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Privatization in Pakistan

DR. A.R. KEMAL*

1. Introduction

Despite frequent changes in the governments since 1985, five regularly elected and six care takers, there has been consensus on the continuation of privatization policy and as such it is expected to be cornerstone of all the future government policies, at least in the near future[1]. Instead of arguing the merits or demerits of the privatization policy, we explore policy measures that help the levels of efficiency and at the same time have the minimal adverse social impact.

A large number of public sector units have already been divested and a number of other public enterprises including telecommunications and thermal power stations have been placed on the privatization list. Nevertheless, serious doubts have been expressed about transparency of the bidding process and the impact of privatization on efficiency, investment, production, prices, employment and fiscal deficit. Accordingly, there is a need to identify constraints in realising various objectives of privatization with a view to suggesting concrete policy measures that may be taken to overcome the constraints.

Divestiture of assets is not new to Pakistan though the motivation for divestiture has not been the same in different time periods. During the 50s and the 60s, public sector used to invest in non-traditional activities especially where the gestation period was long and private sector was reluctant to invest. While a large number of private sector units were nationalized and public sector expanded at a rapid rate in the 70s, an effort to divest public sector enterprises were made during the mid-eighties. However, the efforts to divest shares worth Rs 2 billion of various profit making public enterprises in the mid-eighties and 14 loss making industrial units for divestiture in 1988 did not succeed. Similarly, out of the six profit-making corporations identified for partial divestiture in 1990, only 10 per cent shares of Pakistan International Airlines could be divested. The slow pace of privatization led to the establishment of a Privatization Commission on January 22 1991, which offered 105 industrial units, four banks, and two development financial institutions for sale. Subsequently, initiatives were undertaken for privatization of thermal power units of the Water and Power Development Authority (WAPDA), private sector managment of some sections of Pakistan Railways and

* Chief Economist, Planning Commission, Pakistan.

[1] The new government has announced that public enterprises shall be made more efficient. It does not suggest if privatization policy still continues or shall be abadoned.

partial divestiture of the Telecommunications Corporation of Pakistan (TCP). At present, as many as 46 industrial units, including all the remaining manufacturing units with the exception of Pakistan Steel, have been placed on the privatization list. Furthermore, two banks and six non-bank financial institutions; four units in the oil and gas sector; Karachi Electric Supply Corporation; six thermal power units and three area electricity boards of WAPDA; Pakistan Telecommunications; Pakistan Shipping Corporation and National Tanker Corporation; and Pakistan Railways are also on the privatization list.

During 1991-92, 69 manufacturing units and two commercial banks were successfully privatized. So far 91 industrial units, majority shares of two major banks and three non-bank financial institutions (NBFIs), 10 per cent shares of Pakistan International Airlines, 12 per cent shares of Pakistan Telecommunication and 26 per cent of Kot Addu power station have been divested. All in all 106 units have been divested, and so far government has received Rs. 59.6 billion through the sale of these enterprises. Total employment in the manufacturing units, which were privatized by sale of assets and where the management was transferred, was around 35,000, out of which 63.3 per cent opted for golden handshake scheme. If the retrenched workers are also taken into consideration, employment in privatized units may have gone down by at least three-fifth.

2. Rationale for privatization

Objectives of privatization at different points in time have varied. During the period 1988-90, privatization was pursued to divest 14 loss making manufacturing units and raise funds by selling shares of profit making units for retiring public debt and thus reducing debt servicing (See Rothschild, 1990). Privatization Commission in 1991 did not explicitly spell out the basic rationale for privatization. Nevertheless four major objectives that could be discerned from various statements issued by the government are:

- Improvements in the level of efficiency in the production processes;
- Reduction in the debt burden of the government and fiscal deficit;
- Broad-basing equity capital; and
- Releasing resources for the physical and social infrastructures.

Whereas in the initial stages of its establishment Privatization Commission did not spell out the objectives of privatization, it has recently come up with a very clear Mission Statement contained in the Privatization in Pakistan (1998):

> *"Privatization is envisaged to foster competition, ensuring greater capital investment, competitiveness, and modernisation, resulting in enhancement of employment and provision of improved quality of products and services to the consumers and reduction in the fiscal burden".*

The objectives of privatization outlined in the publication cited above are:

- Creation of market based economy
- Promoting the expansion and efficiency of private sector enterprises
- Encourage competition, specially by abolishing the monopolies and promote integration of the domestic economy into the world economy

- Support wider capital ownership and encourage employee owner relationship
- Establish and develop capital markets for mobilization of domestic savings
- Reverse the flight of capital abroad and repatriate capital already transferred
- Mobilization of private sector resources for future investments
- Promote economic flexibility
- Maintain or create employment
- Improve the quality of goods and services
- Maximise receipts from privatization to pay off public debt and reduce the public sector deficit
- Substantially reduce the size and scope of the public sector
- Substantially reduce the financial drain of public enterprises on the government
- Decrease the opportunities for misuse and corruption of public property by government officials and public sector managers.

These objectives are indeed laudable but quite ambitious. Though, privatization is neither necessary nor sufficient for realization of some of these. For example, mobilization of savings, reversing the flight of capital and promotion of savings and investments do not need privatization and they can not be achieved just by pursuit of privatization. In the following we examine the arguments that privatization lead to reduction in fiscal deficit, improvement in the efficiency levels, broad base the ownership and higher level of investment in the physical and social infrastructures.

2.1 Reduction in fiscal deficit

Privatization in a perfectly competitive market with complete foresight may have no impact on fiscal deficit because the expected sale price determined as the reserve price of assets would be exactly equal to the discounted flow of net benefits. If the private sector offers higher prices than the reserve price, fiscal deficit situation would improve. However, the private sector's willingness to do so, of course, depends upon the assessment of profits in the post-privatization period and willingness to share the expected higher profits with the public sector.

2.2 Increase in the efficiency levels

While private producers are forced to reduce their cost to minimum for their survival, public firms may not make sufficient efforts to reduce production costs as they are under no compulsion to ensure an acceptable return to the equity holders. Similarly, private managers have more flexibility in taking the decisions than the public sector firms. Moreover, public investments may be influenced by political considerations, thus adversely affecting the allocative efficiencies. While in a competitive framework, privatization would always help in realising allocative efficiency, X-efficiency and non-market efficiency gains, in a monopolistic framework this is not necessarily true. The cost in public monopoly at equilibrium point may not be minimal unless it is effectively regulated. Whether privatization would result in higher level of efficiency or not is an empirical question. For conflicting evidence see Stigler (1975); Wolf (1979), Baumol (1996) and Kemal (1996).

2.3 Releasing the resources for physical and social infrastructures

A well functioning and profit making public enterprises can also be divested for releasing the resources for development of infrastructures if the resources for infrastructure are not available.

2.4 Broad-basing of ownership of equity capital

Broad-basing the ownership of equity capital is for the reasons of distributive justice. But it presupposes that small investors have sufficient investible funds to buy the shares of public industrial enterprises and that unless the public enterprises are divested shares are not available to them. Both of these assumptions may not always be valid. Moreover, the assumption is that allocating a part of the shares at face value for the workers would result in improvement in the welfare for these workers.

3. Modes of privitization in Pakistan

Public enterprises may be liquidated or divested partially or completely, and the divestiture may take different forms including flotation of shares in the stock exchange market, sales through financial institutions and equity tap and outright auction.

- **Liquidation:** Public enterprises making losses due to a number of factors such as inappropriate location, poor technology, etc. cannot be divested, and as such they are prime candidates for liquidation and not divestiture. However, losses due to poor management may be overcome through transfer of management and control with or without transfer of the assets.
- **Sale of Assets:** The divestiture of public enterprises may be pursued through following four methods.
  (a) *Flotation of Shares:* The shares of public enterprises are floated in the Stock Exchange Market, and government progressively reduces its share holding in such enterprises. Such flotation has three distinct features. First, induction of private capital may result in higher levels of productivity. Second, government retains sufficient control if the firm is of strategic importance. Third, gradual divestiture would not have an adverse impact on the prices of the shares.
  (b) *Equity Tap:* The only difference in equity tap and floatation of shares is that the amount of shares being offered is not restricted. Whatever the demand, shares would be automatically supplied by the government.
  (c) *Sales through Financial Institutions:* Since capital markets in many developing countries are quite limited, it is feared that off-loading of shares in a big way may significantly depress the share prices. With a view to alleviating such

fears, financial institutions may be appointed underwriters to avoid a run on the share prices.

(d) *Auction:* Auction may be done through sealed bidding or open bidding. Similarly, bidding may be done for a part of the shares or for the entire company.

