# HISTORY AND EVOLUTION OF PRIVATISATION IN PAKISTAN[1]

**By**

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# PRIVATISATION PROCESS IN PAKISTAN*

## INTRODUCTION

The concept of privatisation is not new to the policy makers of this country. It may be traced as back as in 50s, when Pakistan Industrial Development Corporation (PIDC) was established in 1952 to boost up the industrial development in the country. This premier Corporation established over 50 industrial undertakings in the length and breadth of the country and after their successful operation and management, these units were transferred from the public to the private sector. The tide of nationalisation, which swept the whole economy in the first half of 70s, was reversed in 1977. The privatisation of State Owned Enterprises (SOE) became an important instrument of economic policy of the government in late 80s. However, it was in 1991 that privatisation process in Pakistan became effective.

Privatisation of SOEs is a multi-faceted, complicated as well as politically and socially sensitive process. A well-devised privatisation plan of SOEs essentially takes care of all the stakeholders, which include labour, consumers, investors, government and the economy. It helps to promote capital, goods and labour markets in the country. The privatisation process in Pakistan has passed through different phases and it has been very instrumental to redefine the relationship of private and public business with the government institutions. The following paragraphs elaborate the history and evolution of privatisation process in Pakistan.

## PRIVATISATION POLICY DURING LATE 1970s

The nationalisation policy of the early 70s increased the size of the public sector to an unmanageable extent. The nationalisation process also failed to deliver what was expected from it. In July 1977, the new government introduced the policies of denationalisation, disinvestment and decentralisation to restore the confidence of private investors. As a part of these policies, the government announced denationalisation of around 2000 Agro-based industries, in September, 1977. Apart from that, the government offered a number of SOEs on Management Contract and introduced performance signalling

* The material contained in this paper is derived from various government documents and reports produced/submitted from time to time regarding privatisation. To complete this paper, I am highly indebted to Mr. Ahmad Waqar, Joint Secretary Privatisation Commission for his valuable comments. The author well-come comments/criticism on the views expressed in the article.

system, in order to improve their performance and bring efficiency in operation and management.

In September 1978, Transfer of Managed Establishment Order, was promulgated, which empowered the Federal Government to offer to the former owners of nationalised industries, the shares or proprietary interest in acquiring their establishments. This Order explicitly recognised the pre-emptive right of the previous owners for transferring management. However, in case there was no positive response from former owners, the government was free to transfer the management and control to any other party on whatever terms it considered fit. The Order also envisaged the transfer of management of profit making units. Due to limited scope of disinvestment policy of the government and lack of any legal and institutional framework not much headway was made and only two industrial units were returned to their former owners, during this period.

## SETTING UP OF CABINET DISINVESTMENT COMMITEE IN 1985

In early 1985, a Cabinet Committee was set up under the directive of the then Prime Minister to consider and identify units (which produced simple technology products and were running into loss) for disinvestment to private sector. The Cabinet Disinvestment Committee had the following composition:

| | | |
|---|---|---|
| a) | Minister For Finance | Chairman. |
| b) | Minister For Production | Member |
| c) | Minister For Industries | Member |

The Committee took certain important policy decisions and devised procedures for disinvestment of selective SOEs falling under the Ministry of Production. Some of the important points included in the policy were: -

- Competitive quotations be invited through the press.
- The quotation received be evaluated and negotiated by a committee comprising representatives of the Ministries of Production and Finance, Pakistan Banking Council and NDFC.
- The recommendation of the negotiating Committee be placed before the Cabinet Disinvestment Committee for a final decision.

The Disinvestment Negotiating Committee concluded the sale/disinvestment of Tarbela Cotton and Spinning Mills and handed it over to a private party. In addition, the committee considered the sale of a couple of units, i.e. Domestic Appliances Ltd and Pak Iran Textile Mills at Uthal. The processing of disinvestment of other units namely Quality Steel, Karachi Pipe Mills, Pioneer Steel Mills, Special Steel Mills and Trailer Development Corporation was, however, held up for want of an amendment in the Managed Establishment Order, 1978. Although some positive developments were made during this period like setting up a high level Ministerial Committee, devising the rules and procedures for disinvestment, however, the overall progress remained unimpressive. Inadequate legal framework and institutional support as well as lack of political will mainly hampered the process of transferring the SOEs to the private sector.

## PRIVATISATION IN 1988 - 90

In December 1988, the new government appointed a British firm M/s N.M. Rothschild in April 1989, as consultants, to undertake a study on privatisation strategy and selection of prospective candidates. The consultants submitted their report to the government in May 1989, namely “Privatisation and Public Participation in Pakistan.”

