

D3 | PRIVATE SECTOR INFLUENCE ON PUBLIC HEALTH POLICY

There is extensive evidence that the promotion of markets in healthcare leads to an increase in health inequities and inefficiencies. Despite such evidence, globally, privatization of the health sector is being vigorously promoted. This policy push is a result of the strong influence the private sector wields on health policy-making. Private sector influence has risen exponentially with an increase in large private foundations and public-private partnerships. These operate on the basic assumption that public sector management is inefficient and adoption of private sector management practices¹ is the solution. This increase in private sector influence on health policy formulation is at the cost of transparency and accountability. There are concerns about the role, effect and lack of accountability of private foundations (McCoy et al. 2009; Barkan 2014).

The process of privatization has been accompanied by growing influence of international management consulting services in the public sector. International management consulting services are an integral part of the ‘policy community’ (Player and Leys 2012) that promotes back-door privatization of the health sector through constant campaigning. They have little or no experience of health policy issues and count large healthcare and pharmaceutical firms as their major clients. These operate inside and outside the ministries of health. The revolving door ensures that the corporate voice is always represented. Ex-ministers, officials and civil servants profit from lucrative positions in private health companies. Management consultancy professionals move from ministerial adviser to policy drafter at the Department of Health to private health company to insurance company to think tank to lobby group and round again (ibid.). The death blow dealt to the British National Health Service is a very recent example of the interplay of these forces (see Chapter B2). These financial consultancy firms further strengthen the case for privatization through the ‘hollowing’ of state coffers by assisting their clients in tax evasion.

In this chapter we look at some of the major players who wield enormous power on public policy, especially in the health sector.

The Gates Foundation

The Bill and Melinda Gates Foundation is the world’s largest private grant-making foundation, estimated to have disbursed about \$36 billion since its inception (Parry et al. 2013). The remit of the Bill and Melinda Gates

Foundation's influence can be assessed from the fact that it has association with a majority of key global health actors through funding arrangements. These include WHO and UNICEF, the Global Fund, GAVI, universities, non-governmental organizations, policy think tanks and the World Bank. It has also awarded two grants to the International Finance Corporation, whose mandate is to support private sector development (see also Chapter D6). It sits on the governing structures of many global health institutions, and has the ear of government and business leaders (McCoy et al. 2009; McCoy 2009).

The private management consulting organization McKinsey and Co. (whose operations we examine later in the chapter) enjoys a close relationship with the Gates Foundation² and conducts studies for it.³

Despite the strong influence the Gates Foundation exerts on global health policies the effect of the policies it promotes has never been evaluated. This lack of accountability distinguishes it from other global health institutions. It is based on the false premise that private foundations built on private wealth are not publicly accountable. This overlooks the fact that these foundations: intervene in public life through the political power they exert owing to the finances they funnel; are publicly subsidized through tax exemptions; and reinforce the problem of plutocracy – the exercise of power derived from wealth (Barkan 2014).

The Gates Foundation has an advisory board, but no formal governing body.⁴ It has an advisory board. While it consults widely, some in the health community feel it listens only to what it wants to hear (McCoy 2009).

The Gates Foundation engages in policy-making to achieve 'catalytic change'.⁵ It has representatives that sit on the governing structures of many global health partnerships (McCoy et al. 2008). It is also a part of a self-appointed group of global health leaders known as the H8 (together with WHO, the World Bank, GAVI Alliance, the Global Fund, UNICEF, the United Nations Population Fund (UNFPA) and UNAIDS); and has been involved in setting the health agenda for the G8 (McCoy et al. 2009; Reich and Takemi 2009).⁶

The Bill and Melinda Gates Foundation's endowment mainly comes from Bill Gates' personal fortune and stock in Berkshire Hathaway given to the Foundation as a gift from Hathaway's CEO, Warren Buffett (Stuckler et al. 2011).⁷ The Foundation's corporate stock endowment is heavily invested in the food industry, directly and indirectly. The Foundation holds significant shares in McDonald's (10 million shares representing about 4 per cent of the Gates portfolio) and Coca-Cola (34 million shares, 14 per cent of the Foundation's portfolio, not counting Berkshire Hathaway holdings).^{8, 9}

Previously it invested in pharmaceutical companies. In 2009 it sold extensive pharmaceutical holdings in Johnson & Johnson (2.5 million shares), Schering-Plough Corporation (14.9 million shares), Eli Lilly and Company (about one million shares), Merck & Co. (8.1 million shares) and Wyeth (3.7 million shares) (ibid.).

