ANNUAL REPORT 2014
PRIVATISATION COMMISSION

IN THE NAME OF ALLAH
THE MOST BENEFICENT
THE MOST MERCIFUL

ACKNOWLEDGEMENT

Privatisation Commission acknowledges the valuable contribution of Officers, Consultants and Officials to the drafting of this Annual Report that comply with the provisions of the Privatisation Commission Ordinance, 2000.

DISCLAIMER

This report contains the Management Report in the meaning of the Section 27 of the Privatisation Commission Ordinance, 2000 (the Ordinance). The Financial Statements in the meaning of the Section 21 of the Ordinance read with the Privatisation Commission, Form and Manner of Budget and Accounts (Accounting Procedure) Rules 2007.

Some of the statements contained in this report that may or may not are historical facts are statements of future expectations and other forward-looking statements based on management's views of the period for which this report is prepared for and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those in such statements. These statements may be identified by words such as 'expect', 'should', 'could', 'shall' and similar expressions. Such forward-looking statements are subject to various risks and uncertainties.

TABLE OF CONTENTS

GLOSSARY

ABL	Allied Bank Limited
APSEWAC	All Pakistan State Enterprises Workers Action Committee
BESOS	Benazir Employees Stock Option Scheme
BOI	Board of Investment
CCI	Council of Common Interests
CCOP	Cabinet Committee on Privatisation
CDC	Central Depository Company
DCF	Discounted Cash Flow
DFIs	Development Finance Institutions
DR	Depository Receipt
ECO	Economic Cooperation Organisation
EMG	Employees Management Group
EOI	Expression of Interest
FA	Financial Advisor
FDI	Foreign Direct Investment
FESCO	Faisalabad Electricity Supply Company
GDR	Global Depository Receipt
GHS	Golden Hand Shake Scheme
GOP	Government of Pakistan
HBL	Habib Bank Limited
HEC	Heavy Electrical Complex
HLEG	High Level Experts Group
IPO	Initial Public Offering
ICP	Investment Corporation of Pakistan
KAPCO	Kot Addu Power Company
KASB	Khadim Ali Shah Bokhari
KESC	Karachi Electric Supply Corporation
LOA	Letter of Acceptance
LPG	Liquified Petroleum Gas
MCB	Muslim Commercial Bank
MRTA	Management Right Transfer Agreement
NBP	National Bank of Pakistan
NEPRA	National Electric Power Regulatory Authority
NGO	Non-Governmental Organisation
NITL	National Investment Trust Limited

NIRC	National Industrial Relations Commission
NPCC	National Power Construction Corporation
NPT	National Press Trust
NRL	National Refinery Limited
KPK	Khyber Pakhtunkhwa
OGDCL	Oil and Gas Development Company Limited
OGRA	Oil and Gas Regulatory Authority
OIC	Organisation of Islamic Conference
PARC	Pakistan Agricultural Research Council
PD	Privatisation Division
PC	Privatisation Commission
PSE	Public Sector Enterprises
PICIC	Pakistan Industrial Credit and Investment Company
PIA	Pakistan International Airlines
PKR	Pakistani Rupee
PMDC	Pakistan Mineral Development Corporation
PML(N)	Pakistan Muslim League (Nawaz)
PMTF	Pakistan Machine Tool Factory
PO	Public Offering
PPL	Pakistan Petroleum Limited
PPP	Public Private Partnership
PSMC	Pakistan Steel Mills Corporation
PSO	Pakistan State Oil
PTCL	Pakistan Telecommunications Company Limited
PTDC	Pakistan Tourism Development Corporation
Pvt.	Private
R&D	Research and Development
RFP	Request for Proposals
RSOQ	Request for Statement of Qualifications
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SMEDA	Small and Medium Enterprises Development Authority
CEO	Chief Executive Officer
MBA	Master in Business Administration
IBA	Institute of Business Administration
MPA	Master in Public Administration
NDI	National Democratic Institute

CFA	Chartered Financial Analyst
PC BOARD	Privatisation Commission Board
DISCO	Power Distribution Company
GENCO	Power Generation Company
QIB	Qualified Institutional Buyer
HNWI	High-Net-Worth Individual
IMF	International Monetary Fund
IESCO	Islamabad Electric Supply Company
LESCO	Lahore Electric Supply Company
NPGCL	Northern Power Generation Company Limited
CRF	Central Revolving Fund
P@SHA	Pakistan Software Houses Association for IT & ITES
NICL	National Insurance Company Limited
IT	Information Technology
ADB	Asian Development Bank
FPCCI	The Federation of Pakistan Chambers of Commerce & Industry
S&GAD	Services and General Administration Department
INSEAD	Institut Européen d'Administration des Affaires (European Institute of Business Administration)
UNICEF	United Nations Children's Fund
IATA	International Air Transport Association
LLM	Master of Law
ICI	Imperial Chemical Industry
FINCON	Financial Consulting Company
SPA	Share Purchase Agreement
SITE	Sindh Industrial Trading Estate
SME	Small and Medium Enterprises
SNGPL	Sui Northern Gas Pipelines Limited
SOEs	State Owned Enterprises
SOQ	Statement of Qualifications
SPA	Share Purchase Agreement
SPO	Secondary Public Offering
SSGC	Sui Southern Gas Company
SPV	Special Purpose Vehicle
UAE	United Arab Emirates
USA	United States of America
USD	US Dollar

UBL	United Bank Limited
VSS	Voluntary Separation Scheme
WAPDA	Water and Power Development Authority
WTO	World Trade Organisation
ZTBL	Zarai Taraqiati Bank Limited

FOREWORD

The Government of Pakistan ("GOP") is committed to pursuing privatisation as a core element of its economic reform agenda. The privatisation programme aims to reduce Pakistan's fiscal burden, improve service delivery to the people of Pakistan, facilitate more competition in the economy, and strengthen Pakistan's capital markets.

