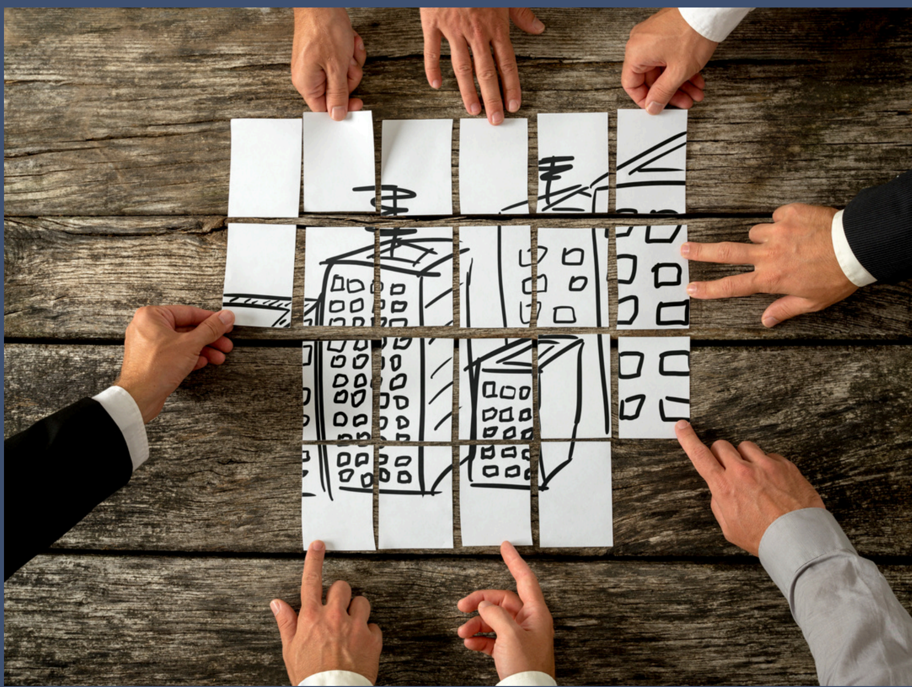
THE BLENDED
FINANCE PROJECT

Mapping Blended Finance:

What is the experience of development cooperation and solidarity organizations in Canada?



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October 2024

ACKNOWLEDGEMENTS

Thank you to all the representatives of Canadian development cooperation organizations, trade unions, and blended finance monitors that participated in this research. We are grateful for all the individuals, including members of the Blended Finance Project (https://blendedfinancecritique.ca) that provided feedback on the draft report. A special thanks to Cooperation Canada and the Association québécoise des organismes de coopération internationale (AQOCI) for assisting us in informing the community about this research.

This research was funded by the University of Ottawa, Faculty of Social Sciences.

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EXECUTIVE SUMMARY

This research seeks to understand the experiences of Canadian development cooperation organizations with the Government of Canada's shift to innovative finance initiatives in its international assistance programming. Some of these programs include the Global Affairs Canada (GAC)-funded 5-year pilot program, the International Assistance Innovation Program (IAIP) or funding directly allocated to Canadian development agencies and charitable foundations. In the context of Canada's stagnant Official Development Assistance (ODA) levels, a greater percentage of the ODA envelope is being dedicated to blended finance. This research explores the opportunities and challenges of this decision on the development cooperation sector in the past five years.

Through (largely unsuccessful) survey research followed by direct engagement with development practitioners, we conducted 21 interviews with 28 representatives of trade unions, groups monitoring blended finance initiatives in Canada, and development cooperation and solidarity organizations. We spoke with representatives of seven organizations involved in blended finance initiatives, four of which receive funding from GAC. Across the sector, many identified that Canada's shift to blended finance seemed to be associated with the 'finance gap' in achieving the United Nations Sustainable Development Goals (SDGs). Some welcomed the initiatives claiming that blending could provide additional source of financing, increased autonomy, and greater accountability.

Despite some positive perspectives and experiences, many participants expressed frustration with GAC and its blended finance initiatives. We divided these challenges into two categories: institutional problems and concerns with the model of development that blended finance promotes. Some of the institutional problems include bureaucracy; the lack of expertise in GAC; the lack of coordination amongst different actors; who is assuming the risk; and the gap between rhetoric and reality The second category of challenges highlights the structural elements of blended finance that cannot be addressed by reforming the way the Government of Canada is currently managing these initiatives. These include the lack of interest from the private sector; problems with additionality; cherry-picking the most profitable investments; the lack of human rights checks and balances; transparency; power imbalances between the actors involve in blended finance projects; and ethical considerations.

The research results allowed us to identify five recommendations focused on reforming blended finance initiatives in Canada, and two alternative proposals. The first recommendation suggests that blended finance be used to targeted sectors and populations where market development is the explicit goal and profit is an appropriate incentive. The second and third recommendation advises GAC to separate ODA from blended finance activities and create better guidelines and safeguards. Fourth, given that the IAIP pilot program is set to end this year, it is both timely and necessary to conduct a full review and audit of the initiative to in part, evaluate whether it is worth the Government of Canada's time and effort to focus on blended finance in development. And lastly, smaller pots of money should be created for NGOs who are interested in experimenting with blended finance.

