

# The Privatisation of UK aid

How Adam Smith International is profiting from the aid budget



**By Claire Provost**

with support from Aisha Dodwell and Alex Scrivener.

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## About Global Justice Now

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Holding the UK government to account on where aid is going and who sees the benefits, since 1970

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**After decades of work by campaigners and activists, in 2015 the UK enshrined in law a commitment to spend 0.7% of its national income on international aid to tackle poverty around the world. But behind the scenes, this has been a lucrative time for aid-funded business.**

Consultancy firms, including Adam Smith International (ASI), are “taking an ever increasing share of the aid budget and enjoying generous profit margins”.<sup>1</sup> In 2014 alone, the Department for International Development (DfID) spent £90 million through ASI, which is twice what DfID spent tackling HIV and Aids.

Long-term commitments to untie aid, to ensure that it is spent tackling poverty rather than generating business for UK firms, are also at risk. Over 90% of centrally managed contracts continue to go to UK suppliers. And the government’s new aid strategy explicitly aims to “strengthen UK trade and investment opportunities around the world”.<sup>2</sup>

Global Justice Now has a strong track record in holding the UK government to account on how aid is spent. We want to ensure it reaches the people who really need it and makes a long term difference to building a more just, equal and sustainable world.

The Privatisation of UK Aid demonstrates that money is being diverted away from those it is intended to reach where it could play a small part in addressing fundamental injustices in wealth and power, which as a nation the UK helped create. Instead, UK business is increasingly a beneficiary of aid.

Specifically we call on DfID to:

- Justify why it has been contracting out projects to UK for-profit companies instead of being managed in-house or through an organisation in a developing country
- Require full disclosure of contractors’ costs, fees and profit margins to be publicly available
- Publish an action plan setting out how it will spend more through organisations in developing countries in the future.

**Polly Jones**  
Head of campaigns and policy

# 1. Introduction

## UK taxpayer money intended to help end global poverty is increasingly being used to support private companies.<sup>3</sup>

UK aid is being spent on projects to expand the private provision of basic services in poor countries, help governments write more ‘business-friendly’ laws, and support public-private partnerships in infrastructure. Meanwhile, more money is being spent through private contractors which are not only delivering aid but also managing whole programmes on behalf of the Department for International Development (DfID).<sup>4</sup> UK aid itself is being privatised, as more of DfID’s work is outsourced to for-profit companies.

This report exposes the role of the London-based consultancy company Adam Smith International (ASI) in promoting, and benefiting from, these controversial trends. Founded in 1992, ASI specialises in the provision of advisory services in government and economic reform. Among its founders was Peter Young who, at the time, was a rising star at the free-market think tank the Adam Smith Institute. In the 1990s the company focused on projects in Eastern Europe and the former Soviet Union, since then it has expanded into Asia, Africa and South America.<sup>5</sup> Today it manages a large portfolio of projects for DfID, its biggest client.<sup>6</sup>

ASI has won at least £450m in aid-funded contracts since 2011.<sup>7</sup> In 2014 alone, DfID spent nearly £90m of its money through the company.<sup>8</sup> To put this in perspective, while a small share of the total £6.8bn bilateral aid budget that year, it is still more than the entire amount spent on human rights and women’s equality organisations, or almost twice that spent on programmes to tackle sexually transmitted diseases including HIV and Aids.<sup>9</sup>

Despite the government’s repeated transparency pledges, it remains difficult to get a full picture and a detailed breakdown of how funds are actually

spent, specifically how much the company pockets in fees.<sup>10</sup> But ASI’s company accounts reveal what a lucrative business aid has been, with six-figure salaries for its directors and an after-tax profit of £14m in 2014.<sup>11</sup>

Much of the company’s work for DfID has been on projects to support the private sector and “market development” in poor countries. Its recent projects include support for a “business advocacy capacity development programme” in Zimbabwe and work to expand private schools in Kenya.<sup>12</sup>

This report focuses on how ASI has promoted, and profited from, DfID’s shift towards the private sector. This report reveals how ASI became a multi-million pound company thanks largely to DfID money, while DfID’s promises to shift control to developing countries and boost their ‘ownership’ of aid remain unfulfilled. It also looks at specific case studies of the company’s UK aid-funded work which raise serious concerns about the extent to which the official goal of this spending – to help end poverty in developing countries – is being met.

Today in Nigeria consumers are struggling with increases of up to 45% on the price of electricity, despite ongoing power shortages, as a consequence of a controversial energy privatisation programme supported by UK aid through a multi-million pound project implemented by ASI.<sup>13</sup> In Afghanistan, local civil society organisations say the country’s new minerals law, drafted with ASI support as part of a UK aid-funded project, has done little to alleviate their plight and has instead left local communities vulnerable to human rights abuses.<sup>14</sup>

For 15 years UK aid has been formally ‘untied’ from UK commercial interests, with DfID contracts officially open to competition from companies

anywhere in the world.<sup>15</sup> UK aid must also be spent with the reduction of poverty in developing countries as its primary objective. In 2002 the International Development Act (IDA) enshrined these principles in law.<sup>16</sup> At least on paper, they have set the UK apart from other aid donors and have been a source of pride for many involved in these efforts.

But DfID is too often entering into partnerships with businesses and funding private sector development projects with questionable benefits for poor communities. And despite UK aid being formally 'untied' ASI and a small group of other large UK contractors have long won the lion's share of DfID contracts.<sup>17</sup> The current government is increasingly explicit in linking aid spending to UK security interests. The new aid strategy, unveiled in November 2015, presents aid spending on "economic development and prosperity" in

developing countries as a tool to create "new trade and investment opportunities for UK companies".<sup>18</sup>

These trends undermine the 2002 IDA and risk skewing UK aid spending away from its primary goal, the reduction of poverty. Instead of funding private sector projects with questionable impacts on poor communities, UK aid could be used to strengthen public services, support civil society, and build democratic and accountable institutions. Instead of lining the pockets of big UK contractors like ASI, this money could be spent through local organisations. Public money to help the world's poorest people should not be used to support the private accumulation of wealth by elite 'technical assistants'. UK aid must be a force for economic justice, not just 'wealth creation' which only benefits a few.



