Public private partnerships (PPPs) and their implications for jobs and employment

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1. INTRODUCTION

The International Labour Organisation estimated in 1995, world wide, more than 100 million people were employed in state enterprises many of which are in a process of privatisation. The report noted that while employers as well as policy makers have been convinced of the potential gains from privatisation, trade unions have been mainly concerned about the erosion of job security and acquired rights. The unions have articulated concern that their members may lose jobs, have to be re-deployed elsewhere within the public service, transferred to a new employer, lose work opportunities and/or be subjected to different methods of work. Unions have further raised reservations about the future of their bargaining rights, their rights to represent members in the work place in dealings with the privatised companies and in wage negotiations. The perceived impact of PPPs on job security and to a lesser extent on bargaining rights has given rise to union opposition to PPPs.

Though representatives of labour oppose privatisation as inimical to the interests of workers, international and local experiences have shown that its effects on employment in developed economies have differed significantly to those in the developing economies. In mature economies, complete service coverage, low to negative population growth rates and over staffing in public enterprises led to sizable retrenchments during privatisation, in the quest for increased productivity. On the contrary, significant workforce expansions are required in the process of addressing service and infrastructural backlogs that characterise emerging economies. Private Provision of Infrastructure Notes (PPI Notes) reflects on these issues by providing an overview of international and local experiences and through exploring some of the implications of PPPs for labour.

2. OVERVIEW

In the last decade, the concentration of privatisation activity has been particularly pronounced within developing countries. In Latin America, Chile, Mexico, Argentina and Brazil make up the bulk of activity. In sub-Saharan Africa, Benin, Côte d'Ivore, Ghana, Guinea, Mozambique, Nigeria and Senegal account for two thirds of the divestitures.

Since 1984, industrialised and developing countries have privatised infrastructure companies worth US $357 billion. In 1995, almost 600 new private sector projects with a total value of US $308 billion were underway in 82 countries. In developing countries, total completed financings of new private infrastructure doubled between 1993 and 1995, from around US $17 billion to over US $37 billion. The African Development Bank figures indicated in table 1, show that in Africa, excluding South Africa, more than 2700 enterprises had been privatised as of the end of 1996, generating about $3 billion in revenues. In 1995 Africa alone raised more than $500 million in privatisation revenues, of which about half came from foreign investors. Since more countries are now moving to privatise bigger enterprises in infrastructure, the figures for subsequent years are expected to be much higher.

These deals have been spurred by the growing demand for expansion of services and improvement in quality and efficiency, against the reality of fiscal and managerial constraints faced by government at all levels. The demonstration effect of successful private infrastructure projects around the world has also served as an important catalyst for significant international growth of private provision of infrastructure (PPI) in recent years.

Table 1. Number of privatisation transactions in African countries: end of 1996

Country	**No. of privatisation transactions**
Mozambique	548
Angola	326
Tanzania	244
Ghana	205
Zambia	183
Kenya	145
Guinea	115
Nigeria	81
Congo	67
Cameroon	61
All other countries	803
Total	2718

Source: ADB, 1997

Nevertheless, trade unions have continued to claim that they often find themselves in a less conducive environment after privatisation. Workers in the same public enterprise, who previously had the same employer, end up with different employers after privatisation. The result is that workers' solidarity and centralised bargaining are substantially jeopardised. Trade unions have also expressed fears of bargaining with private sector employers whose main focus, they believe, is on cutting labour costs in order to make a profit as opposed to organising workers in a state-owned and -controlled enterprise where the main emphasis is on meeting a need.

In South Africa, the National Infrastructure Investment Framework estimated capital expenditure on infrastructure of between R170 billion and R230 billion over the next five to ten years to provide municipal infrastructure and essential services to historically disadvantaged communities. The cash squeezed public sector has acknowledged it cannot alone provide for the estimated capital expenditure and has explored possibilities of involving the private sector in infrastructure provision. Trade unions, in particular the Congress of SA Trade Unions-aligned SA Municipal Workers' Union (SAMWU), have come out strongly against the commitment by national government to inject desperately needed capital, management and technical expertise into municipal services delivery through partnerships between local authorities and the private sector. The union has contended that the move would result in increased service charges and retrenchments. They have argued that the partnerships emphasise the ideals of efficiency, cost-minimisation and profit maximisation. As a result, they are neither likely to focus on the universal provision of services, especially to those who genuinely cannot pay, nor contribute towards the building of capacity of the local authorities to take over responsibility for service delivery at the end of the contract period.

3. PPP OPTIONS AND CORRESPONDING POSSIBLE IMPACTS ON EMPLOYEES

In the light of the concerns that PPPs lead to job losses and an erosion of labour power, a few observations are warranted. First, public private partnerships take various forms ranging from management contracts, leases and concessions to full privatisation. Virtually all of these processes have some impact on existing employees of local government who are currently providing the service that would be subjected to a PPP exercise. The impact will differ materially depending on the PPP contract chosen.