Pakistan was one of the first countries in the region to initiate deregulation and liberalization of the economy, and start the privatisation process. Between 1991 and 2008, proceeds of PKR 476 billion were raised from 167 privatisation transactions. These included important privatisation successes in the industrial, telecom and financial sectors. The latter two sectors, in particular, have been major contributors to the National Exchequer since their privatisation.

The present government restarted the privatisation programme in 2013, after a gap of nearly six years. A "Program for Early Implementation" was approved by the Cabinet Committee on Privatisation ("CCOP") on 03 October, 2013 listing 31 public sector enterprises ("PSEs") for privatisation. Eight further PSEs were added to this list in June 2014.

The focus of the programme is to attract private capital investment, benefit from the private sector's skill-set and experience, and make it the engine of economic growth for Pakistan. In order to achieve this, the current program is modeled around the concept of Public-Private Partnerships ("PPP"), wherein the management of PSEs is planned to be transferred to strategic investors along with a minimum of 26% equity stake. The program also includes divestments through capital markets to enhance the attractiveness and visibility of Pakistan as a favored investment destination.

During the present government, the Commission has successfully completed three (03) capital market offerings, namely United Bank Limited, Pakistan Petroleum Limited and Allied Bank Limited, raising gross proceeds of ~PKR.68 billion, including foreign exchange of ~US$ 335 million. Global debt and equity offerings by the Government of Pakistan have been acknowledged internationally, as is evident from the award of "Issuer of the Year" given to Pakistan by IFR Asia. Furthermore, the United Bank Limited transaction also received the "Best Deal Award" for Pakistan by The Asset, one of Asia's most prestigious corporate ranking journals. This has improved the standing of our domestic capital markets and put Pakistan firmly back on the global equity markets map.

The Privatisation Commission is vigorously pursuing the implementation of the remaining programme with work on over 30 PSEs being done concurrently.

The success of the privatisation programme, however, is contingent upon the support of all the stakeholders, including the various government agencies, departments, organizations, regulatory authorities and, most importantly, the people of Pakistan.

I am confident that all stakeholders will play their positive role and contribute fully towards ensuring the success of the ongoing privatisation programme and the fulfilment of its objectives.

Sardar Ahmad Nawaz Sukhera
Secretary, Privatisation Commission

INSTITUTIONAL SETUP

PRIVATISATION COMMISSION

Introduction

On 22 January 1991, the Privatisation Commission (PC) was established as a sub-branch of the Finance Division. On 28 September 2000, the Privatisation Commission Ordinance, 2000 was promulgated and the PC was converted into an autonomous/semi-autonomous corporate body. This strengthened its legal authority for implementing the government's Privatisation Policy.

The PC is entrusted with the task of privatizing federal government assets such as its shares in banks, industrial units, public utilities, oil, gas and transport companies, and infrastructure service providers in an open and transparent manner. To strengthen the private sector's role in the endowment of goods and services, the PC Ordinance has vested decision making powers to the Privatisation Commission Board (PC Board), consisting of eminent professionals from the public and private sectors. The decisions taken by the PC Board are submitted for consideration and approval of the Cabinet Committee on Privatisation (CCOP) and the Cabinet.

Privatisation is an effective tool for the developing nations to achieve economic efficiency and accelerated growth. Privatisation as one of the pillars of the strategic economic reforms agenda of the government goes hand in hand with the broader policy direction of deregulation and liberalization of the economy. Its scope includes all public assets that can be transferred to or can be managed by the private sector. The only exception is strategic industry or industries which the private sector is unable or unwilling to own or manage. The PC aims to ensure transparency and fair privatisation transactions with maximum benefits to the government.

Mission Statement

“Privatisation in an open, fair and transparent process, for the benefit of the people of Pakistan, in the right way, to the right people, at the right time”

Functions of Privatisation Commission

The PC is mandated to privatize the public sector entities in line with the Government Policy of Privatisation. The CCOP accords approval to the list of potential PSEs to be privatised which is finally endorsed by the Cabinet. The jurisdiction of the PC is set out below:

a) To recommend privatisation policy guidelines to the Cabinet.

b) To prepare a comprehensive privatisation programme for the approval of the Cabinet.

c) To plan, manage, implement and control the privatisation programme approved by the Cabinet.

d) To prepare and submit reports to the Cabinet on all aspects of the privatisation programme.

e) To facilitate or initiate legislation as approved by the Cabinet by or on the behalf of the concerned Ministry in connection with the privatisation programme.

f) To provide overall direction for the implementation of privatisation related activities including restructuring, deregulation and post-privatisation matters in sectors designated by the Cabinet.

g) To take operational decisions on matters pertaining to privatisation, restructuring, deregulation, regulatory issues, including the approval of licensing and tariff rules and other related issues pertaining to the privatisation programme approved by the Cabinet.

h) To issue directions and instructions to the management of a business undertaking falling within the purview of the privatisation programme approved by the Cabinet on all major important administrative, financial, reporting and policy matters.

i) To publicize the activities of the privatisation programme.

j) To propose a regulatory framework to the Cabinet including the establishment and strengthening of regulatory authorities for the independent and fair regulation of each industrial sector, falling within the purview of the privatisation programme.

k) To advise the Federal Government in selection and appointment of the head and member of a regulatory authority.

l) To advise the Federal Government that monopolies are not created in the process of privatisation.

m) To appoint advisors, consultants, valuers, lawyers and such other staff, both local and foreign, on such terms as it may determine to discharge its functions under the PC Ordinance.

n) To approve and take decisions and perform all acts to implement pre-privatisation restructuring, labor rehabilitation, severance schemes and all other related matters as approved by the Cabinet.

o) To invite applications for the privatisation and ensure widest possible participation.

p) To evaluate bids received according to the criteria determined by the Commission from time to time, and formulate recommendations for consideration of the Cabinet.

q) To recommend for the Federal Government such labor and man-power rehabilitation programmes as may be necessary during privatisation and to develop a roster of such employees who may need rehabilitation.

r) To advise measures to the Federal Government for improvement of public sector units until their privatisation.

s) To assist in the implementation of Federal Government policies on deregulation and privatisation and advise the Federal Government on deregulating the economy to the maximum possible extent.

t) To perform such other functions that are incidental or ancillary to carry out the privatisation programme approved by the Cabinet.