- **Privatization: By-passing the Sale of Divestiture:** Besides liquidation and sale of assets through any of the four methods, the public sector may take certain measures to realize the intended objectives without selling the assets.
  (a) **Franchising:** Government may offer a franchise to private sector, but control the prices.
  (b) **Repealing Monopoly**: Government may remove the restrictions on entry of the private sector in all activities.
  (c) **Contracting out**: Instead of carrying out certain services in the public sector, private contractors may be hired to do the specified work.
  (d) **Leasing**: Public assets are leased to the private sector with a view to improving productivity.

Following are the six different modes through which public enterprises in Pakistan were divested until 1997:

(i) Divestiture through bids;
(ii) Sale of suitable amounts of shares through the stock exchange;
(iii) Sale to Workers' Management Group on the basis of an evaluation of assets, liabilities and net worth and matching the maximum bid received;
(iv) Sale to ***modaraba*** companies, working on the Islamic profit-and-loss sharing principle, which raise funds for purchasing shares;
(v) Management contracts with ***modaraba*** companies, leasing or contracting of management to private entrepreneurs for a specified period; and, finally,
(vi) Lease management contract with the workers for a specified period to enable them to buy out the enterprises they have been working in.

The privatization policy of 1998 outlines following four modes for privatization:

- Total disinvestment through competitive bidding
- Partial disinvestment with management control
- Partial disinvestment without management control
- Sales/Lease of assets and property

These measures may be grouped into:

(i) Sale of assets through bidding to individuals, to workers-management groups, and to *modaraba* companies (those working on the profit and loss sharing principle); and
(ii) Sale of assets through the floatation of shares in stock exchange and leasing.

Liquidations have rarely been used; probably the roti corporation units are the only ones so far liquidated. Privatization Commission insisted that the units should be operated after the take over. Nevertheless, a large number of loss making units have been converted into essentially real estate.

In the eighties, government appointed financial institutions as underwriters but no unit could be divested. Similarly shares have not been put on tap. A limited number of shares of Pakistan International Airlines (PIA) and Pakistan Telecommunications have been offered for sale. PIA divested 10 per cent of the shares through the stock exchange, and Pakistan Telecommunications divested 12 per cent of its shares. Twenty six per cent shares of Kot Addu thermal power station have been divested with the change in management as well. Profitability in these organizations have increased sharply after the divestiture but not necessarily through improvements in efficiency.

The principal method of divestiture in Pakistan has been sealed bidding. Where bid was below the fixed price, the open bidding has been used. Sales have been generally to individuals or groups of individuals, but in nine specific cases sales have been made to the worker- management groups. On average the manufacturing units taken over by the worker-management groups have outperformed the units taken over by other private sector groups. In the banking sector, however, the performance of worker-management group has been inferior to the other divested bank.

Leasing, franchising, liquidation and other possible modes of privatization have been used only sparingly. A couple of railway sectors were offered to the private sector for operation but with not much success. Similarly there was a proposal to let private sector run the goods trains against the payment of track charges, but the experience has not been very successful. An exercise for unbundling of both WAPDA and railways was carried out but so far not much has resulted from such exercise.

The methods employed to privatise the public assets and their valuation, cost of disposal, and sources and timings of cash flows, and post-privatization capital structure play an important role in the realisation of various objectives of privatization. For example, the bid price offered by the prospective buyer depends on the perceptions regarding the net future benefits. In the absence of complete information, the expected profits are randomly distributed with subjective probabilities. The shape of probability distribution varies across individuals; risk averters would under-bid and risk plungers would overbid. Withholding the information has also serious implications for the levels of productivity. The firms, which is able to buy the unit at a price lower than the reserve prices,[1] may feel as if its operations are efficient but in fact they may not be, and as such may develop inertia to improving productivity. The over-bidders, on the other hand, may run into losses and cash flow problems with the result that unit may close down and overall productivity of the economy may fall.

4. Privatization and fiscal deficit

One of the main objectives of the privatization has been reduction in fiscal deficit. Privatization is presumed to help in retiring the public debt and thus in reducing the debt

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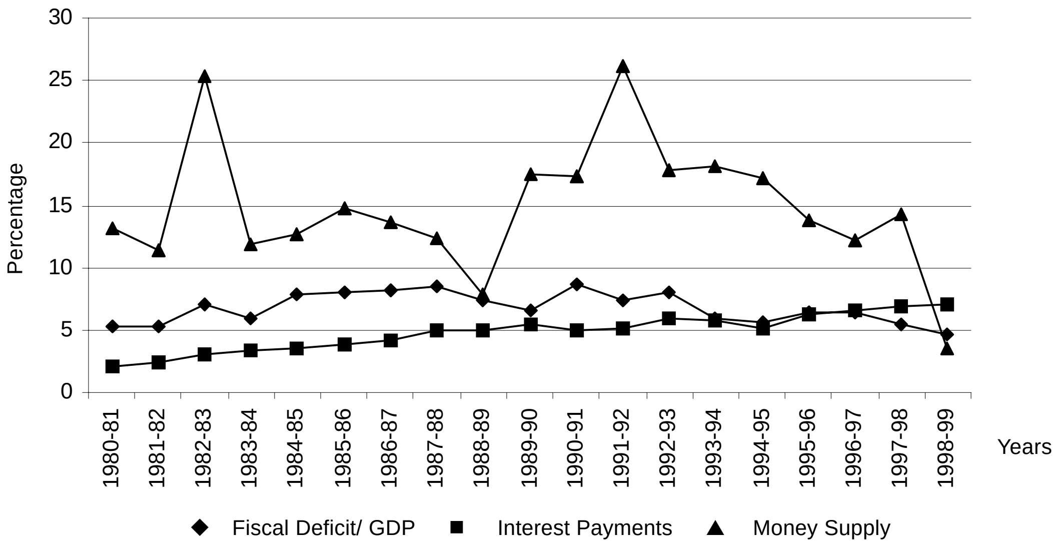
[1] It assumes that reserve prices have been correctly perceived by the government agency.

servicing. At the same time the surplus of autonomous enterprises also tends to fall. If reduction in debt servicing exceeds the fall in surplus of autonomous bodies, budgetary deficit tends to fall.

The Stabilization and Structural Adjustment Programmes of IMF being implemented since 1988-89 also aim at a reduction in fiscal deficit through resource mobilization and reduction in public expenditure. Therefore, reduction in the fiscal deficit in the post-privatization period cannot be attributed to privatization only.

The fiscal deficit increased upto 8.5 per cent of GDP by 1987-88 when Pakistan signed three year Stabilisation and Structural Adjustment Program (1987-88 to 1990-91). Fiscal deficit declined to 6.5 per cent of GDP over the first two years of the program. However, despite the divestiture of a large number of manufacturing units and two banks in the 1990-93 period, fiscal deficit increased sharply though it declined to a level of around 6.5 per cent in the subsequent years. Cumulative privatization receipt of Rs 59.6 billion compared to a debt of Rs 2,500 billion is rather small. The interest payments savings by retiring Rs 59.6 billion may not even be sufficient to compensate for the decline in surplus of autonomous bodies. It may, however, be added that privatization of large banks and telecommunication can have significant influence on the fiscal deficit (Figure 5.1).

Figure 5.1
Privatization and fiscal deficit



5. Privatization and levels of efficiency

While it is generally believed privatization results in higher level of efficiency such claims cannot be substantiated always. Alam (1989), Beesley (1997), Candoy (1989), Caves and Christensen (1980), CIDA (1987), Dotgson (1987), Foreman Peck (1989), Kemal (1993, 1996), Naqvi and Kemal (1991, 1994, 1998), Sen (1992), Selim (1988) and Walle (1989) have provided examples that privatization did not necessarily improve the level of efficiency. Kikeri, Nellis and Shirley (1992) have shown, on the other hand, that while in most of the cases privatization led to improvement in efficiency, at least in 25 per cent of the cases it did not. The general conclusion emerging from these studies is that the quality of management and the market structure and not privatization per se determine performance of a firm.

Competitive market structure forces producers to reduce the cost to minimum and increase the output to a level where marginal cost is the minimum. Accordingly privatization in a competitive framework results in higher levels of production and lower level of prices with favourable impact on employment, real wages and investments. On the other hand, in a monopolistic framework producers restrict the output to a level where price exceeds the marginal costs which are still falling and may lead to lower level of output, higher prices and loss of consumer surplus. By regulating the prices, a monopolist may be forced to lower the prices to marginal cost. While tradable goods industries can be regulated through changes in the import duties on competitive imports, in case of non-traded goods efficient regulation may not even be feasible.

The decreasing cost in industries results in natural monopolies and the producers make losses if production is expanded to a level where marginal cost is the minimum. Unless private sector firms are compensated for the loss, no regulation can force a firm to increase the output to a level where marginal cost is the minimum. Subsidy can be avoided if firm is allowed to restrict output and charge a price equal to the average cost. The assumption that an efficient regulatory agency capable of determining and enforcing marginal cost or average cost pricing would exist may not be valid (See Baumol, 1996).

