FRIEDRICH EBERT STIFTUNG

ECONOMY OF TOMORROW

Economic and Social Consequences of Privatisation in Pakistan

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- The Government of Pakistan has embarked on a fresh programme of privatisation of state owned enterprises and properties for reducing public sector debts and fiscal deficits. The government expects that the privatisation process will increase the efficiency of all economic sectors by invoking private sector's technical competence.

- The decision has raised questions on privatisation as an over-relying option to overcome structural challenges in economy and governance. Drawing on murky experiences of recent past, nationally and globally, analysts have expressed reservations on the motives of privatisation as a viable policy option or imposed conditionality of international lending institutions. The concern has also been pointed on the visible lack of political and social consensus on privatisation due to involvement of cross-cutting stakes and ownerships within the Federal structures as well as in society and industrial relations partners.

- The paper disputes the merits of the privatisation policy by reviewing its performance in the past and explains that consequences of mere ownership swap from public to private sector failed to achieve the desired objectives of reducing fiscal deficits and debts, enhancing efficiency of the privatised firms, improving regulatory mechanisms, increase in investment, employment, social expenditures and reduction of poverty. It warns the adverse fallouts of the repetition of policy on existing and future opportunities for decent jobs, labour market governance including workers' rights and working conditions as well as living and operational costs for consumers and economy.

- Opposing disposing public assets to reduce public debt burdens, the paper stresses focused attention by the government on inevitability of enhancing revenues through broadening equitable tax base, removing management deficiencies in public sector enterprises and improving the role of regulatory bodies. The paper advocates vigorous role of elected representatives to examine the needs of privatisation while upholding the economic and social wellbeing of the people as citizens, workers and consumers.

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ACRONYMS

BESOS	Benazir Employees Stock Option Scheme
CCI	Council of Common Interests
CCOP	Cabinet Committee on Privatisation
EoT	Economy of Tomorrow
EOBI	Employee Old Age Benefit Institutions
FES	Friedrich-Ebert-Stiftung
FRDL	Fiscal Responsibility and Debt Limitation
HBL	Habib Bank Limited
ILO	International Labour Organisation
IMF	International Monetary Fund
KESC	Karachi Electric Supply Company
KAPCO	Kot Addu Power Company
OECD	Organisation for Economic Co-Operation and Development
OGDCL	Oil and Gas Development Co. Limited
PSM	Pakistan Steel Mills
PPP	Pakistan Peoples Party
PIA	Pakistan International Airlines
PTCL	Pakistan Telecommunication Limited
PC	Planning Commission
PSE	Public Sector Enterprises
PML-N	Pakistan Muslim League (Nawaz)
PPL	Pakistan Petroleum Limited
SOE	State Owned Enterprises
SRO	Statutory Regulatory Order
UBL	United Bank Limited
WWF	Workers Welfare Fund
WADPDA	Water and Power Development Authority

FOREWORD

In 2013, the "Economy of Tomorrow" (EoT) project was established by the Friedrich-Ebert-Stiftung (FES) Pakistan office. In times of an instable economic environment both domestically as well as internationally, FES set up a platform for debating economic policy challenges. The aim of this new working line is not only to analyze the past performance and to properly understand the current situation, but also to develop proposals for achieving a more inclusive economic growth model. In the context of the predominant neoclassical paradigm, the project started on the conviction that an alternative narrative is needed in order to form new alliances including a wide range of different stakeholders. Beyond the important academic basis and the relevant policy debates, the "EoT" project also seeks to connect economic thinking to a broader normative vision which is lacking in common perceptions about the economy: the "Good Society" with full capabilities for all.

After creating the basic understanding of economic policy challenges for Pakistan in the "EoT country study" in early 2014, we decided to focus on a number of core policy areas for developing a progressive reform agenda. One key area is the role of the state vis-à-vis the private sectors in the economy. Should the state confine its role only to regulate the economy by divesting public assets and enterprises to private sectors or must it continue to undertake activities that provide public goods, services and ensure livelihood of working people and public ownership of key strategic sectors? The present government announced the privatisation policy which generated discussions and discontents on its merits. The study analyses impacts of the policy on prospects of inclusive growth by evaluating the past experience of privatisation with regard to the targeted performance objectives. It underlines the vital role of the state in ensuring public services and welfare, and advocates alternatives of fiscal policy and improving management of state owned enterprises.

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1. ECONOMIC AND SOCIAL CONSEQUENCES OF PRIVATISATION IN PAKISTAN

After the World War II, the role of an activist state was crucial in the development of developing countries. In general, the role was played through the strategy of import substituting industrialization. State owned enterprises were set up in key industries and finances were mobilized by controlling the commanding heights, the expression used for bank nationalization. In the eighties, the rollback of the state began under the influence of neoliberal policies which were prescribed first after the Latin American debt crisis and reinforced after the East Asian financial crisis. What came to be known as the Washington consensus set the course for privatisation, improved governance and market reform. The state had to be independent of elites by providing a regulatory framework for efficient markets. It had no business to own or manage businesses. In the international crisis that engulfed the OECD countries in the 2000s the state, though, played a different role.

The privatisation programme of Pakistan was started by the Martial Law regime of General Zia ul Haq, mainly as a reaction to the large scale nationalization in 1972-77. Before 1972, the policy was to set up industries in the public sector with the express objective of transfer to the private sector. During 1972-77, in addition to what were considered as basic industries, vegetable oil and agro-processing units, petroleum marketing companies, insurance and banking companies were also nationalized. Textiles, the largest industry, remained in the private sector and the foreign investment was not touched. The state also set up a large number of new fertilizers, cement, engineering and oil and gas units. General Zia ul Haq's government began with the privatisation of the small agro-processing units, a few hotels and the return of Ittefaq Foundries to its owners. Without a clear-cut policy, units were handed over in a non-transparent manner at throw away prices to those who had either supported the overthrow of the Pakistan Peoples Party (PPP) government or were the potential sources of support for the military regime. The quantum of privatisation remained limited, as the regime soon discovered that the state owned enterprises (SOEs) were a handy source of distributing patronage in terms of jobs, subsidies and retail and wholesale outlets to buy political support and legitimacy. The origins of the present refrain of SOEs bleeding public exchequer can be located in the period 1978-88.

