

International Labour Organization

Sectoral Activities Programme

The Impact of Decentralization and Privatization on Municipal Services

Report for discussion at the
Joint Meeting on the Impact of Decentralization
and Privatization on Municipal Services

Geneva, 15-19 October 2001

Contents

Acknowledgements	v
Introduction.....	1
Background to the Meeting.....	1
Background to the report	2
Structure of the report.....	2
1. Background.....	3
1.1. Definitions	3
1.1.1. Decentralization	3
1.1.2. Privatization	5
1.1.3. Municipal services.....	6
1.2. Scope of the report.....	7
2. Municipal services in various regional contexts.....	10
2.1. Importance of municipal services worldwide.....	10
2.2. Financing	13
2.3. Importance within the national governmental structure	14
3. Trends in decentralization.....	15
3.1. Origins.....	15
3.2. Forms of decentralization	20
3.3. Implications for human resource management.....	21
3.4. Decentralization of collective bargaining.....	23
3.5. Consequences of decentralization: Regulation, re-centralization, networks	26
4. Trends in privatization of public services.....	28
4.1. Variety of approaches and sectors	28
4.2. Ownership and competition.....	35
4.3. Contracting out.....	41
4.4. Partnerships and alternative approaches.....	43
5. Interlinkage of decentralization and privatization with efficiency, quality and decent work.....	50
5.1. Efficiency and quality.....	50
5.2. Decent work.....	53
5.3. Role of employers' organizations.....	57
5.4. Role of workers' organizations.....	59
6. Approaches to facilitating decentralization from central to local government levels and privatization	65
6.1. Approaches and impact of social dialogue by sectors and regions.....	65

6.2.	Regulation.....	71
7.	Development of employment.....	75
7.1.	General trends in public and private employment.....	75
7.2.	Education.....	85
7.3.	Health services.....	89
7.4.	Transport.....	90
7.5.	Utilities	93
8.	Impact on working conditions and terms of employment in the municipal services.....	95
8.1.	Education.....	96
8.2.	Health services.....	99
8.3.	Transport.....	100
8.4.	Utilities	102
9.	Summary: Comparative analysis	106
10.	Suggested points for discussion.....	111

Appendices

1.	Total employment and public employment by sex	113
2.	Public sector employment by economic activity in percentages	116

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Introduction

This report has been prepared by the International Labour Office as the basis for discussions at the Joint Meeting on the Impact of Decentralization and Privatization on Municipal Services to be held from 15 to 19 October 2001 in Geneva.

Background to the Meeting

At its 273rd Session (November 1998), the Governing Body of the International Labour Office decided that a meeting on the impact of decentralization and privatization on municipal services would be included in the programme of sectoral meetings for 2000-01. At its 274th Session (March 1999) the Governing Body decided that the purpose of the Meeting would be to exchange views on the impact of decentralization and privatization on municipal services, using a report prepared by the Office as the basis for its discussions; to adopt conclusions that include proposals for action by governments, employers' and workers' organizations at the national level and by the ILO; and to adopt a report on its discussions. The Meeting may also adopt resolutions. The Governing Body also decided that the Meeting should be joint (governments as public employers and workers' representatives) with the participation of some private employers' representatives. It was decided to invite the following 18 countries: Benin, Chile, Ecuador, Egypt, Finland, Hungary, Italy, Japan, Republic of Korea, Latvia, Namibia, Papua New Guinea, Philippines, Russian Federation, Togo, United Kingdom, Venezuela, Zimbabwe. In the event that a government declines the invitation, an alternate will be invited from the following reserve list which was established at the same time: Albania, Algeria, Cape Verde, Czech Republic, Denmark, Honduras, India, Jordan, Norway, Panama, Poland, Romania, San Marino, South Africa, Spain, Switzerland, Tajikistan, Ukraine, United States. The Governing Body also decided that seven Employers' representatives from the private sector and 25 Workers' representatives would be appointed on the basis of nominations made by the respective groups of the Governing Body. They do not necessarily come from the above list of countries.

The Meeting is part of the ILO's Sectoral Activities Programme, the purpose of which is to facilitate the exchange of information between constituents on labour and social developments relevant to particular economic sectors, complemented by practically oriented research on topical sectoral issues. This objective is being pursued inter alia by holding international tripartite sectoral meetings with a view to: fostering a broader understanding of sector-specific issues and problems; promoting an international tripartite consensus on sectoral concerns and providing guidance for national and international policies and measures to deal with related issues and problems; promoting the harmonization of all ILO activities of a sectoral character and acting as focal point between the Office and its constituents; and providing technical advice, practical assistance and support for the latter to facilitate the application of international labour standards in various economic sectors.

Background to the report

Decentralization and privatization have been, and still are, the two main challenges in the reform of the public service. Decentralization is often regarded as an important means to achieve improved efficiency and quality of public services, and municipalities opt for a variety of approaches to privatize their services in order to cope with insufficient financial resources. Decentralization affects the terms of employment and working conditions of municipal workers, as well as labour-management relations, in a number of ways. Moreover, public service personnel are often transferred from central government level to local authorities and hence employment levels and structures are changed. These processes of change are common to the different municipal services that are provided in the public interest, such as education and health services as well as utilities and public transport. Despite the differences between the sectors, there is a case for discussing jointly the implications of decentralization and privatization on the municipal services, since commonalities might be identified across the sectors and responses to the challenges arising from decentralization and privatization might be found jointly.

When assessing the reforms in municipal services, it is necessary to identify the consequences for each of the sectors in question and, in a comparative analysis, to highlight both common and distinct features. Most studies on decentralization and privatization focus on the provision of public goods and services, their quality, cost and efficiency. The present report will look at the impact these reforms have on the workers who deliver public goods and services at the municipal level. Thus, the impact on employment and working conditions will be examined in this report. The report will also show that there are consequences for the quality and efficiency of delivery.

Structure of the report

An assessment should begin by identifying the measures which constitute decentralization and privatization and the level and activities on which these measures have the greatest impact, namely the local government or municipal service. This is done in Chapters 1 and 2. Chapters 3 and 4 describe current trends in decentralization and privatization in the various sectors of municipal services. The impact of decentralization and privatization on efficiency and quality of services in the public interest will be examined in Chapter 5, as well as the question of how conditions of decent work may influence such efficiency and quality. The role of the social partners in creating decent work is discussed in the same chapter. Chapter 6 then identifies two main approaches to facilitating the reform processes which lead to decentralization and privatization: dialogue among the social partners and various regulatory approaches. The chapter draws on examples from the four sectors in different geographical regions. Chapters 7 and 8 deal with the implications of decentralization and privatization for employment levels and structures as well as for working conditions and terms of employment in the four sectors. Chapter 9 offers a comparative analysis to identify common and distinct effects of the changes in those sectors. Chapter 10 suggests points for discussion during the Meeting.

1. Background

During the last two decades, public service reforms have been, worldwide, a matter of concern to governments, the social partners and international development agencies. These reforms are at the centre of redefining the role of the State in a context of globalization and liberalization and of responding to criticisms of the efficiency and effectiveness of the public service. Policies of decentralization and privatization have been, and still are, the two main challenges in the reform process. Nevertheless, just at the point when reform policies have become more widely accepted, uncertainties have emerged about the extent to which decentralization and privatization have been adopted and the degree to which their implementation has been effective.

When assessing the impact of the reforms, the various social partners have different perspectives. These differences are reflected in the focus of the studies on the effectiveness of decentralization and privatization. Whereas most studies are centred on the provision of public goods and services, their quality, cost and efficiency, this report will examine the impact of decentralization and privatization on the workforce delivering public goods and services at the municipal level. Thus the report will highlight the consequences for employment and working conditions, while also showing that there have been repercussions on the quality and efficiency of delivery. In this sense, the term “municipal services” in the title of the report stands on the one hand for the workforce and on the other for the services delivered. However, in order to better distinguish these two components of “municipal services”, the report will refer to the “workforce” or “personnel” as well as the delivery of services at municipal level.

Given the uncertainty as to whether decentralization and privatization have been successful and how they have impacted on the workforce concerned, an assessment should begin by identifying the measures which constitute decentralization and privatization and the level and activities on which these measures have most influence, namely the local government or municipal service.

1.1. Definitions

1.1.1. Decentralization

The importance of decentralization for effective public sector reform is widely recognized. Many central governments have decentralized to lower tiers of government and have signed either the European Charter of Local Self-Government or its global equivalent, the Worldwide Declaration of Local Self-Government adopted by the International Union of Local Authorities (IULA). Decentralization is not a panacea, however, and its importance still varies considerably between countries and regions.

Decentralization can take a number of different forms; a comprehensive overview of these is contained in a joint UNDP/Government of Germany

evaluation of programmes to support decentralization processes in developing countries: ¹

Political decentralization: This normally refers to situations where political power and authority have been decentralized to subnational levels. The most obvious manifestation of this type of decentralization are elected and empowered subnational forms of government ranging from village councils to state-level bodies. *Devolution* is considered a form of political decentralization. Devolution refers to a full transfer of responsibility, decision-making, resources and revenue generation to a local level of public authority that is autonomous and fully independent from the devolving authority. Units that are devolved are usually recognized as independent legal entities (such as municipal corporations) and are ideally elected (although not necessarily).

Administrative decentralization aims at transferring decision-making authority, resources and responsibilities for the delivery of a select number of public services from the central government to other lower levels of government, agencies, field offices of central government line agencies. It is the accountability factor that differentiates the major types of administrative decentralization:

- *Deconcentration* transfers authority and responsibility from one level of the central government to another while maintaining the same hierarchical level of accountability from the local units to the central government ministry or agency which has been decentralized. Deconcentration can be seen as the first step in newly decentralizing governments to improve service delivery.
- *Delegation* redistributes authority and responsibility to local units of government or agencies that are not always necessarily branches or local offices of the delegating authority. While some transfer of accountability to the subnational units to which power is being delegated takes place, the bulk of accountability is still vertical and to the delegating central unit.

Fiscal decentralization: Cutting across all forms of decentralization, some level of resource reallocation is made to allow local government to function properly. Arrangements for resource allocation are usually negotiated between local and central authorities and they are dependent on several factors including concerns for interregional equity, availability of central and local resources and local fiscal management capacity.

Divestment or market decentralization: This form is done in favour of non-public entities where planning and administrative responsibility or other public functions are transferred from government to voluntary, private or non-governmental institutions with clear benefits to and involvement of the public. This often involves contracting out partial service provision or administration functions, deregulation or full privatization.

¹ United Nations Development Programme (UNDP)/German Federal Ministry for Economic Cooperation and Development (BMZ): *The UNDP role in decentralization and local governance* (New York, UNDP Evaluation Office, 2000), p. 29 (box 13).

From this last form of decentralization as defined by UNDP, it is clear that privatization could be considered an integral part of the process of decentralizing governance. Even though this might not be a widely recognized approach, privatization should be considered in very close relation with the decentralization of public services. In fact, decentralization is frequently seen as a precondition for privatization.

1.1.2. Privatization

Privatization is a term that has been associated with the transfer from the public to the private sector of assets in terms of ownership, management, finance or control.² In its narrowest sense it has been used to describe the sale of public assets to the private sector, but it has also been linked to a reduced regulatory role of government, linked to policies of liberalization and deregulation. Within the basic welfare services, privatization has been used to refer to an increase in the individual's responsibility for his or her own welfare. This arises from the State's attempt to delineate more explicitly its commitment to citizens' welfare and may also reflect citizens' own demands for alternative services.

Privatization has been linked to a range of action which includes: *asset sales*, in which government sells all or part of state-owned enterprises or property; *contracting out* services, in which public officials act as service managers; *internal market* arrangements, in which the purchasing of services is separated from their provision; *user fees*, in which government levies charges for services that are still provided by the public sector; *private-public partnerships*, in which government finances, manages and shares the risk with the private sector on a joint project; and *liberalization*, which involves the removal of statutory provisions which prevent private sector firms entering public sector markets.

The range of actions indicates that privatization is increasingly defined broadly to include all efforts to encourage private sector participation in the delivery of public services. In this broader sense privatization does not necessarily lead to the complete transfer of ownership and control of the service to the private sector and in this case the term "marketization" is often used interchangeably with privatization.³ The breadth and ambiguous nature of the term "privatization" has complicated interpretation because it is not always clear that the same phenomenon is being compared across countries. For policy purposes, a number of factors can be identified that facilitate understanding of the consequences of privatization.

² This chapter draws extensively on S. Bach: *Decentralization and privatization in municipal services: The case of health services*, Sectoral Activities Programme Working Paper 164 (Geneva, ILO, 2000).

³ D. Braddon and D. Foster (eds.): *Privatization: Social science themes and perspectives* (Aldershot, Ashgate, 1996), p. 2. The term "marketization" refers to the introduction of market principles into the provision of public services.

1.1.3. Municipal services

Extensive documentation exists on policy, implementation and research work with regard to the decentralization and privatization of public services in general, but little has been published on the impact of these developments on the parties concerned: the local governments or municipal services, the persons working in these structures and the carrying out of their tasks. A number of researchers have examined the distinctive features of the municipal sector which is frequently also termed “local government sector”, the distinctive feature of *local* government being seen as its intermediate position between citizens and the central State.⁴ This position arises from the need of local government to be accepted by local citizens to maintain legitimacy and continuing regulation by the central State which defines local government’s role and autonomy. However, local authorities differ between countries in terms of their size, functions, degree of autonomy and objectives. The different types of local governments may be classified according to the following typology:

- *Clientilistic/patronage model*: Local politics based on political leaders that are supported by their local communities in return for the benefits they generate for their local citizens, often because these political leaders are members of important networks. Local authorities tend to be small. Local government systems in southern Europe resemble this model.
- *Economic development model*: The main task of local government is to promote economic growth via partnerships with the private sector and through other alliances; Australia, Canada and the United States are closest to this type.
- *Welfare state model*: The focus of local government is on the provision of welfare services. Local authorities tend to be large and professionally managed. Local government systems in Germany, the Netherlands, Scandinavia and the United Kingdom resemble this approach.
- *Market-enabling*: This more recent category reflects the influence of the “new right” and the ideology of the minimal State in which local authorities coordinate a mixed economy of welfare.⁵

For the purpose of this report all government structures below federal states or provinces will be included. Although this will concern mainly urban settings, their

⁴ A. Lindström: “The comparative study of local government systems – A research agenda”, in *Journal of Comparative Policy Analysis*, 1998, Vol. 1, No. 1, pp. 97-115.

⁵ M Goldsmith: “Local autonomy: Theory and practice”, in D. King and J. Pierre (eds.): *Challenges to local government* (London, Sage, 1990) and M. Goldsmith: “Local government”, in *Urban Studies*, Vol. 29, No. 3/4, 1992, pp. 393-410. Goldsmith suggests that these categories are not static and that local government is in a state of flux with shifts towards the *market-enabling* category and signs that an emphasis on *economic development* is becoming more widespread. Many of these shifts are occurring because of processes of regional integration and other aspects of globalization.

peripheries will also be covered, since the borderlines with rural areas are increasingly blurred.

1.2. Scope of the report

Any assessment of the impact of decentralization and privatization will have, by necessity, to relate to the economic sectors and to the regional and national context in which they occur. This report will endeavour to analyse the impact worldwide in as many national contexts as possible; it will, however, only look at a selection of major economic sectors in which municipal services are located, namely in the sectors of education, health services, transport and utilities. The scope of this report is focused on the local government level since recent ILO reports have examined more general reform processes in other sectors.⁶

Education

Reforms in the education sector have, in many cases, decentralized financial responsibility and decision-making from central to local government or school levels. This decentralization has undoubtedly provided possibilities for broadening public participation, by establishing community and other partnerships, as well as greater flexibility and improved access to educational services; however, it has often been accompanied by declining resources at the municipal level, as well as changing working conditions and patterns of social dialogue. In decentralized systems, challenges include the capacity to finance and manage at local levels and to build linkages and effective partnerships between the various institutions concerned and at different governance levels. The references to the education sector in this report will focus on the non-teaching support services in this sector. The situation of the teaching personnel has been studied in an earlier report.⁷

Health services

In the context of rethinking the role of the State and the downsizing of public budgets, the reduction of expenditure on public health is one of the prime targets. Since this expenditure approaches 9 per cent of the global GDP – with an increasing tendency to rise – there is a need to improve the efficiency and effectiveness of the health services. One of the ways envisaged to attain this objective is to decentralize the management and the provision of health care to local agencies and hospitals. As the flow of financial resources to local agencies

⁶ ILO: Report for discussion at the Joint Meeting on Lifelong Learning in the Twenty-first Century: The Changing Roles of Educational Personnel, Geneva, 2000, and Note on the Proceedings of the Meeting; idem: Report for discussion at the Joint Meeting on Terms of Employment and Working Conditions in Health Sector Reforms, Geneva, 1998, and Note on the Proceedings of the Meeting; idem: Report for discussion at the Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities (Water, Gas and Electricity), Geneva, 1999, and Note on the Proceedings of the Meeting.

⁷ ILO: Report for discussion at the Joint Meeting on Lifelong Learning in the Twenty-first Century: The Changing Roles of Educational Personnel, Geneva, 2000, *ibid.*

and hospitals often does not take place at the same pace, privatization is used as a complementary tool to restructuring. Both trends have considerable impact on the employees (legal status, terms of employment, working arrangements, pay, collective bargaining) while the impact on the quality and accessibility of the services is not always clear. The more general development in the course of reform processes has been studied in a previous the ILO report.⁸

Transport

Forced by progressive reductions in public expenditure, municipal authorities have had to cope with the problems of the growing deficits of urban transport services and the reduction in the quality of services and the number of passengers. The authorities have developed different ways of dealing with the problem, including the privatization of all or part of the services, sometimes acquired by foreign transport operators, the corporatization⁹ of the services and the introduction of private competition or the concessioning of parts of the system to private operators. These changes have had an impact on the employees (legal status, security of tenure, total employment, workload, work rules) as well as on labour-management relations.

Utilities

Water, gas, electricity and waste management have a vital role to play in the provision of basic services to the population, in the growth of other economic sectors and in the development of society as a whole. The provision of such services – regardless of the type of ownership of the provider – must be in the public interest. Ensuring universal access to these services remains a worldwide challenge, especially in developing countries. Restructuring and privatization of utilities have an impact on the terms of employment and working conditions of the workforce in this sector which was – and often still is – located in the municipal services. A comprehensive survey on privatization of public utilities was prepared by the ILO in 1999.¹⁰

This report will only give a short overview of trends and the interlinkage of decentralization and privatization with the efficiency and quality of services delivery. It will primarily assess the impact of these trends on the workforce of the municipal service. Decentralization affects employment levels, the terms of employment and working conditions of municipal workers, as well as labour-management relations, in a number of ways. Moreover, public service personnel from government at regional and national levels are often transferred to local authorities. Such developments are common to the various sectors of services

⁸ ILO: Report for discussion at the Joint Meeting on Terms of Employment and Working Conditions in Health Sector Reforms, Geneva, 1998, op. cit.

⁹ “Corporatize”: Convert a state body into an independent commercial company (*The New Shorter Oxford English Dictionary*, 1993, p. 515).

¹⁰ ILO: Report for discussion at the Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities, op. cit.

provided in the public interest. The report will attempt to compare the impact in the education, health services, transport and utilities sectors.

2. Municipal services in various regional contexts

The pattern of municipalities and their services varies considerably from region to region. In many developing countries, in particular in Africa, local governments still account for only a limited share in overall public employment and in the GDP.¹ The situation is different in many OECD countries, where local governments have a historical tradition. Besides the fact that, worldwide, local government is increasing in size and responsibility, varying historical development has led to a wide range of mechanisms which operate at different levels within the national government structure.

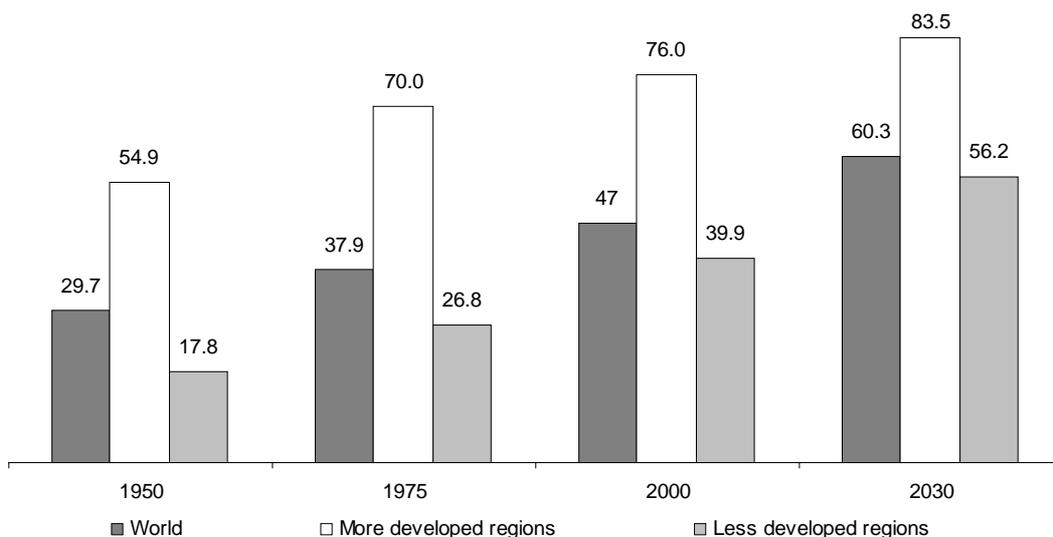
2.1. Importance of municipal services worldwide

For centuries, cities and towns have been a source of prosperity and progress for ever-increasing numbers of people. The diversity of skills and cultures in cities has opened new frontiers by generating economic growth, social cohesion and opportunity. People come together in cities to benefit from the advantages and opportunities they provide for work, social and cultural activities. Urban centres have a richness and diversity which cannot be replaced by dispersed settlements. And yet, for long, there has been an anti-urban bias in economic development analyses and policies. Even the most comprehensive development plans have not always projected a predominant role for cities. Investment in urban areas has not always been a priority. However, the twenty-first century will face an unprecedented scale of urbanization and the majority of the population in developing countries will eventually live in urban areas.² Although the potential of urban areas to improve quality of life is recognized, the use of this potential is contingent upon the management of municipalities and national and local policies which affect such management. Furthermore, political, fiscal and administrative decentralization fosters the importance of municipalities.

¹ Bamidele Olowu: "Building strong local government through networks between state and non-governmental (religious) institutions in Africa", in *Public Administration and Development* (Chichester), Vol. 19, No. 4 (1999), pp. 409-412.

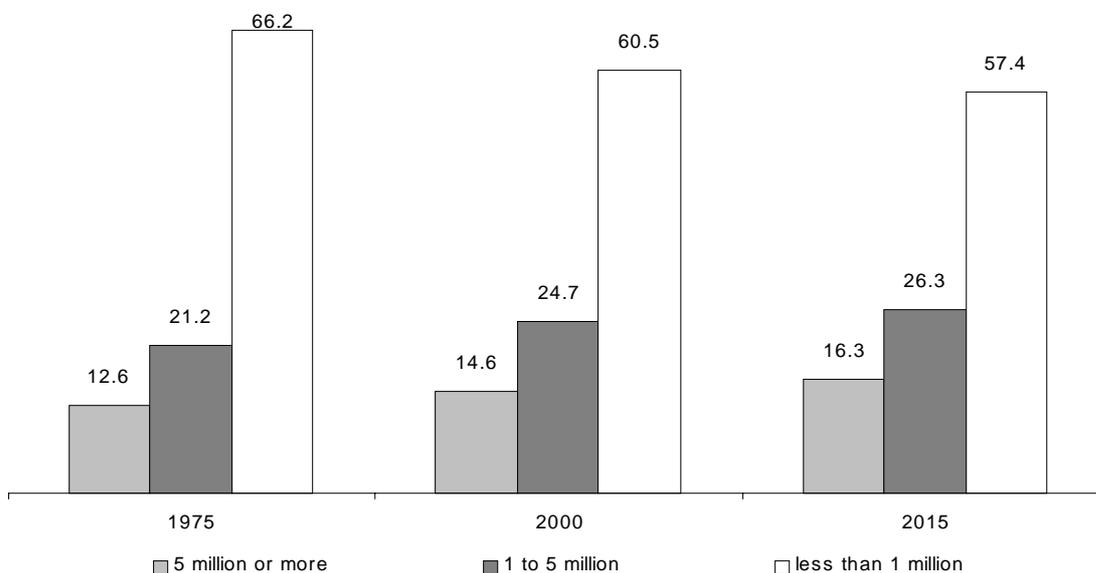
² World Bank: *Cities in transition: World Bank urban and local government strategy* (Washington, DC, World Bank, 2000), pp. 31-34.

Figure 2.1. Distribution of urban population, 1950-2030



Source: United Nations: *World urbanization prospects: The 1999 revision* (New York, United Nations Population Division).

Figure 2.2. Distribution of world urban population by size of urban settlement



Source: United Nations: *World urbanization prospects: The 1999 revision*, op. cit.

The neglect of urban areas is perhaps particularly apparent in the area of transportation. Although urban transport accounts for a significant share of total transport in terms of passenger-km, transport policies and investments have heavily concentrated on inter-urban transport, not intra-urban transport. In plans – and even in practice – railroads have been given the lion’s share in transport investments, although they play a minor role in intra-urban transport. In the following paragraphs intra-urban transport will also be referred to as urban transport for reasons of simplification.

Public urban transport can not only contribute towards attaining environmental objectives with respect to noise control and air quality, but also help to improve the quality of life and social cohesion by reducing the isolation of deprived districts and improving the accessibility of city centres in need of regeneration. In addition, efforts to make urban transport more user-friendly help to widen the options open to those with impaired mobility.

The urban transport system in developing countries is an “institutional orphan”. Institutional inadequacies have hampered all serious attempts to provide for the orderly and planned growth of urban transport. A multiplicity of authorities handle different aspects of urban transport – and generally there is a lack of coordination amongst these authorities.

In industrialized countries, the late twentieth-century city was the product of a set of policies established in the 1950s. These were based, consciously or unconsciously, on an assumption that “everyone would have a car” and that the right to use a car was sacrosanct. The dispersal of jobs, retailing and other commercial activities has created an urban structure which is difficult to serve by public transport, reinforcing the trend of the car. The efforts of public urban transport companies in industrialized countries to win over private car-users have been thwarted by the fact that there is a wide network of roads and abundant parking spaces in city centres – often free or almost free of charge. This, in turn, has discouraged the use of public transport, leading to losses in revenue and cuts in services. The consequent traffic congestion has made bus services even less attractive and more costly to operate, accelerating the cycle of decline further. The real cost of urban transport in most industrialized countries has, as a result, risen at a time when the direct cost of the car has been falling.

It is important to note that, in order to balance their books, public transport companies all over the world generally receive subsidies from the national, regional and municipal authorities. These subsidies are based on a percentage of total costs which, for underground railway lines for example, varies from 24 to 62 per cent. Secondly, staff costs in public transport companies now account for a very high percentage of overall costs, and the time when these companies were key economic and social factors is now surely at an end.³

³ G. Coletti: “Trends in maintenance policy for fixed installations”, in *Public Transport International* (Brussels), 1/2000, pp. 22-24.

2.2. Financing

The sources for financing municipal services are dependent on the historical background of local government in each country. Some local governments have long traditions and hence well functioning mechanisms to raise the finance for their services. Others have only recently acquired substantial functions. In general, municipalities are given more responsibility to allocate resources and ensure social equity in the provision of local public services through partnerships with the private sector and civil society. In many countries, in particular in developing and transition countries, weak local governments are frequently unable to provide minimal services as they often lack the necessary financial resources. They do not have the ability to mobilize such resources since they are frequently not given sufficient fiscal authority, while major segments of their population are not integrated as taxpayers and service customers, as they belong to the informal economy. Moreover, municipalities and local governments often lack the economic strength and financial capacity to access capital markets.⁴ Therefore promotional programmes like the World Bank Urban and Local Government Strategy often target the financial situation of municipalities at three levels: revenue sources, expenditure and creditworthiness. Furthermore, the World Bank considers that: “An important part of good urban financial management involves adopting a commercial approach to many of the service and administrative functions of cities, while keeping social concerns in view. A commercial approach is also a prerequisite for involvement of the private sector or eventual privatization”.⁵ Privatization has enabled national and local governments, in the context of their budgetary challenges, to attract capital for the renewal and development of public service infrastructure. In cases in which the World Bank has been involved, the agency accessed often capital on behalf of the privatized company. The downsides, however, may include later burdens on public finance, which can be greater than if the capital was borrowed directly by the State in the first place.

The concept of the World Bank does not take into consideration the wider impact on the workforce at municipal level and service delivery in the public interest. There are, however, cases in which the broader implications have been taken into account. In the case of the Philippines, during the decentralization process local government units were given internal revenue allocation commensurate with the income of the unit. The poorest municipalities receive the lowest allocations and therefore the least provision for health and other public services for people who need them most. This was rectified with the implementation of a “Social Reform Agenda” under which the poorest municipalities were given additional financial assistance.⁶

⁴ World Bank, op. cit., pp. 44, 50-51.

⁵ *ibid.*, pp. 11-12.

⁶ I.C. Sia et al.: “Public service reforms and their impact on health sector personnel in the Philippines”, in ILO/WHO: *Public service reforms and their impact on health sector personnel* (Geneva, ILO, 2000), p. 155.

2.3. Importance within the national governmental structure

The importance of municipalities within the governmental structure goes beyond the pure statistical evidence and has become one of the backbones of the implementation of public service reforms. As the abovementioned World Bank report states, “reforms of public sector management or private sector development will not do what is desired for national development until they are adapted and implemented appropriately at the municipal level. Local government remains the everyday face of the public sector – the level where essential public services are delivered to individuals and businesses and where policy meets the people”.⁷

Nevertheless, statistical evidence also underlines the growing importance of local governments across all regions. However, since the historical background varies in the countries, statistics do not provide a clear trend. Statistics in public service employment give a certain indication of the importance of the local government level within the overall structure. The percentage of employment at local government level as compared to total public employment varies considerably and can be between less than 5 per cent (e.g. in the Gambia) and almost 90 per cent (e.g. in Albania).

However, there are two related difficulties inherent in identifying cross-national trends in the decentralization of specifically municipal services. First, the constitutional, institutional and structural context varies; second, municipal services themselves are changing. For example, public health care services are delivered through municipalities in some countries but not in others – and the same can be said of education, public utilities and other sectors. The constitutional relationship between the two tiers also varies, and in many countries the picture is additionally complicated by an intermediate tier of regional government, and/or by the existence of ad hoc bodies responsible for particular services in diverse relationships with national, regional and local government.

⁷ World Bank, *op. cit.*, p. 2.

3. Trends in decentralization

3.1. Origins

The extent of decentralization varies considerably by region and is related to historical and political development.¹ In Latin America and many developing countries, a tradition of centralization stems in part from the long period of colonial administration.² The end of colonial regimes did not in itself overturn this pattern of governance. In large parts of Africa and elsewhere, confronted with poor infrastructure, an underdeveloped private sector and widespread poverty, the State had to take on the important task of guiding the economy and providing public services. By the 1980s, powerful voices in the World Bank and the International Monetary Fund (IMF) suggested that the existence of poor management and corruption was being encouraged by policies of centralization which concentrated power in the hands of a small urban elite. These criticisms marked the start of an era of “structural adjustment”, in which financial support was linked to market reforms and managerial changes in the public sector. A central theme of many of these changes was an emphasis on decentralization that aimed to transfer political power to local governments. It has been estimated that more than three-quarters of the developing and transition countries, with a sizeable population (over 5 million inhabitants), have embarked on programmes of decentralization.³

The origins of decentralization show considerable variation according to sector and region.

For the education sector, the decentralization of educational decisions and financial, managerial or organizational control has been a marked trend worldwide over the last two decades. The pace of change has been uneven across continents and even within groupings of countries with similar economic or governance profiles, but virtually no country has been exempt from some form of decentralization. The transformation has been most pronounced in highly

¹ This chapter draws extensively on S. Bach: *Decentralization and privatization in municipal services: The case of health services*, Sectoral Activities Programme Working Paper 164 (Geneva, ILO, 2000).

² E. Stein: “Fiscal decentralization and government size in Latin America”, in K. Fukusaku and R. Hausmann (eds.): *Democracy, decentralization and deficits in Latin America* (Paris, OECD, 1998), p. 95.

³ I. Hentic and G. Bernier: “Rationalization, decentralization and participation in the public sector management of developing countries”, in *International Review of Administrative Sciences* (Brussels), Vol. 65, No. 2, June 1999, p. 202.

centralized education systems such as those of the transition countries of Central and Eastern Europe and Central Asia.⁴

The fascination with decentralization as an explicit objective of government policy varies as much as the historical patterns of the development of educational systems in each country. Some federal States have a long tradition of local control of school management and financing, whereas many centralized systems have embarked on this policy course within the last decade or two. The wave of structural adjustment programmes spawned by the economic difficulties in the 1970s, which gained ground in the 1980s, provided fertile soil for the growth of decentralization policies. These were often destined to fulfil one or more of the reform objectives that an ILO report of 1996 characterized as “competitiveness-driven” (responding to perceived needs for greater relevance and quality to meet economic and workplace challenges), “finance-driven” (responding to the apparent inability of governments, especially central levels, to totally finance education, and the consequent search for a more diversified funding base), or “equity-driven” (responding to the need to reach groups on the margin of educational access – high-risk youths, adult illiterates, poor women and rural or disadvantaged urban communities). Decentralization was expected to shift organizational and, to varying degrees, financial control of education to local communities and even schools, which would be better placed to ensure a better match between educational delivery, quality, and accountability and the principal “clients” of services – students (increasingly learners of all ages), parents, workplaces and communities.⁵

In the health sector, decentralization has been a prominent trend in all geographical regions and can be traced back to the Declaration of Alma Ata of 1978⁶ on primary health care and the follow-up activities aimed at moving towards a more primary care-led health service. A further impetus was provided by the process of democratization in Latin America and Africa in the early 1990s and the transfer of political authority to lower tiers of government. However, the process of political decentralization is not always guided by objectives of administrative effectiveness, even if subsequently justified in such terms, but rather may reflect the necessity to make concessions to maintain political stability.⁷ Consequently, the implications for health policy and human resource management may not be fully appreciated when decentralization occurs. In the industrialized countries, decentralization has been more focused on devolution of managerial

⁴ ILO: *Lifelong learning in the twenty-first century: The changing roles of educational personnel*, Report for discussion at the Joint Meeting on Lifelong Learning in the Twenty-first Century: The Changing Roles of Educational Personnel, Geneva, 2000, p. 94.