5.1 Increase in efficiency in manufacturing

Comparison of efficiency in public industrial enterprises and private sector firms in the manufacturing industries of Pakistan where both the sectors simultaneously operated prior to the divestiture of manufacturing industries failed to substantiate higher levels of efficiency of the private sector firms compared to public sector firms. (See Naqvi and Kemal, 1991). Comparison of investment, production, efficiency, employment, wages and prices in the pre- and post-privatization has been made somewhat difficult because of the IMF deflationary stabilisation programs implemented over the same period. The comparative picture, therefore, needs to be viewed keeping that caveat in mind.

For comparison purposes the 1986-91 is taken as pre-privatization period and the 1992-97 as post privatization period.[1] Over the two time periods average growth rate of GDP has gone down from 5.44 per cent to 4.15 per cent and the compound growth rate from 5.44 to 4.13 per cent – a decline by more than one per centage point in growth of GDP. While the decline in growth rate may also have been the result of deflationary monetary and fiscal policies but at least partly it is due to privatization (Figure 5.2).

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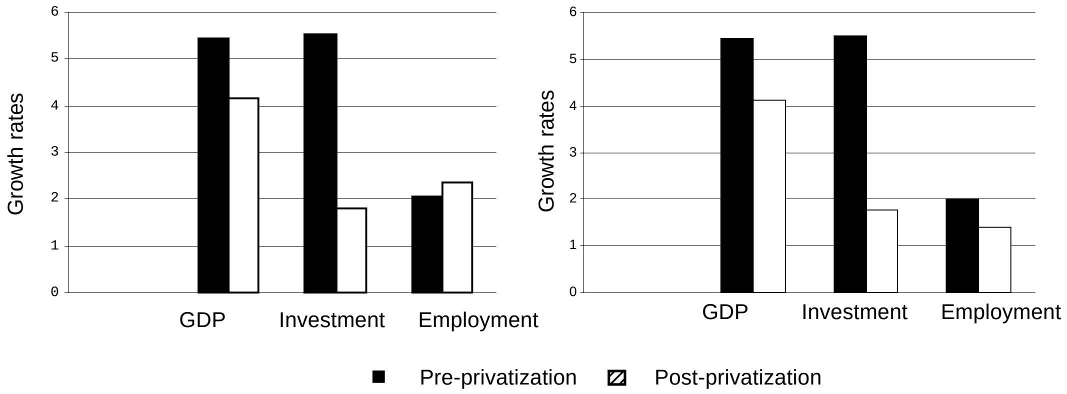
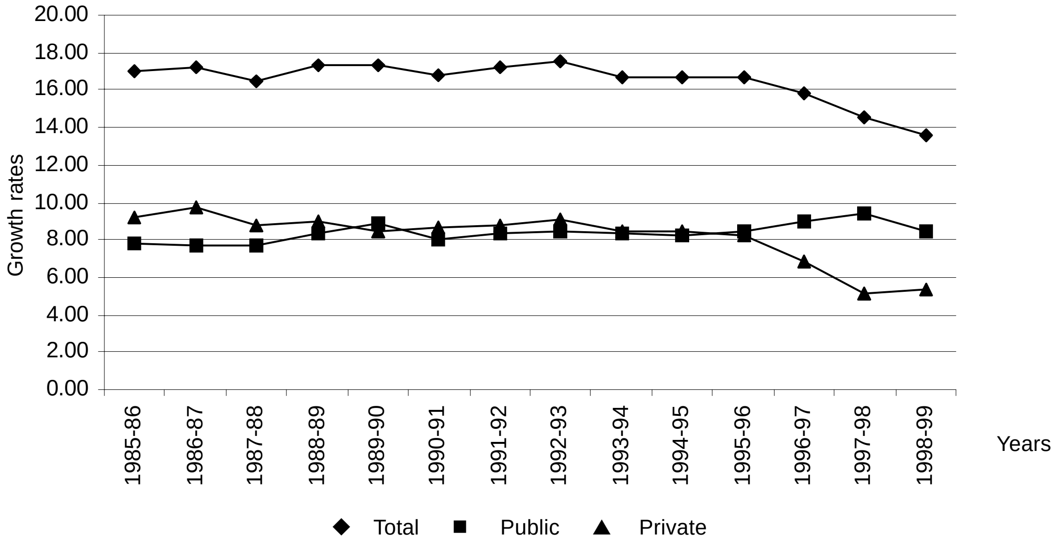
[1] 1991-92 year has been excluded as a privatization period.

Figure 5.2
Average and compound growth rates of GDP, investment and employment



The decline in the growth rate of investment has been even more dramatic. The average growth rate of investment fell from 5.55 per cent to just 1.82 per cent and the compound growth rate from 5.49 to 1.76 per cent. The fixed investment as a per centage of GDP has fallen from a little more than 17 per cent in the second half of the eighties to 13.6 per cent of GDP by 1998-99 only because public sector investment declined from about 9 per cent to 5.2 per cent over the same period. The private sector investment, in fact, increased from less than 8 per cent to 9.4 per cent in 1997-98 (falling to 8.4 per cent in 1998-99), but it could not compensate for the decline in public investment (Figure 5.3).

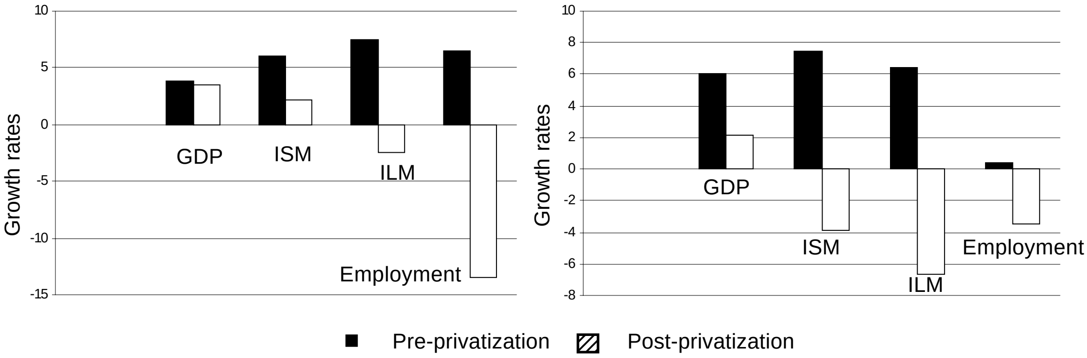
Figure 5.3
Fixed investment ratios



The output and investment in the manufacturing sector show similar trends as observed in the aggregate GDP and investment. The average growth rate of manufacturing output over the two time periods fell from 3.85 to 3.45 per cent while the compound growth rate declined from 6.03 to just 2.16 per cent.[1] Similarly the average growth rate of investment in the large scale manufacturing sector fell from 7.44 per cent to -2.45 and the compound growth rate from 6.46 to -6.64 (Figure 5.4).

Figure 5.4

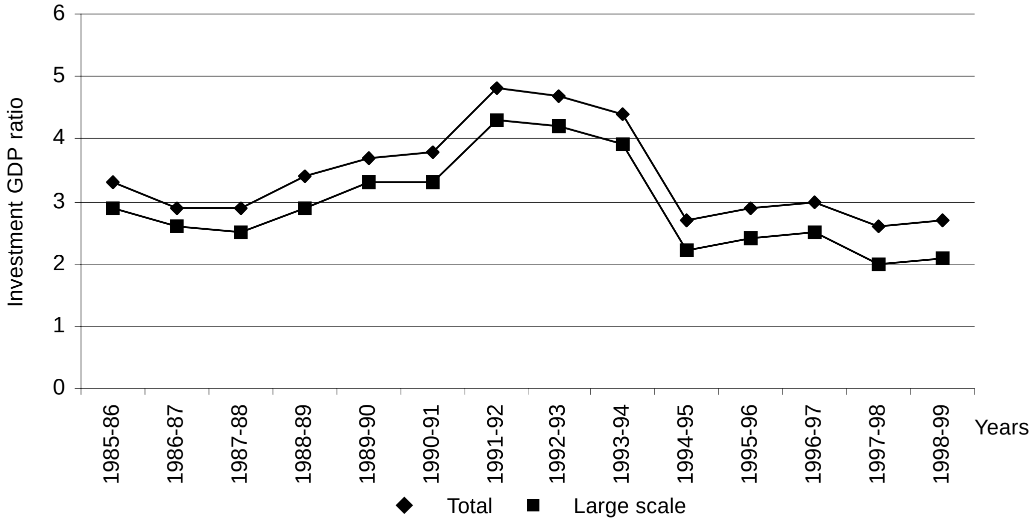
Average and compound growth rates of GDP, investment and employment



Sharp fluctuations in the investment in the post privatization period needs to be noted. Investment rose sharply during 1991-94 period ranging between 4.4 and 4.8 per cent of GDP and but since then has declined to 2.7 per cent of GDP by 1998-99 (Figure 5.5).

