

## DFID, UK and Public Services Privatization: Time for Change

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JOHN HILARY

*DFID, UK and Public Services Privatization: Time for Change*

(JOHN HILARY is Director of Campaigns and Policy, War on Want, UK)

The past few years have generated a solid body of evidence showing that privatization of public services has led to increased poverty in many developing countries. This includes not only income poverty, as families struggle to meet the increased service charges associated with privatization, but also other deprivations. Even when poor families do manage to meet the higher charges of privatized public services, the substitution effects on the household economy can lead to reductions in expenditure on other essentials such as food and education. At a time when the international community is focusing on progress towards the Millennium Development Goals (MDGs), the poverty implications of public service privatization give serious cause for concern.

Yet even with this growing evidence of the damage caused by increased involvement of the private sector in delivery of public services, developing country governments still come under intense pressure to commit services such as health care, water and electricity to privatization. Often this is a condition of receiving development assistance, loans or debt relief from international financial institutions and donor governments. Much recent attention has focused on the role of the World Bank and International Monetary Fund (IMF) in this regard, and several non-governmental organization (NGO) reports have exposed the continued use of conditionality in promoting privatization in the South by international financial institutions (IFIs).

War on Want's new research publication *Profiting from Poverty: Privatisation Consultants, DFID and Public Services* (<http://www.waronwant.org/profitting>) examines the UK government's role in promoting privatization in developing countries. Despite its avowed commitment to poverty reduction and realization of the MDGs, the UK Department for International Development (DFID) has invested heavily in this programme, creating a host of new bodies and financing mechanisms to advance the cause of privatization across the developing world. Initiatives such as the Emerging Africa Infrastructure Fund, the Private Infrastructure Donors Group and the Public-Private Infrastructure Advisory Facility have established the UK government as a champion of privatization in the developing world.

In addition, DFID channels large sums of the UK aid budget every year to privatization consultants such as PricewaterhouseCoopers, KPMG and Deloitte Touche in order to drive forward the privatization of public services in developing countries. DFID's commitment to this privatization programme 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 privatization of Britain's public services in the 1980s – has received over £34m from the UK aid budget in the past 6 years.

TABLE I Selected DFID consultancy contracts in developing countries, 2003–4<sup>a</sup>

| <i>Date</i> | <i>Project</i>   | <i>Country</i>       | <i>Consultant</i>                           | <i>Total (£)</i> |
|-------------|--|----------------------|---|------------------|
| 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              | Water Engineering & Development Centre      | 282,104          |
| May 2004    | Privatization Adviser  | Sierra Leone         | PricewaterhouseCoopers                      | 48,820           |
| Apr 2004    | Case Studies, Workshops on Non-State Provision of Basic Services | Not country-specific | IHSD Ltd (part of the Mott MacDonald Group) | 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 (part of the Mott MacDonald Group) | 45,024           |
| 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          |

*Note:* <sup>a</sup> 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>

Table 1 provides a selection of some of the most recent contracts awarded by DFID to privatization consultancies in the context of public sector reform.

The UK government also actively promotes British expertise in the field of privatization in order to win overseas contracts for its own companies. This includes a team within the government's export promotion arm UK Trade & Investment dedicated to advising British companies on 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.

Given the poverty implications, DFID's commitment to privatization of public services is incompatible with its stated commitment to poverty reduction and realization of the MDGs. On the basis of the concerns raised in its new report, *War on Want* has called on DFID to establish an independent commission to take evidence on the impact of public services privatization in developing countries. We believe that DFID should also refrain from awarding any new public service reform contracts to privatization consultants until the commission has reported its findings.

We are not alone in this conviction. The Make Poverty History coalition which has been formed to campaign against poverty 2005 has also stipulated that aid should 'no longer be conditional on recipients promising economic change like privatizing or deregulating their services, cutting health and education spending, or opening up their markets'. Even potential beneficiaries such as Thames Water have spoken out publicly against the use of aid conditionality to impose privatization on developing country governments.

The good news is that Hilary Benn, UK Secretary of State for International Development, has responded to NGO criticism of DFID's record with a review of UK aid conditionality. The UK government's new policy, unveiled in March 2005, sees an important first step away from the promotion of privatisation, as UK aid will no longer be made conditional upon policy choices such as privatisation and trade liberalisation. In addition, the World Bank has launched a review of its conditionality policy, on which it will report in autumn 2005. The UK government should also take a lead in securing a pro-poor outcome to that review.

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