Profiting from Poverty

Privatisation consultants, DFID and public services

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WAR ON WANT
FIGHTING GLOBAL POVERTY

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Executive summary

Privatisation of public services has led to increased poverty in many developing countries. Yet even with the increasing evidence of the damage caused by such privatisations, developing country governments continue to come under intense pressure to commit their public services to privatisation – often as a condition of receiving development assistance, loans or debt relief from international financial institutions and donor governments.

The UK government, in particular, has positioned itself as a champion of privatisation in developing countries. Despite its avowed commitment to poverty reduction and realisation of the Millennium Development Goals, the UK's Department for International Development (DFID) has invested heavily in the international privatisation programme, creating new bodies and financing mechanisms to advance the cause of privatisation across the developing world.

In addition, DFID channels large sums of the UK aid budget every year to multinational corporations such as PricewaterhouseCoopers and KPMG in order to drive forward the privatisation of public services in developing countries. DFID's commitment to privatisation has brought the Labour government into startling new alliances. The consultancy arm of the Adam Smith Institute – the right-wing think tank behind the Conservative government's privatisation of Britain's public services in the 1980s – has received over £34 million from the UK aid budget in the past six years.

This War on Want report represents the first published analysis of the role of privatisation consultants in developing countries. The report shows how private sector consultancies have established themselves as indispensable partners in the international privatisation programme, and provides examples of the immense sums they earn from such contracts. It also highlights the lobbying activities undertaken by privatisation consultants in promoting the privatisation of public services on their own account – an indication of the conflict of interests raised by employing such firms as advisers on public services reform.

The UK government actively promotes British expertise in the field of privatisation in order to win overseas contracts for its own companies. This includes a dedicated team advising British companies how to win contracts from the UK's own aid budget, through what the government terms 'aid-funded business'. The benefits of such business to private sector consultants are clear, yet it is far from clear that these companies are a suitable choice to provide pro-poor reform solutions in the developing world.

War on Want believes that DFID's commitment to privatisation of public services is incompatible with its stated commitment to poverty reduction and realisation of the Millennium Development Goals. On the basis of the concerns raised in this report, War on Want calls on DFID to desist from including privatisation as a condition of its development assistance. DFID should establish an independent commission to take evidence on the impact of public services privatisation in developing countries. DFID should also refrain from awarding any new public service reform contracts to privatisation consultants until the commission has reported its findings.

List of acronyms

BPD	Building Partnerships for Development (was Business Partners for Development)
CSFB	Credit Suisse First Boston
CSI	Coalition of Service Industries (US)
DFID	Department for International Development
EAIF	Emerging Africa Infrastructure Fund
ESF	European Services Forum
GATS	General Agreement on Trade in Services
GDP	gross domestic product
IFC	International Finance Corporation
IFSL	International Financial Services, London
IMF	International Monetary Fund
KPMG	Klynveld Peat Marwick Goerdeler
MDGs	Millennium Development Goals
OECD	Organisation for Economic Cooperation and Development
PFI	private finance initiative
PIDG	Private Infrastructure Donors Group
PPP	public private partnership
PPIAF	Public Private Infrastructure Advisory Facility
PwC	PricewaterhouseCoopers
WTO	World Trade Organisation

1. Introduction: The problem of privatisation

Privatisation remains the international donor community's preferred option for public services in developing countries. Although there is now an overwhelming body of evidence to show that such privatisation threatens vulnerable communities with increased poverty, financial institutions such as the World Bank and donor governments such as the UK continue to insist that developing countries undertake privatisation of public services in order to qualify for essential loans, grants or debt relief.[1]

There is no doubt that public services in many developing countries are in need of reform. While the public sector often manages to supply quality services to many millions of people under the most difficult circumstances, all too often the most powerful sections of society have captured the services for their own benefit. Poorer communities are thus excluded and forced to seek services from private providers at costs which can often far exceed those charged by the public sector.

However, theories which suggest that increased private provision of public services will solve these problems have been exposed as fallacious. The evidence from developing countries shows that privatisation of public services exacerbates the problems faced by the poor and threatens to drive them deeper into poverty. This chapter outlines some of the difficulties encountered by poor communities in developing countries when the private sector takes over the provision of public services. It also looks at how developing country governments are driven to privatisation by donors and international financial institutions, before turning in the next chapter to examine the role of international consultants in taking those privatisations to completion.

1.1 Privatisation deepening poverty

There is an increasing consensus that privatisation of public services has failed the poor. Evidence from privatisations undertaken in developing countries reveals that its impacts take different forms according to the sector and the type of privatisation undertaken. However, the basic tension is common across the sectors: private companies are called upon to respond first and foremost to considerations of profit maximisation, and this inevitably conflicts with the requirements of public service.

Nowhere is this conflict clearer than in the case of public utilities, where privatisation has typically led to massive price increases for consumers. There is now a solid body of evidence from the water sector in developing countries showing that privatisation has forced up tariffs to levels where poor families can no longer afford sufficient quantities for their most basic needs (see Hilary 2003 for case studies and examples). The substitution effects of this extra demand on household budgets have driven poor families to ration other essential expenditure as well: the huge tariff increases experienced as a result of water privatisation in Manila, for example, have compelled parents to cut back on food expenditure, withdraw children from school and send them out to work in order to meet the increased demand on the household economy.

Privatisation of power supplies has had similar consequences – as in the Indian state of Andhra Pradesh, where the World Bank's privatisation programme has seen electricity charges increase by 60-80% for agricultural users and by 30-50% for domestic customers; months of mass protests against the tariff rises left three people dead, with 25,000 others arrested. Similar increases of 15% per year have been experienced as a result of the Bank's failed privatisation of electricity in Orissa. Yet while poor families in Orissa face increased poverty as a result of the higher charges, the private companies entrusted with electricity distribution were granted profit guarantees of 16% – far higher than the profit margins they could expect in OECD markets (ActionAid 2004).

World Bank commentators have acknowledged not only that utilities privatisation will indeed bring such tariff increases, but that their impact will be disproportionately hard on the poor (Estache et al. 2001). In addition, privatisation has failed to meet the most pressing challenge facing public utilities in the 21st century, namely the extension of services to cover those communities which have no access to safe water or power supplies. The task of rolling out services to these communities has assumed added urgency as a result of the targets set by the Millennium Development Goals, yet the OECD's recent study of privatisations in sub-Saharan Africa admits that privatisation of public utilities has been characterised by "dramatic failures" in this regard:

> ***In the absence of proper regulation, profit-maximising behaviour has led privatised companies to keep investments below the necessary levels, with the result that rural communities and the urban poor were further marginalised in terms of access to electric power and water supply. (Barthélemy et al. 2004)***

It is now generally accepted that utilities privatisation has little to offer in terms of extending services to poor communities without access to safe water or power supplies. In the succinct formulation of John Lane, chairman of private sector promotion agency

Business Partners for Development, at the World Summit on Sustainable Development in Johannesburg in September 2002:

> *Private sector companies are never going to make money out of poor people, since poor people can't afford to pay.*

The private sector companies concur. Jeremy Pelczer, chief operating officer of Thames Water, the world's third largest private water company, revealed to a London conference on water and sanitation in February 2003 that on its own business predictions the private sector would be unable to meet even a tenth of the expansion claimed for it by the World Bank. The Bank itself now admits that it has been guilty of "unrealistically high expectations" of what privatisation has to offer in the water sector (World Bank 2003a). Similarly, the International Energy Agency recognises that private companies will not extend electricity services to rural areas where it is unprofitable to do so, and has recommended that such areas would be best served by community-based solutions instead (IEA 2002).