⁵ ILO: *Impact of structural adjustment on the employment and training of teachers*, Report for discussion at the Joint Meeting on the Impact of Structural Adjustment on Educational Personnel, Geneva, 1996, pp. 6-10.

⁶ Adopted by the International Conference on Primary Health Care, jointly sponsored by the World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF).

⁷ Hentic and Bernier, loc. cit.

responsibilities and increasing the role of users in service delivery. In general, in larger countries with dispersed centres of population (e.g. Canada) an important role for provincial and local government has emerged. This pattern is also prevalent in countries with a federal structure of governance and mature political institutions where the risk of corruption is tempered, despite the greater opportunities that may arise from fiscal decentralization.

A particularly interesting case of the decentralization of health services took place in the 1990s in the Philippines⁸ where the public service reform was accompanied by a strengthened focus on primary health care as a minimum requirement for the access to health services of the entire population. The Local Government Code of 1991 declared it policy that the State should provide for a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units should be given more powers, authority, responsibilities and resources to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. The functions decentralized to local governments included health services distinguished by primary care at village level, access to secondary care (doctors' services and medicines) at municipal/city level, and tertiary health care, including hospitals, at provincial level. At each of these levels health boards were established. The restructuring of responsibilities in the government structure for health services was accompanied by the approval of a Magna Carta of Public Health Workers in 1992, and a set of implementing rules and regulations was adopted in July 1992, together with a Code of Conduct of Public Health Workers. The Magna Carta covered all persons engaged in health and health-related work and all persons employed in hospitals, and other health-related establishments owned and operated by the Government or its political subdivisions. Its objectives were:

- (a) to promote and improve the social and economic well-being of the health workers, their living and working conditions and terms of employment;
- (b) to develop their skills and capabilities in order that they will be more responsive and better equipped to deliver health projects and programmes;
- (c) to encourage those with proper qualifications and excellent abilities to join and remain in government service.

The Magna Carta contained extensive provisions concerning health workers' security of employment, working conditions and compensation. However, in the course of the implementation process, the Magna Carta was suspended because most local government units lacked the funds to pay for the benefits of the health workers. The consequences of the decentralization process for employment and working conditions are described in Chapter 8.

⁸ For details see I.C. Sia et. al: "Public service reforms and their impact on health sector personnel in the Philippines", in ILO/WHO: *Public service reforms and their impact on health sector personnel* (Geneva, ILO, 2000).

The form of introduction of decentralization of the transport sector varies widely according to geographical region. The structure of public transport in France is governed by the Act on the orientation of internal transport, which provides that: “public service transport duties shall be executed by the State, the regional authorities, and their public institutions, in collaboration with private or public firms that are responsible for, or participate in, said services, under the terms of the present law”.⁹ Urban transport is the responsibility of an organizing authority. This might be either a commune (municipality), or a public institution bringing together several communes that have decided to form an association. Services are maintained either through a contract signed with a carrier, or directly by the organizing authority. The function of urban public transport as a link between two poles means that it is well suited for cooperation between communes, and more and more so as the number of poles increases, as happens whenever an urban centre grows in size. Although very uncommon (less than 10 per cent of cases) in communes of fewer than 30,000 inhabitants, “intercommunality” is the norm in more than half of all communes with a larger population, and tends to become the rule (about 85 per cent of cases) in urban centres of over 100,000 inhabitants. In urban centres outside Paris (which has its own particular system), the proportion of operating expenditure for public transport networks derived from commercial revenue averages 55 per cent.¹⁰

In Germany, there are no statutory regulations assigning the task of urban public transport to a specific agency of public administration. Traditionally, such transport tends to be taken care of by the municipalities, the federal Government, private transport companies and sometimes too by the federal states (*Länder*). The major cities in Germany generally provide urban public transport through their own transport enterprises as one of the municipality’s compulsory duties. The transport facilities in the urban centres are supplemented by urban transport services of the railway system (*Deutsche Bahn*).

In Germany, as well as in Austria and Luxembourg, it is common to find joint participation between a transport provider and a local energy provider. Most frequently, the transport provider is incorporated in the utility company as an independent operating department or through the transfer of the shares of the public authority to a holding company, often the municipal corporation (*Stadtwerke*). In both cases, the result is that the profits from the utility company are offset against the losses of the transport company, which means that these profits are not subject to corporation tax. Cross-subsidization between the municipal electricity provider and the municipal transport provider also takes place in Bombay, India.

Urban transport conditions in large African cities are characterized by an inadequate supply of public transportation, lack of facilities for non-motorized travel, heavy traffic congestion and high accident rates. Some cities have managed

⁹ F. Peter: “The franchising of transport services to the private sector in France”, in International Union (Association) of Public Transport (UITP): *Structural changes in public transport*, Report on the Budapest Conference, Hungary, 25 Sep. 1992, p. 73.

¹⁰ *ibid.*, pp. 74-76.

to keep pace with road network needs, while others suffer from chronic inefficiency. As African cities grow, the demand for transport services increases. This demand is not fully met by the public sector. An increasing number of cities rely on the private – often informal – sector to provide public transport services. In many countries, regulatory constraints and pricing policies also make it difficult for formal private sector operators to respond adequately. Often there are no national-level agencies empowered to coordinate and implement comprehensive urban transport policy measures. The problem is often compounded by lack of finance to maintain and develop the urban street system.

In some countries in Latin America, practically all urban transport is provided by the private sector (e.g. Argentina, Colombia, Chile, Paraguay and Uruguay). In a number of cities in other countries, however, publicly owned buses share the market with the private sector (e.g. Brasilia, Bogotá, Cochabamba, Cuzco, La Paz, Lima, Mendoza, Quito, Rio de Janeiro and São Paulo). The level of government which operates bus services varies from one case to another. Nationally owned operators exist in only a minority of countries, whereas most publicly owned companies are controlled by local or regional governments. In addition, some bus services in urban transport are run by cooperatives.¹¹

All over the world, there is a trend to “regionalize” public transport in metropolitan areas and larger urban centres. Regional transport authorities exist, for example, in Chicago, Copenhagen, Hamburg, Melbourne, Mexico City, Montreal, Ontario and Paris. The total door-to-door travelling time determines the choice of mode of transport: the car or public transport. In this respect inter-modality, which can be assured by integrated systems, is very important to customers; this includes coordinated timetables, information and fares for different modes of transport. In addition to the ease and convenience of changing between modes of transport, the other key factors are the comfort of travelling by public transport and waiting at stops, staff behaviour, cleanliness and security.

In the case of utilities, in some countries the major responsibility for sectoral development may lie with district or local councils, while in others it may be borne by the district or field offices of line ministries. In general, there has been no marked decentralization in utilities except in the countries in transition. Rather to the contrary, there has been a process of concentration into larger units – whether publicly or privately owned. In many instances, this process has been the result of technological developments or based on considerations of economies of scale and budgetary constraints.

The structure and status of local government in the Asia and Pacific region is so diverse that only a few meaningful generalizations can be made. In most countries there is some form of local government responsible for service delivery which, in many cases, is controlled to a significant degree by the central or state

¹¹ United Nations Economic Commission for Latin America and the Caribbean (ECLAC): *The impacts of subsidies, regulation, and different forms of ownership on the service quality and operational efficiency of urban bus systems in Latin America* (Santiago), LC/L.675, 7 Aug. 1992, p. 43.

government. Even in countries where the existence of local government is enshrined in the Constitution (e.g. Japan, India, Pakistan), its funding, role and structure are generally under the control of higher tiers of government. A common occurrence across the region is the decentralization of government structures. Decentralization in some form has occurred or is occurring in Bangladesh, India, Japan, the Republic of Korea, Pakistan, the Philippines, Sri Lanka and Thailand. In countries such as Bangladesh and India there is a debate about the efficacy of the changes in the lower tiers of government. Advocates of decentralization argue that adequate resources have not been devolved to allow local government bodies to meet their increased responsibilities. Other criticisms of the decentralization process have centred on the idea that in some cases decentralization does not mean the devolution of authority. Rather, local government effectively acts as an agent for higher tiers of government and its independence is restricted. The amalgamation of local government bodies into larger units has occurred in Australia, Japan and New Zealand. In these countries the restructuring has resulted in the corporatization of various service delivery units. In Singapore, most services are provided by the central Government; the Public Utilities Board is responsible for the supply of water and the regulation of the privatized electricity and gas industries.

A recent study on the structure of civil service employment in seven OECD countries indicated that only in two countries did the measures taken to downsize the civil service explicitly refer to the transfer of responsibilities to lower levels of government.¹² In Sweden, the 1993 Civil Service Act increased personnel management flexibility and lessened the differences between the public and private sectors. The substantial staff cutbacks resulted in redundancies (in about a quarter of the cases), functions being transferred to other sectors (municipalities, counties), and conversion of certain services into public or private enterprises. In the United Kingdom the study found that there had been no real workforce reduction programme, but rationalization programmes which meant increased productivity, transfer of skills to other levels of government, privatization and elimination of duplicate effort. Agencies had to absorb cuts, which led to reductions in employment.

3.2. Forms of decentralization

In addition to the basic categories of decentralization described in section 1.1.1, the following forms of decentralization can be identified:¹³

- At the level of the nation State, a distinction can be drawn between *political* decentralization, whereby authority is delegated to lower levels of government, usually elected municipalities, and *administrative* decentralization, whereby greater managerial authority is delegated to managers or appointed bodies, the latter being a defining feature of the *new*

¹² Organisation for Economic Co-operation and Development (OECD): *Structure of civil service employment in seven OECD countries* (Paris, 1999), p. 6.

¹³ Bach, op. cit., pp. 14ff.

public management. An important component of this greater managerial autonomy is increased financial discretion accompanied by increased accountability. Spain is an example of political decentralization, with substantial political authority and responsibility for health and education services having been transferred to the autonomous communities in the 1990s. Political objectives in terms of the re-democratization of society were also central to decentralized health care reforms in Brazil. In contrast, a striking feature of the United Kingdom public sector reforms of 1979-97 was the emphasis on administrative, rather than political, decentralization that resulted in a fragmentation of the public sector into its constituent “business units” (similarly for New Zealand). The then Conservative government invoked the model of the multi-divisional company in which the centre (“head office”) makes most of the strategic policy decisions and monitors the financial performance and service standards of separate organizational units whose senior managers are responsible for operational efficiency. This process of administrative decentralization ensured that local managers had little legitimacy to develop policies independently of the central Government. This reinforced a top-down style of centralized government, but it also fostered an adversarial relationship with local health and municipal services which encouraged forms of tacit resistance and the emergence of an “implementation gap” between policy and practice.

- A second distinction can be drawn between *internal* forms of decentralization, in which authority is delegated to existing tiers in the hierarchy, and *external* decentralization, in which authority is transferred to newly established units that may have a separate legal status. In Sweden, the county councils and municipalities have been delegated responsibility for a major part of welfare provision but they are part of an integrated central-local government system. By contrast, in the United Kingdom and New Zealand the public sector has been fragmented into separate organizational units, for example in the health sector. These forms of *external* decentralization are potentially more radical and harder to reverse.
- A third, qualitatively different form of decentralization, does not focus necessarily on the level of decision-making but concerns the lines of accountability and devolution of responsibility from functional specialists to line managers. This trend has been associated with increasing the managerial responsibilities of professionals (nurses in hospital wards, senior teachers, etc.) and shifting responsibilities for aspects of human resource management from personnel specialists to line managers. Personnel specialists have suggested that this process allows them to concentrate on more strategic activities whilst empowering line managers to take more responsibility for personnel administration.

3.3. Implications for human resource management

The advantages of decentralization, which include allowing more participation in the process of governance, enabling local priorities to be more fully taken account of in planning service provision, thus facilitating greater local ownership

and participation, have been well documented.¹⁴ The implications of decentralization for human resource management, and the extent to which human resource issues impact on the effectiveness of decentralization, have received far less attention. A number of issues in this regard should be highlighted.

First, decentralization by shifting responsibilities and resources to lower tiers of authority confronts complex issues of existing power relations. These issues often manifest themselves in staffing problems, such as reluctance to allow staff mobility or ambiguous definitions of responsibilities between different tiers of government.¹⁵ They also appear as financial problems in terms of resource allocation. There is often a temptation for central authorities to retain resources at central level where existing resources are already heavily concentrated. This can result in the decentralization of responsibilities without the accompanying resources to undertake the new roles expected of staff. Moreover, a reluctance to decentralize staff management, especially recruitment and selection, can leave decentralized authorities with an inappropriate mix of staff with which to meet their policy objectives.

Second, there is the general issue of personnel capacity and capability. The lack of adequately trained personnel to take on the financial and personnel responsibilities of decentralization is a common cause of concern, and the scope for corruption and nepotism can increase unless transparency and accountability mechanisms are robust.¹⁶ In addition, the evidence base for decision-making is frequently far less developed at the decentralized level in comparison to the national level. This problem is not confined to developing countries. In the United Kingdom, the market-style hospital reforms of the 1990s, which aimed to foster hospital autonomy, both legitimated the downgrading of national data collection and allowed individual hospitals to argue that they could not share hospital data because it was commercially sensitive.

Finally, in terms of devolution to line managers, the experience in the United Kingdom has been that line managers are not opposed to devolution in principle, but because of increased workload pressures they are reluctant to take on further responsibilities.¹⁷ They are concerned that a “downsized” central personnel function would offload responsibilities on to them without providing the necessary

¹⁴ D. Belshaw: “Decentralized governance and poverty reduction: Relevant experience in Africa and Asia”, in P. Collins (ed.): *Applying public administration in development: Guideposts to the future* (Chichester, Wiley, 2000).

¹⁵ For example in Brazil, see C. Collins, J. Araujo and J. Barbosa: “Decentralizing the health sector: Issues in Brazil”, in *Health Policy*, Vol. 52, No. 2, June 2000, p. 121.

¹⁶ For example, on Uganda see J. Corkery: “Country study: Uganda”, in *Deutsche Stiftung für internationale Entwicklung (DSE)/ILO/WHO: Public service reforms and their impact on health sector personnel* (Berlin, DSE, 2000), p. 86.

¹⁷ S. Bach: “Personnel managers in a reformed public sector: Managing to change?”, in S. Corby and G. White (eds.): *Employee relations in the public services* (London, Routledge, 1999).

training and support. More positively, line managers have suggested that the contribution of personnel specialists has been enhanced when the focus has been placed on the requirements of individual business units.

There is ample evidence that private sector participation in the delivery of municipal utility services leads to a change in the role of local authorities, from an implementing to a supervisory and law-enforcing one. In addition, successful privatization increases the workload for local authorities and also requires new and higher managerial and administrative competencies.

Box 3.1. Decentralized decision-making in human resource management in the education sector

In the education sector of the European Union, it appears that the greatest impact of decentralization on human resource management in the last 30 years has come in the area of “operational resources”. These include maintenance and related services or products furnished to systems and schools for their functioning, which are now provided for the most part by subcontractors. Where it exists, autonomy is most common in the acquisition of goods and services, extending in most cases to capital goods purchases and, in certain instances, to some or all of the non-teaching staff. The Netherlands and the United Kingdom systematically place the responsibility for decision-making in the management of human and material resources at school level, while the Nordic countries allow such responsibility to be delegated to schools, but leave the final decision to the municipality concerned.

Similar patterns are apparent from indicators on the relationship between funding and decision-making in OECD member States. The degree of decentralized decision-making (either local or at school level) in personnel management issues in lower secondary schools was measured in 20 countries for which both sets of data were available in 1998. The highest degree of decentralization occurs in some Central and Eastern European countries such as the Czech Republic and Hungary, as well as in the Netherlands, New Zealand, Nordic countries, notably Finland and Norway, the United Kingdom (England and Scotland) and the United States. Several countries exhibit a much higher degree of decentralized decision-making (at local or school level) on these issues than their level of funding (central or regional) would suggest. These countries include the Czech Republic, Finland, Hungary, the Netherlands, New Zealand, Norway, the United Kingdom and the United States. Although funding originates from regional or national taxes, personnel decisions (for instance hiring of teachers and non-instructional staff) are decentralized to schools or local authorities. This relationship surprisingly runs counter to the common assumption that the origin of financing determines decisions, and provides a further indicator of the progress of the decentralization logic in many formerly centralized systems, especially as another variable in the same study – decisions on the organization of instruction – is even more pronounced in favour of schools or local authorities.

Sources: Information Network on Education in Europe (EURYDICE): *Profile of key topics in education in Europe, Vol. 2, Financing and management of resources in compulsory education: Trends in national policies* (Brussels, 2000), p. 11. <http://www.eurydice.org>; OECD: *Education at a glance: OECD indicators* (Paris, 2000), pp. 108-111.

3.4. Decentralization of collective bargaining

Within the private sector there has been a shift towards the decentralization of collective bargaining in many countries. Thus it is not surprising that governments have examined the scope for more decentralized public sector pay determination in order to increase pay flexibility within the public sector. There are wide variations between countries in experience of decentralization in the public services, but countries in Europe may be used to illustrate more general trends and issues.

France, and to some extent Germany and Spain, share many of the characteristics associated with traditionally highly centralized systems of pay determination. In France, the legacy of a strong and highly interventionist State has

resulted in an uncertain status for collective bargaining because of the capacity of the Government to decide terms and conditions of employment unilaterally.¹⁸ In Germany, despite the federal structure of government, there is a uniform and centralized system of employment regulation with few differences in terms and conditions of employment between individual subsectors.¹⁹ At the other end of the spectrum, in the United Kingdom and Sweden there is a stronger emphasis on decentralization enabling greater differentiation between individual components of the public sector. In Sweden, the large degree of decentralization, in which the county councils are responsible for the provision of health care, is reflected in the collective bargaining structure, with separate negotiations for each subsector.

In Denmark and Italy, the focus has been on supplementing national agreements with local negotiations at the workplace. In Italy in 1999, negotiations took place for the first time at the local health service or hospital level with pay increases related to performance. In Denmark, in April 1998, a far-reaching pay reform was introduced with basic pay decided at the central level supplemented by local allowances which constituted a sizeable proportion of pay. These allowances were based on bonuses for qualifications, additional duties and for performance. Flexibility allowed some of the bonus to be applied at county or hospital level, or on an individual basis.²⁰

In countries such as France, with a highly centralized system of pay determination, it has proved difficult for the Government to respond to the grievances of public service personnel. The dilemma for the Government has been that re-evaluation of the work of groups such as nurses could encourage comparability claims from other groups owing to the interconnected job classification system. This would unleash upward pressure on public sector wage levels. The Government was therefore equivocal about boosting nurses' pay in the aftermath of industrial action in 1988 and preferred to use a plethora of bonuses, many of which have not been included in the official statistics.

In more fragmented and decentralized systems, there is greater scope to address the grievances of specific occupational groups. In the United Kingdom, the complex structure of public sector pay determination has enabled some groups (e.g. nurses, teachers, police) to be granted larger pay increases than other groups without triggering a generalized increase in public sector pay.²¹ Similarly, in

¹⁸ D. Marsden: "Public service pay reforms in European countries", in *Transfer* (Brussels), Vol. 3, No. 1, May 1997, p. 64.

¹⁹ B. Keller: "Germany: Negotiated change modernization and the challenge of unification", in S. Bach, L. Bordogna, G. Della Roca and D. Winchester (eds.): *Public service employment relations in Europe: Transformation, modernization or inertia?* (London, Routledge, 1999), p. 59.

²⁰ Bach: *Decentralization and privatization*, op. cit., p. 16.

²¹ R. Elliott and K. Duffus: "What has been happening to pay in the public-service sector of the British economy?: Developments over the period 1970-92", in *British Journal of Industrial Relations* (London), Vol. 34, No. 1, Mar. 1996, pp. 51-85.

Sweden during 1998-99 nursing staff in a number of hospitals were awarded additional pay increases after threatening to resign en masse unless substantial pay increases were granted.²² The paradox of the United Kingdom case, however, is that in the National Health Service (NHS), the pay determination system is characterized by too little integration rather than too much as in France or Germany. Because the pay of each occupational group is not closely related to pay awards for other groups, this has facilitated successful legal claims of equal pay for work of equal value, arising from the gender bias within the pay structure. In addition, the separate pay and occupational structures within the health service have inhibited flexible working across occupations and have spawned attempts by some managers to develop integrated pay structures, specific to the NHS Trust Institution at local level to overcome these problems.²³

Nevertheless, there does not appear to be a general trend towards the decentralization of collective bargaining in the public services. Its uneven development illustrates the complexities and risks of the process, providing support for the view that there are few unequivocal benefits of a shift towards more decentralized pay bargaining.²⁴ For governments there is an understandable reluctance to delegate significant autonomy for pay determination to lower organizational levels because of the desire to maintain tight control of the public sector payroll. Governments have, however, proved more willing to delegate responsibility on non-pay components of employment and working conditions to managers as a way to increase efficiency, flexibility and service quality. In general there has been limited pressure from employers and trade unions for more decentralization of pay bargaining, although their calculations are sensitive to prevailing labour market conditions and their assessment of overall government objectives. For example, the Swedish Association of Health Officers has campaigned for and recently gained pay agreements based on local negotiations that will widen pay differentials and be linked to performance, despite the reservations of some members. The expectation is that the agreements will lead to substantial pay increases for its members in a period of nurse shortages.²⁵

²² A. Berg: "Nurses resign to seek better pay and conditions", in *eironline*, <http://www.eiro.eurofound.ie/1999/05/features/se9905163f.html>

²³ D. Grimshaw: "Changes in skills-mix and pay determination among the nursing workforce in the UK", in *Work, Employment and Society* (London), Vol. 13, No. 2, June 1999, pp. 295-328.

²⁴ J. Arrowsmith and K. Sisson: "Pay and working time: Towards organization-based systems?", in *British Journal of Industrial Relations* (London), Vol. 37, No. 1, Mar. 1999, pp. 51-75.

²⁵ *eironline*: "Five-year pay agreements concluded for nurses, midwives and biomedical analysts". <http://www.eiro.eurofound.ie/2000/05/inbrief/se0005133n.html>

3.5. Consequences of decentralization: Regulation, re-centralization, networks

Decentralization has created units of public services which are closer to the users and able to react more flexibly to their needs and expectations through more autonomy of decision-making at local government level. Decentralization can also shorten many bureaucratic procedures and make such procedures more efficient. The disadvantage obviously lies in the relatively small size of the units, which makes their operations costly owing to lack of volume. Therefore, decentralization has to ensure that prices are affordable and quality standards of public services are available to all citizens. Accordingly, decentralized public services also have to be submitted to nationwide regulation. In order to gain a critical volume in their operations, certain functions have to be re-centralized, as in the case of the supply of goods and services to municipal hospitals. Similar effects have been achieved by creating networks or other forms of cooperation among municipalities, for example in the case of transport between neighbouring towns. Even mergers between municipalities were established – with mixed results however. Paradoxically, re-centralization of procedures and rules has appeared necessary in order to enforce and regulate decentralization policies, for example in the United Kingdom when compulsory competitive tendering was introduced in the health services.²⁶

In the health services there have been concerns that extreme forms of decentralization, associated with internal market reforms that place emphasis on autonomous hospital units, can duplicate effort and contribute to high levels of transaction costs. These concerns have frequently surfaced in the criticisms of health reform in the United Kingdom and Sweden, and have contributed to modification of these forms of decentralization in favour of increased coordination and in some cases re-centralization. For example, in Canada at the same time as provincial ministries decentralized authority to regional authorities, these regions centralized their local control at the expense of individual hospitals. This enabled the regional authorities to plan and rationalize hospital provision in a manner that would have been impossible at more decentralized levels.²⁷ Similar arguments apply to the management of human resources. Increasingly, the integration of human resource policies across organizations and the authority to shift people in a flexible manner between organizational units are the means to build organizational capacity, while discouraging the extreme forms of administrative decentralization and business autonomy that were fashionable in the 1990s. It is contended that re-centralization in the sense of coordination and encouraging productive links

²⁶ B. Martin: *Privatization of public services: Potential and limitations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

²⁷ C. Naylor: "Health care in Canada: Incrementalism under fiscal duress", in *Health Affairs* (Bethesda, Maryland), Vol. 18, No. 3, May-June 1999, p. 14.

between organizational units is a more effective way to manage human resources than focusing exclusively on unit autonomy.²⁸

²⁸ K. Sisson and J. Storey: *The realities of human resource management* (Buckingham, Open University Press, 2000), p. 35.

4. Trends in privatization of public services

Privatization has to be seen in the wider context of what the State does and “how it does it”. The trend has been driven by a range of factors in a number of interconnecting dimensions of technological, economic, political, environmental, social and cultural change. International economic integration, in the forms of globalization and regionalization, has been the most powerful of the forces driving change in the roles and relationships of State and market, and in the structure and organization of public services. There have been both economic and social pressures, from businesses of all sizes as well as from the public, for more efficient and effective use of public finance in order to restrain and reduce taxation levels – as well as to provide for change and growing areas of need. The public has become increasingly less prepared to tolerate public service inefficiencies, poor quality, rigidity and lack of responsiveness. Not only economic changes but also a range of cultural changes – such as a decline in deferential attitudes to the State and to the professions – have influenced these trends. Privatization has been further driven by technological change, an investment shortfall in public services, problems of public finance, environmental pressures and globalization.¹

4.1. Variety of approaches and sectors

The debate on the approach and the outcome of the privatization of public services remains, after over 20 years of experience, a very controversial issue. Following the basic definitions in section 1.1.2, the analysis of trends shows an ever-growing variety of approaches to privatization which goes beyond the question of ownership. The approaches vary further according to the economic sectors in which privatization takes place. Table 4.1 illustrates this variety for selected industrialized countries.

Table 4.1. Trends in privatization in selected industrialized countries

Country	Trend
Austria	Partial/complete sales of companies in banking, oil & gas. Railways, post & electricity being restructured
Belgium	Privatization of companies in banking & insurance. Public utilities have become “autonomous public enterprises” (telecommunications, post, rail)
Canada	Privatization of firms in transport (rail, air) and telecommunications. Contracting out of catering, building maintenance and specialist functions in health care (e.g. computer services)
Denmark	Privatization of firms in banking & transport. Corporatization of Copenhagen airport, post & state shipping lines. Limited contracting out of municipal services (e.g. care of the elderly)

¹ B. Martin: *Privatization of public services: Potential and limitations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

Country	Trend
Finland	Corporatization of railways, post, air traffic, banking. Privatization /partial privatization of power generation, telecommunications & air traffic. Contracting out is common in local welfare services
France	Extensive privatization of companies in banking, etc. Partial sales of France Telecom & Air France. Long tradition of contracting out in the water industry & being extended to hospitals (catering, cleaning, pathology)
Germany	Privatization of firms in automobiles, chemicals & of former East Germany state-owned enterprises. Partial privatization in telecommunications. Liberalization of energy and post. Contracting out of rubbish collection & street cleaning at federal state and municipal levels. Plans to outsource aspects of defence procurement
Greece	Some privatization in competitive sectors. Privatization of public utilities under debate
Ireland	Privatization of Telecom Eireann. Further privatization under discussion
Italy	Privatization of banks & insurance companies. Some contracting out of welfare services at local level
Netherlands	Privatization of banking, chemicals, steel companies & public utilities (post, telecommunications, regional transport companies, energy)
New Zealand	Privatization of many state enterprises, purchaser/provider split in health and corporatization of hospitals (Crown Health Enterprises), decentralized bargaining via Employment Contracts Act
Portugal	Privatization in competitive sectors & utilities (e.g. telecommunications) & some privatization of welfare services (hospitals under private management)
Spain	Privatization of iron & steel, textiles & chemicals and public utilities (electricity, transport, telecommunications). Contracting out has spread to highway maintenance and in the hospital sector
Sweden	Corporatization of state-owned enterprises & some privatization of care for the elderly at municipal level
United Kingdom	Almost complete privatization of state enterprises and utilities (except post). Extensive contracting out of cleaning, catering & refuse collection across the public sector and obligation on local authorities to achieve "best value"
United States	Limited sales of state assets due to small size of state sector. Contracting out at municipal level

Source: S. Bach: *Decentralization and privatization in municipal services: The case of health services*, Sectoral Activities Programme Working Paper (Geneva, ILO, 2000), p. 10.

Recognizing that budgetary pressure has been a common reason prompting privatization, an examination of the underlying motives behind privatization in different contexts provides important clues as to the likely outcomes of the policy. This type of approach has been used to explain the different experience of privatization in France, the United Kingdom and the United States.² In general, four main conclusions can be drawn:

- The assumption that there is an international policy convergence towards privatization is misleading because it disguises the extent to which the pace, form and scope of privatization have varied between countries and sectors.

² H. Feigenbaum, J. Henig and C. Hamnett: *Shrinking the State: The political underpinnings of privatization* (Cambridge, Cambridge University Press, 1999).

Nation States, and the forces within them, continue to shape the character of privatization, even as globalization continues apace.

- The experience of privatization confounds any contention that there is a weakening of the State and a process of depoliticization occurring in which political issues are converted into technical decisions.³ This can be illustrated by the case of health care reform in Sweden, in which the shift away from the market-oriented reforms in the mid-1990s reflected the resistance of municipal politicians and health professionals to proposals that would have reduced governmental intervention in the health system.⁴
- A related point is that whilst privatization undoubtedly changes the role of the State, it does not reduce the scope of state intervention because it requires new forms of regulation and accountability to ensure that private interests adhere to state policies.
- There has been a search for alternatives to contracting out and privatization as an awareness of their shortcomings has increased.

The *education* and *health services* sectors are certainly the most discussed and controversial in connection with privatization. Consequently, these sectors are, in the majority of countries, still mainly a domain of the public services – when account is taken of the public share in the total expenditure for these sectors. Data on these shares are mainly available for OECD countries. In the health services, exceptions are the Republic of Korea and the United States, where more than half of the health spending takes place in the private sector. In other countries the trend during the last decade is not clear; private expenditure in health services rose in some countries whereas it declined in others:

Table 4.2. Share of public health expenditure in percentage of total health expenditure in OECD countries

Country	1987	1997	Country	1987	1997
Australia	69.2	64.3	France	76.5	74.0
Austria	76.1	72.3	Germany	77.2	77.6
Belgium	82.7	88.2	Greece	60.8	58.2
Canada	75.3	70.3	Hungary	a	69.3
Czech Republic	91.1	91.7	Iceland	87.3	84.8
Denmark	85.9	83.8	Ireland	73.0	77.8
Finland	80.0	77.0	Italy	77.0	69.7

³ An increasingly influential line of argument is that processes of privatization have hollowed out the State, and in conjunction with the new public management, contributed to a process of depoliticization in which political decisions are converted into technical ones and passed from politicians to managers, reducing accountability and allowing politicians to shirk responsibility for budgetary reductions.

⁴ M. Harrison and J. Calltorp: “The reorientation of market-oriented reforms in Swedish health care”, in *Health Policy*, Vol. 50, No. 3, Jan. 2000, pp. 219-240.

Country	1987	1997	Country	1987	1997
Japan	73.1	79.2	Portugal	52.2	59.5
Republic of Korea	35.7	45.0	Spain	78.9	75.7
Luxembourg	92.4	91.4	Sweden	89.9	83.7
Mexico	55.6	59.6	Switzerland	65.9	73.8
Netherlands	74.1	72.9	Turkey	39.9	72.5
New Zealand	86.4	77.6	United Kingdom	84.7	84.1
Norway	85.7	82.7	United States	41.4	46.8
Poland	a	59.5			

a: comparative year not available.

Source: Calculated on the basis of *OECD Health Data 99* (Paris, 1999).

As regards the education sector, a consensus is beginning to emerge at international level and within national systems that public resources are not sufficient to fully finance education for all learners and at all levels. Major international policy statements and surveys in recent years emphasize the necessity of diversified educational financing, using the umbrella concept of “partnership” based on a mix of public and private funding sources, including governments at various levels, individuals and employers to ensure universal access and improved quality.⁵ Among the major policy considerations has been the extent and form of private sector financing and delivery which should be permitted. There are multiple forms by which education may be provided or supported as a private service:

- private providers of the entire educational service, for profit or non-profit, secular or religious, financed and/or managed by private concerns;
- private providers of a part of educational goods or services, such as goods supplied to educational establishments (buildings, other capital goods such as information and communications (ICT) hardware or software), operational services, such as food, maintenance, transport, administrative support staff, including “contracting out” of previous public services, or teachers’ and other educators’ services;
- transfers of government or public funds to private institutions in the form of subsidies for recurrent (staff and operational) or capital (buildings, equipment, etc.) expenses;
- transfers to individuals for the purchase of educational services, such as vouchers or individual learning accounts to support lifelong learning;
- individual, family or employer contributions to education in the form of user fees.

⁵ See for example J. Delors: *Learning: The treasure within. Report to UNESCO of the International Commission on Education for the Twenty-first Century* (Paris, UNESCO Publishing, 1996); *Dakar Framework for Action*, op. cit. 2000; ILO, *Note on the Proceedings*, 2000, op. cit.; OECD: *Investing in education: Analysis of the 1999 World Education Indicators* (Paris, 2000), pp. 11-12, 131.

Arguments for all or some of the abovementioned services include many of those advanced for decentralization: increased efficiency and quality; greater relevance, notably with regard to the world of work; accrued choice and diversity, particularly among religious institutions, but also in the form of home-schooling, workplace, open and distance learning; greater accountability; and, generally, the reduction of the central Government's fiscal burden in place of local or school-based revenue generated from private sources.

The arguments against the services listed are also multiple: increased inequality to access and quality derived from differences in individual or family wealth required to pay for private education; its potential for being exclusive in its choice of students, exacerbating access and quality issues, among which questions of discrimination in multi-ethnic societies; the drain on public resources and support for public education if large segments of a population, especially better educated families, opt for private schooling; the lack of accountability for use of public funds and/or in meeting standards in less regulated contexts; and objections to public funds, from a common tax base, being used for private, especially religious-based education, in societies which maintain a separation between religious and secular affairs.

