

Establishing Canada's Development Finance Institution

**Report on a Stakeholder Engagement Session,
August 1st, 2017
Ottawa**

**Prepared for Export Development Canada
by Stakeholder Research Associates**



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Executive Summary

This Report describes feedback obtained during and prior to a workshop for stakeholders addressing Canada's proposed Development Finance Institution (DFI). The session was held at Export Development Canada (EDC) headquarters in Ottawa, Canada on August 1st, 2017.

Antecedent context and materials considered at the workshop included: (i) current Federal Government policy; (ii) a Discussion Paper (and accompanying six questions); (iii) evidence presented to the Standing Committee on Foreign Affairs and International Development; and (iv) written submissions from fifteen stakeholders.

The report describes the methodology adopted for the workshop and how the process and content of the session evolved with the guidance of stakeholders.

Summarized session reports of eight distinct round table discussions are presented as follows:

- The Evolving Landscape (Differentiation and Critical Success Factors);
- Impact;
- Catalytic Effects;
- Additionality Effects;
- Innovation;
- Best (and Worst) Practices;
- Return on Capital; and
- The Role of Trade.

A number of clarifications were provided by EDC staff based on current thinking and guidance from Government, and these are also set out in the report in Questions and Answers format.

In general terms, stakeholders present at the workshop and those providing written submissions were uniformly welcoming of the establishment of the DFI. There was recognition of the fact that the starting capitalization of \$300 million over five years necessarily constrains ambitions in the short term, but that with careful design and expected growth over time, the DFI should be capable of providing a distinctive, innovative and additional contribution to the existing universe of DFI investments internationally. This should be based on the positive leveraging of Canadian values and Canada's current international development assistance and international trading strengths

through effective coordination with other development actors in Canada and internationally.

Possible areas of investment focus that were noted by stakeholders included female entrepreneurs, small- and medium-sized enterprises and 'green growth'. Advice was also offered on preferred (and non-preferred) industry sectors, potentially preferred geographies, and how to balance risk effectively while avoiding excessive risk aversion. There was significant interest in creating at least some presence in fragile states. Advice was also provided on best practices (and practices to be avoided), including the importance of transparency and timeliness of processes, the holistic measurement of impacts and the development and maintenance of: (i) a long-term perspective; (ii) an organizational learning culture; and (iii) deep market knowledge in geographies of interest.

1.0 Overview

The Government of Canada (GOC) has mandated EDC to design and launch a Development Finance Institution (DFI) that will contribute to sustainable development and poverty reduction in developing countries by supporting the growth and success of local private sector initiatives.

As part of its engagement efforts, EDC convened a multi-stakeholder session on August 1, 2017 to provide input on the DFI's strategy and orientation. This report summarizes the output from that session.

2.0 Methodology and Process

Approximately fifty (50) development finance stakeholders in Canada attended a stakeholder engagement session on the strategic focus of Canada's proposed new Development Finance Institution. The invitation list was derived from Export Development Canada's knowledge of interested parties, i.e. organizations and individuals who had previously expressed interest in the DFI, or were known to have an interest or expertise in the area; invitations were also based a number of cross-referrals.

Stakeholders reflected the following groups: Government of Canada, Canadian businesses, Consulting Firms & Business Associations, International Business Representatives, Domestic Development Finance Players, Domestic Civil Society with experience in entrepreneurial approaches to development, Academia/Research Organizations/Think Tanks, and Distinguished Persons. Due to the level of interest in attending, representation was generally restricted to one person per organization, except where the organization represented a coalition of interests, in which case two spaces were created.

In addition, two EDC Board Members, Mr. Jeffrey Steiner and Mme. Darlene Thibault, and five (5) representatives of Global Affairs Canada and one (1) from Finance Canada were in attendance. EDC President and Chief Executive Officer, Benoit Daignault, was also present throughout. Networking opportunities were offered periodically during the session.

