# Privatisation

2024-09-07

## Privatisation in Pakistan

### The ultimate goal should be to stop the bleeding of public money.

## No empirical study to verify or refute the claim that privatisation done in the past was successful and in which sectors it was successful.

#### 4TH INDUSTRIAL REVOLUTION (Today)Physical Systems & Networks (AI, IoT, Blockchain)

#### 3RD INDUSTRIAL REVOLUTION (1969), Electronics & IT Systems

#### 2ND INDUSTRIAL REVOLUTION (1870)Production & Electricity

#### 1ST INDUSTRIAL REVOLUTION (1784)& Steam Power

### THREE DOGMAS OF NEOLIBERAL ECONOMICS

#### 1. THE STATE HAS NO ROLE IN THE ECONOMY, NOR IN ECONOMIC ENTERPRISE.

#### 2. DISINVEST, PRIVATISE AND DEREGULATE ALL STATE ENTERPRISES.

#### 3. THE 'MARKET' CAN PROVIDE EVERYTHING, LET THE PRIVATE SECTOR DO BUSINESS 'EASILY' (WITH NO OVERSIGHT)."

#### Political Decisions for Electricity and Gas Sector Provsision in Pakistan

25 entities for sale in the first phase of privatisation.

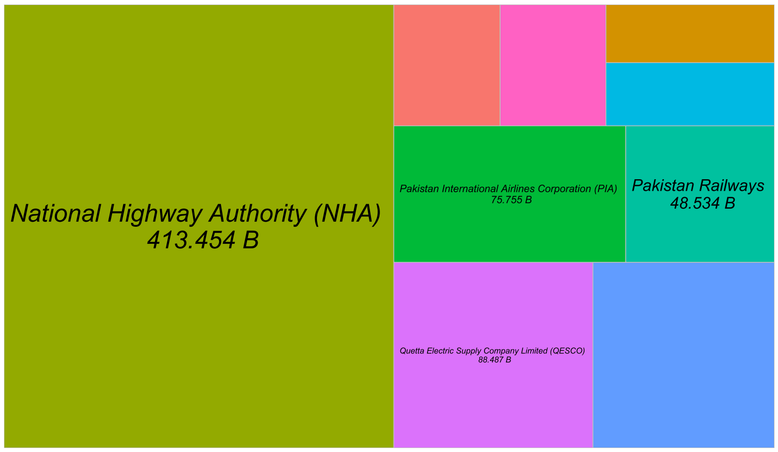
- 207 total entities: 11 contribute 80% of losses.
- 3 are from transport sector, 8 from power sector.

### SOE Profitability Trends

- **World Bank report**: Declining profitability of SOEs for over a decade.
- Profitability dropped from **0.8% of GDP in 2014** to **losses of 0.4% of GDP in 2020**.
- SOEs in Pakistan now have the lowest profitability in the South Asian region.

## Losses

Treemap of SOEs Losses Greater than 20 Billion



| | SOE | Losses (Rs Billion) |
|---|---|---|
| 1 | National Highway Authority (NHA) | 413.454 |
| 2 | Power Sector | 285.000 |
| 3 | Quetta Electric Supply Company Limited (QESCO) | 88.487 |
| 4 | Peshawar Electric Supply Company Limited (PESCO) | 80.595 |
| 11 | Pakistan International Airlines Corporation (PIA) | 75.755 |
| 12 | Pakistan Railways | 48.534 |
| 5 | Lahore Electric Supply Company Limited (LESCO) | 30.839 |
| 6 | Sukkur Electric Power Company Limited (SEPCO) | 30.667 |
| 13 | Pakistan Steel Mills Corporation (Private) Limited | 25.455 |
| 7 | Multan Electric Power Company Limited (MEPCO) | 23.372 |
| 14 | Sui Southern Gas Company Limited (SSGC) | 17.350 |
| 8 | Hyderabad Electric Supply Company Limited (HESCO) | 15.640 |
| 15 | Pakistan Telecommunication Company Limited (PTCL) | 15.544 |
| 9 | Faisalabad Electric Supply Company Limited (FESCO) | 14.983 |
| 16 | GENCO-II Central Power Generation Company Limited, Thermal Power Station Guddu | 14.170 |
| 17 | GENCO-III Northern Power Generation Company Limited, Thermal Power Station Muzaffargarh | 3.240 |
| 18 | Pakistan Post Office | 3.234 |
| 19 | Pakistan Broadcasting Corporation (PBC) | 1.617 |
| 20 | GENCO-I Jamshoro Power Company Limited | 0.910 |
| 10 | Islamabad Electric Supply Company Limited (IESCO) | 0.666 |
| 21 | GENCO-IV Lakhra Power Generation Company Limited | 0.480 |
| 22 | Pakistan Expo Centres (Pvt) Ltd | 0.181 |
| 23 | Pakistan Revenue Automation (Private) Limited | 0.165 |
| 24 | State Engineering Corporation (Private) Limited | 0.032 |

## Introduction

- SOEs in Pakistan are underperforming. Why? Governance issues, lack of accountability, political interference, and corruption.
- Debate on SOEs: privatization vs government shareholding.
- Financial crisis demands a reassessment of SOEs.

