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PUBLIC ENTERPRISES AND INDUSTRIAL DEVELOPMENT

An analysis of the Pakistani Experience *

by

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1. THE NEED FOR STATE OWNED ENTERPRISES

As a historical and a world-wide phenomenon, public enterprises are here to stay. Theoretically as well as practically, they are one of the most effective instruments for the social ownership of the vital means of production in a society. In developing countries, where there is a marked absence of a viable industrial infra-structure, persistent regional disparities, lopsided concentration of industries in a few urban centres, and vast under-developed areas with concomitant socio-economic backwardness, illiteracy and poverty, the need for socially owned, planned, managed and operated industries has become indispensable. The scarce available resources can be harnessed and distributed most effectively through the instrument of public ownership, particularly, the development of vital industrial infra-structure without which, at least with the present state of knowledge and experience, socio-economic development is next to impossible.

Save for some isolated cases, state owned enterprises constitute a large and rapidly expanding sector of economy in a majority of countries of the world today. Historically, in the market economies of Western Europe, intervention and participation generally started with public utilities like the post office, railways, inland transportation and monopolies like the tobacco industries etc. With the passage of time, public intervention extended to industries connected with exploitation of natural resources, strategic sectors like steel, energy, aviation and large scale manufacturing like automobiles etc. In most cases, the role of state enterprises in the industrial sector was justified primarily on pragmatic and empirical grounds rather than on ideological considerations.

After World War II, a large number of sovereign states sprouted up in Asia and Africa. The common features amongst an overwhelming majority of these countries were the almost non-existent industrial base, a shaky and self-centered financier class, and millions of poor and illiterate citizens. In such a socio-economic milieu, pragmatic considerations played an important role in the rapid growth of public sector enterprises. In addition, due to the glaring socio-economic disparities among classes,

ideological considerations also had a lot to do with the Government policy in this field. Orthodox Socialist principles of state control of the means of production, of natural resources, of breaking private monopolies were urged as justification for increased state participation in the process of economic development.

The importance of public enterprises as an effective instrument of economic growth has been recognised all around. Their importance as an instrument of state policy for promoting and achieving social and political objectives of a society is to a large extent established. State enterprises have made seminal contributions to the development of basic and strategic industries. They have, thus, set in motion, a process of economic growth which would not have been possible if economic development had been left only in private hands. State enterprises have also been promoted in order to achieve important objectives like the development of backward areas, control on prices, breaking of private monopolies and even containing inflation.

In many developing countries, the private sector was simply incapable of finding the required investment or managerial and entrepreneurial inputs which are necessary to organise and manage large enterprises, such as, steel and heavy engineering industries that occupy a prominent place among the state enterprises in almost any developing country. These industries have traditionally been beyond the means of the private sector in the developing world. The importance of these industries in the overall process of economic development and the strategy for achieving industrial autarky in developing economies cannot be over-emphasised. These industries act as a catalyst in material and social aspects of development. They contribute more than any other industry to the improvement of technical, managerial, and professional skills and upgrade industrial technology and science by stimulating practically all other sectors of economy. In fact, no country which wishes to attain rapid economic progress and high standard of living can afford to neglect these industries which are rightly regarded as the bell-weather of economic development. The attention paid to these industries

In some of the developing countries and the results which have been achieved are truly remarkable. The exuberance of the process of industrialisation and the resultant economic growth in all other sectors is, in large measure, due to the development of these industries.

II.

THE PAKISTANI EXPERIENCE

(A) THE EVOLUTION OF PUBLIC ENTERPRISES IN PAKISTAN

In Pakistan the history of state participation in industry goes back to the early years after independence. The first practical step in this direction was taken when the Pakistan Industrial Development Corporation (PIDC) was set up in 1950 as a Statutory Public Corporation. PIDC was established essentially to supplement the efforts of the private sector by concentrating on infra-structure and strategic industries as well as by making investment in sectors where private initiative was not forthcoming either on account of the requirement of huge investment, long gestation, or sophisticated technology. The Corporation set up industrial units in a variety of industries as diverse as paper, cement, textiles, chemicals, pharmaceuticals, fertilizers, heavy engineering, steel, etc. PIDC aimed at 'blazing the trail' for

the private sector by setting up projects in difficult or unpopular fields and then disinvesting them to the private entrepreneurs. The Corporation was also used as an instrument for achieving other socio-economic objectives of the Government, e.g. balanced regional development through setting up of industrial units in remote and backward areas that would not attract private investment on economic grounds.

