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Pakistan Selling Family Silver: Hard Times Make Privatisation Necessary

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Pakistan Muslim League-Nawaz (PML-N) government, under Mian Nawaz Sharif, Pakistan's first three-times Prime Minister, has set in motion a process leading to the time-bound privatisation of 65 public sector enterprises (PSEs) in two tranches. The privatisation of these units is also amongst the conditions for the release of International Monetary Fund's US$ 6.7 billion stabilisation package for the next three years.[2]

Mr Sharif was most vigorous in pursuing the privatisation agenda in his two previous terms. Now, into his third term, he seems eager to begin from where he left off in 1999.

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[2] *The Express Tribune*, 4 October 2013. Government backs sell off plan, 31 public entities cited.

The task is enormous and full of challenges. Many companies were built when capital was initially shy. Scores were added in Pakistan People's Party's (PPP) wave of nationalisation during the 1970s.

167 public sector enterprises were privatised during the last 20 years.[3] There are still about 200 such organisations at the federal level, awaiting the hammer.

Of the total since 1991, PML-N privatised 76 during its two terms and secured Rs 14.16 billion, which is only three per cent of the value. On the contrary, Musharaff's 62 transactions fetched Rs 419 billion.[4] Such a wide gap in the money realised by the two governments from privatisation raises suspicions. The other privatisation transactions were effected under the PPP's previous governments. During its 2008-2013 term the party accomplished only one transaction.

Much of the rot in the PSEs started with successive governments appointing their loyalists to these lucrative positions in complete disregard of competence. This has led to ineptitude and corruption. Most of these organisations are overstaffed, adding to their financial woes. Several were arguably created to accommodate retiring favourites from civil and military establishments.

Mindful that all previous attempts to put the sick PSEs back on track have proved futile, possibly because of absence of commitment or process failure, the government seems determined to avoid the earlier pitfalls. There is a general consensus that the companies beyond repair must be divested sooner than later. The government's efforts, even though taken under IMF direction (some may argue), should garner broad appeal.

While some of these organisations are viable and make profits, most of them are a drain on the national exchequer. With subsidies of Rs 500 billion paid annually, during the 5-year rule of the PPP government (2008-2013), the cost is not sustainable. Such a loss amounts to a staggering Rs 1.5 billion a day.[5]

The government's decision to sell off 26 per cent or more shares, with management control,

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[3] *The News*, 18 January 2014. Privatization Track Record

[4] Ibid

[5] *The News*, 3 November 2013. Capital Suggestion

of 31 state enterprises, in the first lot, is aimed at turning the loss-making institutions around and also reducing the budget deficit. Announcing the decision the Privatization Commission said that the interest of the employees would be protected at all cost.

Debate however rages whether management control should be passed on to those who own just 26 per cent stake. This scepticism is based on Pakistan's unsavoury experience following the sale of Pakistan Telecommunication Company Limited (PTCL) to the Etisalat – the UAE telecom provider. The company, having taken control of the PTCL, is reported to be holding back US$ 800 million over a property dispute on which both sides have different views.

Given the state of the PSEs, there is enough economic justification for selling shares and passing the management control to the private sector. And yet, the privatisation process remains controversial to a degree. There are troubling questions still asked on how the earlier privatisations have been implemented. While all governments defend the process during their times as clean and transparent, accusations of favouritism remain.

The major criticism of privatisation under the previous Sharif governments is that institutions have been sold cheap to favoured business tycoons, who are party loyalists, contributing to monopolistic trends..

The privatisation process has been on hold since the Supreme Court annulled the Pakistan Steel Mill (PSM) privatisation in 2006 on procedural inadequacies. The cancellation of the sale started a chain of events that subsequently led to the fall of Musharraf regime.

The ruling party's rush to sell engenders suspicion among many that "valuable assets are being sold off to well connected insiders," wrote the *Express Tribune* in its editorial on 7 January 2014. These accusations obviously stem from the public perception that that PML-N "is a party dominated by big businesses", adds the paper. Such concerns can be addressed by ensuring more transparency and setting up a more competitive process for the privatisation of PSEs.

