IMF & WORLD BANK-SPONSORED PRIVATISATION AND ITS IMPACT ON LABOUR

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I. INTRODUCTION

In March 2002, more than 5,000 electricity workers in South Korea launched a national strike against the plans by the Korean government to privatise the government-owned Korea Electricity and Power Corporation (KEPCO) and divide it into five privately-owned companies. The government of Kim Dae Jung responded with a series of repressive measures, including the arrests of strike leaders (adding to the more than 50 trade unionists already behind bars), the firing of 200 workers and shutting down internet websites operated by Korean Confederation of Trade Unions.[1] Even after KEPCO vowed to fire all striking workers, the unions continued at great odds to press their demands for the withdrawal of the privatisation plans and reinstatement of all dismissed employees.

Six months earlier, in August and September 2001, the Congress of South African Trade Unions (COSATU) launched a general strike against the South African government in order to protest the intention to transfer state assets to private companies. The government's plan was to divest itself of various properties, including airports, national parks, diamond mines, electrical utilities and other industries and sell them to private owners. In June 2001, the South African Municipal Workers Unions (SAMWU) hosted a regional "solidarity workshop" against privatisation in Harare, Zimbabwe that included trade unions from Namibia, Swaziland, Zambia and Mozambique.[2] Meanwhile, in the township of Oswego, citizens' groups organised by the Soweto Electricity Crisis Committee were protesting against the privatisation of Eskom, a state-owned utility, by boycotting electricity payments. With costs following privatisation rising 400 percent and more, 80 percent of Soweto's residents joined the boycotts. "What most provokes South Africans' defiance today are what they see as injustices unleashed on this developing nation by the free-market economic policies of the popularly elected, black-led governing party, the African National Congress," the *Washington Post* reported.[3]

The same month that South African workers launched their actions, 400 activists from trade unions and other civil society groups gathered in Quito, Ecuador, for a "moral tribunal" against privatisation that condemned privatisation plans underway in that country, Costa Rica, and other countries in the region.[4] Protests against privatisation have taken place over the past year in Ghana, Nigeria, Thailand, Paraguay and Eastern Europe. In Russia, where a rapid programme of privatisation in the early 1990s led to an epidemic of corruption, trade unions have had some concerns about new labour laws passed by the government in February 2002. Although modifications of the original text provide some employment protections, the laws were designed to facilitate privatisation by making it easier for state companies to fire workers and setting in place a system of short-term contracts that provide less job security than contained in the previous legislation.[5]

What unites these protests is bitter experience with the impact of privatisation – mass firings, a lack of democratic discussion, the refusal of governments to properly compensate unemployed workers and the utter failure of most privatisation schemes to benefit the poor – and the central role played in privatisation by the World Bank and the International Monetary Fund. As part of its emphasis on private sector development, the World Bank and IMF frequently insist on privatisation as a condition for lending, while the Bank itself often sponsors the research by governments into privatisation to the benefit of multinational corporations eager to profit from taking over state assets. The Bank is also the central player in defining the role of workers in privatisation plans it sponsors, often with little or no involvement of the workers affected and their unions. Over the past decade, the Bank has begun to "sugar-coat" to some extent the employment effects of privatisations by supporting "labour adjustment" programmes in about 50 operations around the world. These efforts have included developing severance and retirement packages, directly financing severance payments and preparing communications programmes for the general public in the countries affected.[6]

Because of their prominent role in the privatisation process, much of the anger expressed by trade unions is directed at the international financial institutions (IFIs). "The current privatisation of the power industry is rooted in the 'agreement' the Korean government made with the World Bank in 1998 in the aftermath of the financial meltdown that hit Korea from Thailand," the Korean Confederation of Trade Unions explained in March 2001. "In the scurry to obtain financial support and political backing of the International Monetary Fund and the World Bank, and the 'confidence' of international investors [who demonstrated their power to run a country to ground] the Korean government agreed to undertake privatisation of the 'infrastructure' sectors."[7] The 2001 "moral tribunal" in Ecuador described the IMF as a "voracious" organisation and blamed it for pressuring the government of Argentina to privatise – a scheme that the conference said "has resulted in higher unemployment and higher rates for public services."[8] In Ghana in October 2001, the

Trade Unions Congress issued a statement rejecting "the suspicious privatisation of water being pushed by the International Monetary Fund and the World Bank as conditionality for loans to reform Ghana's water sector."[9]

Trade unionists also disagree vehemently with World Bank statements that developing countries adopt privatisation programmes on their own initiative to "raise efficiency, reduce government's fiscal burden, and further social and environmental goals". Developing countries most often adopt privatisation "under compulsion placed on them by the conditionalities of the World Bank and the IMF," an Indian trade unionist wrote on a World Bank website in 1999. "It has to be recognised that the World Bank, IMF and the WTO today have entered the sovereign space of nations and structural and legislative changes are forced upon nations."[10]

The issue of privatisation has captured the attention of many NGOs and civil society groups around the world, many of whom have joined in coalitions with trade unions and labour federations to protest World Bank-sponsored privatisation programmes. Because of the devastating impact of privatisation on the poor, particularly the transfer of important government assets such as water and energy to private interests, the NGO community has focused much of its energy on the social implications of World Bank and IMF private sector policies. Unfortunately, this focus has often ignored or obscured the impact of privatisation on workers, including the employment effects, as well as the role of trade unions.

A recent brief by the NGO Friends of the Earth on the implications for global water resources of the new agreement on liberalisation of trade in services being contemplated at the World Trade Organisation, for example, says nothing about how workers have fared in water privatisation schemes. While a section of the report on "problems with privatisation" mentions recent protests in Bolivia over the fact that people "could no longer afford their own water," it completely ignores the mass layoffs that occurred during the programme.[11] Similarly, an incisive analysis of the World Bank's private sector development programme issued by Jubilee South, Focus on the Global South and several other influential NGOs in November 2001 has no mention of the impact of the programmes on workers or trade unions.[12]

After promoting privatisation as the panacea for development for many years, the World Bank and IMF have recently started to recognise the detrimental impact of privatisation on workers. A study by four IMF researchers, for example, notes that in five sub-Saharan African countries, employment declined by an average of 15 percent after privatisation programmes were put in place. Citing an internal study by an IMF economist, the researchers noted that "in Argentina's telecommunications and electricity companies privatised through sales and lease contracts, the work week increased from 35 hours to 40 hours, wages were more closely linked to productivity, and certain types of overtime and leave were eliminated."[13] The paper concluded that "privatisation is one example of a structural reform that can have an adverse social impact, at least in the short run. For workers, privatisation can lead to job losses, reductions in compensation, and more stringent work conditions. The empirical evidence suggests that significant reductions in employment are indeed associated with privatisation."

The Bank's most significant attempt to address labour issues in privatisation may be the paper quoted above by Sunita Kikeri, a World Bank specialist on the impact of privatisation on workers. Her 1999 paper, "Labour Redundancies and Privatisation," while instilled with the Bank's emphasis on private sector development, shows an awareness of the arbitrary nature of severance programmes and how the impact of privatisation can be mitigated in countries where trade unions are strong and worker rights are respected, as in Argentina and South Africa.[14] Despite Kikeri's refusal to consider alternatives to privatisation – a basic problem with World Bank policy we will get to – her paper shows an awareness of the need to involve workers and unions in a country's dialogue about private sector development.

"As a matter of routine," she wrote, "efforts should be made to establish early dialogue with workers and unions to inform them about the goals of privatisation, the costs and benefits, the timing and method of privatisation, the social safety net being put in place" and other factors. Involving unions in the process, she concluded, "may slow the process, but in a highly politicised environment it may be crucial in obtaining labour support and allowing privatisation – and the broader economy wide gains from privatisation – to happen."

In September 1999, Kikeri and other World Bank officials met with forty representatives of interna-

tional trade unions on the issue of privatisation as it affects workers. At that meeting, a mechanism for information sharing between the Bank and the trade union movement was established as a way to increase dialogue on the impact of privatisation. Since that time, under Kikeri's supervision, the Bank has financed three case studies on labour issues and privatisation and is developing a "tool kit" for Bank staff that deal with labour and trade union issues in the context of privatisation and its private sector development strategy.

This paper will analyze the real-world impact of World Bank and IMF privatisation schemes on workers and trade unions. It is also an attempt to correct the lack of emphasis by NGOs and civil society groups on labour and worker rights issues in privatisation. The first part places privatisation in the context of the World Bank's Private Sector Development Strategy, which has been the focus of considerable debate and analysis within the trade union movement and the NGO community opposed to World Bank and IMF policies. The second part provides case studies of privatisation and its impact on labour in Pakistan, the Philippines, Mexico, Ghana, Russia and countries of Central and Eastern Europe.

The paper draws as much as possible on official reports from the World Bank and IMF, on analyses of privatisation from trade unions and labour federations and on press reports. For many countries that have embarked on major privatisation programmes, there is virtually no information about the impact of those programmes on workers and trade unions. For that reason, one of the major criteria used in selecting countries for case studies in this paper was the availability of published information.

II. THE WORLD BANK'S PRIVATE SECTOR DEVELOPMENT POLICIES

Privatisation is one of the pillars of the World Bank's Private Sector Development Policy, a set of principles the Bank and its subsidiaries and the IMF are still in the process of defining. Our purpose here is not to analyze that policy or replicate the detailed and excellent critiques of the PSD that have been published by Public Services International (PSI) and NGOs. It is rather to understand where privatisation fits into the broader Bank strategy and how the Bank and its subsidiaries are attempting to respond to trade union critiques of privatisation in general and privatisation projects in specific countries, such as South Korea or South Africa.

The clearest definition of privatisation appeared in a recent Bank publication on "Progress in Privatisation".[15]

> Privatisation is the transfer of productive assets from the state to private investors through such methods as auctions, stock offers, stock distributions, negotiated sales, management-employee buyouts, and voucher or coupon exchanges. Other methods include leasing, joint ventures, management contracts, and concessions, including build-own-operate (BOO), build-operate-transfer (BOT) and build-own-operate-transfer (BOOT) arrangements.

Private sector development, or PSD, is defined in one of the World Bank's papers on the concept, as:

> tapping private initiative for socially useful purposes. It is a way of doing things across sectors. Private initiative, especially when unleashed in competitive markets, has tremendous potential to contribute to growth and poverty reduction, in parallel with public sector efforts. This has been the experience in developed countries and is now increasingly evident in the developing world… The pursuit of private sector development is not a goal but a means to do things better.

The main instrument for the Bank's direct assistance to private companies engaged in buying state assets is the International Finance Corporation (IFC). In addition, the Bank's Multilateral Investment Guarantee Agency (MIGA) plays a key role by providing corporations and banks with insurance coverage against political risks when they invest in developing countries. MIGA also operates an on-line clearinghouse on privatisation that provides potential investors with information on new buying opportunities, information on government privatisation agencies and their policies, and other strategic information. The Bank also smoothes the way for privatisation through its many advisory services for the private sector and privatisation agencies, including research and training.

Since 1990, according to an official Bank publication, the Bank has supported "labour-adjustment in privatisation and enterprise restructuring" in about 50 operations around the world.[16] This technical assistance includes developing staff inventories and profiles, identifying staffing needs, developing severance and retirement packages, financing those packages, and preparing communications programmes to explain privatisation policies. In other words, the Bank is a direct participant, not only in framing privatisation policy, but in shaping how workers and trade unions are affected by the policy.

As an advocate of privatisation, the World Bank's promotional literature – not surprisingly – is highly positive towards the process. "Most state enterprises tend to be overstaffed," two Bank economists wrote in a November 1993 policy paper on privatisation in developing countries[17], "so newly privatised firms could be expected to cut employment following government divestiture and the reduction of subsidies in order to increase efficiency." However, evidence cited in the report "suggests that privatisation does not necessarily mean a decline in employment." A study of a "large sample of newly privatised firms" showed "significant increases in profitability, operating efficiency, capital investment spending" and other improvements. Overall, "among developing countries privatisation appears to yield the greatest benefits for companies headquartered in those with high per capita income."

