# Innovation for Development Impact:

## Building a 21st Century DFI

FinDev Canada Stakeholder Engagement Report

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CANADIAN INTERNATIONAL DEVELOPMENT PLATFORM

FinDev Canada

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# Executive Summary

This report summarizes discussions from a day-long conference that was held in Montreal (Canada) on March 16, 2018, co-hosted by FinDev Canada[1] and the Canadian International Development Platform (CIDP).[2] The event brought together a wide range of development practitioners, development finance experts and other key stakeholders of Canada's new development finance institution (DFI). It was a unique opportunity to learn and share experiences directly with FinDev Canada's management, board members and other Canadian policymakers.

This summary highlights 4 principal areas of opportunity for FinDev Canada, as construed by stakeholders and experts:

1. The "billions to trillions" agenda is ambitious. **A 21st century DFI should not be content with being a "financier" but should aim to also be a "mobilizer"**.

2. To move the needle in complex areas, like gender equality and women's economic empowerment, there is a need to **think in terms of "making markets" and fundamentally shaping incentives along with likeminded partners**.

3. Measuring development impacts and outcomes, and attributing results to investments is inherently complex. There is no perfect or even common template across DFIs. The best strategy is therefore to **take a pragmatic approach to attribution and be transparent about assumptions**.

4. The proliferation of technology and data are trends that make it a challenge for any DFI to be 'future-ready'. To seize the opportunities, **a 21st century DFI needs to borrow from the ethos and DNA of a 'data company'**.

[1] For more information, see: https://www.findevcanada.ca.
[2] For more information, see: http://www.cidpnsi.ca.

# Introduction

On March 16, 2018, FinDev Canada in partnership with the Canadian International Development Platform brought together 70 development finance experts and key stakeholders from Canada and abroad, across the private sector, public sector, civil society, research and think-tank community in Montreal (Canada) to discuss and deliberate key themes of interest to Canada's new development finance institution (DFI).

The purpose of this report is to summarize the discussions and highlight key messages that the diverse group of stakeholders shared over the course of the conference.[3] The proceedings were structured around an opening fireside panel discussion with development finance experts from the Centre for Global Development (CGD, Washington DC), International Finance Corporation (IFC, Washington), Dalberg Advisors (New York) and Steward Redqueen (Netherlands). The discussion centred on four principal areas which resonated through the day:

1. **From Billions to Trillions: Making Sense of Financial and Developmental Additionality.**

2. **Gender and Women's Economic Empowerment: What Should It Mean for a 21st Century DFI?**

3. **Measuring Development Outcomes and Impacts: Making Sense of Attribution, Causation, and the Need for Learning and Transparency.**

4. **Data and Technology as Accelerators and Disruptors in the Evolving Landscape of Development Finance: Getting Future-Ready.**

The panel was followed by four working group sessions on the same themes. The outcomes of working groups were presented at a final plenary session by group co-chairs. This report, produced in line with Chatham House rules that prescribe no individual attribution, reframes the deliberations in terms of areas of opportunity for FinDev Canada as highlighted by stakeholders and experts. While these areas of opportunity are particularly relevant for FinDev Canada, they also apply more generally to any 21st century DFI.

[3] For more details, see: http://cidpnsi.ca/innovation-for-development-impact.

# A 21st Century DFI Should Not Be Content With Being a "Financier" But Should Aim to Be a "Mobilizer"


"DFI performance will increasingly and rightly be judged by the magnitude of development resources they mobilize—more than by their own disbursements."

— Nancy Lee, *Billions to Trillions? Issues on the Role of Development Banks in Mobilizing Private Finance*, p. 2, 2017

# Opportunity 1:

# A 21st Century DFI Should Not Be Content With Being a "Financier" But Should Aim to Be a "Mobilizer"

The "billions to trillions" agenda is ambitious. How FinDev Canada tackles its appropriate role and orientation in the same requires contending with a key question: is it sufficient for FinDev Canada to be a financier, or, is it necessary to also think in terms of being a mobilizer of others (whether investors, development partners or wider stakeholders)?

## State of Play

The financing gap to meet the Sustainable Development Goals (SDGs) is estimated to be between USD $1.5 to $2.5 trillion annually.[4] Official development assistance (ODA), at around USD $146 billion[5] annually, represents a small (and shrinking) share of overall development finance. The need to go from 'billions to trillions' in development finance is clear. As is the importance of mobilizing resources beyond traditional concessional ODA, including the types of financing that DFIs can provide. But, how are we doing in going from 'billions to trillions'?

