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Chair
The Honourable Robert Nault
Standing Committee on Foreign Affairs and International Development

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The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, we'll bring this meeting to order.

Pursuant to Standing Order 108(2) and our study of Canada's development finance initiative, today we have in front of us Daniel Runde, who is the William Schreyer chair and the director of the project on prosperity and development at the Center for Strategic and International Studies. Lucky him, he's in Rome.

Welcome, Mr. Runde.

As well, we have with us Aniket Bhushan, who is an adjunct research professor and principal investigator at the Norman Patterson School of International Affairs at Carleton, one of my favourite universities, with the Canadian International Development Platform.

Our two witnesses are going to make some opening comments.

Mr. Runde.

Mr. Daniel Runde (William A. Schreyer Chair and Director, Project on Prosperity and Development, Center for Strategic and International Studies, As an Individual): I'm sorry I'm not in Ottawa. I love going to Ottawa. I go about twice a year. I go for the sugar pie and the maple syrup, so I'm sorry I'm not there with you in person, but I'm in Rome instead.

It really is an honour to be with the distinguished members of this committee. Thank you for inviting me to testify before you today.

I hold an endowed chair at the Center for Strategic and International Studies, CSIS. It's not that CSIS, not the intelligence agency. Although my mother still thinks I'm a spy, I'm not a spy.

In past experiences I was in the Bush administration at USAID, which is the foreign aid arm of the U.S. government. I worked at the International Finance Corporation, which is the development finance arm of the World Bank Group. I had previous lives at Citibank in Argentina, working in commercial banking, and I started my career in investment banking in corporate finance at what is now Deutsche Bank. I bring a lot of experience in international development and development finance to this presentation, to what we're going to be talking about.

I want to first congratulate Canada on deciding to create a development finance institution. I spoke before to this committee, I believe in 2011, when I suggested in my prepared remarks that Canada ought to develop certain forms of development finance authorities or instruments. I didn't go so far as to say to stand up its own institution, though that was certainly at the back of my mind, and I think it's great that Canada is doing that.

I also wrote an article in Forbes.com in 2015, talking about the fact that the previous Canadian government had included in its budget contemplating creating and standing up a DFI, so this is not something that's new for Canada. I know there has been a lot of thought that's gone into this by many of your professionals in Global Affairs Canada and EDC. I know many of the folks who have been thinking about this and working on this. You have some really very fine civil servants who have been thinking about this for a long time, but also one of the things that's great about this is that I think it enjoys broad support across the political spectrum in Canada.

The other thing I'd want to note is that Canada is, if not the last, the second to last G7 member to stand up a DFI. All the other countries, including France, the United Kingdom, the United States, and Japan, have a stand-alone development finance institution, so Canada will be in very good company standing up this institution.

I want to also remark on the following. This is not your grandparents' developing world. It's richer, freer, more capable, and with more options, and as a result of that the role of the private sector in development is critically important. Countries develop by having good governance, like Canada has, like the United States has, and by having a robust, formal private sector like Canada has and countries like the United States have. So it's very important that we find ways to work and empower a formal private sector.

I'm going to submit for the record a report we did with the European development finance institutions called “Development Finance Institutions Come of Age”, which was published in October. I commend it to all of you, and I hope the clerk will share that with the committee.

If you look at all the foreign assistance that's being spent right now by all the countries like Canada and France and the United States and others, as well as multilateral institutions, you'll see it's about $130 billion or $140 billion U.S.
We looked at the amount of all the development finance investments catalyzing private sector activity by development finance institutions, and we saw that last year it was about $70 billion. There has been a doubling of traditional foreign assistance in the last 15 years, and there has been an increase of seven times the amount of private capital catalyzed in the last 15 years by development finance institutions.

I would submit to this committee that sometime in the next five years those lines are going to cross and there will be more private sector activity catalyzed by development finance institutions than traditional foreign aid. That's not because we still don't need foreign aid. We do need traditional official development assistance as provided by Global Affairs Canada and institutions like USAID for things like good governance, certain instances of humanitarian assistance, fighting corruption, promoting good democracy and human rights, and certain kinds of technical assistance to govern-ments, and in some cases providing basic human needs or supporting fragile and weak states, in particular.

But what you're going to see, because the developing world is evolving and you have 60 or so states that are proving to be middle-income countries that are going toward following the path of South Korea and Taiwan, is that their needs are very different.

What they need much more, instead, are things like infrastructure or enabling private investment or encouraging more trade, not so much financing basic human needs. I think the development ecosystem, things like Global Affairs Canada or the new development finance institution... It's important that we have these different instruments to meet the changing world that we're in.

Let me make some points about Canada's new DFI.

I think that Canada's new DFI should reflect strategic and geographic interests of Canada, as well as global business opportunities for Canada. I would just name some. The Francophone is certainly very important to Canada, so I would think francophone Africa should be very important for this new DFI. I think Haiti and Ukraine should be very important to this new DFI.

I also think that the new DFI should be willing to take on heavier investment risks if it's going to be asked to operate in francophone Africa and countries like Mali or Haiti or Ukraine. There's an implicit expectation that it's going to be taking on a higher level of risk than if it were investing in telecom projects in Brazil or Turkey or China, which, let's agree, are perhaps a bit of a more benign risk profile than the kinds of places that are important to Canada.

I'd encourage the DFI, if it's going to operate in countries of priority to Canada, to take on a higher risk profile as a result of that. I think the political leadership that stands behind the DFI needs to be prepared to support that higher level risk. That's my second point.

The third point I want to make is that while it's excellent that Canada has stood this up, I want to encourage the committee to begin to plan ahead and think out three to five years from now on a number of fronts. There's going to be a period of time, three to five years, to stand this institution up, to create an investment track record, to create various processes for making decisions about what transactions should be in. I expect that it will piggyback on other DFI deals, and I'll come back to that in a minute.

I think it's going to require that the DFI is given some time to demonstrate its worth, so I want to encourage this committee to provide a bit of patience and give it several years to get its sea legs.

Those are my three points: focus on strategic and geographic interests of Canada, as a result of focusing on country interests and priority interests of Canada; accept a higher level of risk; and then, third, I ask that this committee give the DFI several years to stand up and get its sea legs.

Also, as an additional point, consider perhaps a different kind of structure in the future. It may need to make different kinds of structural arrangements, and I'll get to that as well.

Let me address those three points.

I want to re-emphasize that the success of a country's private sector is critically important to development. The best social program in the world is a good job. The World Bank has data that says that in the developing world nine out of 10 jobs are in the private sector; so if nine out of 10 jobs are in the private sector, standing up this DFI makes a lot of sense.

Let me come to my first point, that Canada's DFI should reflect regional and topical interests, strengths, and relationships of Canada. As I said, francophone Africa, Haiti, and Ukraine would be a first area of focus, a first bucket of focus.

A second would be Afghanistan and Pakistan, given that Canada has put a significant amount of resources into and focus on Afghanistan and Pakistan over the last 15 years. Those are two countries where it would make a lot of sense for this DFI to be operating.

Third, I would posit the northern triangle of Central America as a region of importance to Canada. I've met with Global Affairs Canada representatives in Honduras, Guatemala, and El Salvador in the last couple of years when I've been down there. I'd also posit Colombia as a country of focus, given Canada's significant investment of time and effort in enabling the peace process that's going on there.

Regionally, those are the three buckets I would consider geographically.

Thematically, I want to suggest a couple that also reflect the priorities of the Canadian government.

I think women's economic empowerment, of course, is a central focus of the Trudeau government. I think Canada's DFI should also prioritize this.
I would specifically look to the International Finance Corporation, which has spent at least 10 years looking at how to enable women's business both in terms of analysis and technical assistance and in providing lines of capital to a number of different banks to provide lending to women-owned small and medium-sized enterprises around the world. The new Canadian DFI could piggyback on what IFC is doing in that specific area.

I want to also encourage post-conflict recovery and fragile states as an area of focus for post-conflict situations. It will be very important.

A third area is global health. I want to make reference to Canada's incredible legacy of leadership on mother-child health. What is not known about health is that there was a study done about 10 years ago by the International Finance Corporation, which I will also submit for the record, showing that about one half of all health care expenditure in sub-Saharan Africa in 2005—this is a little bit dated, but it's important for you to understand—was through for-profit private sector health care providers. If that's the case, and I believe it's still the case in sub-Saharan Africa, then it would make sense for this DFI to make investments in the health care sector. We need to make a bit of a mental mind shift to think about how health care is actually delivered. It's not always done through non-profit NGOs or government; it's often done through the for-profit private sector.

A fourth theme for Canada's DFI should include what I'm going to describe as an “all of the above” energy strategy. I absolutely think this DFI should be financing oil and gas projects. I frankly think that on an appropriate basis, it should considering financing coal projects. I know that's not necessarily where the Trudeau government is going to be, but I want to emphasize that a number of other DFIs are going to be doing so.

I met with the leadership of the Asian Infrastructure Investment Bank and the New Development Bank in the last month, and they are clearly going to be doing that. In certain contexts, say in the case of Haiti or francophone Africa, if it's the best option, then coal ought to be considered.

I'm not saying we should invest in coal willy-nilly, but I think we should consider it. I certainly think oil and gas are going to be a part of it. I believe that 53 of the 54 sub-Saharan African countries have oil, gas, and mining activities going on right now, and so I think this is only appropriate, especially in francophone Africa as well. Of course hydroelectric, wind, geothermal, and solar are a given, but I want to emphasize an “all of the above” energy as a fourth sector.

