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THE WORLD BANK, RAILWAYS PRIVATISATION and TRADES UNIONS

By Brendan Martin

1. Introduction

Since privatisation began to spread around the globe in the early 1990s, railway employment in the global South has contracted on an enormous scale, and many of the remaining jobs have become more precarious. But railway jobs have been lost too, and terms and conditions of work have deteriorated, in many countries in which railway privatisation has not taken place. Moreover, the industry has continued to decline in many countries that have not privatised, as well as in others that have done so.

The lesson of experience for unions appears to be that privatisation per se is not the fundamental problem. Rather, unions confronting railway restructuring must focus on two inter-connected sets of issues: the role of rail in sustainable economic and social development; and the jobs, rights and employment terms and conditions of railway workers.

Although those two sets of issues are clearly interconnected, and require unions to think about the future of the industry strategically, each has demands of its own. It is not only understandable but essential that unions – because of their capacity constraints, especially in developing countries – give priority to organising and representing their members. At national level, many unions barely have sufficient strength to secure decent severance terms for their members when mass retrenchments take place, and little capacity to attempt influence over the policies that guide such restructuring.

It is here that the role of global union federations (GUFs), such as the International Transport Workers' Federation (ITF), can be so important. Increasingly, the organising role of the ITF will extend to mirror the increasingly international scope of employers: cross border ownership of railways is already a reality in parts of Latin America and Africa, for examples, following privatisation. However, in addition to dealing with the effects of that trend, unions must grapple with the governmental and corporate decisions that are driving it on a global scale. Railway restructuring is being driven not only by general economic and social trends, but also more deliberately by international institutions, such as the World Bank, that both respond and contribute to those trends. Therefore, further important roles for ITF are to research and analyse the roles of international institutions in shaping railway restructuring, and its effects on workers and their unions; to represent the concerns and interests of railway workers at that international level; and to enhance the capacity of railway workers' unions both to protect their members and influence restructuring policies at national level.

This paper explores the challenges firstly by contrasting the experiences of railway unions in three African countries; then by outlining at the role of the World Bank in driving railway privatisation and labour restructuring; and then by exploring the effects of those policies on railways and their workers. It concludes with some suggestions about a union agenda that challenges the prevailing approach to privatisation and restructuring at the same time as seeking to protect and advance the jobs and employment conditions of railway workers.

2. Railway privatisation and union responses

The contrasting fortunes of railway unions in **Kenya and Uganda**, in the context of the 25-year concession to run the two countries' railways awarded last year to the South Africa-based company Rift Valley Railway, illustrate the importance of effective union responses to privatisation.

The Uganda Railway Workers' Union refused to accept privatisation until a deal about how its members would be treated had been not only agreed but implemented. They took legal action and organised a two week strike to force the government and Rift Valley Railway to take seriously their demands about severance terms and pensions arrangements. The result was that the concession award was delayed until all 2,000 Ugandan railway workers had been retrenched with severance pay of three months for each completed year of service. The unions also secured a pension plan for the 650 retrenched workers rehired by Rift Valley Railway.

That was hardly an ideal outcome, but much better than has so far been achieved in Kenya, where the railway workers' union appears to have been more willing to accept assurances that everything would turn out fine provided privatisation went ahead. The union went so far as to promote the concession, only for their members to be disappointed after the event by what they saw as the failure of the privatised railway to deliver on its side of the bargain. Indeed, since privatisation, and despite an intervention by Kenya's Ministry of Labour, Rift Valley has refused to recognise the Kenyan Railway Workers' Union. The union also appears to have lost the confidence of its declining membership, which has been offered worse terms than in Uganda.

Both experiences contrast further with that of the railway unions in **Ghana**, where rail privatisation has not taken place, partly because of opposition by unions fearful that it would bring retrenchments on the scale experienced elsewhere. When privatisation was mooted, the unions organised well to research and promote alternative approaches to restructuring. Although they succeeded in dissuading the government from going ahead with privatisation, however, they have been less successful in securing public investment. Successive governments have declined to make funds available, while the World Bank and other international financial institutions have conditioned their assistance, not only in Ghana but also in general, on privatisation.