INTRODUCTION

In the past ten years, the Canadian government has signaled a strong commitment to pursuing innovative finance initiatives as part of its international assistance programming, especially blended finance.

While there is no universally agreed-upon definition, in contemporary international development policy circles, innovative finance refers to initiatives that seek to go beyond so-called traditional forms of development aid, that is, Official Development Assistance (ODA), which is distributed by way of grants and concessional loans (Global Affairs Canada 2019). Innovative finance represents a wide array of practices. In the current context, however, the innovative finance instruments that the Canadian government has promoted have one thing in common: public money is used to leverage private money by socializing the risk of investments in a practice known as blended finance. These risks include political, social, environmental and economic risks; investor perceptions of high-risk have often been used to justify expectations for high rates of return. Blended finance helps to provide guarantees for a return on investment in such funding modalities.

Blended finance can refer to many ways that different forms of financing can be combined, including different sources of purely public moneys. One study found that there are more than 15 definitions of blended finance (Convergence 2019, p. 44). For the purposes of this research, we adopt the definition offered by the Organisation for Economic Development and Cooperation (OECD n.d.): “the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.” However, for our survey research, we used the definition of blended finance that specifies that the private sector financing partner derives a financial return from their investment.

In the past decade, the Canadian government has signaled its commitment to blended finance by supporting various multilateral initiatives in addition to creating new institutions and programs to promote blended finance. At the United Nations (UN) Conference on Financing the Sustainable Development Goals in Addis Ababa in 2015, Canadian delegates announced the launch of Convergence, the “global network for blended finance.” The Canadian government has also dedicated a large part of its aid portfolio to multilateral blended finance initiatives (e.g. Global Financing Facility in Support of Every Woman Every Child, the Extractives Cooperation for Enhanced Economic Development programme, Grow Asia, the World Bank’s Global Infrastructure Facility), as well as home-grown multi-stakeholder partnerships such as Grand Challenges Canada. In January 2018, Canada’s new Development Finance Institution, FinDev, opened for business.

Box 1: The basics of blended finance

Source: Adapted from Meeks (2017, p. 4).

Definition

While there is no agreed upon definition of blended finance, this report will use the OECD's definition that defines blended finance as: "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries."

Ties to other funding concepts

Blended finance encompasses many contractual models. Public-private partnerships (PPPs) may be a form of blended finance if concessional public funding is part of the funding agreement. However, PPPs involve a number of risks that are not necessarily applicable to all forms of blended finance. It is thus best to analyze the two concepts separately.

How blended finance works

Commercial actors are often concerned about or deterred from investing in development in the global South because of perceived investment risks. Some of these risks include a perception that there is insufficient local knowledge or capacity gaps in the local market; significant currency fluctuations; political and social stability or uncertainty about the impacts of the regulatory environment on their business.

These perceived risks, that can also be thought of as additional business costs, can deter commercial actors from investing in a manner that maximizes development results. An example of an additional cost might be connecting remote rural communities to a new energy grid, that although beneficial for the community, may not be a priority or be commercially favourable for the private actor.

Blended finance aims to offset these risks through concessional finance funding. This can occur in a range of forms, depending on the project and its perceived risk. Here are a few examples offered by Meeks (2017, p. 4):

- A grant or a concessional loan offered to the commercial actor to offset some of the costs of a project.
- Buying shares (equity) in the investee so that they seem a more attractive proposition for other investors.
- Providing a guarantee that investors will be reimbursed if expected gains do not materialize.
- Technical assistance to reduce some of the transaction costs that an investor would otherwise forego for project-related research (e.g. conducting feasibility studies).

In 2019, GAC allocated over $900 million from the Official Development Assistance envelope to a 5-year pilot project, the International Assistance Innovation Program (IAIP) that aims to make “targeted investments to help mobilize additional private investments in developing countries that will help achieve the Sustainable Development Goals” (see **Table 1**). Development cooperation NGOs have been eligible to apply for funds within this project through Global Affairs Canada’s partnership branch as well as bilateral programs. The pilot project is set to wrap up in 2024.

Many of the transfers to these various initiatives indicated in Table 1 have been counted as ODA. While it is difficult to estimate what percentage of the international assistance envelope that Canada is dedicating to blended finance, there is growing concern amongst Canadian civil society organizations that the government is using blended finance as a way to inflate the aid budget. Legislative changes introduced in 2018 associated with the supposed modernization of ODA have raised serious questions about transparency, accountability and the commercialization of aid (Tomlinson 2023a; Murray & Spronk 2019). These early concerns were warranted. As AidWatch’s Brian Tomlinson documents in a recent scoping study, “up until 2014, all of Canada’s ODA had been delivered as grants. Since 2015/16 loans in Canadian ODA grew from $255.5 million in that year to $963.7 million in 2021/22, a growth of almost 300%” (2023a, p. 57).[1] Furthermore, Canadian ODA levels have remained stagnant, which means that an increasing share of the ODA envelope is being allocated to blended finance initiatives, including repayable contributions (Global Affairs Canada 2024).

The primary aim of this research project is to understand the effect that the Canadian government’s blended finance initiatives have had on the implementation of aid activities on the ground, focusing on the experiences of international development cooperation and solidarity organizations based in Canada. As such, this report summarizes what we heard from interviewees about their perceptions regarding the opportunities and challenges presented by Canada’s blended finance initiatives that have been in place since 2018, that is, the past five years. While many participants shared their views on various aspects of Canada’s international assistance programming and how these have changed over time, we focus on two new initiatives, FinDev and the IAIP pilot project.