Figure 5.5

Investment in manufacturing



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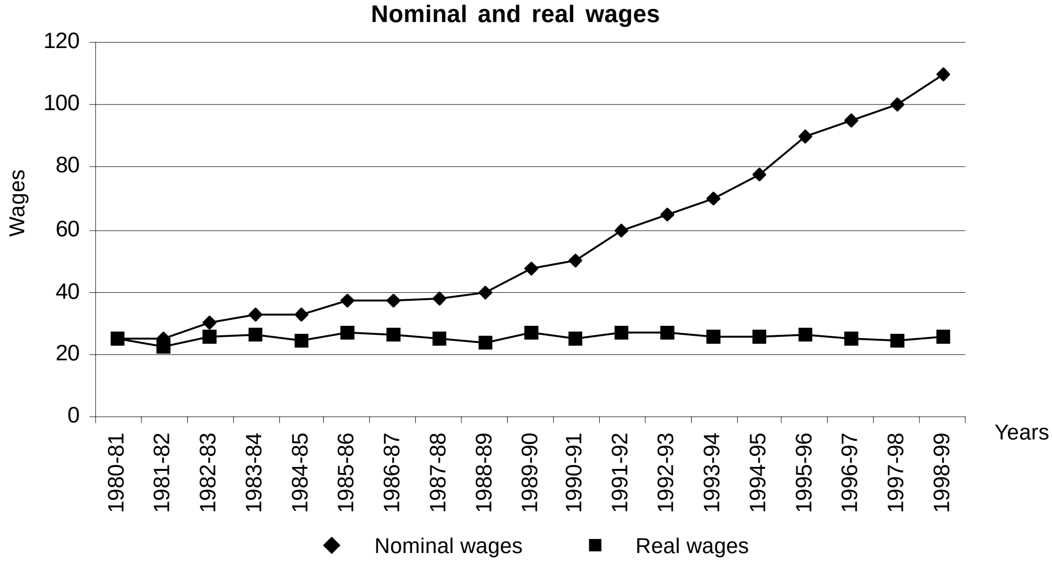
[1] The difference in compound and average growth rates is a reflection of sharp fluctuations in the growth rates of the manufacturing sector.

In order to assess the growth of the industry, the data made available by the Federal Bureau of Statistics (FBS) and Provincial Bureaus of Statistics (PBS) on production, employment and employment cost has been analysed. The FBS data indicate an increased growth rates in case of vegetable ghee, nitrogenous fertilisers, soda ash, caustic soda, chlorine, switch gears and tractors and a decline in the growth rates of phosphatic fertilisers, cement, scooters, motorcycles, buses, trucks, motor cars and jeeps. Decline in output of cement and consumer durables industries seem to have been the collusion of the duopolists.

The PBS data also show a sharp increase in the growth rate of vegetable ghee, fertiliser and chemicals industries while cement and automobiles industries indicate a sharp fall in the growth rates of output. However, the real wages have been stagnant thus indicating that the workers have been untouched by any growth (Figure 5.6).

Figure 5.6
Nominal and real wages



The analysis of variance and regressions reported in Kemal (1996) does not suggest any improvement in the levels of efficiency measured by the return to equity or return to fixed assets. With a view to isolating the impact of concentration and protection levels on the growth of output after privatization, growth rate of post-privatization period was regressed against the growth rates in pre-privatization period, concentration ratios and protection.

The coefficient of dummy variable is negative in eight and positive in the remaining 6 industries but in nine industries it is insignificant. The coefficient is significant and positive in nitrogenous fertilisers and switchgears, and significant and negative in scooters/ motorcycles, LCVs, motorcars and jeeps. Fertiliser is a regulated industry and the automobile sector is oligopolistic (Table5.1).

Data to estimate total factor productivity are sketchy. The Census of Manufacturing Industries data show a decline in total factor productivity in the large scale manufacturing sector by 6 per cent but an increase by 2 per cent in the privatized industries over 1991-96 period. While productivity in vegetable ghee and transport equipment industries increased by 69 and 18 per cent it fell by 29 per cent in compressed gases, nine per cent in fertilizer, six per cent in cement, one per cent in agricultural machinery and 33 per cent in textile machinery (Table 5.2).

Table 5.1: Results of regression of post-privatization output against time, dummy and manufacturing output

Name of industry	*Coefficient of time*	*Coefficient of dummy*
Vegetable Ghee & oil	1.98	0.004
Nitrogenous fertilizers	8.4*	0.18*
Phosphatic fertilizers	-15.6*	0.01
Soda ash	6.1*	0.03
Caustic soda	7.5*	-0.07
Chorine	18.3*	-0.13
Cement	1.5	-0.07
Switch gears	-15.6	1.06*
Scoters/Motor cycles	10.9	-0.33
Trucks	9.1	-0.2
Buses	5.6	-0.75
LCV	11.3	-0.65*
Motor cars/Jeeps	6.8	-0.55*
Tractors	5.2	0.08

Note: * shows significant at 5-per cent level,

Table 5.2: Total factor productivity

Industries	*Total factor productivity*
All industries	0.94
Vegetable ghee	1.69
Compressed gases, etc	0.71
Fertilizers	0.91
Cement	0.94
Agricultural machinery	0.99
Textile machinery	0.67
Transport equipment	1.18
Total privatized industries	1.02

Public enterprises have been instrumental in diffusion of technology especially through vigorous pursuit of an indigenisation program. Whereas public sector firms would provide training facilities irrespective of the fact whether gains from training are internalized or not, private sector would not make such investments unless they are sure that gains can be internalized. This may have serious implications for productivity.

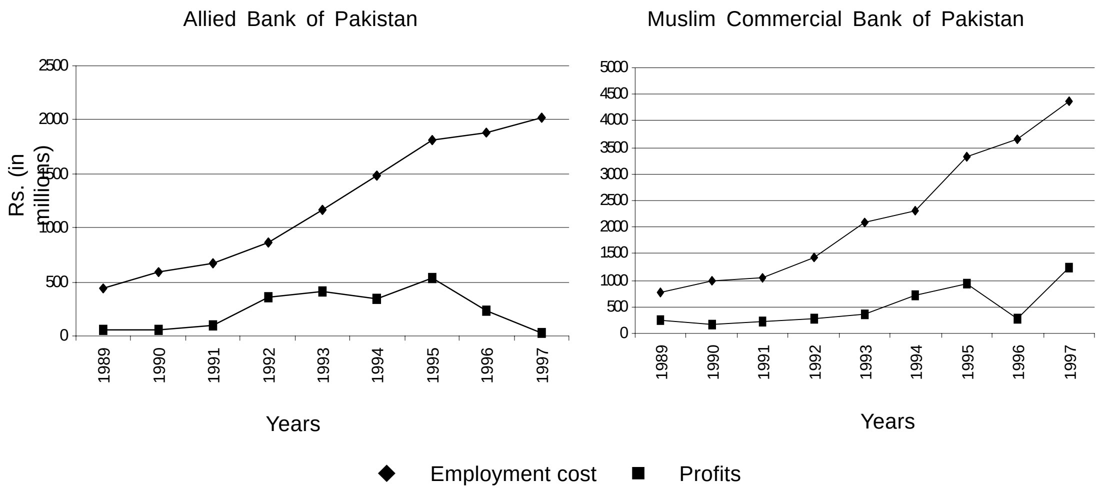
The common man would see the benefit of the privatization only if the prices fall. Besides, if the growth of production falls and prices rise, then it is clear that they are using their monopoly power. The real prices deflated through the wholesale price index of the products of the industries produced by the privatized industries have not fallen. As a matter of fact, they have gone up.

5.2 Banking sector

Pakistan has already divested two relatively smaller banks and is in the process to divest two major banks. A large number of Pakistani and foreign banks are operating simultaneously in Pakistan, and they compete vigorously with each other. It is therefore expected that performance of the privatized banks would be better.

Two privatized banks are Allied Bank Ltd. (ABL) and Muslim Commercial Bank (MCB). Former was taken over by a management group and a private investor has acquired the latter. The performance of the Muslim Commercial bank in the post privatization period has been somewhat better then that of the Allied Bank. However, any improvement in performance is overshadowed by the ballooning employment cost (Figure 5.7). Paid-up capital of ABL increased from Rs 272 million in 1991 to Rs 1063 million by 1997 and of MCB from Rs 576 million in 1991 to Rs 1820 million in 1997. Similarly deposits of ABL increased from Rs 25 billion to Rs 63 billion and of MCB from Rs 350 billion to Rs 1024 billion over the same period. The profits of both the banks have increased. In case of ABL, profit increased from Rs 100 million in 1991 to Rs. 531 million in 1995 but since then it has fallen. The profit of MCB increased from Rs 212 million in 1991 to Rs 1235 million in 1997.

