MESSAGE FROM THE MINISTER OF INTERNATIONAL TRADE DIVERSIFICATION

It is my pleasure to provide Parliament with the Report for the 2018 Legislative Review of Export Development Canada (EDC). I submit this report as an examination of the mandate and activities of Export Development Canada, as required by the Export Development Act.

As Minister of International Trade Diversification, I am proud to have EDC as part of my ministerial portfolio. EDC plays a crucial role in Canada’s trade diversification strategy, helping Canadian exporters reach new markets and contribute to prosperity not only here in Canada, but in countries around the world. This review presents a valuable opportunity to take stock of EDC’s performance and policies, and to ensure it continues to meet the evolving needs of Canada’s exporters and upholds the values that Canadians expect.

This Legislative Review began on June 28th, 2018. Over the past year, our government has heard directly from a wide range of stakeholders on this topic. This report benefits from the direct input of over 180 diverse stakeholders from across Canada and the receipt of over 50 written submissions. I would like to thank all who participated by providing formal submissions or by meeting with the Legislative Review team. I would also like to thank International Financial Consulting Ltd. (IFCL) for assisting Global Affairs Canada’s preparation of the Report. IFCL brought considerable technical expertise to the Review, having previously worked on multiple examinations of Export Credit Agencies around the world.

I trust that Parliamentarians will find the Report’s analysis and findings helpful as the Review continues through Committee study process. The Report presents the perspectives of stakeholders, as well as empirical data and analysis, but does not propose policy or legislative outcomes. The Report highlights areas where EDC could enhance its value for Canada, especially in today’s rapidly evolving economic and trade landscape. The Report raises important questions related to EDC’s mandate that will benefit from further examination by Parliamentarians. In particular, these include:
❖ Whether EDC is maximizing its role in Canada's overall trade support ecosystem, and whether there is sufficient strategic alignment between the organization and the Government of Canada's public policy agenda
❖ Whether EDC is demonstrating sufficient domestic and international leadership on issues of corporate social responsibility, human rights and tackling climate change
❖ Whether EDC is developing the right suite of strategies and services to best support Canadian exporters, including whether existing limitations on the organization's total equity position should be modified
❖ Whether EDC is taking sufficient risk to meet the challenges of trade diversification — both in terms of the types of businesses exporting, and the markets in which they are seeking to do business
❖ Whether the organization's capitalization and dividend policy is appropriately calibrated
❖ Whether the organization's mandate and legislative powers in the domestic space are complementary with other actors and filling a market gap

EDC will benefit from Parliament's analysis to ensure it remains a gold standard export credit agency, providing innovative and creative solutions to a diversity of Canadian exporters doing business in markets big and small around the world.

With an unparalleled network of free trade agreements now in place, Canada has taken significant steps towards becoming the world's most globally connected economy. Building strong and diverse trading relationships today will help lay the foundation for the prosperity of Canadians for decades to come. I am confident that this Legislative Review will lead to outcomes that support the organization in becoming even more inclusive, transparent and effective for Canadian exporters looking to succeed abroad and create jobs for the middle class here at home.

Sincerely,

The Honourable Jim Carr, P.C, M.P.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BDC</td>
<td>Business Development Canada</td>
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<tr>
<td>CAGR</td>
<td>Compound Annual Growth Rate</td>
</tr>
<tr>
<td>CBA</td>
<td>Canadian Bankers’ Association</td>
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<tr>
<td>CCC</td>
<td>Canadian Commercial Corporation</td>
</tr>
<tr>
<td>CDC</td>
<td>Commonwealth Development Corporation (UK)</td>
</tr>
<tr>
<td>CDIA</td>
<td>Canadian Direct Investment Abroad</td>
</tr>
<tr>
<td>CDP</td>
<td>Cassa Depositi e Prestiti (Italy)</td>
</tr>
<tr>
<td>CERR</td>
<td>Corporate Environmental Risk Review</td>
</tr>
<tr>
<td>CETA</td>
<td>Comprehensive Economic and Trade Agreement</td>
</tr>
<tr>
<td>CFIB</td>
<td>Canadian Federation of Independent Business</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>CIB</td>
<td>Canada Infrastructure Bank</td>
</tr>
<tr>
<td>CIB</td>
<td>Contract Insurance and Bonding</td>
</tr>
<tr>
<td>CPTPP</td>
<td>Comprehensive and Progressive Trans-Pacific Partnership</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organizations</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DEG</td>
<td>Deutsche Investitions- und Entwicklungsgesellschaft (German DFI)</td>
</tr>
<tr>
<td>DFATD</td>
<td>Department of Foreign Affairs, Trade and Development</td>
</tr>
<tr>
<td>DFI</td>
<td>Development Finance Institution</td>
</tr>
<tr>
<td>ECA</td>
<td>Export Credit Agency</td>
</tr>
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<td>EDC</td>
<td>Export Development Canada</td>
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<td>EFIC</td>
<td>Export Finance and Insurance Corporation (Australia)</td>
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<td>EGP</td>
<td>Export Guarantee Program</td>
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<tr>
<td>EH</td>
<td>Euler Hermes</td>
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<td>EKF</td>
<td>Eksportkredit (Denmark)</td>
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<tr>
<td>ERD</td>
<td>Environmental Review Directive</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
</tr>
<tr>
<td>FAA</td>
<td>Financial Administration Act</td>
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<td>FMO</td>
<td>Dutch DFI</td>
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<tr>
<td>GAC</td>
<td>Global Affairs Canada</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
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<td>GoC</td>
<td>Government of Canada</td>
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<tr>
<td>HR</td>
<td>Human Rights</td>
</tr>
<tr>
<td>IBC</td>
<td>Insurance Bureau of Canada</td>
</tr>
<tr>
<td>ICAAP</td>
<td>Internal capital adequacy assessment process</td>
</tr>
<tr>
<td>ICISA</td>
<td>International Credit Insurance and Surety Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation, member of the World Bank Group</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institutions</td>
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<tr>
<td>IWG</td>
<td>International Working Group</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>JBIC</td>
<td>Japan Bank of International Cooperation</td>
</tr>
<tr>
<td>KEXIM</td>
<td>Export-Import Bank of Korea</td>
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<tr>
<td>KfW IPEX</td>
<td>German Export Finance Bank</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>LC</td>
<td>Letter of Credit</td>
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<tr>
<td>MDB</td>
<td>Multilateral Development Bank</td>
</tr>
<tr>
<td>MINT</td>
<td>Minister of International Trade Diversification</td>
</tr>
<tr>
<td>MLT</td>
<td>Medium and Long-term</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>NPS</td>
<td>Net Promoter Score</td>
</tr>
<tr>
<td>OAG</td>
<td>Office of the Auditor General</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OSFI</td>
<td>Office of the Superintendent of Financial Institutions</td>
</tr>
<tr>
<td>P3</td>
<td>Private-Public Partnerships</td>
</tr>
<tr>
<td>PSG</td>
<td>Performance Security Guarantee</td>
</tr>
<tr>
<td>RIAC</td>
<td>Receivables Insurance Association of Canada</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on Equity</td>
</tr>
<tr>
<td>SACE</td>
<td>Italian ECA</td>
</tr>
<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
</tr>
<tr>
<td>SIMEST</td>
<td>Italian DFI</td>
</tr>
<tr>
<td>SLA</td>
<td>Service Level Agreement</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SPA</td>
<td>Statement of Priorities and Accountabilities</td>
</tr>
<tr>
<td>TBS</td>
<td>Treasury Board of Canada Secretariat</td>
</tr>
<tr>
<td>TCS</td>
<td>Trade Commissioner Service</td>
</tr>
<tr>
<td>UKEF</td>
<td>UK Export Finance</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>USEXIM</td>
<td>Export-Import Bank of the United States</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</tbody>
</table>
The latest EDC Legislative Review was launched on June 27th, 2018, by the Minister of International Trade Diversification. The Export Development Act requires the Minister to initiate a review every ten years of the provisions and operation of the Act, in consultation with the Minister of Finance. The Minister must submit a report on the review to Parliament within a year.

A. EDC’s Role in Export Development

Export Development Canada is Canada’s official export credit agency. It is wholly owned and regulated by the Canadian government through the Export Development Act and the Financial Administration Act. EDC reports to Parliament through the Minister of International Trade Diversification.

The corporation was created to support and develop Canadian exports and capacity to engage in trade, and to respond to international business opportunities. In addition to Canadian companies of all sizes, EDC has identified foreign investors and buyers as target markets.

Since the last review, EDC’s exposure has grown from $76.9 billion in 2008 to $110.6 billion in 2017. Financing constitutes the biggest portion of the portfolio, followed by credit insurance, and contract insurance and bonding respectively. With regard to EDC’s financing exposure, two substantial increases can be noted. The first increase of almost $9 billion occurred in 2013, and the second increase of almost $15 billion occurred in 2015. Credit insurance – due to its short-term nature – constitutes the largest product segment on new business facilitated annually. While there is no discernible growth trend in EDC’s credit insurance business, its facilitated arrangements in the financing segment have steadily grown over the past decade.

Figure 1: EDC’s Exposure by Product
B. EDC’s Developments over the past 10 years

Over the past decade, EDC has pursued initiatives or made notable advances in a number of areas.

1. **Improved partnerships with Canadian banks.** These links have complemented the banks’ business strategies and lending practices related to international trade.

2. **Corporate social responsibility policy and practices.** EDC has strengthened its social responsibility policies, including environmental, social and anti-corruption practices.

3. **Strong financial results.** EDC has achieved high net income each year over the past decade and, as a result, its capital base has grown significantly. It has paid nearly $5 billion in dividends over this period to its shareholder, the federal government.

4. **EDC has taken the initiative to link Canadian exporters to the supply chains of creditworthy foreign buyers.** This “pull strategy” has become a significant part of its business.

5. **Reduced position in the Canadian credit insurance market.** EDC’s overall credit insurance market share has declined to less than 50%, and it has established a partnership with Coface, a private global credit insurance company, in the domestic credit insurance market segment.

6. **Improved its partnerships with the Business Development Bank of Canada and the Trade Commissioner Service.** These advances have taken the form of referrals, recognition of effective
collaboration, and constant dialogue.

7. **Expanded representations abroad.** The number of EDC representations abroad has steadily grown from 13 to 21 today.

8. **Green bond issuance.** EDC pioneered Canada’s first green bond, giving investors access to funding green projects around the world.

9. **Digital transformation.** Investments in its digital platform have enabled EDC to improve its services to Canadian exporters of all types.

These issues are discussed in detail in the main body of this report.

C. **EDC’s Performance over the past 10 years**

EDC’s financial performance over the 10 years since the last review is summarized below.

<table>
<thead>
<tr>
<th>Table 1: EDC’s Financial Results</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>CAGR*</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue ($m)**</td>
<td>1,681</td>
<td>1,676</td>
<td>1,367</td>
<td>1,365</td>
<td>1,414</td>
<td>1,504</td>
<td>1,576</td>
<td>1,783</td>
<td>2,035</td>
<td>2,260</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>Provisions credit losses ($m)</td>
<td>346</td>
<td>431</td>
<td>-631</td>
<td>125</td>
<td>-340</td>
<td>30</td>
<td>-39</td>
<td>437</td>
<td>-31</td>
<td>-119</td>
<td>20.9</td>
<td></td>
</tr>
<tr>
<td>Net income ($m)</td>
<td>206</td>
<td>258</td>
<td>1,475</td>
<td>645</td>
<td>1,327</td>
<td>817</td>
<td>1,129</td>
<td>925</td>
<td>1,072</td>
<td>997</td>
<td>17.08%</td>
<td></td>
</tr>
<tr>
<td>Equity ($b)</td>
<td>6.12</td>
<td>6.59</td>
<td>7.96</td>
<td>8.26</td>
<td>8.88</td>
<td>8.37</td>
<td>8.22</td>
<td>9.17</td>
<td>9.76</td>
<td>10.04</td>
<td>5.07%</td>
<td></td>
</tr>
<tr>
<td>Total assets ($b)</td>
<td>35.26</td>
<td>32.9</td>
<td>31.88</td>
<td>33.6</td>
<td>36.23</td>
<td>41.52</td>
<td>49</td>
<td>60.97</td>
<td>63.12</td>
<td>60.12</td>
<td>5.48%</td>
<td></td>
</tr>
<tr>
<td>Dividend paid ($m)</td>
<td>250</td>
<td>0</td>
<td>0</td>
<td>350</td>
<td>500</td>
<td>1,440</td>
<td>1,129</td>
<td>0</td>
<td>500</td>
<td>786</td>
<td>12.14%</td>
<td></td>
</tr>
<tr>
<td>Admin expenses($)m</td>
<td>240</td>
<td>246</td>
<td>273</td>
<td>284</td>
<td>308</td>
<td>310</td>
<td>327</td>
<td>351</td>
<td>385</td>
<td>431</td>
<td>6.03%</td>
<td></td>
</tr>
<tr>
<td>ROE (%)</td>
<td>3.4</td>
<td>3.9</td>
<td>18.5</td>
<td>7.8</td>
<td>15.0</td>
<td>9.8</td>
<td>13.7</td>
<td>10.1</td>
<td>11</td>
<td>9.9</td>
<td>10.3%</td>
<td></td>
</tr>
<tr>
<td>Productivity ratio (%)</td>
<td>23.3</td>
<td>23.5</td>
<td>24.6</td>
<td>22.8</td>
<td>21.7</td>
<td>22.7</td>
<td>23.3</td>
<td>22.9</td>
<td>27.2</td>
<td>28.5</td>
<td>24.1%</td>
<td></td>
</tr>
<tr>
<td>Cost of risk (%)</td>
<td>0.45</td>
<td>0.6</td>
<td>-0.89</td>
<td>-0.16</td>
<td>-0.44</td>
<td>-0.03</td>
<td>-0.04</td>
<td>0.39</td>
<td>-0.03</td>
<td>-0.11</td>
<td>0.01%</td>
<td></td>
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<tr>
<td>(Provision for credit losses / Total Exposure)</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Equity / Total Exposure (%)</td>
<td>8</td>
<td>9.2</td>
<td>11.2</td>
<td>10.8</td>
<td>11.4</td>
<td>9.6</td>
<td>8.7</td>
<td>8.1</td>
<td>8.7</td>
<td>9.1</td>
<td>9.48%</td>
<td></td>
</tr>
<tr>
<td>Dividend payout ratio (%) to net profit</td>
<td>121.4</td>
<td>0</td>
<td>0</td>
<td>54.3</td>
<td>37.7</td>
<td>176.3</td>
<td>100</td>
<td>0</td>
<td>46.6</td>
<td>78.8</td>
<td>61.5%</td>
<td></td>
</tr>
</tbody>
</table>

*Cumulative Average Growth Rate

**Total revenue = Total financing and investment revenue + loan guarantee fees + Net insurance premiums and guarantee fees

EDC’s financial performance has been very strong over the past decade. Profitability has been impressive.
at an average return on equity of 10.3 per cent a year, driven by a combination of growth in assets and risk exposure, and a very low cost of risk. The shareholder has not imposed a target ROE.

EDC has an exceptionally strong capital structure and (risk-adjusted) profitability. EDC’s business results over the last 10 years are summarized in Table 2.

Table 2: EDC’s Business Results

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total exposure ($b)</strong></td>
<td>76.9</td>
<td>71.9</td>
<td>70.9</td>
<td>76.1</td>
<td>78.1</td>
<td>86.9</td>
<td>94.8</td>
<td>113</td>
<td>112.1</td>
<td>110.6</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Total business facilitated ($b)</strong></td>
<td>85.8</td>
<td>82.8</td>
<td>84.6</td>
<td>102.5</td>
<td>87.4</td>
<td>95.4</td>
<td>98.9</td>
<td>104.2</td>
<td>102</td>
<td>103.7</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Volume in emerging markets ($b)</strong></td>
<td>22</td>
<td>18.7</td>
<td>24.7</td>
<td>31.2</td>
<td>26.3</td>
<td>27.3</td>
<td>28.9</td>
<td>29.2</td>
<td>30.6</td>
<td>29.9</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td><strong>CDIA transactions (#)</strong>**</td>
<td>383</td>
<td>494</td>
<td>573</td>
<td>823</td>
<td>896</td>
<td>459</td>
<td>347</td>
<td>372</td>
<td>508</td>
<td>508</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Customers (#)</strong>**</td>
<td>8312</td>
<td>8469</td>
<td>8236</td>
<td>7787</td>
<td>7427</td>
<td>7165</td>
<td>7432</td>
<td>7343</td>
<td>7150</td>
<td>9398</td>
<td>1.2%</td>
<td></td>
</tr>
<tr>
<td><strong>Small Business &amp; Commercial Transactions (#)</strong>*</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>2639</td>
<td>2762</td>
<td>4280</td>
<td>4555</td>
<td>5500</td>
<td>15.8%</td>
<td></td>
</tr>
<tr>
<td><strong>Partnership transactions (#)</strong></td>
<td>4450</td>
<td>4920</td>
<td>5461</td>
<td>5757</td>
<td>4517</td>
<td>4568</td>
<td>3918</td>
<td>3697</td>
<td>3961</td>
<td>NA</td>
<td>-1.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Number of insurance policies in force</strong></td>
<td>9328</td>
<td>9252</td>
<td>9238</td>
<td>8665</td>
<td>8214</td>
<td>8553</td>
<td>7967</td>
<td>7383</td>
<td>7302</td>
<td>7318</td>
<td>-2.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Net Promoter Score (%)</strong></td>
<td>62.1</td>
<td>68.6</td>
<td>72.1</td>
<td>71.2</td>
<td>72.0</td>
<td>70.5</td>
<td>74.3</td>
<td>71.9</td>
<td>77.6</td>
<td>77.3</td>
<td>71.8</td>
<td></td>
</tr>
</tbody>
</table>

*Cumulative Average Growth Rate
**includes new definition of customer to cover “knowledge customer” (users of EDC’s knowledge products) as of 2017
*** Several changes in methodology and composition. Until 2014 only “small business transactions”, then in 2015 change to “small and medium sized enterprise transactions”, as of 2017 “small business and commercial transactions”
**** Update to the business rule for CDIA transactions as of 2016

Against a backdrop of steadily increasing administrative expenses, EDC’s business growth has been less impressive than its financial performance as can be seen in Table 2. Most of the key performance indicators point to minimal growth or even contraction. The number of policies in force and small business transactions has decreased during this time, as has the number of partnership transactions. The number of customers has seen growth, but as discussed, this is due to the addition of “knowledge customer” within the definition of an EDC customer. “Knowledge customers” are non-paying clients who do not use EDC’s core financial products. In 2017, these amounted to an additional 1,399 customers.

On the positive side, EDC has been able to consistently improve its customer satisfaction, as defined by the Net Promoter Score seen in Table 2. In the past ten years, business in emerging markets has seen a healthier cumulative aggregate growth rate of 3.1 per cent and the number of Canadian direct investment abroad transactions has grown at a cumulative rate of 2.9 per cent.
EDC has grown its business mainly through transactions with larger companies with a relatively healthy credit risk profile. This is evidenced by strong asset growth, a low cost of risk, and a decrease in the number of transactions (including partnerships, number of policies and small and mid-sized businesses) in combination with flat growth in number of customers served.

**D. Analytical Framework and Report Structure**

Using the nine themes of the review (see figure below) based on the scope of work, the review assesses how EDC is evolving, and how it should continue to evolve.

![Figure 3: Main Themes of the Review](image)

Source: Developed for the Report based on Scope of Work

To put the nine themes into perspective, the review draws relevant components from a variety of analytical models. This approach provides a structured way to answer the crucial questions raised under the different themes: *enabler criteria* cover what EDC does, and how it does it; *results* are caused by these enablers, and *results criteria* cover what EDC achieves.

![Figure 4: Review Framework and Key Criteria Guided by Themes](image)

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**Figure 4: Review Framework and Key Criteria Guided by Themes**

Enablers

- Foundations
- Partnerships
- Operations
- Strategy
- Products
- Results

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vii
Based on this framework, a cross-sectional study was designed to obtain required information. Primary data collection was guided by a detailed consultation and communication strategy for primary stakeholders directly affected by this review, as well as secondary stakeholders with an interest in EDC. Secondary data for desk review was gathered from existing sources, such as macroeconomic data, annual reports, policy papers and other publications. In total, 186 stakeholders were contacted individually and 109 one-on-one stakeholder consultations were conducted. Furthermore, 53 written submissions from various stakeholder categories were received. Lastly, 28 semi-structured interviews were held via telephone with tertiary stakeholders (so-called interested parties). A full list of participating stakeholders can be found in Annex A and B.

**Figure 5: Overview of Stakeholder and Interested Parties**

The review was conducted between June 2018 and April 2019.

**E. Key Findings**

**EDC’s Foundations**

**Legislative Mandate**

The Export Development Act is EDC’s governing legislation, defining its mandate, powers and responsibilities. Like other federal Crown corporations and government entities, EDC is subject to the provisions of the Financial Administration Act. EDC’s legislation is supplemented with regulations that define in more detail how its legislative powers are to be used.

**Conclusions**

*EDC is pursuing two broad approaches in implementing its mandate.* As Canada’s export credit agency,
trade facilitation is at the core of EDC’s operations, responding to the needs of exporters of all sizes and types for credit and risk management expertise to underpin the flow of export transactions. In addition to this more traditional role, EDC can help originate or “create” new Canadian trade opportunities by using its credit and risk management expertise to develop financing relationships with creditworthy foreign buyers, and then use these relationships to build opportunities for Canadian suppliers. This “pull” strategy responds to global supply chain challenges, benefiting Canada and Canadian exporters, notably small and mid-sized businesses.

**Canadian exporters agree that EDC provides a valuable service.** Exporters want EDC to be a key partner, both to ensure there is a sufficiently competitive market in Canada for certain trade finance and risk management services, and to provide complementary services that help to fill market gaps in other segments. Many EDC customers value EDC’s role in ensuring competitive options and choice in market segments like credit insurance and surety. Others value EDC’s role as a complementary capacity builder, working with banks to add to the available market capacity for trade-related credit. Exporters and commercial banks note that EDC offers a very broad range of services, covering many insurance and financing products. This is in line with an overall development where export credit agencies around the globe have substantially expanded their product offering in recent years, including direct lending, working capital facilities, or even equity and mezzanine financing.

**EDC’s pull strategy is conducive to expanding Canada’s foreign trade.** Foreign “pull” clients confirm that they value EDC’s active efforts to identify high-quality Canadian suppliers and facilitate buyer-exporter relationships. Data provided by EDC suggests that the pull strategy is creating export opportunities and bringing overall economic benefits to Canada. However, EDC acknowledges that it cannot definitively state that Canadian procurement results from pulls, as most pull buyers already have a baseline Canadian procurement which is included in the data. Some exporters express concern that excessive focus on the pull strategy may distract EDC from more conventional forms of trade facilitation.

**Some exporters would like EDC to make greater use of traditional export finance tools, such as guarantees, to level the competitive playing field.** They take the view that EDC’s reliance on direct lending for medium-term export transactions may crowd out access to other creditors, including in local markets. Greater use of guarantee structures by EDC may help improve exporters’ overall access to trade finance, particularly in emerging markets with strong local banks.

**Governance**

Governance and oversight are fundamental issues for this review. A key point is whether the Government is making sufficient use of existing governance practices to provide clear policy guidance to EDC, with clear objectives, information sharing, and accountability.

**Conclusions**

**EDC is guided by overall government policy but, based on Government of Canada Crown corporation governance best practices, potential enhancements/modifications could be considered.** As a Crown corporation, EDC is at times asked explicitly to implement government policy. Policy guidance is provided to EDC through letters spelling out priorities and accountabilities, and through corporate plan approvals. Clear and regular input from government, with clear key performance indicators such as number of women-owned exporters, helps ensure EDC’s full alignment with Government policy.
EDC’s shareholder needs to access information on EDC’s operations (such as board briefing material, board minutes, etc.) and, according to the Financial Administrations Act (Section 149 (1)), has a right to access. This regular sharing of information with appropriate officials of oversight departments is not unusual for other Crown corporations without board representation and could help Global Affairs Canada officials confirm EDC’s alignment with government policy and the delivery on its public policy mandate. It could also provide the timely information needed to brief ministers as required.

Other Crown corporations continue to have government representatives on their boards of directors. The Government decided in 2006 to remove deputy ministers from the EDC board. However, some other Crown corporations with financial responsibilities continue to have government representatives on their boards.

EDC’s Strategy

Policy Alignment

As a Crown corporation that was created to meet public policy objectives, EDC is expected by its shareholder to align its strategy with the Government’s trade and other related policy priorities. The Government of Canada defines its overall objectives and priorities for Canada’s international trade policy and trade development.

Conclusions

EDC’s performance measures are not directly linked to the Government’s regular strategic policy guidance. EDC has defined and measures its performance based on a set of indicators. Over the past decade these indicators were gradually reduced from 14 to 6 and the composition and calculation of some of the indicators was adapted several times during the timeframe making it difficult to assess some of the overall performance trends. At the same time EDC has only provided qualitative responses to the policy guidance it received from the Government on an annual basis. While EDC’s performance measures are reflective of the Crown corporation’s mandate, EDC does not report specific goals or measures of success for annual public policy objectives.

There is a clear link between EDC’s key performance indicators and its employee incentives. EDC staff are naturally responsive to internal targets and compensation incentives. Unless the incentives are also aligned with EDC’s public policy objectives, staff may be inclined to focus on the performance indicators, such as increasing business volumes (rather than facilitating private sector providers), most relevant to their compensation.

EDC’s Customers

Like any other business, export credit agencies need to define their target customers. A key issue is whether EDC has comprehensively identified the group(s) that best fit its services and resources, and whether it is addressing those targets in the most effective way.

Conclusions
EDC has identified the full potential for its services in Canada and internationally. It has done detailed research over many years to define its customer segments comprehensively, as well as to examine the potential by region and by sector across Canada. EDC has set up a broad network of representations and relationships across Canada, working closely with provinces, municipalities and business groups. It has developed partnerships with many commercial banks to support their customers.

Many clients express a high level of satisfaction with EDC’s products, risk coverage and service, but some see room for improvement. Praise for the corporation covers the full array of EDC products, and comes from many export sectors and buyer markets. Firms of all sizes and types, and their representative business organizations, were included in the consultations, and mention was made of essentially every global region and many individual country markets, with a particular interest in EDC’s role in emerging or developing markets. Export sectors covered included aerospace, oil and gas, mining, financial services, construction, ground transportation, engineering services, consumer products, and numerous others. On the other hand, some respondents raised concerns, including inadequate risk appetite; poor or uneven service quality; frequent staff turnover, particularly for smaller exporters; the need for multiple points of contact; insufficient sector knowledge and treatment of services exports specifically; lack of attention to SMEs and small transactions; bureaucratic and time-consuming processes; and a lack of feedback or clarity on why a given transaction was not advancing. EDC’s overall scores for customer satisfaction and loyalty indicate that its customers are generally satisfied with its service. However, a more detailed breakdown would be required to evaluate the success of policy objectives among specific client groups.

EDC has devised plans to improve diversity, inclusion as well as support to women-led and Indigenous businesses. Given that many initiatives are still relatively new, EDC reporting has so far focused on activities rather than results. During the review, exporters in these customer segments criticized that EDC does not offer enough products and services for their specific needs. Furthermore, they voiced concern that efforts to represent their constituencies are not backed by senior executive leadership.

Canadian Benefits

As Canada’s export credit agency, EDC is expected to support Canadian exports and direct investment abroad, with related positive impacts on economic output and jobs. EDC’s evaluations of the economic benefits of its insurance and financing activities are important indicators for determining its success.

Conclusions

EDC has a very high penetration rate in comparison to other export credit agencies. An export credit insurance penetration rate of 5 per cent or lower of total foreign trade is common in highly industrialized countries, yet EDC’s comparable penetration rate is significantly higher at 15 per cent. However, this high level of activity may be evidence of a substantial gap in Canadian financial markets which EDC might have contributed to by crowding out potential competitors in the private sector.

Risk Management

As Canada’s export credit agency, EDC is expected to help Canadian companies broaden their trade horizons. A key issue is EDC’s willingness to provide financing or insurance capacity in the markets in which Canadian companies wish to do business, and for the transactions that they bring to EDC. The question thus arises whether EDC is willing to take sufficient risk to meet the needs of Canadian
companies, especially in emerging markets and for high-risk buyers.

Conclusions

**EDC is not meeting some exporters’ expectations of a stronger appetite for risk, notably involving transactions below investment grade, and in emerging and high-risk markets.** Exporters raised concerns that EDC does not have an appetite for risk beyond the investment-grade credit that is widely available in financial markets. Taking on more risk is an opportunity for EDC to more actively promote the government’s trade diversification agenda. However, EDC would face stiffer competition from other export credit agencies in emerging markets, so ensuring a level playing field through a stronger risk appetite will be critical.

**EDC is risk averse compared to its peers, including private sector lenders and insurers.** Despite its strong capital base, EDC’s exposure to non-investment grade risks of 60% of its FY 2017 credit risk is comparable to Canadian commercial banks and lower relative to other OECD export credit agencies.

**Capital Management**

As a Crown corporation, EDC is 100 per cent owned by the Government of Canada. Its capital comprises the initial equity injected at its inception, additional capital injections over time, reserves built up over time, minus dividends paid to the Government. Over the years, EDC’s business has resulted in significant net profits, leading to an accumulation of equity, some of which is returned to the Government in the form of dividends.

Conclusions

**EDC’s calculations show that it has more capital than it needs.** Its capital of $10.04 billion in 2017 was some $4.87 billion more than its needs, based on EDC’s calculation of its business risks. These calculations themselves are based on a very conservative approach.

**EDC’s capital surplus suggests there is significant scope for it to take more risk.** The amount of excess capital corroborates concerns that EDC is too risk averse and should be supporting a wider range of deals.

**The Government’s capital and dividend policy requires Crown corporations to return capital to the shareholder that is in excess of required capital over the course of the planning horizon.** The planning horizon for EDC’s corporate plan is five years. Its 2018 plan indicates excess capital between 2018 and 2022 of between $3.2 billion and $4.5 billion.

**EDC’s Products**

**Credit insurance**

Canadian companies rely on a variety of financial services when doing business internationally. Access to sufficient and competitively-priced credit and insurance is critical to success in international trade and investment. Credit insurance is the main insurance offering of EDC and it covers the risk of non-payment by buyers. Export credit insurance covers foreign buyers, while domestic credit insurance covers buyers based in Canada.
Conclusions

EDC played a critical role during the global financial crisis of 2008-09, continuing to write business even as private insurers cut back dramatically. This point was underscored by other credit insurers, brokers and exporters. EDC’s supplementary insurance ensured that the impact of the crisis was softened as other insurers withdrew from large segments of the market.

EDC operates in a vibrant Canadian credit insurance market, with a declining market share. Its market share (by premium volume) has fallen steadily from 100 per cent in the 1980s to roughly 52 per cent at the time of the last review, and 43 per cent today. However, it still accounts for 73 per cent of the export credit insurance market.

EDC brings important elements to the export credit insurance market, giving exporters more choices. There are thus compelling public policy reasons for EDC to keep operating in a competitive export credit insurance market in Canada. It brings risk appetite and staying power to the market. For buyers in emerging markets in particular, EDC often offers higher credit limits and better coverage throughout the business cycle.

Private insurers would prefer EDC to step away as prime insurer and play a more complementary role. They suggested that EDC could act as a reinsurer rather than a direct export credit insurance provider, to help build market capacity. However, such a role may not be sufficient to maintain coverage through the business cycle, especially if EDC is not regularly active in the market as a direct provider. Brokers indicated their preference, on behalf of their clients, that EDC stay active in the competitive export credit insurance market. The overall Canadian credit insurance market has grown in volume, and EDC is aware of the importance of limiting its market share to provide market space and avoid crowding out private insurers.

EDC enjoys a competitive advantage with referrals thanks to its privileged position under the Bank Act and the Insurance Regulations. EDC is only providing export credit insurance (although in partnership with Coface offers a single policy covering both export and domestic risks to the client). Therefore, unlike the private insurers which offer comprehensive cover, many banks refer business only to EDC when requesting collateral. This gives EDC greater access to new business, than what is available to private credit insurers. This implies that EDC has lower operational and administrative expenses, as it benefits from the wide distribution network of the commercial banks.

The export credit insurance business in Canada has not grown as fast as Canada’s exports, but has grown faster than most other parts of the world. The Canadian export credit insurance market grew by 20 per cent between 2008 and 2017, whereas Canadian exports expanded by 32 per cent. Private insurers claim that the active presence of EDC in the market has caused them to withhold investments compared to other business segments. However, based on International Credit Insurance and Surety Association figures, premium income has grown faster in Canada than globally.

There is no evidence that EDC is undercutting premium rates offered by the private sector. Input from the Insurance Bureau of Canada and credit insurance players indicates that EDC has competitive
advantages. However, no concerns have been raised that EDC may be under-cutting private insurers, and EDC maintains that it takes care to ensure that its prices are not lower than the competition, notwithstanding its lower cost of borrowing. This may avoid price distortion, but it could also help justify a stronger appetite for risk. Even so, some concerns have been expressed that EDC is using its full suite of products to attract customers away from private insurers and brokered insurance business.

**EDC’s credit insurance results lack transparency compared to private insurers.** Private insurers are subject to reporting requirements set by the Office of the Superintendent of Financial Institutions. The 2008 Legislative Review highlighted this difference, and proposed that EDC’s reporting should also comply with regulatory requirements for insurance companies. While EDC reports its business results to the Receivables Insurance Association of Canada, EDC does not track profitability of its credit insurance business as it does not allocate specific costs to the program.

**The current cooperation model in the domestic credit insurance market may limit consumers’ choice.** EDC established a relationship with Coface where Coface assumes the domestic credit risk for EDC’s export credit insurance clients. The rationale for EDC having only one credit insurer on the domestic program needs further consideration. The arrangement with Coface was renegotiated in summer of 2018 before the Legislative Review, without opening up this market to other insurers. Private insurers and brokers have suggested using a more open and transparent auction market for EDC’s domestic credit insurance business. This would allow private sector insurers to work with brokers to bid on the domestic business based on price, cover, service, claims payment record and other factors.

**EDC’s claims experience in the credit insurance business is in line with other insurers’ experience.** EDC’s loss ratio needs to be calculated over a number of years, as a single year’s claims are not an accurate reflection of long-term performance. EDC states in its annual report that it has a target net claims ratio of 50 per cent, which seems in line with private insurers’ credit risk profile. Its portfolio is conservative, tilted towards investment-grade buyers, and the typical risk profile of EDC customers would certainly be viewed as conservative by commercial credit insurers.

**Bonding and Guarantees**

Canadian exporters need access to working capital to grow their business and compete for international opportunities. This need is especially important for the construction business. Canada has a significant private surety market. EDC’s bonding programs and guarantee instruments are important to Canadian contractors bidding on foreign projects.

**Conclusions**

**Stakeholders have differing views on EDC’s role in providing bonding and guarantee facilities for the construction industry.** Views differ on the ability of the private surety market to satisfy the expectations of Canadian construction firms, project sponsors, public-private partnerships and financial institutions, particularly on domestic projects. Canadian construction firms and their banks favour EDC’s active role, particularly its Performance Security Guarantee (PSG) product, and want it to continue. For the banks, this is not surprising given the quality of cover provided by an AAA-rated entity. The surety industry maintains that EDC can add value to the market by expanding its complementary role, and brokers could be used more extensively to develop new business. EDC could provide reinsurance for the surety market beyond private sector cover limits. Private sureties propose that EDC concentrate more on reinsurance to help develop market capacity, and less on direct business origination. The state of this debate within
Canada is akin to that within the credit insurance market some decades ago, when EDC first entered the domestic credit insurance market.

**According to the construction industry, there is a need for EDC’s capacity to support the surety and bonding requirements for domestic projects.** EDC’s role in the domestic construction market drew considerable attention during the stakeholder consultation process. Its active role in domestic surety is highly valued by Canadian construction firms and banks for public-private partnerships, infrastructure and other projects. It provides liquidity and security that are not yet readily available in the private surety market, but which are essential for participation in these projects. In the view of construction exporters and financial institutions, the private market cannot yet provide a fully liquid bond, creating a market gap that EDC has filled.

**Private surety providers emphasize that the Canadian surety market is evolving, particularly in meeting the security requirements of domestic public-private partnerships.** New hybrid instruments are emerging that are intended to meet the needs of project stakeholders. In the view of private surety providers, the private market needs to have room to find the next best path without EDC involvement.

**Small and mid-sized contractors claim there is not a level playing field in terms of access to EDC domestic bonding and guarantee facilities.** According to the construction industry, requiring export sales of 50 per cent as a pre-condition for access to domestic cover from EDC creates a barrier to access for many Canadian contractors. Smaller contractors emphasized that only general contractors with established access continue to have access to domestic surety cover from EDC. For small businesses without a minimum 50 per cent of revenues from exports, there is the additional requirement of having to seek Ministerial authorization. However, they can still access EDC’s domestic program.

**If EDC’s domestic role in surety and bonding is to be altered, the changes need to be clearly assessed and defined, with a sufficient transition period to allow all players to adapt.** Canadian contractors contend that they need clarity and certainty on EDC’s role in the domestic surety market. They would like EDC to stay fully engaged, with authorization for a defined period of time, rather than case by case. Without the certainty of being able to provide the requisite performance security, construction firms said they would be unable to enter into the lengthy and expensive cycle of prequalifying for, and bidding on, public-private partnerships and other projects, domestically and internationally. A transition plan was suggested by a private surety provider that aimed at making EDC support for banks a second option for domestic projects, not a first choice, to be used if the private surety market does not deliver a suitable solution. EDC could also be more available to reinsure or share risk with private insurers on domestic projects, as it does beyond Canada’s borders.

**Stakeholders have identified the need for more frequent and regular federal government consultations on the surety market.** A message conveyed by the surety industry is that regular consultations with industry would help expand the Canadian surety market and make it more efficient. These consultations, possibly scheduled every two years, would be separate from the EDC review.

**Financing**

EDC plays a central role in providing credit to buyers of Canadian exports, and in supporting and
financing Canadian exporters. It offers multiple products to finance international trade and investment. It is active both on its own account and in collaboration with Canadian and international financial institutions. Buyer financing is the mainstay of export credit agencies’ product offerings.

Conclusions

Canada’s banking landscape is different from other OECD countries. The long-running debate within Canada on medium and long-term financing – namely, whether EDC should be a direct lender, or a provider of bank guarantees – has lost traction as Canadian banks have limited interest in the export finance business, and lending to foreign buyers is not generally part of their strategies. However, commercial banks in other OECD countries are active in export finance and get guarantee coverage from the national export credit agency. Banks in Canada are no longer interested in export financing and hence make little mention of competition from EDC’s services. By contrast, banks in most other OECD countries are far more active in this business. Whether EDC has filled a gap, or created a distortion by displacing banks in the trade finance market, is a chicken-and-egg debate that is unlikely to be resolved.

The limited involvement of private-sector lenders has created some weaknesses in medium- and long-term trade financing. Foreign banks emphasize that Canadian exporters can face a competitive disadvantage by not having full access to the international commercial export finance system. EDC is not able to fully compensate for the constraints imposed by its dominance of Canada’s trade finance system. Export credit agencies typically rely on international and local banks that have wider networks and deeper relationships with borrowers. EDC’s international representations play a crucial role in identifying opportunities, but they cannot match the banks’ networks. Of EDC’s overseas representations, 15 are in emerging markets and are primarily focused on export financing. Thus, an internationally comparable guarantee program from EDC for banks is critical to maintain Canadian exporters’ competitiveness.

