

Benazir Employees Stock Option Scheme Creating Equities for Workers and Labor

“Justice is economic independence. Justice is social equality.”¹

Shaheed Mohtarma Benazir Bhutto

“It is a moment of pride for me to launch BESOS as a realization of Shaheed Zulfikar Ali Bhutto's dream and Shaheed Mohtarma Benazir Bhutto's unfinished reform agenda for the workers and laborers of Pakistan,” the Prime Minister said at the scheme's launching ceremony.² “I hope that after becoming shareholders, workers will work with more honesty, hard work and utilize their best abilities to make their units more effective, productive and profitable.”³

BESOS is a carry forward of the concept of mill-hand to be taken on the management boards of industries across the country -- first introduced by Shaheed Zulfikar Ali Bhutto in 1972 -- that led to amendments in the first Industrial Relations Ordinance (IRO).⁴ “Although drastic changes detrimental to the interests of the working classes were brought in the subsequent IRO by the governments after Bhutto, but no one dared to dispense with the entire system.”⁵

The scheme is being offered to more than 500,000 male and female workers of more than 80 SOEs across Pakistan. These 80 companies have been further classified into 16 listed public limited companies, 33 unlisted public limited companies, 17 private limited companies, and 14 SOEs not incorporated under the Companies Ordinance, 1984 (see Box: *Target SOEs for BESOS*).

Distributing stocks worth Rs.100 billion free of cost to workers, BESOS is the first ever initiative in Pakistan's history through which workers have not only been given shares in State institutions, but have also been provided due representation in their Boards of Directors, thus empowering them to take decisions for the betterment of their institutions.

Pursuing its policy agenda of promoting social democracy that also gives social equity to the underprivileged, the People's Government has introduced Benazir Employees Stock Option Scheme (BESOS) to make workers stakeholders in their organizations' growth and development.

Launched on August 14, 2009 by Prime Minister Syed Yousaf Raza Gilani, BESOS empowers workers of state-owned enterprises (SOEs) by offering them free ownership of 12% stocks in their organizations (see Box: *BESOS: Salient Features*).

¹Benazir Bhutto, “Avert Clash of Civilizations Through Justice and Human Rights”, speech delivered at the Desert Forum, Indian Wells, January 24, 2005, California (U.S.A.).

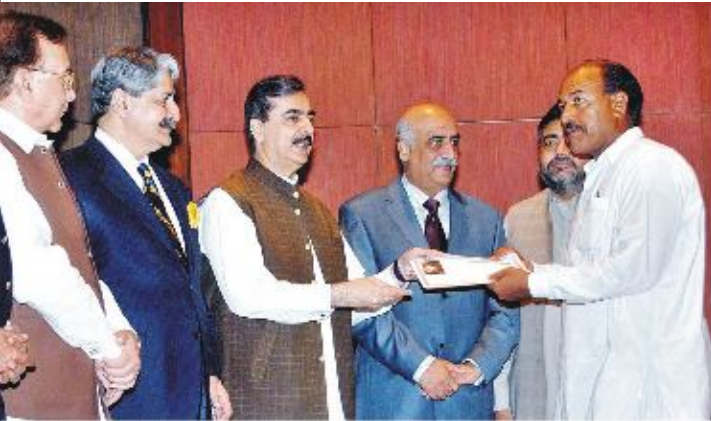
²*Daily Times*, August 15, 2009.

³Ibid.

⁴Malik Mohammad Ashraf, “Crusade against poverty”, *Business Recorder*, January 10, 2010.

⁵Ibid.

Benazir Employees Stock Option Scheme Creating Equities for Workers and Labor



August 14, 2009 - Prime Minister Syed Yousaf Raza Gilani giving the share to the workers at the inauguration ceremony of Benazir Employees Stock Options Scheme at Prime Minister Secretariat.

BESOS is being implemented by the Privatization Commission in coordination with line ministries, holding corporations, and target SOEs. For this purpose, a cell has been created in the Privatization Commission.

The scheme has been designed around the now globally recognized organizational principle that institutions can only prosper if their employees have a direct stake and are provided a strong sense of ownership. Thus, not only BESOS aims to end decades-old sense of devaluation prevalent among workers of Government organizations suffering from typical negligence, it is also a strategic intervention to overhaul the governance and outlook of SOEs and bring them at par with private sector entities.

