A Canadian Development Finance Institution (DFI): Fast Facts

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Context: Canada is the only G7 country that lacks a DFI

- Development assistance has helped to produce huge gains in the fight against extreme poverty: in 1981, 52% of people in the developing world lived on less than US$1.25/day; by 2012, less than 20% lived below this poverty line. **Well-targeted development assistance works.**
- Finishing the battle against extreme poverty will require more resources than governments can provide through Official Development Assistance (ODA) grants.
- All other G7 countries have created publically-owned, profit-driven **Development Finance Institutions (DFI)** to partner with business on near-market terms to generate jobs, growth, profits and poverty reduction (Table 1). **It's time for Canada to follow their lead and learn from their experiences.**

Table 1. G7 Development Finance Institutions (DFIs) 1/

Country	France	Germany	Italy	Japan	UK	USA
DFI name	PROPARCO	DEG	SIMEST	JBIC	CDC	OPIC
DFI incorporation date	1977	1962	1991	1999	1948	1969
DFI capital base, USD mn	556	992	217	17	1,236	50
DFI total portfolio, USD mn end-2012	4,101	7,937	1,123	155	3,879	16,400
DFI new commitments, USD mn 2012	969	1,703	151	42	627	3,600
DFI net profit, USD mn 2012	51	173	17	1	352	273
DFI return on investment, in %, 2012	1.3	2.2	1.5	0.4	9.1	1.7
National private flows to dev'ing countries, USD mn 2012	18,078	21,383	8,161	32,494	48,500	107,200
DFI new commitments, % total private flows	5.4	8.0	1.8	0.1	1.3	3.4
GDP, USD bn	2,612	3,427	2,014	5,961	2,484	16,240
DFI new commitments, % GDP	0.037	0.050	0.007	0.001	0.025	0.022

1/ Sources: National DFI websites, OECD.

Key characteristics of successful DFIs

- **Focused** on profitable commercial support to businesses building markets in developing countries.
- **Broad range of financial instruments:** loans, equity investments, guarantees, risk insurance, *et al.*
- **Catalytic financing:** small amounts of public finance strategically designed to mobilize private capital.
- **Unconstrained by nationality**: able to work with businesses and entrepreneurs from any country.
- **Distinct from other public development efforts:** not a grant provider or a channel for industrial policy.
- **Profitable and self-sustaining**: profits are retained to finance the DFI's operations.
- **Patient capital**: backed by government, able to borrow at low rates and invest in long-term returns.
- **Additionality**: a complement, not a substitute, for ODA.

Sizing a Canadian DFI. On average, the 6 existing G7 DFIs provide annual commitments equivalent to about 3.3% of their country's private capital flows to developing countries and about 0.024% of their national GDPs. For a prospective Canadian DFI, that implies annual commitments of between CAD $350mn and $500mn.

Possible institutional models. A Canadian DFI could be created through a range of different institutional models: a stand-alone Crown Corporation, a subsidiary in an existing Crown Corporation, a special agency, a unit within an existing Government Department or a public-private partnership.

For additional details, please consult: James Haga and Brett House (2014). "Time for Canada to get into the business of development" at www.opencanada.org. See also: www.ewb.ca; www.cigionline.org.