[1] The increase of international assistance allocated to private sector instruments (PSIs) during this time frame (2014-2021/2) coincides with changes in the OECD’s long-standing rules about how to report these instruments in ODA. In 2016, OECD-Development Assistance Committee (DAC) members decided to relax ODA rules before reaching a temporary agreement in 2018. Then in October 2023, OECD-DAC established permanent rules expanding the use of PSIs in ODA. The change has raised concern from civil society organizations about whether channeling ODA to PSIs is the best use of already limited ODA resources. For more, see Craviotto (2023).

Table 1: Global Affairs Canada-funded Blended Finance Mechanisms (CAD unless otherwise indicated)

1 To multilateral development banks (MDBs) and development finance institutions (DFIs)

A) Bilateral initiatives hosted by MDBs:

- IDB Invest: Canada's Climate Fund for the Private Sector of the Americas (C2F): $250 million
- Asian Development Bank: Canadian Climate Fund for Private Sector in Asia: $77.3 million

B) Multilateral initiatives: General funding

- International Finance Corporation (IFC)
- Inter-American Development Bank (IDB)

C) Multi-lateral initiatives:

- Global Finance Facility in Support of Every Woman, Every Child: $200 million (2014-2024)
- Extractives Cooperation for Enhanced Economic Development Program (EXCEED): $29 million (2010 – 2018)
- Grow Asia: $6 million (2015- 2019)
- World Bank's Global Infrastructure Facility: $15.84 million USD

D) FinDev Canada

- $300 million from Export Development Canada + $1.4 billion (2017 to present)

2 To development agencies, non-governmental organizations (NGOs), charitable foundations, multi-stakeholder partnerships

- Mennonite Economic Development Associates of Canada: Impact Investing Frontier Markets (INFRONT): $18.9 million (2013- 2028)
- Développement international Desjardins
- Grand Challenges Canada

3 To Global Affairs Canada (GAC)-managed initiatives

- International Assistance Innovation Program (IAIP): $900 million (2019-2024)
- Sovereign Loans Program

4 To investment fund managers

- Deetken Impact: $7 million (2017)
- Sarona

5 Other- multi-stakeholder eco-system innovators

- Convergence: $19.17 million (2016-2021)

Source: Authors based on publicly-available data on the Government of Canada website and organization's respective websites.
Authors' note: This table is not comprehensive of all blended finance initiatives funded by GAC but instead provides a brief overview of how financing is channeled to different sectors.

RESEARCH METHODS

Survey: Blended finance is not for Small- or Medium-Sized NGOs

In May 2023, we held two webinars (one in English, another in French) to launch a survey with the help of members of Cooperation Canada and l'Association québécoise des organismes de coopération internationale (AQOCI). Cooperation Canada and AQOCI shared the survey on their listservs (see **Appendix A**). Together Cooperation Canada and AQOCI have over 170 members, some of which overlap. By December 5, 2023, we received 20 responses to our survey (16 in English; 4 in French) despite our continued efforts to reach out to prospective interview participants and to promote the survey.

There are likely a few reasons for this low response rate. First, there is a general survey fatigue, particularly after COVID-19. Second, advertising the survey on various platforms would require more time and resources.[2] Third, and more importantly, most development cooperation organizations in Canada do not know what blended finance is, and therefore are unlikely to fill out a survey with that term in the title. This latter point was made emphatically by one expert in the blended finance space who told us that “blended finance is not for NGOs.” We contend that the silence in the development cooperation and solidarity community in Canada and Quebec on blended finance still tells a story (Parpart 2020). We do not report the survey data since they are neither representative nor statistically significant.

Interviews

In total, we conducted 21 interviews with 28 individuals between July 2023 and January 2024. Interviews were conducted in English and French in the language of the respondents’ choice. Questions to interviewees focused on their perceptions of changes to the funding landscape over the past decade and included more specific questions about blended finance (see **Appendix B**).

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[2] This research was sponsored by a $20,000 grant from the Research Support Program at the Faculty of Social Sciences, University of Ottawa. National surveys distributed between Fall 2020 and 2022 by Spur Change had a higher response rate (~21%), but their research questions are more general, such as how organizations have responded to COVID-19 and what an enabling environment for small- and medium-sized organizations looks like. Spur Change is a 5-year initiative (2019-2024) funded by Global Affairs Canada and coordinated by the provincial cooperation councils. https://icn-rcc.ca/en/spurchange/.

Most of the interviewees were practitioners from international development cooperation organizations based in Canada. In total, we spoke to seven (7) organizations that have successfully implemented a project involving blended finance as a structuring approach or were in the course of doing so at the time of the interview (see **Table 2**). Of the seven (7) NGOs which are engaged in projects that involve blended finance as a structuring approach, four (4) are based in Québec, which speaks to the strong tradition of cooperative development in the finance and agricultural sectors (Fulton and Larson 2009; Mendell and Neamtan 2021). Four (4) of the organizations are involved with projects sponsored by Government of Canada in some way (e.g. FinDev or GAC), and three (3) of them are involved in other international development initiatives that involve blended finance as a structuring approach.