Yet utilities privatisation is not just a distraction from the worldwide effort to extend basic services to unserved communities. By concentrating international support and financing opportunities on the private sector, the preference for privatisation undermines the public sector's capacity at precisely the time when it most needs to be built up. Scaling down the capacity of public authorities is particularly damaging in remote rural areas, where most new connections need to be made. At the same time, allowing the private sector to pick off the most lucrative urban contracts undermines the possibility of cross-subsidisation within a country's systems, which enables investment in less profitable areas to be offset by the returns from more profitable operations. Leaving the public sector with only the most difficult cases has long been recognised as an unviable solution.

Nor are these problems confined to public utilities. Similar challenges have become evident in the increased involvement of the private sector in other key services, such as the provision of health care. An increase in private sector health facilities typically draws away the most skilled and experienced staff from the public sector by means of higher pay and other inducements, sometimes leaving remote areas of developing countries with no medical professionals at all. In addition, health systems experience the same loss of cross-subsidisation opportunities when more affluent patients turn to the private sector instead – as well as reduced political support for investment from those who no longer feel they have a need for services supplied by the public sector.

The reality of privatisation stands in direct contrast to the theoretical hopes pinned on it by the World Bank and other apologists, as even they are beginning to concede. An internal health sector strategy paper leaked from the World Bank's private sector arm, the International Finance Corporation (IFC), admits that the standard argument in favour of encouraging private health care – that it will add to the total stock of health care and thus allow the public sector to concentrate on serving the poorest – is without any empirical foundation:

> *By producing extra capacity in the sector as a whole, the public sector will be able to redirect its scarce resources to those most in need. This argument has traditionally been very compelling and therefore much used as a justification for private sector involvement. However it is undermined by a lack of any real evidence. (IFC 2002)*

In fact, the evidence reveals that the private sector enters into competition with the public sector for both staff and patients, providing increased choice for the most affluent consumers while undermining those services on which the poorest rely for their basic health care.

1.2 Absence of regulatory systems

Whether or not one believes that the privatisation of public services might eventually offer some benefit to the poor, there is a broad consensus that such a process should not be considered in developing countries unless there are strong regulatory systems in place. Regulatory systems are of critical importance both in ensuring the quality of services and in regulating the new markets created for privatised public services. Most importantly, regulatory bodies must be strong enough to ensure that public policy objectives are not endangered by the private sector companies brought in to provide public services – particularly in situations where those companies are granted monopoly power over their markets.

It is also recognised, however, that very few developing countries enjoy such regulatory systems at present, or are likely to do so any time in the near future. As the World Bank has admitted in its new study of utilities privatisation, "it took decades for the United States to reach an equilibrium in which the independence of regulatory agencies was recognized and supported by administrative procedures, ex parte rules, and judicial review. In developing countries regulatory structures have been created from scratch and are still in early stages of development."

Moreover, where developing countries have tried to cut corners by hastily introducing regulatory systems modelled on those in industrialised countries, the Bank admits that "such efforts have had limited success – or been outright failures" (World Bank 2004).

On this admission, there should be no privatisation initiatives in developing countries without proper sequencing to ensure that the appropriate regulatory capacity is in place first. Yet so strong is the ideological imperative to promote privatisation of public services that donor governments and financial institutions have ignored the absence of regulatory systems and pressed ahead with their privatisation programmes regardless. The result is that privatisation of public services has commonly taken place in the absence of proper regulation, exposing the poor to the worst effects without adequate protection.

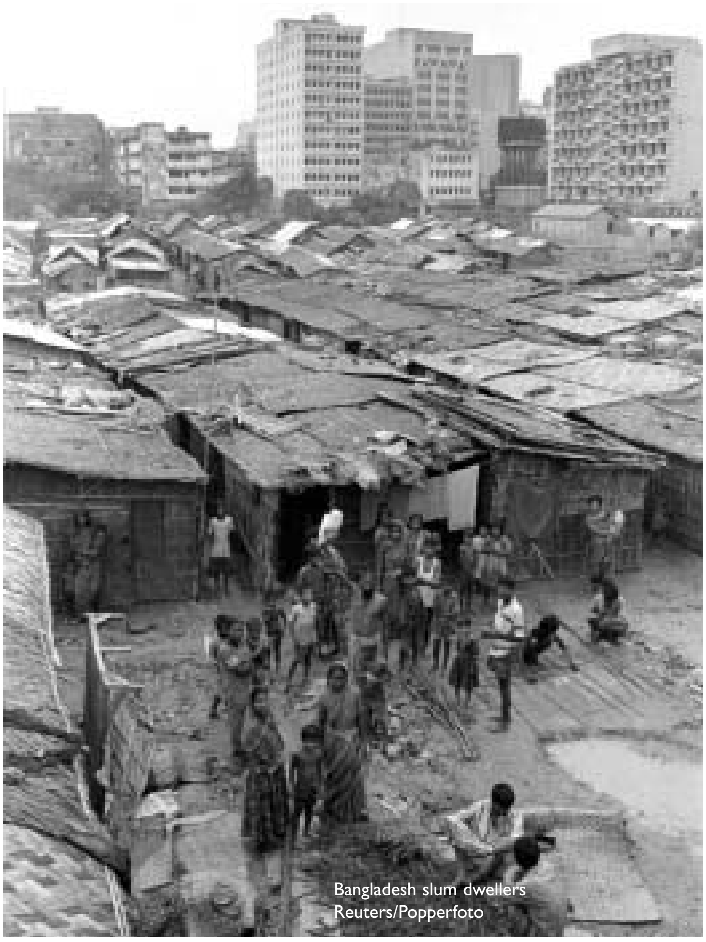
The consequence of this has been that many poor communities have found themselves driven deeper into poverty as a result of the privatisation of public services, as prices have been raised without effective restraint from regulatory bodies. This includes not only income poverty, but also poverty as experienced through lack of access to basic rights – whether through self-rationing as a result of the impact of increased charges on the household economy, or simply because privatised services have become unaffordable. Lack of access to such basic rights as health care, water or education is a central aspect of the multi-dimensional understanding of poverty endorsed by the United Nations and underlying the Millennium Development Goals.[2]

In addition to deepening poverty in communities which are already classified as poor, the high charges associated with private provision of public services also play a significant role in increasing the number of families falling into poverty for the first time. Meeting the costs of medical care, for example, has been identified as the greatest single cause of families' being driven into poverty in countries such as Vietnam, Bangladesh, China and Cambodia – just as medical expenses are behind almost half of all personal bankruptcies filed in the USA (Baro and Hilary 2002). Where families are forced to secure high-interest loans from money lenders in order to meet the costs of basic services, long-term poverty is often the inevitable consequence.

1.3 External pressure driving privatisation

The World Bank has acknowledged that conditionality attached to its lending during the 1980s and 1990s provided the impetus for privatisation of public services in developing countries. The Bank's lending directive for this period (Operational Directive 8.60) specified privatisation as one of the reform goals to be realised under the Bank's favoured development paradigm, and as a result country after country was instructed to embark upon its own national privatisation programme. Today, however, the Bank claims that it no longer seeks to impose conditions such as privatisation on borrowing governments, in line with the Bank's new-found recognition that "there is no single blueprint for reform that will work in all countries" (World Bank 2002a).

