



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Foreign Affairs and International Development

FAAE • NUMBER 042 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Wednesday, June 13, 2012

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Chair

Mr. Dean Allison

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•(1530)

[English]

The Chair (Mr. Dean Allison (Niagara West—Glanbrook, CPC)): Pursuant to Standing Order 108(2), today we are studying the role of the private sector in achieving Canada's international development interests.

I want to welcome Gavin McGillivray, head of the private sector department at the Department for International Development, or DFID.

Sir, welcome. It's a pleasure that you could take time to meet with us today.

It must be close to eight or nine o'clock over there.

Mr. Gavin McGillivray (Head of Department, Private Sector Department, Department for International Development (DFID), Government of the United Kingdom): It's half past eight.

It's a pleasure to be with you. Thank you for inviting me.

The Chair: Thank you very much.

We'll get started and get your testimony on the record. We may have some bells for votes, but we're anticipating that we can at least hear what you have to say and probably get at least one round of questioning in.

I'll turn it over to you. Welcome. Thank you for taking the time to be with us today. We look forward to your testimony.

Mr. Gavin McGillivray: Thank you very much.

I was uncertain of what testimony you were looking for, so what I'm going to talk about for a few minutes is how the U.K. Department for International Development has got to where it is in terms of working on private sector development and what our current approach is.

In terms of background, it's important to emphasize that DFID is governed by the International Development Act of 2002, which broadly means that the only thing we can use our time and our money for is to reduce poverty. It's the most wonderful enabling act of Parliament that we work under. Everything we do, including our entire engagement on private sector development, is a means to an end, and that end is to reduce poverty in the poorer countries of the world.

Against that background, DFID for some years has engaged the enabling environment for private investment, private sector development, and directly with private enterprises. But I would say—I've

been with DFID 12 years now—that it was somewhat of a marginal activity in terms of resources and time of personnel.

With the arrival of a new government in early 2010 there was a decision to focus more attention on the potential of the private sector to deliver development results. Our new government has put a lot more emphasis on this, I think with three or four main aims.

The first aim is absolutely straightforward. We know, and the evidence is strong, that poverty reduction is driven principally by economic growth. We know that economic growth is driven principally by successful private investment and private enterprise. So it's an absolutely legitimate means for those seeking to achieve poverty reduction to try to achieve more successful private investment and private enterprise in the poorer countries of the world. So that's one area.

The second area is about service delivery. The evidence shows that in the poorer countries of the world, many people, and many poor people, receive their services primarily from non-state actors. Poor people buy their medicines from the village shop. They go to traditional healers. They go to the informal sector. Many poor people in slum areas of the big cities send their children to low-cost private schools. In the slum areas, it's common to buy water. So basic services are often significantly a non-state activity, and we are looking to see if there are ways of engaging in private delivery of services so as to increase access, increase quality, and increase affordability for poor people.

The third reason is that we believe we can get greater leverage, or greater bang for our pounds, by engaging with the private sector. If we can spend a pound or a dollar and that causes the private sector to spend several dollars in places that it wouldn't otherwise have done, or in ways that it wouldn't otherwise have done, to benefit poor people, then that multiplies the effect of our spend.

Fourth, I'm pretty sure our ministers are hopeful that if we interact more with private enterprise, then some of the efficiency gold dust will rub off on us, that we will become more effective as civil servants if we adopt more private sector modes of work.

We set out this new approach to working with the private sector in a paper we published in May 2011, which is available on our website. It's called "The engine of development: The private sector and prosperity for poor people". This isn't a strategy document; it's an approach paper.

●(1535)

Our ministers very much want us, at the moment, to be entrepreneurial and opportunistic in the way we engage on private sector development.

Broadly, we have two overarching strategic objectives in our engagement on private sector development. The two objectives are to increase successful private investment and to have more and better basic services. There are two ways we go about achieving those two objectives: first, by improving the investment climate, and second, by directly engaging with private firms. I'll run through those two objectives quickly.

We want to increase private investment in low-income countries, in countries that contain lots of poor people, and in sectors or in areas that have large potential impacts for poor people. Agriculture, infrastructure, financial services, extractives, health care, schooling, vocational training, and climate are all areas in which we want to catalyze more private investment.

When we talk about private investment and private enterprise, we're talking about private enterprises of all types. So we're talking about the informal sector: smallholder farmers, street traders, and artisans. We're talking about small and medium-sized enterprises, both informal and formal. We're talking about national firms, multinational corporations, and financial institutions. So we are open to working with the very biggest firms to increase and improve what they do in the poorer countries, and we're interested in helping create the circumstances whereby, for example, smallholder farmers can invest in their crops and do so confidently and successfully.

I'll move on to basic services.