As criticism of the PSD strategy and privatisation itself from trade unions and other organisations has intensified in recent years, caveats about privatisation have started to appear. The Bank's December 2001 PSD paper, for example, notes that "reviews conducted outside the Bank of privatisation results in the competitive sectors show that privatisation has been a very robust policy in the

sense that private enterprises typically performed better than unprivatised ones... The evidence suggests that privatisation in competitive sectors is basically a sound policy."[18]

In the next paragraph, however, the Bank admits that privatisation has been a difficult issue from the perspective of workers and labour. "The full promise of privatisation," the Bank says, "has only been fulfilled adequately when a basic policy framework was in place that allowed entry of new firms and imposed hard budget constraints on privatised firms." To make the process work, it suggests a "sound competitive policy framework" requiring "political commitment." The paper further states that in carrying out "complex privatisations," governments must pay "detailed attention to managing the social consequences of privatisation, such as labour redundancies, in cases where overstaffing is prevalent."

Managing the social consequences of its policies is a major challenge for the World Bank that it has only recently begun to tackle. The most elaborate discussion of its policies towards civil society appears in a report on World Bank-Civil Society Collaboration for the fiscal years 2000 and 2001[19]. In "reaching out" to civil society, the Bank's social development staff reports, "the Bank has learned that civil society is an important actor in development." It openly admits that such communications are a recent innovation in policy, saying that "in the last two decades," the Bank's "dialogue and collaboration with civil society has moved from negligible to substantial." By the end of 2001, the task force reported that several Bank policies, including safeguarding the environment and the "well-being of settled communities," contained provisions for the participation of "communities and banks affected by Bank operations." At the same time, the Bank had appointed "Social Development/Civil Society Specialists" and NGO liaison officers in about 70 resident missions.

Under this initiative, the paper said, "Civic engagement is at the heart of the Bank's comprehensive approach to development." Its communications with NGOs and civil society groups (so far, no mention of unions) "provide the Bank with alternative perspectives." Of the Bank's 264 operations in FY 2001, the paper claimed, 68 percent (or 179) projects "had the intended involvement of civil society." Regional and national consultations with NGOs are also a core aspect of the Bank's communications policies, the paper asserts. "As a result, substantial coordination exists among a wide range of stakeholders, including creditor and debtor governments, multilateral organisations, and various NGOs, churches and other civil society groups."

Trade unions, according to this paper, have been engaged in dialogue with the Bank over its policies only in the last three years. Key meetings took place in October 2000, when Bank staff met with the ICFTU and the Global Union Federations (formerly known as "International Trade Secretariats"). The dialogue, the Bank said, "reflects the Bank's acknowledgement of the contribution that constructive relations with unions can make to our economic development mission." It goes on to declare that the Bank "has endorsed the value of a policy framework that supports collective bargaining."

One of the first meetings with trade unions dealing with privatisation took place in July 2001 according to the Bank report, which does not seem to be aware of the meeting of September 1999, exclusively on the subject of privatisation and labour, that involved forty trade unionists. The report states that the countries where trade unions have been consulted by the Bank include Argentina, Brazil, Malawi, Albania, Ghana, Bolivia, Uganda, Mozambique and Poland (in the latter two, the consultations focused specifically on privatisation of rail and ports). Bank officials have also met periodically with the ICFTU's African Regional Organisation and the AFL-CIO's American Centre for International Labor Solidarity.

Trade unions were consulted as part of the broad communications with civil society groups in Honduras and Argentina in 1999. In Honduras, the report said, the dialogue "helped the Bank to understand the country's development challenges, the best strategies for national consensus priorities, and the evolving role of civil society." In Argentina, the process appears to have been more contentious, however. "While the exchanges unveiled some deep differences in perceptions and approaches between the Bank and CSO participants, the sessions occurred in a climate of mutual respect."[20]

There is very little information in the Bank's (and the IMF's) public literature about the impact of privatisation on workers and trade unions. The most detailed World Bank paper was published in January 1999 by Sunita Kikeri, the senior private sector development specialist in the Bank's PSD department. Her paper, "Labour Redundancies and Privatisation: What should governments do?"[21] is informative but also underscores some negative attitudes towards trade unions that are reflected in operating principles at work at the Bank.

Kikeri's paper was written to provide governments with a roadmap to deal with the consequences of reforming/privatising state enterprises and dismissing thousands of workers in the process. "The political and social implications of layoffs mean that the government should be involved in the design and funding of special programmes to deal with unemployment and labour unrest," she begins. But while Kikeri urges governments to involve workers and their representatives at all levels of the privatisation process, the idea that the process itself might be flawed never enters the discussion. "As a matter of routine," she writes, "efforts should be made to establish early dialogue with workers and unions to inform them about the goals of privatisation, the costs and benefits, the timing and method of privatisation, the social safety net being put in place, the regulatory arrangements being developed to protect consumer welfare, and the incentive programmes for employees, such as share ownership schemes." The possibility that the dialogue could begin earlier, at the stage when privatisation (and its potential alternatives) could be discussed, never enters the picture.

World Bank biases crop up throughout this paper. There is a tendency to define "troubled" enterprise as a state-owned company with a powerful union representing its workers. "Where union opposition is high, private investors, wary of taking on the political burden of carrying out large-scale layoffs, are reluctant to bid and the process slows down," she writes. But leaving "large-scale downsising" to private owners may create social problems, particularly in countries with weak severance payment laws and other protections. "In large, troubled enterprises, therefore, the government has an important role to play in the restructuring process." In Argentina, she notes, "surplus staff and strong unions were a major source of inefficiencies." In that case, state-owned companies laid off thousands of workers before the private owners came on the scene, including 80,000 in the railway company. Similarly in Brazil, 40,000 railway workers lost their jobs prior to privatisation.

The Bank's difficulty in accepting strong trade unions is underscored in Kikeri's discussion of severance benefits. "Particularly in countries *where the need to placate labour is strong* or labour legislation prohibits outright layoffs," [our emphasis] she writes, government have provided severance and early retirement incentives to encourage voluntary departures, the most common form of downsising." She notes that the sise of these benefits varies widely, depending in part on "the strength of labour unions in negotiations." These packages have ranged from 18 months salary in the Brazilian railways to "two and sometimes three years" salaries in Argentina and Bangladesh. Instead of describing such programmes as part of a general social contract to workers who have devoted many years of their life to working for the state, she concludes that severance incentives "buy labour support and allow privatisation and its benefits to happen."

Kikeri makes clear, however, that some programmes are way out of line with Bank policies. Her paper criticises as "costly and difficult" a Pakistani agreement with its trade unions for a severance package and the "extremely generous severance packages" negotiated by the governments of Ghana and Tanzania "in the absence of overall guidelines" from the Bank. To "contain the risk of excessive payments," she urges governments to target severance offers "only to workers already identified as redundant…rather than to all employees." On the positive side, the paper endorses combining severance packages with retraining and redeployment support, such as job search assistance. But while these intentions may be good, her solution to redeploy the unemployed through cooperatives or small businesses that would then "subcontract out with the newly privatised company for activities previously carried out by the state entity" displays ignorance about the dangers to workers of contracting-out and little awareness of the consequences. These include the loss of benefits and other employment guarantees, that occur in subcontracting in various regions of the world. A recent survey by the ILO of privatisation, for example, quotes a trade union representative in Argentina describing contracting-out in his country as "another form of reduction… This could lead to workers being transferred from the formal to the informal sector, sometimes being subject to exploitation by the new employer because they had no ways of defending their interests."[22] A separate ILO paper on privatisation in South Asia notes that "even when more workers are required in the private sector, they may be hired on contract with a view to avoiding benefits to be provided to fulltime employees."[23]

The World Bank's analysis does not appear to have a role for unions that oppose privatisation. In a key passage, Sunita Kikeri writes:

> Often labour unions and workers are not opposed to the concept of privatisation—many recognize that reforms are inevitable and that the time for change has come. But the lack of information on what happens to workers combined with the lack of involvement in the process exacerbates fears and opposition.

The paper seems to say that, since unions do not have well-founded motives for being against privatisation, opposition can be engendered by ignorance. The idea that unions may have legitimate motives for opposing privatisation and that the government and the Bank could profit from having trade union input at the very start of the process, does not enter into the Bank's framework. There is no role for trade unions in the initial discussion on privatisation. Within the Bank's framework, unions are "consulted" only when the privatisation plans have been adopted. Their role is thus confined to hearing about the goals of their government and the programmes being put in place to alleviate the problems of those who will be left without jobs.

The paper concludes by noting that in "countries with strong and active labour unions," such as South Africa and Argentina, governments have gone the next step and included unions "in implementation as well." Such an approach, Kikeri says, is crucial in "obtaining labour support," particularly in a "highly politicized environment," and for allowing privatisation to happen. But the Bank's paper fails to recognize that unions in the countries mentioned are also among the most adamant opponents of privatisation.

How does the World Bank see the role of trade unions as regards privatisation in light of the institution's claim that it supports the promotion of fundamental labour rights? The World Bank has recognized the ILO's four core labour standards (freedom of association and the right of collective bargaining, the prohibition on forced labour, non-discrimination in employment, and the prevention of child labour) as guiding principles. But how they are applied, particularly in the privatisation process, is largely up to country-level operations staff and project managers.

"There is differential treatment at the Bank on freedom of association and collective bargaining," a World Bank official said in an interview for this paper.[24] "These are seen as political human rights." Senior Bank officials, he said, "interpret their mission narrowly as economic development" and don't want to impose standards they believe "would interfere with a country's internal politics. That legacy is pretty strong." But among many World Bank staff members, the official said, "there is more support to recognize the role of unions in development and social protection." He also added that the policies of the Bank and their application "depend on the make up of the board of directors. The Bush administration is less interested [in advocating for core labour standards] than the Clinton administration. We can see that." As the World Bank's largest shareholder, the influence of the United States government is particularly strong.

The Bank has been using its loans to finance severance packages only since 1996. "This is all very new to us," the official said. But Bank personnel engaged in dialogue with trade unions have little say in privatisation projects until they are well under way. "We get called when there's big layoffs," the official said. At that point, the Bank's Social Protection unit can be brought in to design a layoff and severance package, in consultation with governments and trade unions. "We offer a menu of options that the unions can then self-select." But unions are never consulted during the period when privatisation projects are being considered, he said. "The dialogue doesn't extend to critical decisions of what will be privatised." Pressed on that issue, the official said involving unions at the early stage is possible within the parameters of Bank policy, but almost entirely up to the country and project managers.

In meetings between Kikeri's part of the Bank (and now part of the IFC) and trade unions in 1999 and 2002, these two issues of early involvement of trade unions and of accepting that privatisation was only one way of reforming public enterprises have been central to ongoing trade union involvement in these discussions. PSI and ITF representatives at these meetings have insisted that they cannot continue to put their resources into these discussions, unless the Bank is prepared to commit itself to urging governments to involve unions in negotiations as soon as proposals for public enterprise reform/privatisation are put on the agenda, and that real efforts will be made to explore all options for reform. PSI and ITF have been reassured on each occasion that the Bank accepts this but it seems unwilling to put this to paper. The most recent meeting of this kind in July 2002 made this an explicit demand by the two global union federations as well as representatives from the IUF and UNI and promises to this effect were given. Senior World Bank representatives at that meeting were adamant that the Bank often rejected privatisation as the preferred option and that it did urge early union involvement.

Because of the recent moves to decentralize Bank functions under its president, James Wolfensohn, there "is tremendous variation" in policies from country to country and project to project and "lots of discretion with project managers," the official said. That discretion could work in favour of trade unions if a project manager decided that workers and their unions deserved consultation before a privatisation programme

was agreed to by either the Bank or a government. "If a country director felt strongly enough, he could make that conditional." The official added that the Bank is moving away from strict conditions in its loans and that decisions by managers must still be approved by the Bank's board.

