Economic Freedom Network Pakistan

EXAMINING PRIVATISATION IN PAKISTAN 2006–2010

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Friedrich Naumann STIFTUNG FÜR DIE FREIHEIT

Individualland

Where the individual counts

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Lead Author: Gulmina Bilal Ahmad
Researchers: Zeeshan Khan, Ammar Zafarullah, Mian Ethsam Waheed, Zulfiqar Haider, Fazal Sher.

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Economic Freedom Network Pakistan
House 397, Street 64,
I-8/3, Islamabad - Pakistan
Tel: +92-51-4 86 06 11-3
Fax: +92-51-8 31 60 24
Cell: +92-300-5 20 74 47
E-mail: info@efn.net.pk
Url: www.efn.net.pk

Individualland
Where the individual counts
House 12-B, Street 26,
F-8/1, Islamabad - Pakistan
Tel: +92-51 2 25 34 37, 2 25 34 38
E-mail: info@individualland.com
Url: www.individualland.com

supported by

Friedrich-Naumann-Stiftung für die Freiheit
P.O Box 1733,
Islamabad - Pakistan
Tel: +92-51-2 27 88 96, 2 82 08 96
Fax: +92-51-2 27 99 15
E-mail: pakistan@fnst.org
Url: www.southasia.fnst.org

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Expensive Bedtime Story

Once upon a time, people believed that state-owned enterprises (SOEs) would serve the people. SOEs – so it was assumed – deliver to everyone equally. Every citizen was content to wait more or less equally long time, which is months or years, after ordering a car. It was widely accepted that not all people need a telephone; only for the more equal ones it was considered necessary. Also, it was perceived that only due to cultural reasons a railway in the Subcontinent has to be slower and less reliable then in any other parts of the world. Every citizen was happy to pay a high price for SOEs' goods and services in the confidence that it is to the country's best.

Every citizen? No, there were a small number of experts who saw the financial losses that in some cases amounted as much as five to six percent of the Gross Domestic Product (GDP). Bailouts and fiscal strains, first on government budgets and latterly on the banking system were the consequence. Governments had to finance larger fiscal deficits. Then, only most of the citizens were happy that taxes had to be increased or public expenditures in other areas had to be reduced in order to keep SOEs alive – after all didn't they serve the country's interest? Sheltered from competition SOEs in many countries were the pride of the people though overstaffed, poor performing with goods and services of low quality and high cost. It was seen as fault of the government that it could not provide capital to their SOEs for maintenance and repair, much less badly-needed network expansion and re-tooling.

Some governments tried to reduce the burden for the taxpayers caused by SOEs. Years for years, mainly in the 1970s and 80s, many states attempted to reform them by imposing hard budget constraints, exposing SOEs to competition and enforcing institutional changes (training and re-muneration of managers, qualification of directors etc.). It produced meagre results and back-sliding was common.

Then, by the end of 1980s the root cause was detected: government ownership! Privatization programmes in Great Britain and a few other OECD countries served as powerful demonstration effect for other countries worldwide. Later, even Communist China became a world player by privatizing "public property". In Pakistan liberalization of the telecom sector proofed that not only the more equal people need a telephone and can afford it.

But still, there are few people left who belief that a railway in the Subcontinent has to be slower and less reliable due to cultural reasons. Until today, some are willing to buy a steel product for a higher price and lower quality if only it has a state-owned "Made in Pakistan" on it. Even nowadays you may find individuals who accept bad service and security risks by flying with a heavily overstaffed airline. You might yet find citizens who accept corruption enabled by unnecessary monopolies as long as it is state-owned. Let these few people believe in the stories of once upon a time. They might tell it as bedtime stories along Umero Ayar, Aladin and Ayinak wala Jin to their children. But why should YOU pay for it?

We are grateful to Gulmina Bilal Ahmed and her team of Individualland for clarifying the difference between bedtime stories and economic reality. Furthermore, it is the merit of Economic Freedom Network Pakistan (EFN) to take up the subject of privatization and consult in the process – as perhaps not every taxpayer wants to finance expensive bedtime stories of others?

Olaf Kellerhoff
Resident Representative

Islamabad
July 2010

Foreword

Pakistan confronts momentous challenges. Ranging from socio-political lines to economic fronts to the war on terror, these challenges have consumed the everyday lives of Pakistani citizens and the Pakistani Government. As the Government's resources get spread over such a vast array of challenges and issues, it becomes evident that the Government needs to rethink its governance structure. These challenges range from socio-political lines to economic fronts. Fighting at too many fronts can be a tedious task. This is why the government assigns different people to handle different tasks. Defined as transfer of management or ownership from the public to the private sector through outsourced management, leases and contracts; privatization is an efficient alternative to the public management of state owned enterprises. Because of Individualland's role as an advocate for less government involvement in business, I believe this study has surfaced at a very critical time.

Every year more and more tax payers' money is diverted from the much needed social sector services to suboptimal-functioning state owned enterprises. As the government continues to act as a safety-net for under-functioning entities, the drive and pressure to improve these entities' performance dwindles with time. This is one reason why government funded institutions in Pakistan have not been at par with their private competitors, government owned entities are not intended to make profits and hence disintegration can hit them anytime. Although Pakistan has tried sporadically to employ the concept of Privatization, the results have not been as expected and issues of transparency have haunted these experiments.

Privatization is not the imaginative sin; it is actually a vital element in an economy's sustenance, a stimulus for economic growth and development.

As Pakistan continues its transition from military rule towards a democratic governance structure, it is vital to push the economy of the country onto the road to recovery. Privatizing state owned services can thus prove to be a catalyst for economic recovery, when privatization is executed in a transparent manner it can bring about a sharp improvement in employment, growth and service to the public.

An important point which commonly surfaces is not "why privatize?" but rather "how to privatize?". Individualland's study has accurately suggested a framework that can prove to be a basis for starting a new era of privatization in Pakistan. If we can agree that privatization is the most efficient means to improve the delivery of certain services, we need to then help the Pakistani public reach the same conclusion. In a country where democracy is uncertain, politicians are deemed untrustworthy, where scandalous half truths prevail over fact, and the state machinery has not been able to anticipate and meet the demands of the masses; convincing the public on the merits of privatization becomes a daunting task. I believe the whole process starts from efforts like this one. Where people can exchange opinions, ideas and views. That is how new traditions are born and milestones for a prosperous future are set.

Should Pakistan opt for a privatization policy to be incorporated in its overall strategy for economic recovery, success would only be achieved by doing the "right" kind of privatization. Privatization is not easy to do and getting it right can be difficult in low-income countries. Policy-makers need to realize that success in privatization relies on judicious policy choices rather than on the country's GDP or per-capita income. The Telecom sector is a shining example in this regard. The competition among the providers has led to a steady fall in the price of services and hence mobile phones have become affordable for so many Pakistanis as compared to a decade back, when mobile phones were luxury items. No matter how much time and energy is put into a policy, it will never succeed if it does not have public support and ownership. This, in a way, exemplifies the beauty and importance of democratic institutions and cultures. Taking the public into confidence on state policies through awareness interventions assists the government not only in alleviating the public's doubts, but also opens a communication channel amongst the stakeholders. Unfortunately, thus far most privatization in Pakistan has been mired by misinformation, nepotism, a lack of transparency and expensive legal suits which have led to public outrage as well as lowered investors' confidence.

A year ago Pakistanis were heartbroken to see The National Geographic casually listing Pakistan as a failed state in its September 2009 issue. However much such a reference might sting our National Pride, we should take such opportunities to hold a mirror up to ourselves and the state of affairs in our country. We can either oppose such articles and baseless and devious or we can use them as an inspiration to make decisive policy changes that will improve the lives of millions of Pakistanis. Privatizing smartly can open new ways and routes for economic inflow for Pakistan and will have direct and indirect effects on livelihoods of many. This is the right time to set the ball rolling.

One can correctly anticipate that this endeavor of Individualland will prove instrumental in clearing misconceptions associated with privatization. With correct information and understanding, we can embark on a journey of economic revival which will benefit Pakistanis both as stakeholders and as the recipients of goods and services.

Dr. Donya Aziz
Member National Assembly of Pakistan
Member, Economic Freedom Network Pakistan

Islamabad
July 2010

Introduction

In the intellectual world we live in, “Public” and “Private” are two words which are used not only to depict but also to commemorate and denounce. Any somber query into the meaning of privatisation must begin, therefore, by unloading the multifaceted cargo that the public-private division carries. Privatisation is a contentious and blurry concept that induces sharp political and social reactions. These reactions cover an extensive range of ideas and policies; some are reasonable while others sound somewhat impractical. It won’t be entirely wrong to say that privatisation does have some political origins and objectives but they cannot overshadow the concept in a blanket of negativity.

The concept basically originates as a countermovement against the growth of government in the west. It is indeed a fine example of providing an alternate solution to what could be termed as government hegemony. The key to success of any society in terms of economics would be to strike a balance between public-private partnerships. Privatisation cannot be understood as a process solely. To understand the horizon of privatisation completely, it needs to be explored as an idea, as a theory, as a political process and as an expression. This research tries to look at the concept of privatisation from all these angles with particular reference to Pakistan while at the same time comparing country to country experience of privatisation.

The words “Public” and “Private” are well known by people belonging to all walks of life from law, politics to social life. As much as they are common, they are a continuous rationale of perplexity and aggravation. Many things seem to be public and private at the same time in varying degrees or in different ways. Economists, political leaders, think tanks and government officials, all have tried to define “Privatisation” differently. Privatisation can narrowly be referred to as activities that “involve an authentic sale of assets and termination of a federal activity" [1]. The Oxford English Dictionary meanwhile, defines the term more broadly to mean "the policy or process of making private as opposed to public"[2]. Commonly "privatisation" is used to refer to "any shift of activities or functions from the state to the private sector"[3].

Although one can find different definitions of the term "privatisation" but the point to be noted is that all focus on one or the other aspect of privatisation. It helps the policy and law makers to work on certain objectives. It would also be worth mentioning that the profession we belong to, effects the way we look at things. As puzzling as it sounds, we all do it unconsciously. For example, an economist would look at a grocery store as a place where trade is done. He would apply the supply and demand rule on it and note the inflation rates. Whereas a sociologist or an anthropologist will look at it from a different angle; describing it as a place where cultural exchange takes place. A common man would just think of it as a place to buy groceries. Applying the same theory on privatisation, an economist and a sociologist would give you different views about it.

The trend setters for privatisation of state owned entities were mostly developed countries which felt the need of less government influence in public services and handed over major institutions to potential private buyers. Whether it's British Airways in United Kingdom, prisons in USA or postal services in Japan, all these countries followed the concept of privatisation to revitalize their economies. The ever changing economic

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[1] Kevin R. Kosar. (2006). Privatisation and the Federal Government: An Introduction. Available: http://www.fas.org/sgp/crs/misc/RL33777.pdf Last accessed 14th March 2010.

[2] Compact Oxford English Dictionary of Current English. (2010). Oxford Dictionary. Available: http://www.askoxford.com/concise_oed/privatize?view=uk. Last accessed 10th March 2010.

[3] Darrin Grimsey, Mervyn K. Lewis. (2007). Public Private Partnerships: The Worldwide Revolution in Infrastructure Provision and Project Finance.
Available: http://books.google.com/books?id=FGAldvk7lcgC&printsec=frontcover&dq=Public+Private+Partnerships:
+The+Worldwide+Revolution+in+Infrastructure+Provision+and+Project+Finance&source= bl&ots= ly-CMUL11p&sig=. Last accessed 23rd March 2010.

demography of the world demands the countries to find new ways to reinvent revitalize and revive their current economic plans. This probably makes the most important subject of contemporary economics. That is precisely what most developed countries do. Although the process was not without difficulties for them either, some lobbies in these countries did oppose the idea of privatisation backed by their own rationales. The most obvious reason for resistance for a reform from any group could be the harm done to his/her vested interests.

In developing countries such as Pakistan, which already lack credibility to a major audience due to the soaring number of economic irregularities at all levels; privatisation unfortunately becomes synonymous with corruption. Instead of being a process for economic revival of the country, people presume it to be an excuse for more corruption. Transparency in dialogue and act is an aloof concept for most of us. The government, even if it decides to go for privatisation faces harsh challenges from different pressure groups which range from ethnic to religious groups. The ethnic groups come up with the concern of national spirit being jeopardized while religious groups come up with jeopardizing the religious side of a society through privatisation. The comical part is definitely the rationale of religious pressure groups. They associate privatisation with 'westernization'. Privatisation focuses more on increasing competition for the greater benefit of consumers while the opposing lobbies tend to associate it with 'western' practices. Westernization, modernism and liberalism are altogether different concepts in theory and practice. All the three concepts need to be distinguished very carefully and need not to be entwined.

One more core reason why the process of privatisation is controversial in Pakistan's perspective is because of the question of which state entities should be privatized and which entities should always remain directly accountable to the state. It is a very multifaceted and value-laden question. This question does not have a definite answer thus making the decision and process of privatisation incomprehensibly notorious. Yet despite all the opposition, the Privatisation Commission of Pakistan (PCP) has successfully privatized many state owned institutions in recent years like Pakistan Telecommunication Company Limited (PTCL), Habib Bank Limited (HBL) and Karachi Electric Supply Company (KESC) to name a few. The privatisation of these entities was not without irregularities which gave more air to the rationales given by the challengers of privatisation.

Another core reason put forth by the lobby opposing privatisation is the fact that it would create monopolies or cartelization. Privatisation ideally means breaking the monopolies. It does not create them. The emphasis is on the word 'ideally'. An act of privatisation done through open bidding while ensuring that the highest not the hidden bidder wins should ensure all that. Unfortunately some privatisation examples in Pakistan are in contrast to this. For example the case of PTCL and PSM (Pakistan Steel Mills), both have hidden stories or agendas. The case study of PTCL will be discussed thoroughly in the coming pages. The sole purpose of quoting these examples is not to disengage from the process but rather to make clear that these examples make the process look like a sham and a fig leaf for unethical practices. The process, tools, mechanisms and transparency issues need to be debated and implemented by the policy and law makers. It is also a responsibility of civil society organizations, media personals, social activists and individual think tanks to make sure that the process is carried out in its true spirit.

Changing the social or the economic order of any state or society is a difficult task and needs to be handled by appropriate persons with the paramount dedication. The process of privatisation is also sensitive in the sense that if done in isolation, it can be an open invitation for corruption. The details need to be made accessible to everyone thus ensuring transparency in speech and act.

We all know that the private sector is driven by profit and competition. Thus it ensures high quality service for the same price. Institutes backed up by government even if they go in a loss, are hardly concerned because the state would back them up financially. Private owned entities cannot risk that. So customer satisfaction becomes their primary goal. One happy customer attracts more customers is the philosophy they run on. If we take the example of Pakistan, we all know how PTCL functioned before it got privatized. To get one telephone connection installed at your home included numerous trips to the local office, writing and filling applications and bribing the line man. But now it is just one call away. Reason is the way a privately owned entity values its customers. Privatisation also is not a reason for unemployment. In contrast, privately owned entities create further job openings by sub-leasing functions or departments. The example of PTCL fits the picture perfectly again. Privatisation also creates more choices for the end user thus more benefits for the consumer.

It must be noted that the state run industries tend to be more bureaucratic in nature putting less emphasis on performance. Government only strives to improve performance of a specific industry or department when it becomes a political issue. On the other hand, privately owned entities focus more on performance and result based services. Even the yearly appraisals to employees are given after assessing their performance in that year which keeps the employees on their toes. Privately owned entities continuously strive for improvement in functions while focusing on reduced inputs. This in turn results in the introduction of latest procedures and technologies in the local market.

A state-monopolized utility is prone to corruption as most of the decisions made are based on political reasoning and pressure rather than economic gains. Whereas any corruption that may occur during the privatisation process is a one-time event and does not affect ongoing cash flow or performance of the company. Private entities strive to generate profits for themselves and their share holders. They make profit by luring consumers to use their services or products. This while creating a fair competition also gives more choices to the consumer. Any private company which serves the consumer well will end up making more profit. Thus it’s a win-win relationship between the service provider and the consumer. Although there have been reports of private giants engaging in unfair competition but to keep such practices in check, a state owned regulatory body is required. In case of Pakistan, it is Competition Commission of Pakistan

(CCP) which is the regulatory body which ensures consumer protection. At the time of assembling this report, CCP was in doldrums and ceased to exist.[4]

The concept of privatisation also facilitates good governance. For liberals, the state must be lean as there should be minimum governance for there to be good governance. According to the liberal point of view, the government needs to concentrate on areas and sectors where private citizens or bodies don't or can't deliver.

In the coming pages we will discuss the regional experiences of privatisation in South Asia as well as different perspectives on privatisation. The report also seeks to inquire as to how privatisation can fuel the dying economy of Pakistan and have a positive effect on the overall state of economic and social development in Pakistan. We sincerely hope that this effort will clear many fallacies about the concept of privatisation and will indulge the reader in a rational, constructive and dynamic debate over the topic.

4 Dilawar Hussain. (2010). CCP in a state of flux.
Available: http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/business/ccp-in-a-state-of-flux-340. Last accessed 3rd April 2010.

I. Dissecting the Elephant

1.1 What is Privatisation? Origin of the Term and a Conceptual Elaboration in Pakistan

The basic definition terms it as a process of transferring ownership of a business, enterprise, agency or public service from the public sector to the private sector. In a broader sense, it refers to the shift of any government functioning entity to the business sector also including governmental bodies like revenue collection and law enforcement. Since the early 1980s, governments around the world have raised over USD

700 billion through the sale of shares in state owned enterprises to the private sector. Once the procedure is complete the entity can also be called as 'privatized'[5].

The process of privatisation is not alien to Pakistan. The more important thing in the process is that the government property is privatized in an open and transparent manner with an attempt to obtain a suitable price. This however, varies somewhat depending on the nature and size of the asset being privatized. The number of shares being offered for privatisation is also taken into account and whether or not transfer of management is involved. These are some factors that need to be focused in the process and later the Board of Privatisation Commission comes into play which decides the kind of process to be followed.

There are different forms of privatisation. However, in South Asia majority of the transactions have gone through a common process that is discussed below. Following are the steps which are taken to privatize a specific entity.[6]

Privatizing an entity

To get a detailed picture of privatizing an entity, we will quickly go through a description of the steps in a privatisation process:

Identification

The first step is the identification of the unit that will go under privatisation. E.g. we have an entity XYZ. In a transaction in Pakistan, the Privatisation Commission will consult with the relevant Ministry before submitting a brief of the proposed transaction to its Board. The summary justifies the need for privatisation of XYZ and defines the likely mode of privatisation. Once authorized by the board, the proposal is submitted to the Cabinet Committee on Privatisation for approval.