The Bill and Melinda Gates Foundation does not disclose the detailed discussions that take place among its board members when funding decisions are made. The Foundation's management committee oversees all the Foundation's efforts. Several members of the management committee, leadership teams, affiliates and major funders are currently or were previously members of the boards or executive branches of several major food and pharmaceutical companies, including Coca-Cola, Merck, Novartis, Pfizer, General Mills, Kraft and Unilever, raising conflict-of-interest issues (*ibid.*). The Foundation has also secured the services of people who have served in senior positions in the United Nations, the World Bank and state institutions.¹⁰

The blurring of the boundaries between the Foundation's objectives and its portfolio investment is evident in Foundation grants that encourage communities in developing countries to become business affiliates of Coca-Cola, in which the Foundation has substantial holdings (McCoy et al. 2009; Stuckler et al. 2011). The Foundation held stock in Merck at a time when it developed partnerships with the African Comprehensive AIDS and Malaria Partnership and the Merck Company Foundation to test Merck products (Stuckler et al. 2011).

The Global Fund

The Global Fund for AIDS, TB and Malaria is a global public-private partnership. Country aid budgets constitute approximately 95 per cent of its funding. On 1 January 2009, the Global Fund became an administratively autonomous international financing institution, separating from the World Health Organization (WHO). The Global Fund, however, retains its status as an international institution with privileges and immunities similar to UN organizations in Switzerland and the United States.¹¹

The private sector influence on the Global Fund is disproportionately large compared to its 5 per cent contribution. The Global Fund board consists of eight 'constituencies' comprising twenty voting and eight non-voting members. All voting constituencies participate equally. The private sector is one of the voting constituencies. The Global Fund's definition of private sector is broad. It includes interested corporations including pharmaceuticals, oil and gas, banking, management consulting, food and beverages (among others).¹² Thus, the Global Fund directly provides a voice and a vote on its policies to the private sector. Industries such as pharmaceuticals, food and beverages have interests that often conflict with public health policies. The remit of private sector influence also extends to the Global Fund constituencies of foundations and civil society, which it funds.

The Global Fund hires Local Fund Agents (LFAs) (Table D3.1) to oversee, verify and report on grant performance.¹³ LFAs are supposed to serve as the 'eyes and ears' of the Global Fund within recipient countries during the pre-grant phase, the grant implementation period and the grant renewal

process (McCoy 2013). All LFA reports to the Global Fund are confidential and released by the Global Fund with LFA permission (Global Fund 2007).

LFAs are mainly international management or auditing firms such as PricewaterhouseCoopers and KPMG, known for their ‘financial management’ skills.

TABLE D3.1 Local Fund Agents of the Global Fund

Local Fund Agent	Number of countries
Crown Agents	1
Finconsult	2
Grant Thornton	2
KPMG	12
Swiss TPH	15
UNOPS	15
PricewaterhouseCoopers (PwC)	75
Grupo Jacobs	6
Cardno EM	5
TL Company Analytics	1

Source: www.theglobalfund.org/en/lfa/

The Global Fund entrusts LFAs with important oversight roles for technical health issues in which they hold negligible or limited expertise. LFAs are viewed as expensive and of questionable quality (McCoy 2013).

LFAs are expected to interact closely with grant recipients. They can attend Country Coordinating Mechanism (CCM) meetings (Global Fund 2007). Country Coordinating Mechanisms are country-level multi-stakeholder partnerships. These include representatives from both the public and private sectors, including governments, multilateral or bilateral agencies, non-governmental organizations, academic institutions, private businesses and people living with diseases. CCM meetings provide LFAs with an opportunity to interact with other development partners and legitimize their role in public health interventions in which they hold no expertise. Rotation of personnel between LFAs, the Global Fund and grant recipients is common, giving rise to potential conflicts of interest.

