HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Foreign Affairs and International Development

FAAE • NUMBER 068 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Thursday, June 15, 2017

Chair

The Honourable Robert Nault

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● (0850)

[*English*]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, we want to open this meeting of the Standing Committee on Foreign Affairs and International Development. Pursuant to Standing Order 108(2), we will continue our study of Canada's development finance initiative.

This morning, in the first hour, we have the Centre for International Governance Innovation. Mr. Medhora, the president is video-conferencing from Waterloo, Ontario, which is a really nice riding, I hear.

As well, from Oxfam Canada, we have Francesca Rhodes, women's rights policy and advocacy specialist; and Lauren Ravon, director of policy and campaigns.

Welcome to the committee. Congratulations for getting through security. It's always a hassle at this time of year, as I understand it.

We are going to go to our witnesses for opening comments. We'll start with Mr. Medhora, and I'll give our witnesses from Oxfam an opportunity to catch their breath. They can go second, and then we'll go into questions from the committee members.

Mr. Medhora, the floor is yours.

Mr. Rohinton Medhora (President, Centre for International Governance Innovation): Good morning, Chair. Good morning, members and colleagues.

The organization I head, CIGI, has been working on the broad area of finance and development finance for several years. We've published a number of papers. I have spent the better part of three decades, first at the International Development Research Centre and previously at the University of Toronto, working on the subject. It's a privilege to be with you and to be able to speak with you on this subject.

In the seven or so minutes I have, I thought I would do three things and then we can have a conversation thereafter. They are to provide comments that start with the concept, then lead into the construct of the organization, and then the operation of the proposed DFI.

I'll begin by saying the DFI for Canada is a good and timely idea, mainly because it's in keeping with the transition worldwide from development assistance to development partnerships. That is a good thing. However, globally, capital shortage is not the problem. There is is ample capital for investable opportunities. Rather it's the know-how for making sound investments that is often what is lacking. The main thrust of my comments is going to be that what goes along with the finance is at least as important as the finance itself.

Now that's important to note because the capitalization and therefore the potential lending capacity of Canada's DFI is quite small. In fact, frankly, it's puny; $300 million over five years is going to be about $50 million, $60 million annually, perhaps. Just to give you a benchmark, the International Finance Corporation, which is the multilateral institution that is broadly in the same business, has an annual outlay of $10 billion U.S. dollars. The Nordic Investment Bank, which works both in the nordic countries and overseas, has an annual outlay of $3.5 billion. So Canada's DFI, if it wishes to punch above its weight, has its work cut out for it.

My first point here would be that growth and expansion of the DFI should be in-built from the start and it should be related to the benchmarks of success. We certainly can discuss what those benchmarks might be, but growth and expansion connected to benchmarks make sense.

Since the DFI is going to be funded from EDC's revenues, one thought is that over time a higher proportion of the EDC revenues might be devoted to the DFI. This way the expansion of the DFI is not a net call on the public exchequer in Canada. At the end of the day this is meant to be a private sector-type of activity.

To focus by region or theme when you're this small is also going to be important. There are a number of ways that we can be looking at this. The leverage ratio, meaning the amount of other dollars that the DFI's activities will crowd in, is currently set at about 5:1. My suggestion to you would be that this should be a minimum. In fact, the IFC's leverage ratio is 7:1. In an era when private sector capital outnumbers public money by many factors, I think 5:1 is modest, but It is a very good start.

This, however, has to be compensated for by other forms of assistance that go with finance. We might want to think about what that is. Is it technical assistance? Is it capacity building in sound lending? Is it market research and promotion? Is it technology transfer? I don't know, but it seems to me that these are the kinds of issues we should be talking about.

The second aspect of focus has to do with what exactly the DFI lends about or on. Here again, it's an open field. One thought is to stay within current ODA priorities, which would mean working in industries that work in the maternal and child health sector or perhaps extractives. The other thought is to go completely in the opposite direction, and to complement Canada's official development assistance program by investing in areas that are outside its ambit: green tech comes to mind, new technologies more broadly, or funding start-ups. I'm from Waterloo, so that resonates with me.

Finally, it occurred to me last week, when I was listening to the minister unveil Canada's new feminist foreign aid policy, that perhaps investing in women's entrepreneurship, or in organizations or forums led by women, or primarily concerned with producing products and services for women and children, might be the way to go. I don't know for sure, but it seems to me that choices have to be made and have to made early.

My final set of comments has to do with the operationalization of the DFI. Here I should sound a cautionary note that the institutionalization of the DFI within the EDC is not ideal.

The main reason it's not ideal is that the corporate culture of the promotion of trade and export is not the same as the banking culture, and it's not the same as the development culture. The skill sets, the ethos, and the objectives that each of these requires is different, and I fear that if care is not taken to situate the DFI appropriately within the EDC, it might not be fully effective.

I've been following—and associated with in some ways—the development of the DFI for some time. My first reaction was that this is a situation that cries out for a crown corporation set-up, which Canada does so well. Crown corporations are independent, and they provide good governance, diversity in partnerships, and effectiveness, all of which are built into their boards and operating structures.

In fact, one of the committee's questions to us was how this might connect with IDRC. Now, that's a very good example of a small and independent crown corporation that is effective precisely because it has the crown corporation structure.

The Montreal location of the DFI also poses a question in my mind. I believe that the reason for situating the DFI within EDC was to generate economies of scale in things like shared services, location, and staff. If EDC is headquartered in Ottawa, however, and the DFI is in Montreal, I would wonder to what extent the economies of scale from shared services would in fact be achieved.

My final thought is that this is a good idea that must be nurtured. How it starts is critical to how it develops and ends. Keep the operation small but technical and professional. Do not Christmas-tree it with lots of vague objectives that don't add up. If we get it right, though, this will be a feather in Canada's cap and a great benefit to the developing world.

Thank you very much.

● (0855)

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

Now, we'll go to Ms. Rhodes, from Oxfam.

Ms. Francesca Rhodes (Women's Rights Policy and Advocacy Specialist, Oxfam Canada): Thank you for the opportunity to share Oxfam's thoughts on the new development finance initiative. Oxfam is an international confederation working in 90 countries to support long-term development and provide humanitarian assistance. We also do advocacy and campaigns to address the root causes of poverty. We put women's rights and gender justice at the heart of everything we do.

The new DFI is an opportunity to be innovative and to leverage finance for poverty reduction and gender equality. Canada will need to be bold in how it is designed in order to ensure that these goals are met. Higher finance should never be a replacement or substitute for aid. However, if designed carefully and in alignment with Canada's new feminist international assistance policy, the DFI could add important contributions toward achieving these same goals.

Oxfam recognizes that the private sector has the potential to significantly contribute to sustainable development. The private sector, of course, comprises a multitude of actors, including those which often offer employment opportunities for women in rural and poorer contexts, such as co-operatives or micro and small enterprises. In a vibrant, thriving, accountable, and responsible private sector, there are greater possibilities for sustainable development and economic growth that can lead to poverty reduction and reduce inequality.

However, the experience of other development financing facilities shows that without a strong alignment with the goals and strategies of sustainable development, public-backed private finance can fail to reach its potential contribution and in some cases reinforce existing inequalities. The DFI should avoid these pitfalls by starting with a strong mandate to reduce poverty and to complement the government's feminist international assistance policy. We have five recommendations in order to do this.

The first recommendation is that the DFI's mandate should align with development effectiveness principles and focus on additionality. In order to ensure alignment with sustainable development, the DFI should conform to the principles of development effectiveness, particularly country ownership, transparency, and accountability. Globally, civil society has called for much greater transparency and accountability of DFIs. The Canadian DFI should consider how it will adjust this, including through complying with the international aid transparency initiative, which several other DFIs, including the Dutch FMO and U.K. CDC, already comply with.

How the DFI will measure and report on its goal of contribution to poverty reduction should be thought of in the early stages. The DFI should focus on maximizing the additionality that it brings to Canada's development strategy. It could be thought of as financial additionality, where the public and private actors together are bringing additional funding, through development additionality, whether it's a greater sustainable development impact as a result of public and private finance working together, or value additionality where the public actor is bringing something that wouldn't otherwise be present, such as focusing on poverty reduction, sustainability, or gender equality.

The three main pillars of the Official Development Assistance Accountability Act also provide a strong framework that can be drawn on for the DFI's mandates. The DFI currently is not counted as ODA and is not subject to the same principles, but the same principles would be useful to apply to the DFI. That would ensure it would contribute to poverty reduction, take into account the perspective of the poor, and be consistent with international human rights standards.

A second recommendation is that the DFI's investment strategy should be strategically aligned with Canada's new feminist international assistance policy. Ensuring close alignment with Global Affairs and the feminist international assistance policy is key to ensure strategic investments that contribute to development. It would also show that Canada is learning from the experience of other bilateral institutions.

When independently evaluated, the U.K. DFID's private sector investments were criticized for not being aligned with their objective of poverty reduction and for lacking strategic oversight, clear objectives, and the ability to demonstrate additionality. On the other hand, the Finnish DFI, Finnfund, has aligned its investments with the priorities of their aid strategies. They're focusing on green technologies and telecommunications. As Canada's new feminist international assistance policy focuses on a feminist approach to ending poverty, the DFI should complement this and do the same.

