Privatization and Labor

What Happens to Workers When Governments Diversify?

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Privatization and Labor

What Happens to Workers When Governments Divest?

Sunita Kikeri

The World Bank
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Countries the world over have launched ambitious privatization programs to improve the efficiency of state enterprises, free up resources for social services, and mobilize capital for expansion and modernization. A universal concern in this process is the effect privatization has on labor. Many observers fear that privatization will cause major job losses as new owners of privatized firms shed excess labor to improve efficiency and as divesting governments cut the workforce to prepare for privatization. Fearing unemployment and the loss of benefits, state enterprise workers and unions are often among the most vocal and organized opponents of privatization, taking actions to delay or block reform. In many countries the difficulties are compounded by the absence of social safety nets and functioning labor markets. These factors have often led governments to delay privatization, particularly of large state enterprises in infrastructure and heavy industry where major labor adjustments may be needed, but where the gains from privatization for the society as a whole are the largest. Given the crucial importance of privatization, and the political and social sensitivities involved, it is important that governments find ways to deal with labor adjustments and develop a strategy that wins labor support for privatization and creates a social safety net for laidoff workers.

Despite its importance, labor is one of the least addressed issues in privatization. Indeed, the lack of information on the employment impact of privatization has exacerbated the fears and concerns of governments and workers alike. The World Bank attaches great importance to the social dimensions of privatization and this paper, by the Private Sector Development Department, is a first step in that direction. Drawing on the experiences of mixed economies, the paper examines the effects of privatization on labor and analyzes the mechanisms that governments can use to minimize the political and social costs of labor restructuring in privatization. The paper concludes with a brief review of World Bank support for labor adjustment in privatization, an area of increasing involvement.

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ABSTRACT

Countries the world over have launched ambitious privatization programs to improve the efficiency of state enterprises, free up resources for social services, and mobilize capital for expansion and modernization. A universal concern in this process is the effect privatization has on labor. Many observers fear that privatization will cause major job losses as new owners of privatized firms shed excess labor to improve efficiency and as divesting governments cut the workforce to prepare for privatization. Fearing unemployment and the loss of benefits, labor unions and state enterprise workers are often among the most vocal and organized opponents of privatization, taking actions to deal or block reform. These difficulties, combined with the absence of social safety nets and functioning labor markets, often have led governments to delay privatization, particularly of large state enterprises where labor adjustments are needed but where the gains from privatization for society as a whole are the largest. Given the crucial importance of privatization, it is important that governments find ways to develop a labor strategy that wins labor support for privatization and creates a social safety net for laidoff workers.

Drawing on the experiences of mixed economies, this paper examines the effects privatization has on labor and analyzes the key elements of a labor strategy. The paper finds that in cases where efficiency improvements require large scale labor force adjustments, privatization can proceed smoothly if governments take early steps to inform and involve labor unions and workers in the reform process, develop a menu of restructuring options, help workers on a targeted basis to reintegrate into the labor market, and to eliminate obstacles to private job creation. The paper concludes with a brief review of World Bank support for labor adjustment in the context of enterprise restructuring and privatization.
EXECUTIVE SUMMARY

Drawing on the experiences of mixed economies such as Argentina, Bangladesh, Chile, Ghana, Malaysia, Mexico, Sri Lanka, and Turkey, this paper examines the relationship between privatization and labor. It addresses two main questions:

- What effect has privatization had on labor?
- What mechanisms can governments use to minimize the political and social costs of labor adjustments and under what conditions do they work best?

Privatization’s effects on labor depend on initial conditions. Large-scale labor force reductions often occur when large, poorly performing state enterprises are prepared for privatization and when privatized entities are exposed to greater competition. The more governments privatize such firms, and the greater the exposure to competition, the larger those reductions are likely to be. But in many instances workers can and do gain from privatization. Many enterprises have been privatized with their labor force intact, either because increasing competition led to labor force adjustments under public ownership or because new private investors were willing to take on modest levels of overstaffing that could be absorbed by new investments and dynamic expansion. More important, particularly in sectors with large investment backlogs, privatization and the investments that accompany it have created new jobs at both the enterprise and sectorial levels. Workers remaining with privatized firms have often benefited by obtaining better-paying jobs, company shares, and improved training and career development prospects.

Moreover, concerns about the effects privatization has on workers have been exacerbated by the lack of information on the mechanisms available to reduce the political and social costs of labor adjustments. Where efficiency improvements require sizable labor force reductions, privatization can proceed smoothly if governments make early efforts to develop a labor strategy that secures employee support for privatization and provides a social safety net. That is, when efforts are made to:

- Inform and involve workers and labor unions in the reform process.
- Ensure that workers share in the gains of privatization through mechanisms such as employee share ownership schemes.
- Compensate laid-off workers by providing severance pay and other income support.
- Help workers on a targeted basis to reintegrate into the labor market.
- Eliminate obstacles to private job creation.

The choice of measures depends on country and enterprise circumstances. In middle-income countries with rapidly growing economies and a well-developed private sector, measures such as severance pay and employee share ownership schemes might be all that is needed. By
contrast, in low-income countries (and transition economies) where state enterprises dominate the labor market and where social safety nets are lacking, more fundamental macroeconomic and labor market reforms aimed at eliminating obstacles to job creation and improving labor mobility, combined with the development of a social safety net, are needed to facilitate restructuring and minimize the negative impact on workers.

A key strategic issue in these efforts is whether governments should restructure the labor force before privatization or leave it to the new private investors. In companies with minimal to modest levels of overstaffing, restructuring can and should be left to the private investors. But large-scale redundancies are usually best handled by governments prior to sale to minimize labor resistance, enhance the likelihood that a social safety net will be provided, and increase the value of the firm. In this context, encouraging voluntary departures through generous severance pay is a common way to shrink the labor force, particularly in countries with strong labor resistance to privatization. While such programs can be costly in the short run, they make restructuring politically and socially more acceptable, and their economic and financial returns are high. In many cases severance pay has been combined with retraining and other measures to help laidoff workers reintegrate into the labor market. Political and social circumstances often necessitate the use of such programs, but rigorous evaluations of broad retraining programs question their cost-effectiveness. Targeted, demand-driven retraining support on a pilot basis, taking into account regional labor market characteristics, have better chances of succeeding, while other measures such as counseling and placement services are found to be more cost effective.

Finally, employment restructuring is often necessary to improve the efficiency and competitiveness of state enterprises—regardless of whether privatization is involved. Labor reductions in poorly performing firms should be part of any reform program even if ownership change is not involved. The burdens that loss-making and inefficient enterprises impose on society are simply too large to bear. Continued government support for state enterprises and their employees comes at the expense of society as a whole, diverting scarce resources to subsidize loss-making operations—and benefit a small number of citizens—rather than to social sectors that benefit the economy and the poor. Particularly in the case of large loss-makers and infrastructure firms, rapid privatization and a focus on creating jobs through the private sector—rather than on preserving jobs in less efficient areas—are needed to secure economy-wide gains.
Almost all developing countries have launched ambitious privatization programs to improve the efficiency of state-owned enterprises, free up resources for social services, and mobilize capital for expansion and modernization. A number of countries have successfully privatized their small and medium enterprises. But only a few have made measurable progress in privatizing large loss-makers and infrastructure enterprises that account for the bulk of the financial and economic burden. As a result, state enterprises still play an important role in developing economies. In a sample of forty developing countries, they account for 11 percent of GDP, 20 percent of investment, and 5 percent of modern sector employment. Among the low-income countries in the sample these shares are even higher: state enterprises provide 14 percent of GDP, 27 percent of investment, and 18 percent of modern sector employment (World Bank, 1995a). Moreover, while state enterprise deficits have declined, they continue to impose a significant economic and financial burden. In many countries they cause losses on the order of 6-8 percent of GDP. These losses deeply affect the budget and banking system, creating macroeconomic instability, diverting scarce resources away from basic social services such as health and education, and crowding out the private sector. They also have contributed to declining investments and inadequate maintenance, leading state enterprises to provide a low quantity or quality of goods or services at a high price that places a burden on the poor.

These factors make privatization of large loss-makers and infrastructure enterprises of crucial importance in developing countries. But one of the major reasons why such privatizations have proceeded slowly, and why the potential economy-wide gains from large-scale privatization have been delayed, is concern about the effect privatization has on labor. Many observers fear that privatization will cause major job losses as new owners of privatized firms shed excess labor to improve efficiency and as divesting governments cut the workforce to prepare for privatization. These fears have led state enterprise workers and organized labor to become among the most vocal and organized opponents of privatization, often threatening or taking actions to block or delay reform. When faced with opposition from these employees, who often provide a base of political support, many governments have been unwilling to pursue reforms with high political costs. Concerns about the social costs of privatization are also high. The loss of income and benefits poses social hardships for workers and their families, particularly when alternative employment opportunities and social safety nets are lacking. While many laidoff workers suffer only temporary losses and can recover if they move quickly to expanding sectors, others suffer longer-term losses or shift into lower-paying jobs. The difficulties are particularly acute in the restructuring of one-industry towns where a state enterprise is the sole source of employment.

Despite its importance, labor has been one of the least addressed issues in privatization. Indeed, the lack of information on what has happened to workers in the privatization process—and on the mechanisms available for minimizing the political and social costs—has exacerbated the fears and concerns of workers and governments, and delayed privatization. This paper
attempts to contribute to the growing literature in this area (see Beck, Johanson, and Fretwell 1995; Hess 1994; Svejnar and Terrell 1991; Van der Hoeven and Sziracki 1997). Covering mixed economies, it first reviews the impact of privatization on labor, taking into account the key labor characteristics of state enterprises in developing countries and the conditions under which workers lose or gain from privatization. The paper then analyzes the options available to governments in dealing with labor adjustments in privatization, in particular issues related to timing and sequencing, downsizing methods, management of the process, and labor market support for retrenched workers. The paper concludes with a review of World Bank support for labor adjustment in restructuring and privatization, an area of increasing involvement.
II. WHY AND HOW DOES PRIVATIZATION AFFECT LABOR?

Often protected from competition and subsidized by their public owners, state enterprises in many developing countries employ too many people, often pay them wages and benefits that are higher than their private sector counterparts, and are governed by rigid labor contracts. In many cases, these features have led to low productivity and excessive labor costs, which, in turn, have contributed to inefficiencies and financial losses. Many observers fear that privatization and the associated efficiency improvements will require large labor force reductions both before privatization as governments cut the workforce and after as privatized firms continue to restructure. Indeed, the privatization of large state enterprises with severe labor distortions, particularly in infrastructure and heavy industry sectors, often have required significant labor adjustments. At the same time, and contrary to popular belief, workers often have gained from privatization as new investments and dynamic expansion have resulted in new job creation at both the enterprise and sectorial levels, and as productivity improvements have led to better terms and conditions of service.

LABOR MARKET CHARACTERISTICS OF STATE ENTERPRISES

Too many employees

Governments the world over have employed too many workers in their state enterprises. Many of these enterprises were in fact designed as vehicles for job creation and political patronage. Protection from competition, lack of hard budget constraints, and security of tenure of public sector positions have led to chronic overstaffing or larger labor forces than is efficient. In India and Turkey, for example, state enterprises were estimated to be overstaffed by nearly 35 percent in the early 1990s (Banerji and Sabot 1994). Of the approximately 120,000 people employed in Sri Lanka’s state enterprises, 40-50 percent are estimated to be redundant. In Ghana and Uganda estimates of overstaffing levels commonly run to 20-25 percent. Overstaffing usually occurs in administrative and clerical positions, not in the more technically skilled jobs for which there is high demand.

Overstaffing is most pervasive in enterprises that have operated as monopolies with heavy government subsidies and other forms of protection. These typically include large industrial loss-makers (such as steel and cement manufacturers) and infrastructure enterprises. Overstaffing in some Egyptian steel companies reached 80 percent in 1991 (Banerji and Sabot 1994), while Turkey’s loss-making steel enterprises were overstaffed by as much as 30 percent. State-owned railway companies, burdened with excess capacity and declining demand as a result of competition from other transport modes, are commonly overstaffed by 40-60 percent. In Brazil about 20,000 of RFFSA’s (the railways enterprise) 42,000 employees were surplus, with
lower productivity levels than those in industrial countries as well as in neighboring countries such as Argentina and Chile. Low productivity contributed to annual losses of $378 million and government subsidies amounting to $328 million. The wage bill alone absorbed 70-75 percent of the sector's expenditures. State telecommunications companies fare no better. By the end of 1988, employment in Mexico's Telmex had reached 50,000, and by the end of 1990 labor productivity was about half the international standard (10.5 workers per 1000 lines).