The IMF has less material available on the labour and employment impact of privatisation. But recently four economists from the IMF's Fiscal Affairs Department published a detailed study, "Privatisation, Labour and Social Safety Nets."[25] It includes some useful statistics on severance programmes and the shortcomings of privatisation for workers, but suffers from the same kind of value judgments and biases described in the World Bank study quoted above. For example, the paper criticizes some severance payment schemes as "excessively generous" (how many times has the IMF labelled the multi-million dollar "golden parachutes" offered to retiring corporate executives as "excessively generous"?) and flatly states that state enterprises "tend to...pay excessive wages" and "are often a drain on the budget and a drag on economic growth." But the paper's conclusions are interesting from the perspective of trade unionists:

> Privatisation is one example of a structural reform that can have an adverse social impact, at least in the short run. For workers, privatisation can lead to job losses, reductions in compensation, and more stringent work conditions. The empirical evidence suggests that significant reductions in employment are indeed associated with privatisation... [It] often causes a move toward more performance-based pay schemes, more flexible working conditions (less security of tenure, increased use of non-unionized contract labour, fewer benefits, and longer hours) and larger wage differentials. In summary, for state-owned enterprises, privatisation tends to reduce employment and wages, at least initially.

The IMF paper analyzes four categories of privatisation: public sales and auctions, including initial public offerings; management or lease contracts; mass privatisation; and restitution. The authors favour public sales, which allow governments to maximize sales proceeds when "these transactions are transparent and efficiently conducted," but note that under this method "the impact on workers can be large." In five sub-Saharan African countries, for example, employment fell by an average of 15 percent when shares were sold. But sale and lease contracts can be painful, too. In Argentina's telecom and electric companies, the paper notes that "the work week increased from 35 hours to 40 hours, wages were more closely linked to productivity, and certain types of overtime and leave were eliminated."

The IMF economists note some of the contradictions that come when governments seek to protect workers and new investors in state-owned assets at the same time. "One way for the government to cushion the adverse impact is to explicitly incorporate in the sale contract conditions to that effect (e.g., in the form of employment guarantees)," they note. "But these conditions tend to lower the market value of the enterprise and hence reduce the fiscal receipts of the government." Later, they describe several examples where governments provided unusually good severance packages. In the former East Germany, for example, most privatisation contracts contained special clauses "guaranteeing employment levels for a specified period, with penalties for non-compliance," while Malaysia actually banned layoffs for five years after privatisation. The "danger" in such programmes, the IMF economists note, "is that, by complicating the process of privatisation and limiting the discretion of the new owners, employment guarantees can lead to lower sales prices and decrease the revenues available to finance safety net programmes." Employment guarantees, they add, can also "perpetuate the existing inefficient labour practices and delay the desired gains in productivity and efficiency."

III. THE WORLD BANK'S PRIVATE SECTOR DEVELOPMENT STRATEGY: THE CRITIQUE

The World Bank's privatisation and private sector development strategies have come under withering criticism from trade unions and NGOs. Some of the most detailed and thoughtful responses to the Bank's PSD and privatisation strategies have come from the Public Services International Research Unit (PSIRU) and are posted on its web site (http://www.psiru.org/). This paragraph in PSIRU's April 2001 critique of electricity privatisation sums up much that is wrong with the process:

> While privatisation may deliver in the short term by reducing leakages and providing more effective billing, the longer-term implications are less clear. Possibly inefficient public sector enterprises may be replaced with powerful private sector concerns, accountable to shareholders with no democratic responsibility in the country where they are delivering this essential resource. This is particularly significant in poorer countries where the institutional infrastructure is such that regulation is weak. Rather than blindly privatising, policy makers need to relegate privatisation to its proper place of just one of a number of policy reform options – and one that comes at a substantial cost.[26]

Another PSIRU report observes that the subtitle of Bank's discussion papers on private sector development – "issues and options" –is itself misleading. The report notes that "the document is more concerned with expanding the role of the private sector in the delivery of public services than the development of effective indigenous local enterprises in developing countries."[27]

Another trenchant observation appears in a critique of the Bank's PSD strategy by Jubilee South and several other organizations in November 2001. Regarding the Bank's attempt to involve civil society in its deliberations, the NGOs wrote:

> There is no common understanding of civil society, consultation, ownership and participation… The concern rather is with the semblance of participation based on the need to legitimize and modernize the neoliberal paradigm.[28]

The Citizens' Network on Essential Services*, an organization based in Maryland (USA) that has focused extensively on World Bank-sponsored privatisation, observes on its web site that "borrowing governments must look to their citizens, not to the lending institutions, to determine the appropriate modalities of service provision."[29] It lists several Bank tactics that it considers "inappropriate". These include supporting "public information campaigns" that persuade borrowing country constituencies of the virtues of private provision of services; the Bank's failure to publicly disclose plans to reform basic service provision; and the "routine exclusion of labour unions and other key citizens' groups from negotiations in Bank-financed processes that restructure the services sectors."[30]

In their analysis of the Bank's PSD strategies, PSIRU's Kate Bayliss and David Hall note that later Bank drafts of its policies (December 2001) "appear to have taken into account" some of the criticisms made by trade unions and NGOs about its earlier reports. Specifically, the revisions made to the Bank's earlier report "suggest a much more open approach to the possibility of public sector provision" than the Bank had earlier envisioned and "demonstrate a more conciliatory position on key arguments – especially on risk – which are worth noting and reinforcing." Thus, while the Bank's central focus on private sector-led development hasn't changed, PSIRU notes a subtle shift in focus in Bank discussions, implying that "the issue is not whether public or private constitutes a superior delivery mechanism but in what circumstances might one or the other be more appropriate." According to Bayliss and Hall, the Bank's revised PSD strategy paper seems to suggest that privatisation is a viable option if the policy is arranged so that private investors bear the risk for commercial performance. This is taken to mean exposure to construction, operation and market risks. Where these cannot be transferred to the private sector, public ownership may be preferred.[31]

Another key issue identified by Bayliss and Hall is the role of the Bank and its International Finance Corporation (IFC) division in eroding the role of the state and favouring the global private sector above public entities in development.[32] Despite the fact that private companies have a poor record in, for example, delivering services to the poor, the IFC can only lend to the private companies, not public entities, when it is involved in public service infrastructure projects. This in effect results in "compulsory privatisation." Later, in a section on the role of government, they argue that "any broader policy role for the government, such as

presiding over industrial or redistributive policies, is not considered. Even the government's decision to privatise rather than adopt alternative reform options is effectively removed."[33]

The Bank's refusal to consider a positive role for government or the state, Bayliss and Hall point out, also ignores strong evidence that the state played a key role in the industrialization of countries it considers models of development, such as South Korea. It also ignores the positive role of the state in providing services to the poor and fails to consider how countries can build effective regulatory systems over their corporate sector when government institutions are consistently portrayed by Bank officials as ineffective and inefficient.

At the same time, the World Bank's blanket criticism of the problems of state-owned companies in the developing world ignores an essential component of the Bank's own development strategies during the 1960s and 1970s. During these decades the Bank lent huge sums of money to governments in the Philippines, Indonesia and elsewhere to build their energy infrastructure. Much of the mismanagement, cronyism and inefficiencies in these state-owned companies are the legacy of this highly centralized and capital-intensive style of development.

That is important to remember as we turn to specific examples of how workers and unions have fared in privatisation projects funded by the World Bank.

One of the most perceptive critiques of privatisation from a trade union perspective comes from David Cockcroft, the general secretary of the International Transport Workers Federation. In a 1999 posting on the World Bank's list-serve focusing on the social impact of privatisation, Cockcroft said that the Bank "is too complacent about the benefits of privatisation as a concept."[34] Trade unions, he noted, aren't only concerned about the loss of jobs but the quality of employment at public enterprises.

> In many developing countries, public servants enjoy a superior standard of life to the bulk of workers in the private sector. Their wages are sometimes higher (not always) but they are far more likely to have access to non-wage benefits such as free or cheap housing, medical benefits, education, even sometimes pensions. Losing their job is therefore far more than just losing an income, and even a transfer from public to private sector can result in a massive reduction in both material benefits and status.
>
> Furthermore from the point of view of the trade union leadership, a relatively easy bargaining environment where decisions are taken by local politicians is replaced by one in which private companies, some of them controlled thousands of miles away are responsible for decision making. Also, in many of the privatisations so far experienced (in transport at least), union organization has been weakened or destroyed entirely as a part of the process. Indeed, following in the footsteps of the pioneer of privatisation Mrs. Thatcher [in the UK], many governments and the IFIs advising them often give the strong impression that eliminating trade unions is a central objective of the entire privatisation process.
>
> It should not be surprising, therefore, that the concept of privatisation is not very popular with trade unions, and that the World Bank which is generally seen as an enthusiastic evangelist for the concept, rather than a neutral adviser, is not too popular either.

IV. CASE STUDIES

PAKISTAN: UNION REPRESSION AND POWER SECTOR PRIVATISATION

In August 2000 the Government of Pakistan lifted the restrictions it had placed on trade union rights in February 1999 when Pakistani army troops occupied facilities at the state-owned Water and Power Development Authority (Wapda). The recovery of union rights by Wapda's workers marked a victory for Pakistani labour as well as the international trade union movement and the International Labour Organization, which raised an international uproar over the government's anti-union actions. But the story of the Wapda union is also a tale about the darker side of privatisation and how multinational corporations, with the support of the World Bank and IMF, can exert tremendous influence on a country's domestic policies.

The measures against the Wapda union were part of a broader anti-union policy adopted by the government in 1998 to make it easier to push through privatisation policies sought by the Bank and the IMF. They also took place against the backdrop of an intense struggle over electricity rates between Wapda, the government's largest utility, and the Hub Power Co. (Hubco), a privately-owned power project supported by the World Bank and controlled by its largest stakeholders, Saudi Arabia's Xenel Industries, with 15 percent, and Britain's National Power, with 26 percent. The dispute "centred on accusations that the company had been given *carte blanche* to charge the state-owned (Wapda) higher than usual electricity tariffs after bribing government officials under the (previous) Bhutto adminstration."[35]

Pakistan received a $250 million banking sector adjustment loan from the World Bank in December 1997 that required the government to undertake major reforms and expand its privatisation programme. As defined by the Bank, the reforms supported by this operation are part of an agenda the Government has developed over several years, and extensively discussed with the Bank. From such reforms, and further reforms expected to be implemented in the coming 1-2 years, should gradually emerge: (a) a Banking system that is largely in private hands, operating under Banking regulations and prudential norms that meet international standards; (b) a more efficient and financially viable energy sector with a growing role for private investors, with independent regulatory authorities; (c) an autonomous, efficient and equitable tax administration that progressively raises the tax to GDP ratio by broadening the tax base and improving enforcement; and (d) an expenditure policy that subjects public spending to rigorous appraisal and spending ceilings.[36]

In 1998, in violation of ILO conventions guaranteeing the right of association, the government of Pakistan banned trade union rights throughout the public sector, including power and water utilities and the national airline and port authority. The government of Nawaz Sharif, which was overthrown in October 1999 in a military coup led by Gen. Pervez Musharraf, openly stated that "the ban was necessary to make the public sector utilities financially viable before privatising" and accused trade unions of preventing managers from investigating corruption.[37] In an astounding admission, an official in Pakistan's labour ministry declared: "We believe that trade unionism has to be redefined in the context of global economic changes."[38]

The union-busting took place at the height of a dispute between the government, Wapda, and Hubco, an independent power producer (IPP). In 1997, Hubco had agreed to sell power to Wapda under a sovereign guarantee that the utility would pay its bills. The government, in turn, pressured Wapda to buy Hubco's electricity at a tariff of 6.6 US cents per kilowatt hour (kwh), which was much higher than tariffs paid to other power companies.[39] Of the 12 IPPs in Pakistan, the World Bank's International Finance Corporation had invested in five, while the Bank's Multilateral Investment Guarantee Agency (MIGA) provided financial guarantees to five.[40]

A year later, with Wapda losing money, the IMF began urging the government to raise the price of electricity by at least 15 percent and reduce losses at the power company. In July 1998, the Sharif government stunned the Bank when it accused Hubco and other IPPs of corruption and terminated the Hubco contract. In a press release, the Bank said it was "surprised at the announcement" and had expressed its "grave concern" over the actions.[41] In October, the government announced a 30 percent cut in electricity tariffs. That drew the ire of the IMF and the Bank, which had both been urging a tariff increase. The IMF responded by postponing talks on a $5 billion loan to Pakistan.