In practice, this will require working closely with Global Affairs to develop complementary and focused strategies, and sharing expertise and intelligence about development priorities and particular contexts in which they are both operating. The DFI could also consider designing its governance structure so that accountability is not only to EDC but to the ministers in Global Affairs as well.

Our third recommendation is to ensure that the DFI has the capacity and expertise for mainstream gender equality throughout its work and also to provide targeted investments that benefit women and girls.

● (0900)

In designing any development policy or program, a gender analysis is essential to ensure that both women and girls benefit, and that gender inequality is not inadvertently reinforced. The DFI should ensure that it seeks to build on its own expertise and capacity as well as that of its partners in order to be able to meet this goal. This is another important area where working closely with Global Affairs will be key.

Women's organizations and experts should also be included in the design of investments. The new feminist international assistance policy commits all of Canada's development partners to consult with local women's organizations when designing interventions, which is a powerful principle to ensure they are guided by their priorities and concerns. The DFI should also ensure that, when it's gathering information about the context of the investments being made through any consultations or advisory bodies that are set up, women's organizations are included and able to provide their expertise.

Our fourth recommendation is that the DFI should have robust monitoring and accountability systems and should only involve companies that respect human rights, including women's rights. The DFI must commit to do no harm by ensuring that investments are assessed and monitored for their impact on human rights and women's rights in particular.

Oxfam's research into the World Bank's private sector arm has documented instances of violence against women, land grabs, and other disturbing outcomes of private sector development budgets. The DFI needs to put in place robust monitoring and accountability frameworks that identify and prevent any negative impact on groups marginalized based on gender or sexual orientation, including changes in livelihood, likelihood of violence, access to assets, and labour rights. The DFI should also ensure that jobs created through these investments are decent jobs, that investment partners and contractors respect labour standards, and that measures are in place to avoid discrimination.

Currently, EDC does not have a human rights policy, but it has a statement on human rights that was issued in 2008. This should be updated to a policy and staff should be trained to implement it. The DFI should also consider putting in place accountability mechanisms, for example, setting up an independent complaint mechanism that is accessible to local communities involved in the investments. The Dutch FMO's independent mechanism, which was set up in consultation with civil society, would be a good example to follow.

Another aspect of “do no harm” is ensuring that private sector finance is not a substitute for the public financing of essential services that are accessible to the poorest. The DFI should not seek to increase private sector involvement in the provision of public services. The DFI should only partner with companies that pay taxes on the value created in the developing countries that they operate in. Oxfam research into the World Bank's private sector lending in 2015 showed that 51 out of 68 companies that received loans to finance investments in sub-Saharan Africa were using tax havens, which was denying those countries much-needed public funds.

Our final recommendation is that the DFI should invest in projects aimed at reducing gender inequality and that benefit women and girls. Going beyond the do no harm policy, to be truly transformative, the DFI should set the goal of making investments that address gender equality and enable women and girls to benefit from development.

Women and girls often do not benefit from development due to the heavy and unequal responsibility for unpaid care and domestic work. On average, women are responsible for 2.5 times more hours of unpaid care and domestic work than men. Using the DFI to leverage investments that help reduce this burden would be a powerful way to address a structural barrier to women's full and equal participation in the economy. For example, infrastructure projects can be designed to reduce the time women spend fetching water or fuel or transporting dependents, but only if a gender analysis is included in their design and women are consulted on their needs.

Another approach would be to catalyze investments in time-saving and labour-saving technologies and ensure that these are available in rural and poorer areas. Oxfam has been working on small-scale projects in Ethiopia, Uganda, and Zimbabwe that connect communities with fuel-efficient stoves that reduce time fetching fuel and cooking and are also far safer to use. Making these types of investments would be a truly innovative way to address gender inequality.

The DFI should also prioritize financial service programs for women-led small and medium enterprises. The DFI could look at making sure land guarantees are available for women-led small and medium enterprises. Generally, these are at a disadvantage in attracting credit due to women being less likely to own collateral or due to harmful social norms. It could also offer technical assistance to financial institutions and businesses to train women entrepreneurs. I believe Engineers Without Borders provided testimony with further details on proposals in these areas last week, which we support.

● (0905)

To conclude, Oxfam does not believe the DFI should act as a substitute for ODA, and the DFI should not be using ODA allocations. However, DFI has the potential to complement the work of Global Affairs and the new feminist international assistance policy if its aims and objectives are aligned, and to set a new standard for development finance contributing to sustainable development.

We hope the committee will consider these recommendations to help ensure that the DFI is bold and innovative and reaches its goals of reducing poverty and increasing gender inequality.

Thank you.

The Chair: Thank you very much, Ms. Rhodes.

We're going to go straight into questions, and we'll start with Mr. Allison, please.

Mr. Dean Allison (Niagara West, CPC): Thank you to the witnesses for being here today.

Mr. Medhora, you've studied these and you've looked at a lot of them over a variety of countries, and you did say there are a number of options we could look at. In your opinion, having seen what's out there and what has been done well and where Canada has its strengths, what would you recommend we look at as a focus? I realize that ultimately the minister will decide, and the mandate will come from there.

In your experience and having seen what goes on and where we could have excellence, where would you suggest we focus our mandate on this particular DFI?

Mr. Rohinton Medhora: On the one hand, you have needs at the other end, and on the other hand, you have the expertise in the source country. I think we have to be guided by what Canada does best. We have to be guided by what we have said we will avowedly want to change.

There are two or three things that strike me. I thought that the unveiling of the feminist foreign aid policy last week was inspired, but then one has to put flesh around it. It seems to me that focusing on women's entrepreneurship is something that Canada has done and is something that we could give focus to through this.

Since one of the biggest issues facing developing countries, and indeed the world, is changes in the environment, anything that promotes green technology might be something worth doing. This is an area in which Canada is rapidly becoming dominant. It creates wealth, but more important, with technology, you find spillover effects, which other witnesses have also pointed to. At the same time, you would find yourself inspiring universities as well as other sectors in developing countries to grow. I would think some combination of working with new technologies and green technologies, and having a social bent, say through women's entrepreneurship, might be the way to go.

● (0910)

Mr. Dean Allison: Do you have any thoughts around rates of return? We had a chance to hear from our colleagues from the U.K., and as has been mentioned through testimony, there have been some issues. They've had some resets in the U.K. over the last 50 years or 60 years. What are your thoughts?

I'm assuming we're looking at it for the long game. Around rates of return and those kinds of things, do you have any thoughts?

Mr. Rohinton Medhora: The way the IFC, other multilateral institutions, and indeed the CDC in the U.K. work, there is a private rate of return, which is the financial rate of return. Then they try to compute something called the "social rate of return", which is an attempt to capture those wider gains to society from investment.

Usually, although this is not in every case, a good long-term benchmark is to say that the social rate of return should be at least twice as high as the private rate of return. The private rate of return should be about twice as high as the long-term real rate of interest in a country. If you achieve 5% to 7% private rates of return and 12% to 15% social rates of return, you're doing very well. In fact, you might be beating the international average.

Your point about the long-term nature is an important one. If you choose to go into something like green technology, which is highly risky, it may take time to achieve that rate of return, and you have to be tolerant of a lot of failure, just as we have in this country with start-ups, to find those one or two successful firms.

Mr. Dean Allison: You talked about capitalization, about how it's a small amount, and you suggested that 5:1 may make some sense in terms of leveraging some of those dollars. I heard 7:1 and 5:1. Could you expand a bit more on that?

Are we talking about going to the market for bonds? Are we talking about just borrowing the money? What are the thoughts on trying to help this organization create some capacity?

Mr. Rohinton Medhora: These are off-the-cuff figures, but let's say $300 million over five years. Let's assume that the operating costs are modest. That $300 million, if you divide it by five, gives you $60 million annually. If you then have a 5:1 leveraging ratio, you want to raise another $300 million or so annually to give you a $350-million to $400-million lending capacity.

There are two ways you can do it, and they're not mutually exclusive. One is to have the DFI itself float bonds and in fact raise the money, and then use the money as it sees fit through its various project investments. The second way—and the IFC operates this way, as well—is to go out and look for other partners on a project-by-project basis. The latter is more labour-intensive, but it is often more effective because it gets you the right partnerships in each case. Bear in mind what I said. It's not just the money. It's the non-financial expertise that often makes or breaks these kinds of projects.

Early on, I think the DFI will have to make a choice. If it wishes to float a bond, I think there would be demand for it. There would be institutional investors who could be tempted into doing it. That would increase its core lending capacity, and then on a project-by-project basis it could achieve the rest of the leverage.

Mr. Dean Allison: Thank you.

The Chair: Thank you, Mr. Allison.

Mr. Fragiskatos is next, please.

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

Thank you to all of you for your testimony today.

Mr. Medhora, I want to ask a question to you first. We have heard from a number of witnesses—in fact, it was mentioned today—that poverty reduction ought to be strongly considered, as far as a mandate focus. Looking at that is something that would help the DFI avoid investing in areas that will not help to address problems of underdevelopment.

