FIGHTING FOR ALTERNATIVES:

CASES OF SUCCESSFUL TRADE UNION RESISTANCE TO THE POLICIES OF THE IMF AND WORLD BANK

ICFTU

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LIST OF ACRONYMS

ADB	Asian Development Bank
ALNI	Asian Labour Network on IFIs
BUIP	Bali Urban Infrastructure Project (World Bank project)
CAFTA	Central American Free Trade Agreement
CLS	Core labour standards
CNDAV	National Commission for the Defense of Water and Life (Uruguay)
COSATU	Congress of South African Trade Unions
ERBD	European Bank for Reconstruction and Development
ETUC	European Trade Union Confederation
FDI	Foreign direct investment
FFOSE	Federation of OSE Employees (Uruguay)
FTAA	Free Trade Area of the Americas
G8	Group of eight countries - Canada, France, Germany, Italy, Japan, Russian Federation, United Kingdom, United States of America
GCAP	Global Call to Action against Poverty
GDP	Gross domestic product
GEAR	Growth, Employment and Redistribution (South Africa)
GU	Global Unions
GUF	Global Union Federation
HIPC	Heavily Indebted Poor Country
ICE	Instituto Costarricense de Electricidad (Costa Rican Electricity Institute)
ICFTU	International Confederation of Free Trade Unions
IDB	Inter-American Development Bank
IFBWW	International Federation of Building and Wood Workers
IFC	International Finance Corporation
IFI	International financial institution
ILO	International Labour Organization
ILO-ACTRAV	ILO Bureau of Workers’ Activities
IMF	International Monetary Fund
IPP	Independent power producers
ITLGWF	International Textile, Garment and Leather Workers Federation
KNSB	Confederation of Independent Trade Unions (Bulgaria)
MDG	Millennium Development Goal(s)
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-governmental organization
OSE	Obras Sanitarias del Estado (State Sanitary Works, Uruguay)
PLN	PT Perusahaan Listrik Negara, Indonesia’s state-owned electricity company
PPA	Power purchase agreements
PSI	Public Services International
PSIRU	Public Services International Research Unit
SATAWU	South African Transport and Allied Workers’ Union
UATAC	Union of Autonomous Trade Unions of Croatia
UNI	Union Network International (UNI)
WCL	World Confederation of Labour
WTO	World Trade Organization

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Executive Summary

There is a growing consensus within global civil society that, despite having improved processes for consulting civil society, the IMF and World Bank (also known as "international financial institutions, or "IFIs") operate with little input from the public when it comes to major economic policy changes. In country after country, these institutions have imposed conditions on their lending that force indebted governments to propose programmes that are based not on domestic needs but on the IFIs' allegiance to the ideology of free markets and privatization.

Over the past five years, labour unions and their civil society allies in Latin America, Africa, Europe and Asia have successfully organized to win important victories over the private interests that depend on IFI loans to set the conditions for corporate control over water, electric power and other basic services. This paper focuses on six such victories, starting with an analysis about how trade unions in Uruguay took the lead in organizing that country's historic referendum on water. The other case studies focus on:

- South Africa, where trade unions led the opposition to the privatization of the country's largest freight rail line and negotiated with the government to keep the reorganized line in public hands.
- Croatia, where five labour federations set aside their differences to rally opposition to an IMF-World Bank proposal for labour reform designed to make it easier for employers to fire workers.
- Argentina, where the government, backed by its labour unions, cancelled the privatization of the postal service, which had been turned over to a private company at the behest of the World Bank and the IMF.
- Indonesia, where the nation's constitutional court ruled against the IMF-backed privatization of a major utility after labour unions and civil society groups filed a lawsuit contesting the government's right to privatize the utility.
- Tanzania, where the government cancelled a water privatization project, also demanded by the IMF and World Bank, with the strong support of the trade union at the water utility.

These and other cases discussed in this report illustrate how local unions and national trade union centres have waged successful campaigns in their own countries against the IFIs. The international trade union movement, too, has achieved important victories in pushing the IFIs to adopt policies that are more favourable to working people and the poor. The final two chapters of this report discuss these successes, examining how the global trade union movement brought the issue of core labour standards to the IFIs, as well as the labour movement's role in the international campaign for debt relief.

INTRODUCTION

On October 31, 2004, voters in Uruguay approved by a two-thirds margin the world's first constitutional reform outlawing the outsourcing of water to the private sector. The referendum, which guarantees that piped water will be supplied "exclusively and directly by state-owned legal entities", was a major milestone in the in the global struggle by labour unions and civil society to support democratic economic development that expresses the general will of a country's population rather than the narrow interests of multinational corporations and the privatization agenda of the International Financial Institutions (IFIs) (1).

Uruguay, however, is not alone as a country that has resisted the IMF and World Bank prescriptions for its future. Over the past five years, labour unions and their civil society allies in Latin America, Africa, Europe and Asia have successfully organized to win important victories over the private interests that depend on IFI loans to set the conditions for corporate control over water, electric power and other basic services. This paper focuses on six such countries, starting with an analysis about how trade unions in Uruguay took the lead in organizing that country's historic referendum on water. The other case studies will focus on:

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- Croatia, where five labour federations set aside their differences to rally opposition to an IMF-World Bank proposal for labour reform designed to make it easier for employers to fire workers.

- Argentina, where the government, backed by its labour unions, cancelled the privatization of the postal service, which had been turned over to a private company at the behest of the World Bank and the IMF.

- Indonesia, where the nation's constitutional court ruled against the IMF-backed privatization of a major utility after labour unions and civil society groups filed a lawsuit contesting the government's right to privatize the utility.

- Tanzania, where the government cancelled a water privatization project, also demanded by the IMF and World Bank, with the strong support of the trade union at the water utility.

These struggles underscore a growing consensus within global civil society that, despite expanding processes for consulting civil society, the IFIs operate with little input from the public for whose benefit they are supposedly serving when it comes to major economic policy changes. In country after country, the IMF and the World Bank have imposed conditionality on their lending that forces indebted governments to propose programmes that are based not on domestic needs but on the IFIs' allegiance to the ideology of free markets and privatization. The IFIs have also displayed an antipathy to democracy and the full participation in economic-decision making by workers and the poor – and are just beginning to recognize their mistakes. Consider what has occurred in Costa Rica, Zambia, Bulgaria and Indonesia in recent years.

COSTA RICA In Costa Rica, the IFIs have encouraged, as part of their loans, the privatization of key utilities, including the government power and telecom company, the Instituto Costarricense de Electricidad, known as ICE. But in March 2000, after the Costa Rican National Assembly passed a measure to end the state's monopoly over telecommunications and electricity and split ICE into two companies, thousands of people took to the street in protest and the country's unions launched a general strike. Costa Ricans were particularly incensed because ICE has long been considered a model power company, providing electricity and telephone lines to 94 percent of the nation's 3.5 million people. (2) In April, in response to the widening protests, Costa Rican President Miguel Angel Rodriguez agreed to the union demands and withdrew the controversial legislation from parliament.

Impervious to the protests, the World Bank continued to press for the privatization of ICE. The proposed Central American Free Trade Agreement (CAFTA), which was designed to expand the North American Free Trade Agreement to countries in Central America and the Dominican Republic, became a convenient vehicle for the Bank proposal. Under the provisions of CAFTA, Costa Rica is required to continue the privatization of basic services long sought by the Bank. In April 2004, the Bank made this link explicit in a new "Country Partnership Strategy".

In a section on trade, the Bank argued that the CAFTA agreement was an "important indicator" of Costa Rica's "commitment toward modernization of the economy and the creation of a more competitive environment". (3) By sign-

ing CAFTA, "the government of Costa Rica has accepted opening up to private participation, both domestic as well as foreign, the provision of cellular telephone services, internet, private data networks and the provision of both voluntary and mandatory insurance services", the Bank said, adding that the "opening to private participation" would be gradual, with sectors "fully open" by 2008. Among the "important challenges" facing the government, the Bank said, was "designing and adopting new legislation for ICE" to ensure "private participation". (4)

Then, in an annex to the report, the Bank instructed the government not to allow public sentiment, or even the country's parliament, to stand in the way. In a startling admission of its lack of commitment to democracy, the Bank stated: "Given Costa Rica's institutional environment, wide social support is needed to get National Assembly approval and to implement reforms, hence conditions agreed with the Executive related to key reforms should be strictly under control of the Executive and not dependent upon Congress approval". *(5)*

Fortunately, Costa Rica didn't listen to this advice. In September 2005, after CAFTA was approved by the narrowest of margins in the US Congress, Costa Rican President Abel Pacheco announced that he would delay sending the trade pact to his Congress because of the popular resistance to the agreement. "Yes to a good CAFTA that benefits the poorest Costa Ricans", Pacheco told reporters. "No to a bad CAFTA. CAFTA isn't good or bad in itself. It depends on how we play the instrument. A marvellous melody can come out or a catastrophe". (6)

The African country of Zambia offers another example of World Bank intransigence in the face of popular opposition to IFI conditionality.

ZAMBIA Over the past forty years, Zambia has gone from one of the wealthiest countries in sub-Saharan Africa to one of the poorest. The decline is partly explained by external shocks, in particular decreased prices for the country's principal export commodity of copper, as well as internal mismanagement and corruption. However, many development analysts believe that the dogmatic free-market policies of the IMF and World Bank applied in Zambia must also shoulder a large part of the blame.

Two analysts, Lishala C. Situmbeko, an economist at the Bank of Zambia, and Jack Jones Zulu, an analyst with the non-governmental organization (NGO) Jubilee-Zambia, recently co-authored a paper for the London-based World Development Movement that describes precisely how the IFIs have damaged Zambia. In their report, "Zambia: Condemned to debt", (7) they described in detail some of the negative consequences directly attributable to policies imposed by IFI loan conditions. They include:

- The devastation of Zambia's manufacturing sector following rapid trade liberalization from 1993 to 1996. The worst hit was the textile industry, where the number of firms went from 140 to eight and the number of jobs from 34,000 to 4,000 over a ten-year period, mainly due to imports of cheap second-hand clothing from industrialized countries.

- An increase in the trade deficit during the 1990s, despite the fact that the alleged aim of the IMF programme in the 1990s was to stem temporary balance of payment problems.

- The decline of the agricultural sector after the removal of subsidies on maize and fertilizer starting in 1991. Even the World Bank subsequently acknowledged that this policy led to "stagnation and regression instead of helping Zambia's agricultural sector".

- The collapse of several companies and the loss of thousands of jobs after privatization of state-owned enterprises imposed through IMF and World Bank conditionality starting in 1992.

"Such a dismal performance", the authors concluded, "has led to widespread dissatisfaction with Bank and Fund policies. Yet time and again public protest has simply been ignored while 'more of the same medicine' has been prescribed. This exposes the fundamental lack of democracy in World Bank and IMF intervention in Zambia". (8)

A recent example of what Situmbeko and Zulu called the IFI's "democratic deficit" was the required privatization of Zambia's state electricity company (ZESCO) and state bank (ZNCB) in return for debt relief. Zambia's government initially agreed to sell these state-owned enterprises, but the prospect provoked large-scale protests, as in Costa Rica. In November 2002, Zambian trade unions joined civil society groups and students in large-scale demonstrations in Lusaka, Zambia's capital. These and many other expressions of popular opposition led Zambia's parliament to vote to rescind the privatizations. The government followed by reversing its earlier decisions to sell of the companies.

In stepped the IMF. It responded with an announcement that Zambia was risking forfeiture of $1 billion in debt relief if it failed to go ahead with the privatization. According to press reports, IMF country representative Mark Ellyne declared that if the government didn't sell these companies, "they will not get the money". As a result, the finance minister ignored the parliamentary vote and announced that the government would reverse its decision not to privatize the bank. "There is dishonesty through and through in things the IMF and World Bank are advocating", responded Leonard Hikaumba, the president of the Zambian Congress of Trade Unions. (9) "We are disturbed and totally disappointed in the manner the IMF and World Bank are strangling our strategic sectors".

But this would not be the end of the story: Public protests against the highhandedness of the IFIs continued, while international support for Zambia's right to make its own policy choices grew. The IMF and World Bank finally relented: By 2004, their only demand was that the government "commercialize" the operations of ZESCO and ZNCB while maintaining them as majority publicly-owned entities.

Another IMF action that contradicted Zambia's plans for social development – not to mention the Fund's public commitment to education – was the decision to impose curbs on Zambia's public spending as part of the Fund's debt relief conditionality under the IFIs' Heavily Indebted Poor Country (HIPC) initiative. The trouble began in 2003, when the IMF froze lending to Zambia and delayed its debt relief plan after Zambia raised teacher salaries and introduced a housing allowance for civil servants; both moves violated IMF dictates to cut government spending. In 2004, the government agreed to cap spending at eight percent of GDP, and "the Ministry of Finance forced the Ministry of Education to cancel its previous wage increases and ban the hiring of new teachers". (10) As a result, 9,000 teachers were left unemployed, hundreds of schools were understaffed and Zambia had a student/teacher ratio of up to 100 to one in some of its schools. (11) These actions led to Zambia's first nationwide strike in 16 years, in February 2004.

The strong labour response to these policies evidently caught the IMF's attention, because it reversed course in 2005 and allowed Zambia to accept an extraordinary grant from the Netherlands to hire 7,000 additional teachers. But the IMF refused to admit error and instead blamed the government. In a country report issued in June 2005, the Fund noted that "Improvements in teacher pupil ratios were hampered by budgetary constraints. The Ministry of Education had not removed many retired teachers from its sectoral budget and, consequently, has constrained its financial ability to hire. However, this issue has been addressed in the 2005 budget, which provides for the hiring of 7,000 additional teachers, substantially reducing the shortfalls registered in 2004". (12) Still, the fact that the teacher shortage was addressed by the IFIs marked significant progress.

The next section will discuss how a nation in Europe – Bulgaria – forced the IFIs to withdraw their reform plans in the face of union opposition.

BULGARIA In August 2000, the World Bank provided an $83.4 million loan to the government of Bulgaria to improve management of its education system. The changes introduced were profound, and included school consolidation, new curricula, changes to teacher training, increasing of class sizes, and reduction of teaching staff. But the actual contents of the plan were unknown to Bulgarian unions until the spring of 2001, American Center for International Labour Solidarity (Solidarity Center) obtained a copy of the World Bank's 110-page document outlining the project. When the Bulgarian unions read the document, which the Solidarity Center translated into their language, they were shocked to read that "Representatives of practically all direct beneficiaries of the programme have been involved", including students, teachers and NGOs, a term that in the Bank's lexicon includes trade unions. (13)

This was patently false: none of the teachers' unions had been consulted. The unions were thus understandably upset to learn that a major restructuring of the education system was underway without them being invited to be part of the process. Worse, according to the Washington representative of the International Confederation of Free Trade Unions (ICFTU), both teachers' unions "in fact stated that the education ministry had on different occasions told the unions that the reform was none of their business and that the ministry itself was not in control of the process". Moreover, the unions – which belonged to the central labour bodies Confederation of Independent Trade Unions (KNSB) and Podkrepa and were ICFTU affiliates - contested much of the factual information and analysis presented in the document, which was often outdated. They believed that the restructuring would have a profound impact on the quality of public education and on teachers' working conditions. (14)

With the Bank and the Bulgarian government preparing a nationwide campaign to implement their proposals, the teachers unions organized a counter-offensive. With the assistance of Washington office of the ICFTU/GU, which sent a representative to Bulgaria on behalf of Solidarity Center, the unions "developed proposals for a joint action

plan, which would involve doing a joint analysis of the education restructuring programme, drawing up a joint statement with alternative proposals for education modernization, presenting this statement to the government and the World Bank and doing a public campaign on the reform". (15) They also asked for assistance from the ICFTU and the Solidarity Center.

Their appeals to the World Bank, however, "fell on deaf ears", (16) and the unions were unable to obtain a meeting with Bulgaria's education ministry to discuss the World Bank programme. In protest, the two teachers' unions organized a half-day, nationwide work stoppage. This action caught the attention of the World Bank's country director, who drove to the unions' offices, admitted that the Bank had "acted erroneously". The director also promised direct consultations with the unions and offered to completely revise the reforms. Ultimately, "the World Bank decided not to go through with the whole reform and admitted they hadn't properly informed the public". (17) The project was finally withdrawn in March 2004.

While the Bank appeared to learn from the mistake, however, it joined with the IMF in 2004 in pressing Bulgaria to implement labour reform measures that would result in real wage decreases for many workers and the reduction of protections against dismissal. A major irritant for unions was the IMF's demand, which was made into a "structural benchmark" condition of its loan to Bulgaria, that the government abolish seniority premiums paid to workers who had accumulated several years of service. In 2004 the government announced that it would abolish the premiums, even though the effect would be to drive down average wages in Bulgaria, already the lowest among all 27 European Union and accession countries. In response, "tens of thousands of Bulgarians downed tools and blocked roads" in November 2004. (18) KNSB and Podkrepa claimed that more than 400,000 workers in a country of 10 million took part in the protests. The unions received backing for their position from many other groups in Bulgaria, including opposition political parties.

To support their fellow trade unionists, officials from the ICFTU and the European Trade Union Confederation (ETUC) flew to Sofia to meet with government ministers and also with representatives of the IMF and World Bank in October . The IFIs explained that they "saw no need for further labour flexibility measures in Bulgaria" (19) because the labour code had already been "substantially overhauled" to meet EU accession norms. The ICFTU subsequently wrote to the IMF and World Bank asking why the IFIs were pushing for reduction of workers' protections in a labour market they already recognize as flexible.

The issue began to be resolved after a new government was elected in Bulgaria in the spring of 2005. First the new government announced that it would reimburse its loans to the IMF ahead of schedule, which would remove the possibility that the IMF could use the threat of recalling its loans if Bulgaria violated any of the loan conditions. Then in February 2006 the country's labour minister announced that the government would retain the seniority premiums in spite of the IMF loan condition. This was an important victory for KNSB and Podkrepa, which had fought for and won the right for Bulgaria to maintain its practice of paying higher wages to more experienced workers, even if it displeased the labour market deregulation ideologues of the IFIs.

But what happens when it is the World Bank itself that is flouting international labour standards? This brings us to the last country, discussed in this section, Indonesia, where a coalition of trade unions uncovered violations at a World Bank work site and convinced the Bank to clean up its act.

INDONESIA In 2004, the Indonesian branch of the Asian Labour Network on IFIs (ALNI), a network of unions, academics and NGOs, conducted a research study of core labour standards at major World Bank-funded infrastructure projects in Bali. The three-person study team met in advance with World Bank officials, who agreed to cooperate as long as the study was conducted impartially. The Bank introduced the team to the general contractor running the project and secured his cooperation, assuring ALNI access to the worksites. The ALNI researchers found significant violations of child labour laws and discrimination conventions, as well as local labour laws. (20)

The World Bank's Bali Urban Infrastructure Project (BUIP) studied by ALNI began in 1997, and includes numerous public works construction sites spread throughout the island. ALNI's study was conducted through questionnaires and interviews with workers at multiple sites in the project. The team found several serious violations, including children assigned to hazardous construction jobs, one of the worst forms of child labour; children paid discriminatory wage rates; discrimination in pay against women; little provision of safety equipment and poor training on the equipment provided; and failure to pay legally required social security payments, which provide medical coverage for on the job injuries. In addition, two workers had been killed due to accidents on the project, and 34 percent of the respondents reported they had had a work accident. Finally, none of the workers at any sites belonged to a union. In its report, ALNI concluded that:

> The World Bank, the Government of Indonesia, and the local government do not monitor the labour conditions provide by local construction companies on this World Bank funded project. The lack of inspection and procedures from the World Bank, and the central and local governments on labour standards permits rampant legal violations to go unchecked. The study team estimates that labour costs are only three percent of the total project, an extremely low proportion compared to most large construction projects. (21)

The ALNI study team recommended that the Bank establish procedures for "proper use of human resources" on future Bank-funded projects. They also asked the Bank to conduct, with the Government of Indonesia, interventions and positive monitoring on labour issues at Bank-funded workplaces, and to monitor "the exact percentage of a grant allocated for labour costs" and take action where the actual percentage falls below a rate which cannot sustain normative rights under Indonesian law. ALNI's reports and recommendations received considerable attention in the Indonesian press.

The Solidarity Center's Rudy Porter said that ALNI had followed its study by meeting with Bank officials to demand enforcement of core labour standards on upcoming projects. So far, however, the Bank's response "has been limited", he added:

> They are giving lip service to their international agreement to enforce the child labour and forced labour core labour standards, but have done nothing on Freedom of Association or discrimination. ALNI is pressing them on the fact that all the core labour standards are Indonesian law, and therefore the World Bank should enforce all four on their projects, but the World Bank responds that enforcement of labour laws must be left up to the Indonesian government, not to the World Bank. Nevertheless, ALNI continues to push them on these issues…. At this point, the affect of the Bali Study on the World Bank has been to give much more attention and meeting time to ALNI, rather than ignoring labour representatives as in the past. But whether there is a significant change in the way the WB enforces labour standards on the upcoming projects they fund remains to be seen. (22)

Nevertheless, ALNI's experience in Indonesia illustrates that the IFIs can be responsive when presented with complaints from labour unions about working conditions.

While local unions and national trade union centres have waged successful campaigns against the IFIs in their own countries, the international trade union movement, too, has achieved important victories in its struggle against the IFIs. Working with allies across the globe, the international trade union movement has made strides in convincing the IFIs to adopt policies that are more favourable to working people and the poor.

The following chapters of this report will examine trade union victories on both the national and international level. In the next chapter, case studies on Uruguay, South Africa, Croatia, Argentina, Indonesia and Tanzania will detail unions' victories against the IMF and the World Bank. The final two chapters will look at the international trade union movement's success in influencing IFI policies on global issues. The first of those chapters will explain how the global trade union movement brought the issue of core labour standards to the IFIs. The second will discuss the labour movement's role in the international campaign for debt relief.