Figure 5.7
Performance of the banking sector



Source: Banking Statistics of Pakistan, various issues.

5.3 Power and telecommunications sector

Only 26 per cent shares of one thermal unit have been divested and the management has been transferred to the private sector. There may have been an improvement in productivity but the increase in profits has been due to higher prices, which were also guaranteed. The increase in power prices and losses of the power utility have placed a question mark over the concept of welfare. On the other hand sale of shares of telecommunications and PIA without any change in management could not have any impact on the levels of efficiency.

6. The Impact of privatization on employment

While improvements in productivity would eventually result in higher levels of well being, the impact of privatization on prices, employment and wages and other employment benefits determine the resultant impact on social fabric of the country. As mentioned earlier, privatization neither resulted in lower rate of inflation nor in the lower real prices of the products of the privatized industries.

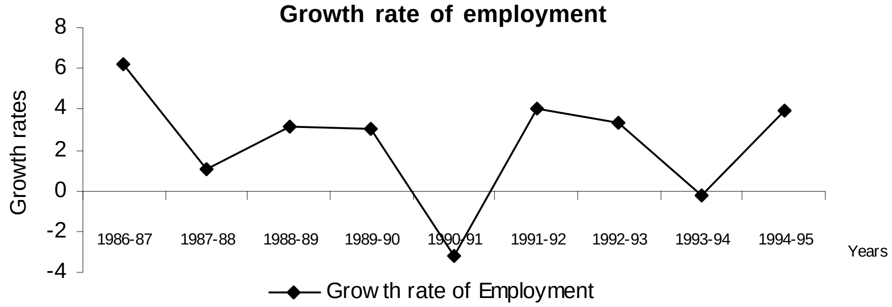
The decision to divest manufacturing and financial enterprises, Water and Power Development Authority (WAPDA) and Pakistan Telecommunications put the job of more than 500 thousand workers at stake. There are five possible ways in which privatization may affect the labour. First, since public sector enterprises traditionally employ labour in excess of their requirements, the private sector would like to get rid of the excess labour. Second, in an oligopolistic market structure the possibility of collusion is quite distinct and as such they may restrict the output, and consequently the demand for labour would be reduced. Third, the private sector may like to opt for capital intensive methods of production, thus further reducing demand for labour. Fourth, even when more workers are required in the private sector, they may be hired on contract with a view to avoiding benefits to be provided to full time employees.

Obviously, divestiture through stock exchange without change in management would hardly affect the level of employment. However, complete or partial divestiture with change in management and enterprise restructuring prior to its sale would definitely affect the employment levels because the public enterprises are generally overmanned. (See Kemal, 1993 and Lawai, 1993). The recent restructuring of Habib Bank and United Bank resulted in loss of job for ten thousand workers. Similarly 2,225 out of 3495 employees of the heavy engineering industry have taken golden handshake/voluntary retirement and 2195 employees in vegetable ghee mills not yet privatized have taken voluntary retirement.

6.1 Trends in employment

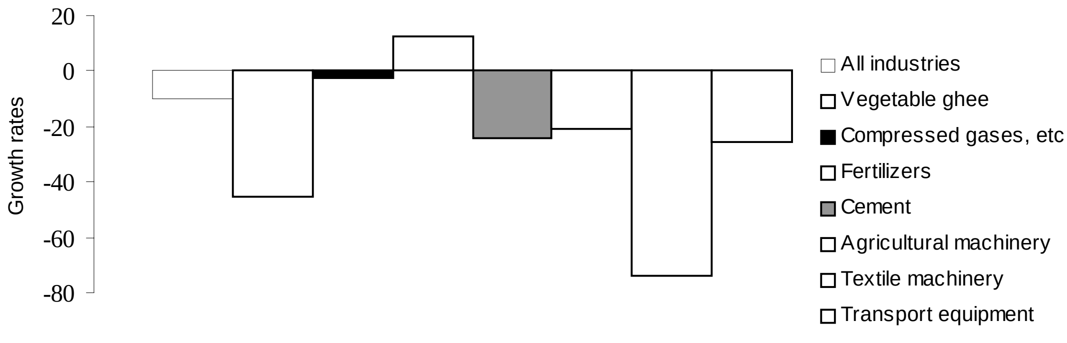
Compared to an annual compound growth rate of 2.0 per cent growth in the overall employment in the pre-privatization period, the growth rate fell to 1.39 per cent in the post-privatization period. Increase in capital intensity over time has constrained the employment growth in addition to decline in the growth rate of output. Employment situation in the manufacturing sector, where most of the privatization has taken place, is quite worse. Whereas in the pre-privatization period, employment in the manufacturing grew at a rate of 6.5 per cent, employment in the manufacturing sector declined at a rate of 13.5 per cent. Even more disturbing is the decline in employment in the small-scale industries in recent years. The Census of manufacturing industries data indicate 9.7 per cent decline in employment in the large scale manufacturing sector over 1990-91 to 1995-96 period (Figure 5.8).

Figure 5.8
Growth rate of employment



The Provincial Bureaus data available only for two provinces viz. Punjab and Sindh indicate that except for fertilizer where employment increased at a rate of 1.37 per cent in the post-privatization period compared to a decline in the pre-privatization period, the trend is exactly the reverse in all the other industries. Employment in vegetable ghee grew at a rate of 1.66 per cent in the pre-privatization period, but declined at an annual compound rate of 4.78 per cent in the post-privatization period. Employment in the cement industry increased at a rate of 0.85 per cent in the pre-privatization period and declined at a rate of 3.84 per cent in the post-privatization period. Employment declined at a rate of 2.95 per cent in chemicals and at a rate of 2.16 per cent in automobile industries during the post privatization period (Figure 5.9).

Figure 5.9
Growth rate of employment in large scale



The Census of Manufacturing Industries data also shows a decline in employment in the large scale-manufacturing sector. Except for fertilizer, where employment increased by 12.4 per cent, all the other privatized industries have witnessed very sharp decline in employment. Vegetable ghee lost 45 per cent of the work force and textile machinery about three-fourth.

With a view to protecting the workers against the loss of job, the government and the representatives of the workers had reached an agreement in 1991. The agreement states:

(a) That there shall be no lay-off during the first year of privatization;

(b) That workers opting for the golden handshake will be given four months of the last salary drawn *plus* gratuity equaling to one month salary for each year of service;

(c) That worker's rehabilitation programme through overseas employment and training will be continued and adopted;

(d) That 10 per cent of the shares should be offered to the employees; and

(e) That the workers should be allowed to bid for purchase of the unit and they shall be given preference.

The agreement guarantees the job for one year. Though workers were not laid off in the first year, producers encouraged their workers to take the golden handshake and as many as 63.3 per cent of the employees in the manufacturing sector opted for golden handshake. Whereas the incidence was only 10.5 per cent in the fertilizer industries but almost everyone opted for voluntary retirement scheme in newspaper industries. In rice and roti plants it exceeded 90 per cent, in engineering, ghee and chemicals it exceeded 70 per cent and in automobiles and cement it exceeded 30 per cent. The high incidence of golden handshake may have been the result of two main factors. Firstly the workers knew that the job security was offered only for just one year and as such they did not want to take any chances. Second, since the responsibility of paying golden handshake was with the government, the new owners encouraged the workers to take golden handshake and later employ them on contract (Table 5.3).

Table 5.3: The incidence of golden handshake

Industries	*Total employment*	*Per centage opting for golden handshake*
Automobiles	4604	38.0
Cement	8289	36.1
Chemicals	6342	70.8
Fertilizer	688	10.5
Engineering	2661	77.5
Ghee Mills	5057	74.3
Rice	810	93.3
Roti Plant	676	99.1
Newspapers	1142	100.0
Miscellaneous	5056	97.3
Total	34649	63.3

Source: Privatization Commission.

As much as one quarter of the bid value has been used in the golden handshake and in some industries they have even exceeded the bid value (Table 5.4). This was necessitated by the fact that such industries were making losses and there was no way that the industry could be divested unless they were provided the golden handshake.

Table 5.4: Bid value and golden handshake payments

Particulars	*Bid value (in million Rs.)*	*Per centage of bid value used in golden handshake*
Automobiles	1032.77	12.89
Cement	6352.27	11.05
Chemicals	5320.53	15.06
Fertilizers	435.39	0.70
Engineering	193.35	51.05
Ghee Mills	620.05	56.13
Rice	237.35	39.02
Roti Plant	18.90	25.88
Newspapers	231.10	191.00
Miscellaneous	175.15	533.70
Total	14616.86	24.35

Source: Privatization commission.

