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Better Institutions | Better Outcomes

Optimizing Development Finance Levers to Meet the 2030 SDGs:

RECOMMENDATIONS REPORT FOR CANADA

Developed with the support of Bill & Melinda Gates Foundation

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BY **INTERNATIONAL FINANCIAL CONSULTING LTD.**

1 | INTRODUCTION

This Recommendations Report offers ideas **on how to strengthen the Canadian international development financing landscape towards mobilizing additional capital to support the 2030 Sustainable Development Goals (SDGs).** The report is intended to bring insights about where and how Canada can increase impact and influence.

The framing of the recommendations is through the Integrated National Financing Frameworks (INFFs), a developing country-led initiative promoted by the UNDP as a financial strategy to meet their national development plans. INFFs are a planning and delivery tool to help strengthen planning processes and overcome obstacles to financing sustainable development and the SDGs at the national level. INFFs spell out how the national development strategy can be financed and implemented, using a variety of public and private financing sources from domestic and international sources. A key feature of INFFs is "country ownership" in which the developing country not only sets their national development plan, but also the strategy to finance that plan.

This report considers how the Canadian international development finance system can maximize financial resources available to achieve the SDGs.

SUSTAINABLE DEVELOPMENT GOALS

2 INCREASING THE DEVELOPMENT FINANCE ENVELOPE

There are four quadrants depicted in the INFF which categorize the sources of development funding that could be harnessed to meet the SDG financing requirements. The figure below depicts these areas from the perspective of the developing country.

Key Initiatives to Unlock Additional SDG Finance

DOMESTIC PUBLIC
Initiatives to enhance revenue and streamline expenditure

INTERNATIONAL PUBLIC
Initiatives to attract additional financing from donors, DFIs, ECAs and MDBs.

DOMESTIC PRIVATE
Initiatives to attract additional financing from local commercial banks, local investors, pension funds, intitutional investors, etc.

INTERNATIONAL PRIVATE
Initiatives to attract financing from institutional commercial banks, institutional investors, foundations, diaspora, etc.

Source: Adapted from www.inff.org for this Report

Description of 4 INFF Quadrants

To consider the “**supply side**” of the balance sheet, the INFFs consider potential sources of capital that can bridge the financing gap. These are represented in four quadrants of potential financing providers -- domestic public, domestic private, international public, and international private. Several different potential financing initiatives can be positioned in each quadrant.

Q1: DOMESTIC PUBLIC SOURCES

This quadrant covers public sector strategies to increase a country’s domestic sources of capital, including tax reforms and more efficient budgeting and spending, targeting more resources toward the SDGs. The initiatives in this quadrant refer to better public financial management (PFM) that include addressing “leakages” from national budgets associated with illicit financial flows and weak tax collection capabilities. Enhanced revenue (or removal of subsidies) includes a requirement for government-owned enterprises to improve their financial results, pay dividends, be privatized. This quadrant also covers better management of the sovereign wealth funds, and a healthy, well-functioning and well-capitalized National Development Banks (NDB) mandated to finance market gaps and promote development as a key domestic public instrument to finance the SDGs.

Q2: DOMESTIC PRIVATE

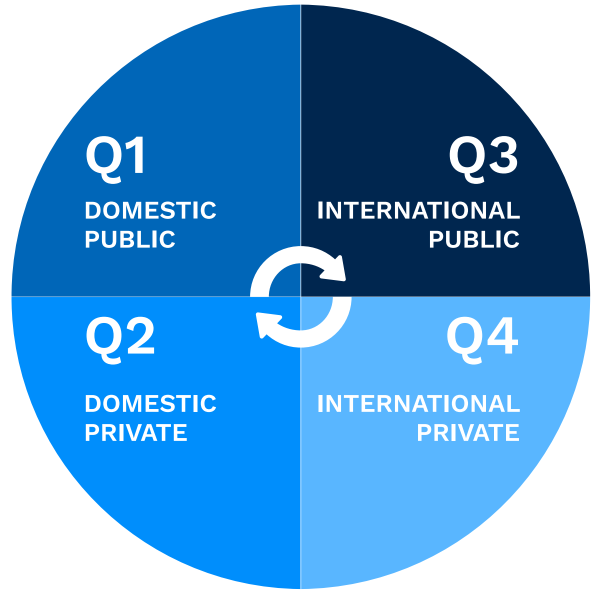
Mobilizing private capital within a developing country is necessary to expand available SDG financing. Local developing country financial institutions, including banks, pension funds and other institutional investors, as well as individual investors, can - and should - figure prominently in domestic SDG investments, particularly long-term, local currency investments in key sectors such as infrastructure. Tools and instruments to attract domestic private capital include creating a more conducive enabling business environment with incentives to encourage domestic investors to support in-country SDG-aligned investments. Access to funding for SMEs through provision of guarantees and other instruments is also considered.