Stakeholders both invited and in attendance received a discussion paper (Appendix 1) in advance which had been developed through a prior process led by Yolanda Banks, Principal Advisor, DFI Core Project Team on behalf of EDC, with input from Etienne Grall, Director, DFI Core Project Team, and Jim

McArdle, Senior Vice-President, Corporate Advisor and executive sponsor of the DFI project. The paper posed a series of strategic questions where stakeholders would be able to provide advice and guidance. In the two weeks preceding the meeting, stakeholders were also invited to provide to the meeting's independent facilitator written submissions, both in terms of content and process for the day. Fifteen submissions were received.

At the meeting, the executive leads for the proposed DFI, Mr. Jim McArdle and M. Etienne Grall opened for EDC, setting out the strategic context for the DFI and the day's stakeholder session. Independent facilitator, Dr. David Wheeler, obtained agreement from participants on the process to be used for the day, noting the key questions in the discussion paper and other sources of input, including policy direction from the Government of Canada, the deliberations of the Parliamentary Standing Committee on Foreign Affairs and International Development on the question of the DFI, and topics raised in advance by stakeholders.

Dr. Wheeler then led the group through an open process of priority-setting which allowed appropriate time to be allocated between three rounds of group discussion and plenary reporting. In total eight topics were addressed, including modified and consolidated versions of the original six questions from the discussion paper, plus four other questions that arose through plenary discussion in the meeting itself.

The summarized session reports of the eight topics discussed are presented in Section 3.0. All small group discussions were led by informally selected volunteers from each group, and the third round of specific discussions were led by volunteers identified by the plenary group of stakeholders, as the topics were agreed.

In addition, six questions of clarification arose from plenary discussions were addressed in plenary by M Grall and Mr. McArdle. Other items of clarification were also addressed by the executive leads. These questions and answers are listed in Section 4.0.

The meeting content was summarized by Etienne Grall who also set out next steps in the process. The event was closed by Benoit Daignault at 2 p.m. who thanked all attendees warmly for their active participation, advice and counsel.

3.0 Summarized Session Reports

The Evolving Landscape

Is there an identifiable niche (or series of niches) where a Canadian DFI can focus? What could be the attributes and critical success factors of a uniquely Canadian DFI? What Canadian strengths could the DFI leverage to help differentiate its action in the market? What is the role of the private sector in developing countries in determining the niche, in Low Income Countries v. Middle Income Countries?

Differentiation – Stakeholders advised that the DFI should avoid ‘crowded markets’ and instead focus on specific areas of impact even if they might involve higher risk. Ideas for Canadian leadership and differentiation included focusing on female entrepreneurs and small- and medium-sized enterprises, avoiding extractives and infrastructure, and instead focusing on sectors such as agriculture and food, health care and financial services. Geographic foci could include Sub-Saharan Africa, Latin America and specific underserved markets such as the Ukraine.

Critical Success Factors – Stakeholders advised that the DFI should aim to establish a unique positioning in the marketplace, informed by the direction of Canadian international assistance priorities and leveraging the expertise and knowledge of other Canadian international development actors, as appropriate. The DFI should establish a portfolio of investments, allowing for higher-risk investments to be offset by those representing lower risks. Despite the need to generate early success stories, establishing Canadian ‘visibility’ should be secondary to building strong processes with deep market/country knowledge. Depending on the DFI’s investment mix (e.g., lead lender/investor *versus* secondary lender/investor), the balance between higher-risk (e.g., fragile state) and lower-risk investments, and investments in Low Income *versus* Middle Income countries should evolve over time.

Development Impact(s)

How will we define development impact and how do we design the measurement framework?

Stakeholders believed that Canada could develop international ‘thought leadership’ for its DFI, both with respect to what investment priorities emerge and how the impact of those investments is measured. This would promote ‘market-shaping’ through holistic and integrated metrics that embrace financial measures, as well as the effectiveness of investment processes (e.g., the ability to ‘crowd in’ private sector involvement), and

alignment with UN Sustainable Development Goals (SDGs) and other frameworks and potential development impacts, for example with respect to women's empowerment, green growth and job creation (direct and indirect).