CHAPTER ONE: SIX CASE STUDIES

URUGUAY – OUTLAWING WATER PRIVATIZATION

On October 31, 2004, voters in Uruguay turned out in huge numbers for a national referendum on the future of water privatization in their country. When the votes were counted, the people had approved by a two-thirds margin the world's first constitutional reform outlawing the outsourcing of water to the private sector and ensuring that piped water will be monitored at every level by civil society. They also elected as president Tabaré Vázquez, Uruguay's first leftwing leader in the country's history and a staunchly supporter of the water referendum, which defined water and sanitation services as "fundamental human rights" that must be guaranteed by the government.

This historic referendum marked the first time that any country had stood up to say "no" to the privatization agenda of the IFIs and the multinational corporations that depend on World Bank and IMF loans to expand their control over public resources. It was immediately hailed by civil society groups around the world as a major development in the global fight for economic justice.

The referendum "sets a key precedent for the protection of water worldwide, by enshrining these principles into the national constitution of one country by means of direct democracy", declared a letter by the environmental group Friends of the Earth International that was signed by 127 civil society organizations from 36 countries. (23) The groups emphasized that the constitutional amendment "secures the protection and sovereignty of this natural resource against attacks from multinational corporations transcending the national limits of Uruguay and setting a strong political precedent for the whole region".

"The reform guarantees participation by the user and civil society in the administration of water resources", said Adriana Marquisio, the vice-president of the Uruguayan union in the water sector, FFOSE, which played a key role in the referendum campaign. (24) Public Services International, the Global Union Federation of public workers' unions that includes FFOSE, congratulated the people of Uruguay, saying the victory "exemplifies a strategy which may be increasingly useful in other countries". PSI pledged to study "this strategy more closely with the view to making examples and lessons more readily available to our unions". (25)

The referendum was widely seen as a rejection of the World Bank-IMF model of market-led economic growth and a repudiation of the idea that public companies must be sold off to private investors for a country to flourish in the global economy. "There seems to be little support in Uruguay for the idea of following the ill-fated example of Argentina and trying to embrace neo-liberalism by privatizing and deregulating", Latin News Daily, a regional business publication, commented. (26)

Before taking power, however, President-elect Vázquez sought to ensure foreign investors and the IFIs that Uruguay would welcome private capital by declaring that the referendum would not apply retroactively to companies that were running parts of the country's water system. Many of his supporters, backed by the organizers of the referendum in the National Commission for the Defense of Water and Life, disagreed sharply with Vázquez and demanded the full nationalization of Uruguay's water resources. In October, 2005, those demands were finally met when Uruguay's state water utility OSE assumed control of the water and sewerage services that had been provided since 2000 by the Spanish firm Uragua in the Maldonado province in Uruguay's southeast. (27) A year after their victory over the IFIs, Uruguay's voters had prevailed.

In addition to its significance as a national expression against privatization, the Uruguay referendum is a useful case study in how labour unions can mobilize workers and citizens on behalf of the public interest.

BACKGROUND

Uruguay has long been known in South America for its low levels of poverty, high literacy rates and an advanced welfare system. However, its dependence on a few exports, particularly livestock and related products, left it vulnerable to fluctuations in international commodity prices. In 2001, when Argentina defaulted on its $140 billion foreign debt and threw regional cross-border trade into chaos, Uruguay was in the direct line of fire. In 2002, its economy imploded and shrank more than 10 percent. Protests and general strikes shook the capital city, Montevideo,

and in August the government ordered banks to close for a week to stop the mass withdrawal of savings. At the height of the crisis, "unemployment soared to a record high of nearly 20 percent, exports plunged to levels last seen during the 1973-1985 military dictatorship, wages plummeted and the country's foreign reserves virtually dried up". (28)

To cope with the crisis, the government of President Jorge Batlle, the leader of the Colorado Party, continued to pursue the market liberalization and privatization policies pushed by the World Bank and the IMF. In March 2002, the government signed an agreement with the IMF committing Uruguay to a rapid expansion of privatization throughout the economy, including the expansion of private water and sewage services to the entire country. In a June 18, 2002, Letter of Intent to the IMF, the Batlle government said it had decided "to open to private initiative activities previously reserved for the public sector" and "bringing forward the introduction of new regulatory frameworks in several areas including for electricity, telecommunications, water and sewage, railroad, transportation, etc….At the same time, the government is speeding up the granting of concessions to the private sector". Specifically on water, the government promised to introduce "new quality standards and controls to facilitate private sector investment". (29)

Water privatization was a key element of a $151.52 million World Bank structural adjustment loan provided to Uruguay in March 2003. In it, the Bank urged Uruguay to "Strengthen the framework for private sector participation (PSP) in the water and sanitation sector by approving a sector law and grant a management contract for the Montevideo water supply system". (30) It also noted that "Water and sanitation services in the Department of Maldonado and natural gas distribution have been concessioned to private operators. Yet considerable challenges remain in further liberalizing key services and infrastructure sectors, strengthening regulatory frameworks, and increasing competitiveness of service provision".

The Bank's report was strongly critical of Uruguay's state-owned water and sanitation utility, Obras Sanitarias del Estado (OSE). It had been established in 1952 to provide water and sanitation services for the entire country with the exception of Montevideo, where the municipal government provided some services. In its programme document explaining the loan, the Bank charged that OSE "had hidden behind its high water supply coverage and relatively high service standards to justify costs supposedly inherent to providing a critical social good". (31) The Bank added that OSE is "one of the most inefficient major water and sewerage companies in the region", and listed one of the key "contributing factors" Uruguay's "legal constraints on public sector lay-offs". The document also noted approvingly that parts of OSE had been privatized: "One medium-sized operator (URAGUA, the private concessionaire in charge of providing water supply and sanitation services in the Department of Maldonado) serves 48,000 water connections in Maldonado, Punta del Este and other small towns".

Urugua, which is owned by three Spanish companies, (Iberdrola, Aguas de Balbao and Caja de Ahorros de Vizcaya) had been providing services in Maldonado since October 2000. But while the Bank was satisfied with its performance, local consumers of water were not. During the first privatization in Maldonado, the concession holder increased costs to 700 percent of what was paid in the rest of the country. (32)

According to a report from Friends of the Earth International, large sectors of the local population were prevented access to potable water because they couldn't afford the cost of the service. And for those who could pay, service was so poor that quality control boards advised citizens not to consume water because it didn't comply with minimum quality standards. (33) From an economic point of view, PSI reported, the "business" was also bad for the Uruguayan government. "Not only did the companies fail to comply with the timetables agreed, but they didn't pay what was agreed. Under legalistic contract renegotiations that state had to assume the mounting corporate losses in each case. All this fuelled the people's determination to end the privatization threat". (34)

THE CAMPAIGN TO END PRIVATIZATION

The national referendum against privatization came about through an intense public education and lobbying campaign carried out by the National Commission for the Defense of Water and Life (CNDAV). It was a broad coalition representing labour and civil society groups. Among them were FFOSE, the trade union representing workers at OSE, Friends of the Earth, the Centre of Uruguayan Wine Producers, science and engineering students, the Green Ecological Party, the Union of Uruguayan Women and many other groups. The campaign was "based on dissatisfaction with the performances and behaviour" of Urugua and other water concessions, "the pressure for new privatizations from IMF loan conditionality, and further threats arising from trade liberalization negotiations in the WTO, the FTAA" and other trade and investment agreements. (35)

The campaign got its start after FFOSE, the union for OSE workers, lost its first fight to stop the privatization in Maldonado. "As a result of that campaign, the union knew what it was up against", recalled Adriana Marquisio, FFOSE's vice president. (36) The strategy developed by FFOSE was to protect public water in the constitution. "The only way to do this was through a national referendum", PSI reported:

> The first step required collecting signatures of 10 percent of the country's electorate. FFOSE knew that it could not do this on its own, so it helped to create a national coalition with NGOs, academics, politicians and community groups. The coalition spent more than a year gathering the one million signatures needed to impose a referendum. This was finally accomplished in 2003. The national committee then went into full campaign mode. It raised funds to pay for the campaign, including…advertising and awareness raising activities. The committee worked at the local level for almost two years, and also called on international water activists for support. (37)

FFOSE began its coalition-building at the local level. "To start out, union locals met in assemblies in the zones that were slated for concessions", said Marquisio. "They sent written invitations to the citizens of the region and the local press, alerting them that there was a privatization process underway in the zone. We also included scientific reports from comrades from the university science department, including in some cases professors from the National University. They began to research the question of water resource usage in the country, such as the Guaraní Aquifer". (Shared and managed by Paraguay, Uruguay, Brazil, and Argentina, this aquifer is one of the largest and best groundwater sources in the Americas). The campaign highlighted the aquifer as a free, natural source of clean drinking water for Uruguayans - and emphasized that foreign private companies could not improve on the joint management by Latin American governments. Preserving the aquifer as a public good was thus one of the campaign's key "Pan-American" messages, said Marquisio.

All of this information was distributed, via the union's infrastructure, to every location where a privatization was proposed, including Ciudad de la Costa, Canelones, Colonia and San José. According to Marquisio, her union had an advantage because its members worked in every department where OSE services were to be concessioned. This facilitated both local organization, and when the campaign got larger, national coordination. Union locals helped organize local community organizations, called commissions, that later banded together in the national campaign.

According to Marquisio, Uruguay, unlike other Latin American countries, did not have problems with water access, service, or quality prior to privatization; in fact, 99 percent of the population had regular access to potable water. The campaign emphasized that privatization was thus unnecessary, from a service perspective, and made the campaign more "universal" by depicting access to water as a basic human right and an issue of justice that united citizens across countries.

The water campaign also built on previous plebiscites, which civil society groups had been organizing since 1992 as part of their battle against corporate globalization. Through these actions, for example, the people of Uruguay stopped the privatizations of the telecom sector (ANTEL, Administración Nacional de Telecomunicaciones) and gas (ANCAP, Administración Nacional de Combustibles, Alcohol y Portland). In interviews, Marquisio described the key aspects of the campaign to stop the privatization of water.

- **Community organizing.** Neighbourhood Plenaries became the local Commissions for the Defense of Water and Health in each community. Local events were generally organized in community houses or in neutral places, where neighbours could come together independent of their political, religious, or social positions. Meetings were held in neighbourhood associations, sport clubs and community centres so they were accessible to everyone. On Saturdays, the commissions organized education workshops, where presentations were made on the international aspects of water privatization and domestic law, including how national rules protecting public enterprises and natural resources had been "liberalized" to allow businesses to profit from management of national infrastructure. Workshop instructors were members of the community, trade unionists, lawyers, scientists, and environmentalists. The establishment of these local social fronts in 2000 was the seed that allowed the coalition to organize the CNDAV two years later.

- **Public Events.** FFOSE chose symbolic days to do street demonstrations and bring the theme of social organization together with the union's demonstrations. Dates selected included March 22, World Water Day; June 5, World Environment Day; October 6, marking the beginning of Panamerican Water Week; and May 1, Labour Day, when the union marched carrying large panels with photos and other material from the World Social Forum in Porto Alegre, Brazil. The union also made presentations in elementary and high schools.

- **Clear focus.** During these presentations, the union emphasized the global shortage of water; the dangers of water contamination; and the commercialization process, in which water is treated as a commodity and a commercial product. A major focus was international organizations such as the WTO, IMF, World Bank, and even UNESCO, which had promoted privatization of water management under the logic that the private, multinational sector is the most competent and efficient way to bring solutions to developing communities.

- **Lobbying.** Lawyers looked at water regulation and deregulation from the 1990's on, to analyze what type of legal framework was needed to stop the privatization. But persuading politicians to address a theme that was absent from their political agenda was not simple. CNDAV repeatedly demanded interviews before the government's environmental and constitutional/legal commissions. Activists went to Parliament and delivered dossiers on the campaign's three points to all 133 members. Local legislatures were also contacted, and urged to maintain water in public hands. Said Marquisio: "We definitely drove them crazy with documents, interviews, discussions and televised debates".

- **The press.** "Getting the attention of the media and politicians wasn't easy", said Marquisio. "But little by little, as more people joined the movement, and the meetings grew larger, the press began to show up". CNDAV continually sent out press releases, and the street actions, assemblies, and work with children also captured the attention of the press. Creativity was also key; using graphic themes of colour, water drops and globes in the streets attracted attention.

One month before the plebiscite, CNDAV had made famous throughout Uruguay the phrase: "On October 31st, we are ALL Uruguayans". This theme of national unity, said Marquisio, was very important for the campaign. "We were able to coordinate and work in various arenas that integrate different actors from society. The work of these many actors—homemakers, professionals, environmentalists, NGOs, political parties, unions, women's organizations—brings a tremendous richness to the movement". It also helped improve the morale of the trade union movement in the wake of the economic crisis of 2001-2002. "We trade unions were hit hard by the neo-liberal model, and it has been very difficult to rebuild the values, commitment, and unity after this huge employment crisis and the dismantling of trade unions", said Marquisio.

The campaign picked up further momentum when Tabaré Vázquez, the presidential candidate of the left-wing Broad Front coalition, came out in favour of constitutional amendment preserving water as a public service. Vázquez, a physician and a socialist, won a resounding victory on October 31, 2004, by capturing 51 percent of the vote. His victory marked "an end to 179 years of domination of Uruguayan political life by the National and Colorado parties". (38) The plebiscite on water carried by an even greater margin of 65 percent.

AFTERMATH

In the months after the election, the incoming Vázquez administration issued conflicting statements about the impact of the referendum on existing concessions. Vázquez himself and members of his party stated that the government would honour contracts awarded prior to the vote.

This may have reflected Vázquez's concerns that, after his election victory, foreign investors might be scared away. Prior to the vote, he had "travelled to Europe and the United States to reassure financial observers that he would be a responsible steward of the country, which (had) a $12 billion debt. In addition, Vázquez said he would honour an austerity agreement with the International Monetary Fund even though he once opposed it". (39)

The unions and other civil society groups that had organized the referendum kept the pressure on to completely end private concessions. In November 2004, Uragua, the Spanish-owned company that operated the Maldonado concession, formally notified the government that it would exit the Uruguayan market as soon as possible. (40) Eleven months later, on 8 October 2005, Uruguay's state water utility OSE assumed control of the water and sewage services provided by Uragua.

"I feel enormous satisfaction in showing that we are fulfilling what the public expressed in the referendum asking for the reform of the constitution", OSE president Carlos Colacce said in a press conference. "We hope to achieve other advances that allow 100 percent of water and sewerage services to be provided by the state". (41)

The IMF and the World Bank have had little to say about the events in Uruguay. A few months before the plebiscite,

the IMF wrote a letter to the Uruguayan newspaper La Republica taking issue with Uruguayan activists who had charged that water privatization was imposed as conditionality in IFI loans. Such declarations are "untrue", the IMF said, since "financial aid that the IMF provided to Uruguay is not subject to any guarantee to ensure payment". (42) But as described above in Uruguay's Letter of Intent, the IMF made specific conditions in its loans for new regulations that would enable private sector investment in the country's water and sanitation system. "These conditions are quite more than a guarantee; they are actual demands", the NGO 50 Years is Enough argued. (43)

More recently, the IMF mentioned the constitutional referendum in its governing documents for its 2005 review of Uruguay's stand-by arrangement with the fund. In a footnote, the IMF notes, "A constitutional referendum was approved by a wide margin requiring that all activity in the water supply and sewerage sectors be conducted by state entities. The impact of the referendum on existing private concessions in these sectors is unclear and will require additional legal clarification". (44) The IMF chose not to comment on what was clearly a sound repudiation of its privatization policies.

The World Bank specifically criticizes Uruguay's trade unions in its account of the referendum in the report accompanying its 2005 assistance to the country. (45) According to the Bank, it had demanded that OSE "contract consultants to study" problems of unaccounted-for water and "recommend ways to resolve it. Labour unions opposed that proposal and lobbied successfully for a constitutional amendment to forbid private participation in the water supply and sanitation sector". This completely misses the point of the movement's decade-long fight against the mass privatization of Uruguayan public services.

Marquisio, the vice president of FFOSE, summarized her country's experience as a victory over the "logic of exploiters". Today, she said, "We must reverse the momentum of a model that has demonstrated failure, and that has brought only marginalization and poverty for our people. The preservation of the planet, a dignified and healthy life, is also a job for workers. The general society is ready, and we as organized workers must open our unions and unite with society in this fight. Today we can make a cultural change: Any business undertaking must have its social, economic, and environment value to present a credible proposal".

CASE STUDY: SOUTH AFRICA – SAVING STATE-OWNED RAILWAYS

In 2002, three South African trade unions reached a landmark agreement with the South African government that ended a proposal to break up and privatize the country's rail freight system known as Spoornet. The so-called Social Plan Agreement was reached after eight months of negotiations between the government and the South African Transport and Allied Workers' Union (SATAWU) and two smaller unions, UTATU and SALSTAFF. It prevented the loss of some 4,500 jobs and maintained Spoornet as a viable, publicly owned unit of Transnet, South Africa's national transport company.

The World Bank and other IFIs were not directly involved in the proposed privatization of Spoornet. But South Africa's initial plan for the railroad reflected the market orthodoxy embraced by the post-apartheid government after 1994, and closely followed the World Bank model of rail privatization – particularly the splitting up of profitable from less-profitable units – imposed on other countries in Africa and throughout the developing world.

"The World Bank looks at each enterprise (within a corporation) like a complete island", explained Jane Barrett, SATAWU's policy research officer who played a key role in the Spoornet negotiations. "If they can't break even, they shouldn't exist. All they look at is how an enterprise can survive as a business". (46) Moreover, the economic model the South African government and its financial advisers sought to impose on Spoornet "is very much in keeping with what the World Bank has adopted in Latin America and Africa", Barrett said.

As a result of South Africa's engagement with its labour unions, however, the World Bank model for the country's rail system was rejected, and the government made an unusual about-face. In a remarkable speech to parliament in 2004, South Africa's Minister for Public Enterprises, Alec Erwin, openly embraced the idea of public ownership.

"The notion that the private sector is more efficient and that the state should leave everything to it is fundamentally flawed in terms of theory, policy and citizen welfare", he said. "The distinct problematic of the efficiency and dynamism of the public sector is facilitated by the correct macroeconomic framework, the corporate structures and the managerial practices within the (state-owned enterprise). This is true when we look at the overall efficiency of the private sector as well". (47)

For trade unionists, the Spoornet experience "tells us that the trade unions should be included in the process of deciding on the model for restructuring", Barrett wrote in a paper presented to the staff of the World Bank in Washington in May 2005. It "also tells us that while the financial resources available to the trade unions may be limited, their access to the ideas and experience of workers on the ground is an invaluable resource". (48)

The chapter looks at the South African experience, paying careful attention to the process adopted by that country's powerful labour movement.

POLITICAL BACKGROUND

South Africa has been led by a progressive, pro-labour government since 1994, when the African National Congress (ANC), the driving force behind the country's long struggle against apartheid, won the country's first non-racial elections. Nelson Mandela, the long-time leader of the ANC, was president from 1994 to 1999, and was succeeded by Thabo Mbeki, the former president of the ANC.

Although the ANC was located within the broad South African left, its leadership was "already leaning towards economic orthodoxy" when it assumed power in 1994, according to a study on Spoornet by Karl von Holdt, a senior researcher with the National Labour and Economic Development Institute (NALEDI), a research and policy institute established by the Congress of South African Trade Unions (COSATU). (49) This shift was made clear in 1996, when the government adopted a macro-economic programme known as GEAR, or Growth, Employment and Redistribution.

The GEAR programme reduced public spending and proposed the implementation of a public sector "asset restructuring programme" that would lead off with "the sale of non-strategic assets and the creation of public-private partnerships in transport and telecommunications". (50) According to von Holdt:

> GEAR committed the government to a privatization programme, and the Department of Public Enterprises (DPE) became government's lead department in driving this programme. In 2000 the DPE Policy

> Framework was unveiled; this extolled the importance of private sector expertise and capital, and market competition, in reviving the efficiency and competitiveness of public enterprises and thereby creating a more dynamic and internationally competitive economy. This general orientation shaped government's approach to the restructuring of Spoornet specifically. (51)

In line with this policy, in 1999 Transet's management brought in an international consulting company to draw up a reorganization plan, and eventually proposed the closing of unprofitable companies and the layoffs of up to 17,000 workers. Transnet then hired Rothschild, the British banking giant and privatization specialist, which in turn proposed to split Spoornet into six separate companies, most of which would be sold off to private investors. (52)

The government's plans to privatize key parts of Transnet sparked a powerful response from the labour movement. In 1995, after then-Vice President Mbeki announced that South African Airways, the aviation subsidiary of Transnet, was to be sold off, SATAWU launched a national wildcat strike. The Congress of South African Trade Unions (COSATU), the national labour centre that includes SATAWU as a member, stepped in to negotiate with the government over the restructuring of state-owned enterprises. The result was a National Framework Agreement that committed the government to participate in a "process of consultation" with trade unions on the restructuring of state-owned companies, on a case-by-base basis. (53) Out of this framework SATAWU and its fellow rail unions forged their unique agreement to preserve Spoornet as a national asset.

ECONOMIC BACKGROUND

Spoornet is the rail freight and long-distance passenger division on Transnet. (54) It carries 59 percent of the total freight, including bulk cargo, moved in the country; when bulk is excluded, it carries 22 percent of all freight. The company operates on some 20,000 kilometres of track and employs 34,344 workers, most of them non-managerial.

Most of them are represented by SATAWU, which is affiliated with the International Transport Workers Federation, or ITF. SATAWU also represents the majority of black workers in Spoornet, who make up 70 percent of the workforce. The other two unions, UTATU and SALSTAFF, are rooted in the "more skilled, supervisory and administrative" workers who are mostly white, and include train drivers and white-collar employees. (55) These divisions reflected South Africa's history of apartheid. "With a strong historical legacy of apartheid in the workplace, a working trust had to be built between the three unions", SATAWU's Barrett wrote in a report for the World Bank. (56) "All three unions were, however, able to put the interests of the workforce as a whole, and the interests of Spoornet going forward, first".