Q3: INTERNATIONAL PUBLIC

This quadrant holds levers to influence the other three quadrants. International public sources of capital contribute a meaningful proportion of the annual budgets of many lower income developing countries and play an important role in financing large infrastructure projects and private sector development. It is important that donors understand how best to leverage ODA to attract international private capital to these countries and key donors, like Canada, must deploy limited ODA strategically to facilitate a healthy and diversified mix of financing resources. For a specific country's INFF, this quadrant also encompasses the initiatives and strategies that are required to help access climate finance from international sources.

Q4: INTERNATIONAL PRIVATE

The international private sector provides a wide range of financial resources that could be more effectively channeled to meeting the SDGs. Commercial banks, with guarantees from OECD Export Credit Agencies or DFIs, play an important role in financing sustainable development projects. The domestic developing country government can undertake initiatives to help create a more attractive business environment to attract capital, such as promoting a favorable investment framework to attract more FDI. Remittances also can play a critical role, making up almost 30% of external financial flows to least developed countries and more than half to non-LDCs[1].



Understanding how these four quadrants interact is critical to ensure Official Development Assistance (ODA) is deployed strategically to support the evolution of a country's finance mix across the quadrants. Domestic public resources make up the bulk of financial resources. Better public financial management (PFM) and identifiable success at combatting illicit financial flows provides international public capital more confidence to provide additional concessional funds and technical assistance. Paths for domestic private capital including local financial institutions, for example, to shift lending from funding government deficits to financing the real economy must be found. This includes additional growth capital and risk instruments from international sources, along with fiscal incentives and/or domestic guarantees. International private capital relies on an enabling business environment that the developing country must actively create through better, more favorable, reliable, and transparent policy frameworks with lean bureaucratic processes.

[1] https://www.oecd.org/dac/LDCs_external_finance_2022.pdf

3 THE CANADIAN INTERNATIONAL DEVELOPMENT FINANCING SYSTEM

3.1. Introduction

This section explores how Canada's contribution to the international development finance system could be better organized to catalyze the other three quadrants, particularly the international private capital sector. Additional reflections are also presented to demonstrate how strategic use of international public resources – concessional and commercial, ODA, and technical assistance – can contribute to increasing the development finance envelopes of the developing countries' public and private sources of finance.

Canada's financial contributions to the overall pool of international development finance resources are small in absolute terms but Canada is often a top donor in the countries where it has a development focus and therefore wields considerable influence. Canada's approach could be refined for greater effect and influence.

Canada has the necessary levers and a suite of development finance instruments. However, these can be optimized to be more catalytic. Canada's levers include:

1. Ability to influence policy agendas with credibility and trust as a non-colonial power
2. Strategic use of concessional funds to mobilize new and diverse sources of finance
3. Role and influence in MDB governance systems to effect change
4. Trusted and longstanding bilateral relationships with developing country institutions and governments

3.2. Observation

Observation 1

The organizational arrangements within the Canadian government development finance system could be optimized.

Canada's development finance system is not functioning to its full potential. For GAC, delays in delivering unconditionally returnable contributions (URCs), a focus on MDBs as recipients of the concessional loans, the inability to reach new private sector partners and a lack of technical skills to perform complex financial analysis, are contributing to a sub-optimum result.

Canada established FinDev as a subsidiary of EDC to deliver its commercial-oriented development finance. GAC has the responsibility of deliver traditional ODA, as well as managing concessional loans facilities. Running a de facto DFI within a government department, GAC's innovative finance programs are coming up for review.

With GAC's Innovative Financing Program pilot ending, an evaluation of the program is required to assess relevance, effectiveness, efficiency, coherence, impact, and sustainability (i.e., OECD DAC Evaluation Criteria). The fact that there has been little use of the Sovereign Loan Program and the challenges disbursing the Innovation financing envelope suggests that a more focused strategy on how concessional funds should be deployed is required. The targeted use of concessional instruments linked to precisely defined development objectives is necessary and there must be coordinated strategic objectives and shared approaches on how the tool kit is deployed to de-risk based on specific development challenges.

