

**NIPP Policy Paper Series**

# **PRIVATIZATION IN PAKISTAN:**

**HISTORY, REFORMS AND WAY FORWARD**

Naveed Elahi, Sajid Sultan and Mairaj Ariff



**NATIONAL INSTITUTE OF PUBLIC POLICY**



# **NIPP Policy Paper Series**



## **PRIVATIZATION IN PAKISTAN: BACKGROUND, REFORMS AND WAY**

### **FORWARD**

By

Naveed Elahi

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April, 2024

**National Institute of Public Policy**

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# Foreword

This paper seeks to navigate the multifaceted issue of the privatization of State-Owned Enterprises (SOEs) in Pakistan, offering a comprehensive analysis that not only delineates the historical trajectory and the prevailing intricacies associated with the privatization efforts but also endeavors to chart a course for future policy directions.

The stakes are undeniably high, as the privatization of SOEs not only has profound implications for the country's fiscal health but also bears significant repercussions for governance, service delivery, and the broader societal welfare. The narrative of privatization in Pakistan is replete with tales of successes and failures, hopes and disappointments, and aspirations and apprehensions. It is a narrative that encapsulates the struggle to find a delicate balance between the imperatives of economic efficiency and the principles of social justice.

This paper, through its analytical rigor and depth of inquiry, provides a lens through which the multifarious dimensions of privatization can be examined and understood. It endeavors to unravel the complexities, shed light on the challenges, and explore the opportunities that privatization presents for Pakistan. In doing so, it offers valuable insights and recommendations that are not only grounded in a nuanced understanding of the past and present but also oriented towards shaping a more equitable and prosperous future.

The discourse surrounding the privatization of SOEs in Pakistan, as this paper meticulously details, is a rich tapestry woven from the threads of historical precedence, economic imperatives, and the pressing need for governance reforms. The narrative extends beyond the conventional arguments of fiscal necessity to encompass broader concerns about national sovereignty, social welfare, and the strategic management of vital national assets. This analysis not only charts the historical trajectory of privatization efforts, from the era of General Ayub Khan to the contemporary landscape marked by the caretaker government's initiatives, but it also delves into the multifaceted challenges that have perennially undermined these efforts.

The paper expounds the fiscal burden that SOEs, including behemoths like Pakistan International Airlines (PIA), and Pakistan Steel, have placed on the national exchequer, contributing to an annual hemorrhage of approximately PKR 650 billion. It juxtaposes this financial quagmire with the potent arguments

marshaled by both proponents and opponents of privatization, setting the stage for a nuanced exploration of the issue.

Critically, the analysis does not shy away from the contentious outcomes of past privatization ventures, where the specter of corruption, governance lapses, and the erosion of service quality have often marred the process. The exploration of these outcomes provides a sobering backdrop against which the potential for privatization to serve as a panacea for SOEs' woes is evaluated. Moreover, the thorny trail of political economy has been discussed, where privatization efforts are entangled with the imperatives of political stability, public sentiment, and the overarching goals of economic reform.

By aiming to clarify the origins, assess the impact, and offer cogent recommendations for refining Pakistan's privatization policy, NIPP's endeavour will be an important contribution to the discourse. As the policy makers ponder the future of privatization in Pakistan, this paper will serve as a guide, a reference point, and a catalyst for informed debate and policy innovation. The journey toward efficient, transparent, and equitable management of SOEs is arduous, yet, as this analysis demonstrates, it is a journey replete with lessons from the past and signposts for the future.

**Dr. Naveed Elahi**

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# Acronyms

ABL	Allied Bank Limited
ADB	Asian Development Bank
ADNOC	Abu Dhabi National Oil Company
AEDB	Alternative Energy Development Board
AGPR	Auditor General of Pakistan Revenue
CCI	Council of Common Interests
CENTO	Central Treaty Organization
CTBCM	Competitive Trading Bilateral Contract Market
DISCOs	Distribution Companies
EFF	Extended Finance Facility
ERO	Economic Reforms Order
FESCO	Faisalabad Electric Supply Company
FY	Fiscal Year
GDP	Gross Domestic Product
GEPCO	Gujranwala Electric Power Company
GOP	Government of Pakistan
HAG	Harvard Advisory Group
IESCO	Islamabad Electric Supply Company
IMF	International Monetary Fund
IPPs	Independent Power Producers
JCL	Javedan Cement Limited
KAPCO	Kot Addu Power Company
KESCO	Karachi Electric Supply Company
LDCs	Least Development Countries
LESCO	Lahore Electric Supply Company
LNG	Liquefied Natural Gas
MCB	Muslim Commercial Bank
MEPCO	Multan Electric Power Company
NAB	National Accountability Bureau
NEPRA	National Electric Power Regulatory Authority
NFC	National Fertilizer Corporation

NTF	National Task Force
PAC	Public Accounts Committee
PAFL	Pak-Arab Fertilizers Limited
PC	Privatization Commission
PECO	Pakistan Engineering Company
PSEs	Public Sector Entities
PIA	Pakistan International Airlines
PIACL	Pakistan International Airlines Corporation Limited
PIDC	Pakistan Industrial Development Corporation
PM	Prime Minister
PML(N)	Pakistan Muslim League (Nawaz)
PPIB	Private Power and Infrastructure Board
PPP	Pakistan People’s Party
PPF	Public Policy Framework
PSM	Pakistan Steel Mills
PSO	Pakistan State Oil
PTCL	Pakistan Telecommunication Company Limited
PTI	Pakistan Tehreek-e-Insaf
SBDTs	Sectoral Business Development Teams
SBP	State Bank of Pakistan
SCC	State Cement Corporation
SECP	Securities and Exchange Commission of Pakistan
SEATO	Southeast Asia Treaty Organization
SNGPL	Sui Northern Gas Pipelines Limited
SOE	State-Owned Enterprises
TMEO	Transfer of Managed Establishment Order
UBL	United Bank Limited
UFG	Unaccounted For Gas
UK	United Kingdom
US	United States
WAPDA	Water and Power Development Authority

## Introduction

Out of approximately 212 State-Owned Enterprises incorporated by the federal government including the subsidiaries, trusts, and funds in Pakistan, 210 entities are now indebted to the tune of Rs. 4,000 billion<sup>1</sup> because of challenges such as a number of administrative, management and policy issues, overstaffing, governance issues, corruption, financial losses and poor service delivery to the end-users over the time resulting into significant fiscal burden for the government.<sup>2</sup> Notably, major SOEs like Pakistan Railways, Pakistan International Airlines (PIA), Pakistan Steel, and the Water and Power Development Authority (WAPDA) have faced concerns due to inefficiency, political interference, and corruption, resulting in annual losses of approximately PKR 650 billion, underscoring the urgency for reform.<sup>3</sup>

The successive governments of Pakistan, including the recent caretaker government, have been actively addressing these challenges, particularly focusing on the potential privatization of state-owned Power Distribution Companies (DISCOs), power plants, and PIA.<sup>4</sup> Proposed solutions include full privatization or transferring complete management control to private entities. There is a clarion in unison among the experts that privatization of SOEs is the only way forward. “It stands as an unavoidable imperative, a resolute necessity dictated by the exigencies of the moment.”<sup>5</sup>

They argue that private ownership can enhance efficiency and reduce the burden on the state. They anticipate that the shift from public to private management will bring about substantial improvements, enhancing the efficiency and quality of remaining government activities, potentially leading to tax reductions and an overall reduction in the size of government. This perspective asserts that profit-driven strategies employed by new private sector managers will naturally result in cost-cutting measures and a heightened emphasis on customer satisfaction.

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1. Dr. Farrukh Saleem (10 march, 2024), Privatization.

2. Finance Division, 2021.

3. Accounting and Business Magazine, Pakistan’s Privatization Medicine.

4. Business Recorder, Nov 24, 2023. Privatization of SOEs: caretaker PM Kakar says ‘tangible results’ expected by mid-January 2024.

5. Dr. Farrukh Saleem (10 march, 2024), Privatization.

that profit-driven strategies employed by new private sector managers will naturally result in cost-cutting measures and a heightened emphasis on customer satisfaction.<sup>6</sup>

This issue is pivotal for political governments as it involves not just monetary considerations but also carries inherent political implications. Choices and strategies related to privatization can significantly influence the political landscape, public opinion, and the social fabric, making it a crucial point of concern. On this basis, antagonists of privatization present strong arguments in favor of retaining these SOEs under state ownership. The arguments from both sides must be put in juxtaposition to reach correct conclusions and make reasonable decisions in this regard.

This analytic study is designed to address the following objectives:

- a) To provide clarity on the origins and prominence of the privatization in Pakistan with its successes, failure and challenges that have marked this course.
- b) To offer the policymakers a clear-cut understanding of how privatization shapes not only economic outcomes but also the broader future of Pakistan.
- c) To give recommendations and suggestions to policymakers in order to improve 'Privatization Policy' and process.

## 1. Historical Overview of Privatization

The history of National Privatization Programs in Pakistan goes back to Gen. Ayub Khans era. In order to fully fathom the "Under-lying Motivations" of these Privatization exercises that have been launched by a number of previous Political and Military Governments without exception, we must first brush off the dust from some critical historical facts explaining the motivations which necessitated these series of "Privatization drives".<sup>7</sup>

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6. Harvard Business Review, (November-December 1991) issue of Harvard Business Review.

7. Syeda Laila Ali Jaffery, Economy of Pakistan Ayub Khan Era (1958-1969).

A thorough study of data of successive privatization drives has been carried out as well as analyzed the aims, methodology and their expected “Tangible and Measurable Results,” including that of the on-going massive privatization process, within core functions and rationale of every government of the day, i.e., “Safeguard of Public Interests,” within the framework of prevailing Public Policy Framework (PPF) of the Government of Pakistan (GOP) vis-à-vi' the IMF's Extended Finance Facility (EFF).<sup>8</sup>

In order to understand what really fuels the desire for privatization in Pakistan, we must see what phenomena spawned its creation. All such privatization exercises are predated by another major economic initiative called the "Nationalization Program" launched by the PPP's PM Z. A. Bhutto from 1970-71 onwards and was legislated as the "Economic Reforms Order, 1972," through the National Assembly of Pakistan with a two-thirds majority. After the economy as well as National Security trauma suffered by Pakistan's 1971 debacle in former East Pakistan, the newly elected PPP Government in 1970 General Elections appealed to the then mega-business and Industrial Oligarch's to partly shoulder the heavy responsibility of resuscitating Pakistan's economy back on track. Unfortunately, as we are all too familiar with the nature and motivations of the Private Big Business Industrial Class created by the (then) Ayub-era's US-Sponsored Military-Economic Aid Packages, therefore as expected, no "Bail-outs" or "Hand-outs" were offered in the form of Private Investments into major Sectors of the beleaguered Post-1971 War Economy of by the then Private Sector.