Some major exporters are seeking greater use of targeted bank guarantees from EDC, notably for local banks in buyer countries. Exporters suggest EDC could provide more bank guarantees, especially in challenging markets.

There is evidence that EDC sometimes crowds out Canadian and foreign banks from specific export financing deals. Several foreign banks mentioned that EDC enjoys an unusual level of market dominance, allowing it to crowd out commercial lenders in medium and long-term financing deals without giving private-sector banks a chance to compete. Several examples were cited of commercial banks being unable to compete with EDC’s pricing, and of EDC proactively offering its services to the banks’ existing clients in buyer countries. This could be avoided if EDC concentrates on services that complement the banks’ offerings, while adjusting its internal processes to ensure that it does not crowd out the banks on specific export financing deals. Ultimately, the priority is customer choice with EDC remaining agnostic on whether it provides loans or guarantees.

Equity Investment

EDC’s mandate is to support the capital needs and growth ambitions of Canadian exporters. Initially, its investments focused on funds that would improve the access of export-oriented companies to private equity. More recently, EDC has chosen to invest directly in high-potential Canadian companies to help them expand into international markets.
Conclusions

EDC has taken on the role of a targeted and selective minority investor, both directly and through funds, enabling it to match procurement opportunities from these investments with Canadian supply capabilities. There is no indication that EDC is crowding out other players. EDC is investing directly and making commitments to fund partners with strategies that are consistent with its trade-promotion mandate. However, caution was expressed that EDC should avoid early-stage venture capital investments, given the high risks involved, and the fact that the Business Development Bank of Canada already caters adequately to this segment.

Knowledge Products

Accurate trade information is a valuable business tool for Canadian exporters and investors. EDC has accumulated extensive expertise in international trade and risk management over many decades. It is now taking steps to make this knowledge available to clients and prospective clients in a more structured fashion.

Conclusions

EDC’s new knowledge products capitalize on its strengths. Providing relevant export-related information complements EDC’s financial services and is entirely in line with its mandate to help Canadian businesses succeed abroad. Other export credit agencies have long recognized that trade-related information complements their financing and insurance activities.

EDC classifies knowledge users as “customers” in assessing its performance targets. These non-financial services undoubtedly provide value for users. However, it remains an open question whether those who have access to knowledge products at no cost can accurately be described as “customers”, with the same status as clients of EDC’s traditional financial services.

EDC’s Partnerships

Private Sector Partnerships

EDC’s partnerships with private sector sources of insurance, guarantees and finance are a critical element of its operating model. The law does not require EDC to complement or augment private sector sources, unlike the Business Development Bank and many other export credit agencies, except in relation to its domestic powers. An evaluation of these partnerships is a central element of this review.

Conclusions

EDC competes directly with the private sector in export credit insurance. There are strong public policy reasons for this practice to continue, notably EDC’s risk appetite in specific types of business, and its staying power through thick and thin. However, there is little evidence that EDC’s competitive role has expanded the market for export credit insurance. The over-arching public policy issue is whether EDC could do more to grow the Canadian credit insurance market by taking on a more complementary—rather than competitive—role.

There are growing concerns among private-sector surety providers that EDC is crowding them out of the bonding market. EDC’s performance security guarantee is popular with banks (which benefit from a
100% AAA-rated guarantee) and with contractors. Traditional surety industry products are often less competitive. Efforts have recently been made to innovate and create liquid bonds that act more like bank stand-by letters of credit. As with credit insurance, the question is whether EDC can do more to grow the Canadian surety market by complementing rather than competing with other providers.

**EDC’s relationship with the Canadian banking industry is generally working well but is less positive with the international and local banks which provide finance to buyers.** EDC’s relationship with the Canadian banking industry is more positive and productive today than a decade ago as demonstrated by EDC’s numerous complementary products for Canadian banks. Canadian banks want EDC to complement their business, supporting them as they finance exporters and build market capacity. EDC offers a broad range of services, covering a manifold set of insurance and financing products. These include exporter pre-shipment financing, foreign buyer financing for capital good exports, project financing with Canadian supply and investment interests, balance sheet financing for exporters, performance guarantees for contractors, and the use of exporters’ credit insurance as security.

The banks view EDC’s activities as the best fit with their own business among Canada’s financial-services Crown corporations. They see it as particularly helpful in assessing and managing overseas business risk. EDC’s bank pre-shipment export guarantee program is cited repeatedly as an example of how its programs complement those of the banks. However, EDC can also learn from other export credit agencies. For example, Denmark’s Eksportkredit rolled out an ‘ambassador program’ in 2015 that enables banks to seize more opportunities for export financing. Germany systematically involves senior commercial bankers, drawing on their expertise and networks in an Inter-ministerial committee.

**Public Sector Partnerships**

EDC’s role in supporting Canada’s international trade promotion efforts is a critical element of its operating model. Understanding how it fits into the country’s trade development network, the relationships among various trade development groups, and how these partners feel their relationships with EDC are working, is crucial to determining whether the trade promotion system as a whole is operating effectively.

**Conclusions**

**Risk of duplication among federal partners exists.** Given the mandate of the Trade Commissioner Service and other federal partners in trade development and risk management, close collaboration is essential to minimize the risk of duplication, optimize sharing of information among federal entities, and provide seamless services to Canadian exporters. Above all, each partner needs to focus on its core mandate while being cognizant of their role in the broader trade support ecosystem.

**EDC is a critical part of Canada’s international trade superstructure that also includes federal departments and agencies, provinces and cities.** In general, the system is working better today than in the past – as manifested by more effective cooperation and common-sense coordination with the Trade Commissioner Service, other federal departments, the Business Development Bank of Canada and other Crown corporations, provinces, cities and related organizations. In general, the mandates of these various organizations complement each other. Some overlap is inevitable (and acceptable) to close financial market gaps. Even so, duplication is costly and more work needs to be done to define each partner’s comparative advantages.
EDC’s well-developed network of representations outside Canada gives it a central role in developing international trade. Protocols, regular consultations and constant communication are all required for effective functioning of these offices in conjunction with the Trade Commissioner Service and the provinces. Even closer collaboration is possible, likely leading to additional business development benefits.

**Government stakeholders, specifically the Trade Commissioner Service and the Business Development Bank of Canada, are working with EDC on a more collaborative approach to international trade development on behalf of Canadian exporters.** As stated in Budget 2018, the over-arching goal of Canada’s international trade and business development should be seamless service to exporters. Government stakeholders would appreciate more openness, collaboration, consistency and collegiality with EDC on international trade development. Varied strengths and weaknesses were identified, with some noting a degree of inconsistency in EDC’s approach to collaboration, both in Canada and abroad. There remains room for improvement in setting clear guidelines for engagement with EDC’s public sector partners and to recognize their deep local knowledge in Canada and in specific global markets.

**Stakeholders emphasize that information sharing still needs more two-way clarity and equal engagement.** Their point pertains to overall trade market information; market and buyer intelligence for other stakeholders and for Canadian clients; and qualified leads and cross referrals. In addition, clarity would be useful on which agency has primacy on various types of match-making initiatives (such as general versus targeted), arranging joint client visits, etc. Common business development plans, formal protocols and other instruments can help add clarity and foster better relations in Canada and abroad. Tracking outcomes on referrals and other interventions would help strengthen overall collaboration. Overall, EDC’s capacity to invest in international trade development is far greater than other Canadian departments and agencies.

**Civil Society Partnerships**

Civil society organizations have shown a keen interest in EDC and have taken an active part in the review process. These groups promote desired social values and outcomes, often representing the interests of marginalized groups around the world. They have come to represent a key stakeholder group for EDC beyond its traditional for-profit clients and partners.

**Conclusions**

**EDC has developed relationships with some civil society groups, but at present that engagement appears to be uneven.** More consistent and systematic engagement could allow EDC to understand these groups’ perspectives more fully, harness their expertise, and develop stronger long-term collaboration. The government’s Corporate Social Responsibility Advisory Council plays a useful role, but it has limited civil society representation. EDC could be more proactive to instill confidence in its processes and procedures among civil society groups. Roundtables, joint studies, and audits are some ideas to be considered. Closer coordination between Global Affairs Canada and EDC on social responsibility issues, would be beneficial, particularly in the natural resources sector.

**Corporate Social Responsibility at EDC**
Transparency and Disclosure Practices

EDC’s approach to transparency as a government-owned entity is an issue that recurred throughout the review. Over the past decade, governments and public institutions in mature democracies have become more accountable to the public. In line with this trend, the Government of Canada has a long-standing commitment to openness and accountability. Yet, for a commercial Crown corporation like EDC, the issue of transparency and sharing information has more than one dimension.

Conclusions

There is a risk that Canadian exporters miss out on business opportunities if EDC, the Trade Commissioner Service and other partners fail to address the need for more shared business information. More clarity is required on the dividing line between commercially confidential information that ought to be protected or where client consent should be sought, and information that can be shared by EDC with trade commissioners and other trade development partners without compromising its clients’ business interests.

Greater transparency and disclosure on non-financial information appears possible without jeopardizing a client’s business or competitive position. While information EDC currently discloses is in line with OECD guidelines, it does not match the standards of organizations such as the World Bank’s International Finance Corporation (IFC) and other export credit agencies, such as the US EXIM Bank. Stakeholders see IFC’s disclosure practices as setting the bar for what EDC could disclose.

Environmental and Social Risk Assessment

Over the years, EDC has developed an environmental and social risk management framework that integrates its statutory obligations with various international commitments such as the OECD Common Approaches and the Equator Principles. EDC’s current policies commit it to assessing and considering environmental and social risks in its transaction approval process. It further commits to actively promoting best practices with counterparts, and to high standards of mitigation and monitoring of projects.

Conclusions

EDC implements environmental and social due diligence and standards for “project transactions” in line with its statutory obligations. The Auditor General of Canada’s most recent examination of EDC’s environmental and social review practices concluded that the environmental and social review directive and other review processes for significant projects were suitably designed and met the requirements of the OECD Common Approaches and the Equator Principles. The audit also concluded that EDC’s processes were suitably designed, effectively implemented, and regularly reviewed. The review process applied to “projects” uses the same performance standards and guidelines as the International Finance Corporation and follows a similar due diligence approach. No evidence was identified during this review that refutes the Auditor General’s conclusions.

This review also finds that the definition of significant projects subject to EDC’s environmental review directive is consistent with the thresholds set out in the OECD’s Common Approaches and the Equator Principles. EDC is thus aligned with these voluntary requirements as well as the practices of most of its peers.
EDC and its governing legislation continue to face criticism from civil society stakeholders. Civil society groups consider the Export Development Act’s environmental and social provisions to be weak on the grounds that they do not provide clear enough guidance on the level of risk EDC may legally assume. Further development and monitoring of best practices and systems related to EDC’s social responsibilities are required to ensure that its approach meets its stakeholders’ evolving expectations.

EDC does not disclose its environmental and social review process for “non-project-transactions”. In the absence of statutory direction for environmental and social review of non-project transactions, EDC has developed its own internal system, which includes processes for “automated review”, “officer screening”, “environmental risk review”, and “corporate risk review”. The details of these processes, or the outcomes for specific transactions, are not disclosed. EDC has taken steps toward releasing more information on transactions with heightened environmental, social and human rights impacts and risks, and it is now reviewing its environmental and social risk management policy. Aligning disclosure practices with current and emerging international best practices is an important part of that exercise. The review also provides an opportunity for EDC to clarify the environmental and social standards that apply to non-project transactions, and to make this information available to stakeholders. It has been suggested that the scope of the Export Development Act and the EDC’s environmental review directive be expanded to capture more transactions, specifically those that provide finance for “general corporate purposes”. The concern is that such transactions may expose EDC to clients that do not comply with applicable standards.

Climate Change

EDC released a new climate change policy in January 2019 and has stepped up its climate-related activities, including clean technology business, climate finance and green bonds. It is also engaging with governments, international organizations, lenders, civil society, and its customers to develop fresh approaches for minimizing climate-related risks.

Conclusions

EDC has proactively developed its climate-related business. However, a significant portion of EDC’s business involves extractive industries linked to high greenhouse gas emissions. Approximately 26 per cent of EDC’s business directly or indirectly supports the mining and oil and gas industries, as well as other activities with significant emissions of greenhouse gases, such as burning coal and natural gas to generate electricity. EDC has joined other export credit agencies and multilateral financial institutions in adopting the OECD’s sector understanding on export credit support for coal-fired power plants. It has also issued its own guidelines restricting support for coal-fired power generation. However, despite EDC’s new policy eliminating support for thermal coal, EDC’s stakeholders would like it to take a more proactive role in expediting reductions in emissions of greenhouse gases and generally shifting business from high-emission sectors, companies and projects toward those with a more progressive approach towards the environment.

Human Rights

EDC’s record on managing the human rights dimensions of its transactions has drawn comments from non-governmental organizations and coverage in the Canadian and international media. The Minister of International Trade Diversification addressed EDC on this matter in September 2018, given the Government of Canada’s international commitment to human rights and its principle of fostering inclusive trade and investment. The minister emphasized the importance of Canada demonstrating
leadership in responsible business conduct and respect for human rights. He urged EDC to assess its internal due diligence and approval processes to ensure that human rights, transparency and responsible business conduct are among its core guiding principles.

Conclusions

**EDC does not have a statutory obligation to determine whether a potential transaction could negatively affect respect for human rights or international humanitarian law.** While there is no statutory obligation for EDC with respect to human rights, its Human Rights Policy does apply to all activities, unless otherwise stated. The policy seeks to align with international human rights standards, informed by the United Nations Guiding Principles on Business and Human Rights which states that all businesses should have in place policies and processes to identify, prevent, mitigate and account for how they address their impacts on human rights.

**Financial Crimes**

Criminal activity has become a high-profile issue for the financial services sector. The term “financial crime” embraces, among others, fraud and corruption, money laundering, bribery, tax evasion, terrorist financing, cyber-crime, data security breaches, and circumventing economic sanctions. Failure to address financial crime can lead to heightened credit risk, financial losses, possible legal action and reputation damage. Further, it can erode public trust in the integrity of a specialized financial institution and government entity like EDC.

Conclusions

**EDC has recently developed a new framework for managing financial crime risks.** It has been accused in the past of ignoring or under-estimating the risks of dealing with suspect foreign counterparties, focusing only on risks related to a transaction and not the reputation of the customer. EDC has now developed a framework to strengthen its assessment of risks related to financial crime. It remains to be seen how well this framework is integrated into day-to-day practice. Stakeholders certainly expect greater transparency and public engagement from EDC on this issue, especially since EDC has no statutory obligation to address the risk of financial crime.

**Other EDC Functions**

**Canada Account**

The Canada Account supports transactions which are considered to be in the national interest but would not be approved under EDC’s corporate account due to the size of the transaction, the high risk involved or other considerations. Canada Account transactions are undertaken on the government’s balance sheet and all associated costs, risks and revenues are assigned to the consolidated revenue fund, backstopped by loss provisions in the Government of Canada’s accounts.

Conclusions

**The Canada Account can be used for national interest priorities or for traditional high-risk or very large trade transactions.** Historically, it has been used to accommodate one-off, high-risk or very large trade transactions turned down by EDC, but judged by the government to be in the national interest. However, expanding EDC’s own risk appetite may reduce the need to resort to Canada Account. This is a matter for further examination.
Certain business stakeholders have urged that the Canada Account be used to make targeted trade credit available in priority policy areas for the Government of Canada. For example, enhanced Canada Account support for exports of Canadian clean technology could help encourage EDC to finance more deals in this sector under its corporate account.

Shared Services with Development Finance Institute Canada

Development Finance Institute Canada Inc., also known as FinDev Canada, was launched in January 2018 as a wholly-owned subsidiary of EDC. Its mandate is to promote inclusive private sector growth and sustainability in developing markets. As FinDev Canada was only a year old in early 2019, this review is limited to the new company’s set-up and initial operations, with a critical assessment of aspects that may have implications for EDC’s overall mandate and operations.

Conclusions

FinDev Canada does not rely on EDC’s support in business development. The new company has said that a key priority is to build its own brand and establish an identity separate from EDC. As such, FinDev Canada is focusing on growing its own business originating capacities and is pursuing — at least in its initial phase — transactions in close collaboration with other development finance institutions such as the Commonwealth Development Corporation and FMO, a similar organization in the Netherlands. This clear separation of business development activities is prudent given ongoing controversial discussions at the OECD on the convergence between development and export finance, and the potential impact on competition between institutions that provide these services.

EDC and FinDev Canada have established a sound management and governance structure for shared corporate functions. A dedicated operations lead for both EDC and FinDev Canada manages day-to-day implementation of service level agreements. These measures have helped identify and mitigate potential issues such as organizational bottlenecks, the culture shift at EDC towards becoming a service provider and the requirement of detailed timesheets. Scheduled reviews of service level agreements, related performance measurement and pricing models further ensure that the relationship can evolve in line with the needs of both organizations.

Shared corporate functions are governed by the principle of cost-efficiency. FinDev Canada and EDC have agreed to closely track timesheet and performance data to monitor the financial viability of their relationship. The agreement allows FinDev Canada to seek services from outside suppliers should such arrangements be more cost efficient.

EDC’s Results

Business and Financial Results

EDC’s business and financial results are published in its annual reports, and it is a relevant element of the current review to look at business and financial performance over the past 10 years.

Conclusions

EDC’s financial performance is strong by all measures, marked by a conservative approach to risk-
taking. EDC’s capital base is very strong, thanks at least in part to its low risk appetite. The average dividend distribution ratio has been high, despite the rather modest growth in total credit exposure.

On the business side, results have been mixed, as reflected by a drop in the number of insurance policies in force and low or no growth in number of customers served, business facilitated, partnership transactions, as well as weak growth in emerging markets business.
1.1 Background to 2018 EDC Legislative Review

The EDC Legislative Review is part of the statutory obligation under the Export Development Act (ED Act). As required by the ED Act, every ten years the minister causes a review of the provisions and operation of this Act to be undertaken, in consultation with the Minister of Finance. The Minister shall submit a report on the review to Parliament within a year, and Parliament then studies the report and the Act.

The last two EDC Legislative Reviews were conducted during periods of economic and financial turmoil. In 1998, the world was coping with emerging market financial crises, first in Russia and then in Asia. In 2008, the Review was conducted in the midst of the largest and most disruptive Global Financial Crisis in generations, arguably since the 1930s. World merchandise trade declined sharply due to the 2008-09 financial crisis; policy-makers and trade finance organizations were challenged to step into the many gaps in financial markets, in order to try to sustain trade and overall economic activity. The 2008 Review was inevitably affected by the immediate context, but its findings still concentrated on the evolution and mandate of Export Development Canada (EDC) over the longer term.

Global trade and investment patterns themselves have undergone significant changes in recent decades. Trade as a share of global Gross Domestic Production (GDP) reached new heights during the period of rapid globalization throughout the 1990s, a period that continued until the global recession in 2008-09. During this period there was robust growth in trade in finished goods and in resources. More importantly, inter-firm trade in intermediate goods and services, used in the production of end goods, grew dramatically as a share of world GDP, supported by strong foreign direct investment (FDI) flows and by successive rounds of trade liberalization – bilateral, regional and multilateral agreements such as NAFTA and the Uruguay Round. Canada remains an important and sophisticated trading nation ranking in the top tier of global trade; its international trade is equivalent to 60 per cent of GDP.

At the same time, technological advances, reduced transportation and communications costs, and improved logistics all supported the globalization process. These factors allowed firms in Canada and globally to re-structure their operations around global supply and value chains, taking advantage of cost differences among countries, particularly in the final assembly of goods. Emerging markets were drawn more fully into the global economy – led by the spectacular rise of China, the integration of Eastern Europe into the global economy after the fall of the Soviet Union, a later growth takeoff in India, and solid growth performance in other leading emerging markets like Brazil, Chile and ASEAN members.

Ten years after the 2008-09 Global Financial Crisis, and the last Legislative Review, the global trade environment has changed dramatically, and generally not for the better. The healing of the global economy has been slow and uneven. Growth in global demand has been much slower and lacklustre until recently. Protectionist sentiment has increased, and globalization has slowed and stabilized, with anti-globalization sentiment on the rise from the left and right. These factors contributed to a distinct slowdown in the growth of overall trade in the post-crisis, post-recession
1.2 Role of EDC

1.2.1 Canada’s ECA and Mandate
EDC was founded 75 years ago as a Crown Corporation and is Canada’s official export credit agency (ECA). It is wholly owned and regulated by the Canadian government through the ED Act and the Financial Administration Act. EDC reports to Parliament through the Minister of International Trade Diversification. The corporation was created to support and develop Canadian exports and capacity to engage in trade, and to respond to international business opportunities.

EDC’s operations are commercially oriented in that its financing and insurance capacities are based on its own balance sheet and risk appetite. Operating at arm’s length from government, EDC operates within the context of private market players and actively competes with commercial providers in the provision of foreign buyer financing, export credit insurance and bonding. Only EDC’s provision of domestic finance and insurance is required to meet the requirements to be complementary to the products and services available from commercial financial institutions, commercial insurance providers and the Business Development Bank of Canada (BDC).

EDC also administers the Canada Account, a national interest account for which all risks and obligations are directly borne by the Canadian government. Transactions supported by the Canada Account must be in line with EDC’s mandate and of national interest to Canada which may include specific economic benefits as well as foreign policy implications.

1.2.2 10-year Legislative Review
The EDC Legislative Review 2018 (the Review) was launched on June 27th, 2018, by the Minister of International Trade Diversification (MINT) as part of the statutory obligation to conduct a periodic review of the provision and operation of the ED Act in consultation with the Minister of Finance.

As part of a substantial amendment of the ED Act in 1993, a provision was introduced for a legislative review in 1998 and every 10 years thereafter. As a result of the first Legislative Review in 1998, a report was tabled in Parliament and was referred to the Standing Committee on Foreign Affairs and International Trade and the Senate Standing Committee on Banking, Trade and Commerce. Among the legislative and regulatory amendments resulting from the 1998 Review were EDC’s obligation to conduct environmental reviews (subject to periodic audit by the Auditor General), changing the Corporation’s name to Export Development Canada, as well as amending certain financial regulations under the Act. The 1998 Review further resulted in EDC’s development of comprehensive disclosure and environmental policies.

The 2008 Review was conducted during the Global Financial Crisis, which severely reduced Canadian companies’ access to credit. It also provided an assessment of the international trade scene including ECAs and other countries’ relevant institutions; EDC’s short, medium and long-term business; domestic financing; and governance and civil society concerns. As a result of the Review, the ED Act was amended to grant EDC the new power to open stand-alone offices abroad. The resulting amendments further clarified EDC’s portfolio management powers as well as its authority to restructure Canada Account transactions.
1.2.3 EDC’s performance the past 10 years
Over the past 10 years, EDC’s exposure grew from $76.9 billion in 2008 to $110.6 billion in 2017. Financing constitutes the biggest portion of the portfolio, followed by credit insurance and contract insurance and bonding (CIB) respectively.

Figure 7: EDC’s Exposure by Product

Source: Based on EDC’s Annual Reports

With regard to EDC’s financing exposure, two substantial increases can be noted. The first steep increase of over almost $9 billion occurred in 2013, and the second steep increase of almost $15 billion occurred in 2015. The latter was attributed partially to foreign exchange gains as EDC’s financing portfolio is largely transacted in US dollars.

Credit insurance – due to its short-term nature – constitutes the largest product segment in terms of new business facilitated annually. While there is no discernible growth trend in EDC’s credit insurance business, the Corporation’s facilitated arrangements in the financing segment have steadily grown over the past decade.

Figure 8: EDC’s Business Facilitated
EDC defines business facilitated depending on the product. Business facilitated represents the value of Canadian business facilitated by EDC transactions. Products and business lines record business facilitated in different ways: with credit insurance, business facilitated is generally based on exporter declarations; for CIB and PRI, business facilitated represents insured or guaranteed amounts; for financing, business facilitated represents amounts of financing committed by EDC.

The following figure provides a more detailed breakdown of EDC’s top country exposures in the past decade. EDC’s business is generally more geographically diversified than Canadian trade as a whole. While about 70 per cent of Canadian exports of goods and services are destined for the United States market, the U.S. market has represented 30 per cent or less of EDC’s geographic exposure since 2010. Notably, risk exposure in Canada represents EDC’s second largest geographic market.

**Figure 9: EDC’s Exposure by Top 10 Countries**
In 2017, EDC’s key sector exposures were oil and gas, aerospace, and financial institutions. Compared to 2008, EDC’s exposure in the extractive sector – which contains EDC’s mining, oil and gas transactions – grew from 18 per cent in 2008 to 26 per cent in 2017. Meanwhile, EDC’s aerospace exposure decreased slightly.
Table 3: EDC Exposure by Sector in Percentages

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Source: Based on EDC’s Annual Reports

1.2.4 Main EDC Developments Since the Last Review

Over the past decade, EDC has pursued initiatives or made notable advances in a number of areas.

1. **Improved partnerships with Canadian banks.** These links have complemented the banks’ business strategies and lending practices related to international trade.

2. **Corporate social responsibility policy and practices.** EDC has strengthened its social responsibility policies, including environmental, social and anti-corruption practices.

3. **Strong financial results.** EDC has achieved high net income each year over the past decade and, as a result, its capital base has grown significantly. It has paid nearly $5 billion in dividends over this period to its shareholder, the federal government.

4. **EDC has taken the initiative to link Canadian exporters to the supply chains of creditworthy foreign buyers.** This “pull strategy” has become a significant part of its business.

5. **Reduced position in the Canadian credit insurance market.** EDC’s overall credit insurance market share has declined to less than 50%, and it has established a partnership with Coface, a private global credit insurance company, in the domestic credit insurance market segment.

6. **Improved its partnerships with the Business Development Bank of Canada and the Trade Commissioner Service.** These advances have taken the form of referrals, recognition of effective collaboration, and constant dialogue.

7. **Expanded representations abroad.** The number of EDC representations abroad has steadily grown from 13 to 21 today.

8. **Green bond issuance.** EDC pioneered Canada’s first green bond, giving investors access to funding green projects around the world.
9. **Digital transformation.** Investments in its digital platform have enabled EDC to improve its services to Canadian exporters of all types.

These issues are discussed in detail in the report.

### 1.3 Analytical Framework and Report Structure

#### 1.3.1 Introduction

This Legislative Review considers how effectively EDC has delivered on its mandate to meet the trade credit and risk management needs of its Canadian customers. The Review also considers areas beyond the role of a traditional ECA, where EDC has taken steps to create new trade opportunities for Canadian exporters and investors, by using its financial, risk management and business development capacities to identify new opportunities and accelerate Canadian firms’ business success. In addition, the Review examines EDC’s performance in helping to develop a more robust Canadian market for financial and risk management services in support of Canadian trade and international business success, all within a framework of sustainable and responsible business practices and risk management.

In line with the Statement of Work, the EDC 2018 Legislative Review assesses how EDC is evolving, and how it should continue to evolve. The Review is structured along nine themes in order to support the statutory obligation of the Minister of International Trade Diversification under the ED Act. These themes are shown in Figure 10 below.

**Figure 10: Main Themes of the Review**

1. EDC’s complementary role with the Domestic Private Sector
2. EDC’s place within Government
3. Meeting Canadian evolving business needs
4. Role of EDC in the changing global context
5. Corporate Social Responsibility and Human Rights
6. Comparison of the capacity of the Canadian trade financing system to that of OECD and Non-OECD countries
7. Domestic Powers Regulations Review
8. Governance of the Canada Account
9. Development Finance Institution

*Source: Developed for the Report based on Scope of Work*

#### 1.3.2 Analytical Framework

The analytical framework used in the development of this report is based on the nine themes. To put these themes into perspective, the Report follows a structured approach, drawing relevant components from a variety of analytical models: the Balanced Scorecard approach focusing on an organization’s different perspectives, the EFQM (European Foundation for Quality Management) model, and the
Development Assistance Committee (DAC) criteria of the Organisation for Economic Co-operation and Development. These models are common and widely-used practical frameworks for ensuring that an organization’s strategic and operational practices form a coherent system. The OECD DAC criteria – while focused on development interventions – measure relevance, efficiency, effectiveness, impact and sustainability.

The analytical framework used in the report allows for easy understanding of the cause and effect relationships between what EDC does, and the results it achieves. The approach also provides a structured way to answer the crucial questions raised under the different themes: enabler criteria cover what EDC does, and how it does it; results are caused by these enablers, and results criteria cover what EDC achieves (Figure 11).

Figure 11: Review Framework and Key Criteria Guided by Themes

Enablers

- Foundations
- Partnerships
- Strategy
- Products

Operations

Results

Source: Developed for this Report

EDC’s business and financial results measure the results of its activities. But, as a government-owned institution, it also should demonstrate a positive impact on the Canadian economy through creating and safeguarding jobs, for example. It also has a corporate social responsibility and must ensure it is using and managing taxpayer dollars in a way that adds value beyond what private sources of funds could do. Figure 12 depicts the expectations of EDC’s stakeholders as to what impact EDC is to achieve.

Figure 12: Expectations of EDC’s Stakeholders

- Canadian Economy
- EDC
- Taxpayer
- Society

Expect EDC to have a positive incremental impact on jobs created and new exports, GDP etc.

Expect EDC to manage its financial resources effectively and transparently and provide a return on investment

Expect EDC’s activities not to harm or contribute to harming the environment or people and be accountable
Based on this analytical framework, a cross-sectional study was designed to obtain required information, relying on primary and secondary data. Primary data was generated from interviews with stakeholders including Canadian businesses, industry associations, Canadian commercial banks, private credit insurers and brokers, as well as the Government of Canada, other Crown Corporations and Non-Governmental Organizations. In addition, primary data was collected through interviews with international organizations, multilateral development banks, international commercial banks and other ECAs.

Secondary data for desk review was gathered from existing sources, such as macroeconomic data, annual reports, policy papers and other publications from the World Trade Organization (WTO), the OECD, the Berne Union, other ECAs such as Bpifrance, Denmark’s ECA (EKF) and the Export-Import Bank of the United States (US-EXIM) as well as Canadian sources including the Government of Canada and EDC. Internal documents were also considered, e.g. EDC reports and policies, operational files and other relevant documents. This approach led to a triangulation of primary and secondary data to derive lines of evidence for each finding discussed below.

1.3.3 Consultation approach and data analysis
Primary data collection for the Review was guided by a detailed consultation and communication strategy for primary stakeholders directly affected by this Review, as well as secondary stakeholders with an interest in EDC. The data collection was based on a call for submissions through the dedicated EDC Legislative Review website www.edc2018.ca, where exporters, business associations, NGOs, credit insurance brokers, credit insurers and other primary stakeholders submitted comments, uploaded position papers, or posted information. In addition, the Review team facilitated numerous focus group discussions and one-on-one consultations by telephone or in person.

1 The global association of export credit and investment insurers
In total, 186 stakeholders were contacted individually and 109 one-on-one stakeholder consultations were conducted between July and December 2018. Furthermore, a total of 53 written submissions from various stakeholder categories was received. Lastly, 28 semi-structured interviews were held via telephone with tertiary stakeholders (so-called interested parties) as valuable sources of benchmarking information and trends, where relevant to the identified themes of the Review. In addition to Figure 14 which provides an overview, the Annex shows the full list of stakeholders and other interested parties.

Figure 14: Overview of Stakeholder and Interested Parties

For quantitative data analysis, descriptive statistics were used to summarize, describe and display relevant findings. For qualitative data, data was reduced and restructured in a systematic way to select key findings for the EDC Legislative Review. This was led by elements of grounded theory using an iterative approach, meaning that data collection and analysis repeatedly referred back to each other. This standard procedure helped to constitute key findings related to the main themes of the Review.

1.3.4 Structure of analysis
The EDC Legislative Review consists of nine chapters, including this introduction. The discussion of each of the nine themes is organized within the chapters under the following headings:

- **Issue** – this section describes the issue as it relates to EDC in the context of this Review.
- **Approaches of Others** – this section summarizes how other ECAs or private counterparts approach the issue.
- **Discussion and Analysis** – this section provides discussion and analysis of the issue based on research and consultations with the Review’s stakeholders and other interested parties.
- **Conclusions** – this section provides findings on key elements of the issue as it relates to EDC.

To provide a better understanding of EDC’s foundations, Chapter Two focuses on the legislative framework, EDC’s legislative mandate, as well as governance and oversight. The Review then discusses EDC’s strategy looking at policy alignment as well as the addressable markets of Canada’s ECA. As EDC is
expected to support Canadian exports and direct investment abroad, Canadian benefits are also assessed. A further aspect in Chapter Three is Risk Management, as well as how EDC manages its capital. Chapter Four looks at EDC’s products including an in-depth overview and analysis of credit insurance offerings, bonding and guarantees, financing, as well as equity investment and knowledge products. Thereafter, EDC’s partnerships are analysed in Chapter Five, focusing in particular on private and public sector partnerships due to EDC’s crucial role in the Canadian federal ecosystem of trade support, as well as civil society.

Key elements of Chapter Six involve EDC’s corporate social responsibility, including issues of transparency, as well as environmental and social risk, human rights and financial crimes assessments. Chapter Seven considers the operational aspects of Canada Account and EDC’s shared services with the new Development Finance Institution, FinDev Canada. Chapter Eight looks at EDC’s business and financial results over the past 10 years. Chapter Nine provides a summary of conclusions drawn from the Review.
CHAPTER 2: EDC’S FOUNDATIONS
2.1 EDC's Legislative Framework

2.1.1 Background

The Export Development Act (ED Act) is EDC’s governing legislation, defining its mandate, powers and responsibilities. The ability to make Amendments to the ED Act by Parliament is a governance tool that can expand, redefine or limit the activities of the corporation. The full Parliamentary legislative process must be used to amend the ED Act; the process is used regularly but not frequently.

Like other federal Crown Corporations and government entities, EDC is subject to the provisions of the Financial Administration Act (FAA). As stated in section 88 of the FAA, each Crown corporation is ultimately accountable, through the lead minister, to Parliament for the conduct of its affairs. The Minister of International Trade Diversification is responsible to Parliament for EDC.

EDC’s legislation is supplemented with regulations that define in more detail how its legislative powers are to be used. The regulations permitting EDC to provide certain domestic support require that these activities are complementary to the private supply of domestic financial services, e.g. to address market gaps. In simple terms, a market gap is unmet demand which suppliers cannot or are unwilling to fill due to risk or costs being too high relative to expected revenues.

In response to the 2008-09 Global Financial Crisis, the scope of EDC’s activity under its regulatory framework was expanded in March 2009 for a two-year period to include financing and insurance support for domestic business opportunities. This initial period was later extended to March 2014. The regulatory powers provided to EDC for domestic financing and insurance were made permanent in 2014.

Figure 15: Major Changes in EDC’s Legislation

- 1944: Establishment of EDC, called Export Credit Insurance Corporation, at the time
- 1993: Significant amendment of the Export Development Act, including a provision for a periodic legislative review
- 1998: EDC Legislative Review in the midst of the Global Financial Crisis that severely impacted Canadian companies’ access to credit. Amendments to the Act granted EDC new power to open stand-alone offices abroad, clarified existing portfolio management powers, and existing authority to restructure Canada Account transactions.
- 1969: Export Development Act comes into force. EDC is named Export Development Corporation
- 2008: Main legislative and regulatory amendments included legal obligation for EDC to conduct environmental reviews, changing name to Export Development Canada and amending certain financial regulations.
- 2014: Coming into force of EDC’s new permanent domestic powers regulation.
- 2017: Amendment of ED Act to add development financing and other forms of development support to EDC’s mandate. The new mandate is not subordinated and independent to EDC’s existing trade mandate. The development financing mandate is carried out by FinDev Canada, EDC’s wholly-owned subsidiary.
- 2018: Minister of International Trade Diversification initiates EDC’s 10 Year Legislative Review.

Source: Developed for this Report
Although it offers loans and insurance, EDC, as well as its sister financial Crown Corporations, are not bound by either the Bank Act or the Insurance Companies Act, nor is EDC supervised by the Office of the Superintendent of Financial Institutions (OSFI). As is discussed in Chapter 4, this is relevant from the perspective of private sector players operating contiguously and/or competitively with EDC in the market. It is also not subject to Public Service guidelines, as it relates to salaries other administrative expenses. EDC’s activities are also relevant to international agreements, notably the OECD Arrangement on Export Credits.

2.2 EDC’s Legislative Mandate

2.1.2 Issue

Under Section 10 of the Export Development Act, EDC’s mandate is to support and develop, directly or indirectly, Canada’s export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. To fulfill this mandate, EDC offers a range of services to its clients, including insurance and financing, bonding products and small business solutions, support to Canadian direct investments and investments into Canada, as well as trade knowledge.

There is no specific reference in the ED Act to the need for EDC to be complementary or provide incremental capacity to the private sector sources (but there is this reference in the Regulations to the need to be complementary, with respect to EDC’s domestic powers). Thus, EDC does not have the requirement to be complementary to the private sector within its legislative mandate, unlike the Business Development Bank of Canada (BDC) and many export credit agencies (ECAs) globally. This means EDC can compete directly with private sources of financing and insurance in supporting Canadian companies responding to international business opportunities. It also means that EDC does not have a mandate to develop the capacity of the private market.

EDC’s mandate and operations are commercially oriented. Its approach to implementing its mandate is to help create a level playing field for Canadian exporters competing against other countries’ exporters backed by their national ECAs. The OECD Arrangement (discussed below) was designed more than 40 years ago to ensure competition is based on the quality and price of the exports, rather than the price and terms of the financing package. In addition, EDC seeks to build greater awareness and to identify new opportunities, offering a range of financial solutions supporting Canadian companies to grow internationally. While its financing and insurance capacities are primarily based on its own balance sheet and risk appetite, EDC also can seek access to the Canada Account. The Canada Account, which is covered under Section 23 of the ED Act, provides support for transactions which are considered to be in the national interest. EDC has to reject the transaction on its corporate account, as per the ED Act, before it can be considered for the Canada Account. Transactions under the Canada Account are undertaken on the balance sheet of the Government.
2.1.3 Executing the Mandate
EDC pursues two core strategies to deliver on its mandate: trade facilitation and trade creation.

**Figure 16: Trade Facilitation versus Trade Creation**

**Trade Facilitation**
As Canada’s ECA, EDC exists to support Canadian exports and the capacity to engage in export trade. Trade facilitation is at the core of EDC’s operations, responding to the needs of exporters of all sizes and types for credit and risk management expertise to underpin the ongoing flow of export transactions. This trade facilitation role can encompass more traditional or responsive approaches to providing export credit and risk management, to help level the playing field for Canadian exporters, as well as a more proactive mandate to “develop” export trade.

As an ECA, EDC is expected to respond to opportunities brought to it by exporters and banks. Typically, these opportunities have been developed by exporters that are seeking financing from EDC in order for the Canadian company to be competitive in the transaction.

EDC has two financing options under its trade facilitation program: a “market window” approach, where its financing follows “market” or “commercial” terms, or under OECD Arrangement terms, where its financing is bound by the international rules around export credit support. Market window transactions are priced to the market benchmarks and therefore cannot be classified as an export subsidy under the WTO Agreement on Subsidies; transactions that follow the OECD Arrangement are granted a carve-out from the WTO.