There is also a need to evaluate the organizational arrangement to optimize the deployment of Canada's development finance offering. **For example, alternative organizational set-up or operating models to be considered such as:**

1. GAC outsourcing all transaction management of its International Assistance Innovation Program to an independent third party.

2. FinDev Canada operating GAC's International Assistance Innovation Program as an agent on behalf of GAC, similar to the way EDC operates the Canada Account[2], administering programs such as the COVID-19 emergency programs (CEBA/BCAP), Trans Mountain Corporation and others on behalf of the government for a fee. The Minister of International Development would determine which programs and transactions could be undertaken by FinDev, who would report back to GAC on a regular basis.

3. FinDev Canada being spun off from EDC as a stand-alone Crown Corporation with Board membership that includes GAC Deputy Minister of International Development (or another senior official) and the concessional activities of GAC being undertaken by FinDev either directly or on behalf of GAC.

Observation 2

Given the size of the SDG financing gap, FInDev is still undercapitalized and arguably risk averse.

FinDev's capitalization[3] and risk appetite are low relative to the potential opportunities. Therefore, FinDev focuses on middle-income countries (MICs), with only 16% of its portfolio allocated to lower-income countries. This is low compared to other DFIs (see OECD DAC analysis of average 24% from the Scoping Report). Moreover, its business model emphasizes working via local financial institutions, as a co-financier with other DFIs. This raises the important question of the extent to which FinDev is creating "additionality", meaning a transaction would not have happened

[2] https://www.edc.ca/en/about-U.S./corporate/disclosure/reporting-transactions/canada-account.html

[3] On November 16, Prime Minister Trudeau announced funding of $750 million in paid-in capital for FinDev Canada to support sustainable infrastructure in the Indo-Pacific region. It is not clear today if this is new capital. A FinDev Canada press release on the same day said, "FinDev Canada welcomes the Government of Canada's decision to invest an additional $750 million into the DFI to support Canada's international development priorities, including expanding into in the Indo-Pacific region. The opportunity offered by the region in terms of advancing Canada's interests and values is paralleled only by its need for comprehensive development finance that can be leveraged to mobilize much needed private capital to accelerate economic recovery and the transition to low-carbon, climate-resilient economic growth."

except for FinDev's contribution - a development finance concept critical for DFIs to measure and required to crowd-in private sector sources. Thus, current development finance via FinDev is not targeting the least developed countries, nor is it adequately reaching sectors where there is greater development impact, such as climate adaptation and agricultural sector development.

Observation 3

FinDev's governance arrangements need to be better aligned to GAC's development ambitions.

FinDev's governance arrangements may not match GAC's development ambitions. FinDev's reluctance to assume higher risk and approach to risk management mirrors the same traditional risk averse mindset of EDC, its mother company. Further, the influence of GAC's development priorities on FinDev's strategy may be insufficient, if the main way to coordinate is via the annual submission and deliberation of FinDev's corporate plans. FinDev has, however, demonstrated significant leadership on Gender Lens Investing among DFIs and has aligned to the Feminist International Assistance Policy. Nevertheless, it is important to create a vibrant and healthy interaction between GAC and FinDev to ensure international development policy and FinDev's investment activities are better aligned across a variety of programming areas. Joint initiatives might help create stronger crosswalks between these two Canadian development finance organizations.

Observation 4

The question of whether funding for climate finance is substituting for development finance provided to the other SDGs must be explored

The volume of climate finance flows from Canada is sizable, although forecast to fall short of its targets until 2023. The total climate finance commitment for the 2021-2026 period is CAD 5.3 bn, of which 40% is grants. Canada is a keen signatory to COP efforts to mobilize USD 100 bn annually for climate finance for developing countries. This policy commitment is overseen and managed by the Ministry for Environment and Climate Change, rather than GAC[4]. The relationship between Canada's climate financing commitments and its international development finance commitments needs to be better aligned. More transparency in reporting and accounting for these kinds of financial transfers to developing countries would make it clear if funding is incremental or just shifting among envelopes.