Composition and Structure of the Privatisation Commission

The PC is a corporate body, managed by its Board which is headed by a Chairman. The

Secretary, Privatisation Division is the ex-officio member of the PC Board and acts as Secretary of the Board. The PC is the executing body of Privatisation Division, tasked to implement the government's privatisation policy.

Management Information

The privatisation of major entities is a technical and complex activity requiring inputs from highly qualified and experienced professionals. The PC hires professionals, equipped with skills and experience in the relevant field(s) like business administration, economics, commerce, finance, accounting and law etc., designated as 'Consultants', to deal with the technical aspects of privatisation transactions. The privatisation transactions are being processed by the transaction managers whereas technical and legal support is provided by other consultants. The consultants have further improved their knowledge and expertise by working in the PC which utilizes their services effectively and efficiently.

The specific tasks for in-house consultant/transaction manager include preparing the terms of reference for hiring external consultants/advisors, overseeing and assisting the external consultants to ensure the timely submission of deliverables, assist in liaising with the relevant ministry/ regulators, management of the entity being privatised and advising on sectoral policies of regulatory frameworks related to privatisation. In-house consultants/transaction managers are also involved in providing legal, accounting and technical support.

List of Consultants / Transaction Managers at the Strength of the Privatisation Commission

S #	Name	Grade	Designation
Banking & Finance			
1	Mr. Asad Rasool	G-I	Senior Financial Consultant
2	Mr. Azeem Qadir Haye	G-II	Financial Consultant
3	Mr. M Zayed Maud	G-III	Consultant (Banking & Finance)
4	Mr. Bilal Kiyani	G-II	Consultant (Banking & Finance)
Legal Sector			
5	Abdul Haseeb Khan	G-I	Senior Legal Consultant
6	Mr. Noman A. Farooqi	G-II	Legal Consultant (Corporate)
Power Sector			
7	Mr. Shahid Raza	G-I	Senior Consultant (Power)
8	Mr. Rascim Khan Khattak	G-III	Consultant (Power)
Oil & Gas / Post Privatisation Sector			
9	Mr. Moazzam Ali	G-II	Consultant (Oil & Gas and Post Privatisation)
10	Mr. Musaddiq Iqbal	G-III	Consultant (Oil & Gas)
Industries Sector			
11	Mr. Abu Bakar Salman	G-III	Consultant (Industries)

BOARD OF PRIVATISATION COMMISSION

The Privatisation Commission Board was constituted under Section 6 of the Privatisation Ordinance, 2000. One of the main functions of the Privatisation Commission Board is to make strategic decisions regarding Privatisation. The Privatisation Commission's Chairman heads the Privatisation Commission Board which consist of fourteen other regular members.

The Chairman and the Secretary are the only representatives from Government, on the PC Board while the rest of the members are prominent professions from the private sector. The PC Board Members represent all four provinces of the country.

Chairman: Mohammad Zubair
Secretary: Sardar Ahmad Nawaz Sukhera

S #	Name	Designation	Place of Domicile	Expertise
1.	Mr. Arsallah Khan Hoti	Member	Khyber-Pakhtunkhwa	Industrialist and marketing
2.	Mr. Ashfaq Yousuf Tola	Member	Sindh (Urban)	Chartered Accountant
3.	Mr. Aziz Nishtar	Member	Punjab	Corporate Lawyer
4.	Mr. Etrat Hussain Rizvi	Member	Khyber-Pakhtunkhwa	Corporate Management Specialist
5.	Mr. Khurram Schehzad	Member	Sindh (Urban)	Capital Market Specialist
6.	Engr. Memon Abdul Jabbar	Member	Sindh (Rural)	Industrialist
7.	Mr. Naseer Ahmad Akhtar	Member	Punjab	Information, Communication and Business development
8.	Mr. Nasiruddin Ahmed	Member	Balochistan	Ex-Bureaucrat/ Retired Federal Secretary
9.	Mr. Salman Burney	Member	Sindh (Urban)	Business Development
10.	Mr. Shahid Shafiq	Member	Sindh (Urban)	Business Development
11.	Mr. Yawar Irfan Khan	Member	Punjab	Industrialist
12.	Mr. Zafar Iqbal Sobani	Member	Sindh (Urban)	Chartered Accountant
13.	Mr. Zafar Iqbal FCA	Member	Punjab	Chartered Accountant
14.	Mr. Zaffar Ahmed Khan	Member	Sindh (Urban)	Management Specialist

CABINET COMMITTEE ON PRIVATISATION (CCOP)

The Cabinet Committee on Privatisation (CCOP) was established along with the Privatisation Commission in 1991. It has been functioning continuously, except for the brief period, from September 1998 to February 2000, when the PC Board of Pakistan was headed by the Prime Minister was formulated.

The mandate of the CCoP is to formulate rules for streamlining the functioning of the Privatisation Commission. It also serves as a forum for taking strategic decisions on privatisation and monitors its progress. All the major decisions taken regarding the privatisation process are placed for approval of the Cabinet through this committee.

Initially, the CCoP was headed by the Minister for Finance. On 21st September, 2004, the Prime Minister reconstituted the Cabinet Committee on Privatisation to be chaired by himself. However, since 15th November 2008, it is headed by the Advisor to PM on Finance, Revenue, Economic Affairs and Statistics. Currently, it is being headed by the Minister for Finance, Revenue, Economic Affairs, Statistics and Privatisation.

*Composition**

1	Minister for Finance, Economic Affairs, Revenue, Statistics and Privatisation	Chairman
2	Minister for Commerce and Textile Industry	Member
3	Minister for Industries and Production	Member
4	Minister for Law, Justice and Human Rights	Member
5	Minister for Planning and Development	Member
6	Minister for Petroleum and Natural Resources	Member
7	Minister for Ports and Shipping	Member
8	Minister for Privatisation	Member
9	Minister for Water and Power	Member

Apart from the above-mentioned Members, following can also be invited by Special Invitation.

