



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Foreign Affairs and International Development

FAAE • NUMBER 067 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Tuesday, June 13, 2017

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Chair

The Honourable Robert Nault

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• (0905)

[English]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, we'll now begin our discussions, pursuant to Standing Order 108(2), on Canada's development finance initiative.

Before us this morning is Diana Noble, executive officer, CDC Investment Works. From the Overseas Development Institute, we have Simon Maxwell, senior research associate; and Paddy Carter, senior research fellow.

Welcome to our witnesses from the U.K.

As is customary, the committee will give witnesses an opportunity to make a short presentation and then we'll get right into Qs and As.

I want to turn it over to Diana Noble. Diana, do you want to start your presentation?

Mrs. Diana Noble (Chief Executive Officer, CDC Investment Works): Let me start with a small clarification. You read out our organization as CDC Investment Works. It's actually just CDC. "Investment Works" is the tag line of the organization. We're the U.K.'s development finance institution. CDC have been investing across emerging and difficult countries since 1948. That's the background.

The background for me is that I was hired in November 2011 to undertake a pretty large transformation of CDC, which is, I would say, half done. It's a work in progress, but my testimony will be very much based on my experience over the last six years.

In many ways I feel a great affinity with an institution starting this journey, because in 2011, there was so much new that we wanted to do that was different.

I'm going to divide my comments into six themes that cut across questions one, four, five, and six. I'm not going to answer things that are particularly relevant for the Canadian context. You will have many witnesses who do that much better than I do.

Theme one is my advice to the committee that you shouldn't be too prescriptive at this stage about your strategy until you have your CEO and maybe even some of your key senior executive positions filled.

Relating it to my case, I accepted some of the direction I was given, but a lot of the pre-thinking I was given wasn't right and needed a fairly significant reboot. My view is that the ultimate success of the institution is as much down to the calibre of the people

you are able to attract as to the precise strategy and mandate they are given. My advice is to leave some flexibility for them to set the strategy they think they can execute. I obviously understand the need for strategic clarity now, but I suggest it might be false precision. That's theme one.

Theme two is—and I'm sure I'm talking to the converted here—that a dual mandate is inherently hard. When you have the objective of both achieving financial return and impact, that creates a state of what we call at CDC perpetual paranoia, of oversteering one way or the other. You only have to look at the history of CDC to see that there were times in CDC's history when it achieved impact at the expense of financial return and was criticized, or it achieved financial return at the expense of impact and was criticized. Trying to steer in the middle of the road is really hard.

How do you do it? I think there are a couple of elements that are incredibly important.

The first thing is to make sure that you have commercial DNA at the heart of the skills of your organization. We're really lucky, because we sit in the city of London, and therefore there are a lot of people we can hire from. I would also say that a Canadian DFI has an inherent advantage because you have such great commercial investing institutions that you can draw people from: CPPIB, the Ontario teachers, the Caisse de dépôt. These are really high-quality investment organizations.

My feeling is that you shouldn't compromise here. Your aim at its core is to build a high-quality investment organization, with everything that is implicated in that statement. If you do that, you actually will achieve impact.

Then, on the impact side you need to be clear about what you're trying to achieve. Impact, as I'm sure my good friends at ODI will tell you, is a very broad church and can be turned, if you're not careful, into a long shopping list of things you might want to achieve. Unless you have a strategic focus, your team will be able to justify any investment, because any investment in a hard place achieves some impact. You need to be clear about what you're going to say yes to and what you're going to say no to, and of course what you're going to measure.

Also within this, recognizing that this is a hard mandate, you shouldn't make that mandate too hard. Yes, there aren't enough start-ups run by women in rural Africa, but it's not an executable strategy. Remembering that unless businesses are successful, no impact happens is incredibly important. Pushing into white unoccupied spaces sounds great in principle because they're white, but they're also white because other people think they're too hard. That's theme two.

Theme three, going back to people, is pay really matters. Pay your team too much and it becomes toxic. Pay your team too little and you won't hire the commercial skills you need. That is a very delicate balancing act. You need to see who can manage that balancing act and attract the right people. They need to attract people who are extremely high calibre. They need to be top-notch commercial ambassadors because, frankly, this is the hardest kind of investing you can do. They have to have commercial judgment, but they also need to be happy to discount themselves relative to what they can earn in the market because of the inspiration and interest of the mission. These people do exist—we think we've proven this—but they don't exist in great numbers. You have to find them and then set a culture where these people will stay. A revolving door will undermine your mission. That's theme three.

Theme four is be realistic with your minimum return hurdle. You're going to need to set for the team what financial hurdle you need to meet. Commercial global returns—and you'll hear this from all your pension funds—are really low, as we all know, at the moment. Obviously, a DFI needs to be below that. And look long term. We take a 10-year rolling measure because there's so much volatility short term. You will want to be holding your investments, because patient capital is at the core of a DFI for many years.

Theme five is the same theme, be really patient. We think in decades, not in years, and therefore stakeholders of the DFI need to have the expectation that results, both in terms of financial return and impact, are going to take a long time to come through. To lose patience halfway through, say after five years, would be disastrous.

The last theme is linked to that, which is the governance structure you put in place must give political cover. Nothing undermines the achievement of the mission more than lurches in policy. Look at sovereign wealth funds. They embed this into their governance to stop, frankly, politicians with a short-term agenda changing the long-term policy of their sovereign wealth fund. There needs to be a framework for consistency over the long term. That doesn't mean to say there doesn't need to be immense scrutiny, of course, but also scrutiny from people who understand high-quality investment organizations.

I'll stop there.

● (0910)

The Chair: Thank you, Ms. Noble.

Either Mr. Maxwell or Mr. Carter, you guys get to pick.

Mr. Simon Maxwell (Senior Research Associate, Overseas Development Institute, As an Individual): Thank you for having us, first of all.

ODI is very pleased to be here. I am Simon Maxwell. I am formerly lots of things, including director of this institute and, until

the election, specialist adviser to a counterpart committee of yours in the British Parliament, the House of Commons international development select committee.

We are really excited about the opportunities this DFI presents for Canada.

ODI has a lot of work on two things which are relevant. The first is what the developing countries want in terms of finance, a program called "The age of choice", which demonstrates that they are not put off by having multiple offers from different people and that clearly there is a need for capital in developing countries. Another is the future development agencies program, which is also relevant to this, because the question we always ask development agencies is why they are doing what they are doing, and what their comparative advantage is in doing it.

It would be very easy not to have a DFI for Canada. I sometimes think that having a DFI is a kind of virtue-signalling operation by countries, a bit like a computer game where you have to collect a sword, an invisibility cloak, and the elixir of life—and we'll throw in a DFI at the same time. Form has to follow function.