Similarly, the World Bank is coming under pressure to do more for the climate finance agenda and is shifting an increasing proportion of the Group's activity towards climate-related programming, which represents 36% of total financing activity. The question is are these funds incremental, or just a reallocation of existing funds. Further, the potential for World Bank CCDPs – Country Climate and Development Plans – to compete with INFFs for funding needs to be recognized.

[4] https://www.canada.ca/en/services/environment/weather/climatechange/canada-international-action/climate-finance/delivery-plan/progress-report-2022.html

Most recently, following COP27, major funding announcements were released; South Africa Just Energy Transition, or JET program for USD 8.5 bn, another fund in the works for Vietnam, and an Indonesia fund of USD 20 bn, half from governments and half from private sector, and the new "loss and damage" fund are big ticket initiatives to accelerate the energy transition and support climate adaptation. Nonetheless, it is not at all clear how large-scale flows like this can avoid "cannibalizing" funding for other SDG-related development activities.

Observation 5

Efforts to mobilize private sector resources are neither systematic nor strategic

Partnerships with private Canadian capital have not been fully prioritized as motivations and policy have not been fully aligned. As generalization, pension funds and other institutional investors in Canada are by nature and by regulation comparatively risk averse. Unlike European nations with long-standing historical ties to developing countries, their assets and investment opportunities are not well understood by Canadian investors (outside of resource extraction). Canada must accelerate efforts to find the right tools, incentives, and relationships to shift perceptions and motivate capital towards developing country SDG opportunities. GAC and FinDev need to focus more on the core objective to mobilize private capital.

Observation 6

There is a need for stronger coordination of Canada's response to MDB Reform

Canada is respected within the MDBs ecosystem and should leverage its strong reputation to guide MDB reform. Canada's role could be pivotal in each MDB (and other multilateral funds, such as Green Climate Fund, etc.) via the ED offices and Board Directors around key topics, such as:

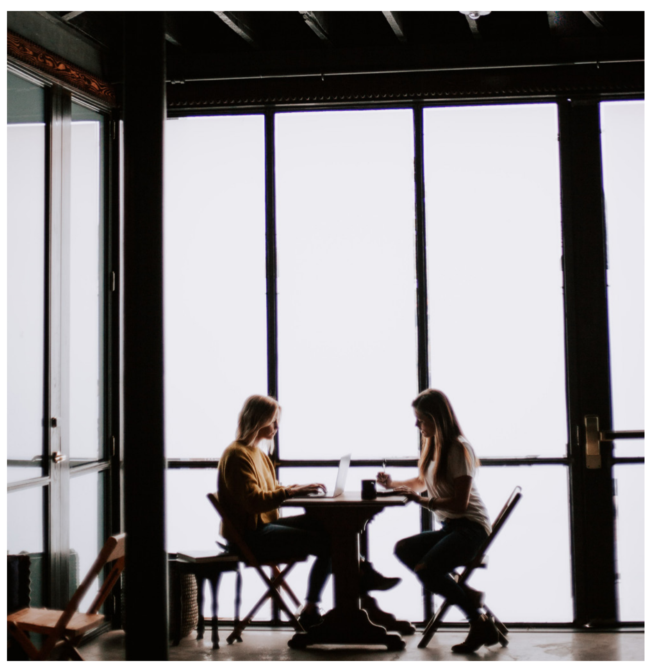
1. Leverage capital more effectively and support greater capital mobilization of MDBs
2. Make better use of guarantees and catalytic instruments
3. Encourage more transparency to help manage risk perceptions of developing countries, i.e., sharing of GEMS data

The fact that Canada's Board representatives come from different departments (GAC, Finance) means ensuring agreement and alignment on the MDB reform agenda and policies is critical.

Observation 7

Canada's support for upstream capacity building work to strengthen the economic system and enabling environment for development finance could be enhanced

There are many aspects of the domestic economic structures of developing countries that are weak and would benefit from TA, training, and targeted capacity building. Linking this upstream work to very specific INFF initiatives can help the government unlock resources that would be of the highest value to achieving the SDGs. Additionally, coordinating this capacity-building work with other international bodies, such as European DFIs, could result in greater coherence. TA funding could also be used strategically to invest in higher quality investment pipelines. For example, investments in human capital to improve project development capacity and business acumen would help attract private capital, particularly in ways that increase benefits for women and girls.