Yet the World Bank does continue to require borrowing governments to accept privatisation of public services if they are to gain access to essential loans and debt relief. Officials from developing country governments confirm that they are left in no doubt as to the policy choices required of them, and that



Bangladesh slum dwellers
Reuters/Popperfoto

privatisation remains a key conditionality of World Bank lending. National case studies published in War on Want's recent report *Dogmatic Development* (Hall and de la Motte 2004) and in other research (e.g. ActionAid 2004) reveal that privatisation remains the favoured blueprint of the international financial institutions, and that developing countries are required to accept that blueprint if they wish to receive continued financing from the donor community.

Nor should this come as a surprise. Despite its occasional rhetoric to the contrary, the World Bank has openly declared its intention to promote privatisation of public services in its Private Sector Development Strategy, published in April 2002. The strategy calls on all parts of the World Bank Group to promote privatisation of infrastructure and social services in developing countries, with particular emphasis on 'frontier' sectors such as water, energy, health care and education. World Bank staff are instructed to press for privatisation through national Poverty Reduction Strategy Paper (PRSP) processes, and to base their own Country Assistance Strategies on privatisation proposals identified in those processes. In addition, the IFC is to be increasingly involved in providing direct support to private sector service providers in low-income countries – as well as promoting privatisation of public services through programmes such as its online private sector education initiative EdInvest.[3]

The World Bank continues with its privatisation programme despite the findings of its own internal assessments that this is an area in which "operations have not paid sufficient attention to the potentially adverse social impact of reforms" (World Bank 2001).[4] The Bank's most recent evaluation of its own electricity privatisation programme criticises the Bank for its "neglect" of the impact of privatisation on poor people (World Bank 2003b), while its evaluation of its record in the water sector concludes that the Bank has failed to align water resources management with its own poverty strategy, has been ineffective in expanding access in rural areas, and has failed to address gender issues relating to water (World Bank 2002b). For an institution supposedly dedicated to poverty reduction, these are damning indictments.

While the World Bank may be the most powerful force pressing developing country governments to privatise their public services, donor governments play an important supporting role. Foremost among these is the UK government, whose Department for International Development (DFID) has positioned itself as a champion of privatisation in developing countries. As discussed in chapter 3, DFID has invested heavily in this programme, providing direct project support for privatisation initiatives, establishing financing mechanisms to attract the private sector into public services, and undertaking advocacy in favour of privatisation on an international scale.

In addition, both the World Bank and DFID have developed strong partnerships with private sector consultants engaged to provide 'technical assistance' to developing countries on public sector reform. The use of privatisation consultants has become an integral part of the reform process in recent years, so that developing country governments are commonly required to accept such companies as advisers as part of the financial support package on offer. As a result, donors and financial institutions can ensure that developing countries are not only steered towards privatisation but also helped through the process by 'experts' who will ensure that public services are transferred into private hands. The next chapter provides a first analysis of the spread of such privatisation consultants across the world.

2. The worldwide spread of privatisation consultants

If privatisation of public services has had a negative impact on the poor in developing countries, it does at least bring clear benefits to the private sector. Companies contracted to advise governments on public sector reforms earn vast sums in consultancy fees – particularly when they are engaged as advisers on the process of privatisation as well. Often the sums paid to privatisation consultants come directly out of the aid budgets of donor governments such as the UK, or out of programme funds of financial institutions such as the World Bank and regional development banks.

Electricity privatisations in India provide stark examples of the sums available to consultants. In Orissa, DFID chose PricewaterhouseCoopers as advisers to the state government on institutional strengthening, while Credit Suisse First Boston was selected to provide financial advice. KPMG was engaged by the World Bank to act as principal consultant in the pre-reform phase, but was subsequently dismissed. In total, the international consultants appointed by the World Bank, Asian Development Bank and DFID were paid over US$100 million for their input. Credit Suisse First Boston was paid £20 million by DFID in just six months (ActionAid 2004).

Global corporations such as PricewaterhouseCoopers and KPMG consist of many constituent firms with offices spread across the world, and each holds numerous consultancy contracts at any one time. For example, according to the *Privatisation International* league table formerly produced by Thomson Financial Securities Data, PricewaterhouseCoopers held a total of 193 privatisation mandates worldwide during 1999, while KPMG held 153. The annual turnover of such global giants exceeds the economic output of many of the countries in which they work: PricewaterhouseCoopers recorded a total net revenue of US$14.7 billion for fiscal year 2003, greater than the GDP of any country in sub-Saharan Africa except Nigeria and South Africa.

2.1 The key players

The consultants that benefit from privatisation contracts in developing countries span a range of business sectors. Chief among them are the consulting arms of the Big Four accountancy firms:

- PricewaterhouseCoopers
- KPMG
- Deloitte Touche Tohmatsu
- Ernst & Young

Arthur Andersen, which was the fifth of the Big Five before its fall from grace over the Enron scandal in 2001, has also been engaged in numerous privatisations in developing countries; its consulting arm split off from the parent company in 2000, renaming itself Accenture shortly afterwards. Other key players in the field of privatisation consultancy come from the financial sector, with many of the world's largest banks now also involved in privatisation consultancy in developing countries:

- ABN AMRO
- NM Rothschild
- Credit Suisse First Boston
- Dresdner Kleinwort Wasserstein
- Morgan Stanley
- HSBC
- Citigroup

In addition, consultancies such as the UK's Adam Smith International (see box in chapter 3) and the USA's Louis Berger Group have established themselves as leading players in the privatisation of public services. Individual sectors also have their own specialist privatisation consultants, such as Mott MacDonald and Stone & Webster in the water and energy sectors, IPA Energy Consulting in the power sector, or Canadian consultancy CPCS Transcom in the transport sector. There are also companies which provide other specialist services linked to privatisation programmes, such as legal consultants CMS Cameron McKenna and Baker & McKenzie.

2.2 Privatisation consultants in developing countries[5]

The following examples are designed to illustrate the types of contract taken up by privatisation consultants in developing countries. The focus has been restricted to commissions involving the privatisation of public services, and in developing countries only; needless to say, the transition economies of Eastern and Central Europe have also provided extensive opportunities for privatisation consultants over the past decade.

- **Kyrgyzstan – electricity services:** Arthur Andersen, IPA Energy Consulting and legal firm Baker & McKenzie were appointed as advisers on the privatisation of Kyrgyzstan's electricity distribution system, with responsibility for formulating the privatisation strategy and seeing implementation through to completion. The proposed

Karnataka: privatisation consultants fail the poor

Privatisation of the electricity sector is a key condition of World Bank lending to the Indian state of Karnataka under the Karnataka Economic Restructuring Loan (KERL), the first tranche of which – worth US$150 million – was disbursed in 2001. Also as required by the World Bank, the state government engaged NM Rothschild, Deloitte Touche Tohmatsu and CMS Cameron McKenna as consultants for its power sector reform programme, at a reported cost of around 280 million rupees (US$6 million).

The privatisation consultants first recommended the unbundling of the state electricity board into separate constituents, a standard preliminary to privatisation which was implemented by Karnataka state government through the creation of four separate electricity distribution companies. These became operational in June 2002, shortly after the World Bank disbursed the second tranche of the KERL, worth US$100 million. The government confirmed its intention to privatise the distribution companies thus created, and the consultants set to work on a series of schemes to make the privatisation as attractive as possible to investors.

First of these was the 'distribution margin' model, under which the consultants proposed that the newly privatised companies would be shielded from commercial and tariff-related risks and guaranteed an assured level of income by the government until such time as they might reach financial sustainability. The model was widely criticised for saddling the state authorities with all the risk and placing no incentive on the private companies to improve electricity services. Yet the consultants recommended further measures to sweeten the sale, proposing that investors be allowed to bypass the state electricity regulator and fix tariffs directly with the state authorities – a move guaranteed to expose consumers to increased price hikes.