The alternate "Wholesale Hand-over" of major public sector entities to the private sector ownership and control, as desired by the private oligarchs was also a death warrant to the power and popularity of the new political government of then PPP. Basking in its landslide electoral victory in the 1970 General Elections (held by the then Chief Martial Law Administrator Gen Yahya Khan), the new National Government quickly gathered a Two-Thirds Majority in the National Assembly and legislated the Economic Reforms Order (ERO) 1972, which was

8. Finance Division, 2021.

protected under the first schedule of the constitution of the Islamic Republic of Pakistan, 1973, which followed the ERO, 1972. According to preamble of this legislation, i.e., ERO, 1972, that heralded a major nationalization drive or purchase of majority shares of these private sector entities by the GOP, the lead objective was to create a "Level-playing Field" and "Providing better economic opportunities" for the common man and "Reducing the vast Wealth Gap between the Rich and Poor." This order was promulgated in January, 1972 that removed the boards of directors and managing agencies of 20 big industries. A little later 11 more Industrial units were added to the list. To manage and control the taken over units, Board of Industrial Management was constituted, which implemented the policy directives of the then government.<sup>9</sup>

These reforms were carried out across the board in the sectors of Law, Banking, Health, Education, Insurance, Securities, Credit Guarantees, Rural Development, Pharmacopoeia, Central Superior Service/Administrative Services Reforms, etc., and not just in the basic industries sector. Similar nationalization programs had also been carried out in great Britain, France and many other European countries under their socialist Governments to provide better economic opportunities to the "Proletariat" or Poorer working classes of society.

It's very interesting and important to note here that at this point only about 18% of total industrial sector came under the management control of the public sector, while the rest of the 82% industrial units remained under private sector ownership and control. Strangely the remaining 82% private sector could not do much to contribute towards Pakistan's postwar troubled economy. Some quarters are of the opinion that most of these private sector oligarchs whose business entities majority shares were bought by the GOP along with their management rights, became bitter enemies of the PPP's policy of "providing better economic opportunities and level-playing field for the poor and rich alike" resulting in the drying-up of vast majority of investment funds from the private sector. The PPP Government succeeded in countering this intrigue by exporting hundreds of thousands of skilled and un-skilled workers to the Oil-rich Middle Eastern states

9. Khizer Farooq (Mar 20, 2015). Privatization in Pakistan.

during the next 5 years and continues even today, bringing in Lucrative jobs, prosperity for the poor and huge Foreign Exchange for Pakistan's economy that greatly stabilized due to this major inflow of forex!<sup>10</sup>

The nationalization of the 1970s was in fact a "Push-back" by the socialist cadres to balance out or reduce the "Accumulation of Power" by the "Capitalist Class" created after the US Government's official grants and loan aid through the HAG (Harvard Advisory Group)s economic development road map for Pakistan, which had graciously consented to become a prized member of the US-led SEATO and CENTO military alliances against the USSR-led Communist countries alliance, as a reward for its anti-soviet foreign policy. Unfortunately, from hindsight we can now see that euphoria of Ayub Khan's Golder-era of industrialization was short-lived, as the industrial units established, were mostly "consumer-based Industries," like Coca-Cola, 7-Up, Foam Mattresses, Treet-Platinum blades, etc., which achieved the ulterior US objectives of creating a capitalist economy, under "Powerful Business-Industrial Class" in Pakistan, that was totally missing from its socioeconomic demographics ever since the independence of Pakistan in 1947. Creation of this class was the hinge pin for laying the foundations of "capitalism," juxtaposed to the rapid success and popularity by socialist and communist ideologies, especially in the LDCs (Least Develop Countries) and developing countries or the third world!<sup>11</sup>

## **2. Legal Framework**

### **2.1 The Privatization Policy 1994**

The Privatization Policy of Pakistan, made in 1994, includes a complex approach to economic reform (Privatization Commission of Pakistan, 1991) It forms a crucial component of the broader program for deregulation and liberalization of the economy. The policy aims to stimulate economic

10. Arab News PK, December 29, 2023, <https://www.arabnews.pk/node/2404566>

11. Cereseto, S., & Waitzkin, H. (1986). Capitalism, socialism, and the physical quality of life. *International Journal of Health Services*, 16(4), 643-658.

growth by promoting effective management of domestic industry, increased domestic investment and the mobilization of savings, both domestically and internationally. Particularly, it seeks to reduce the government's micro-management of enterprises, create a mechanism for debt reduction, and generate funds to provide balance of payments relief. Importantly, it prioritizes transparency in the privatization process while protecting worker's rights, encouraging private sector and international participation. Though, this policy claims to be improve the strategy for attractive economic efficiency and competitiveness in Pakistan, actually it is just a one pager, sans any strategy, that needs a lot to be desired (*Annex-1*).

## **2.2 Privatization Commission (Amend) Order 2023 Promulgated**

Former president of Pakistan Dr. Arif Alvi enacted the Privatization Commission (Amendment) Ordinance 2023, a pivotal step aimed at eliminating unwarranted delays in privatization processes, resolving pertinent issues, and reinforcing the application of legal and just principles. The key highlight of this amendment is the establishment of a dedicated Privatization Appellate Tribunal, marking a departure from the previous practice where provincial high courts handled privatization cases.

Under the newly amended ordinance, the federal government will be responsible for appointing three members to the privatization tribunal, with its leadership entrusted to a retired judge from the Supreme Court of Pakistan. Notably, decisions made by the tribunal can be subject to challenge in the Supreme Court within a stipulated period of 60 days:<sup>12</sup>

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12. The Nation News (December 18, 2023). Privatization Commission (Amend) Ord 2023 promulgated.

### 3. Privatization Regimes in Pakistan

#### First Phase

The privatization of selected industries from 1952-1972 was a significant initiative as Pakistan embarked on the journey of privatization. This policy combined regulations and incentives to stimulate private initiatives which led to the creation of the Pakistan Industrial Development Corporation (PIDC).<sup>13</sup> PIDC executed various projects, contributing to industrial progress in Pakistan. It was mandated to promote economic growth, particularly in sectors where the private sector hesitated to invest. From 1952 to 1972, the PIDC played a pivotal role in initiating and managing around 90 industrial units. These included significant projects like Karachi Shipyard Engineering Works Limited, Pakistan Machine Tool Factory, Heavy Mechanical Complex, Sui Northern Gas Pipeline, and Sui Southern Gas Pipeline. The Table (*Annex-2*) highlights the projects established and fully privatized by the PIDC. Notably, most of these units were developed through joint ventures, and the government's equity was subsequently sold to private partners.<sup>14</sup>

Later on, a brief but massive reversal of privatization policy was experienced during the regime of PPP in 1972.<sup>15</sup> Nevertheless, Pakistan's economic history witnessed a notable shift in nationalization policies during 1977-1988. The Martial Law Government,<sup>16</sup> which came to power in 1977, decided to denationalize over 50 small scale enterprises, including flour mills, ginning factories and husking units by handing over the control and management to their original owners.

To prevent further nationalization of such small units, several ordinances were promulgated by the Government of Pakistan on 5th September, 1977:

13. Pakistan Industrial Development Corporation (PIDC) is a state corporation of Pakistan working under Ministry of Industries and Production. It was established in 1952.

14. Pakistan Industrial Development Corporation (1952).

15. Pakistan People's Party, The government of Zulfikar Ali Bhutto (1972-1973).

16. In July 1977, Zia organized Operation Fair Play, during which he deposed Bhutto and declared martial law. Zia remained de facto leader for over a year, assuming presidency in September 1978.

- a) Flour Milling Control and Development (Repeal) Ordinance (Ordinance XXIX) 1977<sup>17</sup>
- b) Cotton Ginning and Development (Repeal) Ordinance (Ordinance XXXI) 1977
- c) Rice Milling Control and Development (Repeal) Ordinance (Ordinance XXX) 1977

This process of privatization was executed without complications mainly involving the return of units to their former owners and the owners reimbursed the government for any compensation they had received during nationalization and make it a successful privatization process.

### Second Phase

Transfer of Managed Establishment Order (TMEO) was introduced in 1978, which offered shares with full property rights to original owners.<sup>18</sup> However, this mechanism remained underutilized, as a few units were transferred back. Notably, prominent units like Ittefaq Foundries and Naushera Engineering Corporation were returned to their former owners. This process could have been extended to other units nationalized in 1972 and 1973 to restore the investors' confidence in Pakistans industrialization. Moreover, several units were privatized, including Tarbela Cotton Spinning Mills Limited, Al-Libas International, and Mehran Flocking Industries Limited, Kotri, all in line with PIDC's mission to transfer units to the private sector after a few years of operation.

An interesting development was the privatization of Intercontinental Hotels in Pakistan, initiated by Interior Ministry (1978-1984)<sup>19</sup> during Zia's regime, aimed to acquire controlling shares.<sup>20</sup> The process, however, lacked transparency, as it was not advertised. Sealed bids were solicited from three preselected parties. The privatization of these hotels was perceived as purposeless, nontransparent, and resulted in the sale of four five-star hotels for a relatively small sum. Again, the PPP government come

17. The Flour Milling Control and Development (Repeal) Ordinance (1977), promulgated on 5th September 1977.

18. Transfer Managed Establishments (1978), Presidential Order No. 12 of 1978.

19. During his political career, Mahmood Haroon served as two-time Governor of Sindh, Federal Interior Minister During General Muhammad Zia-ul-Haq's regime, Federal Defense Minister, and Mayor of Karachi. He was also the founder of the Dubai-based Newspaper Khaleej Times.

20. Muhammad Zia-ul-Haq (12<sup>th</sup> August 1924 – 17<sup>th</sup> August 1988) was a Pakistani military officer who served as the sixth president of Pakistan from 1978 until his death. He also served as the second Chief of Army Staff of the Pakistan Army from 1 March 1976 to 17<sup>th</sup> August 1988 (till his death).

into power (October 1988-July 1990) and enlisted the expertise of N. M. Rothschild, a British Merchant Bank, to advise on privatization. Rothschild's recommendations included the sale of 14 companies through the stock exchange. However, before significant progress could be made, the government was removed and only 10 percent of PIA shares were sold to the public.<sup>21</sup>

Furthermore, the expected price reduction in products from privatized industries did not emerge. In fact, real prices increased over time (*Annex-3*).

