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Between Theory and Rhetoric: The Workers' Reality

An assessment of the social impact of
privatisation on employees

Nilakshi M. De Silva and Susrutha Goonasekera

May 2007

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BETWEEN THEORY AND RHETORIC: THE WORKERS' REALITY

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**Nilakshi M. De Silva
Susrutha Goonasekera**

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Abbreviations and Acronyms

CEPA	Centre for Poverty Analysis
GTZ	German Technical Cooperation
IDA	Industrial Disputes Act of 1950
ILO	International Labour Organisation
IPO	Initial Public Offering
JSS	Jathika Sevaka Sangamaya
SLNSS	Sri Lanka Nidahas Sevaka Sangamaya
SOE	State Owned Enterprise
TEWA	Termination of Employment of Workmen (Special Provisions) Act of 1971
VRS	Voluntary Retirement Scheme

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Executive Summary

Privatisation has long been a contentious and debated issue in Sri Lanka, but there has been little attempt to study the actual impacts of privatisation on the well-being of workers. The rationale for privatisation of state owned enterprises (SOEs) through the divestiture and sale of government assets is primarily based on increasing efficiency and thereby increasing growth and profitability. However, there is also a counter argument which focuses on the social impacts of privatisation, highlighting the potential negative impacts on employment opportunities and consumer prices, which impact the poor, the disenfranchised, and in some cases the workers who remain, while benefiting the already rich, powerful and privileged.

This study attempts to cast fresh light on the debate by analysing the first hand experiences of workers in three companies which were privatised during the 1990s. Interviews were conducted both with current workers and those who opted for Voluntary Retirement Schemes at the time of privatisation, to establish the extent to which privatisation had affected working conditions, workers' standard of living and attitudes and perceptions. The findings hold useful lessons not only for future privatisation efforts in Sri Lanka, but also for reforms within public enterprises.

For those who opted to remain with the company, it was found that nominal salaries have increased since privatisation, and workers confirmed that there are now more opportunities for promotion linked to performance rather than political connections and influence. However, salary increases have not occurred across the board, and differential salary ranges between management, administrative and manual workers have grown much wider. Overall it was found that although the day to day workload has increased, due to more focus on productivity, working hours and working conditions remain largely unchanged. Those in favour of the changes resulting from privatisation tend to be those who are physically able to work hard or those who have the necessary skills and attitude to profit from the new system which rewards hard work and productivity.

The study demonstrated no significant change to job security in the companies selected, although the sample does not reflect the experiences of those companies which may have gone out of business following privatisation. However, employee perceptions did reflect a certain degree of insecurity during the privatisation process as their future was dependent upon private, and sometimes foreign or unknown investors. But this has to be tempered with the previous insecurities present in state owned companies where political affiliation and influence determined worker security, and was therefore subject to change. The implementation of rules and decisions was considered to be more consistent and predictable under private ownership.

In line with this, workers confirmed that they were now less reliant upon unions in the changed work environment which relies less on politics. Union influence and power has decreased and workers have more direct access to management. Unions have taken on a different role, providing a collective voice for the workforce in negotiations with management rather than addressing individual grievances.

While most current employees have not suffered a decrease in living standards as a result of privatisation, many of those employees who took voluntary early retirement are experiencing income poverty as a result of decreased household income. Many no longer have a stable or substantial monthly income and as a result are more vulnerable to falling into poverty. Around 2/3 continue to work, mainly in the informal sector rather than stable, salaried work. However, many of the employees who left have used the compensation they received to buy property and household assets, so are more secure in this regard than current employees.

Worker perceptions of privatisation varied depending on whether they were retired or not, and what impact the process had had on them as individuals. Current employees had a much more positive attitude towards privatisation than those who retired, but some were still of the view that employees were not fully sharing in the benefits; higher workloads and stricter rules were not being matched with improved benefits. However, more than 40% of respondents had changed their mind about public ownership of their enterprise since privatisation, with most now believing that it is not necessary for the enterprise to be publicly owned.

The main lessons which can be drawn from the study are:

There is space for support for public enterprise reform among employees who are often unhappy about poor management and inefficient practices under public ownership.

Better information about the reform process and the likely impact on workers can reduce fears about privatisation and help employees adapt to a new work culture.

Additional support is essential for those employees who take voluntary early retirement and can become vulnerable to poverty. Many would benefit from support such as access to credit, skills development and support to find markets.

Learning from workers' experiences of privatisation is key for future reform programmes. The impacts on workers and worker attitudes towards privatisation are often not as reformers may expect. These insights provide important lessons for how future public enterprise reform programmes could be carried out differently.

1. Introduction

Privatisation is a word that evokes strong feelings among many in Sri Lanka. A country with a strong tradition of state welfarism and a large public sector, Sri Lanka has been grappling with the question "what is the appropriate role for government?" for many years. Privatisation - which has variously been called peopleisation, public enterprises reform and restructuring - has been a policy of successive governments since 1978, and some have followed the policy with greater zeal than others. However, there has been a strong negative public reaction to privatisation which has led to much conflict in Sri Lanka. A poll conducted in 2000 found that most Sri Lankans thought that privatisation has increased poverty and raised the cost of living, and over 60% opposed the privatisation of the remaining state-owned firms (Birdsall and Nellis 2003: 2).

The most vehement opposition can be found amongst organised labour; unions have long been critical and active against any privatisation activity. Those who support privatisation in Sri Lanka tend to be a much smaller but very influential group including, amongst others, donors and aid agencies.

However, despite substantial literature and discussion about the expected costs and benefits of privatisation, the actual impact of privatisation - particularly on workers - has not been systematically assessed in the Sri Lankan context. This study was undertaken by the Poverty Impact Monitoring programme of the Centre for Poverty Analysis (CEPA) with a view to addressing this gap in knowledge.

The specific objective of this research study is to understand how privatisation has affected workers, focusing on welfare changes and impoverishment amongst workers who remained with the enterprise after privatisation as well as those who took voluntary retirement. The study aims to add to existing knowledge about the impact of privatisation on welfare in Sri Lanka and to inform policymakers about the implications for worker welfare. This can provide useful lessons for designing and implementing public enterprise reform programmes in future.

1.1 Theoretical rationale for privatisation

Privatisation is broadly defined as the process of transferring property from public ownership to private ownership. It is sometimes extended to cover the transfer of management, of a service or activity, from the government to the private sector. Although it is most commonly associated with industrial or service-oriented state-owned enterprises (SOEs) in sectors such as manufacturing, mining or power generation, it can also apply to the transfer of assets such as land. Privatisation can be carried out in several ways; the most common form in Sri Lanka has been through the sale of shares in the enterprise.

The argument for privatisation is mainly based on efficiency considerations. State or public ownership is considered inefficient for a number of reasons. Because the owners (in theory the citizens) are not the same as the managers, government is assumed to have few incentives to ensure that the SOEs it owns are well run. SOEs are often seen as being plagued by poor management and auditing systems, low productivity and poor performance, corruption and unsatisfactory pricing policies. They are also often heavily subsidised by government which can result in huge fiscal deficits, particularly when the return on investment is low. Political factors, such as the state of the national coffers, may drive key management decisions such as performance improvement measures and capital injections, and there may be a high degree of political interference in management. Political consideration may drive employment decisions, leading to overstaffing or employment of unsuitable staff (Vickers and Yarrow 1988, cited in La Porta and De-Silanes 1999: 1194; Shleifer and Vishny 1994).

In contrast, it is argued that private owners have incentives to ensure that the companies they own are run well. Unlike the mismatch under government ownership, under private ownership the decision-maker is also the one who will profit from a well-run enterprise - or conversely, lose from a poorly managed one. The theory holds that, not only will the enterprise's clients see benefits, but as the privatised enterprise becomes more efficient, the whole economy will benefit. As privatisation aims to reduce distortions in the economy and promote the free function of market forces, it is consistent with a market-led economic ideology.

Finally, a loss-making SOE is a burden on the taxpayer, and its privatisation can be seen as relieving the taxpayer and freeing national budgetary resources for another - possibly 'better' - use. The proceeds from the sale of such SOEs also generate income which may be used by the state to benefit a larger portion of the population. In short, because they lead to misallocation of scarce resources, those promoting privatisation argue that SOEs are a major barrier to promoting economic prosperity in a country.

1.2 Privatisation experiences in the developing world

Just 30 years ago, however, the theoretical debate on the merits of government versus private ownership still favoured government. Key events during the twentieth century, such as World War II and the break up of colonial empires had pushed many governments into a more active role, including ownership of production and provision of all types of goods and services. In the developing world, government ownership was also perceived as necessary to promote growth, which was sought through heavy public investment in production and infrastructure (Megginson and Netter 2001: 323). The tremendous growth in SOEs throughout much of the world, especially after World War II, has in turn led a large number of privatisation schemes several decades later.

Since the 1980s, more and more developing countries have deregulated their economies and opened them up to private enterprise and market forces. The privatisation of SOEs has been the centrepiece of such reforms, reducing the state's role in the economy and alleviating the strain on public budgets (Adhikari and Adhikari 2000:12). However, the experience of privatisation in developing economies is increasingly highlighting a number of contradictions, particularly in the relationship between privatisation, social welfare and employment. Experiences show that the creation of a market economy and the subsequent privatisation of SOEs does open up opportunities for expansion through entrepreneurial activity that, in turn, can generate employment and tax revenues to fund social services. However, there is also a growing body of research evidence which indicates that reducing the role of government and ending subsidies can cause reductions in employment and loss of income for many people. In addition, these measures have often led to a decline in social and welfare services formerly attached to SOEs (Martin 2000). In their study of the Eastern European countries Van der Hoeven and Sziraczki found that

"...privatisation accompanied by redundancies and the introduction of hard budget constraints on enterprises has resulted in large-scale job losses ... [and] created a pool of unemployed workers which often cannot be absorbed by other privatised firms or new firms." (cited in Martin 2000: unpaginated)

The argument *against* privatisation therefore, is increasingly focusing on the equity or distributional implications of privatisation. This has shifted some of the focus towards what happens to SOE customers, especially the poor and the marginalised, as well as the workers. While efficiency and equity are often portrayed as a tradeoffs in economic theory, recent literature has argued that privatisation can, in theory, lead to changes in increases in efficiency *and* equity. For example, privatisation of a badly managed SOE can lead to increased efficiency,

as well as better services for the poor. Birdsall and Nellis, however argued that almost all privatisations carried out so far in all parts of the world have done more to enhance efficiency than equity (Birdsall and Nellis 2003:18).

1.3 Privatisation and labour issues in Sri Lanka

As with many other countries in the developed and developing world, the balance between the public and private sectors remains a highly debated and often controversial issue in Sri Lanka, and employment and labour issues are at the centre of this controversy. Until economic liberalisation policies were adopted in 1977, the state sector played a dominant role in Sri Lanka’s economy. Important sectors, such as banking, plantations, large-scale industries, transport, insurance, telecommunications and electricity were operated by public monopolies or dominated by public enterprises. These public enterprises often employed a large workforce and provided an extremely stable - if not very lucrative - source of employment. Since the 1980s however, the number of public enterprises, as well as the share of employment provided by the public sector, has declined with the emergence of the private sector and deliberate measures to downsize the public sector by privatising public enterprises (Table 1.1)¹.

Table 1.1 Share of public sector employment 1990 - 2004

	1990	1997	2005
Rate of unemployment (%)	17.4	10.5	7.7
Rate of employment (%) (as a percentage of total household population aged 10 years and above)	51.9	48.4	48.3
Share of public sector employment (%) (as a percentage of total employment)	21.5	15.1	13.3

Sources: CBSL 2000, 2005, and Salih 2000

The stated objectives of the privatisation programme in Sri Lanka have evolved and changed over time. When privatisation was first announced as a state policy in 1987, the primary objective was to alleviate the burden on the state budget and improve the efficiency of SOEs through the infusion of private sector norms. Another stated objective, which sought to increase popular support for the programme under the name of ‘peopleisation’, was to encourage the development of an entrepreneurial middle-class through broad-based share ownership which would activate the capital market. Privatisation undertaken since 1994 also aims to enhance investment, employment, and the quality of service in the privatised sectors. As Knight-John and Athukorala note, however, in practice,

“fiscal imperatives - both in terms of reducing expenditure on SOEs and raising revenue from the sale of state assets - have influenced and shaped both phases of privatisation.” (Knight-John, Athukorala 2005: 393)

The experience of privatisation in Sri Lanka has also been shaped by the nature of the labour market, especially its legal and regulatory framework. In addition to a large public sector, the labour market in Sri Lanka is often characterised as being rigid and overly safeguarding the rights of employed workers at the expense of the unemployed (World Bank 2000). The source of this perceived rigidity is the legal and regulatory framework governing labour issues in Sri Lanka, and in particular two pieces of legislation; the Termination of Employment of Workmen

¹ In 2004/2005 there was a change in government policy, and policies aimed at downsizing the public sector were replaced by a policy of expanding the public sector. The resulting recruitment, particularly of 42,000 graduates into the public sector in 2004, arrested the declining trend in the share of public sector employees, and a year on year increase was recorded for the years 2004 and 2005 (Central Bank, 2005).

(Special Provisions) Act of 1971 (TEWA), and the Industrial Disputes Act of 1950, as amended (IDA). Both pieces of legislation apply to the termination of employment of private sector employees; TEWA provides that, excluding on disciplinary grounds, employment may only be terminated with the written consent of the workman, or with the consent of the Commissioner of Labour. The IDA sets out restrictions on situations which may lead to dismissal. Those dismissed on disciplinary grounds may apply to the Labour Tribunal as an alternative forum to obtain redress. The Labour Commissioner has the power and authority to decide at his absolute discretion and may order the reinstatement of any worker. These procedural controls on dismissals are considered to be adequate, if not excessive, safeguards against unfair dismissal of private sector employees. There is no similar statute guarding the employment of public sector workers who must therefore rely on influence, exercised through their unions or politicians, to obtain redress.