Finally, given Canada's excellent companies that work on global infrastructure, the 30 or so fragile states need certain kinds of assistance, but the 50 or 60 countries that are on their way to middle-income country status are extremely hungry for infrastructure. Look at the Asian Infrastructure Investment Bank's success. Canada is a member of the Asian Infrastructure Investment Bank, and the fact that it has 80 or so members now speaks to the fact that there is a major infrastructure deficit. I hope that the new DFI will consider this as a fifth area of focus.

Let me talk about planning for risk. I think that—

The Chair: Mr. Runde, I'm going to have to ask you to wrap it up. We want to get to some questions. Can you shorten this? Then we'll go to Mr. Bhushan.

Mr. Daniel Runde: Yes, I'll wrap it up. I have a couple of further points. Give me two more minutes.

Within the $300 million that's being budgeted for the new DFI, I think there ought to be some consideration for so-called first loss. I also think that this committee is going to need to think about the fact that not every investment the new DFI makes is going to be successful. This committee needs to be prepared for the situation that not every one of the things they're going to come to you with is going to be a home run. That's something else the committee is going to need to think about.

Finally, I want to just reference the fact that the current ownership structure, whereby in essence it's a subsidiary of the EDC, is perhaps not going to be the best structural arrangement for the new DFI. I would posit that perhaps a new crown corporation, with a stakeholder board including Global Affairs Canada, the finance ministry, business representatives from Canada, as well of course as EDC, might be a more appropriate arrangement. I want to consider that as well.

I have one final point. There ought to be some sort of stand-alone office, most likely housed at Global Affairs Canada, to support the new DFI with small amounts of technical assistance. Having a single one-stop shop for technical assistance for the new DFI would be very important, and I think the appropriate place would be in a separate institution such as Global Affairs Canada.

Let me just stop there. Thank you.

The Chair: Thank you, Mr. Runde.

We apologize for shortening it a little bit.

Mr. Daniel Runde: No problem.

The Chair: We'll go to Mr. Bhushan, please.

Mr. Aniket Bhushan (Adjunct Research Professor, Norman Patterson School of International Affairs, Carleton University, and Principal Investigator, Canadian International Development Platform): It's a pleasure to be here. Thank you for the invitation.

I'll jump right into it. A number of my remarks will complement what the former speaker just mentioned, and clearly the first part about this not being your grandparents' developing world.

With my time I'd like to make three areas of introductory points. I'll push for one group of points that I've made that will be submitted to the committee and that I think the committee could push the government on, to clarify further the thinking on the DFI as it stands. Then I'd really like to focus on the parts about recommendations.
I'm at the Norman Patterson School of International Affairs. I lead the Canadian International Development Platform, which is a data analysis platform focused on Canada's engagement with the developing world. A lot of my presentation will reflect that perspective.

Really, to echo the first point, the landscape of development and development finance is changing quite dramatically. We know that global poverty reduction is a good-news story, and I won't belabour the statistics too much, but even out to the 2030 date of the sustainable development goals target, I believe the hardest mile in development will still be remaining and pending.

I think that for two key reasons. One, global poverty will be increasingly concentrated in the most stubborn pockets, which are the hardest, costliest, and riskiest to reach. Second, we're living in a new normal of low growth and, in the context of poverty reduction, lower responsiveness to the growth of poverty. We can discuss further the factors behind that.

Traditional donors are facing resource constraints from the combined effect of constrained budgets and growing needs. Think of costly or more frequent emergencies, humanitarian crises, the refugee crisis, and broadening agendas. I see a risk here—as I have put it in the brief that will reach you soon—as of asking the leopard to grow stripes.

Essentially, this really echoes what's in Daniel's report. I know a number of the co-authors of that report. As they put it, DFIs are becoming increasingly, in this context, the instrument of choice for any and every development-related challenge. What's happening is there's a risk that they are pushed more and more outside of their comfort zone and pushed to cover a wider and wider mandate, including from NGOs and civil society organizations, CSOs, I would argue, which will push DFIs increasingly to act more like aid agencies than like institutional investors. This is a risk I think we need to keep in mind.

The other introductory point I'd like to make is that DFIs are in the space I call where the puck is going. I'll make some quick points on this. Since the Financing for Development conference in Addis in 2015, there is now a consensus on the need to go from billions to trillions in development finance. Going beyond ODA and core aid is no longer a matter of debate.

Most donors, Canada included, clearly realize this. The real question is how. Now DFI flows already exceed ODA by multiples. We know that. Conservative projections for capital flows to developing countries by 2030 are of the order of $6 trillion. The gaps in development finance, which are in the trillions, seem daunting when we look at them in isolation, but when we put them in the perspective of what I call some of the broken plumbing of the global financial system, it helps us reorient our thinking.

Think about the fact that, as of February and March 2016, about $7 trillion was lying in bond markets globally earning negative yields. You have negative yields and assets lying there. I'm not suggesting that all of this can be intermediated for development, but certainly we could do a better job.

As the previous speaker has already mentioned, DFIs are growing at a rapid pace, 10 times as fast as ODA over the 2002 to 2014 period, whichever way you slice it. But we need to remember where we find investments. They are mostly in lower and upper-middle income countries, and not in what we call the poorest LICs and LDCs, or small-share LICs and LDCs. They are primarily in five sectors: banking and financial services, industrial infrastructure, energy generation and supply. I won't go on with the list. We can go into a Q and A on this.

I think therein lies the space and the relatively limited purpose of DFIs as additional, catalytic, self-sustaining financing in the space between public foreign aid and private investment. DFIs are financial institutions with a development mandate that provides additional and complementary financing distinct from ODA.

There are three areas that I think the committee should push the government to clarify. I don't have time to go into all of this because I want to focus on my recommendations instead, but I'll submit one. In the context of the discussion around the Canadian DFI specifically, there are semantic issues. The way this has been discussed, even the acronym DFI, has been extremely inconsistent. It was DFI, the I being an “initiative”; DFI, the I being an “institution”; and most recently, in the Prime Minister's announcement in Montreal, the I being “institute”. Which is it, and does it portend anything about scale, ambition, remit, or limit? I think that's useful to clarify.

The second point is this notion of $300 million over five years as a capitalization. Are we to understand the capitalization in the normal financial sense, as something the institution can go and lever further, or are we to understand it more as a limitation in terms of what it can do and what it will have over five years? Capitalization, and then that time period of five years, together makes no sense in the standard financial sense. This is another thing that the committee can clarify.

The next point on pushing the government to clarify is around the source and reportable use. The source, the $300 million that is coming into the DFI, is it entirely off-budget? Is it coming from the international assistance envelope, IAE? Is a proportion of it coming from the IAE? This is unclear, and I think this should be made clearer.
Secondly, on the reportable use, is the entire capitalization going to be booked as ODA or not? This is another point that I think is important to clarify because it has an implication for what Canada's ODA numbers will look like, especially going into the G7 next year.

My recommendations are, first, I think Canada and this committee should push for formally placing development additionality and sustainability in the mandate of the DFI. Unless they have a tight mandate and governance, it's been shown that DFIs are prone to drift away from their developmental purpose and more to financial and commercial purposes. This is obvious, and it makes sense for good reasons. Incentives, therefore, need to be formally aligned around development additionality.

Additionality is a concept that many DFIs use, but it's not straightforward. I'd like to offer a very simple way to think about this. That is, the investment thesis at various levels, whether at the portfolio level overall or an individual investment level, should be able to clearly articulate how and why the involvement of the DFI's investment is expected to drive development outcomes and what those development outcomes are. That's a very simplistic, characterized way. I think we could make a contribution in this space by pushing for development additionality to be the core of the mandate.

The second principle is sustainability, by which I mean sustainability in terms of what the DFI invests in but also financial sustainability. Over the medium term a DFI should be self-financing, and it should be able to, from the evidence we have at hand of other DFIs, finance itself through retained earnings, and profits and so forth.

I'd like to quickly move to the next point, that Canada's DFI should be given the space to take risks. The key point here is risk. This fits with the earlier point I made about where global development is, the hardest mile remaining to go. If you believe that, then focusing on the poorest and most vulnerable, in large part, means increasing one's risk tolerance. One of the key criticisms of DFIs is that they don't take enough risks. EDC is good at many things. They have very strong financial capacity and capability, but they are not known as a high-risk-taking institution. This should be kept in mind.

It should be remembered, as the previous speaker said, that while there's a lot of talk about making money while doing good... It's noted often that OPIC, the U.S. DFI, has returned $5.7 billion to the U.S. Treasury since 1971, has not required additional capital, and yet is under threat of closure. DFIs can and do lose money. I provide an example of Sweden's Swedfund. It has a specific target in terms of its benchmark, which for the past couple of years it has missed and has lost money. Development is a risky business. This is a risk-taking institution, and this should be kept in mind if development additionality is to be the core of the Canadian DFI.

I do think that DFIs with a wider slate of instruments and offerings have a better chance of driving development outcomes, so while most DFIs focus on the debt and loan end of the capital structure, only some go and offer equity. Those are the ones driving development outcomes, in my opinion, more seriously. Examples and data are provided in my brief on the CDC Group of the U.K., FMO in the Netherlands, and Norway's Norfund.

The third recommendation is that Canada's DFI will be small, and therefore by definition needs to find a niche.

According to our analysis, it will be about the second- or third-smallest of the bilateral DFIs. I think the Canadian DFI will need to strike a key balance, which is between supply and capital to existing opportunities and investing in longer-term capacity to increase the pipeline of what we call “bankable projects”.