The reorganization plan put forward by the Minister of Public Enterprises in 2000 would have separated out Spoornet's five business units and privatized four of them through concession agreements with private companies. Under the plan:

- The bulk cargo lines, the highly profitable CoalLink and Orex Lines that carried coal and iron ore from mines in the interior to coastal ports, would be concessioned out to private operators on a medium to long-term basis.
- The "potentially profitable" Blue Line, (57) a luxury passenger line, would be concessioned immediately.
- The unprofitable general freight business, which was being cross-subsidized by the high-profit bulk lines, would be left in Spoornet's hands, its network cut to 10,500 kilometres and its workforce slashed by 15,000.

"The general principle" of the government's plan "was that the internal cross-subsidisation of unprofitable by profitable operations should cease", wrote von Holdt. (58) The government, he added, later modified the proposal by demanding that, after a three-year turnaround, the general freight business would not be concessioned; instead, an equity stake would be sold to a "strategic equity partner". All of these decisions became public policy and were announced to parliament and the media. The trade unions responded immediately, recalled Barrett:

> As soon as government's intentions were known, SATAWU called a workshop of Spoornet shop stewards and developed a position document, which it called "Reconstructing Spoornet". This became the platform from which the union engaged the other two trade unions, government and Spoornet management. The "Reconstructing Spoornet" document was shortly elaborated on and adopted by all three trade unions, who for the duration of the engagement on restructuring, worked together as a united front. (59)

THE LABOUR RESPONSE TO RAIL PRIVATIZATION

Initially, the trade unions objected to the government's proposals based on three key points: the "absence of transparency and consultation with labour in developing the model;" the "carve-up of the system", which union activists believed would lower safety standards, create new inefficiencies and threaten the long-term financial sustainability of a "stand-alone" general freight business; and the proposal for massive job cuts. (60) The unions also made proposals of their own, including "changes in the supervisory regime, increased investment in training, addressing racial conflict in the workplace, and piloting worker participatory projects on efficiency". (61) As summarized by von Holdt:

> The main argument put forward by the trade unions in opposing the privatization of Spoornet was that private-sector operators would concentrate on profitable business, closing unprofitable lines and shedding unprofitable customers. The economically weaker provinces would be worst affected. This outcome would amount to the destruction of rail infrastructure and would increase road freight volumes, imposing significant additional costs on the state and on road users, both in the form of additional road infrastructure maintenance and in the form of other externalities such as traffic congestion and accidents, pollution, the balance of payments impact of increased petrol consumption, etc…The unions argued that the fundamental business strategy of Spoornet should be to expand volumes in order to take pressure off the road network, to make optimal use of the rail infrastructure and assets, and to facilitate local and regional economic development. Internal cross-subsidization of unprofitable by profitable lines and customers, should continue. The freight operations of CoalLink and Orex, they argued, should remain integrated with (general freight) in order to continue taking advantage of operational and technological synergies. Splitting them would generate separation costs as well as ongoing additional operational costs. The disastrous break-up of British Rail provided ample warning of the hazards of fragmenting rail operations. (62)

"We argued that if you take away the revenue stream from general freight, its service would get worse, not better", recalled Barrett. "That's how the Transport Ministry was convinced" by the trade unions. (63)

Despite the government's pledge to negotiate over these issues, the minister responsible for the proposals did not respond immediately to the union's requests for meetings on the rail system. Therefore, the unions were forced to put political pressure on the government. In late 2000 and early 2001, SATAWU launched a media offensive to publicize its objections to the sell-off plan and made presentations to parliament. COSATU organized a two-day "anti-privatization" strike and the rail unions organized protest marches for union members. In addition, a petition was delivered to the Minister for Transport on International Railway Workers' Action Day in March 2000. (64)

Eventually, the government relented, and its engagement with the three unions began in March 2001 with the formation of a joint labour-government task team to investigate the many restructuring alternatives for Spoornet. "They declared that, previous public statements to the contrary by the Minister of Public Enterprises notwithstanding, their minds were open as to what the most appropriate restructuring options would be".(65) After two months of intensive discussions, the two parties reached agreement on three of the rail lines: the unions agreed that the Blue Line passenger train could be concessioned, while government agreed that both General Freight and the mainline long-distance passenger service would remain in state hands as "strategic transport assets". (66)

But there was a major sticking point: the future of CoalLink and Orex, the two bulk freight lines. The government argued that an integrated Spoornet that included the general freight line and the two bulk freight lines would not generate enough cash flow to finance the turnaround of general freight, and pushed for the concessioning of CoalLink and Orex. This proposal proved to be the most difficult part of the negotiations. According to Barrett and von Holdt, two key factors came into play. One was the influence on the negotiations of Spoornet's managers, who had been excluded from the talks but were "virulently opposed to government's restructuring model". (67) Their's was not the union position, however: the managers "argued that a stand-alone (general freight business) was inherently unsustainable, and that Orex and CoalLink should be retained together with (general freight) to create a highly profitable, integrated freight transport mega-company which should be privatized through a sell-off in the stock market". (68)

The other barrier was defined by von Holdt as a "policy juggernaut:"

> A dense cluster of institutional, personal and economic interests which coalesces around a particular policy decision or set of decisions, has an overwhelming momentum of its own, and is relatively impervious to

> rational dialogue or debate over alternative policy options. In this case the officials who oversaw the consultants and formulated DPE' s position, and made recommendations to the minister, had a personal stake. The Department and the minister had an institutional stake in successful privatization, while the consultants and potential private sector operators had financial interests in the outcome. These specific personal and institutional interests were supported by more general institutional and economic interests in favour of privatization. (69)

The unions' persistence in focusing on the objective economic facts on the ground helped break the logjam. For example, von Holdt suggests that the information exchange between management and the three unions "facilitated a newly-found mutual respect" between the two parties. (70) When it came to the divisions over CoalLink and Orex, the unions also pointed out to the government that Spoornet managers believed that an integrated Spoornet could generate enough cash flow to meet investment requirements. The unions argued that the government proposals "amounted to handing over world-class assets to foreign companies, leaving South African management with the unsustainable rump of the general freight business". (71)

Another factor in trade unions' favour was the division about privatization inside the government and the DPE itself. Writes von Holdt: "While the DPE officials with direct responsibility for Spoornet continued to act as convinced agents for their policy juggernaut, other influential officials in the department, some of whom were closer to black management and more concerned with the formation of a viable 'patriotic bourgeoisie', had become increasingly sceptical of the policy juggernaut. All of these factors constrained DPE from simply forging ahead". (72)

Under the final agreement, the general freight business and CoalLink would remain integrated within Spoornet under government ownership, while the parties agreed to continue discussions about the future of Orex on the condition that its future "should not compromise the viability of the rest of the freight operation". (73) However, in 2005 the government informed the unions that it had decided against "separating out Orex" from the other operations. The privatization of South Africa's rail freight network had been stopped dead in its tracks.

JOBS PRESERVED

The unions also won major concessions on job losses from the reorganization of Spoornet. When the restructuring agreement was reached in 2003, Spoornet had a workforce of 34,700. This was expected to drop to around 24,000 in two years; in contrast, the government's original proposals would have left only 12,000 workers. (74) As the restructuring went forward, the two parties agreed "that everything possible should be done to mitigate the impact of the possible job losses" and agreed to establish a group made up of unions, Spoornet management and the government "to identify alternative employment and income generating activities". (75)

When this process was completed in 2003, 550 workers were laid off, a painful number but far less than the 5,000 originally envisioned. (76) "The fact that it was possible over a period of two years to reduce the numbers of workers in line for forced retrenchment from over 5,000 to 550 is testimony to the advantages of a jointly managed process of staff reduction", wrote Barrett. (77) While her union, SATAWU, was proud of the Social Plan Agreement reached with Transnet, she added that "the union is under no illusion that the Social Plan provides sustainable alternatives for the majority of retrenched workers", particularly when worker debt and the unemployment rate of 30 percent is considered.

In the conclusion to her paper, Barrett noted that the circumstances in South Africa – the high visibility of the labour movement and the willingness of the government to negotiate – make the Spoornet case somewhat unique. But the "circumstances themselves" are not, she added: "There a many other examples of middle and lower income countries which are new democracies and which are going through a period of rapid integration into the global economy and are facing the challenge of restructuring state owned enterprises". (78) In conclusion, she makes the following points:

- The Spoornet experience tells us that the trade unions should be included in the process of deciding on the model for restructuring.
- The Spoornet case study points the importance of consultations that have a formal agreement as their objective.
- The Spoornet experience tells us that while the financial resources available to the trade unions may be lim-

ited, their access to the ideas and experience of workers on the ground is an invaluable resource.

- The Spoornet experience tells us that governments need to trust the outcome of a genuine consultative process.
- The Spoornet experience tells us that a willingness to reconsider, based on evidence, is critical to wise political decision-making. (79)

Taking note of the policy juggernaut outlined by von Holdt, she added that the Spoornet experience "tells us that there is always a danger that consultants and advisors could wield too much influence in the process. This power may be based the assumption that the advisors have all the knowledge that it takes to make a decision, or on financial interest, or both". She advised that measures must be in place "to prevent consultants and advisors acquiring untoward power and influence over the democratically elected decision makers".

In an interview, Barrett was particularly critical of the role that the Rothschild advisory group – which was contracted by the government, both to develop the restructuring proposals and then act as transaction adviser - played in the negotiations. Under the proposed concession agreements rejected by the unions, said Barrett, five percent of the total sale would have gone to the Rothschild group. "The advisers were in it for a huge fee, and the government had already signed the contracts and didn't want to lose face", she said. "So the consultants were particularly upset about the final process".

Barrett encourages trade unionists to embrace the idea that state-owned companies like Spoornet play a positive role in a national economy. "SOEs are an asset and help leverage economic growth", she said. That is something that the South African government finally grasped – but an economic reality that the IFIs generally refuse to accept.

CASE STUDY: CROATIA – DEFENDING WORKERS FROM LABOUR MARKET REFORM

In the winter months of 2002 and 2003, Croatian workers launched a series of strikes demanding wage increases and opposing labour "reforms" sought by the World Bank and IMF to make it easier for Croatian employers to fire workers. The strikes involved telecom and postal employees, industrial workers and doctors, nurses and teachers. They escalated in January 2003, when the country's five labour federations announced that they would call a general strike in February to protest a proposed labour law that had been introduced in Parliament to comply with new IMF and World Bank loans Bank and prepare the country for eventual membership in the European Union.

Under the proposed law, the government was planning to reduce the money paid to laid-off workers and shorten the notice time required before firing a worker, from six to three months. The law also scrapped fixed-term labour contracts and contained no unemployment insurance in a country where the jobless rate was hovering close to 20 percent. Labour anger at the government's apparent capitulation to the IFIs was running high.

A January 24, 2003, statement from the unions called the government ministers who had come to power in 2000 "the gravediggers of workers' rights".(80) "If solutions acceptable to both sides are not agreed upon, the unions will pursue their struggle, which might end up in a general strike", one union official told Agence France Press. (81) Concerned about the possibility of unrest, government officials urged the union leaders to be flexible, arguing that passage of the new law was important because it would make Croatia more competitive. "The current labour law is one of the main obstacles to having more foreign investment", declared Deputy Prime Minister Goran Granic. (82)

But the unions didn't back down, and in February organized a large rally in St. Mark's Square in Zagreb, where the government and parliament have their offices. By the end of February, the government had met most of the unions' demands, much to the chagrin of the international business press. "The country's largest unions have successfully negotiated the weakening of the government's proposed amendments to the labour laws, with cuts in redundancy pay and reductions in redundancy notice periods postponed and likely to be smaller than originally anticipated", The Economist Intelligence Unit reported that July. "The major trade unions hade made clear their willingness to call general strikes should the government move to weaken workers' rights in any way…" (83) The final bill was a compromise, but expressed the will of Croatian workers to maintain some of the protections afforded them under Croatia's laws.

BACKGROUND – IMF AND WORLD BANK PRESSURE

At the time of the confrontation between Croatian unions and the IFIs, the country was just emerging from a decade of war in which the former Yugoslavia had disintegrated amidst violent independence movements. In 2000, Croatia's new government joined the World Trade Organization (WTO) as part of its broader pledge to open its economy to foreign investment. Three years later, the country applied for membership in the EU.

Despite its small size – Croatia has a population of around 4.5 million – the country is "one of the most heavily unionized in Eastern Europe". (84) According to the European Bank for Reconstruction and Development, 90 percent of its workers belonged to trade unions, although Croatian unions maintained that the number was closer to 50 percent. (85) Unionization was most prevalent in the public sector, particularly in public administration and education. Key labour groupings include the Union of Autonomous Trade Unions of Croatia and the Association of Independent Trade Unions of Croatia. Strikes, particularly in industry, were uncommon during the years following independence.

"Because in the communist era manufacturing facilities were generally run by the workers, rather than being directly state-owned", The Economist's Intelligence Unit reported in 2003, "workers retain a strong attachment to their place of work. This has meant that strikes have been relatively infrequent and restrained, even at firms that have run into severe liquidity problems and fallen several months behind in wage payments". (86) But the imposition of new labour laws would change labour's stance.

Croatia's first post-independence labour law was passed in 1996 and amended in February 2001. It guaranteed the right to strike, but only after unions had gone through an arbitration process. (87) In 2002, the parliament was asked by the central government to pass a new law that not only cut wages but reformed the 1996 code to remove restrictions on firing and layoffs. These changes were made directly in response to pressures from Croatia's key creditors, the IMF and the World Bank. As in other countries, however, the IFIs were involved but "always denied it, claiming that changing the Labour Law was exclusively the desire of the government", said Evelin Toth Mucciacciaro, director of international affairs of the Union of Autonomous Trade Unions of Croatia (88)

To trade unionists, in fact, it was all too clear what the IFIs were demanding when they asked for greater flexibility in labour markets. "To desperate people without a job or subsistence, such arguments often sound reasonable, because they believe that this would help them get to Europe faster, to the Eldorado that is just waiting to feed all tired and disappointed people", Jasna Petrovic, the editor in chief of the ICFTU's Central and Eastern Europe Network Bulletin, said in a 2002 interview. (89) The Bank, Petrovic went on to explain, was imposing its own agenda on Croatia:

> Deregulate workers' rights, annul or considerably reduce severance pay, facilitate dismissals, introduce fixed-term contracts as a rule, extend probationary periods for new employees, shorten annual vacations, strengthen employers, weaken trade unions, legalize "equality" of small and large trade unions, bust collective bargaining at the national level. In Croatia, the World Bank is trying to push through legislation that would allow the flexibilization of employment contracts in order to have fixed-time work, because, according to their interpretation, there are too many workers working under the so-called permanent contracts.

Petrovic also charged that the Bank had used an "American democratic foundation" to finance the assignation of a labour "expert" to the Croatian government's Office for Social Dialogue, where his first job was "to organize a meeting on amendments to labour legislation with arguments of 'Europization and standardization'."

In fact, the IFIs were exerting extraordinary pressures on Croatia to amend its labour law. It began in 2001, when the IMF "urged the [Croatian] authorities to proceed with the structural reform agenda in close cooperation with the World Bank, giving priority to pension and health sector reform, financial sector stability, labour market flexibility, and greater enterprise efficiency". (90) The Fund also "stressed the need to restructure and privatize the major state-owned enterprises after creating appropriate regulatory frameworks where needed". Further steps included "the importance of economy-wide wage restraint for an improvement of the employment outlook". A year later, a disappointed IMF issued a blistering critique of Croatia's economic policies following its consultations with the government.

"Progress in structural reforms has continued to be slow", the IMF said. (91) "Some progress has been made in pensions, public sector wages, social transfers, and fiscal administration. However, reforms have lagged behind in priva-

tization, health, judiciary, education, labour market, and subsidies". The Fund then turned to its suggested reforms:

> Directors urged the authorities to give a fresh impulse to structural reform, focusing on measures to improve efficiency and promote a business-friendly environment. The still large role in production of the government—including local authorities—should be reduced by privatization and elimination of subsidies. Public administration should be made more efficient by delegating responsibility and initiative to institutionally strengthened local governments. Directors also viewed greater flexibility of the labour market as necessary to reduce unemployment, which is high relative to EU levels.

The World Bank focused on the alleged relationship between Croatia's EU accession and its labour laws in a 2003 report entitled "Country Economic Memorandum:

A Strategy for Growth through European Integration". (92) The report was written in connection with a $202 million structural adjustment loan granted to Croatia in 2001. In a section on "Strengthening the legal and regulatory framework for efficient labour markets", the Bank spelled out its prescriptions for Croatia's workers:

Croatia's integration in European markets will create strong competitive pressures in the enterprise sector. The ensuing process of adjustment may involve a massive reallocation of labour across and within sectors as well as changes in the skills required at occupational levels as diverse as blue and white-collar workers to professionals, civil servants and entrepreneurs. Inevitably, this will require the destruction of jobs and the creation of new ones.

Then it cut to the quick:

> The pace of job creation in Croatia has been slow due to a number of factors, including a rigid labour market. Extremely strict employment protection legislation, which limits labour turnover, and relatively high unit labour costs, which discourage hiring and investment are some of the key labour rigidities. High unit labour costs reflect a strong bargaining power of insiders?workers with protected jobs?and the predominance of industry level bargaining, which generates wage pressures. Thus, faster job creation, necessary to reduce unemployment, calls for labour market liberalization with the aim of lowering hiring and firing costs.

The "overarching objective" of Croatia's reforms, the Bank continued, is to "enhance labour market flexibility through deregulation and decentralization of industrial relations in Croatia". It spelled out the exact steps the parliament should take:

- Lowering costs of individual dismissals by shortening the notice period and lowering the statutory severance pay.
- Relaxing restrictions on the use of fixed-term and temporary contracts.
- Institutionalizing temporary work agencies.
- Revising the definition of collective dismissals in line with EU directives, and restricting special regulations so as to apply only to large firms.
- Decentralizing industrial relations, in particular move away from industry level bargaining toward firm level bargaining.

In its preamble to the proposed law, the Croatian government emphasized the relationship between labour reform and entrance into the EU:

> The goal of reaching the Labour Law and its novelties was to have the Law correspond with modern western-European solutions in the labour relations area through conceptual approach and alignment of individual issues; to make the Republic of Croatia "recognizable" in the area of economic, financial and other cooperation as well as European integration processes, given the conditions of international competition of the global economy and commerce. (93)

The government statement also included a detailed defence of the new "flexibility" the World Bank and IMF believed necessary for Croatia to conform to international standards:

> Flexible forms of work, temporary employment, fixed-term employment, different forms of work outside of the conventional workplace, provide the opportunity to timely direct the circumstances and events that require quick and efficient reaction. Furthermore, flexible forms of labour mean smaller expenses, and smaller expenses allow quicker reactions to the changes on the market…Flexibility in the area of work and labour relations means possibility to hire, adapt, distribute and fire excess workforce based on the requirements of work, ensuring quick adaptation to external market criteria, particularly the demands of the buyers, or changes of the economic environment; ensuring competitiveness through cost control and guaranteeing the increasing quality of production, goods and services.

At the time these reports were being written, Deutsche Bank issued a report on Croatia that took an optimistic attitude towards the expected changes in law. "The call to amend the labour law, aimed at making the labour market more flexible, still seems comparatively easy to handle, even though the trade unions are already pondering whether to stage a general strike if their ideas are not given sufficient consideration", the bank's Croatia analysts predicted. (94) But the German bank's hopes of an easy resolution would be dashed by Croatian unions.

LABOUR RESISTANCE TO THE LABOUR LAW CHANGES

Croatian unions reacted sharply to the proposed changes in labour law. They were particularly upset that the World Bank, despite its public commitment to dialogue with civil society groups, felt no obligation to consult with trade unions about changes that would affect the life of every worker in Croatia. When the Bank, under the auspice of its 2001 structural adjustment loan, sought the "flexibilization of labour markets, trade unions did not know anything about it, nor did the government feel obliged to inform us about any of the agreements signed", Davor Juric, president of the UATAC, explained in a published interview in 2003.(95) He explained the unions' position in detail:

> With the new Labour Law the Government intends to completely flexibilize Croatian labour market. Alleged goals are: increasing competitiveness in economy and ensuring job creation. Institutes which are arguable in proposed amendments are: shortened dismissal notice periods from maximum 6 months to 3 months, reducing the right to severance pays in case a worker is being dismissed, and developing redundancy programmes…Trade unions are especially worried about the Government's intention to equalize fixed-term employment contracts with full-term ones. According to the Government's proposal, employer is not obliged to provide real grounds for the conclusion of fixed-term contracts. Therefore, fixed-term contract would not be an exception but rather depend on employer's decision.

The amendments, Juric concluded, "would mainly result in severely disrupted social security. Social differences will only become more obvious. Older workers will very easily lose their jobs and it will be even harder for them to find a new one". UATAC joined with the four other labour federations to organize an All-Trade Union Assembly to discuss the proposed changes and adopted a declaration "stating that the year 2003 is the year dedicated to fighting for workers' dignity". (96)

On January 13, 2003, the trade unions threatened to call a general strike if the government proceeded with its planned changes to the labour law. "The unions are determined in their opposition to the draft law to organize all forms of union actions, including the general strike", the heads of the five main unions declared in a joint statement. (97) Union leaders made clear their anger at the World Bank and the IMF. The labour reform is a "result of the pressures from the IMF", Boris Kunst of the Association of Workers' Trade Unions of Croatia said. "If the government proceeds with the amendments to the labour law", Kresimir Sever, president of the Independent Trade Unions of Croatia, told reporters, (98) "it will be a clear sign that it has distanced itself from Croatian workers".

Business analysts watched the developments closely. "The government is now under pressure from the International Monetary Fund to get the changes through as soon as possible, with parliamentary debate now scheduled for February, but the largest union organization is threatening a general strike", the World Markets Research Center reported. (99) "Although Croatia's unions have, to date, been weakened by divisions, their strength now seems to be on the increase, boosted by high unemployment levels and opposition to the government labour law plans".

In their joint statement, the five union groups underscored their unity around three key points: (100)

- Trade union confederations are opposed to changes to the Labour Law affecting any rights of the employed before independent labour judiciary is established, payment of guaranteed wages is secured, and adequate social security for all laid off workers is put in place.