- **Privatisation** is considered a key tool for **restructuring** and **improving efficiency** of SOEs. (Assumption)

## Arguments for Privatisation

- Privatisation can reduce the **fiscal burden** on the government.
- Privatisation can **improve efficiency** and **reduce losses** in SOEs.
- Privatisation can **increase competition** and **improve service quality**.
- Privatisation can **attract foreign investment** and **improve economic growth**.
- Privatisation can **reduce corruption** and **improve transparency**.
- Reduce burden on taxpayers

## Arguments Against Privatisation

- Privatisation can lead to **job losses** and **wage cuts**.
- Privatisation can lead to **monopolies** and **higher prices**.
- Privatisation can lead to **loss of control** over strategic sectors.
- Privatisation can lead to **foreign ownership** and **capital flight**.
- Privatisation can lead to **inequality** and **social unrest**.

## Key Principles of Privatisation

- Efficiency & Profitability: The divestment should improve the operational efficiency of the enterprises.
- **Transparency and fair pricing**: The process should be transparent and open to public scrutiny.
- **Competition**: The market should be competitive and open to new entrants.
- **Regulation**: The sector should be regulated to prevent abuse of market power.
- **Social Impact**: The social impact of privatisation should be carefully considered.
- **Economic Impact**: The economic impact of privatisation should be carefully considered.
- **Political Impact**: The political impact of privatisation should be carefully considered.
- **Legal Framework**: The legal framework for privatisation should be clear and well-defined.
- **Public Support**: There should be public support for privatisation.

## No one size fits all approach

- Privatisation should be tailored to the specific circumstances of each SOE.
- Different SOEs may require different approaches to privatisation.

- The goal of privatisation should be to improve the performance of SOEs, not just to raise revenue or reduce the fiscal deficit.
- Privatisation should be part of a broader strategy to reform the public sector and improve governance.
- Privatisation should be accompanied by measures to protect workers and consumers.

## Privatisation of Transport Sector

- Airports, airlines, roads and railways are key components of the transport sector.
- **PIA** : Rs. 70 to 80 billion losses annually on accounting books. Economic loses are much higher.

## Privatisation of Power Sector

- Power generation, transmission and distribution are key components of the power sector.
- **Circular debt** is a major issue in the power sector.
- DISCOs are **inefficient** and **loss-making**.
- Each DISCO has its own set of problems and challenges.

## Success stories of privatisation

- **Karachi Electric**: Privatisation of K-Electric has improved efficiency and service quality.
- **PTCL**: Privatisation of PTCL has attracted foreign investment and improved service quality.
- **HBL**: Privatisation of HBL has attracted foreign investment and improved service quality.
- **UBL**: Privatisation of UBL has attracted foreign investment and improved service quality.

Youth got chance to be anchors, ceos and managers in open tv and telcos.

## Example: Pakistan International Airlines & Pakistan Steel Mills

- These SOEs are incurring huge losses.
- Local and international competitors are more efficient.
- Divestment or privatization should be prioritized.

## Case of Pakistan Railways

- Vital for both **passenger traffic and freight services**.
- **Underinvestment** in Pakistan Railways.
- Need for a model similar to the **aviation sector**:
  - Government manages non-moving infrastructure.
  - Private sector manages moving infrastructure.

## Petroleum and Power Sectors

- Monopoly status of SOEs in these sectors.
- Profitability without benchmarking.
- **Rs 3 trillion circular debt** in the power sector due to inefficient governance.
- Need for market reforms before privatization in power distribution.

## Lessons from Karachi Electric

- Privatization alone does not solve all issues.
- **Sectoral reforms** needed for private sector efficiency gains.

## Need for Transparency

- Listing SOEs on the **stock exchange** can improve governance and transparency.
- Federal government's **P3A Act** for public-private partnerships.

## Revisiting the Privatization Commission

- Legal structure for privatization needs to be updated.
- Need for **innovative divestment options** beyond traditional asset sales.

