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THE SOCIAL AND EMPLOYMENT CONSEQUENCES OF PRIVATIZATION IN TRANSITION ECONOMIES: EVIDENCE AND GUIDELINES

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This report is part of a series of working papers published under the ILO's Action Programme on Privatization, Restructuring and Economic Democracy for use by governments, workers' organizations, employers' organizations, development agencies, consultants, academics and managers. The ILO is particularly interested in the social aspects of privatization, structural adjustment and economic transformation. However, it is also concerned with helping all stakeholders to better understand and assess the economic, political and cultural conditions that lead to their successful implementation. Experience has indicated that, in the areas of privatization and economic transformation, countries that manage privatization strategically and participatively are more successful.

Preface

This report grew out of a seminar organized for labour ministry officials of a number of European and Asian countries in transition which took place at the ILO's Training Centre in Turin, Italy, in June 1995. While the material assembled for that seminar and the contributions of the participants form the core of this report, they have been supplemented by a range of other material included in the report's resources list.

Privatization has been a tool of transition in the former centrally-planned economies for both economic and political reasons. It has been used to establish property rights, to restore ownership of assets, to form a private sector and the basis of a market economy and to enable efficient governance and management of formerly state-owned enterprises. The experience of privatization in transition economies highlights a number of contradictions, particularly in the relationship between privatization, social welfare and employment. The creation of a market economy opens up opportunities of expansion through entrepreneurial activity which, in turn, can generate employment and tax revenues to fund social services. However, the ending of central planning and subsidies causes reductions in employment and loss of income for many people as well as a decline of social and welfare services formerly attached to enterprises.

This difficulty of distinguishing between the impact of concurrent processes of transition is clearly a problem when it comes to policy evaluation, but the fact that these processes are closely related also presents opportunities in terms of policy design. While it can be difficult to build employment protection and promotion measures into a particular privatization, these goals can be addressed in other parts of structural adjustment and transition programmes, through regional and local economic development strategies and active labour market policies. As a central feature of the transition process, privatization can make an indispensable contribution to creating the conditions for employment growth and security, social justice and integration. But these are, by no means, inevitable outcomes.

Privatization and transition are most likely to maximize social and employment benefits and minimize social and employment costs if those are explicit goals. Whatever the balance between the various objectives of privatization, social considerations are an essential component of its process. They should form an integral part of the design and implementation of privatization policies and programmes. Privatization works most successfully where it is backed up by social consensus and support. Therefore, whether from the point of view of political commitment to giving higher priority to social and employment goals or from that of creating the right environment for the economic success of privatization and restructuring programmes, it makes sense to incorporate the social and employment dimensions throughout the process, from goal-setting to implementation, evaluation and follow-up.

The key concept is participation, enabling the appropriate level of involvement of all interested stakeholders in a transparent process through freely functioning institutions. In some cases, existing institutional arrangements such as tripartite bodies linking governments, employers' and workers' organizations may suffice to enable a participatory process while, in others, ad hoc arrangements may need to be made. The ILO shares the concerns of other international organizations to ensure that privatization and transition achieve their economic and political objectives, but its mandate and tripartite structure give it a particular role in focusing on the social and employment dimensions. For this reason, the ILO supports governments in strengthening the institutional capacity needed to implement and manage privatization equitably as well as effectively, so that it can contribute to expansion of opportunities for all social groups to participate in economic activities. If privatization is to yield strong benefits to society as a whole, it needs to be managed to ensure transparency, equity and fairness and consideration must be given to its impact on workers, employers, owners and investors, consumers, management and all other stakeholders.

The ILO has a special remit to raise awareness about the social and employment dimensions of economic policy and to assist member States in integrating them into their programmes. It is these responsibilities that guide the Organization's work around transition and privatization which have informed the present report. The report tries to develop the preceding ideas and principles in more detail and provides illustrations, lessons of experience and general indicative guidelines.

Max Iacono,
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1. Introduction

(a) Privatization, transition and the ILO's concerns

The collapse of communism in the former Soviet Union and in countries of Eastern and Central Europe brought in its wake an unprecedented range of social, economic and political problems. The collapse of whole industrial sectors and of public finance, together with the opening of previously closed economies to the pressures as well as opportunities of international competition, brought waves of unemployment, impoverishment and widening inequalities as societies and economies struggled to make the difficult transition to market economies and democracy.

If the unsustainable economics of communism had made its collapse inevitable, it was the determination of millions of people to bring tyranny to an end that precipitated its crash. Yet, the optimism generated by this great achievement was soon to come under increasing strain as the sheer scale of communism's economic and social legacies -- and the challenge of transcending them -- manifested themselves. In these circumstances, it has been easy to blame transition itself and the tools of transition, such as privatization, for the economic and social hardship which millions are suffering.

Another way to look at the experience, however, is to see transition and privatization as the remedies for the ills caused by communism and its collapse. Such a view is supported by evidence that countries which have adopted the most consistent policies are now seeing the reversal of the economic contraction which characterized the early years of transition, growth which brings potential to overcome the social traumas they experienced during the 1990s.

Whether or not those traumas are in fact overcome depends also, of course, on other factors, including economic and social policies of governments. Clearly, there are competing visions of the kind of democratic societies and market economies which transition can and should accomplish. Some policy-makers and practitioners sincerely believe that the only way to eradicate poverty and social exclusion is via the harsh route of maximum market freedom, while others, with equal sincerity, are convinced of the need for a reformed State to play key regulatory, guidance and investment roles in order to ensure that the benefits of transition are sustainable and equitably shared.

It is not the role of the International Labour Organization (ILO) to take sides in that debate or to prescribe the economic and social policies of its member States.

It is among the ILO's responsibilities, however, to promote social partnership -- effective collaboration of government, employers and employees -- and the establishment and maintenance of stable, fair and effective industrial relations systems as part of the fabric of modern societies. The ILO also has a special remit to raise awareness about the social and employment dimensions of economic policy and to assist member States in integrating them into their programmes. It is these responsibilities, which add up with others to a unique role among intergovernmental organizations for the ILO, that guide the Organization's work around transition and privatization and which have informed the present report.

The report grew out of a seminar organized for labour ministry officials of a number of European and Asian countries in transition which took place at the ILO's education centre in Turin in June 1995. While the material assembled for that seminar and the contributions of the seminar's participants form the core of this report, they have been supplemented by a range of other material, which are included in the resource list which forms section 6 of the report.

(b) What is privatization and why does it happen?

Privatization is a global phenomenon which has special relevance and characteristics in the former command economies of Central and Eastern Europe and Asia -- the "transition" countries.

In some sense, it is nothing new -- "private firms had contracts to clean the streets of what is now New York City as early as 1676", Dennis Rondinelli and Max Iacono report, and "municipal governments have been contracting with the private sector for the provision of services and infrastructure ever since".