The answer is decidedly mixed: on the one hand, there is hard data that show annual infrastructure investment in developing countries with private participation declined sharply from 2012 to 2016.[6] On the other hand, interest in impact investing, sustainable finance and the like, while still relatively niche, is growing rapidly, including within the mainstream financial sector such as among institutional investors.

[4] UNCTAD, *World Investment Report* (New York and Geneva: United Nations, 2014). http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.
[5] "Canada and the OECD-DAC 2017: summary aid statistics from the OECD-DAC and comparison of Canada," Canadian International Development Platform, 2017, http://cidpnsi.ca/canada-and-the-oecd-dac-aid-statistics-2017.
[6] Nancy Lee, *Billions to Trillions? Issues on the Role of Development Banks in Mobilizing Private Finance* (Washington: Center for Global Development, 2017).

## Key Recommendations for FinDev Canada

1. FinDev Canada must first decide whether it is going to be **exclusively a lender of its own accord or also a mobilizer of others**.

2. The current state of play suggests there is potential for **greater additionality and impact as a mobilizer**. However, such an orientation has implications for financial and operational models, as well as internal incentives.

3. To be a mobilizer, FinDev Canada would benefit from a strategic approach at the portfolio level. In making investment decisions, DFIs tend to think in terms of geography, income levels and/or sectors. However, FinDev Canada could target an additional layer: **addressing capital market gaps**.

4. Key among these gaps include lack of early stage finance, especially in the riskiest tranches (e.g. equity). In addition, FinDev Canada should consider partnerships with institutions that can provide more concessional finance instruments (e.g. blended finance) for deals that show potential for a **catalytic 'market making' effect**.

5. To pursue this, with part of its portfolio, FinDev Canada could set up special purpose vehicles (SPVs) that target early stage finance needs, and wherein grant funding for technical assistance or other support (be it from other Canadian players such as Global Affairs Canada or other donors) can be combined with FinDev Canada financing to meet specific mutual development objectives.

# Think in Terms of "Making Markets" and Fundamentally Shaping Incentives to Move the Needle in Areas Like Gender Equality and Women's Economic Empowerment

"From developing talent to reaching new markets, a growing body of evidence captures how companies benefit from investing in women as leaders, employees, entrepreneurs, customers, and community partners."

– IFC Gender Secretariat, *Investing in Women: New Evidence for the Business Case*, p. 8, 2017

# Opportunity 2:

# Think in Terms of "Making Markets" and Fundamentally Shaping Incentives to Move the Needle in Areas Like Gender Equality and Women's Economic Empowerment

Moving the needle in complex areas, especially gender equality and women's economic empowerment, requires thinking in terms of "making markets" and shaping incentives. This means a 21st century DFI like FinDev Canada needs to think not only in terms of deploying and being a steward of its own capital but working with likeminded partners to leverage opportunities at scale by bringing to bear not only financial but also non-financial assets.

## State of Play

Globally, only about 30% of women owned small medium enterprises (SMEs) have adequate access to capital. Among the FTSE 500 companies, only 4.3% have women CEOs. The OECD countries have recently regressed in terms of closing gender pay gaps and it is estimated that, on current trend, it will take over 200 years to close these gaps.[7]

Yet, markets and companies are increasingly realizing that there is a very strong economic (in addition to social) case for closing gender gaps. Without women, a lot of value is left on the table.

[7] These figures are from a presentation delivered by the head of IFC's gender unit.

## Key Recommendations for FinDev Canada

1. FinDev Canada must work to **find a balance between its investment decision considerations and the wider context of the government's 'feminist' priorities**.[8] At a broad level, FinDev Canada has an opportunity to clearly signal that it is ready to 'make a market' in gender equal and empowered investments, both with its own capital, by leveraging non-financial assets,[9] and electing to work with other likeminded partners.

2. In striking this balance, FinDev Canada must **first meet businesses or investees where they are, i.e. the conversation must be client-centric** and start with the needs and constraints faced by the business, and not the introduction of gender or gender targets as an additional tracking/reporting burden. For example, experience (such as that of IFC) shows that a meaningful discussion about the need for sex disaggregated data is best placed in the context of how it can support solutions to core business challenges, such as new market opportunities.

3. **Gender mainstreaming alone will not be transformational**, as it fails to generate excitement and has no percolating effect. A balance between mainstreaming and standalone signature interventions is needed to ensure a demonstration effect that lasts beyond the narrow remit of an individual investment.

4. **Gender needs to be part of the questions asked before, during and after** the investment (i.e. it is not restricted to only ex-ante or ex-post assessment), and FinDev Canada's impact analysis needs to be sensitive to the potential for gender biases within specific industries or markets.