What does it do? With the small corporates, what does it do? One way to think about this is to go where larger pieces of Canada's development financing and development investment are. One example would be the transition to low-carbon growth in developing countries, which is the focus of a lot of the investment of the Trudeau government. It is also an area where Canadian innovation could be brought to market, to globalize in developing countries.

A second area, I would argue, which stems from what I see as a key problem in terms of why investment doesn't go to poor countries, is a lack of local capacity to promote investment and package bankable deals. This points to a powerful sector that Canada's DFI can focus on: building financial sector capacity in developing countries. By focusing on the local financial sector, Canada's DFI could balance both providing capital to existing opportunities and building that longer-term capacity of bankable projects.

Finally, my last recommendation around Canada's DFI is that it has the opportunity to set the standard when it comes to development outcomes measurement and transparency. DFIs, by and large, don't do very well on reporting development outcomes and impacts. This is, in a sense, a function of the renewed interest in DFIs. It's new that they've been called on to talk more about their outcomes and impacts.
Canada's DFI, I believe, should not only track and report progress and indicators at the project level, but should combine project mezzo- and macro-level impacts. Generally, DFIs report outcomes in the form of first-order effects, primarily on employment generation, contribution to government revenues, investment outcomes and financial rates of return, environmental and social outcomes, and catalytic effect in terms of co-investment and crowding-in other players. The Canadian DFI could further go to develop a methodology on development impact measurement that also looks at its contribution to second-order growth in activity and investment and their impact, however indirect, on poverty reduction.

I will leave my remarks there. I've gone a little bit over the time, but I appreciate your patience.

The Chair: Thank you, Mr. Bhushan.

We're going to go right to questions.

We'll start with Mr. Kent, please.

Hon. Peter Kent (Thornhill, CPC): Thank you, Chair.

Thanks to both of you.

For the past almost 50 years, Canada has been a major partner in the Inter-American Development Bank. We contribute about 4% every year. During the economic crisis, I think we temporarily increased callable capital to something north of $4 billion. It has been fairly successful. I think it has a good track record in terms of Canadian private sector engagement, as well as some pure development work in places such as Haiti, after the earthquake.

I'm wondering, both of you, what your advice would be for the relationship between, as you described, Mr. Bhushan, a relatively small, new Canadian DFI, with something as well developed and working effectively in Canada's neighbourhood and the Americas as the Inter-American Development Bank.

Mr. Bhushan, would you like to go first?

Mr. Aniket Bhushan: Sure. I think the Canadian DFI, just as you've said, by virtue of its size—once it's clarified what it actually means in terms of size, scale, and scope—will need to partner not only with the IADB, but with other regional development banks.

I think there are two different things. I think the callable capital thing is a very specific thing, and it's around the financial crisis and responsiveness. I think it's worth looking at what the impact of callable capital is if it's there but never called.

I think we shouldn't take these at face value. I think there's a lot of support there, but if you look at the deal structures of most DFIs, you'll see that they partner with the regional development banks, the IFC, and others, so I entirely foresee that will happen in the case of the Canadian DFI as well.

I think the real question to ask is what the additional delta is, if you will, in terms of the development delta that the Canadian DFI's investment will bring to a project. What is the additional impact? Also, why would you need that as opposed to, say, just putting in more resources through the IADB, the IFC, or elsewhere?

Hon. Peter Kent: Yes, exactly.

Mr. Runde.

The Chair: Mr. Runde, we can't hear you. There is a lot of static. They're trying to fix it.

Hon. Peter Kent: As we wait to reconnect, perhaps I'll just do a follow-up question. You talked about balancing, though not in so many words, the individuality of the decisions made by a DFI, as opposed to the political interest of the sponsoring country. How is that? How should that be balanced? What are the dangers in trying to achieve a balance?

Mr. Aniket Bhushan: If you think about what the instruments are, or the potential go-tos to help with that. If you have a clear and tight mandate, that provides one element of amelioration. If, on top of that, you have a governance structure that enforces that mandate, such that the development component of it is central and not the promotion of, say, the host country's narrow commercial objective, that's another way.

I should note that we did a brief last year—I think some of you have it—on making it happen and getting the details right. One of the key elements of getting the details right is having an independent governance board looking at the deal flow off the DFI in a very tight manner. In the Canadian context, because we are talking about a relatively small number, it's going to be a relatively small number of approvals as well.

The centrality of the board.... Who composes that board? Is it just government, or does it include stakeholders from civil society and so forth? Does it include stakeholders from countries where the DFI may be focusing, for instance? That's one way. The other element is to question, on a deal-by-deal basis, whether this adds an additional component to the development, and to think through the counterfactual. Is this necessary? I don't think many DFIs do this.

Hon. Peter Kent: I'll leave it there for now, Mr. Chair, but if we do reconnect it would be interesting to get a response from Mr. Runde on that first question.

The Chair: We'll work our way through that.

Mr. Fragiskatos, go ahead, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you very much, Mr. Chair.

Thank you for being here today, Mr. Bhushan. I think this is the second time we've had you at the committee. You made a point that DFIs tend to invest in infrastructure and banking and financial services, and there were three other areas. Could you touch on that?
Mr. Aniket Bhushan: In terms of a quick rank ordering, the five main sectors of a DFI portfolio are banking and financial services, industrial infrastructure, energy generation and supply, transportation and storage, and communications, which should be telecom.

● (0920)

Mr. Peter Fragiskatos: Although at first glance those areas might not contribute to poverty alleviation, they do contribute to economic development and growth, and hence poverty can be tackled significantly. Would you agree?

Mr. Aniket Bhushan: Completely.

Mr. Peter Fragiskatos: You spoke about climate change innovation as a potential area for the DFI to focus on. Could you expand on that by touching on the focus of other DFIs? Are other DFIs making that a priority?

Mr. Aniket Bhushan: Yes. For example, regionally in Africa, in many cases DFIs have been what we call first movers into spaces. An example people often refer to is the CDC Group, the U.K.'s DFI. It is one of the largest DFIs in the world and one of the first movers in renewables in Africa.

That has a couple of different effects. The first is in terms of opening and moving into a space, and the second—equally important, I think—is a signalling effect to other investors. Once a DFI is there, it changes the risk profile of what would otherwise be deemed too risky for other investors to be involved in.

Certainly, in terms of renewables and investment consistent with the transition to low-carbon growth, there is plenty of evidence of DFIs being big players in that space.

Mr. Peter Fragiskatos: It would make sense that investing in those areas generates economic growth. Is that correct?

Mr. Aniket Bhushan: Yes. Obviously, it's hard to pinpoint the impact in the short term and at a micro level, but over the long term, yes.

Mr. Peter Fragiskatos: This is where the world is going, and most rational people would agree this should be an area of focus. Some might disagree.

You asked a question, and I'm looking at your note here about how this should all be categorized and whether or not the contributions made by a Canadian DFI should be booked as ODA.

Mr. Aniket Bhushan: Right.

Mr. Peter Fragiskatos: I'm looking at a footnote in your brief here, “Only in specific instances such as grant-based technical assistance and capacity building components should they be reportable as ODA”. You go on to note, however, “there is evidence that developing countries care more about scale, speed and responsiveness of development finance partners and less and less about the modality and level of concessionality.”

Could you expand on that? What I interpret from that is although the financial contribution made by a Canadian DFI might not technically fit under the category of ODA, so you couldn't book it that way, what matters much more is the perspective of those countries that benefit. Those countries that are looking to grow economically might not care at all that it can't be booked as ODA. What they care about is investment.

Could you expand on that? That's how I interpret your point. Is that correct?

Mr. Aniket Bhushan: Your interpretation is correct and spot-on and expands my footnote to a whole paragraph almost. My point there is around the grant portion. I think the previous speaker also mentioned that there ought to maybe be a facility within Global Affairs Canada development that liaises on this specific portion of the DFIs work around the grant-based element. Now, because it is grant based and because it's technical assistance, it qualifies and it will qualify as ODA.

I'd like to take a step back. ODA, as a concept, is not a static concept. We know that over its history, the concept has only gone one way, which is expand, expand, and expand. More things count as ODA today, foreign aid, than they did in the past, so this is happening now as well, specifically as it comes to supporting the private sector using public dollars to leverage private investment. I foresee that in a few years, even as far as the donor part of this conversation, the DAC part of this conversation, it will become a moot point. But you're right that developing countries—there is data and research to show, especially for middle-income countries—care less and less about whether it's ODA or not. I'd argue they really don't care about whether it's called ODA or not.

It's donors looking to show how much they are contributing via ODA that care. Developing countries care about scale. They care about speed and responsiveness and they care about ownership, whether they have a say in directing the investment.

● (0925)

The Chair: Mr. Runde is back on.

Mr. Peter Fragiskatos: My last point is that I think it's very interesting you raise it, because I can see a potential critique coming that if it can't be strictly speaking booked as ODA, how does the DFI contribute to Canada reaching 0.7%?

From the perspective of Burkina Faso or Cameroon or Haiti or Afghanistan and Pakistan, that's really irrelevant. What they're looking for is investment. What they're looking for is to grow their economies. What they're looking for is meaningful partnership, and a DFI can help to facilitate that.
Mr. Aniket Bhushan: Yes, I think that's absolutely right. If you think about the numbers at scale here, this debate has come up before—and I've had to respond to this—the orders of magnitude are really not going to move the needle much in terms of how far Canada goes toward reaching 0.7% or not.

I'd argue that it's far more important to think in a more ambitious and longer-term and more scalable way about what we want to achieve here. Therefore, again back to my point about the mandate, the core, centrality of development additionality in the mandate and financial sustainability, those ought to be the objectives.