In other respects, however, privatization is new. To a small extent, in the 1970s, much more in the 1980s and very much more in the 1990s, first a few governments and later many began to divest state-owned enterprises on an unprecedented scale, to contract out public service provision and in a variety of other ways to transfer responsibility, ownership, financing or management from the state to private businesses or individuals. By 1995, the World Bank's Sunita Kikeri was informing an ILO seminar that well over 100,000 enterprises had been divested. By then, more than 80 countries had fully-fledged privatization programmes. Privatization had transcended its origins as a policy instrument to become a policy in itself.

Nowhere has this been truer than in former command economies in transition to market economies. The approach these countries have taken to transition has varied, and among the variable factors has been the extent and speed of transfer to private ownership of state-owned enterprises (SOEs). That transfer is a definition of privatization in its narrow sense. In a wider sense, however, privatization can include a range of other measures having the effect of shifting the balance of economic activity towards private business and the market. In that sense, transition can be seen as privatization of whole economies. To put it another way, while privatization as a micro-level policy instrument has had a variable role in transition, and the remaining size and role of the state sector varies from one country to another, privatization as a macro-level policy has been the essential feature of transition.

2. Privatization in transition countries

(a) Privatization as a tool of transition

Privatization has been a tool of transition in the former centrally-planned economies for both economic and political reasons. It has been used to establish property rights, to restore ownership of assets seized by the State under communism, to form a private sector and the basis of a market economy, to enable efficient governance and management of formerly state-owned enterprises.

Table 1 outlines the main objectives of privatization in transition countries. The categories in the table should be viewed not as absolutely distinct from each other but as points in a continuum.

Table 1. Why privatize in transition countries?

Political reasons	To establish private property rights To effect restitution To lay a basis for market economy To develop a strong private sector To comply with lender/donor conditions To adhere to pro-market ideology
Institutional	To reshape the role of the State

	To redirect the administrative capacity of the State To undermine corrupt and parasitic use of state resources To change the relationship between politicians and management
Macroeconomic	To enable more integration into the international economy To increase efficiency and competitiveness To widen investment opportunities for private capital and companies To attract private capital for infrastructure and service development To raise revenue for debt repayment and other purposes To contribute to fiscal balance by eliminating subsidies To create fiscal space for social spending
Micro-economic	To increase efficiency, performance and productivity To promote effective corporate governance To enable diversification To gain access to international capital and markets To introduce or increase competition To improve allocation of resources
Managerial	To commercialize management behaviour To gain access to external techniques, skills, knowledge To provide personal incentives for managers,

	employees To enable changes in employment numbers To enable changes in employment terms and conditions and labour relations
Social	To establish secure foundation for future employment To promote the welfare of consumers
Political	To share and spread ownership

(b) Forms and methods of privatization

As suggested in the previous section, there is a variety of ways to classify types and methods of privatization. According to Max Iacono:

Defined narrowly, privatization is simply the sale of public assets to private investors. A broader concept of privatization includes any policies that encourage private sector participation in public service and infrastructure provision and that tend to eliminate or modify the monopoly status of state-owned enterprises (SOEs).
Under this broader notion of privatization, governments can encourage business, community groups, cooperatives, private voluntary associations, small enterprises and other non-governmental organizations to offer, or to participate with government in providing a wide range of services. Therefore, privatization can be described conceptually as any transformation or participation process that is designed either to secure the involvement of private investors or to introduce a more market-like spirit into public activities.

Table 2 outlines one approach to a typology of privatization. As in Table 1, the differences between categories are not absolute.

Table 2. Types and methods of privatization

Privatization of responsibility	-- liberalization/deregulation of sector -- transfer to private organization -- liquidation, termination or reduction of state production/provision

	-- transfer to individual (e.g. of pension provision, health insurance)
Privatization of ownership (total, majority stake, minority stake, subsidiary)	-- share flotation -- direct sale -- auction sale -- sale to investment fund -- voucher privatization -- restitution (to previous owners or in compensation) -- management buy-out (MBO) -- management and employees buy-out (MEBO) -- disposal of land or other assets
Privatization of operation	-- partnership between State, private company and/or NGO -- contracting-out -- lease -- operating concession -- management contracting -- purchasing (i.e. private supply of goods/service)
Privatization of financing	-- private finance for public infrastructure development (e.g. Build-Operate-Transfer) -- recapitalization of public companies through private investment

	-- public/private joint ventures -- new or higher user charges -- shift to private welfare insurance
Commercialization/marketization	-- competitive tendering between in-house and outside contractors -- restructuring to create internal market, e.g. purchaser/provider split -- introduction of commercial goals, methods -- corporatization: reconstituting enterprise in private form

Some methods -- such as voucher privatization and restitution -- are specific to transition countries. In practice, privatization measures tend to combine various types and modalities and different governments have favoured different approaches depending on circumstances and objectives. For examples:

-- Voucher privatization was a major means of privatization in the Czech Republic and the Russian Federation, both for reasons of speed -- to privatize many enterprises at once and effect a rapid rebalancing of the state and private sectors -- and to achieve the political goal of spreading ownership widely and encouraging the belief that all citizens were being treated fairly and equitably.
-- Establishment of investment funds to manage assets privatized through voucher distribution has been centrally planned in Poland and created by the market in the Czech Republic, in both cases to combine the political advantages of wide distribution with the corporate governance advantages of concentrated ownership.
-- "Buy-outs" or other means of giving employees larger stakes than other citizens in the ownership of their workplaces have been widely used in some countries -- e.g. Hungary and the Russian Federation -- in response to political and industrial pressure.
-- Using privatization as a way of assuaging injustices has been an important feature in some countries, such as Bulgaria and the Czech Republic, where

former owners had first claim on many assets, and in Albania, where special provision was also made for compensating former political prisoners.
-- In some countries, for example Hungary and the former East Germany, emphasis has been put on attracting foreign direct investment through sales and joint ventures in order to bring in capital and know-how which other methods of privatization would have been unable to attract.

(c) Speed and scope of privatization

In transition countries, privatization has tended to affect initially those sectors of goods and services for which competitive markets can be established, such as agriculture, manufacturing, retailing and personal services. In Eastern and Central Europe, according to Rolph van der Hoeven and Gyorgy Sziraczki (ILO):

In the early 1990s, reforms started with "small" privatization, through which governments divested themselves of such small assets in the service sector as restaurants, shops, retail units and service workshops. Marked progress was also made in agriculture, the urban housing stock and the restitution of property confiscated by previous regimes. All this was followed, within a short period of time, by the second wave of privatization, which involved commercialization of medium and large-scale industrial enterprises and their transfer into private hands.

Countries in which transition has not been the result of a successful popular uprising but rather an adaptation by ruling Communist Parties have tended to follow a rather different course, concentrating on opening up their economies to new private entry in a centrally-planned way rather than on privatizing existing enterprises. Even China and Viet Nam, however, have begun to sell minority shares in state firms.