4 | RECOMMENDATIONS

Considering the four quadrants which categorize a range of initiatives to increase the development finance envelope, it is useful to reflect how Canada's international development finance tools could be put to more effective use in each quadrant to further unlock resources to finance the SDGs.

4.1. Partnerships are key for delivering the SDGs

Q3
INTERNATIONAL PUBLIC

Quadrant 3

RECOMMENDATION 1:

GAC, FinDev and Finance should review Canada's approach to partnering with consideration given to partners in "horizontal" and "vertical" contexts.

Successful partnerships and alliances for the SDGs between diverse stakeholders create synergistic value. Through alliances like Investor Leadership Network, supported by Canada, BMGF, and institutional investors among others, funding to the SDGs can be better coordinated to address specific hurdles that impede greater private sector participation. Canada can use the country's convening power and global reputation to open doors to more of these heterogenous organizations and foster partnerships in a way that few others could. This kind of influence is a major "competitive advantage" held by only a few organizations – national donors, BMGF, the UN, and a handful of corporates.

Canada could also structure engagements with corporates and the financial industry, bringing together key players willing to commit their organizations to endeavors that result in capital and expertise being channeled towards the SDGs. Global private investors – institutional investors, endowments, foundations, and global family offices that are growing in terms of assets under management (AUM) due to a generational shift in accumulated wealth, would make valuable contributions both in terms finance and skills. Canada is also well positioned to convene non-traditional alliances across geographies and bring underrepresented funders to the table (e.g. Singapore, Taiwan, Korea, India, and the Gulf States in this effort).

A dedicated, whole-of-government team that nurtures, advises, and supports nascent alliances across both horizontal and vertical partnerships would be tremendously beneficial to the development finance ecosystem.

Horizontal partnerships

Horizontal partnerships can be characterized as bringing together organizations with similar profiles in where and how they operate. These might be large philanthropic organizations active in the same geographies, in the case of BMGF, or other government ODA agencies, in the case of GAC. The reason to form horizontal partnerships is principally to increase scale in targeted fields or activities.

This could be important in areas such as regulatory reform and capacity building. Doing so is one way to move the needle on issues to which GAC is committed. Keeping up pressure on recipient countries to allocate their funds to SDG-related economic activity can be more influential if done in concert with a group of like-minded institutions. For example, this could help countries diversify from mining and oil and gas projects that tend to attract the lion's share of foreign direct investment, yet present high social and environmental risks.

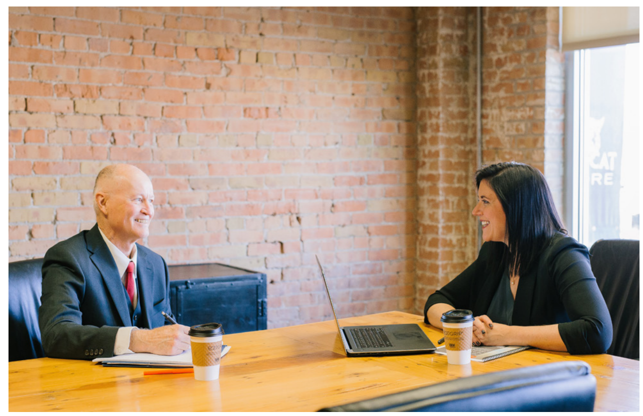
Leveraging horizontal relationships enables GAC to scale the response to priority regional or national needs. This response could be pooled funding, collaborative public policy development, joint advocacy strategies and capacity development. The combination of several influential organizations mobilizing their networks and backers to amplify their voices results in greater attention and action than can be achieved individually – this is the "strength in numbers" partnership strategy.

Vertical relationships

Perhaps more fruitful and novel for Canada, however, is to explore the potential of vertical relationships. There are many kinds of possible vertical partnerships to support the 2030 SDG goals, including SDG 17, Partnerships for the Goals. These relationships are characterized as being with organizations that have different profiles and risk appetites, in terms of their structure, their funding, and their return expectations. They could be corporations, financial institutions, foundations, public bodies, and so forth.

Vertical partnerships are valuable because they bring together heterogenous organizations (and their associated funding and networks) where such engagement does not come about naturally. Each organization can bring complementary skills and reputations to bear in a way that is more productive than if each organization operates independently.