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5 Government of Pakistan. (2010). Privatisation Process. Available: http://www.privatisation.gov.pk/about/pc-process.htm. Last accessed 25th March 2010.

6 Ibid.

Hiring of a Financial Advisor

In major transactions, the hiring of a financial advisor is compulsory and also requires the approval of the Board. The terms of reference for the financial advisor are finalized on initial basis. Apart from this, an evaluation team is also formed and only short listed firms are invited to put forward the proposals in a general format for the privatisation of chosen entity. The evaluation team scores the technical proposals and the highest ranked firm based on both technical and financial scores is invited for contract negotiations and signing.

Due Diligence

The next step in the process is to carry out the legal, technical, and financial due diligence. The motive behind this is to give an asset value to the company and identify if any legal debts are faced by the company. The financial standing and the existing outstanding accounts of entity XYZ will be analyzed. In most cases the financial advisor will carry out this function for reliability purpose.

Valuation of Property

In order to obtain an independent assessment of the value of the property being privatized, the Commission relies primarily on external firms. In cases where there is a financial advisor, he is given the job for the valuation of the entity.

Pre-bid and Bid Process

Expressions of Interest (EOI) are invited by advertising in both the print and electronic media.

Post-bid Matters

Following bidding and identification of the highest bidder, the Board of the Privatisation Commission makes a recommendation whether or not to accept the bid or not. The reference price is a major determinant in the recommendation but is not the final determinant. The transaction is materialized even at times when the bid price is lower than the reference price and thus a final decision is made.

Figure 1

Chart Timetable for a Strategic Sale

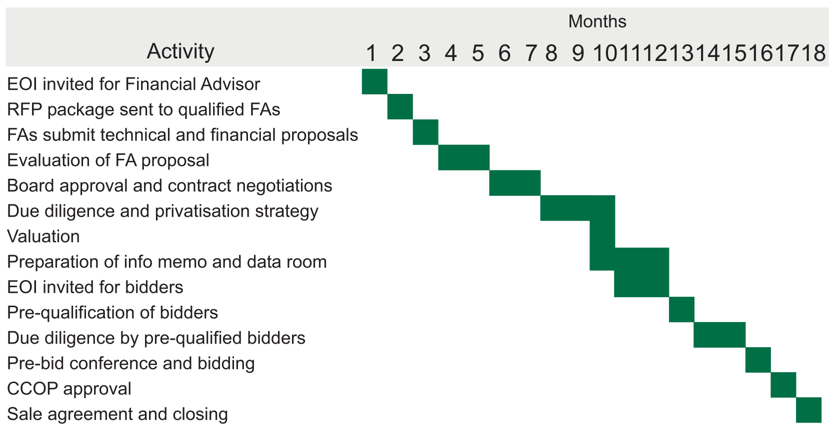

Image from www.privatisation.gov.pk

The privatisation process is lengthy for major transactions, mainly to assure transparency in the process. After receiving the approval for the privatisation of entity XYZ, it typically takes about 18 months on average to close a major transaction as shown in the chart above. There are many types of privatisation but a few which we will discuss are common in the world. The first two have gained popularity in South Asia as well as globally. We will first mention these types.

Share issue privatisation

In this type of privatisation the shares are sold on the stock market. It is the most common type of privatisation which generates revenue for the state in addition to tax revenues.

A recent example of this type of privatisation is Pakistan Petroleum Limited. The company was incorporated on June 5, 1950 whereby the company inherited the liabilities and assets of the Burma Oil Company Limited. In

July 2004, the Government decided a 15% offer for sale of the company on the stock exchanges of the country at PKR 55 per share. The current distribution of the shares of the company is 78.35% with the Government, International Finance has 6.09% and the individual investor has 15.56%.[7]

Asset sale privatisation

This type of privatisation occurs when an entire firm or part of it is being sold to a strategic investor who has won it through mainly auction.

An example of this type of privatisation in the country is of Pakistan Telecommunication Company limited (PTCL). PTCL is still the largest telecommunication company in the country followed by companies such as Telenor and China Mobile. In 2006 through an auction Government sold 26% of PTCL's shares to a UAE registered company named 'Etisalat'. After holding back 62% of the shares, 12 % of the remaining was given amongst the general public. In this case 18 companies were invited for 'Expression of Interest' (EOI). Only 3 qualified for the process of bidding. In the year 2006 the State had announced that 51% of the shares of the company will be auctioned making it an asset sale privatisation.[8] In this case 'Etisalat' will be the strategic investor.

Voucher privatisation

This type of privatisation is the least common type. It was mainly used in countries like Russia, Poland and Bulgaria who had transition economies from early to mid 1990s. In this the shares are distributed in the population to give birth to a sense of inclusion and participation by the State. Shares of ownership are distributed at a very nominal price or even free.

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7 Economics and Finance Department, Institute of Business Administration, Karachi. (2009). Petroleum Co: Pakistan Petroleum Limited – Analysis of Financial Statements Financial Year' 03–3Q' 09.
Available: http://www.brecorder.com/index.php?show=&&id=943778&currPageNo=1 &query=& search= &term=&supDate=. Last accessed 18th March 2010.

8 Beltone Research. (2008). Emirates Telecommunications Corporation (Etisalat) "Continued Consolidation".
Available: http://ae.zawya.com/researchreports/bf/20080619_BF_114453.pdf.
Last accessed 25th March 2010.

In other words, as the name suggests, every citizen is given a voucher with which the individual can use a specific service to an extent on the Government expense.

An example of this type of privatisation is the United States where education vouchers were used by the Reagan administration which led to the *No child Left behind Act.* The vouchers given to the students will allow them to go to schools and obtain education to a certain level at the expense of the Government.[9]

Reverse privatisation

A reversion from contracted ownership of an enterprise to the government is called reverse privatisation or in other words Nationalization. An example can be of Pakistan in the time of Late Zulfiqar Ali Bhutto in the 70s. This was the time when many of the private owned firms were taken in control by the Government which had many factors behind it which will be discussed later in the report.

1.2 Why Advocate for Privatisation?

The support for privatisation has increased much in the recent years globally as well as in South Asia. There are numerous important reasons for this. The top most being that we have witnessed State Owned Enterprises (SOEs) perform below standard for a long period of time. The services are not very effective and to attain a service is chaotic at times. SOEs are overstaffed but still the service standards are not maintained. The example of PTCL can be quoted here. Before privatisation, in 2006 PTCL was owned by the Government. The citizens have witnessed a tough time in even getting a single phone connection in their homes. There was a lengthy procedure to get this connection and it was more like who you knew in PTCL. Personal contacts and a small bribe were also used. After privatisation, we analyze that the services of PTCL are the same for everyone. To apply and get a phone connection has become much easier

[9] Monty Neill. (2003). Don't Mourn, Organize! Making lemonade from NCLB lemons. Available: http://www.rethinkingschools.org/special_reports/bushplan/nclb181.shtml. Last accessed 21st March 2010.

after this process and the company is doing good business with relatively less but effective staff. This is one example that gives us an overall picture of a company being privatized and in the latter scenario working effectively in the interest of citizens and also shareholders.

Now we discuss a list of benefits that are extracted from a fair process of privatisation.

Performance is survival

In a growing competitive global world performance is survival. It is an advantage of privatisation that is sometimes lacking in the case of State owned enterprises (SOEs).

In the case of SOEs, the entity is exposed to constant red tape or in other words bureaucracy. Political people have their share in the final decision. There will be many SOEs that will not be functioning in the interest of the citizens but will exist just due to political reasons. Decisions might be carried out to please certain highly dominant political figures rather than intending to benefit the citizens gaining service from that firm.[10]

On the other hand, if we observe private entities the entire pressure is on the business to make profit as it becomes a necessity to compete in the open market. The high competition makes this private entity more cost effective as well. This in turn also gets it more responsive to customer complaints. In the case of SOEs, they don't have to pay tax and they can guarantee the payments but the efficiency and performance of the SOEs is debatable. It is mostly overstaffed as compared to the private sector and favouritism is a common attribute which has always effected the growth of a firm. It is an old saying that a Government should not be the player and the umpire at the same time. Privatisation requires the State to remain at a distance and occupy minimum space with minimal intervention for the growth of the economy.

[10] Mohamed Ariff. (2002). Performance gains through privatisation and competition of Asian telecommunications.Available: http://www.allbusiness.com/finance/404816-1.html. Last accessed 10th March 2010.

The recent decades have showed that privatisation is a step in the right direction even in the developing countries of South Asia. We have numerous successful examples of firms in India, Sri Lanka and Pakistan proving that the performance was enhanced after this process. This will be explained further while discussing every individual country and how privatisation enhanced their economies.

The financial and operating performance of privatized firms has been examined to increase following the transition. The standard of service increases which is directly proportional to the performance, sales, job gains and investment. In the case of SOEs, in majority of the cases the firm is overstaffed and less efficient. Some of the workers are more favourable than others while that is not the case when a firm is privatized. Profits and sale depend wholly solely on the performance of the firm and margin of loss is very less. Thus the owner and managers make sure that the entity is performing to best of its ability where in SOEs the firm keeps increasing the fiscal deficit to the government.

Best out of the workers (Efficiency)

SOEs are mostly overstaffed which directly influences the efficiency of the firm as per employee. An example that we look upon is of Pakistan International Airlines (PIA). PIA has 448 employees per aircraft.[11] On average every plane has maximum 250 employees but PIA being state owned has not done that and hired many extra people. Even with these many employees PIA is confronted with allegations of low performance.

Another example can be that of Pakistan Railways. The transport system of railways is a lifeline linking the entire country and is under the control of the State. The route that the railway runs on was constructed at the time of the British. Since then the route has decreased regardless of the fact that it has abundant employees. The engineering department is also

[11] Nasir Jamal. (2007). PIA performance review and growth strategy 2006–07. Available: http://www.historyofpia.com/forums/viewtopic.php?f=5&t=8183. Last accessed 20 March 2010.

overstaffed of Pakistan railways. Despite this fact, Pakistan Railways has failed to produce profit since independence. The overstaffing has hindered the efficiency of the firm and continues to do so. The high payroll outflow constantly influences the economy of the country and putting the State into increased deficit.

On the other hand if these entities are privatized, the financial deficits will be minimized if not recovered. Greater emphasis put on performance and profitability of the privatized entity leads management to decrease Government subsidies and use the firm's human, financial and technological resources more efficiently.

Privatisation does not mean or lead to unemployment. It believes in increasing the employment and accurate staffing within firms. Most importantly a sales efficiency ratio is used to detect the sales as per employee who gives a clear picture of whether an employee is efficient enough for the company. This also tends to take out the best of every worker. Over staffing is not an option in this scenario. There are many a time a probation period in some privatized firms where the performance of the worker is observed before made a liability for the company. There is a sense that public ownership somehow leads to lower levels of efficiency than are possible under private ownership. Private companies and firms have a greater incentive to produce more goods as products for the sake of their existence in the competitive market and reaching a higher customer base. This logic automatically increases the efficiency of the entity and makes it more successful and healthy for the specific sector. Another major factor when it comes to Least Developed Countries (LDCs) is the tax collection. The tax collection in the privatized entities is a procedure that should be promoted in the modern day world as it is unique and much effective. Privatisation of tax collection in less-developed especially in the LDCs is a major advantage to the economy. Administrative tax collection by the state has been known to be inefficient over a period of time by now and has lost popularity.

Corruption in State Owned Enterprises (SOEs)

May it be the developing countries or the wealthier ones; corruption has always existed in the SOEs at different levels. Legislated powers of the government officials are used for illegitimate private gains. There is abundant of political corruption involved in SOEs especially in developing countries like Pakistan and India which lack a fair judicial system. Corruption in these enterprises undermines economic development by producing distortions and inefficiency as a whole for the firm.

To curb this corruption there are two ways. One is the openness of the information that should be available for the citizens and all organizations for a minimal charge. The other way is to privatize the entity so that legally they are bound to release annual reports and information under State laws. This information can be accessed by the organizations and citizens to confirm that the firm is operating in the interest of citizens and is clean of corruption. The chances of corruption in privatized firms are minimal to generate profits as every penny counts for their survival.

Accountability of Management

When one observes the managers of the SOEs it can be clearly seen that they are answerable to the political stakeholders. The outcome and efficiency of the entity has to be up to the mark just to satisfy these high officials. This reduces the ability of the managers to especially serve the needs of the consumers. On the other hand if the same entity is privatized the manager is accountable to the shareholder and the consumer directly. The promotion and the career of the manager within the company depend upon his/her performance feedback of the consumer rather than favouritism.

Goals

Goals for an SOE and private company can differ. The Government might be running an entity for political gains rather than for the interest of the citizens. When privatized there is a lot more at stake so an entity cannot just survive on some political gains in future. It has to perform to fulfil the needs of the stakeholders and performance is the only option. The goals in privatisation are on mainly focusing the benefit of the consumer as well as the state. The two dimensions of these goals are broad social or macroeconomic goals and enterprise specific goals. The initial goals are to reduce the intervention of the State due to its bad handling of the entities. Another goal that is achieved more by the privatisation process is that the private companies many a times believe that they are given unfair competition by the SOEs due to the soft corner they get in interest rates and some other factors.

Lack of market discipline

Discipline in SOEs varies from that in private companies. SOEs are often poorly managed and insulated from the same principles and regulations in private companies. Private companies often remove management if there is lack of market discipline and poor performance. They are always giving birth to innovative ideas so that they can give an edge to their customers.

If we observe the example of PTCL, we realize that when it was privatized they introduced the Code Division Multiple Access (CDMA) technology in the country. There were no plans of introducing this advanced technology till PTCL was State Owned due to less market discipline and incentive. Once the entity was privatized, the stakeholders realized that they have to offer enhanced products to the consumers to compete in the market. Thus, CDMA technology was introduced which was very useful for the customers.

Lack of market discipline cannot be afforded in private companies because they are for profit. The financial statements are analyzed on weekly basis thus keeping a strict check and balance system on the profits of the companies.

Capital

Privately held companies tend to more easily raise investment capital in the financial markets rather than enterprises.

Job gains

Privatisation does not necessarily mean a decline in employment. Employment increases for all entities except the ones operating in competitive industries, which, as expected, are more inclined to reduce employment. But as a whole if the privatisation process is successful and goes according to plan, it will enhance the economy as a whole and thus promote investments and employment in turn.

Privatisation also leads to potential staff emerging and job gains provided that the process is transparent and carried out under professional guidance. Habib Bank Limited (HBL) was privatized in year 2004. Before the privatisation of this bank the services were not up to mark even though the financials were slightly in profit. Outdated banking software was being used and the financial institution lacked inward foreign remittance.

After being privatized, HBL is now the largest bank in the country and has grown its branch network rapidly.[12] This has boomed the business at a good level and has created much more job opportunities in the country and also at an international level. After being privatized HBL holds 40% of the domestic share and their inward remittance market share increased to 55%. Better services and modern high tech software introduced in the bank compelled the consumers to switch to this bank. The good performance and profitable financial years allowed the bank to open more branches which produced more job opportunities.

Alternates

There are times when it is possible that some of the National Services maybe outsourced or 'subcontract' functions to private entities. Partial public duties are delegated to private firms. An example can be of an enterprise that appoints a private entity for the collection of its traffic fines or parking tickets.

[12] Muhammad Ismail. (2009). Human Resource Management at HBL Pakistan. Available: http://www.scribd.com/doc/19406057/Human-Resource-Management-at-HBL-PAKISTAN. Last accessed 22nd March 2010.

On the other hand total privatisation of a firm is not necessary. There have been occasions when a portion of an entity was privatized and the rest remained under the State. In other transactions, the State has withheld the department of check and balance of the firm. The department with services and operations has been privatized. This allows the State to keep a check on the profits of the firm while making the financial reports monthly, quarterly and annually. If the firm is performing well and up to the standards, the Government can go ahead and privatize the remaining portion of the company as well. This is one alternate to total privatisation which has been practiced around the world.

An example which we can observe here is that of Muslim Commercial Bank (MCB). MCB was privatized by 85% in the year 1991. The successful privatisation of the Bank gave the entire institution a new outlook and produced some outstanding results. Almost after a decade this convinced the State to privatize another 6.8% of MCB. A total of almost close to a 100% of MCB has now been privatized and is one of the leading banks in the country.

II. South Asian Regional Experience of Privatisation

Almost all South Asian countries have been engaged in privatisation and restructuring of various public enterprises at some point of time in history. Numerous such privatisations have also attracted criticisms. Public discussions leading towards the greater understanding of the basis for privatisations have been lacking in this region especially in Bhutan and Pakistan itself. The lack of transparency is a debatable issue that has been a major factor in the process of privatisation that has resulted in loss in numerous transitions to the private sector.[13]

One question that concerns the South Asian countries at present is not whether or not to privatize; it is rather how the privatisation should take place to ensure adequate safeguard of the interests of all parties – workers, employers and the general public.[14]

The concept of privatisation in the social policy literature typically refers to the winding back of state involvement in the provision of social welfare in countries in which it is deemed to be relatively high. In South Asia, however, privatisation takes the form of reinforcing the role of the private sector through public means, because the level of state intervention in the region is already debatable. What is surprising is that the governments in South Asia are not faced with economic hardships or middle-class political backlash that precipitated privatisation in many Western welfare states.[15]

A lot of privatisation in especially countries such as Pakistan and India has been done to reduce the budgetary deficit of the Government in enterprises that have suffered huge losses over a time period. In such a scenario, loss-making organizations are first disposed off while retaining the 'cash cow' enterprises with the state.[16] Below is a table which can show us that governments are well interested in speeding up this method of improving the economy and getting rid of their fiscal deficit. Bangladesh privatized the highest number of units. However once again transparency

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[13] Gopal Joshi. (1999). Privatisation in South Asia-Minimizing Negative Social Effects through Restructuring.
Available: http://www.ilo.org/public/english/region/asro/bangkok/paper/privatize/. Last accessed 14th March 2010.

[14] Ibid.

[15] Gopal Joshi. (2000). Overview of Privatisation in South Asia.
Available: http://www.ilo.org/public/english/region/asro/bangkok/paper/privatize/chap1.pdf. Last accessed 24th March 2010.