1. Minister Planning, Development and Reforms
2. Governor, State Bank of Pakistan
3. Chairman, Privatisation Commission
4. Chairman, Security Exchange Commission of Pakistan
5. Chairman, Board of Investment
6. Secretary, Communications Division
7. Secretary, Finance Division
8. Secretary, Industries and Production
9. Secretary, Petroleum and Natural Resources Division
10. Secretary, Planning and Development Division
11. Secretary, Ports and Shipping Division
12. Secretary, Privatisation Division
13. Secretary, Textile Industry Division
14. Secretary, Water and Power Division

15 Secretary, Board of Investment

**Issued by Cabinet Division vide notification No 5/4/2013-com dated 20.06.2013*

Terms of Reference

a) To formulate the Privatisation Policy for approval of the Government / Cabinet.
b) To approve the PSEs to be privatised on the recommendation of the PC or otherwise.
c) To take policy decisions on inter-ministerial issues relating to the privatisation process.
d) To review and monitor the progress of privatisation.
e) To direct the PC to submit reports/information/data relating to the privatisation process or any matter relating thereto.
f) To take policy decisions on matters pertaining to privatisation, restructuring, deregulation, regulatory bodies and the Privatisation Fund Account.
g) To approve the reference price in respect of the PSEs being privatised.
h) To approve the successful bidders.
i) To consider and approve the recommendations of the PC on any matter.
j) To assign any other task relating to privatisation to the PC.

** Issued by Cabinet Division vide notification No 5/4/2007-com dated 27.03.2009*

COUNCIL OF COMMON INTERESTS (CCI)

Article 153 of the Constitution of Islamic Republic of Pakistan provides for a Council of Common Interests (CCI) comprising the Chief Ministers of the Provinces and an equal number of members from the Federal Government. The Council of Common Interest is headed by the Prime Minister of Pakistan and is exclusively responsible to the Parliament.

The Council formulates and regulates policies in relation to matters in Part II of the Federal Legislative List and exercise supervision and control over related institutions.

Decisions of the Council are expressed in terms of opinion of the majority. The public sector entities/ interests etc. contemplated for privatisation are brought before the CCI for its approval before submission of summary to the Cabinet.

Composition

• The Prime Minister	Chairman
• Chief Minister, Punjab Member	Member
• Chief Minister, Sindh	Member
• Chief Minister, Khyber Pakhtunkhwa	Member
• Chief Minister, Baluchistan	Member
• Pir Syed Sadaruddin Shah Rashadi (by name) *Minister for Overseas Pakistanis and Human Resource Development*	Member
• Lt. General (Rtd.) Abdul Qadir Baloch (by name) *Minister for States and Frontier Regions*	Member
• Sardar Muhammad Yousaf (by name) *Minister for Religious Affairs and Interfaith Harmony*	Member

**Issued by Cabinet Division vide notification No 2(50)/2013-CCI, dated 08.02.2014*

Terms of Reference

Pursuant to the 18th Amendment in the Constitution, Part II of the Legislative List dictates that the cases relating to formulation and regulation of policies in relation to the following matters and supervision and control over the related institutions shall be submitted to the CCI:

1. Railways

2. Mineral oil and natural gas, liquids and substances declared by Federal law to be dangerously inflammable.

3. Development of industries, where development under federal control is declared by federal law to be expedient in the public interest; institutions, establishments, bodies and corporations administered or managed by the Federal Government immediately before 14th August, 1973, including the Water and Power Development Authority (”WAPDA”) and the Pakistan Industrial Development Corporation; all undertakings, projects and schemes of such institutions, establishments, bodies and corporations;

industries, projects and undertakings owned wholly or partially by the Federal Government or by a corporation set up by the Federation.

4. Electricity.

5. Major ports and the powers of the port authorities therein. All regulatory authorities established under Federal Law.

6. Fees in respect of any of the matters specified above but not including fees taken in any court.

7. Inter provincial matters and co-ordinations.

8. Legal, medical and other professions.

9. Standards in institutions for higher education and research, scientific and technical institutions.

10. Offenses against law with respect to any of the matters specified above.

11. Inquiries and statistics for the purposes of any of the matters specified above.

12. Matters incidental or ancillary to any of the matters specified above. Complaints as to interference with water supplies (Article 155 of the Constitution).

13. Implementation of the directions given by the parliament for action by the Council (Article 154(4) of the Constitution)

Approval of Privatisation Program by CCI

The CCI in 1997 and 2006 approved a broad-based privatisation programme including PSEs in various sectors like Banking and Finance, Oil and Gas, Power, Infrastructure, Transport, Industries and Production etc.

Moreover, after the 18^{th} Amendment to the Constitution, the PC also sought approval of the CCI for the privatisation of all power generation companies (GENCOs) and power distribution companies (DISCOs) in 2014.

Furthermore, only fresh cases are submitted to the CCI for a decision, as the previous decisions of CCI are still valid.

PRIVATISATION POLICY (1994)

With the passage of time, the privatisation process in Pakistan has gradually moved from simple to complex sectors. During this whole period, the privatisation policy has continuously been reviewed and amended in order to ensure a transparent and competitive privatisation process. It is, undoubtedly, the result of the Privatisation Policy of the country that Pakistan has witnessed an era of efficient and effective privatisation. Salient features of the policy area as under:

- ⇨ Privatisation, aims to deregulate and liberalize the economy. In this regard its scope is large –including all public assets that can be transferred to or managed by the private sector, both domestic and foreign. Furthermore, it is a comprehensive policy that recognizes the need for extensive regulation, broad-based legislative support and careful planning. This is at variance from the hasty sale of industrial assets – large and small – as part of a populist, not economic, programme.

- ⇨ The Programme of privatisation should be flexible and not unduly rigid. It would be organized in such a manner that adjustments are made and necessary changes accommodated as privatisation proceeds in order to ensure successful conclusion of divestiture transactions of public enterprises.