## 2. The Money

**It's never been a better time to be a UK aid-funded contractor. In 2015 the government enshrined in law a long-promised commitment to spend 0.7% of gross national income (GNI) as overseas aid.**

This means the UK aid budget will now also grow in step with the UK economy. With economic growth of 3% a year, for example, this would mean an aid programme of more than £17bn by 2020.<sup>19</sup> Meanwhile DfID, the department that spends the bulk of UK aid, is outsourcing a growing share of its work to private contractors.

Estimates from the UK aid watchdog, the Independent Commission on Aid Impact

(ICAI), suggest the amount of aid delivered by contractors rose from £900m in 2012-13 to £1.4bn (or around 12% of DfID's total budget) in 2013-14.<sup>20</sup> Today contractors provide services from day-to-day operational support to 'technical assistance' on specific projects to the design and delivery of complex high-value programmes over many years. Increasingly contractors act as 'managing agents', procuring and coordinating the delivery of services

### Boomerang aid

The UK formally 'untied' its aid spending from commercial interests almost fifteen years ago, on the heels of criticism, and a campaign by Global Justice Now (then known as the World Development Movement), that the aid budget was benefiting UK companies at the expense of poor communities in developing countries. By 'untying' aid, the UK opened up its aid-funded contracts to competition from companies around the world, and the hope was that firms in developing countries<sup>23</sup> could benefit from some of this business too. But, fifteen years later, UK companies still win the lion's share of DfID contracts. This trend is sometimes called 'boomerang aid', to reflect the fact that not all aid money ever actually enters developing countries' economies, with much of it going to companies in rich, donor countries instead.<sup>24</sup>

In 2014, a peer review of the UK's development cooperation by the Organisation for Economic Cooperation and Development (OECD) said: "The UK reports its aid as 100% untied and the government has committed to keeping UK aid separate from national commercial interests. However, the UK reports that over 90% of

centrally managed contracts – which represent the vast majority of the contract value – go to UK suppliers. This is a concern as it has implications for value for money."<sup>25</sup> It said other donors with formally untied aid "have much lower shares of contracts awarded to domestic suppliers" and questioned whether there were "unintended or implicit impediments to foreign suppliers winning their contracts".<sup>26</sup>

A smaller group of eleven contractors, known as the 'Key Strategic Suppliers' or the 'Top Eleven' win approximately 60% of DfID's contracts.<sup>27</sup> Many, like ASI, are from the UK. This group includes Crown Agents, the London-headquartered international development firm founded in 1833 that was once part of the British Empire's administrative apparatus and a state-owned company until its privatisation in 1997.<sup>28</sup> The multi-national accountancy giant PricewaterhouseCoopers is also on the list, along with the UK consultancy firms Mott MacDonald and Maxwell Stamp. While there are other European companies on the Top Eleven list, including the French consultancy firm Atos, not one is from a developing country.

by third parties. They are also hired to conduct research for DfID, and to undertake monitoring and evaluation of projects.<sup>21</sup>

This is not an inevitable consequence of the UK increasing its aid budget. Part of the reason this has happened is that, while DfID's spending has grown rapidly over the last five years, the department's full time staff numbers have not kept pace. Giving evidence to a parliamentary inquiry in 2015, Garth Glenworth, an ex-DfID employee of 25 years, suggested that this is one reason why the department has become more reliant on big private contractors. DfID's own staff, he said, "is far too small to take on a direct role in implementation". As a result, "large consultancy companies have expanded, taking an ever increasing share of the aid budget and enjoying generous profit margins".<sup>22</sup>

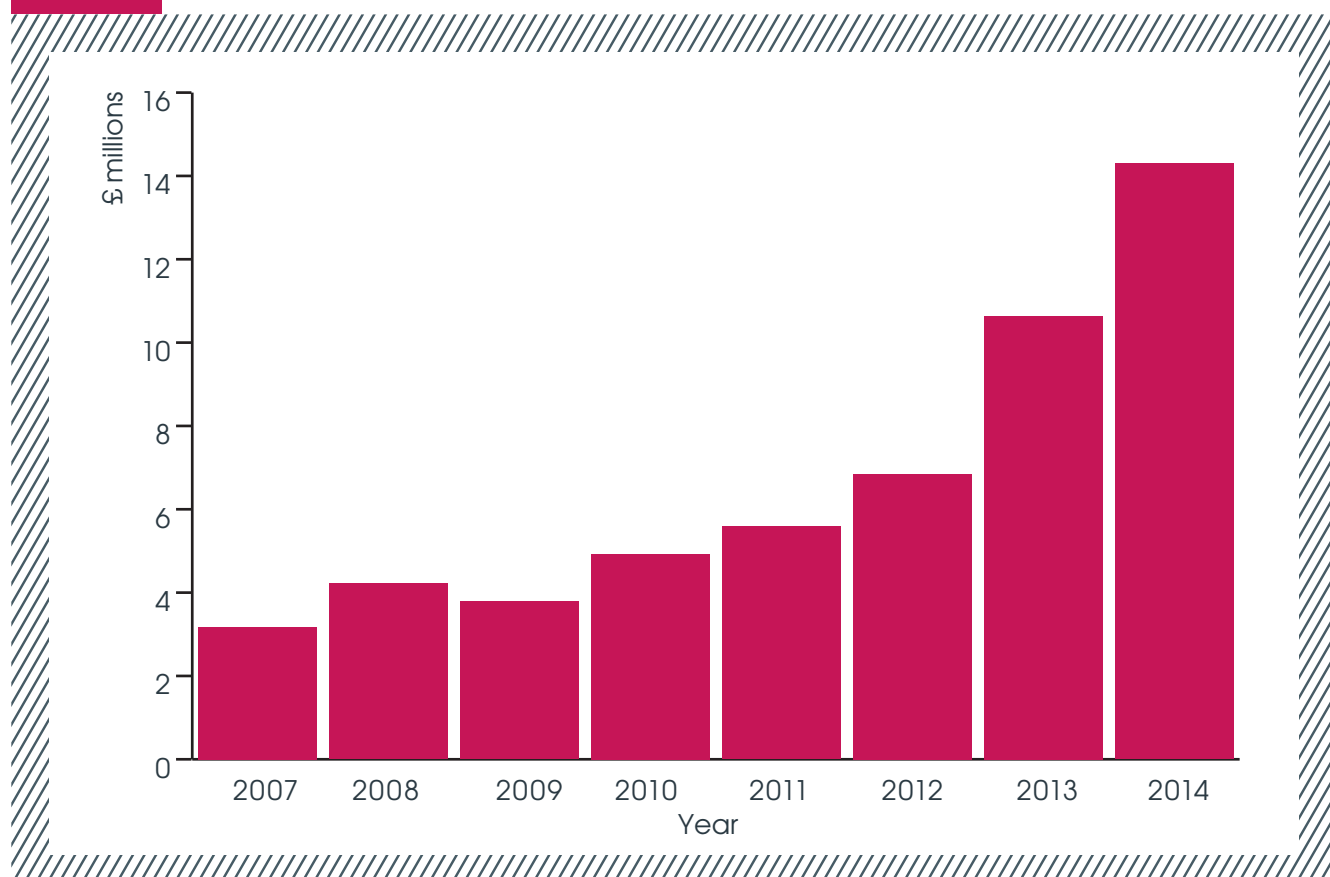
In the past five years alone, ASI has won at least £450m in UK aid-funded contracts, and DfID spending data suggests that in 2014 ASI was the department's third largest private contractor (having spent at least £88.4m through the