The report recommended privatisation on widespread ownership basis as an appropriate strategy for Pakistan. By "Wide Spread Ownership" the consultants meant development of Pakistan's capital markets by bringing hundreds of thousands of small savers into share ownership for the first time. The report, however, warned that wide spread participation strategy should be carefully structured so as to avoid over ambition on price or size (particularly at the start), inadequate preparation, inappropriate regulation, insufficient marketing and lack of communication with the workers. After analysis of more than 50 companies, the consultants short-listed seven companies as potential first candidates for widespread offers. These included Habib Bank, Muslim Commercial Bank Pakistan National Shipping Corporation (PNSC), Pakistan International Airlines Corporation (PIAO). Pakistan State Oil (PSO), Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines Ltd (SNGPL).

On the basis of detailed analysis, SSGC was recommended as the first candidate for widespread offering. In addition, the report recommended that for further seven companies, a minority stake could be divested during the five-year programme to the consortia of workers and private sector parties. The first three such disinvestments were recommended to be in respect of Pak Saudi Fertilizers, Pak Suzuki and National Refinery.

The consultants also suggested that a new department should be established under the Ministry of Finance, to co-ordinate the complex transactions involved in wide spread offers. The establishment of the new department was also recommended on the grounds that it would be helpful in implementing future privatisation programme of the Government. The report also indicated the need of financial restructuring of the units identified for privatisation, in order to make them an attractive proposition. The report further suggested the need of adopting special techniques, new procedures and incentives to attain wide dispersal of offers both within the country as well as abroad.

The Government, following the advice of the consultants, first made efforts to privatise SSGC that was recommended as a leading candidate. However, after having done all the spade work, the proposal to privatise Sui Southern was abandoned. Instead, it was decided by the Government in January, 1990 to disinvest 10% shares of PIAC, amounting to Rs 274 million, 30-40% shares of Pak Saudi Fertilizer and 60% shares of Muslim Commercial Bank (MCB) (Later reduced to 49%) shares). The decision, however, could not be implemented in full. Only ten percent shares of PIAC were disinvested in May 1990 at par value. Again due to lack of institutional framework, legal and other complications the privatisation programme could not make any headway.

## PRIVATISATION IN 1991 - 93

Soon after assuming power in November 1990, the then government declared privatisation as its primary economic policy objective. The agenda of privatisation announced by the Government covered a wide spectrum of fields like industries, banks, development finance institutions, tele-communications and infrastructure facilities.

As a first step towards privatisation, a Committee on Dis-investment and De-regulation was formed. The Committee in its preliminary report, submitted to the government in January 1991, recommended the disinvestment of 118 industrial units, which included 45 nationalized units taken over during the period 1972-74. The government approved this disinvestment plan and announced the creation of a Privatization Commission on 22$^{nd}$ January 1991 to implement the disinvestment programme within the shortest possible time. The birth of Privatisation Commission institutionalised privatisation efforts in Pakistan. At the same time, a Cabinet Committee on Privatisation (CCOP), with the Minister for Finance and Economic Affairs as its Chairman, was constituted to approve the recommendations of Privatization Commission.

## LEGAL FRAMEWORK

One of the major roadblocks in the way of privatisation in Pakistan was the Economic Reforms Order of 1972, which was creating apprehensions that the policy of privatisation can be reversed. Therefore, the laws under which nationalisation had taken place were all amended to facilitate privatisation. The major amendments included the "Transfer of Managed Establishment Order 1978", alongwith two subsequent amendments to cover the right of first refusal to previous owners to match the highest bid, except in cases where the employees had given the highest bid. Non-reversal of privatisation was also given a legal cover under the 'Protection of the Economic Reforms Ordinance 1991'. By the end of 1993 there was one commission to deal with the privatisation of industrial units, banks and financial institutions, another for privatisation of power sector including oil & gas and a separate committee to look after the privatisation of telecommunications, transport and shipping companies. All these activities were subsequently amalgamated into one Privatisation Commission in 1993 and it remained to be headed by a chairman.

While providing a legal cover to the privatisation process, the government at the same time also moved to protect the interests of the stakeholders, of which labour was given primary importance. A separate Inter-Ministerial Committee was constituted to deal with the labour employed in the SOEs and safeguard their rights. The Committee negotiated a package of incentives for labour employed in these enterprises with the representatives of workers through All Pakistan State Enterprises Workers Action Committee (APSEWAC). The agreement with labour was executed on October 15, 1991. The agreement has provided the basic parameters to safeguard the interests of labour and include minimum one year service guarantee after privatisation, reservation of 10% shares for the labour, opportunity to the employees to purchase the unit by putting competitive bid and several other concessions to the workers. It also provided a scheme of Golden Hand Shake (GHS) and Voluntary Separation Scheme (VSS) for the workers and officers of the public sector undertakings, which were on the privatisation list. Under the GHS scheme the workers have been given the benefits on the basis of a formula of 1 + 4 salaries, where 1 stands for legal dues and 4 for extra compensation, for each completed year of service. For officers, the benefits are offered on the basis of formula of 1 + 2 salaries for each completed year of service.