It's been very interesting to read the mandate letter that was sent to Minister Freeland by your Prime Minister when she was appointed, and then to read the new development strategy. It is clear that all the virtues we associate with Canada—your commitment to multilateralism and a rules-based international order, and the huge depth of development expertise you have in Global Affairs Canada but also in IDRC and in the research and NGO communities in Canada—provide you with the basis for having a unique and distinctive voice in the world. That is reflected in the new development strategy: the themes of gender, human dignity, growth, environment, governance, and peace.

If you have that kind of mission, then it is really helpful to have the opportunity of a development finance institute that complements the bilateral program. Being mission-driven, in other words, is really important in thinking about the role of this new institution, even with a relatively small amount of money, \$350 million Canadian, and with some constraints around what it can do, because it doesn't look as though it is going to offer very much in the way of concessional finance. However, that combination of loans, loan guarantees, and equity gives you the opportunity to pursue the objectives.

A question we have asked ourselves, and I'm sure you as a committee will ask, is why not just give all the money to the other multilateral institutions. Why not give it especially to the International Finance Corporation of the World Bank, which provides very similar kinds of services? The answer has to be that by using this money you can leverage additional money from your own aid budget and leverage the Canadian private sector.

I think we are on the verge of a new industrial revolution, driven by climate action, by automation, and by the response we have to the crisis of globalization, all of which are going to need a complete rethinking of the way the world economy works, and great investments. The new DFI in Canada helps to leverage Canada's assets in that sphere, and that can only be a good thing. I have more to say about some of the detail, which I'll save for later.

You'll surely know that the U.K. government has made a huge new commitment to Diana Noble's organization, raising its lending ceiling to £6 billion, with the possibility of going even further to £12 billion, therefore on a very different scale from Canada's. It has done that because our development strategy in the U.K. has overlapping priorities with yours but puts growth and jobs absolutely at the centre.

If you read the new aid strategy from the end of 2015 and then through to the bilateral development review that was published at the end of last year, you will see that the British government is really keen on growth and jobs, and therefore the investment in CDC is designed to support that.

Having a clear narrative about why you need this DFI is part of the contribution your committee can make to the future debate in Canada.

Paddy, go ahead.

● (0915)

Mr. Paddy Carter (Senior Research Fellow, Overseas Development Institute, As an Individual): Hello. My name is Paddy Carter. I am a senior research fellow here at ODI where I have worked on DFIs. Previously, I was an academic economist.

I'm going to hop around the questions that you've posed to try to identify some areas that haven't already been so ably covered by Simon and Diana. I'm going to start with your orientation around women and young entrepreneurs, and also with the reality of the budget that you have set. To me, those things say that you are likely to be looking at a business model that is based on intermediaries, that is based on providing a line of credit for onlending to a local organization, perhaps an NGO or a commercial entity, which is then going to, for example, lend money to small farmers or something like that.

I think one of the innovations that Diana brought to the CDC was the reorientation of the CDC around direct investments. A question that you have to ask yourselves is whether, within the budget you've set for yourselves, it makes sense to also try to have a direct investment line of business as well.

You may find yourself being asked why, because there's already a lot of money being put into DFIs. The CDC's budget envelope is increasing. There's the new World Bank private sector window. At

the same time, one often hears about there being a lack of bankable projects. There's always the question that maybe this market is getting close to saturation. Maybe there aren't any projects that have everything you want: that they're additional, that they are things that the private sector would not do by themselves, that they also fit your development mandate. Maybe the world doesn't have enough of them.

However, if you're going to focus more on the SME side of things, then those worries needn't necessarily concern you so much. If you look around the world, there are a lot of very successful examples of small funds targeting SMEs in particular localities. They may all be looking for money to expand in the new territories. The world certainly isn't saturated with organizations lending to small farmers, for instance. So, you could very well start by asking your team to look around the world and identify some successful funds in other models that you would wish to support the expansion of.

Something else that DFIs will often say is that they decide whether or not to put money into something, but they do not create investment opportunities. This maybe echoes something that Diana said. If you instruct your DFI to go out and support businesses that are either female-led or female empowering in some other sense, maybe there are only so many of those. There's a finite number of those opportunities out there, and if you just focus on those, in practice what that can mean is that you don't do other things. It doesn't mean that you do more of those because there aren't any more of those.

That raises the possibility of collaboration and co-operation with other parts of the Canadian development architecture, which is one of the themes of your questions. That suggests maybe there could be scope for other parts of Global Affairs Canada to work on increasing the supply on the female entrepreneur side of the problem, and then have the DFI seen as the source of money to finance those entrepreneurs as they are created.

I want to say a quick word about transparency. Because you are starting afresh, you have an opportunity to lead the world in terms of the transparency of the DFI's operations. All the other DFIs in the world are moving rapidly in this direction anyway, but you can start out ahead. That means it should be possible for Canadian citizens to look at where you have invested; to understand the rationale for that investment; if there are questions to be asked about the tax arrangements of those investments, to be able to see what the taxation arrangements are; and also to be able to see beneficial ownership. This is a tricky one because there are, potentially, sometimes reasons why a DFI is not in a position to insist that all the owners of an investment are public information. Nonetheless, you can find ways of pushing this frontier forward. You could maybe experiment with insisting on beneficial ownership information as a requirement for your investments.

● (0920)

The last thing I want to mention before we move on to Qs and As is the Canadian comparative advantage. The evidence shows that the vast majority of businesses in fragile and conflict-inflicted states are run by a returning diaspora. Of course, every country has a comparative advantage in that it has connections with the diaspora communities within its own borders. That is something you could look to exploit.

I'll stop there.

The Chair: Thank you, Mr. Carter, Mr. Maxwell, and Madam Noble.

We're going to go right to Qs and As, and we're going to start with Mr. Allison.

Mr. Dean Allison (Niagara West, CPC): Thank you, and my thanks to our witnesses for being here today.

Ms. Noble, I'll start with you. You talked about the mandate changing a couple of times over the last little while. Talk to us about the thought process. I appreciate the short-term gain versus the long-term gain, that kind of thing. As a new DFI starting up, mandate is very important.

Talk to us about the capitalization. I mean, \$300 million is really not a whole lot. You guys have been doing this for a lot longer. Is it something we should be looking to the markets for, whether it's bonds or debt, whatever the case is? Should we be looking at raising more capital? Obviously, more capital will have more impact. I've also referred to Mr. Maxwell's comment about giving this money to more multilaterals so that you lessen the impact you have.

As I said \$300 million Canadian is not a whole lot over five or six years. Ultimately, if we want more impact, we're going to have to look at ways of going out and raising more money and figuring out, just as you guys have, ways to have that impact. Do you have any comments on that for us?

● (0925)

Mrs. Diana Noble: For an investing organization, it's always made up of what I always call the holy trinity of deals—that's addressable market, whatever strategy you choose—people, and money to support it. They have to be consistent. You have a choice. The more money you want to give it, the more ambitious the people you hire, and the larger you set the addressable market, the more you can do.