- Trade union confederations reject the rationale whereby the fact that the unemployed and those working in the grey market enjoy no rights, is used as the justification for reducing workers' rights. Such positions degrade the longstanding struggle of workers and international institutions to establish the minimum labour standards and a humane labour system, in the attempt to shift the blame for inefficiency in dealing with unemployment and grey-area labour market from government to others.

- The sponsor of the bill failed to provide a single valid or objective indicator demonstrating the necessity of the proposed amendments to the Labour Law, making their claims of the expected effects of those amendments also quite doubtful.

The unions also expressed their disdain at the proposals to cancel parts of the law that listed specific conditions under which an employer could require a fixed-term contract for a worker. "A worker with fixed-term contract represents a second-rate citizen, since solving some of the basic existential needs is impossible for him/her, such as securing the housing and other loans, etc.", the unions said. "Moreover, workers under fixed-term contracts are cheaper to the employer; they are not unionized, and thus subjected to the 'grey economy' conditions (no limitation of working-hours, registered as minimum wage workers, with the balance of salary paid 'cash in hand', etc.)".

The statement was signed by Ivan Tomac, deputy president of the Union of Autonomous Trade Unions of Croatia; Zdenko Mucnja, president of the Croatian Trade Union Association; Boris Kunst, president of the Association of Workers' Trade Unions of Croatia; Kresimir Sever, president of the Independent Trade Unions of Croatia; and Dalimir Kuba, president of the Association of Croatian Public Services Unions.

The Croatian unions were supported in their struggle by trade unions abroad. On April 2, 2003, the ICFTU issued a statement expressing its "regret at the Croatian government's decision to again yield to IMF demands and the interests of international financial institutions". The amendment, the ICFTU said, "is designed to liberalize labour relations further still and reduce workers' rights, without ensuring in return that any social support will be given to those workers who lose their jobs. The proposed changes are directly linked to the Stand-by Arrangement that the Croatian government recently signed with the IMF". (101)

Union Network International (UNI) added its voice as well, saying, "the adoption of the proposed changes by the Parliament would, in our opinion, bring about substantial changes to employment contracts and industrial relations. This would increase the insecurity of the workers, against a background of an existing very high level of unemployment". (102)

SUCCESSFUL NEGOTIATIONS

To strengthen their case before the government, the five unions organized a national "trade union referendum" on June 16, 2003. Although the turnout was less than anticipated, the majority of workers who took part voted against the proposed changes in labour laws. (103) The unions also demanded an apology from the Croatian Minister of Labour, saying he had "misused his position, and using the Register of Croatian trade union locals, communicated a letter directly to shop stewards and union members, advertising the Government's policy in a way it was considered to be a direct interference in trade union issues and activities, [which was] a direct interference with [the] democratic trade union right to act autonomously in the sense formulated in ILO Convention 87 on Freedom of Association and Protection of Right to Organize, ratified by the Republic of Croatia in 1991". (104)

With workers and unions overwhelmingly in opposition, the government agreed to a dialogue and made deep concessions during negotiations with a team of labour leaders. Most importantly, the government accepted the trade unions' demand "to stipulate for fixed-term contracts to be an exception, not a rule, or rather, that fixed-term contracts may be concluded only if there are justified reasons for that". (105) The negotiations also produced the following:

- Longer payment periods for layoffs, from one to three months, depending on the years of service.

- Severance pay for each year of service was increased to one third of gross salary but not more than 6 gross wages.

- A provision allowing employers to dismiss a worker without any reason during the first six months of employment was erased.

- A provision was added so, in enterprises where there is no works council, a shop steward could take over all responsibilities otherwise belonging to a works council.

"In the end we have a middle solution", said Mucciacciaro of the UATAC. (106) "The Labour Law that we have now is not as bad as originally proposed by the Government".

CASE STUDY: ARGENTINA – REVERSING POSTAL SERVICE PRIVATIZATION

On November 19, 2003, the Government of Argentina issued a decree terminating a 20-year concession contract with the local Macri Group to operate Correo Argentino, the country's postal service. Speaking for the administration of President Nestor Kirchner, Cabinet secretary Alberto Fernandez told the press that the decision was made "to allow the postal service to recover the quality it has historically displayed and ensure that the state is no longer treated as a fool, allowing a few to profit while the state always loses". (107)

President Kirchner's decision to terminate the Macri contract was significant on two fronts. First, Argentina's post office was part of a wave of privatization contracts awarded during the administration of President Carlos Menem under his controversial agreements with the IMF and the World Bank, and therefore marked a sound repudiation of the IFIs' policy prescription for the country.

Second, the "quality" lost at the post office was not only due to the management failures of Macri but of the World Bank itself, which had a direct interest in the privatized company through its International Finance Corporation (IFC), which had invested in the company. By the Bank's own estimate, it was a key player in the country's privatization programme, which "was characterized by its scope, speed and breadth, as well as by the intensity of World Bank support". (108)

Indeed, when the IFC investment of $12 million in Correo Argentino was announced in 1998, the Bank described the postal project in effusive terms. "This is the first full privatization of a postal company in a deregulated market", the IFC said in its summary of the project. "IFC's presence will provide comfort to other lenders in this transaction and the success of this concession will provide a model for other countries planning some form of privatization of mail services". (109)

The re-nationalization of the postal service in 2003 took place two months after Argentina defaulted on a $2.9 billion payment to the IMF following its refusal to go along with IMF demands imposed as part of a massive debt repayment deal. That clash was the culmination of a bitter dispute between the Kirchner government, the IFIs and Argentina's international creditors that continues to this day. It was quickly followed by the cancellation, in January and June 2004, of two more Menem-era privatization agreements, one with France's Thales group for the country's radio-spectrum concession, the other with Metropolitano SA for a large share of the national railway system. The privatization of the water system was cancelled in the early summer of 2005.

Those moves were a warning shot to overseas investors. In the days after the announcement, Reuters reported that business leaders, both in Argentina and abroad, had "expressed concerns that Kirchner's hardball tactics with the private sector could dampen investment as Argentina's economy struggles to recover from last year's devastating economic crisis". (110)

In contrast to other countries studied in this report, however, the unravelling of Argentina's privatization schemes did not result directly from agitation by labour unions. In this sense, says Alan Cibilis, a Buenos Aires-based economist who has written widely on the confrontation between Argentina and the IMF, Argentina "is hugely different from Uruguay on the issue of privatizations. There has been no labour movement 'move' to de-privatize, nor were there referendums here on the matter". (111) The move to renationalize Correo Argentina, he added, was due to contract violations by the Macri Group and "not the result of strong lobbying by the popular movement". (112)

Jim Sauber, a US trade unionist with close ties to Argentina's postal workers' unions, agreed in principle with Cibilis. But as described below, he argues that the lack of organized opposition to the privatization of Correo Argentino was more of a reflection of the political divisions within Argentina's labour movement than a sign that the unions agreed with Menem's decision to privatize the service.

The large number of de-privatizations in Argentina in recent years and the rapid growth experienced by the

Argentine economy since the Kirchner government rejected the orthodoxy of the IFIs make the country a logical focus for a case study.

BACKGROUND: THE DISASTROUS 1990s AND THE UNREST OF 2000-2001

In 1989, following years of military dictatorship and corruption, Carlos Menem of the Peronist Party was elected president of Argentina. His government relied heavily – some would say almost entirely – on the IMF and World Bank for financial advice. Both institutions provided large loans linked to conditionality designed to reorient the economy around free market principles and open capital flows. Spending on social programmes, education, health care and physical infrastructure were drastically cut. The heart of the IFIs' programme, tied to their insistence on slashing government spending and reducing fiscal deficits, was privatization on a massive scale.

Backed by the IMF, the Menem government passed a "National Administrative Law" that gave the president the power to privatize public utilities by executive decree. According to the Heritage Foundation, a right-wing think-tank in Washington, D.C., "Between 1990 and 1994, the Menem government privatized the airlines, gas transportation and distribution, passenger and cargo railways, power generation and distribution, telecommunications, the postal service, and the water and sewage systems. It also sold oil and gas extraction facilities, coal mines, petrochemical plants, steel mills, and most public banks." (113)

As seen through Heritage's monetarist eyes, "This reduced government consumption through unproductive government industries that were operating at a loss, as well as inefficiency, by transferring state industries to the more productive private sector". Heritage also noted "Menem's administration liberalized the foreign investment code, eliminated price and exchange rate controls, and removed export taxes and import quotas. Deregulation reduced the cost of doing business and spurred investment, which resulted in greater economic output".

The World Bank took direct credit for these policies. "What makes the Argentine process different is not only its speed and scope, but the strong and detailed support of the World Bank", S. Shahid Husain, the Bank's regional vice president for Latin America and the Caribbean wrote in a preface to an official report about Argentina written in 1993. (114) In Argentina, Husain wrote, "The World Bank became not only a proponent of privatization but a close adviser to government officials. The Bank not only supported the process with four new (since 1990) privatization loans, it used a series of already-existing loans to assist the authorities charged with restructuring, closure, sale, or concession of public enterprises".

But the impact on jobs was "drastic", as described in a report released by a research consortium that included the World Bank:

> 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. The reductions ranged from 3 percent in telecoms to 72 percent in energy....Drastic employment cuts were also made in other sectors, including railways and steel. Low productivity and interference by labour 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. (115)

At the same time, job cuts were not the only problem confronting workers. As part of a wave of labour "reform" that accompanied the government's privatization drive, Argentina introduced laws that reduced sector-level collective bargaining in favour of company-level bargaining. This led the ICFTU and its Global Unions partner organizations to warn that "this measure, which was publicly endorsed by the IMF and the World Bank, (could) lead to many workers, especially in small and medium enterprises, no longer being protected by collective agreements". (116)

One of Argentina's first enterprises to be privatized was the country's water system, which by the late 1980s was so mismanaged and under-financed that up to 50 percent of the system's water was lost through broken pipes and 30 percent of the population of Buenos Aires had no access to water at all. (117) It was put up for sale in 1991, when the World Bank "funded and approved a team of private sector technical and financial consultants from the UK – the birthplace of water privatization under Margaret Thatcher – to advise on the future" of the Buenos Aires water system. (118)

In 1993 a French consortium made up of multinationals Vivendi and Suez won the water concession after promising a 27 percent cut in water rates. (119) At the time, the concession was one of the largest water privatizations in

the world, and included 9.3 million people in downtown Buenos Aires and its surrounding municipalities. As it did with the postal service, the IFC also purchased a five percent stake in the private water concession, becoming both an adviser to and investor in Argentina's privatization programme.

Other major state companies to face privatization during the Menem era included steel and rail. During the 1990s, the Argentine government took in over $23 billion through the sale or concessioning of state assets. By comparison, privatizations brought in $32 billion to Mexico and $71 billion to Brazil during the same period. (120)

POSTAL SERVICE CONCESSIONED

The postal service was privatized in 1997, when a 30-year contract was awarded to the Macri Group – the first such concession granted by the Menem government. The news was greeted enthusiastically in Washington. "The Argentine Government has announced privatization of the postal service, which already competes with several large private mail companies", the State Department reported in July 1997. "There are also plans to privatize many of Argentina's airports, including Ezeiza International Airport in Buenos Aires, by September 1997". (121)

By this time, according to one of the only comparative studies of postal service privatization, Correo Argentino "was characterized by under-investment, poor service, low productivity, political interference, limited management information and losses of over $150 million per annum. Overall, Correo was neither trusted nor respected by the people to the extent that a large number of Correo's urban post boxes were used as waste bins". (122) According to Sauber of the US National Association of Letter Carriers, in 1996 Argentina's postal unions released evidence showing that the number of pieces carried annually by the post office had dropped from nearly one billion in the early 1970s to 350 million – a two-thirds reduction.

Another factor in Correo's deterioration was the massive deregulation of postal services that had taken place under military rule. During that time, successive governments sold licenses for pieces of the postal service to favoured businessmen – many of them former generals. By 1994 some 300 private sector companies were servicing the market with a share of around 50 percent. (123) The most lucrative contracts were awarded for high-volume areas like Buenos Aires, while the low-profit routes were left to the remaining state-run part of the service. "It was classic cream-skimming", said Sauber. Service "got worse and worse". (124)

According to the Argentinean journalist Amaranta Wright, some of the corruption involved past members of Argentina's dirty war. Writing in the New Internationalist in 2003, (125) Wright noted that, in 1995, a former economic minister had "accused the country's leading entrepreneur, Alfredo Yabran, of hiring three ex-Navy intelligence officers as security chiefs for his murky business empire, which includes Argentina's private postal service".

In 1994, with the approval of the World Bank, President Menem liberalized the postal system by repealing the Correo Argentino's monopoly. This move came after many of the small concession holders banded together and pressured the government to formally lift the monopoly. The Bank viewed this move as an important step in its programme to support small and medium-sized enterprise in Argentina. "They loved the fact that all these private companies had been created", said Sauber. "They wanted to use Argentina as a test case to show you didn't need a monopoly" on postal services.

The next step in this process was full privatization, which was announced in 1997. After a tendering process, the prime contract was awarded to a group headed by Sociedad Macri S.A., one of Argentina's largest business groups, which offered to pay the state about $100 million annually for the next 20 years for the contract. The Macri group included Banco de Galicia, the largest private bank in Argentina, as well as Itron SA, and SIDECO, a construction company. The group was advised by the British Postal Consultancy Service (BPCS), a consulting branch of Britain's Royal Mail. Under the terms of the contract:

> Correo was to provide a basic universal service set at pre-concession levels. Tariffs for the provision of these services were also fixed at pre-concession levels (75 US cents), one of the most expensive in the world; although Correo was free to set prices for corporate services. The contractor was required to balance income and expenditure and to make a profit to be used for the self-financing of the business. The concession holder (was) further obliged to invest $250 million over the first ten years to revamp the dilapidated service and its outlets. It was also required to pay the government a cannon for the rights to the concession of $104 million per annum in two six monthly tranches. (126)

In 1999, the IFC and the Inter-American Development Bank provided a $258 million financing package to help modernize Correo Argentino. The deal included a $12 million equity investment in the concession. At the time, the IFC said that its “pioneering investment” would “help prove that the private sector can provide national postal services in a highly competitive environment” and is “likely to be a model for consideration in other countries”. The World Bank Group, it added, “stands ready to help”. (127) Correo Argentino promised to invest some $224 million in the company.

Correo also raised $120 million from the World Bank and other sources to fund what it called “voluntary retirements” and “assist departees in their transition to alternative employment”. (128) During this time, about 50 percent of the jobs at the postal service were eliminated, cutting employment from 28,000 to about 14,000. (129)

UNION RESPONSE TO PRIVATIZATION

As mentioned, Argentine unions did not publicly contest the privatization of the postal services. Part of the reason may lie in the complex politics of the Argentinean labour movement. Carlos Menem won the presidency in 1989 as the candidate of the Justicialista Party. He had the backing the country’s main union federation, the CGT. However, after Menem began the process of privatizing state-owned assets, important divisions developed within the CGT between pro- and anti-privatization factions. In 1992, part of the unions opposed to privatizations split from the CGT and formed a new centre called the CTA, composed mostly of public sector unions.

Sauber, the research director for the National Association of Letter Carriers, said that the initial privatization “fractured” the national postal workers union, leading the Buenos Aires division of the union to break away from the national union and form their own federation. (130) “In the early days (of the concession), the main union openly supported Menem, the Peronist president, while opposing privatization”, he said. “But it was not doing much to actually stop it despite pressure from the rank-and-file”. The divisions within the unions remained as the privatization went forward, he added. So “there was a sense that the contract should be revoked but there wasn’t a lot of agreement about what should happen after that”.

In fact, much larger factors were at work. The de-privatization of Correo Argentino can only be seen as the country’s response to the near-collapse of its economy.

THE ECONOMIC CRISIS

For a brief time in the mid-1990s, the IMF and World Bank free-market schemes seemed to be working. But the “good times” were built on “weak foundations”, the economist Arthur MacEwan wrote in a 2002 paper for the International Development Economics Associates, known as IDEA. (131) The growth “appears to have been in large part the result of an increasing accumulation of international debt, fortuitous expansion of foreign markets, and short-term injections of government revenues from the sales of state enterprises. Before the end of the decade, things began to fall apart” as Argentina fell into deep recession. Between 1998 and 2002, the country’s GDP shrank by 21 percent. (132)

As the economy deteriorated, the IMF kept pouring on the loans – nearly $40 billion by 2001. But the IMF, through its loans, demanded that the government continue its severe monetary policy and try to eliminate the budget deficit. As a result, wrote MacEwan:

> The Argentine government undertook deficit reduction with a vengeance. With the economy in a nosedive and tax revenues plummeting, the only way to balance the budget was to drastically cut government spending….With these cutbacks, the government both eviscerated social programmes and reduced overall demand. In mid-December, the government announced that it would cut the salaries of public employees by 20 percent and reduce pension payments. At the same time, as the worsening crisis raised fears that Argentina would abandon the currency board system and devalue the peso, the government moved to prevent people from trading their pesos for dollars by limiting bank withdrawals. These steps were the final straws, and in the week before Christmas, all hell broke loose. (133)

Trade unions responded to the economic crunch by organizing one of the largest strikes in the country’s recent history. Public sector workers initiated the strikes, but other workers and students soon joined them, interrupting transportation, public services, banks, hospitals, and government offices across the country. According to one report, “Aereolineas Argentinas, the national airlines, was shut down entirely by the walkout, as were trains, bus service and urban transport. An estimated 60 percent of the industrial sector was paralysed”. (134)

In December 2001, after President de la Rua froze more than $67 billion in deposits held in the country's banks, thousands of people flooded the streets; triggering rioting that lasted for days. That month, unions organized another general strike to protest the curbs on bank withdrawals, delayed pension payouts and other austerity measures. During the unrest, 27 people died in street protests; days later, de la Rua resigned, and was soon replaced by Peronist Senator Eduardo Duhalde. But the crisis continued, and the level of economic activity continued to shrink. In 2002, the unemployment rate topped 20 percent, and government statistics showed that half of Argentina's people were living below the poverty line of $3 a day. This, in a country that once had the highest standard of living in Latin America.

Rather than assist the government overcome the crisis, the IMF and its allies ratcheted up the pressure. According to a statement presented to the IMF and World Bank from ICFTU and its Global Unions partner organizations,

> The IFIs not only cut Argentina off from further lending because it no longer abided by the conditions that had led to economic collapse, but obliged the country to make debt payments for a total of over $12 billion. And rather than assist the government in difficult negotiations with private creditors and owners of privatized utilities, the IMF overtly took position in favour of the private claimants, denouncing the government for being "not constructive" in negotiations with creditors (even though a large majority accepted Argentina's debt restructuring proposal), and pushing the government to give in to private utility owners, who made claims of doubtful legitimacy such as obliging customers to pay rates in US dollars. (135)

In November 2002, Argentina defaulted on its $155 billion foreign debt in the largest such default in history. In the midst of the crisis, Nestor Kirchner, the governor of Santa Cruz province and a former member of a left-wing Peronist party, was elected president, taking office in May 2003.

KIRCHNER'S CONFRONTATION WITH THE IFIs

From the start, President Kirchner rebuffed the economic orthodoxy of the IMF and World Bank. He made his first move in August 2003, when he rejected three IMF demands made during the Fund's negotiations with the government over its debt to the IMF and the World Bank, and on September 9 defaulted on Argentina's $2.9 billion debt to the IMF.

The IMF had demanded that Argentina generate a 4.5 percent of GDP fiscal surplus by 2004 and even larger surpluses in 2005 and 2006; a timeline for increasing rates for privatized utilities, whose owners were demanding such hikes; and capital payments from Argentina on its IMF debt. "Marking a strong departure from his predecessors, (Kirchner) refused to accept these IMF demands, arguing that he would not sign an agreement that he could not comply with", Alan Cibilis reported. (136)

At the same time, Kirschner refused the IMF's pressures to satisfy the immediate demands for repayment by international bondholders and "chose to stimulate internal consumption first and told creditors to get in line with everyone else". (137) He also sought to create new jobs through a "low-paying government make-work programme". As a result of these policies, the economy began to grow, and by December 2004, the New York Times was proclaiming that Argentina had turned an historical corner by "defying economic and political orthodoxy". Three years after declaring a record debt default of more than $100 billion, the Times' Larry Rohter wrote, "the apocalypse has not arrived".

> Instead, the economy has grown by 8 percent for two consecutive years, exports have zoomed, the currency is stable, investors are gradually returning and unemployment has eased from record highs — all without a debt settlement or the standard measures required by the International Monetary Fund for its approval…. More than two million jobs have been created since the depths of the crisis early in 2002, and according to official figures, inflation-adjusted income has also bounced back, returning almost to the level of the late 1990's…Some of the new jobs are from a low-paying government make-work programme, but nearly half are in the private sector. As a result, unemployment has declined from more than 20 percent to about 13 percent, and the number of Argentines living below the poverty line has fallen by nearly 10 points from the record high of 53.4 percent early in 2002. (138)

The cancellation of Macri's post office concession reflected the government's new line toward private investors in state-owned companies. As Cibilis points out, however, the differences between the government and Group Macri centred on their 1997 contract and were not linked in any way to specific labour demands about the postal serv-

ice. In 2001, for example, the government imposed new anti-monopoly regulations on the postal sector after Macri tried unsuccessfully to sell part of Correo Argentino to the Exxel Group, which owned a smaller private postal operator called OCA. (139)

According to Macri, "the new regulations will lead to inequalities between itself and other operators as it has to provide a universal service, whereas new operators can choose where they operate and will therefore choose the most profitable areas, where there is a high population density". (140) Macri also denied that its planned merger would lead to a monopoly because "there is no possibility of the both companies fixing the prices of the products or services which they offer", (141) adding that the government set the maximum price that Macri was allowed to charge for postage stamps. At the time, the two companies controlled about 70 percent of the Argentine postal service market.