Mr. Peter Fragiskatos: I would agree with you, and I think most Canadians would as well.

Have I time for another quick question?

The Chair: No.

Mr. Peter Fragiskatos: Maybe in the next round.

Thank you very much.

The Chair: Thank you.

[Translation]

Mr. Aubin, you have the floor.

Mr. Robert Aubin (Trois-Rivières, NDP): Thank you, Mr. Chair.

My thanks to our guests for joining us. My questions go to our two witnesses. Perhaps we could go in the order of your opening statements.

Although I am not inherently against the idea of a development finance institute (DFI), I have one question. With $300 million over five years, is Canada just giving itself a lovely window onto the world without a real ability to act? I would also like to know what proportion of the annual budget goes to operating costs compared to the amount that goes for support and programming?

Do you want to answer that, Mr. Runde?

[English]

Mr. Daniel Runde: Someone has to translate that.

[Translation]

Mr. Robert Aubin: Go ahead, Mr. Bhushan.

[English]

Mr. Aniket Bhushan: So your question is what proportion of the budget is—

[Translation]

Mr. Robert Aubin: I was asking about the administration and operating costs of this institute, and about the funds that will go directly to programs in the field.

[English]

Mr. Aniket Bhushan: Yes, so overheads, administrative overhead. We don't know from the information that we have at hand. From what we know about DFIs, especially in starting up and standing up an institution, DFIs... Depending upon how they want to invest, if they want to be very arm's-length investors and do what in the financial community anybody with a financial background would know as a “fund of funds” type of investment, they can get away with a smaller need there.

However, if a DFI really wants to be in certain countries, it needs to invest fairly significantly in what we call a ground game. It needs to know who to partner with, what deals are viable, and so forth. It could be a significant issue, if I have the question correctly.

We simply don't know what the proportion for the Canadian DFI ought to be or should be or how it's factored into the $300 million calculation.

[Translation]

Mr. Robert Aubin: Thank you.

That certainly says a lot about the transparency of the DFIs you were talking about earlier.

Here is my other question.

Is the interpretation back up?

[English]

The Chair: Are you getting the translation?

Mr. Daniel Runde: Maybe not.

The Chair: No, sorry, Mr. Aubin. It doesn't seem to be working very well today.

[Translation]

Mr. Robert Aubin: I will keep going with Mr. Bhushan.

From what you know about the DFIs in the major OECD countries, are you able to establish a link between the public funding that comes from the state and the ability of a DFI to attract private investment?

For example, is there a link between the countries that come close to the 0.7% funding, or that reach it, and the ability of a DFI to attract private investment?

In other words, do the two go together in terms of growth, or, in a number of cases, is it a way to reduce the amount of state funding in order to provide work for the private sector?

● (0930)

[English]

Mr. Aniket Bhushan: There's a bit of nuance in that question that I don't want to lose, so even a modest translation would help.

The Chair: You have it translated just below you. Would someone show him where the translator is? That would have been helpful. I can tell we're having a rough day today. It's June, and it's Thursday. Hang in there, gang.

[Translation]

Mr. Robert Aubin: You should be able to hear me in English now, if it is working properly.

[English]

Mr. Aniket Bhushan: Yes.
[Translation]

Mr. Robert Aubin: Let me quickly ask the question again. Is there any parallel between public funding in the OECD countries you have studied and the ability of those countries to interest private investors in funding the DFIs?

[English]

Mr. Aniket Bhushan: I thought I had understood that in French. To be clear, do you mean if there's a parallel between the capacity to attract private investment and provide ODA?

I'm not sure I fully follow whether you're talking about the perspective of the recipient country or the donor country.

[Translation]

Mr. Robert Aubin: No. I am talking about the ability of Canada, for example, to attract private investments to the institute.

[English]

Mr. Aniket Bhushan: Right.

[Translation]

Mr. Robert Aubin: Is there a link between the public funding from Canada and the ability to attract the private sector into becoming part of the institute?

[English]

Mr. Aniket Bhushan: It speaks to the point of clarification that I talked about before, because we don't know entirely the direction in which the Canadian DFI is heading, in terms of the set-up. I provided a table in the annex, of which the first part, “Basics on Bilateral DFIs”, has a column on ownership structure. It shows that a number are public-private, and a number are just public. There is no question of attracting private investors into the core of the DFI's capitalization, or the core of the capital base of the DFI.

But that's not immutable. That is changeable. It could be that the Canadian DFI goes differently. The only thing I can say to this committee and for the work of this committee, is that this should be pushed to the government to clarify. Is the objective here to crowd in, as it were, Canadian private sector investors—Bay Street, if you will? Then one could ask why it's not on Bay Street but in Montreal. That's a separate issue.

Leaving that aside, is that one of the objectives or not? Is it just that it is public finance to crowd in private investment in developing countries, which—in most cases of DFIs—takes place in the form really not of leverage but what we would call co-investment. That is, bringing in other DFIs and other players, and in a modest way bringing in the local private sector and some private capital.

I'm not sure if that satisfactorily answers your question or not. We just don't know if that's even part of the plan of the Canadian DFI.

The Chair: I'm going to go to Mr. Levitt, please.

Mr. Michael Levitt (York Centre, Lib.): Good morning, gentlemen. Sorry, we're having some technical issues here this morning.

Mr. Runde, can you hear me?

Mr. Daniel Runde: Yes.

Mr. Michael Levitt: Fantastic. Maybe we can start with you, because I know you've been sitting there for a little while.

In 2015, a third of DFIs in the developing world went to the BRICS countries: Brazil, Russia, India, China, and South Africa. In contrast, the least developed countries captured only 5% of country DFI. I want to compare this to the OECD figures, which indicate that the percentage of DFI financing going to LDCs between 2008 and 2013 ranged from approximately 11% to 27% in any given year.

Is this a reasonable level of DFI investment in LDCs, or could more be done to encourage investment in the countries where the need and impact may be greatest? What are the obstacles? Should we be setting a dedicated figure—a target figure? Or will the market take care of this?

[0935]

Mr. Daniel Runde: Unless the shareholders of the Canadian DFI push the DFI to go into more difficult places, the temptation will always be to do telecoms deals in Brazil. It's easier to do. If you're the investment officer, one of the things is how you're graded. How do you get promoted? You get promoted by pushing money out the door. It's a volume business.

The new DFI has to grade its investment officers, not just on the money that it pushes out the door, but on specific kinds of projects. IFC, for example, has been pushed hard by its shareholders, including Canada, to do more in places like Haiti and sub-Saharan Africa.

The one thing I wasn't able to mention in my testimony is that I would not be surprised if the DFI comes back to this committee and to Parliament and asks for more than $300 million. If you're going to ask them to go to more difficult places, you're going to have to accept higher risk—probably less than a full market return—and you're probably going to be asked for some additional capital.

I'm not saying you're going to lose all of that money, but they're going to use some of that money either for technical assistance or for additional projects. I think you're going to have to insist, you're going to have to push, and you're not going to see full-on market returns. If you're going to be investing in Mali, it's a very different conversation from investing in Brazil.

Mr. Michael Levitt: Mr. Bhushan.

Mr. Aniket Bhushan: It's a very good question. My thinking is very much in line with the previous speaker's.

As I think I pointed out in my remarks, in terms of the portfolio shares of DFIs, about 75% to 80% are in middle-income, but there's another element here to keep in mind, just for the mathematical sanity of this. In 2000, there were 63 low-income countries. In 2015, that number had fallen to 31. So, what's happening here is also that the base of countries you're talking about is shrinking. We need to be aware of that, especially for the math. What that means is that, even with a smaller amount, an absolute amount, you can actually move the needle quite substantially, especially in highly investment-deficit countries, in highly information-poor contexts.
That said, I would argue that some of the DFIs that are really coming quickly to this realization are moving exactly in this direction. They are being pushed, and they are responding to the push to do more in harder places. A case in point is the CDC Group, the U.K.’s DFI. After years or decades, it recently got its first major large capital increase, but it came with the instruction or emphasis that it needs to do more to focus on the low-income, least developed countries. So, now the CDC Group has decided it will only be focusing on South Asia and sub-Saharan Africa. That's one example.

OPIC, similarly, has a mandate to privilege U.S. investment involvement in its deal-making. Even in the case of OPIC, now there is increasing push. OPIC has responded by moving a greater share of its portfolio in low-income and least developed countries, taking more risk.

The question of risk really needs to be central here. I think it really goes not just for the DFI but for the larger discussion. We know that Minister Bibeau will release the new international assistance policy, and we know one of the tenets of that international assistance policy is that it will be a feminist international assistance policy. I'd like to emphasize that all of these things have an implication for risk. Supporting a feminist approach is not riskless. Let's not mince words about that.

Mr. Michael Levitt: That's fantastic. This is where we're coming into my next question, which was around a pillar of our development strategy.

The old policy—and you're hypothesizing the new as well—has been around supporting women, and supporting women in some of the most vulnerable places. That, obviously, where the DFI is concerned, is something that's important as well, moving forward.

What can we be doing? Is it training women entrepreneurs on the value of using the DFI? How can we be ensuring that this DFI has inherent strategies built in that are going to lead to successes for women entrepreneurs in some of the most high-risk areas, in terms of those who are the investors, and also that it's going to empower and support women on the ground in some of these local projects? What can we be doing to ensure a successful outcome where women are concerned, at both ends of the DFI?

That question is for either one of you.

Mr. Aniket Bhushan: I'll yield to the gentleman. I think I may have a difference of opinion on this.