Many critics of the government, though in support of the need to sell loss-making companies and to reduce budget deficit, question the government's inaction in nabbing the tax-defaulting big business.

One big factor, although subsided now with the departure of the Chief Justice Iftikhar Mohmmad Chaudhry, is the proactive superior judiciary. By striking down the PSM privatisation deal for irregularities in 2006, the judiciary has set the bar of transparency relatively high. Yet, the government needs to move fast. The Chairman of the Privatization Commission, when asked of the judicial activism, rightly argued that the best course would be to meet the transparency standards and avoid mistakes in executing the process.

With country's biggest privatisation decisions coming forth, there are questions about the people entrusted with the task. Mr Sharif rejected all names recommended by the ministry and instead appointed six people of his own choice on the Privatization Commission. All of them are reportedly close to him, some of who have benefitted from the earlier spells of privatisations during the PML-N's previous governments. To Mr Sharif's credit, the nominees are all reputed business individuals in the public domain. In fairness, the Prime Minister also needs to have confidence in the people who are being entrusted with this major task.[6]

The government, insiders claim, did initially think of restructuring some of the entities but dismissed the idea as too cumbersome and risky.[7] Earlier attempts at restructuring have collapsed due to inadequate commitment and process failures, costing billions. The sale, therefore, becomes the option – more so when the government is obliged to meet its commitment to the IMF.

Amongst the worst performers are the steel mill and the airline. In 2006, the Pakistan Steel Mill was valued at Rs 22 billion, in the approved bid, which was overturned by the Supreme Court – a decision that proved to be a catalyst for so much change in Pakistan. Since then, the mill has run into additional liabilities of Rs 86.27 billion,[8] which will reduce bidders' appetite for the mill further. Its over-20,000 employees have no work, whose salaries are

[6] Personal interviews with senior officials.
[7] Ibid.
[8] *The Express Tribune*, 18 November 2013. Pakistan Steel Mill-why it should be sold for Rs.1

paid through bank guarantees given by the Ministry of Finance.[9] With negative equity now, its bankers have refused to lend money. More than one-half the number of its officers are not even high school graduates, disclosed the Chairman of the Privatization Commission.

The proposed privatisation of the national carrier Pakistan International Airlines (PIA) is also likely to be controversial. Successive governments have staffed the airline with their own loyalists. The airline loses about Rs 30 billion annually.[10] Its aircraft-to-personnel ratio of 1:500 is amongst the highest in the world.[11] Out of its depleted fleet of 34 aircraft, only about 24 are operational on average.[12] Yet, the Prime Minister's Special Assistant on Aviation was compelled to assure in his first message that "there will be no lay-offs" by the carrier. This implies that in the medium-term the airline will still be heavily burdened with the costs of surplus manpower before it can be turned around.

In a move that demonstrates desperate financial times, the government is first selling its stakes in the profitable and privately-run banks and the Oil and Gas Development Company Limited (OGDCL), which is likely to bring in US$ 2.5 billion.[13] This sum is believed to be enough for the government to live through the current financial year.

In fact Pakistan's economic future depends upon how the government is able to handle this major economic shake-up. The state hopes to save subsidies, reduce budget deficit; and hopes that these entities will turn around, creating more jobs.

The process can still be derailed by Pakistan's domestic turmoil; and how political parties exploit the common man's prevailing despondent mood over the economy. Restoring the health of a ruptured economy needs an understanding that recovery can only come after a painful process that needs patience. How much understanding Mr Sharif can create amongst a hard-pressed population will be the test of his leadership.

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[9] Ibid
[10] *The Express Tribune*, 30 September 2013. PIA goes from being a success story to the brink of collapse.
[11] *The Express Tribune*, 16 December 2013. How to turn around PIA prior to privatization.
[12] http://www.dawn.com/news/1044736/resistance-to-pia-privatisation
[13] *The Express Tribune*, 10 January 2014. PC approves further share selling of state owned units.