BESOS must be seen as a creative mix of two key pillars of the PPP manifesto for fostering equitable economic growth in Pakistan. Translating its leadership's vision and promise into yet another deliverable for the people of Pakistan, the People's Government has combined in this scheme the basic ideas of implementing "just labor policies" and encouraging "private sector as engine for growth".⁶

Privatization was first introduced in Pakistan by the first government of Shaheed Mohtarma Benazir Bhutto, first elected as prime minister in 1988. Successive governments have struggled with its continuation, but lack of transparency and undermining of workers' interests have remained major challenges.

The People's Government is moving forward with the belief that value additions, such as BESOS, would enhance efficiency and competitiveness of SOEs, which in turn will maximize earning through their privatization. The People's Government wants to realize maximum potential of SOEs by enhancing their cash value through value addition, besides enhancing their efficiency and competitiveness for getting higher prices in the process of privatization (see *Box: Privatization Policy Measures*).

In this context, the phased implementation of BESOS is an important step of the People's Government to surmount these challenges by ensuring transparency and keeping the scheme's real beneficiaries – the workers – and their interests central to its success. This will enable target organizations to transition smoothly through privatization.

"BESOS is the hallmark of the [People's] Government's pro-worker policies, which would ensure improvement in efficiency, quality, and productivity, and increase the value and profit of the company," said Federal Minister for Privatization, Senator Waqar Ahmed Khan, in a press statement.⁷ "It would make workers responsible in further improving the overall performance of their entity, and their representation on the Board of Directors would directly involve them in the decision-making process for the progress of the entity."⁸

To date, BESOS Employees Trusts have been established in the following 18 target SOEs: 1) Heavy Mechanical Complex, Taxila; 2) Oil

⁶Pakistan Peoples Party Manifesto 2008, p. 6.

⁷Press Handout, January 7, 2010, www.privatisation.gov.pk.

⁸Ibid.

Benazir Employees Stock Option Scheme Creating Equities for Workers and Labor

and Gas Development Company Ltd; 3) Pakistan Petroleum Ltd; 4) Pakistan Machine Tool Factory; 5) Heavy Electrical Complex; 6) Pakistan State Oil; 7) National Power Construction Corporation; 8) Jamshoro Power Generation Company Ltd; 9) National Investment Trust; 10) Pakistan National Shipping Corporation; 11) Sui Northern Gas Pipelines Ltd; 12) Lakhra Coal Development Company; 13) National Insurance Company Ltd; 14) Pakistan International Airlines; 15) Sui Southern Gas Company Ltd; 16) National Telecommunications Corporation; 17) Pakistan Reinsurance Company Ltd; 18) Sui Southern Gas Pipeline Ltd.

Out of these 15 companies, BESOS shares

have already been distributed in HMC, OGDCL, PSO, SNGPL, PPL, PIA, NPCC and NESPAK; whereas, share certificates will be distributed in the near future in NTC, PNSC, PMTF and JPCL.

"This is an effort to empower the have-nots and enable them to work for their own benefit, and not merely serve the purpose of an industrialist," said Secretary General, Pakistan Workers Confederation, Khurshid Ahmed, welcoming the launch of BESOS.⁹ "Workers sacrifice their lives to serve their organizations, but get nothing when they retire. [BESOS] will give them the benefit, which they could not have imagined in their life time."



October 01, 2009 - Prime Minister Syed Yousaf Raza Gilani handing over stocks of PPL to the workers at the formal launching of Benazir Employees Stock Options Scheme to create a sense of ownership and empowerment in them.

⁹Associated Press of Pakistan, November 18, 2009.