- ⇨ The privatization policy is an important feature of the economic liberalization agenda that will lead to effective management of domestic industry, greater domestic investment and economic growth.

- ⇨ Unfortunately, in the recent past many sales were substantially financed by the nationalized banks and other development finance institutions either as funded or unfunded facilities. This procedure did not generate additional resources for the state. It would be Government's endeavor to use the privatisation process to mobilize savings both domestic and foreign.

- ⇨ Whereas the privatization process to date has given limited apparent benefit to the general public, Government plan to improve efficiency and to provide better service at the most economic price to the consumer.

- ⇨ The programme is designed to enable the state to liberate itself from micro management of individual enterprises and to reduce the need for persistent budgetary support to the public enterprises resulting from their continuing losses.

- ⇨ The policy envisages the creation of a mechanism for the reduction of debt so that our children inherit an industrialized, not a bankrupt, nation.

- ⇨ The aim will also be to generate funds from overseas Pakistanis and foreign investors by inducing them to invest in public enterprises proposed to be divested. An important aim of the privatization process is thus the generation of hard currency transfers that provide balance of payments relief, improve forex reserves and to retire our foreign debt.

- ⇨ During the process of privatisation, the government will also attempt to ensure that significant improvements are brought about both in operational efficiency of the enterprises and their programmes for expansion and creation of additional capacities, especially in the case of utilities. So that they can keep up with the growing demand, improve the quality of service, and keep pace with developing technologies.

- ⇨ An effort will be made to harness the resources of domestic private sector, foreign entrepreneurs as well as international financial intermediaries to support the privatisation process. Attempt will also be made to draw upon the experience, expertise and financial support of the multilateral agencies.

- ⇨ Safeguards will also be introduced to achieve broad based ownership and to prevent the concentration of resources in a few hands, while promoting privatisation through competitive bidding.

- ⇨ Genuine interests of the employees working in entities proposed to be privatized would be adequately safeguarded.

- ⇨ Steps will be taken to ensure that the interests of consumers are protected especially in respect of fair price and quality of product. Monopolistic trends would be curbed during the process of privatisation and suitable regulatory measures would be devised.

Additional Mode of Privatisation Policy

The global as well as national conditions compelled PC to review its privatisation policy of strategic sales (51%-100% shares) in order to re-model it around the Public Private Partnership (PPP) concept, wherein management may be transferred to investors through the sale of 26% shares while ensuring transparency and safeguarding interests through comprehensive documentation.

The main objective of the Privatisation Policy through the PPP model is to put national resources and assets to optimal use, particularly to unleash the productive potential inherent in Pakistan's PSEs. The policy aims at enhancing the value of government shareholding, maximization of profits, modernization and up-gradation of PSE's exploration and creation of new assets; management and technological transfer; increasing investments in the PSEs by identifying business benchmarks and outputs; remedial measures, and generation of employment. The Government also aims to ensure that divestment does not result in the alienation of national assets and a reduction in the quality of production and services detrimental to its people. In this regard, the CCOP and the Cabinet had approved a comprehensive Privatisation Plan through the PPP. The mode was approved by the CCOP in February 2009 and later ratified by the Cabinet in January 2010.

Salient Features of Public-Private-Partnership (PPP):

- ✓ As a Policy, Privatisation will be conducted with the Public Private Partnership (PPP) mode for 26% of the equity stake. The manner, methodology and mechanism of PPP structure will be framed after consultative process and due approval of the Board of the Privatisation Commission (PC) and the CCOP.

- ✓ In cases where due process and investor feedback determines that the 26% PPP structure is not a practicable option, the Privatisation Commission will revert back to the CCOP with alternate structures and guidelines.

- ✓ A stringent pre-qualification structure will be put in place that will include a contractually binding Business Plan and provisions with regard to management, default, termination, penalties and dispute resolution.

- ✓ The Transactions would be structured to ensure that management control is transferred to the Investor. It will be guaranteed through adequate safeguards/ agreements that the arrangement cannot be reversed. Agreements will also include exit options for GoP, remedies to GoP in case of right of first refusal, transfer restrictions and lock in period for the strategic investors.

- ✓ The Government would be appropriately represented on the Board of Directors of the Privatised Entities.

- ✓ Post privatisation performance of the Entities and market conditions will determine the timing and extent of future divestment of residual shareholding of the Government. Where found viable, an entity will be listed before undertaking the Privatisation with PPP mode.

- ✓ At the Federal level the Privatisation Commission will have exclusivity to undertake Brown-field PPP transactions as envisaged in the PC Ordinance 2000. Any other Ministry / Department of the Federal Government will route its PPP transactions through the Privatisation Commission for implementation.

- ✓ Twelve percent (12%) share will be reserved for workers in the Privatised Entities. The new Policy envisages workers share also in entities that are still in the public sector.

PRIVATISATION PROCESS

The privatisation process is aimed at selling Federal government assets in an open and transparent way with a view to obtaining the best possible price. It varies somewhat depending on the nature of the asset being privatised, on the proportion of shares being offered for privatisation, and on whether a transfer of management is involved. The PC Board decides what kind of process will be followed.

Steps in the Privatisation Process:

Approvals by the Council of Common Interests (CCI) (Constitutional Body) [where necessary]

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Cabinet Committee on Privatisation / Cabinet approval for the privatisation program

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Appointment of Financial Advisor (FA) for major transaction(s) with approval of PC Board

OR

Appointment of Valuator where FA is not hired

↓

Due diligence by FA / Valuer and Preparation of Reports.

↓

Privatisation strategy and transactional structuring

↓

Sectoral / regulatory reforms [where necessary]

↓

Expressions of Interest (EOI)

↓

Screening - Statement of Qualification (SOQ)

↓

Pre-Qualification

↓

Due diligence by Potential Bidders

↓

Valuation & transaction structure approvals by PC Board and CCOP

↓

Pre-bid Conference(s)

↓

Reference Price approval by the Board and CCOP

↓

Bidding Process approval by Board and CCOP

↓

Open & Transparent Bidding: media invited to monitor

↓

Board and CCOP approvals for Bid Price and Bidder

↓

Letter of Acceptance to Successful Bidder

↓

Management Transfer, Execution of Documents, and Receipt of Sale Proceeds.