The power and influence of trade unions is also a distinguishing feature of the Sri Lankan labour market. A union can be legally established with a membership of only seven people and there are now more than 1,000 trade unions in existence. Many of these, such as the Jathika Sevaka Sangamaya (JSS), Nidahas Sevaka Sangamaya (SLNSS) and Inter-Company Employees Union, are aligned with powerful political parties. The relative ease with which a union may be formed, together with the highly politicised nature of the trade union movement in Sri Lanka has been viewed by some as allowing space for outsiders with political motivations to hijack the agenda of the unions (Kelegama and Gunatilake 1996, cited in World Bank 2000: 16).

In recognition of these issues, the privatisation of public enterprises in Sri Lanka is regulated by several specific measures. To protect against unfair dismissal and erosion of worker rights and benefits under the private owner, privatisation agreements entered into since 1995 carry a clause guaranteeing employment under no less favourable terms and conditions as those enjoyed on the date of sale. To obtain the consent of trade unions, the sale of majority shares to the private sector is accompanied by the free distribution of a small number of shares (not more than 10%) to the employees. Finally, most privatisations have also been accompanied by increasingly generous voluntary retirement schemes through which SOE employee numbers are reduced. These measures are designed to protect workers through the transition from public to private sector, and to obtain their support for the economic reforms.

Few studies have looked at the effects of privatisation on employment in Sri Lanka, or of the efficacy of the special measures discussed above in achieving their objective. A seminal study by Kelegama and Salih (1998) looked at retrenchment during the privatisation process and their findings relate to macro level *efficiency* implications of this process. They found, for example, that voluntary retirement packages have tended to be undermined by the adverse selection problem (meaning that those accepting the VRS are the very ones the company does not want to lose, e.g. the skilled workers), that fixed compensation packages are superior to flexible ones given rent-seeking trade union behaviour and downwardly rigid compensation packages, and that pre-privatisation retrenchment may be sub-optimal as compared to more efficient post-privatisation restructuring options. *Equity* considerations have received less attention, and there is little research on the actual experiences of workers under privatisation in Sri Lanka. This study hopes to address this gap in knowledge.

1.4 Report outline

This report is set out in six chapters. Chapter 2 sets out the study methodology. Chapter 3 assesses the effects of privatisation on employment and Chapter 4 looks at the welfare and poverty impacts of privatisation on workers (both current and voluntarily retired). In Chapter 5, the discussion focuses on the attitudes and perceptions of employees (again both current and

voluntarily retired) regarding the privatisation of their SOE. The final chapter brings together the conclusions which may be drawn from this study and offers some recommendations, mainly to policymakers and union leaders, regarding employee welfare issues in implementing public enterprise reforms.

2. Study Methodology

2.1 Objective and definitions of key terms

The objective of this study is to understand how privatisation affects the welfare of employees. The specific question the research sought to address was '*what impacts does the privatisation of an SOE have on the welfare of its employees?*'

For purposes of this study, privatisation is understood as the sale of the controlling stake in an SOE to a private owner, which is accompanied by the transfer of management of the SOE to the private owner. Only permanent employees were included under the category of 'employees' in the study, and findings do not, therefore, relate to casual, contract and other informal employees who may have been attached to an SOE at the time of privatisation. The term 'worker' is used interchangeably with 'employee'. In some specified contexts, it is also used as a subcategory under employees, drawing from employment classification systems prevailing in enterprises included in the sample, where employees are classified under worker, clerical, technical and executive grades.

The study focuses on changes in well-being. Well-being and poverty are particularly contentious terms, and beyond the widespread acceptance that poverty can be defined as deprivation or lack of well-being, there is much debate regarding the precise meaning of these terms (Gunewardena 2004). Poverty is increasingly understood to be a multidimensional concept, but there is less consensus about what these dimensions are. For example, the capabilities approach includes economic, human, socio-cultural, political and protective dimensions. The *poverty concepts pyramid*, an alternative to the capabilities approach, includes private consumption, common property resources, state provided commodities, assets, dignity and autonomy as other dimensions².

Using a multidimensional approach to understanding poverty, this study uses several indicators to assess well-being. These include changes in income, security of income sources and subsistence consumption indicators such as household assets, access to basic services such as adequate housing/shelter, access to improved sources of water, sanitation and sources of energy. In addition, the study also attempts to capture some perceptions and attitudes regarding changes in well-being. Poverty in this context is not simply seen in absolute terms, but changes in well-being are understood in a *relative* sense - relative to individuals themselves over time as well as relative to others.

2.2 Research hypothesis and methodology

The study was based on the experiences of two types of employees; (i) those who were in employment at the time of privatisation of the SOE and who continue to be employed in the privatised enterprise; and (ii) those who were in employment at the time of privatisation of the SOE and who voluntarily retired from the enterprise during the privatisation process. The research was driven by three sub-questions:

² See Gunewardena (2004) for a comprehensive discussion of meanings and measurements of poverty.

1. *How does privatisation affect employment?* This included questions such as; was there a net loss in employment, did the composition of workers in the SOE change after privatisation?
2. *What changes in well-being are experienced by those employees who remain in employment and those who leave the privatised enterprise through voluntary retirement schemes?* These changes include job security, wages, conditions, unionisation, access to services and vulnerability to risk.
3. *What are workers' attitudes to privatisation and its effects on them?* This includes questions such as; are worker attitudes consistent with factually verifiable changes, are worker perceptions about their own experience different to their perceptions about welfare implications of privatisation in general, how are these perceptions created/maintained and what is the role of unions in creating perceptions about reforms?

Three data collection tools were used for this study, namely a literature review, key informant discussions and household questionnaires. Key informants include government officials, union leaders, enterprise management and other representatives of the employer. Individual employees of SOEs, both current and retired, responded to the household questionnaire which was administered face-to-face.

2.3 Sample selection and overview

This research study was carried out between September 2004 and April 2005 and focused on the experiences of workers in three companies privatised during the 1990s. The three companies are Bogala Graphite Lanka Ltd (now known as Bogala Graphite Ltd), Ceylon Steel Corporation Ltd (now known as Ceylon Heavy Industries and Construction Company Ltd) and Puttalam Salt Ltd. It must be noted that these companies were not considered to be representative of the privatisation experience in Sri Lanka. In fact, none of the companies privatised to date can be considered representative of the privatisation experience in Sri Lanka since both large and small companies, in many different sectors, were privatised in different ways; local vs. foreign investor, outright sale vs. majority shares with management etc. Therefore, the selection of companies for the study was carried out on the basis of the following criteria:

Given the poverty focus of the study, the selected company should contain a substantial cadre of low-income employees.

To provide insights into how different groups are impacted by privatisation, the company should contain a mix of skilled, semi-skilled and unskilled workers.

To assist in tracing employees who had retired and also to assess the general employment impact of the privatisation on the community, the company should be an important employer for a community or geographic area.

There is some comparability across the group as Bogala Graphite Lanka Ltd (referred to as BGL hereafter), Ceylon Steel Corporation Ltd (referred to as CSL hereafter) and Puttalam Salt Ltd (referred to as PSL hereafter) are all in the mining/manufacturing sector. CSL and PSL were privatised with the sale of 90% of shares, whereas BGL was privatised initially by an IPO - the sale of majority shares and the transfer of management followed several years later. BGL and CSL have foreign investors, while PSL was purchased by a local consortium. Finally, the privatisation of BGL and PSL were not accompanied by labour unrest but CSL's privatisation led to a violent industrial dispute.

The research was carried out through interviews with current and former employees who were selected through a stratified random sampling method. With the exception of one seasonal

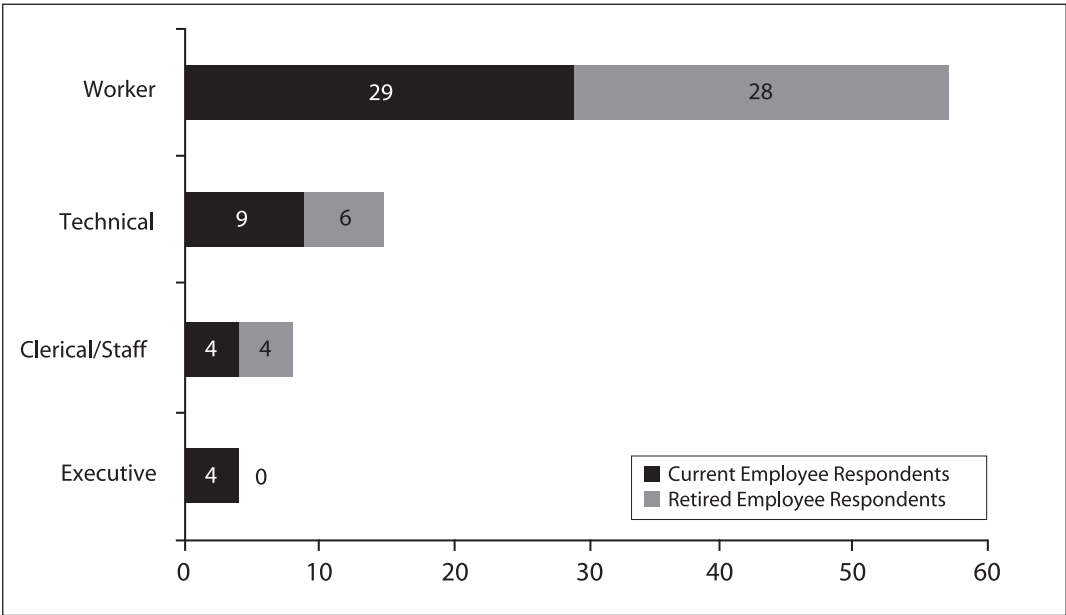
worker in PSL, only employees who had been in permanent employment on the date of privatisation were interviewed. All respondents, with the exception of three, were interviewed in their homes rather than at their work place. The distribution of the interview sample, in terms of the company and employment status, is given in Table 2.1.

Table 2.1 Sample overview

Company	Number of Current Employees Interviewed	%	Number of Retired Employees Interviewed	%	Total Respondents
Ceylon Steel Corporation Ltd	14	47	16	53	30
Puttalam Salt Ltd	15 ³	52	14	48	29
Bogala Graphite Lanka Ltd	17	68	08	32	25
Total	46	55	38	45	84

The population of employees was stratified on the basis of those who remained and those who accepted voluntary retirement and left the enterprise. Accordingly, 68% of respondents in BGL, 52% of the respondents in PSL and 47% of respondents in CSL are employees who remained with the enterprise through the privatisation. Sample selection was also stratified by the employee grade at the time of privatisation in order to provide a sample representative of employee grades at the time of privatisation (Figure 2.1).

Figure 2.1 Sample distribution by respondent’s position

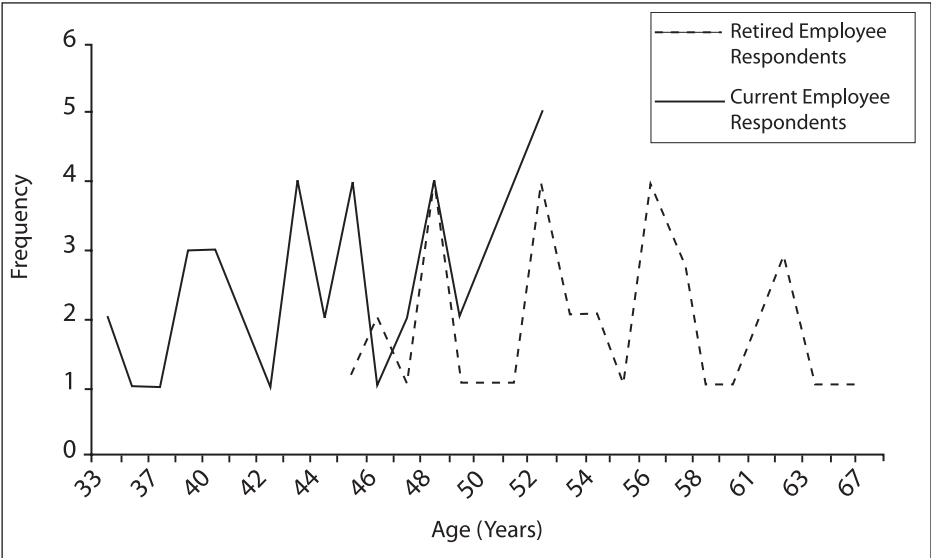


The largest number of respondents are drawn from the worker grade (57 respondents, or 68% of the sample), and the smallest number from the executive grade (4 respondents, or 5% of the sample).

After stratifying in terms of, (i) current or voluntarily retired employee; and (ii) employee grade, the sample was drawn randomly from employment lists provided by the company management. The distribution of respondents in terms of age resulting from this stratified random sampling technique is shown in Figure 2.2.

³ Includes one seasonal worker

Figure 2.2 Sample distribution by respondent's age



Respondents in the study sample range in age from 33 to 67 years. While current employees are younger (mean age 45, standard deviation 5.7), those who opted for early retirement are older (mean age 54, standard deviation 6.0). The three companies in the sample are dominated by a male workforce, both before and after privatisation, and only 11 respondents (or 13% of the sample) are female.

In order to protect the anonymity of the respondents, in the remainder of the report the three companies will be referred to as Company A, Company B, and Company C.

2.4 Study limitations

As mentioned above, the study is not intended to be a comprehensive review of labour's experience of privatisation in Sri Lanka. The study sample is drawn from a purposive selection of companies and our findings are generalisable to the experience of workers in these three companies - but not necessarily generalisable to the entire population of public enterprise employees affected by privatisation in Sri Lanka. Such an exercise is beyond the scope of this study, which focuses on the actual experiences of individual workers in an effort to add value to a discussion which has so far been mainly restricted to the views of union leaders and employers. Because of this, study instruments are also mainly qualitative, rather than quantitative.