Overstaffing is rampant in other infrastructure sectors as well at both the national and municipal levels. Power utilities in many African countries, as well as in India and Pakistan, are severely overstaffed, with fewer than 50 customers per employee (compared with more than 200 in countries such as Chile, Indonesia, and South Africa). Production per employee is also low, with a median of 379 megawatt-hours per employee (compared with about 3,000 in industrial countries; World Bank 1996b). Before it was liquidated in the early 1990s, the state-owned Zambia Airways employed 300 staff per plane (compared with an industry norm of 140), while the bus company employed nearly 15 drivers per bus. Overstaffing is also common in water and ports. In Pakistan's water system for Islamabad, for example, there are 45 staff per 1,000 water supply connections, compared with 3 staff per 1,000 water connections in efficient water companies in Latin America. In the late 1980s, 80 percent of port staff in Argentina was estimated to be redundant (World Bank 1994).

**Generous pay and benefits**

In the absence of hard budget constraints, many state enterprises tend to reward workers well—often too well. In some countries wages have been eroding as a result of fiscal pressures. But in others, enterprises that have access to government subsidies still pay their lower-skilled labor much better than their private sector counterparts. In Turkey, for example, workers in loss-making state-owned textile, iron, and steel firms earn three times more than people doing equivalent work in the private sector. In Bangladesh and Egypt, where wages have eroded, special allowances and bonuses are offered to state employees to compensate for wage declines. In the absence of wider social safety nets, state enterprises in many countries also provide, at great expense, services such as housing, health care, education, and transportation. In the 1980s these nonwage benefits were equivalent to 20 percent of wages in Africa, 20-35 percent in Asia, and 24-37 percent in Latin America (Banerji and Sabot 1994). Among a sample of 361 Mexican state enterprises privatized between November 1983 and June 1992, fringe benefits in many companies tripled the wage bill (Lopez-de-Silanes 1996).

**Restrictive labor contracts**

Rigid labor contracts or collective bargaining agreements at the enterprise level also contribute to low productivity and high costs. In addition to the high job security (including guaranteed lifetime employment in some cases) enjoyed by state enterprise workers, such contracts often place restrictions on the right of employers to hire and fire, allocate work, and subcontract activities to nonunion parties. These problems contribute not only to increased costs of doing business but also to high rates of absenteeism and moonlighting. They are most evident in
transport and other infrastructure sectors where strong unions have often succeeded in putting such anti-productivity provisions in place.

**Privatization's Employment Impact: Initial Conditions Matter**

Given these distortions in state enterprise labor markets, many observers fear that privatization will have a negative effect on labor as governments prepare enterprises for sale and as new investors strive to raise productivity. What does the evidence show? Labor force reductions have often accompanied the privatization and exposure to competition of large and inefficient firms. But many enterprises, particularly those already operating in competitive markets, have been sold with their labor force intact. Moreover, privatization has often created new jobs as a result of new investments and dynamic expansion. While there are little data on what has happened to workers retrenched during privatization, employees who retained their jobs with privatized firms gained by better terms and conditions of service and employee shares.

**Labor force reductions**

In general, privatization has had a minimal effect on employment in countries that carried out labor reforms well before privatization. Chile, for example, began extensive labor market reforms in the early 1970s by rationalizing state enterprise employment and wages and changing labor market regulations regarding the hiring and firing workers. These reforms led to significant employment reductions by the early 1980s in both public and private firms. As a result the second round of privatization that began in 1985 and involved larger firms in sectors such as telecommunications and electricity resulted in no layoffs (Hachette and Luders 1993). In fact, employment in these firms increased by 10 percent as a result of overall improvements in the economy but also of the new investments that accompanied privatization. Privatization has also had a minimal effect on workers in competitive enterprises. Ghana, Mexico, Morocco, and Tunisia are among many countries that have been able to sell such enterprises with their labor force more or less intact. Prior exposure to competitive pressures had resulted in relatively efficient staffing levels at the time of privatization and private buyers were willing to take on modest amounts of surplus workers who could be absorbed by new investments and dynamic expansion (employment guarantees are discussed in greater detail below).

However, large employment reductions have often accompanied the privatization of state enterprises that were, in the past, heavily subsidized and protected from competition. In steel, railways, and energy enterprises, overstaffing often has led to employment reductions before privatization as governments prepare the companies for sale, and after as privatized companies continue to shed labor. To illustrate:

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1 Data assessing the effects privatization has on labor are hard to find and often poor in quality. The data do not distinguish the labor effects of privatization from those of overall economic reform programs. Moreover, they do not capture short-term effects of privatization relative to its long-term effects, since many governments have downsized labor well before privatization or imposed employment guarantees on newly privatized enterprises that have affected employment only down the line. Tracer studies of laidoff workers are generally not available.
In Argentina, a recent review of five major privatization transactions (telecoms, electricity, gas, water and sanitation, and energy) found that close to 30 percent of employees in the five enterprises lost their jobs by the time privatization took place (Shaikh 1996). The reductions ranged from 3 percent in telecoms to 72 percent in energy (table 1). Drastic employment cuts were also made in other sectors, including railways and steel. Low productivity and interference by labor unions in management decisions had made the cost of keeping loss-making enterprises in the state sector so high that the government was willing to undertake the necessary employment reforms to facilitate privatization. The cuts were made through transfers of staff to other parts of the government, early retirements, voluntary departures, and layoffs; some workers were even sent home with 50 percent of their salaries.

In Bangladesh more than 22,000 workers in the state’s jute corporation were retrenched between 1990 and 1993 as part of the restructuring and privatization program; further reductions are required for the privatization or closure of the remaining mills.

In Mexico a recent study of 218 privatized firms across a range of sectors found that the firms had reduced the number of white- and blue-collar employees by nearly half in the four years before sale (La Porta and Lopez-de-Silanes 1997). In some companies the reductions were significantly higher. Employment in four steel plants was cut from 35,578 in 1985 to 17,485 in 1994, with the largest declines occurring just before privatization in 1991. The privatization in the early 1990s of the two heavily overstaffed and highly unionized state airlines also involved major downsizing before privatization. In the case of AeroMexico a massive strike led the government to declare the company bankrupt. The company went into liquidation and its assets were sold; only a fraction of the workforce was rehired by the new owner. In the case of the second airline, Mexicana, the prospective buyers insisted that the labor force be cut before privatization, and the government reduced it by more than 40 percent (Galal and others 1994).

In Brazil more than 14,500 of the 18,000 redundant railway employees were terminated by December 1996 with a large number opting for early retirement benefits. Private operators of three recently concessioned systems have further deepened the staff retrenchment program initiated by the railways company, cutting as much as half the labor force they received with the concession.

<table>
<thead>
<tr>
<th>Table 1: Privatization and labor force reductions in Argentina</th>
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<tr>
<td><strong>Enterprise</strong></td>
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<tr>
<td>ENTel (telecoms)</td>
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<tr>
<td>GdE</td>
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<tr>
<td>OSN</td>
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<tr>
<td>SEGBA</td>
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<td>YPF (oil)</td>
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<td>FAA (railways)</td>
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<tr>
<td>SOMISA (steel)</td>
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<td><strong>Total</strong></td>
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There has been little follow-up so far on what happened to workers who were laid off as a result of privatization. A recent study of Turkey’s cement industry privatization found that about 70 percent of workers retired upon dismissal and did not attempt to reenter the labor market (Tansel 1996). Laidoff workers experienced earnings losses of about 60 percent, which in addition to a lower salary included the loss of benefits such as transportation, heating fuel, and child care. Nearly 70 percent of workers continued to be covered by the social security system, while the rest were not covered by any program. In India the majority of workers displaced from the closure of 133 sick textile mills were over 50 years of age. Many took up self-employment or a job in the informal sector where earnings were 30-35 percent of previous earnings (Patel and Suzuki 1997). A study of the effects of privatization on state enterprise workers in Zambia found that retrenched workers are more likely to be worse off after privatization but less likely to be poor compared with the population at large (London Economics 1997). The study also found that laidoff workers face the same unemployment rate as the general population (28 percent) despite a higher skill base, and that women, who are slightly overrepresented among laidoff workers, gravitate more to self-employment than men, although they are less likely to fall into poverty than men.

Changes in the terms and conditions of service

The productivity gains from employment cuts often have resulted in wage improvements for employees who remained with privatized firms. In Argentina the real wages and salaries of employees of Entel and the Buenos Aires water concession increased by 45 percent in the three years following privatization. In Chile the new owners of the electricity companies (Chilgener and Enersis) increased wages and introduced profit-sharing schemes. Malaysia’s Port Kelang workers who remained with the partly privatized company received compensation increases averaging 12 percent. In Mexico wages in a sample of privatized firms increased far in excess of rates elsewhere in the economy, with the mean annual wage rising from N$14,925 before privatization to N$26,348 in 1993, with larger gains for blue-collar workers than for white-collar workers (La Porta and Lopez-de-Silanes 1997). And in Ghana salary levels in privatized textiles and printing companies increased to 10-15 percent above industry standards.

In exchange for higher wages, rigid labor contracts often have been revised. In Latin American countries, for example, inefficient work rules and conditions of service were renegotiated to provide managers greater flexibility with respect to decisions on content and pace of working conditions, labor allocation, and subcontracting of support and administrative services to non-unionized firms and subsidiaries. In Argentina’s Entel and Segba (electricity company) the new collective bargaining agreement increased the work week from thirty-five to forty hours, linked wages to productivity, and eliminated certain types of overtime and leave (Shaikh 1997). In Mexico’s Telmex, employment reductions were traded off for revisions in the labor contract. Before sale the 57 different labor contracts were replaced with a single one, allowing managers to reallocate the labor force and subcontract support and administrative services to non-unionized firms. In exchange for these concessions, government awarded workers substantial wage increases. As with employment reductions, these changes were seen as
a prerequisite to attracting investors and securing a higher sales price (the relationship between labor restructuring and sales price is discussed in greater detail further below). While such changes tended to reduce union influence within the workplace, they conformed to labor laws and protected many of the other benefits enjoyed by state enterprise workers (Van Der Hoeven and Sziracki 1997).

**New job creation**

Finally, while privatization has resulted in employment cuts, it also has created new jobs at the enterprise level (including in enterprises where labor reductions occurred before or during privatization) and at the sectorial level. Jobs are created when private operators used assets more productively and made new capital investments that might not have been made in the absence of privatization. Several studies support this view:

- A comparative study of the pre- and post-privatization performance of sixty-one companies in eighteen countries (six developing and twelve industrial) sold through public share offerings showed that almost two-thirds of the firms increased employment after privatization, by an average of 6 percent (Megginson, Nash, and van Randenborgh 1996).

- A study of seventy-nine newly privatized firms in twenty-one developing countries (including the most active privatizers) found employment increases of 10 percent for 60 percent of the sample firms; privatized firms newly exposed to competition were more likely to reduce employment (Boubakri and Cosset 1996).

- A 1994 study examining the costs and benefits of privatization for different groups in society (including workers) in twelve enterprises in Chile, Malaysia, Mexico, and the United Kingdom found that workers gained in ten of the twelve cases through the retention and expansion of jobs. Equally important, the study found that even laidoff workers were better-off, or did not suffer a welfare loss, because the amount of severance pay they obtained was larger than the wages they lost during the time between losing their old job and finding a new one, and because of the allocation of valuable shares at discounted prices (Galal and others 1994).

These trends are evident even in low-income African countries. A recent study of privatization in Africa found that for three African countries (Burkina Faso, Togo, and Zambia) net job losses in a sample of privatized enterprises have not been large--less than 14 percent in Togo and less than 2 percent in Zambia (Campbell-White and Bhatia 1997). More important, some privatized firms increased their workforce, with 208 new jobs in the sample in Burkina Faso and 780 new jobs in Togo. Employment rose because the companies were closed before privatization or because production subsequently increased. Data from other African countries show similar trends. In Ghana, while there was some loss of jobs in the restructuring prior to privatization, privatized firms in a wide range of sectors increased employment: the Golden Tulip Hotel increased employment from 116 employees before privatization to 306 today; Tema Steel increased from 130 employees (many of whom were not gainfully employed under state
ownership) to 500 today; Gafco (the food complex) increased employment from 500 employees at the time of privatization to 1,600 today. In many of these cases the employees might not have had any jobs in the absence of privatization.