### Third Phase

The PML(N) government, led by PM Nawaz Sharif, initiated Pakistan's inaugural privatization program in 1991. Spearheaded by a newly formed privatization commission under the Ministry of Finance, this phase aimed to shift towards a free-market economy and attract foreign investment. Influenced by Margaret Thatcher's successful privatization in the UK, Sharif targeted key sectors, starting with the denationalization of MCB (Muslim Commercial Bank) Limited. The program, a response to PPP's nationalization under Bhutto, sought to transform Pakistan into an economic powerhouse.

### Fourth Phase

During the fourth phase of PML(N)'s privatization, led by Finance Minister Sartaj Aziz, the focus was on transforming state enterprises into profit-making entities independent of government subsidies. Major energy corporations like WAPDA and KESC, were privatized, involving both domestic and foreign investors. Between 1990 and 1993, an astounding 115 industrial units were privatized, including major banks, industrial units, and a share of SNGPL.<sup>22</sup> Sharif's privatization efforts were marred by controversy, scandals, and a lack of transparency, with favoritism towards political insiders. This marked the beginning of a powerful business-industrial oligarchy, contributing to a widening wealth gap, widespread unemployment, and political instability. Surprisingly, regulatory and accountability agencies did not investigate these corruption scandals.

21. Mr. Jeffrey M. Davis (22 June, 2000), Fiscal and Macroeconomic Impact of Privatization

22. Islamabad Policy Research Institute (December, 2014), Solutions for Energy Crises in Pakistan.

### Fifth Phase

After the 1993 elections, a new phase of privatization began in 1993 under Prime Minister Benazir Bhutto's relatively disciplined macroeconomic policy. Bhutto's government avoided privatizing state corporations that generated significant revenues both domestically and abroad. Only a limited number of industries facing financial collapse were privatized, eliciting criticism for not offering a substantial percentage of shares to foreign and local investors while retaining 51% shares. Proposals to privatize UBL were opposed and Pakistan Railways privatization was rejected by Bhutto to prevent large-scale worker layoffs. Between 1993 and 1996, Bhutto's government privatized a small number of SOEs, including 20% of the 112 industrial units, one financial institution, one power plant, and 12% of PTCL shares.<sup>23</sup> This phase's impact is challenging to assess objectively due to economic slowdown and Bhutto's government dismissal in 1996 amid US sanctions related to Pakistan's Nuclear Program.

After the fifth phase performance of SOEs privatization reported by Asian Development Bank (ADB), Impact Analysis of privatization in Pakistan in 1998 revealed mixed outcomes post privatization. In this analysis, 20 percent of privatized units performed better than before, while 44 percent remained at a similar performance level. Unfortunately, over one-third performed worse after privatization (*Annex-4*).<sup>24</sup>

Several privatized units were eventually closed after privatization 1998, raising concerns about the privatization process. Examples of these closures included Naya Daur Motors, Dandot Cement, Zeal Pak Cement, General Refractories, Nowshera Chemicals, Indus Steel pipe, Quaid Abad Woolen Mills and others. The reasons behind these closures stated the ADB 1998 study included a lack of transparency has damage the process and asset stripping. The

23. Rehana Kouser (2012), Financial and Operating performance of Privatized Firms

24. ADB Report October (1998), Impact and Analysis of Privatization in Pakistan.

units were sold without checking the credit-worthiness party. Moreover, they did not pay the second instalment privatization commission did not take a strong line by forcing the bogus investors?<sup>25</sup>

In terms of the objectives of privatization, fiscal deficit reduction remained ambiguous. Despite privatizing numerous manufacturing units and banks, the fiscal deficit actually increased due to escalating interest payments, offsetting the gains from privatization receipts (*Annex-5*). Industrial efficiency and investment trends were unfavorable, with a decline in GDP growth pre-privatization (1986-87 to 1990-91) from 5.44 percent to post-privatization (1992-93 to 1996-97) 4.15 percent and a significant drop in investment levels falling from 5.55 percent to 1.82 percent in the same era. In the employment growth, while showing slight improvements, a significant decrease in the compounded growth rates was observed.<sup>26</sup>

### Sixth Phase

Prime Minister, Shaukat Aziz, during Musharraf regime, reinitiated and intensified privatization from 2003 to 2007. His focus on SOE restructuring and placing professional managements preceded privatizing 80% of the banking industry and shares of entities like PIA. The program seemingly improved GDP growth rate 6.4%-8.6% and lowered inflation rate 3.5% over last 3 year as against 22%-12% in 1990 during PML(N) regime, yet the economic boom owed much to significant US assistance in response to Musharraf's alliance in the War on Terror. However, in 2000, Aziz's privatization faced a setback when the Supreme Court halted the privatization of Pakistan Steel Mill (PSM), citing illegality and dubious buyers like Arif Habib Group, revealing issues in the process's transparency and legality.<sup>27</sup>

Under the Musharraf regime, 54 SOEs were privatized in the first eight years, generating Rs. 416.8 billion. However, progress slowed, yielding only Rs. 173 billion in the subsequent 14 years since 2009.<sup>28</sup> The Golden Handshake facility,

25. Round Table on Securities Market Reforms in the face of the Asian Financial Crisis 8-9 April 1999, Tokyo.

26. Pakistan Economic Survey 2021-2022, Finance Divion, Government of Pakistan.

27. Dawn (November 6, 2017), Paradise Papers' expose ex-PM Shaukat Aziz's offshore holdings

28. Privatization action, The News (2023), <https://e.thenews.com.pk/detail?id=245105>

allowing employees to opt for it, played a crucial role in privatization, consuming a significant portion of the total bid value. In some cases, the value exceeded the bid amount, particularly for loss-making industries. (*Annex-6*):<sup>29</sup>

Yet a bit of historical analysis reveals that governments, even in countries emphasizing private enterprise, have intervened in various economic activities when public interests clashed with private ones or when private systems were too slow to respond. Both public and private organizations often make significant allocation decisions outside the market framework. These challenges the principal arguments favoring privatization, emphasizing market incentives. The hypothetical scenario arises: if the private sector assumes responsibility for manufacturing and supplying essential goods and services in a market economy, would it willingly accept higher taxes to compensate for the government's loss of non-revenue stream from Ex-SOEs' profits (Rs. 4 trillion during FY 2018-19). This revenue is vital for emergency socio-economic interventions in times of shocks or calamities.

### Current Phase

The ongoing privatization initiatives in Pakistan, initiated by the PTI government in 2018-2019 and continued by the Interim Government, have sparked concerns regarding their impact on the wealth gap, income inequality, fiscal deficit, and unemployment. The Finance Division's report suggests a multi-phase approach, emphasizing transparency and socioeconomic considerations. Proposals include alternative models, such as partnerships with foreign and local business-industrialists while retaining majority ownership. The report also advocates for the protection of strategic assets and emphasizes the social responsibility of the 212 State-Owned Enterprises (SOEs) in the present list. The debate underscores the need for a careful evaluation of consequences and exploration of models prioritizing public welfare.<sup>30</sup>

29. Privatization Commission of Pakistan. <https://privatisation.gov.pk/>

30. State Owned Enterprises Triage: Reforms and Way Forward, CP Wing, Ministry of Finance, Government of Pakistan.

## 4. Privatization Outcome

### 4.1 Success Story

The privatization of the banking sector can serve as a good example for privatization in other sectors. The privatization of banks in the early 1990's shows several positive outcomes, which can be instructive for considering privatization in other areas.

By 2004, more than 77% of Pakistan's banks were owned by private companies. Before that, when most banks were run by the government, they didn't perform very well. But after they were sold to private businesses, they became more efficient and made more money. The points below show how the banking sector in Pakistan performed in 1997 when most banks were publicly owned, and in 2004 when most were owned by private companies. It's clear that there was a big improvement in things like how many loans were not being paid back, how much profit the banks made, and their overall income. They also started offering more services like investment banking, commercial banking, and loans for regular people. This helped the middle class get loans for things like homes and cars at good rates. However, starting in 2007, when interest rates went up, the part of the banks that gave loans to regular people had some problems, and more people could not pay back their loans. But, in general, the banks still made considerable profit.<sup>31</sup>

The key point services of banks are as under:

1. **Improved Quality of Services:** Privatization of banks led to an enhancement in the quality of banking services, demonstrating that private entities can often deliver services more efficiently and with a focus on customer satisfaction.
2. **Expanded Outreach:** Privatization increased the outreach of banking services to those outside the banking system, promoting financial inclusion.

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31. Pakistan, N. W. F. P. Privatization of Banking Sector in Pakistan.

3. **Economic Growth:** Privatization of banks contributed to the expansion of the GDP, generating higher tax revenues, and overall public welfare.
4. **Employment Opportunities:** The banking industry created more employment opportunities after privatization.

The privatization led to greater efficiency, customer satisfaction, and economic growth. While each sector is unique and should be considered on its individual merits, the success of privatization in the banking sector can indeed serve as a model or example for considering privatization in other sectors, provided it aligns with the specific needs and dynamics of those sectors.

## 4.2 Dilemma and Pitfalls

Considering factors like natural monopolies and the need for strategic investments, it is difficult to decide whether to reform or privatize SOEs. Transactional transparency is crucial, requiring disclosure of balance sheets, asset valuations, and a diligent assessment of potential investors. The antagonists of privatization also give strong arguments in favor of keeping these SOEs with the state. They argue that in the context of a developing country like Pakistan, the attraction and benefits of short-term benefits to any cash strapped and economically weak government, must be tremendous. However, while the government of the day may gain reprieve and relief by showing significant improvement in balancing of its account books, the long-term effects of hasty privatization can directly result in serious increase in the "Wealth Gap" between the rich and poor and the National Poverty Index of the society, which stands at an abysmal low in Pakistan.<sup>32</sup>

1. **National and Strategic Interests:** Some sectors, such as energy, transportation, and defense, are considered of national and strategic importance. Critics argue that privatizing these entities could jeopardize national security and sovereignty. Private companies may prioritize profit over national interest, potentially compromising critical infrastructure.<sup>33</sup>

32. United Nations Human Development Report. 2020: Pakistan.

33. Harvard Business Review, November-December, 1991. issue of Harvard Business Review.

2. **Consumer Protection:** Private companies, driven by the profit motive, may engage in anti-competitive behavior, cartel formation, and exploitation of consumers. In such scenarios, regulatory authorities must be vigilant and effective to protect consumers' interests, but in Pakistan, regulatory bodies often struggle with political influence.<sup>34</sup>
3. **Unemployment:** Privatization can lead to workforce reduction, as private companies often aim to streamline operations and cut costs. This can result in job losses, particularly in sectors like Pakistan Railways, which employs a large number of people. Addressing the social and economic impact of privatization on employees is crucial.<sup>35</sup>

#### 4.3 Social and Economic Impact

1. **Wealth Gap:** The privatization programs, ostensibly aimed at public benefit through the trickle-down effect, are criticized for benefiting specific political governments, families, and mega-business and industrial figures associated with those in power. The wealth gap in Pakistan has increased dramatically, as reported in the 2021 Credit Suisse report on the "List of Sovereign States Wealth Inequality." The Wealth Gini index rose from 0.698 in 2008 to 0.740 in 2020, reflecting a significant disparity in wealth distribution. This inequality adversely affects the lower-income population's access to essential services like healthcare and education, ultimately impacting human development in the country.<sup>36</sup>
2. **Income Gap:** The United Nations National Human Development Report 2020, authored by economist Dr. Hafiz A Pasha, highlights the significant income gap in Pakistan. It points out that the poorest segment of the population holds only 0.15% of the national income, while the richest 1% receives 9% of the national income. The report reveals that the privileges enjoyed by the wealthy in Pakistan amount to Rs. 2,660 billion, equivalent to 7% of the country's GDP. In contrast, the cost of social protection programs is estimated at Rs. 624 billion. The transfer of massive wealth from the public sector to a select few private

34. Competition Commission of Pakistan. A guide for Consumers and Businesses, Protection from anti-competitive practices, 2010.