The three companies selected for this in-depth study experienced privatisation between four and eight years ago. This time lapse was considered necessary in order to assess welfare changes in the situation of the employees and past employees since the event. However, there is a cost associated with this time lapse as some employees could not always recall with clarity details of events that occurred at the time of privatisation, or the feelings, perceptions and attitudes they had at the time. In these instances, the survey data captures only the major events and dominant attitudes recalled by the respondents.

Finally, the time lapse since privatisation, and subsequent changes in management of the three companies in the sample also adversely affected the availability of continuous employment related data, such as rules, regulations, benefits etc.

3. Impact of Privatisation on Employment

"For a small, short-term improvement in service, workers and consumers are paying for the privatisations in Sri Lanka through job-cuts and higher prices."

- Union leader, head office

One of the main concerns driving opposition to privatisation is the perception that it leads to a reduction in employment and/or a deterioration in employment conditions. During this study, key person interviews were conducted with union leaders in Colombo, who raised this concern, often referring to workers and consumers as those "paying the price" of privatisation. As discussed in Chapter 1, some support for these concerns is provided by recent research from various countries in the developing world.

Privatisation in Sri Lanka has often been accompanied by uncertainty and employee unrest, and most workers in this study expressed fears they had about the impact of privatisation on their own employment. Their main and immediate fear was that the new management would exploit them, making them work much harder while reducing their benefits and infringing their rights. When asked why they opted to take early retirement on privatisation of their SOE, about 20% of respondents said it was because they did not want to work under the new management. This chapter tests these concerns by focusing on the experiences of workers in the three companies to understand how privatisation has affected employment and job security for these workers, as well as its effects on the terms and conditions of employment in these enterprises.

3.1 Workload

Almost all the employees in the study reported that compared to the period under state ownership, they now work much harder. On the whole, this is not due to a longer working day as close to 80% reported that there has not been a change in their working hours. However, the number of people available to do the work has reduced substantially. Table 3.1 shows how employment levels have changed in these enterprises since privatisation.

Table 3.1 Employment changes at the enterprise level

	Company A*	Company B	Company C
Permanent staff at privatisation (no.)	NA	581	1,350
Permanent staff who have left with VRS (no.)	NA	433	729
Permanent staff at present (no.)	NA	316	723
Net change in permanent staff (%)	NA	-45.6	-46.4
New staff hired on contract/casual basis (approx. no.)	NA	100	150 to 200
Net change in all staff (%)	NA	-25	-30 to -35

Source: Key person interviews and PERC

*Research team were not able to obtain the comparable employment data from Company A.

The permanent cadre has reduced by between 45 to 46% compared to the numbers at the time of privatisation and the net reduction in staff numbers is between 25 to 35%. On the surface, this reduction seems to further support the view that privatisation results in a net reduction in employment, but it needs to be seen in the context of overstaffing before privatisation. While the workload has no doubt increased for privatised workers, their perception that they now work very hard is linked to their experiences in the period before privatisation - a period which is recalled by a number of workers as being a time of very little work due to overstaffing and poor management practices.

"At one time there were about 100 employees in my unit but now there are only four. Still, there is no problem in meeting our daily targets."

- Employed, worker grade

In contrast to the period of state ownership, the work ethic under privatisation is geared towards increased productivity. To this end, while reducing staff and discouraging idling, the private management have also introduced productivity incentives, such as bonuses to encourage their employees to work harder. These incentives have had a tremendous impact on employee productivity as workers begin to see how their incomes can increase when they put in greater effort. While most workers choose to work harder in order to receive the production related bonuses and allowances, a number expressed a sense of exploitation and loss of freedom due to these changes in the work ethic and working environment.

"We work at the optimum. It is like we are all in a race against each other"

- Employed, worker grade

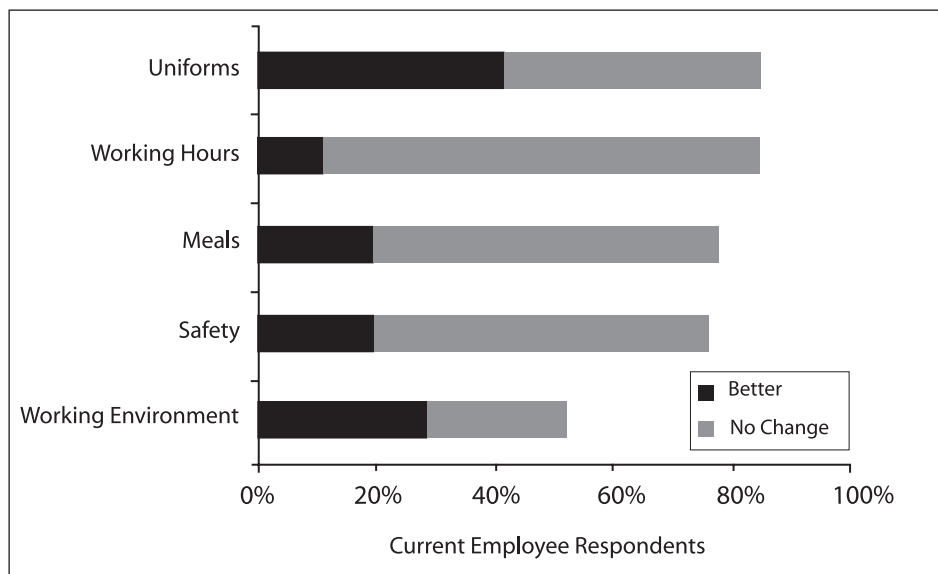
3.2 Work conditions

"People left in fear that there would be hard rules under the new management, but things didn't happen that way. Rules and working conditions are the same."

- Employed, worker grade

On the whole, employees did not report substantial changes in their work conditions such as working hours, safety, work environment and benefits such as uniforms and meals (Figure 3.1). Some conditions, such as safety, which could be expected to rapidly deteriorate under private management which is more focused on increasing productivity and reducing costs, are not reported to have changed. As many as 50% of respondents reported no change in safety in their work environment, and 20% reported an improvement. About 15% of respondents reported a deterioration in working hours but this was mainly in reference to reduced opportunities for overtime, which is now more strictly regulated than under state management, rather than an increase in the workday.

Figure 3.1 Changes in work conditions



Source: Employee interviews

In all three enterprises however, a number of employees reported a deterioration in the working environment. This mainly referred to the number of new rules and regulations introduced by private management which are aimed at increasing the productivity of employees, mainly by reducing opportunities for idling and loitering. In one company, different coloured uniforms were introduced so that workers idling in areas they were not assigned to could be easily identified by the management.

3.3 Nominal salaries

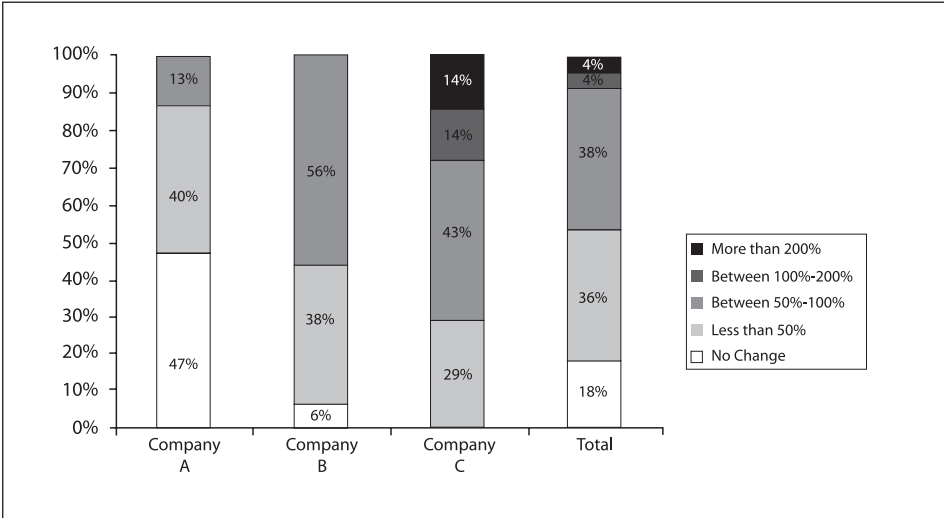
"When the government owned the company, salaries increased only once in three to four years. But now there is an annual increase."

- Employed, worker grade

Compared to the private sector, the public sector in Sri Lanka is characterised by low salaries across the board, irrespective of position. After privatisation, this is expected to change as salaries align with market rates. In our sample enterprises employee salaries have increased since privatisation with 83% of employees interviewed confirming this increase, both in terms of gross and net (take-home) salary.

Figure 3.2 shows salary increases as reported by the employees. All employees in Company C and most in Company B reported an increase in their salaries, whereas 47% in Company A reported no change. 73% of Company C employees and 56% of employees in Company B reported a salary increase of 50% or more compared to only 13% in Company A.

Figure 3.2 Percentage increase in nominal salary since Privatisation



Source: Employee interviews

In some cases, large salary increases have come from more frequent promotions for the experienced or skilled employees who remain. Promotions were rare under government ownership of these enterprises, and according to employees, mainly reserved for those favoured by politicians and others with influence. In one privatised company several employees spoke of having received not just one but several promotions since privatisation.

"I joined in 1986 and it took four years to get permanency because there was a lot of politics [in the company management] at the time. For 15 years, I was never promoted. But during the past four years, I have been promoted twice."

- Employed, clerical grade

In Company A, however, salaries have not changed much and in fact 47% of employees interviewed said there has been no change in their salaries for the past eight years. Of those who agreed that nominal salaries have increased, 85% said this increase is very small (less than 50%) and insufficient to constitute an increase in real terms.

"I expected some better things after the privatisation and now feel my expectations have been let down. There was a 25% salary increment soon after privatisation (in 1997) but nothing else has changed"

- Employed, worker grade

Further, in this privatised enterprise promotions continue to be relatively rare and employees did not perceive much difference compared to the state-owned period. The experience of Company A indicates that privatisation followed by a reduction in employee numbers is not necessarily followed in turn by salary increases for those employees who do choose to remain.

3.4 Salary differentials

"There are large discrepancies in salary levels. After 35 years of service a worker gets on average Rs.8,200/- whereas an executive who joins newly gets about three times that"

- Union leader, company branch

From a fairly flat salary structure, the privatised enterprises are moving towards a greater differential in salaries, usually based on marketable skills and to a lesser extent, experience. A large proportion of Worker grade staff (42%) and Technical staff (67%) said that their salaries had increased on average by less than 50%, whereas the majority of Executive grade (75%) and Clerical/Staff grade employees (50%) said that, on average, their salaries had increased by 50-100%. An executive or clerical staff member was also more likely to receive promotion and the attendant increases in salary.

3.5 Job security

"We were afraid before the privatisation because we thought we might lose our rights, there will be more work, less facilities and that we might lose our jobs. These fears arose because we looked at other completed privatisations and saw what had happened there."

- Union leader, company branch

The three companies in the study sample had been converted into limited liability companies and its employees were, in theory, no longer public sector employees at the time of privatisation. The change in status from a public corporation into a limited liability company marked a momentous change in the status of the employees, who went from being governed by government circulars and codes, to being governed by the labour laws of the country. However, as an SOE the state was committed to maintain companies irrespective of their profitability, and the employment of the workforce was, at least, secure.

No change in the legal status of their employment or the laws and regulations governing their employment occurred with the change in ownership of the company on privatisation. Nevertheless, the perceptions of the study respondents show that employees were keenly aware of a transition when their companies changed hands from public to private ownership. Many employees said that they were afraid of losing their jobs, either through layoffs or due to company liquidation because of losses. The worst case scenario was liquidation as employees may not receive much or any compensation. At the time of privatisation, they felt insecure as the state was no longer their employer, and a strict private sector employer would focus on making profits rather than on providing employment.

In retrospect however, many now felt that their fears at the time were excessive⁴. Dismissal on disciplinary grounds, the only form of unilateral dismissal allowed to private owners under the TEWA, is still a possibility but in the three enterprises in the study sample, this option was not reported to have been used widely or inappropriately to reduce the workforce. Uncertainty created through the privatisation process, including lack of information about the new owner and the measures taken, if any, to safeguard worker rights were cited as reasons for fearing the loss of their jobs. Several employees continued to feel that there is always a risk that a private investor, particularly if they are a foreign company, may shut down the company and leave the employees stranded, without jobs or compensation. They cited experiences in other privatisations as the basis for such fears. If the investor has taken measures which signal their long term interest in the business, such as substantial investment, employees' fears were somewhat alleviated.

3.6 Perceptions of insecurity

The workforce as a whole may feel that they have less overall employment security as a result of different priorities, but the reasons for which individuals may feel a sense of insecurity about their own job have also changed significantly. During the period of state ownership, politics played an important part, both in who was rewarded through promotions and who was disciplined through transfers and interdictions. The political party workers supported at national and regional elections, rather than workers' productivity levels, often determined job security.

"Earlier there was lot of politics here. There was always the possibility of getting transferred to _____ [another public enterprise in the same sector]. Whenever a new government came into power, they would transfer people. We were helpless when this happens."

- Employed, technical grade

The uncertainty regarding employment conditions during state ownership was contrasted with the more predictable conditions under private ownership. Under government ownership, rules were not applied consistently and often favoured those with influence. Private owners on the other hand are seen to implement the rules stringently and consistently.

Under private ownership some individual employees are at greater risk of dismissal. For example, employees who are unable to work for some reason, usually ill health, are at risk of losing their jobs, ostensibly because they take more leave than is their entitlement. Also employees perceived as 'troublemakers' may find that their work conditions have deteriorated or their work load has increased. They are also more likely to be offered voluntary retirement packages.