President Kirchner's decision to rescind the Macri contract was announced on 20 November 2003, through two decrees. The president rejected "all allegations, complaints, petitions and administrative appeals lodged by the company in an attempt to justify the breaches incurred and [was] rescinding the contract 'at the fault of the concession holder,'" Telam News Agency reported. (142)

Alberto Fernandez, the minister of federal planning, stressed that "the government's objective is to be as good as its word", because public services were "a task for the state that cannot be delegated, and that is why we aim to ensure that the concession holders fulfill all the commitments they undertook, and we shall do everything possible to ensure that this is the case". (143) He said a new administrative body had been appointed to run the post office chaired by National Deputy Eduardo Di Cola, and stated that "it is not the government's intention to keep public services in the hands of the state but to hand them out in concession again". He added that Di Cola's management would "guarantee a new concession surrounded with the greatest transparency and the highest technical quality". By January 2004, the postal services of New Zealand, Canada and Germany, along with several local companies, had expressed interest in the concession. (144)

But that was not to be. On February 12, 2005, the government rejected any possibilities for re-privatization and announced that, during its first year as a nationalized company, Correo Argentino had posted gross profits of $34 million, an 83 percent increase from the year before. (145) What the World Bank had proudly called the world's first fully privatized postal service was now securely in government hands. The move was strongly backed by the postal workers' unions, said Sauber. "There was strong agreement by the unions to revoke the contract and seek damages and recover money the government had paid to Macri", he said.

Two years later, after private investors and the IMF had clashed repeatedly with Argentina over a government cap on utility rates, major international business publications were warning that Kirchner's de-privatization moves and his anti-globalization rhetoric had "converged to seriously damage Argentina's reputation as a foreign investment destination". (146) In June 2005, the IMF itself added its voice, issuing a statement from its directors noting "the situation in the regulated utilities sector is not sustainable". Failure to resolve "outstanding issues", the directors added, "would have damaging consequences for macroeconomic stability, the investment climate, and future growth". (147) Despite their vociferous championing of the privatization, however, neither the World Bank nor the IMF has analyzed why the experiment failed.

Ironically, the United States, the country exercising the greatest number of votes within IFIs, has firmly rejected the idea of privatizing its own post office. In 2003, the same year that Kirchner brought his service back into government hands; President George W. Bush appointed a commission to study the future of the US Postal Service. In its recommendations, the commission argued firmly in favour of public ownership.

> Some have suggested that for the Postal Service to best act like a business, perhaps it should become a business. The Commission believes an abrupt privatization of the Postal Service is far too risky and would unnecessarily destabilize universal mail service. The Postal Service delivers more than 200 billion pieces of mail per year across the vast geographic expanse of the United States. Privatization of a commercial entity the size of the Postal Service could seriously disrupt both mail service and the private postal marketplace. It is highly unlikely that the private sector, acting alone, could provide the universal mail services we have come to expect from the Postal Service. For the Postal Service itself, privatization would likely involve a decade or more of wrenching organizational changes that could undercut the stability and continuity that are the hallmarks of public postal service. (148)

"This is the most neo-liberal government you can find, but when it comes to looking at the post office in this country, it's pretty conservative", noted Sauber. Largely as a result of its experience with Argentina, he added, the World Bank has "backed off big projects like this". The experience with Correo Argentino "really chastened the World Bank".

CASE STUDY: INDONESIA – RESISTING RESTRUCTURING IN THE POWER SECTOR

On December 15, 2004, Indonesia's Constitutional Court handed down a landmark decision that caused shock waves in the global energy business community and among the IFIs that had largely taken charge of Indonesia's economic future after the Asian economic crisis of 1997. By a unanimous vote, the court struck down a 2002 law, passed at the behest of the IMF and the World Bank, which had privatized the country's electrical system and directed the sale to private investors of power plants, transmission lines and other key components of Indonesia's electrical grid. Law No. 20/2002 was part of an agreement imposed by the World Bank in a $242.6 million loan granted to the Government of Indonesia in October 2003. (149)

The law "is not legally binding", the chief judge ruled. "Only state companies are allowed to manage electricity, while national or foreign private firms can only participate if invited by the state company". (150)

The decision was a significant victory for Indonesia's labour movement, particularly the union representing workers at PT Perusahaan Listrik Negara (PLN), Indonesia's state-owned electricity company. The PLN union, which was established in 1999 and is affiliated with Public Services International (PSI), had filed a lawsuit against Law 20/2002 and worked with civil society groups to generate public support for maintaining PLN as a national, publicly owned asset.

"We applaud the judges for their integrity and independence". Ahmad Daryoko, the union chairman, declared after the decision. (151) "The judges were under a lot of political pressure from government, from the World Bank and from the foreign corporations who want to take profits from our electricity system. Even the foreign embassies have been advocating privatization". Daryoko suggested that the multinationals and the World Bank "closely review this decision and the background analysis that informed the court's review and cease imposing dysfunctional privatization policies on our country".

This chapter will focus on the campaign behind the Indonesian court's decision to reject electric utility privatization. Although the final results of the campaign have been mixed, it provides important lessons for labour activists around the world and for the IFIs as well.

BACKGROUND: THE ASIAN FINANCIAL CRISIS

Indonesia's electric utility, PLN, was established in 1953, when the Indonesian government nationalized its electric power sector. (152) In 1992, however, President Suharto "decreed that the private sector could again participate in the generation, transmission and distribution of electricity". (153) Under the encouragement of the World Bank, private investors became involved primarily as Independent Power Producers (IPPs) that sold electricity to PLN. Around that time, the Bank sponsored a study on restructuring Indonesia's power sector that "demonstrated the need for unbundling the generation, transmission and distribution functions of PLN" and suggested that the utility "be broken up into smaller units more suited to privatization". (154) These proposals were later incorporated into the 2002 law introduced by President Megawati Soekarnoputri.

By 1997, PLN had signed 15 Power Purchase Agreements (PPAs) and 11 energy sales contracts with IPPs for the purchase of some 11,000 megawatts of power from new privately owned power projects. But these contracts, negotiated and signed under the crony capitalist system in Suharto's Indonesia, became extremely costly for PLN for all of Indonesia. According to a study of Indonesia's power system by PSI's Research Unit:

> The IPPs were negotiated with cronies of the Suharto government, and as a result of the non-transparent and, according to many sources, corrupt, way in which the agreements were reached, provided for 50 per-cent more capacity than Indonesia actually needed. The IPPs were supported by a total of 27 PPAs, under which PLN undertook to purchase 80 per cent of plant capacity for a minimum of thirty years, at prices well in excess of PLN's selling price. The currency collapse of 1998 made these prices utterly unaffordable for PLN, which was faced with bankruptcy unless it could cancel or renegotiate the agreements to reduce the cost of electricity. (155)

But pressure from the companies, their governments as well as the lending agencies, made it impossible for the Indonesian government to terminate agreements that had been signed during the Suharto period, which was marked by massive repression as well as corruption. As the PSIRU report notes:

> PLN's failure to cancel the agreements was the result of resistance by the multinationals involved in the IPPs, supported by their governments and multilateral agencies. A corruption trial of USA multinational Edison over an agreement with Suharto cronies was dropped, partly at the request of the USA ambassador, while the multinationals pursued claims for breach of contract, including MidAmerican Energy, who won US$573 million at arbitration, and Florida Power and Light who won $241million. The companies also collected compensation from 'political risk' insurance: the World Bank's insurance agency, MIGA, paid $15 million to Enron on account of a power project that was cancelled, although even MIGA accepted that to proceed with the project was not a viable policy option…MIGA then insisted that the Indonesian authorities had to reimburse them the $15 million, and as an incentive, MIGA refused to issue any more coverage for business in Indonesia until the money was paid. (156)

Partly as a result of this outside pressure, in 1998 PLN was facing bankruptcy. By this time the Asian economic crisis, sparked by a massive run on Asian currencies by Western lenders and investors, was in full swing.

The power sector "reforms" implemented in 2002 were part of a policy package introduced by the IMF and World Bank during the crisis, and were designed to pull PLN out of bankruptcy by accelerating its privatization. IFI and government bureaucrats sought "to break government ownership of the electricity power company, introduce a competitive market model, as well as to revitalize private investment in the power sector", according to Indah Budiarti, PSI's Coordinator in Indonesia (157) The IMF and the World Bank used their $46 billion bailout package for Indonesia as leverage to encourage the government to accelerate privatization in all sectors of the economy and specifically expand "the role of the private sector in the provision of infrastructure". (158)

These policies, wrote Fabby Tumiwa, the coordinator for the NGO Working Group on Power Sector Restructuring, were "like a bitter pill" that had to be swallowed by Indonesia. The IMF "insisted that state-owned companies operating in the energy sector, PT PLN (electric power) and Pertamina (oil and gas) as well as telecommunications, PT Telkom and PT Indosat, should be immediately privatized for filling (the) fiscal deficit at that time". (159) At the same time, the government cut public subsidies on electricity, oil and gas, thus raising electricity rates paid by consumers and the poor.

At the time of the IMF agreements, PSIRU researchers David Hall and Robin de la Motte commented in a report about privatization and conditionality for War on Want, "the Government was still under the control of the dictator Suharto – but the IMF and World Bank had no qualms about imposing a wide range of structural conditions that had little bearing on the issue at hand – currency stabilization". (160)

In 1999, the Indonesian government spelled out its plans for the power sector in a detailed Letter of Intent to the IMF that included a promise to pass a new law governing the state-owned PLN:

> The Government intends to restructure the power sector to improve efficiency and reduce the fiscal burden. With the support of the World Bank and ADB (Asia Development Bank), the government will (i) establish the legal and regulatory framework to create a competitive electricity market; (ii) restructure the organization of PLN; (iii) adjust electricity tariffs; and (iv) rationalize power purchases from private sector power projects. The government has commenced renegotiations with independent power producers; will initiate the organizational restructuring of PLN by June 1999; and will enact a new Electricity Law by December 1999. (161)

The government's reform plans for its electric utility were further spelled out in the details of the World Bank's $242.6 million loan to Indonesia, which included $141 million for a "Java Bali Power Sector Restructuring and Strengthening Project". According to the Project Data sheet available at the World Bank's website, the primary objective of the loan is to help the government "gradually phase out subsidies" and augment "the Government's ability to improve public acceptance of the need for fuel price increases and changes (to) lay the foundation for a commercially viable, financially independent and operationally secure and efficient power sector". (162) In other words, the Bank was lending money in part to help the government manage a propaganda campaign supporting privatization and defending the ending of subsidies.

Inside the Indonesian government, the process for privatizing PLN began when the Minister of Mining and Energy, Kuntoro Mangkusubroto, convened a series of meetings with key stakeholders in the electricity sector. They includ-

ed business people as well as staff from the ADB and the World Bank. Working behind closed doors, they wrote a White Paper that became the blueprint for energy restructuring. The process was similar to the energy policy developed in the United States during the first term of President George W. Bush, when Vice President Dick Cheney chaired an energy task force that included private industry but excluded important NGOs and trade unions. (163)

"The formulation of (the White Paper) was conducted in a brief period of time", recalled Tumiwa in his report on the electricity law. (164) "It took only about 20 days since it was first formulated in August (1998). There is a general impression that Kuntoro and some of his colleagues formulated the restructuring policy in a closed and confidential manner". In a footnote, Tumiwa said his organization has confirmed that the White Paper was in fact "drafted by ADB staff or its consultants".

The policy objectives enunciated in the White Paper included four objectives: financial recovery of the Indonesian electricity sector; introducing competition; increasing transparency; and introducing the role of the private sector. The restructuring included six aspects, namely:

- Restructuring of industries by unbundling of the state electricity company;
- Implementing competition;
- Determining tariffs, cost recovery, and subsidies;
- Rationalizing and expanding private participation;
- Redefining the role of the government; and
- Strengthening legal frameworks and regulations. (165)

The key policy recommendation, according to Tumiwa, was "to separate the Java-Bali power system from (the) system, and unbundling the PLN into seven business units/segments, privatize it and impose full market competition". (166) The islands of Java and Bali, Tumiwa noted, are home to "the most dense population in the Indonesia and the system accounts for more than 75 percent of energy sales and generates more than 80 percent of revenues for PLN. The government argued that in the paper that Java-Bali area is matured enough to carry on electricity market competition".

To put these policies into motion and provide a legal basis for the restructuring and privatization, the Indonesian government decided to write a new electricity law and replace the old one, passed in 1985. This finally occurred after Megawati replaced former President Abdurrahman Wahid in 2002. During Wahid's term, said Tumiwa, "the electricity reform agenda was postponed, but after Megawati took place as President in 2000 and the relationship with IMF renewed, the reform proposal continued". (167)

The law, which Reuters said was "aimed at injecting competition and to encourage much-needed investment" in the electricity sector, (168) was passed in September, 2002, and endorsed by President Megawati as Electricity Law No. 20/2002 a month later. It mandated the "unbundling" of the state-owned electricity company, PT PLN, divided it into seven business groups, and allowed the privatization of the company, beginning with "competition in (the) generation side, then in generation and retail (full competition) within five years". (169) Core businesses to be spun off to the private sector included "power plants, power transmission, power distribution, power sales, power sales agents, management of the power market, and power system". (170)

To the PLN union, however, the law illustrated "the dogmatic thinking on privatization and competitive market approach" (171) The fight had just begun.

THE LEGAL STRUGGLE AGAINST THE ELECTRICITY LAW

The fight against Electricity Law No.20/2002 was led by a coalition composed of the PLN Union and the Working Group on Power Sector Restructuring, also known as WG-PSR. The PLN Union was established in 1999 after separating from the KORPRI, or Republic of Indonesia Civil Servants Corps, and has a membership of 48,000 spread all around Indonesia. Members of WG-PSR included Indonesian Corruption Watch, Public Interest Research & Advocacy Center, Debtwatch, Institute for Global Justice, and other groups.

"Since the beginning, the union (was) struggling for the anti-privatization campaign", said Indah Budiarti, PSI's Coordinator in Indonesia, in an interview. In November 2003, the union threatened to strike if the government went ahead with its plans to sell PLN's core businesses, arguing that such sales "would burden the public with skyrocketing power rates". (172) Once the union decided to launch a legal challenge to the law, it asked its Global Union Federation, the PSI, to send an expert witness. David Hall, the Director of Public Service International Research Unit (PSIRU) of the University of Greenwich in London, came to Indonesia during the legal hearings. He testified before the constitutional court about the history of electrical privatization in England and other countries, and met with PLN union leaders. (173)

WG-PSR, said Fabby Tumiwa, provided assistance to civil society groups and collaborated with the PLN union to intervene when the parliament was considering the bill. "This group carried out intensive [lobbying] on the government and parliament members and placed pressure on the parliament not to finalize the bill under such a short time frame. WG-PSR also organized a number of seminar and public discussion regarding the issue of power sector reform". (174) Moreover, "In the process of judicial review, (WG-PSR) provided technical assistance to the trade union in privatization of electricity (global trends, political economy and techno-economics analysis)" as well as advice on conducting campaigns and "effective advocacy". Tumiwa also served as a consultant to the union on the anti-privatization project. (175) WG-PSR's approach to the new law was outlined in Tumiwa's account of the legal fight:

> From the beginning, WGPSR has argued that the power sector restructuring is a donor driven programme that has been inappropriately imposed on the Indonesian government. This programme was a conditionality of assistance provided by IFIs due to the economic crises in 1997. Restructuring the electricity sector as proposed by the IFIs, in particular ADB and World Bank is a mismatch[ed] agenda for a country like Indonesia and is not a solution to tackle the crisis in the power sector. According to WGPSR the restructuring, that has been advocating by a number of multilateral development banks since nineties, is a one size fits all models that has been failing in many countries, including in the country that the restructuring was initiated, which are United Kingdom and US. (176)

After extensive discussions within the coalition, the union and WGPSR "concluded that the power sector restructuring programme that reflected in the Law has conflicted with the Indonesian Constitution", as promulgated in 1945, and set out to seek a judicial challenge through the Constitutional Court. Tumiwa picks up the story:

It took almost two months to prepare the lawsuit document for the judicial review process on the law. By late December 2004, almost two months after the law was passed, the lawsuit was brought forth to the Supreme Court by a number of NGOs to register as the judicial review request to the Constitutional Court of Republic of Indonesia. Indeed the lawsuit against Electricity Law No. 20/2002 was the first case in Indonesia's history of Constitutional Court. This effort inspired a number of civil society groups to bring judicial review lawsuits on a number of laws that were considered inconsistent with or opposed Indonesia constitution….

> [The] parties argued that the Electricity Law that promotes deregulation, liberalization and privatization of the Indonesian power sector through power sector restructuring programmes was enacted under IFIs pressure and conditionality. As donor-driven programmes, power sector reform programmes might fail to address the underlying problems of the electricity sector in Indonesia and fail to meet public needs in the long run. The trade union emphasized the restructuring programme as neo-imperialism and capitalism of developed countries through the IFIs. More substantively, these parties opposed the unbundling of PLN's generation, transmission and distribution operation provided in 2002, essentially opposing the privatization of PLN as implicated in the law. These parties argued that unbundling the system would result in higher electricity prices for the consumers, diminishing the ability of the government to carry out its electrification development programme outside the Java and Bali area, limiting the public access to electricity services, particularly in remote areas and threatening national integration. For the Union in particular, power sector reforms will end up with the reduction of workforce in the PLN while the company is being privatized, as has already occurred in many countries that have experienced privatization of its state owned electricity company. According to these parties the unbundling and privatization of electricity services definitely violate article 33 of the Indonesian constitution which states: "[Economics] production sectors which are important for the state and have an impact on the welfare of the people are controlled by the state and must be utilized for the maximum welfare of the [Indonesian] people". Therefore, according to these groups, the electricity law must be revoked by the court. (177)

As mentioned, David Hall of PSIRU presented testimony to the court about the failure of power privatization in the UK. His testimony, said Tumiwa, was "highly appreciated by the court since it brought forth fresh and significant evidence of failure of power privatization from other [countries] and provided the judges "better understanding of the future implication while the law is being implemented". (178) In another precedent, Hall was the first foreign expert to testify before the constitutional court.

During the judicial review, according to Tumiwa, WGPSR also organized public seminars about power privatization and provided key information to journalists about the impact of what a "so-called deregulated electricity market" would do to electricity prices. (179) In addition, the court invited three government ministers and pro-privatization experts to testify and defend the law. Six hearings were conducted over a period of one year.

On December 15, 2004, the court issued its ruling in favour of the union and the WB-PSR. Its decision affirmed the union and NGO argument that electricity must be controlled by the state and that the provision of electricity by the state is a constitutional mandate. (180) The key points of this stunning decision, as summarized by Tumiwa in his paper, were as follows:

- The state must have an important and significant role in regards to govern, regulate and supervise the operation of entire power sector to ensure it runs well and is able to accomplish the state's objective and interests as mandated in the constitution.

- The government must ensure the accessibility and affordability of electricity for the Indonesian people through the establishment and operation of the state-owned electricity company.

- Unbundling and privatization around the world has mostly failed to ensure the reliability, sustainability and accessibility to the poor. In the middle or long-term privatization of power services becomes a burden for the country's economy.

- The unbundling of the electricity system and imposing competitive market as proposed at the Law will not benefit the Indonesian people, the economy and in the long term will create economic rents thereby increasing the tariff.

The court's declaration that electric power should be controlled by the state was greeted with elation by the union/NGO coalition that filed the legal case. "The Indonesian civil society proved in front of the court that the power privatization will not benefit the Indonesian people", wrote Tumiwa.

The coalition was also grateful that the court had not succumbed to the considerable pressure exerted by the government of Indonesia and the private sector. "At the end, we all knew that the Constitutional Court has maintained its independence and has bravery to make such a controversial decision against the interest of government", Tumiwa continued. "It is our hope that our little achievement will be inspiring and strengthen civil society movements around the world that fight for justice, equality and economic sovereignty for their country and their people". (181)

In an interview, Indah Budiarti cautioned that the "annulment of the law does not mean that the privatization of power services agenda has finished". Currently, he said, the government is trying to enact a new law that will "make private investment" in PLN "more certain" and pursue the "vertical unbundling" of the state electricity company. The first steps in this process, Budiarti said, will be the initial public offerings for two PLN subsidiaries, PT Indonesia Power and PT PJB. The IPOs, he added, "can be considered as partial privatization of the state power company". Inside the company, he added, the union continues to face difficulties, including "union busting and a campaign against the union by management", a refusal by management to negotiate and other forms of intimidation. Still, he believes that the campaign against privatization reflected a "remarkable action" on the part of the unions and the NGOs involved.

CASE STUDY: TANZANIA – OVERTURNING A FAILING PRIVATIZATION

On May 17, 2005, the Government of Tanzania terminated a 10-year contract with City Water, a private consortium led by the UK water company Biwater, for the provision of water and sewage services for the country's capital, Dar es Salaam. Edward Lowass, the minister for water and livestock development, told reporters that the revocation was made for "poor performance" and followed "persistent complaints by city residents over incompetence of the firm. (182) City Water, he added, had failed to improve the city's water system and had failed "to contribute to the fund that was intended to supply water to the low income people". (183) The government later said City Water should have invested $8.5 million during the first two years of its contract, but had only invested $4.1 million.

A new public firm, Dar es Salaam Water and Sewerage Corporation, was formed to take over from City Water. The union representing City Water's workers, the Tanzania Union of Industrial and Commercial Workers, had not been consulted by the government or the World Bank about the privatization, and supported the government's decision to suspend the private contract. (184) The reason behind the government's decision to break the DAWASA contract, said Hassan Raha,the assistant general secretary of the Trade Union Congress of Tanzania (TUCTA), was "broken promises [and] lack of investment, equipment and practical knowledge and experience on water ventures." (185)

Tanzania's decision represented the failure of Biwater and its German and Tanzanian partners to meet the city's water needs. It was also a repudiation of the World Bank and the IMF, which had been pressing Tanzania for more than five years to privatize the semi-autonomous Dar es Salaam Water and Sewerage Authority (DAWASA). The IMF had demanded the privatization of DAWASA as a condition to include Tanzania in the enhanced Heavily Indebted Poor Countries (HIPC) initiative. In other words, as part of its price to win significant debt relief under HIPC, Tanzania was required to sell off its water system to outside investors.