In line with the conceptual shift from an era when the public sector held a quasi-monopoly, or in some countries an effective monopoly of educational provision, most research suggests that privately funded education is growing. UNESCO estimates that the private sector, defined as students, parents, employers, non-governmental organizations and private business, now accounts for 35 per cent of education funding, compared to 63 per cent for governments, with 2 per cent being provided by overseas aid programmes.⁶

Global trends conceal important differences between regions, within regions and by level of education. In the 22 OECD countries which provide such data, the private sector accounts for 20 per cent of aggregate expenditure, amounting to 1.2 per cent of GDP. On average in OECD countries, 15 per cent of educational expenditure at all levels comes from private sources after accounting for public to private and private to public transfers, including tuition fees to institutions and public subsidies to households. However, among these countries, highs range from 40 per cent for the Republic of Korea to 5 per cent or less for Denmark, Italy and Sweden. Furthermore, in almost all OECD countries, a much greater proportion of tertiary education is financed from private sources, to the point of equalling or exceeding 50 per cent in some (the Republic of Korea: 78 per cent; Japan: 55 per cent; United States: 49 per cent), whereas the non-tertiary institutions which are more likely to be the responsibility of municipal government is overwhelmingly publicly funded. Sources of funds also differ by country; in the Republic of Korea and the United States the main source is household expenditure; but in Germany

⁶ UNESCO Institute for Statistics (UIS): *Facts and figures 2000* (Paris, 2000).

the main source is businesses supporting the dual system of apprenticeship at the upper secondary level.⁷

Is private sector financing of education growing in these countries? The answer appears to be yes, but the trends are mixed. Excluding the tertiary level and focusing on primary and secondary education, of seven countries for which data are available for the period 1990-96:

- four countries, Australia, Canada, Netherlands and Spain, increased both private and public spending, but private funding increased more rapidly than public;
- two countries, France and Ireland, increased public funding more significantly than the private, with private financing actually declining in Ireland;
- one country, Hungary, decreased both public and private investments, but the public contributions declined much more dramatically than those from private sources.⁸

In the area of transport in Europe, there is a long tradition of public financing of infrastructure and related services, although experience differs from country to country. Over time, however, there has been a tendency for more involvement by the private sector, reflecting a desire to introduce more market discipline – sometimes through privatization – and to reduce pressure on public budgets. By mixing public with private financial resources and management, the viability of transport projects can be enhanced. Private sector participation is often determined by the prospect of suitable revenues within acceptable limits of uncertainty, and the allocation of risks between public and private sector has to be carefully considered.⁹

Despite the widely held view that utilities require large infrastructure and services which have traditionally been provided by the State, with little or no private participation, there are in fact numerous cases which testify to the historical role played by private enterprises in the utilities industry.¹⁰

Nevertheless, both ownership and operation in utilities have traditionally been considered of strategic importance to governments and privatization has come relatively late to these services. This has not precluded prior restructuring measures including the decentralization operations from the central level down to regional or local levels. However, the last few years have seen a rethinking of the whole issue

⁷ OECD: *Education at a glance*, op. cit., pp. 46-47, 61-62, 67.

⁸ *ibid.*, pp. 64-65.

⁹ Commission of the European Community: *Communication from the Commission: Cohesion and transport* (Brussels, 14 Jan. 1999), p. 11.

¹⁰ P. Guislain: *The privatization challenge* (World Bank, Washington, DC, 1997), pp. 203ff.

of service provision. This trend has emerged from a growing consensus on the need to develop new approaches to service provision based on partnership between the public and private sectors.

Box 4.1. History of private utilities

Private sector participation in water and sewerage utility services in Western Europe has a long and erratic history. Early examples are the *New River Water Company* in England in 1613 (reprivatized in 1989 as *Thames Water* and now owned by *RWE* of Germany), or the *Compagnie Générale des Eaux* (now *Vivendi*) in France in 1853. In 1818, the city of Brussels awarded a concession to a private company to build the first public gas lighting system in continental Europe. In Bangladesh, under the patronage of the Nawabs of Dhaka, a small privately owned diesel generator started operation in Dhaka on 7 December 1901. Commercial operation started in 1939 when *DEVCO*, a private company, started a small power station to supply DC power. In many countries, including Argentina, Brazil, Indonesia, Philippines, Thailand and Venezuela, the electricity companies established in the nineteenth century were initially privately owned. Over time, however, there was widespread nationalization and/or municipalization of private utilities with the rapid growth of newly independent nations, for reasons of public health, and in order to meet expectations of universal efficient services at acceptable prices.

Source: ILO: *Managing the privatization and restructuring of public utilities (water, gas and electricity)*, Report for discussion at the Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities, Geneva, 1999, p. 1.

Today, local authorities in many countries have withdrawn from direct involvement both in energy production and waste management but have continued to be directly involved in the distribution of electricity and gas, and in particular water. However, they have also started to withdraw from these activities in some countries. One of the results of the restructuring process has been the creation of multinational multi-utility companies, which now offer a range of products and utility services (electricity, natural gas, water, sewerage and waste management).¹¹

In recent years, there has been a shift in urban infrastructure development and management from a dominance of the public sector to an emphasis on private sector provision. At the second United Nations Conference on Human Settlements (Habitat II) held in Istanbul in June 1996, the member States considered that private sector participation should be facilitated in urban infrastructure services development and management through various arrangements.¹² A trend in some developing countries is the setting up of national-level programmes for service delivery based on contracting out to civil society organizations. The World Bank, for example, promotes this approach to rural water supply in a number of countries.¹³

¹¹ O. McQuade, D. Wagman and E.R. Blumer: "The new energy majors", in *Electric Perspectives* (Washington, DC, Vol. 25, Issue 1, Jan./Feb. 2000).

¹² V.I. Ogu: "Private sector participation and municipal waste management in Benin City, Nigeria", in *Environment and Urbanization* (London), Vol. 12, No. 2, Oct. 2000, p. 104.

¹³ A. Clayton, P. Oakley and J. Taylor: *Civil society organizations and service provision* (Geneva, UNRISD, Oct. 2000), p. 13.

4.2. Ownership and competition

Because market competition and technological innovation have been viewed as the primary engines of change in employment relations, the most substantive changes in working practices can be expected to arise in sectors that have been most subject to competitive pressures. Within the public services the threat of competition can impact on labour management practice even if ownership does not alter, as can be seen from the experience of competitive tendering. Consequently, an important distinction needs to be made between the issues of *ownership* and *competition*. It is often assumed that private ownership can be equated with increased competition, but this is misleading as privatization may convert a public monopoly into a private one with limited consequences for employment practices. The emphasis on competition should not be taken to imply that ownership is unimportant. There is a widespread view about the distinctiveness of management in the public service in terms of objectives, the context in which such management operates, the forms of accountability and the constraints upon performance.¹⁴ These characteristics of the organizational environment have been associated with particular work values termed “public service ethos”. Three-quarters of local government officers participating in a survey believed that such an ethos existed in the United Kingdom. These values incorporated: acceptance of accountability through the political process; intrinsic staff motivation; loyalty to a profession or service; and adherence to norms of integrity and impartiality.¹⁵ A widely voiced concern is that these values are jeopardized by changes in patterns of ownership, especially if organizations are headed by private sector executives brought in to manage public services on a more commercial basis. It is no coincidence that in countries which have enthusiastically embraced market-style reforms, including New Zealand and the United Kingdom, attempts to formalize public service values and ethical standards of behaviour have proceeded furthest as a way to protect these traditional work values from being undermined by the pressures of privatization.¹⁶

In this context it is also of importance that local government is expected to create a climate favourable to private enterprise development in the local economy. According to the World Bank “efficient urban development requires an enabling environment for and within cities that permits firms and individuals to become productive or – in a world of liberalization and integrated markets – *competitive* ... The basic conditions for competitiveness of cities are efficient markets for land,

¹⁴ S. Ranson and J. Steward: *Management for the public domain: Enabling the learning society* (London, Macmillan, 1994).

¹⁵ L. Pratchett and M. Wingfield: “The demise of the public service”, in L. Pratchett and D. Wilson (eds.): *Local democracy and local government* (London, Macmillan, 1996).

¹⁶ K. Kernaghan: “The post-bureaucratic organization and public service values”, in *International Review of Administrative Sciences* (London), Vol. 66, No. 1, pp. 91-104.

labour, credit and for inputs (particularly transport, communications, and housing)”¹⁷

In urban transport two basic models of competition in public transport services can be distinguished:

- (a) *Deregulation and competition: The provider-producer split:* The United Kingdom is the only country in Europe which has introduced competition for bus services. Different bus operators compete with each other on the same routes. A free market exists for bus transport and all operators are privately owned. This approach implies a reduced scope for the integration of public transport systems. Timetables often change. Nowadays the system is popular among the operators but not amongst the passengers. Outside Europe total deregulation has been introduced in New Zealand.
- (b) *Competitive tendering in transport:* An alternative to the former is the concept of competitive tendering. The public transport authority sets the objectives and asks for competitive bids from different operators for the same routes. The winning operator is awarded a contract and – in some countries – a concession. The tendering system can include all modes of public transport. Competitive tendering for local and regional bus transport has been introduced in several countries, including Denmark, Finland, France, Norway and Sweden.

In Spain, the structure of public urban transport in the major towns and cities has a higher proportion of public operators than private service providers. Of the six biggest cities, only Zaragoza has privatized urban transport. However, Spain may be also bound to follow other cities across Europe in privatizing urban transport if the country’s publicly funded transport sector continues to operate at a deficit. It seems that such losses are the price to be paid for confused fare policies. The lack of efficient standards of management is blamed as one of the problems that should be removed, given the need to cut public spending without noticeably lowering the quality of the service provided by the public transport system.¹⁸

In the United Kingdom, except London and Northern Ireland, the urban and regional bus services have been deregulated from 1986 onwards. The industry is now dominated by four or five major privately owned enterprises, although municipally owned and smaller privately owned companies continue to play a significant role. The concentration of ownership is still continuing and the number of companies owned by the workforce has declined to 1 per cent of the market share. It has proved possible to reduce the costs of providing urban bus services supported by the local authorities by 25 per cent to 30 per cent. With a few exceptions, deregulated services have displayed a reduction in the cost per vehicle km, due to reductions in: (i) the size of vehicles; (ii) the remuneration and the number of employees, particularly those involved in maintenance and administration; and (iii) the price of fuel. On the other hand, there has been: (i) an

¹⁷ World Bank: *Cities in transition* (Washington, DC, 2000), p. 48.

¹⁸ T. Hernando Burgaleta: “Spain”, in *Public Transport International*, 6/98.

increase in the number of bus-kms provided; (ii) a large increase in real fares, by more than 25 per cent; and (iii) a large loss in passengers, which is still continuing – almost 35 per cent in the major urban centres and 20 per cent in other areas outside London.¹⁹

In Australia, the state of Victoria privatized the tram and train system in 1999. The service was divided into five different businesses. The sale was awarded to the bidders that offered the best combination of subsidy reduction, capital investment and schedule and patronage performance. Introducing greater efficiency was the main objective of privatization, although in other cases, governments have usually touted privatization as a means of improving budgetary health. This reflects the fact that privatization is rarely popular with electorates, but once it has been undertaken the outcome has seldom been unsatisfactory, and there have been no strong voices in favour of renationalization.²⁰

The most important development in the utility industries in Europe has been the liberalization of energy markets and restructuring of the industries. In 1996, the European Parliament and the Council of the European Union adopted Directive 96/92/EC concerning common sales for the internal market in electricity, providing for a phased opening up of electricity markets to competition. The Directive came into force in February 1999. A similar Directive, 98/30/EC, providing for the phased opening of the European market in natural gas, was adopted in 1998 and entered into force on 1 August 2000. EU policy has therefore been one of the factors triggering changes in national policy, a wave of privatization, restructuring, and more open competition. However, market liberalization has also started to reduce the number of competitors.

There continues to be considerable variation in the structure of the electricity industry among EU Member States. In some countries, the industry remains dominated by a single, often state-owned, vertically integrated electricity utility (France), with changes in ownership expected over the next five years. Other countries are becoming far more decentralized with a separation between generation and distribution (the Netherlands, the United Kingdom); others have a mixture of small municipal distribution companies and much larger vertically integrated companies (Germany).

In the majority of countries, restructuring has led to a decline in the number of companies operating in the electricity industry, partly as a result of mergers, take-overs and concentrations. While electricity transmission often remains either under state control or in the hands of one or a few companies, electricity generation and particularly distribution have seen a greater fluctuation in the number of providers. Because of these changes, it is becoming increasingly difficult for the smaller municipal companies to compete on their own in the changing marketplace. They

¹⁹ J. Fawcner: “Bus deregulation in Britain: Profit or loss”, in *Public Transport International*, 1995/b, pp. 18-23.

²⁰ A. Moran: “Privatisation in Australia – The big picture”, in *Privatisation International* (London), July 2000, pp. 29-31.

have found themselves either take-over targets or have had to seek alliances with larger providers in order to survive.

Over the past 30 years, the private sector has gradually increased its participation in the provision of water and sewerage services, first in France and Spain, then with the privatization of the water and sewerage companies (WASCs) of England and Wales. A series of flotations and municipal sell-offs started in Belgium in 1991, then in various Italian cities and culminating in the sale of 49 per cent of Berlin Water equity to a consortium led by *RWE* (Germany) and *Vivendi* (France) in 1999. Since 1989, the proportion of Europe served by private sector water or sewerage provision has increased from 15 to 35 per cent. The main driving force has been the need to comply with several EU environmental directives.²¹

In Germany the water market is highly fragmented, with more than 7,000 suppliers. Most of them are municipalities and are only gradually starting to privatize. However, many local authorities fiercely oppose liberalization of water supply and there have been cases where privatization has had to be rolled back. The situation is different in France, where three companies are dominating the water market and in the Netherlands with about 20 companies.²²

In the United Kingdom, the water companies were privatized in the early 1990s. Since then a number of them have been acquired by foreign companies (*Suez Lyonnaise des Eaux* (France), *WPD* and *Azurix* (United States) and *RWE* (Germany)), or been taken over or merged with electricity utilities to create multi-utility companies (*United Utilities*, *Scottish Power*).²³

In Switzerland, the reforms in the water industry are aimed at restructuring the existing communal water distributors – of which there are 3,000 – with a view to grouping them by region.²⁴

In the transition countries of Eastern and Central Europe, there is, in general, good access to piped water supplies in the larger cities but only limited waste water coverage. Major cities in Bulgaria, the Czech Republic, Hungary, Poland, and Romania have privatized their waterworks or have established semi-private ventures on a concessionary basis. However, there has been a more marked trend towards decentralization, as part of a broader political reform, with the responsibilities of former regional state agencies being taken over by

²¹ D. Owen: “Cleaning up Western Europe’s water and sewerage”, in *Privatisation International*, June 2000, pp. 34-35.

²² U. Harnischfeger: “Expensive purchase would narrow gap”, in *Financial Times* (London), 21 Sep. 2000.

²³ A. Taylor: “Floating on a rising tide of water investment”, *ibid.*

²⁴ K. Habbes: “Pour les oeuvres d’entraide, l’eau est un droit de l’homme, non une marchandise”, in *Le Temps* (Geneva), 8 Sep. 2000.

municipalities. Many environmental and pollution issues will need to be tackled in meeting EU accession targets.²⁵

As part of the process towards economic liberalization and reform, the Government of Poland has been working towards the transformation of the power sector; it embarked on a sector restructuring and privatization programme in the early 1990s.²⁶ Private sector participation is also being sought in the regional and municipal distribution companies. Similar developments are under way in most of the countries in the region.

In many countries in Asia, the central government, after independence, assumed responsibility for electricity generation, transmission and distribution to promote national development and attain universal coverage. In the process, existing private or municipal companies were absorbed into the national public power authority; however, in countries such as Bangladesh, Indonesia, Pakistan, Philippines and Thailand, one or more municipally owned (mostly distribution) companies continue to exist. Since the early 1990s, a number of Independent Power Producers (IPPs) have entered the market in a number of countries (Bangladesh, Fiji, India, Indonesia, Republic of Korea, Malaysia, Pakistan, Philippines, Taiwan (China), Thailand). Power sector reforms, including the separation of generation, transmission and distribution as well as increased private sector involvement, are under discussion throughout the Asia-Pacific region.

Gas usage in the region remains uneven. Although Australia, Japan, New Zealand and Pakistan have a developed gas infrastructure (with significant public involvement in the first three countries), the use of gas as a power source is limited in other countries and consequently there has been little active privatization.

Water supply, waste management and sewerage in the region are mainly the responsibility of municipal authorities or state bodies. In India, privatization of the conservancy department (water control authority) has been introduced in cities such as Hyderabad, Chennai, Rajkot, Amravati and Nashik. For example, in Hyderabad, 10 per cent of the entire operation was handed over to private contractors in 1994. Six years later, they are carrying out 55 per cent of the task. Since Hyderabad's municipal corporation has put a freeze on employment, the entire city will be taken care of by private contractors over a period of time. As municipal employees retire, they are replaced by contract labourers.²⁷

Many African governments have realized that debt-stricken state-owned utilities do not deliver the services the population expects and have turned their attention to private provision of such services. Power sector reforms are now well

²⁵ P. McCurry: "Projects move forward in central Europe", in *Privatisation International*, Aug. 2000, p. 36.

²⁶ O. Grygier and K. Rozenfeld: "Polish energy privatisations", in *Privatisation International*, Nov. 2000, pp. 24-26.

²⁷ K. Wallia: "Debate over privatisation of civil services", in *Times of India* (New Delhi), 3 Apr. 2000.

under way in more than a dozen countries: Central African Republic, Côte d'Ivoire, Gabon, Ghana, Guinea, Guinea-Bissau, Lesotho, Mali, Morocco, Senegal, South Africa and Togo. In most cases there has been a separation between ownership and management, and private sector involvement is based on performance contracts, leasing contracts, concessions, etc. A number of other countries are preparing for similar reforms: Botswana, Cameroon, Cape Verde, Ethiopia, Nigeria, Sierra Leone, United Republic of Tanzania, Uganda and Zimbabwe.

The gas industry in African countries is mostly non-existent; where it may exist, it is publicly owned and operated in a way which has changed little over the last decade. Water, sewerage and solid waste management are often the responsibility of local government authorities.

It is believed that in the poorest communities (many of which are in sub-Saharan Africa), 80 to 90 per cent of wastes generated are not collected for safe disposal. Even in countries where city authorities provide waste services, these are often spatially concentrated, leaving some parts of the city unserved.²⁸

There is a wide diversity of structures and trends in the various utility sectors in Latin America. There has been widespread restructuring, including privatization, in particular in the electricity industry. Privatization and liberalization of power markets in the region continue to attract strong interest from United States and European utilities despite economic difficulties. As in other regions, municipal authorities are responsible for water, sewerage and solid waste management; in several countries, they are also responsible for electricity distribution.

In the United States, the water industry is not only heavily regulated, it is also fragmented with more than 55,000 water companies, of which only about 300 serve populations greater than 100,000. The municipalities are now looking for private help as the Environmental Protection Agency imposes standards on water quality that municipalities cannot satisfy without outside finance and expertise.

Solid waste facility ownership in the United States has changed dramatically over the last two decades. The percentage of waste facilities owned by the public sector declined from 83 per cent in 1984 to 73 per cent in 1997 and to 64 per cent in 1998. In cities with more than 100,000 residents, private firms own 38 per cent of the waste landfills and operate 10 per cent more for government clients. The cities own and operate the other 52 per cent. A recent survey found that a further 27 per cent of municipalities with populations greater than 100,000 are considering privatization of solid waste disposal. Between 1988 and 1996 the number of landfills in the United States fell from 8,000 to just over 3,000 as facilities that could not be economically brought up to standard were closed. After a decade of downsizing firms in the industry and in the midst of a wave of mergers, figures for 1998 show that the solid waste industry employed nearly 250,000 persons.²⁹

²⁸ Ogu, op. cit., p. 103.

²⁹ A. Moore: "Privatising landfills in the United States", in *Privatisation International*, May 2000, pp. 44-46.

Canada has one of the highest percentages of public ownership of utilities in the industrialized world. Around 90 per cent of the country's electricity sector is state-owned, in the form of national and provincial "crown corporations". However, a number of provinces – Quebec, Ontario, Alberta – have started to deregulate the electricity market and to restructure the power utilities with a view to inviting private sector participation. Local authorities have responsibility for the water industry and, in recent years, several of them have ceded control over their water systems to private – often foreign – contractors. Canada's natural gas market has experienced significant deregulation over the last decade or more following a 1985 Agreement on Natural Gas Prices and Markets signed by the national Government and three gas-producing provinces.

4.3. Contracting out

Within the public service sector, the most important component of privatization has been the contracting out (also termed outsourcing) of services. Although it has been strongly associated with particular countries (especially New Zealand, the United Kingdom and the United States), the process has left few countries untouched. Despite criticism of privatization from various stakeholders, such as service users, trade unions, employers and international agencies, contracting out is being considered most earnestly in countries that have so far been hesitant to accept privatization (e.g. Denmark and Sweden). Nevertheless, public opinion still seems reluctant to endorse these developments.³⁰

Although the geographical reach of contracting out is extensive, the volume of contracting out as a proportion of public sector budgets has been relatively small. However, it is significant that the relatively narrow range of services covered, such as catering, cleaning, refuse collection and street maintenance, is being expanded. More recently, other services such as information management have also been considered for privatization. Nonetheless, governments have been far more wary of contracting out services that are viewed as integral to the welfare state.

A study on contracting out of municipal services in the United States reported that Los Angeles County, with a board of supervisors totally committed to privatization, contracted out only 1.2 per cent of its budget in 1987-88, a figure that rose slightly to 2 per cent by 1998-99.³¹ These figures are misleading, however, because the impact of competitive tendering is not diminished by relatively low levels of private provision. In the United Kingdom, during the period of Conservative administration between 1979 and 1997,³² it was mandatory for

³⁰ S. Bach, *op. cit.*, p. 18.

³¹ W. Hirsch and E. Osborne: "Privatization of government services: Pressure group resistance and service transparency", in *Journal of Labor Research* (Fairfax, Virginia), Vol. XXI, No. 2 (Spring 2000), p. 315.

³² Since its election in 1997, the Labour Government has replaced the legal obligation to seek tenders for specific services and proposed that all municipal services should be

hospitals to contract out through competitive tender for catering, cleaning and laundry services. In local government from 1980 a proportion of highways and building and maintenance work had to be subject to competitive tender, and legislation in 1988 required authorities to offer practically all their ancillary services to tender. This process was extended further in 1992 when professional services (including finance, legal and personnel functions) were subject to tender.

In urban transport, a survey by the International Metropolitan Railways Committee on policy trends for the maintenance of installations in 22 metro systems in Europe, Latin America and Asia found a clear trend towards greater and more systematic use of subcontractors for fixed installation maintenance.³³ The main selection criteria for choosing between internal and subcontracted maintenance were generally technical quality and efficiency. The survey found that before maintenance operations were subcontracted, most companies negotiated with the unions. Very rarely was it sufficient for the company to notify the unions of its decisions or to negotiate directly with the employees. In many cases, the problems encountered were internal or social in nature and concerned those members of staff whose jobs had been taken away from them. They were generally transferred to other departments and required to perform different functions, usually after a period of training. In other cases, early retirement was the only option, but programmes of this kind needed careful consideration to avoid the departure *en masse* of company employees with the accompanying risk of a “brain-drain” in key positions where specific technical know-how was required. Most companies believed that the primary risk of long-term subcontracting resided in the loss of technical know-how. Therefore, companies often maintained a minimum level of qualified employees both to inspect the subcontracted work and to ensure a basic level of in-house expertise and control over company business.

In utilities, contracting out has been a central part of the Government in the United States for more than a century, spanning social services, utilities, waste management, to name only a few. Contrary to popular belief, increases in government contracting is usually associated with aggregate increases in government spending. Although cost savings have been achieved from some contracting arrangements (most examples occurring at local level), overall trends show that an increase in private sector participation in a government activity is associated with an increase in total government expenditure in the sector involved.³⁴

A recent study on the effects of the liberalization of gas and electricity markets in the EU found that a significant number of companies, in an effort to increase flexibility and reduce overheads, contracted out certain services and functions previously delivered in-house. Contracting-out arrangements were usually applied

subject to periodic review to ensure “best value”, that is, performance targets, based on private and public service comparisons, should be set and monitored.

³³ Report on this survey by G. Coletti: “Trends in maintenance policy for fixed installations”, in *Public Transport International*, (Brussels), 1/2000, pp. 22-24.

³⁴ A.H. Walsh: “Privatization: Implications for public management” in *IPA Report* (New York, Institute of Public Administration), Spring 1996.

to services such as cleaning, maintenance, information technology or meter reading. Some companies, however, felt that contracting out could, in the longer term, lead to a deterioration of customer services, customer dissatisfaction and a loss of valuable skills. A number of companies had therefore in-sourced some services such as “call centre” functions.³⁵

4.4. Partnerships and alternative approaches

In recent years there has been a rethinking of the concept of privatization. In the United Kingdom, HM Treasury’s recent publication “Public-private partnerships: The Government’s approach” seeks, among other things, to free the subject of private sector involvement in public sector services and infrastructure from the dogma and ideology of the past. It states: “The old argument, as to whether public ownership was always best or whether privatization was the only answer, is simply outdated.” Instead, the focus is now on fostering public-private partnerships (PPPs) to promote investment in public infrastructure and service provision.³⁶

A number of examples in various sectors may serve to illustrate the creativity of the stakeholders to develop partnerships between the public and private providers of public services and, between them, the workers and the users of those services. Although their share in the delivery of services might be small, they might also serve to inspire privatization processes on a larger scale when solutions are sought to make these processes more sustainable.

In health services, Italy provides an example of an alternative approach which endeavours to combine public and private interests, as well as those of the users and providers, through “multi-stakeholder” cooperatives. The Italian Cooperative Act of 1991 provides for cooperative membership with diversified interests which may also include local governments as members. It is important to note Italian tradition in this respect since the Constitution of the country already stipulates the solidarity of every person with regard to another and to the community in general. Since the law is relatively recent, an assessment of the practical impact of these forms of cooperatives has to be undertaken with caution.³⁷

Italy has traditionally had an extensive movement of worker cooperatives which have reacted to the crisis of the welfare state at local level. A considerable number of these provide social services and some health care services. Among the various activities of these “social cooperatives”, three main types may be distinguished (according to the regional law of Trentino-South Tirol):

³⁵ ECOTEC: *Effects of the liberalisation of gas and electricity markets on employment*, draft final report (2000).

³⁶ J. Fox and N. Tott: “Beyond privatisation – PPPs”, in *Privatisation International*, Dec. 2000, pp. 21-23.

³⁷ G. Ullrich: “Innovative approaches to co-operation in health care and social services”, in *Journal of Co-operative Studies* (London), 33, 1 Apr. 2000, p. 58.

(a) “integration cooperatives”, which offer employment to physically and mentally handicapped persons; (b) “social services cooperatives”, established by professional care workers, which offer services to local authorities or to users and their relatives; and (c) “community or social cooperatives” providing welfare services and employment projects to disadvantaged groups with widely ranging membership which also includes voluntary organizations, financing agencies and public support institutions and municipalities. Such cooperatives are normally small: they are organized in two federations with almost 2,000 member societies. In total, these cooperatives provide employment to about 40,000 persons in the country.³⁸

An example of an alternative approach in transport are the main bus services in Liverpool, United Kingdom, which are provided by an employee-owned company, with other services operated by private firms. MTL Trust Holdings Ltd. was established in 1986 from the former PTE bus operation as a separate company wholly owned by the Passenger Transport Authority. The company was sold to its workforce in 1992. It operates a network of commercial services throughout the Merseyside area, plus subsidized services both wholly within Merseyside and running into neighbouring areas of Lancashire and Cheshire.

Throughout Latin America, a large percentage of urban bus services are run by what are known as “route associations”, i.e. groups of individual bus owners who join together to operate one or more routes. Such associations are often only very loosely integrated. The individual owners retain a great deal of independence, and give correspondingly little control to the association itself. This creates a series of difficulties, one of which is the negative effect on traffic safety caused by races between buses on the same route to be first to the next stop. However, in Buenos Aires these problems have effectively been solved because bus services are provided by route associations of independent mini and midibus owners and operators, known as “colectivo”, under the general direction of the national transport authority, Comision Nacional de Transport Automotor (CNTA), which was established in 1995. The CNTA is controlled by three bodies – National Transport Department, Province of Buenos Aires and suburban municipalities. “Colectivo” minibuses (more properly described as medium-sized), operating scheduled services, account for 80 per cent of all public transport trips.³⁹ Increasing competition from taxis and illegal minibuses and owner-operated old coaches has eroded patronage of scheduled services. Much business has also been lost to the suburban railways, whose services were much improved following privatization.

As for utilities, the electricity sector in the United States may be used as an example of public-private partnerships. The sector is made up of a mix of public and private ownership; there are still more publicly owned electricity utilities than

³⁸ *ibid.*

³⁹ The information on the public transport systems in individual cities was excerpted from *Jane's Urban Transport Systems*, Sixteenth Edition (1997-98) and Eighteenth Edition (1999-2000).

other forms of ownership, and some of them are quite large – as in Los Angeles, Seattle and Cleveland. There are also many small municipal utilities providers which are, however, dependent for supply on larger private generation and transmission companies.

Box 4.2. Public-private partnership in French transport

In France, the organizing authority is entirely free to choose how it provides the public transport services. It can opt to provide these itself through a public sector undertaking (*Régie*), or use a firm in which the organizing authority may decide to retain some of the firm's capital. With the exception of the Paris region, *Régies* are not common in the rest of the country, where they average little over 10 per cent of firms – a proportion that falls to less than 5 per cent in urban centres of over 100,000 inhabitants. In addition, the use of these public undertakings is tending to diminish over time, with the past few years having witnessed the disappearance of some *Régies* and their replacement by semi-public or private firms.

The semi-public company, with specific articles of association, is characterized by the fact that one or more of the local authorities retain a proportion of the capital; in accordance with French law, this may neither be less than 50 per cent nor greater than 80 per cent. The remainder is held by public or private bodies. In the semi-public urban transport company, the organizing authority's private partner is usually one of the three major transport groups. In the vast majority of the cases (around 70 per cent), the organizing authorities use private operators to run their urban public transport services.

Source: F. Peter: "The franchising of transport services to the private sector", in UITP: *Structural changes in public transport*, Report on the Budapest (Hungary) Conference, 25 Sep. 1992, pp. 67-83.

The policy of privatizing urban water supply and sanitation services was first implemented in Latin American countries at the beginning of the 1990s. It has had a great impact on the urban poor, many of whom previously received these services free of charge. In those cases in which private contracts have been approved, the operating companies usually had to take into account factors relating to the presence of squatter or informal settlements with precarious levels of provision for water and sanitation – if any at all – when developing their bids. However, these companies did not have access to a proper survey, enabling them to evaluate accurately the extent of the lack of services in such settlements. The consequences of this have generally been very negative, particularly for the urban poor. In some cases, no companies put forward bids because of what they regarded as unacceptably high risks. In other cases, they failed to adhere to the terms of their contracts with the result that a large proportion of the population was left without access to water and sanitation.

In the Netherlands, the Scientific Council for Government Policy argues that both the public and the private sector have their strengths and weaknesses. The fact that public bodies are controlled by the Parliament does not mean that they deliver better. On the other hand, the Council says, it is a prejudice to think that the market always works more efficiently than the government. While globalization and information technology make it possible to privatize certain public utilities such as electricity and telecommunications, this does not necessarily mean that water distribution can be privatized. The Council notes the recent change in thinking: the present privatization debate is less about the shedding of government tasks and more about how to involve the private sector in the delivery of such tasks. The

Government should concentrate its efforts on the setting up of the proper regulatory framework and the supervision of the implementation.⁴⁰

The Swedish Government does not have a policy of privatizing government-owned companies. Decisions on privatization are taken on a case-by-case basis when it is deemed to be in the best interest of taxpayers and the relevant state company.⁴¹

Box 4.3. A return to public ownership?

The water industry in England and Wales may be coming back into public hands. In an interesting development, Welsh consumers have given their backing to the proposed takeover of *Welsh Water* by Glas Cymru, a self-styled not-for-profit "Welsh people's" company. Glas Cymru will be owned by approximately 200 members representing a broad spectrum of Welsh interests including business, local government, health and education institutions and local charities. It has proposed that it acquire the physical assets of Dwr Cymru (Welsh Water) in return for taking on debts of £1.8 billion, and subcontract the running of services, most likely to another water company. The water regulator (Ofwat) has approved Glas Cymrus' plans, provided it deliver a number of safeguards for customers, including a commitment to lower water bills in Wales. Several water companies (*AWG, Kelda, Pennon*) are considering plans to split the ownership of assets into separate companies that would be financed almost entirely by borrowing. The objective of the asset splits is to offset price cuts imposed in 2000 by the water industry regulator. The chief executive of Kelda sees industrial logic in mutuality: "if 80 per cent of the world's water utilities are in some form of public ownership, it tells you something. Water is sourced and treated locally. There is a regional link that makes it unique". In Malaysia, companies that were involved in an ambitious privatization plan started in the early 1990s are turning one by one back to the Government, given their increasing deficits. For example, *Prime Utilities Bhd.*, which was awarded a concession in 1993 to operate sewerage plants around the country, sold the business back to the Government in March 2000 after losing tens of millions of dollars.

Sources: A. Jameson: "Go-ahead for Welsh water plan", in *The Times* (London), 1 Feb. 2001; C. Mortished: "City cheers mutuality proposal by Kelda", in *The Times*, 15 June 2000; T. Fuller: "In Malaysia, the sting of privatisation", in *International Herald Tribune* (Paris), 18 May 2000.

As part of their efforts to improve and expand their services, many municipalities, often in developing countries, enter into different partnerships which may be: "public-public" partnerships (between several public institutions); public-private; public-NGO (private non-profit organizations); public-consumer; or private-public-consumer. They occur mostly in the supply of water, sewerage and solid waste management. Unions sometimes have played an important role in these partnerships.

Two examples of partnerships come from South Africa, both involving trade unions. An example of a public-public partnership is the agreement signed in Odi district, North West Province, South Africa, which brought together the parastatal Rand Water Board (RWB), the municipalities of Winterveld, Mabopane and a number of suburban areas under the Eastern District Councils. Under the three-year agreement, the RWB was to assist in building the capacity of the local authorities to operate and maintain the water service system. After this period the

⁴⁰ De Volkskrant: *WRR: privatiseren werkt niet altijd*, Amsterdam, 24 May 2000. See also J. Alberts and K. Berkhout: "De overheid als marktmeester", in *Trouw* (Amsterdam), 30 May 2000.