At first blush, that makes absolute sense, but the devil is in the details. I want to ask you a question about how we measure poverty. I've read articles that you've put forward that present nuances in this regard. For instance, you've written that poverty can be measured simply by looking at per-capita income levels, or according to the multi-dimensional poverty index, which looks at a broader range of factors: nutrition levels, years of schooling, clean water access, or housing, for example.

I point to that nuance because if you look at two countries that you've talked about—I read a *Globe and Mail* op-ed in preparation for this meeting—India and Uzbekistan, India is a country that is quickly emerging as not just a global player, but when it comes to the economy, a leading player. You could look at per-capita income levels there and be quite impressed. However, if you measure indicators along the lines of the multi-dimensional index—nutrition levels, years of schooling, literacy levels, and the like—India's actually quite poor compared with Uzbekistan. Uzbekistan has low per-capita income levels, but on the multi-dimensional index measures, it does much better.

With that in mind, if Canada were to go ahead and put poverty reduction into the mandate of the DFI, could you give us some cautionary notes, perhaps, about how we measure poverty? It's not simply a matter of investing in countries that are poor. We have to understand how we measure poverty. If we do decide, in fact, to include poverty reduction into the mandate of the DFI, how should we measure poverty: by looking at per-capita income levels, the multi-dimensional poverty index, or some other measure?

● (0915)

Mr. Rohinton Medhora: Thank you. That is, in some ways, exactly the right dilemma that we face.

There are a number of things that one would want to unpack about this. What I guess I would say is that this goes to my last point about not Christmas-treeing the DFI with objectives that are all valid and make us feel good, but are not verifiable. More importantly, in this case, if you cannot connect an outcome to the activity of the DFI, then it is a bit of a mug's game to say that it was our $50-million investment that resulted in this change. That is why also, by the way, about the time that I wrote that op-ed, some of us, although we consider ourselves development-friendly, were skeptical about the Official Development Assistance Accountability Act, which I know several of my colleagues in the development business supported simply because of the measurability and the connection issue.

I would say give the DFI a mandate to achieve development, recognize that development is more than reducing income poverty, and that, as you pointed out, the human development index—at the very least, which the UNDP measures and propagates every year—has other dimensions to it, of which health, education, and the gender elements of these are important. There may be cases—in fact, my colleague gave the example—for not investing in infrastructure if this is already publicly provided for the very poor. That may well be, but suppose the DFI invested in—the way they have in Stockholm—a green train line between the airport and the city or connecting suburbs to a city, which, in fact, poor people would use. I would argue that anecdotally this is a good investment to make and it's good for development. However, if then someone asked me to show that this investment resulted in a reduction in poverty, either narrowly or widely defined, I'd be hard pressed to do so. In fact, three quarters of my organization would just be writing reports trying to convince folks about that.

I think we're going to need some judgment and common sense, and this is why I'm arguing for small, crown corporation-like professional organizations staffed by experts to whom we should give the mandate because we trust what they're doing.

Mr. Peter Fragiskatos: Thank you very much.

To Ms. Rhodes or Ms. Ravon, if Canada does go down the road of putting in the DFI's mandate the objective of poverty reduction, how should we measure poverty?

Ms. Lauren Ravon (Director of Policy and Campaigns, Oxfam Canada): Maybe I'll just jump in on a couple of these points. I think the issue of measuring poverty and well-being is an interesting one. For example, something that Francesca touched upon is time-years. We see that women who enter the formal economy might have a marginal gain in income but less time, so there are issues. There is time poverty that's worsened. As another example, if you're going far distances to be able to access your job, with the risks on the travel, the risk to your family, the lack of child care for your children, you're actually more impoverished than empowered. I think a simple equation of economic opportunity and empowerment is definitely the wrong way to go. We would definitely consider looking way beyond family income as the only measure of poverty.

I also think that the issue of investing in public services that are specific to women's time use is an interesting one, and one where Canada could be doing a lot of good work. On the issue of transportation, when we look at a gender analysis around transportation, we see that, for example, the roads or the public transportation that men use is often not the same as for women. The men will be using the higher ones, for example the highways in their country or the larger roads, whereas women will be using smaller back roads and country roads. Looking at where we're doing those investments does make a difference. It's something to consider.

Time-use technologies, things like stoves—and she talked about the clean energy linking it to a gender analysis—this is probably where Canada can have one of the best fits in the sense that a lot of the clean technology is actually directed at women because they're the ones who use those at the home level and at the community level.

● (0920)

Mr. Peter Fragiskatos: To sum up, if it wasn't obvious already, but perhaps it bears emphasis, the reason I'm asking this is that at some point if poverty reduction is included in the mandate of the DFI, there could be a situation where the DFI is looking at investing in India or investing in a place like Uzbekistan, to use those two examples.

One might argue that India is doing quite well already on a number of indicators, and namely per-capita income. Why would you want to go there? Go to Uzbekistan, where you have a very low per-capita income, but you look at different measures like the poverty index that I've talked about and you'd get a completely different picture, a very different picture that says that you ought to go against what might appear as common sense. That's why I wanted to put it forward.

Thank you very much to both of you for answering the question.

Ms. Lauren Ravon: On the issue of countries of focus, Oxfam has moved from investing only in the poorest countries to looking at the criteria of inequality. In middle-income countries, we have poorer communities than we've seen in the past and we're looking at what is driving that gap. As we see those gaps widen, inequality in those countries is actually of greater concern in the long run than only focusing on poverty where it is today. Middle-income countries could be a place to invest; it's just where in the country and in what communities.

Mr. Peter Fragiskatos: Thank you very much.

[*Translation*]

The Chair: Mr. Aubin, the floor is yours.

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

I want to thank our witnesses for being here this morning and for sharing their expertise. I think they'll be a great help when it comes to moving from concept to reality.

Since the start of the study, two concepts seem to have received unanimous support. These concepts are the importance of DFIs and additionality. However, in Canada, I wonder whether this is such a good idea. Let me explain.

Let's take the Canadian DFI concept. Mr. Medhora, you said earlier that $60 million a year would give the Canadian DFI very minimal capacities. You even questioned the decision to establish the institute in Montreal. You think this would result in additional administrative or operational costs, and leave little money for tangible investments in the field. If the lending institution must generate its own revenue quickly to increase its capacity, this seemingly leaves little room for venture capital.

Also, in terms of official development assistance, we have been moving backward each year. In 2015, the assistance amounted to around 0.28% of the national revenue. In 2016, the percentage dropped to 0.24%. In 2017, it will be a bit less. The Minister of Finance has already sent the message that we must learn to do more with less.

So, in the end, if cuts are being made all over the place, does the additionality concept really exist in the Canadian model? Could we actually do something with the two tools proposed, which have very few resources at their disposal?

My question is primarily for the people from Oxfam Canada, and then for Mr. Medhora.

Ms. Lauren Ravon: I don't know whether my colleague understood the question. I don't know whether the interpretation system worked. However, I can give a short answer.

In principle, Oxfam is rather sceptical about the idea of this type of investment, simply given the evidence issue. There isn't much evidence that it helps reduce poverty. This doesn't mean that it could never work. We're therefore open to the idea of the mechanism in Canada, especially when we see a heavy focus on poverty reduction and women's rights. This is encouraging.

The fact that Canada's DFI is small may not be a bad thing. It allows for a more careful launch and for investments in more specific projects, and above all with a smaller mandate. For example, we could decide to prioritize the economic participation of women or poverty reduction among women and girls, and invest only in that area. If we start on a smaller scale, we could avoid certain issues, such as the one faced by the World Bank. The World Bank has large-scale funds, but has also had major issues. In fact, serious human rights violations have occurred.

We're looking at the investment with sceptical optimism. We aren't saying it couldn't work. However, in development, we know the government, in particular Global Affairs Canada, asks us for a considerable amount of evidence of our results. We're asked to be very specific about what we manage to accomplish with the money given to us. That said, DFIs in other countries have produced very little evidence. Therefore, Canada's DFI and our own NGOs that use public funds must be asked to show the same level of accountability.

● (0925)

Mr. Robert Aubin: Thank you.

Mr. Medhora, what do you think?

[*English*]

Mr. Rohinton Medhora: I think those are very good observations embedded in the question, and I share some of the points my colleague from Oxfam made. First, whether we like it or not, in an era of stagnant and perhaps even declining ODA—and by the way, there are good reasons for it—the fact is that the emerging developing countries now have capacities to fund development that they did not have 40 and 50 years ago when we conceived our aid programs. In any case, given that kind of stagnation, creating an instrument that crowds in other private sector funding is surely a good thing.

Second, starting small is okay, as my colleague said. Especially in the early years, you're going to want to make a few mistakes, learn from them, and then build. My point is to build benchmarks into the growth of this organization that allow it to grow and prosper so it becomes a larger proportion of Canada's overseas assistance.

Third, about whether we are expecting any more or less of this organization than we are of Canadian organizations that work in the development sphere, my sense is it should be about the same. However, my real sense is that we might want to lower some of the burden of reporting on Canadian development organizations, rather than simply saying we should have the same burden on everyone. I think being a humanitarian agency is different from being a bank, so the nature of the reporting is going to be different too.