We also spoke to three (3) practitioners from development cooperation organizations that have explored blended finance initiatives with Global Affairs Canada (e.g. "the IAIP pilot project") or Convergence but were unsuccessful. One got to the concept note stage but was told that their project was not viable since the deals started at $100 million. We also spoke to two (2) organizations that are engaged as monitors in blended finance initiatives sponsored by the Government of Canada. We also spoke to some key informants from organizations doing advocacy and/or research on finance for development and blended finance. The majority of interviewees from development cooperation and advocacy organizations have chosen to remain anonymous.

Table 2: Participating organizations and their involvement with blended finance

Size of organization (XS, S, M, L) or type. [3]	Number of participating organizations	Engaged in blended finance
XS	1	0
S	2	1
M	5	2
L	9	4
Trade unions	2	0
For-profit/Monitors	2	1
TOTAL	21	8

[3] Organizations were classified based on their consolidated revenue from 2022, and annual overseas expenditures. Organizations are considered small or medium if their consolidated revenue is equal to or less than $10 million and have annual overseas expenditures that are less than $2 million. XS organizations: Less than $100,000; S: $100,001 to $1 million; M: $1 million to $10 million; L: Over $10 million. Our research used the same definition as Spur Change's 2020 report and the Government of Canada's 2017 Development Impact Window Call for Proposals. We further split the categories of small and medium using definitions from provincial cooperation councils' membership categories.

The following large international NGOs which are known to be engaged in blended finance are not featured in this research project: SOS Children's Villages, Aqua for All, World Wildlife Fund, World Vision and CARE International have affiliates operating in Canada. The first three organizations are identified on Convergence's website. The others were identified by interviewees in the course of our research. In addition, the Aga Khan Foundation Canada (AKFC) has been involved in what would now be dubbed "blended finance" going back decades. The AKFC has co-sponsored at least two (2) events in Ottawa in the past five years raising awareness about the opportunities and challenges presented by blended finance. Since the views of these organizations are well-known, we focused our efforts reaching out to the small- and medium-sized NGOs in Canada who have to date not had their voices heard.

We also spoke to two (2) interviewees from trade unions: Canadian Labour Congress (CLC) and the Public Service Alliance of Canada (PSAC) Social Justice Fund. In the early 2000s, both the CLC and PSAC were engaged in international development projects involving partners overseas with the help of grant money from the now defunct Canadian International Development Agency. We cannot speak for all trade unions in Canada, but in keeping with the findings of a recent study that trade unions were not involved in over 900 private sector engagement initiatives surveyed (Global Partnership for Effective Development Cooperation 2020, p. 21), it seems unlikely that any trade union representing workers in Canada would be involved in international development or solidarity initiatives that involved blended finance as a structuring approach. As Louise Casselman, Social Justice Fund Officer at PSAC, put it, blended finance is not in their "genetic code." Trade unions are membership-based organizations that support the rights of workers to collectively defend their rights. They do not aim to make profit from clients. Nonetheless, trade unions are concerned about blended finance since it has implications for workers' pension funds, the privatization of public goods, equality, and social justice (Skerrett et al. 2018; Cameron 2021; CUPE n.d.).

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RESULTS

Opportunities offered by blended finance

One of our interview questions asked respondents about what they believe to be the motivation for Canada's embrace of blended finance. The most common response was that more finance is needed to fill the 'finance gap' associated with the UN Sustainable Development Goals (SDGs).

Two different interviewees from development cooperation NGOs suggested that blended finance could represent an additional source of financing for their operations to help gain autonomy and help build relationships of accountability. As they put it:

"I think blended finance could be a very good mechanism to boost the philanthropic or to boost our work in development. Why? Because what I find difficult is that we are always depending on government funding. So mixing private and government funding could accelerate the process of what we are doing in the field" (interview).

"It creates awareness, creates ownership, and it creates accountability for a bigger coalition to support our companies and their success" (interview).

It has been well-documented by Convergence (2023) that blended finance has been concentrated in sectors where there are 'bankable' projects. As already noted, our research found that in Canada, mostly the largest NGOs (e.g. International NGOs, NGOs with a reported annual $10 million in consolidated revenue), and which work in the finance and agricultural sectors or promoting Small- and Medium-Sized Enterprises of various kinds have been successful in employing blended finance as a structuring approach to financing development initiatives. One large NGO in our research was also involved in a GAC-funded blended finance project in the water, sanitation, and hygiene (WASH) sector.

Challenges with blended finance

Overwhelmingly, interviewees expressed their frustration with Global Affairs Canada and/or the the IAIP pilot project. In particular, no one seems to know how the $900 million in international assistance funds has been allocated or if it has been spent at all. Most interviewees knew much less about FinDev. The challenges noted by interviewees fell into two categories:

- Institutional problems
- Problems with the model of development itself

Institutional Problems

The institutional problems relate to design and implementation, and may be fixed if the way that programs are delivered is reformed.

Bureaucracy. It takes more than 2 years to approve a project. An interviewee from one of organizations that has experience with blended finance described the application processes that Global Affairs Canada requires under the IAIP pilot project as “hellish” and “complicated.” Should the Government of Canada wish to involve private investors and companies in their development initiatives, shorter timelines would be necessary.