Privatization—and liberalization—have also created jobs in sectors with large investment backlogs. Developing countries have achieved major gains in telecommunications, for example. During 1990-94 twenty-six Asian and Latin American countries saw employment in newly competitive Telecom markets increase by 21 percent, compared with 3 percent growth in monopoly markets. Because the telephone penetration rate is low in developing countries (5.2 in 1994), network expansion, which accounted for 71 percent of Telecom investments in the mid-1990s, creates a demand for labor that outweighs the employment reductions that network modernization has generated in industrial countries where teledensity is 52.3 (Pettrazini 1996). Others sectors also have seen increases in employment. In Zambia, after Zambia Airways was liquidated, two new private airlines emerged that are employing many former Zambia Airways staff plus others, leading to higher employment in the sector than before. Similarly, several private bus companies have been created since the state-owned bus firm was closed, and employment reportedly has increased fourteenfold.

In sum, the evidence shows a wide range of experiences with respect to privatization's effect on workers. Privatization can bring significant benefits to workers in enterprises operating in competitive markets where overstaffing is limited and where new owners are willing to maintain some excess staff to keep the political and social peace. More important, privatization can bring benefits to other workers as new jobs are created with new investments and dynamic expansion. Still, large employment losses can occur as inefficient, insulated state enterprises are liquidated or privatized, and as privatized firms face increasing competition. The more governments move into privatizing such firms, and the greater the exposure to competition, the larger those losses are likely to be.

CHALLENGES OF LABOR RESTRUCTURING

Labor adjustments are one of the most sensitive aspects of privatization. The process is not easy and the challenges are many. Perceiving the threat of unemployment and loss of benefits, labor unions and state enterprise workers are among the most vocal and organized opponents of privatization, often taking actions that threaten or delay reform. While many privatizations have been carried out with minimal labor protests, labor opposition to privatization has been significant in countries and enterprises where overemployment and wages are high, where state enterprise workers form a base of political support, and where unions are influential in the sector and in the economy as a whole. In India and Turkey, for example, organized labor opposition to the loss of jobs and benefits and the difficulties of undertaking reforms that affect a key source of the political power base have delayed restructuring and privatization of the large loss-makers, in the absence of which state enterprises continue to be a major fiscal and economic burden. And in Mexico many of the sales noted earlier were carried out with minimal labor protests, but
organized labor opposition was one of the main reasons why the government halted its plans to sell its large loss-making petrochemical plants.

In developing countries, particularly low-income countries in sub-Saharan Africa, these difficulties are compounded by the lack of unemployment and social welfare systems. In the absence of a safety net, enterprises have typically provided a range of free or subsidized services so that the loss of employment thus entails a loss of access to such services. The lack of alternative jobs for those laid off from state enterprises in countries where public employment dominates also has made restructuring and privatization difficult. In these circumstances the costs of privatization for state enterprise workers can be high, involving loss of income, uncertainty, and difficulties in job relocation. But there is growing recognition that privatization and the accompanying labor force restructuring, though painful and costly for some, are essential in bringing economy-wide gains (box 1).

**Box 1: The costs—and benefits—of privatization**

The privatization of Argentina’s railway enterprise (FA) began in 1990 when FA was divided into three separate operations—freight, intercity passenger, and commuter rail. The freight network was divided into six separate concessions, five of which were privatized by October 1993. By June 1995 all but two of the commuter lines were in private hands, while intercity passenger services were offered to the provinces or which were abandoned. This process involved the loss of nearly 80,000 jobs in less than five years. While for the workers this was a negative outcome, the economic and social benefits of completing the privatization are many. In 1990 the railways, which moved less than 10 percent of traffic, was incurring losses of $800 million per year (equivalent to 2 percent of GDP) and receiving subsidies of $1.3 billion. Productivity was extremely low and service had deteriorated. By 1995 subsidies had been reduced to $250 million, releasing resources for investment in social sectors. Productivity improved ten times in freight traffic with dramatic improvements in service. Ridership in urban commuter rail services increased by 45 percent in the first year of privatization, with half of more of the reported increase thought to be due to reductions in the theft of fare receipts by train staff.

*Source:* Kogan 1996.

Indeed, labor restructuring is often necessary to improve the efficiency and competitiveness of state enterprises—regardless of whether privatization is involved: the burden that state enterprises are imposing on society is simply too large to bear. Continued government support for state enterprises comes at the expense of society as a whole, diverting scarce resources to subsidize loss-making operations—that benefit a small number of citizens—rather than to social sectors that benefit the economy and the poor.
III. DEALING WITH LABOR ADJUSTMENTS IN PRIVATIZATION

To enable privatization, governments need to deal with the issue of labor adjustments early in the reform process. Faced with varying initial conditions—in economic and political environments, legal and institutional frameworks, and enterprise and sector conditions—the ways in which the issues are dealt with are bound to vary from one country and enterprise to the next. Where few layoffs are involved and labor markets function well, relatively simple measures such as employment guarantees, severance pay, contracting arrangements, and other incentives (such as employee share ownership schemes) suffice. In cases where large-scale layoffs are involved, unions are strong, labor market weaknesses are especially severe, or social safety nets are lacking, additional measures are needed to minimize the social and political costs. Among the issues for consideration: decision on timing and sequencing, choice of downsizing methods, management of the process, and labor market support for laidoff workers.

TIMING AND SEQUENCING: RESTRUCTURE BEFORE OR AFTER PRIVATIZATION?

In companies with minimal levels of overstaffing, labor restructuring can and should be left to new investors who are in a better position to judge the level of employment and kind of skills needed in a privatized enterprise. Indeed, in many countries private investors have been willing to take on small amounts of surplus labor, sometimes as part of an explicit employment guarantee built into the terms and conditions of a sale obliging the privatized firm to keep the existing work force for a defined period. This period has ranged from a year in Mozambique and Pakistan to two years in Sri Lanka, to five years in Malaysia, where guarantees have been used with good results (box 2). Guarantees have also been used in high-growth sectors where excess labor can be absorbed through attrition, expanded capacity utilization, and efficiency gains from the introduction of more flexible work rules. In the December 1990 privatization of Mexico’s Telmex, for example, the new owners agreed to adjust the oversized labor force through attrition over the medium-term. A large investment program and greater flexibility in work rules also helped absorb surplus labor (Galal and others 1994).
Box 2: Employment guarantees in Malaysia’s Kelang Container Terminal (KCT)

The case of KCT in Malaysia illustrates how poorly-managed public enterprises can be converted into productive firms with better management using more or less the same workforce. In 1984, the government decided to divest KCT, the container operations of Kelang Port Authority. KCT was incorporated as a wholly-owned subsidiary of KPA and awarded a 21-year license to operate the container terminal. Legally, it is a private limited company that operates as a commercial entity. However, it remains a public entity as the government owns 90% of its equity.

As a result of negotiations with the unions, workers were guaranteed continued employment with the new company for at least five years, so there were no layoffs. Workers were given the options of taking early retirement, staying on with KPA, or joining the new company under more or less the same terms as before. All workers chose to join the new company. The new management introduced workforce flexibility and incentives that allowed efficiency gains. Workers at all levels were retrained to take on additional tasks other than their specific jobs, which led to fewer repair and maintenance jobs being contracted out. More importantly, management set out to treat workers as the most important asset of the company: wages were increased by 78%, investments were made in skills retraining and new equipment, and greater worker input in decision-making sought. As a result, productivity increased by 76%.

Source: Galal and others 1994.

Employment guarantees are not a solution, however, in countries or enterprises with severe overstaffing:

- When used in early privatizations (usually the easiest cases with minimal overstaffing), employment guarantees set a dangerous precedent for future, more complicated privatizations. In Malaysia the privatization of the Kelang Container Terminal, the first to provide a five-year employment guarantee, set the standard for future sales. This might not have been a serious problem for Malaysia since many of its state enterprises are relatively efficient to begin with. But such arrangements have created serious problems in Sri Lanka and other countries where overstaffing is rampant.

- Guarantees can deter investor interest and delay privatization in overstaffed companies, as in Mexico’s Mexicana Airlines where no buyers could be found in the first attempts to sell the company because the terms and conditions of sale prohibited worker layoffs (Galal and others 1994). Moreover, even where buyers can be found (because of a correspondingly low price), guarantees restrict the ability of new owners to improve performance.

- When investors have to absorb large amounts of surplus labor and thus the cost of severance payments, they discount the sale price accordingly, which leads to lower sale revenues and public allegations that state assets are being sold cheaply.

- Often, guarantees have led to demands for concessions and subsidies to cover the costs of retaining redundant labor, as happened in the early privatizations of jute mills in Bangladesh. In this case many of the workers laid off after the one year guarantee period ended also did not receive gratuity payments or provident fund contributions upon termination, though these were clearly specified as the responsibility of the new private owner. The backlash from labor and the general public led the government to change its approach in subsequent jute
privatizations, opting to lay off surplus staff before sale and discharge its legal obligations at that time.

For these reasons most governments have assumed responsibility for labor restructuring in troubled enterprises or those with a large number of unions. This strategy has helped resolve potential labor conflicts and minimized the burden of politically sensitive restructuring measures on private buyers, who often insist that governments tackle the issue of redundant labor before they assume management of the firm. Another reason to undertake prior restructuring in such firms is to ensure that the social consequences of labor force reductions are properly addressed, particularly in ensuring payment of severance obligations and development of other social safety net measures. A third reason often put forward for prior restructuring is to increase the attractiveness and value of firms, although such increases might be marginal. A recent study of the determinants of privatization prices in the second phase of Mexico's privatization program found that pre-sale reductions in the labor force raised sale prices by 6 percent over the mean predicted price. Conversely, transferring contingent labor liabilities to new private owners lowered sale prices by 3 percent, while even greater price reductions (up to 18 percent) resulted from strikes in an enterprise before privatization (Lopez-de-Silanes 1996).

At the same time, countries in urgent need of privatization, such as Argentina, have taken a mixed approach. In most sectors part of the restructuring was done by the government prior to sale and part was left to the new private investors. In the case of Entel, for example, 17 percent of the 20 percent reduction in employment took place after privatization, while in Segba the workforce was reduced by 22 percent prior to privatization and by a further 29 percent after privatization (Shaikh 1996). By contrast, in GdE (gas company) employee restructuring was left entirely to the new owners. Investors were allowed to select their labor force from the restructured labor pool according to need, while the government provided other incentives and constructed a social safety net for displaced workers. By December 1993 employment had been reduced by 32 percent. Similarly, in the case of OSN (water and sewerage services in Buenos Aires), no labor retrenchment took place before privatization, although the government entered into a cost-sharing agreement with the private concessionaires in financing severance (box 3).

Box 3: A mixed approach to labor restructuring in the Buenos Aires water concession

In the Buenos Aires water concession the work force was reduced by nearly 50 percent within six months after the start of operations. All 7,400 or so employees had to be taken on by the concessionaire on the basis of existing contracts, although the concessionaire had the right to renegotiate the contracts and reduce the labor force after privatization through a voluntary retirement program. At the same time, the government provided the concessionaire with $37 million to finance severance payments for 25 percent of the workforce (about 1,800 workers), while an additional 1,700 workers were compensated by the new private company (for about $50 million). The new company completed the voluntary retirement program within the first six months in accordance with the concession contract, leaving 4,000 employees by November 1993 (3.5 employees per connection, compared with 8-9 before privatization). Later, the concessionaire and the union negotiated a new collective bargaining agreement and a 40 percent wage increase. Ten percent of the shares were reserved for employees, and the company provided staff with about 150,000 hours of training between 1993 and 1995.

Source: Rivera 1996.
RESTRUCTURING OPTIONS

Where large-scale redundancies are involved, a mix of restructuring options are available to minimize labor opposition and make privatization feasible. One politically and socially attractive way to reduce the size of the labor force is through natural attrition rather than outright layoffs. This approach may work in the pre-privatization phase, but in overstaffed enterprises in urgent need of privatization attrition alone is not likely to be sufficient. Moreover, the skill requirements of positions that open up through attrition may not match the skills of workers available to be transferred into those openings. In such situations other restructuring options such as early retirement and voluntary departure programs, contracting arrangements, and layoffs need to be considered.

Early retirement and voluntary departure programs

The most commonly used method to downsize the labor force is through early retirement and voluntary departure programs. Particularly in countries where the need to reward or placate labor is strong and social safety nets are lacking, as well as in countries where labor legislation prohibits outright layoffs (Egypt, for example), governments have resorted to voluntary departures by providing severance pay packages that have exceeded legally mandated requirements. The size of the payments has varied widely between countries and within countries between enterprises in different sectors, depending on legal and contractual obligations and the strength of labor unions (table 2).