The speed of privatization has varied elsewhere, too. Germany accomplished the most rapid reorganization and privatization of all when state-owned enterprises of the formerly communist eastern part of the reunified country were liquidated or sold through a special public institution called the *Treuhandanstalt*. The agency took over thousands of companies with a combined workforce of more than 4 million in 1990 and had completed the privatization process four years later. In other countries, such as Bulgaria and Romania, the process had hardly begun by the time Germany was winding up the *Treuhandanstalt*.

Political will has undoubtedly been one of the major factors determining the speed of privatization, but there have been other obstacles. In Ukraine, for example, the structural legacy of Soviet communism and the country's subordination to the Russian Federation held back restructuring, according to an ILO study. These factors were exacerbated by the ecological legacy of the Chernobyl disaster. In Ukraine and elsewhere, a major difficulty has been the existence of one-company towns and one-industry regions, where machinery and equipment is antiquated and collapse of markets had been disguised by state subsidies.

3. The social and employment impact

(a) The social policy paradox of transition

The experience of privatization in transition economies highlights a number of contradictions, particularly in the relationship between privatization, social welfare and employment. The creation of a market economy opens up opportunities for expansion through entrepreneurial activity which, in turn, can generate employment and tax revenues to fund social services (although growth does not necessarily and invariably produce employment, as the modern phenomena of "jobless growth" and even "job-loss growth" demonstrate).

However, the ending of central planning and subsidies causes reductions in employment and loss of income for many people, as well as decline of social and welfare services formerly attached to enterprises.

Considering the need to restructure state-owned enterprises across Eastern and Central Europe, Saul Estrin has commented:

The main initial task of management is restructuring. One example is financing restructuring, including the stripping away of social assets such as housing, health clinics and crèches, as well as the more conventional disposal of peripheral activities. There may be many of these because planning made firms wasteful of all resources, including plant and land, and encouraged excessive vertical integration. Another task will be reducing the labour force, estimated to be excessive by a factor of around 25 per cent even before the output drop.

Tackling these problems can produce new and wider inequalities. Estrin again:

Probably the most important reason for the treacherous political waters in which reform politicians are swimming is that, at least at the outset, there is only a limited constituency of people who benefit from the transitional process.

Reforms, it is true, bring in their train the eradication of shortage, the availability of goods, including Western goods, and the ability to travel. But they also bring lower real wages (sometimes markedly so), the destruction of savings through inflation, and the threat of unemployment.

It is not easy to distinguish clearly between the impact of particular privatization measures, more general programmes of structural adjustment and, more widely still, the transition process as a whole. According to van der Hoeven and Sziraczki:

One needs to separate the impact of the privatization measures from other policy changes that occurred at the same time. This is particularly problematic when privatization forms part of a more general process of economic reform -- not to mention changes in product markets and the impact of enterprise restructuring.

In addition, it would be desirable to consider the effects that emerge over the longer term. Ideally, this requires a data set that enables one to assess the significance of the various factors associated with privatization measures. Unfortunately, the comprehensive database required for this kind of analysis is not available. Only tentative conclusions may therefore be drawn from country reports and case studies, with many questions concerning the impact of privatization on efficiency and employment remaining unanswered.

This difficulty of distinguishing between the impact of concurrent processes of transition is clearly a problem when it comes to policy evaluation but the fact that these processes are closely interrelated also presents opportunities in terms of policy design. For instance, while it can be difficult to include employment protection and promotion measures into a particular privatization -- and, in cases of greatly overstaffed enterprises, this *does* present obvious difficulties -- those goals can be addressed in other parts of structural adjustment and transition programmes, through regional and local economic development programmes and active labour market policies, among other ways.

However, the extent to which social and employment objectives have in fact been built into the design of either programmes or particular measures of privatization appears limited. According to the United Nations Conference on Trade and Development (UNCTAD), in a report based on information supplied by governments:

In early privatization programmes, governments usually had economic objectives foremost in mind. Social objectives were rarely given the same *weight as economic objectives. However, they are increasingly becoming a standard consideration in many privatization programmes, albeit with varying degrees of priority.*

UNCTAD indicates the social objectives shared by most governments fall into four categories:

-- *welfare objectives:* to raise economic welfare by improving economic efficiency and the rate of sustainable economic growth;
-- *distributional objectives:* to achieve a more equitable distribution of the benefits of economic growth or reduce the danger of aggravating inequalities, by promoting decentralization, regional or rural development; increasing employment with long-term job creation; introducing social safety net measures; and improving social services and public infrastructure;
-- *participatory objectives:* extending property rights to allow participation in the economy as entrepreneurs or share-owning employees and broader participation in enterprises, reducing labour opposition and promoting efficiency gains;
-- *systemic change:* to move from a planned economy to a market-based system and promote structural adjustment by reducing state interference in economic activities.

This list suggests that governments have responded to past failures to address the social dimension in two main ways: firstly, by promoting a more equitable distribution of the benefits of economic policies; and, secondly, by stressing the social benefits of those policies. It also suggests, however, that major gaps remain, particularly from the standpoint of the ILO's concerns. In relation to participatory objectives, in particular, it is striking that the UNCTAD list expresses these only in terms of property rights; for the ILO, a participatory approach enabling employees to be appropriately involved in restructuring and privatization decisions is justified by employment rights and a sound approach to industrial relations, regardless of arrangements, however desirable, for employees also to have shares in the ownership of their enterprises.

(b) Impact on levels of employment

The problems mentioned earlier of distinguishing between the effects of privatization, wider structural adjustment programmes, transition as a whole and the legacy of communism is especially troublesome in the area of employment. It is clear that countries with no recent experience of unemployment were suddenly exposed to the shock of redundancy and job insecurity. It is also clear that pre- and post-privatization restructuring has been associated with these problems. However, the transition to market-guided allocation of capital and labour can be seen as an essential part of the cure rather than the cause of these problems. Indeed, in overcoming the legacies of command economies, it has a crucial role in creating conditions for sustainable employment over the long term, since maintaining unnecessarily high levels of unproductive employment in the state sector can have the effect not only of wasting scarce assets but also of distorting labour market incentives and deterring investment, whereas more productive use of assets can have the converse effects.

However, particularly at a time of jobless growth and even "job-loss" growth, privatization typically is associated with reduction and reorganization of the labour force, either in preparation for privatization or soon afterwards. Moreover, even where expansion and investment can be expected to absorb labour and even facilitate growth of the labour force in the long term, there is frequently a short-term decline. In addition, some employees find the cultural and organizational changes which tend to accompany privatization and restructuring much harder to deal with than others, and may wish or need to retire or move on.