In mid-October 1998, Sharif asked the military to seize control of Wapda to root out corruption and improve efficiency. "It was hoped that bringing in the army would both clean up Wapda's finances and impress the World Bank of Pakistan's serious reformist intentions," the *Financial Times* reported.[42] On 22 December 22 1998, the Pakistani government issued a decree "exempting Wapda from legal provisions concerning freedom of association and collective bargaining."[43]

In January 1999, in another move to placate the World Bank, the government announced it would allow five more foreign companies to build thermal power plants to sell electricity to Wapda and said it was considering an 11 percent rate hike. The Wapda Hydro Electric Central Labour Union condemned the move, arguing that the government should allow the state-owned companies to expand its own units. That way, "more power would be generated at much less cost than what the international companies would offer."[44] The union also argued that the current rates paid to Hubco and other IPPs were squeezing national industries, agriculture and other commercial customers. The union said "it was time for the government to scrap all agreements with foreign IPPs and return to developing the local resources for power generation."[45]

A few weeks after the union made its statement, the Pakistani army sent 30,000 troops and 250 senior officers to seize eight electricity boards and one distribution company controlled by Wapda. The Wapda central labour union was suspended for two years. Military courts were assigned to try defaulters and "suspected power thieves." The government said the eight boards, along with several power stations and transmission systems, would be rapidly privatised.[46] In addition to losing their union membership rights, Wapda workers were denied medical allowances previously paid by the company[47] and low-paid workers were shifted to "far-flung areas."[48] Altogether, 100,000 Pakistani workers lost their trade union rights. In January 1999, the president of the Wapda union and the chief of the Pakistan Workers Confederation were briefly arrested after leading a protest demonstration against the union's suppression.[49]

After the All-Pakistani Federation of Trade Unions lodged a formal complaint with the ILO, that organization threatened to ask the Bank and the IMF, as well as other multilateral donors, to withdraw funds for Pakistan until trade union rights in the public sector were restored. The ILO, through a unanimous resolution, urged the government to "move to redress the genuine concerns over the breach of the rights of the workers as guaranteed by various international conventions.[50] In February 1999, Hans Engelberts, the General Secretary of Public Services International went to Pakistan to express solidarity with the Wapda workers and spoke at a union rally. Engelberts "pointed out that Wapda was a profitable organization up to 1995" and said "the responsibility for the bankruptcy was being deliberately transferred to the employees."[51]

In August 2000, the government relented, and the National Industrial Relations Commission registered the Wapda labour union as the collective bargaining agent for Wapda's workers. The agreement was sealed in a meeting between the president of Wapda's union and General Musharraf, who added the extra bonus of restoring May Day as a public holiday.[52] (Musharraf, who had been acting as head of state since his October 1999 military coup, had himself sworn in as Pakistan's president on 20 June 2001).

The restoration of trade union rights didn't end the standoff with the World Bank over Hubco, which became a litmus test of Pakistan's willingness to accept foreign investment. Over the course of four years, Hubco lobbied aggressively at World Bank headquarters in Washington as well as with organizations such as Transparency International, to pressure Pakistan to allow market-based pricing. The dispute, the Bank noted in 2001, "seriously damaged Pakistan's image abroad and its investment climate."[53] The dispute was finally resolved in December 2000, when the government settled with all the IPPs and set a new tariff of 5.6 cents to 5.7 cents per kwh. "Thus, the mother of all issues is now a story of the past," Pakistan's *The Nation* newspaper commented. "The agreement would provide an investor-friendly climate in the country."[54] Partly in response to the agreement, the World Bank and the IMF resumed their lending to Pakistan, including a $350 million Bank credit for banking restructuring and privatisation. "This boost in lending reflects our confidence in the reform agenda developed by the new government," said John Wall, the World Bank's country director for Pakistan.[55]

Even after the government's attempt to muzzle its public sector unions and the intervention of the ILO, the Bank's Progress Report on Pakistan in July 2001 was completely silent on the issue of freedom of association and ignored the government's temporary breaking of the Wapda union. Noting the "change of regime" (the Bank's euphemism for a coup) in October 1999, the Bank reported that "Soon after taking over, General Musharraf's government issued a seven-point agenda to restore growth, root out endemic corrup-

tion, depoliticize state institutions, devolve power to the grass-root level and improve checks and balances."[56] However, the Bank was critical of the slow pace of privatising Wapda and urged the government to move more quickly on the privatisation front. "The privatisation of Wapda companies, the Karachi Electric Supply Company and most of the oil and gas sector remains crucial to lock in the gains that have been made so far and obtain even greater efficiencies so as to reduce the need for tariff increases in the future," the Bank said.

Similarly, the IMF skipped over Musharraf's actions against the public sector unions in its detailed report on Pakistan in December 14. But the statement, which followed the conclusion of Pakistan's Article IV consultations with the fund, chastized the government for supplying "incorrect data… on at least two occasions during 1993/94-1996/97." The IMF directors also "underscored the importance of reforms in the areas of privatisation, the energy sector, and governance to energize the private sector and attract foreign direct investment flows, thereby enhancing Pakistan's growth potential.[57] Clearly, the violation of labour rights, even as egregious as banning unions outright, merits little attention in the Bank and the IMF.

For Pakistani utility workers and ordinary citizens, the privatisation of Hubco and other suppliers to Wapda has been negative. According to the Wapda union, the IPPs supplying Wapda have one-third of the total electricity generating capacity but consume nearly two-thirds of Wapda's annual income.[58] A 2000 ILO study of privatisation in Pakistan said the price hike had hurt local manufacturing. "This is because induction of private sector in power has raised the cost of electricity to a level that they have lost comparative advantage." Owners of small businesses "are of the view that if infrastructure units have to be privatised it should be through stock exchange and the pricing policy should be under the control of the government.[59]

The ILO study concluded that "serious doubts have been expressed about transparency of the bidding process and the impact of privatisation on efficiency, investment, production, prices, employment and fiscal deficit." Following the privatisation or partial divestiture of several government agencies, including the Telecommunications Corporation of Pakistan, Karachi Electric Supply and nine units of Wapda, the ILO study concluded that the "employment situation in the manufacturing sector, where most of the privatisation has taken place, is quite worse." Before privatisation, employment in manufacturing grew at a 6.5 percent rate; afterwards, it declined by 13.5 percent a year. Although it does not provide severance figures for the power sector, the report describes a 1991 agreement between Pakistani unions and the government on privatisation that provided the following:

- No layoffs during the first year of privatisation
- Workers who took voluntary retirement ("golden handshake") would be given four months of the last salary drawn plus one month for each year of service. Around 63 percent of manufacturing workers accepted this deal.
- Ten percent of shares were offered to employees and workers could bid for the purchase of a unit
- jobs were guaranteed for one year.

Overall, the study concludes that privatisation has been damaging to workers' interests:

> Whereas the private sector maintains that they are providing even better facilities to the workers than they were enjoying in the public sector, the workers do not agree. The workers suggest that while employees' old age benefit is intact, the pension scheme for the managers and professionals has been abandoned, the number of bonuses has been slashed and increments to the salaries have been stopped. Workers also complain about the insecurity of job and pension and believe that the low paid employees are being thrown out.[60]

In an intriguing conclusion, the ILO study states that "probably the worst time for privatisation is when a country is implementing IMF stabilization programmes." It adds that "the utilities, such as power, railways and telecommunications should not be privatised unless it is ensured that they can be effectively regulated."

The situation at Wapda remains tense. In December 2001, the Wapda union criticized management for freezing salaries to save money in the government budget. "These workers put their lives on line during the dangerous conditions and hold no effort back in providing the consumers with uninterrupted flow of electricity and other services," the union said. "It is deplorable that the process of raising the salaries and

allowances has been put on hold. The government should make efforts to not only start this process but should also make sure that the WAPDA workers get extra rewards and incentives." The union added that the "majority of the workers are under mental stress and that is one reason of dozens of accidents which take place every month."[61] Such is the price of privatisation and its threat.

PHILIPPINES: MANILA'S WATER WORKS

In 1987 the Philippines government of Fidel Ramos, with the financial support of the World Bank, the International Finance Corporation (IFC) and the Asian Development Bank, divided Manila's Metropolitan Waterworks and Sewerage System (MWSS) into two units and sold them to private interests. The East Sector was sold to Manila Water Company Inc., a joint venture of the Ayala Corp. of the Philippines and United Utilities of Britain. The West Sector was sold to Maynilad Water Services Inc., a consortium made up of Benpres, a Philippines industrial group, and Lyonnaise des Eaux of France. With MWSS's annual revenue valued at $250 million, Manila's water system became the world's largest single privatisation project.

In the Philippines, MWSS is remembered as a particularly harsh lesson in downsizing. In less than a year, the workforce was cut in half, from roughly 8,000 workers to 4,000, and the ramifications linger today. A recent story in Manila's *Business World* newspaper focused on Mouricio Paglilawan, a 50 year old cabdriver who lost his job at MWSS after serving for 10 years as a company driver, "too young to retire, but too old to get hired." Four years later, Paglilawan "has become a prophet of sorts, preaching the impending doom of government's privatisation scheme to unwitting passengers of his Tawaraw FX taxicab service."[62] Last June, MWC raised the ire of its workers when it refused to raise their pay after winning an increase in rates. "Instead of easing the peoples' lives by ensuring affordable and quality services to the poor, the government contributes to the impoverishment of thousands of consumers, especially workers and urban poor people who earn too little to even afford paying their water and electricity bills," said one union representative.[63] "If they want to recoup their losses, it should not be at the expense of the consumers."

The privatisation of MWSS was part of a broader private sector policy package adopted by the Ramos government in 1995 and supported by his successors. MWSS was seen as a priority for privatisation because, under government control, its inadequacies as Asia's oldest waterworks had "reached crisis proportions," according to a study published in 2000 by the Philippine Centre for Policy Studies in Manila (henceforth known as the PCPS study).[64] In August 1997, when the project began, less than 70 percent of Manila's service population of 11 million was connected to the water system and water was available for 16 hours a day on average. "More water was lost, stolen or unpaid than was paid for by end-users; non-revenue water was an incredibly high 56 percent of water production."[65]

A study of the labour aspects of the Manila water privatisation by an international financial institution was made available to the ICFTU (henceforth, the IFI study). This study stated that the MWSS rate of non-revenue water, 60 percent, was the "highest among the main cities of Asia" and compared to an average in other developing countries of 20 percent to 30 percent.[66] "Large segments of the urban poor did not benefit from the water utility because they either were outside the distribution network or could not afford a water connection," the IFI report said.

The PCPS and IFI studies also claimed that the new owners of MWSS had no choice but to drastically downsize because MWSS was overstaffed. "The downsizing of the system's workforce was not an objective of the privatisation of the MWSS, but it was inevitable," the PSPC study reported. Prior to reorganization, the study said, MWSS had about 8,000 employees, including 3,200 casuals and contractors. "The hiring of casual and contractual employees was management's way of circumventing government restrictions on hiring staff over the authorized positions."[67] Comparisons of Manila's water workforce and those of other countries showed "that the MWSS was grossly overstaffed," with 1,068 workers per 100,000 connections in 1995, compared with 550 in Bangkok, 250 for Kuala Lumpar and 280 to 330 in the United States. "Other developing countries in the region had substantially less employees per thousand water connections," the IFI report said, citing studies showing a ratio of 2/100,000 in Singapore and 7.7/100,000 in Jakarta.

"Bringing down the workforce to a size comparable with those in neighbouring countries called for massive layoffs," the PCPS study concluded. "For example, achieving a target ratio of 424 employees per 100,000 connections implied sacking 4,800 employees. With only 300 employees scheduled to retire until 2003, a massive staff reduction had to be engineered."