In terms of a management contract, the operation and maintenance of a state-owned service are contracted out to a private company for a predetermined period, but the private company plays no role in financing the asset. In such a case the affected employees would remain employed and subject to the terms and conditions of the public service. However, instead of being managed by the public service, they would be managed by the contractor, who will be given the ability to hire and fire employees. There would be no impact on the employees in the sense that there will be no change to the terms and conditions of employment. However, their method of working could well change when the private sector management starts applying new management techniques and the employees would be subject to discipline by the contractor. If the contractor finds that the job can be done with fewer people, then obviously this may impact on those employed in the sector. They may have to be deployed elsewhere in the public service or possibly even retrenched.

Under a concession contract, a private operator assumes responsibility for development, rehabilitation and operation of an asset or service over a defined period and at the end of the period transfers the asset back to the public sector. In return, the private company receives the revenue stream from the project during the contract period. Concession arrangements such as build-own-operate-transfer (BOOT) and build-operate-transfer (BOT) have less impact on employees. Normally in these operations, new employees are engaged and have little effect on existing employees. However, if it means the closure of any municipal facility that is currently providing the service or the reduction in opportunities, this may impact on existing employees.

Full privatisation, involving the sale of government shares in a state-owned enterprise or alternatively the sale of assets and transfer of employees and functions to a private enterprise, would probably have the most dramatic impact on the employees. If the employees are employed in a state-owned enterprise that is a legal entity in its own right, and which is to be sold off by way of a share sale, then there will be no legal impact on the employees in the sense that their employer remains the same. However, there could be material changes in the sense that the owners of the business will change from the state to a private enterprise, resulting in changes to the terms and conditions of employment over a period of time, as well as a possibility of less job security. If, however, there is a sale of assets and a transfer of functions to private enterprise, then the employees who were previously carrying out a public function will have to be retrenched, deployed elsewhere within the public service or alternatively transferred to the acquiring private enterprise.

In summary, each PPP process will have some impact on employees. In some cases the impact is likely to be material while in others it may be more a question of perception rather than reality.

4. INTERNATIONAL EXPERIENCES, SUCCESSES AND FAILURES IN MANAGING THE IMPACT OF PPP CONTRACTS ON LABOUR

It is difficult to generalise about the impact of PPPs on jobs, partly because it has varied greatly and partly because distinguishing privatisation's impact from that of related structural adjustment measures is seldom possible. However, in many cases, employment protection guarantees won by unions have delayed job cuts, so that figures for the years immediately following privatisation can be misleading. In others, restructuring ahead of privatisation, often in a corporation phase, has meant that retrenchments have preceded rather than followed privatisation.

Further complicating the picture is the fact that in some cases employment levels in specific privatised enterprises have not been affected at all or have even increased. However, in some of these cases the impact on employment has been felt by other enterprises. For instance, some bus companies in the United Kingdom have grown rapidly and even internationalised since privatisation and deregulation. They have done so, however, by putting others out of business, so that the overall employment figure in this sector has fallen.

Approximately 70 000 local government jobs have been lost in the United Kingdom as a result of contracting out and competitive tendering. It is also believed that with privatisation, the number of permanent workers tends to decrease while the number of temporary part-time workers and home-based workers increases. A private company or consortium which has won a concession might not immediately retrench workers but sooner or later, in an attempt to cut costs and increase its profit margin, will start freezing posts, cutting back on the number of workers, retrenching and so on.

However, the message from Peru's privatisation process is simple and positive. While the immediate job losses may intimidate, the longer-term gains are tangible. For example, although 4 500 of 8 000 jobs were lost through the sale of the government telecommunications company, 16 000 jobs were created in this sector later as a result of the infusion of foreign capital and technology. In Argentina, a 30-year water and sewerage service concession was awarded in 1993 following a competitive bidding process. The public utility, Obras Sanitarias de la Nación (OSN), was grossly over-staffed with nearly 8000 employees. This represented an average of 8 employees per thousand connections compared with a norm of 2-3 employees per thousand connections. Negotiations with unions were tense, though first impressions suggest a successful outcome. Most direct indicators of labour productivity show dramatic improvements. After a 48 percent reduction in staff in the first year of operation, the concessionaire is now recruiting to keep up with demand for the services. Indirect labour costs also remain high comparable to what they were under public management as the concessionaire continues to provide many of the fringe benefits traditionally available to civil servants.

The UK, Peru and Argentina experiences resulted in job losses mainly as a result of right-sizing organisations that were dramatically over-staffed to begin with. However, in the case of Argentina (as witnessed in other emerging economies), poor maintenance of the system had led to 40 percent water losses. In addition, the water system served only 70 percent of the area's population. Coverage for the sewerage was even lower at 58 percent. Since privatisation, the maintenance system has been revamped and the backlog of repairs significantly reduced. Rehabilitation has cut water losses to about 25 percent allowing coverage to increase by 10 percent with no increase in production. Coverage for sewerage services is up by 8 percent. The increased demand for services has resulted in more job opportunities. On the contrary, at the onset of privatisation, service systems in the United Kingdom had already achieved almost 100 percent coverage and thus could not take advantage of job creation through service extension.