The resulting neglect has had predictable effects: steady deterioration of the railway, to the point of collapse in some parts. At an ITF/FES workshop in Accra, Ghanaian railway workers spoke of:

- closure of whole sections of track;
- lack of flags, signal lamps, detonators and torches required for safe and effective track maintenance;
- lack of fire extinguishers in trains and workshops, and disbandment of the railway fire brigade;
- lack of protective clothing;
- withdrawal of medical staff and clinics;
- loss of rest time and increased workload;
- absence of water or lighting in workers' accommodations;
- lack of in-service training.

These problems manifest themselves sometimes in dangerous ways. For example, train drivers reported that they are sometimes on duty for as long as 20 hours at a time, often because delays caused by a faulty signal or point lead to a journey taking double its scheduled time. One train driver said: „Sometimes you reach a place where a point is not working. Sometimes because of inadequate maintenance, you see weedy track. Drivers have to get down and fix the line themselves, and weed the track. Sometimes you find joints that have dropped, which is very dangerous because it can cause a train to break in two. You have to go back and fix and recouple the train.“

Although the Ghana railway has not experienced job losses on the sudden scale associated with privatisation in Uganda and Kenya, its workforce has been cut by around half since the early 1990s. The union is fearful about the future, since continued lack of investment clearly threatens the 3,000 or so workers who remain. The government insists that private participation is the only answer, and the union is more amenable to accepting that now than it was in the past. Yet the experience in the rest of Africa, as well as in Latin America, shows that privatisation tends to arrest decline only in some profitable parts of railways, while accelerating it in others.

3. The World Bank and railway privatisation

The World Bank has been heavily involved in promoting and facilitating railway privatisation since 1991, when it assisted the Argentine government by financing both railway privatisation itself and the retrenchment of some 85,000 railway workers. As well as being the first railway privatisation involving the World Bank, it was the first time one of its loans had been used overtly to finance retrenchment of public employees, and both have been repeated many times in other countries since then.

Since 1991, seven countries in Latin America and 16 in Africa have privatised all or parts of their railways. (In some cases, two countries share a railway, and the concession arrangements have continued that arrangement.) The standard approach has been long-term concessions, typically lasting for 25 or 30 years. Responsibility for maintenance of infrastructure, such as track, signalling and depots, and for running freight and passenger services, passes to the concessionaires. (In fact, in most cases, passenger services have been reduced or even eliminated entirely following privatisation.) In the larger countries, there have generally been several concessions. For example, Brazil (which has Latin America‘s largest railway by far) began with seven regional concessions, although their ownership has since consolidated into three companies.

Table 1: **Railways privatisation in Latin America and Africa, 1991–2007**

First concession	Country	First concession	Country
1991	**Argentina**	1999	**Cameroon**
1995	**Chile**	1999	**Malawi**
1995	**Côte d‘Ivoire/Burkina Faso**	2002	**Togo**
1995	**DRC**	2003	**Senegal/Mali**
1996	**Brazil**	2003	**Zambia**
1996	**Mexico**	2003	**Madagascar**
1996	**Bolivia**	2004	**Mozambique**
1997	**Zimbabwe**	2006	**Ethiopia/Djibouti**
1999	**Colombia**	2006	**Kenya/Uganda**
1999	**Peru**		

The concessionaires are often consortiums linking dominant interests in the freight carried by rail in the country concerned with transnational railway operating companies. Normally, they guarantee to meet certain levels of investment and standards of service, and the concession contract specifies and schedules those commitments. The concessions are normally awarded through a process in which the determining factors can include the investment and service standards promised, and/or the highest fee (in the case of profitable routes and services) or lowest subsidy (for some loss-making passenger services).

The Uganda and Kenya experience illustrates the roles of different World Bank agencies in railway privatisation. In 2001 and 2002, the Public-Private Infrastructure Advisory Facility (PPIAF), a multi-agency fund based at the World Bank, financed consultancy work leading to the privatisation plan. In 2005 and 2006, the International Development Association (IDA), the Bank agency that makes soft loans and grants to the poorest countries, funded the severance and pensions arrangements without which privatisation could not have gone ahead (although, as we have seen, it took union action in Uganda to secure a deal about the way in which the money was used). Currently, the International Finance Corporation (IFC), the Bank‘s private sector financing arm, is funding Rift Valley Railway‘s investment plan directly (matching a loan of $32 million from Germany‘s Kreditanstalt für Wiederaubau).