## Conclusion: Broadening the Debate

- Privatization debate should include:
  - What and how to privatize.
  - Efficient and transparent governance of SOEs.
  - Specialized treatment for each SOE.

The Chaotic Pursuit of Privatisation of SOEs

## Introduction

- Privatisation progress reported for **Pakistan International Airlines (PIA)** and outsourcing of three airports.
- **Privatisation Commission** working on a three-phase strategy to privatise SOEs.
- Focus on **loss-making SOEs** and reducing public sector involvement.

## Financial Burden of SOEs

- SOEs incur annual losses of **Rs500 billion**.
- **Total accumulated losses** exceed Rs2.5 trillion (approx. **$9 billion**).
- These losses pose a **systemic risk** to the financial sector.

## IMF and Privatisation

- **IMF bailout conditions** emphasize privatisation of PIA, Pakistan Steel Mills, RLNG power plants, and electricity distribution companies.
- Privatisation is part of the **structural reforms** under the IMF's rescue loan package.

## Investment Expectations

- Special Investment Facilitation Council (SIFC) expects over **$50 billion** investment from UAE and Saudi Arabia in five years.
- So far, only a **fraction** of this investment has materialized in projects like Karachi Port.

## Historic Context of Privatisation

- Pakistan began privatising SOEs under the **IMF's Structural Adjustment Programme** in the 1980s.

- Over the last three decades, privatisation has returned **Rs650 billion ($2.36 billion)** to the government.

### Success Stories of Privatisation

- **Banks, telecom industry, and electronic media** are often highlighted as successful examples of privatisation.
- Privatisation has saved recurring losses and improved efficiency in certain sectors.

### Cautions Against Hasty Privatisation

- Experts like **Haroon Sharif** caution against rushing into privatisation without a clear rationale.
- **World Bank** raises concerns about economic volatility, judicial activism, and trade union resistance as factors hindering successful privatisation.

### Need for Regulatory Reforms

- **Regulators need to be independent** and staffed with professionals to ensure competition and transparency.
- **Transaction structure** should promote long-term economic prosperity, avoiding monopolies.

### Risks of Monopolies

- Privatization may shift **monopolies from public to private sector**.
- Strong regulations are essential to prevent private sector monopolies from emerging after privatisation.

### Conclusion

- Privatisation requires extensive **reforms and transparency** to be successful.
- Without these, the progress will remain chaotic and may cause more harm than good.

## Real Estate

| S# | Name of PSEs |
|---|---|
| 1 | Services International Hotel, Lahore |
| 2 | Jinnah Convention Centre, Islamabad |
| 3 | PIA-IL (Roosevelt Hotel NY) |
| 4 | Sale of Federal Government properties |

## Aviation Sector

| S# | Name of PSEs |
|---|---|
| 5 | Pakistan International Airlines Co. Ltd. |

## Financial Sector

| S# | Name of PSEs |
|---|---|
| 6 | Pakistan Re-Insurance Co. Ltd. (PakRe) |
| 7 | State Life Insurance Co. Ltd. |
| 8 | House Building Finance Corporation (HBFC) |
| 9 | First Women Bank Limited |

## Industrial Sector

| S# | Name of PSEs |
|---|---|
| 10 | Sindh Engineering Limited (SEL) |
| 11 | Pakistan Engineering Company (PECO) |

## Energy Sector

| S# | Name of PSEs |
|---|---|
| 12 | 1223 MW Balloki Power Plant |
| 13 | 1230 MW Haveli Bahadur Power Plant |
| 14 | Guddu Power Plant (747 MW) |
| 15 | Nandipur Power Plant (425 MW) |
| 16 | Faisalabad Electric Supply Company (FESCO) |
| 17 | Islamabad Electric Supply Company (IESCO) |
| 18 | Lahore Electric Supply Company (LESCO) |
| 19 | Gujranwala Electric Power Company (GEPCO) |
| 20 | Multan Electric Power Company (MEPCO) |
| 21 | Peshawar Electric Supply Company (PESCO) |
| 22 | Hyderabad Electric Supply Company (HESCO) |
| 23 | Quetta Electric Supply Company (QESCO) |
| 24 | Sukkur Electric Power Company (SEPCO) |
| 25 | Tribal Electric Supply Company (TESCO) |

## Issue with DISCOS privatisation

DISCOS

### Overview

- Distribution companies (DISCOs) face persistent financial losses.

- Current efforts focus on selling DISCOS to private investors.
- The central question: Will privatization alone solve the core issues?

### Key Challenges

- **Electricity theft** and **low recovery rates** are major challenges.
- Losses concentrated in remote areas and urban slums.
- Privatization may not directly address the root causes.