Catalytic Effects

What is it and how do we measure it?

The group defined catalytic effects as the ability to: (i) bring others into investments; (ii) leverage other asset classes; (iii) be a first mover through rapid de-risking; and (iv) leverage financial, human and social capital. Catalytic effects should be measured system- and portfolio-wide, and at each stage of the investment process; measures may be based on qualitative (e.g., capability development) as well as quantitative criteria (e.g., other investments leveraged) and should reflect 'sustainability', broadly defined.

Additionality Effects

What is it and how do we measure it?

Stakeholders perceived additionality to address the basic question: would this investment happen without the DFI? It was also noted that additionality might embrace the representation of Canadian values, 'crowding in' of other capital and the addition of value to specific systems. While noting that additionality may be difficult to measure, stakeholders observed that elements of the definition might include: does the investment de-scale risk, or close a gap not met by other DFIs, and does the investment lend itself to story-telling and continuous learning.

Innovation

What is it and how do we build a reputation for it?

Stakeholders addressing the question of innovation noted that the DFI is already innovative in its relation with EDC and has the opportunity to be 'disruptive' in its investment approach, foster continuous learning, and innovate in its processes e.g., through timely execution of deals and taking a long view on investment horizons.

Best (and Worst) Practices

What are the best and worst examples?

Stakeholders considering best practices identified the following as factors worthy of consideration by the DFI: (i) transparency; (ii) complementarity with other DFIs (e.g., to achieve a lower administrative burden);

(iii) leveraging private sector relationships, local market knowledge and external capital; and (iv) operating in local currencies . In contrast, (i) risk aversion; (ii) driving out private sector investment; (iii) slow decision-making; and (iv) lack of local governmental engagement, were identified as traits to be avoided.

Return on Capital

Return on capital short v long term – What is ‘patient’ capital?

The group considering return on capital and the meaning of ‘patient capital’ was conscious that a long-term perspective needs to be built into the culture of the DFI, together with the sophistication to balance the pressure for early financial success with the mandate for development impact. It was noted that patience takes many forms: financial, developmental and reputational. Not all investments would need to be ‘patient’ or long term, but clear benchmarks and performance indicators would be needed on a deal-by-deal basis to ensure the right emphasis.

The Role of Trade

Where does trade fit?

Stakeholders exploring the role of the DFI in trade promotion noted that as a subsidiary of EDC, trade and export promotion within countries of focus should be a natural part of the DFI’s role, thereby extending the ‘win-win’ opportunities between EDC and the DFI e.g., in risk management and insurance for local currency transactions. The DFI should have an awareness-building and capacity-building role that is relevant to Canada and its trading partners.

4.0 Questions & Answers

1. What is the \$300 million for and how will it be leveraged?

EDC will provide \$300 million as initial capital to the DFI. These funds will be taken from EDC's surplus revenues. The DFI will leverage the \$300 million, however, the degree of leverage (leverage ratio) will depend on the profile of the portfolio as based upon the loans and investments provided, and the strategic choices made, some of which will be informed by the day's discussions. The DFI will borrow to meet its needs and will go to its parent, EDC, rather than to the market to meet its early needs for capital. The \$300 million will also cover the DFI's administrative expenses. Expenses will be covered by earnings from lending and investment activities undertaken by the DFI.

2. What is the HR strategy and implementation plan?

Human resources will be critical to the success of the DFI. The skill sets needed will be a function of the strategic priorities of the DFI, which are currently being set. Hiring will begin in the fall. The DFI will focus on hiring new talent through an open search. The early roles to be filled will be the leadership of the DFI (Managing Director), then those who will be responsible for critical elements of delivery, e.g. business origination, development impact, underwriting, etc.. The aim is to build an organizational culture unique to the DFI. The DFI will leverage a number of core services from EDC such as accounting and HR.

3. Is the DFI an 'Institution'?

The DFI will be a stand-alone organization with its own balance sheet and governance structure. It will be named in the near future.