⁴¹ J. Sassoon and M. Pellbäck: "Sweden: Bold, novel approach", in *Privatisation International*, Dec. 2000, pp. 8-10.

municipalities were to take full responsibility for the system. The South African Municipal Workers' Union (SAMWU) played an important role by bringing together its members and community structures to back the partnership. As the SAMWU National Water Coordinator put it, "the public-public partnership fits perfectly with our vision of building the capacity of disadvantaged municipalities so that they can deliver good quality, affordable services to the people instead of throwing in the towel to a multinational company".⁴²

Also in South Africa, after the 1995 and 1996 local elections, newly formed municipalities were faced with an enormous task. They had to integrate white municipalities and black local authorities. They had to extend services to areas that either had no services or extremely inadequate services. The new Constitution and local government laws increased the municipalities' responsibilities, without increasing their financial base. The Waterworks Department of the City of Cape Town has taken up these challenges. At the end of 1996, management and shop stewards of the different waterworks departments got together to integrate the staff and provide immediate service delivery in the townships of Ikapa, Crossroads and Philippi. This happened through a process known as the "Hillstar" meetings. These meetings were attended by municipal officials and representatives of the unions organized in this sector (SAMWU and the Independent Municipal and Allied Trade Union – IMATU). The participants all believed that it was possible for the municipality to provide an equitable, efficient and effective service to all residents in the new municipality. As a result of this partnership, major service delivery problems were identified, standpipes were installed in new areas, water pressure was substantially improved, meters were installed or replaced and leaks in the distribution system were reduced. The Hillstar experience shows that, if management and the unions within a municipality are committed to a process of integration and improving services, considerable gains can be made. Integration was not treated just as a mechanical exercise. It was done with the aim of extending and improving services.⁴³

Buenos Aires may serve as an illustration of privatization in utilities creating partnerships with specific population groups. Before the provision for water and sanitation in the Greater Buenos Aires, Argentina, was privatized in 1993, there was a marked contrast in the extent of provision for piped water and sewerage between the centre (the Federal District) and the districts or municipalities on the edges of Greater Buenos Aires. In 1993, the National Executive Authority, which until then had been responsible for the National Water and Sewerage Authority, awarded a 30-year concession for water and sewerage services to the private operator, *Aguas Argentinas*. At that time, of the 6.4 million residents served, approximately 200,000 were in informal neighbourhoods. For the present five-year period (1998-2002), *Aguas Argentinas* foresees 1.8 million new users, of whom 1.2

⁴² For a more detailed discussion, see J. Pape: *Poised to succeed or set up to fail? A case study of South Africa's first public-public partnership in Odi, North West* (Congress of South African Trade Unions (COSATU press release, 2000). <http://www.cosatu.org.za/samwu/odimspifinal.htm>

⁴³ S. Van Niekerk: "Privatisation: A working alternative", in *South African Labour Bulletin* (Durban), Vol. 22, No. 5 (Oct. 1998), pp. 6-9.

million will be resident in informal settlement areas. Shortly after having taken up the concession, *Aguas Argentinas* realized that the commitment to expand water services that it had assumed was not merely a matter of extending the pipes but would also require connections for new users, many of whom had not been connected to the service owing to the very high infrastructure connection charges relative to their income.

In 1996, *Aguas Argentinas* created the Low-income Settlements Programme as part of its plan to optimize the planning and expansion of water and sewerage services. The strategy proposed aimed to develop a methodology of service regularization and management with the goals of integrating low-income settlements into service coverage with minimum investment, controlling operating costs and integrating these into the accounts while developing ways to improve billing and collection. The methodology was based on the need to change the working relationship employed up to that point, from a top-down style to a horizontal and decentralized approach that would be agreeable to the different actors. The objectives and resources of each actor were identified in the plan developed by *Aguas Argentinas*. In early 1997, *Aguas Argentinas* initiated a renegotiation of the concession contract which was finally approved in 1998 and which led to the creation of a universal fixed charge paid every two months by all its customers. The charge is US\$2-3 for those with connections to the water network and US\$5-6 for those with both water and sewerage services. This charge (a cross-subsidy) is in force at present and replaces the service connection charges. New customers are only charged service connection fees of 30 two-monthly payments of US\$4 for each service.⁴⁴

An example of municipal-NGO partnership can be found in Pune, India. The capacity of urban governments in India to implement sustainable sanitation or other infrastructural improvements which benefit the poor is usually viewed with despondency. While this has long been the case in Pune, an ongoing municipal initiative is demonstrating a more positive approach. Currently, 237 toilet blocks with over 3,000 toilets are under construction by eight NGOs in partnership with the Pune Municipal Corporation. The project started in November 1999, with the aim of completing construction by mid-2000. The overall timescale is long term, with NGOs committed to maintaining the blocks for 30 years. The corporation's role is to provide the funds and coordinate the project. It also agreed to provide electricity and water supplies to each site free of cost for the construction period and further use. The role of each NGO is to demolish the existing toilet block, to construct the new block within the cost and time limits, and to take on responsibility for the 30-year maintenance of each block. Shelter Associates, one of the NGOs concerned, aims particularly to involve local women, in view of the central role they have in managing the home and the local environment, and in the health care of their families. The experience so far indicates that a toilet block can be a very tangible focus in different settlements for bringing people together, to

⁴⁴ For a detailed discussion, see A. Hardoy and R. Schusterman: "New models for the privatization of water and sanitation for the urban poor", in *Environment and urbanization* (London), Vol. 12, No. 2 (Oct. 2000), pp. 63-75.

discuss the toilets as well as broader issues relating to the settlement and the local environment.⁴⁵

Although consumers have complained about water privatization in such countries as the United Kingdom, private management is not always unpopular. In La Paz, Bolivia, officials and *Suez Lyonnaise des Eaux* involved local poor people in deciding what water services they needed. After people voluntarily contributed their time and labour, the costs were reduced by two-thirds.

“Sunita Narain”, of India’s Centre for Science and Environment, believes that empowering users often turns up inexpensive ideas, such as age-old techniques of rainwater harvesting, that governments and firms dismiss as old-fashioned.⁴⁶

In the foreseeable future, with many governments in low and middle-income countries unable to provide adequate municipal services, the private sector may increasingly be expected to play a major role. This is particularly the case as the market-led privatization and liberalization of urban infrastructure development favours more private sector participation and more private capital in urban services. Local governments should encourage community/private operator partnerships as a way of ensuring that local residents’ inputs are considered in service provision, standards and arrangements.

A key factor in low-income people’s access to water supply and sanitation services is a change in attitude on the part of the private operator, the regulatory body, government and politicians, communities and other civil society organizations. This would allow a differentiated level of service to be introduced in accordance with the different realities of the groups to be served, together with participation and coordination between the different actors’ interests and resources. During the World Bank Water Week in 1997, the lack of capacity of private operators to work in a participatory way was identified as one of the factors contributing towards their failure to work with low-income groups.⁴⁷

⁴⁵ For a more detailed discussion, see J. Hobson: “Sustainable sanitation: Experiences in Pune with a municipal-NGO-community partnership”, *ibid.*, pp. 53-62.

⁴⁶ “Nor any drop to drink”, in *The Economist*, 25 Mar. 2000, p. 80.

⁴⁷ A. Hardoy and R. Schusterman, *op. cit.*, p. 75.

5. Interlinkage of decentralization and privatization with efficiency, quality and decent work

5.1. Efficiency and quality

Decentralization and privatization of public services are often seen as guarantor for greater efficiency and quality. A number of studies on privatization have revealed substantial evidence that private firms in competitive markets outperform government provision of goods and services. In examining the experience of municipal contracting out in the United States, some researchers have gone even further and suggested that competently designed privatization almost always leads to lower unit cost and improved service quality. However, this observation is not borne out by a review of research findings.¹ The United Kingdom Electricity Association concluded that there was no correlation between ownership form and energy prices; while another study, based on exhaustive international empirical research, found that in the long run, in electricity generation, better investment planning led to lower operating costs, while in transmission and distribution there was no evidence that privatization would bring lower costs in the short or long runs. A study on the Australian telecommunications sector concluded that privatization was not a necessary condition for improved efficiency of publicly owned enterprises; and a review of Malaysian privatization revealed that in most cases, the transfer of ownership from public to private hands had neither involved reduced user costs nor significantly enhanced the quality of services.

Moreover, the relationship between decentralization and privatization cannot be reduced to a pure calculation of financial resources used for the delivery of municipal services. Cutting labour costs is generally considered the most effective way of increasing efficiency in services – which is usually measured in terms of the output related to the resources used; indeed, most municipal services are very labour-intensive and labour can constitute up to 75 per cent of the overall costs, e.g. in the health services. A consideration that is often overlooked is that efficiency in services management is also highly dependent on costs and risks other than direct financial costs. When analysing costs occurring in decentralization and privatization processes, in particular in contracting out through competitive tendering, four categories of such other cost factors may be distinguished:

- economic costs, such as transaction costs, cost of re-tendering;
- management costs, i.e. a negative impact on the capacity and willingness of employees to be highly and continuously committed, on which the efficiency and quality of services depend;

¹ B. Martin: *Privatization of public services: Potential and limitations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

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- “democratic costs” in terms of the uneven distribution of the burden of reduced labour costs, e.g. the reduction in wages or retrenchment of the lowest paid workers and increased salaries for management;
 - sector-specific costs which may occur, for example, in health services through the loss of continuity in care while re-tendering, inability of small competitors to develop a contractual infrastructure, loss of scarce qualified personnel and volunteers’ work.²

When considering the net gains of contracting out, the savings of expenditure have to be matched against any negative effects or “costs” that these changes might imply. These may include the reduced quality of services; wage reductions; increased work intensity; or the abandonment of local service obligations or investments, such as the access to local infrastructure and sustainability of local employment. Without pre-empting the results of such an assessment, there is obviously a need to analyse the interrelation between decentralization and privatization, on the one hand, and efficiency, quality and labour issues on the other.

The extent to which competitive tendering and contracting out have been contentious can be linked to the framework outlined in table 4.1. In countries where the policy has been mandatory and perceived as ideologically motivated, opposition has been strong (for example in the United Kingdom) in comparison to countries where a more voluntary approach has been adopted which has been linked to a wider process of organizational renewal (for example in the Netherlands).³ There has been a great deal of controversy around the issue of financial savings and efficiency. In general, an uneasy consensus has emerged that the process of competitive tendering has produced financial economies; a figure of 20 per cent savings has become a rough benchmark in policy circles.⁴

Even more controversial has been the source of these savings, with critics suggesting that most of the cost reductions have arisen from job losses, lower pay, a deterioration of conditions of work and intensification of the workload, especially when contracts are won by private sector organizations. Even when basic pay rates are protected, hours of work are often reduced (thereby decreasing pay) and bonuses, holiday and sick pay entitlements deteriorate as well, with important implications for sustaining decent work. A variety of other reasons have been cited for efficiency gains, including greater flexibility in labour utilization, sometimes linked to increased part-time or temporary work, the use of more modern equipment and altered management practices, for example lower tolerance of sick

² D. Adams and M. Hess: “Alternatives to competitive tendering and privatisation: A case study from the Australian health industry”, in *Australian Journal of Public Administration* (Sydney), Vol. 59, No. 1, Mar. 2000, p. 50.

³ M. Kane: “The nature of competition in British local government”, in *Public Policy and Administration*, Vol. 11, No. 3, Autumn, 1996, p. 60.

⁴ S. Domberger and P. Jensen: “Gaining from outsourcing”, in *New Economy* (London), Vol. 4, No. 3, Autumn 1997, p. 161.

leave. The difficulty in resolving these competing interpretations is that there are many methodological problems associated with the relevant studies, including accurate measurement of costs, unclear performance criteria and “before and after” comparisons.⁵

The impact on service quality is also open to conflicting interpretation. Many studies that report reductions in service quality fail to distinguish between different causes: specification may have been altered or poorly specified by the purchaser of the services, or there may have been a failure in the delivery of the services on the part of the contractor. Supporters of competitive tendering suggest that the process leads to a better specification of service requirements and improvements in monitoring service standards. On the other hand, critics point to evidence that service standards have been compromised, partly because contract staff have been poorly trained and equipped.

Box 5.1. Cleaning standards in health services

In a study of the Australian government cleaning service, it was reported that contracting out intensified workloads, leading to increased injuries, stress and decreased job satisfaction. In a case study of tendering for hospital cleaning services in the United Kingdom, it proved difficult to monitor effectively the standards expected of the contractor. Cleaning standards declined owing to understaffing and poor training and were reflected in increased cross-infection rates. The health authority felt compelled to terminate the contract and bring the service back in-house.

Source: S. Young: “Outsourcing: Lessons from the literature”, in *Labour and Industry* (Melbourne), Vol. 10, No. 3, Apr. 2000, p. 109; S. Bach: “Too high a price to pay”, *A study of competitive tendering in the NHS*, Warwick Papers in Industrial Relations, No. 25 (Coventry, IRRU, 1989)

Critics of privatization in utilities often argue that the profit motive of private enterprises necessarily leads to jobs cuts, a reduction in the role of trade unions, and to a deterioration in working conditions. Although productivity gains resulting from privatization also have to be realized through a reduction in labour costs, only limited research has been undertaken to study these relationships. Most sector-specific studies concentrate on the effects on the product markets (price effects, investments, market entry and competition), while the impact on labour markets and working conditions only receives marginal attention – if any at all. Some authors argue that this may be attributed to the fact that labour costs in the electricity industry constitute only a small percentage of total production costs.

The question of the quality of services is closely linked to users’ satisfaction. Contrary to common belief, the interests of consumers and workers often coincide. At times consumers have even supported industrial action in the services sectors, in particular in the health services sector. Despite common interests, the opinions of both groups might also be divergent as in the case of health services in the Philippines, where an assessment carried out by the Department of Health in 1996 on the decentralization of health services to local governments showed that almost all of the interviewed clients (137) of the surveyed municipal health posts (36) were satisfied with the services of the health posts in spite of the inadequate health

⁵ For a review, see G. Boyne: *Public choice theory and local government: Analysis of the UK and the United States* (London, Macmillan, 1998), Ch. 5.

staff resources, and decreased availability of drugs, vaccines and other supplies in the health posts. Likewise, the majority of the interviewed patients (400) in the surveyed hospitals (30) were satisfied with the hospital food and the services of the frontline caregivers – nursing attendants, nurses and physicians – although there was a lack of drugs and linens. Nevertheless, according to complaints brought through media and public forums, the decentralized personnel of the health services were not satisfied.⁶

The effectiveness of consumers in monitoring the quality of services is contingent upon their ability to make themselves heard. This may be achieved through their own organizations, other organizations or institutions specifically created for this purpose such as the “Ombudsmen” who were first established in Sweden as guardians of citizen’s rights vis-à-vis the public services. Furthermore, workers’ organizations are often expected to represent at the same time consumers’ interests (see also section 5.4 of this report), in particular in the European Union. However, there have been disputes over the representativeness of trade unions on behalf of the consumers. At international level, this rivalry has not been repeated, in particular not in developing countries. The network of public services in these countries is still incomplete and the focus is more on lobbying jointly for universal access to these services. Health services and utilities are the sectors in which the interests of both groups come together the most.⁷

5.2. Decent work

The ILO’s traditional values, principles and instruments are embedded in the renewed policy declared in 1999 when the ILO set itself the goal of securing decent work for women and men everywhere. This embraces four strategic objectives, namely to promote and realize standards and fundamental principles and rights at work; to create greater employment and income opportunities for women and men; to enhance the coverage and effectiveness of social protection for all; and to strengthen tripartism and social dialogue. Decent work means productive work in which rights are protected, an adequate income generated, and social protection provided. It also means sufficient work, in the sense that all should have full access to income-earning opportunities. It marks the high road to economic and social development, a road in which employment, income and social protection can be achieved without compromising workers’ rights and social standards.⁸ What does this concept of decent work mean for the personnel in municipal services? And how does it relate to the efficiency and quality in the delivery of these services?

⁶ I.C. Sia et al.: “Public service reforms and their impact on health sector personnel in the Philippines”, in ILO/WHO: *Public service reforms and their impact on health sector personnel* (Geneva, ILO, 2000), p. 155.

⁷ For more details, see R. Simpson: *The impact of decentralization and privatization on municipal services: The perspective of consumers and their organizations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

⁸ ILO: *Decent work*, Report of the Director-General, International Labour Conference, 87th Session, Geneva, 1999, p. 13.

A sectoral approach to decent work provides an opportunity to assess to what extent there is decent work in every sector; to identify where difficulties and obstacles exist; and to determine what action can be taken to overcome them. Moreover, at sectoral level, strategies can be developed and institutional arrangements identified to implement those strategies. The sectors in which municipal services are involved are often counted among the more privileged ones and experience might suggest that these sectors provide more opportunities for decent work than others. Sectoral labour standards such as the Labour Relations (Public Service) Convention, 1978 (No. 151), and its accompanying Recommendation (No. 159), the Medical Care Recommendation, 1944 (No. 69), the Nursing Personnel Convention, 1977 (No. 149), and its accompanying Recommendation (No. 157) and the Recommendation concerning the status of teachers of 1966 stipulate for each sector an understanding of decent work. However, two decades of public service reforms and privatization have revealed the need to assess their impact on the development of employment, contractual arrangements and working conditions.

Although the picture is multifaceted – as will be summarized in Chapters 7 and 8 of this report – the trends frequently reveal deteriorating situations for the personnel in municipal services. Furthermore, the application of fundamental principles and rights in the sectors in question require close observation and improvement. Dialogue among the social partners, which is a prerequisite for such analyses and strategies, needs strong institutions with the capacity to lead the dialogue. Sections 5.3 and 5.4 will summarize the situation of employers' and workers' organizations concerned with the personnel in municipal services.

The impact of decentralization and privatization on gender aspects among municipal services personnel is a specific issue in relation to decent work. Although it is frequently held that women have borne the brunt of those developments, the analysis of practical cases shows a complex picture. Assessing the impact on employment and working conditions separately is obviously not enough. It rather requires a more holistic evaluation of how the situations of men and women have developed during decentralization and privatization. The instrument of competitive tendering appears to be the most studied in this respect and should serve here as an example.

Box 5.2. Gender inequalities

A study by the Equal Opportunities Commission in the United Kingdom found that reducing wages or hours as a result of compulsory competitive tendering (CCT) impacted especially on women workers. Women's jobs accounted for 96 per cent of the net job loss in the four services studied (building cleaning, education catering, solid waste collection and sports and leisure facilities management) in 39 local authorities, while cuts in hours forced many women to take on several part-time jobs. In general, the conclusions of the Equal Opportunities Commission on the gender impact of CCT in local government are that:

- women's employment tends to have declined more than men's as a result of the CCT process;
- the greatest burden of job loss has been borne by part-time workers;
- CCT has increased gender pay inequality;
- there has been a general fall in trade union membership, especially in female-dominated services.

In Australia, the relationship between gender and CCT seems to be more complex: for 25 metropolitan councils examined, there were significant gender differences regarding proportionate employment loss at 35.9 per cent – job loss in the male workforce was far greater than the female workforce – 7.5 per cent. Nevertheless, while the female workforce has declined less dramatically than that of males, women workers have borne the brunt of reduced wages and working conditions. Reductions were particularly marked in female-dominated areas of employment such as home care since, in female-dominated workplaces, 44 per cent of agreements eliminated supplementary allowances. Similarly, in local government, childcare workers in Victoria experienced a decline in working conditions which took the form of increases in the spread of hours worked, changes to hours of work and reduced overtime payments.

Sources: S. Bach: Decentralization and privatization in municipal services: The case of health services, Sectoral Activities Programme Working Paper (Geneva, ILO, 2000), p. 19; K. Escott and D. Whitfield: The gender aspect of CCT in local government (London, Equal Opportunities Commission, 1995); M. Paddon: Social and labour consequences of the decentralization and privatization of municipal services: The cases of Australia and New Zealand, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

The relation of decent work to efficiency and quality in service sectors in general is obviously contingent upon the high labour intensity of these sectors. This would seem to be particularly true in the case of the sectors delivering municipal services. In such services, the public interest and local involvement require a very high commitment of all personnel involved. This commitment is also referred to as “public service ethos”. Public service values which – based on decent working and employment conditions for the personnel – ensure quality and efficiency, are felt at times to be in jeopardy if private sector values and principles are introduced.

When services are transferred to the private sector, there has been a significant impact on the terms and conditions of employment for the staff concerned and on employment levels. Within municipalities, even when a service is retained in-house, the competitive tendering process has often led to substantial job losses, work intensification and less job security for those that remain in employment. There is also a growing concern, voiced most strongly by professional staff, that commercial values are infusing public services since such values place a priority on financial indicators to the detriment of service standards. A study of these claims suggested that the commitment of the public service personnel and their identification with the goals of their organizations had proved surprisingly robust in the face of changes that impinged negatively on employees. The study warned, however, that:

... aspects of public sector restructuring may, in the longer term, serve to erode employee commitment. The latter is likely to occur if a more directive, non-participative management style becomes the norm and if public service employers cease to display concern for the well-being of their employees. If public service organizations abandon the kinds of employment practice which have differentiated them from their private sector equivalents ... such as the avoidance of redundancy, then a likely effect will be a reduction of employee commitment.⁹

⁹ E. Heery: “Employment insecurity in the public services”, in E. Heery and J. Salmon (eds.): *The insecure workforce* (London, Routledge, 2000), p. 105.

Box 5.3. Restructuring of a decentralized company: Cracow public bus and tram services

The 120-year-old company Miejskie Przedsiębiorstw Komunikacyjne (MPK) currently operates some 450 buses and 180 trams providing daily transport across the city of Cracow, Poland. The company is now municipally owned. Prior to 1989, MPK was owned and controlled by the central Government, but after the elections of that year ownership passed to the city of Cracow. As yet the company is subject to little private competition, with the largest private fleet operating only ten buses. The problems posed by privatization and deregulation of a largely state-dominated transport system without, as yet, a clear long-term transport policy look set to make the future of this company somewhat uncertain. The company is under increasing pressure from city officials to reduce costs, and has sought productivity and efficiency gains and employee reduction in order to cope with a declining subsidy for its services. Overall the subsidy has dropped from 70 per cent of total income in 1989 to 30 per cent in 1996. The company management is also under pressure from customers to improve service quality, in particular in relation to the punctuality, overcrowding and cleanliness of the vehicles. Indirectly, management is using market pressure as a rationale for introducing a series of changes to work organization in order to gain increased efficiency. For example, teamworking among maintenance workers, more flexibility in driver rostering and a much tougher disciplinary regime have been introduced.

Since 1990, when nearly 5,000 workers were employed, there has been a steady reduction in the number of jobs. By 1996 approximately 4,000 people were employed. The highest proportion of job losses had been amongst the maintenance/technician groups. In addition to productivity gains, the introduction of newer buses has reduced the level of maintenance required. The reduction in driving jobs has been less marked, mainly because the company has considerably decreased hours of work for drivers. Despite worker and union resistance, the working hours of drivers have been reduced to about 160 hours per month in 1996. Here the company has benefited by saving on overtime pay and has achieved greater flexibility to cover for driver absence. Moreover, a tougher disciplinary stance has been used to improve service quality. A direct result of tighter discipline is that driver absence and tardiness have improved to such an extent that the company has been able to reduce its standby pool from some 10 per cent of all drivers employed to around 5 per cent.

White-collar job reductions have also taken place. At very senior levels the number of directors has been reduced from eight in 1990 to four in 1996. Middle-management jobs have also been cut, but more first-line managers have been introduced in the workshops following the move to teamworking. Job reductions in administrative posts have been achieved at a slower pace than that for other groups. The company has used increased computerization to cut some jobs but feels many more job reductions could be achieved. Job losses have been strongly resisted by the administrative group of employees.

The union tactic has been to use the legal requirements of lengthy consultation processes for collective redundancies to delay changes in both working practices and numbers employed. Five unions have bargaining rights in the company. For every 150 workers the unions are allowed a full-time lay official under an agreement with management and this acts as a further incentive for union efforts to protect jobs. From 1990 to 1994 job loss was mainly achieved by attrition and freezing new recruitment. From 1994, however, as the levels of attrition declined and worker discipline improved with the tightening of the local labour market, the company resorted to new tactics. First, there was some limited redeployment and retraining of maintenance workers to driving jobs. Secondly, collective dismissals of maintenance workers were introduced to achieve further reductions. Here a form of "last-in-first-out" was used as the chief selection criterion in choosing those to be made redundant. The use of "last-in-first-out", rather than more performance-oriented selection criteria, followed from union pressure and managerial reluctance to identify the poor performers. In principle, "last-in-first-out" was to be combined with a requirement for line managers to identify those who were the "least effective" workers. However, the latter has proven to be particularly problematical as line managers were very reluctant to identify the weaker performers, despite considerable prompting from senior management and the personnel department. The personnel manager felt that the company had thus lost some of its higher performing employees, but that this was a price worth paying to gain further job reductions. As a result the company has an increasing age profile and recognizes that its current policies will give rise to future human resource planning problems.

Source: T. Redman and D. Keithley: "Downsizing goes east? Employment restructuring in post-socialist Poland", in *International Journal of Human Resource Management* (London), Vol. 9, No. 2, Apr. 1998, pp. 274-295.

5.3. Role of employers' organizations

There still is very little information on the role played by employers' organizations in processes of decentralization and privatization. Nevertheless, they have a vital part to play in privatization since they represent the future owners and managers of privatized enterprises. The ILO therefore undertook a survey in 1996-97 in 13 countries (Argentina, Cameroon, China, Czech Republic, Ghana, Latvia, Mexico, Pakistan, Russian Federation, Senegal, Sri Lanka, Uganda and Viet Nam) on this question. A paper was prepared on the basis of the reports received from the national employers' organizations.¹⁰ Although the paper focused on the privatization of enterprises and not specifically on that of the delivery of municipal services, the following general observations are also applicable to this sector.

In almost every case reported in the paper, the privatization process has been at the very core of economic regeneration and consequently has had extremely demanding objectives placed upon it. It is not surprising to note, therefore, that employers' organizations saw the process of privatization as the most important thing to have happened in their country's recent economic history and stressed the importance of "getting it right". Governments, however, have often sought to effect the process of ownership transfer from public to private hands as quickly as possible. Significantly less attention has generally been devoted to the overall process of privatization as a major cultural shift and a massive change initiative involving human factors which have to be planned for, implemented and then followed up if all of the objectives of privatization are to be achieved and sustained.

It is in the management of change, as opposed to the transfer of ownership process, that the role of employers' organizations in the privatization process has the most potential. Although the activities undertaken by the employers' organizations as examined in the survey vary significantly in terms of depth and influence, there is considerable commonality of view in the overall roles which they believe need to be assumed. These roles and activities accord with the view of privatization as a holistic cultural change as opposed to a technical programme of ownership change. In general terms, given the importance of the privatization process to employers' organizations, there is little question that their activities and their influence could and should have been more significant.

All of the employers' organizations identified the importance of promoting public enterprise reform, influencing government proposals, preparing managers for privatization and upgrading their skills and competencies and safeguarding the legal interests of directors. In addition, employers in certain countries pointed to the issues of linking companies with national and international investors/partners, identifying and sharing national and international best practice and the provision of consultancy and advice to companies. It is evident from the national reports that the

¹⁰ A. Wild: *The role of employers' organizations in privatization*, Interdepartmental Action Programme on Privatization, Restructuring and Economic Democracy (IPRED), Working Paper, No. 7 (Geneva, ILO, 1997).

extent of employers' organizations' involvement in the privatization process in terms of the quantity and quality of the work undertaken and its impact varies widely from country to country. These differences are mainly related to the resources and skills available to the particular employers' organization and its level of influence in the country.

With notable exceptions, the employers' organizations have been generally critical of, and disappointed by, government attitudes toward their involvement in the planning of privatization programmes. More than one national report suggested that the process of privatization might have been more effective, more smooth or more transparent, had the employers been closely involved in the process from the outset. The willingness of government to adopt a participatory approach would be extremely helpful to representatives of employers. A less open government attitude does not however prevent the employers' organization either from making its views known or from undertaking promotional or supportive work associated with the privatization process. In any event, the survey confirmed that successful privatization involves the active support and commitment of all of the major stakeholders – the country's population (the voters), the workers and their representative organizations, management, clients and customers, potential investors and government officials. Each of these stakeholder groups has the potential and influence to reduce the effectiveness or even nullify the best-planned technical transfer of ownership.

The national reports on which the survey was based indicate a shortage of the skills and resources available to employers' organizations which would enable them to undertake the role they would have wished to assume in influencing the privatization process. Given the complexity and scale of many of the privatization initiatives, often undertaken at short notice and to tight schedules, this shortage of both skills and resources is not surprising. Importantly, there seems to have been little attempt to build either a centre of excellence or a data bank of best practice which would be readily available to national employers' organizations. At the national level, employers' organizations are facing similar issues and are wasting their resources on reinventing the wheel or failing to deal with the more difficult problems. Inevitably, much of the responsibility for the success or failure of privatization will rest with the new owners and managers. It is therefore a key responsibility of the bodies which represent owners and managers – the employers' organizations – to do their best to help assure a positive operating environment and to provide the fullest ongoing support in extremely challenging and demanding times.

The survey therefore describes how employers' organizations have taken the opportunity to influence the process of privatization for the better, both with and without government invitation and encouragement. It also outlines some of the positive steps taken by the 12 national employers' organizations which contributed to the survey. Using this information as a base, the paper suggests the following model of employer organization activity in the form of a "menu for action":

- promotion of privatization;
- preparation of management for privatization;

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- researching and advising on “world best practice”;
 - establishing clarity of the privatization strategy and objectives;
 - developing the most appropriate process of ownership transfer;
 - communication of the process and timescales to all stakeholders;
 - training and education of managers and entrepreneurs;
 - supporting the management of change;
 - securing appropriate investment/investors for privatized enterprises;
 - review of earlier privatizations and developing processes which enable learning from successes and failures;
 - ongoing monitoring of the development of privatized enterprises;
 - ongoing support to privatized enterprises and management.

The paper concluded that, in order to encourage and facilitate action on the part of national employers’ organizations, it would be helpful to establish appropriate support systems for national employers’ organizations. This could include a centre of excellence and/or a data bank of best practice which would be readily available to national employers’ organizations and would include expert advice and guidance and appropriate training materials and resources.

5.4. Role of workers’ organizations

In addition to employment security and freely negotiated terms and conditions of employment, public service personnel increasingly also want a better quality of life. They and their unions recognize more and more that, in order to reconcile these goals, structural and systemic changes to introduce greater job flexibility into a context of employment security, as well as more decentralized decision-making and “flattened” organizational structures, are required. Consequently, unions have increasingly urged reform of many public service organizations while remaining suspicious about the motivation behind most privatization, and determined to fulfil their basic mission of protecting their members’ interests. They often believe, like employers organizations, that they are insufficiently consulted about public service reform, and that their own expanding body of experience, knowledge and examples of efficient and effective alternatives to privatization are not given due consideration by international, national and local policy-makers.

Most workers’ organizations in the public service also see themselves as custodians of a wider public interest in relation to the efficiency and quality of services for which their members work. They believe that they have a responsibility to warn of the hazards and costs of government policy, and to promote alternatives, if and when necessary. In this regard, they are working increasingly closely with representative and advocacy NGOs, from local to international levels, concerned about the impact of public services and privatization

on poverty, social justice and the environment, and about the long-term implications for concentration of wealth and power posed by the increasing provision of services in the public interest by transnational corporations.

Against this background, workers' organizations also see their role as important in processes of decentralization, and in many countries they have been able to have their knowledge and interest integrated in policy decisions, which has led to special agreements with the governments, as in the case of health workers in the Philippines.¹¹ Their agreement, the Magna Carta for Public Health Workers, provides for their right to self-organization to protect their interests and to obtain redress of their grievances. However, it forbids public health workers on duty to declare, stage or join strikes in the interest of public health, safety and survival of patients. The Magna Carta also guarantees freedom from interference or coercion. It provides for consultation with public health workers and unions in the formulation of national policies governing social security of public health workers. This is operationalized through the Management-Health Workers' Consultative Council. The Magna Carta's implementation was deferred, however, due to lack of funds, but a staunch group at the State University Hospital, the Organization of Non-Academic Personnel of the University of the Philippines, pressed for its implementation. The 1,500-strong organization negotiated successfully for the incorporation in the hospital's yearly budget requirements for the benefits prescribed by the Magna Carta. In recognition of the strong lobby of the health personnel unions (such as the Alliance for Health Workers) and the health professional groups (such as the Philippine Nurses Associations), these groups are represented in government-management-health workers' consultative councils organized by the Government. The Philippine health services workforce is a fairly strong and united group, which is able to participate actively in policy design.

In regard to privatization, the role of trade unions was most studied in the case of the contracting out of municipal services and their responses were found to be quite varied (see box 5.4).

Trade unions also face a dilemma in relation to privatization and public sector restructuring. The formation of Unison, the United Kingdom's largest union, was precipitated by the anticipated shift to decentralized bargaining and decline in membership amongst its constituent unions arising from competitive tendering.

The process has significantly altered union behaviour, but also has challenged their credibility as they have been drawn into forms of concession bargaining and accentuated inter-union tensions. More positively, case study evidence from local authorities in Denmark, Germany, the Netherlands and Sweden has suggested that unions have demonstrated their capacity to influence work reorganization and service quality.¹²

¹¹ Sia, *op. cit.*, pp. 149-153.

¹² B. Martin: "Delivering the goods – Trade unions and public sector reform", in *Transfer*, Vol. 3, No. 1, May 1997, pp. 14-33, cited in Bach, *loc. cit.*

In comparison to developments in municipalities, in public utilities less attention has focused on contracting out. Nonetheless, ownership changes have sometimes encouraged increased outsourcing. These developments have reduced labour costs and sometimes provoked industrial action because the new suppliers are covered by less favourable collective agreements. A further consequence of privatization and liberalization of public utilities has been sharp reductions in employment, often accompanied by changes in the structure of employment.

Box 5.4. Trade union responses to contracting out municipal services

Collective principle or pragmatism?