[16] Ibid.

in this procedure is very important thus in the case of Bangladesh the deficit was not bridged at its optimal level.

Table 1			
Budgetary deficit and privatisation			
	Deficit (% of GDP)[a]	Privatisation receipts	No. of units privatized
Bangladesh	5.4	US $ 2.0 million[c]	1083
India	6.5	PKR126.38 billion	39
Nepal	6.4	PKR 797 million	10
Pakistan	5.4[b]	PKR 59.6 billion	106
Sri Lanka	7.7	US $ 715 million	75
Source: Country papers presented during the Sub-regional meeting on privatisation in South Asia, Kathmandu, 24–26 November 1999.			

When the process of privatisation takes place under less transparency there are possibilities of an undesired outcome. A situation might take place which would not go in favour of the country's economy. In Table 1, it is shown that in Bangladesh the highest units were privatized but studies show that later 40–50% of these units were closed due to various reasons. Lack of transparency in the privatisation process, absence of an expert institutionalized body and post privatisation ground work are some of the reasons why privatized units in Bangladesh faced problems. This influenced the employment and other factors in the country so it is very important for an institutionalized body to exist to make sure that the process takes place smoothly. In some cases such as Bangladesh if privatisation goes under a process which lacks transparency, there is a probability that the outcome will not be productive enough.

An example in South Asia is that of the India Airlines. To spread economic ownership, increased employment has to be second to economic efficiency in the country. Healthy economy of the region will itself produce more jobs and rotate the industry wheel at a faster speed. One way to do this is through strategic sale or partnership which took place in the case of Indian Airlines. Initially 26% of the equity went through strategic sale due to which business houses and entrepreneurs came to own privatized enterprise.[17] This is considered as a huge transaction and a successful one in the country. Much credit goes to the transparency process in it which brought out profitable years for the entity. Another 38 units were privatized following this. This decreased the budgetary deficit of the State to a large extent. As evident from Table 1, the privatisation receipts that were drawn from these 39 privatisations were PKR126.38 billion excluding the tax revenue.

Another example is of Nepal where almost 51–72% of shares of privatized units are being passed to entrepreneurs but the public participation has been limited to 25%.[18] Once again, transparency of the process is worth mentioning in such cases. Just from 10 units the privatisation receipts totaled PKR 797 million (see Table 1).

These are some examples that show us how the budgetary deficit of the State is decreased after privatizing units. We even observed how important the transparency is in this process. If the transparency fails then there is a high probability that the privatisation outcomes will be different as we saw in the case of Bangladesh.

[17] Gopal Joshi. (2000). Overview of Privatisation in South Asia..Available: http://www.ilo.org/public/english/region/asro/bangkok/paper/privatize/chap1.pdf. Last accessed 24th March 2010.

[18] Gopal Joshi. (2000). Overview of Privatisation in South Asia..Available: http://www.ilo.org/public/english/region/asro/bangkok/paper/privatize/chap1.pdf. Last accessed 24th March 2010.

Effects

Like all other processes, privatisation too will have some post-privatisation effects that may be witnessed. Some most important are listed below which will be explained in detail.

- Worker redundancy
- Retrenchment of workers
- Stagnation of employment in organized sector
- Growing Casualization of labour

The very initial effects are felt by the worker hired directly or indirectly by the SOEs. The worker is influenced slightly by the process and overall employment is effected as well. However, not in a negative way always. The growth options in the private sector and wages are relatively better than the public sector. Below is a table showing the redundancy that resulted from the privatisation in the region over a period of time. The different effects on various time intervals depend on the stage of privatisation the country is. The auction, final bidding and the take over process are three main stages in the process that each unit goes through.

Table 2

Redundancy resulting from privatisation in South Asia

	PSE employment	Redundancy	Retrenchment costs
Bangladesh	240 thousand	25 %	TK 7 billion
India	9.8 million	23 %[a]	PKR 48, 092 billion
Nepal	46.7 thousand	60 %	PKR 9,914 million[b]
Pakistan	34.6 thousand	63%[a]	PKR 3,559 million
Sri Lanka	120 thousand	53%[b]	Up to 53 month salary

Source: Country papers presented during the Sub-regional meeting on privatisation in South Asia, Kathmandu, 24–26 November 1999.

In the case of Pakistan we see that the redundancy is at a high percentage which is not acceptable. 63% is a high average for the process. This is once again due to the transparency in the procedure. In countries such as India it can be seen that the percentage is really low amounting a total of only 23% (see Table 2). This percentage of employees is given incentives such as 'golden Handshake which is a sum total that satisfies majority of workers. So privatisation in South Asia has been an overall win-win situation for all. The Government has reduced its fiscal deficit; the employees have been much better off seeking more opportunities and all has worked in favor of the consumers.

India

In India privatisation has been relatively aggressive and most successful in the South Asia region. Some of their transactions have come out to be role models for neighbouring countries as they have proved to be very successful and boosted up the economy of the country. Generally they go by the term of 'disinvestment' or 'divestment' of equity. The reason behind this is a detailed study of privatisation in India in which there has not been transfer of total control or even of controlling interest from government to the private sector. However, this process is relatively still new to India but it is a part of a process of economic reforms covering industry, agriculture and trade. India began to decentralize in 1991, after its socialist economy fell apart and the government was forced to auction a large part of its gold reserves to avoid defaulting on international deficits. This was the time when the privatisation started in the country at a prominent pace and units were being auctioned to decrease the fiscal deficit of the State.

After the initial planning development of India it was very clear that the public sector of the country is a necessity for the economy of the country. This is a very strong sector in India as it has employed the majority of the masses. Below is a graph showing how strong even the public sector of India was till the nineties in the employment.

Figure 2

Public sector employment

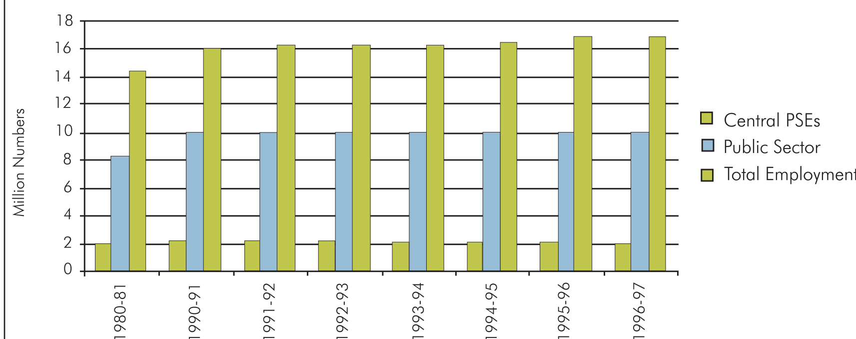


Image from www.privSource: Cols. (2) & (3) India, Ministry of Finance, Economic Survey, 1998–99. Col. (6) Department of Public Enterprises, Public Enterprises Survey, various years.atisation.gov.pk

However, just like other countries, the SOEs are overstaffed in the case of India as well. In spite of all the efforts at cutting the staff down by the public sector during the nineties, the number of workers remained at 9.8 million till year end 1997.

This idea behind the new economic model is known as Privatisation and Globalization in India. To run this model smoothly disinvestment was performed in many sectors. Also under the Five Year Plan India decided that it will make basic and strategic economic activities and to control and direct the private sector through a network of regulatory bodies which will monitor. After almost half a century of planned development in India a time had reached when questions were raised as to restrict the State intervention in the economy. The state according to this plan is supposed to step back and let the free market economy run with very less interference occupying minimum space possible. The two extreme economic philosophies capitalism and socialism have their own borders. Winston

Churchill once said; "Capitalism is unequally shared wealth while Socialism is equally distributed poverty". India as a country has followed the path of a "mixed economy" which flourishes on the existence of public and private sectors.

The new policies included introduced after the bailout of the state by the IMF opened international trade and investment along with initiation of privatisation. Since then economic policies and overall liberalization direction has stayed the same regardless of the ruling party. Due to this till 2009, almost 300 million people escaped extreme poverty because the economy was in good position due to the transparent privatisation that was taking place. It also helped in creating a competitive market. Another achievement of liberalization was India recording its highest GDP growth rate of 9% back in year 2007.[19]

One of the recent major privatisations in India is of the airlines services. Due to this the Indian Civil Aviation Sector is in for a major overhaul over the next few years. Major policy changes are taking place because of a shift in the mindset of the State. This has led to the liberalization of the airport services. However, just like in other cases there has been a lot of debate over the issue of the privatisation of the airports. Critics argued that given the substance of airport infrastructure, private players would overprice and exploit the public. On the other hand, the proponents are of the opinion that the State has failed in maintaining the infrastructure of the airport which has driven them to privatisation.

India has managed to gain highly as its GDP increased to 9.7% till the end of year 2008. In respect of market capitalization, India ranks fourth in the world. On the other hand, one aspect must not be ignored that even after globalization condition of agriculture sector has not improved a lot. The share of agriculture in the GDP is only 17%. The number of

[19] Kanchen Sarker. (2008). Economic growth and social inequality: does the trickle down effect really take place?
Available: http://ojs.library.ubc.ca/index.php/newproposals/article/downloadSuppFile/241/47. Last accessed 26th March 2010.

landless families has increased relatively. But the globalization policies of the country are a step in the right direction. It can be said that very soon India will overcome these obstacles and stride strongly on its path of development.

Bangladesh

A significant degree of public ownership in health, education, communication, utilities and energy sectors in the pre-independence period, Bangladesh inherited basically a private sector influenced economy at the time of independence in 1971. However, the freedom war left the economy paralyzed to a large extent. Numerous non-local owners and managers abandoned many industrial and commercial enterprises. The government performed actions to uplift economy. It took over many enterprises and with entrepreneurs help tried to get rid of the market uncertainty to encourage investment. The State decided to take over the management of all abandoned factories and commercial establishments. In one way they were bound to take this step as they had no other option at time of Independence. A large-scale nationalization took place right after the establishment of Bangladesh.[20]

In search of economic stability the private sector ownership in industries was allowed only to a limit of TK 1.5 million.[21] It was the mid 1980s when the Government realized that nationalization was going to be a tough task. They could see the world trend shifting towards the private sector. After a few years of independence they began to prepare plans of privatisation with adequate management. It is important to understand that at time of Independence the State had no choice but to take control of all the entities. Many people had abandoned their firms as well and fled from the vicinity. However, this process failed due to numerous reasons.

[20] Dr. Momtaz Uddin Ahmed. (2001). Privatisation in Bangladesh. Available: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap2.pdf. Last accessed 25th March 2010.

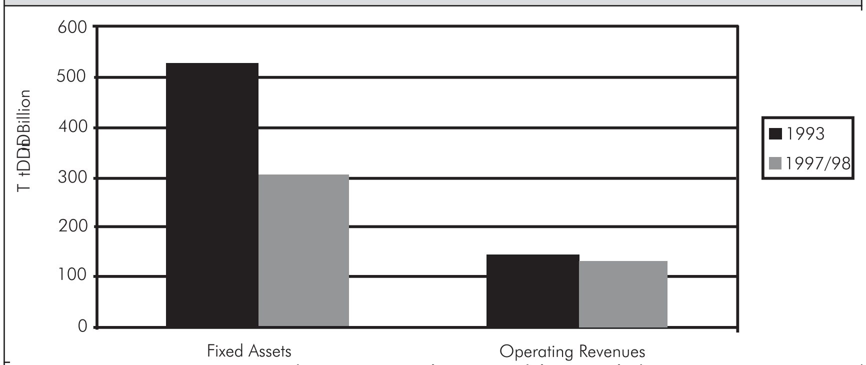
[21] Dr. Momtaz Uddin Ahmed. (2001). Privatisation in Bangladesh. Available: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap2.pdf. Last accessed 25th March 2010.

The absence of a clear vision about the goals of the nationalization programme, lack of trained and efficient management to run rigid wage structures are some of them. The political uncertainty and sudden split from West Pakistan also played a role in the economy of Bangladesh.

The size of the SOEs has kept on decreasing considerably due to the shift in the Government's economic policy since the early 1990s. These policies have encouraged the private sector with greater market orientation. The trend is still declining importance of public enterprise. Below is a table that shows us the changing trend due to the changing economic policies of the State. The decline in the size of the SOEs sector has continued to take place encouraging the private sector just within recent five years.

Figure 3

Decline in the size of the SOEs sector in the economy between 1993 and1997/98

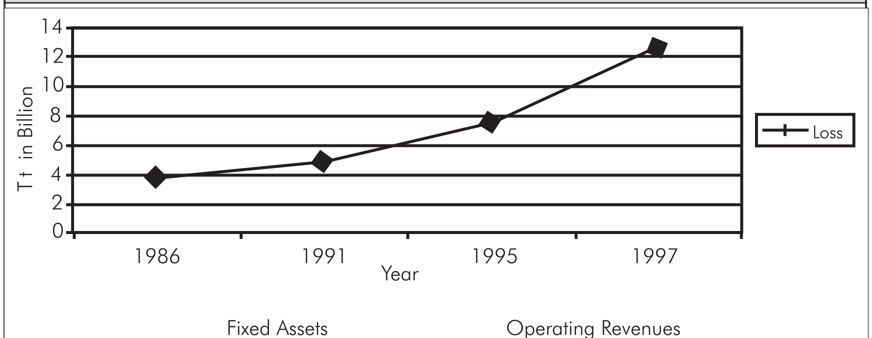


Source: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap2.pdf.

Below is another graph that shows recent position of the SOEs and how they are incurring losses over a period of time and why is the privatisation still being encouraged greatly in the country.

Figure 4

SOE Losses (after tax) overtime



Source: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap2.pdf.

The privatisation process in Bangladesh evolved gradually before taking a concrete shape in 1993. Three of the main reasons that encouraged the privatisation process in this country as well were:

Improvement of the government's fiscal situation

The Government deficit was decreased by the privatisation process. As in the above chart we saw that the SOEs losses were increasing rapidly in the 1990s. This was recovered by privatizing units over a time period. An example here can be of the accommodation of the persistent losses of the SOEs by Bangladesh Nationalized Commercial Banks (NCB) lending's endorsed by the Ministry of Finance (MOF) through regular bonds and cash into the NCBs. This limits the horizon for commercial bank giving loans to the private sector and makes the latter suffer.

Improvement in enterprise efficiency following privatisation

In case of Bangladesh we have examples of Jute and Textile mills which have proved to perform much better under private ownership than under State control. Empirical evidence exists of better performance under private ownership across a wide range of efficiency indicators (i.e. profitability, productivity etc.).

Mobilization of greater domestic as well as foreign investments for higher growth in the medium-term.

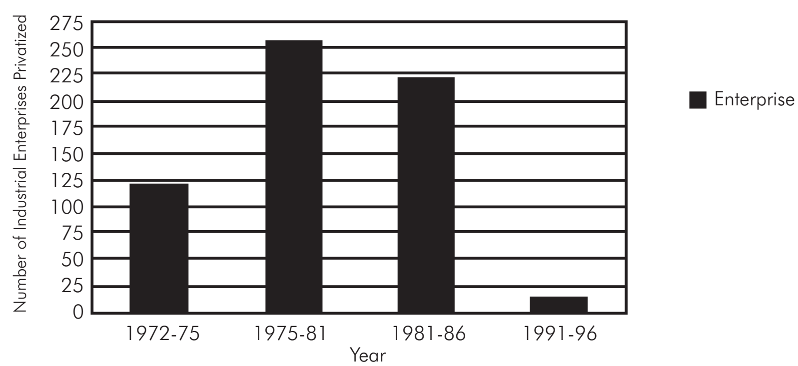
Another crucial achievement of privatisation in countries of Latin America, Asia and Eastern Europe have been the revival or growth of capital markets, increase in domestic investment and inflows of external resources. All these along with the availability of cash from the sales of the SOE units are expected to help mobilize greater resources for future investments and improve the prospects for higher medium term economic growth.

These were some ways in which the economy of Bangladesh was uplifted during the privatisation process. However, no process can end revenue losses but it surely decreased it with a great percentage. According to the Privatisation Policy Statement, two methods are at present being used for privatisation in the country namely, Sale by International Tender and sale by Public Offer of Shares. These two methods have been proved to be very effective in the early stages of the process and have evolved impressive results.

Bangladesh is considered as a forerunner in the current time for carrying out privatisation but still there is a lot to be done. The above factors do not fulfil the task as there is a lack of enough political commitment, absence of sufficient legal framework and institutional capacity. These are some reasons that still hinder the progress of the country in the private sector. The process of privatisation began back in 1975 sometime after independence and since then has increased with many ups and downs.

Table 3

Progress in the pace of privatisation from 1972/75 to 1991/96



Sourcehttp://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap2.pdf.

The above figure given shows us how the process of privatisation has fluctuated since independence. 1982–1986 was the time in which the maximum units in the country were privatized.

There have been post privatisation social impacts on the country. One of the most important being the employment as there have been steps taken to preserve workers' interests

There are mainly two common ways to compensate the worker. The interests can be safeguarded

(i) by offering a reasonable "golden handshake" and leaving it up to the individual to find a new job or take to a new profession, and
(ii) by taking positive steps.

The most significant measure of assistance provided by the Government to the retrenched workers in Bangladesh consists of a package called "Additional Benefits on Top of the Gratuity Payments". To determine the exact amount there have been committees set up which comprise of senior officials. Two important committees who considered majority of the cases in the country were Mustafiz Committee and Mannan Committee.

Another step taken to curb the impact on the workers especially was to sign an agreement with the USA in which Bangladesh received USD 247 million over a period of four years till 1997. In this tenure, the workers who were affected by the decline in the Jute mill were retrained. During the training programme a total of 8,793 workers were retrained in almost 35 different trades.

Sri Lanka

At the time of liberation in 1977 the main portion of market economy was dominated by SOEs. As time passed on monopolies were created and the SOEs increased. The table below shows a brief summary of this trend.

Table 4

Distribution between public and private sector in Sri Lanka

	Early 1950s	Mid 1970s
Average size of the Government (share of expenditure as a % of GDP)	23.4	27.1
Average annual rate of growth of government expenditure (%)	15.6	26.1
Share of Public Sector in:		
Tea Plantations (%)		51
Industrial Production (%)	15	55
Public Sector employment as % of total employment	8	17

Source: Central Bank of Sri Lanka (1998: 211).