The package formulated by the privatisation consultants was clearly devised to appeal to potential private sector investors at all costs, with little or no consideration of the impacts on electricity consumers in the predominantly rural state. Not surprisingly, the programme met with considerable popular resistance, as tariffs had increased dramatically at the same time as subsidies for agricultural use of electricity were withdrawn. The state electricity regulator also criticised the consultants' recommendations, and called for an open public debate to replace the secrecy with which the process had been managed. This call contrasts sharply with the recommendation of the consultants themselves, who reportedly advised that it was "neither feasible nor desirable to have public consultations on the terms and conditions of the privatisation deal during the period of bidding and negotiations" (Ranganathan 2004).

In the event, Karnataka's ruling Congress government was voted out of power in the 2004 state assembly elections, in what was widely seen as a rejection of the consultants' privatisation programme, particularly among rural voters. Already in debt as a result of a drought which had badly affected their crops, farmers in Karnataka had then found themselves facing substantial bills for electricity arrears. The crisis drove many to despair: according to official statistics, 650 farmers in Karnataka took their own lives in the 10 months to March 2004 (Menon 2004).

The third tranche of the KERL, worth US$200 million, has so far been withheld by the World Bank, on the grounds that Karnataka has failed to meet the conditionalities needed to unlock the loan. This includes failing to make sufficient progress in following the consultants' programme for privatisation of the electricity distribution companies. Yet the non-disbursement of the third tranche is itself causing problems for the state government, which has been forced to scale down its own capital and welfare expenditure in order to meet the budgetary shortfall. Ultimately, Karnataka's poor communities stand to suffer either way.

privatisation entailed the prior raising of electricity prices in order to make the state company more attractive to potential foreign purchasers. As a result of the price hikes, by 2002 over half of all residents in the Kyrgyz capital Bishkek found themselves unable to pay their electricity charges.

- **Lesotho – electricity services:** KPMG was appointed in December 2001 to provide advisory services for the sale of the Lesotho Electricity Corporation, along with IPA Energy Consulting and CMS Cameron McKenna. The privatisation is part of the Utilities Sector Reform Project being undertaken in conjunction with the World Bank, African Development Bank and the European Union. In February 2004 the government approved the privatisation on a concessionary basis, and in May invited companies to bid for an initial 20-year concession, with the intention of concluding the sale by the end of the year.

- **Jamaica – electricity services:** PricewaterhouseCoopers was appointed to conduct a major study in the 1990s, funded by the World Bank, on reform options for the national power utility Jamaica Public Service (JPS), including proposals on structure, ownership and regulatory framework. The study recommended that JPS should be unbundled and its constituent parts sold off separately, but the Jamaican government dismissed the recommendations, opting instead to keep JPS as an integrated utility. The privatisation process was further suspended in 1996 for reasons of public interest, but US energy company Mirant eventually bought an 80% stake in JPS for US$201 million in March 2001, subsequently securing a US$45 million loan from the IFC in 2003 to build a new power plant in the north of the country.[6]

- **Korea – power services:** PricewaterhouseCoopers was adviser to the Korea Electric Power Corporation (KEPCO) and the Korean District Heating Corporation on privatisation of their heat and power facilities in Anyang and Buchon during 2000. Credit Suisse First Boston acted as agent for KEPCO in the debt restructuring process accompanying privatisation and thereby "created a template for future Korean privatization programs" (CSFB 2004). Despite IMF pressure on Korea to privatise its publicly owned enterprises in the wake of the 1997 East Asian financial crisis, a presidential commission advised in June 2004 against privatisation of KEPCO's power supply division.

- **Tanzania – water services:** As one of the conditions of qualifying for debt relief under the Heavily Indebted Poor Countries (HIPC) facility administered by the World Bank and IMF, Tanzania was required to engage consultants for the privatisation of the Dar es Salaam Water and Sewerage Authority (DAWASA). Severn Trent Water International was appointed as lead adviser to the privatisation, which was completed when DAWASA's operations were officially handed over to UK water multinational Biwater and Germany's Gauff Engineering in a ceremony on 1 August 2003. As detailed in chapter 3 of this report, DFID paid privatisation consultants Adam Smith International £430,000 to mount a campaign promoting the merits of privatisation to a sceptical Tanzanian public.

- **China – water services:** Funded by a technical assistance grant from the Asian Development Bank, PricewaterhouseCoopers led a consortium of advisers to the Chengdu municipal government on the first ever Build-Operate-Transfer (BOT) contract in China's water sector. The Chengdu water supply project was eventually awarded to French water giant Vivendi and Japan's Marubeni Corporation for US$106.5 million, and work was completed on it in 2001. PricewaterhouseCoopers then turned its experience on the government side to good use by acting as adviser to Vivendi and Marubeni in their subsequent bid for a water treatment plant in Beijing.

- **India – water services:** In its World Bank-sponsored study of reform options for the Delhi Water Board, PricewaterhouseCoopers has recommended unbundling of the company into separate entities for different functions and geographical areas, and the creation of a new regulatory commission to set water tariffs. The proposals open up the possibility of private sector involvement in Delhi's water system, and have been widely seen as a preliminary to privatisation – despite denials from the city's Chief Minister that such a move is being considered at present. In addition, PricewaterhouseCoopers has recommended significant increases in water rates, and the city government confirmed in August 2004 that rises are imminent.

- **Malaysia – sewerage services:** PricewaterhouseCoopers advised the Malaysian government on privatisation options for its sewerage system, and the services were handed over in 1993 on a 28-year concession to the Indah Water Konsortium, in what was the largest privatisation in the country's history. The company was soon the target of numerous complaints on grounds of rising charges and failing services, as well as facing lawsuits for polluting local waterways, and in 2001 the government took back the system into public hands. As the study in the Asian Development Bank's report *Beyond Boundaries* concludes, "The case illustrates that reform through private sector involvement does not guarantee success." (ADB 2002)

- **Malawi – rail services:** Canadian transport consultants CPCS Transcom were appointed as advisers in the 1999 privatisation of Malawi Railways – the first rail network in English-speaking sub-Saharan Africa to be privatised. The privatisation, which was supported by the World Bank and USAID, led to the redundancy of around 40% of the workforce employed by Malawi Railways. CPCS Transcom has also prequalified in 2004 to provide consultancy services for the privatisation of Jordan's Aqaba Railway, along with Ernst & Young, UBS Investment Bank, PricewaterhouseCoopers and Maxwell Stamp – a short list approved by the World Bank.

- **South Africa – rail services:** UK investment bankers NM Rothschild, appointed as advisers to the South African government on reform of public railway service Spoornet, proposed in 2001 that the profitable components of the service be unbundled and privatised, raising fears of the possible discontinuation of services in unprofitable lines serving poorer areas. Organised resistance from trade unions forced the government into accepting a joint stakeholder technical task team to analyse the feasibility of the proposed privatisation, and it eventually rejected NM Rothschild's advice.

- **Argentina – postal services:** PricewaterhouseCoopers acted as lead adviser to the Argentinian government on the award of a concession for operation of the country's postal services. Correo Argentino was duly awarded a 30-year concession in July 1997 as the world's first fully privatised mail service, and won US$258 million in backing from the Inter-American Development Bank and the IFC. However, the company was stripped of its concession in November 2003 as a result of poor service and mounting debts, and declared bankrupt soon afterwards. Postal services were taken back into the public sector.

