

CIDA * ACIDI

Stimulating sustainable economic growth

CIDA'S SUSTAINABLE ECONOMIC
GROWTH STRATEGY



Canadian International
Development Agency

Agence canadienne de
développement international

Canada

STIMULATING SUSTAINABLE ECONOMIC GROWTH

CIDA's Sustainable Economic Growth Strategy

CIDA's mission is to lead Canada's international efforts to reduce poverty in the developing world. While global poverty rates were falling prior to the 2008 economic crisis, this resulted from rapid growth in a few, mostly larger countries. It showed that extreme poverty declines faster and more sustainably in countries that create and maintain robust economic growth. There is a growing consensus that to reduce poverty, development efforts need to focus on stimulating sustainable long-term national, regional, and local economic growth. This, in turn, can generate the financial resources governments in developing countries need to invest in the well-being of their citizens, while building resilience to social, economic, and environmental shocks. A dynamic, growing economy will increase revenue generation and create employment, leading to higher continued personal and household incomes that can benefit the most impoverished.

Canada's own experience of sustainable economic growth underscores the importance of open trade and free markets governed by prudent policy and sound regulation. This means avoiding the extremes of protectionism on the one hand and ungoverned markets on the other. Expanding domestic, regional, and international markets, enabling investment and sharing knowledge, increasing trade opportunities, and improving the competitiveness of enterprises unlocks new areas for growth. These actions also mitigate the exposure of developing countries to external economic risks. In small states and landlocked developing countries, the private sector faces many barriers connecting to larger regional and global markets.

Export earnings, remittances, private investment, domestic savings, and external loans remain the primary sources of financing for economic growth. Development assistance, however, be it financial support, technical assistance, or policy dialogue, can play an important role in helping countries address knowledge and skill gaps, fill necessary infrastructure gaps, and institute policies and legislation that promote economic growth and stability and help manage their natural resources.

A first step is to identify viable opportunities and the key challenges limiting the economic growth of a developing country.

Effective policies and institutions, the rule of law, and political stability enhance economic growth. Transparent, adequate, and properly enforced laws, efficient fiscal management and resource allocation, appropriate regulatory systems, and sound public financial systems are all essential to stable economic growth, the reduction of corruption, and making an economy sustainable over time.

Infrastructure is a key component of an enabling environment for economic growth. Enterprises need adequate transportation systems—from rural roads to airports and ports—to access markets for their goods and services. The availability of reliable energy and communication technologies makes enterprises more productive and innovative. In developing countries, the absence of such basic infrastructure is a chronic barrier that contributes to poor economic performance.

A skilled workforce is an important foundation of sustainable economic growth. Countries that invest heavily in human capital usually demonstrate the strongest growth. In developing countries, many working-age adults lack the literacy and numeracy required for employment. A growing youth population has become a major economic and social challenge, increasing pressure on education and skills training resources in many developing countries. The lack of entrepreneurial, marketing, and management skills needed to take advantage of growth opportunities also deters economic strengthening.

Women play a central role as income earners, in lifting themselves, their families, and their communities out of poverty. Yet they face significant hurdles to full and effective participation in many economies as employees, employers, and entrepreneurs, often due to legal, social, regulatory, and cultural barriers.

Agriculture is the largest economic sector in many developing countries. It is a significant generator of employment, contributing to poverty reduction and food security. Improvements in agricultural productivity and innovation can drive economic growth; however, barriers to trade, market access, and infrastructure, insecure land tenure, high input costs, and poor access to technology restrain the ability of developing countries to harness the growth potential of this sector.

Ensuring that economic growth is environmentally sustainable is critical to the long-term stability of the economy in developing countries. Growing economies must balance their needs with responsible **environmental management**. This balance requires policies, legislation, and regulations that improve natural resource management, support sustainable resource use, and adapt to climate change realities.

The essential elements needed to achieve high rates of sustainable economic growth include:

- **accountable governments:** A government that is willing to adopt effective and transparent public management of the economy, providing a safe, stable, and attractive business and industry environment, which will ultimately strengthen its ability to fulfill its responsibility for the welfare of the people;
- **open and effective markets:** A business environment that stimulates entrepreneurship, is open to competition and market expansion, imports outside knowledge, and maximizes investment opportunities;

- **infrastructure:** A developed and maintained infrastructure, including transportation and communications systems, that enables access into and between marketplaces;
- **capable human capital:** A diverse, skilled, and qualified workforce that meets the demands of the economy;
- **equality of opportunity:** A social and economic environment that upholds equality of opportunity for both women and men; and
- **sound environmental management:** Sustainable and responsible management of natural resources and appropriate responses to climate impacts that enable the long-term viability of the economy.

Canada's Approach

CIDA's Sustainable Economic Growth Strategy seeks to create sustainable long-term economic growth that will increase revenue generation, create employment, and lead to poverty reduction in developing countries.

Through its strategy, CIDA will focus on key, targeted investments that directly support the sustainable

economic growth of the industrial and business sectors in developing countries. The outcomes of these investments should contribute to 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.

CIDA's Sustainable Economic Growth Strategy will follow three paths:

- **building economic foundations:** Support willing governments to build the necessary legislative and regulatory business, industrial, and financial framework upon which sustainable growth can take place;
- **growing businesses:** Enhance 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:** Improve the employment potential of individuals to increase access to, and benefits from, opportunities in the informal and formal business sectors.

In pursuing these paths, CIDA's Sustainable Economic Growth Strategy will ensure the integration of equality between women and men, environmental sustainability, and governance across all CIDA programming. It will also complement and build on CIDA's food security and children and youth strategies.