company that year), behind Crown Agents (£191.6m) and PricewaterhouseCoopers (£122.2m).<sup>29</sup>

Despite the government's stated commitments to transparency, it is almost impossible to fully ascertain what this money is eventually spent on. DfID's online guidance for companies says that bids for its business should include detailed breakdowns of overheads, salaries, and profit margins.<sup>30</sup> But if this information is collected it is not published for scrutiny by taxpayers, even though they foot the bill. It is unclear how much of a certain contract will be consumed by transport and accommodation for ASI consultants, for example, or how much the company will pocket in fees and administration costs.

A look at the company's financial statements, however, show just how lucrative the 'aid industry' has been for it. In 2014 ASI reported revenues exceeding £110m – up more than 20% from £90m in 2013, and 50% from 2012 (£72m). Since the Conservative Party first joined government in 2010, ASI's profits have nearly tripled. In 2014 it reported after-tax profits of £14.3m – up from in £4.9m in 2010.<sup>31</sup>

Graph 1. **ASI's profits, 2008-2014**





DfID is ASI's biggest customer, though the company also has other clients including the Australian aid agency AusAid and the World Bank, through which the UK also channels much of its aid money each year. This means that UK taxpayer money intended to help end global poverty is largely responsible for ASI's recent commercial success. While it is unclear exactly what percentage of the company's revenues or profits come from DfID, it is likely a very large share; the department's data suggests that at least £88.4m of UK aid was spent through ASI in 2014 (equivalent to almost 80% of the company's revenues that year).<sup>32</sup>

The rewards of ASI's aid-funded business have been particularly rich for the company's directors. ASI is owned by a holding company called the Amphion Group, which is in turn owned by Adam Smith Advisory Group. In 2014, the Adam Smith Advisory Group said its seven paid directors shared just over £1m in salaries and benefits, with the highest-paid receiving almost £250,000 which is far more than what DfID's top official, or even the UK prime minister, takes home.<sup>33</sup> On top of this, the Adam Smith Advisory Group reported paying out more than £900,000 in dividends to its shareholders in 2014.<sup>34</sup> According to the company's latest annual return filed in March 2015, it has 13 shareholders: all of which are either also company directors or senior managers at ASI.<sup>35</sup>

In written evidence submitted to parliament's international development committee in 2012, ASI defended its profits saying: "consultancy firms which provide services to DfID have considerably lower profit margins than consultancy firms in general". It added: "profits for companies supplying DfID are necessary to enable them to maintain and expand their operations and maintain adequate working capital to service projects, including the pre-financing required by DfID".<sup>36</sup>

On the cost of its consultants, ASI said "all of DfID's main suppliers source the majority of their proposed project team members from the open market on a contract, project specific basis".<sup>37</sup> It said the day rates paid by DfID were "generally in the £400 to £850 range, with only a few outliers".<sup>38</sup> This was less than other government department's rate of pay, it added, and less than what a civil servant would cost. Even if this were true, these fees are still extraordinarily high given that they eat into a budget intended to help the world's poorest people, not fund the lifestyles of the UK elite. In Nigeria a minimum wage worker would make approximately £760 a year.<sup>39</sup> This means that a consultant, funded by UK aid, could make as much in a day as that worker would make in a year.

### 3. The People

**In 1986 a researcher named Peter Young at the brazenly free-market Adam Smith Institute think tank in London – a key force in pushing the privatisation of state-owned assets in the UK under Margaret Thatcher – outlined a stark new vision for how aid should be spent.**

“The time is long overdue for Britain to change its thinking on foreign aid, and to redirect it into helping along and speeding up the process of privatisation in the third world,” he said.<sup>40</sup> Young suggested that “Western policy should be designed to increase the practice of contracting out”.<sup>41</sup> Privatisation, he argued, “could become one of our most valuable exports to developing countries”.<sup>42</sup>

Six years later, Young co-founded a small international development consultancy company called Adam Smith Associates (the previous name of ASI). Today he is still at the company, as its director of strategy, and using aid to support the private sector is now mainstream UK government policy. Now ASI has more than 100 employees, and subsidiaries in several countries including Kenya, India and Australia.<sup>43</sup> It says its “private sector development services” division expanded significantly in recent years with “numerous programmes launched to tackle systemic barriers to private sector development” in African countries.<sup>44</sup> It has also “developed service lines focused on revenue reform, security sector reform, extractive industries and education”.<sup>45</sup>

On its website, ASI says it is independent of the institute: “we are a wholly different, separate and independent organisation with our own objectives focused on tackling the toughest problems faced by governments and societies around the world”.<sup>46</sup> But the two organisations have long been closely linked through their senior figures. Until 2006, Madsen Pirie and Eamonn Butler (both directors

and co-founders of the institute) were also listed as directors of ASI.<sup>47</sup> Peter Young meanwhile wrote a paper for the institute in 2010 as part of their “campaign against the government’s plans to raise capital gains tax”.<sup>48</sup> In another 2011 report for the institute, calling for cuts to income tax rates for the highest earners, Young was described as a “fiscal policy adviser to the Adam Smith Institute”.<sup>49</sup>

ASI also appears to enjoy a particularly close relationship with the UK government. This is illustrated by the fact that Lord Malcolm Bruce, previously the chair of the parliamentary committee that is supposed to scrutinise aid spending, wrote the foreword to the company’s most recent Compendium of Results promotional brochure.<sup>50</sup> Several of the company’s staff members have previously worked on DfID projects; ASI’s director for South Asia Harry Kendell, joined ASI in 2008 and was previously a DfID economist at its London headquarters.<sup>51</sup> Though ASI works with all political parties, through their senior figures the company has close links to the Conservative Party.