It's probably wise to start reasonably cautiously and see how it goes. For a new team, it's quite daunting to have investment pressure, if I can put it that way. No one in a high-quality investment organization wants to sit around their investment committee table and feel that they have to do something because they don't have a strong enough pipeline and enough choices. You want to have all those things in balance.

Very simply, the more capital over time you give it, the more you can do, and the more impact you can have.

Mr. Dean Allison: Could you talk a bit about your experience in the U.K. and how mandate changes have evolved?

Mrs. Diana Noble: I'll try to make it short because it's a long story.

CDC started in 1948, had a lot of impact and achieved a great reputation for being pioneering, particularly in Africa. If you go around Africa today, you see plantations, financial institutions, and cement factories that simply wouldn't exist without CDC. Roll the clock forward, though, and by the end of the 1990s, it had become a pretty big and not very commercial organization. It was making very long investments, plantations and things like that.

Tony Blair and his team looked at it and said that surely they could improve the commerciality of the organization and suggested they PPP it. They wanted to bring in commercial capital alongside government capital. Their timing was terrible. It was just after the Asia crisis, and all commercial capital looked at CDC and said that the balance sheet was far too scary for them and were put off by the idea of investing alongside government.

Because they brought in a very commercial team to run that process, that team wasn't happy with the status quo and came up with plan B, which was to split CDC into two. They basically split us along private equity norms. They created a new investment organization called Actis, which took virtually all of the people and did all the direct investments from then on. What was left was a very small lump of people with their mandate staying within public ownership of providing capital to funds, including Actis. Aureos had also started within CDC. During the period 2004 to 2011, all that CDC did was seed the private equity market across emerging markets.

Lots of good was done, even though over time that model became unpopular, because it was felt by politicians in time that wasn't developmental enough, because you're giving your capital to third parties who were making the investment decision on your behalf. Therefore, it's unlikely, given that those fund managers were also raising capital from third party commercial funds, they're going to be doing the hardest things.

In 2011, I was brought in and asked to continue the funds business—because it's a great business, and it's very developmental—but to start investing directly again from scratch when CDC had lost its direct connection with the market. That was the big part of the mandate.

The other thing I was asked to do was to shrink the geographies—no more China, no more Latin America, no more Southeast Asia—and to really focus it on the poorest parts of the world. There was a big change in mandate. At the core of it, the government felt that CDC could achieve much more impact. That's really what we've been trying to do for the last five years.

Mr. Dean Allison: Thank you.

The Chair: Thank you, Mr. Allison.

We'll go to Mr. Sidhu, please.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you, Mr. Chair.

Thank you, all three of you, for your remarks this morning.

Ms. Noble touched on the focus on the poor countries. Witnesses last week came in front of the committee and spoke about the DFI mostly operating in low-income to middle-income countries rather than the poorest countries. I'd like to hear if you agree with this notion and how DFI could improve its approach to encourage the private sector to invest more into more vulnerable countries.

Anyone can respond.

• (0930)

Mr. Simon Maxwell: If I may, Mr. Sidhu, first of all on CDC, it's just worth googling CDC, and I'm sure Diana won't mind my saying this, just to see how controversial the kinds of decisions she's been talking about can be, and why it is so important to have the political cover that she talked about.

CDC was very much criticized for a number of reasons. The level of remuneration to the fund managers was one issue, but there was also exactly this issue that you've put your finger on, which is where is the money going? There have been periods in the past where CDC money has gone disproportionately to not the poorest countries—let's call them that—including India and China, and when it's also been used for investments that don't look as though they're tremendously poverty reducing. There has been a big debate in the U.K. about whether investing in shopping malls in West Africa—in Nigeria, I think—counts as a poverty-reducing investment or not, though a key lesson from that experience is that you need a crystal clear investment strategy that is consistent with the overall mandate of the new feminist development policy in Canada, and that will shape both the geography and the sectoral content of the program.

Now, Paddy made a really important point. With the amount of money you have available, you're not going to be a retailer, or it's very unlikely you're going to be a retailer, or if you are a retailer, you will be a kind of large NGO in a Canadian context.

What DFIs bring to the table in a multi-donor and multi-actor context is a kind of virtue signalling to other potential investors. The fact that the new DFI has given its seal of approval to a program means that it's okay for other investors to come in. Where that is particularly useful is in the poorest countries and in fragile states, because that's where many private investors find it hard to get information and where the risks look, at least, as though they are much higher. Having the imprimatur of the DFI means that it looks plausible that other people will come in, in some form of either co-partnership or blended finance.

In order to perform that role, you need to know the markets and you need to know the political and social environments in which you are working. I think one of the most important jobs that DFIs do is, through their due diligence work, make sure that projects are up to scratch and that intermediaries are up to scratch. That's really hard, and one of the things you are going to need in your new DFI is a group of people who can carry out that kind of analysis.

My final advice would be to not open yourself up to the criticism that you have a new DFI and that all it is doing is investing in

casinos and shopping malls in relatively wealthy countries. That's not why Canada wants to have this institution, so you need to write the investment strategy in such a way that you make sure the money and the effort and the intelligence go where you want them to.

Mr. Jati Sidhu: Mr. Carter, do you want to add something to that?

Mr. Paddy Carter: No, I won't on that. We'll hear from Diana on that question, if that's all right.

Mr. Jati Sidhu: Okay.

Mrs. Diana Noble: If I may, I would add a couple of things on the hardest countries. In a way that's almost been CDC's specialist subject over the last six years. Actually, we now have a portfolio that has significantly more weighting to the hardest countries than any other DFI does. We've done that pretty much from a standing start six years ago.

It is hard, though. First, there aren't many immediately investable opportunities in these countries. Let's take, as an example, Ethiopia, actually, which isn't the hardest, by any means, of the countries that we invest in. In the U.K. there are 10,000 businesses with revenues of more than \$50 million. In Ethiopia, I think it's seven, so you can't get off a plane and say, "What established, relatively safe businesses can I grow here?" The other thing is that you get off a plane and these are really difficult environments. You need to build up networks of trust and a reputation that the right people will come to you as well, and this takes a long time. It's very easy in these countries to make a misstep, and once you're stuck you don't have legal redress in most of these countries either. It takes time.

In lots of ways it's easier to work with established businesses to encourage them to start businesses in these hard places than it is to try to build what is already there. We've been pretty successful with that as well.

I'll stop there. It's doable, but it takes a lot of effort. A lot of the things we invest in take a year or two years from when we first see them, when they're totally uninvestable, to the point of saying that we've now shaped it well enough that we can put our money behind this.

• (0935)

Mr. Jati Sidhu: Previous witnesses also expressed concern that DFIs are being treated more as aid agencies than institutional investors. I'd like to hear your thoughts on that sentiment by previous witnesses. Do you also see that as a concern?