The choice of whether a transaction is OECD Arrangement-based, or market window, will, in the first instance, depend on the underlying financial product EDC is providing. OECD Arrangement terms are only considered for financing an export contract with repayment terms greater than two years. In this case, these terms are always applied if the borrower is a sovereign, sub-sovereign or quasi-sovereign in a
Sustainable Lending Country\(^2\). In cases where there is competition from other OECD ECAs, no commercial benchmarks exist, and the obligor is a sovereign or requesting a fixed interest rate loan, OECD Arrangement terms are commonly used. Otherwise, EDC will typically favour market pricing over the fixed-rate pricing under the OECD Arrangement.

**Trade Creation**

Since the last Review, EDC has placed additional focus on the trade creation strategy. In addition to its more traditional ECA role, EDC can help originate or “create” new Canadian trade opportunities by using its credit and risk management capacities to develop financing relationships with creditworthy foreign buyers, and then use these relationships to build and grow new international sales opportunities for Canadian suppliers.

EDC has developed innovative approaches that are intended to identify opportunities in international markets or specific sectors where Canada has a current or potential competitive advantage. Several tools are used by EDC to maximize its trade creation efforts, including protocols, equity connect initiatives and pull transactions.

A cornerstone for EDC’s approach to trade creation is the “pull program”, which has recently been renamed “trade connection financing.” EDC describes its pull facility as an untied financing commitment made to an international buyer, which is leveraged by EDC to influence that buyer to initiate or augment its procurement from Canadian suppliers. Pulls are most often concluded with large international buyers that are industry leaders and have expansive global or regional footprints. Representing commercial loans at market prices to typically large international companies in strategic sectors or markets for Canadian businesses, financing is committed without a specific Canadian export contract in place. Instead, the foreign company agrees to cooperate with EDC to identify supply chain needs and consider Canadian companies as suppliers. Therefore, the pull strategy does not come with a hard commitment from the importer to actually buy Canadian goods or services. Table 4 shows EDC’s exposure on its pull facilities from 2008 to 2017.

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<tbody>
<tr>
<td>Total Exposure</td>
<td>NA</td>
<td>$7.4</td>
<td>$7.2</td>
<td>$8.6</td>
<td>$11.2</td>
<td>$15.7</td>
<td>$20.5</td>
<td>$22.8</td>
<td>$21.7</td>
<td>$19.4</td>
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The pull strategy involves EDC making financing available to foreign buyers, with the understanding that the buyer will orient its procurement decisions toward Canadian suppliers of goods and services. EDC informs foreign buyers on Canadian supply capacity and positions itself to undertake match-making between foreign buyers and prospective Canadian suppliers with the aim to augment the Canadian procurement by pull buyers, increasing their capacity, interest and appetite to consider Canadian suppliers. Principally, this is done through targeted connections and matchmaking.

\(^2\) Those countries with debt limits as defined by the IMF
Table 5 below shows the majority of pull facilities have been in the oil & gas sectors, as well as the mining sector, growing from 47.7 per cent of pull buyers in 2009 to 68.8 per cent in 2017.

Table 5: Extractive Sector as % of Total Pull Portfolio

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</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>NA</td>
<td>36.3%</td>
<td>34.5%</td>
<td>41.2%</td>
<td>44.1%</td>
<td>41.3%</td>
<td>43.0%</td>
<td>44.2%</td>
<td>48.6%</td>
<td>39.9%</td>
</tr>
<tr>
<td>Mining</td>
<td>NA</td>
<td>10.4%</td>
<td>26.3%</td>
<td>23.7%</td>
<td>17.4%</td>
<td>19.0%</td>
<td>20.3%</td>
<td>24.6%</td>
<td>24.6%</td>
<td>28.9%</td>
</tr>
</tbody>
</table>

Relative to EDC’s total exposure in these sectors, the share of pull facilities in EDC’s mining exposure amounted to 46 per cent ($12.2 billion) in 2017 of EDC total mining exposure whereas the share of pull facilities with regard to EDC’s oil and gas exposure reached 47 per cent ($16.6 billion), down from 59 per cent in the previous year.

Another trade creation approach used by EDC is the “protocol financing program”. The program is based on so called “protocol arrangements” with non-Canadian multinationals with existing operations in Canada. Arrangements constitute unfunded, uncommitted indications of financing capacity available from EDC to the multinational. Similar to the “pull facilities”, EDC aims at increasing the multinational’s economic activity in Canada and integrating more Canadian suppliers into its global supply chain. According to EDC, financing is provided upon request by the protocol company and can take the form of traditional buyer financing or financing of the company’s global operations or those of its affiliates. Under the protocol arrangement, each transaction is assessed on a stand-alone basis. EDC reports that it determines the financing capacity available to a protocol client on an annual basis and each protocol is subject to an annual review process. Table 6 shows EDC’s exposure on its protocol financing program from 2009 to 2017.

Table 6: Total exposure for Protocol Loan Facilities ($bn)

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<tr>
<td>Total Exposure</td>
<td>$1.1</td>
<td>$1.6</td>
<td>$1.4</td>
<td>$2.4</td>
<td>$2.6</td>
<td>$3.1</td>
<td>$3.8</td>
<td>$4.8</td>
<td>$5.8</td>
</tr>
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</table>

In 2017, EDC reports that it had in place a total of 10 protocol arrangements under which a total of $2.2 billion of financing was supported. 85 exporter connections (matchmaking and direct) were attributed to the protocol transactions. The volume of protocol financing since 2009 is stated in Table 7.

Table 7: Volume of annual Protocol Financing ($mn)

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<tbody>
<tr>
<td>Total Exposure</td>
<td>$341</td>
<td>$525</td>
<td>$919</td>
<td>$1,032</td>
<td>$43</td>
<td>$1,135</td>
<td>$1,142</td>
<td>$2,594</td>
<td>$2,182</td>
</tr>
</tbody>
</table>

2.1.4 Comparison with other ECAs
Trade facilitation and trade creation are also being pursued by other ECAs in OECD and non-OECD countries. There are, however, distinctions among the different public trade finance systems in terms of their mandate and strategic approaches.
Table 8 gives an overview of selected ECAs’ approach.

### Table 8: Examples of EDC and other ECAs’ Mandates

<table>
<thead>
<tr>
<th>ECA</th>
<th>Country</th>
<th>Mandate</th>
</tr>
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<tbody>
<tr>
<td>EDC</td>
<td>Canada</td>
<td>supports and develops Canada’s export trade by helping Canadian companies respond to international business opportunities.</td>
</tr>
<tr>
<td>US EXIM</td>
<td>USA</td>
<td>supports American jobs by facilitating the export of U.S. goods and services—at no cost to U.S. taxpayers.</td>
</tr>
<tr>
<td>Atradius Dutch State Business³</td>
<td>The Netherlands</td>
<td>adds value to the Dutch economy by enabling Dutch enterprises to offer their export products and services on the most competitive terms and conditions.</td>
</tr>
<tr>
<td>Bpifrance</td>
<td>France</td>
<td>assists French entrepreneurs, driving growth, competitiveness and employment.</td>
</tr>
<tr>
<td>CESCE</td>
<td>Spain</td>
<td>supports the internationalisation process of Spanish companies with its public mandate.</td>
</tr>
<tr>
<td>CEXIM</td>
<td>China</td>
<td>promotes steady economic growth and structural adjustment, supporting foreign trade, and implementing the “going global” strategy.</td>
</tr>
<tr>
<td>Credendo</td>
<td>Belgium</td>
<td>supports trade relations providing customised solutions of insurance, reinsurance, guarantees, bonding and financing related to domestic and international trade transactions or investments abroad.</td>
</tr>
<tr>
<td>ECN / GIEK</td>
<td>Norway</td>
<td>promote Norwegian exports by providing competitive, accessible and effective export financing, helping to boost investments and secure jobs in Norway / promotes Norwegian exports and investments.</td>
</tr>
<tr>
<td>EKF</td>
<td>Denmark</td>
<td>facilitates Danish companies’ export and internationalisation opportunities, participation in the global value chain and cultivation of new markets through internationally competitive financing and risk cover.</td>
</tr>
<tr>
<td>EKN</td>
<td>Sweden</td>
<td>promotes Swedish exports and the internationalisation of Swedish companies.</td>
</tr>
<tr>
<td>Euler-Hermes German State Business⁴</td>
<td>Germany</td>
<td>helps to open up markets, which are difficult to access, and to maintain business relations in challenging circumstances with its public mandate.</td>
</tr>
<tr>
<td>Finnvera</td>
<td>Finland</td>
<td>promotes the business of SMEs, the exports, and internationalisation of enterprises, and the realisation of the Finland’s regional policy goals.</td>
</tr>
</tbody>
</table>

Source: Developed for this Report based on ECAs’ websites and annual reports

Most ECAs have been created to facilitate trade by alleviating market failure with the expectation to be a lender or an insurer of last resort. The rationale for official involvement thus is to stimulate national exports if there is a market gap in commercial lending or private credit insurance coverage, for example, due to high country risks, substantial buyer risks or long financing tenors.

Similar to EDC, other ECAs respond to opportunities brought to them by exporters and banks. In addition, most OECD countries can rely on an efficient trade facilitation model with substantial private market involvement both for short-term insurance as well as medium and long-term export transactions. This is, in particular, because international commercial banks have a much broader network and marketing force supporting exporters in their international sales compared to ECAs. Due to substantial growth in buyer-arranged financing, international commercial banks also increasingly handle all buyer financing needs including trade and export financing – leading to additional business opportunities for

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³ The Government of the Netherlands outsources its ECA business to Atradius, one of top 3 global credit insurers
⁴ Euler Hermes implements the German Export Credit Guarantees Scheme on behalf and for the account of the Federal Government of Germany.
exporters in countries with extensive commercial bank export finance activities such as France, Germany, Japan or the United Kingdom.

Nearly all OECD agencies provide their support under the OECD Arrangement. Only a very limited number of other countries such as Belgium have also created systems with “market window” financing by applying terms and conditions consistent with those available from commercial banks. However, the relevance of the market window to Belgium’s overall activities is very limited compared with the Canadian approach.

Focusing on trade creation, a number of institutions are policy-driven as many governments regard their ECA as a key instrument in trade and investment policies. For example, China is cementing the importance of its trade support institutions with fast-growing export finance activities. The country has created the world’s largest public trade finance system, and the Export-Import Bank of China (CEXIM) is very active as a part of China’s Belt and Road Initiative with both export credits and concessional loans.

Italy’s SACE launched an EDC-inspired “push strategy program” in 2017 to open doors for “Made in Italy.” It offers medium and long-term (MLT) lines of credit to major foreign counterparties in order to facilitate purchases from Italian suppliers, focusing on high-potential emerging markets where Italian products are still under-represented. Another example is Denmark’s “shopping line” concept. EKF’s approach enables buyers to make purchases from multiple Danish suppliers with financing already in place since multiple contracts are covered. Both these programs are directly tied to national exports and make it easier for the financing banks to facilitate financing.

2.1.5 Discussion and Analysis
EDC provided $39.9 billion pull loans since 2010 to buyers who have purchased $81.6 billion in Canadian supply, with $7.7 billion in sales in 2017 and $10.5 billion in 2016. Over 1,600 Canadian companies were suppliers to pull relationships, the vast majority of which (over 1,000) were Canadian SMEs. EDC organized 17 matchmaking events with its pull buyers in 2017, leading to 401 introductions of Canadian companies.

Total procurement (and incremental procurement) from Canadian suppliers by the pull buyer over the course of the term of the pull facility is among several measures of success of the pull. Each year, procurement reports are received from pull buyers and are onboarded to EDC’s systems for use in evaluating the success of pulls and preparing the annual scorecards. Typically, procurement reports will include the value of all Canadian procurement, contract amounts and the identities of the buyer’s Canadian suppliers. Most pull buyers have baseline Canadian procurement (often substantial), even without influence by EDC. Procurement reports are also reviewed to ensure that only eligible supply is included (e.g. capital goods, merchandise and consumables) where EDC could influence future procurement as contemplated by the specific pull strategy.

“Just recently, [my EDC sector advisor] introduced me to some people from the EDC India office. In turn the India office provided me with several potential partners that I could meet with during an upcoming trip to the country. Opportunities like this in the international retail business are extremely valuable because EDC has the capacity to make introductions to the right companies and the right people.”

La Vie en Rose submission
Feedback from exporters during this Review indicated that they want EDC to be a key partner, both to ensure there is a sufficiently competitive market in Canada for certain trade finance and risk management services, and to provide complementary products and services that help to fill market gaps in other segments. However, exporters note that, from their perspective, market gaps are evolving, based on the changing capacity and appetite of the private sector sources. Thus, there is a need to monitor market gaps, both at a policy and a transaction level, while ensuring that there is a reliable capacity during all phases of the economic cycle.

EDC customers said they valued EDC’s role as a competitive provider of risk management services in some market segments, and as a complementary capacity builder in other segments. In credit insurance and surety, EDC customers like that it is providing competitive options and ensuring market choice for exporters. At the same time, EDC customers value its role as a complementary capacity builder for trade-related credit, working with banks to add to the available market capacity. EDC’s role in these specific product lines and the respective views of exporters, private insurers and banks, and brokers will be examined in detail in Chapter 4.

Some stakeholders suggested there were other missing opportunities in Canada, such as solutions to finance the development of intellectual property, where EDC’s current ability to support such models is limited.

Foreign “pull” clients and exporters are well aware of EDC’s trade creation strategy and specifically pointed to the use of pull facilities. EDC “pull” and exporter clients consulted confirmed they value EDC’s active efforts to identify new high-quality Canadian suppliers for foreign “pull” clients and facilitate buyer-exporter relationships.

Concern was expressed, however, by an important exporter that there is a possibility that EDC may inadvertently finance supply from foreign competitors by not tying buyer financing directly to procurement from Canada. The fact that pull facilities are untied means the borrower can use the proceeds for any other purpose.

2.1.6 Conclusions

EDC is pursuing two broad approaches in implementing its mandate. As Canada’s export credit agency, trade facilitation is at the core of EDC’s operations, responding to the needs of exporters of all sizes and
types for credit and risk management expertise to underpin the flow of export transactions. In addition
to this more traditional role, EDC can help originate or “create” new Canadian trade opportunities by
using its credit and risk management expertise to develop financing relationships with creditworthy
foreign buyers, and then use these relationships to build opportunities for Canadian suppliers. This “pull”
strategy responds to global supply chain challenges, benefiting Canada and Canadian exporters, notably
small and mid-sized businesses.

**Canadian exporters agree that EDC provides a valuable service.** Exporters want EDC to be a key
partner, both to ensure there is a sufficiently competitive market in Canada for certain trade finance and
risk management services, and to provide complementary services that help to fill market gaps in other
segments. Many EDC customers value EDC’s role in ensuring competitive options and choice in market
segments like credit insurance and surety. Others value EDC’s role as a complementary capacity builder,
working with banks to add to the available market capacity for trade-related credit. Exporters and
commercial banks note that EDC offers a very broad range of services, covering many insurance and
financing products. This is in line with an overall development where export credit agencies around the
globe have substantially expanded their product offering in recent years, including direct lending,
working capital facilities, or even equity and mezzanine financing.

**EDC’s pull strategy is conducive to expanding Canada’s foreign trade.** Foreign “pull” clients confirm that
they value EDC’s active efforts to identify high-quality Canadian suppliers and facilitate buyer-exporter
relationships. Data provided by EDC suggests that the pull strategy is creating export opportunities and
bringing overall economic benefits to Canada. However, EDC acknowledges that it cannot definitively
state that Canadian procurement results from pulls, as most pull buyers already have a baseline
Canadian procurement which is included in the data. Some exporters express concern that excessive
focus on the pull strategy may distract EDC from more conventional forms of trade facilitation.

**Some exporters would like EDC to make greater use of traditional export finance tools, such as
guarantees, to level the competitive playing field.** They take the view that EDC’s reliance on direct
lending for medium-term export transactions may crowd out access to other creditors, including in local
markets. Greater use of guarantee structures by EDC may help improve exporters’ overall access to trade
finance, particularly in emerging markets with strong local banks.

### 2.3 Governance

#### 2.3.1 Issue

Governance and oversight are fundamental issues for the Review, which examined whether EDC’s
governance practices were effective in ensuring delivery on its mandate, with close alignment between
EDC and its shareholder, the Government of Canada.

Good governance practices are key to maintaining full alignment between the Government of Canada
and EDC on public policy objectives such as the availability and competitiveness of trade-related financial
services, and on how to measure success. The issue identified is whether the Government is making full
and sufficient use of existing governance instruments, practices and processes to provide clear policy
guidance to EDC, with clear objectives, information sharing and reporting, and accountability
mechanisms.

Both formal and informal instruments, practices and processes can be used to establish EDC’s mandate
and its financial and operating framework, and to define the Government of Canada’s public policy
EDC has a well-defined governance hierarchy. It exists by virtue of the Export Development Act, making Parliament the ultimate authority on its powers and activities. The Minister of International Trade Diversification is responsible for overseeing EDC’s mandate and operations and is accountable to Parliament. The Minister is required every ten years to cause a review of the provisions and operation of the ED Act, and to report to Parliament within one year on the review. The Export Development Act states that EDC’s Board of Directors is led by a Chairperson, who is appointed by the Governor in Council and holds office during pleasure for a term deemed appropriate by the Governor in Council. All other Directors on the Board of Directors are appointed by the Minister, with the approval of the Governor in Council, to hold office during pleasure for a term not exceeding four years. As outlined in the 2015 Open & Accountable Government document, the Board of Directors is responsible for the oversight of the Crown corporation’s business activities and other affairs, having the responsibility to act in the best interests of the corporation. This document also reiterates that Crown corporations remain government organizations and instruments of government policy, for which Ministers are ultimately accountable. EDC’s President is a member of the Board of Directors and leads the management team that is accountable to the Board.

2.3.2 Governance Instruments
In applying the powers prescribed under the ED Act, the Government of Canada and EDC make use of multiple defined governance instruments, consistent with the guidance in the Open and Accountable Government statement.

- Statement of Priorities and Accountabilities (SPA) letter from the Minister of International Trade Diversification (MINT) to EDC: This annual letter provides a regular statement and update of the Government’s priorities for EDC. It can be used to provide both broad and detailed policy guidance to the corporation, and to propose both expected metrics for success and accountability processes,
including transparency and alignment. Early provision of a SPA letter during the planning cycle expedites discussion and preparation of the Corporate Plan.

Particular attention has been paid in recent SPA letters to EDC’s performance on trade and investment diversification, which has become an even more heightened priority for the Government of Canada, combined with Canada’s active engagement in new free trade deals with Europe and Asia-Pacific. Other priority topics include supporting more SME clients to sell more export products (and presumably services) to more markets, and EDC service to export businesses owned by women, Indigenous persons, and other under-represented groups.

- **Annual Corporate Plan is recommended by MINT for approval by the Treasury Board**: Each year, EDC develops and submits a detailed Corporate Plan to Global Affairs Canada (GAC) for agreement by the Minister of International Trade Diversification and approval by Treasury Board and tabling in Parliament. While the Corporate Plan is done on an annual basis, it identifies the corporation’s business and policy priorities for the coming five years. The Corporate Plan should reflect and be aligned with the Government’s priorities for EDC identified in the SPA letter. The requirement for formal approval of the plan by MINT and subsequent approval by Treasury Board provides an opportunity for discussion between the Government and EDC.

Ideally the Corporate Plan approval process should yield a high degree of alignment on EDC’s priorities and objectives. EDC can develop the priority areas in practice, and then deliver and report on how effectively it is meeting overall public policy objectives.

- **Annual Capital Budget and Borrowing Plan approved by the Treasury Board**: In rough parallel with the Corporate Plan process, EDC develops and submits a detailed Capital Budget and Borrowing Plan for agreement by the Minister of Finance and approval by the Treasury Board. Formal approval of the Capital Budget and Borrowing Plan should ensure a high degree of alignment on EDC’s borrowing activities.

- **Governor-in-Council directives**: On occasion, EDC receives a Governor-in-Council directive providing legally binding guidance on a specific aspect of its activities. A Directive provided to EDC would normally be at the behest of MINT. Examples would include EDC alignment with various administrative practices of the Government such as travel and hospitality directives.

- **Cabinet decisions**: EDC is also guided by decisions of Cabinet that are pertinent to its mandate and operations. EDC would expect to be closely involved with relevant government ministries and agencies in the analysis of a specific matter before Cabinet, and in the development of policy options and recommendations.

- **Financial and performance audits**: The Office of the Auditor General conducts an annual audit of EDC’s financial results, and undertakes special examinations, including a five-year comprehensive audit and a review of the Environmental and Social Review Directive.

- **EDC Board**: EDC’s Chair is appointed by the Governor in Council, and its Board of Directors are appointed by the MINT with the approval of the Governor in Council, with accountability to the Minister of International Trade Diversification.
Informal governance takes place through the relationships and communications among a variety of officials with responsibilities pertinent to EDC. Informal governance relationships help set the tone and build two-way trust. Much of the informal guidance consists of creating alignment and building consensus on specific issues related to EDC policy and practice.

Over the last decade, EDC’s governance process has been refined. Guidance is being provided by the Government on the importance of success metrics, indicating that EDC should provide measurable yet achievable growth targets and diversification goals that reflect the Government’s objectives. These metrics would include EDC service to businesses owned by women, Indigenous persons, and members of other under-represented groups. The SPA letter and Corporate Plan are the key written instruments being relied upon for governance, along with informal briefings.

2.3.3 Approach of other ECAs
Comparing EDC’s governance approach with other ECAs, there are three main forms: some economies have designed their export credit insurance or lending program reporting through a government department, for example the United Kingdom or the New Zealand Export Credit Office (NZEC). Others such as Germany and the Netherlands have mandated private companies to act as their official ECAs in an agent or trustee model. Similar to the approach in Canada, many governments have created institutions that act as independent government-owned agencies. For instance, Finland designed its ECA as a specialised financing company owned by the state, and EKF is an independent public company. GIEK
is a public-sector enterprise, and Export Credit Norway is also owned by the Ministry of Trade, Industry and Fisheries. Sinosure and CEXIM have a quasi-ministerial status with medium and long-term policies issued on behalf of the Ministry of Finance.

Thus, there is no standard model as other countries use an array of legislative and governance approaches for their export credit systems. Increasingly, successful trade financing systems are integrated into a concise national strategic policy framework; different policy objectives lead to different operating structures and governance approaches for ECAs. It is often mentioned that the most appropriate form is now an ECA acting as an independent government agency due to a number of advantages: flexibility, more market-oriented answers to exporters’ needs, a commercially-driven behaviour with regard to risk management, and more efficient underwriting processes. However, many other ECAs follow a governance model with guardian authorities involved at least at the level of the board of directors. In addition, substantial policy support is often related to political and practical governmental assistance in order to comply with the respective mandate. Some institutions such as Bpifrance, EKF or SACE receive significant support, including high-level support with involvement in official visits to foreign countries, but also the practical orientation of foreign policies and public diplomacy strategies towards export promotion and internationalization.

2.3.4 Discussion and Analysis
The Government has many formal instruments to provide policy guidance to EDC, consistent with the guidance in the Open and Accountable Government statement. An optimal governance framework for EDC would make full and appropriate use of both formal and informal governance mechanisms, to build a climate of mutual trust and alignment on EDC’s policy objectives and operations. Based on the 2005 Treasury Board Secretariat’s Report to Parliament, “Review of the Governance Framework for Canada’s Crown Corporations,” the Government decided to remove deputy ministers from the EDC Board of Directors in 2006. This decision was ostensibly intended to address a possible conflict of interest between the role of board members to serve the interests of the corporation, and the role of deputies in providing advice to and carrying out the decisions of their minister.

Some Crown Corporations with financial responsibilities continue to have government representatives on their boards of directors when it is deemed essential to the best interests of the government and the Crown corporation. PCO oversees board appointments for Crown corporations. The Canadian Mortgage and Housing Corporation (CMHC) has the Deputy Minister of Employment and Social Development and the Deputy Minister of the Department of Finance on its Board. The Canadian Deposit Insurance Corporation (CDIC) board includes representatives from the Department of Finance, the Bank of Canada, the Office of the Superintendent of Financial Institutions, and the Financial Consumer Agency of Canada. The Deputy Minister of the Department of Finance is an ex officio member of the Board of the Bank of Canada.

With no government representatives on the EDC Board, Global Affairs Canada and the Department of Finance do not access Board briefing material to keep their ministers briefed on EDC operations. The SPA letter and Corporate Plan are the key written instruments being relied upon for governance, along with informal briefings. The previous Review emphasized officials in the-then Department of Foreign Affairs and International Trade (DFAIT) and the Department of Finance may require more information on EDC’s operations than may be available in the public arena. The previous Review said it would seem sensible that this information should be provided on a regular basis and in a structured way which reflects commercial confidentiality. Those observations are consistent with the FAA Section 149 (1) which states
that “a parent Crown corporation shall provide the Treasury Board or the appropriate minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate minister may require” and remain valid.

Informal governance takes place through the relationships and communications among a variety of officials with responsibilities pertinent to EDC. Informal governance relationships help set the tone and build two-way trust. Much of informal guidance consists of creating alignment and building consensus on specific issues related to EDC policy and practice.

2.3.5 Conclusion

EDC is guided by overall government policy but, based on Government of Canada Crown corporation governance best practices, potential enhancements/modifications could be considered. As a Crown corporation, EDC is at times asked explicitly to implement government policy. Policy guidance is provided to EDC through letters spelling out priorities and accountabilities, and through corporate plan approvals. Clear and regular input from government, with clear key performance indicators such as number of women-owned exporters, helps ensure EDC’s full alignment with Government policy.

EDC’s shareholder needs to access information on EDC’s operations (such as board briefing material, board minutes, etc.) and, according to the Financial Administrations Act (Section 149 (1)), has a right to access. This regular sharing of information with appropriate officials of oversight departments is not unusual for other Crown corporations without board representation and could help Global Affairs Canada officials confirm EDC’s alignment with government policy and the delivery on its public policy mandate. It could also provide the timely information needed to brief ministers as required.

Other Crown corporations continue to have government representatives on their boards of directors. The Government decided in 2006 to remove deputy ministers from the EDC board. However, some other Crown corporations with financial responsibilities continue to have government representatives on their boards.
CHAPTER 3: EDC’S STRATEGY
3.1 Policy Alignment

3.1.1 Issue
As a Crown Corporation that was created to meet public policy objectives, EDC is expected by its shareholder to align its strategy with the Government’s trade and other related policy priorities. These are likely to evolve over time, meaning EDC’s own priorities and practices are also expected to evolve.

The Government of Canada defines its overall objectives and priorities for Canada’s international trade policy and trade development on an ongoing basis. As EDC’s shareholder, these overall objectives are translated into priorities for EDC. As discussed earlier, a series of governance instruments are used to articulate the Government’s trade and other policy priorities for EDC, and to confirm EDC’s alignment with those priorities. The SPA letter from MINT to EDC, and EDC’s Corporate Plan approved by MINT, are the principal policy instruments used to ensure EDC is aligned with the Government’s priorities. In parallel with the corporate planning process, EDC develops and submits a detailed Borrowing Plan to Finance Canada, for approval by the Minister of Finance. Formal approval of the Borrowing Plan should ensure a high degree of alignment on EDC’s borrowing activities.

The Statement of Priorities and Accountabilities Letter
As a Crown Corporation and thereby one of Canada’s core public policy instruments to advance the country’s trade agenda and objectives, EDC receives its policy guidance from the Minister of International Trade Diversification through the annual SPA letter. The SPA letter is directed to the Chair of EDC’s Board of Directors, and typically informs and guides EDC’s strategy development and corporate planning to ensure alignment with and delivery on the Government’s priorities.

Past SPA letters provided an annual update of the Government’s priorities for EDC and expressed many expectations on how EDC should set overall priorities and carry out its operations. Over the past 10 years, EDC’s annual SPA letter provided some recurring priorities and accountabilities, as follows:

- Participation in the development of and alignment with Government of Canada’s trade and investment strategies
- Provision of domestic financing through complementary and partnership approaches with the private sector and BDC
- Collaboration and transparency with private sector credit insurance market
- Enhanced support to Canadian SMEs
- Client-centric and increased coordination and cooperation with federal partners such as TCS, CCC and BDC
- Collaboration and complementarity with TCS
- Whole-of-government approach to support Canadian Climate Change initiatives and related strategic sectors such as cleantech
- Active and coordinated engagement in OECD negotiations
- Full deployment of EDC’s capital to support Canadian businesses
- Preparation of a comprehensive business case for and reporting on EDC’s international expansion
- Demonstration of pull facility impacts
- Application of anti-corruption standards
- Support of Development Finance Institute Canada.

The latest SPA letter from MINT was provided to EDC during the Review process. It provided detailed guidance on the Government’s trade priorities in many areas, including:
• Trade diversification;
• Supporting more SME clients to sell more products and services to more markets;
• Realizing the potential of Canada’s free trade agreements, notably the CETA, CPTPP and Ukraine free trade agreements; and
• Providing service to businesses owned by women, Indigenous persons, and other under-represented groups.

EDC was asked to provide measurable and achievable growth targets and diversification goals that reflect the government’s priorities.

Corporate Plan
EDC’s annual Corporate Plan outlines how EDC will work over the coming five years to improve its core financial offerings and continue to advance as an organization, in order to meet the rapidly-evolving needs of Canada’s exporters. EDC’s strategic objectives, which guide its annual strategic initiatives and activities, are communicated through the Corporation’s annual Corporate Plans. EDC’s strategic objectives over the course of the past 10 years are shown in Figure 19.

**Figure 19: EDC’s Strategic Objectives of the past decade**

<table>
<thead>
<tr>
<th>Year</th>
<th>Strategic Objectives</th>
</tr>
</thead>
</table>
| 2008 | I. Connecting with exporters and investors  
II. Facilitating integrative trade  
III. Leveraging the organization |
| 2009 | I. Develop knowledge and relationships  
II. Deploy innovative solutions  
III. Deliver value |
| 2010 | No overall strategic objectives |
| 2011 | I. Trade facilitation  
II. Trade creation |
| 2012 | |
| 2013 | |
| 2014 | |
| 2015 | I. Build awareness about EDC and the benefits of exporting to encourage trade growth  
II. Offer both standard and tailored solutions  
III. Increase trade diversification |
| 2016 | I. Build awareness about the benefits of exporting and provide knowledge and advice to help Canadian companies go international  
II. Anticipate and respond to the needs of Canadian companies to support and accelerate their international growth  
III. Create new trade opportunities and promote trade diversification in order to help Canadian companies succeed internationally |
| 2017 | |

Source: Developed for this Report

EDC’s key performance measures and targets for the upcoming year are reviewed annually and publicly communicated in the Corporate Plan. They help to steer the organization’s activities and behaviours and are meant to measure the achievement of its strategic objectives. Over the past ten years, EDC has used an evolving list of key performance measures.

EDC’s 2018-2022 Corporate Plan provides seven key performance measures. Targets for 2018 were provided for most of the measures. A new customer measure, ‘Customers Served,’ was re-introduced
for 2018 after a seven-year absence, to align with the new customer service strategy EDC is building out. The key performance measures are as follows:

- **Net Promoter Score (NPS):** Evaluates customer satisfaction and loyalty. NPS measures the likelihood that EDC’s customers would recommend EDC to business colleagues. After an expected NPS score for 2017 of 73.3, EDC set a range at 70.0 – 76.0 for 2018.

- **Total Business Facilitated:** Measures the business Canadian companies are able to carry out with the help of EDC’s solutions. EDC expected business facilitated figure to be $102.3 billion in 2017 and set a target of $113.3 billion in 2018, an 11 per cent increase.

- **Business in Emerging Markets:** EDC revenue derived from all programs from supporting Canadian companies in emerging markets. In 2017, EDC generated $1,051 million revenue from its emerging market business representing 52 per cent of EDC’s total financing and investment revenue. EDC expected to grow its emerging market business by 20 per cent in 2017 but did not provide a target for 2018.

- **Canadian Direct Investment Abroad (CDIA) Transactions:** CDIA transactions were expected to grow by 5-20 per cent in 2018.

- **Small Business and Commercial Transactions:** After an expected increase of 10 per cent in 2017, a range of 7-20 per cent was targeted for 2018. This combines transaction numbers from two categories of clients, and does not include what EDC refers to as Strategic Accounts.

- **Productivity Ratio:** This measures the ratio of administrative expenses to net revenue, with a 2018 target range of 32-36 per cent.

- **Customers Served:** EDC expected 7,859 financial services customers served in 2017, with a target range of 7 – 20 per cent growth for 2018.

**Annual Report**
EDC’s Annual Report provides the overall business results for the previous year as well as an assessment of key corporate performance measures as identified in the preceding planning process. It also provides detailed analysis of EDC’s financial performance, to satisfy the requirements of current and prospective investors in EDC’s financial instruments.

The following table shows the applicable annual public performance measures and respective results of the past 10 years. Through its colouring scheme, the table also indicates if the annual target in a specific year has been met in green (> 98% of plan), substantially met in yellow (>=95% and <= 98%) or not met in red (<95% of plan). As can be seen in the table, EDC appears to predominately meet its targets; however, the evolution of performance measures remains in some cases difficult to assess as some performance measures were dropped (as displayed in grey), and for others calculation and composition changed over the course of years. Furthermore, over the years the number of applicable performance measures was reduced from a peak of 15 in 2009 to 6 in 2017.
Table 9: EDC’s Performance Measure Development in past decade from EDC Annual Reports

<table>
<thead>
<tr>
<th>Performance Measure</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers served</td>
<td>8,312</td>
</tr>
<tr>
<td>Total business facilitated ($B)</td>
<td>85.8</td>
</tr>
<tr>
<td>Volume in emerging markets ($B)</td>
<td>As of 2013: Business in emerging markets (SM) (representing revenue derived from all programs in emerging markets)</td>
</tr>
<tr>
<td>Partnership transactions (Updates to business rules in 2014)</td>
<td>4450</td>
</tr>
<tr>
<td>Partnership volume ($B)</td>
<td>14.1</td>
</tr>
<tr>
<td>CDIA volume($B)</td>
<td>4.7</td>
</tr>
<tr>
<td>CDIA transactions (Updates to business rules in 2014 and 2016)</td>
<td>383</td>
</tr>
<tr>
<td>Multiple program users</td>
<td>1,000</td>
</tr>
<tr>
<td>Net Promoter Score</td>
<td>43.57</td>
</tr>
<tr>
<td>Value for Money to Total Cost of Ownership ratio</td>
<td>37.63</td>
</tr>
<tr>
<td>Employee engagement</td>
<td>rank same as high quality institutions</td>
</tr>
<tr>
<td>Employee retention (%)</td>
<td>91.83</td>
</tr>
<tr>
<td>Net income ($M)</td>
<td>206</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>9.4</td>
</tr>
<tr>
<td>Efficiency/Profitability ratio (%)</td>
<td>22.3%</td>
</tr>
<tr>
<td>Financial sustainability ratio</td>
<td>9.1%</td>
</tr>
<tr>
<td>Small business transactions</td>
<td>As of 2015: Small and medium sized enterprise transactions</td>
</tr>
<tr>
<td>As of 2017: Small business and commercial transactions</td>
<td>2,762</td>
</tr>
</tbody>
</table>

3.1.2 Approaches of other ECAs

There are substantial differences among other ECAs regarding the alignment of ECA priorities and practices with the government’s trade agenda. Several agencies face difficulties because of challenges in aligning overall policy goals with concrete action. However, many ECAs in Asia and Europe can be regarded as crucial policy vehicles for export promotion.

Together with CEXIM, China Development Bank and the Agricultural Development Bank of China, Sinosure is a key policy institution serving the government strategy of “go-abroad”. European agencies such as EKF are also designed to support businesses abroad and have a strong high-level backing. The mandate of Bpifrance is aligned with the main priorities of the French government: Supporting business growth, preparing France ‘s businesses for international competitiveness, and contributing to the development of an economic ecosystem that favours entrepreneurial activity. Italy’s Cassa Depositi e Prestiti (CDP) provides finance to Italian businesses engaging in international markets. In addition to the wholly-owned subsidiary SACE acting as the official Italian ECA, CDP has assumed the role of Italy’s Development Finance Institution (DFI), with SIMEST delivering on the government’s overall policy priorities for international trade and development cooperation.

The same applies for Great Britain with substantial policy support for UKEF. The UK government has developed a long-term economic plan, and success in international markets is at the heart of it. UKEF is a key instrument in the GREAT Britain marketing campaign. There is a close collaboration with the British Business Bank to review the finance challenges facing SMEs that export to ensure that government
support best addresses their need. The Foreign and Commonwealth Office has fundamentally changed its orientation towards trade and investment, and one example is the integration of Department for International Trade roles in British embassy structures. UKEF is involved in numerous state visits unlocking significant opportunities for UK exporters in key sectors through trade agreements and ECA cooperation. UKEF and trade envoys, a network of parliamentarians appointed by the prime minister, jointly engage with emerging markets where substantial trade and investment opportunities have been identified.

3.1.3 Discussion and Analysis

The importance of close alignment between EDC and the Government is paramount, as is the need for specific EDC targets that reflect the Government of Canada’s priorities.

Overall, there is general but not specific alignment between the Government’s policy priorities and the guidance provided by MINT in the annual SPA letters, the strategic objectives in EDC’s annual Corporate Plans, and the annual business measures and results in EDC’s Annual Reports. In each case, there is ongoing evolution in the Government’s priorities, EDC’s strategic objectives, and its performance measures. Without a more stable system of priorities, objectives and related performance metrics, it is difficult to assess in detail whether there is close policy alignment between the Government as shareholder and the Corporation.

There is a specific recent misalignment between how EDC defines “customers served” for the purposes of the Corporate Plan and in the related Annual Report. The 2018-2022 Corporate Plan listed 7,859 customers served in 2017, while the 2017 Annual Report actually reported that it served 9,398 customers, a 10 per cent increase over 2016. The reason for this discrepancy is that the Annual Report noted for the first time that these numbers included customers who accessed its knowledge services (which is discussed further in Chapter 4). While customer acquisition targets have remained central to EDC’s corporate incentive program, they fell out of use from the Corporate Reporting as the numbers were stagnant, before being reintroduced in the 2018-2022 Corporate Plan, with this new definition. EDC has also combined the number of transactions with SME clients together with commercial clients in its scorecard.

How the Government’s policy objectives are translated into EDC business priorities is important, but so too is how EDC’s corporate targets are translated into EDC’s corporate performance incentives. Without close alignment between the government’s objectives and EDC’s priorities, metrics and incentive bonus system, there is a risk that EDC business results and impact fall short of the Government’s policy and performance expectations.

EDC provides incentive compensation to its employees related to specific aspects of its annual corporate business performance. This incentive compensation helps guide and motivate EDC staff priorities and behaviours. There is no public statement available on whether the key business performance indicators used to determine EDC’s annual incentive compensation are identical to, or differ from, the annual performance measures for EDC that are shared publicly through the annual Corporate Plan summary or provided in EDC’s Annual Report.

3.1.4 Conclusion

*EDC’s performance measures are not directly linked to the Government’s regular strategic policy*
**guidance.** EDC has defined and measures its performance based on a set of indicators. Over the past decade these indicators were gradually reduced from 14 to 6 and the composition and calculation of some of the indicators was adapted several times during the timeframe making it difficult to assess some of the overall performance trends. At the same time EDC has only provided qualitative responses to the policy guidance it received from the Government on an annual basis. While EDC’s performance measures are reflective of the Crown corporation’s mandate, EDC does not report specific goals or measures of success for annual public policy objectives.