"I was a big man in the union. Those days we used to work only 3 hours out of the 8 hours that we had to be at [the place of employment]... I was suspended for four years when the company was in government hands. Just before it was privatised, I was one of the union leaders leading the strike which forced the company to completely shut down for 2 days."

- Retired, worker grade

Under these conditions, those unable to perform due to illness or disability, as well as those who refuse to conform, are at greater risk of infringing the rules and therefore losing their jobs.

⁴ This study cannot assess this concern as sample selection biases this conclusion. Only companies which continue to be in business, and therefore continue to provide employment, were selected for this study.

3.7 Changing role of unions

"if you do nothing wrong, then you don't need the unions"

- Employed, worker grade

Because politics played such a large role in these enterprises when they were SOEs, changes in government were often accompanied by demotions, transfers and other forms of harassment for employees not associated with the winning side. Under such uncertain conditions, employees felt the need to join a trade union to safeguard their individual rights, and a high degree of unionisation characterised all three enterprises prior to privatisation. Employees felt that they needed the union to ensure that they were fairly treated. This was particularly important because rules were not uniformly enforced and power and influence often ensured exceptional treatment. Unions were needed to mediate with government ministries and enterprise management on behalf of individual employees who had no power or influence of their own. This they did through their connection to powerful politicians. Unions which were affiliated with the party in government were therefore very powerful, and sometimes a change in government was accompanied by a large migration of employees from one union to another which was affiliated to the political party in government.

With privatisation, these systems of power and patronage have broken down and the influence exercised by unions has reduced substantially. In some companies, the new management has also contributed to marginalising unions by making themselves more accessible to workers. Previously many worker grievances were not heard by the state sector managers unless these were channelled through the union leadership. Private management, particularly the foreign investors, are perceived as less rigid in their thinking and in Company B and Company C in particular, workers spoke of the new accessibility of the management and willingness to listen to their issues directly.

"When the union is of the same party as the government, workers have a lot more expectations of the union. But now it can't be done, we can't influence the management like before. Now when we speak to the management through politicians, they hardly take any notice."

- Union leader, company branch

"Now there is no need to join a union because they cannot influence the management. If we have a problem, we go straight to the management... now if you lost your job there is no point in making appeals through the unions. Even salary increases are done without such appeals."

- Employed, technical grade

"The unions are of no use. I am in the ___ Union but only for the sake of it. Those days we were afraid of being treated badly by the management and because of that, we joined the union. Now it is not necessary. I am planning on leaving this union and not joining another."

- Employed, clerical grade

During state ownership, employment of the workforce was safeguarded and very little or no intervention was required of the unions to ensure continued employment and obtain group benefits, such as salary increases, which were usually the same across the public sector. Their efforts, therefore, focused on the rights of individual employees, or mobilising the entire workforce in order to safeguard the rights of an individual worker. In contrast, private management structures are more geared in favour of individual rather than group interests. Therefore, unions' main role has changed; rather than acting on behalf of individual workers

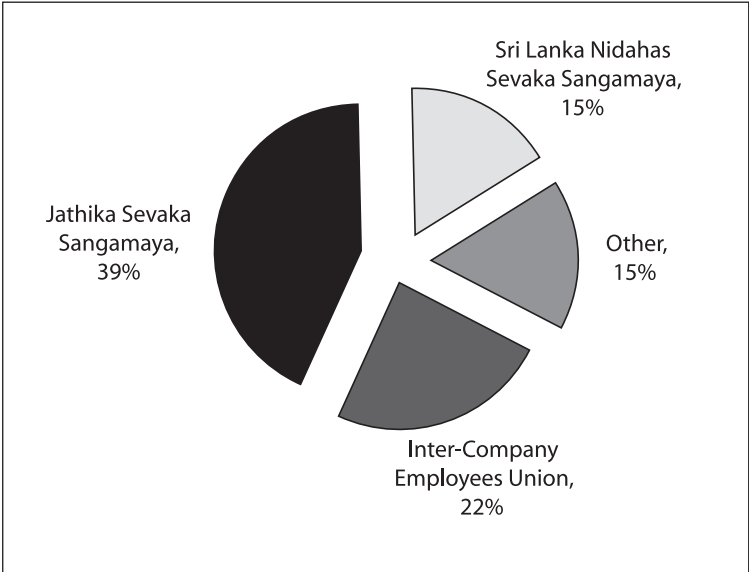
facing problems with management, increasingly unions need to provide a collective voice for the workforce in negotiations with management.

"The objective of our union is to discuss and find solutions to the work related problems and work towards future prospects of the workers. For example, the union used to get involved in cases of unfair promotions and interdictions, but now such involvements are less. Now we take action only in common matters."

- Union leader, company branch

The trade unions have been forced to adapt to this changing reality and some have proved more successful than others. In Company B for example, the unions led discussions with management that resulted in a collective agreement for substantial salary increases. In Company C, the unions have monitored the implementation of the privatisation agreement to ensure that worker rights enjoyed under state ownership are not eroded. In all three companies in the sample the Inter-Company Employees Union, a recent introduction into many of these previously state owned enterprises, is proving itself adaptable to the changing circumstances and, in contrast to the traditional unions which are rapidly losing their membership, continues to attract new members.

Figure 3.3 Union membership



Source: Employee interviews

There is still space for trade union activity in the privatised enterprises. Only four employees said they were not members of a trade union, and the distribution of the remaining 90% of current employee respondents' union membership is shown in Figure 3.3.

3.8 Summary of main findings

"if you are not afraid of hard work, you don't have to be afraid of privatisation"

- Employed, worker grade

In this chapter, we set out to test whether employees are "paying the price of privatisation" in the form of job cuts and other changes. The discussion above indicates that privatisation has indeed had a substantial impact on employment. In the three companies discussed above, while no change in the legal status of the enterprise nor of laws applying to its employees occurred with privatisation, employees reported a substantial change in their work environment; their workload has increased, their salaries have increased, and there are more rules which are now more strictly applied.

However, the picture is not as clear-cut as, for example, the union leader quoted at the start of this chapter may have believed. Not all employees are against the changes brought on by privatisation, and in fact some employees welcomed them. Those in favour of these changes at the company level tend to be those who are physically able to work hard or those who have the necessary skills and attitude to profit from the new system which rewards hard work and productivity. Unlike under the state owned period, those who are at risk of losing their employment under this new system are not those supporting the losing political party, but those who cannot meet these new demands or who cannot or do not respond to the new value system of more work - higher pay.

The role of the union has also undergone tremendous change in these privatised companies. While unions enjoyed a great deal of influence over management during the state owned period, they are increasingly seen as redundant in a situation where no intermediary is required to access the management and rules are not relaxed at the request of unions. However, in the more individual focused culture of the privatised enterprises unions have a new role, to provide a collective voice to safeguard the interests of the group in dealings with the management.

4. Impact of Privatisation on Poverty and Welfare

"After taking several lakhs in compensation, some former employees are now reduced to beggars."

- Union leader, parent union

Another frequently heard concern about the effects of privatisation concerns employees who take the voluntary retirement schemes introduced at privatisation to reduce the bloated workforce of SOEs. These employees are generally thought to mismanage their compensation benefits, mainly because they are unaccustomed to deal with the large sums of money provided through government sponsored retirement schemes, and soon find themselves impoverished. This chapter tests the concern that the welfare of employee households is adversely impacted by privatisation, and focuses on changes to poverty, welfare and vulnerability in affected households. The discussion relates to changes in well-being of both employees who remained with the company as well as those who voluntarily retired on privatisation and covers issues such as changes in household income, income sources, household assets and access to basic services.

4.1 Changes in levels of poverty and welfare

4.1.1 Income poverty among current employees

In terms of income, those who are currently employed in a privatised enterprise were found to have household income above the national poverty line. In terms of salary alone, respondents reported an average monthly salary, net of allowances, of Rs.8,881 (standard deviation Rs.5,550). Despite substantial variation in the salaries received, 87% of respondents stated that they receive more than Rs.5,000 in net salary per month. In addition to the salary, all employees receive allowances, bonuses and other incentive payments which takes their household income above the national poverty line. In other words, the study found no instance of absolute poverty among current employees.

4.1.2 Income poverty among VRS employees

"I have no money and no job. The survival of my family depends on my getting work, but though I go to the town everyday, some days there is no work to be had"

- Retired, worker grade

The situation is different among retired employees, many of whom no longer have a stable and substantial monthly income. The purpose of the VRS was to enable workers to find a new source of employment, but the study found that many VRS employees are struggling to find re-employment. Almost 60% of VRS respondents said that they were unemployed (actively looking for work) continuously for at least 6 months after taking VRS.

Box 4.1 Who takes the VRS?

Rationale behind the VRS

From the perspective of the owners of the enterprise, a Voluntary Retirement Scheme (VRS) is a means of reducing the number of workers in an SOE - thereby saving the salary and other employment related expenses of the enterprise in the long term. The size of the VRS package reflects this cost benefit analysis. A VRS may be given by the government, prior to or as part of the privatisation, or by the private owner subsequent to the privatisation. In theory, severance pay such as the VRS is meant to tide the employee over until he/she is able to find another job. As those with marketable skills who are confident of finding re-employment would be attracted by the VRS, these schemes have variously been criticised for getting rid of the most qualified or skilled workers who are also needed and valued by the private owner of the SOE, while the intended targets of the VRS, remain (Kelegama and Salih, 1998).

But VRS is taken by unskilled as well as skilled workers...

VRS was offered in all three companies in our sample, usually as a one-off exercise accompanying the privatisation but also repeatedly, as was the case of BGL after the privatisation was concluded. In the absence of formal systems to recognise skills in the sectors covered by this study, education and experience were used as proxies to assess skilled and unskilled employees. There is little difference in terms of experience between those employees who accepted the VRS and those who opted to remain with the company. VRS employees have on average 24.9 years of service (standard deviation 9.5) compared to current employees who have 22.8 years of service (standard deviation 7.6). On the other hand, employees who accepted the VRS tend to be less educated than those who remained. For example, only 42% of VRS respondents had completed their Ordinary levels, compared to 76 % among those who opted to remain employed (Table 4.1)

Table 4.1 Educational attainment of VRS and current employees

Educational Level	VRS Respondents (%)	Current Employee Respondents (%)
University Degree	0	2
Completed A/Ls11	22	
Completed O/Ls42	76	
Upto Year 11	50	78
Upto Year 9	76	89
	100	100

Source: Employee Interviews

About one third of VRS respondents are currently not engaged in any form of income generating activity. Table 4.2 shows the percentage of retired employees not engaging in any form of income generating activity, by age and educational attainment.

In the age group 40 - 49 years, 30% are not engaged in an income generating activity and they are all women. In comparison, 67% in the 60 and above age group are not engaged in an income generating activity. The study found that those who have permanently retired from the workforce following voluntary retirement are mainly women or persons who have reached the legal retirement age of 60 years.

Table 4.2 Unemployed VRS respondents by age and education

Age	Educational Attainment				Total
	Less than 6 years	Between 6 to 11 years	Completed O/Ls	Completed A/Ls	
40 - 49	25.00%	-	40.00%	0.00%	30.00%
50 -59	0.00%	36.36%	33.33%	0.00%	26.32%
60 and above	100.00%	0.00%	100.00%	0.00%	66.67%

Source: Employee Interviews

4.1.3 Re-employment in the informal sector

"I used to work as a driver. After leaving the company, I looked for work as a driver but couldn't find any. Then I bought a van and started a school van service".

- Retired, worker grade

Taking a lump sum early retirement package has not resulted in a life of leisure for most VRS employees. The study found that about two thirds of VRS respondents continue to be engaged in an income generating activity, but only a few re-enter the salaried workforce, with about half engaging in informal forms of self employment (Table 4.3).

Table 4.3 Employed VRS respondents by type of activity and education

Type of Employment Activity	Educational Attainment				Total
	Less than 6 years	Between 6 to 11 years	Completed O/Ls	Completed A/Ls	
State sector salaried	-	-	-	-	0%
Private sector salaried	-	-	-	4%	4%
Wage labour/piece rate	8%	13%	4%	-	25%
Farming/livestock/fishing	-	8%	4%	-	13%
Self Employed (micro enterprise)	13%	13%	13%	8%	46%
Business (medium and large)	-	4%	4%	-	8%
Other	-	-	-	4%	4%
Total	21%	38%	25%	17%	100%

Source: Employee Interviews

As many as 46% are self employed, mainly operating small grocery shops or three wheeler hire, only 4% have obtained employment in the formal sector.

The types of new employment VRS respondents take up are linked to their educational attainment. At lower levels of education, wage labour, farming and fishing are important types of employment, while VRS respondents with higher educational attainment are not usually seen engaged in these activities. None of the VRS respondents in our sample had re-entered public sector employment, while only one person had secured salaried employment in the private sector. These patterns of re-employment, particularly the high number engaged in self employment, may be an indication of the lack of opportunities available in the labour market in Sri Lanka. The difficulty of obtaining re-employment was also alluded to by those who rejected the VRS. The reason most often cited for rejecting voluntary retirement was "worried about finding another job", a higher number than those who said that the VRS package was not attractive enough.

Among those no longer engaged in any form of income generating activity, shown in Table 4.2, almost two out of every three people have 10 years or more of schooling. Among the unemployed therefore, those with a higher level of education (i.e. completed O/Ls) outnumber those with a lower education. This may indicate that the higher educated unemployed are less willing to engage in 'low-status' jobs such as wage labour and farming, and therefore, are more likely to remain unemployed. This is a familiar phenomenon in Sri Lanka where a large number of unemployed are also well educated (Central Bank 2005), or are engaged in self employment.

4.1.4 Household assets

The main difference between current and VRS employees is that while current employees have a continuous stream of income, by taking early retirement VRS employees have exchanged a continuous income for a lump sum payment. However, only 16% of retired employees have put aside all or part of their lump sum payment as saving, preferring instead to use the money - mainly to acquire a house and house related assets.

