Exploitation on tap

Why is Britain using aid money to persuade South Africa to privatise its public services?

No one could have accused the Conservative government of breaking its promise to bring back Victorian values. When, in 1992, it permitted private water companes to install pre-paid meters in Birmingham, the people who couldn't afford to flush their toilets started defecating into pots, which they then emptied out of the windows of their tower blocks. It made one quite nostalgic.

The meters were ruled illegal in 1998, on the grounds that they deprived the poor of their most important resource. So it goes without saying that the model has now been exported to two of the world's poorest urban communities.

Some African countries are so short of money that delivering clean water to everyone is almost impossible. But not South Africa. In purchasing power terms, it is the world's 21st biggest economy. It is also one of the most unequal. It could afford to provide everyone with sufficient water, as long as it was prepared to sting the rich and subsidise the poor. But that is a "non-market policy", and therefore out of bounds.

The problem for any government which attempts to run its services on free-market principles is that some people cannot afford to pay. This means that you must send men to their homes to cut them off. In South Africa, where people are aware of their rights, that means confrontations and riots. So Johannesburg city council, which has set up a public-private partnership with the British firm Northumbrian Water and its French parent Suez Lyonnaise des Eaux, has devised an easier way to do it: rather than disconnect people, you force them to disconnect themselves. Over the past year, the council has been installing pre-paid water meters in the two poorest districts of Johannesburg: Orange Farm and Phiri. It has chosen them for the obvious reason that they contain the largest proportion of people who can't pay.

It does so in full knowledge of the consequences. Pre-paid meters were first installed in Madlebe, in KwaZulu Natal, in 2000. Those who had no money had to draw their water from the rivers. The inevitable outbreak of cholera infected over 100,000 people, and killed 260. The meter scheme was dropped.

Today, a full-scale insurrection is brewing in Phiri. Last week the residents blockaded the main road through Soweto. They have been ripping up the pipes and fighting with the workmen. The old anti-apartheid activists have now turned on the ANC.

To understand what is happening in South Africa, you must first understand the role of its biggest foreign investor, the United Kingdom. So let me take you back to the days of Victorian values, and the visit to South Africa in 1996 of the chancellor, Kenneth Clarke. Trade missions are normally led by junior trade ministers. But South Africa had a new government, which wanted to invest heavily, but whose leaders had no experience of running a country. It was rich, naive and ready to be led by the nose.

"Privatisation has been at the very heart of our public-sector reforms in Britain," Clarke explained before he went. "Can what we have done here in the UK be exported to South Africa? I would argue definitely yes ... British business can help. They have an unrivalled wealth of experience in privatisation, private finance and all types of public sector reform ... The real beneficiaries of reform will not be the politicians or company shareholders but the ordinary people. ... In this way, Britain can share in the bright future that beckons for South Africa."

South Africa is too big simply to be told what to do. Foreign governments can't just march in there with instructions as they do in Zambia or Mozambique. But since apartheid fell, the World Bank, the IMF, the UK and the US have been flooding the country with advisers and consultants. In 1996 the policy paid off when the government devised something called the Growth, Employment and Redistribution Strategy. It's widely seen as a self-imposed structural adjustment programme: it does everything the powerful countries wanted, while creating the impression that it was all South Africa's idea. And at the heart of it is the notion that "market disciplines" will help the poor to escape from poverty.

The corporations loved it. KPMG told its clients that if they went to South Africa, they would "find a major business opportunity about to burst forth in a country where there is a lot of goodwill towards UK". The International Project Finance Association reported that UK businesses "now have the opportunity to export their public-private partnership know-how and expertise ... We are world leaders within this field and must now capitalise on the various opportunities that exist abroad."

The Labour government took South African civil servants on a tour of privately financed British hospitals, and took the private financiers on a tour of South Africa. The South African government, unaware that Britain's private finance initiative rests upon nine separate kinds of public fraud and false accounting, began commissioning its new hospitals and prisons by the same means and from the same British companies. Now, suckered again by a new round of trade fairs and ministerial visits, it has begun to permit foreign companies to move in on its essential public services. Making a bed for them requires "cost recovery" and "marketisation", which is why pre-paid meters are now being imposed upon the people of Phiri and Orange Farm.

The agency keeping the South African government on track is Britain's Department for International Development (DfID). This year it is giving £6.3m to the Adam Smith Institute – the ultra-rightwing privatisation lobby group – for "public-sector reform" in South Africa. Staggeringly, the institute has been given its own budget – £5m of British aid money – to disburse as it pleases. By this means, DfID can generate all the support it likes for privatisation and public-private partnerships, while avoiding direct responsibility for the decisions the institute makes.

DfID is plainly breaking the law. The International Development Act forbids it from spending money for any purpose other than the elimination of poverty. It might also have broken the rules forbidding it to link aid money to deals for specific British businesses. DfID funds or has recently funded (it has so far been unable to tell me whether or not the scheme is still current) something called the "British investment in South Africa promotion scheme", which promotes "business-to-business links" between companies in the UK and companies in South Africa. What this is doing inside a foreign aid department, no one can say.

I am not suggesting that DfID has told Johannesburg council "thou shalt strike a public-private partnership with a British company, and make sure that it is profitable for that company by forcing everyone to pay the full price for their water, regardless of their ability to do so". I am suggesting that it is creating a policy environment which encourages that outcome. And it is doing so with money allocated for something called foreign aid. Is there anyone out there who thinks this is how it should be spent?