Vertical relationships, by bringing together parties with distinct investment profiles, are able mobilize capital into structures that would otherwise not ordinarily come together. For example, commercial asset managers seek relatively high return investment opportunities. Development finance and impact finance asset managers are usually willing to accept lower returns, where there is the potential to drive significant economic development impact. Foundations generally seek no financial return on their investments but require significant demonstrable development outcomes. Family offices are a structured, professional mechanism for managing the wealth of a single or multiple families. Depending on their investment mandate, family offices could be supportive of the SDGs across the return spectrum, from return-seeking to completely grant-based.



Traditionally, each of these investors remain in their "silos" in terms of the investments they are willing to consider. However, vertical relationships create the condition for these investor types to come together, each bringing capital with a different profile that forms a "capital stack" combined into one investment vehicle. The capital stack enables each investor type to receive what it needs to satisfy its investment strategy, but by combining resources they can scale their funding, enter new markets, and collectively benefit from their relative areas of expertise, ultimately generating synergistic outcomes.

By leveraging GAC's convening power, engaging with foundations and family offices could result in these capital managers allocating a greater proportion of their wealth to projects in developing countries. A more methodical outreach to these investor types could be designed and backed by GAC.

4.2. Private Capital is Critical for achieving the SDGs

Q4
INTERNATIONAL PRIVATE

Quadrant 4

RECOMMENDATION 2:

GAC seek to mobilize private finance from the Canadian system

In recent years, two themes have grown in prominence. The first is the widespread adoption of the SDGs as the primary lens for assessing the achievement of national and international development. The second is the ubiquity of references to "leveraging the private sector" to achieve those ambitions. Given the estimated annual USD 4 trn gap in funding needed to achieve the SDGs by 2030, it is essential to tap private capital, in particular international capital markets which currently stand at over USD 100 trn in capitalization.

However, there are several factors that affect the ability of development actors to successfully attract private capital at the scale needed to meet the SDGs. With a better understanding of how the private sector operates – its concerns, constraints, operating procedures – GAC could reach out to build bridges and propose programs that are acceptably structured to attract their private sector counterparts. An active engagement plan could then be prepared, to identify where common interests lie and how to "nudge" these players to deploy their funding in a way that more explicitly targets the SDGs.

It is also true that there has been experimentation with mechanisms, but this has not led to a great deal of scaling or consolidating these mechanisms. Of particular interest is blended finance. This is the practice of combining sources of capital that have differing return expectations (falling between 100% profit maximizing to 100% grant-based) in a way that results in a "blended" return that meets the needs of each investor.

Blended finance can be deployed with greater sophistication and "fit for purpose" at the deal or fund level. Such structures can be implemented as a "capital stack", where different investors with different return expectations come together in a single vehicle, some taking subordinated, or junior tranches associated with higher risk or lower return profiles, while others commit to senior tranches with commercial returns. Blended deal structures enable the participation of investors who would otherwise not come to the table in unfamiliar markets with risks that are not mitigated. There is often "first loss" capital contributions that reduce the overall risk profile of the vehicle.

Investment trusts in the UK and mutual funds in the US and Canada can offer retail investors access to actively managed investment portfolios of assets in developing countries. With the burgeoning demand from investors for ESG-linked investment opportunities, there is scope for these traded investment vehicles to flourish. However, regulatory barriers protecting retail investors from 'high risk' investments can be an issue; that is why mutual funds selling global SDG impact investments are not common. Nonetheless, exploring how a listed investment vehicle could address this issue is worth exploring. Doing so, though, would likely be costly, to scaffold the investment vehicle prior to launch.

Issuing benchmark securities helps to build the market. The Government of Canada (including via EDC, FinDev) could issue novel securities in new markets (e.g., the Gulf) or local currencies, to support the growth of these kind of funding models that will ultimately benefit the SDGs by channeling/redirecting global surplus capital to capital-starved projects and programs.

There is a wide array of financial instruments that could support the SDGs in developing countries which foundations and DFIs have not yet widely utilized. The growth of sustainability-linked financial instruments is a good first step, which could be pushed down to the corporate and project level, given expertise and market support. Asset securitization is another instrument that could be used to achieve the SDGs, creating an investable capital pool now, rather than spreading the capital over years as earned income. Funding to support the training of issuers in how to engage the markets and structure these instruments could be provided globally, enabling many more issuers to come to market.