Mrs. Diana Noble: I think it was actually a comment I made earlier. My feeling is that the owners and the stakeholders of a DFI should be thinking about it as a high-quality investment organization. This is a problem of language, because if you have an aid agency essentially as the owner, they talk a different language to a high-quality investment organization. Aid agencies and investing organizations work so very differently in terms of generating opportunities and making selections, the controls that you have to actually achieve impacts. These are all completely different.

Certainly, I would say, sitting as a CEO of a DFI, it really helps to have your governance people really empathize with and understand the investment world.

The Chair: Thank you.

Mr. Paddy Carter: Perhaps I may add a few words on that. I'd like to talk about the issue of whether you recognize what the DFI does as official development assistance. Now, the rules on that are not finalized yet. Understandably, there can be a political imperative to try to announce or report as much ODA as you can so you get as close to the 0.7% target as you can, which is something that everyone wants to do, but that can create problems.

In the U.K., they have chosen to report all the money they put into CDC as aid at the moment they put it in, 100% of the face value. That's an option open to you as well. What that means, though, in the U.K. is that every pound that goes into CDC at that moment in time is a pound that isn't going into the traditional aid budget of DFID, because we have this fixed 0.7% cap on how much we spend. That changes the attitude of the rest of the development community towards the development finance institution because they really see that money going into that place means money not going into some other place.

There's no need for things to be that way. I don't know the details of how the Canadian national accounts work and what the politically salient numbers are that people look at, but in the U.K., money into CDC is counted as non-fiscal expenditure. It doesn't add to the national debt because there's an asset that offsets the borrowing that you might have undertaken to fund it.

In principle, the amount of money that you choose to put into your DFI, there's no reason that has to have any effect on the amount of money you choose to put into any other of Canada's development activities. Just be careful, maybe, about implicitly creating that link by whatever decision you take about whether you score it as aid. There are arguments that it would be easier for you if you did not try to count everything you put into your DFI as aid, but I understand that's a given.

● (0940)

Mr. Simon Maxwell: But don't stand for any nonsense—

The Chair: Excuse me. Thank you.

Colleagues, can people on the other end hear us when we're talking?

A voice: Yes.

The Chair: We're going to go to the next member of Parliament. We're trying to keep this to a particular time. Mr. Sidhu used up the time for both him and his colleagues.

Some hon. members: Oh, oh!

The Chair: I'm going to go to *monsieur Aubin, s'il vous plaît*.

[*Translation*]

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

I'd like to thank our witnesses for being here this morning.

Since I come from the French-speaking part of the country, my questions will be in French. If you experience a problem with the interpretation, don't hesitate to raise your hand.

My first question is for you, Ms. Noble, but Mr. Maxwell and Mr. Carter, please feel free to comment as well.

As part of a previous study, we looked at Canada's approach to international aid based on target countries. The United Kingdom was often cited as a model for having deliberately chosen to meet the 0.7% target for foreign aid spending. Does that in any way affect your institute's capacity to generate revenue or attract executives?

In your opening statement, Ms. Noble, you talked about the challenge of recruiting high-calibre executives who will accept to work for less money. Does the U.K.'s leadership in international aid make it easier to recruit people and fund-raise?

[*English*]

Mrs. Diana Noble: I think there are two questions you've asked there. One is whether the U.K. being a leader in aid helps in funding us, and the other is whether it helps us in attracting the right people.

Of course the two questions are linked. The fact that the U.K. does have a large ODA budget is clearly a driver behind the amount of capital the U.K. government wants to give to CDC. The only question is what proportion of that ODA budget they want to put into private sector development and how much they want to put into aid. Sitting here, we feel that the two are totally complementary. In no way would I ever say that investing in private sector development is a replacement for, or better than, pure grant making. They're both needed.

In terms of attracting high-quality people, yes, of course, people can see a growing organization. If they can see an organization that has real political support and real support from a shareholder for the direction we're going in, then high-quality people are much more likely to make that big decision to move from the private sector to work for CDC and really make their careers here.

I do think the two are complementary and consistent.

[*Translation*]

Mr. Robert Aubin: Thank you.

Would you like to add anything, Mr. Maxwell or Mr. Carter?

[English]

Mr. Simon Maxwell: I would like to say very briefly that one of the things that happens as you get going with a DFI is that you start to generate your own funds. For many years CDC was able to self-finance quite a lot of new investments because it was receiving payback on loans or was selling off equity. It has now received another big injection, which enables it to grow faster.

I also want to say, please don't stand for any nonsense that this is not a development organization, because it is. The new DFI needs to be subservient to the overall development imperative of Canadian assistance.

[Translation]

Mr. Robert Aubin: My second question has to do with direct investments and not funds.

When a development finance institute like yours, or others you know, decides to invest directly in companies, does it adhere to a code of ethics that would prevent it from supporting companies based in tax havens?

[English]

Mrs. Diana Noble: We use tax havens only when we invest indirectly through funds as a pooling mechanism, because investors come from different places and need a tax-neutral place to pool their capital. We invest, directly or indirectly, with a very strong code of responsible investing, as we call it. It doesn't just cover taxes. It covers a whole swath, including health and safety, the environment, land rights, and so on. It's incredibly important. It's at the core of what a DFI should do. It should provide not just capital to the capital-starved private sector in poor countries, but also standards and expertise to help businesses adhere to the right kinds of standards.

• (0945)

[Translation]

Mr. Robert Aubin: Mr. Maxwell and Mr. Carter, would you care to answer?

[English]

Mr. Paddy Carter: There's a distinction to be made. Do you have tax havens in the structure between the investors and the underlying business that you are invested in? Then, separately, is the underlying business a multinational enterprise that is using tax havens in its operations?

Some of the European DFIs I have spoken to are starting to take a more proactive stance toward the behaviour of the underlying businesses and whether they're using tax havens to shift profits. This means you have to invest in somebody with tax expertise who is capable of looking at a tax structure and deciding that they don't like it even though it's legal. That's quite a grey area. Not every DFI does it. I'm aware of the fact that one or two European DFIs have now taken it upon themselves to go beyond this. "Is it legal?" isn't good enough for them. That's something you could think about asking your DFI to do also.

[Translation]

The Chair: Thank you, Mr. Aubin.

[English]

Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Thank you very much for coming here.

Mr. Carter, I'm going to start off with you, because I read a report that you had written back in October, and you gave two very clear distinctions of DFIs. You spoke about the CDC, and the work it did in Sierra Leone, working with Standard Chartered Bank and trying to make sure that the SMEs affected by the Ebola outbreak in Sierra Leone were financed and that growth was recovered. You talked about OPIC, the Overseas Private Investment Corporation, which is the American DFI, and about their national security interest in the Republic of Georgia in 2008, where they stabilized the residential and commercial market.