The economic performance of the firms was ruined by the fact that non-financial objectives governed the administration of SOEs. Amongst these objectives were:

(a) Redistributive justice – that often led to the subsidized provision of goods and services as in the transport sector,
(b) Regional development – which meant that industries were set up in rural or remote areas.

Most SOEs were subsidized and ran at a huge loss. This was a considerable burden on the government budget. As in the above chart, one can observe that the average size of the Government kept increasing at a high rate.

Most state owned firms in Sri Lanka just like other countries were by and large over-staffed because employment was offered in the public service by political backing and the employment creation motive of the State. Despite the economic liberalization in 1977, the public sector share kept on increasing till the 1980s. The reforms of 1977 were considered as a turning point and created an environment conducive to private sector growth. It managed to curtail the government expenditure by targeting welfare programmes.

Privatisation has been pursued aggressively in Sri Lanka in 1990. By mid-1990s, almost 43 enterprises in the industrial sector and 92 depots in public transport sector had been privatized. By another three years, the number rose to 75.[22]

The transition was very speedy and aggressive which also led to some major social problems. This included gas and telecommunication enterprises as well. Privatisation was introduced as a state policy in 1987 and there was much done in the 80s in preparation for this transition. Main reasons were to reduce the financial burdens some SOEs posed on the government and also to improve profitability, efficiency and productivity.

A committee was appointed by the President in year 1987 to study and prepare a general outline within which privatisation was going to be carried out in the coming years. The committee was named "The Presidential Committee on privatisation". The programme period during

[22] Rozana Salih. (2000). Privatisation in Sri Lanka. Available:http://www.ilo.org/public//english//region/asro/bangkok/paper/privatize/chap6.pdf. Last accessed 18th March 2010.

1989–1998 generated PKR 47.3 billion which equal to USD 715 million for the government of Sri Lanka. It attracted a foreign investment total of USD 465 million easing liquidity conditions.[23] The proceeds had major positive effects on the country's economic situation. Privatisation as a whole also added to the performance of the Colombo Stock Exchange and a total of twelve more companies were added which summed up to 236 companies in the private sector. It also led to the creation of the 'plantation sector' in the stock exchange.

As discussed above, the impact of privatisation can be vast in terms of the owners as well as the consumers. In other words, in the case of Sri Lanka, it affected individuals both directly and indirectly employed by the SOEs. Consumers were exposed to changes in prices, quality of products, accessibility and also come distributional consequences. There was an effect on workers who opted to remain with the privatized firm as they were not as favourable when they were under SOE. Worker redundancy has been common in the case of Sri Lankan SOEs. The main cause here is that SOEs are overstaffed. The retrenched workers were compensated by a specific amount on a certain criteria.

The privatisation experience of Sri Lanka so far has very much been one of trial and error and one of learning-through-experience. The initial stage of privatisation faced much criticism on the transparency of the transactions. If the privatisation process was not as transparent as the public wished it to be monopoly rights were granted to the companies, there have been some instances of protests and uproars from the people. This resulted in the establishment of the Public Enterprise Reform Commission (PERC) in 1995 which was sole authority to undertake the privatisation programme in a more efficient and transparent way.

[23] Rozana Salih. (2000). Privatisation in Sri Lanka.
Available: http://www.ilo.org/public//english//region/asro/bangkok/paper/privatize/chap6.pdf. Last accessed 18th March 2010.

Now it was recognized that there was a single body required to masters the skills of the complexity of the transaction.

On the other hand when the privatized companies 'failed', the local public outcry was shrill. Six companies were very conspicuous in their failure to perform from which one was Lanka Loha Ltd. (a key player in the steel industry).

This can also be used as an example where the government responded to a lesson learnt by paying the extra package to the workers to shed off labour.

Many discussions took place that offered insight as to how to minimize the social costs of privatisation. The lessons learnt have been taken into account and discussed in various detailed forums. More importantly they will be taken into account in future privatisation. Currently the country has been building environment for other major privatisations in subsectors, such as transport and utilities (water, power). The motive behind this is to improve efficiency in these sectors.

Nepal

Unlike other countries Nepal experience in privatisation presents a unique story. From the Sixties to the Eighties, in these twenty years there was an increase in the establishment of SOEs. Nepalese economy is still an agriculture dominated economy, carried on mostly in small-scale unorganized private farms. The expansionary drive to create more SOEs came to a halt in the 1980s for the first time in Nepal. However, compared to gross domestic investment, the share of investment in state enterprises is relatively large. This is about 43 per cent of GDP and is nearly double that of in developing countries.[24]

[24] Dr. Narayan Manandhar & Dr. Pushkar Bajracharya. (2000). Privatisation in Nepal. Available:http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap4.pdf. Last accessed 21st March 2010.

The drive towards the privatisation process took place in 1985–1990. This was due to the unsatisfactory performance of the SOEs and less efficiency. Although the groundwork had started to initiate privatisation in this period but the real change took place in 1992 at the time of Nepali Congress government. By 1994, the government was able to privatize eight units and was successful in liquidating two or more.[25]

Five year plans were used by the Nepali Congress to uplift the economic situation of the country. Attempts to privatize State enterprises can be traced back to the Sixth Five Year Plan Period from between 1980–85, but prominent efforts to privatize came only at the time of Nepali Congress government in 1992. The NC government came up with privatisation programme which included 51 public enterprises form various sectors.

Apart from the rationale in Nepal there was a major consensus between the major political parties in case of privatisation. There was some difference in the mode of transition and the degree of emphasis but overall it was realized that this was a step in the right direction as SOEs for long, had drained national resources. As time moved on in the 1990s, due to privatisation, there was a major reduction of financial and administrative burden on the State and revenue was generated as well.

The private sector of Nepal has been identified as the key player, and participation in economic development is being encouraged since the 1990s. However, the overall impact of privatisation on the economy is expected to be minimal as these are just the initial stages. The scale of privatisation is also very limited as out of 60 SOE only 16 have been privatized which has had a less than one percent effect on the employment.[26] In spite of all the minimal effects of privatisation, there is an outcry and lot of criticism on it due to the stronghold of the government bureaucracy and politicians who are more vocal.

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[25] Ibid.

[26] Dr. Narayan Manandhar & Dr. Pushkar Bajracharya. (2000). Privatisation in Nepal. Available: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap4.pdf. Last accessed 21st March 2010.

Bhutan

The last decade after the 1990s has been attracting increasing attention by the privatisation process in Bhutan as well as worldwide. It has been studied as a theory that is compulsory for economic development. As Bhutan is a small country the case of privatisation here has been at a decent pace.[27]

In the last decade Bhutan decided to end the period of country's isolation and increase the degree of assimilation of its economy with rest of the countries. The economic policies of the country have also changed in favour of liberalization as they wish to develop a much stronger and sustainable position in the regional and world trade. The Royal Government is pursuing much more liberal policies towards international trade as well in order to encourage and stimulate the import and export growth from the private sector as a key engine for economic dynamism. This in turn has enhanced the private sector and encouraged further transitions from the public sector to the private one.

The state continues to involve private sector in the logistical development as well as using it as a promoting factor wherever possible as these would facilitate liberalization of these services.

There are certain areas where private sector had no large capacity of development e.g. the dry ports. The major political parties are on consensus that the government should apply the Built, Operate and Transfer (BOT) mechanism.[28] As an overall situation, the majority is for the process and they are setting grounds for a much more positive decade ahead in which they tend to privatize more SOEs. In the areas where private sector has no capacity such as development of dry port, Government is taking the lead.

[27] Gross national Happiness Commission (GNHC). (1998). Privatisation and Private Sector Development.
Available: http://www.gnhc.gov.bt/fyp/8thplan/08fyp_11.pdf. Last accessed 15th March 2010.

[28] Tandin Tshering. (2005). Trade Logistics Service Liberalization in Bhutan.
Available: http://www.unescap.org/tid/artnet/mtg/tfri_bhu.pdf. Last accessed 17th March 2010.

Maldives

Most recent activity is the one that took place this year for the Indian Ocean archipelago of Maldives who will privatize the airport it owns and there is also a probability to sell other state enterprises and bring private capital to a domestic bank.[29] Another big privatisation for basically a small country in size is the Privatisation of Maldives National Shipping Limited (MNSL).[30]

The past year the State focused on decentralization and urged that it is the heart of the government economic policies in future. The privatisation process has been long overdue.

Maldives being a small country as well proposes to share Pakistan's privatisation experience in the field of especially education and health.[31] The reason behind this is that the countries share similar demographics. The two countries have also discussed the matters beneficial to both the countries and to further improve the existing bilateral relations regarding privatisation. In the Maldives, some of the main SOEs which led to the privatisation are Maldives Industrial Fisheries Company Limited, Maldives National Shipping Limited, Nasandhura Palace Hotel and State Electric Company Limited (STELCO).[32] Eventually workers in these enterprises now face career skill restructuring and early retirement schemes, such as 'golden handshake', rehabilitation and retraining.

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[29] Lanka Business Online. (31st Jan.2010). Efficiency Drive.
Available: http://www.lankabusinessonline.com/fullstory.php?nid=1495428931.
Last accessed 26th March 2010.

[30] Ibid.

[31] The Nation. (26 Feb.2010). Maldives to share Pak privatisation experience. Available: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/26-Feb-2010/Maldives-to-share-Pak-privatisation-experience. Last accessed 26th March 2010.

[32] The Nation. (26 Feb.2010). Maldives to share Pak privatisation experience. Available: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/26-Feb-2010/Maldives-to-share-Pak-privatisation-experience. Last accessed 26th March 2010.

2.1 Drawing Lessons from the Regional Experience

Privatisation has opened up the option of economic democracy in the South Asia region with the widest potential participation of the common man in the day to day economic activities. However, on certain occasions countries and the people had to face some consequences due to this process especially when adequate measures were not taken ahead of time. The very first aspect if one analyzes the South Asia region under the privatisation process is that transparency is a very important factor and many a times is the deciding one for the success of the transition. This assures adequate safeguard of the interests of all parties and workers. Earlier while discussing Sri Lanka we witnessed that due to lack of transparency there was a major public outcry. Due to this reaction the Government constructed a public body named Public Enterprise Reform Commission (PERC) in 1995 which was a legal framework for rule law is an important correlation for privatisation.[33]

Later in the case of India and Sri Lanka we notice that it is crucial to obtain regulatory mechanism to be created in the interest of the people safety and for protection against cartels which might affect the post privatisation as well as the process.[34]

Other than this, the two most important things to keep in mind or lessons that have been learnt from prior experience of privatisation in the South Asia region are the country and market condition at the time of the transition. An open trade regime, a firm and predictable environment for investment is also a plus for the procedure. The same is the case with the market conditions. They carry immense importance in carrying out

[33] Gopal Joshi. (2000). Overview of Privatisation in South Asia. Available: http://www.ilo.int/public/english/region/asro/bangkok/paper/privatize/chap1.pdf. Last accessed 27th March 2010.

[34] François Bourguignon. (2007). Privatisation and development: Some Lessons from Experience. Available: http://www.mf.gov.si/angl/abcde/FB_ABCDESlovenia_v051507.pdf. Last accessed 28th March 2010.

privatisation especially in developing countries such as Pakistan and India. Privatizing utilities and natural monopolies is a difficult task when it comes to least developed countries due to politics.

One thing remains clear that, in the long term, privatisation and deregulation would give optimal results in some areas. The lack of certain economic conditions – competitive goods and also services markets, along with effective regulatory capacity–makes privatisation a tough task.[35] Examples can be of the privatisations that took place in Sri Lanka and Bangladesh. Suitable economic conditions are also very important for the process to be successful. In other words we have learnt from the South Asian countries that economic grounds may well decide the success of the process. Limits on privatisation mainly result from a low-income country's specific economic structure.

In low income countries of South Asia we observed that a pre condition exits for the success of the process. The low income automatically creates an environment in which private entities can operate more effectively. It has also been learnt by the regional experience where countries are not yet at a point where it is politically appropriate to roll out a privatisation program, then privatizing management, franchising and management contracts can give some great economic benefits without even having to change ownership.

Another two important points to be mentioned here are the sets of conditions for the success of privatisation. There are country conditions and market conditions.

[35] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). (2003). Lessons from privatisation in developing countries.
Available: http://www.unescap.org/drpad/publication/dp22_2122/chap5.PDF.
Last accessed 27th March 2010.

Country conditions help successful privatisation; include an open trade regime, a stable environment for domestic and foreign investment. On the other hand, market conditions are also an important determinant of successful privatisation. Privatizing enterprises that operate in potentially competitive markets should lead to improved efficiency but the condition being that the process should be transparent. Privatizing SOEs that operate cartels is more complex and in this condition regulatory capabilities of the country become a crucial factor. Once again it would be worth mentioning that privatizing utilities and monopolies is the most difficult task in least developed countries such as Nepal, where institutional capacities are weakest.

III. Nationalization – Motives & Consequences

Nationalization is the act of taking an industry or assets into the public ownership of a national government or state. Nationalization usually refers to private assets, but may also mean assets owned by lower levels of government, such as municipalities, being transferred to the public sector to be operated by or owned by the state. The decade of 1970s in Pakistan witnessed a massive nationalization of assets from the private owners to the state. The reason given by the government of the time for huge nationalization was to improve country economy and improve the living standard of people.

The decade of 1970s in Pakistan witnessed a massive redistribution of national assets from the private owners to the State. The reason underlying the then Government's thinking for this extremely radical action was that the national wealth was being concentrated in the hands of few families and it was said at that time that the rich were getting richer and the poor getting poorer.[36] It was asserted by the proponents of this strategy that the state control over allocation of the resources would promote the best interests of the poor.[37]

The intellectual support for this strategy was drawn from the success of the Soviet Union and the socialist economic model practiced in that part of the world. Two decades later it turned out that these assertions and assumptions that drove this particular line of action i.e. nationalization was not only unrealistic and flawed but the consequences were exactly opposite to what the intentions were.

The collapse of the Soviet Union and the bankruptcy of the socialist model eroded the ideological underpinning of this strategy and the actual results on the ground in Pakistan and almost all the developing countries shattered the ideal and utopian dreams of the proponents of this philosophy.

Due to huge nationalization in the country, public enterprises including banks became a burden on the country's finances because of huge losses. Due to huge corruption in the nationalized institution, the government

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[36] Greg Brian. (24th Jul.2008). The History of the Phrase The Rich Get Richer and the Poor Get Poorer.
Available: http://www.associatedcontent.com/article/891267/the_history_of_ the_phrase_ the_ rich.html?cat=37. Last accessed 27th March 2010.

[37] Ishrat Husain. (2006). Micro-Economic Foundations of Economic Policy-Performance in Pakistan.
Available: http://www.iba.edu.pk/News/speechesarticles_drishrat/MICRO_ECONOMIC_ FOUNDATION_1_4_08.pdf. Last accessed 20 March 2010.

[38] Ishrat Husain. (2006). Micro-economic foundations of economic policy-performance in Pakistan.
Available: http://www.iba.edu.pk/News/speechesarticles_drishrat/MICRO_ ECONOMIC_ FOUNDATION _1_4_08.pdf. Last accessed 20 March 2010.

spent PKR 100 billion out of the budget annually on losses of nationalized institution including, banks and other enterprises.[38]

After nationalization, political parties employed thousands of their supporters after assuming power in the country. They employed those people who were working and favoured bureaucrats were appointed to manage these enterprises. This practice still continues. For instance, the present Prime Minister Yousuf Raza Gillani was arrested on 11 February 2001 under the auspices of National Accountability Bureau (NAB), over charges of the misuse of his authority.[39] Specifically, he was accused of hiring up to 600 people from his constituency on government payroll. NAB claimed that Gillani inflicted a loss of PKR 30 million annually on the national exchequer.[40]

Those who were employed by the political parties had no managerial or technical expertise for the job. Due to appointment of inexperienced, corrupt people the public enterprises turned into centres of corruption and plunder. This process created problems for citizens instead of providing goods & services to them. For example, the performance of nationalized banks like HBL had significantly deteriorated after nationalization.

The then PPP government which believed in nationalization of the key sectors of the national economy nationalized all Pakistani banks on January 1, 1974. Though foreign banks were not affected under the policy of nationalization, however all life insurance companies, both Pakistani and foreign were taken over by the government under its policy of nationalization in 1972. The business operations, assets and properties of the taken over insurance companies were merged under the aegis of

[39] Talha Abbasi. (2010). Syed Yousaf Raza Gilani. Available: http://www.pakistanileaders.com.pk /profile/Syed_Yousaf_Raza_Gilani. Last accessed 20 March 2010.
[40] Talha Abbasi. (2010). Syed Yousaf Raza Gilani. Available: http://www.pakistanileaders.com.pk /profile/Syed_Yousaf_Raza_Gilani. Last accessed 20 March 2010.
[41] Greg Brian. (24th July 2008). The History of the Phrase The Rich Get Richer and the Poor Get Poorer.Available: http://www.associatedcontent.com/article/891267/the_history_of_the _phrase _the_rich.html?cat=37. Last accessed 27th March 2010.

State Life Insurance Corporation for the better interests of poor, as before nationalization it was believed that the national wealth was being concentrated in the hands of few families and "the rich were getting richer and the poor getting poorer.[41]"

The motives for nationalization are political as well as economic. Some socialists believe that the means of production, distribution and exchange, should be owned by the state on behalf of the people or working class to allow for rational allocation of output, consolidation of resources and rational planning or control of the economy. All together 31 key industries were nationalized during this process.

The details are given below.