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector/enterprise</th>
<th>Average length of severance payment</th>
<th>Average amount per worker</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Railways (FA)</td>
<td>2 year’s salary</td>
<td>$12,000</td>
<td>Government, donors</td>
</tr>
<tr>
<td></td>
<td>Telecoms (Entel)</td>
<td></td>
<td>$25,000</td>
<td>Government</td>
</tr>
<tr>
<td></td>
<td>Steel (Somisa)</td>
<td></td>
<td>$15,000</td>
<td>Government, donors</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Jute (BJMC)</td>
<td>3 year’s salary</td>
<td>$5,000</td>
<td>Government, donors</td>
</tr>
<tr>
<td>Brazil</td>
<td>Railways</td>
<td>18 month’s salary</td>
<td>$15,000</td>
<td>Government, donors</td>
</tr>
<tr>
<td>Ghana</td>
<td>General</td>
<td>52 month’s salary</td>
<td>$1,423-2,486</td>
<td>Government</td>
</tr>
<tr>
<td></td>
<td>Food processing (TFCC)</td>
<td>14 month’s salary</td>
<td>$2,258</td>
<td>Government</td>
</tr>
<tr>
<td></td>
<td>Textiles (GTP)</td>
<td>6 month’s salary</td>
<td>$744</td>
<td>Government</td>
</tr>
</tbody>
</table>

Source: World Bank data.
Argentina, for example, reduced employment on a voluntary basis largely through generous severance payments (two to three year’s salary) which succeeded because base salary was low, many employees held second jobs, and morale was low. Moreover, the advanced age of many workers made severance pay equivalent to a generous retirement bonus (Alexander and Corti 1993). Large-scale reductions in Bangladesh’s jute labor force between 1990 and 1993 were possible largely because of severance payments that averaged about three years’ wages (and even more in other sectors with strong unions); in 1990 some 9,000 workers applied for the scheme, compared with normal retirement of 700 a year. In Peru most of the 20,000-30,000 cuts in state enterprise employment in the early 1990s were achieved through voluntary schemes. Severance sweeteners have also been used to induce voluntary departures in Brazil (railways), Guinea, Pakistan, and Sri Lanka.

Returns on severance

Voluntary departure programs through generous severance pay are effective methods of labor force downsizing. They reduce labor opposition and minimize the social impact; often the payments are significantly higher than the average monthly wage in the region. One-off severance payments are also simple to administer, and their financial and economic returns are high. A study of labor redundancy in transport-related state enterprises found that the programs pay for themselves within two to four years—and sometimes less, since the costs of one-time severance pay and accumulated pension obligations are outweighed by the fiscal benefits resulting from savings in wage bills and reduced transfers and subsidies (Svejnar and Terrell 1991). In the case of Brazil Railways, for example, the cost of cutting 20,000 employees over three years is estimated at about $350 million, but these reductions would reduce the wage bill by about $250 million a year. The economic rate of return—defined as the net increases in marginal productivity of redundant staff who are redeployed to another productive activity, and the marginal gain from avoided labor related costs—is also high, averaging 45 percent in the six countries covered by the transport study. Returns are particularly high if there are other opportunities for employment and redundant workers are likely to find jobs in the labor market.

The main challenge with incentive-based voluntary options lies in devising a severance policy that is both attractive for workers and financially feasible in the short run. In the absence of such a policy, governments have often overpaid workers to leave, which has resulted in high short-term costs and adverse selection where the best employees are the first to leave. In Pakistan, for instance, strong labor resistance led the government to grant extraordinarily generous severance payments to workers. The agreement reached with the All Pakistan State

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2 Sri Lanka offered early retirement and attractive compensation packages to redundant workers, although in 1991 early retirement was being offered only in cases where the level of redundancies did not permit privatization.
3 The problem of overpayment is as follows. In theory, there must be a price X at which the median worker will agree to leave the job. At anything less than X the worker would not agree to go. Anything more than X is wasteful. Most governments have tended to offer higher payments, resulting in the “overpayment” problem.
4 The government offered both a golden handshake and voluntary departure option. The former was offered to industrial unionized workers, with one month’s gratuity for each complete year of service to be paid by the enterprise (legal obligation) plus four months’ basic salary (last drawn) for each year of service to be shared by the
Enterprise Workers Action Committee before privatization guaranteed departing workers five months’ salary for each year of service as well as other protections, including no layoffs for the first year after privatization, reservation of 10 percent of shares for employees, training and credit schemes to help redundant workers become self-employed, and the right of first refusal on the sale of a unit. The government considered such measures essential to moving privatization forward; others considered them excessive. The agreement set a precedent for future privatizations, which raised the costs of severance to unaffordable levels and helped delay large-scale privatization.

The lack of an adequate severance policy also has contributed to high costs in many African countries. In Ghana, for example, extremely generous payments negotiated at the enterprise level became a major obstacle to privatization (box 4). While these enterprise-level agreements allowed for flexibility at the firm level, they led to protracted negotiations and created precedents for payments in future layoffs, a policy that has raised costs in other countries as well. In Mali, generous severance and redeployment payments—amounting to two years’ pay plus a grant of up to two years’ salary to establish a new enterprise—led the government to halt divestiture and cut back on the benefits. In Tanzania agreements between unions and enterprise management have led to widely varying severance packages, and transactions are being delayed because neither the firms nor the government have the financial resources to cover the packages.

**Box 4: Severance pay financing problems in Ghana**

Poorly designed severance schemes for laid-off SOE workers can be difficult to implement and even threaten the entire labor retrenchment process. In Ghana, labor retrenchment was practically halted in the early 1990s by the government’s inability to pay overly generous severance payments which it had agreed to finance during collective bargaining (CB) with labor unions. The problem lay not so much in strong unions as in the legal framework: Ghanaian legislation defines the general conditions for severance entitlements, but leaves the specific amounts to be determined by individual CBs between unions and SOEs. In the absence of well-defined limits, and since the managers of the SOEs were negotiating about the government’s and not their own money, enterprise-by-enterprise negotiations resulted in a broad range of entitlements and excessively high end-of-service benefits.

In Ghana, severance payments in many SOEs are about 65% higher than in the private sector, with average payments estimated to be 52 months, or 4.3 years of base pay. The practice of paying redundant workers retirement benefits as well as severance payments added to the high costs of retrenchment. Retirement benefits averaged about 70 months of base pay (in some cases, about 70% higher than in the private sector). Between 1985 and 1991, end-of-service benefits grew to between US$1,423 and US$2,846 per worker, representing six or seven times Ghana’s per capita GNP. The inability of many SOEs to finance severance payments led to a halt in the labor redundancy program—not to mention privatization.

The government has taken a number of steps to deal with the financing problem. Legislation is being redrafted to standardize and rationalize severance benefits, and more recent privatizations show significantly lower levels of severance payments, averaging 10 months. A national pension scheme was introduced to replace retirement benefits formerly provided by SOEs. In addition, the Bank supported Program of Action to Mitigate the Social Costs of Adjustment has devoted resources to provide compensation packages for retrenched workers.

**Source:** Davis 1995; World Bank 1996a.

privatization agency and the buyer. The latter was offered to officers in industrial units, with one month for each year of service plus two months for each year of service.
Minimizing costs

There are a number of ways to minimize severance costs while still making severance attractive to workers. First, overpayment can be minimized by having a clear severance policy that offers severance only to redundant workers or certain categories of workers where overstaffing is the highest, and that tailors severance packages to worker characteristics and the rents they obtain from public employment. A methodology for this approach is being developed as part of a research project on severance pay at the World Bank.\(^5\) Second, in countries where wages have eroded because of fiscal pressures and hard budget constraints, modest severance pay in line with market conditions may be adequate to encourage voluntary departures; in such cases the level of severance is often less of a concern than the guarantee of immediate payment to workers (who in many cases may not have been paid for months). Third, noncash supplements can be provided, as in Zambia where, because generous cash offers were not feasible, elements such as shares in companies, land, houses, vehicles, and equipment were included as part of the severance package.

Financing severance pay

Ensuring prompt payment of full severance packages is crucial to labor restructuring, especially in high-inflation environments. In some cases inadequate funds have forced governments to delay severance payments, which in addition to imposing social difficulties and reducing the value of severance has seriously eroded government credibility and threatened a backlash to reform. In Argentina one of the labor reduction program’s main concerns was credibility—that is, whether the government, in the midst of a severe fiscal crisis, would be able to pay the generous amounts it had promised to pay. In this case, World Bank participation in the financing of severance brought credibility to the process and ensured that commitments were honored (see below). Severance pay can be financed by:

- Sequestering privatization proceeds for severance payments, as in Turkey and Tunisia. In low-income countries, however, this option is limited because proceeds from sales are often not sufficient to cover severance costs. In many cases enterprises have been sold at low prices with long repayment periods and default rates have been high.
- Sequencing privatization candidates to ensure phased retrenchments and minimize cash-flow problems. Malaysia sold shares of profitable enterprises first to generate proceeds that could subsequently be used for financing severance in future transactions.
- Setting aside budgetary funds, as in Argentina and Peru where World Bank adjustment operations tied the release of loan funds to the designation of budgetary funds for paying severance (see below).
- Sharing the burden with the new buyers, as in Argentina and Pakistan where the costs of the sweeteners in the golden handshake and voluntary departure schemes are split between the government and the new private buyers.

\(^5\) The project examines almost fifty episodes of public sector retrenchment, focusing on how best to design compensation schemes that minimize overpayment and adverse selection. See Rama 1997.
Reducing adverse selection

Overpayment can also result in adverse selection, or the departure of the most productive workers who are most likely to take advantage of the program because they are most employable elsewhere. In Pakistan, for instance, golden handshakes reportedly encouraged the most productive workers to quit. In Bangladesh’s jute sector 65 percent of voluntary applicants were skilled workers, and another 30 percent were semi-skilled. In Argentina early retirees of SOMISA (steel mill) and the railways were among the most productive employees, while many unproductive ones stayed; as a result production problems and shutdowns occurred and labor unrest escalated. These problems can be limited by offering early retirement and voluntary separation packages only to redundant staff and within predetermined limits (as in Brazil Railways). In addition, attempts can also be made to retain skilled workers by establishing eligibility criteria for voluntary departures, raising the retirement age for essential employees, and developing performance-based compensation schemes to minimize the incentive to leave. Still, even where such features might be difficult to put into practice, the costs of adverse selection are generally outweighed by the broader economic and social benefits of reducing the size of the overall workforce and of completing privatization.

Pension implications

A major concern in countries where the pension system is in a state of crisis is that early retirements accelerate pension liabilities and so aggravate the financial strains on pension systems and other components of the social security system. In countries such as Turkey early retirement policies could thus clash with the recommendation to increase the retirement age to resolve the pension crisis. In low-income countries, however, the problem is often reversed: weak social security systems impede early retirement because no worker will want to take retirement knowing that the system will not be able to honor its obligations. For this reason, Congo and Uganda among others are exploring the option of creating independent, privately-managed pension funds that would receive debts owed to the social security system by state enterprises. These funds could then be used to pay employees taking early retirement.

To summarize, generous severance packages to encourage voluntary departures are politically the least costly way to downsize the labor force and are an effective method in obtaining rapid privatization in highly politicized environments. They do incur short-term costs and adverse selection problems but these tend to be outweighed by the economic and financial benefits of severance as well as the benefits of completing privatization.
**Contracting arrangements**

One way to minimize labor redundancies is to contract activities previously carried out within the enterprise to private cooperatives formed by former state enterprise employees. This arrangement has been used in a variety of countries and sectors. In Argentina, for example, the oil company YPF entered into service contracts with 210 companies formed by 5,300 former employees. Similarly, the railways company rented out workshops performing rolling stock repairs to worker cooperatives who now compete with the private sector. In Congo railroad workers have subcontracted with the railways company to manage activities that have been privatized, including marketing merchandise, handling baggage and package, and maintaining tracks, equipment, and buildings. Guinea’s water enterprise made extensive use of contracting (box 5). In Benin and Egypt new owners of beverage companies gave retrenched workers the option of becoming distributors and provided assistance to get them started in the private sector. In Peru some 20 percent of laid off state employees became subcontractors; small companies created by former state employees were formed in all sectors, including transport, water, mining, ports, and electricity. While in-depth evaluations of contracting arrangements are not readily available, these examples show that such arrangements are a potentially promising option for governments to explore.