Lack of expertise in GAC. A number of interviewees, including those who were running programs that involved blended finance as a structuring approach (including with Global Affairs Canada), had positive things to say about their experience and relationship with GAC. By contrast, a few interviewees who have more than a decade of experience in the sector shared their perceptions that the experts on ‘development’ are gone since the Canadian International Development Agency folded into the Department of Foreign Affairs and International Trade. In addition, GAC has a “culture of movement” and program officers are continually changing. A number of interviewees expressed frustration that it was difficult to find someone at GAC who could answer their questions.

Lack of coordination amongst different actors. A couple of the interviewees who have experience with or expert policy-level knowledge of blended finance initiatives noted that the Government of Canada’s programming would have more impact if there was more coordination of different actors on the ground. For example, FinDev is operating in the same space as Global Affairs Canada, which is supporting development cooperation NGOs that have projects in the same countries. One of the interviewees provided a concrete example of what it could look like. FinDev is supporting a large agricultural company in Peru (Danper) that is procuring products from farmers and cooperatives that are being supported by a number of different Canadian non-governmental organizations. These different stakeholders are not speaking to each other, however, never mind coordinating their activities. To its credit, Global Affairs Canada has already acknowledged this lack of coordination in a 2022 audit of their programs in Middle Income countries (Global Affairs Canada 2022).

Who is assuming the risk? Many of the practitioners with on-the-ground experience and key informants with expert knowledge highlighted a problem with the way that the Government of Canada designed its blended finance instruments. One interviewee put it as follows: “the government has been unwilling to assume the risk” (interview). NGOs’ perception, including those who have been successful in securing financing through GAC, is that they are being asked to assume all the risk (for example, absorbing a high percentage of overall investment cost). This raises the question of which stakeholder(s) should assume the risk in blended finance: beneficiaries in the South, Southern NGOs, Northern NGOs, the Southern or Northern governments or the private sector?

Gap between rhetoric and reality. A couple of interviewees explained that there has been a communications problem. The idea has been oversold and GAC has not been able to deliver. As one interviewee from a private consulting firm put it:

“I've been to so many of these workshops when GAC was first getting into this, and the look of confusion on Canadian NGO's faces, ‘How do we actually use this and what do we do with it?’ It was tremendous” (interview).

Problems with the model of development

Many of the most important problems with blended finance are ‘structural’ and therefore not easily addressed with piecemeal reforms to existing programs. Given the practical and ethical issues involved with making profit from poor people in the global South, interviewees expressed a number of fundamental concerns that demand a rethink of the ‘beyond aid’ agenda.

The private sector is not interested. One interviewee from a private consulting firm explained that their organization would never pursue a blended finance deal to fund a project like women-run Small- and Medium-Sized Enterprises (SMEs) since there would not be enough overhead to run the project; the money would all go to the SMEs (interview). According to them, the best way to make the approach economically viable is to create an impact investing arm, as some large NGOs and INGOs have done (e.g. MEDA and World Vision).

Problems with additionality. The interviewees who are most engaged at the policy level raised this point. Additionality is another concept for which there is no common definition, although it is one of the main rationales for blending initiatives. Additionality refers to the added-on aspect of supposed benefits, referring to the realization of financial and/or development impacts that would otherwise not have been achieved (e.g. the initiative addresses ‘market failures’ and does not ‘crowd-out’ private sector actors) (Winckler Anderson et al. 2021). One interviewee from an advocacy organization provided a concrete example: “There's a deal for solar farms in West Africa. All the Development Finance Institutions want it, but actually … regular commercial banks would have funded it. So I'm not sure if that nut has been cracked” (interview).

When evaluating blending initiatives, there is a high risk of ‘impact washing,’ that is, partners will claim to have achieved a positive impact even where there is none or where the impact would have been achieved in any case, thus not creating additionality.

Cherry-picking the most profitable investments. It is exceedingly difficult to make money selling products or services to poor people. As noted above, we found evidence in our study of NGOs engaged in financial inclusion (e.g. credit cooperatives) and agriculture (e.g. small farmers’ organizations and cooperatives) since the mission of these organizations is to support entrepreneurship and business development. But one interviewee from a development cooperation NGO who is involved in the ‘bankable’ sector expressed reservations about the uneven impact of blended finance:

“The … problem with blended financing is that they cherry pick the best projects where you're going to make money and where it's going have impact, but to be honest if you're really in those rural areas where people need it and there's rural communities where you're supposed to be making a change it's very difficult to make a profit of those communities. […] These countries [which are able to attract private investment through blended finance] are usually wealthier countries; they wouldn't consider the really poor countries or conflict-prone countries” (interview).

Human rights. Interviewees expressed concern about the lack of checks and balances in place for Canada’s blended finance initiatives, especially from ensuring compliance with the Official Development Assistance Accountability Act (ODAAA) (Government of Canada 2008), which mandates that ODA is to uphold international human rights standards and alleviate poverty. As one interviewee from a development cooperation NGO put it:

“Canada is increasingly putting Official Development Assistance (ODA) into a system that does not centre rights holders, that centres private interests and increasingly robbing from systems and modalities that at least have the capacity to centre rights holders” (interview).