In 1988, the democratic government of Benazir Bhutto adopted what eventually became the so-called Washington consensus – the policy of deregulation, liberalization and privatisation. The consensus took the role of the International Financial Institutions beyond economic stabilization: To govern best is to govern less; subsidies lead to inefficiency and waste; inflation is the worst enemy; and growth has to wait until the economy is restructured. Privatisation, statutory regulatory bodies and devolved local

governance would be the key elements of rules-based level playing field. The privatisation programme has gone through distinct phases: 1988-1999, 2000-2008 and 2009-todate. Starting with manufacturing units, followed by the financial sector units, the programme has moved into the capital intensive sectors of telecommunications and energy.

This paper looks at the stated objectives of the programme and the extent of their realization. It also analyses the intended and unintended consequences. The paper starts with an analysis of privatisation in 1988-2008 to draw a set of lessons. It then focuses on the privatisation programme since 2009 to see the extent of learning from lessons of the past. Following this empirical perspective, the paper turns to the economic, social and political costs of privatisation. Labour, the most affected party in any privatisation programme, suffers the burden of unemployment and weakening of its rights. These issues are discussed in a separate section. While a new pro-business government elected in 2013 is actively considering an extensive programme of privatisation based on its manifesto, the paper brings out the issues of transparency and the impact of international financial crisis to point towards a weakened consensus on privatisation. In the end, the emerging conclusions are summarized and a set of recommendations presented for the future course of action.

2. PRIVATISATION IN 1988-2008- A CRITICAL PERSPECTIVE AND LESSONS DRAWN

The PPP of Mr. Bhutto embraced the policy of deregulation, liberalization and privatisation when it returned to power in 1988 under his daughter, Benazir Bhutto. The key principle of its privatisation policy was to widen public participation by encouraging small savers to become shareholders in SOEs. Seven large SOEs in banking, aviation, shipping and oil and gas were shortlisted. With its tenure shortened, the government could only divest 10 per cent shares of the Pakistan International Airlines (PIA).

A massive privatisation programme was started by the first Nawaz Sharif government. It set up the Privatisation Commission in 1991, with its law stipulating that 90 per cent of the proceeds of privatisation would be utilized to retire debt and the remaining 10 per cent would be utilized on poverty alleviation. The case for privatisation was thus made on the basis of reducing fiscal deficit and debt and release of public sector resources for poverty alleviation. Additional arguments were made for better industrial performance and larger investment. Workers were told that privatisation would encourage further private investment which would boost employment. Secondly, the government undertook to pay for the golden handshakes for workers considering to opt out. Thirdly, the workers accepting golden handshake were assured job continuity for one year to look for alternatives. The period marked a shift in approach from the sale of shares to outright and quick sale of assets, mostly in the manufacturing sector. In 1992 alone, 47 units were sold. Earlier in 1991, two banks were privatized. In a bid to appease the workers and sell the idea of privatisation to public at large, the Allied Bank was cheaply sold to the employees. It had to be taken over by the State Bank due to poor performance, restructured and eventually privatized in 2004. Two-third shares of the Muslim Commercial Bank were sold at less than the profit earned soon after privatisation.

In its second stint in power, the Benazir government brought privatisation to the energy and telecommunications sectors. Departing from the policy of privatizing loss making units, the profit making Kot Addu Power Company (KAPCO) and Pakistan Telecommunications Limited (PTCL) were also placed on the list of privatisation. 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 Water and Power Development Authority (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 privatisation of gas-based KAPCO and thermal based Karachi Electric Supply Company (KESC) had to be given the same

high tariff. KAPCO recovered the money paid to the Privatisation Commission within two years. There was e significant increase in the tariffs for the consumer Industry was burdened with additional cost. By 1999, the tariff had risen to Rs 3.27 per kWh over the reference price agreed in 1994 at Rs 1.76. Between1991-2003, industry's share in the consumption of electricity declined from 36 per cent to 28 per cent. The shift was towards gas, which later contributed to shortages of gas.

The second Nawaz Sharif government managed the clearance of the Council of Common Interests (CCI) for the privatisation of SOEs falling in the Part II of the Federal Legislative List. So far the privatisation programme had ignored this Constitutional requirement. This government sold Habib Credit and Exchange Bank, now Bank Alfalah, to the Abu Dhabi group for Rs 2.2 billion. In the case of the United Bank Limited, the government had to arrange a massive bail-out of Rs 21 billion to prepare it for privatisation, an amount larger than the Rs 12.4 billion received for the sale of 51 per cent shares in 2002. Whatever remained of the private sector manufacturing, except for the Pakistan Steel Mills (PSM), was also privatized.

Big time privatisation took place in the Musharraf period spread over 2000-08. Compared to the hundred units sold for Rs 59 billion in 1988-99, 60 units were sold in 2000-08 for Rs 416 billion. These included capital intensive SOEs in the energy sector, manufacturing industries like cement, fertilizers, major banks and large capital market transactions. Most of the units were bought by the foreign investors including Pakistan's largest bank, the Habib Bank Limited (HBL), United Bank Limited (UBL), PTCL, KESC and National Refinery. Most of the manufacturing units were making profits as was the LPG business. Some major scandals also relate to this period. In the case of KESC, for instance, the unit was sold to a bidder different from the one selected. The buyers of Habib Bank were allowed concessions not announced in the public advertisement.

KESC had been incurring huge losses, financial as well as technical. The private owners were expected to be better managers, with the ability to mobilize new investment. The government sold 73 per cent shares for less than it paid to clear up KESC's dues in a patently non-transparent manner. The management did not improve, the losses continued and the KESC became a major link in the chain of mounting circular debt. As opposed to the loss making KESC, 26 per cent shares of the profit making PTCL were sold for $ 2.6 billion and the management was handed over before the receipt of the full payment. The buyer had withdrawn its bid and the top echelons of the government made special pleadings to bring back the buyer at his own terms. There is no significant change in terms of efficiency and the government dividend in its remaining shares has been falling

In addition, the irrationally agreed terms of the agreement denied the government the revenue from the sale of 3-G licenses until 2013. The UBL was not sold to the highest bidder. Indecent haste was shown in the case of the HBL, which was sold for Rs 22.4 billion after injecting Rs 18 billion of public money. Special rules were devised and informal understandings given to get rid of the oldest and the largest bank of the country.