- **South Africa – postal services:** PricewaterhouseCoopers carried out a strategic review of the South African Post Office (SAPO) and was subsequently appointed as adviser to the South African government in selecting and introducing an international partner to combat its operational losses. SAPO signed a US$23 million contract with New Zealand Post in July 1999, under which the latter's international consultancy arm Transend would restructure SAPO and make it commercially viable; New Zealand Post also subcontracted Deloitte Touche, Lockheed Martin and the UK's Royal Mail to provide additional support. The South African government terminated the contract 18 months early, in May 2001, citing Transend's failure to deliver on its commitments, with SAPO facing losses of up to US$84 million.

- **China – insurance services:** Credit Suisse First Boston was selected as joint global coordinator together with Citigroup for the initial public offering (IPO) of China Life, the country's largest life insurance company – at US$3.4 billion, this was the world's largest IPO during 2003. China Life is now facing shareholder lawsuits and regulatory investigation from the USA over its failure to disclose the findings of a Chinese government audit conducted prior to the IPO.

- **Mexico – insurance services:** Credit Suisse First Boston also acted as adviser for the sale of Mexico's publicly owned life insurance company Aseguradora Hidalgo (Ahisa) to US insurance giant MetLife in June 2002. With 30% of the national market, Ahisa was Mexico's largest provider of life insurance and the exclusive provider for federal government employees. The sale was the first major privatisation of President Vicente Fox's administration, and was reported at US$962 million.

- **South Africa – health services:** PricewaterhouseCoopers acted as lead financial adviser to the KwaZulu Natal Department of Health on a 15-year public private partnership (PPP) for Durban's Inkosi Albert Luthuli Hospital, in a deal worth US$75 million closed in December 2001. Both PricewaterhouseCoopers and Deloitte Touche Tohmatsu have been employed as consultants on a range of PPP projects in South Africa over the past three years.

2.3 Conflict of interests

The above examples provide an indication of the spread of privatisation consultants into developing countries in recent years. As noted, developing country governments are often required to engage the consultants as a condition of qualifying for loans or debt relief from international financial institutions. Alternatively, privatisation consultants can be directly appointed by the donors themselves under the rubric of 'technical assistance', whereby they are supposed to offer their advice on a disinterested basis to the benefit of the host country.

In reality, however, the advice given by such consultants is far from disinterested. To begin with, they are often employed precisely in order to direct developing countries towards privatisation of their public services rather than other reform options. In addition, the same companies – as specialists in the process of privatisation – stand to benefit from providing further advisory services if the host government agrees to turn its public services over to the private sector. This raises a direct conflict of interests in those cases where the companies are supposed to present the full range of public service reform options available, seeing that they may stand to gain materially if the host government chooses privatisation over alternative reform paths.

While this is clearly of benefit to the consultants, it is far from clear that it is in the best interests of the poor. The privatisation of public services is increasingly being recognised as a cause of deepening poverty, as outlined in chapter 1, and this makes the appointment of privatisation consultants as advisers on public service reform highly problematic. Instead, as civil society organisations and parliamentarians have long argued, there should be a full and informed public debate in each country as to the relative merits of the different reform options available – not the imposition of a predetermined model by external financiers. Often, however, privatisation consultants are deliberately chosen by donors so as to bypass the democratic process, with debate restricted to a small coterie within favoured government ministries.

Moreover, once the decision to privatise public services has been taken, there is no indication that privatisation consultants will respect the interests of the poor in their proposals for transferring public services into private hands. As exemplified by the case study of Karnataka's electricity privatisation in this chapter, consultants are more likely to concentrate on serving the interests of potential investors so as to see the privatisation through to a swift conclusion. Yet, as has been confirmed in the growing literature on privatisation in developing countries, the potential impact of such programmes on the poor depends to a large extent on their needs being addressed in the privatisation process itself.

Nowhere is this threat more apparent than in respect of the regulatory bodies set up to oversee the privatised public services. In many countries, privatisation consultants have been appointed to advise on the reform of existing regulatory institutions or the creation of new ones in order to regulate the privatised service markets; PricewaterhouseCoopers, for example, has advised on the regulatory system for utilities in the Bahamas, Jamaica and Panama, to name a few. Yet it is far from clear that the advice provided by such consultants will direct regulatory bodies towards defending the interests of the poor. Instead of pro-poor regulation, developing country governments have commonly adopted regulatory systems which have favoured private service providers at the expense of the poor (see, for example, Ugaz 2003).

2.4 Active promotion of privatisation

Nor should it be supposed that the companies which are engaged as privatisation consultants in developing countries are themselves neutral when it comes to public service reform. Rather, these companies are at the forefront of the international campaign to promote the private sector's takeover of public services, whether through the services liberalisation negotiations currently taking place at the WTO or through their own promotion of privatisation across the world.

In the global trade context, many privatisation consultants have joined forces with other services companies in international federations to lobby for liberalisation of public services worldwide. Groups such as the European Services Forum (ESF) and the US Coalition of Service Industries (CSI) have been

Anti-Privatisation Forum,
South Africa
Lies Craeynest/War on Want

actively engaged in pressing for services liberalisation in developing countries through the GATS negotiations at the WTO – negotiations which they see as a prime opportunity to open up new markets to their own member companies.[7]

During 2004 – with the Doha Round of international trade negotiations entering a critical phase – the ESF, CSI and other services federations have sent a series of letters to developing country delegates and officials at the WTO calling for greater commitment to liberalisation in the services negotiations. The groups were also enabled to bring this message to delegates in person in March 2004, when the European Commission booked rooms on the ESF's behalf within the WTO itself. The EU, for its part, has specifically targeted the water sectors of developing countries for liberalisation, aiming to open up new markets for its own private sector water companies to penetrate (Hilary 2003).

In addition to these coordinated efforts at the WTO, many privatisation consultants work to promote privatisation through their own activities. UK companies have been particularly active in this regard, reflecting the shared ambition of business and government to promote the UK as market leader in the field of privatisation consultancy services. International Financial Services, London (IFSL)[8] – itself a key member of the ESF and an active lobby group for liberalisation – has produced a series of briefings designed to promote the benefits of privatisation and to position the UK as lead player in the international market. *Privatisation: UK Expertise for International Markets* (2003) and *Public Private Partnerships: UK Expertise for International Markets* (2002) set out the case for UK leadership in privatisation worldwide; the former was sponsored by PricewaterhouseCoopers and law firm Linklaters, the latter by KPMG, PricewaterhouseCoopers, Norton Rose and Partnerships UK.

The drive to promote privatisation internationally is complemented by similar efforts at the national level. Many of the privatisation consultants active in developing countries – including KPMG, Ernst & Young, PricewaterhouseCoopers, Morgan Stanley, ABN AMRO, WS Atkins, Dresdner Kleinwort Wasserstein and CMS Cameron McKenna – have also banded together in the PPP Forum, a new body set up by the private sector in 2001 specifically in order to promote the benefits of public private partnerships (PPPs) and the Private Finance Initiative (PFI) in the UK (Gosling 2003). In addition to holding conferences designed to "focus on the success of PFI in improving local public services", the Forum has been particularly active in responding to the numerous media reports revealing problems with PPPs and PFI in the UK's hospitals and schools.

In all of these activities, privatisation consultants are simply following the dictates of good business: since they stand to gain from the privatisation of public services, it is only natural that they should promote the same. However, this obvious self-interest raises doubts as to whether such companies can ever be a suitable choice as consultants to provide pro-poor reform solutions for public services in developing countries. And in particular, as the next chapter argues, it raises serious concerns as to whether they should be the recipients of money from the aid budgets of donor countries such as the UK.