According to Rolph van der Hoeven and Gyorgy Sziraczki (ILO), who synthesized the results of a number of detailed studies in Bulgaria, the Czech Republic, Germany and Hungary:

In central eastern Europe, cuts in subsidies, collapse of the EMEA market and trade liberalization have left most firms in a hopelessly uncompetitive situation because of their obsolete technology and the poor quality of their products. The success of privatization depends largely on whether it is accompanied by restructuring and modernization of enterprises.

The catch is that fear of mass redundancies and their social and political fall-out has remained an obstacle to much-needed restructuring to create more favourable employment and social conditions for the longer term. That fear is based on real experience. Van der Hoeven and Sziraczki again:

In most Eastern European countries privatization accompanied by redundancies and the introduction of hard budget constraints on enterprises has resulted in large-scale job losses. This has created a pool of unemployed workers which often cannot be absorbed by other privatized firms or new firms. Furthermore, as has been demonstrated clearly in the case of the former Soviet Union, many workers never appear in the unemployment statistics because, either before or after the privatization process, they are sent on leave without pay or with very much reduced pay.

It is, therefore, not surprising that in many Eastern European countries the speed of privatization has been slowed because of the fear of its social and political consequences. Large-scale job losses have been associated with privatization in most transition countries, and new private sector growth had not been sufficient to absorb labour retrenched by formerly state-owned enterprises.

The following examples give a flavour of the employment challenge associated with privatization:

Bulgaria: Between December 1989 and December 1991, industrial employment in Bulgaria fell by 31.3 per cent; employment in privatized firms fell from 4 million to 1 million people.

Czech Republic: A government survey of 572 companies -- 101 in food, 159 in engineering, 184 in manufacturing and 128 in construction -- revealed a "significant decline in employment", with engineering (12 per cent) showing the sharpest drop, manufacturing and construction each cutting jobs by 10 per cent, and the food sector by 4 per cent.

Hungary: From 1992 to 1993, employment in engineering dropped by 12 per cent, in manufacturing by 10 per cent, in construction by 10 per cent and in food processing by 4 per cent. The lighting company Tungsram employed 35,000 people until that figure was halved to 17,640 in preparation for its sale to General Electric, which soon almost halved the workforce again to 9,500 by 1993. This was done mainly through early retirement and voluntary redundancy, alongside a freeze on recruitment. Many of the jobs were redundant as a result of administrative functions being centralized with the new owner's offices outside Hungary. As a result, non-manual grades were affected disproportionately by the Tungsram job losses.

East Germany: The numbers in employment fell from 9 million before transition to 6.3 million by the end of 1992; the numbers employed in enterprises under the privatization agency, the *Treuhandanstalt*, fell from 4.1 million to 1.2 million during that period.

Poland: Government research into 130 companies (24 per cent in manufacturing, 45 per cent in construction and 31 per cent in trade and services), employing 285 each on average, showed that employment fell by 15 per cent in the first year and by 25 per cent over the first two years after privatization, levelling off in the third year with a drop of a further approximately 2 per cent. A study of ten privatized Polish industrial and trade companies indicated decreases in employment averaging around 12.5 per cent. In the Bialystok Municipal Refuse Collection Enterprises, privatized with a large employee stake, employment halved over the first year, and, as a result of being shareholders, the workers received no severance pay.

Russian Federation: Uralmash, the heavy machinery manufacturer in the Urals, reduced employment from 70,000 people to 20,000, while at the Shatura Furniture Company introduction of an electronic data management system enabled nearly half the 3,700 jobs to be cut.

Viet Nam: 1.5 million workers, equivalent to 20 per cent of the urban labour force, were retrenched from state enterprises and the civil service between 1988 and 1992.

In some cases, the true scale of unemployment has been concealed by the practice of state-owned enterprises keeping workers at home on some proportion of their pay. Workers have also been badly affected by the practice of some managers in some Eastern European countries of carrying out a series of small-scale redundancies rather than one large retrenchment. Although this might appear to be a way to soften the social impact, the motive has, in fact, sometimes been to evade regulations applicable only to mass redundancies. As a result, many workers lost entitlement and the social impact was worse.

Even where unemployment levels have remained relatively low, a new phenomenon has emerged -- that of long-term unemployment. In the *Czech Republic*, for example, despite low levels of unemployment, by the end of 1994 over a third of all job applicants had been without work for more than one year. Only those firms which have managed to gain access to resources and modern technology have been surviving. However, the foreign investment that can play the key part in resolving those challenges can also bring other problems. As privatization enables formerly closed economies to join the globalizing trend, employment opportunities can erode, as the Tungsram example in Hungary demonstrates.

Another example of how a global approach can impact on local employment comes from the *Romanian* town of Brasov, where IKEA bought a furniture factory, one of 20 the Swedish firm took over in that country. According to sources in the Romanian privatization agency, the factory had a workforce of 1,500 and a long history of craft furniture-making for the local market, going back to the nineteenth century. IKEA moved rapidly away from the existing techniques and markets in favour of producing standard items for IKEA's global range. When IKEA announced a decision to reduce the number of employees by 600, the employees staged a sit-in and were issued with notice of dismissal. Only after the privatization agency stepped in to mediate was a compromise settlement negotiated.

(c) Impact on pay and conditions

As with employment numbers, the impact of privatization *per se* on pay and conditions of work is not easily established and, even when cause and effect are clear, there has been variable experience. Privatization can be followed immediately by worse terms and conditions, but such an initial impact can be reversed later when a restructured company is able to reward employees for their contribution to its success with improvements in pay and conditions. However, the converse -- initial improvement followed by later deterioration -- has also occurred.

In post-reform *Viet Nam*, the wages of civil servants and state enterprise employees declined by 60 per cent from 1985 to 1991, followed by partial reversal of that trend in 1993. In 1989, a Vietnamese civil servant's salary could buy 2.3 kg of rice a day and that of a state enterprise worker 3.3 kg, so that, at most, only one person apart from the principal breadwinner could be supported by the wage, compared to four people in 1985. In addition, health and education subsidies declined.

In *Poland*, average wages and salaries fell by 27 per cent between 1989 and 1992, opening up inequalities in income. A study of ten privatized Polish companies revealed a tendency for wages to increase sharply immediately after privatization but to stop doing so soon afterwards in favour of performance-related pay incentives.

In *Estonia*, unions report that foreign owners have blocked pay increases. A law on collective bargaining, which took effect in 1993, forbids new private owners from unilaterally scrapping collective agreements; it does, however, allow them to be renegotiated.

In *Kazakstan*, according to a labour ministry official at an ILO seminar, while the ministry has aimed to ensure that the principles of the ILO on fair wages are followed, external pressures have pushed policy in another direction:

> It is the consultants of the World Bank and IMF who are dictating policies of restrainment to our Government, including of minimum wages, so that the real wages are falling. So the cheap labour of the Soviet Union, which was criticized for being cheap, remains cheap and gets cheaper. The experts of the IMF calmly ignore these principles and as there are more of these experts in our country, so the politics of ILO in this field has a rather small impact and low profile.