Privatisation Programme of the Musharraf period ignored workers' rights. However, the non-transparent ways of the government were exposed by the workers when it decided to privatize the PSM. A financial restructuring plan implemented in 2000 revived the PSM. In 2005, the Privatisation Commission included it in list of units to be privatized. Based on discounted cash flow, the valuation of 75 per cent shares was placed at $348 million. The successful bidder would not have to worry about the cost of golden handshake for workers and loan liabilities, as these were to be picked up by the government. In addition, the private owner would get the entire stock in trade and refund of advance tax. Bids were invited quickly and nine of these were found in order. A consortium led by Arif Habib was declared the successful bidder. Pakistan Steel Peoples Workers Union filed a Constitutional petition under Article 184 (3), which was allowed by the Supreme Court. According to the Privatisation Commission Ordinance 2000, the High Courts exercise exclusive jurisdiction over privatisation. This had been done to protect privatisation from the delays and corruption typical of the lower courts. In reality, the move was necessary for the haste that became the hallmark of privatisation. But the Supreme Court had different ideas. A nine member bench headed by the Chief Justice gave a landmark judgment by invoking original jurisdiction in regard to Article 184 (3), which states: "Without prejudice to the provisions of Article 199,[1] the Supreme Court shall, if it considers that a question of public importance with reference to the enforcement of any of the Fundamental Rights conferred by Chapter I of Part II is involved have the power to make an order of the nature mentioned in the said Article." In its detailed judgment, the Supreme observed: "The whole exercise reflected indecent haste by the Planning Commission (PC) as well as the Cabinet Committee on Privatisation (CCOP) in that on 30th of March 2006 the final Report of the Financial Adviser is received, the officials of the PC process it on the same day, the meeting of the Board of Privatisation Commission also takes place the same day, and the summary is prepared the same day. The very next day i.e. 31st of March 2006, CCOP meets, considers the summary, fixes the reference price and authorizes the PC to approve the highest bid. This unexplained haste casts reasonable doubt on the transparency of the whole exercise."

[1] Article 199 relates to the jurisdiction of the High Courts

The first lesson drawn from the privatisation experience of 1988-2008 is that an ideological stance to privatize for the sake of privatisation is a recipe for disaster. Private sector is as prune to failure as the public sector. The difference is that the public sector has to act with social responsibility while the private sector only seeks profit. The society loses when both act irresponsibly. This is what happened in the case at least 16 SOEs which closed down after privatisation. In a number of these cases, the buyers had no intention of running units. Their interest was in the real estate, machinery and the stock in trade to make a quick buck. In others, especially the engineering units, the buyers did not have the requisite managerial and professional experience. As a matter of fact, the engineering units were nationalized precisely for this lack of capacity in the private sector. The highest bidder is not necessarily the best manager.

Secondly, even if privatisation does not lead to closure of units, the outcome is not necessarily in the form of greater efficiency and competition. A study by the Asian Development Bank assessed the performance of 79 units after privatisation. Table 1 presents the main findings. Only 16 units were performing better than before. In the case of manufacturing, 16 out of the 38 privatized units were performing worse than in the pre-privatisation period.

Table1. Post Privatisation Performance of SOEs.

SOEs	Better	No change	Worse	Total
Manufacturing units	9	13	16	38
Ghee mills	2	12	5	19
Rice mills	2	-	6	8
Miscellaneous	3	10	1	14
Total	20	44	35	100
Source: Asian Development Bank, 1998				

Thirdly, haste makes waste. This is illustrated by the experience of PSM. Since the judgment of the Supreme Court declaring the hastily drawn privatisation proposal non-transparent, the PSM has been running huge losses and the government bail-out amounts have far exceeded the reference price.

Fourthly, the argument about the SOEs bleeding the public exchequer is weakened when the golden handshake and the debt liability is assumed by the government. In many cases, the bid value exceeded the pay-outs for golden handshakes. The argument breaks down when profitable units such as the KAPCO are sold cheaply.

Fifthly, capital market transactions turned out to be profitable when carried out after a careful assessment of the market, domestic as well as international. However, the sale through brokers is not transparent as these shares land up with majority share holder, defeating the objective of wider share ownership.

Sixthly, the post-privatisation monitoring mechanism is weak and needs strengthening. Many buyers of SOEs have violated the agreements of sale. For example, a newspaper correspondent applied under the Right to Information Act to find out the status of the conditions imposed on the buyer of Javedan Cement Limited. It was sold at a throwaway price in 2006 on the condition that the sick industrial unit would be revived and a power plant of 100 MW electricity be installed. The Privatisation Commission had no information on it. The correspondent's investigation led him to discover that the industry had been converted into a housing society. Finally, the sale of existing assets does not increase total investment in the country. In case the buyers are foreigners, the outflows in the form of repatriation of profits have to be balanced against the one time addition to the foreign exchange reserves.

[2]Umer Cheema, The News, October 27, 2014

3. LESSONS OF PRIVATISATION PROGRAMME SINCE 2009

The PPP government elected in 2008 had a disastrous start. Even before announcing its privatisation policy, it made public the plan to privatize the Qadirpur Gas Field, the second biggest in Pakistan. Its revenue provides the Oil and Gas Development Corporation Limited (OGDCL) the means to drill new wells. Generally, the oil and gas reserves are considered strategic assets which must remain under national control. In Qadirpur's case, the foreigners were also allowed to bid. Foreign investment is desirable in prospecting, but offering established reserves would turn the investment away from prospecting. However, the government backed off in the face of fierce resistance from the employees. It announced a privatisation policy in 2009, which emphasized public private partnership, stock options for workers and management transfers by off-loading minority stake of 26 per cent. The list included, inter alia, electric supply companies, power generation units, insurance companies, railways and post office. The only lesson learned by the government was that gas units were not part of the privatisation list. Instead, the workers were made shareholders in SOEs. Under the Benazir Employees Stock Option Scheme (BESOS), the government distributed free 12 per cent of shares in unit certificates to 235,855 employees in 60 companies through Employees Empowerment Trusts. The total worth of these shares was over Rs 100 billion. However, banking sector, Pak-Arab Refinery Company, PTCL, Saindak Metals, the Pakistan Electric Power Company and the Pakistan Engineering Company were not covered by the scheme. On the whole, not much action was seen on the privatisation front. As a matter of fact, only one unit, Hazara Phosphate Fertilizers Limited was privatized for Rs1.34 billion.