- Industrial action – largely local responses.
- Non-involvement in the tendering process – prevents collusion in eroding terms and conditions, but shuns opportunities to influence the specification.
- Negotiation – working with local managers to minimize the impact of the policy.
- Judicial challenge – use of legal remedies (national and European) to enforce the Acquired Rights Directive (Council Directive 2001/23/EC) and other regulations.

Autonomy or alliance?

- Local (autonomous) campaigns based on economic concerns.
- Broader local campaigns that involved service users, e.g. involving teachers and parents to prevent contracting out of school meals or cleaning services.
- National campaigns to keep services public and to highlight the negative impact on service quality of “contract failures”.

Public sector or public service unionism?

- Maintain historic identity as representatives of exclusively *public sector* employees.
- Attempt to retain outsourced members and collaborate with private sector firms.
- Actively seek new members in private firms that are entering public sector markets. This can lead to more intensive rivalry between unions previously organizing workers in different industries.

Source: Bach, op. cit., p. 20; based on D. Foster and P. Scott: “Conceptualizing union responses to contracting out municipal services”, in *Industrial Relations Journal* (Oxford), Vol. 29, No. 2, June 1998, pp. 137-150.

The existing trade union representation structures in the public transport sector have developed over time. Trade union federations have been created, for example, for bus and train drivers. At the same time, public transport is a prime candidate for the development of independent trade unionism. The establishment of self-regulation rules and their possible translation into legislation should therefore be encouraged in order to guarantee a minimum level of service which must be provided to customers for the most essential services. The International Union (Association) of Public Transport (UITP), an international organization of public transport operators, is of the opinion that a policy of participation and consultation with trade unions is an important means of improving the company environment and thereby ensuring service continuity for customers.¹³ Permanent dialogue should be maintained with specific groups by focusing dialogue on personnel in the field and operators. UITP also feels that there is a need for a legal framework to

¹³ W. Hanck, M.L. Swiggs and J.M. Gonzales: “How to improve the social climate: A key factor in service quality and continuity and efficiency”, Report 8, 51st Congress of UITP, Paris, 1995, p. 71.

limit abuse of strikes – bearing in mind that each country has its own specific environment – including voting procedures by secret ballot prior to exercising the right to strike, and regulation of the activities of pickets. Procedures for resolving conflicts before work is stopped should be encouraged. Currently such procedures are practically non-existent, with a few exceptions, for example in France and the United Kingdom. Table 5.1 gives an overview on details of various types of labour-management relations in some industrialized countries.

Table 5.1. Union representation in the transport industry

Organization	Union or works council representation	Respective powers of works council/unions	Conciliatory or confrontational social dialogue	Number of unions in the company
Hamburg Hochbahn (Germany)	Works council solves more specific problems	Trade unions are responsible for more general problems and salary negotiations	Consultation; no confrontation up to now	1; the second public services union has no influence
London Transport UK; LBL (London Buses Ltd.); LUL (London Underground Ltd. (United Kingdom))	There is no works council	Trade unions have full powers of negotiation	Difficult to generalize. Unions are opposed to privatization and deregulation. Competition has moderated trade union activities	LBL: 4 (2 represent managers and administrative staff); LUL: 2; the same management and administrative unions in addition to 2 railway unions, 1 for trades and 1 for engineers
Société de transports intercommunaux de Bruxelles (STIB) (Belgium)	There is a balance between the two. Works council has no power to negotiate salaries	Trade unions represented on the sectoral joint committee are responsible for salary negotiations	Consultation	3 recognized unions represent all staff categories; 2 unions act in unison
CGFTE (France)	Through legislation. Works council: responsible for economic viability of the company; training; management of social services. Unions: annual salary negotiations. Works council meets monthly and examines major organizational problems	Annual company agreements on salaries and working conditions must be negotiated with unions	Increasing cooperation, although the situation differs from company to company. All unions are tending towards cooperation. They accept that part of salary should be individualized. Reduction in absenteeism, etc.	5 multi-occupational unions, with one specifically for transport drivers
Régie autonome de transports parisiens (RATP) (France)	Mainly unions. Works council responsible for administration of social and cultural activities, health and safety matters, working conditions	Trade unions responsible for salary negotiations, organization and duration of working time, and vocational training. Negotiations at three levels:	Marxist unions tend to be confrontational. Reformist unions tend to be conciliatory. Negotiations for the collective agreement (working conditions and salaries); dispute	7 union families (27 unions); drivers' union

Organization	Union or works council representation	Respective powers of works council/unions	Conciliatory or confrontational social dialogue	Number of unions in the company
		general management, departmental, and decentralized units	declaration; submission of candidates to works council; vocational training	
Société de transport urbaine de Montréal (Canada)	No specific information available	No specific information available	Proactive approach. Fragile climate of understanding with trade union organization. Mechanics' union is more critical. Drivers' union is more cooperative	Bus drivers; mechanics; administrative staff; 4 for cashiers, supervisors and manual trades
Metropolitano de Lisboa (Portugal)	Dialogue with works council is easier than with unions, but the law stipulates that unions must have powers of negotiation	Works council is responsible for negotiating working conditions, safety and social benefits. Unions are responsible for negotiating salaries and timetables, rights and duties, absenteeism	Over the past 5 years there has been a move away from confrontation towards conciliation	11 unions in the company, 5 of which are federations or for specific staff categories
TMB: Transports de Barcelona; Ferrocarril Metropolità de Barcelona (Spain)	Slight balance of power in favour of works council in major companies; they have power to negotiate collective bargaining agreements and represent the majority of workers	Trade unions have the power to call strikes and declare a collective dispute, as well as to modify agreements with the works council	Gradual move away from confrontation towards cooperation	6 at F. Metropolità; 3 at Transports de Barcelona; of the 9 unions, 3 are independent

Source: Hanck et al., op. cit., p. 73.

The ability of trade unions of the utilities sector in the Asia-Pacific region to organize and protect workers may be undermined by privatization, especially if private service providers oppose unionization or encourage enterprise-based unions. This has been the case in Australia, where union density is higher in the public sector than in the private sector. However, this is not the same in all countries. For example, the bargaining rights of private sector employees are greater than their public sector counterparts in the Philippines and the bargaining rights of private sector employees are also greater than those of public sector employees in Nepal. While in theory public service personnel have the right to organize, bargain collectively and the right to strike, in practice their rights are quite limited. Trade unions face difficulties in achieving legitimacy and face resistance from employing bodies; consequently, unionization in the public sector appears to be low.

Trade unions in India are concerned that privatization will undermine job security of workers, that there will be no job creation in the government sector and

that promotional opportunities will be further reduced. Generally, it is felt that privatization will lead to greater exploitation of employees. In 2000, the country witnessed a wave of strikes in protest against the proposed restructuring of the State Electricity Boards (SEBs),¹⁴ while in Mumbai (Bombay), the decision by the municipal corporation to privatize beach cleaning, hospital waste processing and energy conversion from garbage (half of the city's 6,000 tons of garbage daily is already handled by private contractors) led to a six-day strike by municipal personnel, including the 25,000+ workers of the supervisory authority.¹⁵

¹⁴ *Lloyd's List* (London), 18 Jan. 2000; D. Garner: *India sacks strikers as fears of unrest grow*, in *Financial Times* (London), 21 Jan. 2000; *Lloyd's List* (London), 26 Jan. 2000; "MSEB employees go on strike against proposed division", in: *Times of India* (New Delhi), 26 Jul. 2000; "Power workers' strike affects supply in Maharashtra", in: *Times of India* (New Delhi) 28 Jul. 2000; "Mumbai taps go dry as civic workers strike work", in *Times of India* (New Delhi) 13 Oct. 2000; "Power sector employees to go on strike on Dec. 12", in *Times of India* (New Delhi), 8 Dec. 2000.

¹⁵ K. Wallia: "Debate over privatisation of civic services", in *Times of India* (New Delhi), 3 Apr. 2000.

6. Approaches to facilitating decentralization from central to local government levels and privatization

Two major approaches to facilitate the transition of activities and functions from central to local government level and from public to private provision of services may be identified: social dialogue and regulation. These approaches are not alternatives but rather complementary. Moreover, not all partners will necessarily be convinced that transition is the best solution to prevailing problems. However, if transition is unavoidable, dialogue can help the social partners to accept realities and negotiate a transition process in the best interest of their constituents.

6.1. Approaches and impact of social dialogue by sectors and regions

Social dialogue was introduced as a term to describe the process of involving the partners in the world of work in a continuous exchange on how best to achieve decent work and quality of the outcome of work. The ILO Joint Meeting on the Impact of Structural Adjustment in the Public Services in 1995 concluded that public service reforms were most likely to achieve their objectives of delivering efficient, effective and high-quality services when planned and implemented with the full participation of the workers, their unions and consumers of public services at all stages of the decision-making process.¹ Decentralization and privatization create new challenges for the social partners. In this context the fundamental question may arise: who are the social partners in public services in the context of privatization? It goes without saying that there are national and local government and labour but there is another new stakeholder in the context of public services: the private providers of public services. What is more, intergovernmental authorities (e.g. the EU) and international agencies (e.g. the World Bank) may, in the context of globalization, condition the decision-making authority of governments. A fundamental aspect of the challenge, therefore, is to establish the appropriate boundaries between the rights and authority of each; indeed, the opportunities open to each are contingent upon the outcomes of such a process. Furthermore, the capacity of the social partners to lead such dialogue needs to be strengthened in various ways:

- public managers and administrators at local government level require new skills in personnel management and bargaining as public employers;

¹ ILO: *Final Report, Joint Meeting on the Impact of Structural Adjustment in the Public Services (Efficiency, Quality Improvement and Working Conditions)*, Geneva, 1995, p. 26.

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- private employers need to strengthen their organization in sectors which they newly enter and their skills for dialogue in employment relations of services in the public interest;
 - workers' organizations need to develop new models to match decentralized bargaining with nationwide standards and to negotiate with new employers and their organizations.

Although there are many examples of social dialogue which have facilitated processes of decentralization and privatization, there is limited information on the way that social partners are prepared and trained for this cooperative approach and on training programmes to acquire skills and attitudes needed in social dialogue.

A number of key factors have changed the role of management in the delivery of municipal services. The first concerns the extent to which management can be held accountable for performance. This requires the development of professional managerial roles and the use of a range of corporate management techniques. The second element concerns the degree of change in organizational structures: the extent to which monolithic public service organizations are broken into separate units with more devolved management practice. The third is market-oriented and raises the question whether the public sector can shift from “management by hierarchy” to “management by contract”. These reforms may fragment previously integrated organizations and replace them with competing units linked by a series of contracts.²

In many countries there have been sustained attempts to develop more sophisticated managerial systems and thus authority has been ceded to lower levels within the nation State, albeit often within strict central government regulation. In the United Kingdom, and to some degree in France and Italy, there have been initiatives to strengthen the role of managers, especially within sectors such as health which face severe financial pressures. Even in countries where the signs of the new public management are less apparent, such as Germany, there has been a vigorous debate about managerial reform, particularly within the municipalities.

Changes in employer practice are open to another interpretation; namely, that although in most countries there is a general acceptance that a more efficient public service requires more effective management, this is not necessarily equated with developing a managerial role modelled on the precepts of new public management. This arises from the distinctive characteristics of management in the public sector. In comparison with the private sector, trade union membership remains high and managers are more likely to be trade union members than their private sector counterparts. This raises the question of whether managers share some or most of the values of their subordinates and, if so, that they may be unwilling to alter fundamentally public sector management practices. These reservations are reinforced by the presence of distinct professional and occupational identities amongst public service staff, often shared by their managers, which may instil

² S. Bach: “Decentralization and privatization in municipal services: The case of health services”, Sectoral Activities Working Paper 164 (Geneva, ILO, 2000), p. 23.

opposition to the widespread implementation of private sector managerial values. In addition, within formalized systems of public administration there may be limited scope for the exercise of management prerogatives. Finally, the capacity to implement public management reforms, which requires more sophisticated systems of human resource management, may be constrained by the underdevelopment or absence of a specialist personnel function in many parts of the public sector.

Some employers and trade unions are trying to establish new forms of social dialogue that take account of public service reforms. However, one potential avenue, a European-level social dialogue, appears to be weak in the public services, even if a widespread adoption of direct participation mechanisms in European public services can be observed. In the United Kingdom, attempts to break down the adversarial climate of employment relations in the public services have been encouraged by the Labour Government. In one initiative in the health service, the public service union Unison and a number of hospitals, facilitated by the health policy organization, the King's Fund, have worked together to develop genuine collaborative approaches between management and the workforce. This process includes National Steering Group (NSG) meetings (see box 6.1) which go beyond a traditionally narrow bargaining agenda and focus on longer term issues. This initiative bears many similarities to the "Partnership in Hospitals" project in Denmark in which the social partners have sought new approaches to the organization of work and staff development to ensure improved patient care and more satisfying work for staff.

Box 6.1. National Steering Group (NSG) meetings

Meetings of the National Health Service trusts with the King's Fund and national officers from Unison are held three to four times a year for support, information and review. Participants are usually members of the steering groups, but the host trust can bring those whom they wish. Meetings were initially characterized by competition, but now there is a strong spirit of cooperation and they are perceived as non-threatening, supportive and liberating. People say they are no longer aware of others' rank or position. Meetings start with a presentation from one trust followed by discussion and meetings in small groups to exchange experience. Usually there is an outside speaker and/or discussion on a relevant policy issue, such as the Government's task force on staff involvement. The NSG has become a very practical forum in which trusts discuss how they have done things: how they get "ordinary staff" to participate, how they run groups, how they deal with disappointments. A process is developing in which the mood of the meetings has changed from people being in competition with each other to cooperation. As each trust has found its own way and has gained confidence, it has been able to contribute and learn in a genuinely collaborative process of give and take.

Source: Bach, op. cit., p. 23.

As the case of decentralization in the health sector in the Philippines showed, the health workforce was a fairly strong and united group and able to participate actively in the crafting of policies through the development of the Magna Carta for Public Health Workers and the enforcing of its application.

In Tasmania, Australia, in the hospital sector, more cooperative forms of tendering have been developed in which elements of benchmarking rather than competition have been used to improve efficiency and service quality. This approach has involved developing shared beliefs among staff, trade unions and employers on the desired outcomes of the health services rather than letting these be established by default in the marketplace. In particular, technical efficiency was not placed before social policy, such as continuity of care and the maintenance of local employment. The agreement which was reached by this cooperative form of

tendering included targets for staff, defined against benchmark standards, and more flexible use of labour, although the cost of providing the service has remained higher than if social obligations had been removed.³ Other initiatives to improve efficiency and quality in municipal services without recourse to privatization have been pioneered by the Swedish trade union Kommunal and the German public sector union ÖTV,⁴ although many trade unions in other countries have been slow to follow these examples.

Within the public utilities a combination of privatization, liberalization and altered managerial strategies have led to important changes in employer-union relations.⁵ A few of the key trends are:

- the structure of employer’s representation has changed as privatized companies have joined private sector employers’ organizations. This can take the form of direct affiliation or new groupings of privatized companies can arise. In Finland new organizations have been established in the telecommunications sector and for companies operating in the municipalities;
- greater emphasis has been placed on a range of human resource management techniques. Within privatized firms (but also “marketized” public services) employers are focusing more on making employees aware of the commercial imperatives of their organizations. This is often linked to systems of performance management, performance-related pay and the spread of employee share ownership, alongside more forceful employer demands for more flexibility;
- trade union representation has also been affected. Conflict can arise between public and private sector unions over representation in privatized companies, for example in Norway and Sweden. In Denmark, however, in the corporatized postal service it was agreed that the National Union of Postal Workers would continue to represent postal workers with civil service status, while new entrants without civil service status would be organized in the General Workers’ Union. Privatization has also spawned union mergers and other forms of alliance;
- specific forms of worker representation may be altered. For example, at Telecom Eireann in Ireland, worker directors have been removed from the Board of Directors but in other cases the more formalized co-determination

³ D. Adams and M. Hess: “Alternatives to competitive tendering and privatisation: A case study from the Australian health industry”, in *Australian Journal of Public Administration*, Vol. 59, No. 1, Mar. 2000, pp. 49-59.

⁴ M. Waghorne: “Public sector trade unions in the face of privatization”, in *Development in Practice* (Oxford), Vol. 9, No. 5, Nov. 1999, p. 562. The ÖTV has meanwhile merged with other trade unions in the service sectors to form the union *ver.di*.

⁵ *eironline: Privatization and industrial relations*. <http://www.eiro.eurofound.ie/1999/12/study/TN9912201S.htm>; A. Pendleton and J. Winterton: *Public enterprises in transition: Industrial relations in state and privatized corporations* (London, Routledge, 1993).

arrangements prevailing in the private sector have reinforced worker representation. At Deutsche Telecom in Germany, employees have gained representation on the supervisory board and there is a more prominent role for works councils at establishment level.

Box 6.2. Building the labour dimension into the privatization process in Buffalo, United States

Municipal politicians and managers and their employees' unions can exercise considerable influence on what happens after privatization by influencing the terms under which it takes place. For example, in 1996, intending to privatize its waste water treatment service, Buffalo, United States, invited proposals from United Water (UW), American Anglian Environmental Technologies (AAET) and Professional Services Group, Inc. (PSG), and required the bidders to set out what they would do with the existing labour force if they won the contract.

UW's submission stated that the company "is committed to employing existing staff and making significant investment in the greater advancement of each of its team members" and that they would extend the one-year no lay-offs pledge required by the city to five years, improving productivity instead through "our innovative approach to providing service-level enhancements, and through 'insourcing' of minor capital improvements work, major corrective repairs and other services currently 'outsourced' by the board". In addition, the company proposed to implement an extensive training programme on process control, maintenance, safety, warehousing, purchasing and cost control measures. However, the company made no promises about union recognition, bargaining rights or maintenance of pay levels.

AAET also undertook to embark upon a comprehensive programme of employee training and development and to maintain employment and terms of employment at the current levels throughout the period of their five-year plan, as a result of a planned extensive meter installation programme. Promising to meet all the financial costs of these commitments, the company's submission, however, declared its assumption that all employees with over 25 years of service, and therefore able to retire under the terms of the municipality's pension arrangements, would be enabled to take early retirement.

PSG appeared to anticipate the need for some redundancies in promising to negotiate acceptable terms and conditions with the unions, which included, but was not limited to, the elimination of the "no lay-off" language in existing labour contracts. The company also said it would budget for a 3 per cent pay increase, matching the city's labour contracts, and medical payments for up to 18 months; it would even provide training for redundant employees and other benefits. The company also pledged to bargain with the unions. Significantly, the more the commitments on employment made by the rival companies, the higher their proposed charge for the contract to the city, so that the city itself was faced with the cost of the trade-off.

Source: B. Martin: *Privatization of public services: Potential and limitations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

Faced with growing competition, public transport companies in Europe have to respond to a consistent demand for greater user orientation. The increased pressure on costs necessitates constant innovation and rationalization. Success in a competitive system also requires: collaboration between management and employees within companies; the delegation of responsibility; motivation; and – most of all – new forms of flexibility in working procedures and relationships. In the traditional environment, sector-level collective agreements have meant security for employees, not only as regards remuneration but also in view of working conditions, including arrangements for working time and deployment. Local or company agreements are often subordinate to such sector-level agreements and frequently only leave little room for manoeuvring. In the past, the system often gave employees in the public transport sector an income which can only be described as not very competitive under the new conditions. Over the last few years, discussions about adapting such collective agreements have been prominent in Germany. This has been achieved, if not across the board, at least with regard to newly recruited employees.

In November 1997, the Extraordinary European Council in Luxembourg appealed for the social partners to negotiate agreements on urban transport on every appropriate level – European, national, sectoral and company. There are two major conditions for entering into European social dialogue on a fully-fledged basis. The first condition is the need to have employer authority, i.e. to be mandated by national organizations with this authority in order to open negotiations within the framework of a European employers’ organization. The second condition is that there has to be a trade union organization that meets the same criteria. Faced with the increased responsibilities of social partners in terms of European social policy, the access to such discussions appears limited – particularly for European units of international organizations. The European Union Committee of the International Union of Public Transport (UITPs) is, for instance, not recognized as one of the European social partners according to the above criteria.

In the light of the severe reductions in employment in the utilities sector in recent years, the social partners in electricity – the European Grouping of the Electricity Supply Industry (EURELECTRIC), the European Federation of Public Service Unions (EPSU) and the European Mine, Chemical and Energy Workers’ Federation (EMCEF) – are increasingly trying to find common solutions to maintain employment and increase customer orientation in order to create new markets and therefore jobs in the sector. They started an informal social dialogue process in 1995. In September 1996, the partners reached an agreement on health and safety and training for the staff. More recently, in November 1999, the partners adopted a joint declaration on maintaining a “partnership approach” to restructuring. They expressed their commitment to explore jointly ways of addressing the changes in the sector to the mutual benefit of companies and employees and of minimizing the social consequences of restructuring. They agreed to: (i) explore good practices in lifelong learning and the redeployment of staff; (ii) identify future skill needs and potential measures to provide for them; and (iii) continue work on equal opportunities.

Formal agreements were concluded in some European countries. Following a long dispute, in December 1997, employees at *Electrabel*, the Belgian electricity distribution company, approved an agreement that focused on the reduction of working hours and on increased recruitment.

Box 6.3. Utility companies and collective bargaining in the United Kingdom

Current trends in the United Kingdom suggest that the companies have changed their bargaining structures. First, the national collective bargaining machinery was dispensed with and replaced with company bargaining. Further decentralization then occurred down to the business unit level, stretching union resources still further. More fundamentally, it is clear that management in the privatized firms did not see collective bargaining as a positive vehicle for change. Rather, managers appeared to accept that some degree of bargaining around the terms of restructuring was inevitable where unions remained well organized. Managers opted for informal “pacts” with the unions to manage the restructuring process. This should be seen in the light of the traditions that characterize British industrial relations. There has always been a greater reliance on informal understandings and “custom and practice” in the United Kingdom, compared with other European countries. A return to widespread national bargaining in the utilities seems remote, although the emergence of multi-utility companies could lead to the realignment of bargaining and new pay arrangements.

Source: J. Arrowsmith and T. Edwards: “Industrial relations implications of the liberalisation of the UK electricity sector”, in *Sironline*, Dec. 2000, <http://www.eiro.euofound.ie/2000/12/features/UK0012105F.html>

6.2. Regulation

The impact of a change of ownership is also affected by the regulatory regime through which the State or international institutions can continue to exert an important indirect effect on employment practices by shaping the structure of privatized industries. For example, in postal services, liberalization has led Sweden Post to shed one-quarter of its workforce since the early 1990s, whilst in more protected markets employment levels have remained more stable.⁶ Similarly, in France, a long tradition of state intervention to define and safeguard the general interest obligations of public services has ensured that proposed regulation of the public utilities is motivated as much by commitment to fulfilling their public service role as by an emphasis on competition.⁷ This is in sharp contrast to the environment in the United Kingdom, as was evident in the 1980s. The regulatory regime for competitive tendering in local government and the National Health Service required service managers to accept the lowest-cost tender, with substantial consequences for employment levels and working conditions.⁸

In the analysis of privatization, there has been little examination of how altered regulatory regimes have impacted on the public sector, or of the extent to which worker representatives and service users are involved in the regulatory process. This important issue requires looking into much deeper; whereas the 1990s could be characterized as the decade of privatization, in the first decade of the new millennium issues of regulation and re-regulation are uppermost in the management of the public services. Consumers have lobbied in general for their “right to choose” and for the liberalization of markets, but they also have pressured for surveillance and regulation of quality standards by the public authorities. There has been a widespread assumption that the delivery of services at municipal level provides in itself enough representation of the users since they are directly represented by municipal councillors. However, regulation at local level in the framework of globalized markets, even in public services, seems to go beyond the capacity of local governments.⁹ The question of regulating public services might also need to be re-examined in the context of the General Agreement on Trade in Services (GATS). Through various agreements and associated institutions, the World Trade Organization (WTO) has already had a major impact on public services. GATS, negotiated during the Uruguay Round of trade talks and finalized in 1994, established a framework for liberalizing international trade in services for

⁶ “European post offices”, in *The Economist*, 13 May 2000, p. 97.

⁷ A. Bilous: “Report examines competition and regulation in ‘network-based’ public services”, in *eironline*, May 2000, <http://www.eiro.eurofound.ie/2000/05/Features/FR0005165f.html>

⁸ S. Bach: *Too high a price to pay?: A study of competitive tendering for domestic services in the NHS*, Warwick Papers in Industrial Relations, No. 25 (Coventry, University of Warwick, July 1989).

⁹ R. Simpson: *The impact of decentralization and privatization on municipal services: The consumers’ perspective*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

the first time. It also authorized negotiations among sub-groups of WTO member governments to liberalize trade in specific service sectors, a provision resulting in two first agreements in 1997 covering the financial services and telecommunications sectors. Each WTO member decides which sectors are covered by or exempted from their GATS commitments and the degree of liberalization in each. The purpose of the GATS is to liberalize trade in services and to promote effective market access to all sectors for business enterprises of all nations.¹⁰

As for urban transport, the EU Common Transport Policy (CTP)¹¹ aims to promote efficient and sustainable transport systems that meet the needs of both people and business. The liberalization of the EU's transport sector with a view to creating an open and competitive market has been embedded in a legislative framework which seeks to provide the conditions which will ensure the availability of affordable transport services for all EU citizens. In the absence of an appropriate regulatory framework, liberalization of services could result, firstly, in the under-provision of services to less densely populated or rural regions and, secondly, in the establishment of a system of preferences between transport modes which is inefficient and unsustainable over the long term.

An important consideration is to ensure that the CTP creates frameworks that enable the maintenance of transport services, which are less profitable in purely financial terms, but have a high socio-economic value. Where transport services are unable to recover operating costs, at least in the short term, public service contracts may be necessary for regional development or social reasons. Accessible and affordable public passenger transport is essential for the full participation in society, both for work and leisure, of the many people who do not have access to private cars. The promotion of public transport and non-motorized forms of transport (cycling and walking) also brings environmental benefits which may benefit low-income groups because they depend on these forms of transport for mobility and because they are more likely to live in city centres, near busy roads and therefore suffer the consequences of air and noise pollution, and accidents. As regards local and regional public transport, the EU Commission seeks to gain acceptance for the principles of competition over those of public service, or at the very least to establish a fresh balance between them. The European Commissioner for Transport, in July 2000, proposed new rules for "regulated competition" in public transport, as a middle way between full liberalization and the closed market.¹²

For urban transport in general, there is little doubt that deregulation has had some negative results. For example, it has failed as a method of reducing reliance on the private car. Fares have increased, ridership has declined. This observation

¹⁰ Martin, op. cit.

¹¹ Commission of the European Communities: *Communication from the Commission: Cohesion and transport* (Brussels, 14 Jan. 1999).

¹² *Bulletin Quotidien Europe*, No. 7764, 24-25 July 2000.

has been made in Chile, Santiago and the United Kingdom.¹³ The newly published report on the United Kingdom, *Any more fares? – Delivering better bus services*, revealed that since bus services outside the capital were deregulated in the mid-1980s, bus travel has fallen by 34 per cent. In South Yorkshire buses have lost two-thirds of their passengers as people have changed to car travel. Interestingly, however, over the same period bus travel has grown by 13 per cent in London. The report further alleged that the Government had abandoned plans to increase bus travel across the country and was allowing provincial services to decline.¹⁴

Many of the ills of public transport in the cities of Latin America can be attributed to excessive or misguided regulation. Urban bus regulation in the region has been plagued by a perceived need on the part of the authorities to, first, protect bus operators from “cut-throat” competition; and second, to protect passengers from the potential effects of self-interested bus owners who do not have to fear that mistreated travellers might switch to another operator’s buses, which the government does not allow to operate. Good regulation requires good inspectors, together with an adequate supply of them. It also requires good route-planning procedures as well as sensible fare setting: low fares breed low-quality services. However, the main regulating agency for urban transport is more often municipal than national or provincial.

In the utilities sector, one type of privatization can be observed frequently. It may be called “load shedding” which means that a society determines that it should no longer pay for a good or service with public funds. Public budget cutting and deficit reduction, elimination of agencies or services, sale or lease of public assets to private parties are all strategies to reduce the size and influence of governments in society.

However, “load shedding” of public services tends to generate new and different demands on government. A municipality may go out of the solid waste collection and private disposal business, enabling property and homeowners to contract directly with the private disposal company of their choice. In this example, however, the municipality has increased regulatory responsibilities. Property owners cannot be allowed to have garbage pile up in their backyards, nor should they be subjected to monopoly contractors charging exorbitant prices. The municipality may remove itself from service delivery, but it assumes responsibilities for the difficult roles in inspection, licensing, price monitoring, environmental regulation, and law enforcement. This increase and change in responsibilities is demonstrated by a case study on the involvement of small-scale private sector contractors in waste collection and recycling in Dar es Salaam, the United Republic of Tanzania. In this case, the workload and competencies of the local authorities increased considerably since they had to supervise the application and enforcement of legal provisions for privatization and of regulations in waste

¹³ J. Fawcner: “Bus deregulation in Britain: Profit or loss?”, in *Public Transport International*, 1995-6, pp. 18-23. See also Transport and General Workers’ Union (T&G): *Busworkers’ survey 1997* (Apr. 1997).

¹⁴ B. Webster: “Bus services ‘are being left to decline and die?’”, in *The Times* (London), 16 Feb. 2001.

management by a large number of small contractors. The same has been reported from experiences of privatization in the delivery of municipal services through micro-enterprises in Lima, Peru.¹⁵ Similar concerns were also expressed with regard to the decentralization of health services in Bolivia and Brazil, where responsibility for the local health system could only be delegated at a very slow pace, accompanied by administrative preparation and training of local authorities.¹⁶

That regulation and price reviews can have an impact on levels of employment in the utilities industry has been demonstrated in England and Wales. For some time after the privatization of the utilities, it had been felt that the much-vaunted cost savings promised, notably by the multi-utilities, had failed to materialize on the envisaged scale. It was also felt that the shareholders, and not the employees and the consumers, had gained the greatest benefit from any savings made since privatization. The coming to power of the Labour Government has brought with it a marked change in the regulatory climate. Following the quinquennial review of water distribution prices in 1999, the water regulator (Ofwat) ordered the water companies to cut prices by an average 12.3 per cent from April 2000. The energy regulator (Ofgem) ordered a 23.4 per cent cut in electricity prices over the period 2000-04. The trade body for the water industry, Water UK, forecast 9,000 job losses as a result of this decision and the unions fear even more. In the weeks following the announcement of the price cuts, several water companies (Severn Trent, Kelda, Hyder, Thames Water) indicated considerable future cuts in jobs. Unions in the power sector argued that Ofgem's distribution price review alone would take a further 6,000-10,000 jobs out of the industry, which had already seen its workforce halved to 80,000 in ten years.¹⁷

¹⁵ K. Van der Ree: *Building on both sides of the bridge: Employment promotion through small-scale waste collection and recycling* (Geneva, ILO, 2000); idem (ed.); *Privatización de los servicios municipales a través de microempresas, el ejemplo de Lima*, ILO-IPRED (Geneva, 1998), pp. 6-7.

¹⁶ WHO: *Local government and health systems: Opportunities and challenges* (Geneva, forthcoming), box 1.1.

¹⁷ D. Gow: "No hiding place for the utilities: Hardline regulators make the shareholders suffer", in *The Guardian* (Manchester), 7 Dec. 1999; M. Jones: "Regulatory controls: UK utilities unveil price strategies", in *Financial Times* (London), 19 Jan. 2000; C. Mathieson: "Thames water to shed 200 jobs a year", in *The Times* (London), 19 Jan. 2000.

7. Development of employment

7.1. General trends in public and private employment

Assessing the development of employment in the public sector is difficult because in many countries separate statistics are not available on the various activities undertaken by the private and public providers. It is even more difficult to describe statistically the developments at the municipal services level. Furthermore, outsourcing as the main form of private provision of municipal services, often takes place over very limited periods of time and is thus not reflected in statistical data. The extent of this form of privatization can therefore be only estimated.