[8] As articulated in the Feminist International Assistance Policy, http://international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/policy-politique.aspx.

[9] These range from sharing know-how and good practice, to strategically employing political capital to influence decisions in a manner that is consistent with championing gender equality and women's economic empowerment.

# Pragmatically and Transparently Approach the Complexity Inherent in "Attribution" of Development Impact

"Some fund managers say attribution of impacts gives insight into the efficiency and effectiveness of their funding. [...] Knowing this helps steering their investment towards maximum effects. Others take more of beneficiary perspective and are only interested in the impacts for beneficiaries on the ground."

– Willem Vosmer and Matthijs de Bruijn, *Attribution in Results Measurement: Rationale and Hurdles for Impact Investors*, p. 10, 2017

# Opportunity 3:

## Pragmatically and Transparently Approach the Complexity Inherent in "Attribution" of Development Impact

Attribution is the process whereby investors determine the share of development impacts and outcomes that can be credibly linked to their respective investments. Complexity is inherent in attribution frameworks and models. Most DFIs are confronted with this challenge when they report back to their shareholders and stakeholders.

### State of Play

The lack of standardization among attribution models is an issue FinDev Canada must grapple with. Development financiers and investors tend to attribute results differently – some investors use a prorated approach (i.e. limited to their share of investment) while others, typically larger investors, attribute all results to their investment, using an assumed counterfactual that the deal or investment may not have taken place at all without them.

Attribution problems are exacerbated by missing or poor-quality data as well as data collection issues. Attribution for DFIs and other development actors is inherently self-interested. All parties want to demonstrate impact. However, with the proliferation of frameworks and approaches, often inconsistency in terms of what is tracked and reported by one funder vs. another, and the gap between the level of detail available at the intervention/investment specific level vs. our understanding overall higher-order impacts, when it comes to attribution frameworks there is a danger of perfection becoming the enemy of the good.[10]

[10] For a comprehensive overview of attribution frameworks and issues see: Vosmer W. and de Bruijn M. 2017. Attribution in Results Measurement: Rationale and Hurdels for Impact Investors. http://cidpnsi.ca/wp-content/uploads/2018/03/Attribution-in-Results-Measurement-Rationale-and-Hurdles-for-Impact-Investors.pdf.

## Key Recommendations for FinDev Canada

1. Instead of reinventing the wheel, FinDev Canada should take advantage of being a late entrant and first and foremost **build on the work of others**. Several major development financiers are facing this challenge. For example, the IFC has recently adopted a new approach called the Anticipated Impact Measurement and Monitoring (AIMM) system.[11] This new approach provides IFC a higher-order entry-point into analysis. It pushes IFC to ask: what is the **disruptive potential of the investment**, in the sense of innovation that potentially changes or affects market dynamics at a higher order? Looking through this larger lens encourages DFIs to look for broader impacts in a disciplined and reasonable manner.

2. FinDev Canada must also be **pragmatic when linking outcomes to investments**. First, it must understand the motivations of its partners. In some cases, partners may coalesce more readily around secondary goals.[12] In such instances, FinDev Canada must realize that there are different currencies that accumulate in any investment and assess which of these matters most to its shareholders and stakeholders. This requires a shared understanding with shareholders and key stakeholders of the key measures to track and the types of indicators (and underlying data, sources and approaches) that are most relevant to those measures.

3. Given the challenges inherent in attribution, FinDev Canada would do well to resist over-claiming effects. It must be **transparent about its methodology and the assumptions embedded in its attribution model**.

4. Getting attribution right can be costly. In order to position itself at the forefront, and given the fast-moving nature of innovations in data, measurement techniques and analytics, **FinDev Canada must ensure that it adequately resources data collection for development impact and outcome tracking**.

[11] Devex, 2017. IFC's new way to measure development impact: 'An art as much as a science' https://www.devex.com/news/ifc-s-new-way-to-measure-development-impact-an-art-as-much-as-a-science-91258.
[12] For e.g. there may be differences in the types of targets and indicators investee businesses have an incentive to track vs. what a DFI may wish for. A DFI may be interested in job creation for women for instance, but, for the investee business, tracking overall labour force is sufficient. There may be ways for a DFI to tweak its attribution framework to allow incentives to better coalesce around secondary goals, i.e. get at job creation for women via the overall health of the labour force of the business.

# A 21st Century DFI Needs as Much of the DNA of a Data Company as That of a Development Bank


"Collecting data is not an end in itself. Data is only useful if it leads to action."

– Tom Adams, Ashley Speyer and Rohit Gawande, *Lean Data Update 2016*, p. 15, 2016.