In contrast, the third Nawaz government has announced a programme of privatisation, which even the IMF found ambitious. It accepts privatisation as a catalyst for economic recovery and a key feature in the creation of a liberal economic environment that fosters domestic and international investment. Under the $6.6 billion Extended Fund Facility with the IMF for three years, the government's agreed structural reform programme includes significant reduction of its stakes in SOEs and major privatisation transactions during the period of the programme.

The Policy repeats the objectives and does not reflect much learning from the failures of the past. One lesson learned relates to the continuity of policies, in this case, liberalization, deregulation and privatisation. The objectives of the policy include:

1. Improve operational efficiency and promote competition as private sector's technical efficiency is a pre-requisite to allocative efficiency and it improves relative efficiencies of all sectors

2. Reduce government's financial burden by reducing subsidies and the need for fresh debt and release resources for development

3. Strengthen the capital market by broadening and deepening its base

4. Safeguard the interests of the consumers by formulating a regulatory framework prior to divestiture, particularly in the case of utilities

5. Avoid concentration of economic power in a few hands and to secure widespread ownership of assets being divested.

6. Provide reasonable compensation to employees rendered surplus as a result of privatisation and help in their retraining for employment elsewhere

7. Creation of a conducive economic environment

8. Improve transparency of the privatisation process and remove regulatory uncertainty particularly in the utilities and infrastructure sectors.

The policy sees the privatisation process as transferring government property approved for privatisation by the Council of Common Interests in an open and transparent manner at the best possible price. From 152 in 1997, the list has been expanding. In 2006, 27 SOEs were added. Power sector SOEs were included in 2011. Before the new policy, the Privatisation Commission had carried out 167 full and partial privatisation transactions. A total of 69 transactions were listed for future privatisation. However, a priority programme has been chalked out for early privatisation of 32 SOEs. It comprises of entities in oil and gas, banking and finance, power, industries, transport and real estate (Annex I). Within these 32 SOEs, 11 were further prioritized as upcoming transactions (Annex II). In terms for learning from the past, the privatisation list avoids touching the gas producing units like Qadirpur. In implementation, the policy is also careful about SOEs employing large numbers. In addition to repeating the past promises of reasonable compensation and retraining, it is not yet showing any haste in starting the process of their privatisation. The lessons from the reaction of workers in the case of Qadirpur and the Supreme Court judgment in the case of PSM seem to have been absorbed by the Privatisation Commission, despite noting in the privatisation policy that litigation from losing parties and from public acts as a constraint. Thus, the PSM restructuring before privatisation has lacked lustre due to a slow release of resources by the government. In the case of Pakistan Railways, the Minister of Railways is on record having opposed privatisation. At any rate, no action is in sight. The undertakings given to the IMF in regard to PIA were to separate nonviable components under a separate Private Sector Enterprise (PSE) by end-December 2013, service the guaranteed past loans and apply a voluntary handshake plan for surplus staff and liquidate by end-June 2014. The structural benchmark was to off-load 26 per cent of PIA's shares to strategic investors by end-June 2014. None of this had happened by the agreed deadlines.

In the third review held in May 2014, while noting that the benchmark on appointing privatisation advisers was not fully met, the IMF mission stressed "stronger reform efforts in loss-making companies remaining in the public sector to improve resource allocation and limit poor performance." As a result, there were signs in July 2014 that the government would be starting the process of hiring a financial adviser. Interestingly, the successful consortium would be required to engage a communication strategy firm to manage the expectations of stakeholders, meaning workers and the opposition parties, particularly PPP, which was never interested in the privatisation of the PIA and the PSM. A new deadline was agreed with the IMF. The chairman of the Privatisation Commission has admitted that the sell-off of loss making SOEs is not going to be a "simple" affair, as these pose "serious political, labour, employees' rights and post-privatisation challenges." The Commission, it may be pointed out, was set up to relieve the exchequer of the losses imposed by these entities. The PML-N understands fully that perceptions matter. In its view public awareness has to be raised about the true costs to the government and the people in the shape of subsidies. Therefore, the emphasis has been on rationalizing the tariff structures to reflect the cost of service. The policy also emphasizes the need to do something to overcome resistance from vested interests and negative market sentiment. A communications strategy is seen as the answer.

While the government is at a loss to know what to do about the privatisation of the loss making PSEs, it has quickly moved to sell the minority shares of blue chip companies. The month of June 2014 witnessed a beginning in the capital market transactions. The first transaction related to the sale of the remaining 19.8 per cent shares of the UBL. The next transaction related to the Pakistan Petroleum Limited (PPL), which supplies 20 per cent of the natural gas in the country. Plans were announced for the OGDCL transaction in September and the HBL's transaction for December.

The UBL sale could have been made at a higher price if it was done individually and not as a block. The block was sold at a discount through a book building process. The process was thus seen as hastily conceived and lacking in transparency. The blocks are usually bought by the surrogates of the previously controlling shareholders, defeating the concept of widening the share ownership and preventing concentration of economic power. The oversubscription claimed in case showed that the price per share could have been higher. In this case, there were only eight buyers, despite the fact, often cited by the government ministers that the stock market has been doing quite well.

While the UBL offering was made under a relatively better business climate, the PPL offering of 5 per cent shares faced a tense law and order situation. However, the Privatisation Board went ahead to approve a discounted price on June 25, 2014. The policy of selling at a discount continued but the discount approved was lower than recommended by the financial adviser. However, the actual

transaction ended up with a premium above the market price. One-fifth of the shares were bought by individuals. The sale, it seems, was carefully crafted to respond to the criticism attracted by the sale of the UBL shares. However, there was no change in the book-building procedure of price determination.

An important factor weighing in on the investors in the case of OGDCL was the failure of the Government to take the provinces on board. According to Articles 153 and 154 of the Constitution, the Council of Common Interests "shall formulate and regulate policies in relation to matters in Part II of the Federal Legislative List and shall exercise supervision and control over related institutions." The Provinces and the Federal Government have equal representation on the Council and decision making is by majority rule. Part II of the Federal Legislative List includes railways, mineral oil and natural gas, electricity and related corporations. As noted above, the Council has cleared a broad list of units to be privatised. However, the provinces feel that they need to be consulted before a specific transaction and the proceeds should be shared with them. In the case of OGDCL, the parliamentarians belonging to the opposition PPP protested against privatisation inside and outside the Parliament, and expressed solidarity with the protesting OGDC: employees who were brutally attacked by the police. On its part, the PPP Government in Sindh stopped its pension fund from buying the shares. Similarly, the provincial government of Khyber Pakhtunkhwa had challenged the Federal Government's decision to privatise OGDC: in the Peshawar High Court and the court had issued an interim order. The Federal Government had to approach the Supreme Court to get permission to go ahead with the sale.