4. The effects of railway privatisation

The reliance of the Rift Valley Railway on World Bank investment finance is also characteristic of experience elsewhere, and the loan has been agreed despite the fact that the Bank‘s own evaluation of railway privatisation in Africa and Latin America casts considerable doubt as to whether it leads to sustained revival of the industry.[1] The studies‘ authors were asked to look at investment levels, accessibility of the rail system to passenger and freight users, and impacts on poor people. In the preface to the resulting reports, the Bank‘s senior transport advisor Paul Amos admits: “This was a tall order for the very modest budgets available, not least because rail privatisation has, in many cases, led to a marked reduction in publicly available information about the railways involved.”

The latter point underlines one effect of privatisation not studied by the Bank‘s evaluation, its impact on democratic accountability. The Bank does, however, point out that once state control is lost, it is very difficult to recover it. The Latin America report notes (p.35): “Another of the major lessons learned from Latin American railway concessioning is that it is very difficult to reverse course once a concession contract has been finalized and management turned over to a private sector operator. Despite the positive accomplishments addressed in this paper, over half of the concessions in the region have been in technical violation of their contracts, but there has not been a serious move toward voiding contracts and either renationalizing or transferring the concession to another private party.”

One of the major forms taken by these contract violations has been failure to invest in accordance with commitments made to win the concessions. The reports show that the privatised railways are failing to invest sufficiently even to fulfill the much narrower developmental objectives for them that have accompanied privatisation, much less the broader objectives that a wider view of the economic, social and environmental roles of railways would imply. Moreover, especially in Africa, what investment has occurred has been financed by the international financial institutions, notably the World Bank itself, rather than by the new private operators. The Africa report points out (p. ix):

“Most African concessions have been associated with substantial investments, principally in infrastructure, by bilateral and multilateral lending agencies. Adoption of concessioning policies has been, in most cases, a pre-condition of sector lending. However, it is unclear whether, having been gifted or loaned (at

1 *Results of Railway Privatisation in Africa,* by Richard Bullock (TP-8, November 2005); *Results of Railway Privatisation in Latin America,* by Richard Sharp (TP-6, September 2005), both published by World Bank, Washington, D.C.

concessional rates) such investment, many of these rail systems will be able to finance major future infrastructure renewals, either through concessionaire injections or from their internally generated returns. The evidence to date is that few, if any, of the concessions are generating significant profits for their operators and certainly not enough to fund long-term renewals."