CIDA will implement this strategy recognizing that each country has its own mix of constraints, challenges, and opportunities to stimulating sustainable economic growth. Work in this sector will require thorough knowledge of local, national, and international economies, business development, and marketplace dynamics. Sustainable long-term economic growth will depend on building value chain essentials within a coherent logic model. Investments will support country or regional plans and integrate into comprehensive economic or business sector programs supported by the local communities.

Priorities for Action

Building Economic Foundations

Developing country governments need to create the right conditions and institutional frameworks as a foundation upon which to encourage investment, innovation, and economic growth.

Countries need to build their capacity to ensure sound, transparent financial and economic management and establish public policies that encourage private investment and reduce corruption.

This requires strong institutions, and balanced laws and fair regulations to govern their economies. It requires government policies that open markets to trade and infrastructure investments to deepen integration into the local, regional, and global economies. It also includes effective regulatory regimes to oversee competition, the maintenance of standards, resource management, and property rights. Having the protection of fair and equitable labour laws and codes in their economic life particularly empowers the poor, including women, to engage in the formal economy. This means ensuring the poor have access to land and resources, security of tenure, and the capacity to use their assets productively and sustainably.

Governments need to promote policies to support natural resource management that will ensure the environmental sustainability of economic activity and reinforce its long-term viability. Applying corporate social responsibility principles is important for the natural resources industry in many developing countries.

To further its path of building economic foundations, CIDA will support activities that:

- strengthen public financial and economic management capacity and institutions at the local, regional, or national levels;

- improve legal and regulatory frameworks and systems and their implementation, all of which are key to stable national and local economies;
- support governments, businesses, and industries in widening their business base and integration into regional and global markets; and
- build national and local capacities in managing natural resources and the environment in a sustainable and socially responsible way to support economic growth.

Outcomes

CIDA's efforts will help to achieve:

- effective public institutions supporting economic growth that are transparent and managed in an accountable and equitable manner to benefit all citizens;
- appropriate legal and regulatory frameworks that enable access to productive assets and support sustainable, stable economic growth leading to job creation for the poor;
- economies that are open to trade and benefit from increased market access and market integration; and
- governments that can manage their natural assets responsibly and sustainably, including in the extractive and agricultural sectors, while addressing the impacts of changing climate to benefit the social and economic well-being of all citizens.

Growing Businesses

The private sector is the driving force behind sustainable economic growth. Developing countries with diverse and healthy private sectors typically have higher levels of growth and poverty reduction. Enhancing the productivity and competitiveness of enterprises in developing countries is a critical component of stimulating economic growth and generating new formal employment opportunities.

Developing country entrepreneurs, in particular female entrepreneurs, face constraints in establishing and growing their businesses. Business clusters and value chains need to be more fully developed. Businesses, especially micro, small and medium-sized businesses, need support to meet international standards, integrate into local and global value chains, and move from the informal to the formal sector.

Businesses in developing countries need greater access to innovations and new and emerging technologies that can increase productivity and sustainability. There is also a clear need to increase access to legitimate credit, and insurance and financial services, including microfinance products, and to bridge the gap between microfinance and mainstream financial services.

To further its path of growing businesses, CIDA will support activities that:

- strengthen support for the development and growth of micro, small, and medium-sized private sector businesses, with a special emphasis on women;
- aim to increase the productivity and sustainability of businesses, based on realistic market potential to fill value chain gaps, which will result in increased long-term formal employment opportunities for the poor; and
- strengthen and increase the availability of financial institutional products and services, including microfinance, which will result in greater job creation for the poor.

Outcomes

CIDA's efforts will help to achieve:

- the establishment of more micro, small and medium-sized viable enterprises, especially those led by women;
- micro, small and medium-sized enterprises that are strengthened and that have improved their productivity and return on investments, resulting in increased stable formal employment opportunities for the poor; and
- the development and accessibility of suitable credit and financial services that result in business, trade, and industry growth to benefit the poorest population groups.

Investing in People

People are at the centre of sustainable economic growth. Developing countries need to encourage the creation of economic opportunities that enable those living in poverty to reach their potential, with jobs, business ownership, and investment. Many workers, especially women and youth, are ill-equipped to find meaningful formal employment or to take on the risks of entrepreneurship. Success will require those individuals, especially women and youth, to develop new skills and expand their knowledge to meet the challenges that limit their opportunities.

Effective demand-driven skills training programs are critical if workers in developing countries are to acquire the skills needed to meet changing labour market opportunities. These workers will first need to strengthen their basic essential employability skills, such as literacy and numeracy.

To further its path of investing in people, CIDA will support activities that:

- increase access to essential, demand-driven skills training and knowledge needed for formal labour market participation, including literacy and numeracy;

- increase the availability of appropriate, meaningful, and structured workplace learning opportunities, including in the agricultural sector; and
- support relevant, results-based learning initiatives, which will stimulate business growth, market expansion, and productivity.

Outcomes

CIDA's efforts will help to achieve:

- a population of working-age adults, especially women and youth, that has the essential demand-driven basic skills and knowledge needed to take advantage of economic opportunities in the formal labour market;
- a workforce, including small-holder farmers, that has acquired new knowledge and skills to increase their productivity and revenue generating potential; and
- private sector enterprises that are using the acquired knowledge in their businesses, expanding their businesses, and increasing employment opportunities for the poor.

Accountability and Compliance

CIDA will review its progress against the Sustainable Economic Growth Strategy and report this progress and any lessons learned on a regular basis. All activities associated with the development and implementation of this strategy are in compliance with the *Official Development Assistance Accountability Act (2008), c.17*.