A Legacy of Just Labor Policies

Implementing its pro-worker manifesto in letter and spirit, the People's Government has introduced a set of just labor policies in the last two years, which it considers pivotal to creating an economically strong and socially equitable Pakistan. Besides the launching of BESOS, other notable labor reforms introduced by the People's Government during 2008-2010 include:

- Reviewing the existing labor laws and bringing them in conformity with the charter of the International Labor Organization (ILO)
- Raising the minimum wages of workers to Rs.6000 (2008)
- Repealing the infamous Industrial Relations Ordinance 2000 and passing the Industrial Relations Bill, 2008
- Passing the Service Tribunals (Amendment) Act, 2010
- Repealing the Removal from Service (Special Power) Ordinance 2000 and the controversial Section 2A of the Services Tribunal Act 1973 and passing the Services Tribunal (Amendment) Act, 2010
- Passing the Protection Against Harassment of Women at the Workplace Act, 2010
- Passing the Pakistan International Airlines Corporation (Suspension of Trade Union and Existing Agreement) Order (Repeal) Act, 2008

Privatization Policy Measures

The following policy outlines were approved by Competition Commission of Pakistan (CCoP) on February 17, 2009 and later rectified by the Cabinet on January 6, 2010:

- i. As a policy, privatization will be conducted in the Public-Private Partnership (PPP) mode for 26 percent of the equity stake. The manner, methodology and mechanism of PPP structure will be framed after consultative process and due approval of the CCoP and the Board of the PC.
- ii. In cases where due process and investor feedback determines that the 26 percent PPP structure is not a practicable option, the Privatization Commission (PC) will revert back to the CCoP with alternate structures.
- iii. A stringent pre-qualification structure will be put in place that will include a contractually binding business plan and provisions with regard to management, default, termination, penalties and dispute resolution.
- iv. The transactions would be structured to ensure that management control is transferred to the investor. It will be guaranteed through adequate safeguards/agreements that this arrangement cannot be reversed. Agreements will also include exit option for GoP, remedies to GoP in case of right of first refusal, transfer restrictions and lock in period for the strategic investors.
- v. The Government would be appropriately represented on the Board of Directors of the privatized entities.
- vi. Post-privatization performance of the entities and market conditions will determine the timing and extent of future divestment of residual shareholding of the Government. Where found expedient, the entity will be listed before adoption of the PPP privatization mode to benefit, from amongst others, capital market price discovery mechanism.
- vii. At the Federal level, PC will have exclusivity to undertake Brown-field PPP transactions as envisaged in the PC Ordinance 2000. Any other Ministry/Department of the Federal Government will route its PPP transactions through the Privatization Commission for implementation.
- viii. 12% shares will be reserved for workers in the privatized units. The new policy envisages workers share also in entities that are still in public sector.

BESOS: Salient Features

- All permanent employees and contractual employees (with minimum service of five years) of SOE eligible for the scheme and can only exit on retirement, or otherwise ceasing to be employee
- Employees offered free units in lieu of 12% Government shares on the basis of years of completed service, which will determine their entitlement proportionate to their length of service
- One unit allocated for each completed year of service with a maximum of twenty units for any employee
- No distinction made between executives and workers
- Each SOE to create a BESOS Trust with token cash. Board of Trustees to consist of Government nominees and employee representatives
- Shares of SOE to be transferred to Trust
- Trust to assign shares to employees in proportion to their entitlement through an Assignment Certificate (corporatized SOEs) and Interim Allotment Vouchers (SOEs established under Special Acts and Ordinances). Allotment Vouchers are convertible to Assignment Certificates upon corporatization
- Shares/Assignment Certificates/Allotment Vouchers are not saleable, but can be pledged or hypothecated
- Employees to surrender Assignment Certificate/Allotment Vouchers to Trust on retirement, or otherwise ceasing to be an employee
- Trust to make payment for surrendered Assignment Certificates/Allotment Vouchers
- Surrendered shares to be returned by Trust to original owner
- Government to guarantee buyback of surrendered shares on the basis of: i) market value of listed companies; ii) break-up value at historical cost based on the last audited financial statements excluding re-valuation reserves for the un-listed and private limited companies; and iii) on net-worth based on the last audited financial statements excluding re-valuation reserves for SOEs established under Special Acts and Ordinances till such time they are corporatized
- Employee representative on the Board to be nominated by Government through Line Ministry/Holding Corporation on the recommendation of the Trust. Such representative to be a chartered accountant or a corporate lawyer or an eminent professional having minimum professional experience of fifteen years selected through a pre-defined criteria
- Trusts entitled to receive dividends, if any, from the date of applicability of the scheme
- A revolving fund out of the future dividends to be established for payment against surrendered Assignment Certificates/Interim Allotment Vouchers
- Corporatization of SOEs established under Special Acts and Ordinances by the Privatization Commission in co-ordination with Line Ministries