Sir Malcolm Rifkind, the former Conservative MP for Kensington who served in Margaret Thatcher’s government as a minister in the 1980s, is a non-executive director of ASI. In 2015 he resigned from his position as chairman of parliament’s Intelligence and Security Committee after undercover journalists posed as potential Chinese investors and recorded conversations in which he appeared to offer them access to UK ambassadors in exchange for £5,000 to £8,000 per half-day’s work.<sup>52</sup> According to Rifkind’s published

register of interests, he attends two-hour monthly board meetings in central London for ASI and participates in “occasional email exchanges” for which he receives almost £3,000 a month.<sup>53</sup> In 2014 he reported an additional payment of more than £5,500 from ASI “in recognition of success of the company during the past year”.<sup>54</sup>

Young, meanwhile, was chairman of the Federation of Conservative Students (FCS) in 1980. Former FCS member Harry Fibbs said the organisation was “transformed” during Young’s tenure and that “instead of a strategy of appeasing the National Union of Students and the Left generally, a confrontational approach was adopted”.<sup>55</sup> On 20 May 1980, having just been elected chairman, Young wrote to Thatcher and asked for a meeting. “We are all very committed to helping your government as much as we can,” he said, suggesting “public expenditure cuts, and how more can be made” and “reform of higher education to eliminate unnecessary courses and reduce socialist influence” among the possible discussion topics.<sup>56</sup>

Two days after Young sent his letter, Richard Ryder (now Lord Ryder), Thatcher’s political secretary at the time, wrote a note to her diary secretary advising that she should take the meeting: “There is one major reason why I think that their request should be carefully considered and that is because the Federation is, for the first time, in the hands (albeit over-enthusiastic ones) of people sympathetic to the prime minister’s philosophy.”<sup>57</sup>

While working with the institute in the 1980s Young also led the controversial Omega Project which looked at each UK government department and proposed reforms to outsource work and privatise services.<sup>58</sup> He also wrote a paper in support of the privatisation of prisons in the UK.<sup>59</sup> Today he keeps a relatively low profile. But in 2012 he penned a comment piece for the ConservativeHome website in which he called for substantial cuts to the rate of income tax charged to the UK’s highest earners. “The longer such uncompetitive rates remain in place the greater the economic damage that is caused,” Young argued. “The political objective must now be to secure properly competitive tax rates.”<sup>60</sup>

## 4. The Power

**In addition to profiting from UK aid-funded contracts, ASI is also an active player in debates about how to help developing countries. The company has pushed for more UK aid to be spent on private sector development, and for it to be outsourced and spent through private contractors.**

In repeated submissions to parliamentary inquiries it has argued against spending aid money through multi-lateral organisations like UN agencies.<sup>61</sup> It has also argued against giving money to poor countries directly, suggesting that policymakers in developing countries aren't capable of doing their jobs. In 2011, it told a parliamentary committee that: "Where projects are designed largely by people in beneficiary country governments, with little international experience of the reforms involved and of designing such projects, it is not surprising that the results are often poor."<sup>62</sup>

Under the government's new aid strategy, unveiled in November 2015, developing countries will no longer receive general budget support – the already very small share of aid that was actually given directly to poor country governments to manage themselves – from the UK.<sup>63</sup> This could mean more money for contractors like ASI, but it goes against the spirit of most of the global 'aid effectiveness' discussion over the last decade which has instead made the case for greater developing country ownership of aid, as the only way to really secure long term impact: building local capacity. A major international aid summit in Busan, South Korea in 2011, for example, reaffirmed that "partnerships for development can only succeed if they are led by developing countries".<sup>64</sup>

In contrast, the UK's new aid strategy is entitled "tackling global challenges in the national interest". It says aid will be spent "to promote economic development and prosperity in the developing world" with the explicit purpose not only to

contribute to the reduction of poverty but also to "strengthen UK trade and investment opportunities around the world".<sup>65</sup> Half of the UK aid budget will now go to projects in regions impacted by conflict.<sup>66</sup> ASI is likely to be a prime candidate for future aid-funded work under these policy shifts. It is already working on more projects in conflict areas, and on peace and security programmes. In 2011, it told a House of Lords committee that using private contractors for projects in conflict environments better "allows the projection of soft power" by increasing the UK's ability to influence policy in these countries. "Technical assistance is very much complementary to 'harder' exercises of UK power such as military force."<sup>67</sup>

These are chilling words because the use of aid as a means to achieve other political, or even military, goals not only undermines the supposed independence of aid spending, but it also risks compromising, and diverting spending away from, the core purpose of aid – poverty alleviation.

Using private contractors to deliver 'technical assistance', and to manage entire aid programmes on behalf of DfID, generally carries risks that public money could strengthen the capacity of private companies at the expense of strengthening that of public offices and institutions. In a 2013 report on DfID's use of contractors, ICAI warned that the department had "poor end-to-end programme management" of the companies it works with. The watchdog added that it "saw good practice in programme design and knowledge gathering by contractors. This knowledge is often not extracted

by DfID, however, which lacks a consistent process for feeding back insightful learning to inform future programmes”.<sup>68</sup>

The specific way in which DfID is contracting with companies also risks further entrenching the position of ASI and the other giants of aid-funded business. The department’s contracts themselves are getting larger, and harder for small companies to bid for. DfID is also using a growing number of large ‘framework agreements’ which are multi-year contracts under which a select number of companies become preferred suppliers of services for a specific theme.

This approach has further “concentrated power within a few large contractors,” according to the Springfield Centre, another development consultancy firm. “DfID has historically benefited from the technical expertise of smaller, specialist organisations which are more agile and innovative. However, now these organisations are beholden to large contractors, their ability to shape the work they do is limited and they become task-based consultants with less control of technical delivery” it said.<sup>69</sup> ASI has signed at least three framework agreements with DfID since 2011 for consultancy services in “fragile and conflict affected states,” “the delivery of governance and security sector services,” and work under the broad umbrella

of “wealth creation” that could include anything from natural resource management to “investment climate reform”. Altogether, these three frameworks are worth more than £1.1bn.<sup>70</sup>

As one of DfID’s biggest contractors, ASI is understood to also play an active role in the department’s ‘Key Suppliers Group’. Little is published about this group, but in an article for Supply Management magazine, DfID’s permanent secretary Mark Lowcock described it as a “programme” that “provides an arena for frank discussion and development of improvement plans with our largest strategic suppliers”.