On a macro-economic front, employment gains in Argentina and Peru have also been fostered by economic reforms that have tamed inflation in both countries from a record 200 and 7 500 percent respectively in the late 1980s to single digits today. This coupled with trade liberalisation offered the necessary conditions for stabilisation to create a favorable investment framework as reflected in soaring investor confidence. Investment opportunities have been enhanced by the imposition of legal safeguards, favorable investor terms and a flexible labour market. From 1980, the successive conservative governments in the United Kingdom also focused economic policy at lowering inflation and promoting conditions designed to stimulate growth in output and employment. Whereas in the early 1980s there was a sharp rise in the number of unemployed, from 1987 until 1989 unemployment dropped sharply. In such a mature economy it was perhaps more crucial for divestiture to be accompanied by deregulation and the implementation of innovative regulatory instruments than the preceding economic reforms per se.

Likewise, the key conclusions of a study commissioned by the World Bank in 1994 to investigate the post-privatisation performance of 61 different companies, challenged popular perceptions that privatisation of necessity results in job losses. In fact, as summarised in the table 2 below, an overall increase of 6% in employment opportunities was experienced in the companies reviewed in the report. The authors also contend that the perceptions regarding job losses are largely the result of a few highly publicised privatisations such as the British Telecoms, which involved large-scale retrenchments.

Table 2. Post-privatisation performance: Key results from 61 companies in 18 countries

Indicator	**Average change**
Profitability	+45%
Efficiency	+11%
Investment	+44%
Output	+27%
Employment	+6%
Dividend Pay-out	+97%

Source: Galal *et al*, 1994

5. LOCAL EXPERIENCES AND POSSIBLE FUTURE TRENDS

In SA, indications are that partnerships could in fact result in job creation, given the extent of the services and infrastructure expansion needed to address historical backlogs. While the old white local authorities tended to employ sufficient workers, the old black local authorities were often understaffed, particularly in the number of blue-collar workers. The amalgamation of these local authorities following the 1995 local government elections combined with the current redrawing of local authority boundaries point to a future increased demand on building of infrastructure and extension of services. More workers might thus need to be employed, reminiscent of other emerging economies.

In 1990, the Queenstown municipality embarked on a process to mobilise private sector participation in municipal service provision. A comprehensive consultative process took place with stakeholders, including civic associations and organised labour. A 25-year concession agreement was concluded in June 1992 in terms of which Water and Sanitation Services South Africa (WSSA) took full responsibility for the provision of water and sewerage services in Queenstown. All 45 previous municipal employees opted to join the concession company. There have been minimal labour disruptions since the commencement of the contract. The conditions of employment offered by the concessionaire are superior to those of other municipal and provincial employees. The council achieved an overall cost saving of 17% in the first year and this has been sustained since. The 1995, local government elections saw the amalgamation of Mlungisi and Ezibeleni with the greater Queenstown local council. WSSA's contract was subsequently amended to provide equalised services to the region. All council staff previously engaged on the system in the two townships were offered employment and have since been maintained. More job opportunities have been created via community-based construction programmes undertaken to extend services and infrastructure to previously unserviced areas.

In September 1991, the Chief Fire Officer of the Benoni town council's Fire and Emergency Services formed a private company and entered into a five- year management contract to perform those services on behalf of the local government. First National Bank has estimated that the savings realised by the Benoni Transitional Local Council over the contract period have exceeded R16 million. The company has grown dramatically over the years and has seen the incorporation of eleven new subsidiaries. This growth has created more than 460 new permanent jobs and a 30% increase in the extension of services and infrastructure. In 1995, the company started an emergency fire, rescue and medical training programme for matriculants. The training course has been structured and registered with the Department of Labour. One hundred matriculants are recruited and trained every year: of the six hundred trained to date, 70% have been placed in employment.

6. CONCLUSION

Privatisation has not changed the basic structure of labour relations. Workers in privatised enterprises world-wide continue to be represented by unions. It is not plausible, however, to generalise about the impact on jobs, partly because it has varied greatly between developing and developed economies. In some cases, employment levels in particular privatised companies have not been affected at all or have increased, while in others the overall employment figure in the same sector has fallen.

The trend in mature economies is that PPPs are less likely to create jobs. Right-sizing organisations in developed economies which were dramatically over-staffed before privatisation leads to severe job losses. Low fertility levels below replacement and extensive service coverage already achieved in developed countries, also militate against job creation through the expansion of infrastructure.

In developing economies however, where populations are still experiencing rapid growth rates and severe service backlogs, PPPs result in further recruitment in the long-term to keep up with the demand for services and the expansion of infrastructure.