Non-payment of wages, sometimes for months at a time, has also caused great hardship on employees. Sometimes this has been caused by government subsidies being cut or simply not paid as failure to restructure has become unsustainable. But there is also anecdotal evidence that, in some cases, managers have deliberately withheld wages due to employees in the hope of financially forcing them to sell (to the managers) their privatization vouchers at knock-down prices.

In the *Russian Federation*, conditions of labour have been affected by the "marginal" state of the economy, in transition from a planned economy to a market system, according to Russian labour ministry official Evegny Katulsky:

Eighty-eight per cent of equipment in Russian factories is obsolete, 400,000 work in unhealthy conditions, 8,000 every year (more than died in Afghanistan) die because of working conditions, and 14,000 become handicapped we made an inspection in newly privatized companies about how conventions on labour were being respected -- these were conditions of real slavery, no human conditions. A slave owner says you must work from morning to evening, no choice, no trade unions.

In *Hungary*, while some privatization contracts have committed foreign companies to retaining staff levels for a set period of time, there have been other adverse effects, such as cuts in staff training. The same country has also had the opposite experience, however. In the General Electric takeover of Tungsram, for example, although jobs and pay were cut, the company quickly put in place a number of environmental and health and safety measures. These included monitoring factory air and noise pollution levels, fixing the worst problems immediately and adopting plans to make further gradual improvements. New safety devices were installed and comprehensive worker training programmes introduced. As a result, the number of serious work-related injuries has been substantially reduced.

(d) Impact on economic democracy

Privatization can open up gaps in income distribution, as unemployment rises and real wage levels for those in employment fall, but it also offers opportunities for a redistribution of wealth. Voucher privatization and special shares for employees have been among the techniques used to share assets more widely than would otherwise have been the case. However, the experience has had mixed results. In general, it appears fair to say that neither the benefits nor the costs of privatization and other transition measures have been equitably shared.

Whatever the long-term potential value of privatization vouchers, poor people with urgent need of cash are likely to sell to those well enough off to be able to buy, and that has been the tendency on the secondary market. Similarly, several studies have shown that many employees have sold their stakes following buy-outs, enabling either internal management or outside institutions to concentrate ownership. This is not necessarily socially negative -- many believe that it is essential for effective corporate governance, and that that in turn is essential to secure long-term employment -- but it puts into perspective the potential for wide property ownership arising from privatization. An UNCTAD survey report noted:

While privatization has broadened the base of share ownership in a number of countries ... more research is needed on the income distribution effects. Mass privatization, as a means of sharing national wealth, has been applied more successfully in some countries in transition (Czech Republic, Lithuania and Slovakia) than in some other such countries (Russian Federation).

Box 1

The voucher system -- A Russian experience

Voucher privatization has been particularly important in the Russian Federation, where it was introduced with the goal of achieving wide and equitable distribution of ownership. From 1993 to 1995, ownership of around 14,000 enterprises was transferred under the voucher programme, in what has been the swiftest and largest privatization programme anywhere in the world.

However, Vladimir Sokolov of the Russian privatization agency told an ILO seminar at the Turin Centre that voucher privatization had not achieved its social goal:

The practice of vouchers could not result in equal distribution of property. On the voucher is written 10,000 roubles -- this means nothing, you might as well write 100,000, or 10 dollars. It could not lead to equal results. Most of the enterprises in the Russian Federation do not pay dividends now. It is a human tragedy for people who bought shares and have no idea what they are worth. There are no dividends, no revenues. We created false expectations that a new system of social security could be based on vouchers

Sometimes people went to the auction and wanted to exchange their vouchers for the enterprise close to the house or where someone in the family worked. It was a certain type of patriotism. In such cases it was quite ridiculous to set an objective of equal distribution of property. There should, however, be a principle of equal opportunities for the whole population

Many people sold their vouchers and others accumulated many vouchers. People were buying huge amounts when the prices were very low. As a result, the vouchers that were sold brought at the end very good results. People who bought vouchers very actively in the Russian Federation certainly had high incomes before privatization. Who should we blame for this? The voucher? That is an artificial means to achieve distribution

The main result of voucher privatization is that the State has delegated the functions not appropriate to the State to private organizations Do not expect the privatization process to help you to solve the social problems -- do not create the illusion among the population that the dividends from the shares will solve the social problems of the people. On the contrary, your actions would result in aggravation of the problems, so be ready to face and solve these problems on the legislative level.

Evegny Katulsky of the Russian labour ministry told the same seminar that investment funds bought shares at very low prices or acquired them on trust "then disappeared into thin air". Vouchers had been "an opportunity for the criminal part of society to express its potential and perhaps this is one of the reasons why public opinion is negative about vouchers".

Distribution of shares to the workforce has also been used as a way to spread ownership under privatization. It has been a especially significant form of post-privatization ownership in the Russian Federation, Poland and Hungary.

The case of the *Czech Republic* highlights the contradictory experience of ownership, control of economic assets and other sources of influence over economic decisions. While mass voucher privatization dispersed ownership to 6 million shareholders, economic power became extremely concentrated in the hands of the strongest investment funds, executing rights of ownership on behalf of passive shareholders. After the first wave of privatization, 14 such funds held 70-80 per cent of shares owned by investment funds. On the other hand, Czech transition has also been characterized by the emergence of effective tripartite arrangements enabling social partners to discuss problems of social and economic development. This is regarded as among the chief causes of relative social peace associated with transition there.

In *Hungary*, workers have been entitled to take ownership stakes through Employee Share Ownership Plans (ESOPs) if 40 per cent of them voted for it. They have also had access to favourable credit terms to finance the deals. Typically, managers have been able to obtain larger stakes than other employees and have been dominant shareholders. Many of the firms privatized in this way would otherwise have been liquidated. A survey of Hungarian companies privatized through ESOPs found that in a majority of cases redundancies had followed, with the workforce falling by between 10 and 31 per cent.

In the *Russian Federation*, employees have usually obtained stakes in medium to large enterprises under special provisions of the voucher privatization scheme which allowed a proportion of shares to be made available to employees through closed subscriptions, either in return for vouchers or at a preferential rate for cash, or both. The remainder would go to public auction where employees and management can also participate. Of three variants in the programme, the most popular was the one which enabled employees and managers to acquire 51 per cent of the shares of the enterprise at their face value in the closed subscription. A survey of post-privatization experience of firms in which this had happened showed a tendency for management to increase their shareholdings by buying from employees and for employees to be little involved in corporate governance even before that.