As a result, while the income levels of VRS employees do not compare well against current employees, their situation is better in relation to ownership of a house and household assets. As many as 86% of retired employees own their house, as compared to only 65% among current employees. They also have more household assets, such as refrigerators, televisions and other appliances.

Among current employees, there is a substantial difference in housing conditions between those who own their houses and those who live in housing provided by the company. Owned houses are in general well maintained in comparison to company owned housing which, it appears, neither the company nor the occupants maintain well.

4.1.5 Use of the VRS package

In consideration of income and assets, the study did not find that VRS employees are either substantially better off or worse off than before, but that their situation was quite varied. While some were living comfortably, several were facing great difficulties in making ends meet. Welfare is linked to several factors, such as whether there are other income earners in the household or other sources of income. The size of the VRS package is also a factor and those who received larger VRS packages have been able to put their money to several uses, such as acquiring a house and household assets or purchasing a livelihood related asset, and perhaps still have some money to put by as savings.

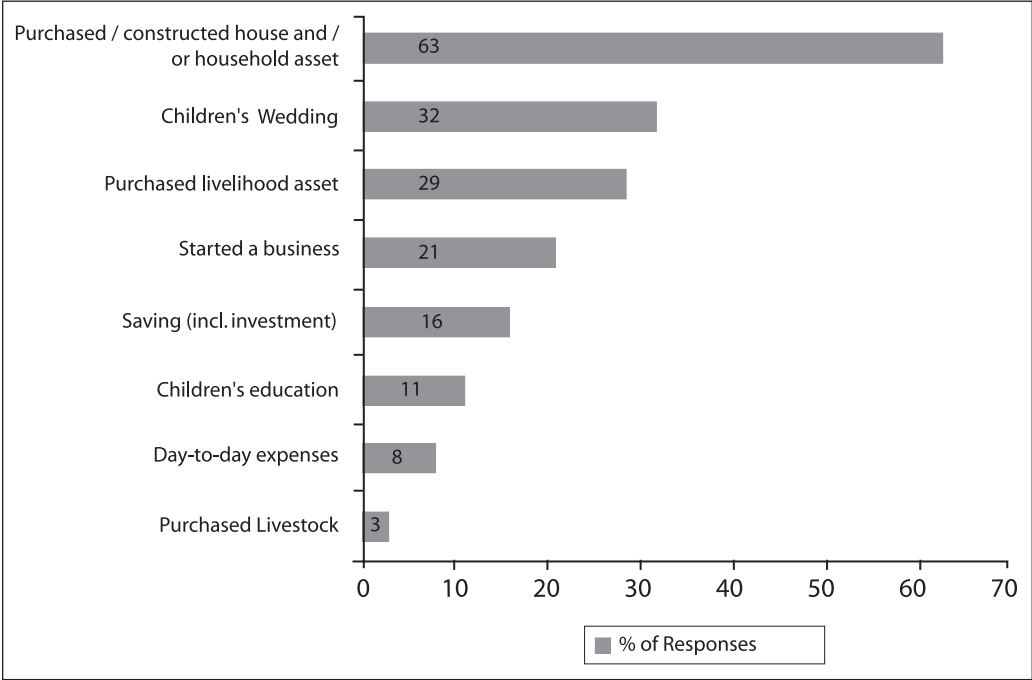
Chart 4.3 shows the multiple uses VRS money has been put to. As noted before, the most common use, irrespective of the size of the VRS package, is to purchase/construct a house or acquire household assets. Those who received more than Rs.500,000 as the VRS package are more likely to have acquired a livelihood related asset as well as to have saved some parts of the VRS package, whereas those who received less than Rs.500,000 are more likely to have spent it on day-to day expenses.

The larger the VRS package, the less likely the employee feels the need to continue to work; among retired employees who no longer engage in any income generating activity (Table 4.2), more than 60% had received compensation packages in excess of Rs.700,000.

In both Company C and Company B employees received substantial compensation packages, with the Company C VRS scheme being one of the highest ever paid out at the time. These employees were able to put their VRS money to multiple uses, in particular to improve their housing conditions. In contrast, the VRS package was smaller in Company A, where the

average compensation payment was Rs.295,000, compared to Rs.793,000 at Company C. Employees retired from Company A are more likely to be engaged in daily paid wage labour, whereas the retired employees from Company C or Company B are more likely to be engaged in self employment and none are engaged in wage labour.

Figure 4.1 Uses of VRS money



Source: Employee Interviews

Box 4.2 Employee shares are treated like any other tradable asset...

As part of the privatisation process, 10% of enterprise shares are allocated among the employees in employment at the time of privatisation. In the case of Company A, the early retirement scheme was effected before privatisation and only employees who opted to remain received the share allocation. Moreover, only Company B is listed on the Stock Exchange, and in the case of shares relating to the other two enterprises, only informal means of sale are available. Some respondents feel the shares in the enterprise are a form of an investment, and have opted to hold on to them for that reason.

"It gives some security and it's a way of continuing the relationship with the company"
 - Retired, clerical grade

"I haven't sold my shares since we live in anticipation that the company will develop. The shares will remain even when we grow old, or even if we lose our jobs"
 - Employed, worker grade

On the whole however, it appears that employee shares are treated more as a windfall asset rather than an expression of ownership in the privatised enterprise. In the company listed in the stock exchange, which is the only instance where respondents may freely sell their shares on the open market, 2/3 of persons who received shares have sold all of their allocation and others are waiting for a better price in order to sell theirs.

4.2 Changes in vulnerability

"When I worked at the corporation, there was a monthly salary no matter what. But with the private bus operation I have started, I have to worry all the time. Are we making enough money to pay the driver and the conductor and meet the ever-increasing fuel bill and maintenance costs? What would happen if the bus breaks down? I am worrying all the time and it's not worth it because I can't save anything. Things were much easier when I was getting a salary."

- Retired, worker grade

While only a few respondents in this sample can be considered income poor, a greater number, especially among the retired employees, are vulnerable to becoming poor. This may be due to changes which are internal to the household, such as changes in the number of income earners, in income source and household illness, or external to the household such as the macro economic environment.

4.2.1 Change from formal to informal sources of income

In households of current employees of the privatised enterprises, the formal sector salary provides at least one source of income that is continuous and stable. Among retired employees, only 26 % of households have such a stable source of income, with the remainder engaged in forms of income generation which yield non-continuous, less stable income. Most VRS employees have exchanged the formal sector for activities such as farming, small business and wage labour where the risk is borne entirely by the household. Some households and individuals are better able to cope with this riskier environment, while some households have become more vulnerable to poverty.

Most VRS employees had used the compensation money to start a new business venture, which could be any one of a variety of activities such as a three-wheeler taxi service, private bus transport, brick making or farming/plantation agriculture. As they had spent most of their working life in salaried employment in the public sector, few have any business skills or knowledge and did not receive training in such skills on their retirement from the privatised enterprise. However, while many VRS respondents reported failure to a greater or lesser degree, some VRS employees reported success in these ventures, many of which they had built on existing or self-taught skills.

"I used to work as a welder in ___ corporation. With my VRS money I bought a machine to make cement blocks and started a business. Its very successful and I make three times what I used to get as salary (from the SOE)".

- Retired, worker grade

4.2.2 Stability from diversified income sources

"My two sons, who are unmarried, are employed in the private sector. My husband and I also earn some income from rubber tapping and have also planted some tea in our back garden."

- Retired, worker grade

Both current and retired employee households have attempted to reduce their vulnerability to poverty by diversifying household income sources. 58% of retired employee households have more than one income earner or more than one income source. Nevertheless, just over half of the households remain dependent on one source of income, with more than 70% of household income coming from one source, most commonly a self employed micro business activity.

In contrast, almost 40% of current employee households have more than one income earner or source of income, but as many as 84% remain dependent on one source, which is the formal sector salary. This may indicate that if the single source is a formal sector salary, households do not feel as vulnerable as if the single source was derived from the informal sector, and therefore do not feel compelled to diversify their income sources.

4.2.3 Vulnerability and sudden shocks

The other household-level event most linked with vulnerability to poverty is illness. Illness reduces the ability of the sufferer to engage in any income generating activity and at the same time causes additional costs to the household.

In the case of current employees, the privatised enterprise continues to provide support in times of illness. However, while previously the company itself bore these expenses, the privatised enterprises are more likely to provide employee health insurance cover. These too come with many rules and regulations regarding types of illnesses covered, and the documentation needed to obtain the release of funds. Many employees are unaware of the terms of their insurance cover and the rules regarding obtaining payments and reimbursement.

"I broke my finger at work. I was given one week of paid leave and five weeks of no pay leave. My finger took a long time to heal and I was at home for three months, during which I got no pay. Then when we tried to get money from insurance, they said I was not entitled as I had delayed more than 60 days to lodge my claim. The insurance scheme is very unfair and we had to ask again and again. Finally we got some money two years later."

- Employed, worker grade

As discussed in Chapter 3, employment in a privatised enterprise is secure if he/she is able to work hard and fit in with the private sector work ethic. Illnesses, especially long term ailments, are not tolerated in such environments as much as they were under the more paternalistic environment under state ownership. In fact, several employees who opted to retire on privatisation of their enterprise said that they chose to do so because they had some illness or ailment which they felt would undermine their ability to fit into the new work ethic of the privatised enterprise.

In the case of retired employees, there is no formal external support system in case of illness. None of the retired employees in the study sample had obtained private health insurance cover. However, some retired employees did not feel a difference in terms of greater vulnerability to poverty during times of illness, as among both current and retired employees, the most common location for treatment is government hospitals where services are provided free of charge. Liquid assets in the form of a bank balance are often considered a form of protection against sudden shocks such as illnesses. However, while around 60% of retired employees said they had a bank savings account, only 25% said they had a balance in excess of Rs.50,000 in these accounts.

Therefore, individual decisions such as whether or not to save, as well as unexpected household events such as illnesses can affect households' vulnerability to poverty for both current and retired employees. However, decisions such as whether to use the VRS lump sum as savings or in a business venture, particularly relevant for the well-being of retired employees, are greatly influenced by the macro economic environment.

4.2.4 Vulnerability in the macro environment

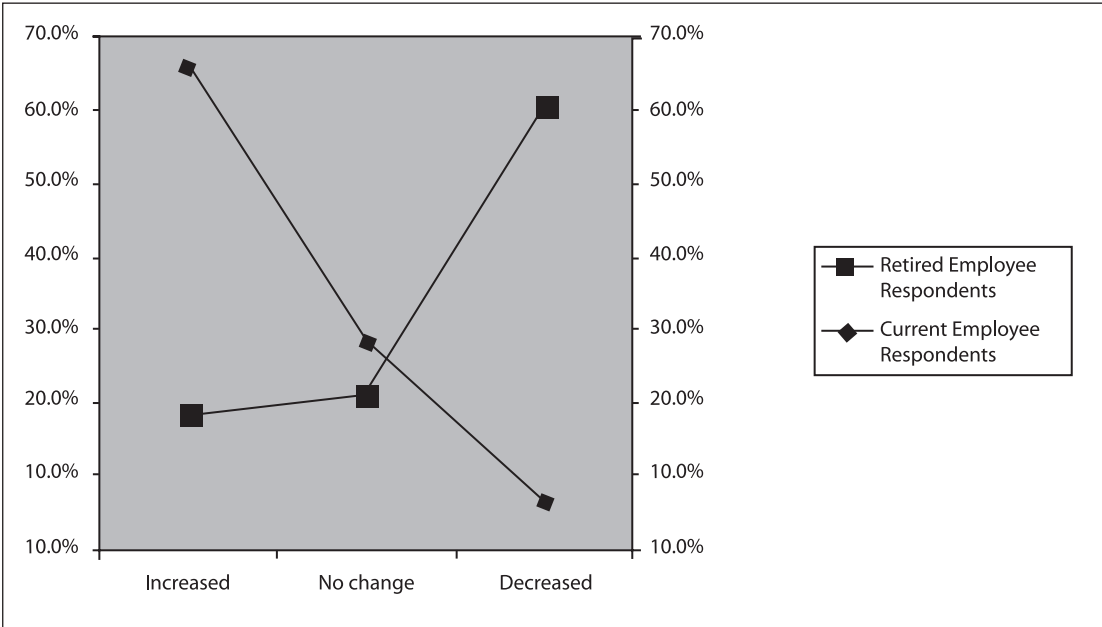
"Our overall household income has reduced. Earlier I had a stable income but now we are living off savings and the interest keeps going up and down.

- Retired, worker grade

The external or macro environment can affect the well-being of both current and retired employees by limiting or expanding the opportunities and choices available to them. The limited options for re-employment affect both current and retired employees, influencing the former to reject an offer of early retirement and stay with the job, and the latter to venture into self employment opportunities.

Many VRS respondents had found the inflationary macro environment unfavourable for those without continuous streams of income. Figure 4.2 shows the responses to the question, 'Has there been a change in your household income since the privatisation of your SOE?'

Figure 4.2 Change in household income



While more than 60% of current employees said their household income has increased (because their salaries have increased), about 60% of retired employees said their household income has decreased (mainly because they no longer have a regular income). Because of the diminishing value of money, many felt that the VRS package, which had initially looked attractive, did not last as long as they had anticipated. Some have used the VRS money to meet day-to-day expenses, while others have tried to retain the capital, in the absence of an incentive to save, by investing in some income generating venture. However, there are a limited number of investment opportunities available to them. For example, within a limited geographic area, many VRS respondents were seen to be engaged in similar activities, such as small shops and farming in Bogala, and transport related services such as three-wheeler services in Athurugiriya, which in turn drives down the profitability of their individual venture.