DESCRIPTION

A brief description of the steps involved in all transactions is provided below:

Identification

The first step is the identification of the entity or list of entities to be privatised. In a typical transaction, the Privatisation Commission in consultation with the relevant ministry submits a summary of the proposed transaction to its Board.

This step justifies the need for privatizing the property, outlines the likely mode of privatisation, and sometimes seeks guidance on issues relating to matters like pricing, restructuring, legal considerations, the regulatory framework.

After endorsement by the PC Board, the matter is submitted to the Cabinet or its sub-committee i.e. the Cabinet Committee on Privatisation for approval and/ or the Council of Common Interests (CCI).

Hiring of a Financial Advisor or Valuator

In major transactions, the process to hire a FA is carried out by the transaction manager with the approval of the PC Board.

These steps of the process involve finalization of the terms of reference for the FA, expressions of interest from prospective FAs are solicited through domestic and international press, an evaluation team is constituted to evaluate the submitted technical and financial proposals. The evaluation team assigns scores to the technical proposals and the highest ranked firm based on both technical and financial scores is invited for contract negotiations and signing.

In November 2001, the PC Board approved "Hiring of Financial Advisor Regulations" in order to make more transparent the procedures that were largely being followed over the last decade.

In other transactions, a valuator is hired according to the "Hiring of Valuators Regulation 2001". This regulation was amended by the Privatisation Commission in 2007.

Due Diligence

The next step is to carry out the legal, technical, and financial due diligence.

This is aimed at the identification of legal encumbrances, evaluation of the condition of the assets, and examining the accounts of the company in order to place a value on the company.

For most industrial units and some small transactions, this is done by in-house transaction managers and staff, or by sub-contracting it to a domestic legal, technical or accounting firm. However, for major privatisation in banking, infrastructure or utilities, the FA carries out this function and proposes the privatisation plan following due diligence. This may include recommendations regarding the need for restructuring, in addition to specifying the amount of shares or assets to be privatised. This is determined keeping in view the absorption capacity of the market to obtain optimum output and maximum revenue for the government. For major privatisation or when the proposed privatisation mode is different from the initial plan, the plan is then submitted to the PC Board, the CCOP and Cabinet for approval.

Need for Revamping the Legal and Regulatory Framework

For many major transactions, the ability to privatise and the amount of realizable proceeds depend critically on the level of regulated prices for the public enterprise inputs or outputs and other sectoral or regulatory policies. For many monopolies or quasi-monopolies, the key investor interests are "the rules of game" specifying post-privatisation competition, frame-work and the regulatory environment.

In addition to rules determining prices or tariffs, there may be rules deter- mining standards; penalties for non-compliance; the extent, form and timing of any proposed deregulation, and the evolving structure of the market following liberalization. The clarification of these rules and the passage of the required laws and regulations will often be necessary before taking the transaction to market.

Valuation of Property

In order to obtain an independent assessment of the value of the property being privatised, the PC relies primarily on external firms. The financial advisor, where there is one, carries out the valuation to obtain a “reference price” for the property. In other cases, the Commission contracts with an external valuation firm or accounting firm as specified in the rules on the valuation of property.

The methods used for the valuation vary with the type of business and often more than one method is used for determining the value. These include the Discounted Cash Flow (DCF) method, Asset Valuation at book or Market Value, and Stock Market Valuation. Despite using scientific methods, valuation remains more of an art than a science. The true value of the property is dependent on various qualitative variables such as the property is dependent on various qualitative variables such as country risk, corporate psychology, strategy and perceptions of future macroeconomic performance. Only the market can determine the true value. There- fore, it is important to focus on designing appropriate transaction structures, advertising in relevant media, choosing and implementing appropriate pre-qualification criteria for bidders, and following an appropriate bidding process to obtain a fair price for the privatisation.

Pre-Bid and Bid Process

Expressions of Interest (EOI) are invited by advertising in the relevant media. The PC Ordinance, 2000 spells out some of the advertising procedures. Depending on the kind of transaction, the EOI describes the broad qualifications that potential bidders must possess. Those submitting an EOI and meeting the broad qualifications are provided with the Request for Proposals (RFP) package containing the detailed pre-qualification criteria, instructions to bidders, draft sale agreement and other relevant documents. Interested parties, then, submit a Statement of Qualifications (SOQ) which is evaluated to determine whether an interested party meets the requisite qualifications.

Pre-qualified bidders are given a specified period to conduct their own due diligence, following which they are invited to a pre-bid conference where their questions and concerns can be addressed. The meeting is useful in determining the bidding procedure to be followed (for example, open auction, sealed bids or some combination thereof) and could even determine the proportion of shares that the government may want to divest. The bidding itself is done openly, with all bidders and media invited.

Completing the Transaction

Following the bidding process and identification of the highest bidder, the PC Board makes recommendations to the CCOP as to whether or not a bid should be accepted. The reference price is a major determinant in the recommendation, although the PC Board may recommend the sale even if the offer price is below the reference price. Once the bid price and bidder are approved, the PC issues a letter of acceptance or a letter of intent to the successful bidder indicating the terms and conditions of the sale. The PC then finalizes the sale purchase agreement through negotiations with the bidder, collects the sale proceeds and transfers the property. Under the PC's current policy, privatisation proceeds are required to be paid upfront rather than over time, as has been the case for many earlier transactions. Within 30 days of the sale, the PC is required to publish the summary details of the transaction in official gazette.

Summary of the Process

The privatisation of major entities is a lengthy process. Pursuant to CCOP approval for the privatisation, the process takes almost 18 months to close a major transaction, without any major restructuring of the PSE.

- ⇨ The appointment of FA takes about 6 to 7 months.
- ⇨ FA takes 3 to 4 months to complete its legal, technical and financial due diligence and propose a privatisation strategy
- ⇨ The marketing and bidding process takes 5 to 6 months
- ⇨ Up to two months to solicit the necessary approvals, finalization of sale documents and financial closure
- ⇨ In case of restructuring involved, additional time is required to set up the necessary regulatory framework and sectoral policies.