The GAVI Alliance

The GAVI Alliance is yet another public–private partnership in which private sector influence is disproportionately high compared to its contribution. Just as in the case of the Global Fund, GAVI chose not to continue to be based in a UN agency (in this case UNICEF) and became an independent Swiss foundation.¹⁴ Seventy-five per cent of GAVI’s funding is from governments and 25 per cent from foundations, corporations and individuals.¹⁵ The Bill and Melinda Gates Foundation holds one of the four permanent seats on GAVI’s board. Other permanent seats are held by UNICEF, WHO and the World

Bank. As a public–private partnership, GAVI professes to represent the sum of its partners’ individual strengths: WHO’s scientific expertise; UNICEF’s procurement system; the financial know-how of the World Bank; and the market knowledge of the vaccine industry.¹⁶

Serious concerns have been expressed about GAVI’s close association with the pharmaceutical industry. GAVI’s Advanced Market Commitment (AMC) has been criticized as subsidizing big drug companies with aid money. GSK and Pfizer received such money from GAVI for their pneumococcal vaccines (Arie 2011).

GAVI’s country eligibility criteria and co-financing policy have been criticized for their risk aversion.¹⁷ Countries must contribute a sum (proportionate to their gross national income per capita) towards immunization programmes with a pledge to subsequently fund these entirely themselves. The countries must already have at least 70 per cent coverage for the DTP3 vaccine (the third dose of the combined diphtheria, tetanus and pertussis vaccine). This implies that the poorest countries most in need of the programme cannot afford to launch immunization programmes with the support of GAVI (GAVI Alliance 2011a; Arie 2011).

A majority of GAVI’s organizational and programmatic evaluations have been undertaken by private management consulting firms.¹⁸ The GAVI Alliance shares a close relationship with the global consulting firm McKinsey & Co. McKinsey was involved in developing the financing mechanisms for GAVI. Further, the Accelerated Development and Introduction Plans (ADIPs) for pneumococcal and rotavirus vaccines for the five-year period 2003–07 were based on a commissioned report by McKinsey.¹⁹ GAVI seeks McKinsey’s assistance on issues ranging from development of business plans to conducting self assessments (GAVI Alliance 2011b).

The influence of private management consulting firms and the private sector is reflected in GAVI’s policies geared towards aligning private sector interests. The *GAVI Second Evaluation Report* concluded that vaccine prices have been an ‘area of weak performance’ for the Alliance. It also pointed out that ‘the assumption that creating a large market for vaccines would lead to a rapid reduction in vaccine prices has not occurred’ and that ‘GAVI has not actively addressed strategies for reducing vaccine prices and has relied on natural market force’.²⁰ However, GAVI continues to support a non-transparent system of pricing by vaccine manufacturers. In a report to the GAVI Alliance board in 2011, the GAVI Alliance noted:

While increased transparency on individual historical product prices has evident benefits, GAVI must be aware of the risk of inadvertently ‘setting a price’ as there is a limited number of manufacturers in the market. Similarly, sharing the vaccine specific end-to-end roadmaps which outline the long-term vision for the market and potential supply and procurement strategies may

undermine GAVI's ability to negotiate with manufacturers. To mitigate these risks, procurement tactics will remain confidential as will prices until contracts are awarded. (ibid.)

The role of McKinsey and Co. in the privatization of the NHS

The privatization of the National Health Service (see Chapter B2) is a stark tale of how sharp-elbowed private healthcare companies have bought influence and advantage through a revolving door between former ministers, civil servants, private companies, McKinsey & Co. and other management consultancy firms.²¹ These reciprocal relationships ensured that successive governments in the UK pursued the goal of privatizing the NHS irrespective of party lines. All changes to the NHS have been directed at accommodating the needs of the private healthcare sector and building a strong foundation for it to flourish, and terms have been continuously rigged to serve the interests of private providers.