You have two distinct and separate usages of the DFIs. When we're looking at our strategic focus, how should we align our national security and humanitarian interests? What should take precedence? What parameters should we look at? If you could provide some general comments, I'd be interested.

Mr. Paddy Carter: I'm afraid I have to start by confessing that the sections of the paper that you read must have been written by my co-authors. I wasn't responsible for those myself.

Rightly so, there's an awful lot of people asking what role DFIs can play to stabilize situations where you have large refugee populations and sources of instability. Other than giving a generic answer along the lines that one of the things you could ask your DFI to do would be to look for opportunities to create businesses in those sorts of situations, I'm not sure any more tighter alignment than that is necessary.

I infer from your question that the United States felt that it had a particular strategic interest in Georgia. If Canada feels that it has a particular strategic interest in particular territories, the DFI could be asked to look for opportunities in those territories in particular. However, you have to recall that, again, DFIs cannot create investable opportunities.

I have heard other DFIs complaining about the fact that they are asked to do something about refugee crises or an instability and they find that there's not a lot they can do. I even had one DFI tell me that they are sometimes put under pressure to make up a story that they've done something useful when they really haven't. That's just a word of caution about what you can expect from a DFI in those situations.

• (0950)

Mr. Raj Saini: Mr. Maxwell.

Mr. Simon Maxwell: That sounds entirely plausible to me.

Mr. Raj Saini: Okay.

The second point I want to raise is that with DFIs you have an opportunity at the project model level to determine what the outcome is in terms of jobs, investment, and the social climate, but there seems to be a problem in assessing how they contribute to the overall aid system around the world, especially in terms of charting a path forward towards the sustainable development goals of 2030. Is there some better way we can measure to make sure that the project aligns with a more global focus?

Mr. Paddy Carter: You've put your finger on a tremendously hard question, because elsewhere in the development world everybody is quite rightly expected to be rigorous about the impact they're having, but elsewhere they're doing things where they're trying to achieve quite a well-defined effect on quite a well-defined group of people. An example might be if you open a health clinic in a region that hasn't had a health clinic before, and you should expect to be able measure improvement in the health outcomes of the people in that area. Investment is very different from that. It's very rare that you have a well-defined group of people in whom you would expect to be able to measure a benefit, because economies are integrated. If you open a new restaurant in Toronto, you could set off a chain of events that sees somebody in Ottawa getting a job they wouldn't have got before.

In a simple economic model, which isn't realistic but might not be a bad place to start, adding one extra piece of investment to an economy raises wages across the entire economy by a small amount. That's an extremely hard thing for anybody who has the job of measuring the contribution of DFIs towards the sustainable development goals to put a number on. I don't think anybody sensible can doubt that the accumulation of investment is what takes a poor country from being unproductive and poor to being wealthy and productive. We know that the only way to go from poor to not poor is by accumulating investments, so I think you can have confidence that a DFI is contributing towards a sustainable development goal, but you are left with this difficult problem of how to measure and articulate that contribution.

At the moment, the DFIs all use something called the—and I've written down the acronym. They have agreed to a bunch of indicators to get a harmonized set of indicators, which I imagine would be sensible for the Canadian DFI to adopt. However, this is a very live discussion with all the DFIs at the moment, to try to find ways of capturing how they contribute to the transformation of the economies they invest in.

Mr. Raj Saini: I have one final question, and this is for Ms. Noble.

When we look at the CDC, as you mentioned, there were two points. One was where there was investing in a “fund of funds” model, where the rate of return was very high, and the focus changed and the rate dropped very low. I think your goal generally is around 7% to 8% in terms of what investment return you're looking for. Am I correct?

I'm basically asking whether you have a defined rate of return, some ballpark figure you look at. It won't always be accurate but, generally speaking, do you look at a ballpark figure? That's just to give us an idea, when we're investing in certain places, what numbers we should be looking at.

Mrs. Diana Noble: We have a minimum hurdle and that's tied to our long-term remuneration scheme, so we don't want to flirt with it too much. If people don't get paid, they won't stay.

The minimum that we want to deliver over a 10-year horizon is 3.5%, but we definitely want to be above that, so probably in the 5% to 7% range. With these things, it's really hard, and I would counsel this, to be precise.

We looked at our historic returns, deal by deal, and of course the distribution is all over the map. It's as much driven by your failure rate, so how many actually lose all their money, as it is by how you're structuring each deal and what you're looking for from each deal.

Mr. Raj Saini: Thank you.

The Chair: Thank you, Mr. Saini.

Mr. McKay.

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

Thank you to all of you for very clear advice. It's very good.

The law of unintended consequences prevails in all matters, and the government has emphasized, rightly in my judgment, its feminist views.

Mr. Carter, you talked about, if you will, some finite ability or finite concept there, as to it only taking you down the road so far. I wonder if you could expand on your thoughts in that respect.

• (0955)

Mr. Paddy Carter: I think a difficulty here is whether we are thinking in terms of quite large deals which a DFI might invest in directly. In that case, in any given country, at any given time, you may be able to count those opportunities on the fingers of one hand. Or, are we thinking more about microenterprises, businesses with a handful of employees that are looking to expand? In the microenterprise case, it is easier to believe there are regions of the world where there is an undersupply of finance and there are small, investable opportunities, or an intermediary of some sort, and it doesn't have to be a bank or a private equity fund.

If you look out there, there is a remarkable range of business models, sort of quasi-charitable, with commercial elements that target SMEs. Those are potentially organizations which DFI could support. There it is plausible to think that if we just supply more money, there will be female-led enterprises which are looking for money, and we can say to that fund that we want the fund to target them. They will be able to find people to give their money to, and that will work out fine.

It's more as you go up into the larger propositions...and there are a finite number of them out there. The way that one DFI described it to me is that as soon as their shareholders started giving them targets —“we want you to be doing this sort of deal”—they started subtracting ones that they don't do. They don't add extra ones that they can do.

Hon. John McKay: An unfair summary of it is that if you want to do larger deals, the feminist issue may have to go to the side for the time being, and if you want to do micro deals, it's a lot easier to achieve feminist goals. Is that a fair summary?

Mr. Paddy Carter: I think it's probably fair, on the assumption that you're already doing everything you can to invest in women-led deals at the large scale when the opportunities present themselves.

Hon. John McKay: You made a second comment about the returning diaspora which I didn't quite understand, just at the end of your comment. We have enormous diaspora communities in our country, which are a huge benefit to us. What did you mean by "returning diaspora"?

Mr. Paddy Carter: I was looking at a piece of research that went into countries such as South Sudan, Somalia, and Sierra Leone. They approached all the businesses they could find and asked them where they got their money from, and whom they employ. One of the facts that popped out is that a very large percentage of them were run by people who had come back from the United States, the United Kingdom, France, or Canada. They had come back to their home country and set up a business.