The UK government has meanwhile publicised its success in helping ASI break out into new aid-funded markets. In February 2015, a little-known unit of the UK Trade and Investment (UKTI) department—unapologetically called the ‘Aid-Funded Business Service’—said it had helped ASI secure an £8m deal with the US’s Millennium Challenge Corporation (MCC). Young, ASI’s co-founder and current strategy director, said the government “has been incredibly supportive of our business, proactively giving us access to its networks, and getting us in front of new donor clients, like USAID and MCC. Having their backing is a real asset to our business”.<sup>71</sup>

## 5. The Projects

**In May 2011 DfID released a new policy paper which declared that the private sector was the “engine of development” and pledged to do more to help “private enterprise work its miracles”.<sup>72</sup>**

Giving evidence to a House of Lords inquiry on aid later that year, Jonathan Pell, one of ASI's senior managers, celebrated: “We see much greater focus on the role of the private sector, not just in agriculture, mining and those more traditional areas but in new exciting areas such as water.” Previously, he said, “if you had mentioned the role of the private sector in water, you would have been accused of being a right-wing loony.” Pell added: “Other sectors that we see as being exciting include health and education. Again, previously those were not considered as areas where the private sector could be involved.”<sup>73</sup>

Since then, ASI has won at least ten DfID contracts focused on the private sector, “market development,” and economic growth. In Zimbabwe and Nigeria it has contracts to support “business advocacy capacity development” and boost “advocacy for a better business environment.” Other contracts, in infrastructure and education sectors, include support for the privatisation of basic services or the expansion of public-private partnerships in construction. In Kenya, for example, the company has a £23m contract which involves support for the expansion of “low cost private schools.”<sup>74</sup>

The 2002 International Development Act enshrined in law the principle that the purpose of UK aid spending must be poverty reduction. Many of DfID's private sector projects appear to leave this as an afterthought, or rely on naive and unconvincing assumptions of ‘trickle down’ development. “DfID needs to recognise that the private sector is not a developmental panacea,” urged the UK aid watchdog ICAI in a 2014 review of the department's private sector work.<sup>75</sup> In a

separate review of DfID's work with business, the watchdog said it lacked concrete targets and detailed operational plans with a clear focus on reducing poverty.<sup>76</sup>

This section looks at cases from Nigeria and Afghanistan where ASI has worked on DfID projects involving the privatisation of basic services and the writing of new laws that appear to benefit private companies and business interests at the expense of poor communities – the people that this money is, by law, supposed to be supporting. It also looks at controversial work that ASI has done to re-open the mining sector in Papua New Guinea on contracts with the World Bank, a multilateral institution through which the UK also channels much of its aid money each year.

### α. Privatising power in Nigeria

Most UK bilateral aid to Nigeria is delivered through private contractors. In 2014, about 75% went through private sector companies, while 20% was spent via multi-lateral organisations and just 5% via civil society organisations.<sup>77</sup> ASI is one of the primary beneficiaries of this trend and is working on several UK aid-funded projects in the country, including a massive £99.5m programme to provide “policy, planning, economic and financial advice” to the Nigerian government on a range of infrastructure issues.<sup>78</sup> Called the Nigeria Infrastructure Advisory Facility (NIAF), ASI implement the majority of this programme (alongside other private consultancy companies) which is currently in its second phase, after a first £32m stage between 2007-2011, which was also led by ASI.



According to the company, the “headline achievement” of the NIAF programme “has been its role in the (energy) privatisation process, the most complex in West Africa”.<sup>79</sup> ASI says it developed “detailed plans” for the power sector’s reform and successfully “persuaded policymakers of the critical need to raise tariffs”.<sup>80</sup> In 2012, NIAF and DfID representatives were given two seats on the country’s Presidential Task Force on Power (PTFP), established to “drive power sector reform at the highest level”.<sup>81</sup>

Nigeria’s electricity generation and distribution companies have now been privatised. But while NIAF may have helped successfully transfer services from public to private hands, the official objective of UK aid – to help end poverty – appears to have been relegated to an after-thought. An external review of the project, commissioned by DfID and published in March 2015, said Nigeria’s energy privatisation was seen as “very difficult to reverse”. In this sense, it said, “the privatisation process can be considered to be a sustainable achievement”. But the goal of ending poverty? NIAF’s reforms, it said, were “focused on the structure of the industry, rather than the availability of power, let alone distribution to poor communities”.<sup>82</sup>

Despite Nigeria’s vast oil wealth, over half of the population lacks access to electricity.<sup>83</sup> Millions are forced to rely on candles and kerosene, or expensive diesel generators, and lack of electricity hampers the provision of basic services like healthcare and education.<sup>84</sup> The need to address energy poverty in the country is urgent. But, as the external review warned: “without clear targeting of interventions, benefits may not necessarily reach the poorest or contribute to wider and longer-term poverty reduction.” It said a smaller climate change “workstream” within the NIAF programme (including a “clean cookstoves” project) was better focused on poor communities but that the

“ambition of these programmes is quite low” and they “do not address the structural inequalities in the power sector which programmes such as off-grid rural electrification could address”. In conclusion, it said NIAF’s “overall impact on poverty reduction is assumed rather than currently observable”.<sup>85</sup>

On the ground, meanwhile, consumer groups and trade unions have taken to the streets to protest against changes to electricity tariffs including huge price hikes.<sup>86</sup> The most recent tariff regime, brought in 1 February 2016, eliminated controversial fixed payments – where people were billed regardless of whether they actually used electricity – but increased the price of electricity by as much as 45% for many consumers. During the protests against the hikes, demonstrators carried placards demanding “Improved service delivery, before tariff increase” and “We cannot pay more for darkness”.<sup>87</sup>

In response to concerns about how the country’s privatisation programme is impacting poor communities, DfID has said that a ‘lifeline tariff’ means the very poorest do not have to pay much for power.<sup>88</sup> Information released by the department in response to a Freedom of Information request casts doubt on the number of poor households that are benefiting from these low ‘lifeline’ tariffs. As of August 2015, it appears that only the poorest 0.5% of households are currently on this lifeline.<sup>89</sup>

Meanwhile, concerns about the impact of energy privatisation on the poor should not have come as a surprise to DfID. In 2005, the department helped fund research on the role of energy services on the lives of the urban poor in Nigeria. The report published at that time warned: “the commercialisation and privatisation of the energy sector... will make energy products more readily available to enterprises,” but that “the

## Alternatives to privatisation

Around the world hundreds of cities from Hamburg to Jakarta have decided to end their experiments with the privatisation of basic services such as water and energy and bring these back in-house.<sup>93</sup> This process, whereby privatised services are brought under public control, is called 'remunicipalisation' and it is a worldwide trend in full swing. Some cities have terminated contracts with private companies, while others have decided to simply not renew them when they expire.