The full extent of McKinsey & Co.'s involvement, as the key architect of the NHS reforms, emerged in the official documents disclosed, under the Freedom of Information Act, to Tamasin Cave from Spinwatch (Spinwatch monitors the lobbying industry). Such was McKinsey's influence that despite being paid public money, the names of its staff were blacked out. Repeated requests from Tamasin Cave were refused by the Department of Health on the grounds that McKinsey advice was 'provided in confidence', or was subject to 'commercial confidentiality' (Rose 2012).

McKinsey's close association with ruling political parties dates back to the seventies, when Sir Keith Joseph (one of Margaret Thatcher's key advisers) introduced McKinsey and Co. into the NHS in 1973.²² The first major re-organization of the British National Health Service in 1974 was largely based on work and concepts developed by McKinsey and a team from Brunel University (Scott-Samuel et al. 2014).²³

A 1973 letter to the *British Medical Journal* about this issue said: '... more and more people are realizing that Sir Keith Joseph's managerial revolution – drafted by McKinsey's, the management consultants – will take health care in all its aspects even further away than it now is from public surveillance and interest'.²⁴

These words were to prove prophetic. McKinsey continued to promote pro-market policies in healthcare by working closely across all parties and governments. It slowly formed enduring relationships with ministers and civil servants to promote policy measures that ensured returns for itself and its private sector clients at the expense of the public exchequer and public health. A revolving door between McKinsey and the NHS ensured McKinsey employees were already embedded in critical NHS jobs prior to the full enactment of the proposed radical reforms (Rose 2012; Player and Leys 2012).

Besides penetrating the government, McKinsey also plays a key role in the

King's Fund and the Nuffield Trust, the two dominant healthcare pro-market think tanks that have pushed the privatization agenda in the UK (Rose 2012). Both have senior McKinsey partners on their boards, and while they portray themselves as 'independent' they routinely endorse models of care that replicate the US health system (*ibid.*).

McKinsey also exploited its privileged access to the NHS reform Bill to 'share information' with its corporate clients – which include the world's biggest private hospital firms – which are now set to bid for the health service (*ibid.*).

The tax avoidance industry

Accounting firms are also at the centre of a huge tax avoidance industry (Sikka 2013). Some scholars call it the 'hollowing out of the state' (Momani 2013). Tax avoidance by the richest corporations and individuals ultimately translates into fewer resources for public services, such as for healthcare.

The US Senate Permanent Subcommittee on Investigations, 2003, 2005, found that the Big Four accountancy firms (PricewaterhouseCoopers, Deloitte and Touche, KPMG and Ernst & Young) have created a complex architecture of transactions to enable corporations and rich individuals to obtain tax benefits that were (probably) not directly intended by those responsible for passing the relevant legislation (Sikka 2013).

The UK tax authorities have referred to Ernst & Young as 'probably the most aggressive, creative, abusive provider' of avoidance schemes (Guardian 2009) and courts have ruled that a PricewaterhouseCoopers scheme was a 'circular, self-cancelling scheme designed with no purpose other than to avoid tax' (Sikka 2013).

Conclusion

Public-private partnerships entail a substantial involvement of management/accounting/financial consultancy firms. Such involvement provides platforms for closer interaction between governments, multilateral and bilateral agencies and the private sector. Over time, management/accounting/financial consultancy firms and the private sector gain legitimacy and the respect and admiration of civil servants through repeated interactions. These platforms provide the private sector with opportunities to influence policies and strategies that affect public health. Conflicts of interest get legitimized by constant interaction between the private sector, governments and multilateral agencies. Moreover, tax-exempt private foundations and for-profit corporations are increasingly engaging in relationships that can influence global health.

Public policy-making is being influenced on a global scale by private actors, accountable only to their board members. There is also a clear nexus between different private actors – private foundations, consulting and accounting firms, private industry and global public-private partnerships. The precise role of this unholy nexus in subverting public policy needs to be examined systematically.