**Retrenchment**

Depending on the results of the voluntary departure program, redundant staff may still need to be involuntarily laid off. Though politically the most difficult of all restructuring options, retrenchment of workers who did not accept the voluntary program have been sometimes necessary in the last phase of the restructuring. In Argentina railways the last 5,000-6,000 workers who did not accept voluntary retirement were declared redundant on the basis of performance and laid off. About 3,000 additional workers were sent home with 50 percent of their salaries. In Brazil railways, the labor rationalization program allowed for a two-phased approach. In the first phase, redundant staff, identified on the basis of redefined operational procedures and job categories, were given the choice of voluntary separation. In addition to legal entitlements averaging about 10 months of salary, employees were offered financial incentives, amounting to four to twelve months’ salary (depending on length of service), continued use of enterprise housing and social security contributions from the enterprise for up to a year. On average, the voluntary separation package amounted to $18,000. Employees who do not accept the voluntary scheme, however, are laid off with legal entitlements plus a separation package.

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**Box 5: Contracting out in Guinea: the case of SEEG**

Before privatization, the state-owned Société Nationale des Eaux (SNE) had 530 workers on its payroll. In 1989, it was liquidated and replaced by two companies: Société Nationale des Eaux de Guinée (SONEG), a state enterprise, which owned the physical facilities and was responsible for sectorial planning and investment, and Société d’exploitation des eaux de Guinée (SEEG), the water management company with 51% foreign private ownership. Following privatization of management, 273 SNE employees were retained (52%) and the rest laid off. Released workers were encouraged to set up cooperatives and subcontract with SEEG for new connections, maintenance of canals, landscaping work, etc. SEEG provided training and logistical assistance, as well as initial working capital. As of August 1995, 20 small enterprises had been formed, most of them by shed labor from SNE. All of the enterprises subcontract with SEEG.

*Source: Berg 1995.*
equivalent to 80 percent of the incentive offered under the voluntary program. Such employees are selected on the basis of performance, attendance record, frequency of penalties or suspensions, and family situation. The railway also agreed to pay an involuntary separation grant to remaining redundant staff who were not hired by the concessionaire, up to a maximum number of staff specified in the bidding documents. Compensation packages for layoffs beyond the specified number were the concessionaire’s responsibility. As a result of this approach most of the 16,000 or so redundant workers took up the incentives and left through the voluntary program.

**MANAGING THE PROCESS: THE ROLE OF COMMUNICATION AND EMPLOYEE PARTICIPATION**

Worker opposition to privatization often escalates because governments fail to involve labor unions and address their concerns early in the reform process. In Turkey, for example, the lack of labor involvement in the earlier privatizations contributed to opposition to the larger sales. In many African countries labor unrest occurred because of the lack of consultation in privatization. By contrast, labor tensions can be significantly reduced when governments recognize the constructive role that labor can play and make explicit efforts to inform unions and workers about privatization and involve them in the process through employee share ownership schemes and the like.

*Communicating with labor*

Efforts to explain the government’s privatization plans, assure labor that their interests are fairly represented, and assure them that sacrifices will be balanced with measures to allow workers to share in the benefits of privatization help reduce tensions and improve the chances for constructive dialogue and bargaining. More specifically, this involves early efforts to:

- **Explain the rationale, costs and benefits of privatization, and the costs of not privatizing.** In countries such as Argentina, Uganda and many others, workers supported privatization when they understood through the government’s communication efforts that privatization is needed to obtain capital for new investments and improve access to services, and that closure and the loss of even more jobs often is the only alternative to privatization.

- **Enhance their understanding of the timing and method of privatization.** In many cases labor unions recognize that the time for change has come but their opposition stems from lack of information about the government’s plans for privatization.

- **Describe the incentives and social safety net measures being put in place.** Often, the lack of information about the severance policy and supporting measures, has created uncertainties for workers and increased their opposition to reform. Particularly in developing economies with little experience with share ownership and weak capital markets, employee share ownership programs require a comprehensive information program to educate employees on the meaning and benefits of share ownership. Such a program needs to explain concepts such as:
property rights, shares as an alternative to bank deposits, the difference between interest and dividends, the impact of retained earnings, the impact of inflation, the difference between an investment with a predetermined value and one whose value could change based on supply and demand, and understanding balance sheets and profit and loss statements.

- Inform them about the regulatory and other arrangements being designed to protect consumer and labor interests. Often, labor unions are concerned not only about job preservation but also about the broader social, environmental, and gender impacts of privatization. The more governments can explain their plans in these areas the more the chances are of winning labor support.

These efforts, particularly important in countries where labor opposition to privatization is strong, should be part of a communications program involving workshops, seminars, and study tours for unions and workers at the enterprise level. At the national level as well a political process of engagement is crucial in building support for privatization. Some countries combined these efforts with a broader public information campaign designed to ensure that the general public understood the costs of maintaining inefficient state enterprises and the economywide benefits of privatization. Argentina and Cape Verde, for example, launched such campaigns and as public support for privatization increased, union opposition weakened.

Countries with strong and active labor unions have gone a step further and given unions a direct role in implementation once a decision to privatize is taken. In the Buenos Aires water concession in Argentina, for example, the labor union was represented on the committee that was set up to oversee the process and was closely involved in negotiations on restructuring methods, severance options, and retraining arrangements. Similarly, in the restructuring and privatization of Congo’s railway company (Regifercam), the government and company management involved the union (and labor ministry representatives) in developing their restructuring plans. These efforts led to agreement on options for a retrenchment program involving about 1,600 staff over two years, including retirement after thirty years of service, a voluntary early retirement option for workers with up to ten years of service, and furlough notices for workers with more than ten years of service, with an option for early retirement. In South Africa, where trade unions are particularly active, consultation takes place at an even earlier stage. As part of the national framework agreement on the restructuring of state assets, unions are involved in the initial decisions on privatization and have a seat at the table for all privatizations at all stages of the process. Training and consulting support are being provided to educate unions about the objectives of privatization and to help them participate constructively in the process.

Such arrangements can have their costs: they could significantly complicate and lengthen the process, and may provide labor access to information that favors them in the bidding process. Nevertheless, the benefits of having labor support and moving ahead on privatization can outweigh the costs. Moreover, labor unions also can help persuade governments to consider measures to make privatization more socially acceptable and transparent—and the sooner they are consulted in the process, the better.
Employee share ownership schemes

To build labor support for privatization, many governments have reserved shares for employees in privatized enterprises often at discounted prices and with special financial assistance. Employee share ownership programs have been used in a wide range of sectors in Argentina, Bangladesh, Bolivia, Chile, Ghana, Mexico, Morocco, Mozambique, Ghana, Pakistan, and Turkey, among many others. Governments have reserved anywhere from 3 to 10 percent, depending on the size of the transaction, with discounts also tending to range from 5 to 10 percent, depending on the individual case.

These employee share ownership programs often have produced large financial gains for employees thanks to share appreciation resulting from the investment and management changes implemented by new owners. In one electricity generating company in Chile, 85 percent of the workers bought 5 percent of the company’s shares at the time of privatization; between December 1987 and December 1990 the stock price quintupled. In Mexico the union in Telmex bought 4.4 percent of the company’s shares at $0.70 a share, compared with $0.77 paid by the buying consortium and a $1.36 initial offer price in the public bid. The shares in Telmex appreciated rapidly, and at one point the average shares held by each worker were worth almost $36,000. At the time of privatization employees of Argentina’s Entel received shares in the company at one-sixth the price paid by the winning consortium. Based on the market value of these shares in 1994, the average employee realized capital gains of $25,000 (Shirley 1994). In addition to the financial gains, employee ownership also gives employees a direct stake in the performance of the company and so has helped improve labor relations and increase productivity, particularly when combined with a system of workplace participation that includes establishment of quality work circles, continuous improvement programs, and communication channels (Gates and Saghir 1995).
Financing share ownership schemes is the major concern in developing countries. Chile is an interesting example in this context. In addition to reserving shares and offering share discounts, special financing arrangements involving the use of severance pay helped cash-poor employees purchase shares with no capital outlays, no element of risk, and potential for gain (box 6). Other arrangements to facilitate share purchase by employees include developing a trust fund that can borrow money from the company to buy shares in the company that are then allocated to individual employees, allowing workers to buy on credit with payment on an installment basis, and creating employee share associations or foundations.

**Box 6: Financing “labor capitalism” in Chile**

As part of its “labor capitalism” approach in the second phase of privatization, the Chilean government sold 5-10 percent of the shares of its enterprises being privatized directly to workers who could get an advance on their severance pay to buy shares. Here, government offered employees 50 percent of severance payments in advance on the condition that they invested 80 percent of the sum in shares in their enterprises. Workers were guaranteed by the state that the value of their shares would not fall below their entitled severance payments at the time of retirement. Another way to finance sales was to give bonuses in shares rather than money, an agreement reached in the collective bargaining process. Corfo, the privatization agency, also encouraged the organization of workers’ associations which used the financial system to obtain shares that remained with the banks as security until the debt expired. Finally, in a few cases, installment payments have been allowed; in the case of electricity, payments were made over four to six years. As a result of these financing schemes in many divested enterprises over 80 percent of employees elected to participate.


**Retraining and redeployment support**

Labor adjustments are more difficult in countries that lack alternative employment opportunities and social safety nets. For this reason divesting governments have often combined severance pay to help laid-off workers reenter the labor market (table 3).
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<th>Country</th>
<th>Sector/enterprise</th>
<th>Training and redeployment schemes</th>
</tr>
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<tbody>
<tr>
<td>Argentina</td>
<td>Steel (Somisa)</td>
<td>• Financial support for microenterprise creation</td>
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| Bangladesh| Jute (BJMC)       | • Skills training  
|           |                   | • Self-employment training        |
| Brazil    | Railways          | • Retraining program              
|           |                   | • Outplacement assistance         |
| Cape Verde| General           | • Financing for training costs of laid-off state enterprise workers rehired by the private sector  
|           |                   | • Job search assistance           |
| Ghana     | Agriculture (Cocobod) | • Linking laid-off workers with master craftsmen to learn new skills  
|           |                   | • Equipment made available at half-price |
| Malawi    | Railways          | • Skills training  
|           |                   | • Job counseling  
|           |                   | • Entrepreneurship training      |
| Peru      | General           | • Financial assistance for vocational training cost  
|           |                   | • Job and investment counseling   |
| Turkey    | General           | • Job counseling  
|           |                   | • Retraining  
|           |                   | • Employment services            
|           |                   | • Financial support for microenterprise development |

*Source: World Bank data.*

Retraining programs aim to assist displaced workers in making the transition to alternative jobs in growing sectors of the economy or in becoming self-employed. In some cases retraining programs have been developed explicitly for redundant state enterprise employees; in others, support is provided as part of the broader active labor market programs developed for the long-term unemployed (which, in addition to retraining, include labor exchange services, job search and job clubs, relocation assistance, and labor market information). As discussed below, these mechanisms have yielded mixed results, particularly in developing countries with weak institutional capacity and declining labor demand. A better approach is to focus on labor market policies that eliminate obstacles to private job creation.
Mixed results

While retraining is commonly included in the social safety net package, rigorous analyses of their impact and cost-effectiveness in assisting displaced workers are limited, making definitive conclusions difficult. The few existing evaluations for industrial economies show mixed results. A review of twenty retraining programs in OECD countries covering both displaced workers and the long-term unemployed found that for displaced workers retraining programs resulted in modest gains in reemployment probabilities, but wage changes were negligible or negative (Dar and Gill 1995). The same review also found that the costs of retraining—usually the least analyzed aspect of the programs—appear to be two to four times higher, though no more effective, than job search assistance in helping workers become employed. The findings of the study are consistent with the OECD Employment Outlook (1993) which found that: (i) well-targeted programs can be beneficial, but broadly targeted programs offered to all workers show less favorable results; and (ii) placement and counseling efforts aimed at encouraging effective job search by displaced workers show consistently positive results and, when targeted, are very cost-effective.

Systematic evaluations of the impact of retraining programs are not available in developing countries. The lack of evaluation in part may be due to the paucity of data and in part due to the complexity and lack of familiarity with evaluation methodologies. Nevertheless, anecdotal evidence suggests that retraining programs often encounter a number of problems as a result of weak administrative capacities, declining labor demand, and low educational levels. In many developing countries training is still supplied by state-run agencies that lack resources, market orientation (training is usually generic), and institutional capacity. Private sector training providers are few and, where available, weak. Moreover, managers and employees themselves often have little faith that training improves skills and helps find alternative job opportunities, particularly when unemployment is high; many are more interested in guaranteed severance payments and other forms of direct unemployment support. According to a recent assessment, only 10-20 percent of displaced workers on average choose to participate in training programs, compared with 50 percent for counseling services (Hess 1997).