### Role of Privatization

- K Electric as a case study shows mixed results.
- A need to determine if Transmission & Distribution (T&D) can sustain private investment alone.

### Proposed Solutions

- Distributed generation (solar) for remote areas.
- Increased electricity sales to reduce underutilized capacity.
- Governance and accountability should be devolved to local levels.

### Conclusion

- Strong **policy reforms** and **strategic privatization** are necessary.
- Privatization must focus on **separating high loss/low recovery areas** and creating a **competitive electricity market**.

## SOE Privatisation

### Introduction

Driven by the current 'four-point must list of IMF,' Pakistan's government is focusing on the settlement of loss-making state-owned enterprises (SOEs). These SOEs have long been a concern for the IMF and a drain on Pakistan's meager resources.

### Current State of SOEs

- **Circular debt**: Rs 2.7 trillion, despite repeated increases in electricity tariffs.
- **Loans and guarantees**: Nearly Rs 6 trillion to sustain loss-making SOEs.

Prime Minister Shehbaz Sharif has prioritized the reform of these institutions. There is a need for a modern system and expert leadership on the boards of these institutions to enhance their performance.

### New SOE Policy

The Ministry of Finance (MoF) has prepared a draft SOE policy to manage the fiscal risks. Key highlights of the policy: - **SOEs in Pakistan**: Around 200, engaged in various activities. - **Economic significance**: SOEs manage a significant share of Pakistan's infrastructure, communication, and utilities sectors. - **Factors for optimal performance**: - Consistent overarching law for SOEs. - Clear SOE ownership and reform policy. - Commercial mandate and capable governance. - Centralized SOE ownership monitoring. - Strategic analysis and financial monitoring. - Accountability and transparency.

### Strategic SOEs

The draft policy identifies **strategic SOEs** that cannot be privatized due to their: - Strategic, security, or social importance. - Monopoly status without effective regulatory oversight.

### Challenges and Reforms

Successive governments have attempted SOE reforms, but with limited success. The key issues include: - **SOEs beyond restructuring**: SOEs like PIA and Pakistan Steel Mills need massive investments in technology and human resources. - **Political consequences**: Reforms often stall due to political considerations, despite the financial burden.

### International Example: India

India privatized its SOEs in the late 1990s. Key successes include: - **Defense sector**: Majority of defense production is now in the private sector. - **National carrier**: Air India was privatized and is being restructured by the Tata Group to compete globally.

## Demands from Government

### Key Demands

- **An independent board**: The board should be independent of political influence.
- **Forensic audit**: A forensic audit of SOEs should be conducted to identify the root causes of their financial distress in 3 months.
- **Reform plan**: A reform plan should be prepared for each SOE within 6 months.

### Advancements in Governance

- **Technology, globalization, and management** have evolved.
- Traditional governance models of SOEs are outdated.

### Tailored Approach Needed

- **No one-size-fits-all** approach for privatization.
- Specialized treatment required for each SOE based on local and global circumstances.

### Privatisation of elite clubs

- **Privatization of elite clubs** like the Islamabad Club, Lahore Gymkhana, and Karachi Gymkhana can generate significant revenue.
- **GORs**: Government Officers Residences (GORs) in prime locations can be sold for commercial purposes.
- **Golf Courses**: Golf courses in prime locations can be privatized.
- **State Guest Houses**: Punjab House, Sindh House … land can be sold or leased for commercial purposes to hotels, shopping malls, etc.

## Introduction

Privatization is a widely debated concept. But what does it actually mean?

## Public Infrastructure and Investments

- Generations ago, America built:
  - National highways
  - Public colleges and universities
  - Public schools, parks, libraries, research, etc.
- Mid 1980, privatization was pushed to boost efficiency and reduce taxes.

**Reality**: Privatization often boosts corporate profits instead.

**Question**: Are these services reaching where they are most needed?

## The Role of Private Corporations

- Private corporations can be efficient.
- Some privatization has worked.

**BUT**: Their goal is to maximize **profit** for shareholders, not serve the **public interest**.

## The Public Interest

The key question: **What's best for the public?**

Let's consider 5 rules of thumb for when public services should not be privatized.

---

## 1. Community Services

- Don't privatize when the service aims to bring communities together.
- Example: The **Railways and Roads** serves even the most rural areas.
- Privatization risks isolating marginalized groups.

## 5. Lack of Competition

- Don't privatize where there's insufficient competition.
- Example: **Defense contractors** face limited competition, leading to cost overruns.

Privatization without competition results in inefficiency.

## The Public vs. Profit