*There is a clear link between EDC’s key performance indicators and its employee incentives.* EDC staff are naturally responsive to internal targets and compensation incentives. Unless the incentives are also aligned with EDC’s public policy objectives, staff may be inclined to focus on the performance indicators, such as increasing business volumes (rather than facilitating private sector providers), most relevant to their compensation.

### 3.2 EDC’s Customers

#### 3.2.1 Issue

If they are to carry out fully their respective mandates, ECAs need to define and familiarize themselves with their target customer groups. These groups may change by country and by mandate for each organization, and a high-performing ECA will devote expertise and time to identifying carefully the target national customers it is been mandated to serve. The key issue is how EDC determines its target group and whether EDC identifies the right target group(s) for its financial and information services, and to what extent it is sufficiently addressing those potential customers.

EDC has identified not only Canadian exporters, but also international investors and foreign buyers as target segments in pursuing its strategic objectives. Its business strategy is focused on identifying new opportunities to support more Canadian companies in a challenging global environment. In order to fulfil its mandate to facilitate Canada’s export trade and the capacity to engage in that trade, EDC has identified the following target groups of Canadian companies as potential prospects.

The first group is direct exporters of goods and services, from firms of all sizes. This group represents what might be regarded as traditional exports. It includes firms that produce and supply goods and services to the market and make sales directly to foreign buyers.

The second group is indirect exporters of goods and services. This group includes firms that provide goods and services to Canadian buyers, as business inputs into the Canadian buyers’ production of goods and services, which are then subsequently sold to buyers as the final products outside Canada. Many of these indirect exporting firms are SMEs and need the types of financial services that EDC can help to provide.
The third group is Canadian firms engaged in direct investment abroad. It includes the creation of foreign affiliates of these Canadian firms, which sell goods and services to foreign buyers and oversee key business relationships in foreign markets.

The fourth group is Canadian firms that are ready to export but have not yet completed a sale of their goods and services to a foreign buyer.

EDC also focuses on key creditworthy foreign buyers and international investors as business prospects, particularly for its trade creation activities.

Furthermore, EDC has been tasked to target SMEs and underrepresented businesses specifically including women-owned, Indigenous and youth businesses and entrepreneurs. Although the main purpose of an ECA is to promote national exports, providing service to underserved sectors is also often an important policy objective. In 2017, 52% of EDC’s customers were SMEs, with another 34% defined as “commercial customers”. The two group were combined in 2017 for the purposes of setting targets. Strategic accounts were 4% of all customers.

The Government has asked EDC to seek ways to serve new clients with its financial and risk mitigation solutions. EDC has identified a potential client base of over 80,000 direct exporters of goods and services that could make use of its financial and information services. It also has identified: a) the potential indirect exporters, estimated at over 26,000 firms, and b) firms that are ready to export, estimated at nearly 46,000 firms.

3.2.2 Approaches of other ECAs
Other ECAs often have the objective of supporting specific groups of exporters. Many ECAs consider SME support as one of their most important objectives. For example, the Danish ECA (EKF) has been successful in SME support with a substantial year-on-year expansion rate since 2011. Euler Hermes in Germany is very active in supporting the well-known German ‘Mittelstand’, and UK Export Finance recently made significant gains in supporting small and medium-sized enterprises. However, despite the focus on SMEs by many ECAs, their portfolios often remain dominated by the respective country’s large exporters.

To support under-represented groups, some institutions have created specific products for small and medium-sized exporters, established simplified processes, or created separate departments for SMEs. In addition, a few ECAs such as EKN in Sweden established close collaborations with other export promotion organisations. Other examples are the ‘Team Finland’ approach of integrated services combining government services to support, in particular, SMEs under one roof. This allows Finnish companies to have contact with only one organization in the sense of a ‘one-stop-shop’. Bpifrance is a further example of an ECA successfully contributing to the French economy’s competitiveness with a particular focus on SMEs.

3.2.3 Discussion and Analysis
EDC is carrying out detailed research to define its potential customer segments. EDC considers that the official exporter count from Statistics Canada is underestimating the number of Canadian exporting companies as it is limited to merchandise exporters only. It therefore has derived its data from a variety of sources including surveys conducted by Innovation, Science and Economic Development Canada (ISED
Canada) and EDC. EDC believes it applies a conservative methodology to avoid any potential double counting.
**Customer satisfaction**

Many EDC clients have a high level of satisfaction with its products, risk coverage and client service performance but some segments of the export community are dissatisfied. This satisfaction covered the full array of EDC products, as well as many export sectors and buyer markets. Export sectors covered included aerospace, oil and gas, mining, financial services, construction, ground transportation, engineering services, consumer products, and numerous others. Firms of all sizes and types, and their representative business organizations, were included in the consultations, and mention was made of essentially every global region and many individual country markets, with a particular interest in EDC’s role in emerging or developing markets.

However, in some other cases, there was dissatisfaction with EDC service performance. A number of concerns were identified, including inadequate risk appetite; poor or uneven service quality; frequent staff turnover, particularly for smaller exporters; the need for multiple points of contact; insufficient sector knowledge and treatment of services exports specifically; lack of attention to SMEs and small transactions; bureaucratic and time-consuming processes; and a lack of feedback or clarity on why a given transaction was not advancing.

One of EDC’s performance indicators is its Net Promoter Score (NPS), which evaluates customer satisfaction and loyalty by measuring the likelihood that its customers would recommend EDC to business colleagues. Detailed data provided by EDC indicate NPS results have generally been improving and were higher in 2017 than in 2013 for all three categories of firm size that were assessed – what EDC calls Strategic Accounts, Commercial Markets, and Small Business. The latter group reached an all-time high in 2017 and indicated EDC is easier to work with.

Exporters in Atlantic Canada, Western Canada and Quebec were generally more satisfied than those in Ontario. By sector, exporters in metals and mining, and aerospace were the most satisfied, with NPS scores that exceeded 80. Forestry and non-industrial services were at the bottom of the NPS scale, with scores below 60. These more detailed NPS results provide a view on short-term trends and a snapshot in time for 2017 and should be validated over more than one year. They do indicate, however, that EDC customers are generally satisfied with its service performance in recent years.

**Small exporters**

The most-cited issue for exporters surveyed was high prices for EDC products, at 4.5 per cent of respondents. Micro exporters (with annual sales of under $1 million) surveyed were less likely to understand EDC products, and more likely to question whether EDC products adding value. These small businesses would most typically be using EDC’s credit insurance or working capital products, where competition from private sector sources is still limited due to the cost of delivery. Moreover, their banks do not allow them to leverage their insurance policies to obtain cash as their sales volume is below the threshold banks would accept.

“... reducing red tape is necessary to make EDC services more appealing and useful to small businesses who typically need to access smaller credit facilities quickly. EDC may want to consider customizing their approach and/or services to better appeal to smaller transactions that tend to be more common among smaller businesses... there is still much room for improvement when it comes to broadening its appeal to smaller companies.”

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*Canadian Federation of Independent Business submission*
Exporters indicated areas of concern about whether EDC is adequately committed to underserved exporter segments. Small exporters and their business association representatives indicated that EDC has taken small business exporters more seriously over past five years, but serving small exporters was still not seen as a corporate priority. In their view, an EDC champion for SMEs at the executive level was lacking. Some smaller exporters said EDC did not have products that met their needs, in addition to credit insurance. Small-ticket buyer financing was an example given.

**Non-traditional exporters**

There were questions expressed during consultations about whether EDC has shown sufficient interest in women entrepreneurs, whose initial trade deals tend to be small. EDC has very little profile or presence with women entrepreneurs. A particular issue identified was low EDC awareness among female members of the Canadian Federation of Independent Business (CFIB) members; only 4 per cent of female respondents to a CFIB member survey were aware of and had used EDC services, half the response level for males.

In Budget 2018, the Government announced an EDC funding envelope of $250 million, available on commercial terms, to provide financing and insurance solutions to women-owned and women-led businesses that export or have plans to export. This envelope is available through 2020 and helps these businesses overcome barriers to obtaining capital for international market expansion. This initiative is supported by a broader strategic roadmap of initiatives focused on addressing the unique barriers women entrepreneurs face, including targeted knowledge products, training sessions, and connections with foreign buyers. According to EDC in 2018, and through this envelope, the Canadian ECA served 105 women-owned and/or -led companies with credit insurance, financing and financing guarantees, facilitating a total of $392.18 million in export volume support.

EDC is collaborating on events organized by the TCS’s Business Women in International Trade (BWIT) program, which provides targeted products and services to help women entrepreneurs go international. It supports events with the Organization for Women in Trade (OWIT) and facilitates training for women in international business through the Forum for International Trade Training (FITT). EDC also collaborates with women-focused organizations including Réseau des Femmes d’affaires du Québec and with Women Business Enterprises and partners with them on business matchmaking opportunities. In 2018, EDC sponsored 13 events focussed on women-owned/-led businesses that took place throughout Canada and in two cities in the United States. It also recently launched a new Women in Trade campaign page on their website.

With regard to Indigenous exporters, during the stakeholder consultations conducted from July to November 2018 as part of the Legislative Review, some Indigenous business representatives stated that EDC is not providing meaningful service to Indigenous entrepreneurs, who need a real champion within EDC at a senior level for leadership and buy-in. They noted that Canadian commercial banks have created departments solely focused on Indigenous business, with Indigenous staff – a model for EDC to
Against this backdrop, EDC reported that in 2018 it reviewed its accessibility to Indigenous-led businesses with the goal of improving the awareness and use of products and services by Indigenous exporters. It has been working with the Indigenous practice lead of a leading consulting firm in this area to conduct the review and have engaged with a number of key stakeholders to assess how EDC can most effectively serve Indigenous exporters. EDC reports that beginning of 2019, a set of recommendations were presented to and reviewed by a committee of EDC’s Executive Team in order to identify near- and medium-term priorities and specific tactics for EDC to improve our relevance to the Indigenous business community. Out of this discussion, a draft 18-month action plan has been put forward for further consideration and is scheduled to be discussed with EDC’s Board of Directors in June 2019. The draft action plan includes measures to enable tracking and reporting of EDC’s support to Indigenous customers, improve the visibility of our service to Indigenous exporters, community involvement, and consideration of new partnership opportunities. In the meantime, EDC states that it is proceeding with the recruitment of a Corporate Lead (Interim) to coordinate 2019/2020 initiatives and to develop a longer-term strategy to serve Indigenous-led exporters.

According to EDC, the ECA is also continuing to expand its outreach, community participation and attendance at relevant events including the most recent annual general meeting of the Assembly of First Nations, Special Chiefs Assembly and the First Nations Export Forum hosted by the Canadian Council for Aboriginal Business.

3.2.4 Conclusion

**EDC has identified the full potential for its services in Canada and internationally.** It has done detailed research over many years to define its customer segments comprehensively, as well as to examine the potential by region and by sector across Canada. EDC has set up a broad network of representations and relationships across Canada, working closely with provinces, municipalities and business groups. It has developed partnerships with many commercial banks to support their customers.

**Many clients express a high level of satisfaction with EDC’s products, risk coverage and service, but some see room for improvement.** Praise for the corporation covers the full array of EDC products, and comes from many export sectors and buyer markets. Firms of all sizes and types, and their representative business organizations, were included in the consultations, and mention was made of essentially every global region and many individual country markets, with a particular interest in EDC’s role in emerging or developing markets. Export sectors covered included aerospace, oil and gas, mining, financial services, construction, ground transportation, engineering services, consumer products, and numerous others. On the other hand, some respondents raised concerns, including inadequate risk appetite; poor or uneven service quality; frequent staff turnover, particularly for smaller exporters; the need for multiple points of contact; insufficient sector knowledge and treatment of services exports specifically; lack of attention to SMEs and small transactions; bureaucratic and time-consuming processes; and a lack of feedback or clarity on why a given transaction was not advancing. EDC’s overall scores for customer satisfaction and loyalty indicate that its customers are generally satisfied with its service. However, a more detailed breakdown would be required to evaluate the success of policy objectives among specific client groups.

**EDC has devised plans to improve diversity, inclusion as well as support to women-led and Indigenous businesses.** Given that many initiatives are still relatively new, EDC reporting has so far focused on activities rather than results. During the review, exporters in these customer segments criticized that EDC does not offer enough products and services for their specific needs. Furthermore, they voiced
concern that efforts to represent their constituencies are not backed by senior executive leadership.

3.3 Canadian Benefits

3.3.1 Issue
As Canada’s ECA and like most ECAs, EDC is expected to support Canadian exports and direct investment abroad, with related positive impacts on economic output and jobs. EDC evaluates the estimated economic benefits of the export and investment transactions it insures and finances, as well as the overall benefits to Canada of its activities. These estimated benefits are important inputs for determining the economic value EDC is providing from its activities and the overall value for money from the government’s investment in and support for EDC.

EDC evaluates individual transactions based first on the Canadian content of the export sale. It then considers other factors such as increased access to global markets, emerging markets sales, and whether the export sale includes a new product, technology or market. It also evaluates annually the aggregate impact of its activities in terms of GDP and employment, based on a general multiplier of jobs by sector in relation to value added and resulting contribution to GDP. These are based on input-output measures.

3.3.2 Approaches of other ECAs
Traditionally, ECAs focused on the domestic content of national exports, as well as the jobs created or sustained, as conditions for providing credit to a specific transaction or exporter. Countries such as Japan and Germany still have a minimum amount of domestic content required to qualify for cover. Sinosure traditionally also asked for Chinese content of at least 60 per cent of the contract value with a reduction to 40 per cent in ship finance. However, the expansion of globalization and of trade in business inputs has made domestic content less relevant as a measure of export success. Many ECAs have therefore developed more sophisticated estimates of the domestic benefits from the transactions they support.

Similar to EDC, several ECAs have changed their approach to estimating the domestic benefits derived from their activities. They moved away from a focus on domestic production to a more broadly defined “national interest” or “national benefits” focus. They base their decision of granting cover on factors such as R&D activities or know-how created, sometimes even without considering where the goods delivered were manufactured. Table 12 shows selected foreign content policies.

<table>
<thead>
<tr>
<th>National content required</th>
<th>Denmark</th>
<th>Finland</th>
<th>Germany</th>
<th>Norway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate of origin sufficient</td>
<td>Yes</td>
<td>Yes</td>
<td>Usually 51%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 10: Selected Foreign Content Policies

Only a few other ECAs measure or estimate the number of jobs related to export transactions. In addition to EDC, EKF annually publishes how many jobs were created and retained. GIEK also publishes numbers regularly, and the Austrian Ministry of Finance entrusted a research institute with a job impact study in 2015. For Euler Hermes, the German Federal Ministry of Economic Affairs and Technology commissioned a large independent study for 2012.

However, many ECAs such as Credendo in Belgium, EKN in Sweden, China’s Sinosure or UK Export...
Finance do not report numbers on employment generated.

Table 11: Examples of ECA Job Measurement

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria-OeKB</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>30,000</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Canada</td>
<td>573,773</td>
<td>568,799</td>
<td>719,200</td>
<td>530,000</td>
<td>521,000</td>
<td>524,000</td>
</tr>
<tr>
<td>Denmark-EKF</td>
<td>17,560</td>
<td>16,460</td>
<td>10,500</td>
<td>12,300</td>
<td>13,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Germany-EH</td>
<td>240,000</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Norway-GIEK</td>
<td>11,000</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>13,000</td>
<td>9,600</td>
</tr>
</tbody>
</table>

Source: Developed for this Report based on Annual Reports

In addition to job measurement, the share of covered exports can be an important impact indicator. If there is no significant effect of ECA support, the policy goal of fostering economic growth through foreign trade can fall short. Yet a higher penetration rate is not a positive indicator per se, because this can indicate either crowding out of the commercial market, or a substantial market failure.

Penetration can also be related not only to the overall share of exports, but also to the structure of the economy and the domestic market for trade credit, as reflected in the ECA’s overall portfolio. For example, the percentage of exports supported by countries such as Denmark or Germany through their export credit and investment insurance is in line with several other economies, representing a covered export share of approximately 2 per cent in recent years. Support from GIEK in Norway has also been quite stable, supporting approximately 2-3 per cent during the last few years while national exports substantially declined since 2012. EDC’s comparable penetration rate (export credit insurance plus investment insurance as a percentage of total exports) of 15 per cent of exports is an anomaly. If EDC’s financing facilities are included, the penetration rate would be even higher.

Figure 21: Penetration Rate (% and bn EUR, Examples)
3.3.3 Discussion and Analysis

EDC supports Canadian businesses in different stages of their international activities, creating and safeguarding a substantial number of jobs in the Canadian economy. Exporters from nearly all sectors can benefit from globalization effects, and stakeholders mentioned that EDC’s activities are valuable due to enhancing their risk management and financing functions. Several EDC guarantee and insurance solutions help to increase working capital or ensure risk by covering commercial and political risks. Financing solutions including working capital financing, international buyer financing, direct lending, and structured and project finance complete EDC’s support. Early-stage and innovative exporters use advisory services and benefit from equity investment.

On a transactional basis, EDC has developed a process to measure and record the direct and indirect benefits generated by transactions it facilitates. The process incorporates an algorithmic Canadian Benefits Template which is used to grade the benefit characteristics of individual transactions. The final grade of a transaction is indicative of the expected economic benefit of EDC’s support and is one of many factors considered in EDC’s transaction review and approval process. The Canadian Benefits Test is adapted from time to time to reflect evolving business, value chain, trade and investment patterns, economic trends and priorities.

3.3.4 Conclusions

**EDC has a very high penetration rate in comparison to other export credit agencies.** An export credit insurance penetration rate of 5 per cent or lower of total foreign trade is common in highly industrialized countries, yet EDC’s comparable penetration rate is significantly higher at 15 per cent. However, this high level of activity may be evidence of a substantial gap in Canadian financial markets which EDC might have contributed to by crowding out potential competitors in the private sector.

3.4 Risk Management

3.4.1 Issue

As Canada’s ECA, EDC is expected to help Canadian companies engage in trade internationally. The key issue is whether EDC is prepared to provide financing or insurance capacity in the markets in which Canadian companies wish to do business and for the transactions that Canadian companies bring to EDC. There are a few potential reasons why EDC might reject a transaction that a client presents, and, although data does not exist on the number or reason for turndowns (as the front line staff will dissuade an application that they know will be rejected even before an application is received), it is often due to the quality of the credit risk of the transaction.
Therefore, this issue looks at whether EDC is taking sufficient risk to meet the need of Canadian companies. Specifically, is EDC’s risk appetite in emerging markets and for higher risk buyers sufficient.

3.4.2 Comparison with the Private Sector and Other ECAs

EDC’s 2017 Annual Report indicates that non-investment grade exposure (higher risk) declined in the most recent reporting year, 2017, accounting for 45 per cent of its total lending and guarantee exposure (versus 48 per cent in 2016). The largest concentrations of non-investment grade exposures are within aerospace (26 per cent), oil and gas (23 per cent), and mining sectors (11 per cent).

EDC’s credit risk appetite benchmarked with the top Canadian commercial banks shows that the commercial banks’ risk profile is comparable, despite having more exposure in Canada than EDC. Table 12 compares EDC’s exposure versus commercial banks.

### Table 12: Comparison of Financial Institutions’ Risk Profiles

<table>
<thead>
<tr>
<th>Risk Profile</th>
<th>EDC</th>
<th>RBC*</th>
<th>TD Bank**</th>
<th>Scotiabank ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Grade</td>
<td>40%</td>
<td>40%</td>
<td>42%</td>
<td>58%</td>
</tr>
<tr>
<td>Non-Investment Grade</td>
<td>60%</td>
<td>60%</td>
<td>56%</td>
<td>42%</td>
</tr>
</tbody>
</table>

* Wholesale banking  
** Non-retail exposure  
*** Non-retail exposure

Source: Annual Reports 2017

EDC has a conservative risk profile in terms of distribution of credit risk. The 40 per cent of investment grade ratings is comparable to the risk profile of the wholesale banking / non-retail exposure of two of Canada’s top commercial banks.

EDC’s credit policy is built upon a system of limits, which are primarily expressed in notional terms versus EDC’s available capital and not in risk equivalents. EDC states its conservative credit risk profile is not a conscious decision, but rather a consequence of Canada’s export structure which is highly geared towards the US in geographical terms and is geared towards capital intensive industries in sectoral terms that are in general represented by financially strong large corporates.
<table>
<thead>
<tr>
<th>Industry</th>
<th>EDC Concentration of Exposure by Industry</th>
<th>Canada’s Structure of export of goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>14%</td>
<td>--</td>
</tr>
<tr>
<td>Aerospace</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>Mining</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Infrastructure and environment</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Surface transportation</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Information and communication technologies</td>
<td>9%</td>
<td>2%</td>
</tr>
<tr>
<td>Light manufacturing</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>Resources</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Table 13 shows that EDC has a slightly higher focus on the more capital-intensive industries in its sectoral distribution of business.

From a geographic perspective, EDC has a much more diversified profile than the overall Canadian export structure, but there is a high focus on countries with a strong credit rating. It is also worth mentioning the 19 per cent share of domestic counterparties.

Table 14: Geographic comparison of EDC’s risk exposure (financing and insurance, excluding marketable securities)

<table>
<thead>
<tr>
<th>Country</th>
<th>EDC Concentration of Exposure by Country</th>
<th>Export of Goods, Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>23%</td>
<td>80%</td>
</tr>
<tr>
<td>Canada</td>
<td>20%</td>
<td>N/A</td>
</tr>
<tr>
<td>UK</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Mexico</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>India</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Australia</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Chile</td>
<td>3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>China</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>27%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Source: EDC data, Government of Canada Trade Statistics
The breakdown of EDC’s domestic portfolio across various products is shown in Table 15.

<table>
<thead>
<tr>
<th>Program risk type</th>
<th>Notional exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit insurance</td>
<td>1,816.3</td>
</tr>
<tr>
<td>Contract insurance and bonding</td>
<td>6,749.2</td>
</tr>
<tr>
<td>Commercial loans</td>
<td>11,369.3</td>
</tr>
<tr>
<td>Financial institutions insurance</td>
<td>246.5</td>
</tr>
<tr>
<td>Investments</td>
<td>954.6</td>
</tr>
<tr>
<td>Marketable securities and derivatives</td>
<td>724.1</td>
</tr>
<tr>
<td>Reinsurance counterparty</td>
<td>305.5</td>
</tr>
<tr>
<td>Grand total</td>
<td>22,165.4</td>
</tr>
</tbody>
</table>

Figure 22: Examples of ECA Exposures by Region

In terms of other ECAs, country and industry sector risks are also an element of portfolio management. For example, SACE’s guarantee exposure appears equally distributed in terms of regions but with a focus on emerging markets, given the Italian ECA’s nature as a government export promotion institution. US EXIM’s regional exposure is diversified across the globe. The Australian ECA (EFIC) supports exports around the world with Asia as the top overseas region, in line with the Australian government’s regional priorities. Euler Hermes’s portfolio is also relatively diversified with transactions across a broad range of emerging economies and developing countries.

On the other hand, ECA portfolios particularly in smaller economies can be dominated by a limited number of markets and a small number of sectors. OECD countries and a few industries, such as energy or shipping are dominant, in the case of for EKF in Denmark, EKN in Sweden, Finnvera in Finland and GIEK in Norway.
Other ECAs have significantly less domestic exposure than EDC as their focus is on taking foreign risks on behalf of national companies. They may assume some domestic risk through the provision of specific transactions working capital guarantees, but do not have the breadth of product offering for domestic sales. In some cases, other agencies with the government system provides this support.

The Canadian Manufacturers and Exporters Association (CME) in their submission noted the difference in risk appetite between EDC as Canada’s ECA and other countries’ ECAs that their members experienced and that they felt EDC’s capacity was falling behind the G7 standard. This is evidenced by Figure 22 above, which shows US and Italy both more heavily exposed in non-OECD markets.

3.4.3 Discussion and Analysis

For EDC’s trade facilitation program, those Canadian companies that had transactions that EDC was able to support are naturally satisfied with EDC’s risk appetite. However, as discussed below, interviews with a number of exporters pointed to shortcomings in EDC’s risk appetite. They expected that EDC should be able to stretch on accepting lower credit quality on occasion, offer longer repayment terms and more competitive pricing, and be truly open for business in more jurisdictions (such as Argentina, Russia or Ukraine). This is further underscored by the low-risk nature of EDC’s portfolio compared to commercial banks and other ECAs.

EDC’s trade facilitation program is focused on serving Canadian companies trading with better-rated buyers and buying countries. Important emerging markets are not as well-served by EDC compared to their OECD counterparts. Exporters have expressed concern about EDC’s lack of focus on traditional ECA business, i.e. provision of medium and long-term guarantees to banks that fund export transactions.

“….. For a range of reasons, EDC is lagging behind other ECAs in its support to Canadian business, making Canadian companies less competitive on these markets. Many companies are confident that they have lost significant business because of the lack of suitable financial tools required to develop business in these challenging but potentially fruitful markets. Emerging markets will continue to be the main source of international economic growth in the coming decade, including countries of the region we cover. It would be important to help Canadian companies position themselves now in order not to lose future opportunities.”

Canada Eurasia Russia Business Association submission

Regarding EDC’s trade creation program, EDC is focusing its pull facilities on potential buyers whose credit ratings are relatively strong. If there is an established/potential Canadian intervention in the supply chain, higher credit risks can be taken. These rules are part of EDC’s pull strategy in which EDC is providing finance to foreign buyers in order to increase the probability of getting Canadian exporters into...
the related supply chain. However, for certain emerging markets with weaker credit ratings, the establishment of the pull strategy is not part of EDC’s strategy.

The approach to the pull strategy appears to be driven in part by credit risk requirements. A foreign buyer that has a strong credit rating has a much better possibility to find attractive funding from a wide range of financial institutions. A foreign buyer that is unrated or does not have a strong credit rating has a much weaker bargaining position and could be forced to accept an offer that comes with financing, specifically because of the reluctance of financing partners to take the credit risk.

EDC is not willing to jeopardize its financial sustainability by taking high credit risks for uncertain prospects, or potentially “failed pulls”. A more balanced approach – weighing the probability of landing an export contract versus credit risk considerations – might contribute to fostering Canadian exports, especially considering that EDC has a very strong capital position. EDC is also expected to grow exports and serve underrepresented groups while addressing market gaps. These priorities must also be considered rather than maximizing profits and/or shareholder value.

### 3.4.4 Conclusions

**EDC is not meeting some exporters’ expectations of a stronger appetite for risk, notably involving transactions below investment grade, and in emerging and high-risk markets.** Exporters raised concerns that EDC does not have an appetite for risk beyond the investment-grade credit that is widely available in financial markets. Taking on more risk is an opportunity for EDC to more actively promote the government’s trade diversification agenda. However, EDC would face stiffer competition from other export credit agencies in emerging markets, so ensuring a level playing field through a stronger risk appetite will be critical.

**EDC is risk averse compared to its peers, including private sector lenders and insurers.** Despite its strong capital base, EDC’s exposure to non-investment grade risks of 60% of its FY 2017 credit risk is comparable to Canadian commercial banks and lower relative to other OECD export credit agencies.

### 3.5 Capital Management

#### 3.5.1 Issue

A method to assess an institution’s risk appetite is the relationship between economic capital (demand for capital) and available capital (supply of capital). This section examines the Corporation’s capital adequacy compared to the Corporation’s capital needs.

As a Crown Corporation, EDC’s capital – the initial equity that was injected in EDC at its inception, the additional capital injections over time, the reserves that have built up over time, minus the dividends that have been paid to the owner – is 100 per cent owned by the Government of Canada.

“Exporters find, especially in emerging markets, that EDC’s offering don’t meet the standards of other G7 export credit agencies. As a result, EDC should consider increasing its finance thresholds in those markets to better compete.”

*CME submission*
The Government's Capital and Dividend Policy Framework for Financial Crown Corporations states that it stands prepared to inject capital into a Financial Crown Corporation should it be demonstrated that additional capital is needed to deliver on the corporation’s public policy mandate. Over the years, EDC’s business has resulted in significant net profits, leading to an accumulation in equity, some of which is paid to the shareholder in dividends.

3.5.2 Approaches of other ECAs and Private Sector Financial Institutions
Compared with other ECAs, EDC’s capital position is very different. While many ECAs have different institutional arrangements, a comparison of EDC with similarly structured ECAs is more appropriate. Finnvera, for example, is fully backed by the Government of Finland but is limited by the size of its balance sheet and faces high concentration risks.

Most financial institutions make strategic decisions with capital implications as a factor. Strategic decisions about use of capital would normally be a discipline imposed by shareholders. Financial institutions naturally face useful tensions to make smart strategic decisions about the best use of capital when capital is constrained.

3.5.3 Discussion and Analysis
During the 2008-09 Global Financial Crisis, the government provided EDC with an injection of capital, sending a message to financial markets and Canadian exporters that EDC risk management services were available. EDC’s capital supply has since met the expected capital demand, and EDC has faced a growing capital surplus. At the end of 2017, EDC had capital of $10.04 billion according to its 2017 Annual Report. Based on its capital management framework, the level of capital EDC targets to hold from an economic perspective to attain an AA rating is $5.2 billion. Therefore, to achieve a stand-alone AA rating, here is a capital surplus of $4.86 billion. In fact, EDC holds more than sufficient capital for a stand-alone AAA rating.

EDC is measuring its internal capital adequacy via a documented internal capital adequacy assessment process (ICAAP). According to this document, the aim of the ICAAP is to ensure that adequate capital is held against all material risks, and that capital remains adequate not just at a point in time, but over time, to account for changes in EDC’s strategic direction, evolving economic conditions, and volatility in the financial environment.

The demand for capital (or economic capital) is quantified on the basis of the following components of the risk taxonomy:

![Figure 23: EDC’s Components of Risk](image)

Based on the information detailed in EDC’s corporate plan 2018-2022, this excessive capital situation is expected to remain over the coming period, albeit at a lower level, as illustrated by the following table.
Table 16: EDC’s Capital by Risk Component ($ mn)

<table>
<thead>
<tr>
<th>Risk Component ($ million)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Risk</td>
<td>2,825</td>
<td>3,669</td>
<td>3,951</td>
<td>4,373</td>
<td>4,840</td>
<td>5,352</td>
</tr>
<tr>
<td>Market Risk</td>
<td>930</td>
<td>976</td>
<td>865</td>
<td>881</td>
<td>863</td>
<td>878</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>246</td>
<td>238</td>
<td>238</td>
<td>238</td>
<td>238</td>
<td>238</td>
</tr>
<tr>
<td><strong>Pillar 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Risk</td>
<td>400</td>
<td>488</td>
<td>505</td>
<td>549</td>
<td>594</td>
<td>647</td>
</tr>
<tr>
<td>Pension Plan Risk</td>
<td>492</td>
<td>492</td>
<td>492</td>
<td>492</td>
<td>492</td>
<td>492</td>
</tr>
<tr>
<td>Strategic Initiatives</td>
<td>300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Capital Demand</strong></td>
<td>5,193</td>
<td>5,863</td>
<td>6,051</td>
<td>6,533</td>
<td>7,027</td>
<td>7,607</td>
</tr>
<tr>
<td><strong>Total Supply of Capital</strong></td>
<td>10,040</td>
<td>10,353</td>
<td>10,424</td>
<td>10,448</td>
<td>10,560</td>
<td>10,785</td>
</tr>
<tr>
<td><strong>Capital Surplus (Deficit)</strong></td>
<td>4,847</td>
<td>4,490</td>
<td>4,373</td>
<td>3,915</td>
<td>3,533</td>
<td>3,178</td>
</tr>
<tr>
<td><strong>Implied Rating</strong></td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
</tbody>
</table>

Source: 2017 Annual Report; Corporate Plan 2018-2022

Economic capital is the amount of risk capital that a bank or financial institution estimates is required in order to remain solvent at a given confidence level and time horizon. The time horizon is usually set at one year and corresponds with the typical time frame during which recapitalization decisions (in case of heavy losses) are taken by shareholders. The confidence interval can be seen as the intensity of the adverse economic scenario; the heavier the shock, the higher the economic capital requirement.

When expressed in terms of target credit ratings, financial institutions with a capital base that is able to withstand heavy shocks deserve a higher stand-alone credit rating than those with a weaker capital base and a similar risk profile.

For example, a financial institution that is looking to be assigned a AAA rating has to apply an adverse shock of 99.99 per cent, which implies there is only once every 10,000 years that its level of capital would be insufficient to withstand this shock.

Conversely, a financial institution that is targeting a BB- rating would apply a 97.90 per cent confidence interval, and would require sufficient capital to withstand 9,790 times out of 10,000 possible scenarios.

EDC’s implied rating is equivalent to a strong AAA rating. It is understandable that a government-owned financial institution wants to have a credible capital position, as a lack of capital and liquidity would not only cause operational issues in case of unexpected losses, but would also be ill-perceived by its customers and counterparties.

Nevertheless, EDC’s calculations of economic capital are conservative for all risk domains, based on estimates prepared for this Review. Therefore, under a more realistic scenario, the demand for capital is lower than that estimated by EDC in its Annual Report.

EDC calculates one version for its capital demand, which is a scenario built upon the AA confidence interval. EDC is not calculating the capital demand for the other ratings, which – considering the (much) lower confidence intervals by virtue of the lower credit ratings in this BBB/AA range – would result in a lower demand for capital and thus a larger capital surplus. The lower the target ratings, the lower the demand for capital. It is not clear why EDC is not showing the results for the other target ratings mentioned in its Capital Policy.
Even with this conservative calculation, EDC has a very large capital surplus, which – if translated into target credit ratings – would be conducive to the assignment of an implied AAA rating.

The Capital and Dividend Policy Framework of the Government promises that the Government will ensure financial Crown corporations have sufficient capital to deliver on the corporation's public policy mandate, and notes that capital in excess of required capital should be returned to the shareholder in the form of dividends over the course of the planning horizon. According to the FAA (Section 130.1), “…Crown Corporation shall annually submit a dividend proposal to the appropriate minister as part of its corporate plan...” and the Governor in Council “may prescribe, waive or vary the dividends to be paid by any parent Crown corporation...”

EDC paid dividends of $786 million in 2017 and $500 million in 2016, and the Corporate Plan forecasts continued capital surpluses and dividend payments over the planning period. EDC’s 2018-2022 Corporate Plan shows excess capital ranging between $3.2 billion and $4.5 billion.

3.5.4 Conclusions

EDC’s calculations show that it has more capital than it needs. Its capital of $10.04 billion in 2017 was some $4.87 billion more than its needs, based on EDC’s calculation of its business risks. These calculations themselves are based on a very conservative approach.

EDC’s capital surplus suggests there is significant scope for it to take more risk. The amount of excess capital corroborates concerns that EDC is too risk averse and should be supporting a wider range of deals.

The Government’s capital and dividend policy requires Crown corporations to return capital to the shareholder that is in excess of required capital over the course of the planning horizon. The planning horizon for EDC’s corporate plan is five years. Its 2018 plan indicates excess capital between 2018 and 2022 of between $3.2 billion and $4.5 billion.
CHAPTER 4: EDC’S PRODUCTS
4.1 Introduction

Canadian companies rely on a variety of financial services when doing business internationally. Access to sufficient and competitively-priced financial services is critical to success in international trade and investment. EDC is an important source of insurance and financing in support of Canadian export trade.

EDC offers insurance, lending, bonding products, small business solutions, trade knowledge, as well as support to Canadian direct investments and investments into Canada.

Its core insurance and financial services are currently structured according to their purpose as shown in Table 17.

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Key Product Options</th>
<th>Key Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing risks</td>
<td>EDC Select Credit Insurance</td>
<td>Single buyer insurance of export sale (90% cover)</td>
</tr>
<tr>
<td></td>
<td>EDC Portfolio Credit Insurance</td>
<td>Whole turnover insurance of a company’s accounts receivables (90% cover)</td>
</tr>
<tr>
<td></td>
<td>Political Risk Insurance</td>
<td>Insurance of Canadian Direct Investments Abroad on losses due to political risk (90% cover)</td>
</tr>
<tr>
<td></td>
<td>Performance Security Insurance</td>
<td>Insurance against losses from a letter of guarantee being called wrongfully or because Canadian exporter was not able to meet its obligations due to political risks (95% of insured losses)</td>
</tr>
<tr>
<td>Securing financing</td>
<td>Buyer Financing</td>
<td>Financing provided to an international buyer in connection with an export transaction.</td>
</tr>
<tr>
<td></td>
<td>Direct Lending</td>
<td>Secured loans directed at international expansion of Canadian companies or their foreign affiliates</td>
</tr>
<tr>
<td></td>
<td>Structured and Project Financing</td>
<td>Limited recourse financing of long-term, capital intensive projects</td>
</tr>
<tr>
<td>Growing working capital</td>
<td>Export Guarantee Program</td>
<td>Working capital guarantee to the financial institution of the exporter to improve exporter’s access to finance</td>
</tr>
<tr>
<td></td>
<td>Account Performance Security Guarantee</td>
<td>100% guarantee to financial institution to limit exporter’s collateral requirement for the issuance of letters of guarantee</td>
</tr>
<tr>
<td></td>
<td>Foreign Exchange Facility Guarantee</td>
<td>Cover for foreign exchange derivative contracts</td>
</tr>
<tr>
<td></td>
<td>Surety Bond Insurance</td>
<td>Used by exporters primarily to guarantee their contract performance bonds. Helps exporters to grow their bonding capacity</td>
</tr>
</tbody>
</table>

Source: Developed for this Report

Apart from the core suite of ECA products, EDC also seeks to use its international network to generate business opportunities for Canadian companies through its pull facility.

Similar to the pull program, EDC also uses protocol transactions to create trade with Canadian companies as well as foreign direct investments into Canada. In this case, financing is offered to multinational companies that already have an economic footprint in Canada. The objective of the protocol transaction is to increase the multinational company’s involvement with Canada by either increasing procurement from Canada or investing in Canada through the opening of new facilities or expansion of production capacities.
Additionally, EDC acts as an investor by providing **direct venture and growth capital investments** to Canadian late-stage start-ups or established small and medium-sized entities. Investments are also made abroad to strengthen Canadian business relations with international markets. EDC can either invest directly or through funds.

### 4.2 Credit Insurance

Credit insurance is the main insurance offering of EDC and it covers the risk of non-payment by buyers. Export credit insurance covers foreign buyers, and domestic credit insurance covers buyers based in Canada. According to the submission from Euler-Hermes, the largest global credit insurer, credit insurance globally is a well-developed industry dominated by three global players: Euler Hermes (35 per cent of global market share), Coface (18 per cent) and Atradius (24 per cent).

#### 4.2.1 Issue

In terms of gross written premiums, the Canadian export credit insurance market grew by 20 per cent between 2008 and 2017, compared to Canadian export growth of 32 per cent. By comparison, members of the International Credit Insurance and Surety Association ("ICISA") saw premium income grow by just less than 15 per cent during this period.

There were 12 market players in the Canadian market in 2017, with $244.7 million of gross written premium. While EDC’s total market share had declined to 43.5 per cent, it remains the largest player at more than double the size of the second insurer.