Target SOEs for BESOS

Listed public limited companies

1. Pakistan Petroleum Ltd
2. Pakistan State Oil Company Ltd
3. Pakistan Reinsurance Company Ltd
4. Pakistan Telecommunications Company Ltd
5. Mari Gas Company Ltd
6. Pakistan Engineering Company Ltd
7. United Bank Ltd
8. National Bank of Pakistan
9. Oil and Gas Development Company Ltd
10. Habib Bank Limited
11. Karachi Electric Supply Company Ltd
12. Sui Northern Gas Pipelines Ltd
13. Sui Southern Gas Pipelines Ltd
14. Pakistan International Airlines Corporation
15. Pakistan National Shipping Corporation
16. Kot Addu Power Company Ltd

Unlisted public limited companies

1. Pakistan Television Corporation Ltd
2. Lahore Electric Supply Company Ltd
3. Multan Electric Power Company Ltd
4. Lakhra Power Generation Company Ltd
5. National Investment Trust Ltd
6. Gujranwala Electric Power Company Ltd
7. Shalimar Recording and Broadcasting Corporation
8. First Women Bank
9. National Insurance Company Ltd
10. Pak Arab Refinery Ltd
11. House Building Finance Corporation Ltd
12. Islamabad Electric Supply Company Ltd
13. Hyderabad Electric Supply Company Ltd
14. Karachi Shipyard and Engineering Works Ltd
15. Railways Constructions Pakistan Ltd
16. Associated Hotel of Pakistan Ltd
17. Tribal Electric Supply Company Ltd
18. Industrial Development Bank
19. Central Power Generation Company Ltd
20. Saindak Metals Ltd
21. Peshawar Electric Supply Company Ltd
22. Quetta Electric Supply Company Ltd
23. Zarai Taraqiati Bank Ltd
24. Faisalabad Electric Supply Company Ltd
25. Jamshoro Power Generation Company Ltd
26. National Construction Ltd
27. SME Bank Ltd
28. Lakhra Coal Development Company Ltd
29. Pakistan Tourism Development Corporation
30. National Transmission and Dispatch Company Ltd
31. Northern Power Generation Company Ltd
32. Pakistan Railway Advisory and Consultancy Services Ltd
33. Pakistan Agricultural Storage and Supply Corporation

Private limited companies

1. Pakistan Machine Tool Factory Pvt Ltd
2. Sindh Engineering Pvt Ltd
3. Pakistan Steel Mills Corporation Pvt Ltd
4. National Power Construction Corporation Pvt Ltd
5. Overseas Employment Corporation Pvt Ltd
6. Telephone Industries of Pakistan Pvt Ltd
7. Pakistan Tours Pvt Ltd
8. Heavy Mechanical Complex Pvt Ltd
9. Pakistan Electric Power Company Pvt Ltd
10. Heavy Electrical Complex Pvt Ltd
11. Pakistan Security Printing Corporation Pvt Ltd
12. National Engineering Services of Pakistan Pvt Ltd
13. Printing Corporation of Pakistan Pvt Ltd
14. Pakistan Mineral Development Corporation Pvt Ltd
15. Utility Stores Corporation Pvt Ltd
16. PTDC Motels North Pvt Ltd
17. Pakistan Steel Fabricating Company Pvt Ltd

SOEs not incorporated under Companies Ordinance, 1984

1. Pakistan Broadcasting Corporation
2. Karachi Port Trust
3. National Logistics Cell
4. Pakistan Railways
5. Gawadar Port Authority
6. Export Processing Zone Authority
7. Water and Power Development Authority
8. National Telecommunication Corporation
9. Pakistan Post Offices
10. National Highway Authority
11. Port Qasim Authority
12. State Life Insurance Corporation of Pakistan
13. Civil Aviation Authority
14. Hydrocarbon Development Institute of Pakistan