When you add all of that together, I am optimistic about this. I don't mean to suggest that because it's small it's not going to be effective. The example I'd give you, by the way, is exactly my former employer, IDRC. IDRC is about 4% of Canada's ODA, and in global ODA flows it would be about 1/25 of that. As I think you all would know, because you've had people from IDRC at your table, it is one of the jewels in Canada's overseas presence and has been a hugely effective agency over time.

[*Translation*]

Mr. Robert Aubin: Thank you.

Ms. Rhodes, I have another question for you. In your opening remarks, you suggested that we follow the Dutch model. However, you didn't describe the model in great detail. I was wondering whether you could elaborate on what we should implement from the Dutch model.

[*English*]

Ms. Francesca Rhodes: This is the independent mechanism for accountability, which the Dutch FMO set up in very close consultation with civil society organizations, including the Dutch affiliates in Oxfam. It's set up as an independent mechanism where communities affected by investments made by the FMO can take any concerns or complaints and be able to experience that accountability. Yes, Oxfam was quite closely involved, and I'm happy to speak to our Dutch colleagues to find out exactly how it was designed, how it is operating, and the lessons learned, and bring those back as well.

● (0930)

[*Translation*]

Mr. Robert Aubin: Thank you.

The Chair: Thank you, Mr. Aubin.

[*English*]

I think that's it.

I will go to Mr. Levitt, please.

Mr. Michael Levitt (York Centre, Lib.): Good morning, everyone.

I want to come to you for a second, Ms. Rhodes, or both of you. I want to go to a little higher level for a macro look.

We've heard from other witnesses earlier in this study the concern about placing too many constraints or expectations that will constrain the private sector investment and turn it from being a DFI into something that starts looking more ODA.

Ms. Rhodes, you raised a lot of suggestions around how this can tie into our international development priorities, which were very clearly articulated by Minister Bibeau just under a week ago. Is there a percentage level that you think can be set aside to deal particularly with projects focusing on women and girls? Do you think this should apply across the board to the full budget or annual allotment that's in the DFI? How do we still keep this as a thriving, functioning tool to bring in projects that might not have happened otherwise and also stay true to our development objectives?

Ms. Francesca Rhodes: All of the learning from working to try to achieve gender equality through development indicates that you need to have stand-alone projects that target women and girls, but you also need to make sure to mainstream gender equality throughout the programs.

You need to have a gender analysis of any program, which you're implementing to ensure that women and girls will be able to benefit equally from that program. I wouldn't say the focus on women and girls is going to be a discrete part of the DFI's mandate, but it needs to be able to learn from the experiences of Global Affairs and the development community globally. That is core to be able to achieve its goals.

I would say that the idea to focus on women entrepreneurs, for example, is a good idea, and there are definitely examples and ways that this can be done. Women experience the economy in a broad range of ways, and not all women are entrepreneurs. Women are in the labour market. Women are not in the labour market for various reasons as well. It's thinking about how we can use this opportunity and this type of financing to address some of those issues.

In terms of the experiences of other countries as well with their development finance initiatives, the evaluations show that when they are working very much towards the same strategies and the same goals in a focused way...so it does mean making choices. Canada has chosen to focus on a feminist approach and to focus on targeting women and girls, so it would make sense for the DFI to also focus on that approach.

When the DFI and the donor agency are working together towards the same goals, then that's much more strategic than to be working on separate strategies or issues, sometimes in the same country, with things that aren't linked together. That is much less effective.

Ms. Lauren Ravon: I'll jump in on that. We're thrilled that Canada has decided to take on a women's rights and feminist approach in its international programming. This is great.

The private sector has been at this for a long time. They know there are good rates of return from investing in women . It's good for GDP. It's good for the economy. The private sector usually makes the business case and we make the human rights case, but we're still going in the same direction. I don't think that encouraging private investments in women is going to be the hardest one in the sense that there is a profit to be made there, certainly, and the potential for growth is huge.

I was wondering if Francesca wanted to speak to a specific example with Goldman Sachs, because it shows that companies are willing to invest and there are good rates of return on these sorts of investments. There is a DFI-related program with Goldman Sachs on women's entrepreneurship.

Ms. Francesca Rhodes: This is a partnership between the World Bank, IFC, and Goldman Sachs. It's called “10,000 Women” and it's a program that aims to reach 10,000 women and small and medium-sized enterprises with financial products but then also with training and mentorship.

It's been running for a number of years and I think all the evaluations have shown much stronger businesses have been invested in, and job creation, and also that the women who have had the training and mentorship have reported very strong results. It's just one example of how you can direct this type of finance towards women and girls.

● (0935)

Mr. Michael Levitt: Thank you.

Before I move to Mr. Medhora, I have one quick follow-up question, because I know it's an area of focus and strength for civil society organizations like Oxfam. It's on the importance of local actors to achieving positive outcomes, to being able to get information back in terms of whether we're meeting the needs and hitting the mark on some of these projects.

What do you hear on the ground from case studies of successful DFI initiatives and successful projects that have really stood out for you? What is the importance of local actors?

Ms. Francesca Rhodes: The first thing to note is that, overall, there is a real lack of evidence and documentation, and that's globally on DFI activities. A lack of transparency is something that civil society has been raising time and time again. That's why at this moment we are calling as well for this DFI to make sure that it's open and transparent and can set the goals of what it's trying to achieve and then be able to report on them as well—involving local actors, as you said.

We particularly advocate to involve women's organizations to make sure that you're bringing forward their expertise in designing the investments, of course. It's essential to be able to design them in line with the priorities of that context, as well.

If you want to be able to support women entrepreneurs in Kenya, then the best people to go speak to will be the membership bodies of women entrepreneurs in Kenya, and ask them what the context is and what is needed and how those investments should be designed. Time and time again, consultation with a co-active is the best way to design any intervention.

The Chair: Thank you, Mr. Levitt.

We'll have to go to Mr. McKay, please. Go ahead, John.

Hon. John McKay (Scarborough—Guildwood, Lib.): You have to go to me...?

The Chair: Yes, I also want to. I don't have to but we'll talk about that later.

Hon. John McKay: Thank you for your charitable intentions.

Thank you to all our witnesses.

As the sponsor and author of the better aid bill, which is Canada's only legislated mandate for ODA, I have a parental and protective interest in seeing that the principles of the bill are incorporated into this entity, and hence I do like your idea of poverty reduction being the focus of this financial institution.

The reason for the bill in the first place is that governments wander, ministers wander. We put aid money into all kinds of projects having absolutely nothing to do with poverty reduction, but we try to dress it up as poverty reduction. I think the conversation as to what is poverty is an interesting conversation, but if you don't start at first principles—that the point of this entire exercise is poverty reduction—then you will be subject to the whims of any government or any minister, so I buy your core point.

The second issue, and I want to pursue this discussion, is that feminism has rightly been, if you will, woven into the government's approach. It's a good idea. The issue is that, if in fact you start to pursue smaller projects, you will up your overhead considerably. If you're doing mentorship, if you're doing expertise provision, and if you are upping your overhead per dollar loaned, you are going to have fewer dollars loaned, or you are going to possibly have to go to market rates, which are highly inflationary, or you're going to have to recapitalize on a regular basis.

I'd be interested in comments from both of you as to the possible unintended or unanticipated consequences of focusing on small and medium-sized loans, which will inevitably cut you out of the highly profitable other loans.

Ms. Lauren Ravon: Maybe I can start and Francesca can follow.

One thing is that we have to look at these investments. If they were highly profitable, the private sector would be investing in them on its own. These need a boost. They need some encouragement, so we're not looking at the same kinds of investments that the private sector would be making in any case.

● (0940)

Hon. John McKay: Maybe I misstated by saying “highly profitable”.

Ms. Lauren Ravon: Of course, but the issue of overhead is an important one.

I might be going out on a limb. I don't know if this has been done in other DFIs—and Francesca and our other colleague can speak to this—but there is something to be said for aligning the goals of our aid portfolio and the DFI.

For example, last week there was an announcement that Canada will be investing $150 million in local women's rights organizations. You can see a strategy where, for example, in any given country, you have investments in women's rights organizations through our aid programs strengthening women's entrepreneurship associations, women's co-operatives, and all the rest, and then have an investment in the same communities where you already have a strengthened base of groups to work with.

This is not to say there would be no overhead in the DFI investment, but a lot of the coaching, the capacity building, and the long-term support that you need to build up that base is happening at the aid level and the investment is capitalizing on what's already been invested in from the aid side. We can see those kinds of models.

I take our colleague's point on the issue of the burden of requirements of reporting and proof that is placed on the aid sector, and that understanding that it perhaps should be less for the DFI, but less overall. I think there's something that we're all facing in the development community, that we are really crushed by the administrative frameworks around aid. I know there's a statement in the new assistance policy to say this needs to be addressed, because in our efforts to be more accountable, we're actually less effective.

Hon. John McKay: I'm limited in my time. I want to get Mr. Medhora's comments on the inevitable increased costs of smaller loans, effectively.