**Figure 24: 2017 Premiums and Market Share**

![Market Share: Total](image1)

![Market Share: Export](image2)

![Market Share: Domestic](image3)

Source: Receivables Insurance Association of Canada, via Euler Hermes submission
EDC does not take domestic credit risk. Instead, EDC has a relationship with Coface where Coface assumes the domestic credit risk for EDC export credit insurance clients. EDC recently re-negotiated a new arrangement with Coface, under which domestic underwriting decisions are delegated to EDC, within constraints.

The concept of a single policy covering both domestic and international buyers has benefited Canadian companies, which are not required to purchase two separate policies for their international and domestic buyers. However, the arrangement with Coface is structured such that it could only be expanded to other partners in 2021, so the other private insurers feel there has been unfair treatment.

EDC’s credit insurance program served more than 4,700 customers in 2017, of which approximately 85 per cent of which were SMEs. EDC’s involvement represents more than 50 per cent of the actual credit insurance policies issued in Canada as depicted in Table 18.

<table>
<thead>
<tr>
<th>Organization</th>
<th># of Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDC</td>
<td>3510</td>
</tr>
<tr>
<td>Euler Hermes</td>
<td>925</td>
</tr>
<tr>
<td>COFACE</td>
<td>1559</td>
</tr>
<tr>
<td>AIG</td>
<td>112</td>
</tr>
<tr>
<td>Atradius</td>
<td>199</td>
</tr>
<tr>
<td>Red Rock</td>
<td>79</td>
</tr>
<tr>
<td>GCNA</td>
<td>130</td>
</tr>
<tr>
<td>Zurich</td>
<td>0</td>
</tr>
<tr>
<td>Allied World</td>
<td>5</td>
</tr>
<tr>
<td>Great American Insurance</td>
<td>5</td>
</tr>
<tr>
<td>XL Speciality (XL Caitlin)</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
<td>N/A</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6536</td>
</tr>
</tbody>
</table>

Source: Receivables Insurance Association of Canada, via Euler Hermes submission

In comparison with 2017, there were seven main players in the Canadian market in 2008, with total gross written premium of $186.6 million. EDC had 52 per cent of the total market share of both export and domestic risks in 2008 as shown in Figure 25.

**Figure 25: 2008 Premiums and Market Share**

Source: Receivables Insurance Association of Canada, via Euler Hermes submission
EDC’s credit insurance business can be broken down in greater detail in a number of ways.

Geographically, the U.S. market represents by far its largest 2017 exposure at nearly $4.8 billion, or 51 per cent of total exposure. This percentage is far below the Canadian share of total exports to the U.S., at around 70 per cent, which indicates that EDC’s geographic distribution of credit risk exposure is more diversified than actual Canadian trade. It may also indicate that buyers in the U.S. market are perceived as relatively less risky by EDC’s clients; and/or that there is greater use of cash sales to buyers in a well-known neighbouring market, hence less client demand for credit insurance coverage on U.S. buyers. Brazil, China, the U.K. and Mexico make up the balance of the top five geographic markets, each with exposures of roughly 3 to 5 per cent of EDC’s credit insurance book.

**Figure 26: Geographic Breakdown of EDC’s Credit Insurance Book (in $ millions)**

In terms of exposure by sector, the mining sector leads the way with over $2.1 billion or 23 per cent of total exposure. Among sectors with exposure greater than $1 billion, resources are second, at $1.7 billion or 19 per cent of total exposure, followed by light manufacturing, surface transportation and infrastructure. Financial institutions is the only services sector on the list, consistent with the relatively small (but rising) share of services in Canadian exports.
EDC’s credit insurance book has the majority of its credit limits focused on investment grade buyers (BBB+ and better), which represent credit risks the private sector would generally take.

Table 19: EDC’s Portfolio of Buyer Limits by Credit Rating

<table>
<thead>
<tr>
<th>Internal Risk level</th>
<th>S&amp;P Mapping</th>
<th>Outstanding Buyer Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>AAA to A-</td>
<td>35%</td>
</tr>
<tr>
<td>Moderate</td>
<td>BBB+ to BBB-</td>
<td>29%</td>
</tr>
<tr>
<td>Medium</td>
<td>BB+ to BB</td>
<td>15%</td>
</tr>
<tr>
<td>High</td>
<td>BB- to B-</td>
<td>17%</td>
</tr>
<tr>
<td>Priority Watch</td>
<td>CCC to D</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: EDC’s Annual Report 2017

There is no financial information publicly available on the overall performance of EDC’s credit insurance business. EDC is not bound by the same reporting requirements from the Office of the Superintendent of Financial Institutions (OSFI) as the private credit insurers. This means that premium income can be determined, but the actual costs of running the credit insurance program (both direct and indirect) and the capital underpinning it are not separated out from EDC’s overall financial results. These data are important for policy makers in government, as well as for the private sector competition.

Table 20: Technical Performance and Claims Ratio

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Insurance Premium</td>
<td>103</td>
<td>99</td>
<td>102</td>
<td>97</td>
</tr>
<tr>
<td>Net Incurred Claims</td>
<td>170</td>
<td>85</td>
<td>165</td>
<td>35</td>
</tr>
<tr>
<td>Claims Ratio</td>
<td>165%</td>
<td>86%</td>
<td>163%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: EDC’s Annual Report 2017
Table 20 shows EDC’s business results from the insurance operations. EDC’s claims ratio was 165 per cent for 2017, while the private sector’s claims ratio for 2017 was considerably lower (less than 60 per cent in most cases, based on the information provided in the Euler Hermes Submission). EDC seeks to have a claims ratio of around 50 per cent on a seven-year basis. It is not unusual to have claims ratios which are volatile year over year, given the cyclical nature of credit insurance. Claims can come in clusters (such as US retail bankruptcies in 2017). Claims ratios need to be looked at over a number of years, which also allows for the possibility of those claims paid in one year having recovery prospects in a future year. The fact that EDC’s one-year claims ratio is higher than other insurers does not necessarily mean that it is taking more risk than the private sector.

4.2.2 Approaches of other ECAs
EDC is one of a few institutions within the leading group of ECAs involved in short-term credit insurance. Many other OECD ECAs report much lower levels of new commitments or have largely left the credit insurance market in their country to the private sector. In Europe, the ECAs must follow the European Commission’s directive against state-support of short-term “marketable risks” so consequently European countries see much a greater portion of the business undertaken by the private insurers. EDC’s short-term credit insurance commitments place it third among ECAs, behind Sinosure of China and K-sure of South Korea, and just ahead of Japan’s NEXI and ECGC of India. Other prominent ECAs providing substantial short-term facilities include Russia’s Exiar, Euler Hermes in Germany, Italy’s SACE and Bpifrance. EFIC, due the competitive neutrality policy imposed by the government, privatized its short-term business in the early 2000s.

Table 21: Volumes of Official Short-term Export Credit (In billions USD)

<table>
<thead>
<tr>
<th>ECA (Country)</th>
<th>New Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Sinosure (China)</td>
<td>375.2</td>
</tr>
<tr>
<td>K-sure</td>
<td>124.7</td>
</tr>
<tr>
<td>EDC (Canada)</td>
<td>60.5</td>
</tr>
<tr>
<td>NEXI (Japan)</td>
<td>52.9</td>
</tr>
<tr>
<td>ECGC (India)</td>
<td>39.8</td>
</tr>
<tr>
<td>EXIAR (Russia)</td>
<td>8.2</td>
</tr>
<tr>
<td>Euler Hermes (Germany)</td>
<td>12.0</td>
</tr>
<tr>
<td>EXIM (United States)</td>
<td>3.7</td>
</tr>
<tr>
<td>SACE (Italy)</td>
<td>2.2</td>
</tr>
<tr>
<td>Bpifrance (France)</td>
<td>0.6</td>
</tr>
<tr>
<td>UKEF (United Kingdom)</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: US EXIM

4.2.3 Discussion and Analysis
Input was received from the Insurance Bureau of Canada (IBC), private insurers, a number of specialist brokers and, critically, Canadian companies about EDC’s role in the credit insurance market.

Exporters
EDC’s credit insurance clients were generally pleased with EDC’s service. Exporters like the role EDC plays in bringing competition and more choice to the credit insurance market. They positively noted EDC’s deeper risk appetite in emerging markets and with specific buyers, and higher levels of cover for single buyer credit insurance. Some EDC clients consulted have used private credit insurance cover but
preferred to use it as a supplement to EDC’s core credit insurance offerings, which they judge to be of superior quality.

**Private sector insurers**

In the view of the private sector, EDC competes unfairly in the Canadian credit insurance market. It pays no income tax, relies on the Government of Canada’s AAA credit rating for borrowing, does not release transparent credit insurance financial results. EDC’s sales force is not licenced, whereas brokers and private credit insurers must be licensed to sell insurance. By virtue of the Bank Act and the Insurance Business (Banks and Bank Holding Companies) Regulations, banks cannot promote an insurance policy unless the policy is of an “authorized type of insurance”, which includes “export credit insurance”. The private insurers provide “comprehensive credit insurance” and note that OSFI has ruled that banks cannot promote a comprehensive credit insurance policy. Banks therefore believe that they can only refer export credit insurance business to EDC and not to other credit insurers, which has the effect of putting EDC in a privileged position. In the view of the private insurance sector, these factors create an unfair competitive advantage for EDC and their view was that placing EDC’s credit insurance business into a subsidiary might create better transparency and accountability.

**Brokers**

Brokers did not agree with the argument that EDC is crowding out private credit insurers. They noted the overall Canadian credit insurance market has grown, with new market entrants. The Big 3 credit insurers (Euler-Hermes, Coface and Atradius) have been consolidating globally while expanding in Canada over many years where they have captured 42 per cent of market share, an amount no greater than in 2008.

Brokers cited many positives. EDC provides cover through the business cycle, most critically during the 2008-09 financial crisis when it stepped into market gaps left by private insurers’ withdrawal from the market. It has a healthy risk appetite, especially in developing markets, and often has higher buyer limits and better coverage ratios. Brokers said EDC’s claims process is efficient and it pays claims. EDC is able to service small accounts, but more flexibility is still desirable. They found EDC to be sufficiently transparent on its credit insurance business, via reporting from the Receivables Insurance Association of Canada (RIAC).

Brokers said EDC takes more risk than the private insurers and should continue to do so, not acting like a private insurer. Private credit insurers principally compete based on price; EDC is usually more expensive, although its prices have dropped as the long period of sustained growth business cycle continues.

4.2.4 **Conclusions**

*EDC played a critical role during the global financial crisis of 2008-09, continuing to write business even as private insurers cut back dramatically.* This point was underscored by other credit insurers, brokers and exporters. EDC’s supplementary insurance ensured that the impact of the crisis was softened as
other insurers withdrew from large segments of the market.

**EDC operates in a vibrant Canadian credit insurance market, with a declining market share.** Its market share (by premium volume) has fallen steadily from 100 per cent in the 1980s to roughly 52 per cent at the time of the last review, and 43 per cent today. However, it still accounts for 73 per cent of the export credit insurance market.

**EDC brings important elements to the export credit insurance market, giving exporters more choices.** There are thus compelling public policy reasons for EDC to keep operating in a competitive export credit insurance market in Canada. It brings risk appetite and staying power to the market. For buyers in emerging markets in particular, EDC often offers higher credit limits and better coverage throughout the business cycle.

**Private insurers would prefer EDC to step away as prime insurer and play a more complementary role.** They suggested that EDC could act as a reinsurer rather than a direct export credit insurance provider, to help build market capacity. However, such a role may not be sufficient to maintain coverage through the business cycle, especially if EDC is not regularly active in the market as a direct provider. Brokers indicated their preference, on behalf of their clients, that EDC stay active in the competitive export credit insurance market. The overall Canadian credit insurance market has grown in volume, and EDC is aware of the importance of limiting its market share to provide market space and avoid crowding out private insurers.

**EDC enjoys a competitive advantage with referrals thanks to its privileged position under the Bank Act and the Insurance Regulations.** EDC is only providing export credit insurance (although in partnership with Coface offers a single policy covering both export and domestic risks to the client). Therefore, unlike the private insurers which offer comprehensive cover, many banks refer business only to EDC when requesting collateral. This gives EDC greater access to new business, than what is available to private credit insurers. This implies that EDC has lower operational and administrative expenses, as it benefits from the wide distribution network of the commercial banks.

**The export credit insurance business in Canada has not grown as fast as Canada’s exports, but has grown faster than most other parts of the world.** The Canadian export credit insurance market grew by 20 per cent between 2008 and 2017, whereas Canadian exports expanded by 32 per cent. Private insurers claim that the active presence of EDC in the market has caused them to withhold investments compared to other business segments. However, based on International Credit Insurance and Surety Association figures, premium income has grown faster in Canada than globally.

**There is no evidence that EDC is undercutting premium rates offered by the private sector.** Input from the Insurance Bureau of Canada and credit insurance players indicates that EDC has competitive advantages. However, no concerns have been raised that EDC may be under-cutting private insurers, and EDC maintains that it takes care to ensure that its prices are not lower than the competition, notwithstanding its lower cost of borrowing. This may avoid price distortion, but it could also help justify a stronger appetite for risk. Even so, some concerns have been expressed that EDC is using its full suite of products to attract customers away from private insurers and brokered insurance business.

**EDC’s credit insurance results lack transparency compared to private insurers.** Private insurers are
subject to reporting requirements set by the Office of the Superintendent of Financial Institutions. The 2008 Legislative Review highlighted this difference, and proposed that EDC’s reporting should also comply with regulatory requirements for insurance companies. While EDC reports its business results to the Receivables Insurance Association of Canada, EDC does not track profitability of its credit insurance business as it does not allocate specific costs to the program.

*The current cooperation model in the domestic credit insurance market may limit consumers’ choice.* EDC established a relationship with Coface where Coface assumes the domestic credit risk for EDC’s export credit insurance clients. The rationale for EDC having only one credit insurer on the domestic program needs further consideration. The arrangement with Coface was renegotiated in summer of 2018 before the Legislative Review, without opening up this market to other insurers. Private insurers and brokers have suggested using a more open and transparent auction market for EDC’s domestic credit insurance business. This would allow private sector insurers to work with brokers to bid on the domestic business based on price, cover, service, claims payment record and other factors.

*EDC’s claims experience in the credit insurance business is in line with other insurers’ experience.* EDC’s loss ratio needs to be calculated over a number of years, as a single year’s claims are not an accurate reflection of long-term performance. EDC states in its annual report that it has a target claims ratio of 50 per cent, which seems in line with private insurers’ credit risk profile. Its portfolio is conservative, tilted towards investment-grade buyers, and the typical risk profile of EDC customers would certainly be viewed as conservative by commercial credit insurers.

### 4.3 Bonding and Guarantees

#### 4.3.1 Issue

The construction industry has significant working capital needs. In the first instance, for companies to be able to bid on projects and assure the project sponsors that they can meet contractual obligations, they must provide bid bonds from either a surety company or a Stand-By Letter of Credit/Letter of Guarantee from their bank. There are additional bonding requirements throughout the life of the project, such as advance payment bonds, performance bonds or warranty bonds. These requirements can tie up an important share of construction firms’ balance sheets on current projects, their project pipeline and new bids, or use a significant portion of their credit lines with banks.

#### 4.3.2 Discussion and Analysis

Following the 2008-09 Global Financial Crisis, construction opportunities were reduced in many international markets due in large part to fiscal austerity. Meanwhile, competition in the domestic construction market has intensified as more international firms enter the Canadian market. The construction industry in Canada believes that these international firms often have the support of their home ECA.

Companies wishing to compete on these projects need to provide performance security, either in the form of bank instruments or surety bonds. Demand for Stand-by Letters of Credit (LCs) and/or surety bonds is driven by the end customer – the project sponsor – and by project lenders, to satisfy their performance security requirements. The ability of contractors to provide these instruments depends on the strength of their balance sheet.
Use of Public-Private Partnerships, or the P3 model, is growing for project development internationally and in Canada. On P3 projects, the Canadian construction industry stated that their customers and lenders increasingly prefer Stand-By LCs as the dominant form of performance security. In terms of P3 projects specifically, the types of companies that tend to win domestic projects under the P3 model are larger by nature. To compete effectively, liquid instruments are needed by Canadian construction firms in the domestic Public-Private Partnerships (P3) market for “social” projects like health care and education facilities, and in large domestic infrastructure projects. Under the infrastructure legislation in Ontario, for example, there have been increasing financial requirements for firms who wish to bid.

Canada has a significant private surety market for international and domestic projects, with a variety of bond instruments. The private surety market has developed more liquid bonds with many of the characteristics of Stand-By LCs, but they are not seen as fully liquid by contractors and banks. This is because it can take days to unlock the requisite liquidity, which contractors said is not sufficient to meet the expectations of project sponsors and financial institutions.

EDC supports Canadian contractors delivering construction projects through its Contract Insurance and Bonding (CIB) program. EDC provided CIB support to nearly 1,100 customers in 2017. Nearly 700 customers are served by a Performance Security Guarantee (PSG) which provides a 100% unconditional guarantee to a bank if there is a call on the bond. Approximately 75 per cent of all CIB customers were SMEs, but most of these were not involved in the construction or infrastructure sector. EDC is unable to disaggregate domestic business from international business as their risk exposure is on the Canadian contractor, whether bidding on a project in Canada or abroad.

EDC can support Canadian contractors with their PSG product in domestic contracts, if the contractor has more than 50 per cent of overall sales being from export markets. There is no other government agency in Canada with this sort of competency to support this need domestically. For example, the new Canada Infrastructure Bank works on behalf of the project sponsor to create conditions to attract private capital; this need for surety support is on the side of the Canadian contractors, delivering on the construction of the project.

In 2014, new regulations came into force that had the effect of requiring EDC to regularly seek the authorization of the Minister of Finance and the Minister of International Trade Diversification (“Ministerial Authorization”) to offer support for domestic P3 projects to companies with less than 50 per cent export sales. These authorizations have been sought and received on several occasions and, since 2014, EDC has provided through Ministerial Authorization more than $780 million of PSG support for five contractors involved in over 25 Canadian P3 projects. These transactions are assessed on a case-by-case basis taking into account the business and competitive circumstances.

In the consultations, cases were mentioned of Canadian construction companies competing against another Canadian construction company, one with EDC backing and another without.

**Canadian contractors**
From the perspective of the construction industry in Canada, EDC has played an important role in supporting the domestic construction market, providing a level playing field. Canadian companies are seeking access to competitive products and services internationally and at home, and expressed that in the first instance from private bonding and surety companies. If there is insufficient or inadequate supply available and/or uncompetitive pricing, government-backed solutions can be considered.
Construction firms need access to LCs or surety products, particularly liquidity bonds, to be able to compete in the overall construction market internationally, in the domestic “social” P3 market (largely provincial – hospitals, schools, etc.), and in large domestic infrastructure projects. In their view, the private surety market is evolving, but has not stepped up adequately by providing liquidity bonds that fully meet the needs of the Canadian construction industry in all cases. Sureties are trying to mimic LCs through liquid bonds, but these instruments are not yet fully accepted as equal to an LC issued by banks.

Canadian construction firms and banks highly value EDC’s active role in provision of PSG for P3s, infrastructure and other projects. They stated that EDC provides liquid security capacity that construction firms and financial institutions indicate is not comparable to what is available in the private surety market, and is a pre-requisite to participation in these projects. Canadian contractors would like EDC to stay fully engaged in the domestic space, with authorization for a well-defined period of time. That would allow them to enter into the multi-year (and expensive) cycle of prequalifying for, and bidding on, P3 and other projects, domestically and internationally.

The 50 per cent export pre-condition to receiving EDC’s PSG support for transactions with no international market connection is considered by some companies to be a barrier to entry for smaller firms with small transactions, which have less access to working capital to post bonds and are often less attractive to private surety market players due to the smaller revenue they generate, often while incurring costs similar to larger transactions.

Smaller contractors emphasized that access to domestic surety has narrowed and only general
contractors that had already established access to cover from EDC continue to have access. They recommend all Canadian contractors be given access. It was also stated the 50 per cent export rule is hampering SMEs in particular from accessing EDC cover for domestic LCs and surety products. EDC assures that smaller companies in fact do have access to the same support available to larger companies but that the domestic P3 market is mostly served by larger companies. The issue, however, is smaller construction companies are more inherently domestic and therefore would be less likely to meet the export sales test of 50 per cent. Moreover, smaller companies have access to Ministerial authorization so it is not a barrier per se, but rather an extra requirement to ensure Ministerial accountability and process.

Construction industry companies have an excellent relationship with EDC, but are seeking confirmation of long-term program certainty, and a surety strategy for their long-term success. A clear process that assures ongoing access to domestic surety coverage from EDC, particularly for liquidity bonds, is considered by them as critical to leveling the playing field domestically and to building construction industry export capacity.

**Surety Providers**

Private surety providers emphasized that the Canadian surety market is evolving, particular with respect to meeting the security requirements of domestic P3 projects. New hybrid instruments are emerging that are intended to meet the needs of project stakeholders by seeking to match the liquidity feature of a Stand-By LC.

Surety industry players noted EDC’s domestic powers were expanded during the Global Financial Crisis which was important to keep the market active. In 2014, the domestic regulations were changed to raise the export sales requirement from 15% to 50%. However, the surety industry notes that it has developed these new products and is now a more mature market. In their view, EDC is competing in PSG and other market segments, and displaces private market capacity. Lenders are used to and like EDC’s PSG product and often do not consider other options, and the same is true for rating agencies that rate the projects for financing. EDC has financial capacity that others cannot match, but if it pulled back, private players would step into the market. That said, while EDC could compete unfairly, it is making good underwriting decisions and has an effective risk review process.

The surety industry is interested in working with EDC as a reinsurer in the surety market internationally and in the domestic market. They are aware that foreign contractors often have better capacity to bid in Canada with the backing of their ECAs.

“In the wake of the significant dislocation caused by the worldwide credit crisis almost a decade ago, EDC has been able to play a key role working with sureties and their clients to help facilitate opportunities and, in many cases, assist them in expanding globally.....The current economic situation is markedly difference than that which existed in 2008 when EDC’s mandate was adjusted to respond to those unique market issues.”

Surety Association of Canada submission
The surety industry noted the difference between the ED Act and BDC’s legislation, where BDC is required to be complementary to the private market. EDC’s domestic regulations require complementarity on domestic surety. They prefer to see EDC as a complementary player and capacity builder, such as through a re-insurer role. EDC was recognized for playing an important role in backstopping domestic projects, notably P3s and infrastructure projects. But the surety industry believes new hybrid products are emerging that are similar to the liquid bonds preferred by construction firms, backstopped by EDC’s PSG. In their view, if these new products were given room to develop, they could have characteristics and produce results similar to EDC’s surety products.

Some industry members said it is time to let the private market develop as the first source of domestic surety. It was proposed that as a transition plan, existing projects in the domestic market could be grandfathered, thereby being eligible for EDC surety support as a first option. At an identified future date (such as six months from the policy being announced), a new regime could be introduced. EDC PSG would become a second option, to be used if the private surety market didn’t deliver a suitable solution (like hybrid liquid bonds for P3s). EDC could also be available to reinsure or share risk with private insurers in the domestic market, like they do with foreign projects.

**Banks**

Banks said EDC’s PSG, with a 100 per cent guarantee of client performance, was a high-quality product. They indicated EDC has good appetite in this area. Some banks said they only use EDC and have a strong relationship. This is not unexpected, given that banks are used to working with EDC across a range of product areas and EDC provides a AAA-rated product which is more favourable for banks in terms of capital impact.

**4.3.3 Conclusion**

**Stakeholders have differing views on EDC’s role in providing bonding and guarantee facilities for the construction industry.** Views differ on the ability of the private surety market to satisfy the expectations of Canadian construction firms, project sponsors, public-private partnerships and financial institutions, particularly on domestic projects. Canadian construction firms and their banks favour EDC’s active role, particularly its Performance Security Guarantee (PSG) product, and want it to continue. For the banks, this is not surprising given the quality of cover provided by an AAA-rated entity. The surety industry maintains that EDC can add value to the market by expanding its complementary role, and brokers could be used more extensively to develop new business. EDC could provide reinsurance for the surety market beyond private sector cover limits. Private sureties propose that EDC concentrate more on reinsurance to help develop market capacity, and less on direct business origination. The state of this debate within Canada is akin to that within the credit insurance market some decades ago, when EDC first entered the domestic credit insurance market.

**According to the construction industry, there is a need for EDC’s capacity to support the surety and bonding requirements for domestic projects.** EDC’s role in the domestic construction market drew considerable attention during the stakeholder consultation process. Its active role in domestic surety is highly valued by Canadian construction firms and banks for public-private partnerships, infrastructure and other projects. It provides liquidity and security that are not yet readily available in the private surety market, but which are essential for participation in these projects. In the view of construction exporters and financial institutions, the private market cannot yet provide a fully liquid bond, creating a market gap that EDC has filled.
**Private surety providers emphasize that the Canadian surety market is evolving, particularly in meeting the security requirements of domestic public-private partnerships.** New hybrid instruments are emerging that are intended to meet the needs of project stakeholders. In the view of private surety providers, the private market needs to have room to find the next best path without EDC involvement.

**Small and mid-sized contractors claim there is not a level playing field in terms of access to EDC domestic bonding and guarantee facilities.** According to the construction industry, requiring export sales of 50 per cent as a pre-condition for access to domestic cover from EDC creates a barrier to access for many Canadian contractors. Smaller contractors emphasized that only general contractors with established access continue to have access to domestic surety cover from EDC. For small businesses without a minimum 50 per cent of revenues from exports, there is the additional requirement of having to seek Ministerial authorization. However, they can still access EDC’s domestic program.

**If EDC’s domestic role in surety and bonding is to be altered, the changes need to be clearly assessed and defined, with a sufficient transition period to allow all players to adapt.** Canadian contractors contend that they need clarity and certainty on EDC’s role in the domestic surety market. They would like EDC to stay fully engaged, with authorization for a defined period of time, rather than case by case. Without the certainty of being able to provide the requisite performance security, construction firms said they would be unable to enter into the lengthy and expensive cycle of prequalifying for, and bidding on, public-private partnerships and other projects, domestically and internationally. A transition plan was suggested by a private surety provider that aimed at making EDC support for banks a second option for domestic projects, not a first choice, to be used if the private surety market does not deliver a suitable solution. EDC could also be more available to reinsure or share risk with private insurers on domestic projects, as it does beyond Canada’s borders.

**Stakeholders have identified the need for more frequent and regular federal government consultations on the surety market.** A message conveyed by the surety industry is that regular consultations with industry would help expand the Canadian surety market and make it more efficient. These consultations, possibly scheduled every two years, would be separate from the EDC review.

### 4.4 Financing

#### 4.4.1 Issue

EDC plays a central role in providing credit to buyers of Canadian exports, and in supporting and financing the capacity of Canadian companies to export. It is active both on its own and in collaboration with Canadian and international financial institutions. Market segments in which EDC interacts with the banks include exporter pre-shipment financing, foreign buyer financing for capital goods exports, project financing with Canadian supply and investment interests, and balance sheet financing for exporters. It also supports Canadian Direct Investment Abroad (CDIA).

The availability of private credit has recovered and improved since the 2008-2009 financial crisis. The trade-related financial services offerings from Canada’s private banking sector have evolved and expanded, and EDC has made considerable effort to strengthen its complementary relationship with Canadian banks.
When EDC provides financing, either in consortium with banks into large projects and corporate syndications, or on its own, it does so by direct lending. However, EDC also has the capacity to issue guarantees to lending banks.

EDC’s Export Guarantee Program (EGP) provides banks the ability to offer working capital solutions, mainly for SMEs, which may have insufficient collateral to be eligible for additional pre-shipment finance to meet export orders. In 2017, EDC provided EGP guarantees to banks in support of more than 1,500 exporters. The median size of a guarantee in the EGP portfolio was approximately $400,000, and 60 per cent of all guarantees were smaller than $500,000. Since 2008, EDC’s EGP demonstrated a strong growth performance as number of transactions as well as business facilitated both quadruplicated.

The mainstay of ECAs’ product offerings is buyer financing. EDC offers the overseas buyers of Canadian exporters competitive financing. As discussed below, the availability of a competitive guarantee for loans to foreign buyers is also critical, but EDC has limited activity in this area.

EDC also offers structured and project finance for those projects in which there are “benefits to Canada”. It also offers direct lending to Canadian companies, unlike many other ECAs.

EDC can also provide financing for domestic transactions under the defined conditions of its regulations. This regulatory authority can be used on an exceptional basis to fill gaps in domestic financial markets, as it was during the 2008-09 financial crisis.

4.4.2 Approaches of other ECAs

EDC is seen as a very good performer among ECAs in many areas, including its mandate, strategy and organization, as well as the growing network of international representations reflecting the important growth trend of buyer-arranged financing.

However, other OECD countries use a model whereby commercial banks are active in export finance and get guarantee coverage from the national ECA. This is seen by other ECAs as the weak point in the Canadian system, with limited private bank involvement in medium- and long-term export transactions. In their view, EDC is not able to fully offset the limitations of the overall Canadian trade finance system, which relies on direct lending by EDC, not bank guarantees, to support exports.

There are a number of European ECAs who have introduced direct lending into their product suite in recent years, since the 2008-09 financial crisis when banks could not access liquidity to on-lend, but guarantees still remain the main product supporting capital goods exports.

4.4.3 Discussion and Analysis

A number of perspectives were provided during the Review on EDC’s role in financing exports and the capacity to export.

**Banks**

Consultations with the Canadian Bankers Association and its members confirmed banks in Canada generally have a supportive, strong mutual relationship with EDC. Canadian banks want EDC to be complementary with their business strategies and lending practices, supporting them as they finance exporters and building overall market capacity.
On EDC’s client-facing products used by banks, its quality and complementarity are viewed positively.

- **EDC’s bank pre-shipment guarantee program (EGP):** this program was cited repeatedly as an example of good complementarity. EDC sets individual borrower risk limits of up to US$ 10 million, on conditions customized to each bank, and covers up to 90 per cent of the loan exposure.

- **Credit insurance as bank security:** Banks said EDC’s credit appetite was better than private credit insurance providers, who are eligible as sources of security with no difference in the internal capital allocation required.

- **Bonding products:** Some banks said they use EDC’s PSG and have a strong relationship. EDC has good risk appetite for LCs.

- **Foreign exchange guarantee:** EDC developed a foreign exchange guarantee product since the last review. Banks said it was not used much, but it was useful to have in place.

- **EDC direct lending to foreign buyers versus bank guarantees:** This traditional issue was not raised as a concern by the Canadian banks consulted.

- **Syndication corporate lending:** EDC is asked to join bank syndications with Canadian and international banks for balance sheet lending to exporters to complete the funding required and fill market gaps.

On treasury and cash management practices and engagement with banks, EDC was seen as very sophisticated, on par with market best practices.

There were concerns expressed that, on occasion, EDC has crowded banks out of specific financing deals. These concerns were expressed by both Canadian and international banks. There have been cases when a bank has approached EDC for a guarantee of a particular transaction with a foreign borrower, and EDC preferred to lend directly to that foreign borrower, rather than guarantee the bank financing. While the Canadian exporter in theory would be indifferent to such a structure, as long as the deal is financed, this makes banks weary of EDC. As discussed in Chapter 5, banks play a critical partnership role through their international networks, bringing importer-originated transactions to ECAs, so they need confidence that they will be treated fairly.

The number and volume of syndicated deals with Canadian commercial banks has fluctuated over the last number of years. Syndicated deals with international financial institutions even tend to be fewer. The transactions are generally led by the commercial banks and EDC is typically invited into these syndications by the mandated lead arrangers after consultation with the exporter who will request EDC’s participation.

### Table 22: Syndications with Canadian and International Banks

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<tr>
<td># of Deals – Canadian FIs</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>8</td>
<td>15</td>
<td>8</td>
<td>6</td>
<td>11</td>
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<td>Volume – Canadian FIs ($mn)</td>
<td>$357</td>
<td>$263</td>
<td>$287</td>
<td>$251</td>
<td>$780</td>
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<td># of Deals – International FIs</td>
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<td>3</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
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<tr>
<td>Volume – International FIs ($mn)</td>
<td>$117</td>
<td>$74</td>
<td>$50</td>
<td>$21</td>
<td>$55</td>
<td>$37</td>
<td>$444</td>
<td>$199</td>
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<tr>
<td>Total Number of Syndicated Deals (All FIs)</td>
<td>8</td>
<td>9</td>
<td>6</td>
<td>9</td>
<td>17</td>
<td>10</td>
<td>10</td>
<td>14</td>
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<td>Total Syndicated Financing Volume (All FIs) ($mn)</td>
<td>$474</td>
<td>$338</td>
<td>$337</td>
<td>$271</td>
<td>$835</td>
<td>$355</td>
<td>$757</td>
<td>$902</td>
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Additionally, EDC also participates in a number of partnership lending transactions which comprise club and co-lending deals, amongst others.

Table 23: Other partnership lending transactions with Canadian and International Banks*

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<td># of Deals – Canadian FIs</td>
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<td>6</td>
<td>6</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>9</td>
<td>7</td>
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<tr>
<td>Volume – Canadian FIs ($mn)</td>
<td>$61</td>
<td>$162</td>
<td>$389</td>
<td>$116</td>
<td>$32</td>
<td>$101</td>
<td>$220</td>
<td>$125</td>
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<tr>
<td># of Deals – International FIs</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Volume – International FIs ($mn)</td>
<td>$243</td>
<td>$139</td>
<td>$346</td>
<td>$49</td>
<td>$28</td>
<td>$626</td>
<td>$749</td>
<td>$138</td>
</tr>
<tr>
<td>Total Number of Syndicated Deals (All FIs)</td>
<td>9</td>
<td>8</td>
<td>9</td>
<td>8</td>
<td>3</td>
<td>6</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Total Syndicated Financing Volume (All FIs) ($mn)</td>
<td>$304</td>
<td>$300</td>
<td>$735</td>
<td>$166</td>
<td>$60</td>
<td>$727</td>
<td>$968</td>
<td>$262</td>
</tr>
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</table>

*club deals, co-lending deals

Bank consultations also identified a wish list from EDC, including: more SME services; EDC leasing products; and risk appetite in what were called “frontier markets” where more EDC risk-taking capacity would be appreciated. For smaller exporter clients in particular, there was a concern expressed about the complexity of EDC products, the ongoing need to streamline processes, and simpler credit scoring. No issues were raised by banks on EDC’s role in domestic financing. It was emphasized that EDC should not be competing head-on with banks on transactions but should concentrate instead on offering complementary services.

Exporters

In general, exporters thought EDC was providing good service on its financing products, with their bank(s) as partners.

However, exporters said EDC could do better in a few areas of export financing. Some exporters want EDC to be more prepared to use traditional trade finance structures, like guarantees, to help level the competitive playing field with their international competitors. Reliance on direct lending for medium-term export transactions can crowd out access to other creditors, including in local markets. Greater use could be made of bank guarantees to help them with additional sales, specifically EDC guarantees being provided to local banks in buyer countries, often in challenging markets. These local banks likely have superior local market and buyer knowledge and are used to managing local currency funding and foreign exchange exposures. Exporters suggested that targeted local bank guarantees provided by EDC could help to stretch

“[EDC should] add the guarantee structure to its framework as a mechanism to create mutually beneficial partnerships with local financial institutions and international financiers as it promotes a risk sharing approach and leverages expertise and knowledge particularly in emerging markets.”

Bombardier submission
overall access to buyer credit is these markets.

Whether or not Canadian companies have access to competitive export finance as compared to exporters in other countries is the important consideration: has the limited presence of Canadian commercial banks in support of Canadian exporters hindered Canadian competitiveness? Without consistent access to the international networks of international banks and local banks which are central to the importer-originated model of procurement, as would be the case under a bank guarantee ECA model, Canadian exporters are less able to access international business opportunities. The pull facilities and representations abroad can fill this gap to some extent, but EDC cannot be in every market and needs to rely on the network of international and local banks which have deep relationships with existing and prospective buyers of Canadian exports.

Small and medium-sized exporters still face difficulties obtaining financing. According to CFIB’s submission, 5 per cent of businesses report that lack of appropriate financing is the reason they do not export. There is often not sufficient offering from commercial banks for ‘small ticket’ transactions below $5-10 million. There are, however, private sector financiers in this space, which rely on EDC’s guarantees to share the buyer risk. In this respect, EDC therefore has a role to play in this area either as a guarantor or a direct lender where financing is not on offer elsewhere. As well, there was a specific desire for more EDC innovation and risk appetite for smaller medium-term financing transactions. It could demonstrate more creativity and flexibility, make use of guarantees and partnerships, and stretch on transaction terms – accepting lower credit quality on occasion, longer repayment terms, more competitive pricing, and being truly open for business in higher risk jurisdictions. EDC support for more small-ticket medium-term financing transactions would not be a threat to EDC’s overall asset quality or balance sheet and would be an appropriate demonstration of its public policy mandate.

As noted in Chapter 3, EDC’s risk appetite is of concern to exporters. If EDC is to move more into the traditional ECA area, providing guarantees for emerging market risks, it will be important to take account of the need for competitiveness against those ECAs that are participants in the OECD Arrangement that choose to price to the minimum requirements, and are not market reflective.

4.4.4 Conclusions

Canada’s banking landscape is different from other OECD countries. The long-running debate within Canada on medium and long-term financing – namely, whether EDC should be a direct lender, or a provider of bank guarantees has lost traction as Canadian banks have limited interest in the export finance business, and lending to foreign buyers is not generally part of their strategies. However, commercial banks in other OECD countries are active in export finance and get guarantee coverage from the national export credit agency. Banks in Canada are no longer interested in export financing and hence make little mention of competition from EDC’s services. By contrast, banks in most other OECD countries are far more active in this business. Whether EDC has filled a gap, or created a distortion by displacing banks in the trade finance market, is a chicken-and-egg debate that is unlikely to be resolved.
The limited involvement of private-sector lenders has created some weaknesses in medium- and long-term trade financing. Foreign banks emphasize that Canadian exporters can face a competitive disadvantage by not having full access to the international commercial export finance system. EDC is not able to fully compensate for the constraints imposed by its dominance of Canada’s trade finance system. Export credit agencies typically rely on international and local banks that have wider networks and deeper relationships with borrowers. EDC’s international representations play a crucial role in identifying opportunities, but they cannot match the banks’ networks. Of EDC’s overseas representations, 15 are in emerging markets and are primarily focused on export financing. Thus, an internationally comparable guarantee program from EDC for banks is critical to maintain Canadian exporters’ competitiveness.

Some major exporters are seeking greater use of targeted bank guarantees from EDC, notably for local banks in buyer countries. Exporters suggest EDC could provide more bank guarantees, especially in challenging markets.

There is evidence that EDC sometimes crowds out Canadian and foreign banks from specific export financing deals. Several foreign banks mentioned that EDC enjoys an unusual level of market dominance, allowing it to crowd out commercial lenders in medium and long-term financing deals without giving private-sector banks a chance to compete. Several examples were cited of commercial banks being unable to compete with EDC’s pricing, and of EDC proactively offering its services to the banks’ existing clients in buyer countries. This could be avoided if EDC concentrates on services that complement the banks’ offerings, while adjusting its internal processes to ensure that it does not crowd out the banks on specific export financing deals. Ultimately, the priority is customer choice with EDC remaining agnostic on whether it provides loans or guarantees.