4. How does the DFI coordinate with Global Affairs Canada (GAC) and other international development actors in Canada?

Alignment, collaboration, convergence will be critical. There is an overarching mandate for the DFI to align with the Government of Canada's international assistance priorities. Stakeholders expressed a strong appetite for the DFI to work collaboratively, not just with the Government of Canada, but with the variety of international development assistance actors, both Canadian and international. What each of these relationships will look like in specific terms is yet to be determined.

5. How will governance be defined?

The DFI will be a wholly owned subsidiary of EDC. As a separate legal entity, it will have its own board of directors and governance framework. In addition to the board and the capabilities present on the board itself, there will be an additional consultative advisory council with subject matter experts to help advise the DFI on its strategic orientation and other matters. Work on incorporation of the DFI and creation of the DFI Advisory Council is underway.

The composition of the EDC board of directors is also changing to include members with experience in development finance. Candidates are being sought who can bring value to both EDC and to the DFI.

6. How will DFI's mandate be defined?

There are several tiers to the DFI's mandate. The top tier is defined in the *Export Development Act*, the enabling legislation that created EDC and which was amended recently to add a development finance mandate. This mandate speaks to the alignment with the government's international assistance priorities. In addition to this, as part of Crown governance, the Ministers of International Trade and International Development collaborate to provide instructions to the EDC regarding the DFI. They have specified the terms on the basis of which they want to form the DFI. There will be an annual instruction from ministers providing direction at the strategic level that the government will expect the DFI to follow.

7. Expand on the benchmarking work on development impacts that is underway.

The DFI team at EDC is working with a consultant to benchmark approaches by other DFIs to measuring development impacts. Further discussions with stakeholders and the government will also help determine the development impact framework and scorecard. EDC will continue to communicate with stakeholders on this topic.

8. Will the DFI fund feasibility studies?

No. Feasibility studies are technical assistance, and DFI does not have a mandate to offer technical assistance. The DFI will be looking for ways to work with Global Affairs and others to make sure that alignment happens.

Appendix 1: Establishing Canada's Development Finance Institution: Discussion Paper for Stakeholder Engagement, July 2017



DFI Discussion
Paper_July2017_final

Appendix 2: List of Participating Organizations

Export Development Canada

Jeff Steiner, Board Member
Darlene Thibault, EDC Board Member/
Benoit Daignault, President and CEO
Jim McArdle, Senior Vice-President and Chief Corporate Advisor
Etienne Grall, Director, DFI Project
Yvette Frost, Principal Advisor, DFI Project
Yolanda Banks, Principal Advisor, DFI Project
Tyler Brown, Project Manager, DFI Project
Treena Ploughman, Project Coordinator

Participating Organizations

Aga Khan Foundation Canada
Agriteam
Brazil Canada Chamber of Commerce
Bombardier
Canadian Association of International Development Professionals (CAIDP)
Canadian Council for Africa
Canadian Council for International Cooperation (CCIC)
Canadian International Development Platform (CIDP)
Centre d'étude et de coopération internationale (CÉCI)
Conference Board of Canada
Développement international Desjardins (DID)
Engineers Without Borders
FINCA Canada
Finance Alliance for Sustainable Trade (FAST)
Finance Canada
Global Affairs Canada
Global Alliance for Improved Nutrition (GAIN) Canada
Grand Challenges
International Development Research Centre (IDRC)
JCM Power
KPMG LLP
Mennonite Economic Development Association (MEDA)
McLeod Group, The
Mountain Lion Agriculture
OXFAM Canada
OXFAM Québec
Plan Canada

RBC
Riverside Capital Advisory
Saron Asset Management
Save the Children Canada
Scotiabank
SNC-Lavalin Capital
Social Sciences and Humanities Research Council (SSHRC)
SOCODEVI
Stakeholder Research Associates
Straightview
Trade Facilitation Office Canada (TFOC)
Universal Management Group
World Vision Canada