ACHIEVEMENTS

One of the biggest achievements of the PC has been the development of an effective and productive Privatisation Policy and its successful implementation. This has resulted in Pakistan's Privatisation Programme as the most successful programme in the whole of South Asia, Central Asia and the Middle East.

In less than three decades of its operation, the PC has successfully managed to complete 170 privatisation transactions, while generating revenue of over PKR 544,090 million.

SECTOR	Sale proceeds 1991 to Sept. 2015	
	No.	Amount (Rs. in million)
Banking	7	41,023
Capital Market Transaction	25	201,129
Energy	14	51,756
Telecom	4	187,024
Automobile	7	1,102
Cement	17	16,177
Chemical	16	1,643
Engineering	7	182
Fertilizers	7	40,281
Ghee Mills	24	842
Rice	8	236
Roti Plants	15	91
Textile	4	370
Newspapers	5	270
Tourism	4	1,805
Others	6	159
Total	**170**	**544,090**

ACTIVITIES DURING 2013-2014

The Privatisation Commission (PC) is actively pursuing the privatisation of 38 entities through prescribed modes. The progress is rather slow as it is a new initiative and involves various cumbersome issues, i.e. transaction structure, financial / operational restructuring and land issues etc. to be resolved before taking them to the market. The economic recession has compelled the PD/PC to evaluate and analyze its past performance and take corrective measures.

The privatisation programme was re-launched after a gap of more than six years. The sale of GOP Residual Shares (19.8%) in United Bank Limited (UBL) and the divestment of GOP shareholding (3.55%) in Pakistan Petroleum Limited (PPL) was successfully concluded in a stipulated time, This materialized gross sale proceeds of PKR 53.7 billion. Salient features of both the transactions are given below: -

Key Highlights of United Bank Limited (UBL) Transaction

- One of the largest capital market transaction in Pakistan raising over PKR 38 billion including foreign exchange of over USD 310 million for the Government of Pakistan (GOP);
- Total demand of over PKR 63 billion (USD 632 million) generated at selling price of PKR 158 per shares i.e. demand of 394 million shares against the offer size of 242 million shares;
- Generated robust international demand of over USD 500 million (equivalent of PKR 50 billion) at the selling price of PKR 158 per share;
- Generated upbeat domestic demand of over PKR 12 billion at the selling price of PKR 158 per share;
- Over 30 international equity fund managers/qualified institutional buyers (QIB) participated and successfully allocated 81% of the total offer size of 242 million shares;
- Over 200 domestic, institutional and high net worth individuals (HNWI) participated and successfully allocated ~19% of the total offer size of ~ 242 million shares

Key Highlights of Pakistan Petroleum Limited (PPL) Transaction

- **One of the largest ever domestic secondary public offering:** Government of Pakistan divested approximately 5% of the GOP shareholding in PPL raising PKR 15.3 billion or USD 155 million.
- **Largest ever offering via domestic book building mechanism:** PPL transaction was the largest domestic book building ever conducted in the history of the country.

- **First ever government offering through book building:** PPL's secondary public offering (SPO) was the first time the Government utilized the domestic book building mechanism to offer shares to the local investors. Historically, the government has used Global Depository Receipts (GDRs) for international transactions and public offers through balloting for local transactions. This is the most transparent and fair process.

- **First ever transaction where deal price was higher than market price:** The strike price was determined via the book building mechanism for PPL, which was PKR 219 per share. The same was at a premium of 7% to the roof price and also at a premium of 2.4% to the 25 June, 2014 closing price (Floor Price was set on 25 June, 2014) and 0.5% premium to the last day (27 June, 2014) closing price (PKR 217.94). This was the first instance in the history of Pakistan's capital markets where the strike price was higher than the market price.

- **Excessive Demand:** Domestic and foreign investors gave the thumbs up to both PC and PPL by aggressively oversubscribing the offer by 2.04 times. Participation of domestic investors in PPL was significantly higher than the recently conducted offering of UBL, which signifies the trust domestic investors have in the capital markets and the future progress of the country. Bids in excess of PKR 30 billion were received, surpassing the cumulative demand for all the domestic capital market transactions concluded in the last 2 to 3 years.

Key Highlights of Allied Bank Limited (ABL) Transaction

- Generated a total demand of over PKR 21 billion

- Demand from foreign investors exceeded USD 30 million

- Oversubscribed by 1.4 times i.e. generated a demand of ~185 million shares against the offer size of ~131 million shares

- Strike Price at ~2.5% discount, to the closing price on that day beating the Asia Region discount benchmarks for precedent transactions.

- Over 325 domestic and international investors participated areas including Peshawar, Multan, Faisalabad, Rawalpindi in addition to the conventional three cities of Islamabad, Lahore and Karachi.

- Upbeat demand/allocation from individual investors i.e. ~40% due to lowering minimum bid size from PKR 1 million to PKR 500,000.

TRANSFER OF PTCL PROPERTIES

Current Status

- Etisalat International Pakistan (EIP), the purchaser of Pakistan Telecommunication Company Limited (PTCL) is delaying further payments on the ground that all properties included in the Share Purchase Agreement (SPA) have not been transferred in the name of PTCL. Privatisation Commission is actively pursuing and facilitating the process of transfer of properties to PTCL, of which 3,214 (99%) have been transferred and 31(1%) remain to be transferred due to various reasons, including, legal impediments.

- Since January 2010, approximately 275 properties have been transferred in favor of PTCL. The Federal Government (Finance Division) has either paid or given guarantees to the respective Provincial Governments and the departments for the payments relating to the transfer of these properties. GOP has thrice requested EIP to withhold approximately USD 50-75 million and release the remaining amount. However, despite all efforts of the GOP, EIP has not released any the additional instalment of USD 133.33 million.