Mr. Rohinton Medhora: Yes, indeed, and it also ties into the previous exchange on local know-how. If you want to be effective in the development sphere, you need on-the-ground expertise. If you have an operation of $50 million or $60 million a year, then how are you going to get the local nuance? Is it going to be by being in Montreal, or is it going to be by having a network of informants and professional staff around the world? It's likely the latter. The more you do of the latter, the higher the overhead. I think a small size is fine to begin, but this is not a long-term sustainable model. In the long term, there is going to have to be a difference in ratio, and the way to change that ratio is not by having fewer staff but by having larger lending activities.

Now, on the question of how one identifies these elements and whether it is easier to tack them onto existing priorities, I could make a case for you either way. I think the case that my colleague from Oxfam made—empowering women's rights organizations results in greater knowledge of women's entrepreneurship activities—is a good one. This, however, will require coordination between the aid officials who reside in GAC and the development finance officials who reside in EDC.

Frankly, it's not readily apparent to me that empowering women's rights organizations will lead to better market information about women's entrepreneurship. I could be just as comfortable saying to let the banking folks identify opportunities, whether in infrastructure or in technology start-ups, through other channels. If everything is homogenous, where do the new ideas come from?

That was the relationship between the former CIDA and IDRC. IDRC did not do absolutely everything CIDA did, and there was a reason for that. It was there that the experimentation happened. That's where the risks were taken. If something works, you then scaled it up and it became CIDA.

I'd make the same case with respect to the DFI. The DFI selects sectors that might not be in Canada's mainstream, and then lets them grow. It may be that over time an area, like using blockchain technology for democratic development, which is not in our current ODA priorities, might become an ODA priority because of something small and interesting and successful that the DFI did 10 years previously.

Hon. John McKay: Thank you.

The Chair: Thank you, Mr. McKay.

Colleagues, that will wrap it up for this hour.

I want to thank Mr. Medhora and the Centre for International Governance Innovation, as well as Ms. Rhodes and Madam Ravon from Oxfam. This was a very good discussion, and very helpful. There's a lot of interest in where this goes, the new DFI. At some point we're going to have to talk a little bit more about the effectiveness of a DFI that has a very small budget, what that means, and whether this is the first tranche of a government strategy. It would be limited to some extent when we compare it with other DFIs, if we were able to do that and compare apples with apples.

On behalf of the committee, I want to thank you very much for your presentations. If there's any other information you think this committee should have a look at, feel free to send it on to us.

Colleagues, we're going to suspend for five minutes and set up for our next witnesses, and we'll go from there.

Thank you.

● (0940)

(Pause)

● (0950)

The Chair: We'll have to get back in session. As you know, we have a very tight schedule, as is normal.

Before us today we have the Mennonite Economic Development Associates, with Jerome Quigley, senior vice-president. We also have Jessie Greene, who is with the Développement international Desjardins. Thank you for coming this morning.

We'll start with Ms. Greene, and then we'll go to Mr. Quigley. In accordance with normal practice, we'll go to questions after their short presentations.

Ms. Greene, the floor is yours.

[*Translation*]

Ms. Jessie Greene (Director, Investment, Développement international Desjardins): Thank you, Mr. Chair.

Hello.

[*English*]

Committee members, I'm very pleased to be here today to support the committee in its study of the development finance initiative.

Développement international Desjardins is part of the Desjardins financial group. It was established in 1970. It's a not-for-profit organization, and its goal is to share Desjardins' experience working in the financial sector and in the co-operative financial sector with institutions in developing countries.

Nowadays DID works with a broad range of financial actors in developing countries, and our goal is to improve access to quality financial services. Since 2009 we've been working especially with entrepreneurs launching these financial institutions or SME finance institutions in five different countries in Africa and Latin America, which we funded with support from GAC, Global Affairs Canada, as well as DFIs and private investors. In fact, we have been working with seven DFIs over the last eight years, just to give you a perspective on our experience with DFIs. They've provided about $21 million in support, a combination of grants. About 30% of that is technical assistance grants and then we have some debt and some equity.

My comments today are very much from the co-investor perspective working together with DFIs as well as the client perspective because we have received funding from DFIs. There are many advantages to working with DFIs. They're patient investors. They tend to take more risk than private investors. We can often get larger amounts from DFIs than from private investors. They tend to be the ones who stay when things go less well. In an economic downturn, private funding tends to disappear whereas DFI funding will often stay. They provide investments in local currency, which we find essential in developing countries. In fact, when DID makes investments in exotic currencies, we use an agency called TCX, which is a hedging agent for exotic currencies. That didn't exist before. It was set up by a group of DFIs.

There are many advantages to working with DFIs, but there are also some disadvantages or challenges, I should say. They tend to be a little inflexible and bureaucratic. Our experience is that it's very difficult to obtain smaller investments from DFIs. When we started launching institutions in sub-Saharan Africa, we just needed small investments. We were looking for less than a few million dollars, and the DFIs told us that was just way below their minimum ticket size. Most of them start at $7 million or higher. That makes it almost impossible for start-ups and for innovative new initiatives to find funding from DFIs. We think it would be helpful for the DFI to reserve a part of its budget for smaller transactions or for investing in start-ups.

Working with DFIs sometimes involves long delays and complicated legal negotiations. Just to give you an example, it took us three years to negotiate a relatively small equity investment with a DFI quite recently—three years. We think it would be very innovative for the DFI to have a bit of a lighter touch, especially when it comes to smaller investments. Thinking a little bit outside of the box, when Desjardins' private equity investment team wanted to make their services more appealing to SMEs or to entrepreneurs, they replaced their standard 40-page shareholder agreement, which always involved years of negotiations, with a four-page shareholder agreement. This was completely revolutionary. If a DFI did something like this, it would be a small revolution.

We would hope to see a flexible DFI that has the possibility to be at least flexible with a part of its budget. We believe this would allow for innovation. On the question of how the DFI should measure outcomes, I very much agree with Mr. Medhora, who spoke before, that we shouldn't seek to measure outcomes. Outcomes can only be measured in a controlled environment where we know all the variables, and for an investor, that's impossible.

● (0955)

We believe that the DFI should be requested or required to report on its outputs and activities. We want to ensure that the conditions are in place to create the desired outcomes, but from our point of view, it wouldn't be realistic to ask an investor to measure outcomes.

We're very pleased with the establishment of the DFI, but we are concerned that this could lead to the perception that the government shouldn't engage in any other kind of investment for development. We see the DFI as part of a continuum, so on the one side we have pure aid, at the other end we have pure investment, and in between there can be a mix of the two in this kind of continuum.

Although Global Affairs Canada is not currently enabled to invest in initiatives that are for profit, we would love to see that in the future. We think that would allow for investments that are riskier and in countries where perhaps the DFI wouldn't be able to invest. We hope the government will continue to develop a wide range of complementary development tools, where riskier investments could be done by GAC, for example, and perhaps the DFI could combine some of its investments with donations for capacity development. We think that would be very helpful in riskier sectors such as agricultural finance.

We certainly respect and agree with the need for the DFI to be autonomous, but we do believe that if the DFI is to distinguish itself internationally, it is essential for it to work in complementarity in some way with the other Canadian development actors. IDRC, GAC, and civil society would be the ideal way for the DFI to really show its complementarity to Canada's development strategies. We believe this could be done with at least a part of its portfolio.

There has been a lot of discussion about blended finance, whereby public funding is leveraged to attract private funding. Obviously the simplest and most common way of doing that, which DFIs do often, is to subordinate their investment to the investments of private investors, but we don't think that's the only way. We've seen many different kinds of structures that we believe could be called blended finance and that could be considered blended finance as well. In fact, why not think of a structure where Canadian investors or Canadian citizens could invest in the DFI or buy shares in the DFI? To me, that would be a truly innovative case of blended finance.

● (1000)

The Chair: Thank you, Ms. Greene.

We'll go to Mr. Quigley, please.

Mr. Jerome Quigley (Senior Vice-President, Programs, Mennonite Economic Development Associates of Canada): Good morning.

First of all, thanks to the committee for the opportunity to submit today. Greetings from Waterloo, Ontario. We appreciate your facilitating this by Internet.

Good morning, Jessie, who we know well. We respect Desjardins quite a bit.

My name is Jerry Quigley. I'm senior vice-president for Mennonite Economic Development Associates, also called MEDA. I would like to start very simply with three contextual comments on the DFI, and then go to two recommendations that MEDA would make.

The first contextual comment is that MEDA generally supports the creation of a Canadian DFI. We congratulate the current government for seeing this important initiative through.

The second contextual comment is that, at the initial $300 million over five years, we believe this DFI is too small to act like other DFIs. OPIC is investing about $1.6 billion annually. CDC has net assets of somewhere in the neighbourhood of $5 billion. To be meaningful, the Canadian DFI at that level must be bold.

The third contextual comment is that this is the first DFI to be created in the last 20 years. Twenty years is a lot of time to learn, so what have we learned and what can we do that is new?

I'll move on to the recommendations. MEDA believes that there is really no better place to start than a recent quote from the Canadian International Development Platform group.

> Development impact and additionality should be at the top of the mandate. The DFI must work complementarily with Canada's wider development strategy.