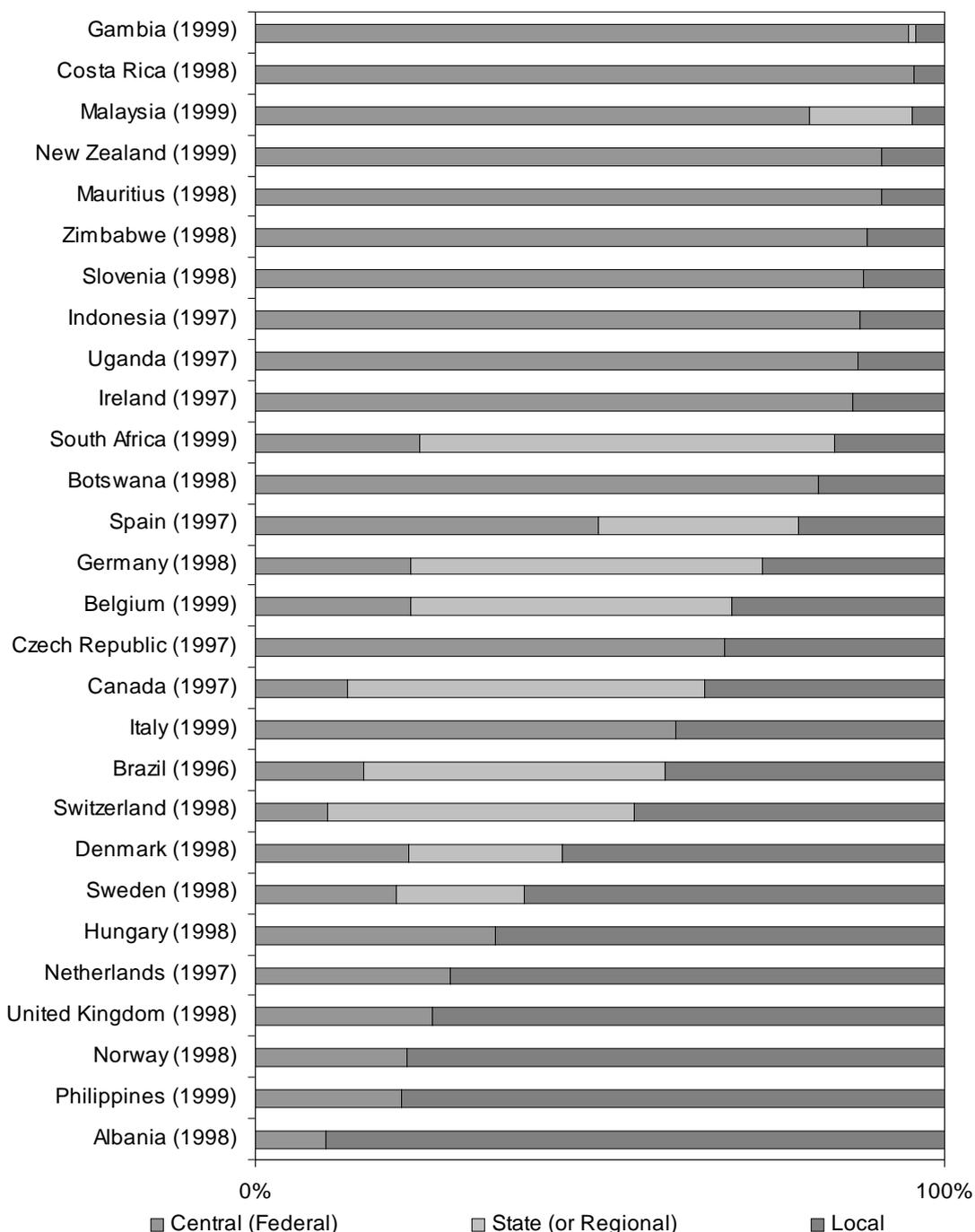
The most recent statistics may be found in the ILO public sector employment database (PSEDB) which has been established on a trial basis and last updated in 2001. Some results are shown in figures 7.1-7.9. As a more general observation it can be stated that:

- over the last decade, while total employment rose in almost all industrialized and developing countries that reported to the ILO databases, total employment in transition countries declined;
- during the same period, public sector employment¹ mostly declined in the industrialized countries for which statistics are available. In transition countries the decline was even more marked in this sector than in total employment. However, most of the developing countries with relevant statistics showed an increase in public sector employment. Statistics for the last available year revealed that the share of public employment in total was 23.6 per cent in the industrialized countries, 20.8 per cent in developing countries, and 38.1 per cent in transition countries;
- the average share of women in public employment accounts for 47.6 per cent in industrialized countries; 50.9 per cent in transition economies; and 37.2 per cent in developing countries. In all regions, the share of women in public sector employment is higher than in the private sector. The share of women in public employment by country may be seen in Appendix 1;
- while the employment in the public sector in general declined, the share of local government employment as compared to central government level

¹ The statistical data referred to below as “public sector employment” or “public employment” include data on the “public corporation sector”. Therefore, they go beyond the “general government sector employment”, which corresponds in this report to “public service”. For further details, see M. Hammouya: *Statistics on public sector employment: Methodology, structures and trends*, Sectoral Activities Programme Working Paper 144 (Geneva, ILO, 1999), pp. 3-4.

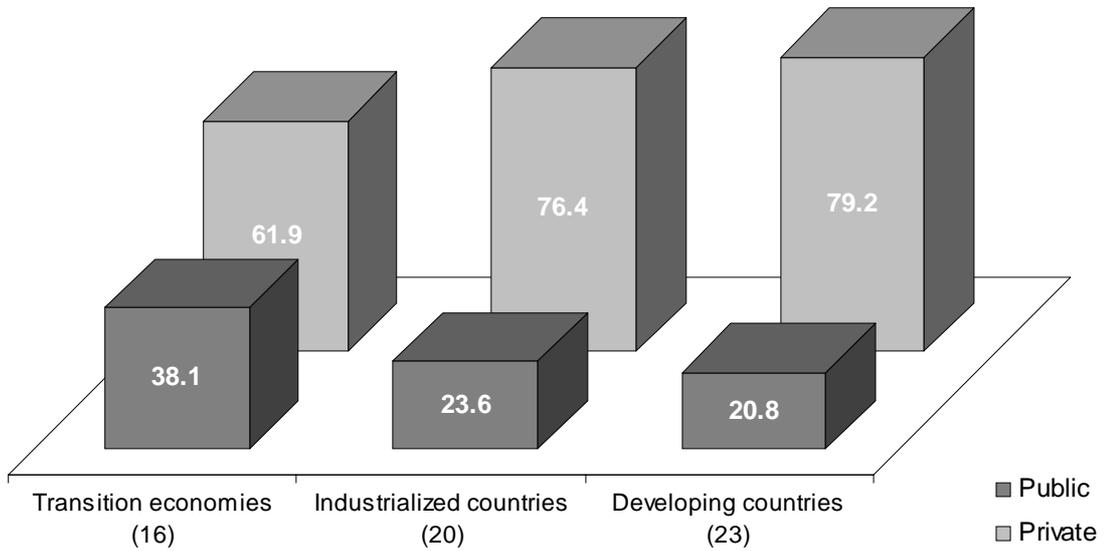
increased or was stable. This share varies considerably between 4.1 per cent (in Gambia) and 89.7 per cent (in Albania) (table 7.1).

Figure 7.1. Contribution of the levels of government to employment in general government ¹
(in percentages and last year available)



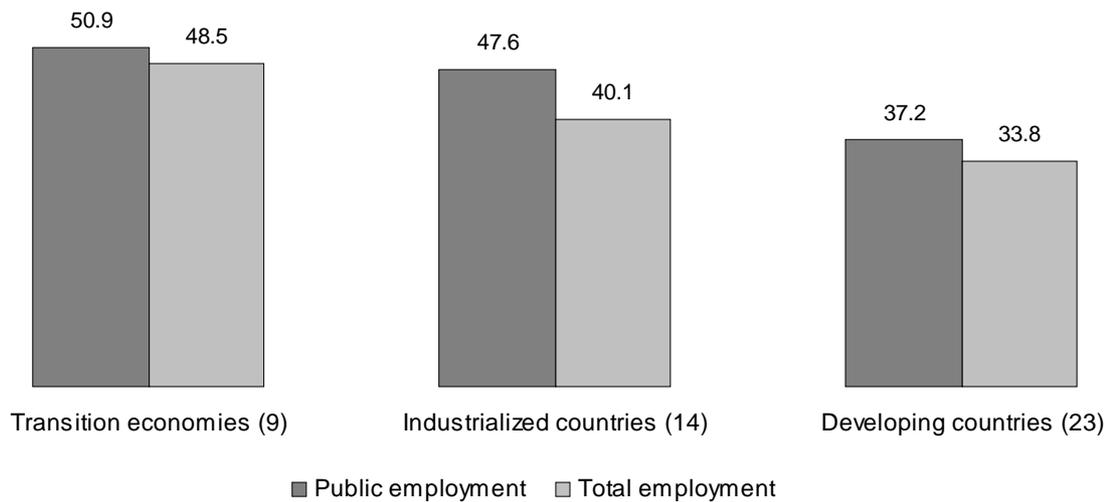
¹ By order of increasing percentages of the share of local employment in general government.
Source: ILO: Public sector employment database (PSEDB), Bureau of Statistics.

Figure 7.2. Share of public and private employment by group of countries¹ 1997-99
(Average of the national percentages)



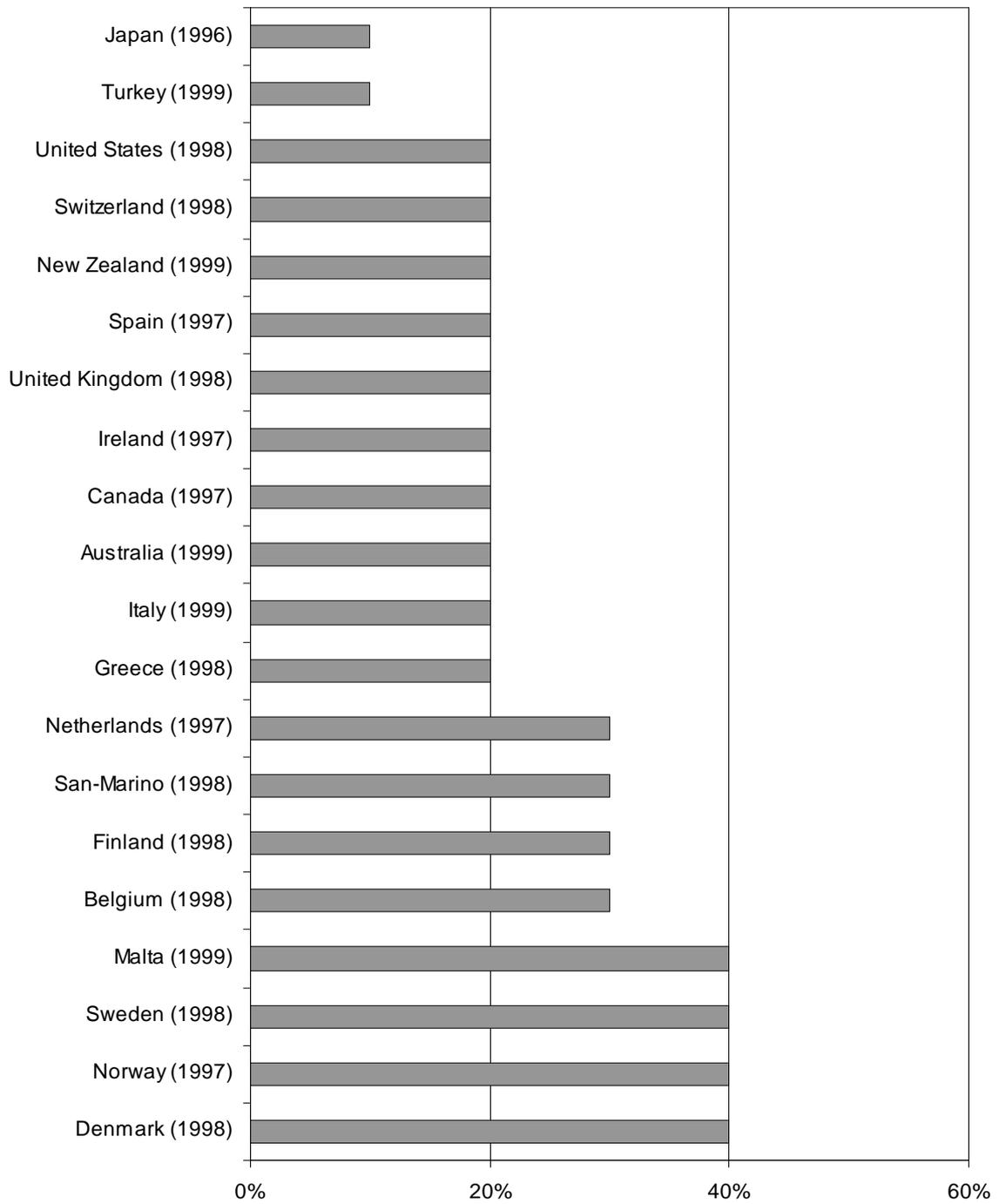
¹ In the brackets the number of countries considered.
Source: ILO: PSEDB, op. cit.

Figure 7.3. Share of the employment of women in total and public employment by group of countries¹
(Average of the national percentages, last year available)



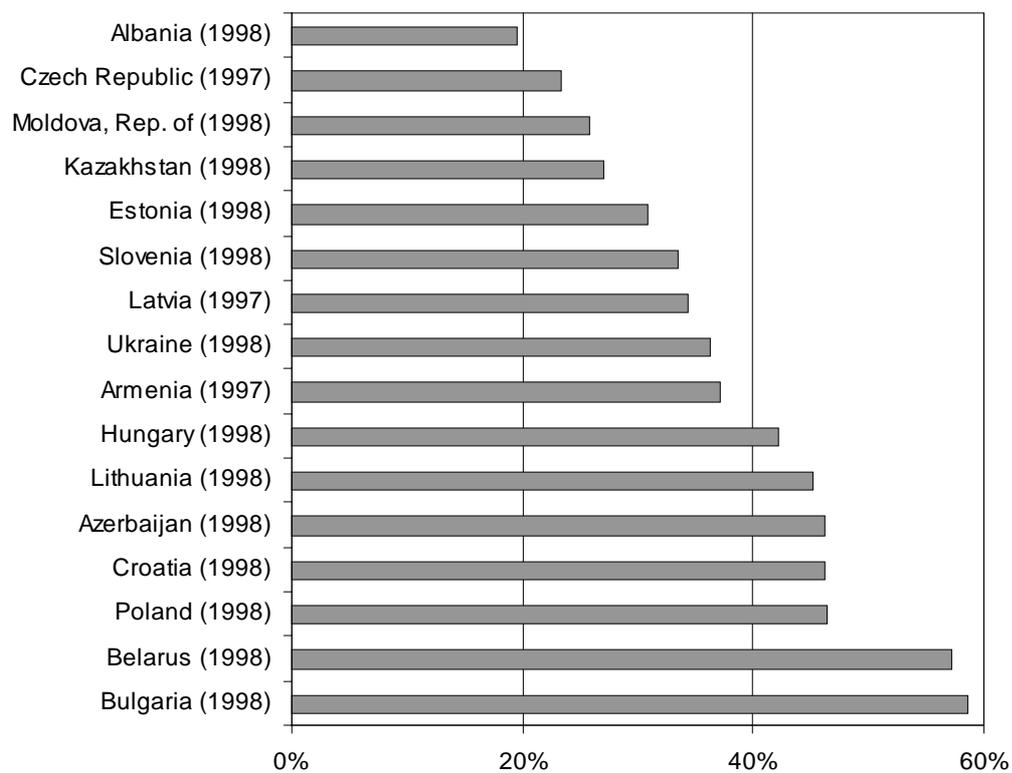
¹ In the brackets the number of countries considered.
Source: ILO: PSEDB, op. cit.

Figure 7.4. Share of public employment in total employment in 20 industrialized countries ¹
 (in percentages for last year available)



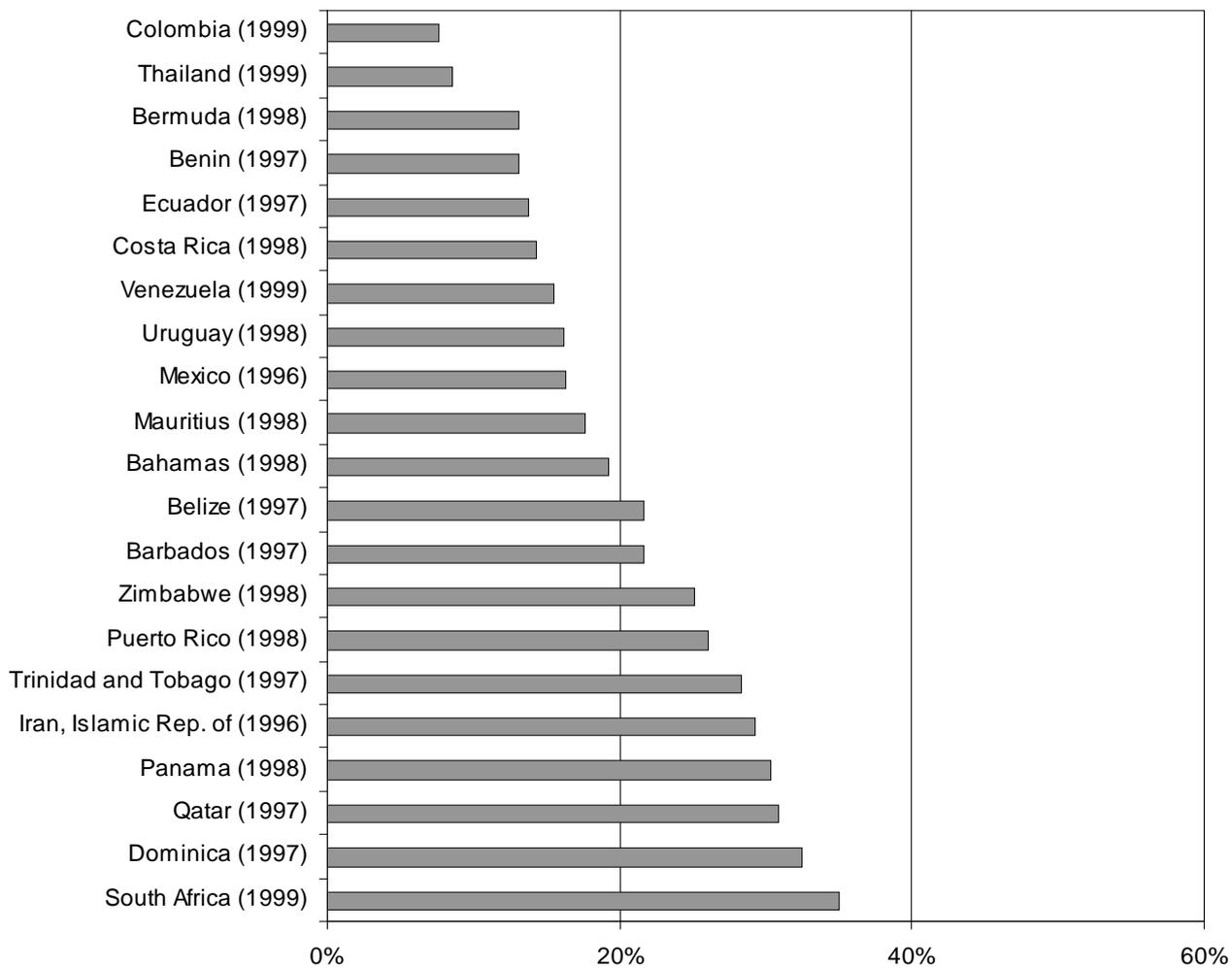
¹ By order of increasing percentages of the share of public employment in total employment.
 Source: ILO: PSEDB, op. cit.

Figure 7.5. Share of public employment in total employment in 16 transition economies ¹
(in percentages for last year available)



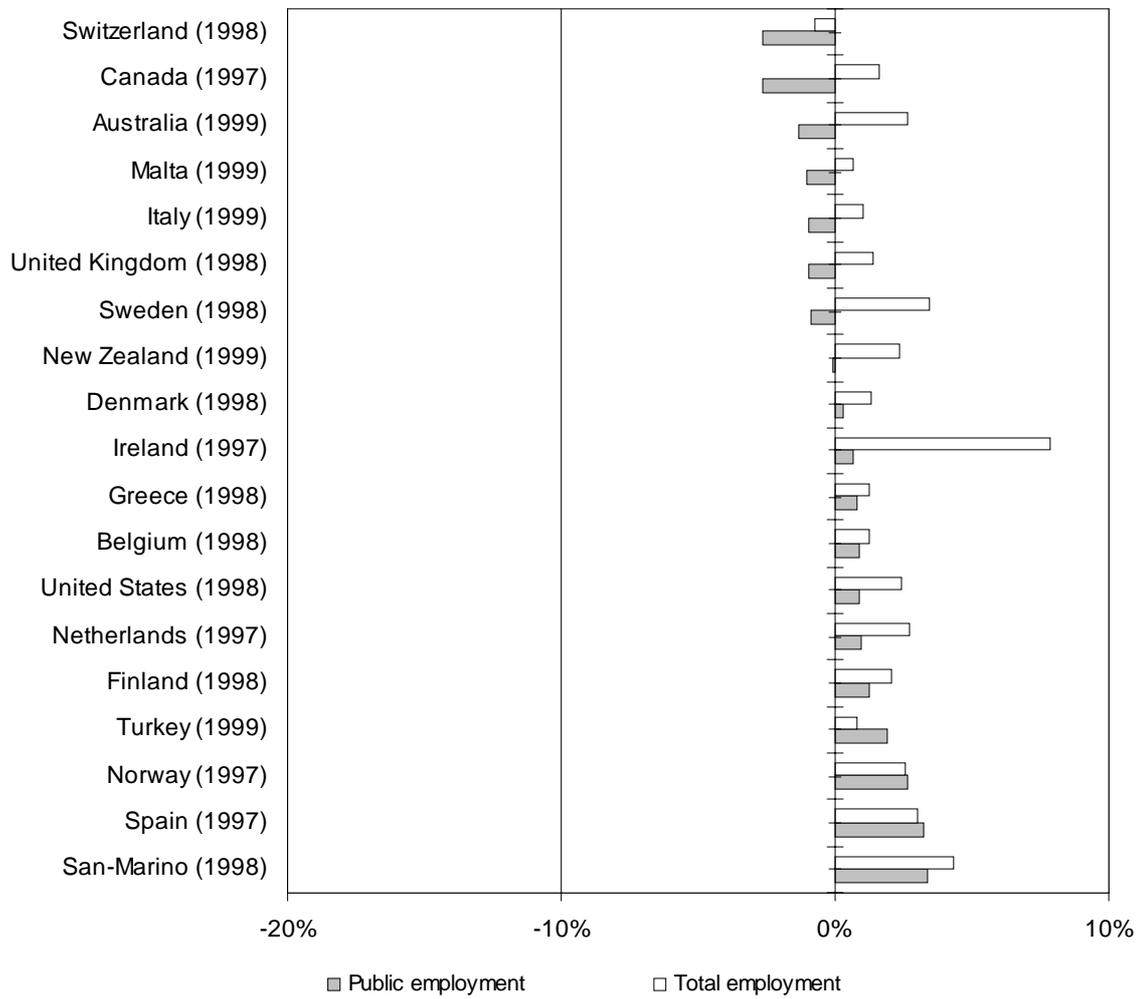
¹ By order of increasing percentages of the share of public employment in total employment.
Source: ILO: PSEDB, op. cit.

Figure 7.6. Share of public employment in total employment in 21 developing countries ¹
(in percentage for last year available)



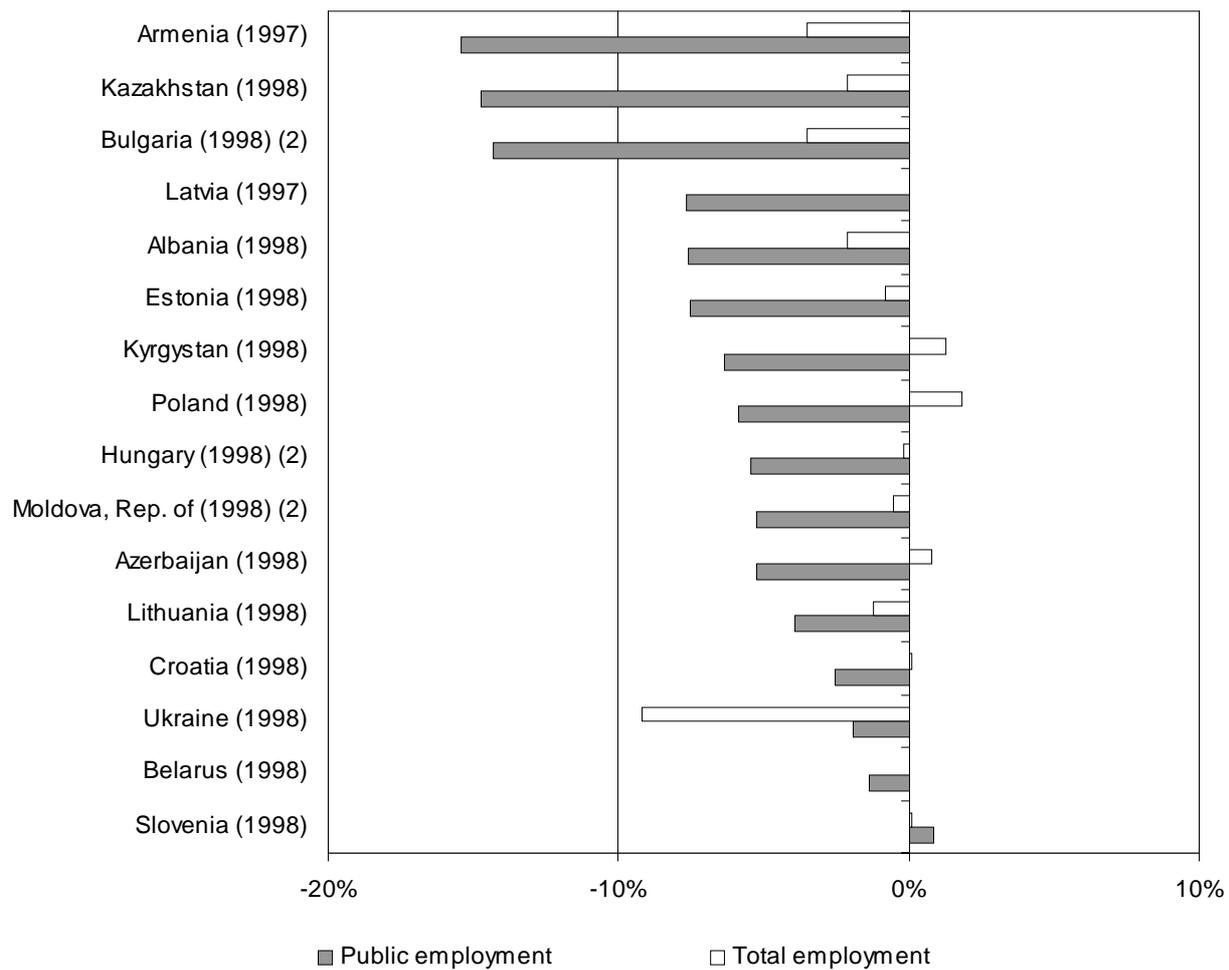
¹ By order of increasing percentages of the share of public employment in total employment.
Source: ILO: PSEDB, op. cit.

Figure 7.7. Changes in total and public employment in 19 industrialized countries ¹
 (indices of yearly change from the base year 1995 = 100)



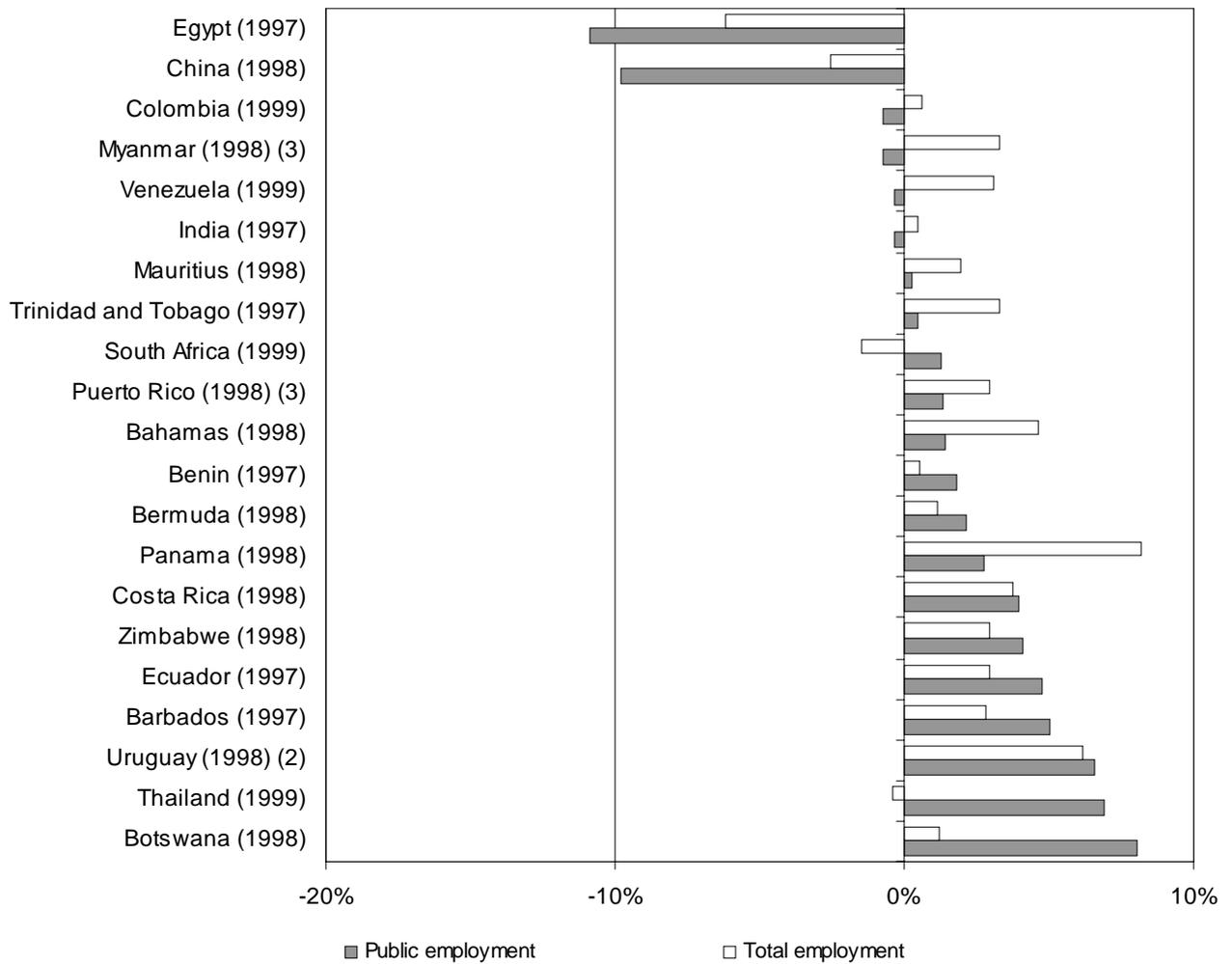
¹ By order of increasing percentages of the changes in public employment.
 Source: ILO: PSEDB, op. cit.

Figure 7.8. Changes in total and public employment in 16 transition economies ¹
 (indices of yearly change from the base year 1995 = 100)



¹ By order of increasing percentages of the changes in public employment. ² 1996= 100.
 Source: ILO: PSEDB, op. cit.

Figure 7.9. Changes in total and public employment in 21 developing countries ¹
 (indices of yearly changes from the base year 1995 = 100)



¹ By order of increasing percentages of changes in public employment. ² 1996= 100. ³ 1994= 100
 Source: ILO: PSEDB, op. cit.

There are limitations in national statistical capacities as well as in the way national statistics are produced and submitted to international depositories. However, Appendix 2 presents for some countries reasonably comparable statistics on the structure and development of employment in the sectors covered by this report. Statistics relevant for highlighting the extent and effects of decentralization are available for a limited number of countries (see table 7.2). Thus, the last conclusion in particular has to be carefully examined against the reduced employment figures of previous public service reforms which implied major budget reductions – including those funds which were transferred to local governments, thus reducing in turn their employment levels.

Table 7.1. General government employment by government level

Country	Year	General government						
		Total			Regional (State)		Local	
		('000)	Central (federal)	%	('000)	%	('000)	%
Albania	1998	133.6	13.8	10.3	–	–	119.8	89.7
Belgium	1999	716.8	161.5	22.5	333.9	46.6	221.4	30.9
Botswana	1998	101.9	83.1	81.6	–	–	18.8	18.4
Canada	1997	2 537.7	338.0	13.3	1 314.8	51.8	884.9	34.9
Costa Rica	1998	159.5	152.6	95.7	–	–	6.9	4.3
Czech Republic	1997	748.6	509.2	68.0	–	–	239.4	32.0
Denmark	1998	835.4	186.0	22.3	186.8	22.4	462.6	55.4
Gambia	1999	15.8	15.0	94.9	0.2	1.0	0.7	4.1
Germany	1998	4 539.0	1 023.0	22.5	2 317.0	51.0	1 199.0	26.4
Hungary	1998	759.3	264.8	34.9	–	–	494.5	65.1
Indonesia	1997	4 094.4	3 588.7	87.7	–	–	505.6	12.3
Ireland	1997	230.8	199.9	86.6	–	–	30.9	13.4
Italy	1999	3 543.6	2 164.4	61.1	–	–	1 379.2	38.9
Malaysia	1999	775.3	622.7	80.3	116.6	15.0	35.9	4.6
Mauritius	1998	61.9	56.1	90.7	–	–	5.7	9.3
Netherlands	1997	945.6	268.3	28.4	–	–	677.3	71.6
New Zealand	1999	213.4	193.8	90.9	–	–	19.5	9.1
Norway	1998	689.9	152.1	22.0	–	–	537.8	78.0
Philippines	1999	502.2	107.0	21.3	–	–	395.2	78.7
Slovenia	1998	122.7	108.4	88.3	–	–	14.3	11.7
South Africa	1999	1 436.3	341.3	23.8	864.8	60.2	230.2	16.0
Spain	1997	1 985.2	988.4	49.8	578.3	29.1	418.5	21.1
Switzerland	1998	482.7	50.5	10.5	214.9	44.5	217.3	45.0
Sweden	1998	1 230.6	251.0	20.4	230.4	18.7	749.2	60.9
Uganda	1997	155.2	135.6	87.4	–	–	19.6	12.6
United Kingdom	1998	3 463.0	885.0	25.6	–	–	2 578.0	74.4
Zimbabwe	1998	290.7	258.2	88.8	–	–	32.5	11.2

Source: ILO: Public sector employment database (PSEDB), Bureau of Statistics.

Table 7.2. Change in total and public employment according to government levels
(1995 and last available year in selected countries)

Country* (last year available)	Total employment	Public employment	Employment in general government		
			Central	Federal (State)	Local
Albania (1998)			+	-	-
Malaysia (1998)			+		-
Germany (1998)			-		-
Hungary (1998)		-	-		-
South Africa (1999)	-	+	-	+	-
Zimbabwe (1998)	+	+	+		-
Costa Rica (1998)	+	+	-		-
Canada (1997)	+	-	-	+	-
United Kingdom (1998)	+	-	-	+	-
Italy (1999)	+	-	-		-
Sweden (1998)	+	-	-	-	-
Indonesia (1997)			+		-
Belgium (1999)			-		=
New Zealand (1999)	+	=	+		+
Ireland (1997)	+	+	+	-	+
Netherlands (1997)	+	+	-		+
Mauritius (1998)	+	+	=		+
Denmark (1998)	+	+	+	-	+
Slovenia (1998)	=	+	+		+
Norway (1998)	=	+	+	+	+
Philippines (1999)			-		+
Spain (1997)	+	+	+	-	+
Botswana (1998)	+	+	+		+
Uganda (1997)			-		+

Note: * By order of increasing change in local employment; + positive change; - negative change; = no change.
Source: ILO: Public sector employment database (PSEDB), Bureau of Statistics.