35. Earle, J. S. S. (2019). Impact of privatization on employment and earnings. *IZA World of Labor*.

36. United Nations Human Development Report, 2020: Pakistan.

businesses and industrialists has further exacerbated income inequality, particularly impacting lower-income groups, including workers and laborers.<sup>37</sup>

3. **Poverty:** The World Bank reports that Pakistan's average GDP per capita from 1960 to 2022 is \$872.33. Despite this, poverty remains a significant challenge, with the World Bank recording a poverty rate of 39.3% using the lower middle-income poverty rate of \$3.2/day for FY 2020-21. In September 2021, the Pakistani government acknowledged that 22% of its population lives below the national poverty line set at Rs. 3,030 (or \$10) per month. Privatization programs, given this context, are viewed as potentially exacerbating the misery, deprivation, and poverty of the population.<sup>38</sup>
4. **High Inflation:** The current inflation rate in Pakistan, reaching almost 40% in 2023, along with a significant devaluation of the Pakistani Rupee against the US Dollar, has severely impacted the purchasing power of the common man. The change in government in April 2022 has contributed to economic challenges. With the ongoing privatization process under the PTI government, there are concerns that it may further widen the wealth gap, lead to mass unemployment, and increase household poverty. The prices of basic commodities, including those produced by former state-owned enterprises (SOEs) under private ownership, have seen a significant increase.<sup>39</sup><sup>40</sup>
5. **Significant Increase in Unemployment of Workers:** By the end of 2000, 103 public enterprises were privatized in Pakistan, Though the gross privatization proceeds stand at Rs 82.0 billion or US\$ 2.3 billion, the telecommunication and power sectors alone account for around 65 percent of all the proceeds resulting in 110,000 job losses, whereas 369,000 people became job less due to denationalization.<sup>41</sup> The need for a

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37. *ibid.*

38. *ibid.*

39. Pakistan Bureau of Statistics, Labour Force Surveys: various Survey Reports.

40. <https://www.forbes.com/?sh=2715f4982254>

41. Khan, I. A., & Hijazi, S. T. (2003). Impact of Privatization on Employment and Output in Pakistan.

policy analysis considering both efficiency and equity, and it shows a statistically negative and significant impact of privatization on workers' employment and total employment.<sup>42</sup>

Long term unemployment and vulnerable employment drastically rose to 19.5% in 2010 from the low 7.4% in 1993, which alone is enough to criminally charge the government and mega-business-industrial groups who are responsible for conceiving and implementing the most devastating evil scheme to steal economic and political power from the hands of the 22 million Pakistanis into the hands of a few select private sector robber barons as well as public sector retired and serving Bureaucrats<sup>43</sup>

- 6. Sharp Decline in Investment Activity in the Economy:** Privatization in Pakistan led to investment rates plummeting to record lows. From 26% of GDP before privatization programs were initiated in 1987 onwards, investment rate crashed to 14% in 2013-14.<sup>44</sup>

#### 4.4 Controversial Deals

The controversial and dubious nature of the privatization processes in Pakistan, occur particularly during the 1990s. The lack of adherence to constitutional procedures and the potential favoritism in the sale of state-owned entities have been sources of concern.

**Illegal and Unconstitutional Privatization**, the assertion that the initial phase of privatization, particularly during the PML(N) government in the 1990s, was illegal and unconstitutional due to the absence of consent from the Council of Common Interests (CCI) raises significant legal and procedural concerns. This indicates a violation of established constitutional processes. **Sale of Habib Credit and Exchange Bank (Bank Alfalah)**, the sale of Habib Credit and Exchange Bank to an Abu Dhabi business group for a nominal amount of Rs 2.2 billion further underscores potential irregularities and questions of transparency. **Sale of United Bank Limited (UBL)**, the sale of United Bank Limited (UBL)

42. The Express Tribune (9th March, 2020). Impact of privatization on public welfare in Pakistan.

43. World Bank, World Development Indicators 2014.

44. Pakistan Bureau of Statistics, Labour Force Surveys: various Survey Reports.

during the Sharif government's 2002 second stint, where the bank was sold for Rs, 9 billion less than the cost incurred for its preparation and restructuring, raises financial discrepancies and scrutiny. **Haste and Callousness in Privatization**, the privatization of remaining public sector manufacturing units, excluding Pakistan Steel Mills (PSM), in a hurried and seemingly callous manner suggests a lack of strategic planning and consideration for the long-term implications of such decisions.<sup>45</sup>

Overall, these examples contribute to the broader narrative of privatization being marked by controversies, legal challenges, and concerns about transparency and fairness. It emphasizes the need for a careful and legally sound approach of privatization to avoid issues related to misuse of state resources and corruption.

Given below are examples of only some outrageously Scandalous sales of SOEs, to give the Readers a feel of the sheer scale of blatant disregard to any Law, Financial Propriety, Transparency, Personal Honesty or Fear of any Accountability, with which Privatization drives were carried out by all previous Political and Military Governments since 1990s, although foundations of misuse of State resources and Corruption had already been laid during Gen Zia's 1980s in shape of Patronage of Pro-Martial law Political Cronies through massive Allotments of Commercial and Agricultural Lands as well as Gigantic Loan grants and their write-offs, etc.<sup>46</sup>

1. Allied Bank Limited. (ABL),
2. Muslim Commercial Bank (MCB) Limited.
3. Kot Addu Power Company (KAPCO) Limited.
4. Karachi Electric Supply Company (KESE).
5. United Bank Limited (UBL)
6. Javedan Corporation Limited and Javedan Cement Limited
7. Pakistan Steel Mills (PSM) Limited.
8. Pak-Arab Fertilizer Limited.
9. Pakistan Engineering Company (PECO) Limited.

45. Ishrat Husain. [iba.edu.pk/books/preparing-privatization-lessons-pakistan.pdf](http://iba.edu.pk/books/preparing-privatization-lessons-pakistan.pdf)

46. Khizer Farooq (Mar 20, 2015). Privatization in Pakistan.

- 1. Allied Bank Limited (ABL):** The Allied Bank Limited (ABL) and MCB's sell-off exemplify a disturbing trend of exploiting strategic national resources under the guise of privatization, efficiency, and debt relief. The privatization of ABL in 1991, where 26% shares were sold to the bank's employees at an unusually low rate of Rs. 70 per share, along with the strategic management, was a clear violation of public interests and national security. Subsequently, another 25% shares were sold to the same bank employees in 1993. Despite its value, ABL's privatization resulted in poor performance, leading to a takeover by the State Bank, restructuring, and eventual re-privatization in 2004. This case highlights the detrimental effects of privatization in Pakistan, where valuable public assets worth trillions of rupees are seemingly handed out like "wholesale rotten vegetables" to government associates, instead of being retained and made profitable under professional management and strict government oversight.<sup>47</sup>
- 2. Muslim Commercial Bank (MCB) Limited:** The privatization of the Muslim Commercial Bank (MCB) in 1991 stands as another egregious example of collusive and criminal transfer of state-owned enterprises (SOEs) worth hundreds of billions of rupees to close relatives of the government and a network of private sector business-industrialists. MCB was sold at a remarkably low rate of Rs. 56 per unit, identified as a "strategic investor" and a close relative of the Chief Martial Law Administrator Gen Ziaul Haq at the time. This transaction, facilitated by the government of PM Nawaz Sharif, a political disciple of Gen Zia, has been criticized for its low valuation. Business circles suggested that even the furniture and equipment from MCB's approximately 1100 branches could have fetched more revenue than the entire bank with its fixed assets, strategic investment portfolios, and deposits at the artificially low-price set by the government/PC. In two phases, 26% shares with

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47. Dawan Newspaper (November 3, 2014). Allied Bank's privatization.

management rights were transferred to Mian Mansha's consortium in 1991, followed by another 25% shares a few months later. The privatization occurred at a price less than the annual profit earned by MCB each year.<sup>48</sup>

- 3. Kot Addu Power Company (KAPCO) Limited:** During the second tenure of the Benazir government, privatization extended to the energy and telecommunications sectors, including the "profit-making" Kot Addu Power Company (KAPCO) (*Annex-7*). Despite being a profitable entity, KAPCO was privatized, and its management handed over to a minority shareholder. This shareholder started selling power to the WAPDA at twice the rate it was generating, citing the use of imported furnace oil for power generation. The privatization of KAPCO, coupled with the reliance on imported furnace oil, increased the cost of electricity production. The new private sector owners raised unit rates, recovering their investment within two years. By 1999, they increased tariffs to Rs 3.27 per kWh, exceeding the originally agreed rate of Rs 1.76/unit in 1994. Furthermore, after the so-called privatization, the top loan defaulter of ABL repurchased 40% ABL shares, becoming the majority owner of the bank.<sup>49</sup>

This privatization of profit-generating state-owned enterprises into private hands resulted in misery for common Pakistani consumers, marked by a significant increase in tariffs. This contributed to the severe shrinking of household consumer budgets, pushing more Pakistanis closer to the poverty line. The consequences have been particularly dire in 2022 and 2023, with lower-income and lower-middle-income individuals resorting to extreme measures such as suicide due to their inability to pay exorbitantly high utility bills or having to sell off assets

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48. Siddiqui, K., & Anjam, M. (2013). Privatization of MCB: Corporate Governance Failure.  
49. Business Recorder (3 April, 2018). Kot Addu power Company Limited.

like motorcycles or jewelry, or take loans to cover inflated electricity bills from distribution companies (DISCOs) in the past two years alone.