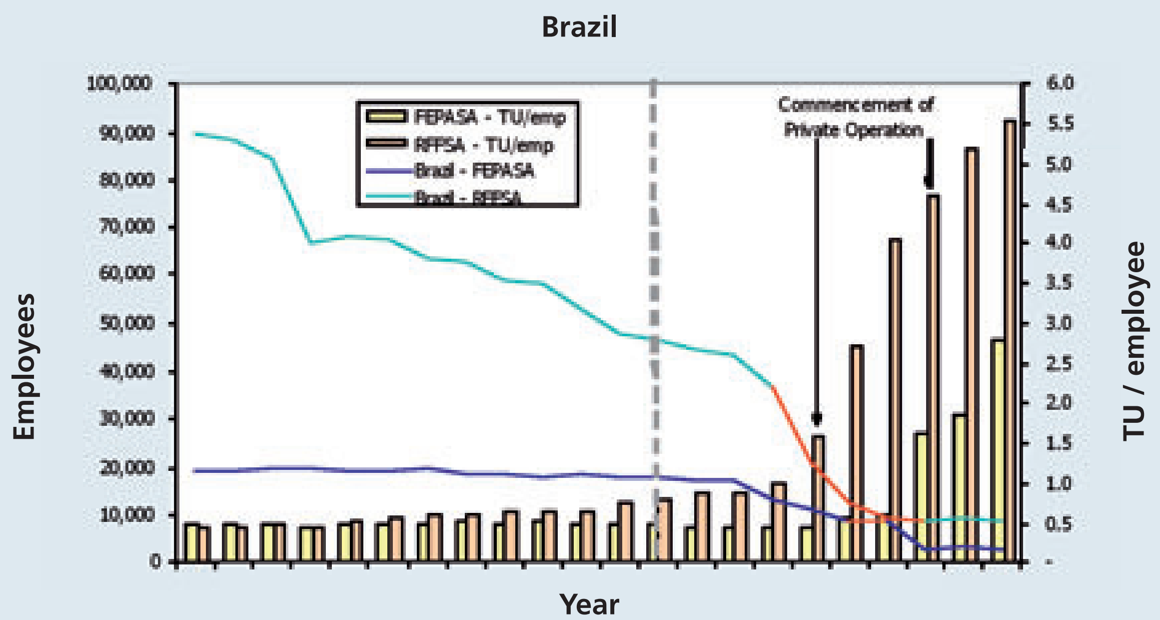
The targeting of what investment has taken place is a further cause for concern. The Latin America report acknowledges (p.12): "Concessioning to the private sector has resulted in a narrowing of focus of railway investment. Whereas Latin America's public sector railways invested in marginal or money-losing services, private sector operators focused on profits have naturally put their money into infrastructure and equipment that generate positive returns, such as bulk transport and high volume container movements. Money-losing intercity passenger traffic has all but disappeared under concessioning, with such services that have continued operated in old equipment with minimal upgrading. Small volume domestic freight movements also appear to have received less attention, just as they have been de-emphasized in private sector operations in the US and elsewhere."

Furthermore (p.13): "A significant issue with respect to railway privatization/concessioning is whether 'common carrier' services are reduced in favor of specialized services to selected users, for example, large corporations or extractive industries shipping in trainload quantities and wealthy passengers willing to pay for premium services. Critics claim, in effect, that the pattern of ownership in Latin American railway concessions results in a loss of allocative efficiency for small freight shippers, arguing that there has been a shift away from carrying small-scale freight, with shipper owners investing principally on investment in transport of their own bulk cargo for export markets and subsidizing their own traffic by discriminatory rates for other traffic."

5. Railway privatisation, employment and labour productivity

Those investment patterns, associated as they are with increasing capital intensity where expansions are occurring and loss of jobs elsewhere, have had a predictable impact on employment levels and labour productivity. The trends experienced in Brazil set out in Chart 1 below are not untypical, and show the tendency for large-scale retrenchments to occur both in preparation for and following privatisation.

Chart 1: **Employment and labour productivity in Brazil railways**



Sources: World Bank data. Notes: (1) Before privatisation, Brazil had two state-owned railway enterprises (FEPASA and RFFSA). (2) TU/employees is a labour productivity equation. It means traffic units per employee, where traffic unit means freight or passenger unit per kilometer.

The overall social impact is multiplied by additional loss of jobs among casual employees, increased use of outsourcing and the fact that many people other than railway workers themselves tend to be reliant on their income from railway employment. (In Africa, a rule of thumb is that each railway worker's pay supports 30 people.)

There are serious flaws in the way in which labour productivity is measured in the World Bank studies, since it is defined simply as the ratio of the volume of freight and passengers carried per kilometer to the number of direct employees. On the output side, the measure fails to capture the developmental value of smaller volumes carried shorter distances, as well as entirely neglecting qualitative data such as safety performance. On the input side, as the Latin America report acknowledges (p. 9): "This review takes note of the observation that labor productivity statistics may overstate efficiency gains to the extent that concessionaires shed non-core activities and then purchase required services from external suppliers. Such outsourcing has the effect of substituting non-labor inputs for labor inputs and, in theory, outsourcing could produce a large apparent gain in labor productivity while total factor productivity actually decreased."

Central to the rationale for railway privatisation is that the sacrifices made by railway workers are justified by developmental benefits, including employment growth elsewhere in the economy. Yet neither the World Bank nor anyone else has systematically studied the results of the experience from that point of view, despite the Bank's declared mission of fighting poverty. What little evidence is available – including the Bank's own evaluations, despite their flawed methodology based on the narrow objectives characteristic of the neo-liberal agenda – are far from encouraging.