From the beginning, Filipino (and presumably World Bank) officials wanted foreign multinationals involved with the water company. "Their view was that the scope of the water distribution was so large and difficult that only the biggest and most experienced companies in the world would be able to respond adequately," the IFI report said. However, a clause in the Philippines constitution mandated that all utilities must

be owned and controlled by Filipino citizens, with a minimum of 60 percent of equity in the utilities to be held by Filipinos. To meet this requirement, privatisation planners helped the "most capable" local companies set up local partnerships with the multinational water companies and required the main Filipino firm to hold at least 20 percent of the equity, with the remaining 40 percent held by other Filipino partners. The primary overseas partner was required to provide at least half of the 40 percent foreign equity. "The intent was to ensure significant involvement of the key Filipino and foreign firms."[68]

The Filipino privatisation team was advised throughout the process by the IFC and relied heavily on the World Bank and the IFC for advice on layoffs and severance policies. As described in the IFI report, Manila waterworks officials were aware of the extensive experience of the IFC in privatisation programmes, particularly in the power sector. Also, the World Bank had assisted in the successful privatisation of the Buenos Aires water utility in 1992, and IFC as part of the World Bank group would know about the Buenos Aires case. In addition, it was felt by (waterworks) staff that the international reputation of IFC would also help emphasize the seriousness that the government was attaching to the privatisation efforts.[69]

On the labour front, the IFC was commissioned by the government to study possible staff reductions and came up with a proposal, described below, to slash the workforce to between 3,150 and 5,500 workers.[70] In 1996, the World Bank organized a visit to Argentina by a delegation of MWSS workers and leaders of the MWSS employees' association (at the time, government workers were not allowed to form unions with collective bargaining rights). The study tour gave MWSS officials "an opportunity to observe first hand how privatisation had progressed in the Buenos Aires water utility" and "turned out to be one of the most helpful activities in opening the views of the [association] leaders to privatisation," the IFI report stated. The report claimed that "For the labour leaders, what was most impressive was that even with a 50 to 60 percent reduction in the workforce it appeared that the overall result of the transition was positive for labour."[71] But this rosy view of the privatisation process was not shared by many MWSS workers and their trade union representatives, something that is underscored by other sections of the IFI report.

In August 1996, prior to the sale of MWSS to the two business consortiums, MWSS's management offered workers an Early Retirement Incentive Package (ERIP) based on salary and seniority. Based on the PCBS and IFI reports, the first ERIP offered the following:

- For workers with 20 years or less, 1.5 months basic salary for every year of service in severance pay and one-half month in retirement pay.
- For workers with more than 20 years but less than 30, two months of basic salary per year of service
- For more than 30 years, 2.5 months basic salary for every year.
- Workers also received the cash equivalent of unused leaves.

Over 2,000 employees took up this offer, but 70 workers had to be "persuaded" by management to accept it, the PCRP report said. The IFI report said "about a third" of the workforce accepted the plan. The plan was critical to the Ayala Group in agreeing to the terms of sale. "Labour issues were not a major concern at the time of bidding because the company believed that the initial early retirement programmes were already contributing to workforce reduction in a significant way," Ayala's director of strategic planning told the IFI consultants. "Thus, this was very important as a component of preparing the privatisation process."[72]

A second ERIP, under the same terms, was offered in July 1997 following the transfer of MWSS operations to the new private owners. By this time, the utility's 5,000 employees had been assigned to one of the two concessionaires. About 438 workers accepted this offer, "including union members who had been rejected by the concessionaires on account of their opposition to the privatisation of MWSS," the PCRP report said. In addition to this political retaliation, workers were given 18 months to accept the agreement. Worse, all employees of the concessionaires "had to undergo a six-month probationary period, a provision severely criticized by labour groups" but justified by management on grounds that the companies need "flexibility to organize and structure their operations to achieve the assumptions made in their bids."[73] By the end of the 18 months, 810 workers had accepted the severance package. They included workers "forced to resign on grounds of poor health."[74]

According to three union leaders interviewed by the consultants who wrote the IFI report, the opposition to the severance plans drawn up by the IFC for MWSS and the Filipino government was intense. Here

are some excerpts from these interviews:

> Most workers were really against privatisation, including the membership of the KKMK. Now that there are two separate concessionaires, it is important to have a confederation of workers, so that the two labour groups will be able to assist each other.
>
> The two main concerns that were present throughout the privatisation process were that MWSS would not pay all the required benefits (specifically the amelioration allowance) and the separation benefits in the ERPs were not enough. With respect to the latter, it was cited that the Philippine National Bank early retirement programme had benefits that were three times what MWSS was offering.
>
> For those who retired or were terminated, the feedback is that they are generally worse off than before. The lump sum benefits that they received were quickly spent, and they have difficulty in finding new work.

By June 1999, the workforce had been cut in half, to about 4,100 employees. About 80 percent of the 2,000 employees who accepted the retirement packages were rank-and-file workers; about 15 percent were supervisors and 5 percent were managers.[75] According to the PCPS study, "the overwhelming majority of employees separated after privatisation [were] male, manual workers, of permanent status," with an average age of 40 with about 15 years experience at the utility. In an important conclusion, the paper states that: employees who lost their jobs as a result of privatisation are likely to have suffered substantial earnings losses. To some extent, the ERIP compensated them for their earnings losses… It did favour professionals and administrative employees who ended up better protected from potential earnings loss than rank and file employees. Yet it can be argued that rank and file employees probably deserved more protection in view of their precarious financial position made worse with the expected shift to lower paying jobs in the private sector. In this sense, there is room for improving the way workers are compensated for the loss of their jobs.[76]

Trade unions played a key role in seeking improvements in the severance agreements and the private companies' treatment of the workers following privatisation. After the turnover to the private sector, the KKMK, the MWSS union, began to function as collective bargaining agent. The union was divided into two, representing workers at both concessions – KKMK-East (representing workers at MWC, the joint venture between Ayala and United Utilities of Britain) and KKMK-West (representing workers for MWS, the Benpres-Lyonnaise consortium). According to the PCPS study, KKMK-East took a "proactive stance on labour welfare issues," leading a fight to recover backpay for MWSS workers, while KKMK-West adopted a "more laid-back, cautious stance" and agreed to a no-lockout, no strike provision in its first contract.

Not all of the tension at the privatised companies was between workers and employees. Managers and supervisors at both consortiums joined the unions in resisting demands from the foreign partners for outsourcing of engineering and other services.[77]

Just before the privatisation went into effect, a third union, organized by the Confederation for Unity, Recognition and Advancement of Government Employees (Courage) organized a strike and picket line at the MWSS headquarters. The IFI paper refers to Courage as an "extremist labour movement […] associated with the National Democratic Frong and the Communist Party of the Philippines." But the IFI consultants were forced to admit that, despite its "extremism," the union's actions reflected some grievances that were widely shared among the workforce. "The main demand of the strike organizers was to make all employees regular without having to go through the probationary period. Most employees of course supported this, and about 200 workers joined the picket line." Because of the ban on public employee unions, the strike was considered illegal. "However, the incident did highlight the problem that a small minority among employees could very easily drum up support for disruptive activities during transition periods, by capitalizing on the job insecurity of other workers," the consultants wrote for the IFI paper. But a trade union leader interviewed by the consultants saw the issue differently:

> Courage was able to infiltrate labour ranks because of employee dissatisfaction with the package. This was especially true for those with less than 20 years of service, since their benefits were viewed to be much less than those of employees with longer service. Almost all employees also were against having a probationary period since they wanted to keep whatever security they already had at MWSS

when they transferred to the new organization.

For the World Bank and the IFC, Manila's water privatisation was a triumph. However, other studies have shown that price increases have been much greater than promised by the two consortia and that service quality has failed to improve. And from the point of view of the workers and trade union leaders, it was a sad chapter in the Philippines government's globalization policies. Filipino unions are now using the MWSS example to rally opposition to the privatisation of other government-owned corporations in telecommunications and energy.

In this regard, a recent paper by John Nellis with Nancy Birdsall, *Winners and Losers: assessing the distributional impact of privatisation*, Working Paper No. 6 from the Center for Global Development – www.cgdev.org/wp/cgd_wp006.pdf, notes that the Bank's criteria are very narrow and that many users, communities and workers have suffered from privatisation.

MEXICO: SUCCESSFUL LABOUR RESISTANCE TO PRIVATISATION

In December 2000, newly elected Mexican President Vicente Fox from the conservative, pro-business National Action Party or PAN, attended a rally in Mexico city of the trade union SME, which represents workers at the government-owned Light and Power Company (LFC). During this visit, the first time a Mexican president had attended an SME event in its 86-year history, Fox was greeted by cheers when he promised the union that he had no plans to privatise LFC or a larger utility, the Federal Electricity Commission (CFE). "I will not fail you electricity workers," he declared. But he added that "we must be aware of the enormous limitations on the few resources available to us" in the government budget and asked union leaders to support "the transformation of CFE and LFC into modern and competitive companies." A union leader responded in kind, saying "now that we have finally done away with any idea of privatisation we can start to work together" to improve efficiency and remove the companies' "stranglehold on the federal budget."[78] That event marked a very different kind of privatisation story: one in which workers and their trade union managed to stop a World Bank-supported privatisation project in its tracks, and cooperate with a government to improve the operations of the existing state-owned company.

The privatisation of Mexican state-owned industry is viewed by the World Bank as one of its most important success stories and "one of the most comprehensive ever implemented by any country."[79] The process began in the 1970s, when technocrats took control of the ruling PRI and began to dismantle decades of nationalistic economic policies in place since the 1930s and 1940s. During those years, the government of General Lázaro Cárdenas, determined to make Mexico independent of US corporations, nationalized all of Mexico's key industries and made public ownership of the oil and electricity industries part of the country's constitution. By the early 1980s, Mexico had nearly 1,200 state-owned enterprises that produced 14 percent of the national output, employed 4.4 percent of its labour force and accounted for 38 percent of fixed capital investment.[80]

In 1982, following Mexico's debt crisis, the government signed a letter of intent with the IMF that conditioned new lending on cuts in government spending and investment, an increase in public sector prices and privatisation.[81] As the World Bank reported, "the government began to unravel the state sector in 1983."[82] Since then, according to a compilation carried out by an independent research group, nearly 1,000 Mexican state-owned enterprises have been sold to private interests.[83] They include the airline Aeromexico, the telecom company Telmex, copper mines, railroads, major ports such as Vera Cruz, and Mexico City's bus system. Interestingly, the OECD's report on regulatory reform in Mexico was very critical of the Telmex provatisation, since it was privatised as a monopoly and has not produced benefits for anyone other than its new owners.

A 1994 World Bank report noted the move away from state-led development and Mexico's adoption of policies welcoming the private sector in every aspect of its economy:

> The privatisation programme in Mexico has to be viewed as a consequence of the reevaluation and redefinition of the role of the State. As such, it has been conceived not only as the sale of enterprises, but also to allow the participation of the private sector in activities that were traditionally reserved exclusively for the public sector, such as Banking, petrochemicals, fertilizers, the construction and operation of roads, airports, ports, water treatment plants, garbage collection and disposal, railway transport, power plants and others. In addition, privatisation was intended as a mechanism to facilitate the elimination of subsidies and bring about market prices in line with bona fide opportunity costs.

That report offers an extremely benign picture of the impact of privatisation on Mexican workers. In the area of labour policy, "Voluntary retirement and lay-off programmes were often implemented prior to the sale of an enterprise," while "severance packages were generally quite generous by historical and contemporary standards."[84] In the port of Vera Cruz, the report stated, the government awarded cargo-handling concessions to three private companies and handed over administration of the port to another company. "The introduction of an element of competition, along with investments in equipment (by the companies) increased the efficiency of operations almost immediately." Similarly, at Telmex, the value of the company "has increased three-fold and the quality of service has been steadily improving."

A 1997 World Bank study on the benefits of privatisation attributed the increase in efficiencies to the

large layoffs at companies sold to private interests. "Employment cuts are a big part of the picture. Privatised firms reduced the number of both white- and blue-collar employees by half." While the report claimed that wages at some of the privatised companies increased substantially, it also found that "savings due to layoffs account for roughly a third of the gains in profitability." Overall, the report said, "one cannot say for sure whether workers as a group suffered as a result of privatisation: the answer depends on the post-privatisation wages received by laid-off workers in their new jobs..."[85]

In a section on job security, the report explained that the Mexican Federal Labour Law includes "severe regulations with regards to job security... Clearly, on paper, the cost of labour dismissals can be substantial." It then noted with approval the actual practices of private companies, which "appear to enjoy more flexibility in reducing labour without incurring large severance costs than a strict interpretation of the law would suggest." The loopholes include hiring temporary and non-union workers, taking advantage of subcontractors, and demanding provisions in collective bargaining contracts that allow firms to reduce their workforce following negotiations with a union. During the 1980s, the report said, the proportion of non-union white collar workers in Mexico increased from 26.2 percent to 32.1 percent of the total workforce, while the proportion of temporary workers increased from 15 percent in 1986 to 17.3 percent in 1989. "Thus, a sizeable proportion of the workforce is covered by contracts that involve no severance payments." Even so, the Bank report concluded, "there is still scope for a substantial increase in the flexibility of the existing regulatory framework."