Key industries nationalized in 1972

Units taken over in Karachi

- Steel Corporation of Pakistan
- Fancy Hyeson's Steel
- Ali Automobiles
- Jaffer Bros
- Kandawala Industries
- ROK Industries
- Haroon Industries
- Wazir Ali Industries Packages
- Gandhara Industries
- Indus Chemical and Industries
- Valika Cement
- National Refinery
- Pakistan Fertilizer Corporation

Units taken over in Punjab and NWFP:

- BECO – Batala Engineering Company
- M.K. Foundary
- Ittefaq Foundry
- Rana Tractors
- United Chemicals
- Pakistan Cement
- Ismaeel Cement Colony
- Central Iron and Steel Works
- Valika Steel Works
- Jaffer Steel Corporation
- Pakistan Progressive Cement
- Dandot Colony
- Rawalpindi Electrics
- Modern Steel
- Multan Electric Supply Colony
- Karim Industries

Nationalized Banks and their ownership:

- Habib Bank Ltd.
- United Bank Ltd.
- Muslim Commercial Bank
- Australasia Bank Colony
- Premier Bank Arag
- Habib Bank Overseas
- Commerce Bank Ltd.
- Memon Cooperative Bank
- Lahore Commercial Bank
- Punjab Cooperative Bank
- Pakistan Bank Ltd.
- Bank of Bahawal Pur
- Standards Bank

Nationalized Insurance Companies
- Eastern Federal Union
- United Insurance
- New Jubilee
- Adamjee Insurance
- Habib Insurance
- Premier Crescent
- Central Dawood
- IGI Packages
- Union Nishat

Nationalized Shipping Companies
- Pan Islamic Shipping
- United Oriental Shipping
- Trans Ocean Shipping
- Mohammadi Shipping
- Pakistan Shipping
- East and West Shipping
- Gulf Steam Shipping
- Chittgong Shipping
- Crescent Shipping

The nationalization policy of the early 70s increased the size of the public sector to an unmanageable extent. The nationalization process also failed to deliver what was expected from it. In July 1977, the new government introduced the policies of denationalization, disinvestment and decentralization to restore the confidence of private investors.

3.1 Privatisation in Pakistan

After failure of the nationalization policy in late 1970s, the government in 1992 realized the importance of private sector and started de-nationalization or privatisation of state-run different entities.[42] As Chief Minister Punjab, Nawaz Sharif presided over the liquidation / privatisation of several units of Punjab Industrial and Development Board (PIDC) like Pasrur Sugar Mills, Samundri Sugar, Rahwali Sugar, Paras Textile, Harapa Textile and Ghazi Textile. How and on what prices these units were sold is still a secret but according to Company Review in the daily DAWN in May 1991, Pasrur Sugar Mills was sold to United Sugar Mills of United group for a "token price of Rs one only".[43]

[42] Syed Anwar-ul-Hasan Bokhari. (1998). HISTORY AND EVOLUTION OF PRIVATISATION IN PAKISTAN. Available: http://www.policy.hu/bokhari/History%20and%20Evolution% 20of%20 Privatisation%20in%20Pak..pdf. Last accessed 24th March 2010.

[43] Who was writing that? (2008). A Brief History of Privatisation. Available: http://richpaki.tripod com/briefhistory.htm. Last accessed 20 March 2010.

There were at least three compelling reasons for the announcement of Economic Reforms package of 1991 by then Prime Minister Nawaz Sharif and his political party. Coming from a private sector business family and having suffered himself and witnessed the adverse impacts of nationalization of industries on the overall economy, he was able to convince his party that the only way Pakistan can grow and prosper was by pursuing a policy of liberalization, deregulation and privatisation.

The Government of Pakistan took a number of impressive steps to initiate these reforms including the promulgation of an Economic Reforms Order that provided the legal cover for these reforms. The main motivating factor was the set back to Pakistan's economy which was the aftermath of the Socialist experiment in 1970s. The collapse of the Soviet Union and the discrediting of the Socialist economic model fortified the hands of the reformers within Pakistan. The Thatcher-Reagan era prevailing at that time must also have implicitly influenced the thinking of the political leaders.

The second factor was an intellectual reawakening that inward looking import substitution industrialization strategy buttressed by state control and centralized planning had failed in actual practice. Many studies particularly by Organization of Economic Co-operation and Development (OECD), World Bank (WB) and other Western academics showed through empirical cross country analysis that this strategy had done more harm than good. As Pakistan was also receiving Structural Adjustment Credits from the World Bank and assistance from the IMF the pressure from these multilateral financial institutions which advocated pro-market and pro-private sector reforms also played a role in shifting the paradigm.

Third, it appeared that the outward-oriented strategy appeared to have worked quite well in the newly industrializing countries, the Association of Southeast Asian Nations (ASEAN) Countries and China. It was believed that these success stories emanating from Asia were shaped by open markets, integrated financial systems, increased mobility of labour and rapid diffusion of technology. Encouraging the private sector by withdrawing state intervention in micromanagement of their businesses, reducing the burden of overbearing government regulation and opening the domestic markets to international competition was perceived as the policy framework that turned around the economies of these East Asia countries.

Pakistani decision makers therefore felt comfortable that their instincts for reforms in this direction were substantiated by hard and solid evidence from other countries that had successfully carried out these reforms. A combination of fortuitous circumstances – disenchantment with past policies, evidence of success in other Asian countries, the pressure from external donors and a strong political will be the newly elected government – muted the resistance to this major policy shift. A broad consensus was reached that unilateral trade liberalization was in the best interests of the country.

The process of change in ownership got momentum when the government created Privatisation Commission (PC) on January 22, 1991. Initially, the PC mandate was limited to industrial unit's transactions but in 1993, it had expanded to several fields including power, oil and gas, transport, telecommunication and banking.[44] The process, which aims at selling government entity in an open and transparent way with a view to obtaining the best possible price, varies somewhat depending on the nature of the assets being privatized, on the proportion of shares being offered for privatisation and on whether or not a transfer of management is involved.

3.2 Privatisation in the Past

Privatisation Commission during January 1991 to December 2009 completed 167 transactions for PKR 476421.[45] There have been three

[44] Government of Pakistan. (2006). Privatisation Commission – Annual Report 2006. Available: http://www.privatisation.gov.pk/Annual%20Report/Annual%20Report -2006%20-%20FINAL.pdf. Last accessed 24th March 2010.

[45] Government of Pakistan. (2008). Year Book 2007–2008. Available: http://www.privatisation. gov.pk/Year%20Book/Year-Book-07-2008-Final.pdf. Last accessed 24th March 2010.

tides of privatisation in Pakistan. The first tide was from 1992 to 1994, the second one from 1994 to 1999 and the third from 1999 to date, during which the Supreme Court struck down the privatisation deal of Pakistan Steel Mills.

First Tide of Privatisation

The first tide of privatisation started in 1991 to 1994 and during first tide PC completed 67 transactions for PKR 12,193.5 million.[46] The major transaction in the first tide include privatisation of Allied Bank Limited (51 percent) of sale price PKR 971.6 million, Muslim Commercial Bank (75 percent) of sale PKR 2,440 million, Pak Cement sale price PKR 188.9 million, Pak China Fertilizers Company Limited of sale price of PKR 425.4 million and Garibwal Cement sale price PKR 836.3 million.[47] The details for the transaction are available in Annex I at the end of report.

Second Tide of Privatisation

The second tide of privatisation was from 1994 to 1999. The second stage began with the government of PPP and ended with PML-N government. During the second tide, the PC only completed 37 transactions for PKR 5,447.6 million.[48] The reason behind the small number of transactions was that the government was interested to sell loss making assets and avoid the sale of profit making assets. Change of government was another reason of less number of transactions. The details of the transaction are available in the Annex II at the end of the report.

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[46] Government of Pakistan. (2008). Year Book 2007–2008.
Available: http://www.privatisation.gov.pk/Year%20Book/Year-Book-07-2008-Final.pdf.
Last accessed 24th March 2010.

[47] Ibid.

[48] Government of Pakistan. (2006). Privatisation Commission Annual Report 2006.
Available: http://www.privatisation.gov.pk/Annual%20Report/Annual%20Report-2006%20-%20FINAL.pdf. Last accessed 24th March 2010.

Third Tide of Privatisation

The third tide of privatisation started from 1999 and is continued till date. The third tide started in the era of General Pervez Musharaff who ruled the country for eight years. During eight years, the PC completed 63 transactions. During the present government of PPP the PC conducted only privatisation of Hazara Phosphate Fertilizers Limited. The PC completed 64 transactions for PKR 122,975.40 million.[49] Major transaction in the third tide include Pak Saudi Fertilizer Ltd of PKR 7,335.8 million, Pakistan Oil Fields Limited of PKR 5,138, OGDCL (five percent share) of PKR 6,851, PTCL (26 percent) of PKR 156,328.40 million, UBL of PKR 1,087.20 million, KESC (73 percent share) of PKR 15,859.70 million, Pak American Fertilizer of PKR 15,949 million, UBL of PKR 39,450.70 million and Hazara Phosphate Fertilizer limited of PKR 1,340.00million.[50] The details of transaction are available in the Annex III at the end of report.

Qadirpur Gas Field (QGF) – a Case Study

Qadirpur Gas Field (QGF) is one of the biggest gas reservoirs for Pakistan. It is located in Sindh province, eight kilometer from Ghotki. A total of 29 wells have been drilled at this gas field out of which 24 are currently producing. Qadirpur gas field is the third largest gas producing field of Pakistan. It is managed / supervised by Oil and Gas Development Company Limited (OGDCL).

Proposed Plan for Privatisation

After the government announced the privatisation of Qadirpur gas field, it was the responsibility of the Privatisation Commission of Pakistan to finalize one out of the four proposed plans by the financial adviser.

[49] Government of Pakistan. (2006). Privatisation Commission – Annual Report 2006. Available: http://www.privatisation.gov.pk/Annual%20Report/Annual%20Report-2006%20-%20FINAL.pdf. Last accessed 24th March 2010.

[50] Ibid.

On 13th Sep 2008, Privatisation Commission of Pakistan (PCP) after failing to come up with a new plan or finalizing one procedure for the already four offered procedures, to refer the whole scheme of four options to the Cabinet Committee on Privatisation (CCoP). The four proposed options were:

i) Sell-off of entire 75% of OGDCL shareholding
ii) Divestment of only 50 percent shareholding along with management of Qadirpur gas field
iii) Securitization of income of the field
iv) Issuance of global depository receipt (GDR) to raise funds from the international market against OGDCL assets.

On 7th Nov 2008 the Cabinet Committee on Privatisation headed by Prime Minister Syed Yousuf Raza Gilani approved sale of 37 percent share of Oil and Gas Development Company Limited's Qadirpur gas field along with the transfer of operational control in a major profitable gas field. The decision was taken as a result of the widening gap in the balance of payments.

Complications

The Pakistan government faced harsh criticism following the announcement of privatisation of QGF. The opposition legislators argued that the QGF's 37 percent shares, worth at least $12 billion, are being offered at throw-away price of $2 billion to $2.5 billion. On 10th Nov 2008 the privatisation of QGF was challenged in Supreme Court of Pakistan. It was also argued that OGDCL earning would decline by at least 17 percent with the sale of Qadirpur Field. The Federal government totally refused to back off from its stance of privatizing QGF after these allegations. At the same time the gas field union and its workers came out with a long term strategy to undo the decision of privatizing QGF. The most other important point to note in this regard is that this gas field was inaugurated by Benazir Bhutto (Late) in 1995. The workers also stressed that privatizing the gas field would hamper the political image of PPP. On 13th Nov 2008 Prime Minister Syed Yousuf Raza Gilani announced that his government was putting off the privatisation of Qadirpur Gas field for the time being, apparently bowing to widespread protests over the move.

Analysis / Conclusion

From the concise discussion done above that the privatisation on of QGF failed primarily due to the failure of the government in assessing the correct value of QGF's assets. Reports suggest that value of the total assets of QGF was way high then the one identified. We cannot say with authority if this was a human error or was it done deliberately or was it the corruption mafia which took over this deal. More over when the privatisation of such an entity is done, the international evaluators assess the value of that particular entity. In case of a natural resource production field, if must be noted that the production is assessed at three levels i.e. probable, possible and unknown. There is no convincing data available in case of a natural resource production field, it must be noted that the production is assessed at three levels i.e. probable, possible and unknown. There is no convincing data available in case of QGF which suggests that the estimated assets value was calculated after evaluating all the three characteristics. For the privatisation of any state owned entity it should be imperative that the assessment is done through international neutral evaluators on the most current circumstances and the opposition is involved as a stakeholder to ensure greater transparency.

Pakistan Telecommunication Company Limited (PTCL) – A case study

Pakistan Telecommunication Company Limited (PTCL) is the largest telecommunication company in Pakistan. The Government of Pakistan in 2006 sold 26% of PTCL's shares and control of the company to a UAE based company registered as 'Etisalat'. 62% of the shares were retained by the Government of Pakistan while the remaining 12% are held by the general public. These 12% shares were given to general public in Aug.Sep.1994.

Proposed Plan for Privatisation

The process for privatisation of PTCL was initiated in November 2004 when Privatisation Commission invited 'Expression of Interest – EOI' through advertisements in national and international newspapers. In January 2005, 18 companies registered their Expression of Interest (EOI). Out of these 18 companies, only three qualified for the bidding process. In 2006 the Government of Pakistan announced to privatize PTCL's 51% shares through bidding which was held on 18th June 2006 although after an intense denigration from the employees of PTCL, the mechanism was re-scheduled and the percentage of shares was dropped to 26% along with managerial powers. The three companies which took part in the bidding included Etisalat, Singapore Telecoms and China Mobile.

Complications Involved

At first Government of Pakistan was willing to sell 51% shares to any company which qualified the bidding but after an intense pressure from the employees, the number of shares to be sold was reduced to 26%. This does shows that all the stakeholders were not taken on board before the decision to privatize PTCL. The employees of PTCL resisted the privatisation based on the following reasons:

i) Less job security after privatisation
ii) Offered value is far less than PTCL's worth
iii) PTCL is a revenue generating entity and privatisation would deprive the country of money in future.

Conclusion / Analysis

If we study the annual reports published by the PTCL management, we observe that PTCL has a continuous downward trend in its revenue since 2005, where PTCL has PKR 75,972 million revenue and the year Ended June, 2008 it has PKR 61,086 million, when it comes to after tax loss of PKR 2,825 million. Not to mention that there was popular belief to sell the loss making enterprises but retain the profit making entities like PTCL and PSO. As stated in the case study for QGF (Qadirpur Gas Field), it is imperative for the government to involve all stakeholders before taking any decision to ensure greater transparency.

3.3 Comparison Between Three Tides of Privatisation

From the discussion above regarding different tides of privatisation in Pakistan following is the compression of three tides.

- In the first tide, PC completed 67 transaction of PKR 1,219.2 million, in second tide 37 transactions was completed of PKR 5,447.6 and the third tide the PC completed 64 transactions.
- The first and second tide completed during democratic government and major part of the third tide completed in dictatorship.
- The PC carried out privatisation of major assets like Pakistan Telecommunication Company Limited (PTCL), Karachi Electric Supply Company (KESC), Kot Addu Power Company Limited (KAPCO) and Oil and Gas

Development Limited (OGDCL) during the third tide while during the second and firsttide PC carried out privatisation of small assets as compared to the third tide.

- Major scandal of privatisation surfaced during third tide like privatisation of PTCL, Steel Mill and Qadirpur Gas Field while during the first and second tide no major scandal surfaced.
- Question regarding transparency were raised over all three tides of Privatisation.
- In the third tide, the present PPP government has presented a new privatisation policy called as Public-Private Partnership (PPP).

3.4 Under the Present Government

The present government has made some changes in the privatisation policy with introduction of Public Private Partnership (PPP). Under the new policy, Government will sell 26% share with management control to the successful bidder for any entity that is being privatized. The main objective of Privatisation of 26% equity stake with management rights through a PPP model is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in Pakistan's SOEs.[51] The present government has only privatized Hazara Phosphate Fertilizer Limited. The opposition has raised many question regarding its transparency and termed its privatisation non-transparent. Opposition were of the view that the shares were sold at throughway prices as the government did not conduct proper evaluation of its assets before privatisation.

[51] Privatisation Commission Pakistan.(2010). Privatisation through Public Private Partnership (PPP): Policy Guidelines and Program.
Available: http://www.privatisation.gov.pk/about/Privatisation%20through%20PPP.htm.
Last accessed 3rd April 2010.

The upcoming transactions under PPP government include SME Bank Limited, National Power Construction Company (NPCC), Faisalabad Electricity Supply Company (FESC), Peshawar Electric Supply Company (PESC), Quetta Electric Supply Company (QESC), Hyderabad Electric Supply Company (HESC), Jamshoro Electric Supply Company (JESC), Heavy Electrical Complex (HEC), Pakistan Machine Tool Factory, Pakistan Mineral Development Corporation, Morafco Industries, Pakistan Railway, Pakistan tourism development corporation (PTDC) motels and restaurants, Utility Stores Corporation, Pakistan Post, Kot Adu Power company, Pakistan Insurance Company, State Life Insurance Corporation, Printing Corporation of Pakistan, Service International Hotel, Sindh Engineering Limited and Republic Motors Limited.[52] The PC was unable to conduct privatisation of state entities like the past due to certain reasons. The factors due to which the government failed to conduct privatisation are deteriorating law and order situation, global recession and its impact on Pakistan and rising corruption in the different government department.

[52] Privatisation Commission Pakistan.(2010). Privatisation Programme under PPP Mode. www.privatisation.gov.pk. 3rd Apr.2010. http://www.privatisation.gov.pk/about/Summary4 (Latest).htm.

VI. Liberal Perspective on Privatisation

Liberalism is the belief in the importance of individual liberty and social responsibility. Liberals promote a wide array of views depending on their understanding of these principles, but predominantly liberals support individual freedom, liberal democracy, free and fair elections, human rights, free trade, secular society and a free market economy. Privatisation is an outcome of liberal school of thought and liberals believe that privatisation can only minimize state interference, corruption in state departments by promoting private sector. Different schools of thought suggest various methods for privatisation of state assets. It must be noted that economical reforms will also require political reforms. The important question is that whether the increase in economic freedom will be sufficient to bring a broader change on political horizon which promotes liberalization and privatisation rather than to curtail it. Another important reason for which liberals promote privatisation is because it increases freedom of choice for the consumer which is a basic right.

Classic Liberal Perspective

Classical liberalism is a political ideology that developed in the 19thcentury in England, Western Europe and the Americas. It is committed to the ideal of limited government and liberty of individuals including freedom of religion, speech, press, and assembly, and free markets. The phrase classical liberalism is also sometimes used to refer to all forms of liberalism. Before the 20th century and after 1970, the phrase began to be used by libertarians to describe their belief in the primacy of economic freedom and minimal government. It is sometimes difficult to tell which meaning is intended in a given source.

Classic liberalism means a form of liberalism in which the government does not provide social services or regulate industry and banking. Libertarians often claim that this belief was shared by the American Founding Fathers. Libertarian classical liberalism is also called laissez-faire liberalism.