It's happening in the UK, too. In March 2016, a Guardian investigation found that of the 36 strategic public-private partnerships (PPPs) that local authorities in the UK had signed between 2000 and 2007, 13 have since gone back in-house, either at the end of contract or as a result of early terminations. After outsourcing failed to bring promised cost-savings and efficiencies, local authorities from Cumbria to Essex decided to end their relationships with private service providers.<sup>94</sup>

Instead of supporting the private provision of basic services in developing countries, DfID could support the strengthening of public services managed by democratic and accountable institutions. There are alternatives to privatisation, and public money for international development could also help build stronger public services and smaller, locally accountable energy providers that are cooperatively owned, or publicly owned through local government and municipalities.

UK aid could also support "public-public partnerships" (PUPs). Unlike PPPs, these are usually partnerships between government bodies or public authorities with the goal of transferring technical skills to improve public services. They have been particularly common in public water management, with Japanese public water authorities partnering with their counterparts in other Asian countries since the 1980s.<sup>95</sup>

consequence of this for the poor in terms of access to energy services is most likely to be negative."<sup>90</sup> In order for this not to be the case, it said, "pro-poor initiatives that would enable the poor to improve their lot by having access to...cleaner and more efficient energy sources" are necessary.<sup>91</sup>

In DfID's latest annual review of the project, published in December 2015, it acknowledges that NIAF has failed to adequately monitor impacts on poor communities. It says the programme now has a "full-time expert on poverty and beneficiary issues, and a part-time consultant on gender and social inclusion issues," and that for much of last year these individuals were working on setting up a framework to monitor the project's impacts on poverty.<sup>92</sup> While these are potentially positive steps it is worrying that this project did not already have such measures in place.

## b. Making Afghanistan 'investor-friendly'

Aid donors, including the UK, have together spent billions of pounds on projects in Afghanistan over the last decade, and as much as £4.2 billion a year, an amount equivalent to almost 40% of the country's GDP.<sup>96</sup> But, partly because of fears over corruption, only a small fraction of this money was ever given to Afghanistan's government or spent locally. A 2013 World Bank report said "most aid is directly delivered by donors outside the government budget," noting that "despite the large volume of aid, most international spending 'on' Afghanistan is not spent 'in' Afghanistan; it leaves the economy through imports, expatriated profits of contractors, and outward remittances".<sup>97</sup>

Many aid projects in Afghanistan, added the World Bank report, "relied more on substituting for civil service capacity than on strengthening it". Since 2001, it said, "the international community has

invested greatly in reconstructing the Afghan state, but progress in building capacity in government institutions has been slow, and much of this investment has bypassed the civil service. Most capacity has been built among contracted staff of donor-funded projects".<sup>98</sup>

ASI has been one of the primary beneficiaries of aid-funded 'technical assistance' in Afghanistan. It says it has implemented over 60 projects in the country on behalf of a range of donors including DfID, the EU, the World Bank, and the Canadian and Swedish aid agencies. "ASI provides significantly more DfID funded TA (technical assistance) to the government of Afghanistan than any other single company," the company has boasted.<sup>99</sup>

Many of ASI's UK aid-funded projects in Afghanistan focus on boosting the private sector and making the country more attractive to businesses and foreign investors. It says it has supported the "corporatisation" of state owned enterprises "with a view to their being privatised in the near future,"<sup>100</sup> drafted a UK aid-funded "Investor's Guide to Afghanistan,"<sup>101</sup> and assisted in the "privatisation of the largest banking network" in the country.<sup>102</sup>

ASI is also one of two lead contractors on DfID's £10m Extractives Sector Support Programme (ESSP), launched in 2013 by David Cameron as part of a package of support to encourage foreign investment in Afghanistan.<sup>103</sup> ASI also helped draft a new minerals act for the country, signed into law by then-president Hamid Karzai in 2014. The company helped in "updating the legal environment for mining in the country, which was previously out-dated and unfriendly to investors". It says "investment is now flowing in," and that its work made possible a \$1bn investment in the country's Hajigak Iron Ore project by an Indian consortium led by Steel Authority of India, "creating new hope for the Afghan economy".<sup>104</sup>

Afghanistan is rich in emeralds, rubies, and other gems and has vast mineral reserves from gold and silver to lithium, uranium and aluminium, worth an estimated \$1 trillion.<sup>105</sup> If companies could access this wealth, there certainly would be money to be made. But ESSP's official goal is not to help investors mine Afghanistan for profits. Its stated objective is "ensuring equitable, effective and sustainable

management of Afghanistan's natural resource wealth."<sup>106</sup> And, like all UK aid spending, the project is also supposed to help end poverty.

But human rights defenders and civil society groups are raising the alarm over who is benefiting from mining in Afghanistan, and the new minerals law which ASI helped to draft has been condemned for lacking critical safeguards to protect human rights and ensure that the country's natural resource wealth actually helps its people. "Right now Afghanistan's mines are a major source of conflict and corruption, and benefit armed groups who carry out horrific violence on the Afghan people rather than supporting development and contributing to government income," warned Mining Watch Afghanistan, a network of local and international civil society organisations monitoring mining projects in the country.<sup>107</sup>

In December 2015, this network urged the government to amend the law that ASI supported to require that all mining contracts, production, and payment data are published, that information on the real, 'beneficial' owners of mining companies is disclosed, and that a framework is created for community monitoring of mining projects to ensure that local peoples' rights are respected. Currently, it warned, the law is "missing the basic protections which should be Afghanistan's first line of defence".<sup>108</sup>