Lack of transparency. Several interviewees commented that there are problems with transparency and accountability in the blended finance approaches. One issue centres around concerns about what type of blended finance model is being used in projects of interest [e.g. various mixed funding models that produce a social return for the private actor, conditionally repayable contributions (CRCs), or unconditionally repayable contributions (URCs), etc.]. Another is related to the fundamental differences between public law and private law, and particularly the fact that private investors are protected by commercial confidentiality and the Canadian government’s discretion to withhold information.[4] Unless information is leaked by someone in on the deal, it is not possible to get information about the terms of a contract with a private company, including the payment schedule, the profit rate and so on. One interviewee from a development cooperation NGO involved in blended finance noted a potential contradiction with Canada’s Feminist International Assistance Policy:

“[W]e were talking about feminist tools, including transparency, collaboration and horizontality. These are things that go with feminist development or a feminist management approach, which are incompatible with a shareholders' meeting, with confidentiality clauses or with padlocks on contracts” (interview).

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[4] Government contracts with third parties like commercial entities are protected under Canada’s Access to Information Act. The government may also decide not to disclose information under the same Act. One example of this is a challenge launched by the Canadian Justice and Corporate Accountability Project (JCAP) regarding redactions on access to information requests regarding Canadian government actions around human rights issues in Guatemala involving Canadian mining company, Goldcorp. JCAP filed a lawsuit contending that Global Affairs Canada improperly withheld information from public disclosure and that the redactions were not justified under the Access to Information Act. In December 2021, the Federal Court upheld the redactions despite significant concerns regarding human rights, Canada’s promotion and support for Goldcorp in Guatemala, and public access to information. See Connolly and Kamphuis (2022) and Canadian Network for Corporate Accountability (2021).

Power imbalances between actors. Blended finance deals are complicated and the contracts involved can require a level of legal expertise (e.g. corporate law) which most development NGOs do not possess. Interviewees expressed concern about the power imbalances in the planning process. As they put it, it would be difficult for the NGO to have "equal voice" in negotiating a blended finance deal since:

"They would need to be very responsive to the needs of the company rather than … the communities or the people that they're serving. I am very, very cynical about where the power balance would lie and where the decision making would lie and where the voices of the communities would be included. I doubt that centering the voices of communities would be a very strong part of this model" (interview).

Ethical considerations. Several interviewees expressed concerns about the difficulty in finding private partners with shared values. A couple of interviewees noted that they are member-based organizations, and their members have set standards for partnerships. For example, one noted, "we would never partner with an oil or mining company" (interview). Another interviewee from a development cooperation NGO with decades of experience with blended finance mentioned that it would never partner with companies that are not considered to be 'green.' In addition to the practical issues involved with making money from poor people, several interviewees raised ethical dilemmas. As one interviewee from a development cooperation NGO put it:

"I have a problem with us seeing our beneficiaries as clients in terms of the return of investment…. These are really poor people you're talking about in rural areas in, in developing countries, and the ethics around that, it bothers me. We shouldn't be exploiting these poor people for profit. And so for me that's difficult" (interview).

RECOMMENDATIONS

In terms of reform of the blended finance instruments themselves, we suggest five recommendations in order of importance.

1. Target sectors and populations where economic or market development is the explicit goal and private profit is an appropriate incentive.

While there are a number of different caveats listed on the Government of Canada's website, further clarification is needed about who blended finance is for. As one interviewee put it: "There's a place for blended finance, but it is not going to be the answer and the solution to the developing challenges we have around the world" (interview). Blended finance is not suitable (or in most cases, even possible) in sectors in which rights-based approaches are preferable modalities for the delivery of ODA such as public goods that are the foundation of economies such as health, education, water and sanitation, and climate change adaptation. It has limited potential in a very delimited sector of development action. Nor is it a suitable instrument to address the needs of the poorest of the poor or to support transformational civil action where grant mechanisms are preferred. As such, its ability to achieve the SDGs is very circumscribed. Given the complexity of the instruments and risks involved, development cooperation organizations involved in anything beyond economic development (e.g. supporting agricultural or financial cooperatives, and business development of small- and medium-sized enterprises) are best to steer clear of blended finance initiatives.

2. Separate ODA from the blended finance activities.

The Canadian governments' efforts to employ blended finance should not come at the expense of ODA. In pushing blended finance as a modality for ODA, donors such as the Government of Canada are changing the agreed definition of ODA as concessional finance. They now substitute the notion of "development additionality" and "finance additionality" as the rationale for why a blended finance activity can be considered ODA, and not Other Official Flows (OOF). These blended activities, however, more properly belong under the new metric, Total Official Support for Sustainable Development (TOSSD), which includes both concessional and non-concessional flows, not ODA (Tomlinson 2021; 2023a).

3. Better guidelines and safeguards.

In the right context and with the right regulatory framework in place, the private sector can make important contributions to sustainable development (Jeune 2019, p. 10). As legal scholar Celine Tan (2019) has documented, there are gaping holes in the international frameworks regulating blended finance initiatives.