BACKGROUND: IFI PRESSURE ON TANZANIA TO PRIVATIZE

Tanzania began to shift away from its economic guiding principles of socialism and self-reliance in the early 1980s. Its donors began pressing the country to privatize its many state-run enterprises at that time. In 1999, the World Bank applauded the country's new market-oriented approach in a document outlining Tanzania's acceptance of a $42.6 million loan designed to speed up its privatization programme and support private sector development. (186) According to the Bank,

During 1994-1998, Tanzania divested about 270 public enterprises (PEs). These included mainly small-medium PEs in tradable goods sectors, but also a number of large PEs (e.g., brewery, cigarette factory)…In late 1996 the Government of Tanzania (GOT) decided to expand the privatization programme to divest all major utility and infrastructure (water, telecommunications, ports, railways, electricity) banking, agriculture and mining PEs. The GOT's stated aim is to divest all of these enterprises by the end of 2000.

To implement these mass privatizations, Tanzania established the Parastatal Sector Reform Commission and pledged to adopt "clear, consistent overall policies for the treatment of PE debt and for the retrenchment of PE employees".

The Bank, however, was sceptical that the government had the political will to carry out the programme. The privatization plan, the Bank said, "entails significant risks":

> President Mkapa is personally providing strong leadership to accelerate the pace of change, but within the ruling political party (the CCM) there seems only modest evidence of consensus on the current reform efforts. The planned divestitures of major infrastructure and utility PEs over the next 3-4 years involve significant policy and regulatory issues of a nature which is unfamiliar to Tanzania, and for which technical and managerial capacity is very limited. (187)

The Bank concluded, "There is a high risk that inadequate government commitment to necessary reforms…may constrain private, including foreign, investment". In IFI parlance, the Bank seemed to be saying that any problems with privatization would be the fault of the government, and not the IFIs or the private investors involved.

To build public support within Tanzania for the privatization programme, the Bank extended a loan of $45.9 million in November 1999. The project appraisal document for this loan identified that privatization of DAWASA as a key element of the country's private sector programme, along with privatization of telecommunications services,

container terminals, marine services, power generation and other agencies. The Bank pledged to "assist in the restructuring and privatization (through lease-contract) of [DAWASA], including industry structure, preparation of contracts, tariff and sector regulations, and priority rehabilitation investments". (188)

A key part of the technical support funded by the Bank was "a programme of extensive public education and awareness-raising", to be "carried out among the range of concerned stakeholder groups – notably including opinion-makers such as journalists in the Swahili press". Project money also went to support "a dialogue between the government and the private sector…aimed at helping define key policy, regulatory and institutional reforms for improving the business environment for private investment and FDI".

The Bank expressed its concern about Tanzania's image among global investors, and stressed the importance of the government "taking steps to regularize its procedures and ensure equal treatment for investors over time, thereby reducing investors' perceptions of country risk. In addition, Tanzania needs to promote a much improved, investor friendly image abroad". To this end, the Bank recommended that the government contract with "competitively selected, qualified and experienced international investment advisers".

Also buried in this document were rules for labour union input and layoffs. According to the Bank, prior to 1999 "labour had not been formally represented" in the governments privatization programme. By 1999, however, "the president of the Tanzanian Federation of Trade Unions as well as a former principal secretary of labour sits on the PSRC commission". Labour, it added, "was consulted extensively in the preparation of the new retrenchment remuneration guidelines". However, the Bank also noted that the current system of retrenchment payments was "ad hoc and has led to widely varying" payments "which do not reflect economic and social costs". (As noted below, however, the unions were *not* consulted when it came to the privatization of water.)

Significantly, the Bank pointed out that enterprises "with liquidity and stronger unions" have paid far larger severance payments beyond the statutory minimum set by the government; payments have ranged from $8,000 to $14,000. This disparity "had led to social unrest and resistance" by some labour unions to "the retrenchment, which is needed for the restructuring and privatization of many public enterprises". When large enterprises were privatized, the Bank warned, "The cost of retrenchment payments, if paid at the upper end of the above spectrum, could result in a high – and potentially unsustainable – fiscal cost". (189) Thus, part of the $45.9 million loan went to a commission to review retrenchment costs. Labour unions were included in these discussions, the Bank said.

In 1999, the IMF added the privatization of DAWASA to its conditionality for financial support for Tanzania. In Tanzania's July 13, 1999 Letter of Intent to the IMF, the government – while noting that "the privatization of the large utilities is a complex process" - promised to complete its consultations with potential bidders for the water utility by the end of July, 1999, and to finalize an agreement by November. "Meanwhile, preparation for the divestiture of other key parastatals continue", the letter added. (190) About six months later, the IMF added the privatization of DAWASA to its conditions for granting Tanzania debt relief under the HIPC initiative. Among the policy reforms pledged by Tanzania were "improvement of utility performance" and the "signing of (a) concession agreement assigning assets of DAWAS to private management companies". (191)

Tanzania issued its first solicitation for private sector participation in DAWASA in 1997, according to an official history of the privatization process posted on the reform commission's website. (192) But no agreement was signed for several years, "largely because no bidder was prepared to take on the risks and invest the money that the project required". (193) With no agreement in sight 2000, Tanzania had not fulfilled the terms of its HIPC agreement, "but Tanzania's creditors granted a waiver and provided debt relief anyway". (194) But this did not mean the IFIs were letting up on the pressure. As summarized by ActionAid International in a comprehensive report on water privatization in Tanzania:

> Conditions relating to the signing of a concession agreement disappeared from project and programme documents, but a watered down form of privatization – a lease contract – was pushed instead through the $143 million Dar es Salaam Water Supply and Sanitation Project (DWSSP), which includes as a subcomponent the signing of a lease contract with a private operating company. This project lending may differ from traditional programmatic conditionality, but it remains a form of conditionality: Money was needed in the water sector and it was clear to the government that the World Bank in particular would only have lent money for a project involving private sector participation. The cash strapped
> Tanzanian government, faced with a failing water system, had little choice but to accept money under the Bank's terms. (195)

This was where the public relations aspect of the World Bank-IMF project came into play. When the World Bank provided a $25.2 million loan to Tanzania in 1999, $1.3 million was earmarked for the Adam Smith Institute in the United Kingdom. It is a free-market think tank that, according to its website, "has considerable experience in assisting governments to develop and articulate a clear policy framework for private sector participation". (196) According to the think-tank, it has provided privatization support to numerous countries, including India, South Africa, Botswana, Iraq, Rwanda, Guyana, Nepal and Macedonia, and "was the lead communications adviser to the Presidential Parastatal Reform Commission" in Tanzania. Part of its work for Tanzania, it boasts, was production of "the world's first privatization rap-video", which it notes "was made in 2002 for the Government of Tanzania with World Bank assistance".

HOW THE WATER CONCESSION WAS AWARDED

DAWASA was created in 1981 as a semi-autonomous public corporation, and is responsible for supplying water and sewage services in the greater Dar es Salaam area and parts of the coastal region. It operates over 800 kilometres of water transmission lines. (197) By all accounts, DAWASA has not been a model utility, and was marked by "disrepair, a lack of investment, high levels of wastage and very poor levels of service coverage". (198) In 1991, the government developed a new water policy and removed subsidies for water utilities, with the goal that they would "eventually become self-financing". (199) By 2003, however, the system was in crisis, as described by ActionAid:

> The water system had failed to keep up with population growth in the city, and by 2003 only 98,000 households in a city of 2.5 million people had a direct water connection. Only 26 percent of water was being billed, 60 percent was lost through leaks, and a further 13 percent through unauthorised use, illegal taps and non-payers. Even those with connections only received water irregularly, and the water quality was poor. In low income areas, the vast majority of households had no water connection at all, relying instead on buying water from kiosks, water vendors or their neighbours, at more than three times the price. (200)

In fact, service was so bad that, by the government's own admission, small private companies delivered much of the city's water. According to the Presidential Parastatal Reform Commission, "Private vehicles carrying water containers are a common sight in the city, as people transport water to their homes. A feature of life in the city is the number of water vendors providing a valuable service to the people by transporting water to their premises in custom built carts carrying 20 litre containers". (201) (As if to underscore the government's embarrassment about these conditions, the next sentence on this page is an admonition, apparently from a government bureaucrat: "Why are we giving this information? I do not think it serves much purpose as far as DAWASA is concerned. I would suggest that it be deleted".)

By 1997, the government had decided to invite private sector participation in DAWASA through a 10-year lease. Under the contract, the reform commission stated, "DAWASA will be responsible for the vast majority of the capital investment programme, the immediate requirement is estimated at US $120 million". The first bidding process took place in 1997, and bids from four companies were evaluated. None were accepted, and in May 1999 the commission invited two more companies to participate, United Water and Thames Water of the UK. They declined to bid, and one company, Northumbria, withdrew from the transaction. That left three companies in the running – Biwater PLC of Britain and Saur International and Vivendi of France. But none of the bidders could provide the kind of money required, and the commission retreated from the market. (202)

According to a Tanzanian union official, the National Assembly passed a law in 2001 that set the rules for the privatization of DAWASA. (203) This law provided for "functions, powers and privileges of the Dar es Salaam Water and Sewerage Authority to enhance the regulatory framework for Dar es Salaam Designated Area." (204) Under Section 7 of the bill, "DAWASA [had] authority to appoint an Operator to perform the functions and exercise the powers which are vested on it by the Act for a period as may be specified in a concession, contract or agreement entered into between itself (DAWASA) and the operator." (205)

By 2002, the government had decided on "an 'operating lease contract', in which a private operating company would take over responsibility for billing, tariff collection, operation and routine maintenance. DAWASA would retain ownership of its assets and rehabilitate and expand the network". (206) This time only one bidder came forward: City Water, a joint venture between Biwater, Gauff of Germany and Superdoll of Tanzania. It was awarded the contract in December 2002.

The privatization deal was a peculiar one in which nearly all the capital came from the IFIs and, ultimately, the Government of Tanzania. The $164.5 million project was supported by a $143 million loan from the World Bank, the European Investment Bank and the African Development Bank. DAWASA provided some $12.5 million in cash. City Water was only required to invest $8.5 million to cover "removable assets", (207) such as computers and meters, that would ensure proper invoicing to the companies. As ActionAid commented, "Overall, City Water is neither bringing in private capital, nor is it removing much of the risk from the public sector". (208) The one-sided deal led one African publication to comment: "No wonder the governmental US Commercial Service has described this (project) as one of the most 'significant investment opportunities in Tanzania' in its latest country report". (209)

The handover to Biwater took place on August 1, 2003. Edward Lowassa, the minister for water and livestock development who would two years latter announce the cancellation of the contract, spoke for the government. He thanked all participants in the project, particularly "the staff of DAWASA and their trade union TUICO, who have offered maximum cooperation through the complex and lengthy process". (210)

This was not altogether true, however. Asked if unions were consulted, Raha of TUCTA responded:

> Trade Unions were not consulted and to date we have requested for the Memorandum of Understanding between this Government of United Republic of Tanzania and the operator, but in vain, the only portion we were given is the structure of the corporation. (211)

Asked about the World Bank, Raha said: "We were not informed earlier of their direct vested interest, nor given any opportunity to meet and discuss with them over the privatization of this public utility." (212)

In his speech at the handover, Lowassa also emphasized that "…consumers have a vital role to play in bringing about improved services. Consumers must pay their water bills on time". At the same time, "City Water is committed to providing accurate and timely water bills".

Graham Gorrod, the CEO of City Water, said in his speech that the company's goals were "ambitious, but realistic". He asked for patience from "our new consumers…whilst we address some of the real issues associated with the old system which DAWASA hands over to us today". The expectations for a "safe, reliable and affordable water supply and sewerage service" are "deeply held and taken by ourselves very seriously", he added.
But apparently, not seriously enough.

PROBLEMS WITH CITY WATER

The company chosen to manage the DAWASA lease, Biwater PLC, is a British water and wastewater company controlled by Adrian White, one of Britain's wealthiest men with an estimated fortune of 68 million pounds. (213) Under the motto of "Water is our business, pure and simple", it "has been cashing in on Britain's water privatization scheme since it began in 1989".[214] The company has a poor record as a guardian of such as precious resource as water, and its misdeeds have been well documented by ActionAid and Public Citizen, a Washington-based NGO.

In 1999, for example, Biwater pulled out of a water project in Zimbabwe because it wasn't making enough money. A Biwater executive bluntly explained the company's position, underscoring the inherent contradiction of privatizing water: "Investors need to be convinced that they will get reasonable returns", he told a Zimbabwe newspaper. "From a social point of view, these kinds of projects are viable but unfortunately from a private sector point of view they are not". (215)

Elsewhere, Biwater failed to invest as promised in a water concession in South Africa and then tripled water rates and refused to expand access "out of fears the company would not make enough profits". (216) In Mexico, the World Bank criticized the company for "operational, financial and political difficulties" with a sewerage connection, and in India Biwater was thrown out of a project after charging too much for water and amidst allegations of financial irregularities. (217) And after taking over a water contract in the Philippines, it raised water rates seven times. (218)

With such a track record, it's not surprising that the DAWASA concession in Tanzania was mishandled as well.

In 2002, less than a year after City Water began operating the DAWASA concession, the British NGO ActionAid issued a detailed report on the company. The report charged that water tariffs had increased substantially, while

water quality had not improved. The results, the NGO remarked, “are far from encouraging”. According to ActionAid:

> Most importantly, it is very unlikely that the privatization programme will increase poor people’s access to water…Tariffs have increased substantially, while the service remains patchy and irregular. Water often only flows at night, or for a few hours a week….Evidence from interviews shows that consumers are angry. They resent the fact that they are being charged more for their water, even though there has been no public debate about the need for privatization. They do not feel they are getting a better service, and believe that City Water is making excessive profits at their expense…ActionAid found that City Water continues to charge households for water even though water only comes through occasionally. This means that households often have to pay twice – once to City Water for water that does not come, and again to the water vendors who provide water at much higher prices. Public anger at this situation is at such levels that, according to one local NGO, City Water bill collectors are being “chased away with dogs and knives”. Households that refuse to pay simply face higher water bills and are threatened with disconnection. Even households who do pay are sometimes disconnected, because City Water disconnects whole areas in an attempt to get those with illegal connections to pay up. (219)

In June 2005, two months after the DAWASA contract with City Water was terminated, Kenya’s East African newspaper obtained a copy of a confidential report on the company written by PricewaterhouseCoopers, a US consulting company that frequently advises IFIs and governments on privatization. The report, “one of the few independent audits on Tanzania’s aborted attempt to privatize water services”, (220) is even more damning than the critical study from ActionAid. According to the newspaper, the PricewaterhouseCoopers audit “shows that the parties were operating under an opaque arrangement and in a scenario where it was becoming extremely difficult to hold the foreign investor to perform in accordance with the lease contract”. Moreover:

> One of the sensational findings of the report is that even after 11 months of running Dar es Salaam’s water services, there were no permanent working bulk meters at the treatment works, reservoirs or main distribution pipes. In the circumstances, determining the volume of water being produced and billed had almost become impossible…“There is no reliable flow meter data on which to base an audit of actual volumes supplied during the year of the lease contract”, the report says.

In addition, the audit found that City Water had contributed only $3.9 million to the project, despite the fact that the company had pledged to contribute $5 million in the first year of operation.

CITY WATER AND ITS UNION

There was an important aspect of the privatization that benefited workers, however. This was the no-retrenchment agreement between DAWASA and the Trade Union of Commerce and Industries (TUICO). This agreement was reached “after a tough battle,” recalled Raha of TUCTA. (221) His report bears quoting in detail. In September1999, he wrote:

> The Trade Union of Commerce and Industries (TUICO) on behalf of its members in DAWASA signed a voluntary Collective Bargaining Agreement (CBA) with the Management of DAWASA. Legal formalities were followed to ensure that the signed CBA was registered with the Industrial Court to meet the requirements of the law. But due to a lengthy bureaucratic procedure, the CBA was first sent to the Labour Commissioner, Ministry of Labour, then forwarded to the Parastatal Sector Reform Commission (PSRC) the custodian of parastatal Companies to be privatized for scrutiny and comment. Later, the same document needed the approval of the Registrar-Ministry of Finance before it was to be sent back to the Ministry of Labour on transmission to the Industrial Court.

At this point, cronyism and possible corruption crept into the process:

> Governments bureaucrats from PSRC in coalition with the Ministry of Finance with a hidden agenda to privatize DAWASA secretly and silently interfered [with] the process and technically stopped the Registration of the CBA between DAWASA management and TUICO, while on the other hand speeding up their lease of DAWASA to a private investor.

The union responded quickly:

> TUICO, the responsible union, got wind of the privatization deal and reacted wisely to safeguard its members by filing a case with the High Court No. 405, on behalf of its members, against the Management of DAWASA and PSRC. The main demand was to restrain PSRC from privatizing the company and retrenching workers of DAWASA until the outcome of the case [was] known and [an] order issued by the court…On its part the High Court, before hearing that case, gave time to TUICO and the two respondents to resolve the matter amicably…Despite the time given, the two parties could not come to an agreement. The matter was then brought back to court and hearing date was set for March 2003.

Raha continues the story:

> While awaiting for the planned date of hearing the case, PSRC and DAWASCO unilaterally announced in the public and private news media on December 16, 2002, that DAWASCO has been officially leased or privatized to Biwater/Gauff, and all employees will automatically be inherited by the new investor. On December 18, 2002, TUICO national and branch officials, plus their lawyer, met to strategise and make a new move to counter the trickery. On December 19, the TUICO officials were summoned to appear before the Minister responsible for Water and Livestock Development. The main focus of their discussion was centred on the fate of Voluntary Collective Agreement (CBA) and retrenchment package in case of job losses. By December 28th, the government and TUICO had reached a deal. A Memorandum of Understanding was prepared and signed by both government and TUICO and later filed at the High Court for Registration, guaranteeing workers their rights and terminal benefits.

As a result of these extraordinary efforts by the unions, "All DAWASA employees were absorbed by the new investor and no one was retrenched."[222]

TANZANIA'S DECISION TO TERMINATE THE CONCESSION

The decision to terminate the City Water contract was made at a cabinet meeting chaired by President Benjamin Mkapa on May 17, 2005. (223) The government charged that no new domestic pipe work had been installed, the company had not invested the capital it had promised, water quality had declined, and revenue had decreased. (224)

At a meeting of stakeholders the following day, Juma Mtoro, the secretary of the City Water branch of the Tanzanian Union of Industrial and Commercial Workers, told Water and Livestock Minister Edward Lowassa that workers supported the government's action but wanted assurances about future working conditions and benefits. "We support the government's move to terminate the contract with City Water, but we also want to be assured about our contracts of service with the new employer", Mtoro said. (225) Minister Lowassa approved the request. Then, turning to City Water executives also in the audience, he said: "I would like to stress that you, directors of City Water, you are jobless. This is an independent country. We cannot be bulldozed by other people". (226)

In June, three Biwater executives were detained by the Tanzanian government and then deported. In the following weeks, Biwater filed a breach of contract complaint with the government, saying it was owed $3 million, and threatened to take the government's decision to an international arbitration court in London. However, its Tanzanian partner, Superdoll Trailers Manufacturing Ltd., which had a 49 percent stake in City Water, declined to take part in the complaint. (227)

Moreover, the Tanzanian company had complaints of its own: "Although it is the largest shareholder in (City Water), Superdoll feels that it has been left out of certain decisions taken by its foreign partners within the consortium". (228) For example, the company had not had its accounts audited "nor put a budget before its board since it was launched in August 2003. The majority of (City Water) decisions have been made by Biwater, whose representatives also hold the principal executive posts in the consortium".

WORKERS RETAINED - AND SERVICE IMPROVES

The Tanzanian labour movement did not play a direct role in advocating for the de-privatization of the water company.

"We didn't mobilize the public so that we [could] gather their opinion, since to start with, we were not informed

of the privatization process until the last minute, when the Government of Tanzania had already signed the Memorandum of Understanding (MOU)," explained the TUCTA's Raha. (229) The primary group to work against privatization, he said, was the Tanzania Gender Networking Programme (TGNP), which "opposed the appointment of the private operator." Also influential, he added, were "the cries from the general public as water consumers." This does not mean that the union was a passive player, however.

Throughout the period of privatization, the union's key issues were job security and better terms and working conditions. As a result of the unions' efforts, "we managed to ensure that there were no retrenchments after privatization," and "no workers lost their jobs at DAWASA during the era of the private operator." (230) That is a triumph in itself.

Equally important, consumer services provided by the water company, now known as DAWASCO, have improved markedly. According to Tanzania's The Express newspaper, "most city residents, whose residents were suffering from acute water shortages, are now being supplied with some water." (231) Quoting the company's chief executive officer engineer, the newspaper added that "water supply has improved even in some areas…which have had dry taps for years." The changes are a result of DAWASCO's "100 Days Rescue Plan Strategy," which kicked off in July 2005. Over that time, DAWASCO engineers repaired a total of 9,927 water leakages out of 10,373 between July and September and connected 168 new customers. The company has also installed a toll-free telephone hotline, "enabling the public to alert the company to acts of vandalism or damages to its property." (232) The rescue plan was launched by the Minister for Water and Livestock Development on July 22, 2005.

CHAPTER TWO: THE INTERNATIONAL CAMPAIGN FOR OBSERVANCE OF THE CORE LABOUR STANDARDS BY THE IFIs

In June 1998, the annual conference of the International Labour Organization (ILO) adopted, without a single opposing vote, the *ILO Declaration on Fundamental Rights of Work*. (233) The adoption of the Declaration marked an important milestone in the recognition by the international community of the universal and binding nature of basic labour rights, in that it makes observance of certain fundamental workers' rights an obligation of all ILO member countries arising from the very fact of their membership. The Declaration followed years of campaigning by the international trade union movement in coordination with campaigns by national trade union centres to convince their governments to support the international recognition of these rights.