From my understanding of the DFI model, that would be something for a DFI to interact directly with. Maybe there are other parts of the development landscape, such as NGO partners that the DFI could work with, to tap that potential of people who have been in Canada, see an opportunity to go back and set up a business, and need some money to do it. That's just one of the advantages that you have. You have this large community to exploit.

Hon. John McKay: Thank you for that. That's an interesting observation. I represent a riding that has pretty well every group of people known to mankind in it. I take that as good advice.

My final question is for Ms. Noble.

You talked about political interference or political cover. All politicians have short-term agendas. I'm not quite sure what the British short-term agenda is, given your political situation these days, but how is it that structurally your organization is inoculated against the imperatives of short-term and possibly even confusing agendas?

• (1000)

Mrs. Diana Noble: It's two things. It's the governance structure, but it's also investment in relationships. Let me take the second first.

No governance structure will protect you if you don't get out there and explain what you're doing and why you're doing it to all the people who matter. A great example of this was that the bill supporting the new capital for CDC received, quite rightly, a great deal of attention in the last year. It was only because we knew a lot of people; we had explained what we were doing, and a lot of people got it and liked it that we got through that period intact. In an institution like this, there's no point trying to make friends when you're already on the back foot. Investment in relationships, frankly, on both sides, really matters.

The governance structure obviously helps too. Certainly over the last 20 or 30 years, CDC has had a very similar governance structure. Although we have one shareholder—the British government—they devolve responsibility to an independent board. They don't have

anyone sitting on the board, and they also don't have anyone sitting on the investment committee, so they have no involvement in investment decisions. The board consider themselves responsible and fully accountable for the execution, and for ensuring that the executive team, myself included, fulfill our mandate and execute our strategy as well as possible.

It's really for the board to provide that extra buffer, if I can put it that way, between what the executive need in terms of continuity to keep going, and to have those conversations with government and politicians who might have short-term agendas. They can explain that whatever the politicians are suggesting might make a great deal of sense on paper but actually isn't necessarily in the best interests of the U.K. or the institution.

Hon. John McKay: Finally, Mr. Carter and Mr. Maxwell were bouncing around the idea of whether the investment in DFI is in fact aid or not. From the vantage point of the chief executive officer of this organization, does it actually matter to you whether it's counted in 0.7% or not?

This question is directed to Ms. Noble.

Mrs. Diana Noble: There was a difference when it changed from a system where every investment we made and every receipt we received were counted to a system of, when we're given capital, just that figure counts. Because the U.K. has a target of 0.7% each year, you can imagine how hard it was for us and for our shareholders in December to try to land an exact number when we have a lot of investments going out the door, a lot of which we don't have any control over at all, and a lot of receipts coming in, which again we have no control over. December became this remarkably fraught and tension-ridden time between us and our shareholders, because they looked to us to manage it, and a lot of it wasn't manageable.

Moving to a system where ODA is counted just when we get capital works very well for us. We have a very careful liquidity policy so that we don't take capital we don't intend investing within a period. We don't want to take the capital that other people could use and just sit on it. That's really important to us, but I have to say the way we do it now is much more manageable.

• (1005)

The Chair: Thank you, Mr. McKay.

Mr. Benzen, please.

Mr. Bob Benzen (Calgary Heritage, CPC): Thank you, Mr. Chair.

Thank you, witnesses.

I'm really reluctant for the government to get involved in areas in which the private sector can do a better job. Over the last couple of decades, we've seen a large expansion of the private sector into this area.

You talked about supporting entrepreneurs, female entrepreneurs. Whether they are female or male, if they have really good ideas or bright ideas, they are going to find support from the private sector.

Looking at your numbers here, in the past, you guys were doing almost 8% in return, and now it's down to just over 2%. I think that may be a function of private enterprise finding those good ideas out there and supporting them, and the government just finding itself picking up the second best idea or the third best idea, and hence its returns are falling.

I'm not sure the government should really be doing this, so don't you think private enterprise is picking up the best things here and crowding you guys out now? It seems a little schizophrenic to me what we're doing here. Either this is making money and we should be doing it like a private business, or it's aid and it should be strictly looked at as aid. If you have the mandate of trying to do both things, I don't know how you accomplish that.

Can you address some of that private enterprise part of it now? Are they doing that? Are they getting the best returns because they are crowding out the government, and the government's not getting the best returns because they are not getting the best ideas anymore?

Mrs. Diana Noble: The picture you paint is a reasonably accurate one, and this is good news; this is what we all want to achieve, the private sector in time crowding out the DFIs. That's nirvana for all of us. However, there is no question that there is still a big gap where DFIs are needed. It's quite right that we should have what we call additionality guidelines so that, for every single investment we make, we must be able to justify that we're doing something the private sector won't do. It's really important. When you think about it in terms of Canada, those guidelines have to be enforced really heavily.

Let's look at the provision of long-term debt in Africa. The commercial banks do not do this. The local banks do not do this. That's what DFIs do, and that is clearly needed and is a huge gap. Commercial investors are not making investments in smaller businesses or setting standards on environmental and social.... I've talked about it before.

Our role is definitely getting harder, and I think that's fine. That's the pressure that should come on us to make sure we are going to a place like Ethiopia that doesn't have enough large companies and really grafting on those opportunities that might take a year or two to happen.

I can tell you that your big pension funds would not invest in two years to make an investment in Ethiopia or in DRC. They wouldn't have put capital alongside standard charter during the Ebola crisis. No one was investing in Sierra Leone during the Ebola crisis, except a DFI like us.

There absolutely is a gap. Is it hard? Yes, it's hard. Are returns hard to deliver? That's why you need great people to do it, but the role is still very important.

Mr. Bob Benzen: Thank you.

Mr. Simon Maxwell: We live in a world of market failure. If the markets were perfect, then we might not need organizations like your DFI or CDC. However, there are information failures, misunderstandings of risk, and coordination failures in markets, and DFIs help to overcome those failures.

One key one is that we're living in a world of very rapid technical change. For example, in renewable energy, the price of solar energy has fallen by over 90% in something like five years. The early investors, often with state support, are the ones who have been able to create the markets and the regulatory framework that enable the second round investors to come in and make more profit. So, I don't disagree with what Diana said, but I do think there is a role for DFIs as pioneers in areas where there are high market failures and where new technologies are rampant.

One of the great advantages of publicly owned DFIs is that they can work with other elements of the aid program. It's not to say that you have an aid program over here and the DFI sits somewhere working completely independently. You know, when we talk about building the private sector, dealing with the regulatory constraints, building the infrastructure that private entrepreneurs need, and creating the next generation of investable businesses, that's where a collaboration between the DFI and the rest of the aid program can be especially valuable.

• (1010)

Mr. Bob Benzen: Thank you.

The Chair: Thank you.

Mr. Levitt.

Mr. Michael Levitt (York Centre, Lib.): Thank you to you all for joining us this morning.