A large number of units have been virtually closed and some of them have changed the manufacturing activity. Essentially in such cases all the workers have been rendered unemployed. More than half the industrial enterprises either are closed down or almost all the employees have been rendered surplus.

The worker-management groups have acquired 9 units. They are operating efficiently without any retrenchment of the workers. As regards retraining of the workers there has been virtually no progress. The workers are invariably offered ten per cent shares but they have rarely shown interest in purchasing shares in these units.

6.2 Banking Sector

ABL was transferred to the management group of the workers employed in the bank and as such there has been no reduction in the employment. Similarly, MCB did not lay off any workers. The wage bill of ABL has increased from Rs 677 million in 1991 to Rs. 2017 million in 1997 and of MCB from Rs 1048 million to Rs 4361 million over the same period. The increase at current prices over the six years period is 197.9 and 316 per cent respectively in ABL and MCB. The consumer prices over the same period increased by 104.0 per cent. Increase in employment cost in real terms may be reflecting to some extent increase in employment but mainly it is due to an increase in wages and salaries.

7. Wage rates and social protection of the workers

The interviews carried out with the manufacturers and the labour leaders show interesting views. The producers in general appreciate the privatization policy but they have divergent views on privatization of the infrastructures. While those engaged in the manufacturing activity feel that the government has no business to carry out the commercial activities like manufacturing, and they are against privatization of utilities. This is because induction of private sector in power has raised the cost of electricity to a level that they have lost comparative advantage. They are of the view that if infrastructure units have to be privatized it should be through stock exchange, and the pricing policy should be under the control of the government. They also indicate that more transparency would help the privatization process in a significant way (Figure 5.8).

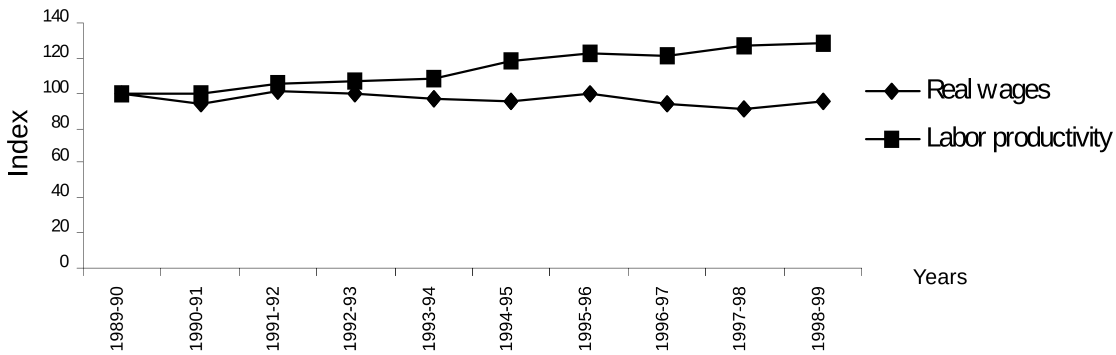
Whereas the private sector maintains that they are providing even better facilities to the workers than they were enjoying in the public sector, the workers do not agree. The workers suggest that while employees' old age benefit is intact, the pension scheme for the managers and professionals has been abandoned, the number of bonuses has been slashed and increments to the salaries have been stopped. Workers also complain about the insecurity of job and pension and believe that the low paid employees are being thrown out.

The trends in nominal and real wages show interesting pattern. Whereas upto 1990-91 there was an increasing trend, the same is not observed in the post privatization period. The Provincial Bureau data indicate a very sharp decline in the real wages of the workers. The aggregate real wages have declined by 7.6 per cent in the 1990-91 to 1997-98 period compared to 37 per cent increase in the 1983-84 to 1889-91 period. The decline over the same period has been 29.1 per cent in vegetable ghee industry and 17 per cent in cement industry. However the wages increased in the fertiliser sector by 7.7 per cent over the same period.

The Census of Manufacturing Industries Data indicates a marginal increase of 2.5 per cent in the real wage rate over the 1990-91 to 1995-96 period. The increase in the

Figure 5.10

Labour productivity and real wages



industries that have been privatized is 5.1 per cent. Nevertheless in the vegetable ghee, compressed gases, and textile machinery real wages declined by 12.3, 22.3 and 30 per cent respectively.

The survey carried out by Worker's Federation of Pakistan (1993) spells out the benefits to the workers of both the private as well as public enterprises. The survey shows that the fringe benefits in the private sector are lower and workload is higher compared to the public sector. Whereas 47.1 per cent public firms in the manufacturing sector operated for five days a week and another 23.5 per cent for five and a half days per week, the proportion in the private sector was only 23.5 and 15.7 per cent respectively. In the services sector 31.4 and 21.0 per cent of public firms operated for five, and five and half days, the proportion in the private sector was 10.1 and 5.8 respectively including a high probability that workers may be asked to put in more days of work after privatization. Leave entitlements including annual, causal and sick leaves are higher in the public sector than the private sector.

The employers are obliged to provide various facilities to the workers under law and they do provide most of the services including social security, old-age benefits, workers' profit participation, children's education and accommodation. Proportion of firms providing transport facilities is lower in the private sector. Similarly, the private sector does provide medical facility, but the quality and coverage is inadequate.

Whereas in the public sector both provident and gratuity is provided or pension is provided in most of the cases, in two-third of the cases in the private sector, workers have a right of either provident fund or gratuity.

8. The environment for private sector and medium term projections of investment and employment

Whereas level of employment declines in the short run following privatization, over longer run it may result in higher levels of employment through higher levels of investment and production. As a result of privatization, the public investment starts falling but the private sector may more than compensate and as such total investment may rise. This is because more avenues are opened up for the private sector and it builds up the confidence of the private sector especially of the foreign private investors.

Fiscal incentives, de-regulation, privatization, tariff rationalization, removal of non-tariff barriers, no restriction on investment activity, allowing private sector in all types of economic activities etc. creates a conducive atmosphere for investment. The after-effects of sanctions, inconsistent policies and lack of continuity have been some of the problems in attracting both the indigenous and foreign investors. With announcement of a very clearcut investment policy and the resolve of the government to stick to the policies is expected to result in higher level of investment.

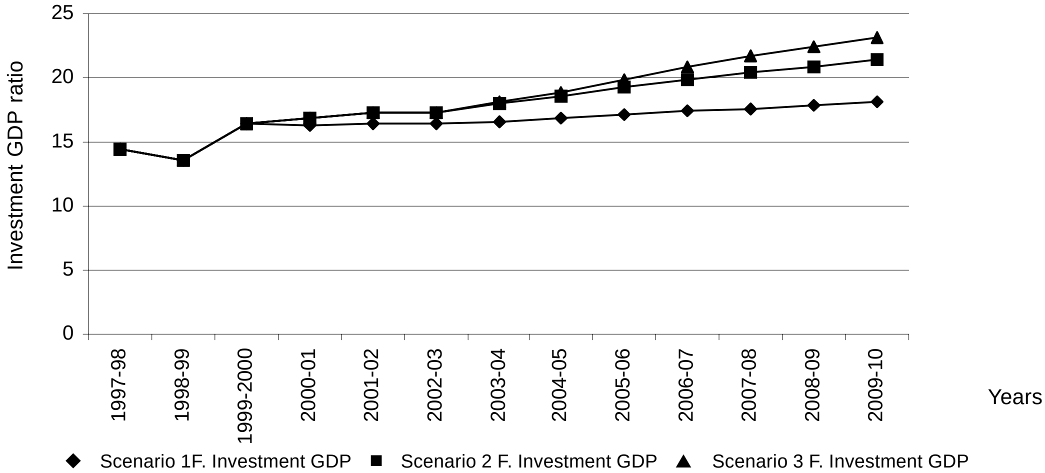
Special efforts have been made to attract foreign private investment. There are no longer any restrictions on entry in any economic activity or on the proportion of the equity held by the foreign firms. The liberalization of the foreign exchange market has removed restrictions on the payment of royalties and technical fees, on raising funds from the local capital markets and the banks and on repatriation of principal, capital gains and profits. The foreign investors have been guaranteed the safety of their capital. The privatization policy, in addition to the measures enumerated above, has also encouraged the foreign investors. While during 1991-97 period foreign private investment did increase and most of these have been in the energy and other infrastructure projects, after the sanctions and row between WAPDA and the IPPs, the investment has fallen. Moreover, foreign investment is not expected to generate significant levels of employment because of their high capital intensity.

