

Profits from poverty

How big business is cashing in on aid

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Over the past decade, the Department for International Development (DfID) has increasingly been putting the culture and interests of the private sector at the heart of its work. Aid is being used to encourage private sector involvement in developing countries, whether this is in the form of supporting pro-market policies or directly channelling aid money through companies.

The UK government has even set up a dedicated private sector department within DfID and is increasingly using private consultants to provide UK technical assistance and policy advice to developing countries. The government is acting on the assumption that a focus on the private

sector will yield better results than one that focuses on strengthening public sector capacity in developing countries. But history shows that the opposite is true in most cases. By directing scarce public funds towards market-based strategies, there's a risk that focus on the local public sector will become neglected.

In this briefing, we highlight three of the main ways in which this 'private good, public bad' mentality has taken hold and argue that there needs to be a full parliamentary inquiry and a wider debate among politicians, government, international development organisations and civil society about the future trajectory of UK aid policy.

'Private good, public bad' – DfID's new mantra?

'Leveraging' private finance

Leveraging, the use of public aid money to 'crowd in' private finance for pro-poor projects, has become something of a buzz word within development circles. With leveraging, aid money is used to provide risk guarantees and co-financing loans to private sector investors, so, in theory, a relatively small amount of public money can attract private companies willing to take on the bulk of the cost of a project.

But leveraging has come in for some criticism from international development organisations. A recent report warned that the use of leveraging by governments and other development institutions could lead to aid money subsidising profit-making projects that would have happened anyway, and to situations in which national strategies of recipient countries "may be ignored or overridden".²

An increasing amount of UK aid and climate finance is going to benefit private companies in this way – and the practical results of this policy appear to confirm the concerns raised. For example, DfID funds the Private Infrastructure Development Group (PIDG), which provides finance to a number of large scale projects by multinational companies such as the Beyla hydropower dam in Guinea, being built "in anticipation" of mining activity by Rio Tinto.³ PIDG is also involved in numerous carbon-intensive fossil fuel projects, such as the Kelvin Power coal plant in South Africa owned by the UK-based Aldwych equity fund which will add to South Africa's already high carbon footprint and an oil power plant in Cameroon owned by a subsidiary of the US energy giant

Neglecting the public sector

Despite protest from a number of international development organisations, the government has already cut funding to the Centre for Progressive Healthcare Financing, which was to focus more on the public sector and achieving universal healthcare in the global south.¹

AES Corporation.⁴ It is difficult to believe that these large multinationals would not have been able to embark upon these projects without public funding, which raises the question: is handing over aid money to the likes of AES and Rio Tinto the best use of taxpayers' funds?

As things stand, there needs to be more evidence that projects like these would not have happened anyway without the injection of public aid money. Without a full investigation into the relative benefits of leveraging as opposed to alternative uses of aid money, it will be impossible to know for sure.

Exporting expertise or exploitation?

Another major way in which DfID promotes the interests of multinational companies is through technical assistance – the use of aid money to pay for specialist advice given to governments in developing countries. While there is nothing wrong with sharing UK expertise, the reality of technical assistance is often that it is ideologically pro-market private consultants such as the Adam Smith Institute, Atos and PriceWaterhouseCoopers, rather than the poor, who benefit the most in the form of lavish payouts



AP Photo/Sazid Hossain

Police confront a protest by Bangladeshi garment workers. Dozens of people were hospitalised in Bangladesh's Ishwardi Export Processing Zone in August this year after police attacked workers¹⁵. Bans on trade union activity are a key feature of EPZs.

Case study: UK aid backing tax breaks for sweatshops in Bangladesh

Bangladesh is currently building a number of new 'special economic zones' across the country – a policy that is being supported by DfID through its approximately £11 million funding for the World Bank's Bangladesh Private Sector Development Support Project⁸ which provides technical assistance on the issue. A number of these zones, also known as 'export processing zones' (EPZs) already exist and are essentially onshore tax havens for multinational companies. Companies that set up in these zones enjoy a ten year tax holiday and pay unskilled workers an average of less than £1 a day.⁹ These low wages are further guaranteed by the severe restrictions on trade union activities within the zones which have been judged to be in breach of basic International Labour Organisation standards.¹⁰ A number of high street brands, including Nike, Adidas and Mothercare have factories within Bangladeshi EPZs.¹¹