Mr. Daniel Runde: Thank you. It's certainly an area of focus, but looking at IFC's portfolio, I can't imagine it's an enormous part of the portfolio. It's certainly gotten a lot of attention in the last 10 years. I think we need to operate with our eyes open. While it's something that should get a lot of attention, there are a number of ways in which IFC, for example, has worked on this. For example, it has provided lines of credit and guarantees and training to local banks in developing countries, to identify and to work with small businesses that happen to be owned by women. That's one area.

Another area would be to provide either technical assistance, which is grant-based money, perhaps in conjunction with a loan for women-owned companies that are going to provide services to oil, gas, and mining companies that happen to be Canadian. It could be a way to leverage Canadian mining investment in developing countries. There's a big push for what's called “localization”, under which many governments are asking that the supply chains for extractive activities be run by local firms. There's no reason some of that couldn't be done in support of women-owned businesses.

There's another component that IFC has often done in conjunction with the World Bank Group. This may be something that could be done in conjunction with, say, some of the Canadian research institutions, universities, or think tanks. Analysis has been done on countries that have been shown that if they change specific laws around inheritance or other rules that hold back women's ownership or women's economic activity, they could increase their GNP growth by 1% a year. If you ask countries whether they want to do that, most say they are very interested in doing that. There's an analytics component as well.

There's a TA component, a lending component, and a policy analysis component. Let's just be clear: I understand the sentiment and I share it, but I think we should go in with our eyes open about this. I can't imagine this being 50% of the portfolio in the first five years. Even if they say this is going to be their top priority [Technical difficulty—Editor]

The Chair: We've lost Mr. Runde.

It's one of those days.

Colleagues, we'll wrap up with Mr. Bhushan making comments on Mr. Levitt's question, and then we'll wrap it up from there.

Mr. Bhushan.

Mr. Aniket Bhushan: I'd just echo the points the previous speaker just made.

I think there's a danger. If I may, I think you're falling into that danger of this idea I posited of the risk of asking the leopard to grow stripes. In my mind, the DFI is not going to be in villages, supporting in a very direct way. In no sense is that going to be, as the previous speaker said, a big proportion of its portfolio.

For some of the bigger financial institutions, some of the bigger DFIs, their portfolios, and their footprints, as it were, are so large that if you wanted to show a focus on women and girls, or if you wanted to show a focus on climate, or if you wanted to show a focus on agriculture and climate, it would be pretty easy to show that. IFC is an example. I'm not saying that there isn't a substantive focus there—there is—but it's also scale that's at question here, in terms of how much and what you're going to do.

Really, again, I'll push back with the element of risk. There is this danger of pushing DFIs to act more like aid agencies than like institutional investors. We should try to remember or at least keep in mind, when we're thinking about mandate, what we are aiming for here. Are we aiming for another aid agency, and if so, why? Or are we aiming for what DFIs really do? They catalyze private finance, which is a limited-use case, if you will.
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Really, there are points I made about supporting local capacity, specifically in the financial sector, building the financial sector capacity, even something like building land titling and so forth so that you have better tenure systems. Those are a prerequisite to having a property market that is stable, and that's a prerequisite to having a mortgage market, which is a prerequisite to having future investment in real estate investment trusts. These things don't exist in most of the developing world, so we have to think in a long-term, big-picture sense. We have to pick areas in which that gestation is long and broad rather than giving in to the temptation that, just because we're calling one thing “feminist” we should try to show the direct one-to-one linkage that every investment is feminist.

We need to remember that with the macro impact of DFIs, there's a potential to move the needle in terms of driving investment, driving productivity, and driving growth over the long term. That ought to be the focus, rather than looking to just celebrate projects.

The Chair: Thank you, Mr. Bhushan.

Mr. Runde, are you back on?

Mr. Daniel Runde: Yes, I am. I apologize profusely for the technical issues.

I want to second what the gentleman just said. I think that a DFI is not another aid agency, so there are limitations to what it can do. There are strengths, and it can do other things that a traditional aid agency cannot. I think of the example of the Commonwealth Development Corporation in the U.K., that has gone through a major rethink in the last five years, in addition to getting this additional capital the gentleman referenced before. There is an understanding that it has a different function than, say, DFID, which is the bilateral aid agency of the United Kingdom.

The Chair: Thank you, Mr. Bhushan.

Colleagues, we'll have to wrap it up there today.

I want to thank Mr. Bhushan and Mr. Runde, and as well, apologize for the frustration of the technical aspects, including the translation, which is supposed to work.

We'll wrap it up today. We do have both of your briefs. They weren't handed out simply because they're not in both languages, so we're going to translate them and submit them to members of the committee.

Mr. Runde, I think we are going to try to see if we can get you back. We'd like to have this conversation in a much more robust way since you were basically sidelined through the whole process, and that was not much use to us. We think we could learn a lot having this conversation. I'm going to attempt to see if I can get you back here in the next little while, probably not until the fall, so that will give us lots of time to fix our technical problems.

Mr. Daniel Runde: I'll come to Ottawa.

The Chair: All right, we'd love to have you. We always like to have you in Ottawa, so I appreciate that very much.

Colleagues, we'll take a break and we'll go to our next witnesses.

Thank you very much, Mr. Bhushan and Mr. Runde.

The Chair: Thank you, Mr. Bhushan.

Mr. Daniel Runde: Yes, I am. I apologize profusely for the technical issues.

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The Chair: All right, we'd love to have you. We always like to have you in Ottawa, so I appreciate that very much.

Colleagues, we'll take a break and we'll go to our next witnesses.

Thank you very much, Mr. Bhushan and Mr. Runde.
I just want to start with a very basic story that I think is important to help position the context in which a DFI really exists. I've been working across east, west, and southern Africa for the past 12 years. I essentially have the opportunity to speak to these issues in an informed way by virtue of having interacted with hundreds of entrepreneurs across the African continent, and having seen firsthand a lot of the challenges that people face in building sustainable and inclusive markets. I've heard from a number of people who have been working on that continent for a long time that the scale and the barriers to entry to do business in developing countries are so much more than an issue of capital. While we are obviously having a conversation around development finance, I also just want to say that the capital side of how we address these challenges is only one part of that. The issues of human capital and of understanding how to deploy capital in a way that is risk-adjusted to the kinds of needs and contexts in which we find ourselves operating in developing countries are as important as the availability of capital itself.

A story that I've heard and shared with many people before is that it took Coca-Cola, one of the largest and most efficient companies in the world, over 12 years to break even in its operations in sub-Saharan Africa selling a sugary and slightly addictive beverage in a context where the company has global experience with its value chains and distribution. So, when you think about trying to have impact through business development in ways that address the needs of the poorest and most vulnerable people, I think that can really help situate the challenge, and the scale of the challenge, of doing that. It's very hard to be an entrepreneur anywhere in the world. I know some of you on the committee have experience as entrepreneurs, and if you don't, you know entrepreneurs very well. Many entrepreneurs in Canada fail. Just to sort of add to the degree of challenge, it's far more difficult, in terms of the environment and the operating context, for entrepreneurs in developing countries to succeed.

● (0955)

It's very important to bear that consideration in mind in terms of the expectations we have for a DFI in this context and the kind of patience that Canada and other countries that have already established DFIs need to be able to demonstrate in order to be useful. Part of what I want to say from a design perspective, in terms of setting the mandate of this DFI, is simply that we have the opportunity to make a series of decisions around how and where we want to situate ourselves in the continuum of existing development finance institutions and to bring to bear some of the lessons and experiences others have had by virtue of being in operation for many years.

I think when the Prime Minister and Minister Bibeau made comments a few weeks ago in Montreal, when they announced that the institution would be set up in Montreal, they said a number of really critical things. I would like to highlight a couple: first, focus on addressing the needs of the world's poorest and most vulnerable, which is very important to say specifically; and second, do so by leveraging the expertise and potential of small and medium-sized enterprises, particularly those led by women and youth. All of those statements we really strongly support and believe in. We think a development finance institution can and should be innovating and taking on the kind of risk that allows us to be additive and useful and building markets in ways that address those specific needs.

I think it's also important to name that this is exceedingly hard to do. While it might seem innocuous to talk about a focus on the world's poorest and most vulnerable, the truth is that a lot of DFIs end up placing their capital in business opportunities that by design are not aimed, I would say, at addressing the needs of those particular distinct target populations. That's not to discredit them. Markets need to be built in diverse ways across the world, and that is something that DFIs should continue to do. It's only to say that as Canada has said very clearly in their own language, that they want to have a focus on those hardest-to-reach populations, then in doing so we need to take on a different kind of design approach in how we think about how our DFI will actually be able to do that in an operational way.

I'll just share a few recommendations that are quite specifically drawn out in view of that language around the world's poorest and most vulnerable. We know that nine out of 10 jobs in the developing world are provided by the private sector, and yet at the same time the access to long-term financing for many small business owners is an exceedingly difficult issue. SMEs themselves represent just about 66% of full-time employment in developing countries. Employment, in this case creating jobs, is crucial if you think about the fact that by 2050, I think, there will be over a billion young people on the continent of Africa alone. The importance of being able to provide good and viable job opportunities for people to contribute to society is something that all of us have a very significant interest in ensuring happens in as expedient a way as possible.

At the same time, obviously Canada has taken an approach, in many ways through its foreign policy, to affirm the importance of women and girls in all things that this country does, knowing that women and girls face distinct and terrible disadvantages in terms of their opportunity to engage in a productive life, and particularly so in the economy. Some of my recommendations are very specific to how Canada can essentially put that into action.