In the absence of effective regulatory framework, privatisation works against public interest. The trappings of this framework exist, but the performance leaves much to be desired. State Bank of Pakistan, the regulator of the financial sector, lacks the autonomy required for independent functioning. Securities and Exchange Commission and the Competition Commission are similarly handicapped. National Electric Power Regulatory Authority and Oil and Gas Regulatory Authority are also toothless and ridden by scandals. A serious problem is that the governance of the regulatory bodies is not in professional hands.

4. ECONOMIC, SOCIAL AND POLITICAL COSTS

Since the start of the privatisation programme in 1988, the country has seen decline instead of gaining in economic, social and political indicators. The economic costs have been reflected in the debt burden and fiscal deficit, the very problems that the privatisation law was aimed to address. The social costs are reflected in low development expenditure, low poverty related expenditure and rising poverty. The political costs are reflected in the increasing unrest in society and the rising threats to life and property.

According to the privatisation law, 90 per cent of the proceeds from privatisation should be utilized on debt retirement. The Fiscal Responsibility and Debt Limitation (FRDL) Act requires that the total public debt outstanding should not exceed 60 per cent of the GDP. Table 2 shows that the public debt has been under that threshold of 60 per cent only for 6 years during 2006-11. This was because of debt rescheduling and restructuring. Privatisation proceeds made little contribution. During the privatisation carried out by the two PML-N governments in the nineties, the outstanding debts stock reached the all-time high mark of 104.7 per cent of GDP. Privatisation proceeds have been treated as a nontax revenue receipt. That is why fiscal deficit stayed between 2.3 to 4.1 per cent in 2003-2007, the period when heaviest proceeds of privatisation were realized by the government of General Musharraf. For all other years, fiscal deficit was extremely high.

Table 2. Economic and Social Consequences of Privatisation (% of GDP)

Years	Public debt	Fiscal deficit	Total investment	Development expenditur	Poverty related expenditu	% of population below
1987	-	-	26	-	-	-
1988	-	9.0	21	7.0	-	29.2*
1989	-	7.0	21	6.0	-	-
1990	91.7	7.0	22	7.0	-	-
1991	-	8.8	26	6.4	-	26.1*
1992	-	7.5	25	7.6	-	-
1993	-	8.1	20	5.7	-	26.8*
1994	-	5.9	20	4.6	-	28.7*

1995	89.1	5.6	19	4.4	-	-
1996	-	6.5	19	4.4	-	-
1997	-	6.4	18	3.5	-	29.8*
1998	97.0	7.7	18	3.9	-	-
1999	104.7	6.1	16	3.3	-	30.6*
2000	87.9	5.4	17	2.5	-	-
2001	93.3	4.3	17	2.1	-	32.1* (34.4)**
2002	85.9	5.5	17	3.4	3.8	-
2003	79.3	3.6	17	2.4	4.3	-
2004	67.2	2.3	17	2.6	4.6	-
2005	62.5	3.3	19	2.7	4.8	23.9**
2006	57.2	4.0	19	3.4	4.9	22.3**
2007	55.2	4.1	19	3.2	4.9	-
2008	56.8	7.3	19	3.9	5.6	17.2**
2009	57.8	5.2	18	3.7	7.4	-
2010	59.9	6.2	16	4.2	7.5	-
2011	58.5	6.5	14	3.0	8.3	12.4**
2012	63.0	8.2	15	4.1	9.9	-
2013	62.7	8.0	15	5.0	-	-
2014	62.0	5.8	14	4.7	-	-

Investment, the critical driver of growth, has been falling under the regimes of deregulation, liberalization and privatisation. From 26 per cent of GDP before privatisation programme was initiated (1987), investment rate has crumbled to 14 per cent in 2013-14.There was a brief revival of investment rate under the first PML-N government in 1991 and 1992, a time when a spate of privatisations took place. The revival, however, was contributed by the public investment financed by extremely high fiscal deficits of 8.8 and 7.5 per cent. Fiscal deficit in 1991 was higher than the development expenditure, indicating borrowing for current expenditure as well. Keeping the fiscal deficit low, as happened during

the Musharraf period, meant lower development expenditure. In the region, Bangladesh and Sri Lanka have experienced investment rates of above 20 per cent. India, the growth leader, has recorded an investment rate of above 30 per cent.

In fact, the oft-repeated case for privatisation rests on freeing public resources from loss making SOEs to increase development expenditure for social sector and human development. It can be seen in Table 2 that development expenditure has fallen from 7 per cent of GDP 1988 to 4.7 per cent of GDP in 2014. It was even lower during the periods of massive privatisations, ranging between 3.3 to 3.9 per cent of GDP during the second PML-N government and 2.1 to 3.2 per cent of GDP during the Musharraf period. A major consequence of the declining development expenditure was the return of poverty to Pakistan, after declining for two successive decades in the seventies and the eighties. As Table 2 indicates, the headcount ratio began to rise in 1993, the last fiscal year of the first PML-N government, attained a new height of 30.6 per cent in the last year of its second term in 1999 and continued to rise until 2001. Since 2001, the poverty data has become controversial. In an attempt to provide economic legitimacy to the Musharraf government which had assumed power by staging a coup, his economic team fudged the poverty data to show a steep decline. To support the claim, poverty related expenditure began to be published. It was higher than the development expenditure as it included current expenditure also on expenditure heads defined as poverty related. The absurdity of the outcome can be judged by the untenable situation of Pakistan having achieved its poverty reduction Millennium Development Goal (MDG) in 2011, i.e. 4 years before the terminal year of 2015, despite lagging way behind in nearly all other MDG targets. It is interesting to note that the poverty related expenditure accelerated significantly after the elected governments took over in 2009, mainly because of the Benazir Income Support Programme. It was a programme of cash transfers to the poorest of the poor, whose number was perceived to have risen substantially, despite the falling poverty ratio shown by the official data. Ironically, no major privatisation happened during this period.