## c. Mining for profits in Papua New Guinea

Mining has a controversial and violent history in Papua New Guinea (PNG), the Pacific Ocean island nation. In the early 1970s, with support from the Australian government, the mining giant Rio Tinto opened the world's largest open-pit copper mine in the Panuga area of what is now the Autonomous Region of Bougainville. Riot police were sent by the colonial administration to suppress protests from local communities.<sup>109</sup> Conflicts over mining on the island, and who benefits from it, later helped fuel Bougainville's 10-year civil war in which thousands of people died.<sup>110</sup>

Despite this history, in 2008 the World Bank approved an \$18m project to support the re-opening of its mining sector through technical assistance for new laws and policies.<sup>111</sup> The UK

is a major donor to the World Bank, providing £3.3bn over the 2014-2017 period to the Bank's International Development Association (IDA) fund for the poorest countries.<sup>112</sup> The UK also gives roughly £500m per year to various special purpose trust funds managed by the World Bank, partners with the bank at the country level, and co-finances some of its projects.<sup>113</sup> The UK, through its current representative Melanie Robinson (a former DfID official), sits on the board of directors that oversees the bank's operations.<sup>114</sup>

In addition to the work ASI does directly for DfID, it also works on contracts for the World Bank. The World Bank's webpage for its Mining Sector Support Program says ASI was awarded a \$650,000 contract in 2013 to provide technical assistance to support the development of the new mining law and related regulations.<sup>115</sup> ASI is also listed as the winner of a smaller, earlier technical assistance contract as part of the World Bank project to strengthen the mining sector in PNG, with a \$180,000 consultancy contract in 2012.<sup>116</sup> While these might not be the company's biggest deals they are among its most controversial.

As part of its World Bank funded work in the country, ASI helped write a new mining act, passed into law in March 2015. It also helped draft a new policy to handle 'involuntary resettlement' (also known as evictions).<sup>117</sup> The decision to re-open mining has been divisive on the island and civil society groups

have raised concerns that the mining law was rushed through parliament without enough time for communities to effectively engage with it.<sup>118</sup> A referendum on the independence of Bougainville is expected within the next five years, and there is a debate about whether to prioritise the revival of agriculture instead of mining, increasing production of crops like cocoa and coffee.<sup>119</sup>

Substantive provisions of the law have meanwhile been condemned as "authoritarian and regressive".<sup>120</sup> Kristian Lasslett, of the International State Crime Initiative, has warned that the legislation "gives Bougainville's government the power to confiscate customary land, with specific provisions nullifying constitutional and common law protections. Those who resist confiscation, face stiff custodial penalties of up to five years prison".<sup>121</sup>

In November 2015 a report published by Jubilee Australia said some provisions of the new mining law "could be in violation of international covenants and with Bougainville's constitution". It pointed for example to clauses that allow exploration licenses to be approved even if local landowners dissent, and which make it a criminal offence for a landowner to withdraw previously-granted consent to mining by preventing access to land or by trying to negotiate fairer terms. "Local communities are largely unaware of (the law's) provisions that include hefty penalties and imprisonment for infringement," it warned.<sup>122</sup>



## 6. Conclusions

**It's boom time for aid-funded businesses. Not only has the commitment to spend 0.7% of national income on overseas aid been enshrined in law, but this is happening alongside the growing trend for DfID to outsource a greater share of its growing budget.**

And DfID is spending more of this money on economic reform and private sector development. This combination of circumstances have led to a bonanza for ASI and firms like it. Fifteen years after the UK 'untied' aid, UK companies are still winning a substantial amount of contracts and the government is increasingly selling aid as a tool to advance national commercial interests.

Among DfID's largest contractors, ASI has seen its revenues soar and its profits almost triple over the last five years alone. Analysis of publicly available contract documents suggest that the company has won at least £450m in DfID aid-funded business since 2011. This includes controversial projects helping to privatise the energy sector in Nigeria and rewrite mining laws in Afghanistan to open the country up to foreign investors. The overseas aid business is so lucrative for ASI, that if its top paid director were to become prime minister of the UK it would mean taking a 40% pay cut.

This is the side of aid that taxpayers rarely see – how for-profit private contractors increasingly manage the growing aid budget and make huge profits from UK aid-funded work while delivering questionable benefits for the poor. ASI has grown to become a multi-million pound company thanks largely to UK aid. But while the company's work may be of clear benefit to itself and other select businesses, the government and taxpayers must question whether this is really what was in mind when committing to spend record levels of money on international development.

DfID's unrelenting focus on the private sector risks ignoring calls for economic justice while naively following a trickle-down approach to poverty

reduction. The dominance of ASI and a small group of other British companies in UK aid-funded business raises serious concerns about the extent to which aid is benefitting UK companies more than the intended beneficiaries. The UK's new aid strategy, which is explicit in seeing aid as a tool to help UK businesses, risks undermining the core principle of the country's aid for the last 15 years – the primacy of poverty reduction.

None of these trends are inevitable conclusions of increasing the aid budget. DfID must change course and it must be pressured to do so. Instead of supporting the private provision of basic services, the UK could help strengthen public services that are locally and democratically managed. Instead of boosting the profits of UK companies, aid could be spent through local organisations and local economies in developing countries. Public money to help the world's poorest people should not be used to support the private accumulation of wealth by elite 'technical assistants'. UK aid must be a force for social and economic justice.

### **As a first step, the Department for International Development should:**

1. Justify, for each applicable project, why it has been contracted out to UK for-profit companies instead of being managed in house at DfID or through an organisation in a developing country
2. Require full disclosure of contractors' costs, fees and profit margins
3. Publish an action plan setting out how it will spend more of its money through organisations in developing countries to ensure the promise of untied aid is realised.

## When contacted for its views on the report, ASI provided us with the following:

*\*This statement must be used in its entirety\**

Adam Smith International is a transparent non-partisan organisation dedicated to strengthening public services, supporting civil society and economic growth, and building democratic and accountable institutions.

Our projects are always aimed at helping the poorest, not big businesses. The vast majority of the world's poor are in the informal private sector. To bring people out of poverty one must address the factors that are keeping them poor. We engage with the private sector to reduce poverty by helping create jobs and make markets more accessible. This type of development is widely reflected in donor strategies and recognised in the 8th sustainable development goal.

Our staff and expert associates are from diverse backgrounds: all committed to poverty alleviation. For example, 84% of our team on our Nigeria tax reform project are Nigerian. Most of our projects partner with local organisations; we help build their capacity and always encourage local ownership. Our different skills are not exclusive, they complement each other.