4. **Karachi Electric Supply Company (KESC):** KESC was in loss when in the public sector, financial as well as technical. The Government paid massive amounts to clear KESC's dues and liabilities to prepare it for Privatization, but sold 73% of its shares for less than it paid to clear up KESC's dues in a patently non-transparent manner. Although, the Private Owners were expected to be better Managers, with the ability to mobilize new investments and best practices to Turn KESC around, but its Performance didn't improve and it continued to incur losses and became a major link in the chain of mounting circular debt.<sup>50</sup>
5. **United Bank Limited (UBL):** United Bank Limited (UBL) underwent a massive Rs. 21 billion bailout packages from the government to prepare for privatization, mirroring the scenarios of HBL, KESC, and KAPCO. However, in 2002, the government approved the sale of 51% shares of UBL, including its management control, for a mere Rs 12.4 billion. This case study reveals a glaring violation of applicable laws, as the state-owned UBL was not sold to the highest bidder but handed over to a favored bidder at an unreasonably low price. The lack of transparency in this controversial bidding process could have been addressed by canceling the low-priced offers and initiating a fresh bidding process for UBL, potentially raising the reference price to better align with its actual high market value.<sup>51</sup>
6. **Javedan Corporation Limited and Javedan Cement Limited:** **Javedan Corporation Limited**, established in 1961, focused on cement as its core business with over 1,200 acres of land. In 1961, JCL also formed Javedan Cement Limited, which commenced production in 1964 and reached 1,000 MT in 1965. The products, including Sulphate

50. Dawn (24<sup>th</sup> March, 2003). KSEC privatization.

51. Dwan (11<sup>th</sup> May, 2002). UBL privatization.

resistant Slag Cement, gained popularity both in the Middle East and Karachi. Nationalized in 1972, 96.34% of Javedan Cement's shares were acquired by State Cement Corporation (SCCP). In 2006, both companies were privatized with conditions: the cement plant would be modernized, and a 100 MW captive power plant installed.<sup>52</sup>

Contrary to expectations, under new private sector ownership, Javedan Cement ceased production in 2010. In violation of the privatization agreement's preconditions, the chairman, Arif Habib, decided to develop a gated commercial and housing colony, Naya Nazimabad, over the 1,300-acre land area meant for mining lease in 2911, disregarding the intended revival and modernization of the cement plant and the installation of a captive power plant.<sup>53</sup>

- 7. Pakistan Steel Mills (PSM) Limited:** Pakistan Steel Mills (PSM) Limited, the largest industrial complex in Pakistan, boasts vast state assets, including commercial land, massive component plants, a mega-housing colony, and a large water reservoir. In 2004-05, PSM was privatized, with the Arif Habib Cartel emerging as the buyer. However, the Chief Justice of the Supreme Court of Pakistan, Iftikhar Chaudhry, intervened using his Suo moto powers, declaring the privatization "null and void ab-initio" in a 2006 decision. The grounds for this decision included concerns about the buyer's dubious background, Arif Habib, and the Privatization Commission's oversight of his criminal history, including FIRs, investigations related to the "Badla Financing Scam" and alleged involvement in two significant Pakistan Stock Exchange crashes.<sup>54</sup>

Despite being one of Pakistan's most valuable state assets, with a prime land area capable of supporting a luxury seashore city resort, attractive offers from China, Russia, and Al Tawairqi Steel Company of Saudi Arabia to revitalize PSM were reportedly declined by the PTI

52. Business Recorder (Oct 18, 2006), Javedan Cement Limited.

53. International Cement Review: 28th July, 2005.

54. Pakistan Steel: Largest Industrial Complex of Pakistan. <http://paksteel.com.pk>

Government's Industries and Commerce Minister Razaq Dawood. Instead, the industry was handed over to the same private entity led by Arif Habib.<sup>55</sup>

8. **Pak-Arab Fertilizer Limited:** Pak-Arab Fertilizers Limited (PAFL), established in 1973 as a joint venture between the Government of Pakistan and Abu Dhabi National Oil Company Limited (ADNOC), played a crucial role in meeting Pakistan's fertilizer demand for over three decades. As part of the National Fertilizer Corporation (NFC), owned by the government, PAFL was one of six new fertilizer manufacturing plants. The NFC, incorporated as a private limited company in August 1973, operated small fertilizer plants before establishing larger units.

The government's privatization of PAFL in 2005 raised eyebrows, with the Privatization Commission selling 94.8% shares to a Karachi-based private consortium led by Arif Habib Group, Fatima Group, and Reliance Export for Rs 14.125 billion. Interestingly, Arif Habib served as the Chairman of the Board of Directors for both Fatima Fertilizer Company Limited and Pak-Arab Fertilizer Limited. Fatima Fertilizer Company Limited, incorporated in December 2003, was owned by Arif Habib.

Despite being a profitable unit under government control, PAFL's privatization saw 95% of shares handed over to Arif Habib, leading to questions about the justification for the sale and the lack of government retention of at least 51% shares. The privatization of all seven large state-owned/ controlled fertilizer plants by successive governments to influential private owners created a monopolistic situation, giving a few businessmen complete power to manipulate fertilizer prices. This situation has made the entire agricultural sector, a significant employer in Pakistan, and related sectors hostages to this private cartel. The government's annual need to import fertilizer in large quantities

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55. *ibid.*

in US dollars to manage high prices set by the private cartel has raised concerns about the impact on Pakistan's economy.<sup>56'57'58</sup>

- 9. Pakistan Engineering Company (PECO) Limited:** The case study of Pakistan Engineering Company (PECO) Limited highlights the misappropriation of a valuable state asset, estimated at nearly Rs. 200 billion, with questionable actions and collusion of state institutions since 2003. The privatization process initiated in 1991-92 faced challenges, including a deemed low public offer. In 2003, NIT illegally sold 21% shares to a private sector cartel led by Arif Habib, accused in financial scandals. This transaction violated legal orders, yet government institutions ignored the criminal accusations and legal violations, allowing the capture of PECO's majority ownership by a private sector cartel.<sup>59'60</sup>

The case involving Pakistan Engineering Company (PECO) Limited has seen a series of investigations and allegations of criminal usurpation of ownership by a powerful business-industrial cartel. In 2005, the Securities and Exchange Commission of Pakistan (SECP) initiated an investigation into the purported illegal sale/purchase of the government's majority shares in PECO, violating the written criteria of the Finance Division and Privatization Commission. Subsequently, in 2007-08, the National Accountability Bureau (NAB) launched an investigation under the directives of the Public Accounts Committee (PAC) into this mega-scandal.

The delayed final reports of investigations by both SECP and NAB into the Pakistan Engineering Company (PECO) case, spanning 18-20 years, raise concerns about transparency and accountability. The remaining government shares held by State Engineering Corporation (SEC)

56. National Fertilizer Corporation of Pakistan: <<https://www.nfc.com.pk/history.php>> 15/05/2005;

57. <https://www.dawn.com/news/139231/pc-receives-rsl-4-125bn-highest-bid-pakarab-fertilizers>:

58. F@time-group.com <<https://fatima-grpup.com>>

59. Securities and Exchange Commission of Pakistan. <https://www.secp.gov.pk>;

60. Public Procurement Regulatory Authority. <https://www.ppra.org.pk>

are at risk during the present interim government, potentially orchestrated by the Arif Habib cartel. The illegal purchase of PECO's shares aimed to acquire strategically undervalued assets, with an estimated value of nearly Rs. 200 billion, including industrial and commercial land, offices/ shops, machinery, and scrap material. Despite potential revenues from restructuring and diversification plans, efforts to address issues faced obstacles, leading to strictures by the Public Accounts Committee (PAC) and findings by the Auditor General of Pakistan Revenue (AGPR). The lack of compliance with AGP's forensic audit report in 2021 remains a concern.<sup>61,62</sup>

## **5. Current Strategy and Challenges**

### **5.1 Recent Development on SOEs Privatization**

#### **5.1.1 PIA**

The public sector owned Pakistan International Airlines (PIA) is an entity with accumulated debt of Rs. 750 billion and assets of a mere Rs150 billion.<sup>63</sup> PIA is inefficient, bloated by overstaffing and unprofitable. PIA's losses after taxes significantly increased from Pak Rs. 4.5 billion in 2005 to Pak Rs. 13.2 billion in 2006. It carried 2.5% less passengers, its old planes were grounded and it was refused landing rights in the EU because of flight safety and maintenance concerns. Based on the development, PIA posted Rs.38.4 billion losses by the end of September 2008, compared to a Rs.10 billion losses in the same period in 2007. After a series of setbacks in 2007 including management problems, the privatization of PIA was back on the agenda. But due to ambivalent political will and lack of well-developed and an effectively executed privatization plan, this continued to prove difficult.<sup>64</sup> Furthermore, the previous attempts to privatize PIA were not materialized because of pressure from the highly organized anti-privatization labor unions, and the poor financial health and structural inefficiency of the airline that made it unattractive for the private sector. Consequently, the losses continued to accumulate and in total PIA made losses of \$7.1 billion since 2012.<sup>65</sup>

61. Forensic Audit Report by the Auditor General of Pakistan, Audit Year 2020-2021.

62. Study by the Asian Development Bank, 1998. Institutional Document April, 1999.

63. Dr. Farrukh Saleem (10<sup>th</sup> march, 2024). Privatization.

64. Dawan (2023), PIA's Collapse, Pakistan's new push to privatize national airline faces headwinds'PIAs collapse.

65. The Express Tribune (2023), Cabinet invokes emergency for PIA.

In November 2023, a body under Pakistan's cabinet used emergency powers to hire financial advisers to plan the privatization of Pakistan International Airlines (PIA) within the next four months. The government made the decision to privatize PIA, as it incurred huge losses, projected to reach 153 billion rupees (\$550 million) in 2023 alone.<sup>66</sup>

The caretaker Privatization Minister Fawad Hasan Fawad (2023) said, "The government has announced that PIA's legacy liabilities would be parked in a holding company and only the current core assets and current liabilities would be offered for privatization," he also said about the list of assets to be sold includes PIA's aircraft, routes, landing rights, core engineering and air service agreements.<sup>67</sup>

While the new government of Pakistan, installed in March 2024, is toeing the policy of privatization of PIA, the major political partner, Pakistan People's Party, opposed the idea. Chairman PPP, Bilawal Bhutto suggested operating PIA through public-private partnership instead of privatizing it.<sup>68</sup>

### **5.1.2 DISCO's**

On July 13, 2023, the International Monetary Fund (IMF) approved a \$3 billion Stand-by Arrangement (SBA) for Pakistan, emphasizing the need for fiscal discipline, structural reforms in the energy sector, and improved governance of SOEs.<sup>69</sup>

The challenge lies in the underperformance of Discos (Distribution Companies), which are causing a drain on the economy and consumers.<sup>70</sup> Among the top ten loss-making entities, four are Discos, with QESCO leading with a loss of Rs. 108 billion. These issues have been persistently highlighted in various reports from organizations such as the State Bank of Pakistan (SBP), NEPRA, the Finance Division and the Privatization Commission (PC).<sup>71</sup> While

66. *ibid.*

67. Business Recorder (2023), PIA sell-off: PC board tasks FIA to prepare plan by Dec-end.

68. The News (May 2, 2024) PPP-Opposes-govt-s-privatization-policy

69. Business Recorder (July 12, 2023), IMF Executive Board approved \$3bn Stand-By Arrangement for Pakistan.

70. Ministry of Finance, Government of Pakistan (2023).

71. Business Recorder (Oct 10, 2023), Privatizing Discos: tread with caution.

privatization is often suggested as a solution to structural reform, it's important to note that it's not a one-size-fits-all remedy. Several policy and regulatory decisions must be made independently of privatization. One crucial decision is the uniform tariff regime, which has long survived its economic and political justification. It's essential to address efficiency in regulatory processes, the pending realization of the Competitive Trading Bilateral Contract Market (CTBCM), and the role of provincial governments in assisting Discos.