1971 marked a new era in the metamorphosis and growth of public enterprises in Pakistan. The new Government which came to power in the wake of disintegration of the country professed a progressive philosophy and proclaimed its determination to form a new society by bringing about basic reforms in all walks of life. The beginning was made with the industrial sector, where soon after taking over power the Government promulgated on 1st January, 1972 its first major piece of legislation namely, "Economic Reform Order, 1972". Under this legislation 10 basic industries were reserved for development by the public sector. The existing units in these industries were taken over from the private owners for management by the state. Thirty two industrial units, as

diverse as cement, fertilizer, special steels, engineering, rolling mills and foundries, refinery, automobile assembly plants, and chemical plants were taken over from the private sector.

All of the units were not, however, operational. Some of them were in the initial stages of construction. These units were put under the control and management of a Board of Industrial Management (BIM) headed by a Federal Minister. The Board of Industrial Management existed side by side with the Pakistan Industrial Development Corporation, which continued to be responsible for the industrial units initially set up as state enterprises under its own auspices.

Meanwhile search started for an organisational model which could be adopted for the public sector in Pakistan. The Italian system of managing state enterprises was found to be most suitable and a set-up, modelled after IRI, was adopted towards the end of 1973. The BIM was organized on the lines of private industrial and commercial houses and was allowed to operate free from Government interference or controls even in areas like salary grades or

purchasing and contracting procedures. The Board and its units were allowed to operate as private sector organizations where ends justified the means. The Board consisted of 3 members each for cement, chemicals, steel, and heavy engineering. The Chairman of the Board was the Federal Minister which enabled the Board to function almost without any control from other agencies of the Government, including the administrative Ministry.

The decision to adopt the IRI (the Italian model) for the organizational structure of the public sector enterprises led to (i) regrouping of the managed or taken over units and PIDC companies /projects; and (ii) emergence of sectoral corporations as holding companies. The units were grouped together sector-wise, that is to say " the taken over cement factories" and "the PIDC cement factories" were put under the State Cement Corporation. The taken over and PIDC companies in the heavy engineering field were grouped under the State Heavy Engineering and Machine Tool Corporation and so on. PIDC was retained as state Corporation for the 'residual' sector but had to give up most of its companies in favour of other sectoral corporations.

All sectoral corporations including the PIDC were placed under the Board of Industrial Management. This reorganization was completed around March, 1974, when the following sectoral corporations under the BIM came into existence:-

- 1) Federal Chemical & Ceramics Corporation
- 2) Federal Light Engineering Corporation
- 3) National Fertilizer Corporation of Pakistan
- 4) Pakistan Automobile Corporation
- 5) State Cement Corporation of Pakistan
- 6) State Heavy Engineering & Machine Tool Corporation
- 7) State Petroleum Refining & Petrochemical Corporation
- 8) Pakistan Industrial Development Corporation
- 9) Pakistan Steel Mills Corporation

A service corporation namely, the National Design and Industrial Services Corporation was also set up to provide consultancy services to these corporations.

Meanwhile, a separate Ministry of Production with the mandate to manage the public sector enterprises had come into existence. This Ministry was headed by the senior - most

Minister in the Federal Government, indicating the importance that was attached to the state industrial sector by the then Government. Unlike PIDC, the sectoral corporations were registered under the Companies Act, the normal law governing the industrial and commercial enterprises in the country. The taken over and the PIDC companies were transferred to these Corporations by a special piece of legislation. The new organizational structure of state enterprises in Pakistan had at the base the individual companies with their own chief executive (Managing Director). These companies were grouped sector-wise and were placed under the care of the sectoral corporation whose chief executive was designated as Chairman. The sectoral corporation was entrusted with the responsibility of planning and implementing new projects in the sector in addition to managing the existing units placed under its care. The sectoral corporations exercised control over the units as holding companies and the Government's investment in the basic companies was channelised through them.

