Profiting from the poor: Privatization and poverty reduction

These days, "reform" often means selling off the public sector. Even water is a candidate for privatization. How does all this affect the poor?

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Citing the difficulty of making money out of the poor, a number of global utilities companies announced in the first half of 2003 their intention to withdraw from, or drastically scale down, their "investments" in water and power services. So much for the notion that privatization has anything to do with reducing poverty: the poor are simply another (and not very good) target group from which to make profits.

However, there are already a couple of words in that opening paragraph which need unpacking. First, "investments" by multinational enterprises (MNEs): do they exist? Public Services International (PSI) is the global union federation for public sector trade unions in 149 countries. We try to monitor what is happening to public services globally. Our main tool for doing this is the Public Services International Research Unit (PSIRU) at Greenwich University in the UK. PSIRU maintains several databases on water, waste, energy and health services for us. Much of the data and many of the reports on particular sectors, countries or MNEs appear on the PSIRU website – www.psiru.org – or on the PSI website – www.world-psi.org – although some data are retained internally for the exclusive use of PSI affiliates.

What PSIRU has found over the years is that, although MNEs and the international financial institutions (IFIs) – such as the World Bank and the International Monetary Fund (IMF) – claim that involving private companies in public services brings in "new" money, the fact is that the MNEs rarely bring in their own money. Typically, they are either using an IFI loan (which governments can get at the same or lower rates) or they are borrowing from the market (where governments can certainly get lower rates). If any of these deals go sour, then either the IFIs or northern governments, which often guarantee these deals through what are known as export credit guarantee agencies, will recoup the "loss" from the project country. This often results in the people of the project country paying increased debt at higher rates of interest. The MNE "investment" is often a hoodwink.

But the more difficult term in that first paragraph is "privatization". People usually think that privatization means selling off a public asset to private interests – but that may not be its most damaging form. Privatization includes a number of other forms:

- Abolishing or curtailing public services – "private provision will fill the gap"
- Squeezing the resources of publicly-funded bodies to induce them to seek private funding
- Increasing the charges to users of public goods – "user pays"
- Promoting joint public/private (often foreign) production ventures
- Transferring public policy responsibilities to the private sector
- Encouraging private finance to build and operate public works

- Introducing private sector management techniques into the public sector: creating a private sector "culture"
- Facilitating private sector competition with the public sector by a policy of liberalization and deregulation
- Contracting out public services to private agents
- Selling subsidiaries belonging to nationalized or public industries/companies
- Recapitalizing public companies through private sector investment
- The partial or complete sale of public companies to the private sector.

This is much wider than asset sales, and some of the other forms are much more insidious in the way that they transform the state or put public services out of the reach of the poor. For example, the first item on the list – and the "user pays" policies that underlie it – assumes that the poor have the resources to buy in the market.

However, caution is needed here: in some cases, the poor are already paying more than the rich. In many countries, public water services reach only the urban middle classes – the poor often pay twenty times as much to private "bucket" vendors operating from water trucks. For these people, a new water reticulation system may make water cheaper for the poor, even if they have to pay for it. In fact, we have to be careful not to give the impression that public services cost nothing. We may decide to deliver them in a way such that poor people do not pay (much) at the point of delivery, but these things surely cost and must be paid for somewhere.

Some of the other measures on the list treat public services as commodities and users as customers. This can have the effect of making these services available to the highest bidder; society is atomized into competing individuals, each chasing "my rights" to the detriment of any notion of the rights of the community/collective.

Pressed to privatize

In terms of traditional asset sales, the IFIs and/or northern donor countries have played an active role in "encouraging" poorer countries to sell public enterprises. In some cases, such sales may well be appropriate if there is a strong competitive market and there is no question of endangering national sovereignty, especially in strategic sectors. But too often, these are purely ideological pressures and the IFIs especially have used their power to force such privatization onto client governments as a condition of a project/programme loan.

How much do the IFIs really exert such pressure? Every year, the Global Unions Group produces a Statement by Global Unions to the Annual Meetings of the IMF and World Bank. These frequently criticize elements of IFI policies and programmes. In the 2003 Statement – available on www.global-unions.org – this specific issue is discussed. The Statement (paragraphs 3-5) cites a number of IFI sources as maintaining that such pressure is a thing of the past. The Bank's Vice-President for private sector development is quoted as saying that "countries who thought that the Bank's advice was to 'privatize everything that moves' had misinterpreted the Bank's advice". As for the IMF, the Global Unions' Statement goes on to say that "it increasingly insists that privatization is outside of the institution's core areas of expertise and is therefore being phased out as a lending condition".

The Statement then makes the point that, at country level, these promises/assurances are constantly voided. The 2003 Statement quotes the Bank as noting that in India, it is abandoning its past emphasis on strengthening public utilities "in favour of promoting private sector participation in the urban water and sanitation sector, as well as in education". Further examples are given from Senegal and Burkina Faso, even though the latter's cotton industry (a target of this policy) is one of the most competitive in the world. For the IMF, the Statement provides examples from Cap

Verde, Pakistan and the United Kingdom. The only country where the IMF questions rapid privatization is Peru, where the push for intensified privatization led to extensive social and political upheavals.

PSI's own experience on asset sales is similar. For a number of years, we have engaged a part of the Bank which, with the Bank's sister organization, the International Finance Corporation (IFC), has advised governments on the reform of public enterprises. "Reform" in this context has meant privatization. With the International Transport Workers Federation (ITF), the International Confederation of Free Trade Unions (ICFTU) and the Trade Union Advisory Committee to the OECD (TUAC), PSI has worked on a programme to get the Bank to involve workers and their unions at the very beginning of discussions about enterprise reform, so that options other than privatization can be given fair weight.