Successful privatization requires a holistic approach, including political commitment, policy certainty, regulatory predictability, and addressing the entity's liabilities. The PC plays a crucial role in executing transactions, but it is not responsible for regulatory or policy changes.

For a successful privatization, challenges like simultaneous implementation of CTBCM and privatization, law enforcement agencies' assistance post-privatization, asset transfers, and more must be addressed. It's important to learn from past experiences, such as the PTCL transaction, which faced challenges even post-privatization.

The power sector privatization plan should include a careful evaluation of the Wire Business, a natural monopoly integral to CTBCM success. All stakeholders should consider this aspect to prevent future issues. It's crucial to understand the distinction between sectoral aspects and transaction essentials.

The decision-making process, privatization dynamics, and economic consequences of Discos must be thoroughly analyzed. Although privatization was first approved for the power sector 30 years ago, progress has been slow. The deterioration in Discos' performance had a significant impact on the economy and consumers.

Looking forward, not all ten Discos' can be privatized simultaneously. SEPCO and HESCO should be acknowledged for their initiatives, and the provincial governments may need to assist these, Discos. LESCO and IESCO should be considered for splitting, as it may make them more viable for privatization. FESCO, GEPCO, and MEPCO are in a better position for privatization, provided burdens are removed quickly.

### 5.1.3 Power Plants

In 1993/94, the Pakistani government opened the doors to private sector participation in power generation by offering incentives and guaranteed returns on investment. At that time, there are 14 independent power producers (IPPs) in Pakistan with a combined installed capacity of 5,859 MW, making up approximately 30% of the country's total electricity generation capacity.<sup>72</sup> Presently, 38 thermal independent power producers (IPPs) with a total installed capacity of 15663 MW and 7 hydro IPPs with a total installed capacity of 372 MW are operational.<sup>73</sup> The Private Power and Infrastructure Board (PPIB) was established in 1994 to facilitate private sector investment and act as a one-stop-shop for investors. However, this led to some issues, including a lack of competitive bidding procedures, poor planning of power plant locations, and high-power prices guaranteed to IPPs, which raised fiscal and financial concerns. Subsequently, these tariff issues were resolved.<sup>74</sup>

In 1997, the National Electrical Power Regulatory Authority (NEPRA) was created to regulate the power sector, overseeing standards, approving investments, and setting tariffs. Unfortunately, NEPRA's independence was compromised due to inadequacies in the NEPRA Act and a lack of rule-based regulatory oversight. Private sector participation remained limited to power generation, and only one distribution company, the Karachi Electric Supply Company, was privatized. Attempts to privatize other distribution companies faced challenges due to existing regulatory structures and tariff regimes. To bridge the power supply-demand gap, the government is exploring alternative energy sources and established the Alternative Energy Development Board (AEDB) in 2006. However, progress in this area has been slow. The overall environment for public-private partnerships in the power sector requires substantial improvement, given confusion in roles, overlapping agency jurisdictions, and issues related to gas supply, civil construction, and tariff determination.<sup>75</sup>

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72. Parish, D. (2006).

73. International Atomic Energy Agency, Pakistan (2020).

74. Parish, D. (2006).

75. Malik, (2022).

The reduction of gas reserves has made the government cautious about committing gas supplies to power projects for their entire lifecycle, affecting gas-based thermal projects. Investors also bear risks related to cost escalations in hydel projects. Tariff disputes extend to the wind energy sector, leading to project cost revisions and decreased investor interest. Additionally, exclusive franchise rights of state-owned distribution companies (DISCOs) hinder private investment in the distribution sub-sector, and legal constraints limit the development of small-scale or localized distribution networks. These challenges underscore the need for a more favorable environment for private sector involvement in Pakistan's energy sector.

Electricity circular debt stands at a staggering Rs3,000 billion. Some projections indicate that this figure is set to climb even higher, reaching an alarming Rs4,000 billion within just one year. It is surmised that this exponential growth will not only exacerbate the financial strain on the energy sector but also pose a grave threat to the overall economic stability of the nation.<sup>76</sup>

## **5.2 Financial Challenges beyond Power Sector**

The two Sui companies, Sui Northern and Sui Southern, are on the verge of technical bankruptcy. The percentage of unaccounted-for-gas (UFG) approaching 20% is mind-boggling. It means that approximately 20% of the gas supplied is lost due to theft, leaks, or other inefficiencies in the distribution system. The circular debt within the gas sector is now approaching Rs. 3,000 billion.<sup>77</sup>

The principal circular debt within the gas sector is Rs. 2.1 trillion and annual sector losses are of Rs. 350 billion. Issues with buying liquefied natural gas (LNG) at a higher cost and selling it domestically at a lower price are highlighted.<sup>78</sup>

76. Dr. Farrukh Saleem (10<sup>th</sup> march, 2024)

77. Ibid.

78. The News (December 14, 2023), Gas tariff increase fails to cut Pakistan's Rs2.8 trillion circular debt pile.

Pakistan State Oil (PSO) is struggling ever increasing circular debt dilemma, as its receivables have soared to an unprecedented Rs. 800 billion. PSO's debt problem has surged since venturing into the liquefied natural gas (LNG) market, further complicating its financial woes?<sup>79</sup>

### 5.3 Other Challenges

**Inefficiency and Bureaucratic Red Tape:** One of the primary challenges faced by SOEs in Pakistan is inefficiency. These entities often suffer from bloated bureaucracies, red tape, and a lack of innovation. The bureaucracy is known for being slow-moving and resistant to change, hindering the agility and responsiveness required for effective operations. This inefficiency results in financial losses and substandard service quality.

**Political Interference:** Undue political interference in SOEs has long been a contentious issue. Appointments, decisions, and policies within these enterprises are often influenced by political considerations rather than sound business practices. Politicians use SOEs as tools to gain political mileage, leading to decisions that may not be in the best interest of the enterprises or the public.

**Corruption:** Corruption remains a pervasive problem in Pakistan, and SOEs are not immune to its effects. From kickbacks and embezzlement to favoritism in procurement, corruption erodes the financial health and integrity of these enterprises. It further compounds their inefficiency and undermines public trust.

**Financial Burden:** Several major SOEs in Pakistan, such as Pakistan Railways and PIA, consistently operate at a loss, necessitating substantial government subsidies. These financial burdens strain the national exchequer, diverting funds that could be allocated to more pressing priorities, such as healthcare and education.

**Judicial Activism:** Judicial activism involves the judiciary's review of government decisions to privatization. When the judiciary exercises its authority to review and potentially overturn government decisions, it led to delays and disruptions in privatization efforts. If the court finds fault with the decision-making process, it may require the government to revisit.

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79. Dr. Farrukh Saleem (10<sup>th</sup> march, 2024), Privatization.

**Political Instability and Opposition:** Political instability and frequent changes in government disturb the privatization process. Different governments may have varying priorities when it comes to privatization. Opposition from political parties and interest groups, particularly in sectors with strong unions, has led to delays and hesitancy in pursuing the sale of state-owned assets.

**Global and Domestic Economic Conditions:** The economic environment significantly influences the success of privatization efforts. Pakistan faced economic challenges such as inflation, fiscal deficits, and balance of payments issues during this period. These factors might have discouraged potential investors from participating in privatization.

**Valuation of Assets:** The valuation of state-owned assets is often a contentious issue. If assets are undervalued, the result in lower-than-expected revenue, as investors may not find the assets attractive. On the other hand, over-valuation may discourage potential investors due to the high asking price.

**Labor Concerns:** Resistance from labor unions and concerns about potential job losses and changes in employment conditions disturb privatization plans and lead to protests and strikes.

**Public Perception:** Public perception of privatization, including concerns about increased prices or the loss of access to public services affect the willingness to privatize and the revenue generated.

**Investor Appetite:** The willingness of potential investors to participate in privatization efforts plays a crucial role. If investors are not interested in the sectors or assets being privatized, it generates result in lower revenues.

**Government Capacity:** The capacity and efficiency of the government's privatization agency to manage the process effectively also impact the outcome. Inefficiencies in the privatization process led to delays and complications.