De-risking instruments could also serve to improve the credit quality of issuances from developing countries, reducing risk premiums and improving credit quality to make them investable by institutional asset managers. At the short-term end of the spectrum, trade finance and supply chain financing has been backed by facilities from British International Investment (BII) to enable commercial banks in Africa to expand their lending in these areas without breaching their own internal risk controls.

British International Investment

This is all about the regulation and oversight of financial investment in developed countries that might improve the investability of projects and programs associated with the SDGs. Specifically, such investments fall under the rubric of ESG investing, and have faced obstacles from the regulatory environment of wealthier countries. These barriers fall under two broad categories, (a) definitions/reporting consistency associated with ESG investments and (b) asset manager obligations to their customers associated with maximizing financial returns and meeting regulatory obligations. There may be additional barriers to investment in the Canadian context, either through tax implications or fiduciary obligations of the pension industry, that could be identified and modified over time.

According to Barbara Zvan, President and Chief Executive Officer, University Pension Plan (Ontario), there are several critical gaps to address to attract pension fund participation[5]:

1. Need for better asset class data relating to ESG activity and impacts, particularly beyond private assets and green bonds
2. The need for more innovative and blended products to allow Canada's institutional investors to test and grow their expertise in emerging and developing economies at an acceptable level of risk
3. The need for education to drive change and dispel the misconception that impact investing is concessionary

However, better asset class data is becoming available as ESG and impact standards mature and taxonomies are updated. Establishing co-investing relationships between Canada's development finance leaders, including FinDev Canada and institutional investors, will help allay the misperceptions.

[5] CAFIID State of the Sector 2021 Report "mobilizing institutional investors" pg 22

4.3. Illicit financial flows divert important resources from national treasuries and harm reputations and risk perceptions

Q1
DOMESTIC PUBLIC

Quadrant 1

RECOMMENDATION 3:

GAC team up with Africa Union to combat illicit financial flows

As part of the Addis Ababa Action Agenda, countries commit to substantially reduce illicit financial flows (IFFs) by 2030. A high-level working group of 30 African nations estimated USD 50 bn a year in illicit financial flows leaving the continent. In Namibia alone, IFFs are estimated to reach 18% of GDP per year.

Work has been done to publish estimates of the amounts. While the analysis of the issue has been undertaken, more effort is needed to combating tax evasion and corruption through strengthened national regulation and increased international cooperation. As a non-colonial player, Canada could be a good strategic partner in their endeavors, allocating ODA for capacity building and tracking. In addition, GAC could consider using blended finance to structure performance-based incentive to loans that reduce fees or extend repayment terms if policies are put in place to combat IFFs.

4.4. National Development Banks are key financial intermediaries of development finance flows

Q1
DOMESTIC PUBLIC

Quadrant 1

RECOMMENDATION 4:

GAC explore how to support NDBs with TA facility and a concessional loan program offering credit lines (or equity) to NDBs that meet certain governance and accountability standards

The need to strengthen National Development Banks is multifaceted. They can and should play a major role in harnessing funding to support the INFFs as developed and approved by their national governments. As vital financial intermediaries for development finance (and climate finance through GCF), NDBs need capacity. They sit at the nexus of the national economies, connected to government, financial sector, local projects and entrepreneurs.

Agence Française de Développment (AFD) is leading the "Finance in Common" initiative which convenes the National Development Bank community and offers a platform for knowledge sharing, including the annual conference. The regional associations of NDBs of the global south (namely, the Association of African DFIs, the Asia-Pacific DFI Association, and the Latin American DFI Association) are represented by the World Federation of DFIs (WFDFI). The Secretariat of the WFDFI is not permanent but rotates between the heads of the member associations. Building the capacity of the WFDFI to be able to provide an equal voice at the table alongside the European-led initiative would give more ownership and leadership to those institutions directly. Moreover, promoting cross-regional capacity building is also of great value as often the closest peer to a SIDS NDB in the LAC region might be, for example, in the Pacific.

Canada has not played a role in supporting the Finance in Common initiative and could be more active, particularly in Africa. Helping reinforce NDB capacity and alignment to the SDGs by being a TA provider or an equity/debt provider, Canada could offer strategic support for NDBs to become well-run, respected intermediaries. Canada could also support the WFDFI to become an entity with funding for a permanent Secretariat, fostering deeper ties between like-mandated NDBs across regions.