The institutional complexities involved in preparing such programs can also lead to timing problems with restructuring and privatization. While in Turkey the slow pace of restructuring and privatization impeded the implementation of employment services, in most others privatization had already occurred by the time the training programs were in place. A recent World Bank assessment of the training program for jute sector workers in Bangladesh found that because of preparation delays the retraining program became driven by supply, not demand. Many of the workers were released from the mills well before the program's start and had returned to their home villages, and the government now is paying the NGOs that run the program a fee to locate potential trainees. The training component of the National Renewal Fund in India also faced similar problems (box 7).
Box 7: India’s National Renewal Fund

In 1992 the Government of India established the National Renewal Fund (NRF) to facilitate the industrial sector reform program and to mitigate the negative impact on workers affected by the restructuring and privatization of state enterprises at the central level. About 400,000 workers were expected to be adversely affected by the reform program. The NRF covers the cost of severance pay and provides counseling and retraining support to laid-off workers. By 1996 the NRF had financed voluntary retirements of 83,000 workers in textiles, heavy industry, and mining sectors among others. The first two years saw a number of departures through the voluntary retirement scheme but the rate of acceptance declined sharply as younger workers were unwilling to take severance pay because of the perception that equivalent jobs were not available in other sectors of the economy and because the VRS scheme took into account the length of service completed rather than the years of remaining service. Revisions in the voluntary retirement scheme which gave due weightage to the latter resulted in greater acceptance by workers.

The NRF has come under criticism for concentrating mainly on financing severance rather than on providing funds for retraining and redeployment of retrenched workers. However, the latter have experienced a number of problems. Counseling and redeployment activities were delayed as a result of the lack of budgets, institutional capacity, and adequate technical assistance in the early stages for the thirteen nodal agencies that were selected to carry out the program (including central government agencies, employers’ organizations, and research and training institutes). Thus, by the time the counseling and retraining efforts were made available, about 30,000 workers had already retired voluntarily or already found alternative work on their own. As of April 1997 nearly 19,000 workers had been retrained of which 4,000 (or 20 percent) were redeployed; other workers were redeployed through their own efforts. A small number of trainees has resulted in a high unit training cost. To address these problems steps will need to be taken to accelerate the pace of restructuring and privatization at the central level to allow retrenched workers to take advantage of such services. In the longer term, the NRF may also need to be replaced with a financially independent and sustainable mechanism such as a general unemployment insurance system whose costs are borne mainly by employers and workers.


Getting better results

These findings combined with those for industrial economies suggest that, for a variety of institutional, financial and logistical reasons, it is difficult to make training programs work well. Yet, political and social circumstances may necessitate the provision of such support for laid-off workers. In such circumstances, a first step is to carry out an assessment of the scale and nature of layoffs, the demand for such services, existing labor market conditions, and the ability of the existing training infrastructure to deliver services. Based on the assessment, early preparation of such programs is crucial in ensuring that services are readily available when layoffs from privatization occur.

Demand-driven, targeted retraining

Demand-driven, programs that target retraining on specific groups for whom it is most cost-effective can yield good results (box 8). Giving workers a choice between obtaining training or getting the equivalent amount in cash as part of severance pay, or as a voucher to select their own training programs, would also ensure that training is demand and not supply driven. This involves taking into account workers’ employment profiles (including age, education, and skill level) and local labor market needs. In general, younger workers with basic educational levels
and skills are most likely to improve their labor market outcomes from retraining. On the other hand, retraining programs are of limited applicability for older workers, where early retirement schemes combined with the provision of basic social services are key, as well as for workers with little formal education or vocational skills. The latter group which accounts for the bulk of redundancies in most developing countries given that overstaffing in state enterprises is concentrated in this category, is likely to find opportunities in the informal sector and short training courses to help workers become self-employed are likely to be of greater importance.

Box 8: The impact of retraining in Mexico

In response to a growing economic crisis in 1984, the government of Mexico established PROBECAT, a labor retraining program to mitigate the social costs for unemployed and displaced workers. As adjustment and privatization efforts escalated, the retraining program was strengthened and its coverage expanded. Since then, PROBECAT, the only unemployment program currently in place in Mexico, has provided short-term vocational training to more than 250,000 unemployed people. The program is administered through the network of state employment offices. During the training period, participants receive a stipend equal to the minimum wage. Upon completion of the course, the local state employment office helps trainees find jobs. The majority of participants enroll in classroom training, primarily in short-term vocational courses offered through contracts with local private and public institutions. Courses vary in duration from one to six months, the majority of them lasting three months. Training is provided in a variety of occupational areas—carpentry, construction, electricity, machinery, mechanics, shoe repair, textiles and apparel, welding—based on local labor market needs. Not everyone is eligible to participate in PROBECAT. The selection procedure gives variable weights to different criteria, including the number of economic dependents, attainment of certain levels of basic education, prior work experience, and unemployment of less than three months.

A study of the impact and effectiveness of the program compared the post-training labor market experiences of trainees with those of a comparison group—a matched sample of unemployed individuals who were eligible for, but did not participate in, the training program. Taking into account the non-random selection of individuals into PROBECAT, which poses potentially serious measurement problems for an evaluation of the training program, the study found that PROBECAT was fairly effective in shortening the duration of unemployment for certain types of groups, that is trainees with prior work experience (both men and women). Compared with those who did not participate in the program, male trainees were more likely to be employed three and six months after training. The study also suggests that the program raised the post-training earnings of men but not of women, with the largest earnings increases (of about 28 to 37 percent) found for men with six to twelve years of education. Finally, for both men and women, training induced an increase in the number of hours worked per week. In terms of the cost-effectiveness of PROBECAT, the study found that for men, the benefits of participation outweigh the costs within a year of finishing training; for women, the costs exceed the benefits of training, although for women with prior work experience, benefits from earlier employment offset the costs of participation in the program.

The study suggests that PROBECAT’s selection criteria should be modified to target those demographic groups most likely to benefit from the program—the unemployed with prior work experience, slightly older workers (over 25 years old), and those with six to twelve years of schooling. For certain other groups—for example, the young, new entrants, and those with low levels of education—it may be more appropriate for the government to provide adult basic education, facilitate return to school for the young, and or introduce firm-based apprenticeship program to give work experience to new entrants in the labor market.

Exploring alternative options

Alternatives to retraining such as counseling and job search assistance appear to be more promising options. Workers often lack information and confidence about how to look for a job. Experience from industrial countries shows that counseling can be crucial in helping individual workers obtain information about education, training, and alternative job opportunities, in making other employment services more demand-oriented, and in better targeting expenditures for other employment services (Fretwell and Goldberg 1993). Moreover, counseling is far more cost-effective; a recent assessment indicates average costs of individual counseling at about $100 a worker (Hess 1997). Provision of job search assistance or placement services—which provide information on labor markets and job openings, registration of job seekers, selection and referral of job applicants, and follow-up with employers after referral—help enhance labor mobility. In many cases state enterprises workers may think that finding alternative employment is harder than it actually is. While job search assistance can experience similar problems as retraining particularly in low-income countries, evidence from industrial and developing countries shows that it is at least twice as cost-effective as retraining in assisting displaced workers (Dar and Gill 1995; Fretwell and Goldberg 1993; Leigh 1990).

Providing vouchers to private employers to provide on-the-job training is one way to ensure that training is market-oriented. Cape Verde has successfully worked out arrangements where private employers are given subsidies to provide on-the-job training—the most effective kind of training—for employees retrenched as a result of privatization. Private employers are reimbursed 40 percent of the salary of a retrenched worker up to a period of six months. This payment contributes towards the cost, for the private employer, of providing on-the-job training to the former SOE worker. At the end of the six months, the private employer is expected to confirm the job and assume the full salary costs of the retrained employees. To date, the project has financed the retraining of about 210 workers in the private sector, or one-third the total number of retrenched workers.

Retraining and other support services such as job search assistance, when properly targeted, can be beneficial and easier to implement in countries with well-functioning labor markets and growing labor demand. But such programs are less applicable and less effective in countries or regions with high unemployment, limited job alternatives outside the public sector, and a large informal sector. In such cases, these services may not be as effective or as important as policies that eliminate obstacles to private job creation. In regions where a state enterprise dominates employment, additional social safety net measures are warranted (box 9).
Box 9: One company towns

Developing a social safety net is particularly important in mass layoffs and the restructuring and privatization of one-company towns where labor reductions adversely affect an entire region. Hierro Peru, an iron ore company in Peru, developed a program that provided workers with information on savings and investment instruments as well as on how to start commercial and productive activities like taxis, microbuses, microenterprises, retail outlets, and other small-scale manufacturing. The program also facilitates the subcontracting of non-core state enterprise activities to dismissed workers. The restructuring of British Steel, which started in 1981 and cut thousands of jobs by 1988 when the company was privatized, was possible because a substantial safety net was put in place that included redundancy payments, retraining grants, and financial and technical assistance to help laid-off workers find alternative jobs.

In restructuring one-company towns, bottom-up approaches involving the enterprise as well as the local community are more effective than top-down, centralized approaches. The most effective programs are those where employers and workers are directly involved in the design and delivery of support. This approach was used in Canada, where labor-management committees were set up with assistance of the Industrial Adjustment Service. Sixty-six jobs were found for every 100 workers displaced, usually within a year. On average, this assistance reduced the jobless spell by two weeks. Other bottom-up initiatives that have been launched by local development organizations include coal restructuring in Russia, iron and steel in Turkey, social reform in Macedonia, and the rapid response project in Hungary. Local community development initiatives can have a positive impact if they build basic skills and information networks, identify local groups to develop a program, respond to market conditions, and ensure self-reliance and sustainability through self-financing and creation of public-private partnerships.


ELIMINATING OBSTACLES TO PRIVATE JOB CREATION

The lack of alternative jobs for workers laid off from state enterprises is a major concern in many developing countries. The economic importance of state enterprises in these economies and the vast resources they absorb from local banking systems often crowd the private sector out of financial markets, slowing growth and reducing employment opportunities. Other problems stem from restrictive labor market regulations, including restrictions on hiring and firing and on wages and terms of service. In Ghana, for example, private firms are reluctant to hire new workers because of the complex bureaucratic and legal procedures that employers must undertake to fire them. In Egypt restrictive labor regulations prevent the retrenchment of redundant workers prior to privatization. Since these regulations also apply to the private sector, private firms are reluctant to hire permanent labor (Banerji and Sabot 1994). These labor market constraints combine to exacerbate the effects of privatization on workers and make restructuring difficult.

Alternative well-paying jobs in the private sector are crucial in reducing redundant labor during privatization. Eliminating obstacles to private job creation—including regulations on hiring and firing and taxes that raise the cost of labor—smoothens the restructuring process and eases the social impact on redundant workers. In Argentina and Chile privatization succeeded partly because labor reductions under the privatization program coincided with labor market and macroeconomic reforms that generated economic growth and expanded private labor markets. These developments helped absorb large labor redundancies. In Peru liberalization of hiring and
firing practices in the early 1990s also helped create jobs in the private sector, allowing the government to reduce the bloated state enterprise labor force by more than 20,000 employees between 1990 and 1993. Countries in which heavy state intervention continues to stifle the private sector find it much harder to reduce employment. In such cases privatizing state enterprises, liberalizing markets, and freeing up of resources for private sector development would help generate substantial employment growth.

**PROVIDING CONTINUITY OF SOCIAL SERVICES: THE SPECIAL CHALLENGE OF TRANSITION**

In industrial and some developing countries that have pursued privatization, short-term unemployment is usually limited to job losses that necessitate severance pay and other forms of direct income support. Essential social services such as health care and food support are provided by the government or the private market, and employees retain access to these services even when they lose their jobs. In transition economies, however, state enterprises provide much more than employment. Workers in countries of the former Soviet Union, as well as in China, were guaranteed lifetime employment and benefits that are far more pervasive than elsewhere; enterprises provided and often still furnish child care, kindergartens, food, vacation and leisure facilities, and housing. Many firms also supply services and infrastructure such as heat, water and sanitation, schools, and hospital buildings to the entire local community. These services impose a major financial and managerial burden on state enterprises and impede labor mobility. In extreme cases nonwage benefits and services amount to 35 percent of enterprise labor costs. In China social benefits amount to 40 percent of state enterprise pay. In Russia the average enterprise spends 6 percent of sales and 21 percent of net profits on kindergartens, daycare centers, cafeterias, and apartment buildings (Blasi 1996). These problems are most pervasive in one-industry towns that dominate state enterprise employment in a region.