Notes

1 Promoted under the banner of New Public Management (NPM) (Scott-Samuel et al. 2014).

2 This nexus between the Gates Foundation and McKinsey has also come under close scrutiny and criticism in the United States for promoting privatization of public education. See Parry et al. (2013).

3 Response of the WHO to Knowledge Ecology Initiative's (KEI's) letter regarding McKinsey, vaccine policy and competing interests, keionline.org/node/1084, accessed 10 April 2014.

4 The Gates Foundation and other philanthropic institutions have been characterized as '... the least democratic of institutions' (see Parry et al. 2013).

5 www.gatesfoundation.org/How-We-Work/General-Information/How-We-Develop-Strategy, accessed 11 April 2014.

6 www.moldova.org/h8-meeting-of-global-health-leaders-underway-in-seattle-201622-eng/, accessed 11 April 2014.

7 In 2006, Buffett made a pledge to gradually give away all of his stake in Berkshire Hathaway. At the end of 2008, the Bill and Melinda Gates Foundation Trust had US\$29.6 billion assets under its management: \$13.5 billion was in corporate stock, \$1.8 billion in corporate bonds, \$6.1 billion in US and state government obligations, and \$8.2 billion in other investments, land and temporary holdings (Stuckler et al. 2011).

8 Berkshire Hathaway, a conglomerate holding company, owns several subsidiary companies, including banks, railroads, candy production, retail and utilities. Berkshire Hathaway's second-largest investment is in Coca-Cola. It also owns stocks in Kraft and Procter & Gamble. Since Buffett is gradually transferring ownership of Berkshire Hathaway stock to the Bill and Melinda Gates Foundation, the Foundation will soon be the largest stakeholder of Coca-Cola and Kraft in the world (Stuckler et al. 2011; www.nasdaq.com/quotes/institutional-portfolio/berkshire-hathaway-inc-54239#ixzz3ofycfjy, accessed 4 May 2014).

9 www.nasdaq.com/quotes/institutional-portfolio/bill-melinda-gates-foundation-trust-98131.

10 www.gatesfoundation.org/Who-We-Are/General-Information/Leadership/Management-Committee/Geoff-Lamb, accessed 4 May 2014.

11 www.theglobalfund.org/en/mediacenter/

[newsreleases/2008-12-19_The_Global_Fund_becomes_an_administratively_autonomous_institution_as_of_2009/](http://www.theglobalfund.org/en/mediacenter/newsreleases/2008-12-19_The_Global_Fund_becomes_an_administratively_autonomous_institution_as_of_2009/), accessed 6 May 2014.

12 www.theglobalfund.org/en/documents/governance/.

13 www.theglobalfund.org/en/lfa/.

14 Gavi Alliance, *Overview – GAVI Alliance Strategy and Business Plan 2011–2015*.

15 www.gavialliance.org/funding/donor-profiles/#sthash.6BM8xZsK.dpuf.

16 www.gavialliance.org/about/governance/gavi-board/composition/.

17 www.iffim.org/funding-gavi/eligible-countries/, accessed 4 May 2014.

18 See more at: www.gavialliance.org/results/evaluations/#sthash.iupB3oAM.dpuf.

19 McKinsey Consulting, *Report to the GAVI Board*, April 2004.

20 CEPA LLP, 'Applied strategies', *GAVI Second Evaluation Report*, September 2010, www.gavialliance.org/resources/GAVI_Second_Evaluation_Report_Final_13Sep2010.pdf.

21 www.lobbyingtransparency.org/15-blog/general/62-revolving-door-is-unhealthy, accessed 14 April 2014.

22 bevansrun.blogspot.com/2012/01/market-failure-in-healthcare-part-2.html.

23 Former health minister Lord Owen revealed that reforms in the seventies had been drawn up by McKinsey and were scrapped after it was decided they 'were going to be an unparalleled, expensive disaster' (Rose 2012). McKinsey also advised John Major's government on the disastrous Railtrack privatization (ibid.).

24 bevansrun.blogspot.com/2012/01/market-failure-in-healthcare-part-2.html.

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