4.5. Local financial sources can offer local currency solutions to fund SDG projects in their home countries

Q2

DOMESTIC PRIVATE

Quadrant 2

RECOMMENDATION 5:

GAC to seek to understand the barriers preventing local capital markets from investing and develop solutions tailored to address these barriers

Initiatives are needed to support the involvement of local pension funds and institutional investors within developing countries to be more active supporters of the SDGs. As Canada tackles this issue in its own financial system, it would be worthwhile to share the learnings to encourage developing country partners to do the same. Many DFIs are successful in bringing their own national pension fund investments along; GAC could strengthen their hand by backing these efforts and sharing "lessons learned" as well as highlighting systemic obstacles. Inter-regional investing, and financial flows between countries, is also to be promoted as these markets tend to be too small to build scale and offer exits for investors.

FinDev is already doing this to a limited extent by financing local commercial banks, albeit principally in middle-income countries. Targeting lower-income countries where there are even more marked financing gaps would bring more additionality. This is another area where partnerships could play a role, creating financing structures to increase the scale of the available capital pool would serve to de-risk financial activity that would make the private sector more productive, such as trade finance facilities.

4.6. Remittances are a valuable source of international capital flows

Q4

INTERNATIONAL PRIVATE

Quadrant 4

RECOMMENDATION 6:

GAC to explore possible mechanisms to increase diaspora financial flows, especially by mobilizing the extensive heritage networks in Canada

Canada is home to extensive diaspora populations with deep connections to their home countries. Remittances can be a vital way of contributing resources to finance development. However, remittances are generally not being put to effective use to support the real economy. Major constraints have been operational, such as the cost of international money transfers and the lack of specific strategic investment opportunities such as diaspora bonds or other investment facilities.

Solutions to consider include working with existing Money Transfer Organizations in partnership with the International Organization for Migration (IOM) to lower the costs of money transfer and break oligopolistic pricing to motivate them to support the remittance market, or to consider creating a public-funded facility. International regulation and the monitoring of legitimate remittances is also an important and sensitive area where Canada could play a stronger role.

Additionally, a program that facilitates business connections and investments between diaspora and home countries, e.g. a business startup fund (50% business grant) could be explored which could include mentoring and skills transfer.

4.7. Coordinated Leadership at the MDBs to Pursue the MDB Reform Agenda

Q3
INTERNATIONAL PUBLIC

Quadrant 3

RECOMMENDATION 7:

Leveraging Canada's position in the governance structure of MDBs, Canada to strive for more accountability to ensure the reforms are implemented

Most of GAC's concessional finance goes through MDBs. Canada's membership on the Boards of MDBs and global funds, such as the GCF and GEF, therefore, gives the opportunity to influence the reform agenda and hold the institutions accountable for implementing the necessary actions. A consistent strategy and messaging from Canada's Board representatives is required, imposing very strong accountability requirements for the institutions to track and report progress. Key technical and financial competency is required to craft Canada's position and help deliver leadership.

5 SUMMARY AND CONCLUSIONS

The recommendations outlined in this paper are not exhaustive but represent some bold initiatives for Canada to consider in each of the four INFF quadrants to increase the envelope of available capital allocated to development finance. Recommendations have been made taking account of the fact that:

- Canada is uniquely positioned to influence and mobilize certain parts of the development finance landscape (e.g., private capital in Canada);
- Canada holds a trusted position in the global system; and
- Not enough is being done by existing development partners in critical areas.

Q1
DOMESTIC PUBLIC

Q2
DOMESTIC PRIVATE

RECOMMENDATION 3
GAC team up with Africa Union to combat illicit financial flows

RECOMMENDATION 4
GAC explore how to support NDBs with TA facility combined with a concessional loan program offering credit lines (or equity) to NDBs that meet certain governance and accountability standards.

RECOMMENDATION 5
GAC seek to understand the barriers preventing local capital markets from investing and develop solutions tailored to address these barriers.

RECOMMENDATION 1
GAC, FinDev and Finance review Canada's approach to partnering with consideration given to partners in "horizontal" and "vertical" contexts.

RECOMMENDATION 7
Leveraging Canada's position in the governance structure of MDBs, Canada to strive for more accountability to ensure the reforms are implemented.

RECOMMENDATION 2
GAC seek to mobilize private finance from the Canadian system

RECOMMENDATION 6
GAC explore possible mechanisms to increase diaspora financial flows, especially by mobilizing the extensive heritage networks in Canada

Q3
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Q4
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