The philosophy of classical liberalism in the libertarian sense of the phrase includes a belief in rational self-interest, property rights, natural rights, civil liberties, individual freedom and equality under the law, limited government and free markets. Classical liberalism places a particular emphasis on the sovereignty of the individual, with private property rights being seen as essential to individual liberty.[53]

[53] Stuart Taylor Jr. (2010). How Republican Justices Evolve Leftward. Available: http://ninthjustice.nationaljournal.com/2010/04/how-republican-justices-evolve.php. Last accessed 15th April 2010.

Classical liberalism advocates policies, which increase liberty and prosperity among a nation. So in a way classical liberalists, wish to empower the commercial class politically and to abolish monopolies and the protectionist policies of the government. Frédéric Bastiat, a very prominent classical liberalist once said that when goods cannot cross borders, armies will.[54]

Conservative Liberal Perspective

Conservative liberalism is a variant of liberalism, combining liberal values and policies with conservative stances. The roots of it are to be found at the beginning of the history of liberalism. Until the World Wars, in most European countries the political class was formed by conservative liberals, from Germany to Italy. Conservative liberalism is a more positive and less radical version of classical liberalism. The events such as World War I occurring after 1917 brought the more radical version of classical liberalism to a more conservative type of liberalism.

A comparison of the perspectives discussed above

One look at all the different perspectives from the liberal school of thought is enough to tell us that all do promote the process of privatisation. The differences are very slight and may only be as to which procedure to follow and the intensity of the process. The important point to ponder is that all schools of thoughts within the liberal perspective promote privatisation because of the results shown by the private sector. The most common rationale behind this is that private sector focuses on minimizing losses and maximizing profit. Efficiency in delivering the services is unquestionable. Furthermore, it helps to create more jobs directly or indirectly as the private sector does lease out some services to third part contractors which in developing countries creates a bigger job market.

[54] Neal Boortz. (22 Jan 2010). Can You Imagine a World without Liberals? Available: http://boortz.com/nealz_nuze/2010/01/can-you-imagine-a-world-withou.html. Last accessed15th April 2010.

V. Privatisation Fuelling Economic Democracy

As a result of escalating globalization and liberalization of world trade and investments, governments around the world have expedited the process of privatisation of public enterprises so to sustain global competitive pressures and to have more resources available for development programs.

More or less all developing countries have launched ambitious privatisation programs to improve the effectiveness of government owned enterprises so that they have more resources for social services and the state can then mobilize capital for development and modernization. A number of countries have effectively privatized their small and medium enterprises. However, few have made measurable progress in privatizing large loss-makers and infrastructure enterprises that account for the bulk of the financial and economic burden. As a result, state enterprises still play an important role in developing economies.

Zubair Ahmed Malik[55] (Executive Committee Member – SAARC Chamber of Commerce and Industry) was of the opinion that with the advent of World Trade Organization most of the governments felt the importance of the free market economy and then came the realization that government has no business to do business. So, all the assets and state enterprises which were being run by the government in various countries of the world particularly the communist bloc felt the need of privatisation and this is how privatisation came into being.

Privatisation has opened up the possibility of economic democracy with more opportunities for public participation in the economic activities. However, the privatisation initiatives can result in a social backlash, particularly when they do not take into account the possibility of lay-offs. At the same time, we cannot negate the fact that privatisation will lead to a greater degree of transparency and deregulation would allow wider participation of the private sector. Thus, allowing higher levels of economic return, employment and efficiency. Moreover the sale of shares of public banks such as Muslim Commercial Bank & National Bank of Pakistan and other capital market transactions is a good example where privatisation takes place through gradual sale of shares to the public and some would view this as the most preferred form of privatisation. The possession of equity capital is important for achieving distributive justice. Privatisation can help in doing so. Moreover, privatisation helps in strengthening and deepening of the capital market when a percentage of shares of public enterprises are sold to the public through the stock exchange [56].

[55] Mr. Malik was interviewed at his office by the Individualland team on 23rd Feb.2010.
[56] Ishrat Husain. (2004). Policy Considerations before Bank Privatisation Country Experience. World Bank Technical Paper. 1 (2), 3.

South Asian countries, as discussed in the report earlier, also have been engaged in privatisation and revamping of various public enterprises. Many of such privatisations have been criticized without grasping the potential future economic benefits that they offer. Although the mechanisms for voluntary or involuntary reduction of expenditure have been in place whenever the workers have been affected, only in a few cases open discussions have taken place that have included the affected workers as well. Public discussions leading towards the greater understanding of the rationale for privatisation have thus been lacking. The question in the present situation is not whether or not to privatize. As this realization has made it to the political leadership in Pakistan as all major parties are in favour of privatisation though they may differ over its modalities. The pertinent question is how the process of privatisation should take place which adequately guarantees the interests of all vital stake holders i.e. workers, investors and the public.

The interests of the public and the workers can be ensured only when there is careful introspection of the methods of privatisation and when there is a debate in public policy forums over the merits and de-merits of privatisation. Public consensus on the preferred mode of privatisation would ensure not only the success in privatisation but also fair allocation of the benefits that it has to offer. Such distribution can take place only when the reformation of the public enterprises before or after privatisation takes into consideration the possible social effects and then proceeds with the approach and mechanism that will ensure that adverse effects on the interests of the workers are limited.

So, if privatisation in the real sense is to be done, we must ensure that (a) firstly the process is transparent and that (b) secondly that the exact worth of the enterprise that we are selling is correctly determined.

Secondly after privatisation is that the operational mechanism too is transparent and free from cartelization. Cartelization poses a serious threat to the concept of free market economy .If cartels are formed then ultimately price manipulation which leads to cartelization is taking place.

For instance, the privatized units of D.G. Khan Cement and Maple Leaf Cement also formed cartels to exploit the consumers in that region. The national treasury suffered an estimated loss of PKR 120 billion due to cartelization in cement industry. This was deduced after Competition Commission of Pakistan (CCP) investigation as a result of which the CCP imposed PKR 6.352 billion fine on 20 cement manufacturers [57].

The recent sugar crisis created uproar in the media and sugar mills were accused of cartelization. However, the CCP investigation for Supreme Court revealed some interesting insights. The Chairman, Khalid Mirza, held the federal and provincial governments responsible for the sugar crisis. The Commission, in its report to the SC, urged the government to leave the fixing of sugar prices to market forces. The report further argued that the government's price control mechanism and price-fixing had always failed and the results of such actions had always been borne by the public and the sugar crisis did not arise due to a price hike, but more so because of negligence on the part of the federal and provincial governments [58].

5.1 Citizen's Benefit or Loss?

Privatisation if undertaken under a transparent manner can entail benefits for the citizens. Privatisation does not imply throwing away the government assets at a throw away price. In Pakistan, a number of institutions were privatized some were transparent and in some transparency was lacking. Privatisation in its true essence is not understood by many. In Pakistan, there is a populist view that the state should dispose the enterprises which are running in a huge deficit such as Railways, Water and Power Development Authority (WAPDA) or Pakistan International Airlines (PIA) but retain the profit making entities such as Pakistan Tele Communications

[57] Staff report. (2009). Cartelisation in cement industry. Available:http://www.dailytimes.com.pk/default.asp?page=2009/10/17/story_17-10-2009_pg7_4. Last accessed 13 March 2010.

[58] Sajid Chaudhry. (2009). Federal, provincial govts to blame for sugar crisis: CCP. Available: http://www.dailytimes.com.pk/default.asp?page=2009/10/17/story_17-10-2009_pg7_4. Last accessed 14 March 2010.

Limited, Pakistan State Oil or Pakistan Petroleum Limited in the public sector. The proponents of this school of thought suggest why sell an entity which is yielding profit and secondly privatisation could endanger the rights of the workers.

Firstly a committed and more professional management can bring better results after privatisation. The basic rationale for privatisation is that the government should not be in the business of running businesses but its role is limited to providing a level playing field for economic activity. The Governments involvement in business reduces the opportunity for private enterprise to do business as well as it reduces the supervisory and regulatory capability of the government. The idea of self-regulation is not practical for the reason that if the left arm of the government which is regulating cannot possibly scold the right side which is doing business[59].

When businesses are conducted by the government there is no trickle down economic effect, as profits flow back to the government. On the other hand with private companies, it trickles down to family and workers, and the government generates revenue from taxation.

The role of the government should be that of an impartial entity, who chalks out the ground rules for businesses to operate and compete. The state can monitor and enforce these rules and reprimand those found guilty of breaking the laws. However when the government owns a particular business it discourages competition. Privatisation is accompanied by de-regulation which fosters competitive business. A decade ago telephone charges were very high; it was due to de-regulation that we have such competitive prices today.

[59] Staff report. (2010). Govt should not run business. Available:http://thestar.com.my/news/story.asp?file=/2010/4/5/focus/5993625&sec=focus.Last accessed 12 March 2010.

Privatisation and Trade Unions

Another major concern regarding privatisation is the fear of losing jobs as it is anticipated that privatisation will lead to massive lay-offs. However contrary to popular perception this is not entirely true. For instance, prior to the privatisation of banking industry there were 105,000 employees working in the financial sector in Pakistan. After the process of privatisation, the banking industry has witnessed an economic boom with new foreign and local banks entering the market.[60] Thus the employment base has expanded and post-privatisation banks offer more lucrative perks to those who perform well. So the rationale is simple. If your performance is satisfactory chances are as a worker privatisation will do you more good than harm.

Zubair Ahmed Malik said that trade unions have opposed privatisation as it is viewed as threat to workers rights:

> *The process of privatisation has been opposed globally due to the fear of losing jobs. We should ensure privatisation in a manner that we don't want to privatize and create unemployment in the country. We have to do a balancing act here. Arrange alternate jobs and privatize. The institution that we privatize should be a profitable institution and the work force should also be not unemployed there. We have to strike a balance and find alternate jobs for the people.*

Privatisation effects on labour depend on early stages. Large-scale labour force reductions often occur when huge, poorly performing state enterprises are geared up for privatisation or when privatized entities are exposed to greater competition. The more governments privatize such firms and the greater the exposure to competition, the larger those reductions are likely to be. In many instances workers can and do gain

[60] Ishrat Husain. (2004). Recent Privatisations in Pakistan and their Impact. Available: http://www.iba.edu.pk/News/speechesarticles_drishrat/Recent_privatisations _in_Pakistan_ Privatisation_Commission_Jul_3_09.pdf . Last accessed 15 March 2010.

from privatisation.[61] Many enterprises have been privatized and it has not affected the labour force, either because mounting competition led to labour force modifications under public ownership or because new private investors were willing to take on acceptable levels of overstaffing that could be sustained by new investments and dynamic expansion. More importantly, particularly in sectors with large investment deficit, the privatisation and the investments that accompany it have created new jobs. Workers remaining with privatized firms have often benefited by obtaining higher salaries, company shares, improved training and wider career development prospects.

Moreover for the workers safety an agreement is in place between the government and All Pakistan State Enterprises Workers Action Committee (APSEWAC) in 1991[62] according to which the workers of privatized units are entitled to:

- Protection of Service for 12 months.
- Sale of 10% shares to the employees at mutually agreed discounted rate.
- Payment of golden handshake to the employees who opt to retire.
- Employee's right of negotiation on the highest bid to buy a unit.

Citizens have benefitted from the process of privatisation as the Privatisation Commission embarked upon offering shares to the general public. Through this, the benefits of privatisation can trickle down to a common man. Expanding the shareholder base of entities which resulted in strengthening the stock market through floating public shares and this

[61] Sunita Kikeri. (1997). Privatisation and Labor: What Happens to Workers when Governments Divest?.World Bank Technical Paper. 396 (1), 11–13.
[62] Privatisation Commission Report 2006.

has been done in a number of instances. Such as in the privatisation of Pakistan Petroleum Limited (PPL) 500 shares were floated in 2004 [64]. This received an overwhelming response from 755,000 small investors who were able to earn 100% return on their investment. Such mode of privatisation was appreciated by the general public and shares of profitable enterprises such as National Bank of Pakistan, Kot Addu Power Company, and Oil and Gas Development Company Limited were made accessible to the masses .

Table 5

Public offering of Shares (i)

Name of the Entity	Number of shares offered	Date offered
National Bank of Pakistan (NBP)	37,304,000	Feb 2002
Oil & Gas Development Company Limited (OGDCL)	215,046,000	Nov 2003
Pakistan Petroleum Limited (PPL)	102,875,000	Jul 2004
Kot Addu Power Company Limited (KAPCO)	176,050,000	Feb 2005
United Bank Limited (UBL)	51,800,000	Jun 2005

Source: Privatisation Commission Annual Report 2006.

[64] Privatisation Commission Report 2006.

Table 6		
Public Offering of Shares (ii)		
Name of the Entity	**Number of shares offered**	**Date offered**
National Bank of Pakistan (NBP)	37,304,000	Nov. 2002
National Bank of Pakistan (NBP)	13,131,000	Nov. 2003
Sui Southern Gas Company (SSGC)	67,117,000	Feb. 2004
Pakistan International Airline Company (PIAC)	66,057,500	Jun. 2004
Source: Privatisation Commission Annual Report 2006.		

Consumer Concerns

The power sector in Pakistan has only partially been privatized, and thus, the proclaimed benefits of privatisation like improved quality of services and increased efficiency have not trickled down to the consumers [65]. As a result, the plights of the consumers remain the same. Their concerns range from meagre quality of service, lack of accountability and transparency in the process of privatisation.

Many challenge that the services provided by WAPDA are one of the world's most "incompetent" and the system is "most corrupt"[66] . The consumers have a number of grave and genuine concerns. This includes the ongoing load-shedding, everyday power break downs, huge line losses and the prevalent theft of electricity more commonly known as the "Kunda system". In addition to poor services, voltage fluctuations occur

[65] Ali Salman/Humayun Tanvir Anjum. (2000). Privatisation of Public Utilities: A Consumer Perspective. CRCP Publication. 1 (1), 70–74.
[66] Ibid.

that causes damage of valuable electronic equipment. For the year 2009, WAPDA's arrears were PKR 261 billion.

In addition, frequent and prolonged load-shedding in both urban and rural areas, despite assurances of successive governments even more by the incumbent Minister for Electricity and Water who has been vowing for the last two years to end the load shedding. However, the state can't do much to support a crippling institution as the government in 2007–08 budget granted a subsidy of PKR 65 billion to partly cover the deficit of PKR 126 billion[67]. Unless WAPDA is privatized the ordeal is likely to continue.

One of the most foremost consumer concerns is regarding the price of electricity services. A common anticipation is that as a result of privatisation and the resulting competition in the sector, the electricity bills will be reduced as it was hoped after the privatisation of KESC. However, on exploring the power sector privatisation, one can straight-forwardly conclude that privatisation in its real sense, which ensures a healthy competition, increased efficiency and improved services, has not in fact taken place in Pakistan. The proponents of free market argue that privatisation in its true essence should have not only resulted in improved quality of services but also in reduction of prices[68]. However, the fact is that consumers of the power services are complaining of excessive billing. The prices of electricity have indeed gone much higher as rise in the tariff can be evaluated by the fact that the domestic power rates for 1000 KW/H of electricity trebled during 1989–96, i.e. from PKR 989 to PKR 2,738[69]. So, the optimism that the electricity prices will fall after privatisation seems to be impractical. This is because as the consumers are paying not only for the electricity actually consumed, but also for the process of upgrading and expansion of the system.

[67] Staff report. (2009). Wapda abstained from launching new thermal projects. Available: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Business/19-Jul-2009/Wapda-abstained-from-launching-new-thermal-projects. Last accessed 13 April 2010.

[68] A. Salman/Humayun Tanvir Anjum. (2000). Privatisation of Public Utilities: A Consumer Perspective. 1 (1), 70–74.

[69] Parvez Hasan (1998). Pakistan's Economy at the Crossroads. London.

Rouge Privatisation

While there are cases of privatisation that benefited the people, it is always not the case as political interests aligned with nepotism can hinder the process for privatisation. One such case is the attempted privatisation of Pakistan Steel Mills Corporation (PSMC).This was set up in the 1970s with technical and economic assistance of the former USSR. Given the operational and financial requirements of PSMC, it was anticipated that the Steel Mill will undertake expansion projects [70]. However due to the expected privatisation, the decision to expand the capacity of PSMC was postponed and the government expected that a strategic investor would be handed over the unit who would be willing to improve and expand PSMC production capacity after its privatisation[71]. That is why potential bidders were required to submit proposed future plans for PSMC. Although the Privatisation Commission vowed that the privatisation process should be carried out in a transparent manner, the whole privatisation process of PSMC was completed in one day and on March 31, 2006. Ignoring the Expression of Interest, the PSMC was handed over to the successful bidder for three years. Somehow it did not occur to Privatisation Commission that what the bidder would do after the period of three years, as in the case of Zeal Park Cement factory the bidder sold the scrap material and minted money out of the real estate property.

Just a day before the bidding of Pakistan Steel, market forecasters were putting the price of 75 per cent shares over one billion. The worth of real estate only (4,546 acres of land on which various units of Pakistan Steel are constructed) was estimated at PKR 27 billion in 2006[72]. The developed land of steel mill was valued at PKR 5.5–6 million an acre and the undeveloped land at PKR 3–3.5 million an acre. However on March 31, all these assets were given to an investors' consortium for PKR 21.68 billion (USD 362 million).

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[70] Friedrich Naumann Foundation.(2006). Privitization: the Pakistan case. Impetus papers on Privatisation in Pakistan. pp. 28–29.

[71] Ibid.

[72] Sabihuddin Ghausi. (2006). Pakistan Steel sold at throwaway price. Available: http://www.dawn.com/2006/04/07/ebr1.htm . Last accessed 27 March 2010.

Furthermore, nearly four and a half thousand acres of land, worth hundreds of billions of rupees on the open market, was also planned to be handed over to the bidder. There was a public outcry with the PSMC transaction held by the Privatisation Commission and petitions were filed in the Supreme Court challenging the deal.

The workers of PSMC also indicated that they were willing to take over management of the company. Nevertheless, the Supreme Court's intervention halted the privatisation. In the 80-page verdict, the SC held that the price secured for the deal was going to cost the government more money and which would be blow to the treasury. Moreover, the decision also pointed out several technical lapses. For example, the Council of Common Interest, according to Article 153 and 154 of the constitution had to be consulted for privatizing PSMC which was not done[73]. The judgment also criticized that the process of pre-qualification of potential bidders was not carried out in a transparent manner. In short, the whole fiasco was a fascinating tale of corruption.