We're looking to engage with private—both commercial and non-commercial—non-state actors to achieve more accessible, more appropriate, or higher-quality and more affordable basic services in, for example, health care, medicines, schooling, vocational training, water, sanitation, power, communications, and transport.

Going back to how we work, I talked about two main elements: the enabling environment, or the investment climate in direct engagement. Under the enabling environment for private investment, we work to strengthen public bodies; we cooperate with developing country governments to put in place better laws, standards, regulations, and regulatory institutions. We spend quite a bit and put quite a bit of effort into trying to strengthen developing country governments' capacity to plan in relation to private sector development, to contract, to manage, and to supervise private providers. We also invest quite a lot in information as part of the enabling environment. We put quite a lot of effort into research and development of evidence on what works and what doesn't, and we spend a fair bit on trying to make available information on best practices for engaging with the private sector.

We have several instruments for engaging with the private sector. I'll run through just a few. I can try to come back in greater detail on any of these points, if that would be of interest to you.

In terms of instruments, we provide specialist technical assistance, and we fund our partners to buy technical assistance. We put a lot of funding into public organizations, institutional reform, and capacity

building in relation to the private sector. As I've said, we invest a lot in research, building the evidence, and disseminating best practices, and we fund quite a lot of public-private partnerships in research and development, especially in health and a bit in agriculture.

●(1540)

One big thing we did a few years ago, together with you, was the advance market commitment for pneumococcal vaccines, which you'll be familiar with.

We run several competitive funds—we call them challenge funds—whereby we share the costs and risks with private enterprise. Another way we share the costs and risks with private enterprise in doing business in more difficult markets is through funding of equity and guarantees. Also, we do a fair bit on funding project preparation, on helping create investable propositions in the poorer countries.

We do all of the above through grants, so DFID.... Although under the act we can use our money in any way—we can invest, we can lend, we can guarantee, and we can give grants—our activities at the moment are grant-based. If we want to do something more sophisticated, like give guarantees, then we do that through an intermediary body. We fund an intermediary body through grants, and that intermediary body provides the more sophisticated instrument.

We do own an investment house ourselves. It's called CDC Group plc. It used to be called the Commonwealth Development Corporation. It has a balance sheet of \$4.2 billion U.S. That, as many of you will know, has been for several years now a private equity fund, a fund of funds for private equity. It has backed funds that invest in companies in the poorer countries of the world.

That has been very substantially reformed over the last 12 months. It published its new strategy on its website just at the end of May. Under the reform of CDC, it will focus its business more closely on sub-Saharan Africa and South Asia. It will be able to deploy more flexible funding instruments—not just private equity but also debt guarantees and direct investment. It will be able to take more risk and it will be driven by development impact.

I suppose the third important instrument we have for engaging with the private sector is multinationals. A very substantial proportion of DFID's budget goes to the multinational organizations. Some of these are specialist players with the private sector, such as the IFC and MIGA, but the World Bank and the other regional development banks—the African Development Bank and the Asian Development Bank—have important areas of activity related to private sector development, as do the newer bodies like the Global Alliance for Vaccines and Immunization.

At that, I would like to close what I've had to say, but I'm very happy to try to elaborate on any area of that or to answer questions.

Thank you.

The Chair: I want to thank you very much.

I warned previously that we may have some votes. While you were finishing up your testimony the bells started ringing, which means, as you're probably well aware, that we have to go for votes. I apologize, but we are grateful that we got your testimony on the record.

I am not sure if we're going to be able to reschedule. Our votes are going to be held half an hour from now, and it's going to be at least an hour before we get back. I want to say thank you. I apologize that we're not able to follow up with questions today.

To the committee, are we going to try to come back to work on other things? What's...?

A voice: [*Inaudible—Editor*].

The Chair: Okay.

Mr. McGillivray, I apologize. Thank you very much for your testimony.

Mr. Bob Dechert (Mississauga—Erindale, CPC): We can try to reschedule, Mr. Chair.

The Chair: We would like to try to reschedule to follow up with questions at another point in time. Would that be a possibility?

Mr. Gavin McGillivray: That would be fine. In the meantime, if it would be of interest to you, I'll forward the document to you, or the

link to the document that I indicated. That might give you some basis for further questions.

Thank you very much indeed.

● (1545)

The Chair: Thank you very much.

Ms. Lois Brown (Newmarket—Aurora, CPC): Mr. McGillivray, could you give us the website?

Mr. Gavin McGillivray: Yes. It's the DFID website: www.dfid.gov.uk.

Ms. Lois Brown: Thank you.

The Chair: Thank you very much.

Committee, we will just see how things are going. We're going to plan on coming back for the second hour, but we're going to have to wait to see what goes on. Right now, we'll plan on coming back.

Thank you very much.

● (1545)

_____ (Pause) _____

● (1635)

[*Proceedings continue in camera*]

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