The three projects mentioned in the Global Justice Now report are taken out of context and misreported. The two DFID programmes singled out were conceived and started by the last Labour Government and have been continued at the strong request of the Afghan and Nigerian Governments because of their evident success.

In Nigeria, we have saved Nigerians £1.1 billion per annum in power costs. In Afghanistan, the

mining law we helped draft – although it was subsequently amended – was a significant improvement in terms of transparency and accountability from the previous one. In Bougainville, the cited report from Jubilee Australia only interviewed those they knew to be opposed to mining.

The challenges facing developing countries are complex, interlaced and extensive. Solutions require specialist expertise such as is provided by organisations like ours.

Contrary to what is suggested, it is not feasible or economic for DFID to retain in-house on a permanent basis the extremely wide range of technical skills that can be delivered by external technical experts. There are many different reasons why such experts can be used more efficiently and more cheaply than civil servants to deliver DFID's programmes: these include: their deployment on an 'as needed' basis for as long as their particular skill set is required – and not a moment longer; their ability to operate at a different – cheaper – living, risk and duty of care levels. DFID's focus on the value for money of its programmes is well served by this approach.

We do not govern or decide the UK's aid policy. We respond to the needs and requests of governments and donors to tackle complex development challenges that require specialist expertise. We respond effectively, with professionalism, dedication and specialist knowledge.

We are proud of our teams and projects and welcome those interested to see for themselves how we are making a difference.



## 7. Annex: DfID contracts with ASI

The below data was extracted from the UK government's Contracts Finder website (for contracts awarded after February 2015), and the government's archive site (for contracts 2011-February 2015). The full list of ASI contracts over this period is likely to be longer than that displayed, in part because some information about DfID projects is withheld for security reasons in some countries including Afghanistan, one of its largest recipients.

For contracts prior to February 2015, the date below corresponds to when the contract was awarded. For contracts published after this point, this date corresponds to the "contract start date". This is due to differences in how this information is published between the government's previous, and current, contract databases.

Note that the value displayed in this table includes the original contract value and any contract amendments published. It is taken from the contract or, where applicable, the most recent, publicly available contract amendment

Date	Title	Country	Value
January 2011	Kenya Market Assistance Programme	Kenya	£3,900,000
February 2011	Service Provider for Technical Assistance National Water and Sanitation Policy	Sierra Leone	£14,704,300
December 2011	Nigeria Infrastructure Advisory Facility – (Phase 2)	Nigeria	£98,320,000
January 2012	Review of UNRA Uganda National Roads Authority's Procurement Procedures for Works and Services	Uganda	£1,227,542
March 2012	Nepal Market Development Programme	Nepal	£15,671,120
May 2012	Management Organisation – KP (Khyber Pakhtunkhwa) Education Sector Programme – Technical Assistance Component	Pakistan	£11,606,656
August 2012	Centre for Inclusive Growth – Nepal	Nepal	£12,445,982
January 2013	Democratic Republic of Congo Private Sector Development Project	DR Congo	£9,320,672
January 2013	Security Sector Development and Defence Transformation Project in Southern Sudan	Southern Sudan	£10,238,177
January 2013	Security Sector Development and Defence Transformation: Support to Referendum Security	Southern Sudan	£4,612,761
April 2013	Design of Safety & Justice Component – Somali Region	Ethiopia	£999,931
April 2013	The Growth and Employments in States (GEMS) Programme – Consulting Services to Support Improved Business Regulation	Nigeria	£49,481,006
April 2013	Deauville Partnership: Small and Medium-Sized Enterprise Mentoring Initiative	Multiple	£1,977,503
May 2013	Uganda Revenue Authority Oil Taxation Capacity Building Programme Contract	Uganda	£381,010

Date	Title	Country	Value
May 2013	Libya PFM Programme: Demand Side Accountability	Libya	£994,265.72
August 2013	Technical Assistance and Fund Management of the Somalia Stability Fund	Somalia	£4,999,225
August 2013	Malawi Oil Sector Transformation	Malawi	£6,000,000
August 2013	Market Development Programme, Sierra Leone	Sierra Leone	£3,850,000
September 2013	Building Capacity to Use Research Evidence in Sierra Leone, South Sudan and Liberia	Multiple	£3,118,031
December 2013	Implementation of the Zimbabwe Business Advocacy Capacity Development (BACD) Programme	Zimbabwe	£2,560,000
January 2014	Somaliland Police Reform and Development Project, 2013 – 2015	Somaliland	£3,082,207
April 2014	Technical Assistance for Punjab Education Sector Programme 2	Pakistan	£17,973,052
April 2013	Climate Resilient Infrastructure Development Facility (CRIDF)	Multiple	£20,700,000
May 2014	Enhancing Nigerian Advocacy for a Better Business Environment – Phase 2 (ENABLE 2)	Nigeria	£16,900,000
June 2014	Malawi Policing Improvement Programme (PIP)	Malawi	£1,849,463
July 2014	External Communications Awareness Raising Pilot Campaign	Pakistan	£132,629
September 2014	Implementation, Management, Monitoring and Evaluation of The Kenya Essential Education Programme (KEEP)	Kenya	£23,739,672
October 2014	Consultancy on Public Expenditure and Financial Accountability	Bangladesh	£94,001
December 2014	Democratic Republic of Congo Private Sector Development Programme: Market Development Component Scale-Up	DR Congo	£43,364,428
December 2014	Strengthening Revenue Policy & Administration in Somaliland: 2014 – 2016	Somaliland	£2,999,923
April 2015	Increasing Economic Opportunities for Marginalised Youth in Northern Nigeria	Nigeria	£32,611,255
April 2015	DFID's Climate Smart Agriculture (CSA) Programme Management of the Results Facility and Evidence, Learning and Influencing Component	Multiple	£18,200,000
May 2015	East Africa Geothermal Energy Technical Assistance Facility	Multiple	£5,975,319
May 2015	Strengthening Uganda's Anti-Corruption and Accountability Regime Anti-Corruption Chain (SUGAR-ACC)	Uganda	£13,953,677
TOTAL			£457,983,807

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**Global Justice Now campaigns for a world where resources are controlled by the many, not the few. We work in solidarity with social movements to fight injustice and inequality. We used to be the World Development Movement.**

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