My question actually follows the last comments that you just made, sir.

The government's priorities with regard to development goals have been quite clear, and I think we stated recently, there's a particular focus on women's economic empowerment and poverty reduction, a focus on women and girls and particularly economic growth, job creation, those sorts of things.

As it relates to a kind of focus on women, we had witnesses last week and the issue came up of whether there is an appropriate, modest level for directing the DFI to prioritize those types of projects that would empower and enable women entrepreneurs or local women actors on the ground. There were concerns that too robust a direction creates an artificial barrier to the success of these things because it's the market element that obviously makes them succeed.

Is there, maybe in the case of the British example, a modest level, a small level of direction toward those sorts of priority areas? Again, are development goals working with the DFI? These things don't operate in a vacuum. What's your feeling on there being a modest level of direction toward such a priority? Is that going to hamper it? What do you think an appropriate level might be if you do agree with the notion? I just want to see if we can get some discussion around that.

Mrs. Diana Noble: Sure, would you like me to kick off?

Mr. Simon Maxwell: We all have views on that.

Paddy, why don't you start?

Mr. Paddy Carter: I'll start, although as I start talking, you will hear that it's Diana who completes this thought. CDC has, in my view, a wonderful way of looking at its investment decisions, and it has a great virtue of simplicity. It has this thing called the grid. You can google it and have a look at it. They plot their investments on just two dimensions. First, how difficult is the place where they're investing? Second, how job rich is the investment; that is, how many jobs is it going to create? They can locate every investment on that grid, and then they can count up the score that they get at the end of the year and say, "Our investments average 4.2 this year."

Imagine giving your DFI quite a simple way of assessing its potential investments, one where doing things that contribute toward female empowerment is one of the dimensions that is measured. However, because it's not the only dimension that's measured, when other opportunities come along that don't happen to be particularly female-led but that score on the other dimensions, you'll do them. It's a way of sort of rewarding and encouraging a style of investment without being overly descriptive and saying that you have to hit this particular target or everything has to look like that. That's potentially a promising way of looking at it.

Mr. Simon Maxwell: Let me come in before Diana rounds up.

This is one instrument among many. When I last looked at a DFID's private sector work, they had something like 30 to 40 different instruments available to them for working with the private sector—some large, some small. There is a large number of large companies that were trying to look at their supply chains, for example, or their distribution networks and create opportunities for women within those.

Coca-Cola, for example, is looking at how they can involve women entrepreneurs in the last mile delivery commodities. DFID has capital grants available to those kinds of programs, which are pretty numerous and pretty diverse in the food sector. We have work in manufacturing. There's work going on, as I say, with Coca-Cola and others.

A question that Diana might want to pick up is, what does the DFI bring that is value-added over and above those kinds of challenge funds? It's probably—to put words in her mouth—around the long-term commitment and the long-term investment she talked about earlier. This reinforces the point that the DFI needs to be seen as one tool among many in the work you're doing to help women entrepreneurs get going.

● (1015)

Mrs. Diana Noble: I think it is doable. It's easier, obviously, when you have a smaller investment amount. We're investing about \$1 billion or \$1.5 billion every year within a relatively small geography. If every company we invest in had to meet certain standards, that would be very hard.

For you, with a smaller amount of capital, there are definitely things you could do. They're on sort of a sliding scale. The easiest thing you could do is make sure that in your due diligence processes every investment you make does not have any discrimination towards women. That's the starting point. As you go up, you could encourage your team to make investments that would benefit women in some way, but don't be too prescriptive about it. Everyone likes the idea of women leaders, but it could be that this has a higher proportion of women managers than it appears in the sector. It could be that it employs more women. It could be that it has more women in its supply chain, or fewer customers.

One of our most successful investments in the past was Celtel. When we first invested, this was about bringing mobile telephony to Africa. Everyone thought it was a luxury item for businessmen, a tiny market. Look at it now. Probably one of the biggest impacts is the network of air-time sellers, the large proportion of which are women. It's giving them an economic opportunity.

I would encourage you to expand your minds about how business can improve people's lives. It's not necessarily just the obvious things.

Mr. Michael Levitt: Thank you very much.

The Chair: Thank you very much.

I want to take a moment to ask a question which I think we're all thinking about. In 2010 when the U.K. did its review to respond to some criticism that it had wandered off and become risk averse, as was suggested by some of my colleagues this morning, it became very business oriented. I was just reading the comments by the Honourable Andrew Mitchell when he was the minister in charge. He said that the CDC would be a development-maximizing not a profit-maximizing enterprise that would become bolder and more pioneering in the approach to innovation and risk.

Perhaps you could give us a little insight. Does the CDC lead the world in the whole idea of pioneering the approach to innovation and risk? As these organizations move along in their mandates it seems that they become less risk averse.

If this organization that we're creating is not at all capable in managing risk, then we won't be able to succeed in our mandate that politicians are looking for, which is to be in the poorest countries and working with the poorest people, who happen to be women and children, generally. That's the argument of the feminist agenda, that when you're in the poorest countries, you find that the women are usually the poorest. They don't go to school. They're given usually the manual tasks, and the story goes on and on.

From the committee's perspective, there are two things. Are there places in the world where they are very much into managing or having a mandate for risk? Of course, politicians are risk averse themselves, because the opposition will come after the government and say, "Look at how much money you lost in this organization because you took too much risk."

If the business community isn't going to go into these poorest of the poorest countries and the government believes in the ODA and the whole development assistance initiative, then we have to find a way to converse, be transparent and accountable, and make sure that the country and the people in it support the amount of risk that an organization like this is allowed to take.

Perhaps you could give us a sense of whether since the mandate was changed in 2010 there is a bigger debate among politicians and among citizens in the U.K. about risk and the importance of it, because that means you don't do as well on the percentage basis. I'd be very interested in your comments on that, because with every organization—and this is my 20th year in politics—we start off with a significant amount of risk and as time goes on, it seems that governments and/or bureaucracy whittle away at that and make it less risk averse.

We have a federal development bank that we used to be very proud of and its mandate was changed so it does nothing in rural areas like mine anymore. It's just like a regular bank, but when it first was created, it was intended to take risk where banks wouldn't go in rural parts of Canada. I just use that as an example.

This is very much the same kind of thing. From a political perspective I need to make sure that my Conservative friends and my NDP friends accept the risk and don't beat up on us in Parliament about the risk that we would take. I'm very interested in that. I think that's important because the minister just announced our feminist policy, which means that in the 30 countries we're focusing on exceptionally it will be a higher risk because it's poorer and women are involved. I would be very interested in your comments on that.

Ms. Noble, do you want to start or do you want to work backwards and come back?

• (1020)

Mrs. Diana Noble: No, I'm very happy to start.

