

PRIVATISATION IN PAKISTAN

Some Landmarks

Privatisation efforts in the country began in 1988, with the floatation of 10% shares of Pakistan International Airlines (PIA). Since then the privatisation policy has remained the cornerstone of Pakistan's economic policy and is likely to remain so at least in the near future. Between 1988 to 1990, privatisation was pursued with a view to divest 14 loss making units and raise funds by selling shares of profit making manufacturing units for retiring public debt and reducing debt servicing. However, efforts to sell shares of profit making units and divesture of 14 loss making units could not succeed.

Process of privatisation picked up only after the setting up of the Privatisation Commission in 1991. The objectives laid down for the Commission included:-

- * improving the level of efficiency, encouraging competition and creating a market based economy;
- * attracting foreign investment, mobilising private sector resources for future investments and developing capital markets for mobilisation of domestic savings;
- * reducing the size and scope of the public sector, and minimising financial drains of public enterprises on the government;
- * maximizing receipts from privatisation to pay public debt and reduce the fiscal deficit;

Although the Commission's mandate was initially restricted to industrial transactions, by 1993 it expanded, to include energy, transport, telecommunications, and banking and insurance. Subsequently, the privatisation process gained momentum and between 1991-93, a total of 67 units were privatised. After that its pace slowed due to various factors (including the need for greater transparency, financial vulnerability of some units and the restructuring of public enterprises).

In the three years between 1994 to 1997, 25 units were privatised, while another 11 units were privatised between 1998 to 2000. Thus, besides the partial divesture of PIA and Paki-

stan Telecommunication Corporation Ltd. (PTCL), 103 units have been privatised in the past ten years.

During the past 10 years, proceeds amounting to Rs. 60.5 billion or \$ 1.7 billion have been realised through privatisation. These include selling 12% shares of PTCL, 26% shares of Kot Addu Power plant (KAPCO) and privatisation of 4 banks and 97 other industrial units. Bulk of the proceeds (51%) came from PTCL, followed by the selling of a power plant (17%), four banks (11%) and 21% came from the privatisation of other industrial units.

Of the total proceeds, 80% was given to the federal government, 9.5% was released to meet restructuring cost, arising mainly from golden handshakes, 5% was given back to companies on whose behalf selling of share was carried out and 1% is lying with the Commission undistributed. The Commission itself utilised 4.5% of the total proceeds to cover its expenses.

In late 1999, the government decided to put privatisation on a fast track. A Privatisation Commission Ordinance 2000 was promulgated to strengthen and make privatisation process more transparent and speedy. At the same time the stock market was asked to play its due role in the privatisation process, preventing concentration of privatised units in a few hands.

Under the Ordinance, 90% of the proceeds from privatisation have been allocated for debt reduction and the remaining 10% is to be used for poverty reduction. Privatisation proceeds allotted for debt retirement, would primarily be utilised first to retire debt with higher interest.

Though the overall contribution of privatisation revenue to debt retirement would be modest yet:

- * accelerated privatisation is absolutely essential for tiding over the current payment crisis;
- * sends signals to the private sector to play an enhanced role;
- * reduces the losses of public sector corporations, which have contributed to public debt build-up in the past;

At present, unprofitable units in the public sector are incurring an annual loss of Rs. 100 billion. The government has planned privatisation of some uneconomic mega public sector entities which are expected to generate sufficient amount of revenue. It has also adopted a two-pronged approach to privatisation: selling state firm shares on the stock markets and offering strategic stakes with management control.

The medium term program drawn up by the Privatisation Commission focuses on the sale of major assets in telecommunication, oil and gas, power and banking sectors, including giants like, Pakistan Telecommunications, Oil & Gas Development Corporation, Pakistan Petroleum Ltd., Pakistan State Oil, Habib Bank Ltd., and Untied Bank Ltd. The target is to mobilise at least US \$ 3 billion and to use the privatisation proceeds partly to retire high-interest short-term external debt and partly for poverty reduction.