Among other things, the case for privatisation is made on the rationalization of prices as a result of improved efficiency and competition in the private sector. A study carried out in the nineties showed that the real prices of the products of privatized units had increased rather than decrease.[3] The products included vegetable ghee, with a high weightage in the common man's budget, and fertilizer and cement, which enter as inputs in the prices of a major items affecting the cost of living. Another study shows that the rate of increase was higher than the Wholesale Price Index, indicating a relatively greater contribution to the overall increase.[4]

[3] Kemal (1997)
[4] Khan (2012)

In addition to economic and social costs, there are important political costs associated with the privatisation programmes. The mantra of the autonomy of the state from the elites was a mirage. Effectively, it meant relative autonomy from the interests of workers and ordinary consumers. Economic policy making continued to be a matter of rent seeking between contending interests. In this context, privatisation was privatisation of state assets for the private parties by the private parties.

5. LABOUR EMPLOYMENT AND WORKERS' RIGHT

Labour is the most directly affected class under any privatization drive. Under Article 3 of the Constitution, the state is committed to "ensure the elimination of all forms of exploitation and the gradual fulfillment of the fundamental principle, from each according to his ability, to each according to his work." According to Article 17(1), "Every citizen shall have the right to form associations or unions, subject to any reasonable restrictions imposed by law in the interest of sovereignty or integrity of Pakistan, public order or morality." In terms of Article 37(c), "The state shall make provision for securing just and humane conditions of work." Pakistan has ratified 36 International Labour Organisation (ILO) conventions and is a party to numerous international treaties guaranteeing workers' rights. In practice, 33 ILO conventions are in force. The rights of workers and the amount of work itself have suffered setbacks after setbacks since the advent of deregulation, liberalization and privatization. Minimum wage is announced, but not necessarily enforced. It is far below the decent living threshold and varies across the country. Factory inspections are banned in many areas in the name of better investment climate, leading to unsafe and healthy working environment. Most workers are informal, without a written contract. Social security coverage is limited. In 2012, the number of beneficiaries of Employees Old Age Benefit Institutions (EOBI) was 365,913. Similarly, the number of beneficiaries of Workers Welfare Fund (WWF) was 21,775.[5] Unions have become weaker over time and most work is outsourced to contract employees. Total registered trade unions numbered 7,382 in 1999. In 2008, the number declined to 6,793, out of which only 1,209 were reporting for data. The total membership of the reporting unions was 245,383, only 1.8 per cent of which were women.[6] Total labour force recorded in 2008 was 51.78 million, out of which 15.60 million was urban.[7] An official child labour survey conducted in 1996 found 3.3 million children aged 5-14 years working full time. No new official survey has been carried out. The latest *Labour Force Survey 2012-13* shows 4.18 per cent of the employed persons in the age group of 10-14 years, which in absolute terms works out at 1.8 million.

Labour as a subject has been fully devolved to the provinces after the 18th Constitutional Amendment. The provincial governments are still struggling with the problems of transition. With this state of labour governance, and a declining economy, privatisation makes life extremely hard for the working class. Over-employment in the SOEs is stated as one of the main reasons for privatisation. If governments run employment programmes rather than managing the SOEs in public interest, the fault does not lie with the worker. They are only A pawn between changing governments. All privatisation programmes promised to protect the interests of the workers. First, the workers were

[5]Ministry of Finance, Government of Pakistan, PRSP Progress Report 2011-12.
[6]Pakistan Bureau of Statistics, Pakistan Statistical Year Book 2012
[7]Pakistan Bureau of Statistics, Labour Force Survey 2007-08.

promised golden handshakes and one year continuity in job while they looked for alternatives. In the nineties, around 63 per cent of the workers accepted golden handshakes and many continued on contract in the same units. The government was so keen on privatisation that the amount of golden handshake exceeded the bid value of the units. Private sector neither paid for golden handshakes nor created new decent jobs. There were some exceptions, such as the Muslim commercial Bank, which had more employees after the privatisation. Second, workers were offered to take over the strategic shares. The lone case of the Allied Bank ended in failure, as the State Bank had to assume control for subsequent privatisation. Third, workers are offered retraining for alternative jobs, as is the case of the present policy. With falling investment and an economy suffering from declining growth and high inflation, there are not many alternative job opportunities. Finally, the workers have managed to stop, or delay, the privatisation of SOEs, as was the case of Qadirpur or the PSM. But they completely failed in the case of PTCL. Some 65000 went on strike on the plea that there would be huge job losses, besides the loss of a steady stream of income to the national exchequer. The weakening of the trade union movement over the years has dented the worker resistance.

The data on employment, given in Table 3, shows that privatisation has adversely affected the process of expanding opportunities for decent work. It is clear that the massive privatisations during the Musharraf period led to the highest rates of unemployment at an average of around 7 per cent per annum. The rate of unemployment had touched 6.1 per cent in 1999 for the first time during the second PML-N government. Female unemployment has always been higher than male unemployment, but privatisation made it worse. For a country with a youth bulge, privatisation seems to have taken a serious toll of youth employment. Male youth unemployment rate was in double-digit during the privatisations carried out by General Musharraf.

Table 3. Rates of Unemployment (%)

Years	Unemployment rate	Male unemployment	Female unemployment	Male youth unemployment	Female youth unemployment
1991	5.9	4.3	16.7	8.1	22.2
1992	5.2	3.8	14.2	7.4	15.5
1993	4.3	3.4	9.9	6.5	10.8
1994	4.3	3.5	9.3	7.0	10.2
1995	5.0	3.7	14.0	7.6	18.0
1996	5.3	3.8	14.9	7.6	18.7

1997	5.8	3.9	17.2	7.9	20.9
1998	5.7	4.1	15.0	8.8	18.5
1999	6.1	4.5	15.2	9.4	21.2
2000	7.2	5.6	16.1	11.2	29.4
2001	7.4	5.8	16.7	11.4	27.2
2002	7.8	6.2	16.5	12.1	20.7
2003	7.7	6.2	15.7	11.8	19.3
2004	7.4	6.2	13.1	11.1	15.1
2005	7.1	6.0	12.3	10.5	13.7
2006	6.1	5.2	9.8	8.5	9.8
2007	5.1	4.2	8.7	7.2	9.0
2008	5.0	4.0	8.8	7.1	10.7
2009	5.0	4.0	8.8	7.1	10.7
2010	5.1	4.0	8.8	7.1	10.7
2011	5.1	4.0	8.8	7.1	10.7
2012	5.1	4.0	8.9	7.3	11.2

Source: Pakistan Bureau of Statistics, Labour Force Surveys, various issues.