At the apex was the BIM. It was made responsible for overseeing the proper operation of the Corporations, and through them the units. The Minister for Production continued to be the Chairman

of the BIM whose membership was effectively expanded to include all Chairmen of Corporations. The erstwhile members of the BIM except the Member (Finance) became the Chairmen of the relevant Corporations. The Member (Finance) continued to perform the coordinating role in financial and corporate affairs. He was also responsible for putting out consolidated quarterly and annual accounts and to act as a liaison between the Corporations and the financing institutions. The Ministry of Production was supposed to oversee the operation of the BIM and the public sector as a whole. In the initial stages, the functional demarcation between the role of BIM and the Ministry of Production was fuzzy. Due to this, a certain amount of overlapping was inevitable on account of the fact that the Minister for Production was also the Chairman of the BIM. Absence of clear cut delineation of roles resulted in a kind of parallel authority. With the passage of time, however, the Ministry of Production became the ultimate administrative authority for the BIM, the Corporations, and the state enterprise units. The BIM, as a tier in the chain of command, in fact became redundant with the emergence of sectoral corporations. It failed to play an effective role and became

merely an extension of the Ministry of Production. The public sector functioned under the above organisational pattern right upto July, 1977 when another change of Government took place in the country.

B. IMPACT OF PUBLIC ENTERPRISES IN THE INDUSTRIALISATION OF PAKISTAN

Let us stop at this point and think about the impact of public sector in the process of industrialisation of the country both in pre-1972 and post-1972 periods. As stated above, pre-1972 period was characterised by public sector performing a complimentary role. The philosophy at that time was that the main vehicle of industrial development should be the private sector and the state had to intervene only in areas where private sector was unable or unwilling to come forward. In the long years when this strategy was the main plank of the economic policy of the Government, the total investment in the private and public sectors right from 1947 upto 1972 amounted to Rs.13,090.3 M. and Rs.1,343.2 M. respectively. In absolute terms this appears to be small. Viewed in the context of the size of the economy at the relevant time and the availability of investment funds in the economy as a whole, it appears to be sizeable.

The Private Sector with all the encouragement , incentives and support made available to it by the Government , succeeded in establishing relatively simple industries characterised by quick returns and high profit margins . Only in very few cases did the private sector venture into relatively sophisticated fields like cement, refinery and fertilizer, the last in collaboration with a foreign multi-national. In the public sector also, the PIDC started with relatively simple industries including textiles, paper, pharmaceuticals, and chemicals. It was only in late sixties when it took up the sophisticated ventures in the heavy engineering and steel. The PIDC projects in these sectors were, however, in their initial/trial operational stages and were far from being out of their teething troubles when the new government came to power towards the end of 1971. The major contribution of PIDC, however, was development of expertise and skills in the field of planning and implementation of projects and to prepare a hard core of engineers and managers as well as highly skilled workers, who would, in time, provide the basis for further development.

The overall picture at the end of 1971 did not inspire confidence . Both the private and public sectors had made their

contributions but not adequate enough to start the process of rapid industrialisation. Their particular failure was primarily the lack of emphasis on strategic or infra-structure industries, and in this particular aspect, the industrial landscape looked both scanty as well as gloomy.

The Industrial reform of 1972 started with a lot of fanfare but, in the event, fell far short of its promise. Private sector was driven away, not only from the industries reserved for public sector under the Economic Reforms Order, 1972 but from all other industries as well. The burden of industrialisation was mainly carried by the Public Sector. In the five year period 1972-77, private investment in industry amounted to Rs.7,044.4 M. The figures of public sector investment in the same period did look impressive at Rs.9,309.7 M. However, most of the projects which claimed this investment suffered delays and substantial cost overruns. With the notable exception of heavy engineering sector, where two major projects, one in Special Steels and the other in Heavy Forge and Foundry, most of the other new projects were in various stages of

construction in mid- 1977. Many operating units also did not come upto expectations and several of them went into red, facing serious financial problems.

The reasons for this rather dismal performance of the Public Sector are not far to seek. The nationalisation of private sector units in 1972 was not well thought out. Several units were unworthy of takeover by the State by virtue of their small operation. Many of them were not organised on sound business lines, and some of them were already in the red. Employment opportunities and other patronage available in the form of agencies and permits relating to the products of these enterprises were fully used for political purposes, thus seriously impairing the functioning of these enterprises on sound business lines. Most of these enterprises were accordingly in a state of disarray when the Government fell in 1977.