## 6. Policy Analysis

### 6.1 Donor Impact

The World Bank report “Reforms for a Brighter Future: Time to Decide” highlights that Pakistan’s tax-to-GDP ratio has a declining trend, and the tax collection was a mere 19.4% of GDP against a tax capacity of over 22% of GDP in fiscal year 2022. The decline in tax-to- GDP ratio is closely linked to the raise

in tax expenditure at the federal level, these expenditures rose from 1.3% of GDP in fiscal year 2016 to 2.7% of GDP in fiscal year 2022. The raise in the tax-to-GDP ratio is a common refrain of donors and international institutions, indicating that it is a frequently cited reason for privatization. However, the fiscal challenges and inefficiencies within state-owned enterprises (SOEs) have more significantly contributed to the decline of Pakistan's fiscal health while donor pressure might be a factor, the internal fiscal issues within the country, including losses incurred by SOEs, make privatization a valid solution. The idea of increasing the tax-to-GDP ratio not fogged but shown that the inefficiencies within SOEs and their financial burden on the government are more pressing reasons for privatization:<sup>80</sup>

## 6.2 Wild Expenditure and loss of Taxes

The government spending has become inefficient and resources are being allocated to non-productive agencies and wasteful projects. There is a perception of inefficiency and a need for better fiscal management. The primary focus should be on the losses incurred by state-owned enterprises (SOEs) and the financial burden they impose on the government budget. The losses of state-owned enterprises (SOEs) have accumulated to Rs2.5 trillion (equivalent to \$8.8 billion). Pakistan International Airlines (PIA), which has accumulated losses exceeding Rs. 600 billion. These figures represent a significant portion of government expenditure that has incurred losses and financial burdens since 2023. (*Annex-8*).<sup>81</sup>

## 6.3 Fall from Profit Making Entities to Liabilities/ SOE Deterioration

The worry about how well SOEs are doing financially over the years is clear. In the year 2013-14, when we have data on all SOEs, they made a total profit of Rs. 204 billion. But in the following year, that profit dropped to Rs. 61 billion, and after that, they started making losses every year. Since the fiscal

80. World Bank (2024), Reforms for a Brighter Future: Time to Decide.

81. Federal Budget in brief 2023-2024, Government of Pakistan, Finance Division Islamabad.

year 2015-16, SOEs have been consistently losing money, which puts a big strain on the government's finances (*Annex-9*).<sup>82</sup>

#### 6.4 Current Government Strategy

The Federal Minister for Privatization and Board of Investment, Abdul Aleem Khan, immediately after taking the charge, pointed out that institutions incurring losses are significantly harming the economy, comparing their effect to that of termites depleting the nation's financial resources year after year without any effective remedy. He specifically mentioned Pakistan International Airlines (PIA) and its substantial five-year deficit of Rs. 500 billion as an example. Khan firmly believed that privatizing these entities was not up for debate but rather an essential action for the economic survival of the nation. He emphasized the need for immediate and decisive measures, particularly concerning the Steel Mills, and noted the country's capacity to draw investment from both domestic and international sources, underlining the importance of leveraging these opportunities. Khan called for the privatization of 15 to 20 institutions to address the current economic issues.

Furthermore, Abdul Aleem Khan presided over a meeting with financial consultants to discuss the strategy for selling off Pakistan International Airlines Corporation Limited (PIACL). The meeting, which included a team led by Earnest & Young, focused on the progress and planned approach for PIACL's privatization, specifically the restructuring and division strategy that the cabinet has endorsed.<sup>83</sup>

Previously, the caretaker Minister of the Privatization Commission echoed similar intentions, asserting that postponements in these privatization efforts could escalate financial expenses, adversely affecting the country's economy through an increase in the fiscal deficit and inflation. He further clarified that the caretaker government of 2023 had not introduced any new entities to the privatization roster. These entities were pre-selected by democratically elected

82. State-owned-Enterprises Triage Reforms and Way Forward (2021).

83. The News (15<sup>th</sup> March, 2024). Aleem urges immediate privatization amid economic challenges.

administrations after meticulous evaluation. Over time, Pakistan's State-Owned Enterprises (SOEs) have shifted from being profitable to becoming burdens, a change attributed to inefficiency, poor management, unproductive initiatives, and the absence of competition from the private sector.<sup>84</sup>

## 6.5 Antagonists' Approach

Albeit now, the emphasis is on privatization of sick units and ill-performing SOEs, some experts have their apprehensions pertaining to the privatization process and modus-operandi. In the past the privatization process was murky and shady, at times. A few examples and arguments given by them are as below:

### 6.5.1 Post Privatization Performance Result-Lessons Learnt

At least 16 SOEs were closed down after privatization during the previous regimes. In most of the cases, the private buyers had no intention of reviving or running these former State-Owned Units, even when they had committed to it under the Privatization Agreements with the GOP. Their interest was in grabbing the highly valuable vast land areas for selling off as prime commercial real estate, and machinery and the Stock in trade to make a quick buck and transfer that booty to Foreign/ Off-Shore destinations.<sup>85</sup>

### 6.5.2 Private sector is as prone to Failure as the Public sector

In 1998, a study conducted by the Asian Development Bank assessed the performance of 79 SOEs after privatization, which showed that only 16 Units of 79 were performing better than before, while in the case of the 38 Manufacturing Units privatized, 16 Units were performing worse than when under the State.<sup>86</sup>

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84. Business Recorder (21<sup>st</sup> September, 2023). privatization as the way out of current impasse.

85. Tahir, P. (2014). Economic and social consequences of privatization in Pakistan. Friedrich-Ebert-Stiftung.

86. Study by the Asian Development Bank, 1998.

### 6.5.3 The Highest Bidder is not necessarily the Best Manager

The privatization of State-Owned Engineering units often saw the highest bidder acquiring assets without demonstrating significant performance improvement or possessing the necessary technical and managerial expertise. The government's eagerness to privatize these valuable state assets without proper evaluation raised concerns about safeguarding public assets and acting in the best interest of the people. Official records, including Departmental Inquiries, Feasibility Reports, and documents from the National Assembly of Pakistan, highlight these issues.

### 6.5.4 Dubious Privatization Process

The profit-making Kot Addu Power Company (KAPCO) and Pakistan Telecommunications Limited (PTCL) were also placed on the list of privatizations. Based on cheap gas, the KAPCO was the largest thermal power generating unit. The management was handed over to a minority shareholder who sold power to the WAPDA at twice the rate it was generating itself. Already the private power projects set up under the 1994 power policy had raised the cost of producing electricity due to dependence on imported furnace oil. Subsequent privatization of gas-based KAPCO and thermal based Karachi Electric Supply Company (KESC) had to be given the same high tariff.<sup>87</sup>

### 6.5.5 Slack Post-Privatization Monitoring Mechanism/ Post-Privatization Oversight

Many buyers of SOEs have violated the agreements of sale. For example, the Arif Habib Group, who bought Javedan Cement Limited for a throwaway price in 2006 along with two special conditions that:

1. The Industrial unit would be commercially revived; and
2. A Power plant of 100 MW Electricity would be installed.

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87. Ibid

The Privatization Commission or Ministry of Finance did not consider it their responsibility to ensure that critical terms of the privatization agreement were being followed or not. The media exposed the blatant violations by the Private buyer, Arif Habib that he had converted the Javedan cement's thousands of acres land for mining purposes into a massive gated commercial housing society, instead of reviving the cement plant or establishing the power plant, etc.<sup>88</sup>

### 6.5.6 Does Privatization lead to Reduction of Fiscal Deficit?

The effectiveness of privatization in Pakistan as a strategy to decrease the fiscal deficit is debatable. Proponents might argue that privatization diminishes public and fiscal debt by shifting assets to the private sector. However, in practice, privatization can lead to job losses and decreased tax revenues, as private entities might engage in tax evasion tactics. This, in turn, can lead to a marked decrease in the government's income across different tax domains. Consequently, the belief that privatization inherently reduces fiscal debt is often viewed as unfounded.

### 6.5.7 Efforts for Revival of sick SOEs

The SOEs in Pakistan can be revived and made profitable through firm political decisions and strategic measures. Drawing examples from China, Turkey, and Malaysia, emphasizes on the need for SOEs to contribute a percentage of their profits to government socioeconomic welfare programs, including education, health, and vocational training. Additionally, appointing CEOs and managing directors for SOEs through a transparent process involving public advertisements and independent commissions to ensure leadership with successful organizational experience.

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88. JVDC: stock Quote from Javedan Corporation Limited

## 7. Conclusion

The extensive overview of SOEs in Pakistan, their historical journey from profitable entities to significant liabilities, and the ongoing and proposed privatization efforts shed light on a complex economic and political landscape. The shift of SOEs into financial burdens, attributed to inefficiencies, mismanagement, and corruption, highlights the urgent need for strategic reforms. While privatization is advocated as a solution to alleviate fiscal pressure and enhance service efficiency, it presents its own set of challenges, including concerns over asset valuation, labor implications, and ensuring the protection of national interest. It requires a pragmatic approach, considering the unique circumstances of each SOE. A case-by-case assessment is essential, avoiding a one-size-fits-all solution. Divestment should be considered with safeguards, and strategic nationalization may be warranted in critical sectors. Accountability, transparency, and capacity building are crucial for successful SOEs management. Continuous monitoring and evaluation will ensure long-term sustainability. Moreover, there is an apprehension that privatization may cause potential loss of tax revenue and the significant annual profits generated by existing SOEs. It may also expose the national economy to global economic shocks.

In short, the state of SOEs in Pakistan necessitates a balanced, informed approach to privatization that carefully weighs its economic benefits against the potential socio-political costs. It emphasizes the importance of strategic, accountable, and transparent governance practices in the management and reform of SOEs to ensure their sustainable contribution to Pakistan's economic landscape.

## 8. Recommendations

- I. **Strategic Privatization Approach:** Policymakers should adopt a strategic and selective approach to privatization, identifying entities where privatization could yield tangible benefits in efficiency and service quality without compromising national security or public interest. An in-depth and comprehensive case by case analysis and review be carried out for not just each SOE earlier short-listed for privatization, but also for each of their subsidiaries, in order to decide whether to pull out from the list, at least those SOEs that were likely cases of successful revival after sound restructuring under Foreign Joint ventures or as stand-alone units.
- II. **Formation of Task Force:** A "National Task Force (NTF) on Revitalization of Public Sector Entities (PSEs)" should be formed with the mandate to transform these entities into profitable and sustainable ventures. The NTF may consist of Sectoral Business Development Teams (SBDTs) divided by economic sectors, responsible for proposing new product lines and business development ideas for each SOE and its subsidiaries. The head of the NTF should have the authority to seek professional advice from independent economic experts to ensure the proposals align with national interests.
- III. **Unlocking the Potential:** NTF can also make recommendations to unlock the tremendous business and commercial potential hidden within the vast chunks of valuable land areas attached with many of these SOEs, section-42 companies and their subsidiaries. The task force may draw on the expertise of international firms and national economists to provide genuine analysis and advice for course corrections regarding Pakistan's privatization drives.

- IV. Public-Private Partnerships:** It is prudent to explore PPP models as alternatives to full privatization, allowing for shared investment, risks, and benefits while maintaining a degree of public control over essential services. A cautious approach, suggesting a selective injection of additional investments and technologies within specific SOEs should be employed. Rather than completely privatizing these entities, options like foreign joint ventures, public-private partnerships, or selling shares to the public should be explored.
- V. Care and Caution:** As SOEs fulfill social responsibilities, provide jobs, and ensure welfare of citizens, a more cautious approach, introducing measures for transparency and effective service delivery within the state-owned sector rather than wholesale privatization, may be considered. There is need for strengthening the economic base through strategic state ownership.
- VI. Safeguarding Employee Interests:** Developing comprehensive frameworks to protect the interests of employees affected by privatization, including retraining and redeployment programs, to minimize social and economic disruptions.
- VII. Transparent and Competitive Bidding Process:** Implementing transparent processes for privatization, including competitive bidding, to ensure fair valuation and selection of competent entities capable of enhancing the operational efficiency of SOEs. There is a need for proactive and meaningful roles of the AGPR (Accountant General of Pakistan Revenues) and administrative ministries as oversight bodies. They should offer timely advice for course correction to state-owned enterprises (SOEs) when needed. While advocating for the independence

of SOE managements and boards in making commercial decisions, calls for accountability for any deviations from merit or applicable regulations and laws.