The rights defined in the ILO Declaration, generally known as the core labour standards (CLS), cover four areas of fundamental rights and are defined in eight ILO conventions. Even if they have not ratified the conventions in question, member states must provide regular reports to the ILO on how the specified rights are observed in the country. The eight core conventions are as follows:

- Elimination of all forms of forced or compulsory labour (C. 29 and C. 105)
- Abolition and effective elimination of child labour (C. 128 and C. 182)
- Elimination of discrimination in respect of employment and occupation (C. 100 and C. 111)
- Freedom of association and effective recognition of the right to collective bargaining (C. 87 and C. 98)

International trade union bodies, namely the ICFTU and the World Confederation of Labour (WCL), have worked within the ILO to ensure that countries abide by their obligations to the ILO regarding CLS. However they have also believed that international organizations that take an active role in the restructuring of countries' economic and social policies, such as the IFIs, have a responsibility to ensure that, at the very least, their own operations and policy advice are consistent with the observance of CLS. Both the IMF and World Bank, respectively the international body that lends money and provides policy advice on anything it deems relevant to macroeconomic performance and the world's largest development agency, have immense power and influence, particularly in the developing and so-called transition countries. Additionally, both IFIs deal with labour matters on a regular basis.

THE IFIS' INVOLVEMENT IN LABOUR ISSUES

The majority of the IMF's country-level policy documents, known as *Article IV Consultation Reports*, contain recommendations on labour policy, while the World Bank provides detailed technical advice to countries on how to reform their labour legislation. In a number off countries, both IFIs have even made loans conditional on the changes to labour regulations carried out by the client country. In almost all cases, the changes consist of reductions in workers' protection, purportedly to increase labour market "flexibility" so as to make the country more attractive to private investors. Inevitably, the IFIs' interventions on labour matters are highly controversial within countries and frequently lead to intense public debate, exacerbated political differences, and mass mobilizations by trade unions.

Given that the IFIs' involvement in labour law reforms is usually associated with fierce political conflict, it was somewhat disingenuous for the World Bank to claim, when initially pressed by the trade union movement to ensure that its operations and advice were consistent with CLS, that it could not do so because, as stated in a 2001 Bank publication, some of the standards "have political as well as economic implications" (234).

The Bank made this comment about political connections only on the subject of the freedom of association and collective bargaining standard. (By implication, it implausibly suggested that phenomena such as slavery, child labour, racism and discrimination against women had no political connotations.) The same Bank publication asserted about freedom of association and right to collective bargaining that "the empirical evidence about their economic benefits were mixed" (235). The Bank had expressed similar suspicions that some labour rights might be detrimental to growth in a paper presented to an international trade union delegation in 1999 but stated that "the Bank is currently undertaking analysis work in this area" (236).

WORLD BANK DECIDES CLS ARE NOT ANTI-DEVELOPMENT

The World Bank put an end to its officially-expressed suppositions that workers' rights might be harmful for countries' economic health when, in 2003, it launched *Unions and Collective Bargaining: Economic Effects in a Global Environment (237)*, an extensive review of the literature that the Bank had essentially completed in 1999 but waited more than three years to publish. Among the conclusions of the Bank's study on the impact of unionization was that, "union density … appears to have little or no impact on comparative labour market performance …there is, however, one significant exception … high union density is associated with compression of wage distribution and a reduction of earnings inequality" *(*238).

The report's findings that high levels of unionization not only did not harm economic growth but made for a less unequal distribution of income, (something of which trade unionists were well aware – the most unionized countries in the world, such as in Scandinavia, have the lowest poverty rates), appeared to provide ammunition for the IFIs to adopt a more supportive attitude towards CLS. Especially so, in light of the fact that both the IMF and World Bank had declared poverty reduction to be their overarching goal since 1999. The Bank used the launch of *Unions and Collective Bargaining* to proclaim that it would "support the promotion of core labour standards", but at the same time made it clear that CLS were "not conditional in World Bank lending" (239). While welcoming the World Bank's moral support for CLS, trade unionists warned that its declared endorsement of the standards would have no effect if the Bank was perceived as practicing the opposite of what it preached by allowing its financial support to be used to violate the standards.

It would take several more battles before the Bank took steps towards ensuring that its own practices were consistent with its rhetoric. The first steps were taken by the International Finance Corporation (IFC), the branch of the World Bank that lends to private businesses (in contrast to the two other branches of the World Bank, IBRD and IDA, which only lend to governments). Perhaps because its borrowers are private companies rather than national governments, the IFC appeared to be less concerned than some Bank publications about whether borrowers might be worried about "political implications" of CLS when asked to ensure that IFC money was not used to violate internationally recognized standards. Also, the IFC's top managers, who were striving for a leadership role in designing social and environmental safeguards for development project financing by all banks, both public and private (240), seemed to understand more quickly than the rest of the World Bank Group that a policy of "Do what I say, don't do what I do" would do nothing to enhance the IFC's credibility in the private sector, let alone among unions and civil society organizations.

LABOUR STANDARDS AT THE IFC: THE GRUPO M CASE

Already in early 1998, the IFC had adopted a policy stipulating that its borrowers could not use forced labour or harmful child labour. When the ILO Declaration was adopted later that same year, trade unions began urging the IFC to update its labour standards safeguard by incorporating all four CLS. Unions redoubled their efforts after the World Bank began asserting its support for the CLS around 2002. They found a receptive listener in Peter Woicke, then executive vice-president and de facto head of IFC (the World Bank president is the official top executive member but assumes no management role).

In a few earlier encounters with Global Union Federations, Woicke had expressed concern when informed that companies borrowing from the IFC had engaged in union-busting practices and offered his assistance to facilitate resolution of the disputes. In August 2003, the ICFTU and the International Textile, Garment and Leather Workers Federation (ITGLWF) warned Woicke that the IFC could potentially be caught in an embarrassing situation. They sent the IFC a detailed dossier about the anti-union practices of the Grupo M garment manufacturing enterprise, a company established in the Dominican Republic that was building production facilities in Haiti, to which the IFC was preparing to grant a loan for $20 million (241). Guy Ryder, general secretary of the ICFTU, suggested to Woicke that the IFC would itself be tarred as an anti-union institution if it knowingly financed an enterprise that had dismissed and permitted beatings of workers trying to form a union, unless it took measures to correct these practices. The specific measure that Ryder put forward was for the IFC to include a clause in the loan contract that would make payment of the loan conditional on the company's respect of CLS, in particular of its employees' right to organize a union and to bargain collectively.

In September 2003, ICFTU representatives raised the concerns about the Grupo M loan in a public meeting with Woicke, and also asked more generally what IFC planned to do with regards to respect of CLS by IFC clients in light of the World Bank's declared support for those standards. Woicke replied to the ICFTU that IFC management sup-

ported making CLS a condition of all loans and would include them in management's proposal to the World Bank board in 2004, when it would begin a process for the revision of the IFC's social and environmental loan safeguards. As for Grupo M, Woicke said that he would examine what short-term action the IFC could take to ensure that its financial support, if approved by the Bank's board, be used to enhance respect for CLS by the firm.

IFC staff responsible for administering the IFC's loan to Grupo M initially proved to be less cooperative than their boss. They dismissed the ICFTU's allegations about anti-union practices by the company and insisted that there was no legal way that the IFC could insert a CLS clause in its loan contract with Grupo M until the IFC's loan safeguard policy had been changed, something that was not expected to happen before 2005 at the earliest. However after doing their own in-depth investigations of the incidents in the Dominican Republic brought to light by the ICFTU and finding evidence corroborating the dismissals and beatings, the IFC staff quickly changed their tune.

FIRST IFC LOAN WITH FREEDOM OF ASSOCIATION CONDITION

In January 2004, the IFC informed the ICFTU that a specific covenant would be inserted in the loan contract between the IFC and Grupo M whereby the company agreed to "respect workers' right to form and join organizations of their choice and to bargain collectively without unlawful interference … [and to] ensure that workers who make such decisions or participate in such organizations are not the subject of discrimination or punitive disciplinary action …". The IFC and Grupo M pledged that "failure to abide by these provisions will be treated explicitly as an event of default", i.e. could result in the loan being cancelled (242). They also agreed on a "Grupo M Remedial Action Plan Regarding Freedom of Association & Related Practices", which set out various measures the company would undertake to ensure employees' rights were respected. However, it soon became evident that it would take more than the company's signature on a loan contract to correct the anti-union practices documented earlier by the ICFTU.

Less than two months after the IFC-Grupo M agreement to respect freedom of association was signed, a worker engaged in organizing a union in Grupo M's new jeans manufacturing plant located in the Ouanaminthe export-processing zone in Haiti on the border with the Dominican Republic was dismissed and then beaten by guards when he protested. A complete work stoppage took place at the plant the next day, 26 February, to demand medical treatment and the rehiring of the fired worker. Management's response the following Monday was to fire a further 33 workers, all known to be active union members. This took place during a period when the Aristide government in Haiti was being overthrown and a situation of general lawlessness prevailed. The local union, SOKOWA, alleged that armed groups from both sides of the border physically abused and threatened the dismissed workers and others who supported them, essentially acting as enforcers for the company's illegal firings.

Reacting to information sent by Batay Ouvriye, the Haitian group involved in organizing the workers, the ICFTU and ITGLWF, and unions and NGOs in the US – which is the main market of the plant's production – as well as organizations in several other countries, protested the dismissals to both Grupo M and the IFC. Within a few days, the IFC sent a mission to Haiti, as did the US-based Worker Rights Consortium, and it soon became evident that the company had acted contrary to the loan condition promising to respect workers' freedom of association. By mid-April 2004, Grupo M agreed to reinstate all of the fired workers, provide back-pay for the six-week period during which they had been out of work, and read a statement to the entire workforce promising that, henceforth, no worker would be punished for supporting or joining a union.

MASS DISMISSAL AND CAMPAIGN FOR UNION RECOGNITION

After the April 2004 reinstatement of the terminated workers, the SOKOWA union quickly signed up a large part of the workforce and Grupo M initially appeared to be cooperative, agreeing to meet with the union to address workers' demands concerning the very low level of wages, the confusing and inconsistent application of the bonus system, and continued discrimination against union members. However, the situation began to deteriorate seriously in June 2004 after the company refused to attend a previously scheduled meeting with the union.

The union responded first by a 30-minute work stoppage and a few days later, after continued refusal by management to meet with the union, with a full-day stoppage on 7 June. The next day, the company refused to admit any workers and issued a press release stating that it would shift production to other facilities, presumably in the Dominican Republic. When the ICFTU, AFL-CIO and other organizations asked the IFC to enforce the company's promise to respect freedom of association, Grupo M told the IFC that it would reopen the factory. It did so a few days later, on 11 June, but only to present dismissal notices to 254 workers, representing close to half the plant's

workforce. There was also evidence that the company was indeed attempting to shift production to other locations. More workers would be dismissed in the following days.

The ICFTU and ITGLWF immediately reacted to the mass dismissal for trade union action by urging the IFC to stop its loan payments to Grupo M, and the Haitian government to order the company to reverse the illegal terminations. Shortly thereafter, trade unions and NGOs in the US successfully convinced some of the major buyers of Grupo M's Haitian production, which include Levi's, not to accept the company's plan to switch their contracts to other factories in an overt union-busting move. It took several more weeks of persistent campaigning by SOKOWA and the Batay Ouvriye organization to which it is affiliated, international pressure on Grupo M, Haitian court decisions declaring some of the dismissals to be illegal, and an IFC-sponsored mediation effort before the company accepted to meet with the union and begin direct discussions for reinstating the dismissed workers.

Finally on February 5, 2005, almost eight months after the mass dismissal, Grupo M accepted to rehire all of the fired workers, to recognize SOKOWA, and to engage in a process for negotiating a complete collective agreement on wages, working conditions and workers' rights. Some of the dismissed workers would be reinstated immediately and others once US buyers had restored their cancelled orders. In July 2005, Batay Ouvriye reported that all but 31 of 350 workers who had been dismissed a year earlier had been rehired. In October 2005 both parties agreed on an agenda and a schedule for negotiations, and in December 2005, the union and management announced that they had concluded their first collective agreement. The agreement provided for increases in the workers' very low wages as well as several improvements in working conditions.

IFC'S PROPOSED SOCIAL AND ENVIRONMENTAL SAFEGUARDS

Meanwhile, the IFC was moving slowly forward on its commitment to make all of the CLS a condition for all IFC loans. In July 2004, the IFC presented the World Bank's board of executive directors with a first version for revising its social and environmental safeguards policy (243).

The new loan safeguard policy contained eight thematic chapters, one of which was on labour and working conditions; other chapters covered issues such as pollution prevention, land acquisition and indigenous peoples' rights. The ICFTU and its Global Unions partners welcomed the IFC's intention to require that its borrowers address the principles of the core labour standards as well as some other basic labour principles, such as providing a safe and healthy work environment and addressing the adverse impacts of retrenchments. However they expressed disappointment that the new policy made no reference to the recognized international standards, namely the ILO's eight core conventions. The new policy was also weak on spelling out the mechanism to be used for enforcing the standards, although IFC promised to provide details in an upcoming guidance note on implementation of the new policy.

Trade unions were given opportunities to comment both the new policy and later on the accompanying Guidance Notes. The ICFTU regional organizations and some national affiliates took part in regional consultations held in Brazil, Kenya, the Philippines and Turkey during the last four months of 2004. In October 2004, the world trade union movement – the Global Unions group, WCL, and several national centrals – used the opportunity of previously scheduled high-level meetings with the IFIs in Washington to meet with the IFC and express recommendations for improvement of the new policy, chief among these being the referencing of ILO conventions. Later consultations in November 2004 and April 2005 went into detail on the Guidance Notes, the first complete draft of which was issued in January 2005 (244).

FAt the April 2005 consultation, which took place in Geneva and to which ILO representatives were also invited, the ICFTU presented twenty pages of recommendations for improvement. Contrary to the policy document, the Guidance Notes did include references to ILO conventions. However the initial draft, following up on the first version of the new policy, introduced troublesome distinctions as to which labour rights IFC borrowers were expected to respect, depending on whether the country's laws fully required observing all of the CLS or not. Ignoring the important achievement of the 1998 ILO Declaration, the first draft of the policy essentially proposed to tell IFC borrowers that they did not have to abide by the freedom of association requirement if a country's laws did not fully support that right.

Another weakness of the new policy and the guidance notes concerned the lack of clarity as to the mechanism for enforcing the new policy. By the time of the April 2005 consultation, it was obvious that although the inclusion of a freedom of association and collective bargaining rights condition in the IFC's loan to Grupo M did eventually help protect employees' rights, the process for achieving that protection was ineffective at least initially, lengthy, and

often improvised. The ICFTU encouraged the IFC to learn from the example of the Grupo M case and to adopt clear steps for implementing the policy, such as requiring "high-risk" employers to adopt an action plan for correcting lack of observance of CLS before the loan is granted and spelling out the consequences in case of non-compliance.

IMPROVEMENTS TO THE NEW LABOUR STANDARDS POLICY

As well as informing IFC officials of their concerns about the weaknesses in the new policy, the ICFTU and several national affiliates informed national governments and their representatives on the 24-member board of the World Bank, the Executive Directors, of their recommendations for improvement. Several directors expressed support for the changes recommended by unions, and when the revised policy was made public in September 2005, many improvements had been carried out (245). The ILO core conventions were explicitly referred to as the basis for the new policy. Additionally, it was stated that IFC clients were expected to respect workers' freedom of association and right to collective bargaining and "will not discriminate or retaliate against workers who participate or seek to participate" in the organizations of their choice, regardless of whether national law fully protects those rights.

The new policy and the revised version of the accompanying implementation notes also included some specific requirements as to the implementation of the labour standard. For example it requires that all proposed IFC projects include an assessment of the labour, health and safety impacts and risks of the project and adopt measures to respond to any deficiencies or negative impacts commensurate with the level of impact and risk (246). The IFC's board adopted the Sustainability Policy and Performance Standards, which included these new labour requirements, in February 2006 and set 1 May 2006 as the date when the policy would be implemented on all new IFC lending.

NEED FOR FURTHER STEPS

As mentioned, the IFC's new labour standards condition is only the first step towards ensuring that the World Bank moves beyond rhetorical support for CLS and makes certain that its own operations are consistent with application of CLS. Global Unions have also been pressuring the branches of the Bank involved in financing public sector projects, the IBRD and the IDA, to adopt CLS as part of the standard requirements in its contract bidding documents. In 2004, the International Federation of Building and Wood Workers (IFBWW) spent two months working with the Bank's procurement department and submitted detailed recommendations that, if implemented, would bring labour standards during construction of Bank-funded infrastructure projects up to par with CLS and some basic occupational health and safety conventions (247). By so doing, the Bank would avoid being involved in the kind of violation of CLS that was documented by an Indonesian organization in 2004 and is described in the introduction to this publication. However as of late 2005, the Bank had given only a partial response to the IFBWW's proposals on procurement standards.

Equally important is ensuring consistency with CLS on the part of the IMF, which formulates recommendations on labour policies in the majority of the annual policy assessments, known as *Article IV Consultation Reports*, which it prepares for all member countries. Like the World Bank, the IMF has expressed support for CLS but some of its recommendations in the area of labour policy constitute *de facto* invitations to countries to ignore CLS. For example, the IMF frequently takes aim at any form of industry- or country-level collective bargaining and encourages countries to dismantle such practices, even though such changes generally result in decreased access to collective bargaining, particularly among workers of small and medium enterprises.

Not only is such advice inconsistent with ILO convention 98, one of the core conventions, but it also contradicts one of the findings of research published by the Fund's sister IFI, the World Bank, on the impact of unions and collective bargaining. That finding was that countries with "coordinated collective bargaining", i.e. industry- or country-wide bargaining, have lower unemployment and less wage dispersion than do countries with decentralized collective bargaining practices (248). Thus, the IMF encourages countries to dismantle labour practices that have a positive developmental impact. When confronted with the contradiction between IMF advice on the one hand, and CLS and research results about the positive impact of labour regulations and respect of workers' rights on the other (249), Fund officials frequently respond that they have no particular knowledge about labour since the subject is outside of their core areas of expertise. Unfortunately, lack of expertise does not seem to be considered by the IMF a sufficient motive for its staff to stop proffering advice on a wide variety of labour issues or making loans conditional on changes to labour regulations.

CHAPTER THREE: TRADE UNIONS AND DEBT RELIEF

Well before debt relief for poor countries was even on the G8 agenda, the international trade union movement campaigned for debt relief as a key objective of its struggle against poverty. Since the 1980's, trade unions in both developing and industrialized countries have been at the forefront of the campaign for debt relief, pushing leaders in industrialized countries to eliminate the unsustainable public debt that undermines human development and economic growth in poor countries.

In many developing countries, debt was acquired decades ago. Now recognized as "odious debt", much of this debt was incurred by military regimes or corrupt dictators, who never used foreign loans to support economic development or state spending but instead funnelled the money into private accounts. As interest rates increased in 1970's and 80's, the debt grew, resulting in huge, unmanageable external debt stocks that drained poor countries' financial resources. Worldwide, the external debt of low-income countries amounts to $523 billion. (250)

According to the most recent figures available, at least ten African countries spent more on debt than on either health or education in 2002. (251) In Malawi, for example, the government is forced to devote more resources to debt service than to healthcare, even though 20 per cent of the population is HIV-positive. When debt is eliminated, countries can devote greater resources to needed social programmes. When Tanzania received some limited debt relief, it was able to abolish school fees for children, allowing 1.6 million new students to start school. Although this aid allowed Tanzania to significantly reduce its annual debt payments, it will still spend 65 million in 2005 to service debts owed to the IMF, World Bank, and African Development Bank. (252)

THE DEBATE ON DEBT RELIEF

With cases like these in mind, NGOs and trade unions have long advocated for debt relief for poor countries. Nonetheless, proposals for debt relief have been met with strong resistance from governments in many industrialized countries, as well as from the IFIs themselves. For a number of years, donor countries and IFIs claimed that writing off the debts of the poorest countries would set a bad example, encouraging countries to borrow without worrying about repayment. Even after acknowledging that IFI lending policies had actually encouraged poor countries to incur unsustainable debt, industrialized countries spent several years debating amongst themselves how much of the debt to forgive, and how to finance debt cancellation. (253)

Staffs at the Bank and the IMF expressed concern that any plan that did not require additional contributions from donor countries would cut into the IFIs' operating budgets, significantly compromising their lending capacity in the future. And some IFI executives simply doubted the value of a debt relief programme. For example, the IMF's Chief Economist, Raghuram Rajan, continued to publicly express disagreement that debt relief should be a priority for the IFIs, even as the G8 finance ministers were preparing the details of the 2005 G8 debt deal. (254)

In the face of such opposition, the ICFTU and Global Unions, as well as many national union federations, joined together with NGOs and other civil society groups to organize a broad campaign for debt relief. In the 1990's, the ICFTU, Global Unions, and many unions became members of the Jubilee 2000 Coalition, a broad movement aimed at cancelling 100 percent of poor countries' debt by the year 2000.

THE HIPC PROGRAMME

Pressure from the Jubilee 2000 coalition, composed of religious groups, unions, and many other organizations, led the World Bank and IMF to create a limited debt relief programme for poor countries called the Heavily Indebted Poor Countries (HIPC) Initiative in 1996. Debt campaigners believed that this first HIPC initiative, under which countries that met strict economic criteria and fulfilled demanding structural conditions could be relieved of debts owed to the World Bank and IMF (called multilateral debt), was too limited in size and scope to have a real impact on the debt. (255) Indeed, only two countries, Bolivia and Uganda, had received any HIPC debt relief by 1999.

The Jubilee campaign persisted in fighting for a better initiative, and in 1999 the World Bank and IMF launched the Enhanced HIPC programme. Although the enhanced HIPC was announced to great fanfare at the 1999 G7-G8 Summit in Cologne, it was still a long and complicated process, too difficult for many countries to complete. 18 countries eventually met the programme's requirement of an "unsustainable" debt burden, but the IFIs determined that another 4 HIPC countries actually had "sustainable" debt burdens, disqualifying them for aid. 2 other coun-

tries decided not to complete the process because of the implementation criteria, and an additional 13 countries saw their aid put on hold because of conflict situations or other complications.