Scholars and practitioners have raised concerns about Development Finance Institutions' use of tax havens (Tax Justice Network 2014). The Canadian government and civil society organizations have a lot to learn from our counterparts in Europe, where donors have been pursuing blended finance for more than a decade. Global Affairs Canada (2019, p. 15) makes reference to the OECD Guidelines on Blended Finance principles, which have met with criticism for being vague. The European Network on Debt and Development (Eurodad) suggests that although voluntary, the Kampala Principles provide a better set of principles for evaluating the effectiveness of private sector engagement in development (Craviotto 2023; Reality of Aid 2023). In addition, Cooperation Canada (2020) has recommended that since legally binding frameworks are foundational aspects of the ODAAA, linkages to human rights principles should be made explicit in any private sector engagement involving ODA.

4. Full review and audit of the IAIP.

There is a general sense that the current mechanisms, especially the Unconditionally Repayable Contributions and even the Conditionally Repayable Contributions, are not working. Ideally, this audit must evaluate whether the Government of Canada's blended finance initiatives have moved the needle on the SDGs, being specific about which ones. The Government of Canada needs to be honest about what can be funded via blended finance mechanisms but also about what gets left out in the 'beyond aid' agenda. Civil society organizations need to continue to ask whether all this time and effort is worth it or whether other means of delivering on Canada's aid objectives are more effective (see alternatives below).

5. Smaller pots of money.

Provided that all the above criteria are satisfied, NGOs who are interested in experimenting with blended finance as a structuring approach are asking for smaller pots of money. In some windows, such as the Convergence window on gender-sensitive climate change, deals started at $100 million. Only one out of 34 proposals was accepted.

Image from Canva

ALTERNATIVES

Rather than fine tuning blended finance instruments, we need to ask a broader question about why the Government of Canada is promoting blended finance in the first place. Blended finance has neither mobilized the amount of money nor had the impact desired, leading an increasing number of researchers to ask, “where is the finance” in blended finance? (Bernards 2023).

Program based funding:

Many of the interviewees we spoke to compared the current development aid modalities of the call for proposal to the program-based funding that characterized the relationship between the Government of Canada and the development cooperation NGOs before 2011-2012. Canadian civil society organizations (CSOs) working in international development have consistently been a rich source of diverse ideas and practices that have shaped Canadians’ understandings of international issues and promoted social justice and equity in the global community. Many of the small- and medium-sized development cooperation NGOs that have spent decades building strong relationships with partner organizations and communities in the global South reported feeling squeezed in the new funding environment, as the opportunities for federal funding appear to be shrinking and/or narrowing. In his 2017 discussion paper on “An Enabling Environment for Canadian CSOs,” Brian Tomlinson argues for Sustainable Development Framework Agreements which would be governed by a set of criteria and would require much less staff. His observations remain just as relevant today.

Fund for Innovation and Transformation (FIT) program (Inter-Council Network):

If the Government of Canada is truly interested in innovation and there is an issue with capacity, it should consider renewing the FIT Program: https://www.mcic.ca/about/fit. This program was a way that GAC has been able to fund 53 initiatives that promote “innovative solutions to advance gender equality and empower women and girls” with one single donation.

CONCLUSION

This research sought to understand the experiences of Canadian development cooperation organizations considering the Government of Canada's shift to innovative finance initiatives in its international assistance programming. Some of these programs include the GAC-funded 5-year pilot program, the IAIP or funding directly allocated to Canadian development agencies and charitable foundations. In the context of Canada's stagnant ODA levels, a greater percentage of the ODA envelope is being dedicated to blended finance. This research explored the opportunities and challenges of this decision on the development cooperation sector in the past five years.

Overall, our research found that many Canadian development cooperation and solidarity organizations and trade unions do not know what blended finance is, including some that questioned whether these initiatives are or should be for the development sector at all. Of the seven organizations that we spoke to who claimed to be involved in blended finance as a structuring approach in their development initiatives, four are engaged in GAC-funded blended finance projects. Three of these latter projects are implemented by large development cooperation organizations. This finding, along with information gathered in our interviews, demonstrates that primarily large organizations in Canada are involved in blended finance. Many small- and medium-organizations, if they had heard of blended finance at all, are unsure about how these types of projects are designed and developed and how/if they can get involved in these initiatives. Many participants also expressed concern about who would absorb the risk in blended finance arrangements, particularly given the existing and long-standing power dynamics between donors, NGOs, and project beneficiaries, and the unwillingness of both the private sector and GAC to shoulder investment risk.

In terms of those that are knowledgeable about blended finance, some identified that Canada's policy shift seemed to be associated with the 'finance gap' in achieving the UN SDGs. Some welcomed the initiatives claiming that blending could provide an additional source of financing, increased autonomy, and greater accountability. However, despite some positive perspectives and experiences, many participants expressed frustration with GAC and its blended finance initiatives. We divided the twelve identified challenges into two categories: institutional problems, which largely focuses on how GAC operates or has presented blended finance initiatives to date, and second, concerns with the model of development that blended finance promotes. Finally, we propose five recommendations focused on reforming blended finance initiatives in Canada, and two proposals that call for alternatives to this model altogether.

Moving forward, as our recommendations state, the Government of Canada should take advantage of the 2024 end of the 5-year IAIP pilot program to conduct a thorough evaluation of blended finance initiatives. This includes whether Canada's initiatives have moved the needle closer to achieving the SDGs, what or who is excluded from this type of aid agenda, and whether the effort and time put into blended finance initiatives has proven to be worth the resources and investment.

