PRIVATISATION AND POWER

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Pakistan is once again in deep financial distress. For the 23rd time, the country is going to the IMF to get funds so that it can meet its balance of payment obligations[1]. Among the several conditions for the loans are the stipulation of additional taxes, reduction of subsidies, and allowing the exchange rate to be market driven[2].

These measures are meant to target the budget and the trade deficit, however, they are also likely to increase inflation which is currently estimated to be at least 33 per cent[3].

Government is tightening its belt and trying to cut its expenditures by 15 per cent[4]. Even the armed forces of Pakistan are set to brief the senate about reduction in non-combat expenditures[5]. According to the World Bank, the combined impact of the floods and the economic depression is likely to push 9 million people into poverty.

[1] https://www.imf.org/external/np/fin/tad/extarr2.aspx?member-
Key1=760ss&date1key=2020-02-29
[2] https://www.imf.org/en/News/Arti-
cles/2023/02/10/imf-staff-concludes-visit-to-pakistan
[3] https://www.reuters.com/world/asia-pacific/inflation-paki-
stan-could-average-33-h1-2023-says-moodys-economist-2023-02-15/
[4] https://www.voanews.com/a/pakistan-to-cut-government-expens-
es-by-15-in-austerity-drive-/6974263.html
[5] https://www.thenews.com.pk/print/1039569-austerity-pan-
el-seeks-15pc-cut-in-non-combat-defence-budget

To balance the budget deficit, it is increasingly being suggested that the privatisation of loss making state owned enterprises is facilitated. What are these loss making enterprises and what can the government hope to accomplish from privatising them?

We have been down this roller coaster a few times. In the past, Pakistan was able to yield Rs. 649 billion (USD 6.5 billion) between 1991 and 2015 by under-taking 172 privatisation transactions[6].Today the Pakistani state has 85 state owned commercial enterprises that operate in seven sectors: power; oil and gas; infrastructure, transport and communication; manufacturing, mining and engineering; finance; industrial estate development and management; and wholesale, retail and marketing.[7]

Of these state owned commercial enterprises, two-thirds actually are profit making enterprises (that is 51 of these enterprises turned a profit). Even more surprisingly, only 10 enterprises account for 90 per cent of the losses of the public sector. These are the National Highway Authority, Pakistan Railways, Pakistan International Airlines, Pakistan Steel, five power-sector DISCOs and ZTBL[8].

Since the National Highway Authority is both a commercial but also a regulatory authority, it has to be excluded from the list of state owned enterprises that can be privatised. What are we left with?

Of the nine state owned commercial enterprises that are responsible for the vast majority of the public sector loss, five are electricity distribution companies. Aside from Railway, PIA, ZTBL, and Steel Mills all the other loss making enterprises are essentially connected to the power sector. In sum, if one were to conclude that that the public sector loss owing to state owned enterprises is basically a result of the power sector, it would not be incorrect[9].

Why are the electricity distribution companies (called DISCOs) accumulating such a high loss? One import-ant aspect is, ironically, the shift of power generation from the public to the private sector.

The Independent Power Producers Policy 1994 was meant to quickly address load-shedding in Pakistan. The policy, at the time referred to as, "the best energy policy in the whole world," by Hazel R. O'Leary, the US Secretary of Energy, invited the private sector to set up power generating plants based on diesel, fossil fuels, or gas. The policy was supported so completely by the World Bank that it even mediated a conflict in 1998 when the Pakistani government decided to terminate the contract of 11 IPPs for corrupt practices[10] .

Although the policy attracted USD 5 billion in new investment in power, and expanded power generation capacity by 4,500 megawatts, it has had disastrous long term consequences at several levels.

Firstly, the rising cost of electricity resulted in overall decreasing rates of return across all industries. The entire rationale that industrialisation could be catalysed by public sector investment in power that would make Pakistani industries more competitive because of lower power costs was never addressed but simply brushed aside.

Secondly, the dollar indexed profit Return on Equity guaranteed to IPPs shifted the entire burden of invest-ment risk on the Pakistani state. Rising fuel charges as a consequence of oil price or dollar fluctuations and even capacity charges had to be borne by the Pakistani tax payer.

Third, as the Report of the Sub-Committee of the Standing Committee on Power 2020 shows, IPPs engaged in several instances of creative accounting to violate NEPRA rules and made monopolist profits far in excess of the 15% NEPRA regulated Return on Equity[11].

Fourth, the higher electricity prices have even resulted in the once lucrative textile export sector becoming less competitive in relation to international competitors. In fact, recently the All-Pakistan Textile Mills Association has been arguing that the high electricity bills threaten to completely shut down textile imports in the Punjab entirely. This naturally would further exacerbate the balance of trade deficit.

[11]https://senate.gov.pk/uploads/documents/1583320128_224.pdf

Fifth, the inability of the government to pay the IPPs on time, given the onerous nature of the contracts, meant that the country was deprived of power and load-shedding has returned with a vengeance. Businesses all over Pakistan had to set up alternative private sources of power to keep their plants running. Those that could not, such as most of the Faisalabad power looms sector, were simply destroyed by load-shedding.

Sixth, last but not least, the IPP contacts have worsened Pakistan's balance of trade deficit. And this has meant that Pakistan has had to return to the IMF for badly needed short-term loans. The condition for these loans, in turn, as argued above, are leading to a further slowdown in Pakistan's economy and Pakistani exports are even less competitive now than at the start of this crisis.

It should be clear from this that Pakistan's budget deficit and trade deficit problem since the 1990s has in large part been driven by the privatisation of power and specifically the IPPs policy.

The further privatisation of DISCOs, as proposed by the government, is hardly an optimal solution – but could more accurately be deemed a recipe for further similar onerous contracts.

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