3. DFID, privatisation consultants and the fight against poverty

DFID is "the UK Government department responsible for promoting sustainable development and reducing poverty", as its mission statement affirms. DFID's focus on poverty reduction is coupled with a commitment to the Millennium Development Goals (MDGs) agreed at the UN Millennium Summit in September 2000. As noted on the department's newly redesigned website, DFID has made the MDGs "the focus of all of its work".

Despite this avowed focus, DFID has also dedicated itself to the privatisation of public services in developing countries. As described below, the department has invested heavily in supporting privatisation programmes across the world, through direct project support to government bodies which have agreed to privatise their public services and through international advocacy designed to promote the benefits of privatisation. DFID has also spent considerable sums from the UK's aid budget paying for privatisation consultants to advise developing country government on public service reform.

This commitment to privatisation of public services stands in direct conflict with DFID's mission to reduce poverty and to contribute to the achievement of the MDGs. Not only does privatisation of public services tend to increase poverty rather than reduce it, as noted in chapter 1, but it is now established that privatisation of public services is a distraction from the achievement of the targets set by the MDGs. This has most recently been confirmed by the UN Human Settlement Programme's major study on water and sanitation, which warns that it would be a "serious mistake" to assume that privatisation will play a significant role in extending these basic services to neighbourhoods currently deprived of them, as the MDGs require (UN-HABITAT 2003).[9]

3.1 DFID: champion of public services privatisation

More than being just a passive supporter of the privatisation programme, DFID has worked hard to position itself as a champion of privatisation, taking the lead in a number of new initiatives promoting increased private sector involvement in the public services and infrastructure of developing countries. DFID created the Emerging Africa Infrastructure Fund (EAIF) in January 2002, an initiative designed to mobilise up to US$450 million for private sector investment in infrastructure in Africa. With additional backing from Sweden, Switzerland and the Netherlands as well as private financiers Barclays and the Standard Bank Group, the EAIF is designed to provide finance for the privatisation of public services in African countries as well as new infrastructure projects, with particular emphasis on the energy, telecommunications, transport and water sectors. DFID is explicit that the EAIF is open to private companies only; it will not provide any financing for public sector investment.

The EAIF is described as a project of the Private Infrastructure Donors Group (PIDG), another DFID initiative designed to increase private sector involvement in the infrastructural services of developing countries. In addition to the three other European governments listed above, the PIDG is also supported by the World Bank's private sector arm, the IFC. As well as offering partial guarantees on bonds issued by private sector infrastructure providers, the PIDG works through yet another DFID-sponsored facility, DevCo Advisory, to develop infrastructure services to the point where they can be offered to private sector companies.[10]

Yet DFID's sponsorship of privatisation is not confined to its support for innovative finance mechanisms. Alongside this, perhaps DFID's most significant contribution is its use of consultants to promote privatisation of public services around the world. This includes DFID's extensive use of the major private sector consultants to direct developing countries in their public sector reform choices, as detailed in the following section. In addition to this, however, DFID has once again taken the lead in the creation of new global institutions whose mission is to advance public service privatisation in developing countries.

One of the most influential bodies in this field is the Public Private Infrastructure Advisory Facility (PPIAF), established under DFID leadership in collaboration with the World Bank and the government of Japan. The PPIAF was launched in July 1999 as a 'technical assistance' facility to advise developing countries on how "to tap the full potential of private involvement in infrastructure", and works out of the World Bank's headquarters in Washington DC. Its main focus is promoting the increased involvement of private sector service companies across the sectors of water and sanitation, energy, transport and telecommunications, as well as advising on multi-sector issues such as utilities regulation. At the end of March 2004, the PPIAF portfolio covered 310 activities in over 80 countries, at a total value of US$70 million.

The activities undertaken by the PPIAF span a wide range of 'technical assistance' initiatives. The PPIAF has published numerous country framework reports highlighting the opportunities for increased private sector involvement in infrastructure services, as well as assisting with the development of specific privatisation projects. The PPIAF has also been engaged in the ongoing battle for hearts and minds in developing countries, running workshops, study tours and 'public awareness campaigns' in order to win over a sceptical public to the benefits of public service privatisation. One such project was the so-called 'knowledge programme' on water policy run for journalists from nine African countries in early 2000, which aimed to counter public scepticism over water privatisation in Africa by encouraging African journalists to provide more positive media coverage.

DFID has also been a keen supporter of Business Partners for Development (BPD), another initiative dedicated to the introduction of the private sector into public services. Originally established in 1998, BPD's focus is on partnership between business, government and civil society, and it is currently moving from its previous phase of research and analysis towards "more proactive work" in the field of water and sanitation. BPD's name has also been changed from Business Partners for Development; it now stands for Building Partnerships for Development.

3.2 DFID's use of privatisation consultants in developing countries

In addition to creating and supporting these new entities, DFID has also channelled large sums of the UK aid budget towards private sector companies acting as privatisation consultants in developing countries. In the first five years of the current Labour government, DFID agreed new contracts worth over £118 million in consultancy fees to the Big Five accountancy firms alone:

Table 1: Value (in £) of new DFID contracts awarded to Big Five consultants, 1997-2002[11]

	1997-98	1998-99	1999-2000	2000-01	2001-02
PwC	5,575,135	11,193,643	13,405,142	19,018,515	3,075,210
Ernst & Young	445,792	838,429	286,800	11,610	43,023
Deloitte Touche	4,185	269,070	749,262	8,478,352	633,884
KPMG	7,104,728	2,548,237	12,773,757	4,700,110	2,185,931
Arthur Andersen	–	24,558,244	27,724	83,721	114,162
TOTAL	**13,129,840**	**39,407,623**	**27,242,685**	**32,292,308**	**6,052,210**

India – the largest recipient of UK aid – provides a good example of DFID's use of privatisation consultants. In addition to the huge sums paid to consultants advising on Orissa's electricity privatisation (see chapter 2), DFID reportedly paid £28 million for 'technical assistance' from consultants advising on the first phase of Andhra Pradesh's power privatisation programme, including both PricewaterhouseCoopers and Andersen Consulting; as shown below in Table 2, DFID approved over £5.5 million to KPMG, Ernst & Young and PricewaterhouseCoopers for support to the Andhra Pradesh privatisation in the last two months of 2003. DFID also engaged Andersen Consulting and PricewaterhouseCoopers as consultants for the initial phase of the Haryana State Electricity Board privatisation at the end of the 1990s.

DFID has also paid considerable sums to consultants to conduct feasibility studies and option reports to assist with prospective privatisations in developing countries. British consultants Maxwell Stamp have been paid £585,840 by DFID for their support to Uganda's Privatisation and Utility Reform programme, including reports on options for the reform process.[12] Similarly, DFID commissioned Mott MacDonald to conduct a research project into the privatisation of irrigation management in Central Asia, with the aim of raising awareness of 'best practice' in achieving transfer of irrigation management to the private sector.