Privatisation has exercised a long-term impact on the job potential of the economy. The unemployment rates in Table 3 refer to those able and willing but unable to find work in the reference week. Long term unemployment tells the story of those in continuous periods of unemployment over a year or longer, expressed as a percentage of the total unemployed. Table 4 shows that that their number has been rising continuously. Another worrying impact of the privatisation programmes is the increasing informalisation of work. The major segment of employment now consists of self-employed and own account workers. These two categories together are defined as vulnerable employment. Finally, GDP per person employed has increased. It is hard to interpret it as increase in productivity when the economy has been growing at a rate far below its potential.

Table 4. Long Term Unemployment and Vulnerable Employment (%)

Years	Long term unemployment	Vulnerable employment	GDP per employed person (Constant $PPP)
1993	7.4	-	6,675
1994	7.6	-	6,798
1995	7.8	65	7,114
1996	-	65	7,405
1997	6.2	63	7,097
1998	8.5	64	6,986
1999	-	64	7,118
2000	8.9	64	7,496
2001	-	64	7,510
2002	6.2	59	7,655
2003	-	59	7,658
2004	9.0	61	7,811
2005	-	61	8,353
2006	12.0	62	8,059
2007	11.7	62	8,361
2008	14.7	63	8,394
2009	-	-	8,212
2010	19.5	-	8,259

Source: World Bank, World Development Indicators 2014

6. ISSUES OF TRANSPARENCY AND WEAKENING CONSENSUS

Transparency has not been the hallmark of privatisation in Pakistan. A number of heads of the Privatisation Commission faced serious cases of corruption. Rival governments have also been spilling the beans. The second PML-N government had informed the Council of Common Interests that the privatisation of the KAPCO required investigation. The Federal Minister for Privatisation told the National Assembly on March 30, 2010 that "The deal to privatise PTCL was not transparent." The Chief Justice of Pakistan also described the deal as a scandal. Invariably, unusual haste is shown in completing the privatisation transactions. This also includes capital market transactions, which necessitate a careful and patient assessment of the market to strike the best deal. This was witnessed in the two recent transactions. Ministers and bureaucrats who are not known for timely disposal of cases suddenly become super deliverers. Private advisers make a recommendation, the Privatisation Board sits and decides the next moment and the Cabinet Committee on Privatisation meets the same day to accord necessary approval, even if the chairman is not available, as happened in the case of PPL.

An important argument for nationalization in Pakistan in the 1970s was the containment of the concentration of economic power. Now the case for privatisation is made on the basis of efficiency and competition in the private sector. However, if the regulatory framework is weak and as politicized as the PSEs, "there is the reverse fear of cartelization".[8] These cartels tacitly collude to operate as monopolists to restrict supply and fix exorbitant prices. Sugar and cement are the well-known cases o cartelization in Pakistan. The toothless Competition commission of Pakistan has not been able to prevent or control the increasing tendency to cartelize. It has not paid much attention to the increasing concentration of economic power resulting from the purchase of banks as well as industries by the same party. There is nothing in the privatisation law to prevent this concentration.

[8]Khan (2012), p.8.

CONCLUDING AND RECOMMENDATIONS

The experience of privatisation in Pakistan has at best been mixed. Beginning in 1988, the policy promised efficient private sector growth for the economy, and reduction of debt and poverty by utilizing the sale proceeds. Three decades on, the report card is dismal on all three counts. And yet the Board of the Privatisation Commission has decided to accelerate the privatisation process. All this at a time when the most noticed feature of the economies that escaped the Great Recession following the international financial crisis is the significant role of the state in the economy. No specialist knowledge is required to know the horror story of the KESC, the rip-off of the PTCL and the profiteering of the privatized banks. The privatisation of KESC is most interesting. Regardless of the unpaid bills, Wapda still has to supply 700 MW to it. There is need to be careful before the Pakistan Railways is sold to the real estate agents and the PIA is thrown away to the competition. The issue is management, not ownership. The separation between the two is as advisable for the public sector as it is for the private sector. Emirates, Singapore Airlines, SingTel, Haier, Telekom Malaysia are all examples of successful autonomous public enterprises.

One does not see any serious policy effort to privatize as a move to open, market-based economy. It has not contributed to improve the efficiency, profitability and competitiveness of the SOEs. Privatisation transactions lack transparency. The purpose seems to be the mobilization of around Rs 200 billion for grandiose political projects without implementing tax reform. The objectives of poverty alleviation, debt reduction and protecting workers' interest are not part of this strategy.

Economic and political philosophy has advanced to a stage where ideological support for public or private sector does not have blanket endorsement. The role of the state is to ensure economic and social wellbeing of people as citizens, workers and consumers. Whether it can be achieved through activist state or progressive economic and industrial policy agenda or both is a matter of practical policy to be decided by the Parliament. In case the Parliament acts in the interest of its own members, as has happened in the case of the sugar cartel, an activist judiciary and a vibrant media demonstrated the capability to be effective watchdogs. In this environment, the following recommendations are made to promote public interest.

Parliamentary oversight of privatisation needs to be improved. The current Standing Committees of the National Assembly and the Senate on Finance, Revenue, Economic Affairs, Statistics and Privatisation have too much on the plate. The sensitivity of the issues related to privatisation requires a special, joint committee of the Parliament.

Privatisation does not necessarily promote efficiency and competition. It is, therefore, necessary to strengthen the regulatory bodies to protect consumers and the public besides creating a level playing field for investment. Privatisation leading to cartelization is worse than public monopolies.

Privatisation has neither reduced debt nor improved state finances. The issue of prudent fiscal management has to be dealt by progressive and equitable taxation, elimination of the Statutory Regulatory Order (SRO) culture, the end of exemptions for agricultural and property incomes and restructuring of the Federal Board of Revenue to control abetted and un-abetted tax evasion. Expenditure side must be rationalized by strictly implementing the 18th Amendment to the Constitution.