7.2. Education

Employment in education is driven largely by two factors: demand generated by enrolment in formal educational systems and institutions, public and private; and investment in education by public and private sources in response to quantitative and qualitative need. Worldwide demand increased during the 1990s, pushed upwards by demographic growth, reductions in the numbers of children not attending school at primary level, and steady growth in enrolment at secondary and tertiary levels in practically all regions. Growth in demand was far from even among regions, however, with sub-Saharan Africa and southern Asia trailing other regions at practically all levels, and significant declines in enrolment at all but primary level for countries in transition from centrally planned to market economies. Sub-Saharan Africa as a group recovered much of the primary

enrolment loss suffered during the 1980s, a time of considerable setbacks due to structural adjustment measures.²

The second principal determinant of employment – educational financing – has remained stable or has increased during the last decade taking the world as a whole, but regional and intra-regional differences can be vast. In terms of public sector expenditure, developed countries continue to invest 5 per cent or more of GNP in education, countries in transition as a whole have boosted investments to 4.8 per cent despite their economic difficulties, and less developed countries remain at slightly under 4 per cent. Among less developed countries, nevertheless, sub-Saharan Africa and the Arab States invest more than 5 per cent. The seeming paradox may be explained by vast differences between countries within these groupings. For example, the least developed countries (LDCs) (of which there are almost 50 as defined by UNESCO), taken separately, lag behind the rest of the world in public sector investments in education, with an average of only 2 per cent of GNP. The LDCs include many of the countries of sub-Saharan Africa, which means their difficulties with regard to educational investments are masked by other higher investing African countries. For LDCs as a whole, educational spending has declined ominously since 1980, at a time when most of the countries faced increased enrolment demand.³ Conversely, the capacity of countries to finance education, measured by higher GDP per capita, has been shown to have a positive effect on educational participation and attainment in a range of middle- and high-income countries.⁴

Demand and investment patterns have influenced teacher employment patterns, which are up, but not to the same degree as enrolments (see figure 7.10). As with enrolment figures, employment also varies significantly by region and countries within regions. Despite considerably higher teacher recruitment rates in the LDCs, these countries suffer a severe lack of teachers (particularly qualified teachers) in relation to enrolment demand which continues to grow. As a result, a downward spiral in conditions occurs, marked by lack of access, failure, repetition and drop-outs which further burden the society's educational, social and economic

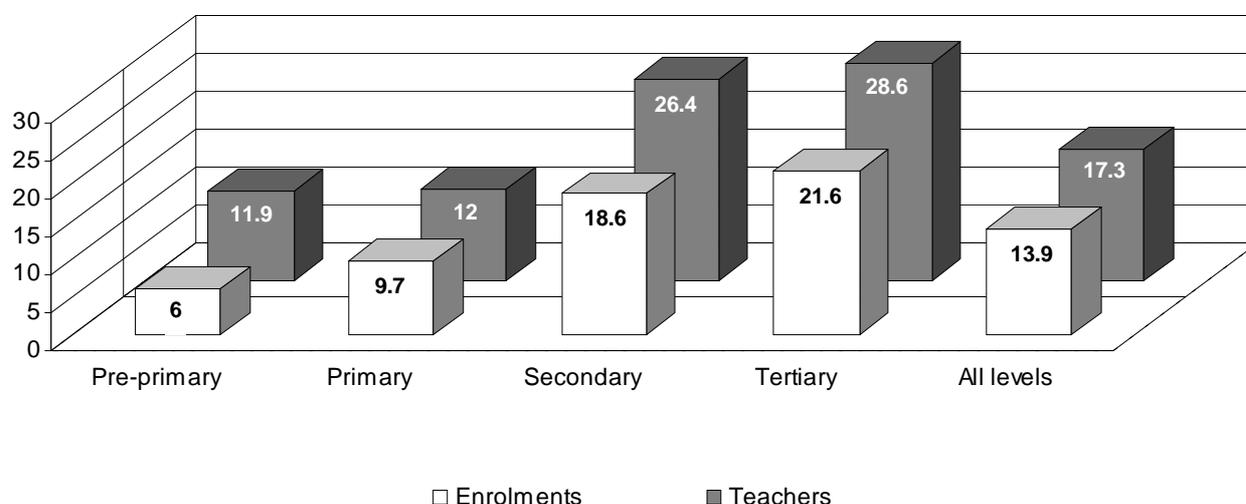
² UNESCO: *The right to education: Towards education for all throughout life* (Paris, 2000), Appendix II, tables 5-8; ILO: *Impact of structural adjustment on the employment and training of teachers* (Geneva, 1996); ILO: *Lifelong learning in the twenty-first century: The changing roles of educational personnel* (Geneva, 2000). Both these reports respectively note the impact of structural adjustment on developing and transition country enrolments, and dramatic declines in pre-primary and secondary education resulting from political and economic changes in these countries of Europe and Central Asia since 1990.

³ *ibid.*, Appendix II, table 12.

⁴ OECD: *Investing in education: Analysis of the 1999 World Education Indicators* (Paris, 2000), pp. 79-80.

systems. The gaps between the most developed and LDC countries, moreover, are increasing.⁵

Figure 7.10. Percentage growth in enrolments and teachers worldwide, 1990-97



Source: Based on UNESCO: *World Education Report 2000*, (Paris, 2000), Appendix II, tables 5-9.

The review of teachers' employment sets the stage for the related question which is central to this report: what are the trends concerning non-teaching educational personnel, especially those which provide critical support functions for the teaching-learning process?

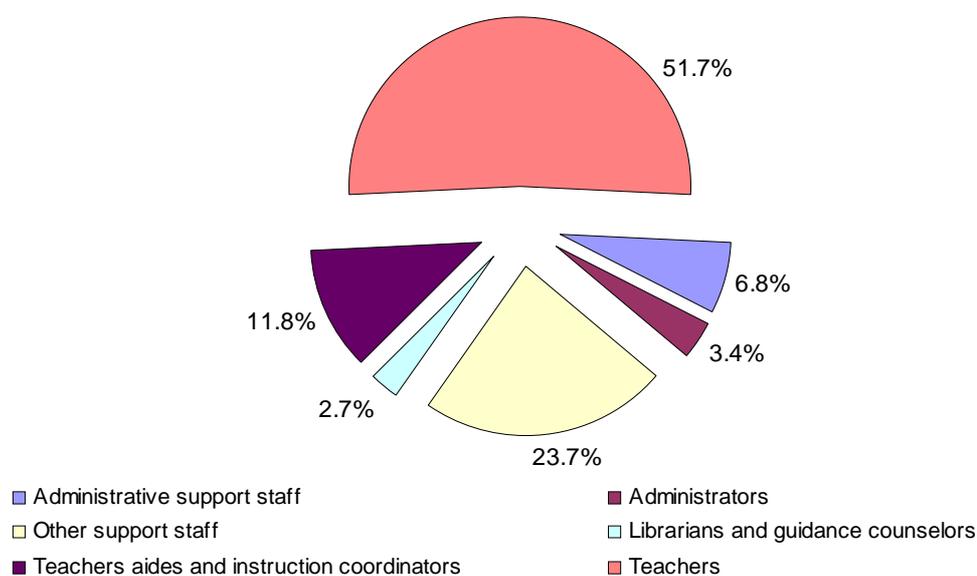
The statistical data for a reply to this question are extremely limited and partial in their geographic coverage. In 1995, OECD member countries estimated all educational personnel other than teachers at 1.5 per cent of the economically active population, with 3.9 per cent for teachers. The proportion of teaching staff increased in the first half of the 1990s, while the proportion of other educational personnel remained unchanged. Some countries chose to put more resources into non-teaching staff (though many of these job categories are also engaged in direct support to teaching in some capacity). Variations in the ratio of teaching to non-teaching staff depend on a number of factors and policies: differences in mandatory schooling and instruction time; size of the school-age population; and instructional parameters such as teachers' hours of work, class sizes and policies related to the non-instructional duties of teaching staff. In almost half of the OECD countries reviewed at the time, administrative and support staff accounted for 20-35 per cent of persons employed in education. Some countries, such as Denmark and the United States, have consistently been among those which hired 40 per cent or more of their staff in administrative, instructional (non-professional teacher) or other support staff categories, while other countries such as Canada, Greece and Italy generally hire 20 per cent or less in non-teaching staff categories. An ILO survey of the period 1985-94 did not reveal a uniform trend in either direction among high-

⁵ ILO: *Lifelong learning in the twenty-first century: The changing roles of educational personnel* (Geneva, 2000), pp. 20-21.

income countries (including the OECD), but suggested that in many of these countries, there was a greater tendency to hire more ancillary staff as educational populations and needs diversified.⁶

In some highly decentralized national systems, federal or otherwise, where local government is the dominant or exclusive provider of educational services, the figures cited above are broadly equivalent to local government personnel, and thus directly related to the subject of this report. However, the ratio of employed educational staff to local government personnel is by no means uniform. In one highly decentralized country, the United States, where virtually all schools from pre-primary to secondary are run by districts at city (municipal) or county level, the national percentage of non-teaching personnel provides a rough indicator of employment levels among staff other than teachers at municipal level. As noted in figure 7.11, administrative and other support staff in schools comprise more than 30 per cent of those employed in public primary and secondary schools, though the number declined slightly in the course of the 1990s. In the process the number of teaching aides increased, rendering trends in the United States more or less in line with those noted above and in other sources in two important areas: hiring of more ancillary staff; and investment in greater human resources directly engaged in instructional work.

Figure 7.11. Employment of teaching and non-teaching personnel, United States, 1999 (%)



Source: National Center for Education Statistics (NCES): *Common core of data, public school student, staff and graduate counts by State, school year, 1999-2000* (NCES, United States Department of Education).

⁶ ILO: *Lifelong learning in the twenty-first century: The changing roles of educational personnel* (Geneva, 2000), p. 95; ILO: *Recent developments in the education sector* (Geneva, 1996), pp. 12-13; OECD: *Education at a Glance, OECD Indicators, 1997* (Paris, 1997), p. 119.

Overall employment figures for countries outside the OECD grouping are more difficult to evaluate. One 1998 survey⁷ estimated that public sector or government-employed education personnel in developing regions averaged about half the levels of the OECD countries. Based on these estimates from a number of sources, the average government employment in education as a percentage of population (and not of overall employment or labour force participation as commonly used by the ILO) in the early 1990s was 0.6 per cent in Africa, 0.8 per cent in Asia, Latin America and the Caribbean, and 0.9 per cent in the Middle East and North Africa, compared to 2.1 per cent in OECD countries. In Central and Eastern Europe and the former USSR, however, an estimated 3 per cent of the population was employed in education, largely owing to very high percentages in the former USSR. Total central government employment had significantly declined in all groups of countries during the 1980s and early 1990s, only partly offset by increased employment in local government. Though the breakdown by sector was not known, one may speculate that education is no less affected than other public sectors, but the admittedly incomplete statistical picture does not clearly answer the question of how many people are employed at municipal level in education, and whether this has changed significantly as a result of decentralization and privatization policies.

7.3. Health services

In health services in general, there have been different types of reforms with varied employment effects. These have been examined in an ILO report in 1998.⁸ The most frequent type of health sector reform seems to be one which leads to restructuring in the employment in health services by placing emphasis on professions in nursing. This has added to the long-term shortage of nurses since the supply side of this labour market has, for a number of reasons, not followed demand. At the same time the shift in health policy to preventive and primary health care has required restructuring the employment from central to local government levels and to include the private sector provision of health services.

In the Philippines, for example,⁹ as a result of the decentralization of public health care services in the 1990s, the majority of health personnel are now administered by the local government units (see table 7.3). In the more recent initiative by the Department of Health, of the approximately 3,000 staff who have

⁷ S. Schiavo-Campo: "Government employment and pay: The global and regional evidence", in *Public Administration and Development*, 18, pp. 462-467, and appendix, pp. 474-478.

⁸ ILO: *Terms of employment and working conditions in health sector reforms*, Report for discussion at the Joint Meeting on Terms of Employment and Working Conditions in Health Sector Reforms, Geneva, 1998.

⁹ I.C. Sia et al.: "Public service reforms and their impact on health sector personnel in the Philippines", in ILO/WHO: *Public service reforms and their impact on health sector personnel* (Geneva, ILO, 2000), p. 157.

remained in the central office, another 40-50 per cent will be redeployed to the regions and the new centres of health development.

Table 7.3. Number of government-employed physicians, dentists, nurses and midwives in the Philippines (decentralized and retained centrally), 1997

	Decentralized	Retained centrally
Physician	3 123	4 232
Dentist	1 782	179
Nurse	4 882	4 837
Midwife	15 647	241
Total	25 434	9 489

Source: Personnel Division, Department of Health, Field Health Service Information System, cited in Sia, op. cit., p. 157.

7.4. Transport

Transport can contribute to employment in a number of ways. First, investment in transport infrastructure contributes to employment in both the short term and the long term. Short-term effects, which arise during the construction phase, are easiest to measure. This is often one of the attractions of public investment in transport infrastructure. While the short-term boost to employment is welcome, especially in high unemployment regions, it is not the primary objective of investment in transport infrastructure, which is to secure long-term gains in the form of increased competitiveness and the creation of durable employment. Second, efficient transport systems are essential for the operation of the labour market to ensure the widest access of workers to employment. Some of the unemployment in many countries derives from poor planned transport systems which can be an obstacle to the mobility of workers even over comparatively short distances – for example, within a single urban centre. It is increasingly recognized that the key concern here is often not the provision of new transport infrastructure, but the provision of transport services, particularly public transport.

As regards the employment development in the transport sector itself, it is very difficult to obtain employment figures which make it possible to distinguish between those employed by publicly owned and those employed by privately owned transport enterprises. The statistical categories include transport in communication services. A few statistics on transport by various categories are available for the United States and Europe.

Global railway employment at the end of 1997 totalled 8,306,000 persons. Most railway operators in the European Union and Central and Eastern Europe reduced employment. Reductions from 1996-97 ranged from 28.7 per cent for the Danish State Railway (DSB) to an average of 4.3 per cent for Central European countries. Job cuts were also registered in other parts: Australia, China, India, Japan, New Zealand, the Russian Federation and the United States.

Table 7.4 contains figures on the development in various modes of transportation in the United States between 1990 and 1998, showing strong growth

in local and inter-urban passenger transit – from 338,000 employees in 1990 to 468,000 in 1998.

Table 7.4. Employees on payrolls by industry in the United States, annual averages, 1990-98
(in thousands)

Industry	1990	1991	1992	1993	1994	1995	1996	1997	1998
Transportation	3 511	3 495	3 495	3 598	3 761	3 904	4 019	4 123	4 276
Railroads	279	262	254	248	241	238	231	227	231
Local/inter-urban passenger transit	338	354	361	379	404	419	437	452	468
Trucking and warehousing	1 395	1 378	1 385	1 444	1 526	1 587	1 637	1 677	1 745
Water transportation	177	184	173	168	172	175	174	179	180
Air transportation	968	962	964	988	1,023	1,068	1,107	1,134	1,183
Pipelines	19	19	19	18	17	15	15	14	14
Transportation services	336	336	338	352	378	401	418	441	455

Source: United States Department of Labor: *Report on the American workforce* (1999), p. 148.

Table 7.5 deals with employment in the various modes of transport in the European Union countries in 1995; it also gives the percentage share of transport employment of overall employment. A random survey of 45 public transport companies in various parts of the world revealed that in 1996 these companies employed a total of 512,000 persons.¹⁰

¹⁰ Author's calculations based on: *Jane's Urban Transport Systems*, Sixteenth Edition (1997-98) and Eighteenth Edition (1999-2000).

Table 7.5. Employment in European transport (by mode of transport) – 1995 ('000 persons)

Country	Railways	Pipelines	Road passengers	Road freight	Sea transport	Inland water transport	Air transport	Travel/tour operators	Auxiliary transport activities	Transport total	% of total employment
Belgium	41.9	0.01	25.9	42.7	2.3	1.3	12.4	5.8	34.8	167.0	4.5
Denmark	15.7	0.13	22.9	36.9	11.8	–	13.3	5.5	30.5	136.7	5.4
Germany	311.0	0.96	198.2	236.2	31.5	11.6	66.8	65.1	355.8	1 277.1	3.7
Greece	11.9	–	25.5	105.6	3.1	–	5.7	5.0	53.2	209.9	5.4
Spain	41.9	0.1	66.6	240.9	9.6	0.1	32.8	30.6	91.2	513.8	4.0
France	181.1	1.28	168.1	270.4	11.4	2.1	59.3	30.7	170.6	895.0	4.0
Ireland	11.1	–	6.7	9.5	1.8	–	5.9	2.9	8.0	45.9	3.5
Italy	162.8	0.51	134.5	268.7	20.1	5.7	20.5	31.0	160.0	803.8	3.6
Luxembourg	3.3	–	1.8	4	–	0.1	2.9	0.5	1.2	13.8	6.5
Netherlands	26.6	0.19	60.5	102.6	8.7	13.8	32.4	18.0	56.3	319.1	5.9
Austria	62.8	0.14	35.6	34.8	0	0.5	6.3	8.2	20.5	168.9	5.0
Portugal	13.1	–	34.1	30.2	1.5	1.1	9.2	5.0	17.2	111.4	2.5
Finland	15.2	–	16.4	28.3	8.1	0.3	7.4	3.3	14.8	93.8	4.8
Sweden	21.6	0	34.2	44.9	12.7	0.7	10.1	7.6	25.9	157.8	3.9
United Kingdom	101.5	1	112.4	244.7	23.5	0.2	58.0	75.0	203.3	819.5	3.2
EU 15	1 021.5	4.31	943.3	1 700.2	146.1	37.5	343.1	294.2	1 243.4	5 733.6	3.9

Source: European Union: *EU transport in figures: Statistical pocketbook – 2000* (Brussels, 2000), table 1.10.

7.5. Utilities

From the outset, it needs to be noted that reliable, comparable disaggregated data for most utility industries are difficult to obtain. In most countries such statistics on employment are collected and presented either for all utilities or included among total employment in public or government service. Furthermore, available statistics do not have separate figures for employment in publicly owned or privately owned utilities. Some statistics are, however, presented in Appendix 2.

The development of employment in the privatized and deregulated sectors is not uniform, as can be seen from the example of the most important utility industries of the United Kingdom.¹¹ It is important to note that there it was observed that a large share of job reductions occurs in preparation of the structural reforms and that privatization alone, i.e. the change in ownership, is not always the decisive factor. Studies show that total employment in the deregulated sectors has remained relatively constant because job losses in the core activities of the privatized enterprises have been compensated by new jobs in diversified activities. While several of the former monopoly suppliers in the regulated sectors have registered considerable job losses, new jobs have been created in companies that have entered the market (telecommunication suppliers, independent power producers, other service suppliers). However, the size and sectoral distribution of the newly created jobs are difficult to identify. Although contracting out often results in a reduction in employment in the units directly concerned, there are no indications that the increase in contracting out has resulted in higher unemployment, because the employees concerned are either transferred within the enterprise or employed by the private contractor. In particular, higher qualified personnel are often retained, and the possibilities for cost reduction through reductions in employment are, however, limited. One of the important tasks of the regulator is to supervise the quality of services offered, i.e. to ensure that cost reductions are not achieved through a reduction in quality.¹²

A recent study for the European Commission, however, showed that 250,000 jobs were lost in the EU electricity and gas industries between 1990 and 1998, but that the restructuring had taken place in a socially responsible way. Figures from the Statistical Office of the European Communities (Eurostat) show that there has been a significant decline in employment in the electricity sector. However, the magnitude of decline in employment varies significantly from country to country, showing a strong correlation between employment reduction and the extent of restructuring and privatization experienced in the sector. While the United Kingdom, an example of a country where extensive restructuring has taken place, has seen a decline in employment of as much as 40 per cent, employment in the

¹¹ W. Pfaffenberger, U. Scheele and K. Salge: *Energieversorgung nach der Deregulierung: Entwicklungen, Positionen, Folgen* (Berlin, Ed. Sigma, 1999), p. 72.

¹² *ibid.* pp. 72-76.

sector in France and Spain with no significant restructuring remained stable or increased.¹³

Box 7.1. Privatization and employment in utilities in the United Kingdom

The new commercial environment resulting from privatization and liberalization in the United Kingdom meant that the companies had to reduce costs in order to be competitive and increase shareholder value. Yet cost-cutting had to be managed in a way which not only avoided damaging confrontation with the unions but also allowed management to press ahead with further changes to working practices to increase efficiency. With labour costs a relatively small component of total costs – under 10 per cent – and with profitability high, the generating firms did this partly through steady increases in pay. However, employment levels fell dramatically. Since 1990, PowerGen's workforce has fallen from just over 9,000 to just over 3,000. The workforce at National Power has contracted even more sharply, from 17,000 in 1990 to around 3,000 today. In the main, these reductions were achieved through relatively generous severance terms in the context of policies to avoid compulsory redundancies.

Source: J. Arrowsmith and T. Edwards: "Industrial relations implications of the liberalisation of the UK electricity sector", in *eironline*, Dec. 2000, <http://www.eiro.eurofound.ie/2000/12/features/UK0012105F.html>

In April 2000, the Spanish electricity group *Endesa* decided to allocate 3 billion euros to cover the costs of staff reductions. This measure mainly concerns the subsidiaries in Latin America, where the group is very powerful and intends to cut 8,958 jobs. Globally, *Endesa* plans to reduce its workforce from 34,916 to 22,000.¹⁴

In Argentina, the electricity company in Greater Buenos Aires (*Servicios Eléctricos del Gran Buenos Aires – SEGBA*) employed 20,000 employees before the privatization. In the period immediately before the privatization in 1992, this number was reduced to 17,600. The seven privatized companies that took over the SEGBA activities continued to shed employees and, by June 1999, they employed only 6,618 workers.

Information on local government employment and the impact of restructuring on employees in the Asia-Pacific region is extremely limited. International research on a number of sectors indicates that corporatization and privatization generally lead to reductions in overall employment and give rise to work intensification. Reductions in overall employment levels tend to occur even if an in-house team is the winner of a competitive bidding situation. Thus, in the absence of technical improvements in service delivery, the result is generally work intensification for the workers.

¹³ ECOTEC : *Effects of the liberalization of gas and electricity markets on employment*, Draft final report (2000).

¹⁴ F. Musseau: "Le géant espagnol de l'électricité supprime plus de 12,000 emplois," in *Le Temps* (Geneva), 5 Apr. 2000.

8. Impact on working conditions and terms of employment in the municipal services

Despite extended literature on the processes of decentralization and privatization, there is little information available on their impact on the working conditions and terms of employment for the personnel in the municipal services. The situation seems to vary greatly between economic sectors, different occupational groups, geographical regions and men and women. The evidence is mostly of a qualitative nature and often “anecdotal”. Statistical data is scarce as surveys are often not broken down by economic sector, private and public setting or central and local government levels. For some countries, however, more extended research is available, for example on Australia, New Zealand, the United Kingdom and the United States.¹

The effects of contracting out in a range of municipal services were studied in several cities and towns in the United States. It was found that the productivity gains through contracting did not result from low wages but from more work performed per employee per unit of time. The observed cost difference was accounted for by the fact that contractors: (1) provided less paid time off for their employees (less vacation time and fewer paid absences); (2) used part-time and low-skilled workers where possible; (3) were more likely to hold their managers responsible for equipment maintenance; (4) were more likely to give their first-line managers the authority to hire and fire workers; (5) were more likely to use incentive systems; (6) were less labour intensive (i.e. they made greater use of more productive capital equipment); (7) had younger workforces, with less seniority; and (8) had more workers per supervisor.

However, productivity gains do sometimes result from reducing wages or hours – or both – as confirmed by studies on the experience with compulsory competitive tendering in the United Kingdom. An official Audit Commission’s survey pointed out that there had been pay cuts in building cleaning (mainly carried out by women and immigrant workers), but not in other services covered by compulsory competitive tendering. Another study by the union-supported Labour Research Department indicated pay cuts in 12 per cent of cases, cuts in hours in 17 per cent and no change to pay and conditions in 26 per cent of cases. There was a tendency towards lower basic pay and higher bonuses in the private sector. However, another survey found that services most at risk from tendering were those where labour costs accounted for a high proportion of overall costs, and where the locally prevailing private sector pay rates for the categories of staff

¹ For studies on the United Kingdom and the United States, see B. Martin: *Privatization of public services: Potential and limitations*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming); for Australia and New Zealand, see M. Paddon: *Social and labour consequences of the decentralization and privatization of municipal services: The cases of Australia and New Zealand*, Sectoral Activities Programme Working Paper (Geneva, ILO, forthcoming).

employed were significantly below those negotiated for directly employed municipal workforces.

In any event, the factors governing working conditions and the terms of employment do not always show clear trends. In the case of remuneration, for example, it is not certain whether the public (central or local) or private sectors provide better conditions. Even pay levels formally set for the public service in many developing and transition countries do not necessarily mean that wages and salaries are regularly paid – or even paid at all. Working arrangements have in general become more flexible than was traditionally the case in the public service – and this flexibility varies considerably in degree. Workload and work intensity appear to have increased in all sectors delivering municipal services, be they private or public. The impact of these trends is seldom taken into consideration while evaluating efficiency and quality in the delivery of the services. Status and terms of employment show all facets possible in all sectors; however, it seems that more flexible, non-standard contracts are now also found alongside the traditional public service status in the same institutional setting. Since the economic sectors delivering municipal services are frequently in various stages of development, this chapter will provide available information and data according to these sectors.

8.1. Education

The more decentralized systems vary in the way that resources are allocated for personnel. In the Nordic countries (Denmark, Finland, Norway and Sweden), municipal authorities distribute resources to schools according to their own criteria, though associations of municipalities may advise on the criteria to be applied. In some countries, the allocations are subject to meeting standards established by national legislation, and/or to ensuring teacher professional development. In the United Kingdom (England, Wales and Northern Ireland), a more strictly prescribed formula based on the Local Management of Schools standards divides resources for the bulk of staff and operating expenses between the schools, managed by school governing bodies, and local education authorities (LEAs), which maintain resources for the salaries of staff such as guidance counsellors and those supporting educational programme development. Age and number of students are the principal determinants of the size of allocations in the United Kingdom. In Scotland, Devolved School Management standards reportedly take account of geographic and social criteria, and must ensure equality of treatment among schools by recognizing disparities between them, whereas allocation policies adopted in Sweden in 1993 after initial decentralization aim at ensuring equivalent financing conditions among municipalities and counties.

Decentralized budgeting which applies formulas based uniquely on the number of pupils has been criticized for its bias against staff with more qualifications, experience and seniority. Schools which have a high proportion of senior teachers and other staff may be forced to reduce other expenditures or recruit younger, less-experienced teachers in order to avoid deficit spending. To counter financial spending pressures to hire younger, less-experienced or underqualified

staff in secondary schools of the Netherlands, subsidies from higher levels are readjusted as a function of the average age of staff in the school concerned.²

Despite a high degree of decentralization in recruitment decisions, pay determination for teaching personnel in the Nordic countries and the United Kingdom is still largely a centralized affair. In the Nordic countries, except Sweden, the municipalities as employing authority must respect salaries and hours of work negotiated at national level, although variations have recently been introduced which provide more scope for local determination. Meeting educational objectives as defined in centrally fixed standards or holding additional responsibilities beyond the core job requirements lead to salary supplements in Denmark, while local adjustments to national salary levels have been possible in Norway since 1999. Certain municipalities in Iceland reportedly pay salaries above the nationally agreed rates. Sweden has a nationally negotiated framework conditioning salaries and other conditions (weekly hours, vacations, continual education), but actual salaries are negotiated individually at local level. For non-teaching personnel in Denmark, Finland and Sweden, salaries are negotiated centrally, whereas in Iceland and Norway, determination is local.³

In some respects the most decentralized of the European countries, the United Kingdom (England and Wales), has the most centralized pay determination – at least for teachers. Collective bargaining was abolished in the late 1980s before the local management of schools was introduced. Teachers' salaries are now fixed by the central government on recommendations of a consultative pay review body which weighs evidence from all concerned parties, notably school management and teachers' unions.

In those European countries which remain more centralized in their financing and decision-making, there is a corresponding tendency to subject pay determination to centralized standards. Non-teaching personnel pay rates in Germany, for example, are based on public service regulations governing contractual workers; while in Austria, technical staff of primary – and many secondary – schools are paid on the basis of national salary standards.⁴

A mixed system exists in a few European countries which subject municipal pay determination authority to higher level standards. Belgian school maintenance staff are paid by municipalities on the basis of municipal or provincial regulations, but they must respect operational standards prevailing at all workplaces according to a national law. Municipal vocational training committees which allocate funds to institutions in Ireland also recruit and pay staff, but rates are determined by

² EURYDICE: *Profile of key topics in education in Europe, Vol. 2, Financing and management of resources in compulsory education: Trends in national policies* (Brussels, 2000), pp. 135-136, p. 166 for Sweden and p. 199 for the Netherlands and the United Kingdom.

³ *ibid.*, pp. 134-135.

⁴ *ibid.*, p. 140.

nationally negotiated standards for teaching personnel, and by regulation for non-teaching personnel.⁵

The traditionally decentralized systems of the United States have not substantially altered the level of pay determination in recent years, as teachers' and non-teaching personnel salaries or wages are still negotiated for the most part within the local school district (municipal or county).

There is little evidence that decentralization per se in middle- and low-income developing countries has affected teachers' salaries and other working conditions; these countries suffered severely in the 1980s more from the impact of structural adjustment measures that reduced public sector spending. However, in Latin American countries especially, decentralization has reduced the bargaining power of teachers' unions, thereby curtailing their ability to mediate declines in salary and teaching conditions. Unions in such situations have been obliged to redirect limited capacity in a sometimes difficult negotiating climate to each municipal government or local private school. In some cases they have had to deal with restrictive hiring practices and other cutbacks at local levels dictated by financially driven structural adjustment policies which put further pressure on union representation.⁶ The example of Chile is illustrative, as it underwent one of the most rapid and complete decentralization experiences anywhere in the world in the years following the installation of the military regime.

Box 8.1. The "municipalization" of Chilean schools

Following the overthrow of the democratic government in 1973, an initial period of continued centralization, disguised by a veneer of decentralization in the form of centrally appointed regional authorities or local mayors largely answerable to the government in Santiago, gave way to a more classic decentralization in the early to mid-1980s. Virtually all of the state-run primary and secondary schools were transferred to the control of the municipalities, which had both the administrative and financial authority to run schools; meanwhile technical-vocational education was, for the most part, transferred to private schools. By 1986, nearly all primary and secondary institutions had passed to municipal control. Though initially funded at a rate sufficient to maintain educational standards, the steady erosion of the mechanisms to ensure municipal educational funding in succeeding years created difficulties on many fronts; not the least were the disparities in facilities and resources between rich and poor municipalities, the latter being faced with a smaller tax base, fewer resources, and therefore smaller operating budgets.

The consequences for staff and educational services were multiple: arbitrary dismissals; labour instability and high staff turnover; salary reductions as government subsidies were cut back; and the virtual absence of participation by educators in designing and adjusting educational policy. A government evaluation in 1994 indicated that decentralization had not led to stable or coherent participation mechanisms for teachers in educational decision-making. The restoration of trade union rights in the 1990s, and use of strike action by teachers' unions despite continuing restrictions on public sector workers' collective bargaining rights, have reportedly improved salaries and other conditions; but schools remain decentralized, and substantially privatized at primary and secondary levels.

Sources: P. Hillgartner and G. Brent Hall: The process of education decentralization and planning the Zona Norte of Santiago, Chile: Developing a spatial dimension support system for inter-municipal problem resolution (EGIS Foundation, Maine, 2000), pp. 2-3; ILO, 1996, op. cit., p. 68; Education International (EI): EI barometer on human and trade union rights in the education sector, 1998 (Brussels, 1998), p. 256; UNESCO, World Education Report, 2000, op. cit., Annex III, table 10.

⁵ *ibid.*, pp. 141 and 143.

⁶ ILO: *Impact of structural adjustment on the employment and training of teachers* (Geneva, 1996), op. cit., pp. 67-68.

8.2. Health services

A comprehensive study on the impact of privatization on working conditions and terms of employment in health sector reforms was prepared for an ILO joint meeting on this subject in 1998. Information on the impact of privatization on labour issues is also available in ILO studies on cases of western European countries and the Americas.⁷ However, the impact of decentralization and privatization on health workers at municipal level has only rarely been analysed.⁸ Some of the few studies undertaken in developing countries were carried out in Benin, Uganda and Zambia.⁹ Although the focus of these surveys was on the changing motivation of health workers in decentralized settings, they nevertheless pointed to changed working conditions and terms of employment and highlighted the fact that decentralization and transfer of management to local authorities had brought problems of personnel issues into the open. The surveys revealed that the dissatisfaction of health workers had been exacerbated by reduced incomes through payment of lower financial allowances or even by non-payment of salaries and by de-linking the health workers from public service employment.

In the health services sector in the Philippines, health workers in the local government units (provinces, cities, municipalities) have, in theory, security of tenure; but this may not work out in practice. Governors and mayors are elected every third year and there are many reports that health workers find it difficult to remain in their positions if they are believed to be sympathetic to a political party opposing that of the governor or mayor. The same concern is also expressed in a forthcoming study of WHO on local governments and health systems.¹⁰

As regards the impact of decentralization on remuneration in the Philippines, it became apparent that pay had not been uniform as the poorer municipalities could only give lower benefits to the health workers. Decentralized personnel received about 80 per cent of the salary and benefits of those retained at central level. On the other hand, remuneration of public health workers was generally higher than their counterparts employed in the private sector. The former were also entitled to more and higher benefits and incentives. These include uniform allowance, laundry allowance, living allowance, housing loan, health insurance, productivity incentive bonus, 13th month pay, sick leave, vacation leave, retirement benefits, gratuity and

⁷ G. Ullrich (ed.): *Labour and social dimensions of privatization and restructuring: Health care services* (Geneva, ILO, 1998).

⁸ For information in this area, in particular for the Philippines, see ILO/WHO: *Public services reforms and their impact on health sector personnel* (Geneva, ILO, 2000).

⁹ Kasa Pangu summarizes the results of these studies in the article "Health workers motivation in decentralised settings: Waiting for better times?", in P. Ferrinho and W. Van Lerberghe: *Providing health care under adverse conditions: Health personnel performance and individual coping strategies* (Antwerp, ITG Press, 2000), pp. 21-31.

¹⁰ WHO: *Local governments and health systems: Opportunities and challenges* (forthcoming).

provident fund benefits.¹¹ Another aspect of changing terms of employment and working conditions lies in possibilities for human resource development. While for health personnel retained in the Department of Health, opportunities for further education, health career advancement and upward mobility have been maintained, and in some cases enhanced because they face less competition, health workers in the decentralized system need new education and training possibilities to help them cope with working in a new institutional environment. However, this need can hardly be expected to be met by the local government units, which have earmarked their scarce resources for other priorities.