The increasing competition and market changes that accompany privatization mean that most privatized firms are unlikely to continue providing these services. In such situations the challenge is to develop measures that provide temporary support to workers during the transition and carry out the long-term overhaul of the social welfare system to meet the social needs associated with privatization and increasing competition (the development of such a social safety net is beyond the scope of this paper). During transition most governments have protected public pensioners and workers displaced by state enterprise restructuring and privatization by guaranteeing the continued provision of social services (such as health and nutrition) and the membership of workers in public social security schemes or pension plans for a temporary period, even if they lose their jobs after privatization. In some cases new private owners have agreed to provide services for a limited period. In Poland, for example, the new owners of the Jaroslaw glass company decided that maintaining the entire benefits package was financially feasible given the low costs of the benefits relative to operating expenses and the expected profitability of the company after privatization. These solutions might not always be feasible because of the high financial and administrative burden they place on enterprises, but it is often considered essential to maintain adequate social services during transition.
Attempts need to be made to sever the link between social services and employment to ease restructuring and to ensure labor mobility. One option is to transfer the provision of social services from enterprises to the private sector or to local governments. Services such as transport and housing are being privatized, often to the employees of enterprises. Other services such as education, health care, and electricity are being transferred to local authorities, with accompanying reforms in complementary markets. In China, for example, restrictions on labor mobility are being removed by delinking workers' access to housing and welfare benefits from lifetime employment in a particular unit, and by introducing market-oriented reforms in the social sectors. Along with other reforms such as the introduction of a labor contract system, the elimination of job assignment by the state, and reforms linking wages to productivity, relieving state enterprises of their social welfare burden should provide firms with more discretion to begin eliminating surplus labor (estimated to be about 30 percent in most state enterprises) through attrition, early retirement, and voluntary separation. Redundant labor can also be absorbed by the nonstate sector; in 1993 employment in nonstate enterprises grew by 6.4 percent, compared with 0.3 percent in state enterprises.
IV. WHAT CAN THE WORLD BANK DO?

Since 1991 the World Bank has been increasingly involved in supporting labor market reforms more broadly, as well as in the specific context of enterprise restructuring and privatization. Between 1991 and 1995 the Bank approved 156 projects with components aimed at improving the functioning of the labor market to enhance efficiency, welfare, and poverty reduction (Dar and Tzannatos 1995). These operations supported the development and strengthening of labor market information and monitoring, employment services, training, pension system reform, labor code revision, women's labor market issues, public works, micro-enterprises, and social safety net programs including unemployment insurance.

In addition the Bank has approved close to 50 operations with a component supporting labor adjustment in the specific context of privatization and state enterprise reform (Annex 1). Most of the operations are concentrated in transition economies and Latin America (table 4) but other regions are seeing rising support as privatization becomes part of the reform agenda. To date such support has primarily included institutional support for the preparation and implementation of labor adjustment programs. More recently, the Bank has moved from indirect to direct financing for severance pay. In addition, support to redundant state enterprise workers is also being provided in the context of broader poverty alleviation programs.

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Source: World Bank data.

INSTITUTIONAL SUPPORT

Bank operations have financed technical assistance for a range of institutional support activities. A number of operations have provided assistance to help governments develop a strategy and

6 Support for labor adjustment as part of civil service reform is excluded from this paper. However, in a few cases the documentation does not allow sufficient disaggregation between the two processes, so a few of the 46 operations might also include support for civil service reforms.
action plans for labor adjustment, both for the overall privatization program (as in Argentina, Ghana, and Peru) as well as for specific enterprises (as in Argentina railways, Mozambique railways and ports, and Pakistan power). Argentina’s Public Enterprise Reform Execution Loan, for example, provided technical assistance for the development and implementation of a labor rationalization program focusing on concrete programs for staff reduction and redeployment, including detailed estimates and targets of labor redundancies, and reform of labor contracts focusing on the redesign and renegotiation of collective labor agreements. In the railway sector, the project financed technical assistance to help the Railway Employee Management Unit evaluate the railway’s labor force, analyze work rules and propose changes, and develop and manage a program for labor reduction that considered buyouts, early retirement, and retraining options. Increasingly, Bank operations are also providing support for the design of severance pay packages and programs, as in Kenya, Tunisia, Venezuela and Yemen.

These components have frequently been combined with support for active labor market programs such as retraining and job search assistance. Such programs are the most frequently occurring labor component in Bank operations and have been supported across a wide range of countries in Africa (Cape Verde, Côte d’Ivoire, Ghana, Guinea, Zambia), Asia (Bangladesh, India), and Latin America (Brazil, Costa Rica, Mexico, Peru). Bank support for the overall labor adjustment program, including retraining and other programs such as incubators for small business development, was a major component of Bank support for the privatization program (box 10).

**Box 10: Bank assistance for labor adjustment in Turkey’s privatization program**

Bank support for Turkey in restructuring and privatizing its ailing SOEs extends back to the early 1980s. However, it was only in 1992 that support was provided for labor adjustment services. This was through the Employment and Training Project which aimed to increase allocative efficiency via liberalization of employment services. The goal was to strengthen public sector employment services while opening up the sector to private providers. As part of the privatization program in the early 1990s, the Bank approved the Privatization Implementation and Adjustment Loan (PIAL), which specifically focused on providing support for redundant SOE workers. The labor component of the project provides technical assistance, limited materials and equipment, and funds to design, finance and install a package of transitional labor adjustment and regional support services linked to privatization. The specific components include: (i) enterprise analyses to determine the extent of redundancies and wages/benefits provided by the enterprise; (ii) labor adjustment services to provide retraining, small business development, public works programs, jobs search assistance and counseling; and (iii) regional development programs, focused on the Zonguldak region which was expected to be severely affected by the restructuring and privatization of the steel mills and coal mines in the region. In this context, the loan financed a regional development study as a first phase in the development of alternative employment opportunities.


Active labor market programs are widely supported in transition economies, including in operations in Armenia, Kyrgyz Republic, Macedonia, Poland, and Russia. In addition to such support, in many countries the Bank has assisted governments and municipalities deal with the pervasive problem of social assets during state enterprise restructuring and privatization. In China, for example, the Bank has helped municipalities develop market-based housing systems and social safety nets to free enterprises of their direct welfare responsibilities. Similarly
operations in Kazakhstan and Kyrgyz Republic are supporting pilot programs to facilitate the transfer of social assets such as housing, health care, and education from restructured enterprises to local governments. In sectors and regions that are undergoing major restructuring, the Bank has provided the full range of institutional support for labor adjustment to speed up the restructuring of the enterprises and improve the delivery of benefits. In Russia, for example, the Coal Sector Restructuring Adjustment Loan (1996) helps commercialize and demonopolize the coal sector and eliminate subsidies while ensuring that laid-off workers receive a variety of assistance packages. An innovative feature is the temporary redirection of subsidies to the sector to establish a safety net for redundant workers. The support includes counseling, severance and disability payments, and community employment programs. Agreements with the government stipulated that counterpart funding would be used to finance these measures.

FROM INDIRECT TO DIRECT FINANCING FOR SEVERANCE PAY

Until recently the Bank was involved only indirectly in financing severance pay, with governments using the counterpart funds generated by adjustment operations to finance severance. Close to thirty retrenchment programs supported by the Bank financed severance in this way. A notable example is Argentina, where severance for laid off state enterprise employees was financed largely by Bank-generated funds from the Public Enterprise Reform Adjustment Loan (1991). The loan conditions stipulated that a certain amount of budgetary funds be set aside for severance. They also required the authorities to certify the names, other identification, and voluntary arrangements for the departure of a certain number of workers. In the particular case of the railways, $300 million of the total severance of $1 billion was financed with counterpart funds of the adjustment operation; the rest was funded directly by the government. Annual wage savings for the state enterprise sector as a whole were calculated at $1 billion a year, with $239 million a year in the railways sector. In the Kyrgyz Republic, where more than 30,000 state enterprise workers have been laid off during restructuring, the Bank helped design a severance package and reached an agreement with the government that counterpart funds from the Privatization and Enterprise Sector Adjustment Credit (1993) would be used to finance severance and back pay. At the same time the Social Safety Net Project (1995) supported the provision of employment services, including training and temporary income support for laidoff workers as well as development of government capacity to monitor labor markets and poverty indices.

In the past the Bank was not allowed to directly finance severance pay because it was not considered a productive investment. There were also concerns about the effectiveness of retrenchment schemes and the Bank’s vulnerability to accusations of supporting and financing unemployment. But a number of factors led the Bank to decide in February 1996 to allow direct Bank financing for severance pay as part of investment operations. These included the importance of large-scale restructuring and privatization, the potential obstacles arising from lack of financing for labor shedding prior to sale, the growing evidence on the economic and financial returns to severance pay, and the limitations of adjustment lending. As a result severance pay financing can now be provided for individual state enterprises or groups of enterprises.
throughout the reform process that is, from corporatization to restructuring prior to privatization. The conditions under which severance pay can be financed are outlined in box 11.

**Box 11: Bank policy on financing severance pay in state enterprise reform**

In February 1996, the Bank authorized the direct financing of severance pay for state enterprise workers under investment operations. In such operations severance pay may be financed directly as a component of an operation to restructure an enterprise or sector. Such financing can be provided only under specific circumstances. The severance component needs to be an integral part of the project and should aim to make the sector/enterprise more productive. It can accompany physical investments to rehabilitate the enterprise, technical assistance to improve operations, or may be part of a privatization exercise. The design and justification of the project must be based on the increased productivity of activities remaining in the sector or enterprise after restructuring. Budgetary savings and/or closures of inefficient enterprises alone are not sufficient justification for severance pay. During preparation, such loans should ensure that macroeconomic and sector policy frameworks are satisfactory. Where these frameworks are weak, the cost-benefit analysis will need to be strong enough to justify the productive purposes criterion of the Bank’s Articles of Agreement. In March 1996 an operational directive was issued to provide guidance to Bank staff on dealing with severance pay in Bank operations.


The first (and, so far, only) project to provide direct Bank financing for severance is Brazil’s Federal Railways Restructuring and Privatization Project (1996). The project aims to reduce staff in the railways enterprise by 18,000 over three years through early retirements, voluntary departures, and layoffs. The cost of staff retrenchment is estimated at $380 million (calculated on the basis of a gross monthly salary of about $890 million) and neither the railways company nor the Government have the resources necessary to implement the program. Consequently the Bank project would support implementation by financing $170 million in severance pay in addition to providing $15 million for financing retraining and placement programs for retrenched staff (box 12).
Box 12: Supporting staff retrenchment in Brazil federal railways

The objectives of the staff retrenchment program are to reduce the federal railways staff by about 18,000 over three years in a way so as to facilitate privatization and in a way that minimizes the social costs of adjustment and improves staff productivity through retraining and placement services. To do this the federal railways, Rede Ferroviaria Federal S.A. (RFFSA):

- developed staffing plans for the six regional systems based on redefined operational procedures and consolidated responsibilities;
- identified redundant staff by job categories;
- analyzed redundant staff profiles against labor market characteristics in the various regions;
- conducted an economic and financial analysis of severance pay program;
- developed a two-phased implementation plan for staff reductions, with phase one involving reductions prior to concessioning and phase two involving reductions after the concessions;
- assumed responsibility (through the Administration and Finance Department) for the staff retrenchment program, including retrenching, compensating, and assisting redundant staff in finding new employment.

Disbursements from the Bank loan for severance payments are made against withdrawal applications which provide all the necessary information on beneficiaries, including employee identification and staff number, dates of employment and separation, latest salary, and amount of severance paid. The applications contain a certification by an independent auditor satisfactory to the Bank that such payments are made in accordance with the agreed provisions of the staff retrenchment program. A sample of the applications are reviewed by the Bank prior to disbursement. RFFSA will maintain a file with all the related documentation, including the employment contract for termination which would be audited periodically and made available to the Bank. A comprehensive review of implementation will be carried out annually and when 50 percent of the loan amount allocated to severance payments has been disbursed.