4.3 Summary of main findings

"I looked for other work after leaving the company but haven't found anything like that. [Early retirement] is good for older people, not younger ones like me. We have a lot of problems now because all the money has been spent on day-to-day expenses. Our only source of income is a small shop in our front garden, but it too is closed at the moment"

- Retired, worker grade

The discussion in this chapter indicates that while the privatisation of SOEs may not have caused employees or retired employees to fall below the national poverty line, there is an increase in their vulnerability to poverty, mainly among the VRS employees.

Comparing current and retired employees, the study finds that retired employees are generally better off in terms of housing and household assets having invested their compensation money, but not so well off in terms of household income. The loss of a stable and continuous source of income in the form of salary was keenly felt and many have found that the macro environment is disadvantageous for those with savings. As such, most retired employees are engaged in some income generating activity and those who have permanently left the labour force on taking the VRS tend to be women or those over 60 years of age. After a struggle to find employment in the formal sector, the majority of VRS employees are now engaged in self employment, with a substantial number engaged in wage labour.

Vulnerability to poverty has increased among retired employees because of the shift from formal and stable sources of income to informal and less stable sources. These households have attempted to reduce their vulnerability by having more than one income earner in the household or by diversifying their sources of income. Across the three companies sampled in this study however, the income, poverty and well-being levels of the VRS employees show a degree of variation as some households have adapted better to the riskier environment outside formal public sector employment. Where the VRS package has been generous respondents used the money in multiple ways, such as investing in housing as well as livelihood assets, thereby reducing their vulnerability to poverty.

5. Attitudes and Perceptions

"Has the privatisation of my company been beneficial? The answer is both 'yes' and 'no'. Yes because it has been good for me personally, no because it is a national resource which is now lost to the country."

- Employed, executive grade

Welfare and poverty are concepts which are not only limited to tangible, independently verifiable factors such as income and quality of housing. They also include perceptions of welfare, such as feelings of inequality. In this chapter, we focus on employee perceptions about the changes in their situation after privatisation, to understand how these perceptions compare and relate to the observable changes discussed in the previous chapters. In the second part of the chapter, in order to understand how employee attitudes and perceptions are created and maintained, we focus on information sources available to employees both during and after the privatisation process.

5.1 Perceptions about privatisation

5.1.1 Attitudes linked to impact on the individual

"Privatisation is beneficial because it's good for us. It's good for those who are working"

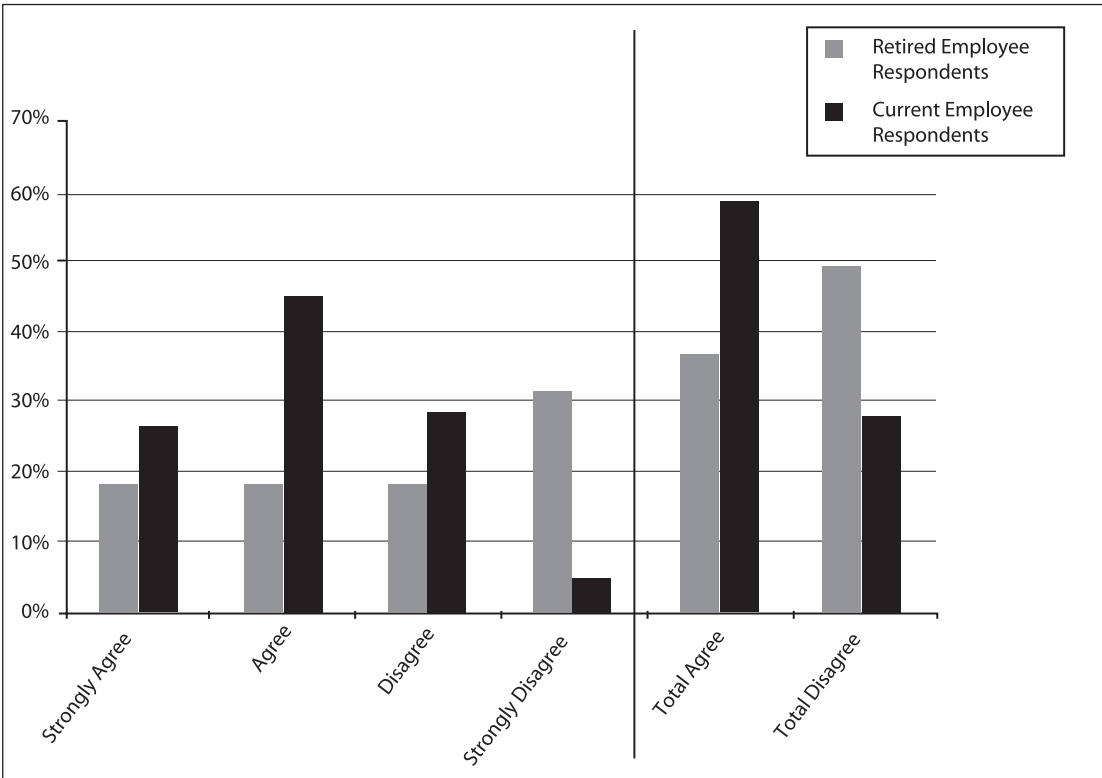
- Employed, worker grade

Respondents interviewed for this study were divided about whether the privatisation of their enterprise has been negative or positive. To the open-ended question, 'In your opinion do you agree with the statement "privatisation of your enterprise has been beneficial?"; 49% of the sample said yes, while 38 % said no.

There is a strong link between respondents' own situation and their attitude towards privatisation. 68% of those who said that their household is better off today, had a positive attitude towards the privatisation of their enterprise. Similarly, 68% who had a negative attitude towards the privatisation of their enterprise, also said that their household was either worse off today or there was no change in their situation.

When the responses are disaggregated by respondent types, that is retired employees and current employees, a stark contrast in attitudes is revealed (Figure 5.1). Compared to 50% (the majority) of retired employees who disagreed with the statement "privatisation of your enterprise has been beneficial", only 28% of the current employees disagreed. It is also interesting to note that as many as 32% of retired employees expressed vehement opposition, strongly disagreeing with the statement that privatisation was beneficial. In contrast, only 5% of current employees strongly disagreed with the statement.

Figure 5.1 Attitude towards the effect of privatisation by respondent type



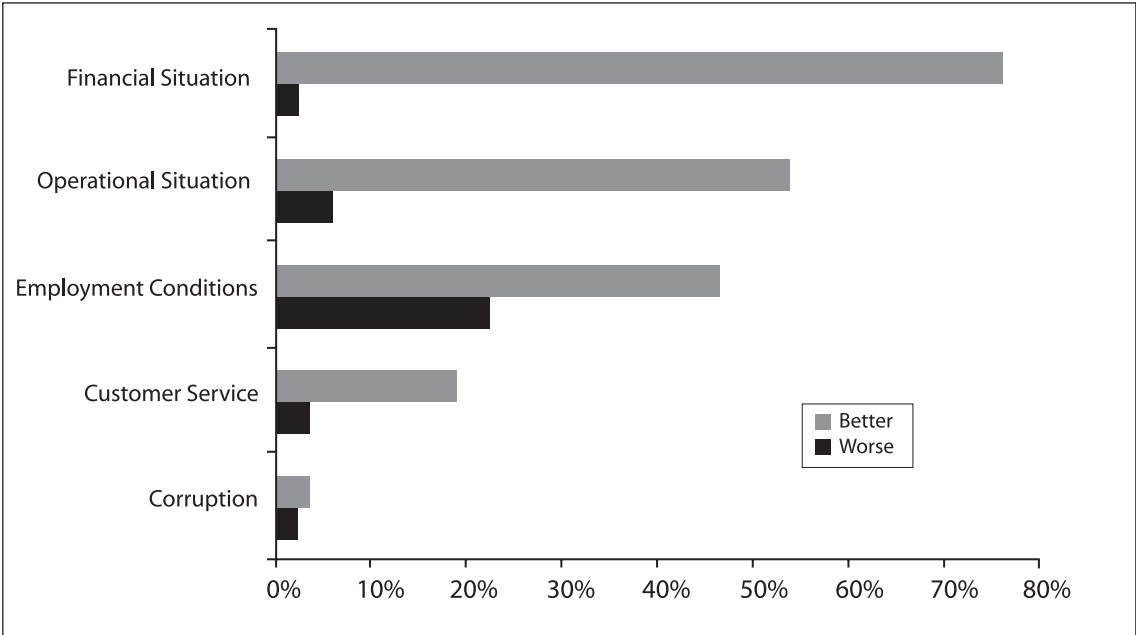
The responses show that whether an employee continues to be employed is an important factor in understanding their attitude towards the effects of privatisation. When their own employment ends as a consequence of privatisation, employees tend to be very critical of the effects of privatisation on the company.

5.1.2 Attitudes linked to the impact on the company

In contrast, when current employees agree that the privatisation of their enterprise is beneficial, it is often because the company is now perceived to have better management and be more efficiently operated and because of these reasons is less likely to become unprofitable and eventually shut down.

Almost two thirds of the respondents said that the enterprise was better off after privatisation. Current employees were more likely to report that the enterprise was better off (76%) than retired employees (53%). Most respondents were in agreement that the financial performance of the enterprise has improved since privatisation, and a lower but still substantial number felt that privatisation has improved the operational performance of the company (Figure 5.2). Enterprise performance was criticised mainly in relation to employment conditions as respondents perceived these to have deteriorated with the change in public to private ownership.

Figure 5.2 Changes in company performance since privatisation



However, even among those who felt that the company was better off after privatisation, 25% said that overall, privatisation was not beneficial. This reflects the view that while the company (that is the private owners and managers) is doing better, the employees are not sharing in these benefits.

"The company is better off but the employees are suffering with too much workload to handle"

- Employed, worker grade

These respondents also felt that employee rights and benefits have reduced under private management and that rules are implemented too strictly.

5.1.3 Attitudes linked to macro impacts

"A country's own resources should stay in the country for its development. Otherwise, if you sell the resources, how can you develop?"

- Retired, technical grade

A number of respondents said privatisation of their enterprise was not beneficial because the country is losing a national asset. These comments were mostly related to privatisations where the new owner is a foreign, rather than a local, investor. Around 10% of the sample said that while privatisation of their enterprise is better for their own household, it is still not beneficial overall as the country is losing out. These respondents tend to be well educated and younger (in their 40s).

The survey did not demonstrate a link between perceptions and attitudes towards privatisation and socio-economic background (see Box 5.1). It appears therefore that the strongest determinant of an employee’s attitude towards privatisation is his/her own experience, with retired employees generally unhappy about its effects, and current employees divided in opinion, but generally in favour, of its effects.

Box 5.1 Perceptions of privatisation & socio-economic characteristics of respondents

Using categorical variables grouped as individual, household, employment and company characteristics, a regression model was constructed to predict the likelihood of an individual employee being in favour of privatisation.

Step 1: Bivariate Correlation estimation

	Variables	Correlations
Individual characteristics	Age (less than or equal to 40 years)	0.229*
	Age (greater than or equal to 60 years)	-0.184
	Gender (Male)	-0.044
	Education (completed A/L or higher)	-0.104
	Skills	-0.128
Household characteristics	Is living in own house	0.131
	Savings (have bank account)	0.134
	Income change in household compared to 5 years ago (Yes)	0.213
	Household is better off compared to 5 years ago (Yes)	0.356**
Employment characteristics	Grade (executive and technical grade)	-0.195
	Union (member of Jathika Sevaka Sangamaya)	0.292**
	Is current employee	0.217*
Company characteristics	Company better since privatisation (Yes)	0.358**
	Operational aspect of company improved since privatisation (Yes)	0.288

* correlation significant at the 0.05 level (2-tailed)
 ** correlation significant at the 0.01 level (2-tailed)

The calculation of bivariate correlations show that membership in JSS, reporting that own household is better off since the privatisation, and reporting that the company operations are better since privatisation are correlated with the dependent variable y at the 1% significance level. Further, whether the individual is a current or retired employee and the age (less than 40 years) is correlated at the 5% level.

Step 2: Model estimation

Using Logistic regression, the importance of independent variables in explaining the dependent variable, was added in steps according to the four groups described above. Each group was shown to be important in explaining the dependent variable.

Box 5.1 (contd.) Perceptions of privatisation & socio-economic characteristics of respondents

Step 3:

Converting the logit regression into probabilities shows the probability of each independent variable contributing towards an employee supporting the privatisation of their company. Each of the following probabilities is calculated controlling for all other independent variables.

Variables		
Individual characteristics	Age (less than or equal to 40 years)	0.7885
	Age (greater than or equal to 60 years)	0.4236
	Gender (Male)	0.5307
	Education (completed A/L or higher)	0.484
	Skills	0.1357
Household characteristics	Is living in own house	0.3412
	Savings (have bank account)	0.8457
	Income change in household compared to 5 years ago (Yes)	0.8807
	Household is better off compared to 5 years ago (Yes)	0.6255
Employment characteristics	Grade (executive and technical grade)	0.2748
	Union (member of Jathika Sevaka Sangamaya)	0.805
	Is current employee	
Company characteristics	Company better since privatisation (Yes)	0.7111
	Operational aspect of company improved since privatisation (Yes)	0.4742

The above data indicates that the probability of an employee being in favour of privatisation increases when the employee is young, is a member of JSS and reports a positive change in household income. Conversely, the probability of an employee being against privatisation increases with being skilled, educated and in higher grades such as executive and technical.

5.2 Information, communication and attitudes

This section looks at the role of information and communication in forming attitudes and how these have changed over time as the privatisation process progressed.