8.1 Medium term projections of investment and employment

Soon after initial privatization total investment had started rising with major share accounted for by the private sector. However, since 1992-93 the investment has started declining and after the sanctions it has gone down very sharply and fixed investment has fallen to just 14.5 per cent of GDP. No doubt these rates are rather low, and the privatization and deregulation policies would result in higher level of investments. However, what would be the response of private sector is too early to say. Therefore, three alternative scenarios are presented below (Figure 5.11).

Figure 5.11

Projected level of investment GDP ratio



The first scenario essentially assumes that investment would rise slowly to 18.2 per cent of GDP by 2010. Scenarios 2 and 3 are more ambitious where fixed investment would rise to 21.4 and 23.5 per cent respectively by 2010.

A high rate of investment, via a higher growth of the GDP, is expected to stimulate the demand for labour to absorb the increments in the labour force. The increase in the demand for labour is projected on the assumption that employment elasticity would be 0.36. In the modest growth of investment, labour demand does not increase sufficiently and even by the year 2010 the unemployment remains around 6 per cent. Even in other two scenarios where there is a rapid growth of investment, unemployment remains above 6 per cent level. Thus, there is a need to use more labour intensive technologies if unemployment problem is to be resolved.

9. Regulatory reform

Only an efficient regulatory framework can ensure higher level of productivity in monopolistic framework. Baumol (1996) points out that the six mechanisms of regulation usually employed to regulate firms must be avoided. First strategy could be to break the monopoly injecting more competition by introduction of additional firms into market especially when the scale of economies are significant. Second strategy could be maintaining cross subsidies and thus driving out of line the prices required for economic efficiency. Third strategy could be imposing exclusive territories for different competitors and thus increasing the cost. Fourth, there are inconsistencies in the regulators' policy. Fifth, there could be delays in decisions in accordance with the market conditions by the producers just because the regulators have not been able to make the decision in time. Sixth could be regulation through accounting conventions such as fully distributed cost boils down generally to cost plus formula for prices, eliminates any incentives for reducing the cost.

Let us examine the extent to which Pakistan has been able to follow the suggestions of Professor Baumol. Demand for a large number of industries in Pakistan is not even sufficient for even a single plant of optimum size. But the competition has been encouraged in these industries, thus reducing the levels of efficiency even further. Cross subsidies can play an important role but the international organisations do not allow that. Case in point is the inefficient use of phosphatic and nitrogenous fertilisers. A few years back, sugar mills were not allowed to buy the sugarcane from other than their own zones, thus increasing the cost of production. As regards inconsistencies and delays by the regulatory authorities, the two agencies so far established for power and telecommunications do not hold much of promise. It seems that the regulatory authorities are following a full cost pricing rules and the guaranteed return on equity, which can hardly result in higher levels of efficiency.

Regulation of the industry is to facilitate and encourage effective competition. In the presence of scale of economies, marginal costs pricing are incompatible with solvency of the firms. Baumol outlines the following seven rules of economic regulation.

1. Where there is evidence of competition, regulators should refrain from intervention.
2. Where competition can be stimulated, it must be done.
3. The regulators should make sure that prices in the long run do not exceed the levels, which in a perfectly competitive market would make entry profitable.
4. Prices should not be permitted to go below those that would be viable for any substantial period in a competitive or contestable market[1], i.e. prices should not fall short of the marginal cost of any product or the per unit incremental cost of the entire output of any homogenous product.

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[1] Contestable markets are defined as the state of a market in which there is totally costless and an unimpeded freedom of entry and exit.

5. Because in a contestable market, one may encounter prices close to the stand-alone cost ceiling or the marginal-average cost floor, the firm should be left free to adopt any price within these limits.
6. Price caps may substitute the ceilings on total earnings or rate of return on investment.
7. When inputs are supplied by a regulated firm, both to itself as a component of one of its final product, and to a competitor producer, the regulated firms should charge the rival the same price for that input that the former implicitly charges to itself.

10. Summary and conclusions

Privatization Policy is the cornerstone of economic policy of Pakistan and the paper examines impediments to realising the objectives of privatization, which include higher levels of efficiency, investment, production, employment, and physical and social infrastructures and retirement of the public debt. So far 106 units have been divested and government has received Rs 59.6 billion through the sale of these enterprises. The principal method of divestiture has been through sealed bidding. The floatation of shares on the stock exchange has so far been used to divest ten per cent of the shares of the Pakistan International Airlines (PIA) and 12 per cent shares of Pakistan Telecommunications. Twenty six per cent shares of Kot Addu thermal power station has been divested with handing over of the management to the private sector firm.

Privatization has not been able to reduce the fiscal deficit, which has continued to be in the range of six per cent. The deficit might have fallen further had the interest rates not risen following the financial sector reform. Over the period of privitization in the nineties development expenditure has declined from 8 to 3 per cent of GDP, thus suggesting that privatization probably had no impact on fiscal deficit. Since cumulative receipt from privatization does not exceed Rs 59.6 billion, which compared to a debt of Rs 2,500 billion is rather small and could have only a limited impact on debt servicing. Nevertheless, privatization of large banks and telecommunication can have significant influence on the fiscal deficit.

Privatization can result in higher growth, increased productivity and lower prices but only in a competitive framework. In a monopolistic framework, however, producers restrict the output to maximise their profits. By regulating the monopolies a producer may be forced to reduce price and increase the level of output. While such regulation is relatively easier in tradable goods industries by reducing the imported duties on competitive imports, in case of the non-traded goods it may not even be feasible.

The average growth rate of GDP has gone down from 5.44 per cent to 4.15 per cent and the compound growth rate has fallen from 5.44 to 4.13 per cent during pre and post privatization period. Similarly average growth rate of investment fell from 5.55 per cent to just 1.82 per cent and the compound growth rate from 5.49 to 1.76 per cent. The decline may have been due to the deflationary monetary and fiscal policies pursued under the stabilisation programs but privatization has also been responsible for that.

The analysis of variance does not show any difference in the growth rate of output in the pre-and post-privatization period. Similarly, there is no difference in the return to equity or return to fixed assets in the pre-and post-privatization period. The analysis also shows that the growth rate of privatized industries fell subsequent to their privatization. However, this could be attributed to a general decline in the manufacturing output during 90s. Controlling for the general decline in output, privatization had no impact in 9 out of 14 industries, in two industries growth rate increased and in 3 industries growth rate fell.

Total factor productivity of the manufacturing sector fell by 6 per cent over the 1990-91 to 1995-96 period. However, it increased, on average, by two per cent in the privatized industries over the same period. Nevertheless, improvement in productivity is observed only in vegetable ghee and transport equipment and has fallen in the remaining sector.

The real prices deflated through the wholesale price index of the products of the industries produced by the privatized industries have not fallen. As a matter of fact they have increased.

Restructuring of public enterprises, prior to privatization has also resulted in loss of employment. Almost ten thousand workers lost jobs as Habib Bank and United Bank were restructured. Similarly 2,225 out of 3495 employees of the heavy engineering industries have taken golden handshake or voluntary retirement and 2195 employees in vegetable ghee mills not yet privatized have taken voluntary retirement.

Compared to an annual compound growth rate of 2.0 per cent growth in the overall employment in the pre-privatization period, the growth rate fell to 1.39 per cent in the post-privatization period. Similarly, in the pre-privatization period employment in the manufacturing grew at a rate of 6.5 per cent, but has declined at a rate of 13.5 per cent in the post-privatization period.

The Census of Manufacturing Industries indicates 9.7 per cent decline in employment in the large-scale manufacturing sector over the 1990-91 to 1995-96 period. It shows 12.4 per cent increase in employment in fertilizer industry but a decline of 45 and 75 per cent in vegetable ghee and textile machinery industries. In other sectors the decline in employment has been in the range of 20 to 40 per cent.

With a view to protecting the workers against the loss of job, the government and the representatives of the workers had reached an agreement in 1991. Notwithstanding the agreement, a very large number of persons have opted for the golden handshake scheme; as many as 63.3 per cent of the employees opted for golden handshake. The incidence across the industries however has been different though except for fertilizers in almost every industry at least one-third employees have opted for golden handshake. In privatized units of fertilizer only 10.5 per cent of the employees opted for the scheme. Whereas in the Newspaper industry, almost everyone opted for voluntary retirement scheme, in rice and roti plants it exceeded 90 per cent, in engineering, ghee and chemicals it exceeded 70 percent and in automobiles and cement it exceeded 30 per cent. Event though Habib Bank and United Bank have not yet been privatized they have made payment amounting to Rs 13 billion as golden handshake.