The myopic focus on privatisation should give way to improving the management of PSEs by appointing autonomous boards and professional managers. Research shows that efficiency and profitability has nothing to do with the nature of ownership. In the words of the Nobel laureate Stiglitz, "the theoretical case for privatisation is at best weak or non-existent."[9]

Workers have become a pawn in the game of privatisation. Overemployment in the PSEs is the result of crony managements appointed by the governments. Privatisation leads to declining employment without necessarily improving the quality of products or reducing effective protection.[10] As most privatisations have taken place at the time of a deteriorating economy, the lack of alternative employment opportunities has led to increasing levels of unemployment. Absence of social security coverage pushes the jobless into abject poverty.

The Privatisation Commission Ordinance 2000 needs to be amended to prevent concentration of economic power. It should also recognise, as does the Constitution that natural resources are the common property of the of the provinces and the Federal Government.

[9]Stiglitz (2008)
[10]Naqvi and Kemal (1999).

ANNEX I

Privatisation Programme Approved for Early Implementation in October, 2013

	Entities	% Government Share [1]	Divestment Strategy
Oil & Gas (upstream and mid-stream)			
1.	Oil and Gas Development Co. Ltd (OGDCL)	85	Capital Market (preferably International)
2.	Pakistan Petroleum Ltd (PPL)	78	Capital Market (International & Domestic)
3.	Mari Petroleum Ltd.	20	Capital Market (SPO) or Block Sale to JV partner
4.	Government Holding Private Ltd (GHPL)	100	Capital Market (IPO) or Divestment of Working Interest of specific Block
5.	Pak Arab Refinery Ltd (PARCO)	60	Capital Market (IPO) subject to consent of JV partner
Oil & Gas (downstream)			
6.	Pakistan State Oil Co Ltd (PSO)	25	Segregation of business segments followed by divesting the suitable business segment
7.	Sui Southern Gas Co Ltd (SSGC)	60	Segregation of various operations followed by privatisation, where possible
8.	Sui Northern Gas Pipelines Ltd (SNGPL)	36	Segregation of various operations followed by privatisation, where possible
Banking & Finance			
9.	Habib Bank Limited (HBL)	42	Capital Market (Secondary Public Offering -SPO)
10.	United Bank Limited(UBL)	20%	Capital Market (Secondary Public Offering -SPO)
11.	Allied Bank Limited (ABL)	10%	Capital Market (Secondary Public Offering -SPO)
12.	National Bank Limited (NBP)	76%	Divestment with Management Control (preferably) or Block Sale to qualified investors
13.	State Life Insurance Corp. (SLIC)	100%	Capital Market (Initial Public Offering – IPO)
14.	National Insurance Co. Ltd. (NICL)	100%	Divestment with Management Control followed by Initial Public Offering (IPO)
15.	National Investment Trust Ltd. (NITL) [2]	100% MR	Divestment of Management rights of individual fund(s)
16.	Small & Medium Enterprise (SME) Bank [2]	94%	Divestment with Management Control or Merger with Tier II / III Bank
17.	Pakistan Reinsurance Co Ltd. (PRCL)	51%	Divestment with Management Control

Power			
18.	Heavy Electrical Complex (HEC) [2]	100%	Divestment with Management Control
19.	Islamabad Electric Supply Co. Ltd (IESCO)	100%	Divestment with Management Control
20.	Faisalabad Electric Supply Co. Ltd (FESCO)	100%	Divestment with Management Control
21.	Hyderabad Electric Supply Co. Ltd (HESCO)	100%	Divestment with Management Control
22.	Jamshoro Power Generation Co. Ltd (JPCL)	100%	Divestment with Management Control
23.	Northern Power Generation Co. Ltd - *Thermal Power Station – Muzaffargarh*	100%	Divestment with Management Control
24.	Lakhra Power Generation Co. Ltd. [3]	100%	Divestment with Management Control
25.	National Power Construction Co. (NPCC) [2]	100%	Divestment with Management Control
26.	Kot Addu Power Company Ltd. (KAPCO)	46%	Capital Markets (International & Domestic)
Industries, Transport & Real Estate			
27.	Pakistan Steel Mills Corp (PSMC)	100%	Divestment with Management Control
28.	Pakistan Engineering Co Ltd (PECO) [2]	25%	Retirement of GOP liabilities initially followed by transfer of Management to private partners
29.	Pakistan International Airlines Corp (PIAC)	100%	Restructuring followed by divestment of 26% GoP equity stakes to strategic partner with Management control
30.	Pakistan National Shipping Corp (PNSC)	90%	Divestment with Management Control
31.	Convention Centre, Islamabad. [2]	100%	Sale of Asset
32.	PIA Investment Ltd –Roosevelt Hotel NY & Scribe Hotel – Paris *	100%	Sale of Asset

[1] Keeping in view the PSEs size and sectoral dynamics, 100% Government interest would be divested. [2] Where applicable, shareholding includes BESOs. [3]Subject to approval from Council of Common Interests (CCI

ANNEX II

Upcoming Transactions

Sr. No	Entities	Divestment Strategy
Oil & Gas (upstream and mid-stream)		
1.	Divestment of GoP shareholding in Oil & Gas Development Co. Ltd (OGDCL)	International / Domestic Capital Market Offering
2.	Pakistan Petroleum Ltd (PPL) Secondary Public Offering (SPO)	Domestic Capital Market Offering
Banking & Finance		
3.	Divestment of Government Shareholding in Habib Bank Limited (HBL)	Capital Market (Secondary Public Offering -SPO)
4.	Divestment of Government Shareholding in United Bank Limited(UBL)	Capital Market (Secondary Public Offering -SPO)
5.	Divestment of Government Shareholding in Allied Bank Limited (ABL)	Capital Market (Secondary Public Offering -SPO)
Power		
6.	Heavy Electrical Complex (HEC)	Divestment with Management Control
7.	Privatisation of National Power Construction Corporation (NPCC)	Divestment with Management Control
8.	Faisalabad Electric Supply Co. Ltd (FESCO)	Divestment with Management Control
9.	Northern Power Generation Co. Ltd. (NPGCL-GENCO-III) - Thermal Power Station – (TPS) Muzaffargarh(1350 MW)	Divestment with Management Control
10.	Lahore Electric Supply Company Limited (LESCO)	Divestment with Management Control
Industries, Transport & Real Estate		
11.	Pakistan International Airlines Corp (PIAC)	Restructuring followed by divestment of 26% GoP equity stakes to strategic partner with Management control

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