While these are all positive developments from the point of view of the Bank, reports from independent journalists and researchers tell a different story. Aeromexico, for example, was privatised in the midst of a 1988 strike, which the government responded to by "shutting down the airline, firing all 12,000 workers and selling off the company. Similar actions were taken in the privatisation of the copper company."[86] In Vera Cruz, "soldiers had to occupy the port...at gunpoint in order to privatise it and fire its work force."[87] According to a labour journalist, privatisation has had a "devastating" impact on unionized workers:

> While three-quarters of the workforce in Mexico belonged to unions three decades ago, less than 30% do today. In the state-owned oil company, PEMEX, union membership still hovers at 72%. But when the collateral petrochemical industry was privatised over the last decade, the unionization rate fell to 7%. New, private owners reduced the membership of the railway workers union from 90,000 workers to 36,000 in the same period.[88]

In the early 1980s, 12,000 bus drivers in Mexico City went on strike to fight the sell-off of their Route-100 bus system owned by the municipality. The workers demanded that they have an opportunity to set up worker-owned cooperatives at the bus company, but were unsuccessful. Cuellar Valdez, one of the strike leaders, later expressed the revulsion against all forms of privatisation that the workers' struggle had fomented.

> There are no good privatisations. There are no 'lesser-evil' privatisations. No union should go through what we have experienced. All privatisations are insidious. All are aimed at breaking the unions and dealing a death blow to the cohesion and solidarity that exist within a union.[89]

The resistance by the bus drivers and other unions laid the seeds for the successful campaign by the SME against the privatisation of Mexico City's Power and Light Company (LFC).

The World Bank laid groundwork for electricity privatisation in Latin America in 1992, when it informed a meeting of regional energy ministers that the Bank "henceforth would be unable to provide funding for electric power projects in Latin America,"[90] according to a study in an industry newsletter. A few months later, Mexican President Carlos Salinas de Gortari proposed to redefine "public service" in electrical power as a way to provide a legal framework for private companies generating electricity for its own use or selling to the state power agencies.

Expanding private sector involvement in Mexico's electricity generating system was one of the key recommendations made by the World Bank in its 1994 "economic memorandum" on Mexico. According to the Bank, electricity demand in Mexico was growing at a five-percent rate, which would require investments of $35 billion over 10 years. The report noted Mexico's constitutional restrictions on selling LFC and the national Federal Electricity Commission to private hands. "There is no competition at distribution level, as electricity consumers can only by supplied by CFE or LFC and cannot contract directly from power genera-

tors as it is done in countries with more advanced regulations (such as Argentina, Chile and the United Kingdom)."[91]

To get around the legal restrictions, the Bank report endorsed a series of recommendations from a private consultant to create "profit centres" within the two state entities that "should be carried out for the purposes of providing accountability in each segment of the power business… Such profit centres should be converted to generation, transmission and distribution corporations, with initial owner by the government and an eventual partial or total transfer to the private sector."[92] The report added that "the key for undistorted development of a power sector is open market competition, not possible at present in Mexico as the final consumers are not free to select the supplier of electric energy."

By 1999, the government of President Ernesto Zedillo decided it had enough political support to move to the next step. In February, Zedillo sent to Mexico's Congress a "sweeping proposal" to open the country's electrical generation and distribution sectors to private investors. It called for the eventual dismantling of CFE, the state-owned power company that generates 90 percent of the country electricity, as well as LFC, which generated two percent (the remaining power came from several private generators and PEMEX, the state-owned oil and gas company). The Zedillo government's justification, according to analysts, was to "attract the foreign investment needed to keep the economy running. The government simply cannot afford to make the investment itself without drastically curtailing spending on education, health and other social projects."[93] Mexico's Secretary of Energy Luis Tellez explained the partial privatisation plan this way:

> Mexico cannot afford to miss opportunities to attain the levels of efficiency and low costs reached by the electricity industries of other countries where barriers to competition have been eliminated. Nor can Mexico afford to waste the opportunity to devote resources to remedying poverty, inequality, and a lack of human capital. The energy sector must be at the forefront in supporting the international competitiveness of the nation's industries and the welfare of all Mexicans.[94]

The legislation proposed by Tellez and Zedillo called for dividing CFE and LFC into seven or eight generators and 15 to 17 distributors that would eventually be privatised. The transmission grid, as well as nuclear and hydroelectric plants, however, were to remain in state hands.[95]

Along with the privatisation legislation, Zedillo announced that he would submit constitutional amendments to expand the opportunities for foreign companies to generate and sell electricity.

Though the package of proposals was endorsed by the CFE's union, called SUTERM, they were denounced by SME, which represents workers at the smaller LFC. Its initial opposition centred on a measure buried deep within the proposal to disband SME's 35,000-member union and fold it into SUTERM. But overall the union argued that privatisation would mean massive job losses and raise electricity prices "anywhere from 46 percent to 200 percent in cities and 300 percent in the countryside."[96] Union officials blamed inefficiencies in the system on the lack of government investment. They said the government subsidized the consumption of large public and private electricity users, cutting into LFC's revenues, and then cut LFC's budget, "leading to obsolescence."[97] According to Rosendo Flores, SME's secretary-general over a six year period, the cost of electricity purchased by LFC from the Federal Electrical Commission increased 298 percent, while LFC's rates only rose 176 percent. "The perversion of these policies is evident in comparing the inflation of this period with the salaries of the electrical workers," he said. Flores said that privatisation in Mexico had led "to the concentration of wealth and monopolies that pride themselves on cost cutting measures that reduce the working class and impoverish it," adding that "advanced countries developed through strong internal markets and a well-paid labour force capable of consuming the goods that they produce."[98]

The SME position was endorsed by several academics, including economists at Mexico's largest university. They charged that Zedillo's proposals were "a precursor to a sell-off of the oil industry" and argued that the chief beneficiaries would be the United States and US energy companies.[99] And indeed, that was very much the case. At the time of Zedillo's initial proposals, Mexico's CFE had been invited to join the Texas energy power pool, a move an industry publication said "could eventually lead to increased electricity trade between the state and fast-growing Northern Mexico."[100] These moves were welcomed by multinational energy companies Reliant Energy International, Duke Energy, Shell and the ill-fated Enron Corporation. Max Yzaguirre, the president of Enron Mexico, told an industry newsletter that Enron planned to be the biggest private energy company in Mexico within five years. "We are very bullish on Mexico," he said. "We believe

the Yukon-to-Yucatan energy market will exist, and Mexico will play a key role."[101]

The SME began organizing against the privatisation proposals even before they were formally unveiled, and in February 1999 had collected 2.7 million signatures against Zedillo's measure. "It is indisputable that the move to privatise our electrical system is a condition dictated by the International Monetary Fund, intended to create opportunities for private investment, particularly foreign investment," said Ramon Pacheco, the union's secretary for international relations.[102] At a public hearing on the proposals, union activists interrupted the meeting by singing the national anthem. At a May Day demonstration against electrical privatisation in Mexico City SME leader Rosendo Flores declared "If you are really on the side of the electricians, Mr. President, give us the opportunity to demonstrate that we Mexicans are capable of constructing our own development, and let our company (LFC) remain in our hands. No sell-out of our homeland. Viva Mexico"[103]. The union also helped to create a parliamentary alliance of party caucuses opposed to privatisation and the National Front of Resistance Against the Privatisation of the Electrical Industry to build popular support.

During his campaign for the Mexican presidency, Vicente Fox said he would continue Zedillo's privatisation policies. But strong resistance from the SME and NGOs to a private takeover of the electricity grid forced him to change his mind, and in January 2001, Fox told the union that he would not sell or privatise any of the assets of CFE or LFC. In March 2001, the union and the LFC management signed a new collective bargaining agreement. But the SME's struggle is far from over. In May 2001, the World Bank recommended to the Fox government that it rewrite the country's labour laws to eliminate many worker protections put in place during the 1920s and 1930s. Under the guise of "increasing flexibility," the Bank's plan for a "Comprehensive Development Agenda for the New Era" proposed an end to requirements that companies make severance payments when they lay off workers and negotiate plant closures.[104] "The current system for collective bargaining is not flexible, is poorly suited to the more competitive global environment, and is not conducive to the more cooperative relations between management and labour that are essential for greater productivity and job satisfaction," the World Bank wrote in the report.[105] The report has been endorsed by the Fox government, that appears to see it as a way to make the economy more competitive and attract greater foreign investment.

Another World Bank report in May 2001 praised Mexico for its "encouraging but partial results" in the "commercialization and privatisation of ports, airports, airlines and the national railway." But it expressed concerns about the slow pace in energy privatisation, particularly at CFE. "The details of the policy and administrative reforms for that private involvement to materialize and for ensuring an efficient distribution of risk between private and public players still need to be specified," the Bank said.[106]

BELIZE: HEALTH SECTOR PRIVATISATION AND THE POLICY OF "FAIT ACCOMPLI"[107]

In 2000, benefiting from a 10 million US dollar loan granted by the Interamerican Development Bank, the government of Belize announced its plans to reform the public health sector. Among the workers in the sector, and the unions which represent them, this came as a complete surprise. This decision, according to them, made a mockery of national and international law, and did not take into account the needs of the population.

For the unions, which were not consulted at any moment in the process, these measures have been hard to swallow, not least because for two decades, with very limited means, workers in the public health service had obtained very good results, such as a fall in infant mortality, increased life expectancy, and success in the fight against malaria. PSU, the public service union, affiliated to the global union federation, Public Services International (PSI), and the national trade union centre, NTUCB, lead an opposition which puts pressure from a number of different angles.

Firstly, the unions criticise the fact that the planned changes will result in the installation of a new private health network, completely remodelled, when they ought to have strengthened and enriched the structures already in place. Secondly, although workers in the sector currently enjoy certain consultation rights under national labour law and the international labour conventions of the ILO ratified by the Belize government, these have been systematically violated in the period during which the deal with the bank was being formulated and concluded. According to PSI

> Modern trade unionism requires obliges union leaders and members to take a more proactive role in national affairs. Unfortunately, such activity is often viewed with suspicion by governments rather than welcomed viewed as a sincere attempt to contribute to the process of national development.

Thirdly, all of the analysis carried out in relation to the health sector by the IDB focus on financial or business elements, and take pay any attention to issues such as the health needs of the population of Belize. The loan also includes an allocation set aside to finance a public awareness campaign on the changes which will be carried out. The unions argue that this amount would have been better used for consultations with people in the best position to determine the real needs of the population. Finally, the changes sought in the system of social protection amount to a unilateral hike in social security tax, which is foreseen without any preparatory study on the subject. The rate hike, according to the unions, heavily penalises low and middle income segments of the population.

GHANA: OPPOSITION BUILDING TO WATER PRIVATISATION

In Ghana, the Trades Union Congress is at the forefront of a national coalition opposing the partial privatisation of the country's water supply, a project that has been endorsed by the World Bank as a key component of Ghana's drive to attract more foreign investment. Although the project is still in the bidding stage, Ghana's water privatisation project illustrates how IFIs continue to push the transfer of important public resources to private interests despite the presence of broad-based opposition to those policies. Ghana is also important because the trade union and popular opposition appears to have an opportunity to stop or drastically alter a privatisation scheme mapped out by the IFIs and the central government. A coalition of unions and other organizations have put forward a plan to reform the government-run utility.

On 12 April 2002, Ghana's Minister of Finance, Yaw Osafo Maafo, said the government of Ghana, which is the New Patriotic Party (NPP), would resume the privatisation of publicly owned enterprises that were suspended when it took the reins of power in the previous year. "We are committed, and we have assured our development partners that, yes, there were delays (in the past) but that did not mean we were not committed" to privatisation, he said.[108] After parts of Ghana's Cocoa Processing Company and other manufacturing and distribution companies are sold on the stock exchange, the government would move on to "more difficult" projects such as private participation in water and electricity, Maafo added. "We will do it carefully and transparently to the benefit of all Ghanaians."