In *Poland*, employees have been able to obtain ownership stakes through a number of different mechanisms allowing them free or discounted shares. Many have done so but there, as in the Russian Federation, there has been a post-privatization tendency for ownership to concentrate with inside management or outside institutions within three years or so.

(e) Impact on social services

The transformation of state-owned enterprises into private companies has exposed the role that these enterprises have played as the main funder and provider of social services. This has been the case particularly in heavy industrial areas where whole urban or regional communities had been entirely dependent on one company to finance and deliver a range of social services as well as employment.

In the *Russian Federation*, for example, the majority of social services, including housing, kindergartens and recreation facilities, were provided by firms to their employees free or at a price substantially below cost. According to one estimate, the cost of "social assets" represented as much as a quarter of total labour costs. By far the largest of these costs -- about half the total -- was housing, of which the principal component was subsidized heat and other utilities. Next came kindergartens, accounting for about a third of the total corporate social expenditure and costing about half of an industrial worker's average salary per place, of which at most 20 per cent was charged directly to parents, with the firm finding the rest.

Shedding these services has been a major feature of pre- or post-privatization restructuring, and many facilities such as kindergartens have closed down. Under the privatization programme in the Russian Federation, firms were given the option of transferring "social assets" to local government, but local government was given the option of refusing them; without the necessary finance to provide the services, most did just that. Even when local authorities have taken on responsibility, they have lacked resources to run the services -- the crisis of state finances has been a feature of the post-communist period. Some services have collapsed; others have been withdrawn or have declined; user charges (both official and unofficial) have been imposed or increased for services such as health care; and private provision has emerged or grown for those able to pay for it.

These problems have proved to be an obstacle to the effective restructuring of enterprises as well as of public services. Maxim Boycko, chief executive of the Russian Privatization Centre, has summed up the problems:

First, when subsidies fall, firms cut their social expenditures, which often cause substantial hardships for some of the poorest people. Thus, tightening of monetary policy invariably produces high social costs.

Second, safety net financing helps firms demand subsidies from the national, and especially the local, government to maintain spending. Some local governments, such as that of Yaroslavl, raised subsidies to firms as the national government cut them. This only maintains politicization of firms and postpones restructuring. The extreme version of this problem is that a firm cannot go bankrupt, since, if it does, its employees not only lose jobs, but also housing, child care and recreation. The social obligations of enterprises virtually eliminate liquidation, as opposed to rehabilitation, as a viable bankruptcy procedure.

Third, the provision of social services through firms reduces labour mobility, since staying in a firm brings many benefits in addition to wages.

Fourth, social safety net commitments make firms unattractive investment candidates, especially to foreign firms who fear political exposure if they cut *these expenditures. As a result, firms lose access to capital that they sorely need for restructuring.*

According to this analysis, detaching social service provision from enterprises is a prerequisite for securing what future there might be for the enterprise and for recreating effective services in fields such as health and social care, education and child care. However, this raises many difficult issues, such as how to secure adequate levels of state funding for public services; to what extent it is good employment practice and in the interests of private enterprises to accept responsibility for some social needs of their employees (workplace child care has actually been on the increase in some European Union countries in recent years, for example, partly in response to inadequate state provision, as employers seek to retain employees rather than lose them); and to what extent state funding should be complemented by user charges.

A graphic illustration of the effect of underfunding on social services comes from *Moldova* where, towards the end of 1995, half of the country's 90,000 health care workers faced being discarded as the result of a budget deficit. Patients were faced with taking their own food and bed linen into the hospitals and the health care service was, in effect, privatized, as charges for services were introduced. Similar problems in *Bosnia and Herzegovina*, in early 1997, drove health workers there to take industrial action -- refusing to admit non-emergency cases -- after they had gone four months without pay following four years of war in which they also worked without pay and in terrible conditions. Non-payment of wages has been a widespread problem throughout the transition countries.

And in the *Russian Federation*, according to a labour ministry official at the ILO seminar:

We have been talking to IMF for a year and half, trying to soften the very hard conditions attached to $6.5 billion of loans. All the money is going to cover debts -- there is no place for social spending. Three per cent of US GDP goes to science -- in the Russian Federation it is as low as 0.4 per cent. So science, education, medicine are in desperate conditions. And the budget deficit of our State has allowed no place for such important fields as these.

(f) Impact on access to utility services

Although the major utility services -- telecommunications, energy and water supply -- have featured prominently in privatization programmes in other parts of the world and are the major focus of current developments in many countries, in transition countries privatization of these sectors was usually not featured during the early years of reforms. However, reduction of price subsidies has been a feature of transition in some countries, partly in preparation for privatization. For example, in *Lithuania*, between 1991 and 1995, the average electricity bill for domestic consumers went up by 400 per cent, according to trade union sources. One union leader remarked: "The Government says Lithuania must pay world prices for electricity -- that would be OK if we were paid world wages."

On the other hand, the potential social benefits of infrastructure development in utility services to bring services to new areas and to upgrade existing services, are among the reasons governments without sufficient capital to expand and modernize utility services themselves are looking to foreign partners, particularly in concessions and Build-Operate-Transfer (BOT) schemes. For example, the city of Gdansk in *Poland* contracted the French transnational utility company SAUR to manage and develop its water service. Greater financial efficiency appears to have resulted, but the city's consumers have also had to pay higher tariffs despite constraining their consumption following the introduction of water metres.

4. Strategies for optimizing social and employment outcomes

(a) Social and employment goals

As a central feature of the transition process, privatization can make an indispensable contribution to creating the conditions for employment growth and security and social justice and inclusion. However, those are by no means inevitable outcomes -- as we have seen, privatization can, and frequently does, entail major social and employment costs. It may seem banal to suggest that privatization and transition are most likely to maximize social and employment benefits and minimize social and employment costs if those are explicit goals. Obvious though this might appear, however, it is a point frequently overlooked in the design of privatization programmes and related measures. As UNCTAD noted:

Whatever the balance between the various objectives of privatization, social considerations are an essential component of the process of privatization. They should form an integral part of the design and the implementation of privatization policies and programmes. In this context, these social considerations should be incorporated into the strategy of privatization as early as possible, in an explicit manner and not as an afterthought, as is sometimes the case

A similar view was taken by an important International Labour Organization meeting in 1995, the bipartite Joint Meeting on the Impact of Structural Adjustment in the Public Services (Efficiency, Quality Improvement and Working Conditions). (ILO meetings are normally tripartite -- governments, employers and employees -- but they are bipartite when dealing with matters in which the employers are governments.)

The Meeting's conclusions stated: "Public sector reforms and macroeconomic structural adjustment measures should aim to enable all citizens to participate equitably in their society's economy, as producers and consumers, and share fully in its cultural life."