It should also be noted here, that the successful bid is considered by the Cabinet Committee on Privatisation which is chaired by the Prime Minister and then the Privatisation Commission issues letter of approval only after the Cabinet Committee on Privatisation has considered all aspects of the successful bid. This was not done in the case of Pakistan Steel Mill. The Privatisation Commission also did not release the reserved or reference price of PSMC.

Moreover there were no reports on as who was appointed as the financial consultant and which firm carried out the valuation of the assets.

The privatisation of PSM may be the biggest scam in the history of Pakistan by the political forces. Decision to sell PSM to private investors was taken in second quarter of 2006. They were willing to sell major stakes in the company. The major predicament was that the government was selling this Corporation despite it being the most profitable business owned by

[73] Sabihuddin Ghausi. (2006). Pakistan Steel sold at throwaway price. Available: http://www.dawn.com/2006/04/07/ebr1.htm . Last accessed 27 March 2010.

the government of Pakistan. Similarly, when the privatisation process started the government did not arrange an auction in an attempt to find the highest paying investor. However, they invited sealed proposals from investors. This was an indication. By not holding the auction and inviting press reporters in the selling process, it raised further eyebrows. However, later when the news about the privatisation was released to media by the government, it justified the suspicions that people had about this privatizing process. Dawn, a leading newspaper of Pakistan, writes about privatisation of Steel Mills in the following words:

> *The government of General Musharraf privatized Pakistan Steel Mills. The consortium involving Saudi Arabia-based Al Tuwairqi Group of Companies submitted a winning bid of USD 362 million for a 75 per cent stake in Pakistan Steel Mills Corporation (PSMC) at an open auction held in Islamabad. The consortium of Saudi Arabia-based Al Tuwairqi Group of Companies, Russia's Magnitogorsk Iron & Steel Works and local firm Arif Habib Securities paid a total Rs21.6 billion (USD 362 million), or Rs16.8 per share, to take control of Pakistan's largest steel manufacturing plant. Tuwairqi Group of Companies, one of the leading business concerns in Saudi Arabia, also launched a USD 300 million steel mills project at Bin Qasim. The group will set up Tuwairqi Steel Mills (TSM), a state-of-the-art steel-making plant in the southern port city of Pakistan.*[74]

The selling price of the PSM was set far below the assets that the company had at that time. To top all that, the company was making huge profits at that time and it should have asked for heavy goodwill for being a profitable business and being a monopoly in its operations. However, later it was revealed that around 20 politicians including ministers were to benefit from this privatisation.[75] This meant that the private investor,

[74] news desk. (2006). Privatisation of Pakistan Steel termed biggest scam. Available: http://www.c/2006/05/29/local1.htm. Last accessed 13 April 2010.
[75] news desk. (2006). Privatisation of Pakistan Steel termed biggest scam. Available: http://www.c/2006/05/29/local1.htm. Last accessed 13 April 2010.

which was buying PSM, had given gifts and bribes to these individuals in an attempt to get PSM at less than market price. Later Chief Justice of Pakistan revoked the privatisation process and government again took over the control of their most profitable business. However, the issue did not end there and later agitated government ministers who were making million of Rupees from the sale of PSM, allegedly, started another controversy by having Chief Justice removed from his seat by Special Powers of the President. This part of the issue is irrelevant to the study of Steel Mills that we are doing but in the end it became a movement and Chief Justice was restored and with his coming back on his seat, it meant that the government now cannot privatize the PSMC, for the benefits of its officials and will have to command the right price from investors if they want to sell it.

What makes the deal more captivating was the launch of 300 million dollar plant of the Tuwairqi group on a 220-acre plot at the Port Qasim. With one million ton production line after two years or so, the Tuwairqi group would have enjoyed the status of a monopoly.

According to Zubair Ahmed Malik:

> *Privatisation does not mean throwing away the government assets at a throw away price. We have seen a number of institutions being privatized by this government. Some were transparent and in some transparency was lacking and the recent case which I can quote in this respect was Pakistan Steel Mills where an offshore company located somewhere in Mauritius and the office is located in some hotel suite in Mauritius. The Supreme Court of Pakistan had to intervene in this case, when this deal was offered for 25 billion rupees the assets were much more the stocks were 11 billion and over nine billion in the banks. So what actually we were getting was about five or six billion for the whole Steel Mill.*[76]

[76] news desk. (2006). Privatisation of Pakistan Steel termed biggest scam. Available: http://www.c/2006/05/29/local1.htm. Last accessed 13 April 2010.

VI. Institutionalization of Privatisation

While developing the ideal mode of privatisation, it is important that different options are explored and the preferred privatisation solutions are modified to suit the local political and social environment. No single institutional framework stands out as best model for privatisation. However, studies of the success of privatisation show that it is essential to define the roles and powers of participants, and to ensure that legal, regulatory, and enforcement mechanisms precede privatisation.[77] However two major institutional structures emerge:

[77] Asian Development Bank. (2001). Special evaluation study on the privatisation of public sector enterprises: Lessons for developing member countries. Available: http://www.adb.org/Documents/PERs/sst-stu-2001-15 Last accessed 23 March 2010.

(i) A central model where all decision-making powers are vested in a single self-governing institution.

(ii) A decentralized model where the privatisation process is divided among the various ministries responsible for their enterprises to be privatized. Some case studies of privatisation illustrate the benefits of delegating responsibility to an independent commission with powers to restructure, disinvest and is free from insider resistance.

Zubair Ahmed Malik expressed his dismay over the institutional setup of the Privatisation Commission as he stated:

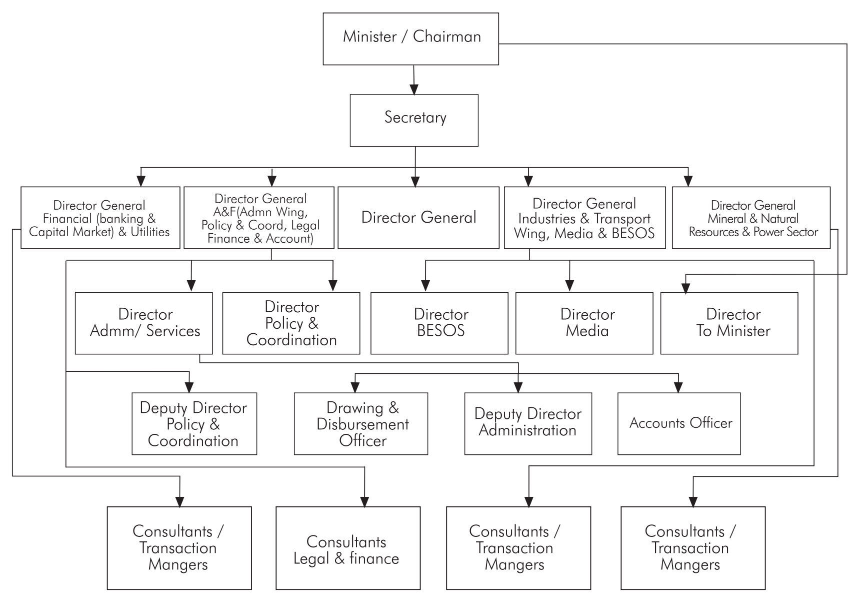
> *Pakistan too embarked upon this exercise and the Privatisation Commission was formed. Ordinarily it should have been headed by someone form the private sector but in Pakistan case this was not done. It is still under bureaucratic control of government headed by a Privatisation Minister.*

The Privatisation Commission in Pakistan is headed by a Chairman and comprises nine other regular members. Eight of these regular members are professionals from the private sector. However, they are appointed by the government. The two government members include the Chairman and the Secretary of the Privatisation Commission. The Chairperson of the Commission is a Federal Minister who holds the portfolio for Privatisation. The Chamber of Commerce is represented in the commission but at the behest of the government. It is imperative that the government role is limited in the process of disinvestment and the members are given the right to elect the Chairperson[78].

[78] Privatisation Commission Report 2006.

Figure 5

Organizational Chart Privatisation Commission



Source: http://www.privatisation.gov.pk/org-chart-2010/org-chart-pc-2010.htm (as of 13th Apr 2010).

The Cabinet Committee on Privatisation acts a supervisory body which reviews and monitors the progress of privatisation and devises the broader privatisation policy so as to streamline the institutions to be privatized [79]. Moreover the committee also acts a liaison body between various ministries of the government which have their stakes in the process of privatisation and approves of the successful bid.

[79] Government of Pakistan. (2007). Privatisation Commission – Annual Report 2006. Available: http://www.privatisation.gov.pk/Annual%20Report/ Annual%20Report-2006%20-%20FINAL.pdf. Last accessed 24th March 2010.

It is of the utmost importance that the privatisation programmes are transparent, and there is a demonstrated political commitment to provide credible guarantee to the investor that the state will not interfere in the affairs of the enterprise any longer. Doing privatisation successfully requires support of institutional mechanisms that address stakeholder concerns in a resourceful manner. The institutional mechanisms should entail:

- Stimulating economic activities on the basis of market resources and demands,
- Building and completing market economy institutions
- Eliminating consequences of a forceful application of administration by the installed authority,
- Building up a property structure compatible with the market economy countries.
- Encouraging private investments in Small Medium Enterprises, especially of direct foreign investments.[80]

The process of privatisation has been tricky and lessons have been learned along the way. The role of cabinet committee needs to be diversified by taking the opposition in confidence. The present government has appointed the leader of the opposition as the Chairperson of Public Accounts Committee (PAC). The PAC plays a proactive role in keeping a tab of public resources and it can be anticipated that process of Privatisation will be further consolidated

6.1 The Political Aspects of Privatisation

The temptation by the elected political leaders or other rulers to interfere in the affairs of the public sector companies is not very unlikely as it is somewhat of norm in subcontinent that the elected MPs are expected to provide job in their constituencies[81]. Therefore, they are constantly under

[80] Model and Method of Privatisation. Available: http://www.bndlg.de/~wplarre/K5_4-en.html . Last accessed 12 Apr. 2010.

pressure from their constituents for jobs, contracts, favourable postings and transfers. In some cases, they have to give in to pressures. President Asif Ali Zardari promulgated the 'Sacked Employee (Reinstatement) Ordinance 2010' in a bid to provide relief to those appointed in corporations, autonomous, semi-autonomous or government services. The 13-point Ordinance mentions relief employees as those appointed during the period from the November 1, 1993, to November 30, 1996, and dismissed, removed or terminated from service during the period from the November 1, 1996, to December 31, 1998 [82]. This is precisely the time of Peoples Party Government and many of the restored were political appointees. The question is how efficient an employee is after ten or 15 years of lapse of service?

It is, therefore, necessary to cut the connection between the government and the business. A public sector company cannot be expected to show same results as its private sector competitors. The compensation structure of the private companies is driven by performance and efficiency. Their managers enjoy full powers of hiring and firing in the best interest of the company. Moreover their boards have direct stakes in ensuring good governance and the political interference is minimal. It is a common observance in Pakistan that ministers and elected representative would be dispatching recommendation notes to candidates for job in public sector and sometimes even in private sector.

Governments over the world have employed too many workers in their state enterprises. In India and Turkey, for example, state enterprises were estimated to be overstaffed by nearly 35 percent in the early 1990s. Whereas approximately 120,000 people employed in Sri Lanka's state enterprises, 40–50 percent work force was expected to be unnecessary[83]. Many of these enterprises were in fact designed as vehicles for job creation

[82] Iqbal Choudhry. (2010). Zardari promulgates ordinance to reinstate sacked employees. Available: http://www.dailytimes.com.pk/default.asp?page= 201026story_6-2-2010_pg7_3. Last accessed 13 April 2010.

[83] Sunita Kikeri. (1997). Privatisation and Labor: What Happens to Workers when Governments Divest?, World Bank Technical Paper. 396 (1), 11–13.

and political patronage. Protection from competition, lack of hard budget constraints, and security of tenure of public sector positions has led to chronic overstaffing or larger labour forces which is not efficient.

In Pakistan's water system for Islamabad, for example, there is a 45 staff member per 1,000 water supply connections, compared with three staff per 1,000 water connections in efficient water companies.[84]

Take the case of PIA which was a profit yielding enterprise in 70s. It was considered as one the best airlines in the world which provided technical assistance to other countries such as Turkey. PIA had one the best instrument maintenance mechanism at that time and the best maintenance facilities. We had the facility to overhaul the Boeing engines in the 70s. Now PIA is a huge burden on the exchequer and that is because of the political involvement in the affairs of PIA. In a statement in National Assembly the Federal Defence Minister Ahmed Muhktar said PIA was facing a deficit of PKR 76.54 billion.[85]

Zubair Ahmed Malik opined,

> *As per international standards the aircraft ratio is about 160 to 250 people but in PIA's case it is above 400 people per aircraft. How does one expect such an airline to run in profit*?

Neoclassical economic theory suggests that the relationship between ownership and performance is questionable. Efficiency is seen mainly as a function of market and incentives structures. In theory, therefore, it

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84 Ibid.

85 news report. (2009). PIA facing deficit of Rs. 76.54 bln, NA told.Available: http://www.thefreelibrary.com/PIA+facing+deficit+of+Rs.+76.54+bln,+NA+told.-a0211842213 .Last accessed 11 April 2010.

should make little difference whether a firm is privately or publicly owned as long as:

1. it operates in a competitive market;
2. owner instructs management to follow signals provided by the market;
3. management is rewarded or sanctioned on the basis of performance.

The problem, of course, is that these conditions are almost never met in the case of public sector companies. As the public sector enterprises are supervised by disinterested bureaucrats who often do not have profit on their priority list. Political intrusion is a major cause of low efficiency and low productivity in public enterprises.

Regulation of Monopolies

The problem of regulation of private monopolies is one of the major concerns of private sector. This is because if a commodity is supplied, controlled and managed by a single supplier or in other words, if the private monopoly is established in a sector, the consumers become more vulnerable. As a result, the consumers may become subject to price hikes or policies of the private company which may be unfavourable to consumer interests. It is argued that in case of privatisation of public services, particularly in the developing countries like Pakistan, there are not enough suppliers where a healthy competition can foster. Therefore the state monopolies are being replaced by private monopolies or cartels. When privatisation transfers a government monopoly to a single private firm, as in case of public utilities privatisation, instead of reducing the cost, it may result in increasing them. Therefore, the regulation of public sector utilities such as WAPDA or Railways most of which constitute natural monopolies is considered to be a tricky task.

Table 7

Pakistan		
	Region: South Asia	Population: 166,036,895
	Income Category: Lower middle income	GNI per Capita (US$): 981.29

Ease of...	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Doing Business	85	85	0
Starting a Business	63	80	+17
Dealing with Construction Permits	105	100	-5
Employing Workers	146	146	0
Registering Property	119	111	-8
Getting Credit	61	59	-2
Protecting Investors	27	25	-2
Paying Taxes	143	126	-17
Trading Across Borders	78	75	-3
Enforcing Contracts	158	157	-1
Closing a Business	56	56	0

Source: Doing Business in Pakistan IFC Report 2010.

Pakistan is ranked 63 overall for Starting a Business.

Table 8			
Historical data: Starting a Business in Pakistan			
Starting a Business data	Doing Business 2008	Doing Business 2009	Doing Business 2010
Rank	..	80	63
Procedures (number)	11	11	10
Time (days)	24	24	20
Cost (% of income per capita)	14.0	12.6	5.8
Min Capital (% of income per capita)	0.0	0.0	0.0
Source: Doing Business in Pakistan IFC Report 2010.			

Whereas the state-created monopolies, which time and again play an important role in developing and newly industrialized countries. The mere privatisation of a formerly state-owned enterprise does not assure that competition will be promoted. To the contrary, there is a considerable risk that the former state enterprises may use subsidies they received from the state, or through their personal connections with government officials, to maintain a synthetic competitive advantage over former competitors and exercise unwarranted market power. Former state enterprises should not be allowed to enjoy competitive advantages not available to other firms that lack state ties. Ideally, a competition authority, along with an independent and vibrant judiciary, should subject former state enterprises to thorough scrutiny and take enforcement action when such enterprises are found to be engaging in anticompetitive conduct.

The Competition Commission of Pakistan (CCP) was established on 2nd October, 2007 under a presidential ordinance. The primary aim of this ordinance was to provide for a legal framework which creates a business friendly environment based on healthy competition towards improving economic efficiency, developing competitiveness and protecting consumer's rights and keep a check on emerging monopolistic trends be it public or private enterprise. The CCP replaced anti-monopoly law namely 'Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance (MRTPO) 1970'.

As a quasi judicial and regulatory body, CCP since 2007 has taken up a proactive approach in keeping tab on both the state enterprises and the private firms which tend to engage in monopolistic practices. For instance, the CCP took up suo moto a case against PIA on the charges of unreasonable increase in Hajj air fares. As PIA increased its Hajj fares in the Hajj season of 2008 by more than 80% as compared to the previous year and charged an irrational high fare from the pilgrims who opted for a short duration Hajj. After inquiry proceedings a penalty of PKR ten million was struck upon PIA.

Very recently the CCP imposed a PKR 25 million penalty upon Pakistan Steel Mill relating to the shortage in the supply of steel billets to the market and favouring one particular firm in the supply of material. These courageous steps have been instrumental in restoring the faith of private enterprises in the CCP. However the status of CCP seems to be in danger as the legal status of Competition Commission of Pakistan (CCP) as well as its law currently in the form of re-promulgated ordinance that would expire on the 28th of March 2010 [86]. The National Assembly has already passed the bill of the competition law for enactment of the Ordinance into an Act of the Parliament but the bill is now stalled in the Senate. The Senate has referred the bill to the relevant standing committee of the Upper House where it is feared to linger on.

New reports suggest that the proposed amendment will dilute the status of CCP and thereby rendering the commission as toothless body which can merely pass upon recommendations. Moreover in many cases the penalized firms take their case to the Supreme Court for review, the proposed amendment will add the buffer of high courts which will delay the process [87].

> *The Supreme Court and not the high courts should decide. The SC is the appellate forum against orders of the Commission without an intermediate appeal to high courts as is the present practice. Otherwise, the cases against the offenders can drag on for 12–15 years.*[88]
>
> ***Khalid Mirza Chairman CCP***

[86] Afzal Bajwa. (2010). Demise looming large on CCP. Available: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/Politics/05-Mar-2010/Demise-looming-large-on-CCP . Last accessed 16 March 2010.

[87] Anjum Niaz . (2010). A few good men. Available: http://www.thenews.com.pk/print1.asp?id=229767. Last accessed 25 March 2010.