***As on September 1998, under GHS/VSS scheme Privatisation Commission has paid about Rs.3.6 billion to almost 23,000 officers and workers in the privatisation of 87 government enterprises.***

## METHODOLOGY ADOPTED

Privatisation of SOEs is very difficult and complicated process. It requires multi-discipline skills and expertise to deal with regulatory, technical, financial, legal and marketing issues. The methodology adopted in the privatisation of SOEs contains the following elements: -

a. Sale of individual state-owned enterprises by inviting bids from the private sector. This includes both open and sealed bidding as well as with or without prequalification of bidders, where the situation demands. This method has been used for selling small and medium industrial units and the real estate.

b. Sale of shares of SOES in various tranches through stock exchange at a price per share to be determined through a valuation process. It was to ensure broad-based ownership and participation of foreign institutional investors.

c. In the case of utilities, financial institutions and infrastructure projects, Financial Advisory Consortiums, consisting of reputed investment banks and consultancy firms having complementary skills, have been hired to sell a minimum stake of 26% with management control, to the prequalified Strategic Investors. To gain the confidence of investors and protect the interests of consumer, the Privatisation Commission has helped to establish autonomous regulatory authorities, which include National Electric Power Regulatory Authority (NEPRA), Pakistan Telecommunication Authority (PTA), and others in the area of Oil and Gas, Petroleum and Insurance are being established. At the same time tariff setting mechanism has been rationalised to reflect the market conditions of demand and supply.

   Method (b) and (c) has been adopted in the privatisation of large industrial units, public utilities and infrastructure and development projects.

## Achievement of Privatisation

Overall results of the privatisation process in Pakistan are mixed. In certain sectors like power generation, financial institutions, cement and automobile the performance of the privatised units is satisfactory and the new management have succeeded in improving the quality of product and service as well as financial health of the units. The workers have also benefited in terms of higher salaries and better working conditions. In other sectors like edible oil and roti plants privatisation has not been very successful. The following table shows an overall privatisation picture in Pakistan:

| Sl. No. | Sector | Sub-sector/Units | No of Units |
|---|---|---|---|
| 1 | ***Industries*** | Automobile Unites | 05 |
| | | Cement Plants | 11 |
| | | Engineering Companies | 07 |
| | | Edible Oil Factories | 19 |
| | | Chemical/Fertilizer Plants | 13 |
| | | Rice/Roti Plants | 20 |
| | | Newspapers | 05 |
| | | Miscellaneous | 07 |
| | | ***Sub-Total (a)*** | ***87*** |
| 2. | ***Financial Sector*** | Muslim Commercial Bank | |
| | | Allied Bank Limited | |
| | | Banker's Equity Limited | |
| | | Habib Credit & Exchange Bank | |
| | | First Woman Bank[2] | |
| | | ***Sub-Total (b)*** | **05** |
| 3. | ***Utilities*** | Public Offering of SNGPL and Mari Gas | |
| | | Public Offering of Pak Telecom | |
| | | Sale of Kot Adu Power Plant | |
| | | ***Sub-Total (c)*** | **05** |
| | | ***Grand Total (a + b + c)*** | *97* |

The Government of Pakistan has raised an amount of about Rs.60 billion by selling the above SOEs.

[2] Transfer of the Bank, to the successful bidder, is held up due to court stay.

## PRIVATISATION AND LABOUR

Among the factors of production, labour occupies a very special position. While privatising the SOEs, the government has given due care to safeguard the interests of the labour. As already mentioned, the APSEWAC agreement, signed with the representatives of labour unions provided a comprehensive package of concession to the workers and has constituted basis for dealing with all privatisation related labour issues. In most of the cases the government has encouraged the workers management group to purchase the privatising unit by putting competitive bid. So far, the government has transferred the management of 12 different units to the workers management group through competitive bidding process.

Most of the units transferred to the workers group have been very successful, like Milliat Tractors Ltd. and Allied Bank Limited. By introducing better management practices, productivity as well as workers' benefits have gone up. In other cases of privatisation, the workers have benefited in terms of increase in salary and better working environment i.e. Kot Addu Power Company and MCB. However, in many other cases like Quality Steel Mill, the workers have suffered due to unqualified new management.

It is very difficult to make a real assessment of the privatisation process in Pakistan due to a number of reasons, which include, *inter alia,* lengthy process of privatisation, which makes it difficult to evaluate the results of privatisation in the short run and the fact that the privatisation has been limited in few sectors. However, privatisation of SOEs is an important instruement to remove most of the ills of the economy. Government gives high importance to the genuine interests of the workers and wants to make them a partner in its endeavour to reform the economy.

## CONCLUSIONS

The privatisation process in Pakistan has moved from simple to complicated sectors. It has been institutionalised with the passage of time and rules and procedures have been defined for transparent and competitive privatisation process. In future Privatisation Commission has a heavy task before it not only to dispose off the remaining sick industrial units but also to privatise the large industrial units, public utilities, financial institutions, infrastructure and transportation facilities. Steps are being taken to expedite the privatisation process as well as to rationalise the macro economic environment for speedy economic development of the country.