Identifying the more specific objectives associated with those goals, the ILO has pointed to the need for:

-- eradication of poverty and promotion of economic independence;
-- increased economic efficiency and growth;
-- job creation;
-- raised living standards;
-- creation of a social security safety net;
-- regional equality;
-- improved quality of life;
-- workers' participation in the management of the enterprise through shares in equity;
-- restructuring to be "human-centred" -- diversification rather than simply resorting to closure;

Other objectives can be added to these, such as equal opportunities for women and minorities.

There is less agreement, however, on which policies can best achieve those goals. Schools of economic policy which pay little explicit attention to the social and employment dimensions are not necessarily careless of those dimensions but can be committed to the belief that they are best catered for by paying uncompromising attention to the economic fundamentals. To the extent privatization contributes to economic growth and more efficient deployment of resources, frees the State from unproductive expenditure and attracts investment, then social benefits can follow (which is not to say that they do so automatically or that there are not also social costs).

However, there is considerable evidence that failure to address the social and employment dimensions explicitly and directly throughout the process can undermine the economic objectives of privatization and restructuring. As

UNCTAD has put it: "If welfare objectives are not adequately addressed, social conflicts can arise which may also have significant economic costs, both by causing domestic dislocations and by increasing risks to investors and thereby raising the costs of access to finance."

(b) The participatory process

The thrust of the previous section is that, whether from a point of view of political commitment to giving higher priority to social and employment goals, or from a standpoint of creating the right environment for the economic success of privatization and restructuring programmes, it would make sense to incorporate the social and employment dimensions throughout the process, from goal-setting to implementation, evaluation and follow-up. Perhaps even more fundamental is that they should be expressed in the process itself. The key concept here is participation, enabling the appropriate level of involvement of all interested "stakeholders" in a transparent process through freely functioning institutions.

The ILO believes that a participatory approach is right in principle -- it is a manifestation of the ILO's core remit of promoting social partnership. Again, however, there are *realpolitik* as well as principled arguments in its favour. Among these are that, in developing a privatization programme, it makes political sense to engage with potential opponents, to anticipate their concerns and to negotiate what is negotiable and make clear the government's resolution about what is not. Another is that there are always compromises and trade-offs to be made concerning relative priority of a range of objectives, and these can best be reached and sustained in practice through a participatory consultative process.

Privatization works most successfully where it is backed up by social consensus and support; these are the conditions of economic good management. Experience from a range of countries suggests that conditions such as the following can enhance popular support, and therefore success, for the privatization process:

- transparency in the privatization process;
- explanation of the benefits of competition, economic efficiency and foreign investors;
- promotion of popular capitalism without compromising corporate governance;
- securing commitments from new owners to employment and investment, and putting in place effective monitoring machinery;
- adequate compensation for retrenched workers;
- training and redeployment services to enable skills development, labour mobility and job creation through enterprise development;

- protection of consumer welfare against monopoly power, including regulation of tariffs charged by utility services where privatized, and public policy goals relating to environmental protection, quality and other issues.

An early step, therefore, is identification of stakeholders and establishment of institutional arrangements for their involvement. The groups whose authentic representatives need to be engaged include labour unions and professional and civil service representative associations; consumer representative organizations; and community-based groups. Policies and plans need to be explained to them throughout the process, from programme development to implementation, and their views canvassed and taken into account. It does not mean giving a veto to any particular interest group or allowing the views of the noisiest to drown out those of other legitimate stakeholders in charge. It does mean enabling an institutional framework in which all legitimate stakeholders can feed their views and concerns into a process of consultative policy formation.

It can make sense for potential buyers to be involved, pre-sale, in discussions about post-sale labour restructuring, since future obligations and trade-offs are likely to influence the price they will be willing to pay for going concerns. Alternatively, or additionally, the capacity and willingness of potential buyers to meet the investment and employment obligations agreed as part of the terms of sale can be a factor in the choice of buyer.

(c) The enabling environment

In some cases, existing institutional arrangements such as tripartite bodies linking government, employers' and workers' organizations may suffice to enable a participatory process, while, in others, ad hoc arrangements would need to be made. In some countries, the basic institutional framework itself needs to be created, which means that an element of the transition process is the establishment of an enabling environment for organizations of civil society. Iacono identifies the following categories of such organizations:

- employers' organizations;
- workers' organizations;
- professional associations;
- policy and advisory groups;
- the media;
- interest groups;
- local, community and neighbourhood groups;
- consumer groups;
- charitable and philanthropic organizations.

The creation of the right enabling environment can also be critical to maximizing the economic and indirect social and employment outcomes of privatization. Van der Hoeven and Sziraczki have argued that although "privatization is widely expected to promote productivity and efficiency", whether or not it actually does so "largely depends on whether an enabling environment exists for the firms to operate efficiently, and even if it exists, how efficiently those firms operate". Key aspects of this enabling environment are, therefore, market structure and regulatory framework.

(d) Strategic plan

Issues about market structure and regulation are likely to figure prominently in the development of a strategic plan for privatization, the development of which is the next and crucial step after setting objectives. The plan needs to be made on the basis of those objectives and through the participatory processes and institutions already discussed. Key elements of the plan are likely to be the scope, pace and modalities of privatization and/or restructuring.

The importance and yet difficulty of expressing social criteria in policy about the scope of privatization and the environment in which it takes place can be illustrated by reference to telecommunications, one of the main strategic utility services typically included in privatization programmes. For some, the social as well as economic objective of ensuring equitable and affordable access to high quality telecommunications is a reason not to privatize this sector. There are concerns that an inadequately developed market and/or regulatory capacity would turn public monopoly into private monopoly, with the predictable effects on consumer welfare.

However, the fact that telecommunications is increasingly run privately by transnational companies and consortia, rather than through the state monopolies which developed the service at an earlier stage of technological and international economic development, coupled with pressures on state finance, can push governments to privatize precisely to achieve the social goal of extending service rapidly to more people. They hope to achieve optimum results by constructing a market and regulatory environment in which the private sector has obligations and incentives to deploy the capital, technology and managerial expertise at its disposal in socially beneficial as well as privately profitable ways.

The pace of privatization is another aspect of strategic planning with clear social and employment dimensions which relate not only to privatization itself but to related policies of transition and structural adjustment within a developing market and regulatory environment. While the case for privatizing or liquidating a particular enterprise might be overwhelming, decisions about when and how to do it might well depend on local economic development and labour market programmes, which underlines the importance of inter-agency collaboration within a participatory approach.

Whether restructuring should take place before or after a change of ownership -- a perennial dilemma of privatization in the context of transition -- can also be an important aspect of strategic planning best resolved through a participatory approach. Whenever restructuring takes place, its success can often hinge on effective involvement of employee organizations and other groups, within clear parameters of government policy -- if the choice is between reform and privatization rather than between the status quo and privatization then all parties need to understand that.