First, I want to talk about the importance of a portfolio approach where we're balancing out risk across that portfolio, knowing that some of our investments will be designed to see very a specific return, while others will accept a different return expectation by virtue of having a development goal associated with it that needs to be attempted and pursued in a more patient way.

● (1000)

Thus the first recommendation I would make is to dedicate 15% of the development finance institution's portfolio to providing patient capital to very-early-stage, higher-risk small and medium-sized enterprises and those that are specifically focused on creating targeted and tailored market solutions for the poorest and most vulnerable people living in low-income countries.
Canada can really distinguish itself by intentionally pursuing a risk-adjusted, below-market return in order to support companies that can catalyse new markets for the poorest and most vulnerable. Many DFIs end up making deals in low-income countries. Canada can go beyond that by trying to actually provide some of its DFI capital to business solutions that are tailored to meet the needs of those who are presently underserved or fully under-represented in the market today.

That is a harder thing to do. That's why I recommend that only 15% of the portfolio go towards those really high-risk investments, because in seeing this as a broader portfolio, it's important to take on those risks, but also not to have Canada's full scope of its institutional mandate be saddled with that kind of risk.

The second thing I want to suggest is making loan guarantees available for women-owned SMEs. As Minister Bibeau and Prime Minister Trudeau discussed, wanting to have a focus on women-led businesses is also still going to put an extra degree of challenge on Canada's plate concerning the way we do it, because systematically, women entrepreneurs in developing countries the world over face many more challenges and are discriminated against in that pursuit.

Women have lower non-performing loan rates—they simply default less than men—and yet they're viewed by financial institutions as a far riskier bet to receive financial investment. Existing multilateral and bilateral development finance institutions already use loan guarantee facilities targeted at women as a way to decrease the risk perception that continues to be hung around the necks of women the world over on the part of banks, and consequently do so in a way that encourages lending to those kinds of entrepreneurs. This is a very effective and well-substantiated way for a development finance institution to do something that commercial financial institutions and markets will otherwise not do. In view of our strong focus on women entrepreneurs, we think this is a very effective way for Canada to make a dent in that kind of issue.

The last recommendation I would offer really hearkens back to something I said off the top, which is that the challenges experienced by small and medium-sized entrepreneurs today are so much more than the availability of capital. If Canada's DFI wants to take a comprehensive approach, technical assistance and the whole suite of business support services that need to be made available to entrepreneurs are of great importance.

We therefore encourage Canada to have a technical assistance facility that can be extended into the kinds of investments and partnerships with financial institutions that our own country will try to pursue. At the same time, it should also provide technical assistance directly to entrepreneurs, and particularly to women entrepreneurs, so that the investment we make in those people vis-à-vis our DFI is more secure and we know that we will be able to support them through the growing pains and challenges of building a business. Many case studies indicate how critical it is to follow on investment with technical assistance, but I'm happy to speak to that issue in questions that you might have after my comments.

With that, I'll wrap up and just again say thank you for giving me the opportunity to be here.

* (1005)

**The Chair**: Thank you, Mr. Haga.

Mr. Liver, please.

Mr. Rod Liver (Vice-President, Cowater International, As an Individual): Mr. Chairman, honourable members, I also want to thank you for the opportunity to come here and speak on this topic that I have long held an interest in. In the last 20 years, I've spent a lot of time both in development finance and in export finance. I was 16 years at EDC and now going on two years at Cowater International.

I want to preface my remarks by saying that the views I'm going to express here today are my own. They don't necessarily reflect the views of my current employer or my past one, but I'll get into it. Bear with me, I have prepared remarks. I thought about what I wanted to say; I'll go through it, and it's timed to about eight minutes.

I'll start with some working assumptions about the DFI and I'll lead into what I would call “danger areas”, what I think the DFI should not aspire to be. I'll explain why, and then I'll move to what I think the DFI should aspire to be and achieve, and what that means for its mandate, its governance, and its strategy. I'll do this through talking through real examples of peer institutions, what I have observed during my time in this area.

I'm starting with assumptions and dangers.

The new DFI will aim to be self-sustaining, i.e., it will need to cover its operational costs and fund its investments and lending through paid-in capital and provisions for losses. Its management and presumably its board of directors will be responsible and accountable for executing its mandate and responsible stewardship of financial results. This means its risk appetite, its scope of operations, and its strategy will necessarily be circumscribed to a certain extent. In other words, it will not able to do all things to all people. It will need to pick areas of operations, both geographic and sectoral, and will need to define its box of deals and structural solutions.

While this is simply reality and not necessarily a problem, it could lead the institution down a path that we don't necessarily want. What do we want? I would argue, first, we want this development finance institution to be additional, so that means it won't do what private sector financial institutions already do, and second, put developmental impact at the very centre of how it measures results.

You may think these goals are self-evident, but we need to fully consider the implications of being self-sustaining: it will certainly face pressure to minimize excess risk and moreover to find projects and deals that minimize the operational burden of originating and leading complex financing transactions, and instead possibly follow the lead of others and follow the market. This is a possible scenario.
We know that DFIs worldwide can compete for the best deals. Everybody wants to be associated with successful projects and companies and, just as in the private sector banking world, DFIs have been known to trip over each other for the best assets.

Again, not to be overly critical and certainly lots of good models are out there for DFIs, I would suggest that kind of behaviour of trying to seek the chosen assets is behaviour we don't want, and by definition that's not really additional.

For the DFI to effectively balance its self-sustaining and developmental priorities, it needs to achieve the right balance through an appropriate governance framework and clear strategic guidance and priorities. These goals can and should be balanced, and the institution—and this is the previous speaker—will then be forced to innovate to find strong, developmentally impactful and additional deals that on a portfolio basis—again coming back to the previous speaker—are not loss-making. That's to frame the risk-balance discussion.

We'll talk about mandate and governance.

My first recommendation is therefore that the DFI be required to demonstrate clear additionality and development impact for every transaction. There are established methodologies in the development world on how to measure development impact, and I suggest the DFI look to learn about them and incorporate them into its own metrics.

For example, GAC has many experts, as we do at Cowater, in designing robust performance measurement frameworks that are fundamental to results-based management. In our projects we must commit to achieving very specific development results in the development world, right down to the number of people receiving a certain type of training, or a certain number of enterprises reaching new markets with their products. Why should the DFI not look to use similar practices, adapted of course for the more commercial sphere in which it operates?

This goes to my second recommendation, that the DFI build a robust results-management framework based upon best private sector practices in the sphere of international development.

I will talk a little bit about strategy. I would hope to see GAC develop a capacity to approach its interactions with the DFI strategically and to play a well-defined part in developing the DFI's priorities. This is easier said than done. At a high level and strategically, the DFI should fit into the tool box of policy instruments available to the Government of Canada as it works to support developing economies worldwide, with the ultimate aim of reducing poverty, inequality, and spurring economic growth and livelihoods.

Conceptually and temporally, the DFI fits at a later stage in a country's economic development than traditional development programs, as in the earlier example of CDC versus DFID.

The main idea is that sustainable enterprises exist. They have the capability to pay back their loans and investors but for various reasons, including underdeveloped local financial markets, they cannot access the capital to grow and carry out their business plans. So how does a DFI relate to traditional development programs? GAC should identify one or two programs, desks, or divisions, focus on economic growth in developing countries, and look to hand off beneficiaries for scaling up by the new DFI, which, in my mind, is the third recommendation. It's really about getting organized and making sure that, if we talk about a coherent development policy where you have early-stage interventions and later-stage interventions, the mechanism exists for that to happen.

Let's look at an example. In our projects worldwide, in Cowater, we work with different donor agencies, and for that reason, we're in a relatively privileged position of seeing various project designs, some good, some bad. I'll pick a good one. DFID, the U.K. Department for International Development, has been a leader in what are called market systems approaches to development. They invest in helping countries, enterprises, and subnational governments address market barriers systematically in least developed countries, and they set the stage for financial sustainability from those interventions.

They are doing this, for example, in renewable energy. They have many large programs helping African countries invest in climate-mitigating technologies and build sustainable business models in the energy sphere. From these programs come candidates for development financing. You could have, for example, a small solar farm operator who has recurring cash flow and proven expertise and wants to replicate her business model across many other projects. Although assisted by DFID, she is without access to capital or is facing high capital costs, effectively hobbling her growth.

These are the kinds of ways GAC and the DFI can work together by taking a long-term coordinated approach, investing in basic enterprise development, and by ensuring that the DFI looks at suitable candidates for scale-up and growth when they are ready.

My fourth recommendation is that the DFI should focus on sectors and geographies where SMEs are viable and have the potential to scale up in a financially sustainable way. Examples include the renewable energy sector, the water sector, and small infrastructure. Incidentally, I do not believe the DFI should consider larger infrastructure projects. These should be the province of private capital and are unlikely to be candidates for capacity building for SMEs or for the micro-level enterprises that are so important to economic development in developing countries.
I'll talk a little bit about instruments and mechanisms. Successful development finance institutions combine their financial instruments with grant-based technical assistance, TA, which is fundamental to providing the capacity the beneficiary needs. For example, in the former Soviet Union, the IFC was quite successful investing in small regional banks and bringing the risk management of those banks to international standards, which was also a risk mitigant to the IFC in their underlying investments and lending. In order for the bank to steer clear of systemic risks and counterparty risks, they needed the risk management practices to do so at the bank.

Donor funding, enough to pay for an embedded team of advisers for a few years, associated with another investment, is the key to accomplishing this and is the reason the IFC was able to achieve relevant and real developmental impact.