TARGETING STATE ENTERPRISE WORKERS VIA POVERTY ALLEVIATION PROGRAMS

The Bank is helping finance social funds in Africa, Latin America, the Middle East and Asia to alleviate the social impact of structural adjustment on the poor. Though such poverty alleviation projects generally provide a basic social safety net for the poor, they have, at times, explicitly targeted redundant state enterprise workers. Although targeting mechanisms such as below-market wages and financing facilities for microenterprises are unlikely to attract enterprise workers, such funds have been used for state enterprise workers in cases of extreme economic distress or where large-scale redundancies are likely to occur in geographically concentrated areas, as in the case of mining in Bolivia and Peru. In Egypt, the social fund, supported by the Bank and other donors, provides training and financial assistance for laidoff enterprise workers across all sectors (box 13).
Box 13: Social fund in Egypt

The Social Fund for Development (SFD) was set up in 1991 and was supported by many donors including the World Bank's Social Fund Project (1991). The main objectives of the SFD were to help reduce poverty, mitigate the negative impact of the economic reform and structural adjustment program, and to provide help to returnees from the Gulf war. These objectives were to be achieved through five programs, including public works, community development, enterprise development, institutional development, and labor mobility program. The latter was to provide retrenched workers in restructured or privatized enterprises with financial assistance, training, and placement services. A recent Bank assessment found that overall the SFD has been successful but some areas, including the labor mobility program, needed improvement. The original labor mobility program was intended to help 50,000 workers at a cost of $90 million. Since the pace of privatization was slower than anticipated, the demand for the program's activities was limited and the size of the program was reduced to $40 million (with the funds being reallocated to other programs), reducing the target to 20,000 workers. As of April 1996 the program had assisted 3,000 workers in three enterprises and work was underway in assisting an additional 10,000 workers in seven firms. The project is disbursed and a second Social Fund Project was approved in 1996.


Low-income countries such as Cameroon, Guinea-Bissau, Madagascar, and Senegal also have used social funds to support the placement of laidoff state enterprise workers and to provide compensatory assistance, advice and training, and placement services or credit for self-employment. In transition economies such operations (in Albania and Armenia for instance) necessarily target former workers of state enterprises given the pervasive nature of state employment. The evaluation of these funds is beyond the scope of this paper (see Alexandre and others 1994, Glaessner and others 1994, World Bank 1995).
## Annex 1

**World Bank Support for Labor Adjustment in State Enterprise Restructuring and Privatization 1990-1997**

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>FY</th>
<th>Project name</th>
<th>Loan number</th>
<th>Type of assistance to displaced labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Cape Verde</td>
<td>92</td>
<td>Privatization TA</td>
<td>C2377</td>
<td>Financing retraining costs of former PE workers incurred by private firms</td>
</tr>
<tr>
<td></td>
<td>Chad</td>
<td>91</td>
<td>Social Development Program</td>
<td>C2156</td>
<td>Assistance to employees laid off in the restructuring of the cotton sector</td>
</tr>
<tr>
<td></td>
<td>Côte d'Ivoire</td>
<td>94</td>
<td>Labor Force Training</td>
<td>C2637</td>
<td>Training support for retrenched workers from PE</td>
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<tr>
<td></td>
<td>Ghana</td>
<td>96</td>
<td>Public Enterprise and Privatization</td>
<td>C2877</td>
<td>Arrangements to address labor redundancies caused by divestiture</td>
</tr>
<tr>
<td></td>
<td>Guinea</td>
<td>92</td>
<td>PE Reform</td>
<td>C2398</td>
<td>Development of reorientation programs for redundant PE workers</td>
</tr>
<tr>
<td></td>
<td>Kenya</td>
<td>93</td>
<td>Parastatal Reform &amp; Privatization TA</td>
<td>C2440</td>
<td>Compensation package and social safety net for displaced workers in telecoms, railways, and ports</td>
</tr>
<tr>
<td></td>
<td>Malawi</td>
<td>95</td>
<td>Railways Restructuring</td>
<td>C2696</td>
<td>Compensation for retrenched staff, as well as counseling, retraining, housing support, and equity participation in new railway company</td>
</tr>
<tr>
<td></td>
<td>Mozambique</td>
<td>93</td>
<td>Maputo Corridor Revitalization TA</td>
<td>C2454</td>
<td>Labor redeployment strategy and plan for redeployment of surplus staff from railways company</td>
</tr>
<tr>
<td></td>
<td>Zambia</td>
<td>92</td>
<td>Privatization &amp; Industrial Reform</td>
<td>C2405</td>
<td>Training and counseling to retrenched workers</td>
</tr>
<tr>
<td>Asia</td>
<td>Bangladesh</td>
<td>94</td>
<td>Jute Sector Adjustment</td>
<td>C2567</td>
<td>Workforce reduction, employees retrenchment, mandatory retirement age, training and retraining program for workers in affected mills</td>
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<tr>
<td></td>
<td>China</td>
<td>95</td>
<td>Enterprise Housing and Social Security Reform</td>
<td>L2642</td>
<td>Strategy to help municipalities develop market-based housing system and social safety net to free enterprises of direct welfare responsibilities</td>
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<tr>
<td></td>
<td>China</td>
<td>95</td>
<td>Labor Market Development</td>
<td>L3967</td>
<td>Policy reform on coverage and pooling of social insurance at municipal level, reduction of surplus labor in SOEs, and monetization of social benefits by employers; employment services, including unemployment insurance and labor market information</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>95</td>
<td>Shenyang Industrial Reform</td>
<td>L3788</td>
<td>Change terms of employment of municipal-controlled enterprises (MCES) to contract status, corporatizing MCES, establishing labor market information system</td>
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<tr>
<td></td>
<td>India</td>
<td>92</td>
<td>SAL I</td>
<td>C2316</td>
<td>Program for re-deployment and retraining and appropriate compensation where necessary</td>
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<tr>
<td></td>
<td>India</td>
<td>95</td>
<td>Social Safety Net Sector Adjustment</td>
<td>C2448</td>
<td>Establishment of temporary social safety net to cover costs of compensation, retraining, and employment/redeployment schemes in areas affected by PE reform.</td>
</tr>
<tr>
<td>Region and Central Asia</td>
<td>Country</td>
<td>FY</td>
<td>Project name</td>
<td>Loan number</td>
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<tr>
<td>Pakistan</td>
<td>Pakistan</td>
<td>94</td>
<td>Power Sector Development</td>
<td>L3764</td>
<td>Development of a manpower transition program that would allow adequate management flexibility to the private sector while addressing the concerns of labor</td>
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<tr>
<td>Europe</td>
<td>Albania</td>
<td>94</td>
<td>Labor Market Development</td>
<td>C2544</td>
<td>Income support and redeployment assistance to unemployed, and creation of small enterprises</td>
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<tr>
<td>Armenia</td>
<td>Armenia</td>
<td>93</td>
<td>Institution Building</td>
<td>L3585</td>
<td>Training and retraining program for unemployed</td>
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<tr>
<td>Armenia</td>
<td>Armenia</td>
<td>96</td>
<td>Social Investment Fund</td>
<td>C2784</td>
<td>Labor intensive works for the unemployed, including public sector workers</td>
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<tr>
<td>Kazakhstan</td>
<td>Kazakhstan</td>
<td>95</td>
<td>Social Protection Project</td>
<td>L3896</td>
<td>Employment service component and social services component to transfer services from restructuring PEs to local governments</td>
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<tr>
<td>Kyrgyz Republic</td>
<td>Kyrgyz</td>
<td>94</td>
<td>Social Safety Net</td>
<td>C2643</td>
<td>Employment services component, counseling and retraining. Pilot program to facilitate transfer of social assets from restructured PEs to local authorities.</td>
</tr>
<tr>
<td>Latvia</td>
<td>Latvia</td>
<td>93</td>
<td>Rehabilitation</td>
<td>L3525</td>
<td>Retraining of redundant labor, development of local social assistance offices and reform of cash benefit programs</td>
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<tr>
<td>Macedonia, former Yugoslav Republic</td>
<td>Macedonia</td>
<td>94</td>
<td>Economic Recovery Credit</td>
<td>C2564</td>
<td>Restructuring of large loss-makers, including removal of legal impediments to downsizing, strategy for labor adjustment and active labor market programs</td>
</tr>
<tr>
<td>Poland</td>
<td>Poland</td>
<td>91</td>
<td>Employment Promotion &amp; Services</td>
<td>L3338</td>
<td>Employment services component to deal with mass layoffs, counseling, and training; microenterprise development help local NGOs provide services to unemployed</td>
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<tr>
<td>Romania</td>
<td>Romania</td>
<td>93</td>
<td>Transport</td>
<td>L3593</td>
<td>Generating private sector employment among public sector workers previously employed by government road agencies</td>
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<td>Romania</td>
<td>Romania</td>
<td>95</td>
<td>Employment &amp; Social Protection</td>
<td>L3849</td>
<td>Employment and training component, and social protection component to restructure and improve institutional capacity of social insurance agency</td>
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<tr>
<td>Russian Federation</td>
<td>Russian</td>
<td>93</td>
<td>Employment Services &amp; Social Protection</td>
<td>L3532</td>
<td>Developing capacity of Federal Employment Service to register and pay unemployment benefits, organize job training, and develop modern social security system</td>
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<td>Russian Federation</td>
<td>Russian</td>
<td>96</td>
<td>Coal Sector Adjustment</td>
<td>L4059</td>
<td>Support for the social protection system, including unemployment benefits, retraining, and job placement services</td>
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<td>Turkey</td>
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<td>94</td>
<td>Privatization Implementation Assistance and Social Safety Net Project</td>
<td>L3728</td>
<td>Labor adjustment program, including retraining, counseling, and incubator programs for SOE redundant workers</td>
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<td>Ukraine</td>
<td>Ukraine</td>
<td>97</td>
<td>Social Protection Support</td>
<td>L4097</td>
<td>Training and technical support in system operations to computerize administrative offices</td>
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<tr>
<td>Region</td>
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<td>FY</td>
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<td>Loan number</td>
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<td>Latin America and the Caribbean</td>
<td>Argentina</td>
<td>91</td>
<td>Public Enterprise Reform Adjustment (PERAL)</td>
<td>L3291</td>
<td>Includes assistance to reduce PE workforce, financing severance pay and retraining</td>
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<td>Argentina</td>
<td>91</td>
<td>Public Enterprise Reform Exec (PEREL)</td>
<td>L3292</td>
<td>Improvement in labor productivity through revision of labor contracts and design of labor reduction mechanisms</td>
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<td>Brazil</td>
<td>96</td>
<td>Federal Railways Restructuring and Privatization Project</td>
<td>L4046</td>
<td>Financing of severance pay, retraining, literacy programs.</td>
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<td></td>
<td>Costa Rica</td>
<td>93</td>
<td>SAL III</td>
<td>L3594</td>
<td>Programs to retrain displaced public sector employees</td>
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<td></td>
<td>Guyana</td>
<td>94</td>
<td>Sugar Industry Restructuring and Privatization Project</td>
<td>C2545</td>
<td>Production incentives and profit sharing scheme for employees, including employee stock ownership plan.</td>
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<td>Mexico</td>
<td>93</td>
<td>Labor Market &amp; Productivity Enhancement</td>
<td>L3542</td>
<td>Employment services and training for displaced workers</td>
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<td></td>
<td>Peru</td>
<td>93</td>
<td>Privatization TA</td>
<td>L3540</td>
<td>Information and re-orientation programs to assist laid-off PE workers</td>
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<td></td>
<td>Peru</td>
<td>94</td>
<td>Social Development Fund</td>
<td>L3684</td>
<td>Retraining and credit to small-scale entrepreneurs for employment generation</td>
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<td>Peru</td>
<td>94</td>
<td>Privatization Adjustment Loan</td>
<td>L3595</td>
<td>Promoting human resource development.</td>
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<td>Peru</td>
<td>94</td>
<td>Transport Rehabilitation</td>
<td>L3717</td>
<td>Reducing staff redundancy, technical and training assistance to strengthen management capacity</td>
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<td>Venezuela</td>
<td>90</td>
<td>Public Enterprise Reform</td>
<td>L3223</td>
<td>Retraining and employment adjustment assistance programs, and effective mechanisms for severance and retrenchment of labor</td>
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<td>Middle-East and North Africa</td>
<td>Egypt</td>
<td>96</td>
<td>Social Fund</td>
<td>C2865</td>
<td>Active labor market support to workers made redundant by privatization and liberalization reforms</td>
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<td>Tunisia</td>
<td>90</td>
<td>Public Enterprise I</td>
<td>L3109</td>
<td>Redeployment program for redundant staff</td>
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<td>Tunisia</td>
<td>96</td>
<td>Training and Employment II</td>
<td>L4036</td>
<td>Employment services for workers affected by economic restructuring</td>
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<td>Tunisia</td>
<td>97</td>
<td>Economic Competitiveness Adjustment Loan</td>
<td>L4069</td>
<td>Revision of labor legislation to provide severance for workers of bankrupt enterprises</td>
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<td></td>
<td>Yemen</td>
<td>96</td>
<td>Economic Recovery Credit</td>
<td>C2840</td>
<td>Study on severance and redeployment option for redundant workers</td>
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