5.2.1 Implementation of privatisation

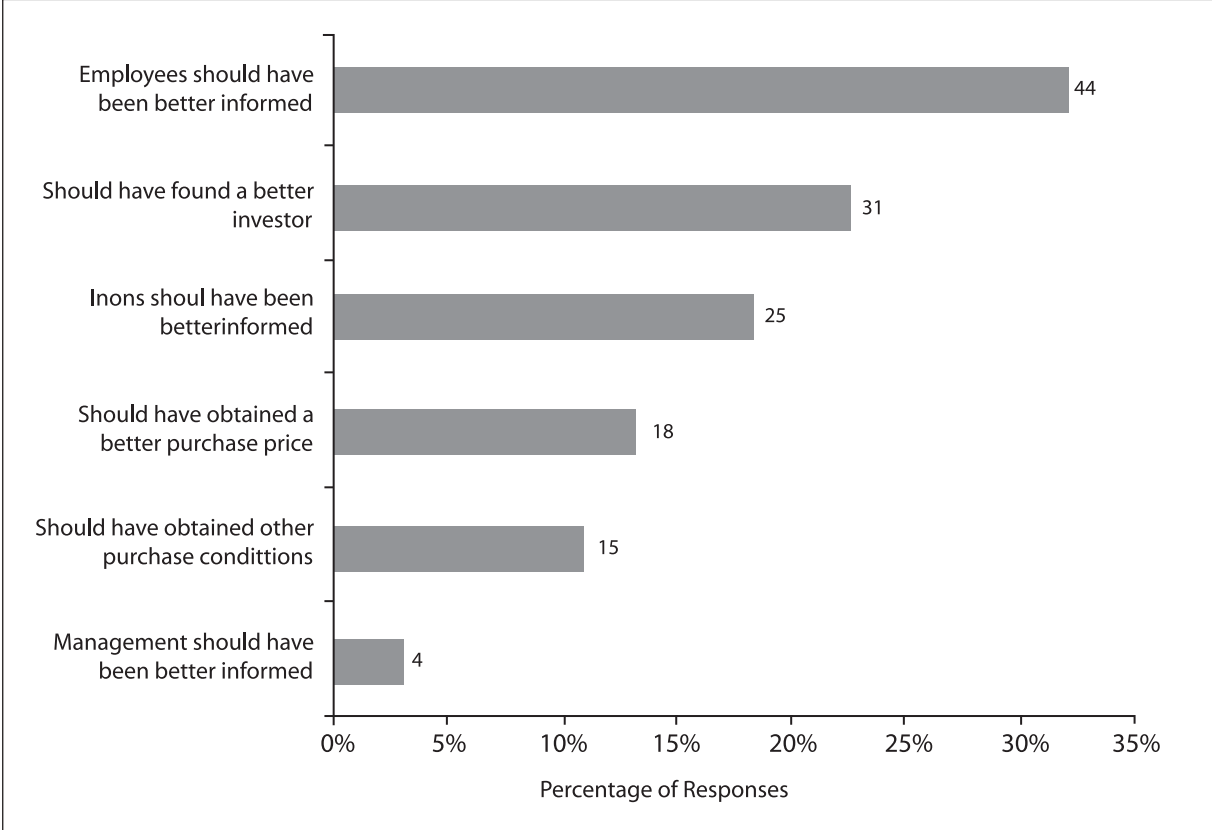
Almost 60% of the respondents felt that the privatisation of their enterprise was not implemented well (Figure 5.3). The most often cited grievance was that employees were not well informed of the impending privatisation. In some instances, the employees said they were not aware that the company had been privatised until after the event had taken place. In the absence of formal and accurate information from the government regarding the privatisation process, most employees had been prey to rumours and other misinformation.

While there seems to be an overall deficiency in efforts to create awareness and buy-in among the employees in these three SOEs, this deficiency may have been deliberate on the part of the policymakers to avoid employee opposition which can delay the completion of privatisation. In fact, several employees - while critical of the lack of information provided to employees, conceded that had the employees as a whole been better informed the privatisation of the enterprise may not have been allowed to happen at all.

As a result of the lack of information provided to employees the unions were an important, and sometimes the only, source of information available to the employees in all three privatisations discussed in this report. However, as trade unions themselves were not privy to more information than that which was made available to employees, their attitude towards the impending privatisation was formed on the basis of their ideological bent or party affiliation.

As a result, unions affiliated to the government tended to provide information that supported the privatisation, while other unions tended to provide information that generated opposition to the privatisation.

Figure 5.3 Shortcomings in the privatisation process



Source: Employee Interviews

Box 5.2 Local or foreign investor: how important is it?

"One reason why we had a good privatisation experience is because we were bought by an internationally known company. If we got bought by _____ [a company from another country], we would have had it! Also, the workers here would not have listened to a local investor. Anyway, it is not necessarily better to have a local investor - look at _____ [company which was bought by a local investor]. It has shut down now."

- Union leader, company branch

Many respondents when speaking of the benefits as well as costs of privatisation referred to the nature of the investor, particularly whether the investor is local or foreign, and whether the investor is a single company or a partnership or consortium. In the companies which were privatised by sale to foreign investors, the employees felt that more effort should have been made to find a local investor. Interestingly, where the opposite was the case and a local investor was the new owner, many respondents voiced the view that their situation would have been much better had a foreign investor bought the company.

This paradoxical situation may indicate a confusion about cause and effect. Whether the privatisation is successful or not depends on the nature of the investor, on characteristics such as competency, efficiency and management skills rather than the country of origin. Some employees mistakenly attribute the cause of their employer's performance to their nationality rather than the specific skills which are important in determining the quality of performance after privatisation.

5.2.2 Attitudes about public and private ownership

When asked whether they thought their enterprise should be owned by the public sector, as many as 70% said they thought so at the time of privatisation but only 40% continue to think so today. More than 40% of respondents have changed their mind about public ownership of their enterprise and most of them now feel that it is not necessary for the enterprise to be publicly owned. About 70% of these are employees who remained employed with the enterprise through the privatisation.

"At the time of the privatisation, we were worried. Looking at other companies such as ____ we were afraid. We had no faith in the company [which bought our company]. But now we can see the way they work. They are investing in the company and spending funds on investment. All of which means that they [the investor] will remain. Now we have faith because they give what they say they will give. If they say they will promote, they will give the promotion on time. Earlier we had to ask for everything even though we were entitled to it. For example, unless we asked for the uniforms, three or four months before, we wouldn't get it on time. Efficiency has improved 100%."

- Union leader, company branch

In a few cases, retired employees felt that they had opted for the wrong decision in leaving the company on privatisation. These tend to be respondents who had failed to obtain alternative paid employment and/or failed in their chosen self employment initiative.

"I have no money and no job. I was foolish to have left. Now the company is focused on profits and the workers are doing well."

- Retired, worker grade

5.3 Summary of main findings

An examination of employee perceptions about the benefits of privatisation indicates that these are closely linked to perceptions about their own welfare. Most workers refer to their own welfare in answering the question 'do you agree with the statement "privatisation of your enterprise has been beneficial?"'.

A larger proportion of current workers than retired workers agreed with the statement. However, not everyone who feels that their household is better off also feels that privatisation was beneficial. This indicates that some workers, especially those with more years of education, tend to look beyond their own experience, at issues such as the impact on development of the country when forming attitudes about the privatisation of their enterprise.

6. Conclusions and Lessons

This study set out to understand how privatisation has changed the conditions faced by labour, with particular reference to impoverishment and welfare changes among workers who survived privatisation as well as those who took voluntarily retirement. The following section summarises the main conclusions and lessons of this study.

The experiences of workers in the three enterprises included in this study indicate that privatisation is associated with a reduction in direct employment, with permanent staff reducing on average by about 45%, and all employment reducing on average by about 25%. However, those employees who stay with the company are better off in income terms following privatisation. Respondents across the three enterprises reported an increase in nominal salary ranging from less than 50% to over 200%.

In terms of working environment, overall, employee benefits and employment conditions remain unchanged. However, workers feel that their employment conditions have changed substantially since privatisation, mainly because they have to work much harder and there are more rules and regulations. Interestingly, this was not necessarily construed as a negative development as many workers were unhappy about the poor work ethic prevalent during state ownership of the enterprise. These are employees who are physically able to work hard and have the necessary skills and attitude to profit from the new system which rewards hard work and productivity.

In contrast, among the retired employees, most have retired not just from the SOE but from the formal workforce altogether. In income terms, they are generally not doing as well as the employees who remained in the company; many have not been able to find alternative employment in the formal sector, and most have opted for micro level self-employment. However, most retired employees have invested their compensation in housing and other assets, and while they may not be income rich, they are asset rich. Most employees who accepted the VRS are older (closer to the retirement age of 55) and therefore, the VRS package was a windfall gain before retirement.

It is important to emphasise that while there is little evidence of an increase in income poverty among the respondents of this study, *vulnerability to poverty* has increased - particularly among retired employees. This is due to the shift from formal and stable sources of income to informal and less stable income sources. These households have attempted to reduce their vulnerability by having more than one income earner in the household or by diversifying their sources of income. Across the three companies sampled in this study however, the income, poverty and well-being levels of the VRS employees show a degree of variation. Some households have adapted better to the riskier environment outside formal public sector employment. Where the VRS package was generous respondents were able to use the money in multiple ways, such as investing in housing as well as livelihood assets, thereby reducing their vulnerability to poverty.

Employee perceptions about the benefits of privatisation are closely linked to perceptions about their own situation. However, not everyone who felt that they have benefited, agreed that privatisation is beneficial overall. Among the better educated employees in particular, opposition to privatisation stems from reasons unconnected with their own jobs. The most often cited reason against privatisation is that the country, as a whole, is losing out by privatising its assets.

Lack of information about the privatisation process is a recurring theme across all three enterprises included in this study and respondents felt that employees should have been better informed of the impending privatisation. This is particularly relevant in the context of the number of respondents who have changed their mind about public ownership of their enterprise. A substantial number, especially among those who remained in employment, now feel that it is not necessary for the enterprise to be publicly owned.

The study points toward the following broad lessons:

Space for support among employees for public enterprise reform. At the level of the SOE, individual workers and sometimes even union leaders have a more realistic and less ideologically driven understanding of their enterprise than may have previously been thought. The study indicated that a number of employees were unhappy about poor management and inefficient practices prevalent in their SOEs and have adapted to the productivity-driven environment of the private sector - particularly when it is linked to higher salaries and other benefits.

Provide better information about process of reform and likely impact on workers. Rather than relying on unions, workers themselves should be kept informed about the reform process. Full and accurate information can reduce fears about the impending privatisation and help employees to make appropriate decisions. While keeping employees in the dark may help to complete the process of reform on schedule, it is not beneficial from the perspective of promoting employee welfare.

Additional support to employees taking up voluntary retirement. Employees who accept early retirement are often not sufficiently prepared for the change as few are able to obtain re-employment in the formal sector, or retire from income generating activities altogether. Many enter into self-employment initiatives which would benefit from additional support such as access to credit, skills development and support to find markets.

Draw from actual experiences of privatisation. The experiences of workers living through the privatisation of their SOE shows that the impact of privatisation on workers and worker attitudes towards privatisation are more nuanced, and sometimes even contrary to mainstream thinking. Further study of these experiences highlight the positive as well as negative effects of privatisation on workers, providing important insights into how future public enterprise reform programmes could be carried out differently.

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Annexes

ANNEXE 1: OVERVIEW OF CASE STUDY PRIVATISATIONS

Bogala Graphite Lanka Ltd

Bogala Graphite Lanka Limited, as the company was known prior to privatisation, was incorporated under the Companies Act No.17 of 1982 in 1991 and listed on the Colombo Stock Exchange in 1992 by the sale of approximately 39.99% shares to the public. While 10% of shares were gifted to the employees, the Secretary to the Treasury held the balance 50.01%

The company's main business is mining, processing and exporting graphite from the Bogala mines situated in the district of Kegalle. The Company has freehold title to approximately 102 acres of land and had been in operation for over 150 years. Processing of graphite is carried out through manual sorting, grinding and sieving. As at 31st March 1999, BGL is reported to have had a cadre of about 600 employees .

Following a Cabinet decision made in June 1998, it was decided that a steering committee be appointed to advise the Government on the restructuring of Bogala Graphite Lanka Limited. The steering committee recommended the divestiture of 50.01% shares in BGL to a strategic investor with experience in mining and the processing of graphite. The Cabinet accepted the recommendation and approval was granted to select a strategic investor through a competitive bidding process.

A technical evaluation committee (TEC) short-listed three parties who submitted expression of interests (EOI's) but on the due date for final offers, only Graphit Kropfmuhl AG of Germany had submitted an offer. Upon evaluation of the proposal based on their technical expertise, plans to develop the mines and the financial offer, the TEC recommended the offer to Cabinet, which was approved in March 2000. However, as BGL was listed on the Colombo Stock Exchange, the divestiture of more than 30% shares had to be carried out under the Takeovers and Mergers Code and the rules of the Securities and Exchange Commission. Accordingly, a share sale and purchase agreement was signed and the investor made a voluntary offer to all shareholders in terms of the Takeovers and Mergers Code of Sri Lanka, pursuant to which the shares held by Government were sold to M/s Graphit Kropfmuhl.

Puttalam Salt Ltd

Lanka Salt Ltd (LSL), the successor to National Salt Corporation, was incorporated in December 1990. The company operates salterns in the Southern regions of Hambantota, Bundala and Palatupana. The Western region of LSL was incorporated as a separate entity in March 1994. This company was registered under the Companies Act No.17 of 1982 under the name of Puttalam Salt Ltd (PSL). PSL operates the salterns of Palavi in the Puttalam district, the second largest saltern presently operating in Sri Lanka.

The two companies, together, supply approximately 76% of the total requirement of salt in the country. Out of the total supply, 56% is attributed to LSL while 20% is supplied by PSL. Private sector producers and imports supply the balance salt requirement.

The Cabinet sub committee for Economic Reform, after studying the salt industry, requested that the Public Enterprise Reform Commission (PERC) assist the Government in the restructure of PSL. The main objective, as identified on the Parliamentary report, was to ensure private sector participation, so that PSL could improve the quality of salt and salt based products through the infusion of new technology and capital for expansion and also to develop salt based industries, including allied chemical industries.