4.5 Equity Investment

4.5.1 Issue
EDC was given a mandate some 25 years ago that introduced the equity product into its tool kit. EDC can either invest directly or through funds. Initially, its equity program focused on investing in Canadian funds that would improve the access of export-oriented companies to private equity. Investments are also made abroad to strengthen Canadian business relations with international markets, similar to the pull facility.
More recently, EDC has chosen to invest directly in high-potential Canadian companies, as a co-investor with other equity players on market terms and conditions, to help these companies expand into international markets.

On the regulations governing EDC equity investment, investments beyond the regulatory limit of 25 per cent equity requires Ministerial Authorization.

4.5.2 Approaches of other ECAs
Equity is traditionally not part of an ECA product portfolio. For example, US EXIM has no equity solution in its product portfolio. However, several European ECAs are moving towards a broader product offering: for example, EKF now offers equity financing as well as mezzanine products. Due to the integration of SIMEST in the SACE group, Italy now also provides direct investments in equity capital. Bpifrance provides ‘innovation aid’ such as grants and recoupable advances, and seed loans and financing for industrial and commercial launch as well as equity acquisition. Furthermore, several Asian ECAs provide
equity products: Korea Eximbank (KEXIM), for instance, offers direct equity investment. KEXIM invests no more than 15 percent of the total outstanding equity shares in companies where Korean investors hold at least a 10 percent share throughout the loan life to undertake overseas projects. The Japan Bank for International Cooperation (JBIC) provides capital contributions to companies where Japanese firms have equity stakes to undertake overseas projects, investing up to 50 percent of the total investment and on the condition that JBIC will not become the largest shareholder among Japanese investors.

4.5.3 Discussion and Analysis
EDC’s investment strategy until recently was to fill a market gap from early stage investing up to the early midmarket segments. More recently, EDC has shifted its strategy to focus on growth capital investments, in the venture capital and mid-market segments. EDC states it is addressing a market need for minority growth capital. This need arises from limited institutional interest in minority equity transactions, as market participants are currently more focused on control opportunities. EDC is also making larger commitments to fund partners executing strategies that are consistent with its investment strategy.

In 2017, EDC committed over $164 million in 10 direct and 3 fund investments. Its total portfolio exposure represents nearly $2 billion in value, through direct investment in 47 Canadian companies, and indirect investments in an additional 365 Canadian companies, supported through investments in 97 funds. According to EDC, the equity program does not track export volumes for all companies with whom EDC invests, nor for each respective investee company of the investment funds it supports. Instead different mandate rationales for different types of EDC investments apply (i.e. investment will increase export capacity, investment used to fund international growth strategy as per business plan). For EDC’s fund investments, aggregate growth metrics across a number of key indicators (e.g. revenue, employment, export sales, CDIA acquisitions) are principally tracked at entry and exit.

EDC reports the volume of 2017 signed contracts entered into between Canadian exporters with international fund network companies more than doubled from 2016, with approximately $400 million reported.

Equity investment by EDC was mentioned in a few consultation interviews. It was suggested that EDC might have sectoral expertise to offer, and that it could usefully do highly targeted growth equity to help firms EDC knows as exporters, but that EDC’s involvement in domestic equity needed to be narrowly defined. BDC already plays a prominent role in making equity and quasi-equity investments in Canadian firms, with a focus on venture capital. Caution was expressed that EDC should avoid the early stage venture capital area as BDC is already dominant this space, which is high risk. The value of BDC’s venture capital portfolio reached $1.26 billion in 2018.

A specific technical issue was raised by a private sector equity player. The Regulations that govern EDC prohibit it from contributing more than 25 per cent of the capital to any fund without Ministerial Authorization. As a result, when capital is raised from domestic and international investors, separate parallel investment vehicles are created for tax purposes. One fund will actually be divided into two or three parallel funds. In their view, the concentration limit for EDC should be based on the total fund, not on one of the parallel funds. Without this change, EDC’s participation as an investor must be reduced or there would be adverse tax consequences for international investors.
4.5.4 Conclusions

EDC has taken on the role of a targeted and selective minority investor, both directly and through funds, enabling it to match procurement opportunities from these investments with Canadian supply capabilities. There is no indication that EDC is crowding out other players. EDC is investing directly and making commitments to fund partners with strategies that are consistent with its trade-promotion mandate. However, caution was expressed that EDC should avoid early-stage venture capital investments, given the high risks involved, and the fact that the Business Development Bank of Canada already caters adequately to this segment.

4.6 Knowledge Products

4.6.1 Issue

Accurate trade information and knowledge is an important business input for Canadian exporters and investors. EDC has accumulated extensive information, knowledge and expertise in financing of international trade and risk management over many decades, and has formally introduced this knowledge product line to its client base and prospective clients in a more structured fashion at no cost. In addition to assisting Canadian exporters, particularly SMEs, with insights they can use to develop new client relationships, a more structured approach to sharing trade and risk management knowledge could potentially help EDC to identify new financial services clients and increase demand for its financial and risk management products.

In the past years, EDC began to focus increasingly on this non-financial service offering. It is investing in its digital platform to improve data analysis and deliver insights based on its international experience, core expertise, and timely access to trade-related information and data. It plans to offer seminars, webinars and other events, research, country information and market analysis, as well as access to internal and independent experts. Products in development include risk assessment guides and specific risk management tools for use by exporters.

Table 24: EDC’s Non-Financial Services Product Overview

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Service</th>
<th>Description</th>
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<tbody>
<tr>
<td>Connection</td>
<td>Matchmaking</td>
<td>Introduction (by EDC) of qualified Canadian companies to large international buyers based on a match of capabilities to procurement needs.</td>
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<tr>
<td></td>
<td>Export Help</td>
<td>Custom navigation and micro-advisory service. EDC’s Export Help team researches and compiles specific detailed responses to exporter enquiries that the respective Account Manager is not able to answer. Export Help also directs exporters to the trusted source of information or advice and/or a refers them to other government services e.g. TCS.</td>
</tr>
<tr>
<td>Knowledge</td>
<td>Premium Content</td>
<td>Through EDC’s subscription, customers can have access to premium content including high-value market intelligence, economics reports, recorded webinars, etc.</td>
</tr>
<tr>
<td>Subscription</td>
<td>Webinars</td>
<td>EDC hosts webinars on various international trade topics such a EDC’s Global Export Forecast, Anti-Corruption / KYC practices, eCommerce. The webinars allow participants to direct their questions to the respective subject matter experts.</td>
</tr>
<tr>
<td></td>
<td>Learning</td>
<td>EDC has exclusively licenced the Forum for International Trade Training (FITT) international trade curriculum through a five-year agreement.</td>
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Source: EDC

4.6.2 Approaches of other ECAs

Although EDC has been a pioneer with the approach to increasingly focus on non-financial service offerings, several other ECAs are also active in exporter advisory services. There is increasing awareness that related services are important factors for insurance demand in addition to risk aversion and
financing needs. Some ECAs also recognize they can help exporters with their specific knowledge in challenging export markets as well as with strategic questions regarding the internationalisation of the firm.

SACE is actively offering advisory services to increase the number of customers. The Italian ECA provides managerial and advisory support for the definition and implementation of market-specific international growth strategies. The team also supports exporters in identifying business opportunities in countries with sales potential, proposing financial and insurance solutions. In collaboration with universities and industry associations, SACE developed training initiatives and seminars dedicated to exporters. These workshops and training sessions allow participants to acquire strategic and operational skills needed for successful internationalization.

There are a limited number of ECAs following this approach. OeKB in Austria set up an export services consultancy team in 2015 supporting exporters, often together with the exporting bank. Sinosure focuses not only on pure insurance cover but also on customer education. Euler Hermes also intensified the provision of information and advice to exporters together with the local chambers of industry and commerce. EKF recently launched “EksportScore” to support Danish exporters with an online test leading to an export score and a report.

4.6.3 Discussion and Analysis
EDC notes that it is investing a small portion of its profitability to productize the knowledge it has accumulated over many decades from its financial business. The knowledge products are developed and delivered by a relatively small cross-functional virtual team and are primarily delivered digitally and through partner channels.

To access the enhanced trade-related information, EDC accepts two forms of payment for its knowledge products – cash payment, or “information payment.” The large majority of knowledge products are paid for with information payment in which EDC asks prospects to complete an online data template with eighteen fields of client information. To assure commercial confidentiality, client consent is required for EDC to share this information with other federal entities.

Prospects that submit the requisite data are counted as EDC customers, even if no financing or insurance products are used. More than 1,500 customers so far have met EDC’s qualifying criteria and these have been added to the overall customer acquisition numbers for the purposes of meeting EDC’s performance targets. These conversions provide EDC with new warm leads for its financial services business.

In the provision of EDC’s knowledge product offering, an important issue is to safeguard complementarity within Canada’s trade ecosystem and avoid duplications and inefficiencies. This is discussed in more detail in Chapter 5.

4.6.4 Conclusion
*EDC’s new knowledge products capitalize on its strengths.* Providing relevant export-related information complements EDC’s financial services and is entirely in line with its mandate to help Canadian businesses succeed abroad. Other export credit agencies have long recognized that trade-related information complements their financing and insurance activities.
EDC classifies knowledge users as “customers” in assessing its performance targets. These non-financial services undoubtedly provide value for users. However, it remains an open question whether those who have access to knowledge products at no cost can accurately be described as “customers”, with the same status as clients of EDC’s traditional financial services.
CHAPTER 5: EDC’S PARTNERSHIPS
5.1 Private Sector Partnerships

5.1.1 Issue
EDC’s partnership model with private sector sources of insurance, guarantees and finance is a critical element of its overall operating model. Evaluating how its partners consider the partnership arrangements are working is central to the Review.

As noted earlier, EDC is not required by Legislation to be complementary or provide incremental capacity to the private sector sources, unlike BDC and many ECAs globally, except in relation to its domestic powers. This means that it can compete with private sources in supporting Canadian companies responding to international business opportunities and there is no specific requirement for EDC to help build capacity within the insurance, surety or finance sectors or seek competitive neutrality as part of its public policy objectives.

EDC considers partnerships to be a critical to its ability to serve Canadian exporters, by building and leveraging the extensive network of partners (including banks, insurance companies, sureties, brokers, and numerous other public and private sector partners). The number of “partnership transactions” was tracked 2008-2014. During this period, rules and interpretations were reviewed annually and amended as required to keep pace with changes in EDC’s business, client needs and product offerings. EDC subsequently stopped including the number of partnership transactions as a corporate target and therefore no numbers exist on the extent of partnerships.

5.1.2 Approaches of other ECAs
ECAs are often regarded as a lender or insurer of last resort in many other countries and trade finance systems are typically built on commercial offerings from banks and private credit insurers. Euler Hermes in Germany, Bpifrance or UKEF in the United Kingdom, for example, only step into the breach when commercial banks or private insurers do not offer sufficient facilities. The same applies for Nordic ECAs such as EKF and Finnvera, focusing on a partnership approach with commercial banks. This partnership approach is also driven by the understanding that the commercial banks’ international branch network and marketing force help national exporters in their international activities.

In Australia, to address the concerns by private sector players about an unfair advantage of public sector entities, the government has in place a policy of “competitive neutrality.” Competitive neutrality requires that government businesses do not have a net competitive advantage over their private sector competitors simply as a result of their public ownership, and ensure that any advantages are not passed onto the clients to distort competition. It aims to ensure that resources available for public expenditure are used in the most efficient manner possible, and to improve transparency and accountability in public sector business. For the Export Finance and Insurance Company (EFIC), this implies the government imposing a “debt neutrality” and “dividend neutrality” charge which EFIC must pay annually. It also means that EFIC is indifferent between guaranteeing and lending as it does not retain profits from its treasury operations.
Table 25: Australia’s Dividend and Competitive Neutrality Payments

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<td>EFIC dividend and competitive neutrality payment</td>
<td>13.5</td>
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<td>16.8</td>
<td>19.2</td>
<td>20.7</td>
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5.1.3 Discussion and Analysis

Credit Insurers and Brokers as Partners
EDC remains an active competitor in the Canadian export credit insurance market. It competes directly with the private sector in this market, with a declining market share over the past decade from 52 per cent to 43.5 per cent of the total market (or from 73 per cent to 67.5 per cent of the export credit insurance market). There are public policy reasons for EDC to operate directly in a competitive export credit insurance market, such as to enhance competition, bring risk appetite to the market, and provide staying power through the business cycle.

In its submission, the Insurance Bureau of Canada (IBC) and its members proposed a more complementary role for EDC, under which EDC would focus on helping to build the overall Canadian credit insurance market. For example, it could do overall business development for the credit insurance market, direct specific business opportunities to the private market for a commission, and act as a reinsurer that would backstop the market and ensure sufficient risk capacity for exporters. By providing reinsurance to the Canadian credit insurance market, EDC could help ensure that export credit insurance cover is available through the entire business cycle, including during downturns.

EDC’s relationship with Coface is of concern to the other private insurers, who said that EDC is picking winners and losers under its arrangement with Coface to assume risks for domestic cover. Private insurers and brokers said the Coface arrangement is uncompetitive, with the potential for monopolistic behavior. They believe this arrangement limits choice for clients. Private insurers propose either an EDC exit from the domestic credit insurance market or creating a more competitive market, such as EDC using broker channels to auction its domestic business to private insurers.

“Under the current arrangement with COFACE, EDC directs premiums to a single company rather than letting the market compete for the business. In doing so, EDC is selecting winners and losers. Not only is EDC’s arrangement disadvantageous to other insurers in the private market who also offer this product, it also limits choice for consumers. The arrangement compels consumers to use EDC to insurance through COFACE rather than find the best price in the market.”

IBC Submission

In contrast, brokers and their exporter clients see EDC as a key part of the Canadian credit insurance market. A competitive level playing field for credit insurance through the business cycle is seen as good for exporters, and EDC can add market capacity both directly and in a complementary fashion. Other insurers, many of them foreign-owned, may not be as committed as EDC to the Canadian market and to
Canadian exporters. Brokers did not agree that EDC is crowding out private credit insurers.

Brokers play a critical role in the credit insurance business by working with companies to find the best insurance solution. EDC partners with a network of private insurance brokers to identify new export credit insurance client opportunities and consider them an important delivery channel. At times, brokers can experience competitive pressures between EDC’s direct sales channels and the value brokers bring. While all believe that there should be choice from the customer whether to work with a broker or go to EDC directly, it is critically important that EDC values existing broker relationships. EDC has set up its channel management program with the aim that it should be indifferent between working through a broker versus working directly with a client, but regular monitoring is always required.

In the view of brokers, other insurers - many of them foreign-owned - may not be as committed to the Canadian market and to Canadian exporters. On EDC’s role in the domestic market, brokers believe EDC is fully needed. Covering domestic sales is also important for exporters’ overall risk management, financial results and business success. A loss on a domestic sale can be as crippling to a Canadian exporter as a loss on an export sale.

Surety Industry as Partners
EDC operates directly in surety markets both internationally and domestically. There are differing views about whether EDC’s position in the market is crowding out the private surety market, which is still evolving. Contractors feel the surety industry cannot meet their needs. The private surety industry said that EDC is competing in providing performance security guarantees (PSG) and other market segments and displaces private market capacity and, if EDC pulled back, private players would step into the market. The surety industry is interested in working with EDC as a reinsurer in the domestic and international surety market.

Banks as Partners
According to the Canadian Bankers Association, banks in Canada have a strong, mutually supportive relationship with EDC. EDC operates both directly and in a complementary manner with Canadian banks, supporting them as they finance exporters and building overall market capacity. It plays a more limited complementary role with international banks.

Canadian banks want EDC to be complementary with their business strategies and lending practices, supporting them as they finance exporters and extend their risk capacity. EDC was viewed as the most complementary among the Canadian financial Crown Corporations, particularly in terms of its Export Guarantee Program (EGP) which guarantees working capital provided by banks, to mostly SMEs, and helps them extend further credit to collateral-strapped firms. EDC’s banking partners feel the relationship management model works well, with a designated contact point on both sides of the relationship. This model was recommended for other banking relationships, as a step in a proactive engagement plan.

Foreign banks recognize that EDC fulfils its function as a government instrument supporting exporters. However, there was a strong view that EDC should not provide competing offerings, but focus on complementarity or “additionality”, i.e. providing additional capacity, such as co-financing or guarantees, that is either not available or available in insufficient amounts in the market. Several foreign banks mentioned that there is an unusual level of Canadian market dominance by EDC. Others provided examples where EDC’s activities were crowding out the private market in medium- and long-term export
financing. This was related in particular to an alleged focus on direct lending while disregarding opportunities to leverage private sector financing with EDC’s insurance or guarantee products. Whether this should be a factor to consider depends on whether lack of choice harms Canadian trade and limits access of Canadian companies to foreign opportunities.

Foreign banks see the Canadian model, with limited private market involvement particularly for medium and long-term export transactions, as less efficient compared to other countries. International commercial banks have a much broader network and marketing force supporting exporters in their international sales, and supporting large buyers as their house banks, financing their capital purchases. EDC’s foreign representations and pull strategies have helped to counterbalance this situation but to only a limited extent.

5.1.4 Conclusions

**EDC competes directly with the private sector in export credit insurance.** There are strong public policy reasons for this practice to continue, notably EDC’s risk appetite in specific types of business, and its staying power through thick and thin. However, there is little evidence that EDC’s competitive role has expanded the market for export credit insurance. The over-arching public policy issue is whether EDC could do more to grow the Canadian credit insurance market by taking on a more complementary—rather than competitive—role.

**There are growing concerns among private-sector surety providers that EDC is crowding them out of the bonding market.** EDC’s performance security guarantee is popular with banks (which benefit from a 100% AAA-rated guarantee) and with contractors. Traditional surety industry products are often less competitive. Efforts have recently been made to innovate and create liquid bonds that act more like bank stand-by letters of credit. As with credit insurance, the question is whether EDC can do more to grow the Canadian surety market by complementing rather than competing with other providers.

**EDC’s relationship with the Canadian banking industry is generally working well but is less positive with the international and local banks which provide finance to buyers.** EDC’s relationship with the Canadian banking industry is more positive and productive today than a decade ago as demonstrated by EDC’s numerous complementary products for Canadian banks. Canadian banks want EDC to complement their business, supporting them as they finance exporters and build market capacity. EDC offers a broad range of services, covering a manifold set of insurance and financing products. These include exporter pre-shipment financing, foreign buyer financing for capital good exports, project financing with Canadian supply and investment interests, balance sheet financing for exporters, performance guarantees for contractors, and the use of exporters’ credit insurance as security.

The banks view EDC’s activities as the best fit with their own business among Canada’s financial-services Crown corporations. They see it as particularly helpful in assessing and managing overseas business risk. EDC’s bank pre-shipment export guarantee program is cited repeatedly as an example of how its programs complement those of the banks. However, EDC can also learn from other export credit agencies. For example, Denmark’s Eksportkredit rolled out an ‘ambassador program’ in 2015 that enables banks to seize more opportunities for export financing. Germany systematically involves senior commercial bankers, drawing on their expertise and networks in an Inter-ministerial committee.
5.2 Public Sector Partnerships

5.2.1 Issue
EDC’s role in the federal/Canadian ecosystem of trade support is a critical element of its overall operating model. Understanding how EDC fits into that trade development ecosystem, the key relationships among the various federal and other trade development organizations in Canada, and how these partners feel their relationships with EDC are working, are crucial to determine if the full ecosystem is operating effectively.

EDC has many partners in the federal ecosystem of trade support, which covers a number of service offerings and agencies. They include the Trade Commissioner Service (TCS) and Invest in Canada Hub, and Crown Financial Institutions, with whom EDC shares a similar reporting relationship to the Government and that have contiguous and, potentially, overlapping operating mandates, such as Business Development Bank of Canada (BDC), Canadian Commercial Corporation (CCC) and Canada Infrastructure Bank (CIB). The Canadian trade ecosystem also includes the trade development and promotion programs of provinces, cities and other related organizations.

By virtue of its status as a financial services institution and its successful financial results over decades, EDC has a financial strength and actual and potential client service capacity that many other partners cannot match. As a consequence, it faces the challenge of respecting the mandates of other Canadian government departments and agencies, avoiding excessive overlap and duplication of operating mandates, and seeking to collaborate with others and take advantage of their expertise and capacities wherever possible in the service of Canadian exporters and investors.

The Government wants greater cooperation across the trade support ecosystem with seamless complementarity, not duplication, and launched its new export diversification strategy in 2018 with significant funding to modernize TCS through enhanced advisory services, digital tools, and in-market support. As stated in Budget 2018, the Government is making new, transformative enhancements to Canada's export programs to help Canadian businesses find customers around the world. Seamless service to export clients is the overarching goal.

5.2.2 Approaches of other ECAs
The trade finance, innovation and development systems in OECD and non-OECD countries have changed considerably in response to new challenges in the foreign trade environment and financial markets. There is a tendency towards close coordination in several countries. For instance, Team Sweden coordinates some 20 organisations including ministries, the ECA and innovation vehicles. EKF works together with instruments such as the Danish growth fund Vækstfonden. Other governments created a trade policy mix including, for example, government financing instruments for innovation and export promotion.

In addition, integration is a major trend. As an example, Finland has created a Team Finland system housing the innovation agency Business Finland as well as the ECA, Finnvera, with a single customer relationship management system. Bpifrance provides support for enterprises’ innovation projects in addition to export finance and insurance, emphasizing all financing aspects of a company. In the Netherlands, the Dutch ECA Atradius also administers facilities of the DGGF, the DTIF as well as DRIVE. DGGF provides financing and insurance to Dutch and foreign SMEs for development-related (capital
goods) export transactions and investments. DITF targets Dutch companies wanting to invest in or export to foreign markets. DRIVE is a development-related investment vehicle supporting public infrastructure projects in developing countries.

5.2.3 Discussion and Analysis
Strengthened collaboration between EDC and TCS should aim to enable more seamless service to clients. Priority areas of collaboration are better information sharing, better referrals with clear protocols for cooperation, access to EDC’s Canadian capability database, and cross-training for EDC and TCS staff. This enhanced collaboration is particularly important where EDC has representations abroad, which have grown to 21 today and are generally co-located with Global Affairs Canada (GAC).

Other areas for EDC-TCS collaboration are joint domestic outreach, and promotion and collaboration on market research. A support team is being built on either side of the EDC-TCS relationship. Feedback from the TCS is that experience on collaboration to date is strong in some places and not as strong elsewhere.

EDC is bringing an enhanced focus to collaboration with other Crown financial corporations, especially BDC. BDC’s mandate is to provide credit and business advice to help entrepreneurs bring their products and services to market – to help them build a sustainable business model, and work with them to strengthen their business domestically so that they can sustain further growth. Both BDC and EDC acknowledge that there is considerable momentum in the partnership between the two entities, which are working more closely together to ensure complementary support and to position Canadian firms, most notably SMEs, for success in global markets. When SMEs financed by BDC seek to expand internationally, they can turn to EDC for credit for their global sales. EDC has agreed with BDC not to duplicate services and the two organizations have a formal referral program in place. In 2017, this program resulted in 613 referrals between the organizations, up from 408 referrals in 2016 and 313 in 2015.

EDC senior management is tracking 14 activities with BDC to build relations, including two-way referrals, developing joint products, technical marketing, and secondments. EDC and BDC are introducing joint account plans, and a $50 million partnership agreement is already in place to provide working capital loans to Canadian technology firms for their international business.

The Canada Infrastructure Bank is just beginning its operations and no overlap with EDC is anticipated at this time.

EDC also seeks to work with the trade development programs of provinces, cities and other related organizations. Its relationship has improved the past few years and is now generally seen as positive. Provinces and larger cities have large client bases and a more coordinated and aligned approach to information sharing and cross-referrals. Relying more upon existing networks in provinces and cities could be efficient for EDC and could create benefits for exporters.

Important collaboration is taking place between EDC, TCS and BDC, and some progress has been made in terms of the referral and follow-up systems with BDC. The risk of overlap suggests more remains to be done.
Information sharing among federal entities is arguably the most important area for collaboration, for both exporters and foreign buyers. EDC and TCS often have the same clients in the field, both exporters and foreign buyers. There may be legal limitations on client information sharing, but these can be managed using consent mechanisms. Targeted training is required, for all concerned, and steps are being taken to provide cross-access to training.

On client referral and acquisition, inconsistencies were identified in how TCS and EDC staff interact in various locations and regions, with differences in effectiveness of interaction within regions, among posts, and between regional and head office EDC staff. In some cases, local protocols have been created to promote smoother and more systematic co-operation between TCS and its partners including EDC. Protocols can include sharing client and prospect information as much as possible, joint client calls, cross-referrals and match-making practices, and key performance indicators.

Expanded use of overall and local protocols can help clarify the operating relationship, covering client information-sharing, sharing of leads and cross referrals, clarity on primacy in match-making, joint client visits, and which organization has primacy in specific circumstances. Specific local protocols already exist in a few locations abroad and could be further expanded, with information sharing and referral tracking as expected priority items. However, TCS and EDC information systems on client capability do not interact with each other and common-sense fixes are needed, addressing issues such as electronic client relationship management. If information systems can be connected, data on clients and opportunities can be shared more automatically. Information sharing by default could be established as an operating principle. More joint domestic outreach, trade promotion, and market research were considered valuable.

Furthermore, an agreed definition of an EDC client is a key condition. As noted earlier, inconsistencies were identified in how an EDC client is defined between its Corporate Plan, Annual Reports and internal targets. Canadian exporters value EDC’s knowledge offerings in understanding supply chains, especially the financial aspects; but there is a concern that it duplicates TCS’s role and activities and adds overall effort to Canadian trade development without creating additional value to clients.

5.2.4 Conclusions

**Risk of duplication among federal partners exists.** Given the mandate of the Trade Commissioner Service and other federal partners in trade development and risk management, close collaboration is essential to minimize the risk of duplication, optimize sharing of information among federal entities, and provide seamless services to Canadian exporters. Above all, each partner needs to focus on its core mandate, while being cognizant of their role in the broader trade support ecosystem.

**EDC is a critical part of Canada’s international trade superstructure that also includes federal departments and agencies, provinces and cities.** In general, the system is working better today than in the past – as manifested by more effective cooperation and common-sense coordination with the Trade Commissioner Service, other federal departments, the Business Development Bank of Canada and other Crown corporations, provinces, cities and related organizations. In general, the mandates of these various organizations complement each other. Some overlap is inevitable (and acceptable) to close financial market gaps. Even so, duplication is costly, and more work needs to be done to define each partner’s comparative advantages. EDC’s well-developed network of representations outside Canada gives it a central role in developing international trade. Protocols, regular consultations and constant communication are all required for effective functioning of these representations in conjunction with the
Trade Commissioner Service and the provinces. Even closer collaboration is possible, likely leading to additional business development benefits.

**Government stakeholders, specifically the Trade Commissioner Service and the Business Development Bank of Canada, are working with EDC on a more collaborative approach to international trade development on behalf of Canadian exporters.** As stated in Budget 2018, the over-arching goal of Canada’s international trade and business development should be seamless service to exporters. Government stakeholders would appreciate more openness, collaboration, consistency and collegiality with EDC on international trade development. Varied strengths and weaknesses were identified, with some noting a degree of inconsistency in EDC’s approach to collaboration, both in Canada and abroad. There remains room for improvement in setting clear guidelines for engagement with EDC’s public sector partners and to recognize their deep local knowledge in Canada and in specific global markets.

**Stakeholders emphasize that information sharing still needs more two-way clarity and equal engagement.** Their point pertains to overall trade market information; market and buyer intelligence for other stakeholders and for Canadian clients; and qualified leads and cross referrals. In addition, clarity would be useful on which agency has primacy on various types of match-making initiatives (such as general versus targeted), arranging joint client visits, etc. Common business development plans, formal protocols and other instruments can help add clarity and foster better relations in Canada and abroad. Tracking outcomes on referrals and other interventions would help strengthen overall collaboration. Overall, EDC’s capacity to invest in international trade development is far greater than other Canadian departments and agencies.

### 5.3 Civil Society Partnerships

#### 5.3.1 Issue
Civil society organizations (CSOs) have demonstrated a keen interest in EDC over the past years and actively engaged in the Review process. CSOs exist to advance and advocate for desired social values, norms and outcomes. They can promote broad or specific public interests and represent the interests of often-marginalized groups in advanced and developing countries. With respect to EDC and other ECAs, CSOs work to ensure these institutions are acting in accordance with the stated values of the institution and its shareholder, and they also advocate for higher goals, standards and practices.

As such, CSOs represent a key stakeholder group for EDC beyond its clients and partners. They raise awareness on important social issues and developments; in some cases, CSOs can provide specialized expertise in operational practices.

#### 5.3.2 Approaches of other ECAs
Around the world, CSOs have shown a strong interest in the environmental and social impacts of projects financed in whole or in part by ECAs. They also have an interest in human rights issues, the risk of financial crime and improved transparency. These interests are related in part to the public mandate of ECAs, with an expectation of high social and environmental standards, and the nature of many countries’ export finance programs and instruments. The CSO criticism of ECAs with respect to the environmental
and social impacts of projects is similar in many OECD countries. That criticism mainly targets aspects of the environmental and social risk assessment of transactions, human rights issues, as well as the due diligence related to financial crime, i.e. the risk of corruption and bribery.

As discussed in chapter 6, some ECAs proactively seek out the expertise of certain CSOs to advance their values and strengthen performance standards and internal practices related to the environmental and social impacts of their activities. For example, other ECAs have established regular roundtable discussions with CSOs. These roundtables provide a forum where CSOs are able to raise any issues and foster an ongoing dialogue on best practices and on developments in certain sectors. Roundtables can also be used to keep the CSOs informed about relevant progress both nationally or internationally at the ECA-level.

5.3.3 Discussion and Analysis

In 2001, EDC established a Corporate Social Responsibility (CSR) Advisory Council with university representatives, government representatives at international organizations and representatives from the private sector (Siemens Canada Limited) and civil society (Transparencia Mexicana). Council members meet twice a year with EDC’s CEO and CSR leadership team to discuss relevant CSR topics.

As part of its CSR framework, EDC currently has a formalized partnership with CARE Canada consisting of an advisor secondment program for EDC employees as well as an enterprise development grant supporting CARE’s programs focusing on women’s economic empowerment and private sector engagement.

EDC also has a dedicated civil society liaison who proactively reaches out to civil society organizations through a number of multi-stakeholder events and forums. Recent examples include the Devonshire Initiative CEO Summit, the Global Compact Network Canadian SDG Business Forum, and Transparency International’s Day of Dialogue. Outside of official events, EDC’s Stakeholder Relations and CSR teams also have regular conversations with civil society stakeholders on a variety of issues including human rights, climate change and transparency. For example, EDC proactively engaged with civil society organizations in its 2018 environmental and social policy review process. On other occasions, EDC responds to questions and feedback that are brought forth by civil society organizations on topics such as EDC’s due diligence processes and levels of sector-specific support.

During the Review consultations, Transparency International noted that EDC has sought its input and guidance on a few issues in the past, but it did not regard EDC as a partner with which it has a close working relationship. Transparency International has encouraged EDC to engage more with it and other civil society organizations that have expertise on how to build public confidence by improving the transparency of its business activities. Much more could be done to enhance internal policies and procedures on risk, due diligence, transparency and staff training, areas where a deeper relationship with Transparency International could add value.

Amnesty International stated it does not work closely with EDC and there has not been engagement with EDC on research related to human rights and projects. EDC is seen as maintaining an approach that parallels those of the other ECAs. They had strong views on the measures and policies EDC could implement to demonstrate it is serious about taking a leadership role on human rights implications. Indeed, in its view the only definitive way by which EDC can become best-in-class among its peers is for the Government of Canada to amend the ED Act accordingly, to provide for a mandatory comprehensive
human rights regime for EDC. Similarly, there is a need for improved transparency in EDC’s actions affecting human rights.

Overall, CSOs that were consulted or provided submissions to the review criticized EDC for a lack of transparency regarding its operations and underlying policies. This criticism will be considered in detail in the following chapter.

CSR standards can be a competitive issue as emerging market importers might favour buying from a country with less onerous requirements than another. However, it is important to the Canadian brand to maintain high standards. EDC follows OECD good governance practices and the OECD holds an annual CSO meeting. Encouraging countries beyond the OECD to adopt the same good governance practices would help to address competitive issues.

5.3.4 Conclusions

EDC has developed relationships with some civil society groups, but at present that engagement appears to be uneven. More consistent and systematic engagement could allow EDC to understand these groups’ perspectives more fully, harness their expertise, and develop stronger long-term collaboration. The government’s Corporate Social Responsibility Advisory Council plays a useful role, but it has limited civil society representation. EDC could be more proactive to instill confidence in its processes and procedures among civil society groups. Roundtables, joint studies, and audits are some ideas to be considered. Closer coordination between Global Affairs Canada and EDC on social responsibility issues, would be beneficial, particularly in the natural resources sector.
CHAPTER 6: EDC’S CORPORATE SOCIAL RESPONSIBILITY
6.1 Introduction

Public expectations and practices have advanced significantly in recent years in the area of Corporate Sustainability and Responsibility (CSR) and will continue to do so. EDC states it is committed to applying best-in-class commercial CSR practices, and it has developed a CSR strategy that considers the social and environmental impacts of every business decision. It also has a responsibility to undertake a due diligence review of human rights impacts and the potential for financial crime. In the past decade, EDC has invested significantly in the maturation of its CSR function. Its CSR team has grown by more than 75 per cent and its policies, practices and expertise have reportedly been enhanced.

Overall, EDC is seeking to integrate principles of sustainability and good governance into its strategic framework. In 2017, it developed a new approach to Corporate Social Responsibility that is based on four pillars: ‘Environment and People’; ‘Business Integrity’; ‘Our Workplace’; and ‘Our Communities’. EDC’s suite of policies and procedures to mitigate any adverse societal effects in its day-to-day operations encompasses environmental and social risk assessment, human rights, and financial crimes due diligence. Furthermore, EDC has a “Code of Business Ethics” and a “Code of Conduct” providing a practical framework to individuals in the organization.

EDC’s operations are complex. Not only does it need to manage credit and other risks as a financial institution, it must also follow and develop practices in areas of transparency, financial crimes, human rights and environment and social management that are both consistent with Government of Canada policy and consistent with leading international financial institutions and ECA peers, to ensure a competitive playing field, while at the same time striving to improve standards globally, thus raising the bar for all.

6.2 Transparency and Disclosure Practices

6.2.1 Issue

EDC’s approach to transparency as a government-owned entity is an issue that recurred throughout the Review.

Over the past decade, governments and public institutions in mature democracies have shifted towards becoming increasingly accountable to the public. The Government of Canada (GoC) has a longstanding commitment to openness and accountability. The GoC works to ensure transparency on federal operations to enable Canadians to hold their government accountable – from the passing of access to information legislation over 30 years ago, to current open government and proactive disclosure activities.

The proactive release of data and information of business value is intended to be the starting point for all other open government activities. Accordingly, the GoC has established an “open by default” position in its mandatory policy framework. All data and information of business value held by GoC departments is expected to be released as “open” unless subject to applicable restrictions for reasons of privacy, confidentiality or security.

For a commercial Crown corporation like EDC, transparency and information sharing on its many activities is a multi-layered issue. A fundamental transparency issue is to consider and weigh the public
request for accountability against the need to ensure the effectiveness of the public policy instrument and the requirement to protect exporters’ confidential information. As such, it is important to establish what “commercially confidential” information is, and under what conditions information might be shared with stakeholders.

EDC reports on the transactions it undertakes in financing (including guarantees), political risk insurance (to lenders) and equity. The ex post reporting covers: Date of Signing, Country of Transaction, Principal Counterparty (party benefitting from EDC guarantee), EDC Product, Transaction Description, Transaction size (in a range of dollar amounts) and name of Canadian Company.

EDC’s approach to confidentiality is based on its desire to maintain the trust and confidence of its clients and stakeholders, and to ensure sustainable business success. EDC has a number of initiatives currently underway to enhance transparency in order to meet the interests of key stakeholders. It is engaging with stakeholders and making more information available, particularly on the environmental and social impacts of certain types of projects (designated by the OECD as “Category A” projects). It is also exploring ways to provide more information about its policies and procedures related to sensitive sectors such as military/defense and controlled substances. EDC is working towards implementing revised disclosure policies in the upcoming months.

6.2.2 Approaches of other ECAs
As noted earlier, ECAs can be part of the government, act as an independent government agency, or be designed as a commercial organisation acting on behalf and for account of the government. This means ECAs have an array of approaches to transparency, including covering information on policies and processes and releasing details on individual transactions supported.

EKF, the Danish ECA, is set up as an Independent Public Company owned by the Danish State. Since 2010 it has published selected information at the individual case level after 60 days following the issue of a final guarantee. Thereby, EKF seeks to “balance between the customers’ need for confidentiality and the possibility of public insight”. The selected individual case information includes name of exporter, name of buyer, country of buyer, project description, product, creditor, debtor/guarantor, environmental and social sustainability category, date of issue, credit period, EKF’s liability.

US EXIM, set-up as an independent, self-sustaining federal agency, provides comprehensive information on all authorizations approved from 2006 onwards. Authorized amounts for small, women-owned, and minority-owned businesses are separately identified.

Since 2002, Atradius Dutch State Business⁵, the official ECA of the Netherlands, has published the insurance policies it has issued. The information on its issued policies includes transaction as well as environmental and social information. Atradius provides a short rationale for its environmental and social category, as well as a summary of its assessment and considerations for category A and B projects.

6.2.3 Discussion and Analysis
EDC’s practice is that detailed information about transactions is confidential, and to release such

⁵ It is part of the Atradius Group and operates on behalf of and for account of the Dutch state.
information may jeopardize the business of its clients, and they note that common law and statutory obligations impede the legal confidentiality requirements. However, the Government of Canada as EDC’s shareholder is entitled to all information in principle; practices can be developed and used to manage specific client-sensitive information.

EDC has taken steps towards more information release on transactions with heightened environmental, social and human rights impacts and risks. It is now reviewing and updating various policies, including its Disclosure Policy. Aligning its disclosure practices with current and emerging international best practices is an important part of that review.

Exporters understand the need to provide detailed information so that EDC can assess corporate social responsibility risks (such as financial crimes, environmental, social and human right risks) as it makes credit decisions. However, they emphasized that their business competitiveness and compliance costs need to be respected. They recognized the benefit of common disclosure and ethical standards, such as OECD principles of corporate governance, but were concerned that new information requirements could become onerous and that EDC should apply common sense to information requests.

To ensure sound policy development, government officials need sufficient access to relevant business information from EDC, to help them deliver on their responsibilities for overall Canadian export and investment development. Officials agree that commercially valuable EDC client and transactional information should be protected. However, more clarity is required on what truly commercially confidential information is, and what could reasonably be shared confidentially with other Government of Canada entities to advance Canadian trade development without compromising clients’ business interests.

Transparency is sought on EDC’s compliance with its mandate and related operational practices. Officials responsible for export credit policy need information on EDC’s operational practices to be more readily and openly shared with them, particularly in the context of Canada’s international obligations. These officials currently do not have access to EDC board material, which constrains them in doing analysis and providing advice to ministers. Greater transparency is also an issue at the OECD with respect to reporting on EDC’s Market Window business.

“The laws governing EDC’s public disclosure do not strike an appropriate balance between ensuring public access to important information and protecting EDC and its clients from the release of sensitive commercial information.”