But the process has been far from transparent, according to two organizations that conducted a detailed study of water privatisation in Ghana, the Integrated Social Development Centre in Accra and the Citizens' Network on Essential Services in Maryland, USA. "It appears that the Government of Ghana, with the backing of the World Bank, has concluded that privatisation of the urban water system is the appropriate policy option for the country," they write. "Unfortunately, there has not been broad-based, open public discussion among the government, citizens and donors about the full range of alternative water management options."[109]

The World Bank is adamant that its plans for Ghana's water system do not represent privatisation. David Henely, a Bank official who heads the team overseeing Ghana's water sector reform, told a news agency in 2001 that the Bank had provided $1.7 million towards feasibility studies but took affront at activists' characterization of the policy as privatisation. "This is not a privatisation process," he said in an interview. "All assets will remain in the ownership of the government."[110] "Strictly speaking, the government's plan is not a 'privatisation' plan, i.e., it does not involve the sale of State assets to private firms," the Bank wrote in a quarterly bulletin on Ghana last October.[111] "Rather the plan involves the leasing of the water system to private operators, what the government calls Private Sector Participation (PSP) It represents a partnership between the Ghana Water Company Limited (GWCL) and private firms."

Semantics aside, when this project is complete, Ghana will have turned over the operation, maintenance and management of its urban water supply system to two foreign multinational corporations – including two, Suez Lyonnais des Eaux and Bouygues/Saur – that "have annual sales figures significantly higher than Ghana's 1999 GDP." As the ISDC report puts it, "the government may have limited capacity to influence such large corporations," which may also "have limited accountability to the common Ghanaian water consumer."[112] Or, in the words of a columnist for the Ghanaian newspaper the Accra Mail, "At the bankers' instigation, Ghana stands the risk of placing a major infrastructure, a bearer of so much social values for her citizens, at the mercy of Wall Street."[113]

Five multinationals are involved in bids for Ghana's water services contract: Saur; a consortium of International Water and United Utilities; Biwater; Halliburton Company and Suez. Saur is a French company owned by the Bouygues Group, one of Europe's largest industrial combines, and has operations in more than 40 countries.[114] It has been accused of making bribes and payoffs in a World Bank water project in Lesotho. International Water is a subsidiary of the giant US construction and engineering Bechtel Corporation; its British partner United Utilities is one of the world's largest water companies, with operations in the United States, Canada, Mexico, the Philippines and Malaysia. Biwater is a British company that designs water and sewage treatment facilities in Latin America, Europe and Asia. Halliburton, based in Texas, is a major player in the oil equipment business and the former employer of US Vice President Dick Cheney. Suez, based in Paris, has extensive investments in water treatment services in Europe and the United States.

The most extensive Ghanaian description of the projected water privatisation came last September from Kwamina Bartels, Minister of Works and Housing. He told reporters that the water "restructuring" will build a contractual relationship between the Ghana Water Company and one of the private bidders.

> This arrangement will involve the leasing of GWCL assets for a maximum period of ten years. It is also expected to facilitate the rehabilitation of existing water distribution infrastructure, lay more pipes for wider accessibility and increase the production of water... The ten-year PPP is also to reduce the amount of unaccounted water produced by the Water Company, which currently stands at about 50% of all the water produced by the GWCL.[115]

According to Bartels, the Ghanaian government's Public Utilities Regulatory Commission will keep the water service provider from raising tariffs to "unnecessarily" high rates. The existence of the commission, he added, "makes Ghana's case unique and helps to check any arbitrary tariff increases."[116]

Ghana's water plan is part of a broad privatisation programme that started in 1999 with the sell-off of major public corporations. *Africa News* described the programme as a concession to "pressure from Ghana's creditors (otherwise called donors)," who urged the government to divest its shares in Ghana's cocoa exporting company, the Electricity Corporation of Ghana, the Tema Oil Refinery and the Volta River Authority.[117] Business-oriented economists viewed privatisation as a way for African nations to catch up with the export-oriented economies of East Asia. One economist, writing in the *African Review of Business and Technology,* wrote:

> Privatisation offers opportunities for Africa to follow the trends of Southeast Asia and Latin America toward globalization and attract inward foreign investment. There remains considerable scope for divestitures across west-central, east and southern Africa. Under growing pressures from the IMF and the World Bank, as well as bilateral donors and domestic pressures to improve efficiency and reliability of the parastatals, most countries are adopting a more pro-active stance towards privatisation. According to the World Bank, 41 of sub-Saharan Africa's 48 countries have reported privatisation activity during the second-half of the 1990s.[118]

To accelerate the process, the IMF has imposed conditions on water privatisation on loans to Angola, Benin, Guinea-Bissau, Senegal and Tanzania.[119]

The World Bank exerted considerable pressure on Ghana to begin the privatisation of the country's water system.[120] In 1995, the Bank urged the government "to develop specific options to increase private sector participation in the delivery of water services."[121]

Water privatisation of one of several conditions imposed on Ghana by the Bank, in its Country Assistance Strategy for Ghana released in June 2000. As explained in the forward to the strategy paper, the World Bank programme "would concentrate on helping to establish an appropriate regulatory framework, assisting the Government to expand participation of the private sector in electricity and water, and alleviating infrastructure bottlenecks, particularly in roads."[122] Under the programme, the International Finance Corporation (IFC) was to finance investments in urban water, transportation and other areas opened to private investment and providing advisory services on privatisation. By August 2001, the IFC had a $62 million portfolio in Ghana.[123]

The World Bank assisted the government in restructuring the water system, "including private participation." At the time, however, the Bank was concerned that an award to a private company (Azurix, an affiliate of Enron) had been made "in a non-transparent manner" and withheld $100 million in funding until the problem was cleared up. "In these difficult times," the Bank concluded, accelerating privatisation would seem to be one potential source of revenue enhancement, especially if such revenues could be used to reduce domestic debt. However, it is Bank staff's view that doubts remain about the commitment to speedy and transparent processes of divestiture, and a major effort in the dialogue with the Bank and the IMF will be continued. In particular, we hope to be able to draw clear links between poverty reduction and privatisation, and to ensure that more open processes of privatisation are adopted.

To ensure that the water system was operated efficiently, the Bank has urged Ghana to adopt a policy of "cost recovery," or user fees, on water use. Such policies, the Bank claims, provide for "clean transac-

tions that reconcile the interests of investors and consumers and recognize the needs of the poor."[124] But to many Ghanaians, the imposition of user fees would make water – which most citizens consider a human right – beyond the reach of the poor. "In villages, water supply will remain in government hands, but only because it not profitable enough to be sold," the London *Guardian* reported recently. "So, to balance the books, the state is making villages pay for the upkeep of the bore-holes and water pumps. The villages can't afford it."[125]

Cost recovery is a popular concept at the IMF as well. In August 2001, IMF officials commended the government of Ghana for raising prices on oil and hiking electricity and water tariffs, citing the need to "stem the current losses experienced by the respective public enterprises."[126]

In May 2001, a group of NGOs and trade unions met in Accra for the National Forum on Water Privatisation. After four days of meetings, the groups founded the Ghana National Coalition against the Privatisation of Water. The declaration released by the conference called on the government to "reverse the decision to put the privatisation process on a fast-track and reconsider the broad decision to invite the participation of foreign companies into the water sector." They also asked the government to place all documents on water privatisation into the public domain, including all World Bank mission, project and evaluation reports.[127]

According to the coalition, the Bank-supported effort to turn the water system over to private sector operators is part of "the worldwide attempt to commodify water for the profit and benefit of a few."[128]

Rudolf Amenga-Etego, an activist with the Integrated Social Development Centre (ISODEC), and one of the founders of the coalition, told a US journalist that most people in Accra do not earn the minimum wage of less than US$ 1 a day, while a significant number have no regular employment. In April, the average price for a bucket of water, which used to be 400 cedis, was raised to 800 cedis (US$ 1 equals 7,000 cedis) to comply with the Bank's required "prior action" for accessing the structural adjustment loan approved in July. The proposed water privatisation is expected to increase water tariffs even further. "The current water tariff rates that the government of Ghana and the World Bank think are 'below the market rate' are already beyond the means of most of the population in Ghana," says Amenga-Etego. "How will the population possibly be able to absorb a so-called 'open market' price for water in the context of Privatisation? As water becomes less affordable, it is highly likely that there will be a corresponding increase in diseases stemming from reduced access to clean water."[129]

ISODEC also claims that the Ghanaian government is pushing privatisation of water as part of the conditionality attached to the World Bank's Heavily Indebted Poor Country Initiative, which is aimed at reducing the debt of the world's poorest countries. "We believe the privatisation scheme is a fulfillment of conditionality imposed on our government through the Structural Adjustment and HIPC programmes by the World Bank and IMF," the organization said in a press release.[130] The government vehemently denies the claim. ISODEC also argues that, if foreign multinationals take over the water system, the commission that is supposed to regulate water rates "would become ineffective because [of] the terms of the contract and the global nature of the corporations."[131]

Ghana's Trade Union Congress publicly rejected the government's privatisation plans in October 2001. At a press conference, TUC Secretary General Kwasi Adu-Amarkwah said the switch from public utility to "private monopoly" was "driven by profit motives" and therefore unacceptable "because underprivileged Ghanaians will not be able to afford the cost of water, so essential to human life." As ISODEC has done, he urged the government to improve the public utility rather than turn its operations over to private interests. "We hold the view that the appropriate role of a responsible government is to ensure efficient and effective use of resources in both the private and public sectors of the economy," he said.[132] An eight-point resolution against privatisation adopted by the TUC in November 2001 also argued that the policy would "lead to redundancy of labour with its social consequences."[133] Other members of the coalition include Ghana's Christian Council, the National Association of Teachers and the Registered Nurses Association.

Instead of engaging in dialogue with the groups opposing water privatisation, Ghanaian officials have engaged in political attacks and accusations of leftist sympathies. Last fall, Minister of Works Bartels released a document to the media describing the national coalition against privatisation as a "leftist group opposed to private direct investment from Western countries to developing countries" and charged that ISODEC's

activities are "funded and controlled by this leftist group." In strident language, Bartels said the NGO's opposition activities were "un-Ghanaian." "At a time when the Government of Ghana is making every effort to attract foreign private investment into the country, the activities of ISODEC could only be described as unpatriotic and anti-development," he said. ISODEC responded that Bartels was misrepresenting its position and said his statements "serve to misinform the good people of Ghana through wild pronouncements without facts."[134]

In its quarterly bulletin on Ghana published last October, the World Bank took note of the controversy:

> Public debate over the government's proposal to allow private sector participation in the water sector rages on, with the Bank and the Fund generally supporting the government while a subset of civil society organizations and opposition parties are entrenched on the other side of the debate. A local NGO, ISODEC, and the Trade Union Congress (TUC) have been the most vocal oppositions to the plan, while minor political parties…have publicly challenged the plans for private sector participation in the water sector. Opponents…have accused the government of "privatising" urban water supply, implying a shirking of government's responsibility for provision of the service, while government maintains that the move does not amount to "privatisation".[135]

The Bank statement also notes that the NGOs opposed to the water plan protest that it is an attempt to put the profit motives of multinational organizations ahead of the rights of citizens to potable water, and contend that the plan will adversely affect the poor through higher tariffs. They claim that the plan is part of the stifling conditionality associated with IMF and World Bank programmes. Heated rhetoric has sometimes reached levels where the plan has been described as a form of "recolonization." In a draft sector policy being formulated, [the Ghanaian] Government plans to institute a social connection policy where subsidies can be targeted towards assisting poor consumers to access the service.

But nowhere in its documents does the Bank respond to the detailed critiques offered by the opposition or suggest discussions with the NGOs and the trade unions about their concerns. Instead, the Bank blandly claims that "private operators will improve efficiency in the [water] sector through the injection of new technology, expertise and investments, thereby improving access to water for many of the urban poor at efficient costs, and make a modest return on their investment." As for the issue of job losses, the Bank said the "issue of staff retrenchments has not yet taken the political centre-stage." But the staff affected "have been promised a good package, likely to be funded through the Bank." In other words, despite the broad public opposition, the water privatisation plan will go through – come hell or high water.