(C) PRESENT SITUATION, FUTURE PROMISE, AND SOME RECOMMENDATIONS

Following the inevitable re-appraisal of the situation by

the new Government, the industrial policy has been modified to encourage private sector to play its due role in the process of industrialisation. The Government has also given a categorical assurance that in future no industrial unit will be nationalised without proper compensation and that it intends to concentrate on the existing public sector units to make them viable by improving their operation, rather than setting up more units in the Public Sector. The Government has also decided to abolish the BIM and to reduce the number of sectoral corporations. These decisions will be implemented in the new financial year and the organizational structure of the public sector will then consist of the operating units grouped under appropriate sectoral Corporations, which would report directly to the Ministry of Production. In this arrangement, the sectoral corporations will play a pivotal role and the success of the experiment will depend directly upon their performance. The Corporations will have fullfledged Board of Directors. Private industrialists, technocrats and Government officials will be nominated on the Boards of the Corporations. At the unit level also, Board of Directors will include Directors elected by private share-holders. Maximum operational freedom and minimum

Interference by the Government is intended to be provided to these Corporations and the units subject, of course, to the requirements of accountability.

The Corporations and the units will continue to function under the umbrella of the Ministry of Production whose sole mandate is the proper management of these public sector enterprises. The Ministry of Production provides policy guidelines, carefully avoiding interference in the operational matters. The public sector enterprises, however, are also subject to the discipline and constraints imposed by other Government Ministries, particularly the Ministries of Industries, Planning and Finance. In this respect the public sector enterprises are on the same footing as private sector industries.

Notwithstanding the less - than - satisfactory performance of the public sector in the period upto mid - 1977, it is destined to play a pivotal role in the process of industrialisation of the country. The private sector has limitations of investment funds and entrepreneurial and managerial capabilities to handle large

projects. Several high technology and high investment areas will continue to be beyond the means of the private sector for the foreseeable future. The public sector will continue to shoulder the responsibility of "blazing the trail" and showing the way for the development of basic, strategic and heavy industries. It is important, therefore, that public sector receives due attention and support from the Government and the people. Without a dynamic and active public sector, the process of industrialisation and consequent economic development will lag behind.

In this context, let us look at some of the important prerequisites for a proper climate for the growth of public enterprises. First and foremost, is the sustained commitment to the concept of state participation in the process of industrialisation. In spite of the below - expectation performance of the public sector enterprises, the country remains strongly committed to the concept of

