highly specialized person with many years of experience formulating and implementing policy whose services are not required on a day to day basis. The long term adviser is seen as a facilitator with seasoned technical skills, implementation experience and the ability to move things forward. Typically, the short term adviser should be used as a counsellor and the long term adviser as the implementor. In many situations there is a need to use both types of advisers in order to ensure the success of complex and/or sensitive interventions.

Since CIDA programming and policies are generally consistent with those of many other donor organizations, many of CIDA's projects can complement other projects or be merged with projects of other bilateral or multilateral organizations, resulting in a more effective overall effort. CIDA officers can draw upon a series of basic principles and processes to apply in order to ensure that projects can contribute to improvements in the enabling environment in the host country including, inter alia:

- undertaking a complete analysis of the situation;
- recognizing that countries have diverse economic, social, cultural and political backgrounds and are at varying stages of development;
- building consensus among main players in order to systematically address an issue;
- making provisions for adaptability to constantly changing conditions;
- managing public expectations shaped by culture, values and experience;
- ensuring that local communities have substantial input into designing and implementing development programs and projects through participatory processes;
- identifying gaps or bottlenecks;
- building local capacity to identify development needs and priorities;
- building capacity to address locally identified needs; and,
- improving the systems for gathering and monitoring data.

Donor organizations have long recognized the need to consult and coordinate their programming, and have recently made serious attempts to put in place integrated planning initiatives at the country, program or sector levels. Although multi-donor sector wide approach programming (SWAP) is still in its infancy,

enabling environment initiatives offer fertile ground for such experiments and donors are increasingly coordinating their activities through Sector Specialized Working Groups. Initiatives such as the CGAP Working Group on Poverty Yardsticks and Measurement Tools have become increasingly influential in recent years. Another noteworthy initiative is the Comprehensive Development Framework developed by the World Bank Group in order to assess its effectiveness in measuring poverty alleviation and sustainable development. There is expected to be a stronger focus not just on results at the project level in the not too distant future but on collective donor performance in achieving specified results on a country and/or sector-wide basis.

Policy development and program coherence are obviously important to enabling environment and it is now widely recognized that complementary actions are required on the part of donors. As part of the screening for all enabling environment projects, CIDA should ensure that there is mapping of relationships among CIDA policies, initiatives pursued by other donors, and identified distortions within the recipient country.

7. Performance Review Considerations

It is generally recognized that measuring results for enabling environment projects is quite difficult and can only take place after a period of time has elapsed when financial, economic and institutional changes can be observed. In effect, programming in enabling environment presents special measurement challenges. At the macro governmental level, where results or changes are long term, enabling environment initiatives are often striving to change attitudes or practices within the host government. In such situations, there will always be a significant challenge to identify, measure or apply qualitative analyses in order to document project results.

It is often difficult to point to a particular project as significantly influencing a result because of the many variables influencing the economic performance of beneficiary countries. Furthermore, the attribution of results to CIDA's interventions, as opposed to contributions from other donors or market influences is difficult to establish and the cost of credible data is high. Macro-economic data which reflect changes resulting from enabling environment programming are difficult to attribute at a donor level, and results related to interventions at the meso and micro level (for instance, institutional support to professional associations) are difficult to track beyond the output level, at least in the short term, and in isolation. Furthermore, benchmark information as a basis for comparison in assessing results is not always available.

We also noted that reporting performance is seldom undertaken by the recipient country. The lack of ownership of the review process by beneficiary governments may be something to look at in the future given that these projects are intended to address the needs of the recipient countries and that host governments do have a major stake in the success of bilateral projects.

The enabling environment project typology developed as part of the current study is useful in order to analyze CIDA's programming and in order to better understand the causal relationships among various levels of project results (i.e., immediate, intermediate and long term). The typology also helps to identify and analyze intended and unintended effects. The above approach was applied during the preliminary assessment phase and was found to be quite useful in making important distinctions related to the nature of the intervention, the institutional environment in the host country, the involvement of other stakeholders as well as the categorization and analysis of documented results. CIDA's present and potential project

interventions are consistent with the typology developed and we believe that such a typology would be amenable to further investigations of enabling environment programming by CIDA.

***Recommendation 2 :* It is recommended that future analyses undertaken by CIDA for the purposes of evaluating CIDA's programming in the enabling environment adhere to the typology of projects developed during the course of the present study.**

Based on our analysis of CIDA's programming over the past ten years and in light of our review of issues and trends at the international level, we are reluctant to suggest the inclusion of enabling environment initiatives pursued at the macro level in any sample of projects to be further examined by Performance Review Branch.

To begin with, there are significant challenges to effectively addressing issues related to *measurement* and *attribution* as discussed above. Secondly, we determined that the portfolio of projects supported by CIDA at the macro level is relatively limited and is somewhat static. Furthermore, CIDA has limited capacities and resources to pursue such initiatives which tend to be led by IFI's as well as a small group of bilateral donors (USA, France and Great Britain). In those few cases where CIDA was involved in major policy initiatives in conjunction with multilateral organizations, direct dialogue with the recipient government was carried out by representatives of the multilateral organization, not by CIDA.

***Recommendation 3 :* It is recommended that any further investigations of enabling environment programming undertaken by CIDA exclude projects which intervene at the macro level. Rather, CIDA should direct further investigations where the majority of CIDA's interventions are located, namely at the meso and micro levels where the Agency has a stake in continued development programming.**

CIDA's participation in program-level evaluations undertaken in conjunction with other donor organizations should nonetheless be encouraged, particularly in countries where CIDA has made significant investments in the enabling environment. Lessons learned emanating from such reviews could eventually be fed into future programming and/or policy development undertaken by CIDA. Such participation might provide CIDA with a better understanding the performance and effectiveness of enabling environment programming and the application of lessons learned and best practices can have a positive incidence on the credibility and/or visibility of CIDA's programming and the meso and micro levels.