PRIVATISATION AND WORKERS IN CENTRAL AND EASTERN EUROPE AND THE CIS

Since the fall of the Berlin Wall more than 10 years ago, the former communist countries in Central and Eastern Europe and the former Soviet Union have undergone the world's largest privatisation project. In Russia alone, over 15,000 state firms were sold to private holders, primarily "insider" groups of managers and workers.[136] A World Bank report on the first 10 years of privatisation in Eastern Europe and Russia had mixed reviews of the process but concluded that privatisation "has been key in the transition from plan to market" and was "a way of imposing hard budget constraints and promoting restructuring. It was also a way of creating demand for stronger property rights and institutions of corporate governance, thus contributing to private sector development."[137] In contrast, some analysts of the privatisation experiment in Russia have been scathing. Paul Klebnikov, a senior editor at *Forbes* and the author of a major book on Russian privatisation, called the process the "looting of Russia" and characterized the managerial takeover of the giant gas company Gazprom as "one of the great robberies of the century."[138]

Despite the huge volume of studies of the transition from communism to capitalism in Central and Eastern Europe and the Commonwealth of Independent States, however, there is very little information about how workers and trade unions fared in specific privatisation projects and few studies, even from the IFIs, on the labour aspects of privatisation. This final section, therefore, looks at the entire region as a single case study, relying on press reports, IFI reports and information from Public Services International and other trade union sources. As in most other countries, the process of shifting state-run enterprises to the private sector has meant large numbers of layoffs. But even trade unionists caution that the loss of jobs was inevitable in the transition from "socialism," where employment in theory was guaranteed for life. However, trade unions believe that adjustment and employment polices must be developed to ensure that there are good jobs available for displaced workers.

At the same time, many privatisations, particularly in Russia, occurred through voucher sales where managers, workers and trade union leaders purchased shares of their companies, becoming in effect worker-owners. But most studies of this phenomena conclude that even in cases where workers and trade unionists had ownership shares, their input into management decisions in the newly privatised firms was limited. According to one survey of 111 firms in St. Petersburg where managers and trade union leaders were interviewed, "workers had more control over work-related issues than over strategic matters such as new technologies or sales and production plans, but there was no joint decision-making. Hence, even if workers hold the majority of a firm, they do not necessarily control it."[139] This study, by the European Bank for Reconstruction and Development, also found many cases where managers controlled what were supposed to be collectively-owned trusts of shares. The control was exerted by threatening workers with dismissal or cuts in wages and benefits and "workers are almost never represented at the board." Many further examples of such issues, especially from Russia, can be found in Joseph Stiglitz' latest book, *Globalization and its miscontents.*

On the positive side, the St. Petersburg study found that Russian worker-owners had an "effective veto" on key issues directly affecting their livelihood, such as mass redundancies. "The main reason for workers to keep on holding their shares seems to be the wish to secure employment and non-monetary benefits in the form of free or subsidized use of social facilities owned by the enterprise."[140]

The ILO, in a working paper comparing privatisation in Russia and China, cited a study from Russian trade unions that surveyed 22 privately owned companies in the engineering, chemical, textile and light industries of Moscow. It found that privatisation "caused no fundamental change in the legal labour relations between employees and their enterprise." But it also found that "the actual conditions of workers at many enterprises has changed for the worse in view of the growing power of enterprise owners… The sphere and legal power of trade unions to influence regulation of industrial relations are lessening."[141] On the issue of voucher privatisation, the ILO study concluded that the objective of the programme "was to create a broad stratum of share buyers but it failed to meet the wishes of employees and trade unions." However it found that the actual results of the programme were much different:

> Firstly, vouchers could only be used to purchase shares of state-owned enterprises, narrowing the range of investment. Secondly, vouchers were not inscribed thus encouraging manipulation and many of them falling into the hands of unscrupulous nouveaux riches. Thirdly, it was not permitted

to redistribute people's property in such a way "that ships passed into the hands of ship workers, and Banks into those of Bank employees". Many of these funds were in fact fraudulent financial pyramid schemes. All of this put into question the future of vouchers of millions of Russians.

As in Mexico, workers and trade unionists in Eastern Europe are also facing another byproduct of privatisation: pressures from the World Bank and the IMF on their governments to change labour laws to make it easier for private companies to dismiss workers and transform employment contracts from long-term to short-term. As described below, fixed-term contracts have become a key issue in privatisations in Bulgaria and other Eastern European countries. A February 2002 report on Bulgaria from the IMF, for example, advises the government to adopt labour market policies that would, among other things, reverse a rise in the minimum wage that the IMF said was "not appropriate in light of continuing high unemployment and that Bulgaria could not afford…"[142] It praised the "positive steps" taken by the Bulgarian government to "improve the flexibility of the labour markets, including allowing for dismissals for economic reasons, reducing the cost of overtime work and increasing the flexibility in working hours."

While these changes are described by the Bank and the IMF as adding "flexibility," they are seen by trade unionists as an attempt to undermine workers' rights and freedom of association. In some countries, the World Bank is pushing for legislation that would provide for "flexibility" by effectively undermining permanent or long-term employment contracts. Such recommendations by the Bank are often combined with advocating other changes that are negative for workers, including the reduction or elimination of severance pay, the erosion of protection against dismissals, the extension of probation periods, and the weakening or destruction of national collective bargaining.

The following paragraphs are a few examples of World Bank-sponsored privatisation and labour reform projects affecting workers and trade unions in Eastern Europe.

Bulgaria

In 2000, the International Water Corporation began operating the Sofijska Voda water company of Sofia under a privatised concession. In August 2000, Bulgarian unions reported "major problems with International Water because they were refusing to agree to transfer contracts of employment and wanted to put permanent employees onto fixed-term contracts."[143] The problems still persisted in April 2001 and the company was "constantly postponing negotiations and refusing to sign a collective agreement protecting workers pay and conditions while continuing to cut jobs."[144] Public Services International protested to the company on behalf of the Bulgarian unions and demanded observation of ILO conventions 87 and 98 pertaining to freedom of association of collective bargaining.

Bulgaria's water privatisation has also created problems for consumers. In March 2001, Sofia's city council agreed with an International Water request to raise water tariffs by 25.5 percent. However, the Bulgarian Federation of Consumers went to court to seek revocation of the increase, arguing that the company had promised during the bidding phase (against Vivendi and Suez Lyonnaise) that it would not increase water rates for three years after privatisation.

Romania

Apa Nova, a subsidiary of Vivendi, was awarded a 25-year water concession in Bucharest in April 2000 and was expected to contribute $35 million to capitalize the new operating company and invest $1 billion to rehabilitate the company's pipeline network and water treatment plants. Within a month, however, Bucharest's mayor was asked by Apa Nova's trade union to resolve conflicts over restructuring. The workers threatened strikes to protest the company's plans to cut 3,000 people from its workforce of 4,900. "The mayor conceded that the restructuring was necessary but said that this should spread over a longer period in order to allow the city council to absorb the workers laid off."[145]

In 2002, the Romanian trade union confederation BNS filed a lawsuit against the IMF demanding the annulment of its Stand-by agreement with the government.[146]

Moldova

In 1999, the Spanish utility Union Fenosa purchased 100 percent of three regional power distribution companies in Moldova for $25 million in what was the largest single foreign investment in that country since it became independent from the Soviet Union.[147] Other major privatisations in Moldova, which was

seen by the World Bank as one of the most "reform-minded" of the newly independent states, took place in construction, leather and textiles and pharmaceuticals. Since 2000, however, Moldova's parliament has become more resistant to Bank pressures to privatise and has cancelled major privatisations in the wine and tobacco industries. As a result, the IMF temporarily suspended its loans and the World Bank "withheld a tranche of budget aid worth US $20 million."[148]

Union Fenosa's electric power privatisation was supported by the World Bank with $61 million in insurance from the Bank's Multilateral Investment Guarantee Agency. The International Finance Corporation (IFC) also provided $25 million in loans to defray the costs of the company's investments in the electric sector.[149] Included in the IFC loan package were provisions requiring the Moldovan government to clarify creditors' rights. The IFC sought the requirement because several large users had a history of non-payment to the electric company, including the water, sewage and public transport utilities. "IFC, which has no guarantees except with Union Fenosa, is taking a considerable risk," an IFC official explained to an industry newsletter.[150]

As a result, Union Fenosa began to compile an inventory of users' electrical appliances, drawing the anger of Moldova's trade unions. "By so doing the power company is trying to make consumers pay for electrical power not by the readings of power meters but by the averaged number of electrical appliances," Ion Godonoage, chairman of Moldova's Trade Unions, told journalists.[151] "However, if you have a water heater in your house, it does not mean that you use it all the time." The trade unions proposed to the government that Union Fenosa, not the public, pay the costs of installing new power meters to rule out unauthorized use of electric power.

The PSIRU reports that, since Union Fenosa took over the electric utility, there have been a large number of cases of disconnection from electricity service in Moldova. "Yet there seems to be some discretion regarding who is disconnected," the federation said in a report on electrical privatisation.[152] It noted that the press building, which houses most Moldovan publications, "had its power restored thanks to the personal intervention of Ignacio Ibarra," president of Union Fenosa. When Union Fenosa faced a legal dispute in 2000, Ibarra said that, if the company lost the case, "a considerable part of Moldova could be left without electricity supply." This statement, the PSIRU concluded, underscores that "the market power of such companies may well put them beyond the reach of legislation."

Public service and privatisation in Poland[153]

Throuhout the CEE region, while public services have been restructured to decentralize authority and increase the role of municipalities, the resources needed to run them have not followed the same route. This is resulting in some services collapsing and in pressure to privatise and commercialise them.

In Poland, for example, responsibility for a range of utility services – water, electricity, gas, street cleaning and urban transport – was passed to city council, which retain only 5% of the tax collected locally, the other 95% going to central government. With that 5%, they have to run not only those services but also hospitals. In August 1995, all health budgets simply ran out. So while there have been no formal legal initiatives to privatise these "budget sector" activities, private firms have readily stepped in to fill the gap left by underfunding – for those who can afford their fees.

Another way in which the financial problems of national and local government are enabling businesses to increase their control over public services in Poland is through the purchase of public debt. This unregulated business is seen as a backdoor route to the acquisition of public assets, since the latter would be the collateral in the event of a default. Meanwhile, the debt serves also as a tax break. This technique has already enabled private companies to take over a range of medical services, such as hospital pharmacies, laundry and catering services.

It has also exacerbated the problem of public services disintegrating into an inconstant variety of structures. The Polish unions want the government to face up to its responsibility for the future development of public services and sit down with them to discuss strategy, rather than allowing the present mess to drift on.

Poland also offers some lessons about the effects of franchising water services to multinational com-

panies. In the Gdansk birthplace of the Solidarnosc (Solidarity) union, French multinational SAUR – a subsidiary of Bouygues – has been running the water services under a management contract since 1992. The results have shown that partnerships between impoverished municipalities and giant multinationals tends to be far from equal. Tariffs have risen several times since SAUR took over and in late 1995 the company demanded a further 40% increase, justifying it with salutary financial logic. According to Solidarnosc activists in SAUR-Neptun, as the semi-privatised services is now known, the company reasoned that the increase was needed because its revenue had fallen short of its target. Revenue was short of target because consumption was lower than projected. And consumption was down because prices had already gone up so much! Faced with circular arguments, no wonder the citizens who have to pay the inflated bills have begun to feel that they cannot win and the company cannot lose.

This state of affairs in the Gdansk water service has generally been attributed to the contract between the municipality and the company having been badly drawn up. However, even if the contract had been a better one, it is hard to see what would stop a big company threatening to pull out altogether unless such demands are met. There are, after all, plenty of other water privatisation opportunities opening up around the world – so many, in fact, that the half a dozen or so multinational companies (the French firms Générale des Eaux, Lyonnaise and Bouygues, and companies created by privatisation in the United Kingdom, for example) are able to pick and choose.

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