

Canada's Development Finance Initiative

Making it Happen, Getting the Details Right

Aniket Bhushan

Adjunct Research Professor,
Canadian International Development Platform
Norman Paterson School of International Affairs
aniket.bhushan@carleton.ca

Jason Clark

Director of Policy and Advocacy,
Engineers Without Borders (EWB) Canada
jasonclark@ewb.ca

**CANADIAN INTERNATIONAL
DEVELOPMENT PLATFORM**



Canada's Development Finance Initiative

Making it Happen, Getting the Details Right

- Ambitious development objectives cannot, and indeed should not, be thought of as having to be achieved through overseas development assistance (ODA) efforts alone. ODA is an increasingly stretched resource relative to growing needs from pressures such as humanitarian crises, the need for climate finance and the cost of Sustainable Development Goals (SDGs).
- ODA should be focused on where it is most needed - on the provision of public goods, and in the poorest and neediest countries.
- Development Finance Institutions (DFIs) play a unique role in filling key gaps in the development finance system. They are important first movers, integrators, financiers, advisers and partners with private capital and help create jobs and generate growth.
- Key to achieving the SDGs will be leveraging private sector capital and know-how. The DFI is an important tool towards this end.
- A Canadian DFI, whether a standalone institution or a more modest initiative as proposed in Budget 2015, provides an opportunity for the development community to engage new partners, such as the Canadian investment and business community, in sustainable development.

Key principles that should guide Canada's DFI design

- **Complementarity and additionality:**
DFI investments complement and do not substitute for increased ODA effort. A DFI should fill gaps in capital availability rather than duplicate existing private sector offerings or ODA efforts.
- **Self-sustaining:**
A key advantage of a DFI, if done right, is that unlike ODA it does not entail an ongoing fiscal cost to government budgets. Through a balanced portfolio of higher and lower risk investments and projects that have significant development additionality, a DFI can (and should) operate at no net cost to the treasury.
- **Development impact:**
Development outcomes (as opposed to commercial interest) should be the main focus of Canada's DFI.
- **Leverage:**
The DFI should operate in the same spirit that guides ODA i.e. contribute to poverty reduction; take into account the perspectives of the poor; and be consistent with international human rights standards, and should be accountable for achieving such results.
Canada's DFI should be equipped with the widest possible set of tools to give it the greatest possible chance of success, including the ability to access capital markets and deploy various investment instruments (i.e. across the capital structure) and solutions (e.g. insurance and guarantees). Canada should leverage the experience of others including a range of existing tools that help ensure DFIs adhere to environmental, social and human rights standards, as well as transparency and accountability principles.

Mandate

The DFI should place development at the top in its mandate.

- The DFI is part of Canada's wider development landscape, and is therefore expected to work closely with other key development actors. These include but are not limited to Global Affairs Canada, the International Development Research Centre, Finance Canada; Canadian civil society organizations and umbrella groups, and new blended finance initiatives (e.g. Convergence).
- The overarching principles (above) should be reflected (preferably formally and explicitly) in the DFI's mandate.

Governance

The DFI's governance should reflect the changes needed to more effectively balance development and commercial objectives especially if housed at Export Development Canada

- Being housed within EDC (Canada's export credit agency), as proposed in Budget 2015, has a number of advantages, both in terms of operationalization and governance, but the one (potential) downside is that EDC is not a development organization. Consequently, it will be important to include developmental anchors in the new institution's governance, operations and incentive structure from the outset.
- This may require some form of separation between the DFI's governance and operations and EDC's other business. To be clear, EDC staff and networks should play a key role in getting the DFI off the ground at the operational level.
- However, the DFI may need an independent board made up of representatives from government, private sector and civil society.
- In addition to its normal fiduciary and management oversight functions, the DFI board would also be responsible for ensuring development additionality i.e. ensuring that the investments the DFI undertakes bring additional development value that either would not have otherwise happened or would not have happened as efficiently.
- To ensure this, the board needs to have final approval over deals and investments made by the DFI.
- The board will also set targets for development outcomes and financial returns, to be pursued by management.
- Key performance indicators (KPIs) on development outcomes and financial returns should be reflected across the DFI's institutional and management performance benchmarks.
- The board should be empowered to ensure that a portion of any excess returns are reinvested back into the DFI (or go towards financing ODA) and do not flow exclusively back to the central reserve fund (as they do in the case of some crown corporations, like EDC).

Strategy

Canada's DFI should walk before it runs.

- Start with a small number of investments, through a subset of instruments (e.g. common equity, debt and insurance), in countries and markets where we have particular insights, networks or experience that can be leveraged, and where we can make particular impact in under-resourced sectors and geographies.
- The Canadian DFI should have the ability to invest across developing, emerging and frontier economies; a minimum expectation that 15% of its portfolio is committed to LICs and LDCs (consistent with averages across bilateral DFIs) is reasonable.
- A Canadian DFI should be consistent with Canadian interests and should engage Canadian commercial and non-profit interests in projects that the DFI supports, without being limited to working with Canadian entities or engaging in "tied financing". The DFI should make efforts to utilize and project Canadian expertise and know-how, and should be accountable for this.

Success Factors

- **Transparency and accountability:**
Not only to Canadian taxpayers and stakeholder but also to our development partners and ultimate beneficiaries, should be built into the DFI at the highest level. At a minimum the DFI should subscribe to the same level of reporting, transparency and accountability as other development actors (such as Global Affairs Canada).
- **Strong controls at the board level on mandate considerations:**
Metrics and KPIs with respect to development outcomes as well as financial sustainability, should be clear from the outset, derived directly from the institution's mandate, and tied to clear incentives that drive development and commercial objectives.
- **Flexibility at the operational level:**
In order to maximize the likelihood of success the DFI should have full flexibility in terms where it can get involved in the capital structure and the types of products and solutions it can offer.
- **Long horizon:**
What distinguishes a DFI from a development bank or other development agents is its ability to provide patient capital and build long-term partnerships. Performance should be evaluated over a long time horizon to allow the DFI to invest in new sectors and take on what others may perceive as too risky or cutting edge projects.

The Canadian International Development Platform (www.cidpnsi.ca) and Engineers Without Borders Canada (EWB) brought together experts and stakeholders for a roundtable on Canada's Development Finance Initiative (DFI) on April 29, 2016 at the Norman Paterson School of International Affairs (Carleton University, Ottawa). This note provides a summary of our deliberations.

FOR MORE PLEASE SEE: WWW.CIDPNSI.CA/CANADAS-DFI/