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APPENDIX ONE

Survey Questions

1. Please provide us with the following information: Name, organization and title or role in the organization.

2. For the purposes of this investigation, please indicate how you wish to be identified in the publication of research results [please check one box below]:
a. By name, title, and organization
b. As an anonymous participant (by organization only)
c. As an anonymous participant and anonymous organization.

3. What is the size of your organization's annual revenue? [Check a box below]
a. Less than $100,000
b. Between $100,000 to $1 million
c. Between $1 million to $10 million
d. More than $10 million
e. I do not know or prefer not to answer.

4. Where does your organization obtain its funding? [Check all that apply]
a. Global Affairs Canada (GAC)
b. Fund for Innovation and Transformation (FIT) [funding from GAC through the Manitoba Council for International Cooperation (MCIC)]
c. International Development Research Centre (IDRC)
d. Social Sciences and Humanities Research Council (SSHRC)
e. Foundations
f. Churches or religious communities
g. Corporate donations
h. Private individuals
i. I do not know or prefer not to answer.
j. Other? Please specify:

5. Many members of international cooperation councils have been seeking to diversify their sources of funding and financing through partnering with the private sector, including blended finance. Blended finance is a distinct financing modality. The key characteristic of blended finance is that the private sector financing partner derives a financial return from their investment. One example of blended finance for Canada is the recent call for Gender-Responsive Climate Finance window: https://w05.international.gc.ca/projectbrowser-banqueprojets/project-projet/details/P009097001.

The Government of Canada is also seeking to use public money (Official Development Assistance) to attract private sector actors to achieve the Sustainable Development Goals (SDGs) promoting blended finance in a number of different sectors.

Has your organization been involved in any blended finance initiatives? (By involved in, we are referring to having bid on a blended finance project with private sector financing, alone or with private sector funding and/or have explored or are exploring such initiatives).
a. Yes (If yes, go to next question)
b. No (If no, skip to Q8)

6.Were you successful at forming the partnership and obtaining the funding?
a.Yes (If yes, go to next question)
b.No

7.Please provide a 100–200-word description of the initiative that involved a blended finance arrangement with the private sector. [Go to Q10]

8.Why do you think your organization was unsuccessful at creating a partnership that was financed through blending? Please describe your experience [Fewer than 200 words]
a.Then go to question 9.

9. . Why did you decide not to explore blended finance as a potential source of development funding? [Check all which apply]
a.Our organization does not have enough resources required to meet the scale of the project (for example, the minimum project must be worth a designated amount of money)
b.Our organization decided that the reporting requirements were too onerous.
c.Our organization was not interested or not capable of participating in projects where profit was one of the goals.
d.Our partner organizations were not interested or not capable of participating in projects where profit was one of the goals.
e.Our organization has never heard of blended finance.
f.Other, please describe: [Then go to Q10]

10. Does your organization think that Canada should give a greater percentage of Official Development Assistance (ODA) to blended finance initiatives? [please choose one]
a.Strongly agree
b.Agree
c.Neither agree nor disagree
d.Disagree
e.Strongly disagree

11. Blended finance is going to have a positive impact on Canadian and Québécois civil society organizations by creating new sources of funding. [Please choose on]
a.Strongly agree
b.Agree
c.Neither agree nor disagree
d.Disagree
e.Strongly disagree

12. Your organization works with partner organizations in which areas? [Check all that apply].
a.Latin America and the Caribbean
b.Sub-Saharan Africa
c.The Middle East and North Africa
d.Asia Pacific
e.Europe
f.North America (includes Mexico)
g.Circumpolar regions (Arctic)
h.Other, please specify:

13.If invited, would you be interested in participating in a follow-up interview about the information you provided in this survey? Please note that we will provide your organization with our final report and invite your organization to an informative webinar about the project's outcomes.
a.Yes (If yes, go to next question)
b.No (If no, the survey has ended.

(Thank you for participation)

14. Please provide your name and your preferred contact information (telephone and email).

APPENDIX TWO

Interview Questions

1. How have opportunities for international development and solidarity work funded by the Canadian government changed since the dissolution of the Canadian International Development Agency (CIDA) in 2013 and the creation of Global Affairs Canada (GAC)? That is, what are some of the broad ways in which the funding opportunities for the organization you work for (or have worked for) changed over the past decade?
2. What do you believe is the motivation of the Canadian government for promoting blended finance initiatives since 2017?
3. Please tell us more about the design of current blended finance instruments available to Canadian development cooperation and solidarity organizations in Canada. What modifications or reforms would you suggest, if any? We are interested in the experience of your organization as well as what you think the impact is on partners in communities you engage with.
4. Has your organization made an explicit decision to explore blended finance as a source of funding? If so, why and if not, why not?
5. What are the broader policy issues that you and/or your organization are concerned about when the Government of Canada uses public money to de-risk private sector investment, for example, the way that FinDev Canada operates?
6. Do you and/or your organization think that the Canadian government should give a greater percentage of Official Development Assistance (ODA) to blended finance initiatives? If so, why and if not, why not?
7. What do you and/or your organization think will be the impact of blended finance on Canadian and Québécois civil society organizations?
8. What do you and/or your organization think is the optimal way for the Canadian government to provide development assistance? (optional if there is time)
9. Additional question: How can our research be helpful to you and your organization?