That is a comment that can be found in the recent CIDP publication called “How Can Canada Deliver? Responding to the Changing Global Development Context”.

First, to their comment about additionality, other countries agree and acknowledge that Canada is an innovative global leader in the area of blended finance. We hear that all the time in the U.S. and the U.K. The DFI offers an excellent opportunity for Canada to grow that reputation and work. The world does not need another baby DFI that competes with other DFIs and private capital for low-risk, high-impact investments in low-income countries. Doing so, or trying to do so, would make it a lightweight, pale duplicate of what all the other DFIs are doing. The world needs a DFI that acts as a catalyst to private capital.

Think CMHC. It is not a perfect example in the development space, but it makes a point. CMHC does not offer mortgages in competition with private lenders, but it takes on risk that allows private capital to flow where it otherwise would not. This should be a focus of the DFI.

If the DFI can truly catalyze private capital, the result can be innovative, transformative, and catalytic. We will know the Canadian DFI is successful by how much private capital it crowds in. Other DFIs are criticized for competing with private capital. That is why we think the DFI must be linked to Global Affairs Canada's new office for innovative finance. The combined result should be bold, different, and disruptive, doing things that no other DFI is doing. That means it probably won't have the lofty returns of its contemporaries in other countries, but it will make a bigger difference.

Second is the issue of development impact. Given its size, the DFI might consider a sectoral or geographical focus.

● (1005)

For instance, it would be innovative to de-risk private capital for investments in environmental infrastructure or women-led businesses or health. However, in development there are always trade-offs. We know that. More narrow focus may undermine greater additionality, keeping in mind that there is an inverse relationship between the willingness of private capital to participate and the narrowness of the opportunity. Narrow fields of investment is one factor in risk. For instance, investments in the health sector in east Africa is a very small pool, but the DFI also has few resources with which to fish, so maybe it needs to be selective. That said, the DFI is new and therefore has a window of opportunity to shape itself to achieve greater impact in a smaller space.

My next comment is aligned with that of Desjardins that the DFI should consider working with Global Affairs Canada to offer sidecar technical assistance to augment and enhance its investments. MEDA's INFRONT project confirmed that many businesses want to do the right thing. INFRONT is a pioneering Global Affairs Canada-funded blended finance project with $15 million of de-risking capital from the Canadian government paired with $5 million in technical assistance to the businesses that are investee companies. We have found that most INFRONT private business owners are genuinely concerned about issues such as poverty, the environment, and women's participation. The DFI will quickly learn that the impact of its investments can be greatly enhanced with targeted additional support from Global Affairs Canada to the investee companies.

Finally, it is good to see that Canada's feminist international assistance policy supports such approaches. I quote two things from the new policy. First, it says:

> New instruments such as repayable contributions will be introduced that will better enable Canada to mobilize new streams of financing for underserved private sector partners in developing countries, including woman-led businesses.

Second, the recently released policy says:

> Canada's contributions will also be leveraged by expanding and enhancing the options to contribute to initiatives through funding relationships that present a mix of repayable and non-repayable support.

It just needs to find a meaningful way and in collaboration with the new DFI.

Thank you for the opportunity this morning to share our views on the DFI. I turn it back to the chair.

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

I like the start of this discussion because one of the things that we are very interested in is, if we're going to be a new DFI, what does it mean to be bold and higher risk? We would like to see the witnesses reflect on that. Does that mean a lower return instead of the 7% people talk about? Does it mean 4%? These are discussions that need to be had and Canada, I'm sure, would like to lead the world.

I start this conversation by having people think a little bit about that, because if we're going to make recommendations to the government we're going to have to touch on those particular areas. You started it off in a very good space, as did Ms. Greene.

I turn it over to Mr. Allison to start the questions.

Mr. Dean Allison: Thank you very much, Mr. Chair.

To our witnesses, thanks for being here today.

Mr. Quigley, I'll start with you. My thought process is that we look at a DFI as just another tool in the tool kit in terms of what we can do. We do great things when it comes to humanitarian and disaster relief, vaccinations, all those kinds of things. My personal thought, though, has always been that if we don't create economic activity, if we don't create jobs or find a way for some of the things we do to be sustainable and work as part of that stuff.... That's one of the spokes in the wheel, if you will, in trying to make sure that everything happens. We can educate people, get them healthy, but if they don't have work at the end of the day we still have a vicious cycle that continues. That's why I like a DFI, for the potential that I think it can create.

You talked about acting as a catalyst for private capital. Would you talk about that a bit more? I know we've had some people say that $50 million or $60 million a year is not enough, that we may need to float bonds or do other things. I like the idea of being a catalyst for private capital. Can you give us your thoughts on what you mean by that and expand on it?

● (1010)

Mr. Jerome Quigley: Sure. Let me do that by giving you an example that already exists in the Canadian development space.

The project that I was talking about, INFRONT, which stands for Impact Investing in Frontier Markets, is a Canadian-funded project that provides incentive to the private investors to make their investments.

The incentives are in three forms. The first incentive is that it takes the first loss. This is Canadian government money. If there are private investors in these investments overseas, if there is a loss, the Canadian government takes the first loss. The second incentive is that it doesn't take any upside on its investment. You guys talked about how much is the right amount of return. On this particular one, it's zero return. That's probably too little, but it's another example of why other private investors, to the tune of $260 million, were willing to come into this investment fund.

The investment fund was sold about four years ago. The industry resounded with a lot of private capital. We're trying to do the same thing with the current fund, in which there is no Canadian government support or there is no Canadian government de-risking facility. In that fund, we're having a very difficult time selling to private investors because private investors are, frankly, afraid of investing in these frontier markets. That is an example where, when Canada did de-risk, private capital flowed in. When Canada didn't help to de-risk, it was much harder to raise private capital.

Mr. Dean Allison: Thank you.

That's part of the challenge. We're trying to go back to taxpayers and sell them on the benefit of this, realizing that the government or their taxpayer dollars might take the first hit. I realize you said that was just an example, not the only one but those are the things we also have to balance. That's why I'd like maybe a more reasonable rate of return but still some there.

Let's go to Ms. Greene around the same thing, because you guys have partnered with some DFIs. I love what Desjardins does with microfinance as well. I think those are important tools. The challenge around some of these things is managing those programs on the ground. You talked about making it simpler to be able to participate with a DFI. Why don't you expand on that a bit?

I realize that if you're talking about a 40- or a 50-page shareholder agreement, with these kinds of things it's three years to get a deal done. Talk to us a bit more about what you have in mind.

Ms. Jessie Greene: The main complication in working with DFIs tends to be that they have very heavy legal departments. This heavy legal approach just doesn't work very well when we have local partners.

We're working with organizations. We invest in microfinance or financial inclusion institutions in different countries. They're having a fantastic impact on the ground, but they might have one legal adviser or maybe they work with an external company. When a DFI comes with a 50-page loan agreement, they'll just sign and not understand everything that's in there, all the consequences that it can have. This is not a development approach. This is an institution trying to cover all the bases for every possible legal eventuality in a country where really the legal system is, let's say, not Canada's.

Thinking practically, looking at the reality on the ground, if you want to work with local partners, you have to adapt to the local situation and to local capacity. If an institution is not willing to do that, it will have to work with large international institutions that then have their own partners on the ground.

In our case, we often do that for our partners, so if a DFI is interested in investing together with us, for example, we would try to act as the legal interpreter between the two. However, the reality on the ground is that this heavy legal approach is not realistic.

● (1015)

Mr. Dean Allison: Thanks.

The Chair: Thank you, Mr. Allison.

We'll go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning to you both.

Mr. Quigley, I'm the member of Parliament for Kitchener Centre, so I had the opportunity to visit the MEDA offices last year. One of the things I took away from that visit was the long-term nature of the investment that MEDA had. There was one particular project that you were involved in, and I'm sorry if I don't remember the country correctly. I think it was a dairy plant in Guatemala, which I believe was a 15- to 19-year investment.

Because you are practising investments in areas that require that, can you give us an idea how you decide what the project parameters will be and how you determine the length of the commitment to that project?

Mr. Jerome Quigley: First of all, thank you. We appreciate your representation of Kitchener. Thanks for visiting our office.

Mr. Raj Saini: Thank you.

Mr. Jerome Quigley: The investment that you're talking about was actually in Paraguay. It was a dairy, so your memory on that is great. It speaks to the history of MEDA. MEDA started 65 years ago as an investment fund. It was an investment fund started by about 10 Mennonite businessmen—they were all men at that time—who thought that development should be done in a different way. They didn't really call it development at that time. They just wanted to help in South America. They all invested their own money into a pool. That pool was used to invest in a number of businesses in Latin America. These members actually went down and mentored. They gave advice. They gave their own money. They did it all from an investment perspective. This is the history of MEDA.

I think what you're referring to there is that those original 1956 dollars still exist in MEDA. We have them as part of a capital pool that we continue to use to this day. I want to quickly make the point that when the Canadian public asks why we should underwrite the investment of, for instance, private entrepreneurs in these areas, part of the answer to that is the fact that this money stays around. It doesn't get spent. It's used very productively, and then it's returned. It can be used again. I think that's very powerful.