Another of DFID's key research undertakings in further privatisation of water services was the Public Private Partnerships and the Poor project contracted out to the Water, Engineering and Development Centre (WEDC) at Loughborough University and other consultants over a four year period to March 2003. The project was designed "to determine workable processes and strategies which encourage public-private partnerships in the provision of water and sanitation services for the urban poor", the main reports being written by authors from the Halcrow Group, which has itself benefited from several privatisation consultancies in developing countries.[13]

DFID has also turned to consultants for more imaginative assistance in the programme to promote privatisation of public services in developing countries. Adam Smith International – the consultancy arm of the Adam Smith Institute (see box below) – has been awarded over £725,000 in contracts by DFID to assist the government of Tanzania in its privatisation programme, including the provision of £430,000 to provide support to the public relations unit. The consultancy company has duly devised a number of ways in which to win over a sceptical Tanzanian public to the merits of privatisation, including a pop video

Table 2: Selected DFID consultancy contracts in developing countries, 2003-04[15]

Date	Project	Country	Consultant	Total (£)
Aug 2004	Public Service Sector Plan & Reform Programme Strategy	Uganda	PricewaterhouseCoopers	241,280
Aug 2004	Madhya Pradesh Power Sector Programme, Phase II Design	India	Halcrow Group	42,540
June 2004	Water, Environment & Sanitation Institutional Assessments	Nigeria	WEDC	282,104
May 2004	Privatisation Adviser	Sierra Leone	PricewaterhouseCoopers	48,820
May 2004	Support for Public Administration and Economic Management	Afghanistan	Adam Smith International	4,499,900
Apr 2004	Case Studies, Workshops on Non-State Provision of Basic Services	Not country-specific	IHSD Ltd	398,421
Mar 2004	Pay and Human Resources Management Reforms	Uganda	PricewaterhouseCoopers	105,361
Mar 2004	Technical Assistance to Health Service Reforms	Zambia	IHSD Ltd	45,024
Feb 2004	Emergency Public Administration Programme	Iraq	Adam Smith International	233,090
Jan 2004	Support to Deregulation Process, Phase II	Uganda	Bannock Consulting	1,569,625
Jan 2004	Study of Financing Mechanisms for Non-Government Health Care	Bangladesh	Options Consultancy Services	75,836
Dec 2003	Andhra Pradesh: Institutional Support to Power Sector	India	KPMG	3,030,428
Dec 2003	Andhra Pradesh: Support to Electricity Regulator	India	PricewaterhouseCoopers	1,338,925
Nov 2003	Andhra Pradesh: Coordination & Strategic Information Team	India	Ernst & Young	1,271,711
Nov 2003	Development of Regulatory Capacity for Water Sector	Guyana	Castalia	366,803
Oct 2003	Consolidation of Municipal Transformation Programme	South Africa	Deloitte Touche	13,100,000
Oct 2003	Support to Water Sector Regulation	Ghana	Adam Smith International	1,079,100
Sept 2003	Shareholding Divestiture, Zambia National Commercial Bank	Zambia	PricewaterhouseCoopers	173,206
Sept 2003	Public Enterprise Reforms, Phase II – Andhra Pradesh	India	Adam Smith International	416,435
Aug 2003	Deregulation Programme Manager	Uganda	Bannock Consulting	173,556
May 2003	Public Service Reform	Jordan	PricewaterhouseCoopers	453,650

broadcast on local television, a series of short dramas by Tanzania's top comedian and an open house Privatisation Day at Dar es Salaam's Royal Palm Hotel on 25 October 2003. Tanzania's upbeat Privatisation Song is even internationally available via the website of the Parastatal Sector Reform Commission.[14]

Table 2 provides a selection of some of the most recent contracts awarded by DFID to privatisation consultancies in the context of public sector reform. DFID also maintains standing framework contracts with a number of consultants to provide advisory services to its public sector reform programmes around the world. As of August 2004, DFID held such Public Sector Reform Framework Agreements with PricewaterhouseCoopers, KPMG, Magna Consulting, Oxford Policy Management, GHK International, Delta Partnership Solutions, Decathlon Continental, Bannock Consulting and John Rudman.

3.3 Poverty reduction, or aid-funded business?

The present Labour government agreed early in its first term of office to end the scandal of 'tied' aid, whereby recipients of development assistance are compelled to use the money to buy goods and services from the donor country. As well as dictating how aid money was to be spent, the practice of tying aid also led to overcharging by its corporate beneficiaries, whereby some companies demanded overpayment of 25-50% on the supplies they provided. All UK aid has officially been untied since April 2001, so that suppliers from any country are permitted to bid for DFID contracts. Under EU procurement directives, DFID is also required to advertise all contracts over £99,695 through the Official Journal of the European Communities.

However, the UK government's use of privatisation consultants in developing countries attaches new conditions to its aid disbursements. DFID has often insisted that developing country

Adam Smith International: ideology in action

Adam Smith International is the consultancy arm of the Adam Smith Institute, the right wing think-tank which was closely associated with the privatisation of many of Britain's public services in the 1980s. Despite the Institute's extremist reputation and overtly ideological agenda, DFID has favoured the consultancy with a series of contracts totalling more than £34 million over six years of the current UK government administration:

Table 3: Value (in £) of new DFID contracts to Adam Smith International, 1998-2003

1998	1,547,083
1999	3,494,547
2000	5,450,964
2001	9,612,802
2002	7,050,474
2003	7,289,363
Total	**34,445,233**

DFID attracted much criticism over its decision to appoint Adam Smith International as one of the consultants to advise the Ghanaian government on its donor-driven programme of water sector restructuring. The appointment – together with that of US privatisation consultants Louis Berger – was considered particularly insensitive given the widespread public resistance to water privatisation in Ghana. Civil society groups in the country were quick to note both the ideological persuasion of the consultants and their links to international water companies (Wilks and Lefrançois 2002).

Yet Ghana represents only one country in Adam Smith International's portfolio of privatisation-related contracts in the developing world. As shown in the selection reproduced here, DFID has favoured the consultancy with contracts across Africa, Asia and Latin America. Some of these have been devoted to the task of winning over hearts and minds to the cause of privatisation; others have involved advising governments on how to approach public sector reform – as in Guyana, where the company provided a permanent adviser to the Ministry of Finance. As queried by Baroness Northover in the House of Lords on 13 January 2004, it is unclear that DFID can "rely on an organisation with such a strong agenda to identify how best to help the poorest people throughout the world".

Table 4: Selected contracts from DFID to Adam Smith International, 1999-2003

Year	Project	Country	Total (£)
1999	Support for PR unit of Parastatal Sector Reform Commission (PSRC)	Tanzania	430,625
1999	Privatisation Project, Phases 3 and 4	Guyana	1,718,736
1999	Privatisation Agency Support Project	Zimbabwe	560,752
1999	Technical Assistance for Public Enterprise Reform, Orissa	India	3,667,571
1999	Additional Support to Privatisation Board	Bangladesh	106,241
1999	UK-Ireland Privatisation and Regulation Study Tour	Tanzania	11,145
1999	Capacity Building for Public Utilities Regulatory Commission (PURC)	Ghana	1,559,960
2000	Lead Adviser to Parastatal Sector Reform Commission (PSRC)	Tanzania	229,966
2000	Conference on Disinvestment	India	70,000
2001	Support for Public Sector Reforms in Madhya Pradesh	India	80,000
2001	PSRC Water Privatisation and Regulation Study Tour	Tanzania	54,924
2001	Communications Film for Department of Disinvestment	India	89,500
2002	Capacity Building in Ministry of Finance and Central Bank	Afghanistan	3,277,815
2003	Support Services for Public Enterprise Restructuring	South Africa	6,363,435
2003	Support to Water Sector Regulation by PURC	Ghana	1,079,100
2003	Public Enterprise Reforms, Phase II – Andhra Pradesh	India	416,435

Data from *Official Report (Hansard) House of Commons*, Written Answers, 26 January 2004

governments accept privatisation consultants as a condition of its assistance, and in many cases DFID has appointed the consultants directly itself. As can be seen from the examples given above, the overwhelming majority of these are UK-based.