Khorshed Alam of the Bangladeshi organisation Alternative Movement for Resources and Freedom said: "UK and World Bank support for the establishment of new special economic zones has the potential to do much damage in Bangladesh. The restrictions on freedom of association and trade union rights envisaged for these zones are especially concerning."¹²

which amounted to almost £500 million last year.⁵

DfID has taken the welcome step of calling an internal probe into the value of these consultants. But the bigger question of who benefits from the actual advice given through UK technical assistance, both through consultants and using DfID's own expertise, remains unanswered. For many years now, UK aid money has gone towards supporting unproven policies that seek to boost foreign private investment as if this was an end in itself. For example, DfID is using technical assistance to actively promote public-private partnerships (PPPs) as a model for organising health and educational provision, as well as in infrastructure (there is a target of achieving 35 new PPPs in India alone by 2015). This support for PPPs in the developing world comes despite the fact that evidence for their effectiveness is mixed to say the least. In the UK, PPPs (in the guise of the private finance initiative) have been criticised by many, including the Treasury Select Committee which called them "extremely inefficient" in a 2011 report.⁶ The committee also found that the use of PPPs in the UK had led to poor investment decisions and allowed private companies to make guaranteed profits while taxpayers were left to shoulder most of the risk. Why is public aid money facilitating the export of a model that has been widely criticised as having been a failure within the UK?

An alternative model for technical assistance exists. In Sweden, for example, it is up to the recipient country to decide how to use the money, often meaning that it is local firms – and not international consulting firms – which get the contracts to provide technical assistance.⁷

Corporations as aid agencies

DfID has begun to give grant funding directly to large international companies and their associated foundations, and corporations are increasingly replacing aid agencies and charities as partners for large scale programmes. For example, during the recent Hunger Summit held to coincide with the London Olympic Games, it was Unilever and GlaxoSmithKline, rather than development-focused charities, which were named as the major partners.

Another example is that of Diageo, which received £150,000 from the African Enterprise Challenge Fund (which is funded by DfID and other governments) to help it replace imported barley with local sorghum crops in the brewing of Guinness in Cameroon.¹³ While this project was hailed as a success, it does raise the question of whether aid should be used to buy good behaviour from corporations instead of combating the root causes of poverty (such as why Cameroon's markets are flooded with cheap imports in the first place).

And while there hasn't been enough scrutiny into these kind of projects to determine their efficacy, early signs are not promising. An investigation by the independent aid watchdog the ICAI into one such DfID project being implemented by the Nike Foundation (Girl Hub) found that it suffered from "serious deficiencies in governance".¹⁴

What we're calling for

A full parliamentary investigation and a wider debate around the efficacy of concentrating on private sector development at the expense of public sector solutions.

So why do we need a parliamentary inquiry into private sector involvement in overseas aid?

We need increased parliamentary scrutiny about the direction of UK's aid policy in and the role of the private sector. We need to secure a full inquiry by the International Development Select Committee and to start an open debate within and outside parliament on the issue.

- Private sector centered approaches to international development are becoming an even more dominant and unchallenged orthodoxy within the Department for International Development (DfID)
- Some of these approaches have led to UK aid money being used to benefit the private sector at the potential expense of the people it is meant to help. For example, UK aid money has gone towards supporting tax breaks for multinational clothes manufacturers in Bangladesh and the construction of infrastructure meant for the use of international companies.

Take action

- Sign our aid action card, to Malcolm Bruce MP, the chair of the International Development Select Committee calling on his committee to hold an inquiry into the private sector focus of the UK's overseas aid programme.
- Organise a lobby meeting and/or stunt outside your MP's offices. We have created a campaign pack which includes a petition, postcards and a placard.
- You can also write to your MP, asking them to contact Malcolm Bruce MP, asking him to call a full inquiry into the private sector focus of the UK's overseas aid programme which should compare the value of these approaches with alternatives that focus on the public sector. Such an inquiry would complement the internal probe launched by DfID into the value of private sector consultants.



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Take action

To find out more or if you would like to take action locally on these issues, contact Sarah at groups@wdm.org.uk or call 020 7820 4900.



The World Development Movement campaigns against the root causes of poverty. Working in solidarity with activists around the world, we oppose injustice and challenge the policies and institutions which keep people poor.

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