# Opportunity 4:
# A 21st Century DFI Needs as Much of the DNA of a Data Company as That of a Development Bank

The proliferation of technology and ubiquity of data resulting from the same are forces that can be accelerators or disruptors of development. A 21st century DFI needs to think a bit like a 'data company'. In its approach to innovation, experimentation, constant and near real-time learning FinDev Canada can borrow from the culture of a 'data company'.

## State of Play

There remains a stark data divide between advanced and developing economies. In one part of the world we see the excesses of microtargeting and privacy issues arising from the same.[13] While elsewhere, such as when it comes to the SDGs, we see that as many as 88 of the 232 indicators subsumed under the 17 goals have neither method nor data. Most DFIs are grappling with the challenge of being future-ready as they seek to modernize their existing data and information systems. All are aware of the proliferation of increasing and more diverse types of data. But finding appropriate use-cases to drive development impact using these datasets and building the right partnerships and solutions to harness those opportunities remains a challenge.

## Key Recommendations for FinDev Canada

1. **Data is one of the main assets for most businesses today**. This is increasingly true, including in developing country contexts. Consumer-facing businesses are as interested in sales as they are in the data that comes along with the sales transaction. One implication of this is that sector divisions and business models are evolving rapidly. Today, banks are concerned about competition from not only financial institutions but also from disruptive models like online lenders, fintech operators, social networks and data companies like Google or Amazon. FinDev Canada must take account of this reality and borrow from the DNA of data companies.

[13] This refers to the vast amounts of personal data that arise especially via social media and e-commerce platforms.

2. There are at least three key channels whereby data and technology can have a profound impact on FinDev Canada:

    a. **Operational insights and near real-time feedback**: the days of impact evaluators flying in to conduct surveys months if not years after completion of projects are numbered. The World Bank is talking about the end of impact evaluation as we know it thanks to the availability of data directly from transactions. This can be seen in FinDev Canada's first investment in the off-grid solar company M-Kopa, which uses a live feed of transactional data to track some impact indicator data.

    b. **Pricing risks and assets, bringing visibility where it is inadequate**: informational gaps and asymmetries are particularly acute in developing country capital markets. FinDev Canada, both through its investments and by requiring data from investees, can helps address informational gaps and can aim for a wider market-level impact.

    c. **Monetization and evolution of business models**: ultimately partner data (whether directly from investees or intermediary funds) belongs to the companies. FinDev Canada can make it a point to work with partners to look for monetization opportunities that can drive the company towards greater financial and development impact returns.

3. H**ow might FinDev Canada borrow from the DNA a data company?** First, recognize that if data is going to drive its orientation this must be ingrained culturally within the organization. Second, find people who are data obsessed, who understand it, can value it and can innovate to get more out of otherwise boring raw data. Third, provide the right incentives – internally, and externally via partners – to experiment and innovate. Fourth, invest in cultivating an ecosystem of likeminded Canadian and developing country technology partners around core development objectives and investments.

# Conclusion

Going from billions to trillions in development finance places new demands, especially on DFIs both new and old, as their role in the evovling landscape receives renewed attention. The **key opportunity for FinDev Canada, as a new entrant, is to go beyond just being a financier and think like a mobilizer**. This entails talking a higher order, 'market making' approach, focusing on addressing capital market gaps, and cultivating partnerships with other DFIs and development actors.

This theme continues into the second area of opportunity for FinDev Canada. **To move the needle on issues like gender equality and women's economic empowerment, FinDev Canada needs to be ready to take a 'market making' approach**. This requires taking a client-centric approach when working with investees, going beyond gender mainstreaming and ensuring gender needs are part of questions asked at all phases of an investment.

The third area of opportunity relates to attribution frameworks. In this regard, the advice for FinDev Canada is to be pragmatic and transparent in its approach. As a late entrant, FinDev Canada can build on the work of others. Innovation in this area means having the space to ask higher-order questions, such as what is the disruptive or market altering potential of an investment. **Ensuring transparency of its attribution methodology and that adequate resources are committed to data collection and outcome tracking are two further recommendations**.

Finally, the fourth area of opportunity relates to harnessing data and technology. The message here is clear: **a 21st century DFI like FinDev Canada, needs to position itself to borrow as much from the DNA of a data company as that of a traditional development bank**. There are at least three channels whereby data and technology can impact how FinDev Canada positions itself: first, delivering deeper operational insights and near real-time feedback; second, innovating to better price risks and assets and bring visibility where it is inadequate (as is often the case in developing country capital markets); and third, in helping investees and partners evolve their business models, including through opportunities to harness and monetize their own data.

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