Above Ground submission
Civil society stakeholders felt that insufficient transparency by EDC was harming public confidence in Canada’s export credit system. Civil society organizations provided explicit advice on EDC information disclosure. A major structural legislative change was recommended: to repeal section 24.3 of the ED Act, as section 20 (1) of the Access to Information Act provides ample protection for clients’ commercially confidential information. It was also recommended that Parliament review section 20 (1) (b) of the Access to Information Act, which was seen as overly broad. There was, however, limited consideration of the commercial or competitive implications of their advice for Canadian exporters and investors.

The Canadian Taxpayers Federation proposed that EDC provide the Office of the Superintendent of Financial Institutions (OSFI) with information regarding transactions involving taxpayers’ dollars that are consistent with information that a private-sector competitor is required to provide OSFI.

6.2.4 Conclusion

*There is a risk that Canadian exporters miss out on business opportunities if EDC, the Trade Commissioner Service and other partners fail to address the need for more shared business information.* More clarity is required on the dividing line between commercially confidential information that ought to be protected or where client consent should be sought, and information that can be shared by EDC with trade commissioners and other trade development partners without compromising its clients’ business interests.

*Greater transparency and disclosure on non-financial information appears possible without jeopardizing a client’s business or competitive position.* While information EDC currently discloses is in line with OECD guidelines, it does not match the standards of organizations such as the World Bank’s International Finance Corporation (IFC) and other export credit agencies, such as the US EXIM Bank. Stakeholders see IFC’s disclosure practices as setting the bar for what EDC could disclose.

6.3 Environmental and Social Risk Assessment

6.3.1 Issue

Over the years, EDC has developed an environmental and social risk management framework that integrates its statutory obligations and various international commitments such as the OECD Common Approaches and the Equator Principles. In its current Environmental and Social Risk Management Policy EDC commits itself to assessing and considering environmental and social risks in the transaction approval process. It further commits to actively promoting best practices with counterparts and to pursuing high standards of mitigation and monitoring of projects.

6.3.2 Approaches of other ECA’s and International Financial Institutions

In 2003, the member countries of the OECD came to a non-binding agreement on a common approach to the environmental and social review of projects supported by their government’s ECAs. The agreement,
the current version of which was issued in 2016, is the OECD Recommendation on Common Approaches on Environment and Officially Supported Export Credits (or “Common Approaches”). OECD recommendations are not legally binding, but transparency processes are put in place as control mechanism for member countries to monitor if recommendations are implemented. The underlying purpose of the OECD Common Approaches is to ensure a minimum standard of environmental and social risk assessment among OECD ECAs and to maintain a level playing field among the countries. The Common Approaches have a restricted scope of application and typically do not apply to an ECA’s entire portfolio. However, many OECD ECAs go beyond the scope of the Common Approaches in their environmental and social risk assessment, and have derived other transaction thresholds and additional policies and procedures that bind the respective ECA to conducting environmental and social risk screenings and assessments to a broader part of the portfolio.

A key element of the Common Approaches is benchmarking projects against international standards, which most commonly are IFC’s Environmental and Social Performance Standards, and the World Bank Group Environmental, Health and Safety Guidelines. Application of these standards also forms the basis for the Equator Principles, which is a risk management framework adopted by 93 financial institutions for determining, assessing and managing environmental and social risk in project finance.

6.3.3 Discussion and Analysis

With respect to EDC’s statutory requirements, the ED Act requires EDC to determine whether a “project” is likely to have adverse environmental effects and, if such is the case, whether EDC is justified in entering into the transaction. The Act also instructs EDC’s Board to issue a directive that, among other things, defines what a “project” is.

The Environmental and Social Review Directive (ERD) defines a “project” as a transaction that has a repayment term or coverage period of two years or more and a value of more than SDR 10 million (around $19 million) or less than SDR 10 million where the project is located in or near a sensitive area. In 2017 this equated to nine transactions and $1.2 billion of transaction value processed by EDC in compliance with OECD Common Approaches and Equator Principles. For “non-project transactions” there are no statutory requirements placed on EDC by the Act. However, for these transactions, which constitute the vast majority, EDC had developed a system that includes processes for screening out transactions considered low-risk, and for flagging transactions that warrant more in-depth reviews.

EDC’s statutory requirement for environmental and social risk assessment also entails that EDC’s policies and procedures are subject to regular audits by the Auditor General of Canada. The last Audit of EDC’s environmental and social practices was conducted in June 2014. It confirmed that EDC’s Environmental and Social Review Directive and its other environmental and social review processes were suitably designed, and that EDC’s Environmental and Social Review Directive and its other environmental and social review processes were implemented accordingly. It did not find any deficiencies against the Environmental and Social Review Directive. However, the Auditor General also made certain
recommendations, for example with regard to EDC’s ability to monitor loan agreement covenants on environmental and social issues, improve documentation of screenings and reviews, and provide more precision and guidance in its risk rating methodology. According to EDC, these recommendations have been addressed.

As with EDC’s other non-financial risks and international commitments, there is a sustained interest from the Canadian public in EDC’s operations. More clarity on EDC’s assessment, approval and monitoring processes for environmental and social risks was cited by stakeholders to instill or regain confidence that operations are de-facto state-of-the art and in line with Canada’s international commitments.

Civil society organizations consider the ED Act’s provision as weak. A major criticism is that they only apply to a small fraction of EDC’s portfolio as the provision is restricted to the support of “projects”. Stakeholder feedback also remarked that the Act does not provide clear guidance on the level of risk the corporation may legally assume. While EDC publicly declares that it conducts environmental and social due diligences beyond the scope of its international commitments, stakeholder criticism noted the lack of transparency and information provided about the quality and scope of these reviews. Canadian companies are also not against stronger processes; indeed, one major mining company expressed support for a more robust environmental and social review process, using a risk-based approach to determine the level of due diligence.

In fact, EDC has a process tailored for this purpose – the Corporate Environmental Risk Review (CERR). The CERR is designed to capture and review transactions that, among other things, provide finance for general corporate purposes. However, the specifics of this process have not been disclosed to stakeholders. Similarly, the results of CERRs are not disclosed. Therefore, stakeholders that might have an interest in a transaction captured by the CERR are not able to determine how it is being reviewed, what the compliance standards are, and what the results of the review found. It is suggested that disclosure of the CERR process, as well as the results of reviews, would provide clarity on how EDC manages this risk and the level of performance EDC expects from its clients.

6.3.4 Conclusion

**EDC implements environmental and social due diligence and standards for “project transactions” in line with its statutory obligations.** The Auditor General of Canada’s most recent examination of EDCs environmental and social review practices concluded that the environmental and social review directive and other review processes for significant projects were suitably designed and met the requirements of the OECD Common Approaches and the Equator Principles. The audit also concluded that EDC’s processes were suitably designed, effectively implemented, and regularly reviewed. The review process applied to “projects” uses the same performance standards and guidelines as the International Finance Corporation, and follows a similar due diligence approach. No evidence was identified during this review that refutes the Auditor General’s conclusions. This review also finds that the definition of significant projects subject to EDC’s environmental review directive is consistent with the thresholds set out in the OECD’s Common Approaches and the Equator Principles. EDC is thus aligned with these voluntary requirements as well as the practices of most of its peers.
EDC and its governing legislation continue to face criticism from civil society stakeholders. Civil society groups consider the Export Development Act’s environmental and social provisions to be weak on the grounds that they do not provide clear enough guidance on the level of risk EDC may legally assume. Further development and monitoring of best practices and systems related to EDC’s social responsibilities are required to ensure that its approach meets its stakeholders’ evolving expectations.

EDC does not disclose its environmental and social review process for “non-project-transactions”. In the absence of statutory direction for environmental and social review of non-project transactions, EDC has developed its own internal system, which includes processes for “automated review”, “officer screening”, “environmental risk review”, and “corporate risk review”. The details of these processes, or the outcomes for specific transactions, are not disclosed. EDC has taken steps toward releasing more information on transactions with heightened environmental, social and human rights impacts and risks, and it is now reviewing its environmental and social risk management policy. Aligning disclosure practices with current and emerging international best practices is an important part of that exercise. The review also provides an opportunity for EDC to clarify the environmental and social standards that apply to non-project transactions, and to make this information available to stakeholders. It has been suggested that the scope of the Export Development Act and the EDC’s environmental review directive be expanded to capture more transactions, specifically those that provide finance for “general corporate purposes”. The concern is that such transactions may expose EDC to clients that do not comply with applicable standards.

6.4 Climate Change

6.4.1 Issue
EDC is investing in a number of climate-related areas, including clean technology (cleantech), climate finance, and green bonds. It has issued four Green Bonds, including two in 2017, provided $278 million in 2017 to support projects or companies operating in developing countries that contribute to climate change mitigation efforts, and undertake steps to better assess carbon exposure in its lending portfolio.

EDC is equally proactive in supporting cleantech companies, providing a record $1.5 billion to support 224 Canadian cleantech companies in 2017. It is also actively engaging with government, international organizations, the lending community, civil society, and its customers to better understand and develop approaches for minimizing climate-related risks.

EDC’s support to the fossil fuel sector is substantially higher than its support to the cleantech sector. According to the report by Environmental Defence “Risking it All: How Export Development Canada’s Support for Fossil Fuels Drives Climate Change” published in November 2018, EDC has provided $62 billion in support to the oil and gas sector since 2012, whereas its support for the cleantech sector amounted to $5 billion in the same period.

6.4.2 Approaches of other ECA’s and International Financial Institutions
Supporting low carbon and climate-resilient projects is an area of significant importance to ECAs and IFIs; however, traditional sources of energy remain an important part of the portfolios of these entities.

6.4.3 Discussion and Analysis
Civil society organizations want EDC to commit to
achieving a sharp reduction in GHG emissions across its business portfolio, consistent with the Government of Canada’s global leadership role in the Paris Agreement and in the fight against climate change. As part of this commitment, they recommend EDC stop supporting coal, oil and gas projects, or any infrastructure or transport projects related to these industries.

There is currently little available information on EDC’s carbon exposure, despite recent efforts to improve its calculation methods. Stakeholders suggested EDC expand its disclosure from a simple estimate of GHG production to an analysis of energy efficiency, emissions avoidance, and emissions reduction. Exporters are seeking more clarity on EDC’s plans to evaluate climate change risks and the impact on funding decisions.

6.4.4 Conclusions

**EDC released a new climate change policy in January 2019 and has proactively developed its climate-related business. However, a significant portion of EDC’s business involves extractive industries linked to high greenhouse gas emissions.** Approximately 26 per cent of EDC’s business directly or indirectly supports the mining and oil and gas industries, as well as other activities with significant emissions of greenhouse gases, such as burning fossil fuels to generate electricity. EDC has joined other export credit agencies and multilateral financial institutions in adopting the OECD’s sector understanding on export credit support for coal-fired power plants. It has also issued its own guidelines restricting support for coal-fired power generation. However, EDC’s stakeholders would like it to take a more proactive role in expediting reductions in emissions of greenhouse gases, despite EDC’s new policy eliminating support for thermal coal, and generally shifting business from high-emission sectors, companies and projects toward those with a more progressive approach towards the environment.

### 6.5 Human Rights

#### 6.5.1 Issue

EDC’s performance on managing human rights risks of its transactions has been the subject of comments from NGOs and coverage from Canadian and international media. As a result, in September 2018, the Minister of International Trade Diversification separately addressed EDC on this matter. Given the Government of Canada’s international commitments to human rights and humanitarian law and its principle of fostering inclusive trade and investment, a high priority has been placed on the actions of EDC with respect to human rights. In his letter, the minister emphasized the importance of Canada in demonstrating leadership in responsible business conduct and respect for human rights. He therefore urged EDC to assess assiduously its internal due diligence and approval processes to ensure that human rights, transparency and responsible business conduct are core guiding principles for EDC.

**Extract from MINT’s letter to the EDC Chair, dated September 24, 2018:**

The Government of Canada is committed to ensuring that all segments of society benefit from the opportunities that flow from trade and investment. Trade and investment are essential vehicles for improving the quality of life of citizens. Inherent in this approach is the imperative that we hold ourselves to a higher standard—and show leadership on the issue of responsible business conduct and respect for human rights. To this end, and with EDC’s vital assistance to exporters in mind, I ask that you undertake a thorough review of EDC’s ongoing risk assessments and transaction due diligence, to ensure that human rights, transparency and responsible business conduct are core guiding principles for EDC. This should include and build on your planned public consultations related
to environmental and social risk management framework. It is my expectation that EDC’s policies and procedures in these areas would be best-in-class among its peers.

I would also ask that you examine the Senate Standing Committee on Human Rights’ recent report: “Promoting Human Rights: Canada’s Approach to its Export Sector,” which recommends that EDC consider whether there is a substantial risk that a transaction could lead to serious violations of humanitarian law. As my predecessor launched a statutory legislative review in June 2018, you should also ensure that these two efforts are working in concert where appropriate. I would encourage you to consider how you comply in a commercial context with Canada’s international human rights obligations, including standards supported by the Government of Canada (e.g. Organisation for Economic Co-operation and Development’s Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights).

As part of this review, you should also actively consult with non-governmental organizations, Industry Associations, the multi-stakeholder Advisory Body on Responsible Business Conduct abroad, and the Canadian Ombudsperson for Responsible Enterprise, which was recently established. I have asked my officials to ensure that they support you in undertaking this review. I encourage you to work closely with them as you conduct this review and adopt any new approaches. I have also instructed my department to ensure that existing Global Affairs Canada resources and expertise are made available to EDC as part of any long-term due diligence process developed through this review. Moreover, it is my expectation that EDC will flag sensitive transactions under consideration to my office and department and continue to conduct risk assessments and ongoing monitoring going forward.

In summary, I would ask that EDC ensure that Canada’s international human rights obligations be more explicitly and transparently incorporated into its corporate social responsibility objectives and procedures. I would ask for an update on the status of this review by the end of November 2018. This update should include a detailed timeline for full implementation of new procedures by the end of June 2019. In the interim, please work closely with my office and Global Affairs Canada officials during your consideration of any transactions that warrant close analysis.

Over the past 20 years, public awareness has steadily increased regarding the role of businesses in respecting and protecting international human rights and ensuring that international human rights standards and practices are adhered to. To better guide corporations in implementing their corporate responsibilities for the human rights dimensions of their activities, the United Nations Human Rights Council in 2011 endorsed the United Nations Guiding Principles on Business and Human Rights, establishing a definitive source of human rights obligations for states and the private sector.

The Guiding Principles are built on the following three-pillar “Protect, Respect and Remedy” framework: “(1) states have a duty to protect against human rights abuses by third parties, including business, through policies, regulation, legislation and effective enforcement; (2) business enterprises have an independent responsibility to respect human rights: that is, to avoid people’s human rights being harmed through their activities or business relationships, and to address harms that do occur; and (3) where individuals’ human rights are harmed, they should have access to effective remedy, and both
states and enterprises have a role to play in enabling this to occur."\textsuperscript{6}

\subsection*{6.5.2 Approaches of other ECA’s and International Financial Institutions}

In 2012, the OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, which represent the current authoritative statement for OECD ECAs’ environmental and social risk assessment of export finance transactions, were adapted to recognize the role of the Guiding Principles for export financing. An additional update of the OECD Common Approaches was agreed upon in 2016 that formally incorporated the obligation to screen all export credit applications within the scope of the Common Approaches for severe human rights risks. However, despite the update, the obligations under the Common Approaches continue to fall short of the due diligence requirements resulting from the Guiding Principles. Different from the practice promoted by the OECD Common Approaches, the gravest human rights risks and negative impacts on individuals may happen in any business transaction supported, irrespective of the ECA’s financing product, maturity and transaction size.

As part of this shift to an increased awareness of human rights risks and obligations for ECAs, several ECAs embarked on a process to analyze their internal due diligence policies and capacities to identify and close the knowledge, capacity and tool gaps with regard to the requirements of a human rights risk assessment process in compliance with the Guiding Principles.

For example, GIEK, the official Norwegian ECA, was one of the first ECAs to embark on the process and develop an explicit environmental and human rights policy and risk assessment procedure. The GIEK due diligence procedure is shared online and consists of the steps ‘Identifying’, ‘Assessing’, ‘Acting’, ‘Accounting’ and ‘Communication and disclosure’. Also, as part of the initial screening for human rights impacts, all applicants must fill out a dedicated questionnaire. As part of Norway’s whole-of-government approach, the Government of Norway requests all companies seeking public financial support or services to show corporate social responsibility and respect human rights. To deliver on this requirement, companies are provided access to information and guidance on the Government’s expectations.

Atradius Dutch State Business (ADSB), the official Dutch ECA, recently conducted an in-depth assessment of its human rights policy and due diligence approach with the support of Shift, a specialized non-profit organization on business and human rights. The results of this assessment can be accessed in a publicly available report. While Shift recognizes that ADSB already goes beyond what is required from the Common Approaches in terms of human rights due diligence, it also notes important gaps from the requirements of the Guiding Principles.

\subsection*{6.5.3 Discussion and Analysis}

As the September 2018 letter on Human Rights from the minister stated, it is important EDC recognizes its responsibility to respect and safeguard internationally recognized human rights in fulfilling its mandate to support Canadian companies succeed abroad. EDC’s current human rights framework is informed by international standards including the UN Guiding Principles, the OECD Guidelines for Multinational Enterprises, the Equator Principles, the IFC Performance Standards, and the Voluntary

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Principles on Security and Human Rights. It further consists of various elements including a human rights statement, internal due diligence guidelines and procedures, guidance from its Corporate Social Responsibility Advisory Council, and an internal Human Rights task force.

The relationship between business and human rights is a current and evolving topic across the globe and public awareness on human rights issues continues to increase. EDC, like many public institutions worldwide, is increasingly challenged by the public on the appropriateness and transparency of its human rights considerations. Specifically, a visit to Canada in 2017 by the United Nations Working Group on Business and Human Rights resulted in an appeal “to consider ways to improve its processes to instill public confidence”, as the Working Group raised concerns with the transparency of EDC’s human rights due diligence.

Similarly, Canada’s Standing Senate Committee on Human Rights published a report in June 2018 on the results of a study that assesses how the protection of human rights in Canada’s export sector can be improved. In the study, the committee argues that “as a Canadian Crown corporation, Canadians, journalists, civil society organizations and academics should be able to scrutinize EDC’s consideration of human rights to enhance public accountability.” The committee further expressed concern about the lack of a statutory obligation that would require EDC to conduct a thorough human rights due diligence review and “determine whether a potential transaction in which it will participate could negatively affect respect for human rights or international humanitarian law.” As a result of its report, the Standing Senate Committee on Human Rights recommended amending the ED Act to align EDC’s human rights obligations with the legislative requirements on adverse environmental effects already captured in the Act.

Feedback from civil society organizations and members of academia received during the Review included a request that EDC establish a more comprehensive due diligence and accountability framework for its human rights and gender risk and impact assessments that meets international human rights standards. For example, Amnesty International takes the view that “mandatory, not voluntary, rules are required to ensure that Canadian companies and investments meet the highest human rights and environmental standards and benchmarks wherever they operate.” Similar action was urged by Above Ground in their submissions during the course of this review. A more comprehensive framework would include an ongoing obligation to monitor human rights and gender aspects throughout the life of a project, as well as the establishment of an independent oversight mechanism.

“However, any reforms made by EDC must be backed with enforceable legal obligations. Effective legislative oversight will ensure that EDC is held accountable for its decisions, and for harm caused by its clients.”

Above Ground submission

“A human rights framework for Export Development Canada will require binding legislation making financing depend on compliance with human rights norms and giving a clear mandate to the organization to incorporate human rights and sustainability based development.”

Amnesty International submission

Stakeholders called for increased transparency on how human rights issues are being assessed at the client level rather than the project (or transaction) level, and requested that EDC’s policies clearly stipulate that no support is granted, or existing support is withdrawn should EDC learn about a client’s or project’s past or present complicity in
human rights violations. The lack of a statutory requirement for EDC to ensure that human rights standards are met in the transactions that the Crown Corporation supports was also criticized and repeated by stakeholders.

On May 1, 2019, EDC released its first stand-alone Human Rights Policy. The policy applies to all EDC operations, unless otherwise stated and outlines EDC’s priorities and objectives for addressing Human Rights issues. This includes aspects such as customer assessments, using its leverage to influence customers for positive outcomes, monitoring transactions, enabling remediation, communicating with stakeholders, tracking performance, and taking an active role in bringing issues to the attention of its customers. The new policy will be reviewed every three years or more frequently should circumstances require.

6.5.4 Conclusion

EDC does not have a statutory obligation to determine whether a potential transaction could negatively affect respect for human rights or international humanitarian law. While there is no statutory obligation for EDC with respect to human rights, its Human Rights Policy does apply to all activities, unless otherwise stated. The policy seeks to align with international human rights standards, informed by the United Nations Guiding Principles on Business and Human Rights which states that all businesses should have in place policies and processes to identify, prevent, mitigate and account for how they address their impacts on human rights.

6.6 Financial Crime

6.6.1. Issue

Financial crime is a current and evolving issue in the financial sector. The term “financial crime” captures a number of areas including fraud and corruption, money laundering, bribery, tax evasion, terrorist financing, cyber-crime, financial data security breaches, and avoiding economic sanctions. Failure to address financial crime and manage sufficiently the related risks can lead to heightened credit risk, financial losses, possible legal action and reputation risk. Further, it can erode public trust in the integrity of a specialized financial institution and government entity like EDC.

6.6.2. Current Practice

EDC has developed its policies and practices related to financial crime step-by-step over the years. Policy development focused initially on the corruption of foreign public officials, set out in several corporate documents: EDC’s Code of Business Ethics and Code of Conduct, its Anti-Corruption Policy Guidelines, and its Approach to Combatting Bribery and Corruption in International Business Transactions. EDC’s Code of Ethics commits it to not “knowingly give, offer or agree to give or offer a bribe,” to not “support a transaction that involves the offer or giving of a bribe” and to “exercise reasonable diligence and care not to support unknowingly such a transaction.” These commitments were based on non-binding OECD guidelines, and the Recommendation on Bribery and Officially Supported Export Credit issued in 2006.

EDC introduced its specific financial crime policy in December 2017. The purpose of this policy was to establish the foundational components of EDC’s Financial Crime Program in order to deter, prevent, detect, assess and mitigate financial crime risk in EDC’s business activities.

EDC’s policy requires it, at a minimum, to conduct the necessary due diligence to avoid engaging in or
being associated with financial crime in its business activities. Its policy seeks to ensure that it complies with applicable legislative requirements, and with Canada’s international commitments relating to financial crime. It incorporates industry practices that EDC considers relevant and appropriate to financial crime risk and adopts an appropriate risk-based approach. The policy also seeks to mitigate financial crime risk for EDC.

This policy is being complemented with a financial crime operational framework, introduced in June 2018. The financial crime operational framework has four foundational elements: data collection and confirmation; risk assessment; enhanced due diligence and evaluation as necessary; and monitoring. It focuses on the risk of financial crime by (largely foreign) counterparts, or “Know Your Customer” (or KYC), and relies on initial screening and regular updates, and risk ratings to assess the potential for financial crimes by counterparties.

6.6.3. Approaches of other ECAs

In the past several years an increased focus on financial crimes can be seen throughout the international ECA community. Fraud cases were revealed, and important clients of ECAs were linked to corruption scandals. For example, in the Airbus Group, the company itself found anomalies over the declaration of overseas agents and had itself notified the UK authorities. Until the situation was sorted out by the UK’s Serious Fraud Office, new ECA guarantees for Airbus from Germany, France and the UK were put on hold.

Part of this enhanced sensitivity manifested itself in the efforts of OECD ECAs to update the OECD Recommendation on Bribery and Officially Supported Export Credits which – after several years of negotiation – was finally agreed upon in November 2018.

Furthermore, the design and implementation of KYC tools has been an ongoing discussion point and agenda item at international fora and conferences hosted and attended by ECAs. However, the legal frameworks and product offerings of ECAs differ, as do the applicable national laws and required due diligence procedures.

6.6.4. Discussion and Analysis

Although EDC had developed policies related to anti-corruption practices, it did not have a formal financial crime policy in place until the end of 2017.

EDC has embarked on strengthening its internal capacities and systems for identifying and assessing the risks related to financial crime. EDC’s existing Financial Crime Risk Framework, consisting of a policy statement and an operational framework, are still young. Its Financial Crime Policy is still in an early period of adoption and has undergone substantial review in the past year. The policy is built on three lines of defence: identifying and controlling risks; setting standards and providing effective challenge; and independent assurance of the effectiveness of the financial crimes program.

EDC approved the financial crimes operational framework guiding its day-to-day operations in June 2018, and its implementation and use is therefore still at an early stage and a work in progress. Responsibilities for financial crimes policy and implementation cut throughout the organization, including staff in the various lines of business, Corporate Social Responsibility – Financial Crimes Function, Legal, and ultimately the Senior Management Committees and the Board of Directors.
The Financial Crime Policy does not contain references to specific policy or commitments of the Government of Canada pertaining to the prevention, detection and management of financial crime. It also does not refer to international best practices in other ECAs and policy-based commercial financial institutions like IFC. Civil society stakeholders have been critical of EDC’s financial crime risk management practices, incomplete policy framework and unclear implementation practices. They recognize that a bribery or financial crime tool kit now exists at EDC, but say it is hard to see how effectively it is being used. They emphasized that Canada lacks legislative provisions that prohibit EDC from supporting companies engaged in bribery. EDC is subject to the Corruption of Foreign Public Officials Act, to the extent that it would be a criminal offence for an EDC employee to engage in bribery-related offences. But unlike other financial institutions in Canada, EDC is not subject to the Proceeds of Crime and Terrorist Financing Act. Moreover, the Export Development Act or related regulations do not address the issue of financial crime, although there are a number of other pieces of regulations that are relevant.

6.6.5. Conclusions

EDC has recently developed a new framework for managing financial crime risks. It has been accused in the past of ignoring or under-estimating the risks of dealing with suspect foreign counterparties, focusing only on risks related to a transaction and not the reputation of the customer. EDC has now developed a framework to strengthen its assessment of risks related to financial crime. It remains to be seen how well this framework is integrated into day-to-day practice. Stakeholders certainly expect greater transparency and public engagement from EDC on this issue, especially since EDC has no statutory obligation to address the risk of financial crime.
CHAPTER 7: OTHER EDC FUNCTIONS
7.1 Introduction

There are two additional functions for which EDC has been given responsibility by the Government to operationalize: the Canada Account and the new Development Finance Institution (FinDev Canada).

7.2 Canada Account

7.2.1 Issue
Canada Account, which is covered under Section 23 of the ED Act, provides support for transactions which are considered to be in the national interest but otherwise would not be acceptable for EDC’s Corporate Account under its risk management framework due to the size of the transaction or the risk or other considerations, such as relevance to EDC’s mandate. All transactions undertaken must be authorized by the Minister of International Trade Diversification with the concurrence of the Minister of Finance, or by Cabinet if transactions are greater than $50 million. EDC is paid an administration fee for administering the transactions.

For transactions identified by EDC and referred to the Shareholder, EDC uses the same risk evaluation, pricing and administration processes and systems as for its Corporate Account transactions. For transactions identified by the Shareholder and referred to EDC to administer the transactions under the Canada Account, EDC reports that it uses the same due diligence and pricing processes as for its Corporate Account transactions provided that the transactions are subject to any due diligence and negotiations undertaken directly by the Shareholder prior to EDC’s involvement. To ensure public policy objectives are met through Canada Account transactions, EDC states that it goes through a process of collaboration and validation. According to EDC, Canada Account transactions follow and comply with the Canada Account Transactions Guidelines.

7.2.2 Approaches of other ECAs
Export credit agencies can be part of the government, act as an independent government agency, or are designed as a commercial organization acting on behalf and for account of the government. In many countries, export credit agencies and Exim-Banks are regarded as a lender or insurer of last resort, which is essentially the role of Canada Account. These countries build their trade finance systems on commercial offerings from banks and private credit insurers. Governments only step into the breach when market actors do not offer sufficient facilities. In other cases, ECAs have a mandate to operate as more commercial entities, with a separate window (like Canada Account) for transactions in the national interest.

7.2.3 Discussion and Analysis
Canada Account transactions are undertaken on the balance sheet of the government. Regular dialogue takes place between EDC, GAC, Finance Canada and other ministries (as required) on possible transactions that may meet the Government’s national interest criteria and be eligible for Ministerial authorization. Approvals of Canada Account transactions may provide specific criteria or conditions guiding EDC. Canada Account transactions are fully administered by EDC on behalf of the Government of Canada, using the same internal financial and risk criteria, management processes, and operating systems that are used for Corporate Account transactions. EDC has internal guidelines on Canada Account transaction administration.
Business under Canada Account is reportedly separately from EDC’s Corporate Account business. Annual reports on Canada Account are available on EDC’s website. All associated costs, risks and revenues are with the Consolidated Revenue Fund, back-stopped by loss provisions in the Government of Canada’s accounts. Allowances for Canada Account exposures are annually estimated by the Department of Finance and the Treasury Board Secretariat.

Since 2008, Canada Account has been used strategically on occasion to finance large, high-profile transactions and facilities that were identified as policy priorities by the Canadian Government. In the aftermath of the 2008-09 Global Financial Crisis when access to credit dried up in many market segments, Canada Account was called upon to sustain and build Canadian export trade and trade capacity. For example, Canada Account was used to provide critical foundational support for the automotive and aerospace sectors in the aftermath of the financial crisis. Thirteen Ministerial authorizations were approved in fiscal year 2009-10.

More recently, the Government has extended Canada Account financing for the Trans Mountain (TMX) pipeline expansion, once the regulatory review process is completed, in order to build Canadian export capacity.

Historically, Canada Account has been used responsively to manage one-off, high-risk or very large trade transactions turned down by EDC due to these or other considerations but judged by the Government to be in the national interest. Officials at Global Affairs Canada consult with their counterparts at Finance Canada in order to determine if the transaction would receive concurrence from the Minister of Finance. If Cabinet authorization is required, Global Affairs officials consult with Finance Canada and other departments as required. The number of Ministerial approvals of traditional Canada Account transactions has been limited over the past decade. For example, according to the Canada Account Annual Reports prepared for the Government of Canada by EDC, there were no financial arrangements facilitated greater than $1 million for the fiscal year ending March 31, 2017. In the preceding fiscal year, there was one loan for US$14 million. Since then, usage has become significant such as funding for the TMX.

Canada Account has also been used to make credit available for strategic trade initiatives of the federal government. In Budget 2018, the Government provided $450 million in project financing capacity to EDC under Canada Account in order to support exports of Canadian green technology.

Two other active applications of Canada Account were requested during our stakeholder consultations. In the view of some stakeholders, Canada Account could be used strategically to make trade credit available in specific markets viewed by Canada as trade and geo-political priorities, but where EDC’s corporate account is unavailable, or available on a selective case-by-case basis. It could also be used to meet competition from countries that may use their export credit agencies and other state financial enterprises to gain a financial competitive advantage in specific third markets. In these specific markets, it was suggested that Canada Account could be used as a safety valve, providing targeted trade credit where country, commercial and/or political risks are judged to be higher than EDC would accept. Advancing specific Canadian trade policy interests would be an important consideration, such as by having a bilateral or regional free trade agreement in place as a prior condition for Canada Account consideration.
7.2.4 Conclusions

The Canada Account can be used for national interest priorities or for traditional high-risk or very large trade transactions. Historically, it has been used to accommodate one-off, high-risk or very large trade transactions turned down by EDC but judged by the government to be in the national interest. Canada Account administration by EDC has been raised as an area where there is scope for improvement. However, expanding EDC’s own risk appetite may reduce the need to resort to Canada Account. This is a matter for further examination.

Certain business stakeholders have urged that the Canada Account be used to make targeted trade credit available in priority policy areas for the Government of Canada. For example, enhanced Canada Account support for exports of Canadian clean technology could help encourage EDC to finance more deals in this sector under its corporate account.

7.3 Shared Services with FINDEV Canada

7.3.1 Issue

As announced in Canada’s 2017 Federal Budget, the Development Finance Institute Canada Inc. (FinDev Canada) was launched in January 2018 as a wholly-owned subsidiary of EDC dedicated to promoting inclusive private sector growth and sustainability in developing markets. FinDev Canada has initial capital of $300 million from EDC that will be injected over the course of its first three years.

In designing Canada’s new Development Finance Institution (DFI), the Government decided to link EDC and FinDev, so that FinDev could learn from and leverage EDC’s knowledge and experience in implementing a broad range of financial instruments in foreign markets. FinDev’s target operating model further relies on shared corporate services with EDC in order to save costs and allow for a quicker implementation of activities.

As FinDev – at the time of the Review – is less than a year old, the Review focuses on the set-up and initial operationalization of the young DFI, and assesses resulting aspects that have or might have implications for EDC’s mandate and operations.

7.3.2 Approaches of Other Countries

The chosen legislative and structural set-up of EDC and FinDev is unique. However, several related examples exist. In Germany, KfW IPEX Bank, a spin-off from Germany’s Development Bank KfW, was formally established in 2008 as a stand-alone subsidiary specializing in export and project finance. IPEX Bank’s sister institution is DEG – another subsidiary of KfW and FinDev’s German equivalent. Both subsidiaries successfully operate side by side, with clearly defined mandates and roles while benefitting from the knowledge exchange fostered as part of the KfW group.

Another related example is from Italy. In 2016, shareholders of SIMEST and SACE – Italy’s DFI and ECA respectively – decided to transfer the majority of SIMEST shares to SACE in order to fully integrate both companies and facilitate an integrated support system that enhances Italian companies’ growth and international competitiveness. In this regard, it is worth mentioning that SIMEST links its financing support to national interest requirements, which makes it different from FinDev but similar to OPIC, the U.S. DFI.
7.3.3 Discussion and Analysis

Set-up as a wholly owned subsidiary of Export Development Canada, FinDev’s purpose is to implement the newly added legislative purpose in the ED Act.

While both EDC and FinDev offer the same underlying financial instruments (namely loans, guarantees and equity), their institutional objectives, mandates, risk appetites, target markets and approaches to transactions clearly differ from each other.

EDC’s and FinDev’s shared corporate functions are governed by a framework consisting of a Master Service Level Agreement (MSLA) and a number of individual Service Level Agreements (SLA) detailing the specific services EDC provides to FinDev.

SLAs were developed and launched in July 2018. However, EDC decided not to finalize the 15 individual SLAs, but instead to do a soft-launch and implement the draft SLAs in order to gain practical experience with the day-to-day operations first. A first review of the SLAs based on the implementation experience so far is currently taking place, and will be followed by the formal finalization of the specific SLAs. The SLAs are drafted with legal language, recognising that as a subsidiary, FinDev cannot take legal action against its parent company. Services provided by EDC cover a broad range of core and support functions.

EDC has added new headcount to support FinDev. It is estimated that up to 135 EDC staff members are having a hands-on role in supporting FinDev. In the meantime, 250 staff members have been trained on the shared corporate functions model. Additional training is being implemented in a just-in-time fashion – especially with regard to individual transaction support provided to FinDev. Special emphasis is being placed on sensitizing EDC staff on their new role as service provider for FinDev.

EDC and FinDev also set up a separate governance structure to manage and govern the shared corporate functions. Furthermore, centralized points of contacts have been set up on both sides of the service level delivery that manage and coordinate the shared services. Invoicing is done each month on the actual level of effort provided to FinDev by EDC staff.

7.3.4 Conclusion

**FinDev Canada does not rely on EDC’s support in business development.** The new company has said that a key priority is to build its own brand and establish an identity separate from EDC. As such, FinDev Canada is focussing on growing its own business originating capacities and is pursuing – at least in its initial phase – transactions in close collaboration with other development finance institutions such as the Commonwealth Development Corporation and FMO, a similar organization in the Netherlands. This clear separation of business development activities is prudent given ongoing controversial discussions at the OECD on the convergence between development and export finance, and the potential impact on competition between institutions that provide these services.

**EDC and FinDev Canada have established a sound management and governance structure for shared corporate functions.** A dedicated operations lead for both EDC and FinDev Canada manages day-to-day implementation of service level agreements. These measures have helped identify and mitigate potential issues such as organizational bottlenecks, the culture shift at EDC towards becoming a service provider and the requirement of detailed timesheets. Scheduled reviews of service level agreements, related performance measurement and pricing models further ensure that the relationship can evolve in line
with the needs of both organizations.

*Shared corporate functions are governed by the principle of cost-efficiency.* FinDev Canada and EDC have agreed to closely track timesheet and performance data to monitor the financial viability of their relationship. The agreement allows FinDev Canada to seek services from outside suppliers should such arrangements be more cost efficient.
CHAPTER 8: EDC’S RESULTS
8.1 Financial Results

8.1.1 Discussion and Analysis

This section looks briefly at business and financial performance over the 10 years since the last review. Table 26 provides a snapshot of key financial results over this period.

<table>
<thead>
<tr>
<th>Table 26: EDC’s Financial Results</th>
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</thead>
<tbody>
<tr>
<td>Total Revenue (Sm)**</td>
</tr>
<tr>
<td>Provisions credit losses (Sm)</td>
</tr>
<tr>
<td>Net income (Sm)</td>
</tr>
<tr>
<td>Total assets (Sb)</td>
</tr>
<tr>
<td>Dividend paid (Sm)</td>
</tr>
<tr>
<td>Admin expenses(Sm)</td>
</tr>
<tr>
<td>ROE (%)</td>
</tr>
<tr>
<td>Productivity ratio (%)</td>
</tr>
<tr>
<td>Cost of risk (%) (Provision for credit losses / Total Exposure)</td>
</tr>
<tr>
<td>Equity / Total Exposure (%)</td>
</tr>
<tr>
<td>Dividend payout ratio (%) to net profit</td>
</tr>
</tbody>
</table>

*Cumulative Average Growth Rate

**Total revenue = Total financing and investment revenue + loan guarantee fees + Net insurance premiums and guarantee fees

Financial Structure

EDC’s financial structure is very strong, especially when taking into account the high quality of its credit risk book. While EDC has an equity base of around $10 billion as at 31/12/2017, it only requires $5.2 billion to support its current risk profile and yet maintain a very healthy AA stand-alone rating, which is on the high end of its self-declared rating target (between BBB and AA). Moreover, the target AA rating should be considered in light of the fact that all of the institution’s debt is backed by the full faith and credit of the Government of Canada.

This low risk profile can be demonstrated by the high proportion of investment grade ratings for new loan signings as shown in EDC’s respective Corporate Plans.
The average cost of risk EDC accounted over the last 10 year (0.12%) is also indicative of the low level of credit risk the institution has been willing to take via its loan and credit insurance underwriting.

**Profitability**

EDC has generated a strong baseline profitability over the last 10 years with an average return on equity (ROE) of 10.3%. There are a series of reasons that can explain this strong performance. By virtue of its AAA rating, EDC has the ability to attract very cheap funding, which enables it to produce healthy net interest margins even when lending to investment grade counterparties. Moreover, the very low cost of risk is a major contributor to the strong financial bottom line.

EDC has a business model by its very nature should not be excessively heavy in terms of administrative expenses. Underwriting big tickets of investment grade loans is not a time- or labour-consuming business (relative to small ticket loans for which the costs are comparable but the revenues are proportionally less) and the distribution model applied to its credit insurance underwriting also keeps administrative expenses to a low level as EDC by and large sells its credit insurance policies via its partners’ networks, especially through the branch network of local commercial banks. Yet, EDC’s performance on the cost side, showing a cumulative average growth rate (CAGR) of 6% over the last 10 years, should be seen in a perspective of a decreasing level of insurance policies in force, which experienced a CAGR of -2.4% over the last 10 years.