Even for the 18 qualifying countries, relief was slow to come. Following a meeting of trade union officials with the Japanese Prime Minister Yoshiro Mori during the 2000 G8 Summit in Tokyo, former ICFTU General Secretary Bill Jordan commented that it was "…scandalous that despite high flown promises, so little ha[d] been done to cancel the debt burden of the burden of the poorest countries". Just a week after the meeting, the ICFTU and many of its affiliates in Africa participated in the "African Day of Action on Debt Relief", organized by Jubilee 2000 to draw further attention to need for strong action on debt relief in Africa.

The enhanced HIPC programme did make some progress on reducing the debt, notably by securing commitments from creditors to "irrevocably reduce the debt of HIPC countries by specific amounts". (256) However, many HIPCs did not actually receive the promised relief for some time, and most had needs so great that they would have had to continue to borrow at the same rate to make any progress towards their poverty reduction goals even with the new aid (257). Furthermore, the Bank and the IMF attached strict structural conditions to debt relief, demanding privatization or imposing caps on public spending.

CONDITIONALITY ON DEBT RELIEF

When countries tried to fulfill the IFIs' conditions for debt relief, they often had to compromise on other development goals. The HIPC programme includes a requirement to observe the structural adjustment programmes designed by the IMF and World Bank, which often include conditions such as privatization of public services and rigid ceilings on government expenditures, regardless of the social costs. These conditions, imposed on poor countries on the doubtful premise that they enhance growth, frequently reduce services to the poor and impede achievement of the UN's Millennium Development Goals (MDGs). In Zambia, for example, a required public spending cap meant that government had to cancel the hiring of 9,000 new teachers, severely obstructing the country's plans to achieve MDG 2: *Achieve universal primary education*. The IMF also threatened to cut off Zambia's debt relief if it didn't privatize two state-owned enterprises that the parliament had already voted *not* to privatize. [This case was discussed in the introduction].

The Zambian situation was not unique: Jubilee UK reports that, "Many countries (Guinea, Guinea-Bissau, Guyana. Honduras, Malawi, Nicaragua, Niger, Rwanda, Sao Tome and Principe) had difficulties implementing the required structural reforms from the IMF because of economic and political difficulties and aid ha[d] even been suspended to some countries because of their delays in implementing debt relief (Guinea-Bissau, Guyana, Sao Tome and Principe)". (258)

LAUNCHING THE GLOBAL CALL TO ACTION AGAINST POVERTY

In response to problems like these, the global trade union movement has worked to draw attention the harmful effects of IFI conditionality attached to debt relief. In September 2004, trade union organizations including the World Confederation of Labour and the ICFTU co-founded, along with dozens of other civil society organizations, the Global Call to Action Against Poverty (GCAP), a worldwide alliance of nearly 1,000 organizations dedicated to fighting poverty and achieving the Millennium Development Goals (MDGs), with debt cancellation at the core of its mission. The GCAP campaign has emphasized that debt relief programmes should be free of economic policy conditionality.

Trade unions around the world took part in GCAP events in 2005. Participating national union centres included the TUC and UNISON in the UK, the Canadian Labour Congress, HMS India, CFDT in France, BMSF Bangladesh, ACTU in Australia, RENGO in Japan, and the ICTU of Ireland. Italian, Norwegian, Palestinian, Japanese, and Nepalese trade unions organized summits and rallies calling on leaders of the G8 countries to take definitive steps towards ending poverty. The largest of these events, organized by the Spanish unions UGT and CCOO and their partners in the Spanish GCAP coalition, drew 50,000 participants to a rally in central Madrid. In addition to reiterating GCAP's call for debt relief, the rally also highlighted decent work and workers' rights as crucial goals in the fight against poverty. Other unions, such as those in Senegal and Bulgaria, directly lobbied government officials on the GCAP agenda.

Global Union Federations also took part in GCAP activities: Union Network International tied up its head offices in a white band, the symbol of the GCAP movement. At a press conference at the World Economic Forum in Davos, Switzerland, ICFTU president Sharan Burrow appeared with British finance minister Gordon Brown and the rock star

Bono to speak about the CGAP coalition. In addition to organizing public events, trade unions lobbied national governments and international organizations to take decisive action to eradicate poverty by moving forward with debt cancellation.

At roughly the same time, the United States became more favourable towards debt relief, probably as a result of the Bush Administration's determination to write off 95 percent of Iraq's debt on the grounds that the country's economy would not be sustainable unless its odious debt, incurred by Saddam Hussein, was cancelled. Debt campaigners, joined by the governments of France and other industrialized countries, argued that it would be unfair if Iraq, a middle income country, had its debt forgiven while other poor countries with equally odious debt, such as the Democratic Republic of the Congo, were forced to wait for debt relief. As a result of the debate, the Bush administration became more supportive of a global debt relief plan.

THE G8 DEBT DEAL

Nearly a decade after the international trade union movement had joined in the Jubilee 2000 campaign for debt relief, the leaders of the G8 countries agreed at the 2005 G8 Summit in Gleneagles to write off the multilateral debt of the 18 poorest countries, and to increase development aid by up to $50 billion. The Trade Union Advisory Committee to the OECD (TUAC) welcomed the G8 countries' commitment as a "step in the right direction", but urged the G8 to offer more debt relief to more countries. In its statement to the G8 meetings, TUAC also strongly cautioned against attaching World Bank/IMF structural adjustment conditionality to the G8 debt relief deal, arguing that conditionality could hamper the achievement of the MDGs. (259)

Trade unions reiterated these demands at the 2005 World Summit of the UN General Assembly in New York, declaring, "Debt relief should be extended to all low-income and least developed countries respecting human rights that have a shortfall of resources to meet the MDGs. It should consist of 100 per cent cancellation of debt owed to the international financial institutions, not be dependent on structural adjustment conditionality, and not reduce concessionary assistance from the international financial institutions". (260) Trade union centres across the globe repeated this message, joining NGOs and other groups to demand that world leaders use the opportunity of the Summit to take action to end poverty. In New York, where the Summit was held, at least 250,000 workers and GCAP activists took to the streets during an annual Labour Day Parade.

Similar demands were made at 2005 Annual Meetings of the World Bank and IMF in Washington DC, where the ICFTU and its partners in the GCAP coalition held press events and lobbying meetings to insist that the IFIs hold the G8 countries to the debt relief commitments they'd made at the Gleneagles summit. GCAP also pushed a "No Strings Attached" message at the Annual Meetings, indicating that debt relief should be free of economic policy conditionality, and organized a debate with high-level World Bank officials on conditionality attached to debt relief, loans, and grants to low-income countries.

MOVING FORWARD WITH THE DEBT RELIEF CAMPAIGN

It was in this context that the World Bank and IMF endorsed the G8 debt cancellation plan to write off 100 percent of the debts owed to them by the original 18 HIPCs. The G8 countries agreed to repay the IMF and World Bank to compensate for the debt cancellation, though the details of the debt relief programmehad not been worked out even several months after the agreement. At the close of 2005, the IMF threatened to delay debt relief for six HIPCs, but quickly changed its plans following a surge of protest from debt campaigners. By early 2006, only the IMF's board had approved a debt cancellation plan for the HIPCs; the World Bank and the African Development Bank were still debating the details of their respective plans. It was expected, however, that the qualifying countries would likely see those debts cancelled in July 2006.

The IFIs' decision on debt relief was due in large part to the tireless campaigning of a worldwide popular movement, of which trade unions were an important component. Debt campaigners celebrated the IFIs' endorsement of the debt deal as a success, albeit a limited one, as the IFIs did not take any action to eliminate economic policy conditionality, nor did they make any firm commitments to expand debt relief to additional non-HIPC countries. The 2005 debt deal also didn't address the situation of middle-income countries, like Argentina, which are highly indebted to private creditors. The ICFTU and other union bodies have endorsed proposals for a debt restructuring process that would help non-HIPC countries avoid chaotic defaults with damaging social and economic conditions, but thus far the proposal has not received sufficient political support.

While the G8 debt deal was a victory in the debt relief campaign, it was certainly not a stopping point for campaigners. "At the time of the debt relief deal, 20 HIPCs indebted enough to qualify for relief were ineligible because they had not met all of the conditions necessary to qualify for the programme." The IFIs listed eight more poor countries without HIPC status that might also be eligible for the HIPC programme when their financial situations are re-evaluated, meaning that the number of qualifying countries could eventually be as high as 46. This number still falls short of the number of countries that the Jubilee campaign and NGOs including Christian Aid and ActionAid identify as requiring debt relief. (261)

This and other issues mentioned above will remain crucial objectives for trade unions and their allies as they continued to fight for more and better debt relief.

ANNEX 1:

COUNTRY FACTSHEETS

1. Argentina
2. Croatia
3. Indonesia
4. South Africa
5. Tanzania
6. Uruguay

ARGENTINA

Basic Information

- **Capital**: Buenos Aires
- **Government type**: Republic
- **Population**: 38.7 million
- **Population below national poverty line**: 39%
- **Life Expectancy**: 74 years
- **Literacy**: 97%

Economy

External debt, an overvalued currency, and capital flight produced a major financial crisis in 2001 and a 10.9% drop in the GDP in 2002. The Argentine peso, which had previously been pegged to the dollar, was floated in February 2002. Following the subsequent devaluation, the peso stabilized later in the year at a significantly lower value. The economy recovered and grew rapidly in 2003 and 2004, with GDP increasing by 8.8 and 9 percent, respectively. In March 2005, Argentina completed a debt restructuring agreement that reduced its debt to private creditors by 43.5%. In December 2005, the government announced plans to pay back in full its debts to the IMF.

- **GDP***: $517 billion
- **GDP per capita***: $13,153
- **Avg. GDP growth 2000-2005®**: 1.5%
- **Unemployment Rate**: 13.6%
- **External debt**: $166.2 billion (2003)
- **Debt service as percentage of exports of goods and services**: 37.9%

Labor Issues

The ICFTU's *Annual Survey of Trade Union Rights 2005* describes "a rather unsatisfactory, but improving situation," noting that, "in recent years Argentina has had a poor record on respect of trade union rights." Repression of trade union rights peaked during the crisis of 2001-02 when more than 3,000 trade unionists were put on trial, but has decreased as the economy and government have become more stable.

- **ILO Core Conventions Ratified**: 29 - 87 - 98 - 100 - 105 - 111 - 138 - 182
- **Major trade union centres**: Central of Argentine Workers (CTA), General Confederation of Labor (CGT)

IFI involvement

The World Bank reports that it "… is financing 34 projects, with a total commitment of about $5.5 billion," and that the 2004-2005 Country Assistance Strategy (CAS) for Argentina "…outlines a program that projects up to US$2.0 billion of new Bank financing from April 2004 through December 2005 to reduce the extent and severity of poverty as the country recovers from the crisis." On 16 December 2005, Argentina announced its intent to pay in full its entire debt to the IMF (nearly 10 billion dollars).

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Profile and County Report on Argentina.
* Using Purchasing Power Parity (PPP), figure from IMF World Economic Outlook database 2005.
® Average of GDP growth rates per year for years 2000-2005, IMF World Economic Outlook database.

CROATIA

Basic Information[iii]

- **Capital**: Zagreb
- **Government type**: Parliamentary Democracy
- **Population**: 4.4 million
- **Population below national poverty line**: 11%
- **Life Expectancy**: 74 years
- **Literacy**: 97%

Economy

Excepting Slovenia, the Republic of Croatia was the most industrialized and prosperous area in the former Yugoslavia. Following a mild recession in 2000, Croatia has maintained moderate and steady economic growth and relatively low inflation. In spite of this, both the IMF and World Bank have criticized Croatia for being slow to implement reforms, and the World Bank ranked it among the least "investment-friendly" Eastern European countries in its annual *Doing Business* survey. The government announced plans to privatize one-third of the companies in which it holds a majority stake by mid-2006, and to sell its shares in one-half of the companies in which it is a minority shareholder. In October 2005, the European Union decided to open membership talks with Croatia, which will require the government to undertake further reforms.

- **GDP*:** 55.6 billion
- **GDP per capita*:** 12,364.02
- **Avg. GDP growth 2000-2005®:** 4%
- **Unemployment Rate:** 18.1%
- **External debt:** 15.3 billion (2002)
- **Debt service as percentage of exports of goods and services:** 25.5 % (2002)

Labor Issues

The 2005 ICFTU *Annual Survey of Trade Union Rights* reports that employers and the state "have been guilty of ignoring collective bargaining rights," and that "There have been many cases of employer harassment of trade union activists and officials, despite the protection provided in law." A 2001 law nationalized trade unions' assets, impeding their functioning.

- **ILO Core Conventions Ratified**: 29 - 87 - 98 - 100 - 105 - 111 - 138 - 182
- **Major trade union centres**: Union of Autonomous Trade Unions of Croatia (SSSH-UATUC), Croation Trade Union Association (HUS), Independent Trade Unions of Croatia (NHS-ITUC)

IFI involvement

Much of the IFIs' work in Croatia is related to preparations for EU ascension. In addition, the IFIs are pushing for healthcare and pension reform, railway restructuring, and the sale of many state-owned assets. Croatia does not have any outstanding loans to the IMF.

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Report and Country Profile on Croatia.
*Using Purchasing Power Parity (PPP), figure from IMF World Economic Outlook database 2005.
® Average of GDP growth rates per year for years 2000-2005, IMF World Economic Outlook database.

INDONESIA

Basic Information[iv]

- Capital: Jakarta
- Government type: Republic, with power concentrated in presidency
- Population: 216.2 million
- Population below national poverty line: 16%
- Life Expectancy: 69years
- Literacy: 92%

Economy

Indonesia suffered a currency collapse and economic crisis in 1997-98, but has since recovered. A 5-year IMF program of economic policy supervision ended in 2003, and Indonesia officially closed its post-crisis Indonesian Bank Restructuring Agency in 2004. While Indonesia is a middle-income country, there is high regional inequality, with Java and Bali accounting for more than half of the country's GDP. A major tsunami in December 2004 killed nearly 127,000 people, displaced almost 441,000 others, and destroyed at least $4.5 billion worth of property.

- **GDP*:** $863.7 billion
- **GDP per capita*:** $3,940
- **Avg. GDP growth 2000-2005®:** 4.8%
- **Unemployment Rate:** 12.7%
- **External debt:** $137.12 billion
- **Debt service as percentage of exports of goods and services:** 16.1%

Labor Issues

The ICFTU's *Annual Survey of Trade Union Rights 2005* reports that over ten percent of workers are unionized, although the percentage is declining as a result of the economic crisis and because of harassment of union members and activists. The survey explains that a 2003 law makes it easier for employees to strike, but still prohibits strikes in the public sector, in essential services, and at enterprises that "serve the public interest," and requires all other workers to go through a lengthy notification and mediation process before striking.

- ILO Core Conventions Ratified: 29 - 87 - 98 - 100 - 105 - 111 - 138 - 182

Major trade union centres: Indonesian Trade Union Congress, Congress of Indonesian Trade Unions (KPSI), Indonesian Prosperity Labor Union Confederation (KSBSI), All Indonesia Workers Union (SPSI-R)

IFI Involvement

The World Bank currently has a $25.3 billion portfolio in Indonesia, of which $23.6 billion was disbursed and $12.4 billion repaid by December 2005. The Bank also operates 37 investment projects including one adjustment operation in Indonesia. Indonesia owes $8.03 billion to the International Monetary Fund.

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Profile or Country Report on Indonesia.
* Using Purchasing Power Parity (PPP), figure from IMF World Economic Outlook database 2005.
® Average of GDP growth rates per year for years 2000-2005, IMF World Economic Outlook database.

SOUTH AFRICA

Basic Information[V]

- **Capital:** Pretoria
- **Government type:** Republic, federal state
- **Population:** 46.9 million
- **Population below national poverty line:** 30%
- **Life Expectancy:** 47years
- **Literacy:** 86%

Economy

South Africa is a middle-income country but distribution of wealth and income is highly unequal. As a consequence of the apartheid era, South Africa is one of the most unequal countries in the world and has chronically high unemployment. While it benefits from rich natural resources, one of the world's largest stock exchanges, and well-developed financial, legal, communications, energy, and transport sectors, it also has a large informal sector. The government's investor-friendly economic policies since 1994 earned the country a positive investment rating, but failed to reduce unemployment and inequality. To combat inequality, the government developed programs to promote skills training and hiring of disadvantaged racial groups, such as the 2004 Black Economic Empowerment program.

- **GDP*:** 532 billion
- **GDP per capita*:** 11,345
- **Avg. GDP growth 2000-2005®:** 4%
- **Unemployment Rate:** 27.8%
- **External debt:** 27.8 billion
- **Debt service as percentage of exports of goods and services:** 9.4%

Labor Issues

Although South African public sector unions are strong and the Congress of South African Trade Unions, COSATU, has a formal alliance with the ruling African National Congress party, the 2005 ICFTU *Annual Survey of Trade Union Rights* observes that, "Trade union rights are not always respected in practice," and "workers who try to form or join trade unions face intimidation, violence and dismissal."

- ILO Core Conventions Ratified: 29 - 87 - 98 - 100 - 105 - 111 - 138 – 182
- Major trade union centres: Congress of South African Trade Unions (COSATU), Federation of Unions of South Africa (FedUSA) National Council of Trade Unions (NACTU),

IFI Involvement

The World Bank reports that, "As of February 2005, the World Bank had approved 13 loans for South Africa for a total amount of approximately $302.8 million. There were eight active World Bank operations with a commitment value of approximately $15 million and $13.3 million in undisbursed funds." South Africa does not have any outstanding loans to the IMF.

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Profile and Country Report on South Africa.
* Using Purchasing Power Parity (PPP), figure from IMF World Economic Outlook database 2005.
® Average of GDP growth rates per year for years 2000-2005, IMF World Economic Outlook database.

TANZANIA

Basic Information[vi]

- **Capital:** Dodoma (political), Dar es Salaam (commercial)
- **Government type:** Republic
- **Population:** 37 million
- **Population below national poverty line:** 36%
- **Life Expectancy:** 46 years
- **Literacy:** 69%

Economy

Tanzania is among the world's poorest countries. Agriculture accounts for over half of Tanzania's GDP and is the primary source of employment, making the country extremely vulnerable to external shocks like drought and floods. Although aid from the IFIs and bilateral donors has contributed to high GDP growth, poverty reduction efforts have been hampered by an unsustainable external debt burden. Beginning in the late 1990s, Tanzania received debt write-offs from many bilateral donors, and in 2000 it was admitted into the World Bank's Heavily Indebted Poor County (HIPC) program for debt relief. It is scheduled to have its debts to the IMF and World Bank cancelled in 2006 under the G8 debt deal.

- **GDP*:** 27 billion
- **GDP per capita*:** 720
- **Avg. GDP growth 2000-2005®:** 6.5%
- **Unemployment Rate:** NA
- **External debt:** 7.5 billion
- **Debt service as percentage of exports of goods and services:** 5%

Labor Issues

The 2005 ICFTU *Annual Survey of Trade Union Rights* reports that there are heavy restrictions on trade union rights, particularly in privatized industries where workers "are denied freedom of association and the right to collective bargaining, and face long hours, compulsory night shifts, job insecurity, low pay and forced overtime." The Survey also notes that it is difficult for workers in all sectors to organize legal strikes because of lengthy and complicated government requirements.

- ILO Core Conventions Ratified: 29 - 87 - 98 - 100 - 105 - 111 - 138 - 182
- Major trade union federations: Trade Union Congress of Tanzania, Zanzibar Trade Union Congress

IFI Involvement

Tanzania is among the 18 HIPCs set to receive multilateral debt relief under the G8 debt plan in 2006. It reached its HIPC completion point in 2001, after having successfully complied with IMF structural adjustment programmes for several years. The World Bank portfolio in Tanzania comprises 23 active projects with commitments of US$1.6 billion. Tanzania owes $3.5 billion to the IMF.

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Profile and County Report for Tanzania.
* Using Purchasing Power Parity (PPP), figure from IMF World Economic Outlook database 2005.
® Average of GDP growth rates per year for years 2000-2005, IMF World Economic Outlook database.

URUGUAY

Basic Information[vii]

- **Capital:** Montevideo
- **Government type:** Constitutional republic
- **Population:** 3.42 million
- **Population below national poverty line:** 15%
- **Life Expectancy:** 75 years
- **Literacy:** 97%

Economy

The standard of living in Uruguay has historically been among the highest in Latin America, with relatively equal distribution of income. After nearly a decade of sustained growth in the 1990's, however, the country suffered a major economic downturn in 1999-2002 as a result of the crisis in neighboring Argentina and currency devaluation in Brazil. GDP fell by an average of 5% each year, and dropped by 11% in 2002 alone. Unemployment, inflation, and external debt surged during the same period. The economy began to recover in 2003, and grew by 12.3% in 2004, though unemployment remains high.

- **GDP*:** 32.9 billion
- **GDP per capita*:** 9,619Avg. GDP growth 2000-2005®: 0.8%
- **Unemployment Rate:** 15.8%
- **External debt:** 10.7 billion (2002)
- **Debt service as percentage of exports of goods and services:** 40.9% (2002)

Labor Issues

Information on trade union rights is not available.

- ILO Core Conventions Ratified: 29 - 87 - 98 - 100 - 105 - 111 - 138 - 182
- Major trade union centres: Plenario Intersindical de Trabajadores – Convención Nacional de Trabajadores (PIT-CNT)

IFI Involvement

The most recent World Bank Country Assistance Strategy for Uruguay projects financial assistance of up to US$800 million between 2005 and 2010, mostly for programs related to economic recovery. The Bank is currently financing eight projects in Uruguay with a total commitment of about $547 million. Uruguay owes $2.3 billion to the IMF.

Except where otherwise noted, statistics are quoted from November 1 2005 update of The Economist Intelligence Unit Country Profile Report and Country Profile for Uruguay.
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