The Bank-IFC have moved very slightly on this. There is now active encouragement for governments to involve unions as early as possible, but this is still only after the basic "privatize it" decision has been taken. They have produced a toolkit for governments on how to handle the labour issues in privatization. This is due for release before the end of 2003. However, the final draft can get no further than saying that the Bank does have advice elsewhere, recommending that governments be open to non-sale options and that unions be involved in that discussion. The toolkit still assumes that unions will be involved after the basic decision has been taken and that the only labour issue is how to handle severance. As Larry Brown, Chair of the PSI Public Sector Working Group, said at an ILO meeting a couple of years ago: "It's as though we are accused in our absence, tried in our absence, found guilty in our absence and are then brought in as a grand democratic gesture to be given a voice in whether we should be hung, drawn or quartered."

Confusingly, in the light of some of the above, an informal meeting between the Bank staffer from this unit and PSI and ICFTU in June 2003 discussed the future of the unit. It seems that it has been split into two sections. One will focus on how to enable an environment for the development of a viable private sector (which many countries need help with). The other will focus on how to improve the governance of public enterprises. Not, we were told, that the Bank is now convinced of their necessity but rather as a result of the fact noted at the beginning of this article: the private sector is withdrawing from the business of serving the poor and the Bank is going to have to live with the reality of enterprises staying in public hands. Not a ringing endorsement of public ownership.

However, the Bank is not just interested in public enterprises. Every year it publishes a World Development Report (WDR), each on a different theme. The WDR released in late September 2003 is called *Making Services Work for the Poor*. PSI, Education International (EI) and the ICFTU had been particularly active in trying to influence the direction of this WDR because its focus was on health, education and water/sanitation services. We also worked with the International Council of Nurses (ICN) on critiques of the draft report. When the report was released, PSI, EI and the ICN released a communiqué.

We welcomed the focus on public services and on the need to make these services accessible to the world's poor and to develop them so that they contribute both to the well-being of the poor and to their empowerment. "The WDR is full of useful analyses and often shows a good understanding of the barriers and problems in making services work for the poor", according to Hans Engelberts, PSI General Secretary, "but our three organizations are concerned that the report is deeply flawed in several ways that undermine that good intention."

As an example, he claimed that the Bank had missed an opportunity to win worker support for improved services for the poor. The WDR focus was on the negative rather than on looking at how to make workers partners in this essential task and on how to build on their demonstrated motivation to work for what is often very poor pay and under very bad working conditions.

"Previous WDRs have carried weight because of the quality of the research and the analysis of development issues", acknowledged Fred van Leeuwen, EI General Secretary. "For the 2004 report, however, the Bank writing team has produced neither new ideas nor fresh, illuminative research."

ICN Chief Executive Officer Judith Oulton expressed her concern: "We all accept that there are deficiencies in the health services but the stress on negative examples in the WDR neglects the obvious – that there are vastly more cases where nurses and other health workers produce wonderful outcomes by working together with people. It must be remembered that the current state of public services in many poor countries is largely a result of reforms driven by the World Bank."

Client power – if you have the money

Nurses, teachers and utility workers in developing countries are themselves often among the poor. Their nominal wages are frequently below the poverty line and often get paid months late.

The WDR seeks to empower the poor through what it calls "client power". Unions support such empowerment, but we have to remember that the poor can only use client power if they have the money to be clients.

This idea leads the Bank into promoting policies that force the poor into markets where they have little experience. Even if it is true that the WDR offers loans, vouchers and other supports to enable poor people to participate, it is all posited on a market-type approach in which current market actors have more experience than do the poor. The WDR makes it as simple as buying a sandwich (the basic example that it promotes), but empowering the poor to access, use, develop and direct services is not the same as saying "easy on the mustard".

In fact, market-type solutions (which can include public sector agencies operating on commercial lines) dominate the Bank's analysis. Experiments and innovations that feature such mechanisms dominate the report. Underpinning many of these is the concept of a contract culture. The report refers repeatedly to the contract culture of 1990s New Zealand as a model example. The Bank seems not to be aware that the Government which introduced these reforms was tossed out of power over four years ago and that the present Government has reversed many of those "reforms".

GATS concerns

So far, we have focused on the IFIs. However, the World Trade Organization (WTO) works closely with them in cementing into the world trade arena the rules that underpin and reinforce the IFI liberalization policies. A key part of this is the WTO's General Agreement on Trade in Services (GATS). Space does not permit us to go into GATS in detail here, but both the PSI website (see above) and the EI website – www.ei-ie.org – contain material looking at potential GATS impacts on health and education. Since those papers were written, water has emerged as a threatened sector, as the European Union is pressuring 102 countries to open their water services to liberalized free trade.

Essentially, our GATS concerns regarding the developing world and the poor are these:

- GATS excludes no services in principle (although it purports to allow governments to refuse to liberalize undefined public services under GATS commitments) and therefore all public services could become the target of IFIs or donor governments pressuring for their privatization/deregulation in the first place and then of further pressure to make public service commitments under GATS.
- Similarly, GATS does not stop governments from regulating in the area of

public services, but there are conditions attached to their use of regulatory powers and no-one can be sure what these conditions mean, unless they are tested in a WTO dispute – by which time it may be too late for the government to change its approach.

- However, the most serious concern is that, once a government has made a public services GATS commitment, it is, basically, irreversible. This means that, pressured to make privatization/deregulation decisions by the IFIs and then to commit these services under GATS, developing countries may be prevented in future from reviewing these services and bringing them back under public ownership and provision.

PSI is promoting a number of alternatives to these market-type policies. Our website has details of a global quality public services campaign which explores a number of alternatives to ensure that quality public sector workers can provide quality services to all relevant users, including most obviously the poor.
