*CCIC was invited to appear before the Standing Committee on June 20 and 22. Both meetings were cancelled as MPs were called to vote on legislation, and Parliamentary business wound up for the summer. This presentation was submitted to the Committee and circulated to members by the Clerk.*

**Presentation to the**
**Standing Committee on Foreign Affairs and International Development**
**on its Study on Canada's Development Finance Institute (DFI)**

*June 22, 2017*

*Fraser Reilly-King, Senior Policy Analyst, Canadian Council for International Co-operation*

Members of the Committee,

Thank you for inviting the Canadian Council for International Co-operation (CCIC) to appear here today.

As some of you may know, CCIC is Canada's national coalition of civil society organizations (or CSOs) working globally to achieve sustainable human development.

How do our members feel about this new DFI? A mixture of skepticism and hope. Skepticism because the record of many of the world's DFIs to date is far from exemplary. Hope, because as the last G7 country to establish a DFI, Canada can learn from the mistakes of others. The pathway Canada chooses can determine whether five years from now Canada will be best in show, or have nothing to show.

Let's be clear: the intent of DFIs is a good one. These institutes can provide crucial funding in credit-constrained high-risk markets, where financing for firms is in short supply, interest rates are high, or companies are too small or risky to access such finance. And where this happens, DFIs can unleash new jobs, generate new incomes and taxable revenues, and provide goods and services.

But in practice, DFI practice to date tells a different story. A disproportionate degree of investments have subsidized OECD country companies working in Middle Income Countries, with DFIs prioritizing profit maximization over development impact. In 2010, 50% of DFI investments went to the financial sector (financial intermediaries) who aren't gearing their funding to local investments. And many of these investments pass through secrecy jurisdictions. Finally, transparency around financial leverage and development impact is still sorely lacking.[1]

In this vein, the mandate of Canada's DFI seems to be on the right track. Speaking a few weeks ago to this Committee, Minister Bibeau acknowledged that the DFI would focus squarely on development and

---

[1] For further details, see Kwakkenbos, Jeroen (2012). *Private Profit for Public Good? Can investing in private companies deliver for the poor?* Brussels: European Network on Debt and Development (Eurodad). Retrieved from: http://www.eurodad.org/files/pdf/520a35cb666a7.pdf; Romero, Maria-Josée (2014). *A Private Affair - Shining a light on the shadowy institutions giving public support to private companies and taking over the development agenda*. Brussels: Eurodad. Retrieved from: http://www.eurodad.org/files/pdf/53be474b0aefa.pdf; Vervynckt, Mathieu (2014). Going Offshore - *How development finance institutions support companies using the world's most secretive financial centres*. Brussels: Eurodad. http://www.eurodad.org/files/pdf/5457b8e273cfa.pdf

poverty reduction, ensuring positive outcomes and real impact.

While we welcome the fact that the DFI will *not* be funded from Official Development Assistance (or ODA), the Minister also acknowledged that the DFI's mandate would still be in line with – but not subject to – the Official Development Assistance Accountability Act.

She also noted that "The Canadian DFI financial support will be additional and complementary to Canada's ODA."

Complementarity must mean two things: both building on Canada's ODA investments and distinguishing itself from other existing Canadian and international forms of trade, export and development finance.

In terms of building on our ODA investments, Canada's DFI may want to focus on some of the same low income countries (or LICs) and fragile states where the government is active through, for example, Global Affairs Canada (GAC) and the International Development Research Centre. ODA investments can help strengthen institutions, governance and the rule of law, build infrastructure, invest in education and training, and strengthen local knowledge, research and innovation (among other things). These are the same factors that facilitate business development and attract capital. Investing in Canadian embassies and high commissions in these countries, and the staff that serve them, will build greater knowledge of local conditions and realities. This represents a tremendous and exciting opportunity – a real value-added.