This promotion of British consultancies is in keeping with the government's strategy to position the UK as world leader in the provision of privatisation services. The most comprehensive statement of this programme comes from UK Trade & Investment, the official export promotion arm of the UK government, in its overview of the infrastructure and transport sectors:

> *The UK has a great deal of practical knowledge and expertise to offer with regard to the expansion, maintenance and management of a complex infrastructure system and in particular with regard to private sector participation in the same. Apart from world-class utilities, contractors, equipment suppliers and consultants there are also leading firms of financiers and lawyers to back them up. The long-term future of all of these companies is crucially dependent upon their expanding their worldwide operations and the UK is now one of the largest investors in overseas infrastructure, either through the development of new projects or through the management of existing, previously state owned, assets.*[16]

This government promotion of UK business expertise in the privatisation of public services is closely coordinated with the self-promotion undertaken by UK companies and lobby groups such as IFSL, as described in chapter 2. UK Trade & Investment also has separate export strategies for British companies to obtain business in individual sectors such as power, railways and water.

Of most concern in the context of the UK's aid budget, however, is the UK government's promotion of the concept of 'aid-funded business'. UK Trade & Investment has a dedicated Development Business Team of six people whose role is to provide UK companies with specialist information on how to win business

Reuters/Popperfoto

directly from the UK's own aid budget, as well as from the development assistance programmes of the EU, World Bank and UN agencies. The team exists to raise awareness of the "extensive opportunities" which exist for private sector companies out of the US$60 billion spent annually by international financial institutions and donors in the developing world.

DFID's use of UK-based consultants to promote privatisation of public services in developing countries clearly fits with the above strategy, but risks exposing DFID to suspicion in respect of the underlying motivation for its privatisation programme. The concern is particularly acute given the fact that privatisation of public services is doing nothing to reduce poverty or help achieve the MDGs – the guiding principles of all DFID's activities, as noted above.

4. Conclusion and recommendations

There is now a substantial body of evidence to show that privatisation of public services threatens to expose millions of people in developing countries to increased poverty. Yet the UK government has positioned itself as an international champion of privatisation, and DFID channels large sums of the UK aid budget to privatisation consultants in order to promote privatisation of public services across the developing world.

War on Want believes that DFID's commitment to privatisation of public services is incompatible with its stated commitment to poverty reduction and realisation of the Millennium Development Goals. DFID should undertake a radical reappraisal of its support for privatisation of public services, and commit its support to the alternative solutions which are available. There is increasing evidence of the success which can be achieved through revitalisation of the public sector and community-based initiatives.[17] DFID should align itself with these positive models of pro-poor reform rather than a private sector model which will not deliver the MDGs.

Recommendations

In light of these concerns and the evidence expressed in this report, War on Want calls on DFID:

1. to end the imposition of public services privatisation as a condition of development assistance to developing countries, including any requirement that developing country governments must engage privatisation consultants in order to qualify for UK aid

2. to establish an independent commission to take evidence on the impact of public services privatisation on communities in developing countries, with particular reference to potential increases in poverty resulting from such privatisations

3. to refrain from awarding any new privatisation-related contracts to consultants until the proposed commission has reported its findings

4. to affirm the UK government's commitment to public sector and community-based solutions as the most important means of achieving the targets set by the Millennium Development Goals

Notes

[1] 'Privatisation of services' in this report refers to the private sector's assumption of responsibility for service provision, whether through a transfer of ownership of public assets or through concessionary or contractual arrangements, some of which may also be termed public-private partnerships. This common understanding is in contrast to attempts by the World Bank and others to restrict use of the word 'privatisation' so that it refers only to the divestiture of public assets.

[2] In May 2001, the UN's Committee on Economic, Social and Cultural Rights outlined its definition of poverty as "a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights." – UN document E/C.12/2001/10, para 8.

[3] http://www.ifc.org/edinvest/

[4] The assessment cited was carried out by the Bank's Social Development Department; World Bank (2001) p32

[5] Note on sources: The information in these examples has been collected and cross-checked using a wide range of sources, including the reports of the companies concerned and official documentation from privatisation commissions in the host countries, as well as local media reports and other materials. References have been provided only where individual sources are cited.

[6] The IFC confirmed the ideological motivation behind the JPS loan in its Summary of Project Information (29 August 2002) : "IFC's financial support to this newly privatized company could serve as a positive example in support of private participation in the infrastructure sector."

[7] PricewaterhouseCoopers, KPMG, Ernst & Young and Accenture are all corporate members of the European Services Forum (ESF), while Accenture, Deloitte Touche Tohmatsu and Citigroup are members of the US Coalition of Service Industries (CSI). Many other companies are members by virtue of belonging to national lobby groups which form part of the ESF or CSI – see, for example, the following note on ESF member IFSL.

[8] International Financial Services, London (IFSL) numbers among its membership many companies which have been engaged as privatisation consultants in developing countries, including Baker & McKenzie, Citigroup, CMS Cameron McKenna, Deloitte Touche Tohmatsu, Dresdner Kleinwort Wasserstein, Ernst & Young, KPMG, Morgan Stanley, NM Rothschild, PricewaterhouseCoopers and UBS.

[9] MDG Target 10 reads: "Halve by 2015 the proportion of people without sustainable access to safe drinking water." This was subsequently expanded, at the 2002 World Summit on Sustainable Development, through the addition of the words: "and the proportion of people who do not have access to basic sanitation." For several other studies concluding that the private sector is a distraction from the task of meeting these MDG targets – including assessments from the private companies themselves – see Hilary (2003). For the most recent figures on progress towards meeting MDG Target 10, see WHO and UNICEF (2004). The report, published in August 2004, notes that an additional 1.1 billion people have gained access to safe drinking water since 1990 and that the world as a whole is on track to meet this part of the MDG target by 2015. The sanitation target, however, will be missed by half a billion people on current trends.

[10] For further details on DFID's support for these initiatives, see War on Want's report *Dogmatic Development: Privatisation and Conditionalities in Six Countries* (Hall and de la Motte 2004).

[11] *Official Report (Hansard) House of Commons*, Written Answers for 25 February 2002

[12] *Official Report (Hansard) House of Commons*, Written Answers for 6 May 2004

[13] Full details and research outcomes are available at http://wedc.ac.uk/projects/ppp-poor/index.htm

[14] http://www.psrctz.com – the song is at the top of the press releases page.

[15] This is a small selection of DFID procurement contracts; full monthly lists are available via the DFID website, at http://www.dfid.gov.uk/procurement/contractslet.asp

[16] http://www.trade.uktradeinvest.gov.uk/infrastructure/profile/index/overview.shtml

[17] See, for example, the cases collected in Hall (2003); also, for a current insight into pressures for privatisation even when the public sector has delivered

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Written by John Hilary

War on Want
Fenner Brockway House
37-39 Great Guildford Street
London SE1 0ES
Tel: + 44 (0)20 7620 1111 Fax: +44 (0)20 7261 9291
E-mail: mailroom@waronwant.org
www.waronwant.org

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War on Want

War on Want is a UK-based campaigning charity. Founded in 1951 it has links to the labour movement and supports progressive, people-centred development projects around the world. War on Want campaigns in the UK against the causes of world poverty.

PCS

PCS - Public and Commercial Services Union - is one of the largest UK trade unions. Its members deliver governmental services in both the public and private sectors. PCS has over 310,000 members who work in government departments, agencies, public bodies and in a number of private companies, notably in information technology.

Cover picture: still image taken from War on Want / UNISON Scotland advert featuring John Simm and Rupert Graves

FIGHTING GLOBAL POVERTY