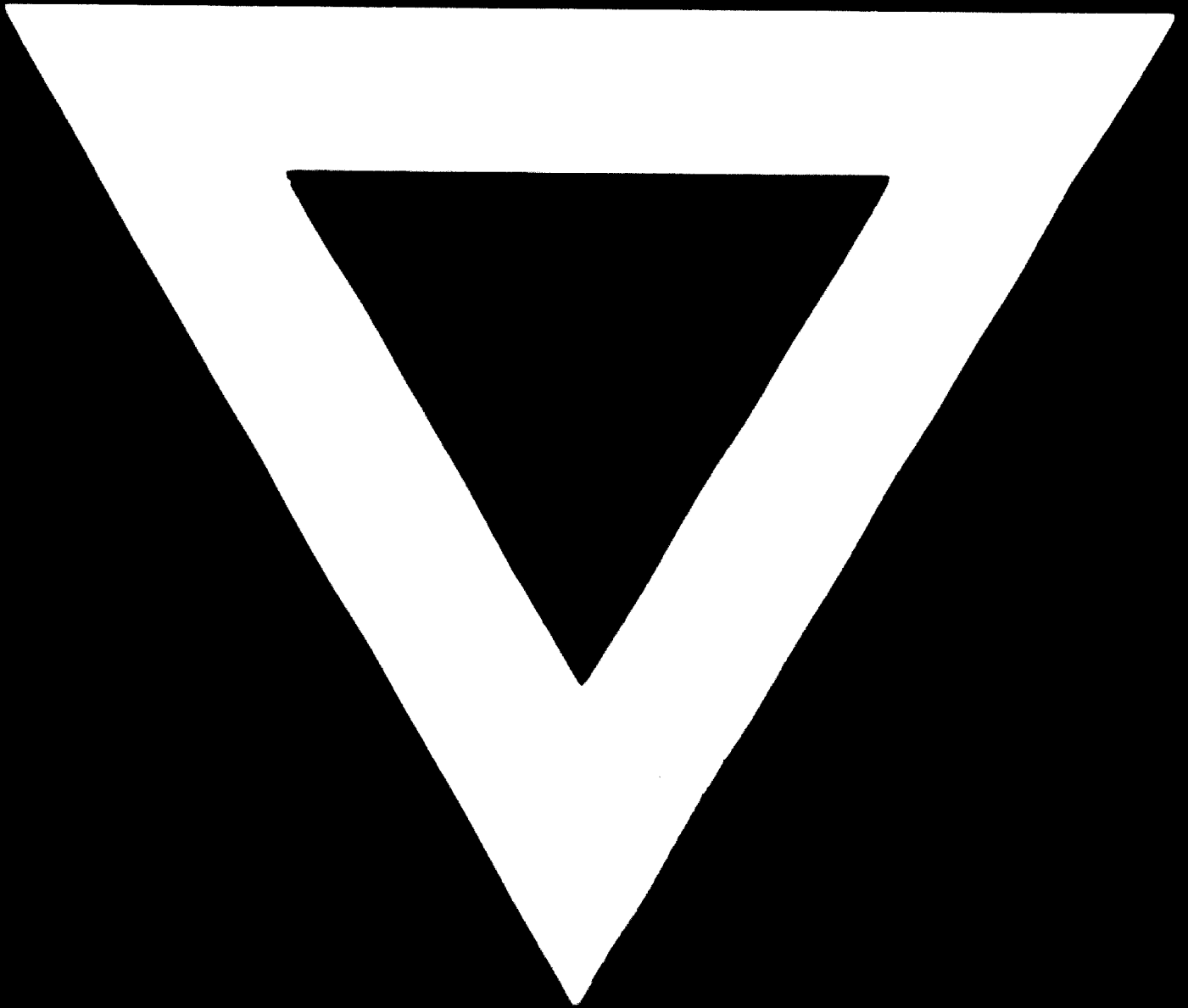
state enterprises as an instrument to accelerate the process of economic development. The second prerequisite is a sound institutional framework for the setting up, operation and management of state enterprises. A new pattern is developing in the country after experimenting with several 'models'. Third, the manpower base, both at the blue collar and managerial levels has to be strengthened and properly organised. The public enterprise must provide a career to its employees and open up even top-most appointments to the people from within the enterprises. The grooming and development of industrial managers of all levels, fully committed to their respective areas of specialisation, must be undertaken with maximum mobility within the State Enterprise system. In the last analysis, it is the quality of men in an organization that determines the quality of the organization and its effectiveness and no effort is too great to develop the human resource to realise its highest potential in the interest of the organization and vice versa. A progressive, dynamic and forward looking

management team is the surest guarantee for the success of an enterprise. Fourth, insulation of state enterprises from interference - as distinct from accountability - from outside superior Government agencies. The performance of the organization should be judged on a periodic basis with reference to its corporate objectives such as turnover, costs, profits, success in research and development activities, expansion, technology transfer, new products and new markets, export performance, etc. The total climate should be that of trust and confidence leading to optimum utilization of the human and material resources of the enterprise to its full potential. Lastly the state enterprises must receive adequate support from various Government agencies in the initial stages of their development. Internally they should compete on equal level with private industrial units in the same sector, but they must be protected from unfair competition from imports. This is a sensitive and controversial area and much can be said on both sides, both on economic and ideological grounds. However, it is important that the state enterprises must be given due support by the society in order to enable them to achieve their full potential.

(D) CONCLUDING NOTE.

The above are some thoughts based primarily on the experience with state enterprises in Pakistan. The state sector in this country is still in its infancy and will take time to rise to its full stature. Based upon the socio-economic realities of the country, there is no denying the fact that it is destined to play an increasingly important role in the process of industrialisation of Pakistan. It has the basic prerequisites for coming up to expectations e.g. plentiful work force, adequate managerial and organizational skills, and encouraging social bias in its favour. It is hoped that the next five years will see this sector taking rapid strides in its march towards its goal - viz accelerating the pace of economic development in Pakistan.

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