**VIII. Fiscal Responsibility and Debt Management:** Addressing the fiscal challenges posed by SOEs through prudent financial management, reducing reliance on government subsidies, and strategically using proceeds from privatization to reduce national debt and fund critical social and infrastructure projects.

**IX. Retaining Majority Ownership:** Where possible, the government should retain majority ownership (51% or more) of SOEs and invite major foreign and local business-industrialist groups to purchase a significant portion of the remaining public shares along with management. Drawing inspiration from successful models in China and Malaysia, where SOEs contribute to profits and socioeconomic uplift, the need for competent leaders and managers in Pakistan. The key challenge lies in the government's willingness to tackle corruption and appoint a reputable individual to spearhead the national revival of SOEs, transforming them into a profitable and well-integrated industrial network.

**X. Review and Revise Policy:** The Privatization Policy of 1994, with its multifaceted objectives and commitment to transparency, holds significant potential for enhancing economic efficiency and competitiveness in Pakistan. It is recommended to continually assess the policy's implementation, ensuring that its core principles are adhered to in practice. Regular reviews should be conducted to gauge the impact of the policy on economic growth, investment, and debt reduction.

- XI. Enhanced Regulatory Frameworks:** Strengthening regulatory bodies to ensure they can effectively oversee and regulate privatized entities, safeguarding consumer interests, and preventing monopolistic practices. This significant development in the form of the Privatization Commission (Amendment) Ordinance 2023 necessitates vigilant observation of its practical implications. Stakeholders are advised to closely monitor the functionality of the newly established tribunal, ensuring efficient handling of privatization cases. Timely resolution of challenges to tribunal decisions is paramount. Staying abreast of subsequent developments arising from this amendment will be crucial for all concerned parties.
- XII. Monitoring and Evaluation:** Establishing robust mechanisms for the post-privatization monitoring of performance, compliance with regulatory standards, and adherence to the terms of privatization agreements to ensure long-term success and public accountability.

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## 10 Annexures

### *Annex-1*

#### Privatization Policy 1994

- Privatization is a feature of overall economic programme for deregulation and liberalization of economy.
- The programme should be flexible.
- The programme will lead to effective management of domestic industry, greater domestic investment and economic growth.
- The Government's endeavour would be to use privatization process to mobilize savings both domestic and international.
- The programme is designed to enable the state to liberate itself from micro management of the enterprises and provide budgetary support to loss making units.
- The policy envisages creating a mechanism for debt reduction.
- The aim of the policy will be to generate funds that provide balance of payments relief, improve forex reserves and retiring of foreign debt.
- During the privatization process, the Government would ensure improvement in operational efficiency, expansion and capacity building for utilities to keep up with growing demands and to improve Quality of Service.
- Efforts will be made to harness the resources of domestic private sector, foreign entrepreneurs as well as international financial intermediaries to support the privatization programme. Attempt to draw upon the experience, expertise and financial support of the multilateral agencies.
- Monopoly be disbanded.
- Rights of the workers be safeguarded.
- Above all, the privatization process be made transparent.

## Annex-2

**Table 1: Detail of Projects Established and Disinvested/ Transferred by the PIDC to the Private Sector.**

Sr. No.	Name of the Project	Year of Establishment	Year of Transfer/ Disinvestment	Name of Party to Whom Transferred	Total Investment at Time of Transfer (Rs. in Million)
1	Kohinoor Sugar Mills Limited	1955	1960-61	Kohinoor Textile Mills	12.5
2	Charsadda Sugar Mills Limited Charsadda	1956	1964	Khan of Hoti Group	15.35
3	Bawany Sugar Mills Limited Badin	1962	1964	Bawany Group	15
4	Banno Sugar Mills Limited Banno	1964-65	1984	M/S. Banzara	10.19
5	Sethi Straw Board Mills Limited Rahwali	1955	1961	Sethi Bros. Limited	11.5
6	Adam Jee High Grade Board/Paper Mills, Nowshera	1955	1956	Adam Jee Industries Limited	18.4
7	D.D.T. Plant, Nowshera	1955	1956	Adam Jee Industries Limited	3.02
8	Adam Jee Chemical Works Limited, Nowshera	1955	1956	Adam Jee Industries Limited	2.6
9	6 Model Cotton Ginning Factories	1956	1 in 1961-62, 4 in 1963-64, 1 in 1965-66,	Different Parties	4.25
10	Banno Woolen Mills Limited	1953	1965	M/S Janana De Malucho	5
11	Crescent Jute Products Limited Jaranwala	1962	1964	Crescent Group	22.5

Source: PIDC

## Annex-3

Table 2: Whole sale Price Indices of the selected Products.

Year	Vegetable Ghee	Fertilizer	Cement	W.P.I.
1990-91	100	100	100	100
1991-92	105.52	109.71	108	109.84
1992-93	123.78	113.37	114.13	117.92
1993-94	151.04	153.7	137.61	137.26
1994-95	205.9	178.99	169.92	159.22
1995-96	208.27	198.95	166.18	176.9
1996-97	224.41	247.69	200.32	199.92
1997-98	241.78	256.19	212.05	213.08

Source: *Ibid* page 60.

## Annex-4

Table 3: Performance of SOEs after Privatization

Industry	Better	Same	Worse	Total
Public Manufacturing Enterprises.	9	13	16	38
Misc.	3	10	1	14
Ghee Mills	2	12	5	19
Rice Mills	2	-	6	8
Total	16	35	28	79
<b>Percentage</b>	<b>20</b>	<b>44</b>	<b>35</b>	<b>100</b>

Source: *ADB Report October 1998.*

## Annex-5

Period	GDP	Investment	Employment
Average Growth Rate			
Pre-Privatization (1986-87 to 1990-91)	5.44	5.55	2.05
Post-Privatization (1992-93 to 1996-97)	4.15	1.82	2.35
Compound Growth Rate			
Pre-Privatization (1986-87 to 1990-91)	5.44	5.49	2.00
Post-Privatization (1992-93 to 1996-97)	4.13	1.76	1.39

*Source: Pakistan Economic Survey*

## Annex-6

Industries	Percentage Selecting for Golden Handshake	Percentage of Bid Value Used in Golden Handshake
Automobiles	38.00%	12.89%
Cement	36.10%	11.05%
Chemicals	70.80%	15.06%
Fertilizer	10.50%	0.70%
Engineering	77.50%	51.05%
Ghee Mills	74.30%	56.13%
Rice	93.30%	39.02%
Roti Plant	99.10%	25.88%
Newspapers	100.00%	191.00%
Miscellaneous	97.30%	533.70%
<b>Total</b>	<b>63.30%</b>	<b>24.35%</b>

*Source: Privatization Commission*

Annex-7

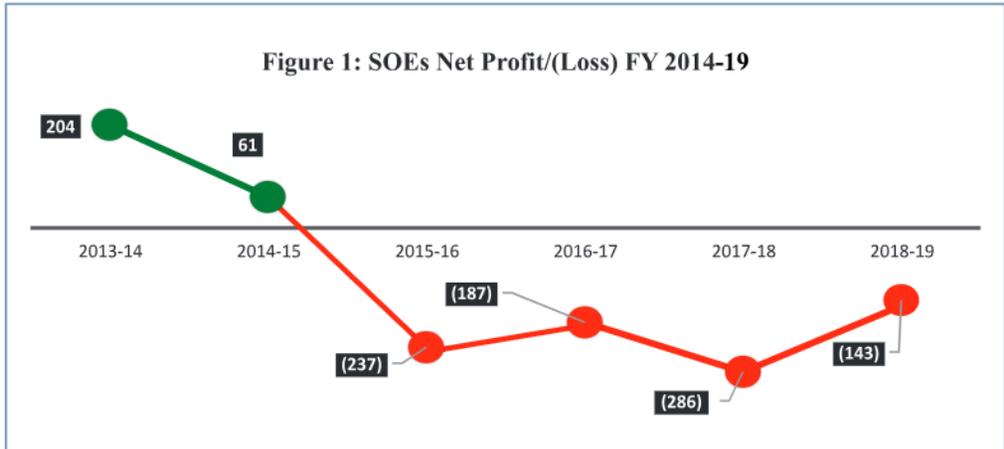
Generating Unit	MW
KAPCO	MW
Combined Cycle 14, 9 and 10	624
Gas Turbines 58	400
CC Unit 11 and 12	200
Gas Turbine 13 and 14	264
<b>Total</b>	<b>1488</b>

Annex-8

RESOURCES		EXPENDITURE	
Tax Revenue (FBR) - Federal Consolidated Fund	9,415	A. Current	13,344
		Interest Payments	7,303
Non-Tax Revenue	2,963	Pension	801
		Defence Affairs and Services	1,804
a) Gross Revenue Receipts	12,378	Grants and Transfers to Provinces and Others	1,408
b) Less Provincial Share	5,399	Subsidies	1,064
I. Net Revenue Receipts (a-b)	6,979	Running of Civil Govt.	714
II. Non-Bank Borrowing	1,906	Provision for Emergency and others	250
III. Net External Receipts - Fed. Consolidated Fund	2,724		
IV. Bank Borrowing (T-Bills, PIBs, Sukuk) - Fed. Consolidated Fund	2,860	B. Development and Net Lending	1,140
V. Privatization Proceeds - Fed. Consolidated Fund	15	Federal PSDP	950
Total (II + III + IV + V)	7,505	Net Lending	190
<b>TOTAL RESOURCES (I to V)</b>	<b>14,484</b>	<b>TOTAL EXPENDITURE(A+B)</b>	<b>14,484</b>

*Source: Government of Pakistan, Finance Decision*

Annex-9



Source: Finance Division

## National Institute of Public Policy (NIPP)

The National Institute of Public Policy (NIPP) is an integral unit of National School of Public Policy (NSPP), and acts as a "Think Tank" for the federal government. It is the principal research arm of NSPP. With the team of its own researchers and in collaboration with its partner institutions, NIPP provides research-based policy advice to Federal Government on matters of public policy and advises it on the issues of policy significance referred to it.

### Vision

An internationally recognized public policy research institute, acting as an independent think tank of the Government of Pakistan and a hub for public policy research in/on Pakistan.

### Mission

NIPP's Mission is to improve the quality of public policy decision making and service delivery by creating fresh knowledge and evidence and continuously improve the data, information, and communication management systems on key public policy issues in Pakistan.



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