How do we decide on how long? I think that's very case specific. It's contextual. We invest in investment funds for very long periods of time because the investment fund lasts for 15 years, for instance. It's a fixed-term investment fund. However, we also invest in banks and microfinance institutions with short-term capital for one year to 18 months. It's a very contextual question. It depends on the issue that we're trying to deal with.

Mr. Raj Saini: Ms. Greene, you talked about sectoral or geographic forms of investment.

The question I have is with regard to when you're making investments. Let's take banking for an example. I know this has happened in India where there's a lack of banking in rural areas. What they've done is to try to give everybody an Interac card to make it easier. The problem is that certain infrastructure is still required on the ground before those services can be utilized.

What is the interplay between ODA and DFI? How do you balance that? There are certain things that official development assistance will have to do prior.... There has to be an infrastructure system there prior to certain services being brought in. How do you balance the two?

Ms. Jessie Greene: I think that's a very good point. It's a dilemma or one the challenges of investing for development.

The thing with microfinance is that it's been around for quite a long time. Many grants were made throughout the world in emerging countries to help bring up microfinance. Initially, it wasn't seen as something to invest in. Because the infrastructure was built up, eventually they created investable institutions that are profitable and offer great quality services to their members or clients. Eventually, we could invest in them. It takes a long time to build up that infrastructure.

Often what we see now is that, in new sectors or in new geographical areas where these institutions don't exist, investors come in without having in mind the fact that there was such a long history of building up that infrastructure initially with grants. That's why we believe in the need to combine the two.

For example, in agricultural finance, the returns are terrible at the moment in developing countries, even in developed countries, really. You need to create this whole infrastructure with agricultural insurance and capacity building for farmers, using the right inputs. It's quite a complicated system where just investment isn't enough. That's why we advocate for a combination of the two where needed.

There will be sectors where, yes, the infrastructure is in place. They are very investable and have good returns. However, we'd like to see a portfolio approach where at least some of the funds from the DFI are reserved for these more innovative sectors where some donations will still be necessary.

● (1020)

Mr. Raj Saini: Mr. Quigley, do you have any comments?

Mr. Jerome Quigley: I would agree.

I don't mean to generalize, but the work of investment is more risky and more difficult the further into poverty you want to reach, and I think that requires creative and innovative approaches. We would very much agree with Desjardins on this issue of mixes of investment and technical assistance or grant dollars.

Mr. Raj Saini: Thank you.

The Chair: Thank you, Mr. Quigley.

We're going to go to Mr. Aubin, please.

[*Translation*]

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

I want to thank the witnesses for participating in our meeting.

Ms. Greene, I'll start with you. A sentence in your opening remarks really resonated with me. You said that you're pleased with the establishment of a Canadian DFI, but also concerned.

The Canadian government is preparing to invest in a DFI, but has held back on investing in official development assistance for the past few years. Aren't we sending a mixed message to future investors? Aren't we saying that we want to pass the investments on to them rather than embrace this additionality concept, which has been heavily discussed but is harder to measure?

Ms. Jessie Greene: I completely agree with you. We're very concerned about this.

We were pleased to learn that the government won't use aid money to fund the DFI. We understand the funds will be added to the budget. One doesn't replace the other. It's an additional tool.

However, we want to see the percentage of the aid budget increase rather than decrease, along with the addition of other tools.

Mr. Robert Aubin: My second question is for both witnesses.

The Canadian government said it wanted to be among the leaders with this DFI, which has a relatively or even downright modest budget.

The budget's size won't make us a leader. However, could we achieve this goal by focusing on the DFI's ability to distinguish itself from the other DFIs on earth?

I'll ask Mr. Quigley to answer first.

[*English*]

Mr. Jerome Quigley: I agree that it's a small amount. It needs to have a way to distinguish itself, and I can think of no better way than the blended finance leadership that Canada took over the past five years on the international stage. In my opinion, that is the answer to how this DFI can be innovative.

● (1025)

[*Translation*]

Mr. Robert Aubin: Ms. Greene, do you have anything to add?

Ms. Jessie Greene: It's certainly challenging to distinguish yourself with a smaller budget and the goal of being profitable as quickly as possible. With a very clear mandate or very specific areas of focus, the DFI could distinguish itself and become a leader in certain areas.

Mr. Robert Aubin: Could it be the major bank of small investments, for example?

Ms. Jessie Greene: Yes. That's one example.

However, if the DFI focuses only on small investments, the operating and administrative costs will be higher.

As an investment manager, I would want the DFI to have a clear mandate and to distinguish itself in one or two specific areas. If the DFI tries to cover all the areas, it won't be able to distinguish itself.

Mr. Robert Aubin: I was also struck by your comment that it could be worthwhile to ask citizens to help fund the DFI. That's likely the main purpose of Desjardins, a co-operative movement. Did you have a model in mind when you suggested this?

I find the idea interesting, especially since it could result in a vision that looks less like an act of charity and more like a duty to share on a global level.

Ms. Jessie Greene: I don't know of other DFIs that have a model like this one. The Dutch have the FMO, which is funded partly by the government and partly by the banks.

However, there are a number of European funds. European law allows for much greater risks in retail banking, so there are a number of funds in Europe. These funds are registered in particular in Switzerland, Luxembourg and the Netherlands. They enable citizens to invest amounts that are then directly invested in developing countries. They offer benefits when it comes to tax credits, for example. A similar mechanism isn't possible under Canadian law.

We must take this challenge into consideration when determining the product to design in partnership with the Desjardins members. We do have a large pool of people who may be interested in investing in development. However, no structure in Canada currently allows for this. I dream of a model that would allow for this. Perhaps it could be created through the DFI or another way.

Mr. Robert Aubin: To make the returns good or attractive for citizens who want to invest part of their savings, which should probably be used for their retirement, we must combine tax deductions with returns that would obviously be lower that those provided in other markets. We must have a type of hybrid model.

Ms. Jessie Greene: Personally, I don't think the returns would necessarily be lower. A fund can be structured to make the returns acceptable. In any case, the returns are very low right now. Tax benefits could certainly promote investment.

However, in my experience, European citizens don't ask for a very high return. They're simply happy to invest in development and to recover their capital, nothing more. The Kiva institution in the United States takes loans from citizens and invests the money in microfinance in developing countries. It doesn't offer any return. However, it's very popular. Each year, it attracts more members, who loan their money and recover it later. Their return is actually a social return. The lenders have access to information and can even choose which institution and client will receive their loan. For example, they can choose that their money be used to help a woman in Ghana launch a business. It's satisfying enough for them to take the risk.

Mr. Robert Aubin: Mr. Quigley, what do you think?

The Chair: Thank you, Mr. Aubin.

Mr. Robert Aubin: Oh. That's too bad.

[*English*]

The Chair: I'll go to Mr. Sidhu, please.

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

Thank you both for your engaging remarks this morning.

My question is on the issue of accountability and good governance practices in the context of public-private partnerships, such as in the case of the proposed DFI. Last Tuesday at a committee meeting, we discussed that DFIs have not been immune to controversy, like the investment in a shopping centre in Nigeria. That project doesn't really appear to be a sincere poverty reduction initiative.

How can accountability measures be enforced with the private sector to ensure that projects serve a development purpose at a fundamental level?

First, I'll go to you, Ms. Greene.

● (1030)

Ms. Jessie Greene: I agree that no institution will be immune to controversy. They should allow for some degree of failure. In fact, they should share their failures. To me, the most interesting kind of accountability would be to share failures, besides reporting on outcomes and activities, which it should do, of course. This is something we rarely see in development or from DFIs either.

I would be so pleased to see a DFI share its failures. This is something that's taboo in development but very common in investment. Private equity actors know that if they invest in 10 companies.... The theory is that two will fail, six will be kind of middling, and two will outperform and make for a good return in a fund. In development, we never say that we're going to have 10 projects, that two will fail, six will be average, and two will be great. This is a discussion that I would strongly encourage the DFI to have.

Mr. Jati Sidhu: Go ahead, Mr. Quigley.

Mr. Jerome Quigley: That's a very good question. How do we make sure our investments are responsible? We just completed a 60-page due diligence report on a bank in Ukraine.

I would argue that, although the countries, the societies, and the legal framework in the countries we're working in are less advanced and less mature in their legal and regulatory frameworks than in North America, the investments made through DFIs and organizations like MEDA and Desjardins are subject to an intense amount of scrutiny and analysis, even more so, I would argue, than some of the investments in North America. I suggest this is designed to offset the lesser regulatory environment in these countries.

Be assured that when you're working in this area with DFIs—and presumably with the new Canadian DFI—and with private sector investments, they are subject to intense analysis to make sure they are environmentally sound, are reaching the right places, and to the extent possible, are not putting people at undue risk.

Mr. Jati Sidhu: Can you give an example of where a DFI project has been instigated, and what the project should look like?

Mr. Jerome Quigley: I'll jump in and then let Jessie take over from there. For example, we currently have an investment of $2 million in a company called Business Partners International as part of a project we manage in Kenya. This is a company that takes that money and makes it available to small companies. We're talking companies in the range of $50,000 to $150,000 or $200,000 in equity or net worth.