8.3. Transport

In Europe, a key point is the internal rationalization within companies. Apart from downsizing organizations and tightening up procedures to increase productivity, primarily restructuring exercises have been carried out in the form of job cuts (systematic redundancy programmes) aimed at achieving cost reduction in the short term. Lay-offs of personnel and salary and wage reductions are difficult to reconcile with ideas about winning over employees to a genuine understanding of the need for comprehensive restructuring and modernization. The social partners have opportunities to provide security for individual employees without giving up fundamental positions on the organization of work. This refers to action to reduce “over-regulation” and give companies opportunities to act flexibly, especially as regards remuneration (incentive systems) and working-time arrangements.

Some transport companies are already using new models of work organization, e.g. group models, sometimes with a very far-reaching degree of self-management or demarcated line responsibility. Efforts to attract customers and gain their loyalty whilst actively involving employees at all levels can form important building blocks for an identification with public transport as a product. Profit-centre organizations, slimmed-down management structures and the creation of a culture of trust, are important conditions for successful public transport companies. Very often, the creation of a corporate identity is used to promote an orientation towards common values within a company. However, it will continue to be essential for the social partners to make further contributions to extending the freedom that companies have for flexibility of action.¹²

A 1997 survey of bus workers in the United Kingdom¹³ revealed that:

- weekly and hourly pay rates were highest amongst the municipally owned companies, and lowest in the *Stagecoach* group;

¹¹ I.C. Sia: “Public service reforms and their impact on health sector personnel in the Philippines”, in ILO/WHO, op. cit., pp. 154-156 and p. 159.

¹² H. Dombrovsky: “Social dialogue, a success factor”, in *Public Transport International*, 1997/5, pp. 26-28.

¹³ Transport and General Workers’ Union (T&G): *Busworkers’ survey 1997* (Apr. 1997).

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- most companies had more than one pay rate for big bus drivers; the differential between lowest and highest big bus driver/pay rates in the same agreement ranged from 0 to over 60 per cent, with an average of 16.9 per cent;
 - the existence of differing rates and “two-tier” pay structures often reflected differing operating conditions in the localities covered by the agreement, different vehicle types in use, and divisions within the workforce on the basis of length of service;
 - new starters often experienced lower pay rates, sometimes accompanied by different conditions of employment (e.g. holiday entitlements, sick pay);
 - average weekly hours of work for bus drivers were 39.42 hours;
 - average basic holiday entitlement was 25 days, with one in four agreements providing 20 days;
 - only one in four agreements provided extra service-related leave, making this kind of entitlement less common than is the case among collectively agreed terms and conditions generally;
 - there had been cuts in sick pay entitlement and the level of pay, and the introduction of “waiting days”;
 - some agreements provided additional paid leave in assault cases.

The major impact of decentralization and privatization processes may be identified as: increased work pressure; changing duty rosters; and decreasing job satisfaction. Research in Germany¹⁴ revealed that bus drivers in the public transport sector are subject to complex work-related pressures causing physical and mental strain and maybe even preventing them from driving. Shift work is an important cause of occupational disease. Although they are unavoidable, shift patterns should be organized in line with criteria derived from ergonomic studies and occupational medicine. The Occupational Insurance Cooperative for Tram, Metro and Rail Workers (BG Bahnen) conducted research to examine the organization of duty rosters to meet operational requirements and employees’ needs. The research found that shift work can cause considerable disruption of an employee’s daily biological rhythms, sleep patterns and family and social life. It can also cause significant long-term health problems. The analysis of traditional duty rosters in the participating transport companies confirmed that shift patterns did not correspond to employees’ “biological clocks”, free time was allocated at inconvenient hours at the weekends and, above all, drivers had little choice as to which hours they would be working. Furthermore, a significant correlation was found between satisfaction with the time available for leisure activities and job satisfaction in general. Rigid shift systems force employees to organize their social life, family arrangements and leisure activities around the requirements of their work.

¹⁴ A. Grösbrink and J. Weymann: “New approaches to duty roster organization”, in *Public Transport International*, 6/99, pp. 14-17.

In the light of the need to develop duty rosters that responded more effectively to drivers' personal preferences, several different duty roster models were drawn up and tested in four transport companies, with all of the interested groups taking part in the discussions. Some participants proved very open to innovation, while others were much more reticent. The following models were developed and tested.

Participatory model

In a rural bus company changes were introduced to the way in which work groups were divided up in order to eliminate preferential working-time treatment for older drivers compared with their younger colleagues. Opportunities were also created for the drivers to contribute to decisions concerning standby shifts and a mechanism was established for swapping shifts. Even these relatively simple alterations achieved greater transparency and fairness in duty roster planning and improved employee participation.

Elective duty rosters

Planning with elective duty rosters involves offering a selection of different duty rosters on the basis of which drivers can then voice their preference for a particular shift. Each driver can decide on the duty roster which best meets his or her personal wishes and requirements. It enables drivers, to a certain extent, to reconcile their personal wishes or private needs with the requirements of the duty rosters. Although elective duty rosters do offer the opportunity for employees to participate in decisions, this model is still based on rigid duty roster structures and shifts are still planned using traditional methods. Nevertheless, there was an improvement in job satisfaction among the drivers following the introduction of elective duty rosters.

Mixed work with duty roster planning in groups

This approach required major changes in workplace organization. Shift patterns are planned in such a way that drivers have a week of mixed work and one group day when they can discuss common problems. The drivers also perform administrative activities as part of their "mixed work". Furthermore, this model allows for the alteration of duty rosters within the group itself. Each group is able to respond directly to suggestions about the organization of the duty roster and drivers' wishes. This model gives drivers new duties as well as an opportunity to take part in decisions on shift patterns. It also encourages employees to pay greater heed to customer requirements.

8.4. Utilities

Given the fact that critics of privatization in utilities often argue that the profit motive of private enterprises necessarily leads to the loss of jobs, a reduction of the role of trade unions and a deterioration in working conditions, it is surprising that there are only very few studies looking into these relationships and they come only to relatively vague conclusions. In a number of countries prior to deregulation, working conditions in public enterprises were quite favourable, and these enterprises had highly formalized internal structures with a high degree of

employment security, and benefited from the availability of internal labour markets. Public enterprises normally had formal cooperation and consultation structures and their work was informed by the public service ethos. As regards the impact of deregulation and privatization, all of the studies indicate the development of a high degree of uncertainty among employees, as well as an increased differentiation between groups of employees as “losers” and “winners” following privatization. The trend towards contracting out is often linked with a deterioration in working conditions, increased workloads and the introduction of fixed-term employment contracts, leading to strained relations among the different groups of employees. As management gains increasing powers of discretion in decision-making, there has been a tendency to take greater account of regional and local labour market conditions. Moreover, privatization has resulted in the loss of the traditional work ethos of the public service. As a result of their stronger service and customer orientation, many companies started in-house training programmes.¹⁵ The ILO report to the Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities in 1999 included sections on working conditions and terms of employment, with a comprehensive overview of the situation of the workforce in the utilities sector worldwide.¹⁶

Besides the reduction in employment, there has been a significant qualitative change in employment relationships, away from full-time secure jobs to part-time, fixed-term and temporary employment. Much of the shift towards non-standard forms of employment has taken place in relation to the contracting out of activities.¹⁷ As a result of EU legislation on the transfer of undertakings, existing staff have to be transferred to the new contractor for a specified period of time and limits are imposed on any changes which can be made to terms and conditions of employment. However, contracting out in the longer term has often led to a deterioration of employment, pay or promotion prospects as the new companies often fall outside the scope of collective bargaining arrangements covering the workers in the sector.¹⁸

When assessing the qualitative impact of market liberalization in the EU on employment, it is important to note a number of key observations about employment in the electricity industry, which affect the process of restructuring:

- in the majority of the member States, the industry has an ageing workforce, with the age pyramid heavily weighted in favour of the over-45 age group; this

¹⁵ W. Pfaffenberger, U. Scheele and K. Salge: *Energieversorgung nach der Deregulierung: Entwicklungen, Positionen, Folgen* (Berlin, Ed. Sigma, 1999), pp. 77-78.

¹⁶ ILO: *Managing the privatization and restructuring of public utilities (water, gas and electricity)*, Report for discussion at the Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities, Geneva, 1999.

¹⁷ Public Services International (PSI): *Research Network News*, No. 38 (Dec. 2000).

¹⁸ ECOTEC: *Effects of the liberalization of gas and electricity markets on employment*, Draft final report (2000), p. 10.

has enabled companies to carry out restructuring in a “socially responsible” manner through voluntary early retirement;

- women are significantly under-represented in the industry, making up less than 20 per cent of the workforce, and are largely concentrated in clerical and administrative positions; there is little evidence that the changing focus towards more customer service-oriented activities has significantly changed the balance of sexes in employment in the sector in favour of women;
- the skills profile of the industry has shown an overwhelming propensity towards employment in semi-skilled and skilled technical occupations and middle-management functions;
- the industry has traditionally carried expectations of “jobs for life”; promotion into managerial positions has been traditionally from technical occupations;
- public utilities previously placed little emphasis on marketing, business development, project management and customer services;
- there has been a clear change in emphasis on new skills, which are quite different from traditional occupations, raising issues related to the potential transferability of staff to new skills which include information and communication technology, marketing, customer service, project management, energy trading and business development;
- there is significant evidence of the contracting out of so-called “non-core” functions; however, in some cases, detrimental effects are seen to have resulted, leading to the in-sourcing of a number of these functions.¹⁹

A report prepared for UNISON Energy²⁰ stated that the sector in the United Kingdom had already witnessed considerable increases in productivity since privatization (in constant money terms per employee, productivity had doubled since privatization) and most analysts predicted further gains through investment in information technology, corporate restructuring, flexible work and contracting out. However, the scope for further job cuts was significantly less than it had been. Most utilities expected to reduce employment levels overall, but the emphasis was likely to be more on replacing “non-core” workers with agency staff or recruiting new staff on short-term or temporary contracts. There was also likely to be greater demand on staff of the multi-utilities to work across a range of energy and non-energy services.

The emergence of more highly integrated, multi-utility companies with a strong commitment to growth in unregulated markets and overseas could create new employment opportunities (especially in services). The forecasted growth in contracting out is also likely to lead to the spread of market testing, longer and more flexible working hours and fierce competition between business divisions.

¹⁹ *ibid.*, pp. 5-7.

²⁰ UNISON Energy: *Energy Utilities 2010* (London).

Increased competition will place significant pressure on pay and working conditions, with a greater focus on the “market rate”, performance pay schemes and increased employee flexibility. Continued cost reductions may also have a negative impact on future redundancy schemes and early retirement packages. New management techniques and the promotion of a “more customer focused business culture” will place greater demands on staff. Employees will be subjected to the so-called “permanent revolution” in new working approaches, including more sophisticated team-based management systems and empowerment schemes.

In France, in January 1999, a framework agreement on the reduction of working time and new recruitment was signed at *EdF-GdF*, the French gas and electricity utility, by management and all five major trade unions. The new deal followed a 1997 agreement signed only by minority unions, which was subsequently annulled by the courts after non-signatory unions challenged it. Employees voted massively in favour of the new agreement, which affected 141,000 employees. It provided that weekly working time would be reduced from 38 to 35 hours, with pay remaining at previous levels.

In the Asia-Pacific region, it is felt that corporatization and privatization in the utilities sector have often resulted in lower wages and conditions for employees. This is the case in Australia where wages for less skilled workers and manual workers are generally higher in the public sector than the private sector. However, in some cases employees are not disadvantaged by privatization and may receive higher levels of remuneration. Employment outcomes tend to depend on the bargaining power of workers, with highly skilled workers faring better under privatization.

9. Summary: Comparative analysis

As indicated in the previous chapters, it is very difficult to identify definitive trends for the impact of decentralization and privatization on municipal services. Furthermore, commonalities do not always seem to be a function of the sectors, the geographical region or the stage of development. Nevertheless, the following paragraphs will try to draw up a set of issues that might facilitate systematic evaluation of the situation of the workforce and management of municipal services and help to make an evaluation of the impact on the efficiency and quality of the provision of such services.

Trends in decentralization and privatization

- Despite the increase in urban population, municipal services activities still account for a relatively small portion of the GDP and for a limited share in public and total employment in many countries. Where there is historically a long tradition of local government involvement, their relative importance is more obvious.
- Decentralization takes place in various political and administrative forms, internally through devolution to existing lower government levels or externally through the establishment of new units.
- The ways of financing municipal services are varied; however, it is generally accepted that the provision of services is no longer possible without some degree of participation of the private sector. Hence, the role of the private provision of municipal services in the public interest has to be identified.
- Due to the limited interest or capacity of the private sector to fully provide certain services – or the reluctance of local governments to completely hand over services to private providers – public-private partnerships and alternative forms of joint provision have emerged.
- The fact that municipal services are also being delivered by private providers does not necessarily reduce the role and responsibility of the State. Indeed, the delivery of services in the public interest requires that the population as a whole has universal and equal access to these services and this has to be guaranteed through the State as well as through regulation.
- Competition in the delivery of municipal services is mainly being introduced through contracting out to the private sector or through tender within the public service. Even though competition seems to increase efficiency, it might alter labour relations and reduce public service ethos – a form of commitment of the workforce specific to the public service.
- Decentralization and privatization have, in many countries, had implications for human resources management including the decentralization of pay determination. Although devolution to local governments may introduce more flexibility and improve efficiency and quality, the central government is often reluctant to give up control over the total wage bill for the public service.

Efficiency, quality and decent work

- Privatization and competition in municipal services delivery is considered by many researchers to increase efficiency. However, there are other voices warning of the simplified financial calculations of costs which fail to take into account the impact on the quality of the services, the impact of reduced employment in the local area, deteriorating working conditions and increased workload and intensity.
- Decentralization might result in the local authorities having insufficient financial resources to ensure conditions of decent work, including pay.
- Local governments may have limited capacities to regulate and monitor the required quality of municipal services, in particular when services are provided by private contractors or in partnerships. The role of users in providing necessary feedback on the quality of services would be more obvious at local level; however, this role is still relatively unexplored.
- The capacity of the social partners to play a role at local level is critical to prepare: (a) the processes of decentralization and privatization and the guarantee of good labour relations; (b) private employers for changing patterns of management in providing services in the public interest; and (c) workers for changing patterns of participation in negotiating working conditions and terms of employment.
- A positive correlation between decent work, efficiency and quality of the services is evident although this seems to be contingent upon the degree of the labour intensity of the services.
- Gender issues need specific attention. In view of the impact of decentralization and privatization, gender issues have to be carefully analysed in a holistic way which includes analysing the implications on employment levels, terms of employment and working conditions.

Social dialogue

- Reform processes in the public service can only be sustainable if they are planned, implemented and monitored through social dialogue, as was concluded by the ILO sectoral meeting for the public service in 1995. This also holds true in the case of decentralization and privatization. Social dialogue can thus provide a framework to facilitate this transition. At the level of municipal services, social dialogue needs to be further developed since the partners do not yet have extensive experience in such processes. Personnel management functions may have only recently been assigned to local authorities or to private employers and collective bargaining at decentralized level is a new challenge to employers' and workers' organizations. Moreover, the representational structures may alter during decentralization and privatization.

Regulation

- Because of the specific nature of municipal services in the public interest, regulation has to accompany privatization in order to ensure equal and universal access to such services. There is little evidence of the extent to which decentralization and privatization have altered regulatory systems and of how far the various stakeholders are involved in regulatory processes. At local government level, the interaction between service providers and users may be closer; it appears, however, to be evident that municipal authorities have only limited capacity to regulate and monitor at local level. For a variety of reasons, such functions often remain at the central level or have sometimes even been re-centralized. Regulation may also be subject to inter-state agreements such as in the EU and GATS.

Employment

- In view of general employment trends, public employment at local government level has often not suffered to the same extent as reductions in public service employment at the central level. There are some countries – in particular developing countries – and sectors of municipal services, where public service employment has expanded. Sectors such as education and health services might even find it difficult to expand their employment at local government level because of human resource shortages rather than because of public service downsizing.

Working conditions

- Factors governing working conditions after decentralization and privatization do not always show clear trends, although working arrangements in municipal services have generally become more flexible. Gains in cost efficiency may frequently be attributed to declining working conditions such as less time off and fewer working hours, which result in more workload or higher work intensity for the personnel.
- The trends in pay show great variations but do not give a clear picture as to whether or not the private sector is paying less or more. The pay at local government levels seems to be less attractive than at central levels which is often due to the reduction in special allowances and greater flexibility in decentralized pay determination. In a number of developing and transition countries, the effects of pay reductions are accentuated by irregular payment of salaries.

Terms of employment

- More efficiency may be reached by flexibility to react to local requirements for services and performance. One of the challenges in decentralized systems of personnel management is therefore to arrange for decentralized collective bargaining, including pay determination. In a number of countries such a challenge has been met by creating centralized frameworks in which decentralized negotiations take place.

The following main issues may be retained for the individual sectors

	Trends	Efficiency, quality, decent work	Social dialogue	Regulation	Employment	Working conditions	Terms of employment
Education	Decentralization and privatization in all countries especially for non-teaching services, but at a different pace; challenge to finance and administer at local level; building of partnerships important; private financing, including user fees at about 35%	Public, mandatory service to the whole population up to the school-leaving age; universal and equal access important for basic and increasingly secondary level	Social partners represented through a variety of employers' and workers' organizations; strong role of users, in particular parents	National or federal regulation with municipal regulation in highly decentralized systems	Rising; often lack of qualified personnel	Allocation of non-staff resources often varies according to local government decisions	Pay determination often centralized
Health services	Alma Ata Declaration: Primary health care for all, decentralization to reach better the users; challenge to reduce health expenditure; public expenditure (average about 75%) has to be supplemented by private contributions, gain of quality and efficiency through decentralization and privatization	Health care is considered to be a basic human right, its provision is in the public interest, access at least to primary health care must be universal	Changing representational structures for employers and workers; more cooperative patterns of bargaining	National regulation; increasingly international strict criteria for registration and credentialing of professional personnel	Rising; shortage of qualified personnel	Reduced allowances; increased workload and work intensity; performance-related human resource management	Increasingly decentralized pay determination
Urban transport	Traditional responsibility of municipalities, sometimes combined with utilities; trend to be regionalized for larger urban centres; corporatization as independent units and increasing privatization	Services vital for employment levels and economic development and hence in the public interest	Changing representational structures; increased dialogue at enterprise and local level, but also at inter-country level in the EU	Local regulation, but also national regulation by legal traffic obligations	Declining through rationalization	Decentralized human resource management; new working-time arrangements (duty rosters); self-management of work arrangements in groups	Income reduction through reductions in entitlements for shift work and overtime

	Trends	Efficiency, quality, decent work	Social dialogue	Regulation	Employment	Working conditions	Terms of employment
Utilities	Trend towards increased concentration (multinational, multi-utility mergers) and centralization; privatization relatively late because of strategic importance for governments; public-private partnerships; deregulation of utility markets	Service in the public interest, for certain utilities essential to the health and economic survival of the population; universal and equal access to be ensured; highly capital-intensive; efficiency less related to labour costs than other sectors	Changing representational structures of employers and workers; several organizations representing each side (private and public); cooperative bargaining at local, enterprise or unit level	National regulation, at times also international	Declining	More semi-skilled; shift towards new skills such as information technology	Job insecurity; shift towards more part-time and temporary employment; loss of public sector ethos

10. Suggested points for discussion

1. *Decentralization and privatization:* In what ways do decentralization and privatization agendas overlap, and how are they different from each other? What trends have the most significant impact on municipal services? Which features are common and which differ from one sector to another?
2. *Interlinkage of decentralization and privatization with efficiency, quality and decent work:* How do decentralization and privatization impact on the efficiency and quality of delivery of municipal services? How do they affect the goal of decent work for the personnel of these services, and how does decent work influence the quality of services?
3. *Social dialogue:* What role can dialogue among the social partners play in processes of decentralization and privatization? What conditions and measures are necessary in order for social dialogue to be successful in optimizing the outcomes of decentralization and privatization? In cases where these conditions do not already exist, what steps must be taken to create them?
4. *Regulation:* What should be the function of regulation, and what regulatory processes are needed in order to ensure that decentralization and privatization produce beneficial outcomes in terms of service delivery and decent work?
5. *Development of employment:* In what respect are developments in levels and structure of employment resulting from decentralization and privatization common or different from each other, and which factors account for these similarities and differences? Are there common or distinctive features in employment development in the various municipal services and occupational groups? What good practice can be identified to address the employment impacts of decentralization and privatization?
6. *Terms of employment and working conditions:* How have decentralization and privatization affected working conditions and terms of employment in each of the municipal services and occupational groups? What good practice – in terms of regulation and/or social dialogue – can be identified to address impacts on terms of employment and working conditions?

Appendix 1

Total employment and public employment by sex

Country * (or territory)	Year	Total employment			Public employment			Share of public employment in total employment %
		Total (^{'000})	Women (^{'000})	Share of women in total %	Total (^{'000})	Women (^{'000})	Share of women in total %	
Albanie	1998	1 085.1	...	..	212.8	83.2	39.1	19.6
Armenia	1997	1 372.2	...	..	509.2	...	..	37.1
Australia	1999	7 209.4	...	..	1 464.5	...	..	20.3
Azerbaïdjan	1998	3 701.5	1 765.6	47.7	1 710.2	542.6	31.7	46.2
Bahamas	1998	143.5	69.3	48.3	27.7	15.6	56.4	19.3
Barbados (1)	1997	116.2	54.4	46.8	25.2	13.0	51.6	21.7
Belarus	1998	4 416.6	...	..	2529.3	...	..	57.3
Belgique	1998	3 308.6	1 403.3	42.4	1 041.7	524.9	50.4	31.5
Belize	1997	45.6	15.1	33.2	9.9	4.4	44.6	21.6
Bénin	1997	276.8	90.9	32.8	36.1	9.1	25.3	13.0
Bermuda	1998	35.3	17.8	50.3	4.6	2.4	52.3	13.0
Botswana	1998	...	...	..	115.5	48.5	42.0	..
Brasil	1996	68 040.2	26 715.4	39.3	7 839.9	4 201.1	53.6	11.5
Bulgarie	1998	2 086.3	1 072.1	51.4	1 223.4	655.0	53.5	58.6
Burkina Faso	1997	...	...	..	49.2	11.4	23.1	..
Canada	1997	13 940.6	...	..	2 797.8	...	..	20.1
Cayman Islands	1996	...	...	..	2.3	...	..	..
China (2)	1998	...	...	..	90 581.0	...	..	..
Colombie	1999	5 564.8	2 436.5	43.8	425.8	192.3	45.2	7.7
Costa Rica	1998	1 300.0	414.1	31.9	185.5	166.5	89.7	14.3
Croatie	1998	1 543.8	711.6	46.1	713.7	329.9	46.2	46.2
Cyprus	1995	285.1	...	..	47.0	...	..	16.5
Tchéquie (3)	1997	4993.3	...	..	1 167.8	...	..	23.4
Danemark	1998	2 470.1	1 167.7	47.3	934.7	604.9	64.7	37.8
Dominique	1997	16.8	7.9	46.8	5.5	2.5	45.9	32.4
Ecuador	1997	3 062.2	...	..	422.7	...	..	13.8
Egypte	1997	...	...	..	943.8	106.8	11.3	..
Espagne	1997	12 764.6	4 497.8	35.2	2 259.1	1 025.4	45.4	17.7
Estonie	1998	640.2	309.5	48.3	197.2	118.2	59.9	30.8
Finlande (4)	1998	2 189.7	...	..	637.8	...	..	29.1
Gambie	1999	...	...	..	21.9	6.9	31.7	..

Country * (or territory)	Year	Total employment			Public employment			Share of public employment in total employment %
		Total (^{'000})	Women (^{'000})	Share of women in total %	Total (^{'000})	Women (^{'000})	Share of women in total %	
Grèce	1998	3 967.2	1 463.0	36.9	845.5	343.3	40.6	21.3
Greenland	1996	...	...	..	9.6	6.2	64.1	..
Hungary (5)	1998	2 243.8	1 091.9	48.7	947.1	494.2	52.2	42.2
India	1997	...	...	..	19 559.1	2 727.6	13.9	..
Iran, Islamic Rep. of	1996	14 571.6	1 765.4	12.1	4 257.9	698.3	16.4	29.2
Ireland	1997	1 420.5	...	..	284.5	...	..	20.0
Isle of Man	1996	33.6	14.9	44.4	7.8	4.0	51.1	23.1
Italie	1999	16 775.0	...	..	3 543.6	...	..	21.1
Japan	1996	62 781.3	25 739.7	41.0	5 198.2	1 932.7	37.2	8.3
Kazakstan	1998	6 127.6	...	..	1 656.5	...	..	27.0
Kenya	1996	...	...	..	689.0	...	..	..
Kyrgyzstan	1998	1 704.9	...	..	744.4	...	..	43.7
Latvia	1997	1 037.0	...	..	357.0	...	..	34.4
Lithuania	1998	1 155.0	619.6	53.6	522.5	337.7	64.6	45.2
Macau, China	1998	...	...	..	17.0	5.7	33.5	..
Madagascar	2000	...	...	..	112.9	...	..	..
Malawi (6)	1995	701.6	...	..	153.9	20.4	13.3	21.9
Malaysia (7)	1999	...	...	..	775.3	364.5	47.0	..
Malta (8)	1999	134.2	38.0	28.3	48.1	12.2	25.4	35.8
Mauritius	1998	487.6	159.5	32.7	85.8	17.9	20.8	17.6
México	1996	28 281.8	...	..	4 626.6	...	..	16.4
Moldova, Rep. of (9)	1998	1 641.9	...	..	423.8	...	..	25.8
Myanmar	1998	...	...	..	960.0	384.3	40.0	..
Netherlands	1997	5 967.9	1 986.2	33.3	1 500.0	690.9	46.1	25.1
Norway	1997	2 212.8	...	..	833.8	...	..	37.7
Oman	1997	...	...	..	69.1	...	..	..
Panamá	1998	514.8	194.7	37.8	156.2	76.3	48.8	30.3
Paraguay	1997	...	157.8	..	...	58.4	..	..
Poland	1998	9 863.9	...	..	4 574.5	2 549.8	55.7	46.4
Puerto Rico	1998	1 148.0	480.0	41.8	299.0	157.0	52.5	26.0
Qatar	1997	280.1	37.7	13.5	86.5	12.5	14.4	30.9
República Dominicana	1997	...	...	..	303.5	124.8	41.1	..
Roumanie	1996	9 379.0	4 357.4	46.5	3 829.3	1 621.5	42.3	40.8
Russian Federation	1997	...	...	..	25 894.8	...	..	..
Saint-Marin	1998	14.6	5.9	40.3	4.2	2.2	52.3	28.8

Country * (or territory)	Year	Total employment			Public employment			Share of public employment in total employment %
		Total (^{'000})	Women (^{'000})	Share of women in total %	Total (^{'000})	Women (^{'000})	Share of women in total %	
Sénégal	1997	...	...	..	71.9	...	..	..
Slovenia	1998	742.9	340.4	45.8	248.4	128.3	51.7	33.4
South Africa	1999	4 882.5	...	..	1 712.6	...	..	35.1
Sri Lanka	1994	...	...	..	739.5	248.9	33.7	..
Suisse	1998	3471.4	1 424.8	41.0	596.3	278.8	46.8	17.2
Sweden	1998	3 405.7	1 670.0	49.0	1 230.6	889.4	72.3	36.1
Thailand	1999	32 086.6	14 365.8	44.8	2 758.8	1 125.4	40.8	8.6
Trinidad and Tobago	1997	460.0	165.5	36.0	130.2	44.1	33.9	28.3
Turkey	1999	22 049.0	6 882.0	31.2	2 896.0	637.0	22.0	13.1
Uganda	1997	...	...	..	193.9	41.9	21.6	..
Ukraine	1998	22 348.7	...	..	8 112.0	...	..	36.3
United Kingdom	1998	27 471.0	...	..	5 002.0	...	..	18.2
United States	1998	125 826.0	60 834.0	48.3	19 819.0	11 064.0	55.8	15.8
Uruguay	1998	8 132.6	474.4	5.8	1 320.0	79.7	6.0	16.2
Venezuela	1999	8 691.4	...	..	1 348.2	...	..	15.5
Yemen	1998	...	...	..	419.4	...	..	..
Zimbabwe	1998	1 348.3	295.9	21.9	339.5	94.1	27.7	25.2

Notes: ... Not available; .. Not applicable.

(*) By alphabetical order; the name of each country appears in English, French or Spanish when the national language of the country, or the language commonly used in it, is one of the three; in other cases the name of the country is given in the language used in official correspondence between the country in question and the ILO.

(1) Employment in total public sector does not include two publicly run utility companies.

(2) Urban areas and state-owned units.

(4) Employment in private sector including employment in publicly owned enterprises.

(3) Enterprises with 20 or more employees.

(5) Data related to total Government and to enterprises with more than 20 employees.

(6) Employment for social security funds and that of other no profit institution is included to that of private sector.

(7) Excluding Armed Forces and Police for year 1999

(8) Temporary employed persons (i.e. apprentices, trainees and students) were not included.

(9) Excepting the regions situated on the left bank of the river Dniester and the M. Bender.

Source: ILO: Public sector employment database (PSEDB), Bureau of Statistics.

Appendix 2

Public sector employment by economic activity in percentages

Country*	Year	Economic activity			
		Electricity, gas and water	Education	Health and social work	Others
Albanie	1995	5.6	19.2	9.1	66.1
	1998	6.5	21.3	10.2	62.0
Australia	1990	6.4	..	..	..
	1995	4.7	23.7	19.4	52.2
	1999	3.0	28.3	21.7	47.0
Belgique	1995	1.0	35.9	11.0	52.1
	1998	1.0	34.4	12.5	52.1
Bermuda	1995	0.2	..	..	..
	1998	0.2	..	..	..
Botswana	1990	6.2	..	..	..
	1998	2.5	31.1	10.4	56.0
Brasil	1992	3.8	..	..	..
	1995	3.5	..	..	..
	1996	3.3	..	..	..
Bulgaria	1996	3.3	14.7	10.7	71.3
	1998	4.7	18.6	13.5	63.2
Canada	1995	3.5	..	..	..
	1997	3.6	..	..	..
China	1995	2.1	..	..	..
	1998	2.7	..	..	..
Colombia	1995	4.6	..	..	..
	1999	3.1	..	..	..
Costa Rica	1990	7.1	..	..	..
	1995	6.6	..	..	..
	1998	5.7	..	..	..
Croatia	1990	2.0	..	..	..
	1996	3.4	9.4	10.6	76.6
	1997	3.8	9.4	10.8	75.9
Denmark	1996	1.8	..	..	..
	1998	1.7	..	..	..
Ecuador	1990	5.4	..	..	..
	1995	2.8	..	..	..
	1997	1.5	..	..	..
Egypt	1990	2.9	..	..	..
	1995	8.8	..	..	..
	1997	9.4	..	..	..
España	1990	1.1	..	..	..
	1995	1.2	..	..	..
	1997	1.0	..	..	..
Estonia	1990	3.0	..	..	..
	1995	4.5	21.1	13.3	61.2
	1998	7.1	26.9	15.1	50.9

Country*	Year	Economic activity			
		Electricity, gas and water	Education	Health and social work	Others
Fiji	1989	4.8	..	..	..
	1993	5.5	..	..	..
	1996	4.2	..	..	..
Finland	1990	1.4	..	..	..
	1995	..	21.0	40.2	..
	1998	..	21.7	40.1	..
Grèce	1990	4.3	..	..	..
	1998	4.1	20.6	15.5	59.8
India	1990	4.8	..	..	..
	1995	4.9	..	..	..
	1997	4.9	..	..	..
Italie	1990	0.2	38.0	19.1	42.7
	1995	0.2	37.2	20.4	42.1
	1999	0.2	36.8	20.6	42.4
Kenya	1990	3.1	..	..	..
	1995	3.1	..	..	..
	1996	3.2	..	..	..
Kyrgyzstan	1995	..	45.1	25.6	..
	1998	..	43.3	26.4	..
Lithuania	1995	6.5	22.2	15.9	55.3
	1997	7.3	25.8	17.5	49.4
Malta	1995	4.1	..	..	..
	1998	4.0	..	..	..
Mauritius	1990	4.1	..	..	..
	1995	3.9	..	..	..
	1998	3.7	..	..	..
Moldova, Rep. of	1996	3.7	31.1	19.4	45.7
	1998	3.1	33.3	20.2	43.5
New Zealand	1990	3.8	..	..	..
	1995	3.0	..	..	..
	1999	2.1	..	..	..
Norway	1995	2.4	..	..	..
	1997	1.6	18.3	40.2	39.9
Poland	1995	4.6	15.5	17.1	62.8
	1998	5.1	18.6	20.5	55.8
Puerto Rico	1991	5.9	..	..	..
	1994	6.2	..	..	..
	1998	4.7	..	..	..
Roumanie	1990	1.7	..	..	..
	1995	4.1	..	..	..
	1996	4.8	..	..	..
Saint-Marin	1995	..	23.2	23.7	..
	1998	..	22.2	23.4	..
Slovenia	1995	3.8	17.8	12.8	65.6
	1998	3.2	20.2	14.6	62.0
Suisse	1991	2.2	23.8	19.6	54.4
	1995	2.1	23.7	20.1	54.1
	1998	2.0	26.3	21.9	49.8
Thailand	1990	5.6	..	..	..
	1995	6.5	..	..	..
	1999	5.5	..	..	..
Turkey	1995	3.8	..	..	..
	1999	2.3	..	..	..

Country*	Year	Economic activity			
		Electricity, gas and water	Education	Health and social work	Others
United States	1995	..	44.2	7.4	..
	1998	..	45.4	6.7	..
Zimbabwe	1990	2.6	..	..	..
	1995	3.0	..	..	..
	1997	4.0	..	..	..

Notes:

.. Not applicable.

* By alphabetical order; the name of each country appears in English, French or Spanish when the national language of the country, or the language commonly used in it, is one of the three; in other cases the name of the country is given in the language used in official correspondence between the country in question and the ILO.

Source: ILO: Public sector employment database (PSEDB), Bureau of Statistics.