Yes, you describe what we call the perpetual paranoia of running a DFI. I would say our stakeholders think about impact, impact, and impact. They don't, at the front of their minds, think about the risk that they assume in order to deliver that impact. That's why I think your question is very astute and very thoughtful, because it is so much easier for the institution in time if its stakeholders understand the risks that are being taken in order to deliver this impact. Risk isn't only low financial returns or losses. It's reputational risk as well.

We know we work with the wrong people, who do the wrong thing, and we also know that in the countries where we work, that is the majority of what happens. We know that the appetite in the U.K. to accept that risk is incredibly low.

How do we manage that? I think it's two things. As I say, I go back to the importance of hiring people with commercial judgment, people who can look at a situation and understand the risk that they're taking, and mitigate it, and structure it, but who can also say no. We're full of people here at CDC who have the commercial judgment to work hard on something, but to say that we don't want to do something because the risks are too high.

As an example of how we support that, we don't have annual volume targets, because we always want to be able to say no and not to feel that pressure to make the wrong investments. That's incredibly important.

Then, around those people, you have to wrap really good processes around risk. We have a risk committee. We have a risk structure. We built this all from the bottom up. We talk about it a lot. Risk is our business, and we have to do it well.

Mr. Paddy Carter: There's a very simple point to make here, which is to do with your ability to diversify risk within your own portfolio, because you have lots and lots of different investments. If you are quite a small entity, one way of coping with risk is to have lots and lots and lots of very small investments so they don't all fall over at the same time, whereas if you had some chunkier investments, obviously your risk exposure would be a lot higher.

Maybe it would be wise of me not to mention who they are, but there was a small European DFI who was told to go out and take more risks and do more business in the harder places. They lost a bunch of money. They turned around to their government and said they needed some money, and the politicians said, "What are you doing? You're not supposed to be losing money." So this is something that definitely can happen.

If the reality is that a Canadian DFI has quite a limited risk-bearing appetite, then this is maybe where partnership can come in. Let's say, around the world right now there are a dozen universities and start-ups working on small-scale, low-cost desalination technologies. It's the perfect thing for a DFI to put its money into, because discovering which of these technologies works would be of fantastic benefit to the whole world. You could try and commercialize a dozen of these technologies, and if you did all that, you'd probably, across the portfolio, stand a large risk of losing a lot of money.

The Bill & Melinda Gates Foundation, however, might be really keen to see that sort of desalination technology happen and offer to put up some first loss grant capital so that if things do turn out toward the bad side of things, you're not left wearing all the losses. If you are thinking about ways of doing more risky things without exposing a relatively small entity to too much risk, then finding people to work with who might be able to put up money to help with that might be the way to go.

•(1025)

Mr. Simon Maxwell: I have three quick points.

The first is that there's a difference between having a risk appetite and being foolhardy, so you need to be able to demonstrate that you have a good risk assessment procedure in place and a good risk register.

Second, the value of well-informed and active politicians can never be underestimated. You have that kind of committee in Canada. In the U.K., the international development select committee is the last bulwark between the popular press on the one hand and, it sometimes feels, sensible decision-making on the other.

The third point to make is about another Andrew Mitchell innovation. He introduced completely independent evaluation by creating the Independent Commission for Aid Impact, which reports not to the government but to the select committee and has been able to look at DFID's private sector strategy, for example, and is another way of providing an intelligent assessment and, if necessary, some cover for the people at the sharp end.

The Chair: I have a last question that relates to the idea that the country that has a DFI accepts the high-risk structure and mandate it has been given, which means that governments and politicians and the public should be aware that there will be infusions of capital from time to time because of the risk being taken.

It's a good investment to put in some of our development assistance money that we've earmarked, in your case your 0.7%, I think it is, every so many years. It's a good strategy because you also leverage the private sector. Let's assume the \$300 million that Canada's putting in is just the start, and that within the next few years we'll have to do it again. We accept that as a legitimate strategy, because we leverage the private sector much better than we would if we put it straight into NGOs.

Is that a realistic argument to make right off the bat, without pretending that somehow this is going to be self-financing once we get an infusion? Of course, some politicians 10 years from now will have to come back and restructure it because it may not be working the way it was intended. I'd be very interested in your comments about that.

Mr. Simon Maxwell: It's certainly true that you can aspire to leverage large amounts of private sector capital. A figure that's often used is 20:1, for example in the climate field, where one pound of government money can leverage 20 pounds' worth of private sector money. In principle, you'll get money back, so whether you need to recapitalize.... If you're getting the kinds of returns that Diana is mentioning, you shouldn't need to recapitalize unless you want to expand, but if you want to expand, and have even higher returns, then you will need to put in further tranches of capital.

Mr. Paddy Carter: I'm hesitating because, like many people around the world, I feel my ability to second-guess what plays well

with the voting public has fallen to zero. I know there are people who are skeptical about these leverage arguments. There are a lot of DFIs out there, and there is a suspicion the same dollar gets attributed to DFI multiple times. That's maybe skepticism within a small specialist and engaged NGO community. I'm not sure whether that skepticism extends to the wider public. I'm ending up with no answer here. I don't know whether this leverage argument would help you sell to the public what DFIs do.

•(1030)

The Chair: Ms. Noble, you get to wrap it up.

Mrs. Diana Noble: I think it's really helpful to start with lowish expectations. That just gives the team you hire a good platform to exceed expectations. Remember also that if you're making a choice between making an investment or making a grant, with a grant, that money is 100% gone, but if you make an investment through a DFI, the intention of course is that you get a positive return, and then it becomes a renewable balance sheet. Even if you make some losses, you're still making better returns than losing everything. I think accepting that you're taking risk, giving it time, and having your return expectations reasonably low gives yourself the best chance of being in a great place to build on that in 10 years' time.

The Chair: As we wrap up, do you have a larger plan in your mandate that relates to this new mandate that the government gave you in 2010 vis-à-vis the poorest countries? Do you have statistics now that we can look at that show the progress you're making? It's now seven years in, and it would be useful to see where that would be taking you vis-à-vis the higher risk mandate that you were given in 2010.

Mrs. Diana Noble: Yes, of course. We can show you what our portfolio looked like in 2011, when I joined, in terms of where the capital has gone, and how it looks today. It is a dramatic change.

The Chair: That's very good. Thank you.

Colleagues, that will wrap it up for us today.

I want to thank Mr. Carter, Mr. Maxwell, and Ms. Noble for giving us an insight. Of course, this is our first try, so we get to experience the frustrations and the challenges that you've had over the last number of years. As has been suggested by Mr. Mitchell, hopefully we can pioneer going in a direction that maybe makes a little difference around the world.

I want to thank all three of you for spending some time with our committee this morning, or this afternoon or this evening for you. We very much appreciate it.

Thank you, colleagues.

Colleagues, that will wrap it up today. We will see you on Thursday. Have a good day.

The meeting is adjourned.

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