The Canadian private sector would be extremely well positioned to provide this kind of TA and to help bring world-class Canadian expertise to developing countries.

My final recommendation is therefore that the DFI set up a mechanism to work with the Canadian private sector to identify pipeline projects with strong developmental impact in the success of which Canadian expertise can play an instrumental role.

Thank you for listening to my remarks. I'm happy to take any questions.

The Chair: Thank you very much, Mr. Lever.

We're going straight to questions.

Mr. Kmiec, please go ahead.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

I want to go immediately to talking about risk taking, because with the previous two witnesses, I didn't get a chance to ask them questions about it. Both of you touched upon it, and it's pretty much critical to how this is rolled out, because we are talking about hundreds of millions of dollars of taxpayer money being put aside.

Some witnesses in the past have talked about the portfolio, and how you shouldn't look at individual projects but look at it as a portfolio. In a portfolio you have a spectrum, and I've been looking at some of the different funds. I have the Swedish fund here on my iPad and I can see some of the projects they have been financing. In a portfolio if you try to manage your risk, as has been talked about—allowing the DFI to reinvest the money that it earns off the equity debt and put the financial support it gives out back into itself—that creates a spectrum. If we're going after those LDCs and high-risk programs that have a very high impact for the poorest, that means the portfolio manager will have to go after something like a luxury hotel with a very high return. So how do you balance the two? I have looked at these Swedish projects here and they have luxury hotels in Africa that they've helped get off the ground. Maybe Sierra Leone needs another one; I don't know. On the other end, they have also financed programs that seem to be hitting exactly the poorest of the poor who need the help. How do you balance the two? That is my first question.

What is the acceptable loss percentage, in your view, in year one, year three, and year five for the DFI if things don't go well?

There are also two parts to the risk. There is some talk about accepting below-market returns, and so there are two sides to it. The DFI could lose money on a project it invested in. It could reach all the goals but still lose money off it. Is that acceptable? Or if it invests in a project and earns below market returns, there is also that part of the loss it experiences.

Can I hear both of you expand on both of those?

Mr. Haga, you can go first.

Mr. James Haga: Great. They are all important questions.

In terms of that balancing out of some of the pieces you were speaking about, obviously it depends on what the mandate is and how precisely that gets defined and set. Some DFIs are purpose-built to be more aggressive in pursuit of financial returns than others are, so Canada could choose to take an approach whereby we are seeking to continue to generate strong financial returns, or you could see—I would actually say that it would be quite okay for us to get to the point where we have a return of capital as opposed to a return on capital.

I say that because if you think about the deal flow of businesses that are currently available, so many people who are operating as investors, whether they are funds or otherwise—in at least the countries across sub-Saharan Africa where I have experience—often talk about an issue of deal flow and pipeline and how there aren't nearly enough strong businesses in which to invest, so in order to play a role that is truly unlocking and catalytic, Canada can choose to build markets by helping to de-risk some of those early-stage enterprises that can then go on to be potentially profitable, and then scale and provide solutions that have a meaningful impact on people's lives.

I think the question of balance really matters for how we set and define this mandate. My personal view is that at least in the first number of years it's perfectly okay to pursue just the return of the capital that we put out over time, but this is going to take multiple years. We talk about seeing to it that Canada actually has returns generated from some of the investments it is making. I think we are looking at 10 or 15 years out, as opposed to thinking about year one, year two, or year three. That kind of patient model is paramount, and particularly so in view of the fact that Canada has already set out certain determining factors like a focus on the world's poorest and most vulnerable and a focus on investing in SMEs that are women- and youth-led. Those are harder.
It is great that we’ve done that. It is particularly additional and unique for what Canada’s DFI can do in comparison to what a lot of our other international comparisons are doing present day, but it does mean we’re going to have to be more patient in how we see the expectation of return and on what time frame.

• (1020)

Mr. Rod Lever: Thanks for the question. I think it’s a really good one and is at the core of what we need to figure out.

You talked about the portfolio approach. First of all, I agree with James that the portfolio goal should be long term. If we start to worry and become wound up about the loss percentage in year one or year three, that will adversely affect decision-making and might introduce some self-imposed goals that aren’t realistic concerning what the institution can accomplish.

That being said, I think overall that the concept that you look to balance off good risks with the more difficult risks is the way to go. I don’t know whether the percentage is 15% or what it is, but there needs to be a concerted effort to take risk capital, which is almost like a pool within the institution, and target it. There should be almost not a quota but a target attached to it saying, “You will deploy this into the higher risk segments of your mandate.” There should be accountability around it to say how this is done, making sure that it’s going to the poorest and most vulnerable and making sure that core elements of the strategy, for example, women and girls, are accomplished in an effective way.

Concerning your question about where the lower-risk assets should be, the example of luxury hotels.... Obviously, I don’t know whether that’s what you want to do. I think that in principle the idea of cross-subsidizing the portfolio by doing lower-risk things—for example, co-investing in funds that have a track record, that accomplish solid things, and where we can be relatively certain that the losses will be contained—should be part of the model. This almost clarifies my opening remark, which was that I’m not against doing lower-risk activities, but the portfolio has to be balanced.

• (1025)

Mr. Tom Kmiec: Can I ask, then—?

The Chair: No, I’m sorry, Tom.

Mr. McKay, please.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you to you both.

It’s good to see you again, James.

This is an interesting debate about what this bank wants to be when it grows up and whether it’s a bank or an aid agency. I think it’s quite instructive to hear what you have to say. I recollect these kinds of conversations with respect to the Business Development Bank and with respect to Farm Credit. When the losses start to mount up, there’s a pullback and a re-profiling of what risk is acceptable.

Let me ask you a series of specific questions to get your reaction.

Would you perceive this institution as an agency to lend to, say, an entity such as the Grameen Bank?

Mr. James Haga: The Grameen Bank is a micro-finance institution. There are obviously very many micro-finance institutions around the world, some of them better than others. Yes, I think DFIs absolutely can have lending to MFIs as part of their portfolio. I think this is well within reason, and it is one strategy to make capital available to institutions, which are then in a position to distribute and make on-lending to smaller business owners—

Hon. John McKay: Would you put this in your 15%, James, or would you leave it as an 85% part?

Mr. James Haga: I wouldn’t put it in the 15%, no, unless it’s in very specific adherence to what that MFI is then going to do by way of on-lending through the capital made available through Canada’s DFI.

Hon. John McKay: Mr. Lever.

Mr. Rod Lever: No, I don’t think it should be in the higher risk part of its mandate. I think that micro-finance access to finance is critical for development. That’s important, but I also think it just goes back to the strategy and the focus: let’s decide first where this institution fits and what gaps it wants to address, and let’s make sure that it’s not doing what everybody else is doing. If a financial institution in Bangladesh or India is adequately served with capital, this might not be the priority; there might be other areas it could go after.

Hon. John McKay: Obviously, it has to need capital. I mean, you wouldn’t interfere if it doesn’t.

Mr. Rod Lever: Everybody needs capital, though, isn't that right?

Hon. John McKay: By and large, they accomplish a lot of the government’s stated goals, particularly with respect to women and microenterprises.

I just want a gut reaction, if you will, as to whether that’s an appropriate investment. What’s interesting, in James’ response, is that he doesn’t see that as a risk investment; he sees that as part of the portfolio.

My second question, then, is, would you take on a Chinese partner?

Mr. Rod Lever: You do your KYC, figure out who the shareholders are. It’s really difficult to be categorical on that. But you raise a red flag.

Hon. John McKay: Exactly.

If you’re going to be operating in Africa, you have to come to some accommodation with the Chinese. They are, arguably, the primary players in Africa.

James, what's your reaction to a Chinese partner?
Mr. James Haga: I don't want to give you a non-answer here, but I think what's important is that, for any DFI, there need to be clear guidelines and standards for how any investment is made and what the impacts of those particular investments are from a social, environmental, and financial perspective.

Insofar as you're trying to crowd in a host of other partners and investors, I wouldn't discriminate against any particular group, so long as they're able to pass our diligence process and demonstrate that they are, indeed, a well-appointed partner for investment in a particular case.

I realize that may sound like a non-answer, but I think it's, perhaps, too specific a question to answer in one fell swoop.

Hon. John McKay: But in principle, you wouldn't rule it out.

Mr. James Haga: In principle, I wouldn't rule it out.

Hon. John McKay: In terms of trying to build on Canadian expertise... Canadians are well known for their energy expertise, financial institutions, agrifood, resources, etc. The danger there, if you will, is using the institution as a risk-taker for the areas of expertise. For example, a mining company wants to be in country X, knows that this is a high-risk investment, and goes to the bank and says, "I got turned down by EDC on their criteria, but in this bank, they have an appetite for risk."

What's your reaction to that kind of potential investment?

Mr. Rod Lever: I think there are ways to structurally guard against being a lender of last resort or being, for example, deeply subordinated in a capital structure. You make sure that mining investor X has skin in the game, that you're co-sharing the risk, that it's just not a dumb investment.

The concept that mining companies have bona fide... and are contributing to economic growth in, for example, sub-Saharan Africa... I hope we can agree that a lot of good can be done in that area. Just because it's a mining company, just because it's high risk, I don't think the answer should be no.

Hon. John McKay: James.

Mr. James Haga: The example you're raising, to me, sounds like a flagrant misuse of the intention of the DFI. That's not to say mining companies are bad. That's not my point. It's simply that the intention of this is not to be a quick and easy way for corporates to access financing that they otherwise wouldn't be able to access, and treat it as corporate welfare. Nobody wins in that situation, and particularly not in the context of what the DFI was built and established to do, which is, first, to have a development impact. I would say that's not a good and foreseeable investment.