In order to benchmark EDC’s profitability, its ROE and adjusted ROE were compared to the performances of the Canadian Stock Exchange, the ROE of the Canadian commercial banks and the risk-free rate applicable to the Canadian 10-year Government bonds.

The adjusted ROE was calculated as follows:
- the equity position was reduced to the level required for obtaining an AA rating assuming the 2017 adjustment expressed in percentage to apply for the entire period
- this ‘excessive capital’ was replaced by additional 10-year loans at the average yield over the last 10 years (2.22%).

**Figure 29: Comparing ROEs**

Figure 29 clearly confirms the quality of EDC’s financial performance. Its official ROE is relatively close to the ROE realized by the Canadian commercial banks and was during most years higher than the yearly return produced by the TSX. The adjusted ROE, removing the surplus, shows results that are even more impressive as this ratio validates the top performance of EDC in financial terms. The shareholder does not impose a ROE target.

**Dividend distribution policy**

Over the past 10 years, the average dividend distribution ratio (expressed as dividends divided by net profit before dividend distribution) stood at 61.5% with a very high level of volatility behind this number.

This volatility can be explained by the zero dividends paid during 3 crisis or post-crisis years and higher numbers during the other years.
### 8.2 Business Results

#### 8.2.1 Discussion and Analysis

Table 27 provides a snapshot of key business results over this period.

**Table 27: EDC’s Business Results**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total exposure ($b)</strong></td>
<td>76.9</td>
<td>71.9</td>
<td>70.9</td>
<td>76.1</td>
<td>78.1</td>
<td>86.9</td>
<td>94.8</td>
<td>113</td>
<td>112.1</td>
<td>110.6</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Total business facilitated ($b)</strong></td>
<td>85.8</td>
<td>82.8</td>
<td>84.6</td>
<td>102.5</td>
<td>87.4</td>
<td>95.4</td>
<td>98.9</td>
<td>104.2</td>
<td>102</td>
<td>103.7</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Volume in emerging markets ($b)</strong></td>
<td>22</td>
<td>18.7</td>
<td>24.7</td>
<td>31.2</td>
<td>26.3</td>
<td>27.3</td>
<td>28.9</td>
<td>29.2</td>
<td>30.6</td>
<td>29.9</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td><strong>CDIA transactions (#)</strong></td>
<td>383</td>
<td>494</td>
<td>573</td>
<td>823</td>
<td>896</td>
<td>459</td>
<td>347</td>
<td>372</td>
<td>508</td>
<td>508</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Customers (#)</strong></td>
<td>8312</td>
<td>8469</td>
<td>8236</td>
<td>7787</td>
<td>7427</td>
<td>7165</td>
<td>7343</td>
<td>7150</td>
<td>9398</td>
<td>1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Small Business &amp; Commercial Transactions (#)</strong></td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>2639</td>
<td>2762</td>
<td>4280</td>
<td>4555</td>
<td>5500</td>
<td>15.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Partnership transactions (#)</strong></td>
<td>4450</td>
<td>4920</td>
<td>5461</td>
<td>5757</td>
<td>4517</td>
<td>4568</td>
<td>3918</td>
<td>3697</td>
<td>3961</td>
<td>NA</td>
<td>-1.3%</td>
<td></td>
</tr>
<tr>
<td><strong>Number of insurance policies in force</strong></td>
<td>9328</td>
<td>9252</td>
<td>9238</td>
<td>8665</td>
<td>8214</td>
<td>8553</td>
<td>7967</td>
<td>7383</td>
<td>7302</td>
<td>7318</td>
<td>-2.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Net Promoter Score (%)</strong></td>
<td>62.1</td>
<td>68.6</td>
<td>72.1</td>
<td>71.2</td>
<td>72.0</td>
<td>70.5</td>
<td>74.3</td>
<td>71.9</td>
<td>77.6</td>
<td>77.3</td>
<td>71.8</td>
<td></td>
</tr>
</tbody>
</table>

*Cumulative Average Growth Rate

** Update to the business rule for CDIA transactions as of 2016

***includes new definition of customer to cover “knowledge customer” (users of EDC’s knowledge products) as of 2017

**** Several changes in methodology and composition. Until 2014 only “small business transactions”, then in 2015 change to “small and medium sized enterprise transactions”, as of 2017 “small business and commercial transactions”

**Business Line Performance**

Against a backdrop of steadily increasing administrative expenses (see Table 26), EDC’s strong financial performance is to some extent in contrast with the quality of the business performance. Significant investments were made in digitization and expanding representations abroad, but the full impact of these investments has yet to be borne out by the business results. As EDC is not bound by Treasury Board guidelines, the justification of the administrative costs should be backed by a sound business case for the development of EDC’s strategic initiatives, which considers not only the unmet needs EDC is seeking to address, but also financial implications, impact of EDC’s risk and capital, expectation of Canadian benefits and whether there is potential overlap with other parts of government.

Most of the key performance indicators (KPIs) in this respect are demonstrating minimal growth or even negative growth. The number of customers with which EDC is working has not grown over the period...
under review (except only marginally with the addition of “knowledge customer” within the definition of an EDC customer). “Knowledge customers” are non-paying clients who do not use EDC’s core financial products. In 2017, these amounted to an additional 1,399 customers.

The number of insurance policies in force (CAGR of -2.4%) in combination with the number of partnership transactions (CAGR of -1.3%) are a sign of contraction. When analyzing from a ‘Business Line’ perspective, it is clear the lending business has resisted relatively well whereas the credit insurance has suffered from an erosion also in terms of outstanding contingent liabilities. It also has to be noted that EDC’s total exposure is significantly impacted by foreign exchange translation as EDC’s assets and liabilities are primarily denominated in U.S. dollars and reported in Canadian dollars.

**Figure 30: Business Volumes over 10-year period in CAD billions**

Business in emerging markets has seen a relatively better growth rate of 3.1 per cent, but from a low base as indicated in the portfolio breakdown between investment grade and investment grade risks, discussed in Chapter 3. However, while only 13% of Canadian trade and investment is destined for emerging markets, it represents close to 30% of EDC’s business. The number of Canadian Direct Investment Abroad transactions grew at a cumulative rate of 2.9 per cent.

The factors of asset growth, a low cost of risk and a decrease in the number of transactions (partnerships, number of policies, SME) in combination with a flat growth of number of customers served confirms that EDC has grown its business mainly via transactions with larger corporates that have a healthier credit risk profile. The credit insurance business is predominantly geared towards the SME segment whereas EDC’s lending is more oriented towards the large corporate segment.

On the positive side, EDC has been able to consistently improve its customer satisfaction score.

### 8.3 Conclusions

EDC’s financial performance is strong by all measures, marked by a conservative approach to risk-
**taking.** EDC’s capital base is very strong, thanks at least in part to its low risk appetite. The average dividend distribution ratio has been high, despite the rather modest growth in total credit exposure. The Return on Equity is high and the shareholder has not imposed a target Return on Equity.

**On the business side, results have been mixed,** as reflected by a drop in the number of insurance policies in force and low or no growth in number of customers served, business facilitated, partnership transactions, as well as weak growth in emerging markets business.
CHAPTER 9: SUMMARY OF FINDINGS
EDC’s Foundations

Legislative Mandate

1. **EDC is pursuing two broad approaches in implementing its mandate.** As Canada’s export credit agency, trade facilitation is at the core of EDC’s operations, responding to the needs of exporters of all sizes and types for credit and risk management expertise to underpin the flow of export transactions. In addition to this more traditional role, EDC can help originate or “create” new Canadian trade opportunities by using its credit and risk management expertise to develop financing relationships with creditworthy foreign buyers, and then use these relationships to build opportunities for Canadian suppliers. This “pull” strategy responds to global supply chain challenges, benefiting Canada and Canadian exporters, notably small and mid-sized businesses.

2. **Canadian exporters agree that EDC provides a valuable service.** Exporters want EDC to be a key partner, both to ensure there is a sufficiently competitive market in Canada for certain trade finance and risk management services, and to provide complementary services that help to fill market gaps in other segments. Many EDC customers value EDC’s role in ensuring competitive options and choice in market segments like credit insurance and surety. Others value EDC’s role as a complementary capacity builder, working with banks to add to the available market capacity for trade-related credit. Exporters and commercial banks note that EDC offers a very broad range of services, covering many insurance and financing products. This is in line with an overall development where export credit agencies around the globe have substantially expanded their product offering in recent years, including direct lending, working capital facilities, or even equity and mezzanine financing.

3. **EDC’s pull strategy is conducive to expanding Canada’s foreign trade.** Foreign “pull” clients confirm that they value EDC’s active efforts to identify high-quality Canadian suppliers and facilitate buyer-exporter relationships. Data provided by EDC suggests that the pull strategy is creating export opportunities and bringing overall economic benefits to Canada. However, EDC acknowledges that it cannot definitively state that Canadian procurement results from pulls, as most pull buyers already have a baseline Canadian procurement which is included in the data. Some exporters express concern that excessive focus on the pull strategy may distract EDC from more conventional forms of trade facilitation.

4. **Some exporters would like EDC to make greater use of traditional export finance tools, such as guarantees, to level the competitive playing field.** They take the view that EDC’s reliance on direct lending for medium-term export transactions may crowd out access to other creditors, including in local markets. Greater use of guarantee structures by EDC may help improve exporters’ overall access to trade finance, particularly in emerging markets with strong local banks.

Governance

5. **EDC is guided by overall government policy but, based on Government of Canada Crown corporation governance best practices, potential enhancements/modifications could be considered.** As a Crown corporation, EDC is at times asked explicitly to implement government policy. Policy guidance is provided to EDC through letters spelling out priorities and
accountabilities, and through corporate plan approvals. Clear and regular input from government, with clear key performance indicators such as number of women-owned exporters, helps ensure EDC’s full alignment with Government policy.

6. **EDC’s shareholder needs to access information on EDC’s operations (such as board briefing material, board minutes, etc.) and, according to the Financial Administrations Act (Section 149 (1)), has a right to access.** This regular sharing of information with appropriate officials of oversight departments is not unusual for other Crown corporations without board representation and could help Global Affairs Canada officials confirm EDC’s alignment with government policy and the delivery on its public policy mandate. It could also provide the timely information needed to brief ministers as required.

7. **Other Crown corporations continue to have government representatives on their boards of directors.** The Government decided in 2006 to remove deputy ministers from the EDC board. However, some other Crown corporations with financial responsibilities continue to have government representatives on their boards.

**EDC’s Strategy**

**Policy Alignment**

8. **EDC’s performance measures are not directly linked to the Government’s regular strategic policy guidance.** EDC has defined and measures its performance based on a set of indicators. Over the past decade these indicators were gradually reduced from 14 to 6 and the composition and calculation of some of the indicators was adapted several times during the timeframe making it difficult to assess some of the overall performance trends. At the same time EDC has only provided qualitative responses to the policy guidance it received from the Government on an annual basis. While EDC’s performance measures are reflective of the Crown corporation’s mandate, EDC does not report specific goals or measures of success for annual public policy objectives.

9. **There is a clear link between EDC’s key performance indicators and its employee incentives.** EDC staff are naturally responsive to internal targets and compensation incentives. Unless the incentives are also aligned with EDC’s public policy objectives, staff may be inclined to focus on the performance indicators, such as increasing business volumes (rather than facilitating private sector providers), most relevant to their compensation.

**EDC’s Market**

10. **EDC has identified the full potential for its services in Canada and internationally.** It has done detailed research over many years to define its customer segments comprehensively, as well as to examine the potential by region and by sector across Canada. EDC has set up a broad network of offices and relationships across Canada, working closely with provinces, municipalities and business groups. It has developed partnerships with many commercial banks to support their customers.

11. **Many clients express a high level of satisfaction with EDC’s products, risk coverage and service, but some see room for improvement.** Praise for the corporation covers the full array of EDC products, and comes from many export sectors and buyer markets. Firms of all sizes and types,
and their representative business organizations, were included in the consultations, and mention was made of essentially every global region and many individual country markets, with a particular interest in EDC’s role in emerging or developing markets. Export sectors covered included aerospace, oil and gas, mining, financial services, construction, ground transportation, engineering services, consumer products, and numerous others. On the other hand, some respondents raised concerns, including inadequate risk appetite; poor or uneven service quality; frequent staff turnover, particularly for smaller exporters; the need for multiple points of contact; insufficient sector knowledge and treatment of services exports specifically; lack of attention to SMEs and small transactions; bureaucratic and time-consuming processes; and a lack of feedback or clarity on why a given transaction was not advancing. EDC’s overall scores for customer satisfaction and loyalty indicate that its customers are generally satisfied with its service. However, a more detailed breakdown would be required to evaluate the success of policy objectives among specific client groups.

12. **EDC has devised plans to improve diversity, inclusion as well as support to women-led and Indigenous businesses.** Given that many initiatives are still relatively new, EDC reporting has so far focused on activities rather than results. During the review, exporters in these customer segments criticized that EDC does not offer enough products and services for their specific needs. Furthermore, they voiced concern that efforts to represent their constituencies are not backed by senior executive leadership.

**Canadian Benefits**

13. **EDC has a very high penetration rate in comparison to other export credit agencies.** An export credit insurance penetration rate of 5 per cent or lower of total foreign trade is common in highly industrialized countries, yet EDC’s comparable penetration rate is significantly higher at 15 per cent. However, this high level of activity may be evidence of a substantial gap in Canadian financial markets which EDC might have contributed to by crowding out potential competitors in the private sector.

**Risk Management**

14. **EDC is not meeting some exporters’ expectations of a stronger appetite for risk, notably involving transactions below investment grade, and in emerging and high-risk markets.** Exporters raised concerns that EDC does not have an appetite for risk beyond the investment-grade credit that is widely available in financial markets. Taking on more risk is an opportunity for EDC to more actively promote the government’s trade diversification agenda. However, EDC would face stiffer competition from other export credit agencies in emerging markets, so ensuring a level playing field through a stronger risk appetite will be critical.

15. **EDC is risk averse compared to its peers, including private sector lenders and insurers.** Despite its strong capital base, EDC’s exposure to non-investment grade risks of 60% of its FY 2017 credit risk is comparable to Canadian commercial banks and lower relative to other OECD export credit agencies.

**Capital Management**
16. **EDC’s calculations show that it has more capital than it needs.** Its capital of $10.04 billion in 2017 was some $4.87 billion more than its needs, based on EDC’s calculation of its business risks. These calculations themselves are based on a very conservative approach.

17. **EDC’s capital surplus suggests there is significant scope for it to take more risk.** The amount of excess capital corroborates concerns that EDC is too risk averse and should be supporting a wider range of deals.

18. **The Government’s capital and dividend policy requires Crown corporations to return capital to the shareholder that is in excess of required capital over the course of the planning horizon.** The planning horizon for EDC’s corporate plan is five years. Its 2018 plan indicates excess capital between 2018 and 2022 of between $3.2 billion and $4.5 billion.

**EDC’s Products**

**Credit insurance**

19. **EDC played a critical role during the global financial crisis of 2008-09, continuing to write business even as private insurers cut back dramatically.** This point was underscored by other credit insurers, brokers and exporters. EDC’s supplementary insurance ensured that the impact of the crisis was softened as other insurers withdrew from large segments of the market.

20. **EDC operates in a vibrant Canadian credit insurance market, with a declining market share.** Its market share (by premium volume) has fallen steadily from 100 per cent in the 1980s to roughly 52 per cent at the time of the last review, and 43 per cent today. However, it still accounts for 73 per cent of the export credit insurance market.

21. **EDC brings important elements to the export credit insurance market, giving exporters more choices.** There are thus compelling public policy reasons for EDC to keep operating in a competitive export credit insurance market in Canada. It brings risk appetite and staying power to the market. For buyers in emerging markets in particular, EDC often offers higher credit limits and better coverage throughout the business cycle.

22. **Private insurers would prefer EDC to step away as prime insurer and play a more complementary role.** They suggested that EDC could act as a reinsurer rather than a direct export credit insurance provider, to help build market capacity. However, such a role may not be sufficient to maintain coverage through the business cycle, especially if EDC is not regularly active in the market as a direct provider. Brokers indicated their preference, on behalf of their clients, that EDC stay active in the competitive export credit insurance market. The overall Canadian credit insurance market has grown in volume, and EDC is aware of the importance of limiting its market share to provide market space and avoid crowding out private insurers.

23. **EDC enjoys a competitive advantage with referrals thanks to its privileged position under the Bank Act and the Insurance Regulations.** EDC is only providing export credit insurance (although in partnership with Coface offers a single policy covering both export and domestic risks to the client). Therefore, unlike the private insurers which offer comprehensive cover, many banks refer business only to EDC when requesting collateral. This gives EDC greater access to new business, than what is available to private credit insurers. This implies that EDC has lower
operational and administrative expenses, as it benefits from the wide distribution network of the commercial banks.

24. **The export credit insurance business in Canada has not grown as fast as Canada’s exports, but has grown faster than most other parts of the world.** The Canadian export credit insurance market grew by 20 per cent between 2008 and 2017, whereas Canadian exports expanded by 32 per cent. Private insurers claim that the active presence of EDC in the market has caused them to withhold investments compared to other business segments. However, based on International Credit Insurance and Surety Association figures, premium income has grown faster in Canada than globally.

25. **There is no evidence that EDC is undercutting premium rates offered by the private sector.** Input from the Insurance Bureau of Canada and credit insurance players indicates that EDC has competitive advantages. However, no concerns have been raised that EDC may be under-cutting private insurers, and EDC maintains that it takes care to ensure that its prices are not lower than the competition, notwithstanding its lower cost of borrowing. This may avoid price distortion, but it could also help justify a stronger appetite for risk. Even so, some concerns have been expressed that EDC is using its full suite of products to attract customers away from private insurers and brokered insurance business.

26. **EDC’s credit insurance results lack transparency compared to private insurers.** Private insurers are subject to reporting requirements set by the Office of the Superintendent of Financial Institutions. The 2008 Legislative Review highlighted this difference, and proposed that EDC’s reporting should also comply with regulatory requirements for insurance companies. While EDC reports its business results to the Receivables Insurance Association of Canada, EDC does not track profitability of its credit insurance business as it does not allocate specific costs to the program.

27. **The current cooperation model in the domestic credit insurance market may limit consumers’ choice.** EDC established a relationship with Coface where Coface assumes the domestic credit risk for EDC’s export credit insurance clients. The rationale for EDC having only one credit insurer on the domestic program needs further consideration. The arrangement with Coface was renegotiated in summer of 2018 before the Legislative Review, without opening up this market to other insurers. Private insurers and brokers have suggested using a more open and transparent auction market for EDC’s domestic credit insurance business. This would allow private sector insurers to work with brokers to bid on the domestic business based on price, cover, service, claims payment record and other factors.

28. **EDC’s claims experience in the credit insurance business is in line with other insurers’ experience.** EDC’s loss ratio needs to be calculated over a number of years, as a single year’s claims are not an accurate reflection of long-term performance. EDC states in its annual report that it has a target net claims ratio of 50 per cent, which seems in line with private insurers’ credit risk profile. Its portfolio is conservative, tilted towards investment-grade buyers, and the typical risk profile of EDC customers would certainly be viewed as conservative by commercial credit insurers.

**Bonding and Guarantees**
29. Stakeholders have differing views on EDC’s role in providing bonding and guarantee facilities for the construction industry. Views differ on the ability of the private surety market to satisfy the expectations of Canadian construction firms, project sponsors, public-private partnerships and financial institutions, particularly on domestic projects. Canadian construction firms and their banks favour EDC’s active role, particularly its Performance Security Guarantee (PSG) product, and want it to continue. For the banks, this is not surprising given the quality of cover provided by an AAA-rated entity. The surety industry maintains that EDC can add value to the market by expanding its complementary role, and brokers could be used more extensively to develop new business. EDC could provide reinsurance for the surety market beyond private sector cover limits. Private sureties propose that EDC concentrate more on reinsurance to help develop market capacity, and less on direct business origination. The state of this debate within Canada is akin to that within the credit insurance market some decades ago, when EDC first entered the domestic credit insurance market.

30. According to the construction industry, there is a need for EDC’s capacity to support the surety and bonding requirements for domestic projects. EDC’s role in the domestic construction market drew considerable attention during the stakeholder consultation process. Its active role in domestic surety is highly valued by Canadian construction firms and banks for public-private partnerships, infrastructure and other projects. It provides liquidity and security that are not yet readily available in the private surety market, but which are essential for participation in these projects. In the view of construction exporters and financial institutions, the private market cannot yet provide a fully liquid bond, creating a market gap that EDC has filled.

31. Private surety providers emphasize that the Canadian surety market is evolving, particularly in meeting the security requirements of domestic public-private partnerships. New hybrid instruments are emerging that are intended to meet the needs of project stakeholders. In the view of private surety providers, the private market needs to have room to find the next best path without EDC involvement.

32. Small and mid-sized contractors claim there is not a level playing field in terms of access to EDC domestic bonding and guarantee facilities. According to the construction industry, requiring export sales of 50 per cent as a pre-condition for access to domestic cover from EDC creates a barrier to access for many Canadian contractors. Smaller contractors emphasized that only general contractors with established access continue to have access to domestic surety cover from EDC. For small businesses without a minimum 50 per cent of revenues from exports, there is the additional requirement of having to seek Ministerial authorization. However, they can still access EDC’s domestic program.

33. If EDC’s domestic role in surety and bonding is to be altered, the changes need to be clearly assessed and defined, with a sufficient transition period to allow all players to adapt. Canadian contractors contend that they need clarity and certainty on EDC’s role in the domestic surety market. They would like EDC to stay fully engaged, with authorization for a defined period of time, rather than case by case. Without the certainty of being able to provide the requisite performance security, construction firms said they would be unable to enter into the lengthy and expensive cycle of prequalifying for, and bidding on, public-private partnerships and other projects, domestically and internationally. A transition plan was suggested by a private surety provider that aimed at making EDC support for banks a second option for domestic projects, not a first choice, to be used if the private surety market does not deliver a suitable solution. EDC could also be more available to reinsure or share risk with private insurers on domestic projects,
as it does beyond Canada’s borders.

34. Stakeholders have identified the need for more frequent and regular federal government consultations on the surety market. A message conveyed by the surety industry is that regular consultations with industry would help expand the Canadian surety market and make it more efficient. These consultations, possibly scheduled every two years, would be separate from the EDC review.

Financing

35. Canada’s banking landscape is different from other OECD countries. The long-running debate within Canada on medium and long-term financing – namely, whether EDC should be a direct lender, or a provider of bank guarantees – has lost traction as Canadian banks have limited interest in the export finance business, and lending to foreign buyers is not generally part of their strategies. However, commercial banks in other OECD countries are active in export finance and get guarantee coverage from the national export credit agency. Banks in Canada are no longer interested in export financing and hence make little mention of competition from EDC’s services. By contrast, banks in most other OECD countries are far more active in this business. Whether EDC has filled a gap, or created a distortion by displacing banks in the trade finance market, is a chicken-and-egg debate that is unlikely to be resolved.

36. The limited involvement of private-sector lenders has created some weaknesses in medium- and long-term trade financing. Foreign banks emphasize that Canadian exporters can face a competitive disadvantage by not having full access to the international commercial export finance system. EDC is not able to fully compensate for the constraints imposed by its dominance of Canada’s trade finance system. Export credit agencies typically rely on international and local banks that have wider networks and deeper relationships with borrowers. EDC’s international offices play a crucial role in identifying opportunities, but they cannot match the banks’ networks. Of EDC’s overseas offices, 15 are in emerging markets and are primarily focused on export financing. Thus, an internationally comparable guarantee program from EDC for banks is critical to maintain Canadian exporters’ competitiveness.

37. Some major exporters are seeking greater use of targeted bank guarantees from EDC, notably for local banks in buyer countries. Exporters suggest EDC could provide more bank guarantees, especially in challenging markets.

38. There is evidence that EDC sometimes crowds out Canadian and foreign banks from specific export financing deals. Several foreign banks mentioned that EDC enjoys an unusual level of market dominance, allowing it to crowd out commercial lenders in medium and long-term financing deals without giving private-sector banks a chance to compete. Several examples were cited of commercial banks being unable to compete with EDC’s pricing, and of EDC proactively offering its services to the banks’ existing clients in buyer countries. This could be avoided if EDC concentrates on services that complement the banks’ offerings, while adjusting its internal processes to ensure that it does not crowd out the banks on specific export financing deals. Ultimately, the priority is customer choice with EDC remaining agnostic on whether it provides
loans or guarantees.

**Equity Investment**

39. **EDC has taken on the role of a targeted and selective minority investor, both directly and through funds, enabling it to match procurement opportunities from these investments with Canadian supply capabilities.** There is no indication that EDC is crowding out other players. EDC is investing directly and making commitments to fund partners with strategies that are consistent with its trade-promotion mandate. However, caution was expressed that EDC should avoid early-stage venture capital investments, given the high risks involved, and the fact that the Business Development Bank of Canada already caters adequately to this segment.

**Knowledge Products**

40. **EDC’s new knowledge products capitalize on its strengths.** Providing relevant export-related information complements EDC’s financial services and is entirely in line with its mandate to help Canadian businesses succeed abroad. Other export credit agencies have long recognized that trade-related information complements their financing and insurance activities.

41. **EDC classifies knowledge users as “customers” in assessing its performance targets.** These non-financial services undoubtedly provide value for users. However, it remains an open question whether those who have access to knowledge products at no cost can accurately be described as “customers”, with the same status as clients of EDC’s traditional financial services.

**EDC’s Partnerships**

**Private Sector Partnerships**

42. **EDC competes directly with the private sector in export credit insurance.** There are strong public policy reasons for this practice to continue, notably EDC’s risk appetite in specific types of business, and its staying power through thick and thin. However, there is little evidence that EDC’s competitive role has expanded the market for export credit insurance. The over-arching public policy issue is whether EDC could do more to grow the Canadian credit insurance market by taking on a more complementary—rather than competitive—role.

43. **There are growing concerns among private-sector surety providers that EDC is crowding them out of the bonding market.** EDC’s performance security guarantee is popular with banks (which benefit from a 100% AAA-rated guarantee) and with contractors. Traditional surety industry products are often less competitive. Efforts have recently been made to innovate and create liquid bonds that act more like bank stand-by letters of credit. As with credit insurance, the question is whether EDC can do more to grow the Canadian surety market by complementing rather than competing with other providers.

44. **EDC’s relationship with the Canadian banking industry is generally working well but is less positive with the international and local banks which provide finance to buyers.** EDC’s relationship with the Canadian banking industry is more positive and productive today than a decade ago as demonstrated by EDC’s numerous complementary products for Canadian banks. Canadian banks want EDC to complement their business, supporting them as they finance exporters and build market capacity. EDC offers a broad range of services, covering a manifold
set of insurance and financing products. These include exporter pre-shipment financing, foreign buyer financing for capital good exports, project financing with Canadian supply and investment interests, balance sheet financing for exporters, performance guarantees for contractors, and the use of exporters’ credit insurance as security.

The banks view EDC’s activities as the best fit with their own business among Canada’s financial-services Crown corporations. They see it as particularly helpful in assessing and managing overseas business risk. EDC’s bank pre-shipment export guarantee program is cited repeatedly as an example of how its programs complement those of the banks. However, EDC can also learn from other export credit agencies. For example, Denmark’s Eksportkredit rolled out an ‘ambassador program’ in 2015 that enables banks to seize more opportunities for export financing. Germany systematically involves senior commercial bankers, drawing on their expertise and networks in an inter-ministerial committee.

Public Sector Partnerships

45. Risk of duplication among federal partners exists. Given the mandate of the Trade Commissioner Service and other federal partners in trade development and risk management, close collaboration is essential to minimize the risk of duplication, optimize sharing of information among federal entities, and provide seamless services to Canadian exporters. Above all, each partner needs to focus on its core mandate while being cognizant of their role in the broader trade support ecosystem.

46. EDC is a critical part of Canada’s international trade superstructure that also includes federal departments and agencies, provinces and cities. In general, the system is working better today than in the past – as manifested by more effective cooperation and common-sense coordination with the Trade Commissioner Service, other federal departments, the Business Development Bank of Canada and other Crown corporations, provinces, cities and related organizations. In general, the mandates of these various organizations complement each other. Some overlap is inevitable (and acceptable) to close financial market gaps. Even so, duplication is costly and more work needs to be done to define each partner’s comparative advantages.

EDC’s well-developed network of offices outside Canada gives it a central role in developing international trade. Protocols, regular consultations and constant communication are all required for effective functioning of these offices in conjunction with the Trade Commissioner Service and the provinces. Even closer collaboration is possible, likely leading to additional business development benefits.

47. Government stakeholders, specifically the Trade Commissioner Service and the Business Development Bank of Canada, are working with EDC on a more collaborative approach to international trade development on behalf of Canadian exporters. As stated in Budget 2018, the over-arching goal of Canada’s international trade and business development should be seamless service to exporters. Government stakeholders would appreciate more openness, collaboration, consistency and collegiality with EDC on international trade development. Varied strengths and weaknesses were identified, with some noting a degree of inconsistency in EDC’s approach to collaboration, both in Canada and abroad. There remains room for improvement in setting clear guidelines for engagement with EDC’s public sector partners and to recognize their deep local knowledge in Canada and in specific global markets.
48. **Stakeholders emphasize that information sharing still needs more two-way clarity and equal engagement.** Their point pertains to overall trade market information; market and buyer intelligence for other stakeholders and for Canadian clients; and qualified leads and cross referrals. In addition, clarity would be useful on which agency has primacy on various types of match-making initiatives (such as general versus targeted), arranging joint client visits, etc. Common business development plans, formal protocols and other instruments can help add clarity and foster better relations in Canada and abroad. Tracking outcomes on referrals and other interventions would help strengthen overall collaboration. Overall, EDC’s capacity to invest in international trade development is far greater than other Canadian departments and agencies.

**Civil Society Partnerships**

49. **EDC has developed relationships with some civil society groups, but at present that engagement appears to be uneven.** More consistent and systematic engagement could allow EDC to understand these groups’ perspectives more fully, harness their expertise, and develop stronger long-term collaboration. The government’s Corporate Social Responsibility Advisory Council plays a useful role, but it has limited civil society representation. EDC could be more proactive to instill confidence in its processes and procedures among civil society groups. Roundtables, joint studies, and audits are some ideas to be considered. Closer coordination between Global Affairs Canada and EDC on social responsibility issues, would be beneficial, particularly in the natural resources sector.

**Corporate Social Responsibility at EDC**

**Transparency and Disclosure Practices**

50. **There is a risk that Canadian exporters miss out on business opportunities if EDC, the Trade Commissioner Service and other partners fail to address the need for more shared business information.** More clarity is required on the dividing line between commercially confidential information that ought to be protected or where client consent should be sought, and information that can be shared by EDC with trade commissioners and other trade development partners without compromising its clients’ business interests.

51. **Greater transparency and disclosure on non-financial information appears possible without jeopardizing a client’s business or competitive position.** While information EDC currently discloses is in line with OECD guidelines, it does not match the standards of organizations such as the World Bank’s International Finance Corporation (IFC) and other export credit agencies, such as the US EXIM Bank. Stakeholders see IFC’s disclosure practices as setting the bar for what EDC could disclose.

**Environmental and Social Risk Assessment**

52. **EDC implements environmental and social due diligence and standards for “project transactions” in line with its statutory obligations.** The Auditor General of Canada’s most recent examination of EDCs environmental and social review practices concluded that the environmental and social review directive and other review processes for significant projects were suitably designed and met the requirements of the OECD Common Approaches and the
Equator Principles. The audit also concluded that EDC’s processes were suitably designed, effectively implemented, and regularly reviewed. The review process applied to “projects” uses the same performance standards and guidelines as the International Finance Corporation and follows a similar due diligence approach. No evidence was identified during this review that refutes the Auditor General’s conclusions.

This review also finds that the definition of significant projects subject to EDC’s environmental review directive is consistent with the thresholds set out in the OECD’s Common Approaches and the Equator Principles. EDC is thus aligned with these voluntary requirements as well as the practices of most of its peers.

53. **EDC and its governing legislation continue to face criticism from civil society stakeholders.** Civil society groups consider the Export Development Act’s environmental and social provisions to be weak on the grounds that they do not provide clear enough guidance on the level of risk EDC may legally assume. Further development and monitoring of best practices and systems related to EDC’s social responsibilities are required to ensure that its approach meets its stakeholders’ evolving expectations.

54. **EDC does not disclose its environmental and social review process for “non-project transactions”**. In the absence of statutory direction for environmental and social review of non-project transactions, EDC has developed its own internal system, which includes processes for “automated review”, “officer screening”, “environmental risk review”, and “corporate risk review”. The details of these processes, or the outcomes for specific transactions, are not disclosed. EDC has taken steps toward releasing more information on transactions with heightened environmental, social and human rights impacts and risks, and it is now reviewing its environmental and social risk management policy. Aligning disclosure practices with current and emerging international best practices is an important part of that exercise. The review also provides an opportunity for EDC to clarify the environmental and social standards that apply to non-project transactions, and to make this information available to stakeholders. It has been suggested that the scope of the Export Development Act and the EDC’s environmental review directive be expanded to capture more transactions, specifically those that provide finance for “general corporate purposes”. The concern is that such transactions may expose EDC to clients that do not comply with applicable standards.

**Climate Change**

55. **EDC released a new climate change policy in January 2019 and has proactively developed its climate-related business.** However, a significant portion of EDC’s business involves extractive industries linked to high greenhouse gas emissions. Approximately 26 per cent of EDC’s business directly or indirectly supports the mining and oil and gas industries, as well as other activities with significant emissions of greenhouse gases, such as burning coal and natural gas to generate electricity. EDC has joined other export credit agencies and multilateral financial institutions in adopting the OECD’s sector understanding on export credit support for coal-fired power plants. It has also issued its own guidelines restricting support for coal-fired power generation. However, despite EDC’s new policy eliminating support for thermal coal, EDC’s stakeholders would like it to take a more proactive role in expediting reductions in emissions of greenhouse gases and generally shifting business from high-emission sectors, companies and projects toward those with a more progressive approach towards the environment.
Human Rights

56. **EDC does not have a statutory obligation to determine whether a potential transaction could negatively affect respect for human rights or international humanitarian law.** While there is no statutory obligation for EDC with respect to human rights, its Human Rights Policy does apply to all activities, unless otherwise stated. The policy seeks to align with international human rights standards, informed by the United Nations Guiding Principles on Business and Human Rights which states that all businesses should have in place policies and processes to identify, prevent, mitigate and account for how they address their impacts on human rights.

Financial Crimes

57. **EDC has recently developed a new framework for managing financial crime risks.** It has been accused in the past of ignoring or under-estimating the risks of dealing with suspect foreign counterparties, focusing only on risks related to a transaction and not the reputation of the customer. EDC has now developed a framework to strengthen its assessment of risks related to financial crime. It remains to be seen how well this framework is integrated into day-to-day practice. Stakeholders certainly expect greater transparency and public engagement from EDC on this issue, especially since EDC has no statutory obligation to address the risk of financial crime.

Other EDC Functions

Canada Account

58. **The Canada Account can be used for national interest priorities or for traditional high-risk or very large trade transactions.** Historically, it has been used to accommodate one-off, high-risk or very large trade transactions turned down by EDC on commercial grounds but judged by the government to be in the national interest. However, expanding EDC’s own risk appetite may reduce the need to resort to Canada Account. This is a matter for further examination.

59. **Certain business stakeholders have urged that the Canada Account be used to make targeted trade credit available in priority policy areas for the Government of Canada.** For example, enhanced Canada Account support for exports of Canadian clean technology could help encourage EDC to finance more deals in this sector under its corporate account.

Shared Services with Development Finance Institute Canada

60. **FinDev Canada does not rely on EDC’s support in business development.** The new company has said that a key priority is to build its own brand and establish an identity separate from EDC. As such, FinDev Canada is focussing on growing its own business originating capacities and is pursuing – at least in its initial phase – transactions in close collaboration with other development finance institutions such as the Commonwealth Development Corporation and FMO, a similar organization in the Netherlands. This clear separation of business development activities is prudent given ongoing controversial discussions at the OECD on the convergence between development and export finance, and the potential impact on competition between institutions that provide these services.

61. **EDC and FinDev Canada have established a sound management and governance structure for**
shared corporate functions. A dedicated operations lead for both EDC and FinDev Canada manages day-to-day implementation of service level agreements. These measures have helped identify and mitigate potential issues such as organizational bottlenecks, the culture shift at EDC towards becoming a service provider and the requirement of detailed timesheets. Scheduled reviews of service level agreements, related performance measurement and pricing models further ensure that the relationship can evolve in line with the needs of both organizations.

62. Shared corporate functions are governed by the principle of cost-efficiency. FinDev Canada and EDC have agreed to closely track timesheet and performance data to monitor the financial viability of their relationship. The agreement allows FinDev Canada to seek services from outside suppliers should such arrangements be more cost efficient.

EDC’ Financial and Business Performance

63. EDC’s financial performance is strong by all measures, marked by a conservative approach to risk-taking. EDC’s capital base is very strong, thanks at least in part to its low risk appetite. The average dividend distribution ratio has been high, despite the rather modest growth in total credit exposure. The Return on Equity is high and the shareholder has not imposed a target Return on Equity.

64. On the business side, results have been mixed, as reflected by a drop in the number of insurance policies in force and low or no growth in number of customers served, business facilitated, partnership transactions, as well as weak growth in emerging markets business.
ANNEX A: LIST OF STAKEHOLDERS CONSULTED

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**ANNEX B: LIST OF WRITTEN SUBMISSIONS**

The organizations listed below forwarded written submissions to the Review Team. Several of these submissions were listed, with the permission of the author, on the dedicated Review website, www.edc2018.ca.

- 3 Points Aviation Corp.
- Above Ground
- Acme Engineering Products Ltd.
- Aecon
- Amnesty International Canada
- Atradius
- Balcorp Limited
- Blackhorse Market Solutions
- Both ENDS (on behalf of 6 CSOs from 5 countries)
- Bombardier Inc.
- Business Council of Canada
- Bredero Shaw International B.V.
- Canada Eurasia Russia Business Association
- Canadian Apparel Federation
- Canadian Construction Association
- Canadian Federation of Independent Business
- Canadian Labour Congress
- Canadian Manufacturers and Exporters Association
- Canadian Taxpayers Federation
- Canpotex Limited
- Creditassur Inc.
- DII Inc.
- EllisDon Corporation
- Embassy of Canada in Ecuador
- Engineers Without Borders Canada (Mining Share Value Initiative)
- Euler Hermes Canada
- Export Development Canada
- General Contractors Alliance of Canada
- Global Credit Risk Management
- Green Power Labs Inc.
- Groupe minier Cmac-Thyssen inc.
- Insurance Bureau of Canada
- Kinross Gold Corporation
- La vie en rose
- Ledcor Industries
Lundin Gold
Marme Canada
Methanex
Mining Association of Canada
Noble Energy
Oxfam Canada
Probe International
Refraction Asset Management
S2e Technologies Inc.
Samuel, Son & Co., Limited
Schulich School of Law, Dalhousie University; Faculty of Common Law, University of Ottawa
Summitt Energy Inc.
Suncor Energy
Surety Association of Canada
The Guarantee Company of North America
Terracam Equipement International Ltée.
The Wallrus
UNICEF Canada