Accordingly, PERC sought to assist the government in the divestiture of majority stake in PSL to a strategic investor. This was done by calling for EOI's for PSL in June 1996 via advertising in the local and international press. Subsequently, out of the three short-listed parties, only a Consortium of Co-operative Banks submitted a final offer by the due date. The Consortium, comprising of Pan Serendib, Sri Lanka Consumer Co-operative Societies Federation Ltd., Sri Lanka Institute of Co-operative Management, District Co-operative Rural Bank Union and People's Bank, was given Cabinet approval subject to the following condition:

- i. The purchaser shall cause the company to continue to employ all who are in employment on the closing date, on terms and conditions no less favourable than those enjoyed by each of the employees of the company at the closing date
- ii. The purchaser shall not sell, transfer or assign any or all of the shares without the prior consent of the Government for a period determined by the Government
- iii. The purchaser agrees that the company shall continue with the existing business of manufacture of salt based products, and trading in such products
- iv. The Northern salterns will be excluded from the sale of LSL
- v. The brand name *Lak Lunu* will remain with LSL
- vi. The use of the head office building will remain with LSL and the use will be for a maximum period of one year
- vii. The land will be given on a thirty year lease
- viii. The purchaser shall ensure that the company will not function against the national interests.

90% of the shares of PSL were handed over to the Consortium on the 4th of February 1997 with the signing of the share purchase and sale agreement. In accordance with Government policy, the remaining 10% of the shares was divested to the employees of the company.

Ceylon Steel Corporation Ltd

The Ceylon Steel Corporation Limited (CSL), as the company was known before privatisation, was incorporated in 1961 under the State Industrial Corporation Act No.49 of 1957 and converted to a public limited liability company in January 1993. CSL had commenced operations in 1967 following the installation of a rolling mill of 96,000 M/T capacity and a wire mill of 12,000 M/T capacity per annum. A steel foundry of 1,000 M/T capacity had been set up in 1975.

However, with the liberalisation of steel imports in 1977, the competitiveness of imports together with the supply of locally manufactured steel by the private sector had adversely affected CSL and its market share had dwindled. As a consequence, as early as 1985, the then Ministry of Housing and Construction had drawn up plans for the modernisation of CSL. Given the high financial commitments needed it was decided to seek a joint venture partner to meet part of the costs. However, it was only in 1991 that the Cabinet of Ministers appointed a committee to advise on the best strategy for the privatisation of CSL.

The committee recommended that 55% be offered to a corporate investor, 25% offered to the public, 10% gifted to the employees of CSL, and 10% to remain with the Government. Although Cabinet approval was granted, the plans to divest a part of the company were not successful and, in August 1996, the Public Enterprise Reform Commission (PERC) decided to re-open bids to divest 90% of CSL with 10% to be gifted to the employees. Expressions of interests were called for the acquisition of 90% of CSL and only Korea Heavy Industries & Construction Company Limited (HANJUNG) made a bid for CSL. HANJUNG's proposal to acquire 90% of CSL was based on an integrated investment programme that included greenfield investments.

ANNEXE 2: QUESTIONNAIRE

CONFIDENTIAL

Name of Interviewer:	Code No:
Interview Date:	Relevant Enterprise Name:
Interview Start Time:	Respondent's Name:
Interview End Time:	

Respondent should be an Employee (current/former) of privatized enterprise

A. RESPONDENT

- A.1. Home Address (City/Town/Village):
- A.2. Name of GN / DS Division:
- A.3. Name of District:
- A.4. Household Composition
- (Enter everyone who live permanently in the dwelling, not only the immediate family)

(a) Relation to Respondent	(b) Age	(c) Gender Male = 1 Female = 2	(d) Civil Status Married = 1 Not married = 0	(e) Highest Educational qualification (O/L's A/L's university etc..)	(f) Still in school/ education No If yes, details on grade, level type
1. Respondent					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					

(continue on separate sheet if necessary)

B. EMPLOYMENT RELATED INFORMATION

- B.1. Do you possess any professional/vocational skills? Yes No
(If answer is "No", please move to question B.4)
- B.2. If "yes" please specify
- B.3. Do you have any kind of certificate or license? Yes No Not yet
- B.4. Are you currently engaged in any income earning activity? Yes No
(If answer is "Yes" please answer question B.5) (If answer is "No" please move to questions B.19)

If Yes:

B.5. What type of work do you do?

Type of Work	Yes (Tick All appropriate)	From (mm/yr)-To (mm/yr)
(1).State sector salaried	If 'yes' please see question B.6	
(2).Private sector salaried	If 'yes' please see question B.6	
(3).Wage labour/piece rate		
(4).Farming/livestock/fishing		
(5).Self Employed - micro		
(6).Business - medium and large		
(7).Other (please specify)		

If salaried employment in the State or Private sectors:

B.6. Where do you work at present?
(name of enterprise)

B.7. What is your position?

B.8. What type of employment? Permanent Contract Temporary Casual Other
please specify

B.9. How long have you been employed here?

B.10. What is your current monthly salary?
(a) Gross Rs.
(b) Net (take home) Rs.

B.11. Do you receive any allowances in addition to your salary? Yes No
(If "No" please move to question B.13)

B.12. Explain

B.13. Has your total salary changed compared to 5 years ago?
(a) Gross Salary Increased decreased no change
(b) Net (take home) Salary Increased decreased no change
(If " increased" or "decreased" answer question B.14) (If "no change", go to question B.15)

B.14. By how much? less than 50% between 50% - 100% between 100%-200%
between 200%-300% between 300%-400% more than 500%

B.15. Compared to five years ago, have there been any changes in your work conditions?

Work Condition (tick all appropriate)	Improved	Deteriorated	No change
(1) Working hours			
(2) Meals/Canteens			
(3) Uniforms			
(4) Safety Issues			
(5) General work environment			
(6) Other (please specify)			

B.16. Are you a member of any employee union? Yes No
 (If "No" please move to question B.25)

B.17. What is the name of the union?

B.18. How long have you been a member of this union?
 (Please move to question B.25)

If answer to question B.4 is "No":

B.19. When were you last engaged in an income earning activity?(year)

B.20. What type of work did you do?

Type of Work	Yes (Tick All appropriate)	From (mm/yr)-To (mm/yr)
(1). State sector salaried	Please see question B.21	
(2). Private sector salaried	Please see question B.21	
(3). Wage labour/piece rate		
(4). Farming/livestock/fishing		
(5). Self Employed - micro		
(6). Business -medium and large		
(7). Other (please specify)		

If salaried employment in the State or Private sectors:

B.21. Where did you work? (name of enterprise)

B.22. What was your position?

B.23. What type of employment? Permanent Contract Temporary
 Casual Other

please specify

B.24. How long were you employed there?

B.25. During the past 10 years, have you been unemployed at any time for a period longer than 6 months? Yes No

If "Yes", please obtain the following information:

(a) From to

(b) Reason?

C. COMPENSATION AND RETIREMENT RELATED INFORMATION

C.1. Have you ever been offered a VRS? Yes No
 (If "yes" please answer questions C.2) (If "No" please move to question D.1)

If Yes:

C.2. Name of enterprise

C.3. Which year?

C.4. What was your position at the time?
 (If more than one VRS has been offered, please ask questions C.2-C.6 for each scheme, using a separate sheet if necessary)

C.5. What was your total VRS package? (Please fill table below)

Source	Amount (Rs)
(1). Compensation	
(2). Gratuity	
(3). ETF	
(4). EPF	
(5). Arrears in wages and/or benefits	
(6). Other, please specify	
Total	

C.6. On what basis was your compensation calculated?

C.7. Have you ever accepted a VRS scheme? Yes No
 (If "Yes" please answer question C.8) (If "No" please move to question C.13)

If yes:

C.8. When? (identify the package by the year)

C.9. Why did you accept the VRS package? (Please fill table below)

(Please do not prompt)

Reason	Yes (tick all applicable)
(1). Did not have the choice to refuse	
(2). Needed the money	
(3). Did not want to work under new management	
(4). Advised by management	
(5). Advised by union	
(6). Advised by family/friends	
(7). Other, please specify	

C.10. Did the management grant you the VRS and allow you to retire early? Yes No
 (If "Yes" please move to question C.12) (If "No" please answer question C.11)

C.11. Reasons
 (please move to question D1)

C.12. If you have retired early, how have you used your VRS package?

Activity	Yes (tick all applicable)
(1). Purchased household asset (eg: House, furniture etc)	
(2). Purchased livelihood asset (eg: three wheeler, computer etc)	
(3). Started a business	
(4). Children's Wedding	
(5). Children's education	
(6). Day to day expenses	
(7). Saving (incl. investment)	
(8). Livestock (eg: cows, goats, chickens etc)	
(9). Other, please specify	

If No:

C.13. Why did you not accept the package?
(Please do not prompt)

Reason	Yes (Tick only the three most important)
(1). VRS package was not attractive	
(2). Worried about finding another job	
(3). Advised by Union	
(4). Advised by fellow employees	
(5). Advised by management	
(6). Other, please specify	

D. HOUSEHOLD INCOME RELATED INFORMATION

D.1. Including you, how many people in your household are income earners?

D.2. What are the main sources of income to your household over the last year?

Source	Yes (tick all applicable)	% of household income from Source	Comment on stability of source: (see Code) <i>(1) continuous (2) frequent (3) seasonal (4) infrequent/ad hoc</i>
(1). State sector salary			
(2). Private sector salary			
(3). Wage labour/piece rate			
(4). Farming/livestock/fishing			
(5). Self Employed - micro			
(6). Business -medium and large			
(7). Returns			
(8). Remittances			
(9). Pension			
(10). State Assistance			
(11). Other, please specify			

D.3. Has your total household income changed compared to five years ago (in 1999)?

Increased decreased no change

(if "no change" please move to question D.5)

D.4. Why

D.5. Have you moved your place of residence during the past five years? Yes No
(If "yes" please answer questions D.6) (If "No" please move to questions D.7)

D.6. How does your current place or residence compare with your previous?

Better Worse No change

D.7. Do you own the house you live in? Yes No
(If "No" please answer questions D.8)

D.8. Explain

Arrangement	Yes (tick applicable)
(1). House owned by Government	
(2). House owned by employer	
(3). Leased/Rented	
(4). Free of rent	
(5). Other, please specify	

D.9. Does your household own any livelihood related assets?

Type	Number	Were they purchased with past 5 years?
(1). Three-wheeler		
(2). Hand Tractor		
(3). Tractor		
(4). Van		
(5). Bus		
(6). Agricultural equipment		
(7). Carpentry tools		
(8). Computer		
(9). Fax machine		
(10). Others, please specify		

D.10. What types of savings do you currently have?

Type	Amount (see Code) (1) less than 10,000; (2) 10,001-50,000; (3) 50,001-100,000; (4) 100,001-500,000; (5) more than 500,000
(1). Bank account	
(2). Investment in shares	
(3). Informal savings (eg: Cheettu)	
(4). EPF/ETF contributions	
(5). Others, please specify	

D.11. Have you ever received investment shares through an employee share scheme?

Yes No

(If "yes" please answer questions D.12) (If "No" please move to questions E.1)

D.12. How many shares did you receive?

D.13. Have you sold any of your shares? all some none

D.14. Why/Why not?

E. WELFARE RELATED INFORMATION

E.1. Have any of your household been seriously ill or injured over the past year?

Yes No

(If "yes" please answer questions E.2) (If "No" please move to questions E.3)

- E.2. When you or your family is sick, where do you go for treatment?
 stay at home government hospital
 private hospital dispensary
 traditional healer Other, please specify
- E.3. Does your family (including you) have a health scheme? Yes No
 (If "yes" please answer questions E.4) (If "No" please answer questions E.6)
- E.4. Explain
- E.5. Is it provided or subsidised by your employer Yes No
- E.6. Has your family ever had a health scheme? Yes No
 (If "yes" please answer questions E.7) (If "No" please move to questions F. 1)
- E.7. Explain
- E.8. Was it provided or subsidised by your then employer? Yes No

F. PERCEPTIONS/ATTITUDES

- F.1. On the whole, are you and your household better off today than you were 5 years ago (before the company was privatised?)
 Better off Worse off (If the answer is either of these, answer F.2)
 No change No opinion (If the answer is either of these, go to F.3)
- F.2. Why
- F.3. Five years ago (before the privatisation) did you think your enterprise should be owned by the public sector?
 (a) Before privatisation Yes No Can't remember
 (b) Today Yes No Don't Know
- F.4. Do you think the privatisation of your enterprise was implemented well?
 Strongly Agree Agree Disagree Strongly Disagree
 (if the answer to question F.2 is 'disagree' or 'strongly disagree', please move to question F.6)
- If Agree or Strongly Agree:
- F.5. Why do you think so?
- F.6. Do you think any of the following aspects could have been implemented any differently?

Activity	Yes (tick all applicable)
(1). Search for foreign investors	
(2). Search for local investors	
(3). Obtained a better purchase price	
(4). Obtained other conditions of purchase (please specify)	
(5). Kept employees better informed	
(6). Kept Unions better informed	
(7). Kept management better informed	
(8). Other (please specify)	

F.7. What do you think of your enterprise after privatisation?
 Better off Worse off (If the answer is either of these, please answer F.8)
 No change No opinion (If the answer is either of these please go to F.9)

F.8. In what way?

Position	Change (1) Better (2) Worse (3) No change
(1) Financial	
(2) Operational	
(3) Customer service	
(4) Employment conditions	
(5) Other (please specify)	

F.9. In your opinion do you agree with the statement "privatisation of your enterprise has been beneficial"?

F.10. Strongly Agree Agree Disagree Strongly Disagree Don't Know

F.11. Why do you say so?

F.12. Is there anything else related to what we discussed today that you would like to add?