Hon. John McKay: Thank you.

The Chair: Mr. Aubin, s'il vous plaît.

[Translation]

Mr. Robert Aubin: Thank you, Mr. Chair.

My thanks to the witnesses for joining us. If ever there is a problem and you lose the interpretation, do not hesitate to let me know.

My first question goes to the two witnesses. For us, the DFI project is in its infancy. Even before the institute sees the light of day, I wonder, given the positions you hold, whether you have an opinion on, or even any discomfort with, the fact that the organization is going to report to the Minister of International Trade rather than to the Minister of International Development.

[English]

Mr. James Haga: I apologize. My French is okay, but not the best, and I'm not getting translation, but I think I understand the question.

I'm not uncomfortable with that by design. I think that a DFI is first and foremost a financial institution with a development mandate, so it is important that structurally this be something that is adherent to it and ultimately accountable to the appropriate ministry in that case.

I think, having said that, it is paramount that the DFI... It's such an exciting opportunity right now in setting the mandate that development principles be established very clearly in the guidance and governance of this institution and that the development side be represented well, not only by the Minister of International Development and Global Affairs Canada, which will have a very significant role in helping to support and guide elements of this institution in my view, but outside expertise as well. That's something I want to reaffirm.

Our organization has spoken about this in the past, and from what I understand, it's part of the plan to have an independent board of directors that oversees and essentially green-lights or red-lights each of the investment opportunities. On that board we need to have a range of skills and expertise and very much so have a development perspective reflected.

I don't think the fact that it's going to not be accountable directly to the development minister is a problem. I think if you look to institutions like the CDC in the U.K., the world's oldest DFI, they have a very close and intimate relationship with DFID. By design, the government of the U.K. sees the two as part of its tool kit towards accomplishing its development priorities and aims.

I think Canada should take that same type of enlightened approach where we're not trading these things off against one another but instead seeing the potential to operate with a fuller strategy in view of the fact that we're now engaging a range of different assets and opportunities to contribute to market development and human development goals in countries where they are vitally needed.

[1035]

[Translation]

Mr. Robert Aubin: Thank you.

Go ahead, Mr. Lever.

Mr. Rod Lever: I will answer in English.

[English]

Mr. Robert Aubin: No problem.
Mr. Rod Lever: Not only do I not think it's a problem that the accountability is to the development minister, but as in my remarks, I think that more should be done in terms of developing a mechanism to integrate strategy. To the point on an innovative tool kit, for me, it only makes sense because we have this continuum of instruments.

We have what we call early-stage interventions in development that can lead to outcomes that the DFI can look at. I think the development department's strategy should seek to integrate where the DFI should play. Then more than that, what is the mechanism for engaging with, call it the private-sector arm of GAC?

I think there are a lot of good things that can be done with GAC and the DFI with development.

[Translation]

Mr. Robert Aubin: Thank you very much.

I have a second question. A number of witnesses have told us about the priority given to Canada's strategic interests. It seems to me that, when we take that approach, we perhaps end up somewhat dismantling the work that we are doing, compared to the approach where countries are targeted, or better yet, compared to one of the sustainable development goals, SDGs, where the stipulation is that priority must go to local needs, not to the investing countries.

Does that cause a problem for you?

What do you think, Mr. Haga?

[English]

Mr. James Haga: Sorry. I apologize. I didn't get translation there, and I would ask if Rod wants to take the question first and I could follow on and interpret from his answer.

Mr. Robert Aubin: Okay.

Mr. Rod Lever: The question, James, is around doing work in terms of targeted countries' approaches and to the SDGs. I'll just start.

I understand your question to mean that—and tell me if this is accurate—because the DFI is doing things that are commercial and not in the same vein as more traditional development, this could distort some of our efforts in development? Is that the question?

[Translation]

Mr. Robert Aubin: Yes.

[English]

Mr. Rod Lever: No, I don't think so. The reason is that, as I see it, the private sector is the most important catalyst for and the most important way to unlock employment growth and livelihoods creation anywhere, and the DFI is a means to be able to really build the private sector in developing countries. If we all agree that's important, then we need the appropriate instruments to be able to scale up the private sector and fill gaps that existing financial sector players do not, at the current time.

Also you can definitely vector the DFI onto the SDGs. For example, with the SDG around access to energy—I think that's number seven, but I may be wrong—how are you going to approach access to energy and making sure that...? Energy is important because it's a building block for economic development, for industrial development, etc., and as I sort of talked about in my remarks, these are capital-intensive projects and you're not going to be able to tackle that with traditional development. You need to bring in, you need to crowd in the private sector, and the DFI should try to do that.

The Chair: Thank you.

I'm going to go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning, gentlemen. It doesn't seem I have that much time, so I'm going to ask you both this very specifically. We know what success looks like because we know that in Britain they haven't gone back to the public purse in 15 years. We know that for every dollar OPIC invests, $8 comes back. We know of the successes in the Netherlands and Spain. As a general question, because I think we exhausted some of the other questions—I had a whole bunch of other questions but limited time—what do you think should be two or three points that we should make sure we include, because we don't want to reinvent the wheel at this point when we've seen so many successes with other countries? What best practices can we learn to make sure we include those best practices in our own DFI?

Mr. James Haga: I think I'll use this as an opportunity to reaffirm some of the things I was recommending in my initial remarks because at least two of the three of them are based on best practices. I think that in view of the target population that Canada is aiming to have an impact on, namely the poorest and most vulnerable, that thinking about the availability of loan guarantees as a way to de-risk access to capital and investment for women entrepreneurs is a widely regarded strategy and approach to helping to make our DFI successful and truly catalytic in pursuing its mission and mandate.

I think it's important that Canada also leverage the expertise that has been hard-earned by other DFIs, and also then choose to apply itself in ways that address some of the institutional gaps that are currently left. In view of that, that's part of the reason we're also encouraging that a smaller segment of the portfolio go toward a higher-risk type of SME investment. We know that the opportunity for building markets that address the needs of people who are left out of the system today is a harder task and one that requires more patience. A lot of DFIs have not taken on the hard challenge of doing that, and Canada can distinguish itself among the group internationally by attempting that.

I want to give a very specific example of how that translates and what that looks like. There is an entrepreneur in southern Africa whom I know very well who runs a business called Zoono. It is now southern Africa's largest mobile money provider. They transact over a billion dollars a year through mobile-based lending that essentially makes capital available to people who don't have bank accounts, or access to finance. This is a significantly impactful business model.
The IFC, as a multilateral development institution, has led a series B investment round of $15 million into Zoona. This is the kind of business that a DFI should be looking toward making an investment in, not only because it's now at a point where it's scaling operations across large regions and having a very strong impact and performing strongly from a commercial perspective, but the ability to provide employment opportunities and access to goods and services that are otherwise not available to the poorest people is built into the design of the business.

Zoona didn't jump to the point where it could then access $15 million in investment from a DFI. It needed seven or eight years of higher-risk investment from a range of other institutional partners, and that's part of why I underscore that recommendation around 15% toward higher-risk investment. You can't expect these businesses, against the odds and all the constraints they face in operating in environments that are higher risk by nature, to simply jump to that point of being operationally and commercially viable. To me, that example provides both a prospect for how a Canadian DFI could invest in a later-stage business and also how they could choose to put in risk capital at the earlier stages as well.

**Mr. Rod Lever:** I think there's a bit of a risk in trying to replicate other models. We're going to have our own approach. If we're going to sit back and design this thing, we'll say to ourselves that we want to enable it to do this high-risk business and to stay focused on three or four sectors. How are you going to get there? That's the question, and that's where I think partnering with the likes of an IFC or others that have had some experience doing a Zoona-like investment is an opportunity to learn, but not to go down the path to start doing what everybody else is doing. That would be a danger. You know your strategy, where you want to go, which is to carve out this space for yourselves in sectors A, B, and C. We don't necessarily have the tools and expertise in-house right now to get the experience. Therefore, co-investing with others is not a means unto itself—that's super important—but a means to an end.

**Mr. Raj Saini:** Let me just pick up on that point for one second. We have models that have been successful in the past. You're asking us to differentiate from those models.

**Mr. Rod Lever:** Yes.

**Mr. Raj Saini:** Part of the issue is that we're trying to fill a gap between the public and the private sector. How would you see that differentiation from other models that have been successful?

**Mr. Rod Lever:** We can talk about a whole bunch of different examples there. I do the energy sector. That's where I focus most of my time, so I'll just use that as an example.

There are lots of DFIs working in energy. They're investing into renewables projects and they're taking some risk. There are also development agencies doing targeted approaches, but the market is huge. The niches that may present themselves to us, and which could be interesting, could be around women-led renewables projects. No one is touching that.

I guess my answer to your question is that this sort of issue of learning from others... they're not mutually exclusive at all. Yes, we want to adopt best practice, but we can totally do that and it shouldn't be seen as a danger to try to do it.

**The Chair:** Colleagues, I apologize, but we'll have to wrap it up. I want to thank Mr. Lever and Mr. Haga for their presentations. It is always a short period of time, but we're already over time.

Next week, we're going to hear directly from some of the players who have had DFIs for some time, so we'll get to quiz them a little about their experiences. The U.K. will be in front of us, hopefully Germany, and maybe the U.S.

With that in mind, have a good weekend and we'll see you on Tuesday.

The meeting is adjourned.