There has been no labour shedding in the two privatized banks. The employment cost has gone up from Rs 677 million in 1990-91 to Rs 2017 million in ABL and from Rs 1048 million to Rs. 4361 million in MCB. The increase comes out to be 197.9 and 316 per cent respectively significantly higher than 104.0 per cent increase in consumer price index. It indicates a sharp increase in wage rates in the banking sector.

Interviews with employers indicate not surprisingly that they welcome privatization. Nevertheless, the manufacturers while welcoming privatization of manufacturing enterprises did not appreciate the privatization of infrastructure enterprises unless prices of utilities are controlled. They are of the view that more transparent privatization is necessary. They also believe that the workers have gained by way of increase in the wage rates. On the other hand the workers do not share this view. They complain of job insecurity, reduction in bonuses and less fringe benefits.

Real wage rates in Pakistan have increased in the pre-privatization period but have fallen since then. The CMI data show that wage rates in the large-scale manufacturing sector have increased by only 2.5 per cent during the five year period. Though the average increase in the privatized industries is 5.1 per cent, in vegetable ghee, compressed gases, and textile machinery the wages declined by 12.3, 22.3 and 30 per cent respectively.

Privatization and other incentives offered are expected to increase the investment levels. As a matter of fact the investment had started rising but political instability, sanctions and the problems with IPPs have resulted in lower levels of investment. What will be the response of the private sector is difficult to predict. Therefore three investment scenarios have been developed. First scenario projects an increase in fixed investment to 18.2 per cent of GDP by 2010. In scenarios 2 and 3, investment is projected to rise to 21.4 and 23.5 per cent by the year 2010. Assuming a relatively high employment elasticity of 0.36, unemployment rate would still exceed six per cent by 2010. The unemployment would still be around six per cent in 2005 even if we assume high investment rates but then start falling at a rapid rate. This shows clearly the need to adopt labour intensive technology and to make sure that monopoly is regulated.

Since monopolist can restrict output and keep capital stock idle, regulatory framework is essential. The regulatory authorities have to make sure that their decisions promote higher level of efficiency.

10.1 Policy suggestions

Privatization policy needs to be pursued with the main objective of improvement in the efficiency in economy. Since competitive framework is absolutely necessary for improvement in welfare, tariff rationalisation, anti-trust laws and control of monopoly, authority coupled with regulatory frameworks must precede privatization. Automatic systems to check the monopoly powers needs to be built into the system

The sale of public assets should bring maximum prices to the government so that the budgetary deficit is reduced and resultant inflationary tendencies may subside. This is possible only if the privatization process is transparent. Transparency requires that reserve price is appropriately estimated, they are made public before the opening of the bids and no sale must be allowed below the reserve price. Since investors bid in view of the value of assets and liabilities, they should be allowed to make the bid on the basis of the information provided by the commission and to slash the bid accordingly in case of deviation.

The public enterprises may be restructured before they are offered for sale to the private sector. This is absolutely essential because of two reasons. Firstly, a losing concern will fetch lower prices. Second, if the government has to bear the cost of golden handshake then the government should restructure prior to privatization. The private sector should not be provided a chance to convert the regular workers into contract workers. At present, the producers encourage workers to get golden handshake and then employ them on contract.

The timing of the privatization should be such that it has minimal impact on the workers. Probably the worst time for privatization is when a country is implementing IMF stabilization programmes. The declining growth rates of investment and output result in very slow employment growth, and privatization would result in an alarming unemployment situation. It would result in falling real wages.The agreements reached with the workers should be fully implemented. Retraining of workers should be given the priority.

The utilities, such as, power, railways and telecommunication should not be privatized unless it is ensured that they can be effectively regulated. Instead of divesting such enterprises, the government may consider leasing and franchising. The rules for regulatory agencies should be so formulated that they can function independently without any coercion. There should be proper checks and balances on these authorities without compromising their autonomy.

Annex 1

Table A-1: Average and compound growth rates of GDP, Investment and Employment

	GDP	*Investment*	*Employment*
Average growth rate			
Pre-privatization (1986-87 to 1990-91)	5.44	5.55	2.05
Post-privatization (1992-93 to 1996-97)	4.15	1.82	2.35
Compound growth rate			
Pre-privatization (1985-86 to 1990-91)	5.44	5.49	2.00
Post-privatization (1991-92 to 1996-97)	4.13	1.76	1.39

Source: Based on data obtained from *Economic Survey,* various issues.

Table A-2: Growth rates of GDP, investment and employment in manufacturing (Post and Pre-Privatization)

	GDP	*Investment in manufacturing*	*Investment in Large Scale*	*Employment*
Average growth rate				
Pre-privatization (1986-87 to 1990-91)	3.86	6.06	7.44	6.46
Post-privatization (1992-93 to 1996-97)	3.45	2.19	-2.45	-13.48
Compound growth rate				
Pre-privatization (1985-86 to 1990-91)	6.03	7.44	6.46	0.44
Post-privatization(1991-92 to 1996-97)	2.16	-3.84	-6.64	-3.47

Source: Based on data obtained from *Economic Survey,* various issues.

Table A-3 Bid values and payments on golden handshake of selected industries

S.No.	*Particulars*	*Bid value*	*Payment on golden handshake*	*Per centage payment*	*Total employment*	*No. of officers*	*Per centage*
1	Automobiles	1032.77	133.085	12.88622	4604	1749	37.98871
2	Cement	6352.27	701.722	11.04679	8289	2992	36.09603
3	Chemicals	5320.53	801.2	15.05865	6342	4493	70.84516
4	Fertilizers	435.39	3.047	0.699832	688	72	10.46512
5	Engineering	193.35	98.696	51.04525	2661	2061	77.45209
6	Ghee Mills	620.05	348.054	56.13322	5057	3759	74.33261
7	Rice	237.35	92.603	39.01538	810	756	93.33333
8	Roti Plant	18.9	4.892	25.8836	676	670	99.11243
9	Newspapers	231.1	441.402	191.0004	1142	1142	100
10	Miscelleneous	175.15	934.774	533.6991	5056	4921	97.32991
	Grand Total	14616.86	3559.48	24.35184	#REF!	#REF!	63.33516

Annex II

Protection of the interest of workers

Government signed an agreement with the All Pakistan State Enterprise Workers Action Committee on 15th October, 1991 prior to launching the privatization program. The package had three components, viz. protection of workers, a scheme of golden handshake and the buy-out by the workers. These packages are give below:

Package A

(i) Workers are accorded all protection available to them under the Labour Laws. As a special measure no retrenchment of the workers is allowed during the first twelve months.

(ii) 10 per cent of the shares of the privatized units is offered to the workers at a mutually agreed rate.

(iii) Workers rendered surplus after the initial period of 12 Months, are entitled to the following benefits:

- (a) Priority in matters relating to the employment abroad.
- (b) Availability of easy credit for facilitating their self-employment.
- (c) A surplus pool of laid off workers was to be maintained by an agency appointed for the purpose and the Privatization Commission is endeavor to find jobs for such workers. Till such time, these workers are placed in employment, they are entitled to unemployment benefit at the rate of Rs. 1000 per month for a maximum period of two years. This benefit would be available to only those workers who have been rendered and remain unemployed involuntarily.
- (d) Suitable arrangements are to be made to provide training to surplus workers in new trades and occupations.
- (e) Grants are to be given for the marriage of their daughters.
- (f) Scholarships are to be provided for education of their children.

Package B

(a) One month’s gratuity for each complete year of service is payable to the workers. Wherever this gratuity is non-existent or less than one month, the gratuity is assumed to be of one month.

(b) Four month’s last drawn basic salary for each year of service will be paid in addition under the arrangements of the Privatization Commission.

(c) All dues are paid only after the sale of units. However, all possible measures are adopted to settle the dues before handing-over of the units.

(d) List of workers opting for golden hand shake is to be provided by the respective CBAs.

(e) All those including seasonal regular workers, who wish to avail the facility have their option before the sale agreement is signed.

Package C

(1) In case of employee buyout, negotiations is facilitated in consultation with the Supreme Council of All Pakistan State Enterprises Workers’ Action Committee.

(2) Workers are provided all opportunities to purchase a unit if they make a bid. They also have a right of negotiations on the highest bid.

(3) All bids made by the workers have to be competitive and in accordance with the bid documents.

(4) Workers are given concessions through negotiations if they are declared successful bidders.

(5) Wherever gratuity fund is maintained as a trust, the funds can be used for investments as per rules.

(6) The savings in the Provident funds can also be utilized for bidding purposes subject to Government rules and Regulations.

(7) A management plan (which should include a financial plan) is submitted by the workers for any bid they make for a unit.

(8) Any unit owned by the Federal Government in FATA will avail the same facilities as available to remaining units of state owned enterprises.

(9) The facility of group insurance for workers who opt for golden hand shake is available for continuation provided he subscribes from his own resources.

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