6. Conclusion: towards a trade union agenda for railway restructuring

The latter point brings us back to the challenge with which this paper began. While undoubtedly unions have a responsibility to secure the best available deals for their members in the context of whatever form of restructuring is taking place, that is not enough. Unions need also to campaign for an approach to railway restructuring that, as part of an integrated transport development strategy, promotes wider agendas of sustainability, full employment, decent work and social justice. In some countries, notably Brazil, concessions are combining with rapidly increasing public subsidies to engineer significant improvements in some parts of railway networks. In general, however, privatization has not provided sustainable alternatives to government neglect, and the costs borne by railway workers have not been matched by benefits elsewhere in society. Even the World Bank's own evaluations show:

- No proof of overall economic and social benefits, and some evidence of the opposite.
- Strong indications that privatisation has not produced the sustainable investment that was supposed to be its main benefit.
- Strong indications that what investment there has been has been targeted at serving the freight interests of:
  - companies that have taken over the railways, with a clear conflict of interest in their favour;
  - large scale export-oriented business, at the expense, quite probably, of smaller scale producers.
- Proof that literally hundreds of thousands of jobs have been lost, and many more made more precarious.
- Clear confirmation that passenger services have been decimated, but no exploration of the impact this has had on local economic and social development.

- Strong evidence that the future of railways demands public investment, with or without privatisation, but that privatisation has made it more difficult to hold the recipients of increasing public subsidies accountable for the extent to which that finance is used to advance public policy objectives.

Yet, in the first evaluation of the Bank's overall transport sector work it has ever conducted, published by its so-called Independent Evaluation Group in April this year, there is no sign of change in World Bank policy.[2] That is why unions need to develop strategic responses to railway restructuring and privatisation, at both international and national levels, that challenge the current approach and advance alternatives to it. Such strategies need to defend and promote decent work for railway workers in the context of an approach to restructuring that meets wider contemporary economic, social and environmental imperatives. The experiences of the Ghanaian, Kenyan and Ugandan railway workers' unions outlined earlier suggest that, while a robust challenge to privatisation is necessary in order to protect railway workers, it is far from sufficient.

An approach that seeks to combine the most successful elements of those and other experiences is suggested by the following sequence of questions unions might pose in considering privatisation proposals and shaping their own approaches to restructuring:

1. What role are railways to play in economic and social development, including employment growth, as part of an integrated transport strategy?
2. How will the levels, patterns and sources of investment in railways be matched to those overall goals, and how will they be sustained?
3. How will the performance of the restructured railway be transparently evaluated and monitored so that its role in securing developmental goals can be subjected to democratic accountability?
4. How will the railway be held accountable for honouring its commitments and obligations, and what will be done if it fails to do so?
5. How will labour restructuring relate to the overall economic and social goals and investment trends of the railway?
6. How will workers be equipped with the tools and skills they need to deliver their contribution to the revival of railways productively and safely?
7. Insofar as some sections of the workforce will no longer be needed in their present roles, how will they be reabsorbed elsewhere, both within and outside the railway?
8. How will workers be compensated for jobs lost and how will the employment security and benefits of those who remain be protected?

Developing such an agenda requires global unions not only to share information, provide education and other services, and assist affiliates in cross-border organizing, essential though they are. They must also build wider alliances to challenge and change policies at international and national levels. Far from being a diversion from organizing, such political work can serve it well by changing the environment in which organizing and bargaining take place.

If Uganda's experience – retrenchment of the entire railway workforce and rehiring of fewer than half of them – is a relatively successful organizing outcome, that only underlines the extent to which unions are stuck between a rock and a hard place. Since so much policy that shapes or even determines the industrial environment at national and local levels is made and even imposed from international level, global unions have a particular responsibility to work for a better set of options.

2 *A Decade of Action in Transport,* IEG, World Bank, Washington, D.C., at http://web.worldbank.org/WBSITE/EXTERNAL/EXTOED/EXTTRANS/0,,contentMDK:21174378~pagePK:64168427~piPK:64168435~theSitePK:3300525,00.html

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