(e) Mitigating negative effects on employment

No matter how much employment and social goals are built into the objectives of privatization, no matter how participatory the process and promising the enabling environment, there will still be many cases in which restructuring before or after privatization requires facing up to overstaffing. Particularly at a time of jobless growth and even "job-loss" growth, privatization typically is associated with reduction and reorganization of the labour force, either in preparation for privatization or soon afterwards. Moreover, even where expansion and investment can be expected to absorb labour and even facilitate growth of the labour force in the long term, there is frequently a short-term decline. In addition, some employees find the cultural and organizational changes which tend to accompany privatization and restructuring much harder to deal with than others, and may wish or need to retire or move on.

Rather than maintain high levels of employment artificially, the intent should be to introduce changes to employment patterns which create less immediate harm to individual employees, and less drain on state revenue, which would otherwise be spent on unemployment benefit and "safety net" measures.
At the enterprise level, measures to avoid retrenchments may include:

- work sharing, such as arrangements for more flexible working schedules and more part-time working;
- delaying job cuts or spreading them over time, which would add to the costs of restructuring but save on unemployment benefit;
- redeployment and retraining where possible.

The Association of Estonian Trades Unions has managed to attach employment guarantees to contracts to ensure that jobs are maintained for a

period after privatization (originally three years, but pressure on the Government is now shortening this to one year).
Where there is nothing else for it but job cuts, there is also a range of possible measures to mitigate the effects on the enterprise, the retrenched workers and the local. They include:

- early retirement provision and voluntary severance ahead of compulsory redundancy, subject to retention of required skills mixes;
- measures to maintain incentives for employees volunteering for redundancy but whose skills and experience cannot be lost;
- protection of pensions and other employee benefits;
- negotiated levels of severance pay, based on statutory minimums;
- skills assessment, counselling and placement services to enable workers to access new employment opportunities;
- affordable credit facilities and advisory services to enable redundant employees to develop small enterprises and self-employment.

As with privatization itself, however, to be effective measures undertaken at particular enterprises need to be complemented by and take place in an environment of effective policies and facilities in the wider economy and society. These could include active labour market policies such as the following:

- job search and mobility assistance;
- training, retraining or vocational training;
- job-creation schemes, especially in infrastructure projects;
- development of business advisory services and credit facilities;
- counselling and support about entrepreneurship;
- development of micro, small and medium-sized enterprises.
- credits for small business development at affordable rates of interest;
- conditions for freelance and self-employment.

They also include broader social policies and social security services to effect:

- protection of pension systems;
- adequate unemployment benefit;
- health and social insurance (replacing those attached to enterprises);
- social assistance programmes for the disabled, disadvantaged, poor, etc.;
- access to social services;
- policies to prevent serious disparities of income.

The development of effective and adequately resourced welfare and public services through the national and local state (possibly in partnership with the private and voluntary sectors) is an essential characteristic of modern economies, bringing not only social but also economic benefits. As Nicholas Barr, one of the authors of the World Bank *World Development Report* "From Plan to Market", has written:

The welfare state has two purposes: one is redistributive, or compensatory, to enhance social justice, the other functional, e.g. to deal with varying forms of market failure, thereby increasing economic efficiency. Virtually all parts of the welfare state display both aspects ... The theoretical arguments support the existence of the welfare state not only for the familiar equity reasons but also very much in efficiency terms. This, it turns out, is an area in which economic theory is capable of strong results which can justify the general idea of the welfare state to a surprising extent without resort to ideology.

In transition countries, one of the economic benefits of developing effective social public services is to release enterprises from the burden of doing so, which undermines their capacity for restructuring and their competitiveness. One mechanism may be transitional financing of social assets with the help of foreign aid. For example, in the *Russian Federation*, the Privatization Centre has started a $20 million pilot project, backed by the World Bank, to support the transfer of kindergartens from privatized enterprises to local governments in several regions. The idea is to use the World Bank loan to subsidize the kindergartens accepted by the local governments on a declining scale for two years. Over time, the municipality assumes greater responsibility for the financing of each kindergarten, until, after two years, it is fully responsible.

5. Conclusions and action guidelines

(a) The ILO's unique remit and the participatory approach

The ILO shares the concerns of other international organizations to ensure that privatization and transition achieve their economic and political objectives, but its special remit and unique tripartite structure also gives the ILO a particular role in focusing on the social and employment dimensions.

For this reason, the ILO supports governments in strengthening the institutional capacity needed to implement and manage privatization equitably as well as effectively, so that it contributes to expansion of opportunities for all social groups to participate in economic activities. If privatization is to yield strong benefits to society as a whole, it needs to be managed in such a way as to ensure transparency, equity and fairness, and consideration must be given to its impact on workers, employers, owners and investors, consumers, management and all other stakeholders.

With these aims in mind, the ILO has developed a framework for managing privatization, based on the need for a participatory approach in which governments, the emerging private sector and other groups in civil society work together to plan and manage policies and programmes. Such an approach requires that the social and employment dimensions figure through the process, from the setting of objectives through the design of strategic plans and the development and implementation of particular measures to their evaluation and follow-up. A condition of achieving that is that the process itself reflects the principles of social partnership and of sound and effective industrial relations practice.

(b) The enabling environment of the participatory approach

Once again, the success of targeted measures can depend to a great extent on the strength of the enabling environment, and that is why the ILO also pays great attention to the development of effective and fair industrial relations systems, embodying the principles of social partnership, in the transition countries and to the development of institutional capacities, including social protection network. In relation to privatization in particular, the ILO aims to assist constituents:

- develop sound analytical framework to assist in planning and managing privatization and related policies;
- identify and develop capacities and institutions to improve strategic management;
- provide some support in practical implementation.

The role of labour standards is essential for the ILO. They are the result of a tripartite consensual process in which Conventions and Recommendations are adopted by the International Labour Conference and, once ratified by member States, are binding upon them. They have relevance for a wide range of privatization-related concerns, including employment, conditions, productivity, industrial relations, workplace democracy and even the quality of the services provided by privatized enterprises.

Standards deal mainly with three concerns, which can be seen as basic human rights:

- freedom of association for workers and employers;
- right to organize and bargain collectively, which takes on special significance in an environment of increasing deregulation;
- freedom from forced labour;
- equal opportunities and non-discrimination.

ILO labour standards which are particularly relevant to the privatization process are those related to employment contracts and conditions of work. They reflect the need for government and civil society to each make their indispensable contribution along with private business to balancing dynamic and competitive economic development with social justice so that the benefits and costs are equitably shared and all have a real stake in the success of transition and the future of prosperous market economies, democratic political systems and inclusive societies.

6. Select bibliography

As indicated in the introduction, this report grew out of a seminar held at the ILO's Training Centre in Turin in June 1995 for labour ministry officials from several transition countries in Asia and Europe. It has drawn heavily on oral contributions made to the seminar by its participants, as well as on written resources collected together for the seminar, including:

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