[88] Anjum Niaz . (2010). A few good men. Available: http://www.thenews.com.pk/print1.asp?id=229767. Last accessed 25 March 2010.

VII. Conclusion

From the discussion put forth throughout the report, we can submit that 'privatisation' is a process of changing management in a State Owned Enterprise (SOE). It is not a process to change the organization altogether, although internal service-oriented changes may occur to improve the output of the organization.

Some readers will be staggered at the general conclusion that privatisation has, in many cases, been a reasonably good thing and not only for the rich. Others will be surprised at its restricted effects. As privatisation remains on the policy agenda despite public resistance and continuing controversy, it is necessary to discuss the potential of privatisation as a stimulant for competition while at the same time being fundamentally more just and fair.

To take the debate forward, the following conclusions can be drawn from the report:

- It is possible for governments to design and execute privatisation to obtain gains in efficiency, at least without harming distribution.
- Efficiency gains do not automatically entail equity losses or increased poverty.
- Minimizing the real inequity in privatisation and countering the misperception that it is inescapably unfair is important in order to safeguard the political possibility of deepening and extending transformation.

Privatisation can act as a catalyst in "self-driven" development in the economy of any region. This has been proven by the fact that living conditions in regions which followed a planned, transparent and dynamic system of privatisation saw considerable improvements in the living standards of the people. Privatisation thus can have favourable effects on the fiscal position of any government and can be used as a precious tool for formulating budgetary strategy. A World Bank report stated that "Properly structured privatisation yields substantial and enduring benefits"[89] . It cannot be denied that the government's role in privatisation is essential in determining its success, which can only come if government is judicious and perceptive in its responsibilities in privatisation.

From the research it is evident that the government has to follow a strict doctrine on privatisation which should include:

[89] World Bank. (1992). Privatisation: eight lessons of experience.Available: http://www.worldbank.org/html/prddr/outreach/or3.htm. Last accessed 13th April 2010.

- Candidate Screening
- Cost/Benefit Analysis
- Planning
- Implementation

The steps mentioned above should form the backbone of the privatisation process in any country. However in general, in any privatisation process after the interested parties submit their application, the government needs to do a thorough screening and choose the best possible bidders. Then a cost/benefit analysis should be done. Planning and implementation would be the final stages of the process.

In both developed and developing countries, good SOE performance has been very difficult to bring about and even harder to maintain. Governments often face fiscal crisis due to which the SOEs receive policy changes often. Political meddling, a common and deadly infection of SOEs tends to impede performance. Even well performing SOEs get affected by this virus at some point and then never get back on track.

Most privatisation success stories come from high-income and middle-income countries. Privatisation is easier to launch and more likely to produce positive results when the company operates in a competitive market. Thus, competition is the key. The poorer the country, greater the odds against privatisation producing its anticipated benefits and the more difficult the process of preparing the terrain for sale. Nonetheless, success stories can be found in low-income countries as well. Privatisation turned around an almost moribund textile firm in Niger, helped revive a defunct development finance corporation in Swaziland and revitalized an agro-industrial firm in Mozambique.[90] The conclusion is straightforward; privatisation, when done right, works well.

[90] World Bank. (1992). Privatisation: eight lessons of experience. Available: http://www.worldbank.org/html/prddr/outreach/or3.htm. Last accessed 13th April 2010.

Based on the research done, following observations and recommendations can be made:

1. Privatisation delivers its dividends when it's a part of a larger program of reforms promoting efficiency.
2. Countries can profit from privatizing management without privatizing the ownership of assets. But because a change in ownership is usually needed to lock in performance gains, private management arrangements are likely to work best when they are a step toward full privatisation.
3. The key to successful privatisation of a large enterprise requires considerable preparation.
4. It is in the interest of the government to privatize. For the onus of the unit's maintenance, upkeep and modernization is on the private company rather than on public exchequer.
5. Transparency is critical for economic and political success. The sale of enterprises can be made transparent by adopting competitive bidding procedures, developing objective criteria for selecting bids and creating a clear central point with minimal officialdom to monitor the overall plan. A lack of transparency can result in political repercussion.
6. In changing the public-private mix in any type of economy, privatisation will sometimes be less important than the emergence of new private business.

Lastly, Privatisation is not a blanket solution for the problems of poorly performing SOEs. It cannot in and of itself make up totally for lack of competition, for weak capital markets, or for the absence of an appropriate regulatory framework. But where the market is basically competitive, or when a modicum of regulatory capacity is present, private ownership yields substantial benefits.

Annex I

First Tide 1991-94

Institution / Entity	Sale Price	Date	Buyer
Allied Bank Limited (51%)	971.6	Feb-91	EMG
Muslim Commercial Bank (75%)	2420	Apr-91	National Group
Fazal Vegetable Ghee	21.2	Sep-91	Mian Mohammad Shah
Al-Ghazi Tractors Ltd.	105.6	Nov-91	Al-Futain Industries (Pvt) Ltd. UAE
National Motors Ltd.	150.4	Jan-92	Biboojee Services
Millat Tractors Ltd.	306	Jan-92	EMG
Maple Leaf Cement	485.7	Jan-92	Nishat Mills Ltd.
Pak Cement	188.9	Jan-92	Mian Jehingir Ellahi & Ass
White Cement	137.5	Jan-92	Mian Jehingir Ellahi & Associates
Karachi Pipe Mills	18.9	Jan-92	Jamal Pipe Industries
Gulberg, Lahore	8.7	Jan-92	Packages Ltd.
Peshawar	2.6	Jan-92	Saleem Group of Ind
Head Office, Lahore	10.2	Jan-92	Hajra Textile Mills
Hyderabad	2.6	Jan-92	Utility Stores Corp.
Faisalabad	11.5	Jan-92	Azad Ahmad
National Fibres Ltd	756.6	Feb-92	Schon Group

Kurram Chemicals	33.8	Feb-92	Upjohn Company USA
Pioneer Steel	4.4	Feb-92	M. Usman
Associated Industries	152	Feb-92	Mehmoob Abu-er-Rub
Bahawalpur	1.6	Feb-92	Utility Stores Corp.
Multan	2.5	Feb-92	Utility Stores Corp.
Quetta	4.8	Feb-92	Utility Stores Corp.
Islamabad	3.6	Mar-92	Utility Stores Corp.
Sh Fazal Rehman	64.3	Apr-92	Rose Ghee Mills
Baluchistan Wheels Ltd.	276.4	May-92	Abdul Qadir & Saleem I. Kapoorwala
D.G Khan Cement	1960.8	May-92	Tariq Sehgal & Associates
Dandot Cement	636.7	May-92	EMG
Metropolitan Steel Mills Limited	66.7	May-92	Sardar M. Ashraf D. Baluch
Pak China Fertilizers Company Limited	435.4	May-92	Schon Group
Kakakhel Industries	55.3	May-92	Mehmoob Abu-er-Rub
United Industries	15.5	May-92	A. Akbar Muggo
Sheikhupura	28	May-92	Contrast Pvt Ld.
Faizabad	21.2	May-92	Packages Ltd.
Pak PVC Ltd	63.6	Jun-92	Riaz Shaffi Reysheem
Pakistan Switchgear	8.9	Jun-92	EMG
Taimuria, Karachi	9.2	Jun-92	Spot Light Printers
Haripur Vegetable Oil	30.1	Jul-92	Malik Naseer & Assoc.

Bara Ghee Mills	27.8	Jul-92	Dawood Khan
Siranwali	16.2	Jul-92	Enkay Enterprises
Hydari Industries	0	Aug-92	EMG
Pak Suzuki Co. Ltd.	172	Sep-92	Suzuki Motors Co. Japan
Garibwal Cement	836.3	Sep-92	Haji Saifullah & Group
Chiltan Ghee Mills	42.5	Sep-92	Baluchistan Trading Co.
Hafizabad	20	Sep-92	Pak Pearl Rice Mills
SITE, Karachi	5.1	Sep-92	Specialty Printers
Zeal Pak Cement	239.9	Oct-92	Sardar M. Ashraf D. Baluch
Kohat Cement	527.9	Oct-92	Palace Enterprises
Sind Alkalis Ltd	152.3	Oct-92	EMG
Antibiotics (Pvt) Ltd	24	Oct-92	Tesco (Pvt) Ltd.
Eminabad	24.1	Nov-92	Pak Arab Food Industries
Wazir Ali Industries	31.9	Dec-92	Treat Corporation
Multan Road, Lahore	3.5	Dec-92	Utility Stores Corp.
Naya Daur Motors Ltd.	22.3	Jan-93	Farid Tawakkal & Saleem I. Kapoorwala
Asaf Industries (Pvt) Limited	11.4	Jan-93	Muzafar Ali Isani
Khyber Vegetable	8	Jan-93	Haji A. Majid & Co.
Suraj Vegetable Ghee Industries	10.8	Jan-93	Trade Lines
Crescent Factories Vegetable Ghee Mills	46	Jan-93	S. J. Industries
Quaidabad Woollen Mills	85.5	Jan-93	Jehingir Awan Associates

Bengal Vegetable	19.1	Mar-93	EMG
A & B Oil Industries Limited	28.5	Mar-93	Al-Hashmi Brothers
Quality Steel	13.2	Apr-93	Marketing Enterprises
Korangi, Karachi	4.6	Apr-93	Utility Stores Corp.
Bolan Castings	69.2	Jun-93	EMG
Dhaunkel	79.2	Jun-93	Dhonda Pakistan Pvt Ltd.
N.P.T Building	185	Oct-93	Army Welfare Trust
Mabarikpur	14.4	Nov-93	Maktex (Pvt) Ltd.

Annex II

Second Tide 1994-99

Institution / Entity	Sale Price	Date	Buyer
Mari Gas (20%)	102.4	Apr-94	Mari Gas Company Ltd.
PTCL (2%)	3032.5	Aug-94	General Public thru Stock Exchange
PTCL (10%)	27499	Sep-94	Through DR form
Swat Elutriation	16.7	Dec-94	Sahib Sultan Enterprises
Dandot Works - National Cement	110	Jan-95	EMG
Nowshera PVC Co. Limited	20.9	Feb-95	Al Syed Enterprises
Swat Ceramics (Pvt) Limited	38.6	May-95	Empeiral Group
Cotton Ginning Factory	1.2	Jun-95	Hamid Mirza
Mashriq – Peshawar	26.6	Jun-95	Syed Tajmir Shah
Ittehad Chemicals	399.5	Jul-95	Chemi Group
Pak Hye Oils	53.6	Jul-95	Tariq Siddique Associates
Makerwal Collieries	6.1	Jul-95	Ghani Group of Industries
Textile Machinery Co	27.9	Oct-95	Mehran Industries
Ravi Engineering Limited	5.4	Jan-96	Petrosin Products Pte
Mashriq – Quetta	6.2	Jan-96	EMG
General Refractories Limited	18.9	Feb-96	Shah Rukh Engineering
Wah Cement	2415.8	Feb-96	EMG
Shikarpur	32.5	Mar-96	Afzaal Ahmad

Nowshera Chemicals	21.2	Apr-96	Mehboob Ali Manjee
Progressive Papers Ltd.	46.1	May-96	Mian Saifu-ur-Rahman
Bankers Equity (51%)	618.7	Jun-96	LTV Group
Kot Addu Power Company (26%)	7105	Jun-96	National Power
Mughalpura, Lahore		Jun-96	Pakistan Railways
National Petrocarbon	21.9	Jul-96	Happy Trading
Mashriq – Karachi	6.7	Aug-96	EMG
Kot Addu Power Company (10%)	3046	Nov-96	National Power
Habib Credit & Exchange (70 %) (52,500,000)	1633.9	Jul-97	Sh. Nahyan bin Mubarik Al-Nahyan
Indus Steel Pipe	42.5	Jul-97	Hussien Industries
Dargai Vegetable Ghee Industries	26.2	Nov-97	Gul Cooking Oil Industries
Gulshan-e-Iqbal, Karachi	20.2	Mar-98	Ambreen Industries
Cecil's Hotel	190.9	Jun-98	Imperial Builders
Federal Lodges - 1- 4	39.2	Jan-99	Hussain Global Assoc.
Punjab Veg. Ghee	18.7	May-99	Canal Associates
National Tubewell Const Corp	18.6	Sep-99	Through Auction
Duty Free Shops	12.5	Sep-99	Weitnaur Holding Ltd.
Republic Motors (Plot)	6.3	Nov-99	Muhammad Mushtaq
Dean's Hotel	364	Dec-99	Shahid Gul & Partners

Annex III

Third Tide 1999 till date

Institution / Entity	Sale Price	Date	Buyer
Burma Oil	20.1	Jan-00	Home Products Intl
SSGC LPG business	369	Aug-00	Caltex Oil Pak.(Pvt) Ltd.
Muslim Commercial Bank (6.8%)	563.2	1-Jan	MCB Employees-PF & Pension Fund
SNGPL LPG business	142	1-Oct	Shell Gas LPG Pakistan
Muslim Commercial Bank (4.4%)	364	1-Nov	MCB Employees-PF & Pension Fund
NBP 10% shares IPO (37.3 million shares)	373	1-Feb	General Public Thru Stock Exchange
National Petrocarbon (add'l 10% shares)	2.3	1-Mar	Happy Trading
Kot Addu (Escrow A/c)	900.7	1-Apr	National Power
Adhi	618.9	1-May	Pakistan Oil Field
Dhurnal	161	1-May	Western Acquisition
Ratana	24.6	1-May	Western Acquisition
Pak Saudi Fertilizers Ltd. (10%)	815	May-02	Fauji Fertilizers
Badin II (Revised)	503.2	1-Jun	BP Pakistan & Occidental Pakistan
Badin I	6,433.00	1-Jun	BP Pakistan & Occidental Pakistan
Turkwal	75.6	1-Jun	Attock Oil Company
E&M Oil Mills	94	1-Jul	Star Cotton Corp. Ltd.
Maqbool Oil Company Ltd.	27.6	1-Jul	Madina Enterprises

ICP Lot - A	175	1-Sep	ABAMCO
Al Haroon Building Karachi	110	1-Sep	LG Group
Pak Saudi Fertilizers Ltd.	7335.9	Sep-02	Fauji Fertilizers
United Bank Ltd. (51%) (1,549,465,680)	12350	1-Oct	Consortium of Bestway & Abu Dhabi Group
Muslim Commercial Bank (CDC)(24,024,560 shares)	664	1-Oct	Sale Thru CDC
Pakistan Oil Fields Limited shares (CDC)(28,546,810 shares)	5138	1-Oct	Sale Thru CDC
ICP Lot - B	303	1-Oct	PICIC
National Bank of Pakistan 10% SPO (37,303,932 shares)	782	1-Nov	Sale Thru CDC
Bank Alfalah (30%)(22,500,000)	620	1-Dec	Abu Dhabi Group
DG Khan Cement shares (CDC) (3,601,126 shares)	63	1-Dec	General Public thru Stock Exchange
Attock Refinery Ltd. shares (CDC) (10,206,000 shares)	1039	1-Jan	Sale Thru CDC
ICP - SEMF	787	1-Apr	PICIC
Khuram Chemicals (additional 10%)	6	1-Oct	Pfyzer Pakistan
NBP 3.52% 3rd offer (13,131,000 shares)	604	1-Nov	General Public thru Stock Exchange
OGDCL 5%- IPO (215,046,420 shares)	6,851	1-Nov	General Public thru Stock Exchange

Associated Cement Rohri	255	1-Nov	National Transport Karachi
Habib Bank (51%)	22,409	1-Dec	Agha Khan Fund for Economic Development
Thatta Cement	793	1-Jan	Al-Abbas Group
SSGC 10% - SPO (67,117,000 shares)	1,734	1-Feb	General Public thru Stock Exchange
Kohinoor Oil Mills	80.7	1-May	Iqbal Khan
PIA 5.8% shares SPO	1,215.10	1-Jul	General Public thru Stock Exchange
PPL 15% IPO (102,875,000 shares)	5,632.60	1-Jul	General Public thru Stock Exchange
Falleti's Hotel Lahore	1,211.00	1-Jul	4B Marketing
10% additional shares-Dandot Cement	8.3	1-Oct	EMG
10% additional shares-Kohat Cement	40.7	1-Oct	EMG
10% additional shares – Ittehad Chemicals	26.1	1-Oct	EMG
KAPCO 20% IPO (160,798,500 shares)	4,814.80	1-Apr	General Public thru Stock Exchange
International Advertising (Pvt) Ltd.	5	1-Apr	EMG
NRL (51% GOP shares)	16,415	1-May	Consortium of Attock Refinery Ltd
Pak Arab Fertilizers (Pvt) Ltd. (94.8%)	14,125.60	1-May	Export Reliance-Consortium
Sh Fazal Rehman(addl- 10% shares)	2.3	1-May	Rose Ghee Mills

26% (1.326 billion) B class of shares of PTCL	156,328.40	1-Jul	Etislat-UAE
UBL 4.2% IPO (21,867,000 shares)	1,087.20	1-Aug	General Public thru Stock Exchange
United Industries Limited	7.7	1-Sep	A. Akbar Muggo
Carrier Telephone Industries	500.0	1-Oct	Siemens-Pakistan Engineering Co. Ltd.
Bolan Textile Mills	128	1-Oct	Sadaf Enterprises
KESC (73% GOP shares)	15,859.70	1-Nov	Hassan Associates
Mustehkam Cement Limited	3,204,.9	1-Nov	Bestway Cement Limited
Pak American Fertilizers (100%)	15,949.00	1-Jul	Azgard 9
Javedan Cement Company Limited	4,315.90	1-Aug	Haji Ghani Usman & Group
Lasbella Textile Mills	156	1-Nov	Raees Ahmed
OGDCL 9.5% GDR (408,588,000 Shares)	46,963.00	1-Dec	GDR offering to international & domestic institutions
Lyallpur Chemical & Fertilizers	280.2	1-Dec	Al Hamd Chemcial (Pvt) Limited
OGDCL 0.5% SPO (21,505,000 shares)	2,359.60	1-Apr	General Public thru Stock Exchange
UBL 25% GDR (202,343,752 shares)	39,450.70	1-Jun	GDR offering to international & domestic institutions
HBL 7.5% thru IPO (51,750,000 shares)	12,161.00	1-Oct	General Public thru Stock Exchange
Hazara Phosphate Fertilizers Limited	1,340.00	1-Nov	Pak American Fertilizers

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info@efn.net.pk
www.efn.net.pk

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info@individualland.com
www.individualland.com