Complementarity also means that Canada's DFI must also be sufficiently distinct. While the DFI will be housed at Export Development Canada, this is where the similarities must stop. In an already overcrowded landscape of trade and development finance actors – export credit agencies, international financial institutions, micro-finance and development finance institutions – Canada's DFI must create a new contour, adding real value. It can do this by addressing key gaps and filling niche markets. I would suggest, as others like Oxfam and Engineers Without Borders have done, that this may come in providing patient capital, loans and loan guarantees, technical assistance and business services to women-led SMEs in LICs or fragile states where GAC is active (and not to Canadian companies).

Why women-led SMEs in LICs? Only 25% of current DFI funds go to LICs.[2] And as the 2013 World Bank Development Report on Jobs has no[3]ted, "micro- and small enterprises account for the bulk of employment [in developing countries], even in middle income countries."[4] Yet there is a $850 billion shortfall in credit for SMEs, and women consistently face barriers in accessing such capital.

Such a focus would complement GAC's geographic focus, its new feminist international assistance policy, and its recent announcement of a $150 million fund for women's rights organizations. Other DFIs

---

[2] Romero, María José. (2010). *A Private Affair: Shining a Light on the Shadowy Institutions Giving Public Support to Private Companies and Taking over the Development Agenda*. Report. Brussels: Eurodad. Retrieved from: http://www.eurodad.org/files/pdf/53be474b0aefa.pdf;
[3] Stein, Goland, and Schiff. (2010). *Two Trillion and Counting*. Washington, DC: International Finance Corporation and McKinsey &Company. Retrieved from:: http://mckinseyonsociety.com/downloads/reports/Economic-Development/Two_trillion_and_counting.pdf
[4] World Bank. (2012). *World Development Report 2013: Jobs*, pp. 105. Washington, DC: World Bank. Retrieved from: http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf

also specialize - like FinnFund on renewable energy, forestry and telecommunications, and the European Investment Bank on climate change adaptation and mitigation.

To ensure a positive impact (the additional piece the Minister referred to), the DFI must adopt mechanisms to ensure any investment can demonstrate clear development and financial additionality. Financial additionality means "finance extended to companies in countries and regions where the private sector would not invest in developmental projects without official support."[5] In other words, this can't be corporate welfare. Development additionality means clearly demonstrating positive development impacts from the investment (most logically, I might add, in line with the sustainable development goals' (SDGs) targets and indicators). Some DFIs, like the UK's Commonwealth Development Corporation (CDC), are starting to evaluate a broader set of impacts – economic, financial, social, environmental and governance.

From a governance perspective, this means Canada's DFI should have its own board, separate from EDC, and one that gives as much weight in evaluation and selection criteria to commercial viability and return on investment, as development impact. It means employing experts in both development and business. And it means coordinating and harmonizing with colleagues in GAC (as the CDC does in the UK) to ensure DFI investments contribute to the realization of the SDGs.

We won't get it right every time. Which means that to help ensure we are meeting these criteria, the DFI must have robust monitoring and accountability standards. This will allow the institution to learn by doing and to redirect its course when it falls off track – something rarely, if ever done, by any of the other DFIs. This should include the adoption of a complaints mechanism, as FMO the Dutch DFI have. It must also adopt clear disclosure policies in line with the Global Transparency Initiative's Transparency Charter for International Financial Institutions, including both *ex ante* and *ex post* transparency around the projects supported. This will allow external stakeholders to assess whether the projects the DFI invests in are meeting – or falling short of – clear criteria around development and financial additionality. It will also allow Canada to avoid channeling money through secrecy jurisdictions and financial intermediaries. And will also allow the DFI to report out on the development impact of its investments, building confidence in the institution and an incentive for further capitalization.

DFI investments are most useful when they not only complement traditional forms of aid, but align with the interests of developing countries. This means Canada's DFI must respect key development effectiveness principles around country ownership, transparency and accountability, and demonstrating development outcomes and results.

In conclusion, Canada's DFI can maximize development impact by being integrated within Canada's existing development efforts. This means clear development outcomes and financial return must be the heart, and additionality, complementarity, good governance and transparency the mind, of Canada's new Development Finance Institution.

[5] OECD-DAC Working Party on Development Finance Statistics. (2016). *Implementation of the Principles of ODA Modernization on Private-Sector Instruments*, page 4. *DCD/DAC/STAT* 1. Paris: OECD.