In the aftermath of the September 11 events and the Afghan war, 70% of the privatisation program that was expected to raise \$ 1 billion by end 2001, had to be put on hold. Several large transactions with foreign investors showing interest which were to come up for bidding during the last quarter of 2001 have been postponed.

Units Privatised (1991-2000)

Sector	Nos.	Amount (Rs. bn.)
Automobile	7	1.1
Banking	4	6.2
Cement	11	7.8
Chemicals *	14	2.0
Energy	3	10.6
Engineering	7	0.2
Ghee	19	0.7
Roti Plants	15	0.1
Telecommunications	1	30.6
Textiles	2	0.1
Other	20	1.1
Total :	103	60.5

* Include fertilizer

Source: Privatisation Commission

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by three to four months. These include PTCL, government's minority working interest in nine oil and gas fields, United Bank Limited, National Power Construction Company, Pak Saudi Fertilizers and Falettis hotel.

Others have been offered or are being offered for bidding with little or minor delays.

Privatisation of some larger units that were expected to be bid during the first or second

advisors in traveling to Pakistan, difficulties in hiring new financial advisors because of the regional uncertainties and difficulties in taking unpopular pricing decisions.

CONCLUSION

Poor experience with state owned enterprises (SOEs), misuse of public sector institutions and large-scale corruption resulted in poor quality of services, huge fiscal losses, reduced revenues,

part of each administration's economic policy since 1988.

Privatisation policy needs to be pursued with the main objective of improving efficiency in the economy. The sale of assets should bring maximum prices so as to reduce budgetary deficit and subside resultant inflationary tendencies.

Of the total privatisation proceeds raised in the past ten years, Rs. 48 billion has reportedly been handed over to the government to retire debt and reduce fiscal deficit. This was a meager amount when compared with total debt of Rs. 4003 billion at the end of FY 2001; domestic debt Rs. 1708 billion and external debt Rs. 2295 billion including explicit liabilities. It could meet only 1.2% of total debt or 2.1% of external debt. The saving on interest payments is however, estimated to be of the tune of 14.8%.

The government hopes to raise \$ 3 billion through privatisation by March 2003. Of this, \$ 1 billion was expected by December 2001, but after the September 11 events, it now expects to get this amount by end March 2002, as privatisation of major assets has been delayed. Privatisation of minor assets continues and so far Rs. 2 billion has been earned.

Reference

Economic Bulletin - Nov. - Dec. 2001
National Bank of Pakistan

Major Transactions Expected by Dec. 2002 & 2003

Company Name (Shares to be offered)	Date of Bidding
Pakistan State Oil (51%)	Expected in 3 rd Qtr 2002
Oil and Gas Development Corporation Ltd. (51%)	Expected in 3 rd Qtr 2002
PPL (51%)	Expected in 4 th Qtr 2002
Habib Bank (51% strategic sale)	Expected in 1 st Qtr 2003
KESC (51-74%)	Expected in 3 rd Qtr 2002
Pak Arab Fertilizer (100%)	Expected in 3 rd Qtr 2002
Faisalabad Electric Supply Co (26-51%)	Expected in 4 th Qtr 2002
Jamshoro Power Co. (26-51%)	Expected in 4 th Qtr 2002
Sui Northern & Sui Southern (51% each)	Expected in 1 st Qtr 2002
Investment Corporation of Pakistan (ICP) (Right to manage fund)	Expected in 2 nd Qtr 2002
Bank Alfalah (30% public offer)	Expected in 2 nd Qtr 2002
Bolan textile Mills (100% share offering)	Expected in 2 nd Qtr 2002
Al-Haroon Building (100% offering)	Expected in 1 st Qtr 2002

quarter of 2002 is largely on schedule, with minor delays due to restrictions on financial

lower productivity, higher prices and mounting external debt. Privatisation has been the integral