All the DFIs you could check off on your fingers are involved in that investment: FMO, World Bank, IFC, and EBRD. This is a practical example of where Canadian government money is merging with that of existing DFIs, making it available to small companies in Kenya to great effect.

● (1035)

Mr. Jati Sidhu: Okay.

Ms. Greene.

Ms. Jessie Greene: I have lots of examples in mind, but one of the DFIs I think is doing very good work right now in Central Asia is EBRD. There's been a very difficult economic situation in recent years in Azerbaijan, Tajikistan, and several other countries. Whereas private capital flows have disappeared and many DFIs have stopped investing, EBRD continues to invest in local currency, even though the currencies are very risky at the moment, while providing technical assistance grants to help institutions manage risk. They're focusing on risk management to help institutions overcome the economic difficulties, while also providing capital when capital has dried up. That's definitely additionality for a DFI.

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

Mr. Fragiskatos, please.

Mr. Peter Fragiskatos: Thank you very much, Mr. Chair.

I wonder if you could go back, Ms. Greene, and talk about some of the decisions Desjardins makes when it comes to prioritizing investment and some of the factors that weigh on your decision-making. Why particular countries over others? Certainly we're seeing good corporate citizenship here on the part of Desjardins.

Is poverty reduction at the top of the list, and how do you measure poverty reduction? I brought that up earlier, but I think it's central to the discussion here.

Ms. Jessie Greene: Thank you. It's a good question.

On the way we choose our countries, basically we're looking for countries where access to finance is low. We're a small investor on the global scale in microfinance. There are some very large funds investing these days. We're looking for countries where access to finance is low. There's an excellent database, created by the World Bank, called Findex. They surveyed one thousand in every country and made this database where you can see the percentage of access to credit and to formal accounts. It's very detailed. It goes according to women, men, regions, and all kinds of financial products.

We use this database first of all to target specific countries where the need is higher, although maybe not the highest. For example, I mentioned Tajikistan, where 5% of people have access to a formal savings account. We believe the need is high. This is a social impact opportunity but also a business opportunity. If 95% of people don't have access to finance, surely some of them would need some access. In Canada, access to a formal savings account, just to give a comparison, is 97%. That gives you an idea of what percentage of people would like to have access.

On the question of poverty reduction, of course when microfinance started out, especially in the 1990s or early 2000s, there was a lot of focus on microfinancing for reducing poverty. This leads to very strong demand, then, to prove it, but everyone needs financial services. We all use financial services. We need loans to finance our homes. We need loans to go to school. It's very difficult to prove that the fact that I have access here to financial services helps me get out of poverty. It's been equally difficult to prove this as the determining factor that helps people get out of poverty. Countries may be developing. Some people are more entrepreneurial than others.

The truth is that financial services can also be harmful, because if you get into too much debt, if you get different loans from different institutions, that could lead to over-indebtedness. We even heard about suicides in India. Then people can turn around and say, “How could you say that this led to poverty reduction? It led to suicides.” I think it's quite risky to say that financial services lead to poverty reduction. They lead to economic development. That we know for sure. We shouldn't have to prove, time and again, that financial services are useful to people.

That's just one example. I don't think the focus should be on proving, every time you did an action, that it led to poverty reduction, because there are too many factors involved in poverty. As you mentioned before, poverty is very complex. It's not just GDP. It's not just access to education or health. We believe we have to put in place the factors to ensure that poverty reduction will occur, but we shouldn't have to prove it every time.

● (1040)

Mr. Peter Fragiskatos: Thank you very much.

The Chair: Can you make it a short question, please?

Mr. Peter Fragiskatos: Okay.

I'll go to you, Mr. Quigley, for your thoughts on this whole debate. I think it's so crucial to the discussion that I'll continue to focus on it. Can you give me your thoughts on how we ought to define poverty here?

To be very frank, I think poverty is more than not having money in one's pocket. There are all sorts of other measures that we need to look at if we're going to be serious about addressing poverty, through a DFI or through development policy in general terms. What is your position on this?

Mr. Jerome Quigley: On the definition of poverty...?

Mr. Peter Fragiskatos: Yes. How should we define poverty and how should we measure it? If this is going to be included in the mandate of a Canadian DFI, then I think it really speaks to basic principles here.

Mr. Jerome Quigley: On poverty reduction, there are many forums and many calculations. Definitions of poverty don't mean only less purchasing power and less than $150 U.S. per day of income. There are many different measurements, and I would obviously agree with you that they're not all equal and they're not all very indicative of the meaningful change in people's lives that we are all trying to achieve.

Let me just explain. I think the crux of your question is how we measure poverty reduction relative to investment. Measuring that is perhaps more difficult than measuring direct intervention, so I'm agreeing with you on that. The measurement of poverty relative to investment is much more difficult. You can measure at the level of the investment. You can measure whether they are creating jobs. You can measure whether they have policies in place that empower women in business. You can measure whether they have environmental policies and procedures in place. Those are all the kinds of things that are very important to the abolishment of poverty, but they don't answer whether it changes the lives of people in the communities that they serve.

MEDA is working with the University of Waterloo to try...and that's a question for not only MEDA or Desjardins or the Canadian government in the establishment of the DFI. The question that everybody is asking in this development impact investing space is how we measure impact, if you're calling it impact investing. MEDA—

Mr. Peter Fragiskatos: Mr. Quigley, I don't mean to cut you off, but I have the sense that I have about 15 seconds left before the chair intervenes.

Should we make it a point to have a diverse approach when it comes to this, as far as the DFI is concerned, so that middle-income countries are invested in, because poverty exists there, and also not to ignore LDCs because poverty obviously exists there?

My understanding and everything I've heard from the witness testimony today and in other meetings we have had would indicate that we must have a broad approach and not limit ourselves to either, but proceed in a way that's going to address poverty and development concerns in general terms.

The Chair: Mr. Quigley, we'll ask you to give us a short yes or no, because we want to go to Mr. Kmiec before we wrap up.

Mr. Jerome Quigley: Very quickly, I would take the opposite. I would say it should be less broad than more broad because you don't have a lot of money.

The Chair: Thank you.

Mr. Kmiec, go ahead, please.

Mr. Tom Kmiec (Calgary Shepard, CPC): How much time do I have?

The Chair: You have five minutes.

Mr. Tom Kmiec: That's very kind of you.

[*Translation*]

Ms. Greene, you talked about commercial banks and the idea of savings accounts being used for international development. The system is popular in Europe in certain DFIs. Can you describe how the system works? I also want to know what tax measures benefit those who use the system.

● (1045)

Ms. Jessie Greene: I'm most familiar with the Dutch system. The Dutch government first gave a tax benefit to institutions that created funds that enabled citizens to make types of impact investments. They weren't necessarily development funds. They could also be environmental funds. In the end, four funds were created by different banks. These include the Triodos Bank and the ASN Bank. Various financial institutions established these funds, which are mutual funds. Therefore, any citizen can buy shares. The funds are then invested according to the institution's mandate, while meeting the conditions imposed for entitlement to the tax benefit. In the case of the ASN Bank, a mutual fund was established in which people could buy shares. Unless I'm mistaken, the fund is currently about 70 million euros.

At first, investors had a tax benefit. People could deduct their investment, or the interest received on these investments. After several years, the tax benefit was eliminated. However, the contributions didn't decrease. Instead, they continued to increase. The tax deduction provided an impetus to establish the funds, which then continued to exist.

Mr. Tom Kmiec: I have another question.

Regarding the projects in which you choose to invest, how do you decide the risk you're willing to take? For example, do you decide that you won't invest more than 25% or 50% per project? Most international DFIs don't allow you to invest more than 25% or 50% in equity in a project. I think Norway's DFI chose to establish a percentage for each project. This means the DFI's mandate doesn't specify a maximum percentage of investment in a project.

For Caisse Desjardins, what's the maximum per project? Is it established by region?

Ms. Jessie Greene: DID has two investment funds. We invest with our own money, DID's equity. Part of our money is set aside to invest in financial inclusion. The risk limits are based on the countries, structures and funding tools we use. We also have another fund, a limited partnership that has external investors, including Desjardins and EDC. This fund has slightly stricter parameters.

Therefore, we establish the risk limits based on our own priorities. We have a fairly elaborate risk assessment model that sets several limits for the tools, currency, and duration in the case of a longer investment. We invest about 60% in equity. We still take many risks, in comparison with a number of DFIs.

[*English*]

Mr. Tom Kmiec: Do I have time for one more question?

The Chair: I don't think so, Tom.

Mr. Tom Kmiec: That's fine.

The Chair: I want to wrap this up because there's another committee coming in here in about 10 minutes. I understand that they will have a minister with them as well.

I want to thank our witnesses from Desjardins and from the Mennonite Economic Development Associates. On behalf of the committee I want to thank you very much. It was a very interesting discussion this morning on the DFI. Again, I'd go back to the conversation we've been having that this is the first new DFI in 20 years. That, in itself, is news that we're moving potentially in a new, bold direction and I liked that discussion this morning for sure.

Colleagues, have a good weekend in the riding. We'll see you on Tuesday morning as usual.

The meeting is adjourned.