Background

- PTCL was privatised through the sale of 26% shares for USD 2.6 billion in 2006. Upfront payment of USD 1.4 billion was made by Etisalat while the balance of USD 1.2 billion was contingent upon transfer of properties in nine bi-annual instalments of USD 133.333 million each. As the GOP did not fulfill its contractual obligations, Etisalat has paid three instalments amounting to USD 400 million only and has withheld six instalments amounting to USD 800 million since November 2007.

- Pursuant to the SPA, GOP had to transfer 3,384 (subsequently worked out as 3,248 as per PTCL record) properties (public and private) to PTCL latest by 12 January 2008. In case of non-compliance, EIP holds the option either to surrender its right over the non-transferred properties by adjusting the outstanding payments to the effect of the higher of the two valuations independently by the GOP and EIP on commercial arm's length basis or to withhold such amount of the outstanding balance until clean titles are provided.

- To date, the GOP has provided clean titles of 3117 properties of which approximately 500 properties have been transferred since the payment of the last installment by EIP in November, 2007. One hundred and eighty properties have been transferred during the past three years under the Finance Division.

AWARDS GRANTED TO UBL TRANSACTION

Best Deal of the Year

United Bank Limited's share placement by the PC has received the “Best Deal Award” for Pakistan by The Asset 'one of Asia's most prestigious corporate ranking journals'. This award is given on an annual basis to the best performing capital market transactions selected from Asian countries.

The Government of Pakistan via the Privatisation Commission, divested 19.8% of its residual holding in United Bank Limited earlier this year. A total demand of over USD 632 million was received against an offer of USD 382 million, making this one of the largest capital market transactions in Pakistan. The financial advisors to the transaction were Arif Habib Limited, Credit Suisse, and Elixir Securities.

IFR ASIA's “Issuer of the Year” - Islamic Republic of Pakistan

Many Asian issuers raised funds with ease in 2014, but only one capped a remarkable turnaround with offerings in both the debt and equity capital markets. For putting itself firmly back on the global markets map, the Islamic Republic of Pakistan is IFR Asia's Issuer of the Year.

Issuer of the year

The Islamic Republic of Pakistan embarked on ambitious capital-raising plans in 2014, presenting investors throughout international markets with an optimistic turnaround growth story. This allowed Pakistan's new government to do two things the country of 180 million had not been able to do in about seven years: price a USD denominated dollar bond and sell shares in the capital markets.

In April, the sovereign printed a USD 2 billion offering bonds at tenors of five and 10 years in April and, in June, it launched PKR 38 billion (USD 370 million) offer for sale in United Bank and PKR 15 billion stake sale in PPL.

These transactions were no mere showpieces. They were vital to Pakistan's future. The proceeds helped increase foreign exchange reserves and cut the fiscal deficit, two improvements required under a USD 6.7 billion conditional support package agreed with the International Monetary Fund (IMF) in late 2013, just months after pro-business Prime Minister Nawaz Sharif came to office.

Pakistan had been forced to turn to the IMF to avert a balance-of-payments crisis in November 2008, after a run on the rupee, amid the global crisis, left it frozen out of the international capital markets. However, the IMF ended its support in 2011 after Pakistan showed little sign of economic reform, and the final USD 3.7 billion of a USD 11.3 billion rescue package was never disbursed.

Having regained the IMF's support in 2013, the Government needed to show real progress in improving its fiscal position. It also needed to convince investors that the reform-minded Prime Minister could maintain stability in the face of severe political and economic challenges.

The country tested the waters with a USD 100 million 360-day loan in December 2013, its first syndicated facility in 15 years, and increased the size to USD 172.5 million after six other lenders joined leads Credit Suisse, Standard Chartered and UBL.

A mandate for a USD sovereign bond followed in early January 2014, as the Government set out to take advantage of the global hunt for yield, which had led money managers lower and lower down the credit spectrum.

Days before the mandate, B1/B+/BB- rated Sri Lanka had priced a successful USD 1 billion five-year bond, hinting at the extent of global demand. Pakistan, however, with its far lower ratings of Caa1/B- and a bigger target size, needed to work hard to attract a similar response.

When bookrunners Bank of America Merrill Lynch, Barclays, Citigroup and Deutsche Bank started marketing the USD 2 billion deal around the end of March 2014, they had many data points with which to impress investors. The IMF had just increased to 3.1% from 2.8% its growth forecast for Pakistan in the 2013–14 fiscal year, and the Government had just announced an ambitious plan to privatise more than 60 companies to help fill a hole in its budget.

Pakistan's outstanding dollar bonds were also trading at all-time low yields. The 6.875% June 2017 notes – the country's last global issue before the crisis – dipped below 7% in February for the first time since they were launched in 2007, quite a recovery from yields of over 15% in early 2012.

The results were striking. The USD 1 billion five-year bond priced to yield 7.25%, and the USD 1 billion 10-year tranche printed at 8.25%. The rate on the 10-year bonds was particularly low. Just days before Pakistan came to market, B+/B rated Zambia printed a USD 1 billion 10-year offering at 8.625%. Investors clearly valued Pakistan's prospects, despite the lower rating.

“In broad terms, Pakistan's credit fundamentals have improved since the new government came into office last year,” said Agost Benard, Associate Director of Sovereign Ratings, at Standard & Poor's. “Given a B– rating, Pakistan's current conditions are fairly benign, and the improved macroeconomic setting was what enabled the government to launch a bond this year.”

Fund managers in the US, the UK and Europe bought the majority of both tranches, signaling a strong vote of confidence in the country.

Privatisation

It was only a matter of weeks before Pakistan was back in the international markets, this time with a share offering of Karachi-listed United Bank. In June, the country disposed of its 19.8% stake in the bank, raising PKR 38 billion, the government's first equity offering since it sold a 7.5% stake in Habib Bank for PKR 12 billion in 2007.

It was a crucial first step towards the government target to raise PKR 198 billion through privatisation in the fiscal year ending 30 June 2015, and the first of 65 state-owned companies earmarked for partial privatisations over the next five years.

Mohammad Zubair, Chairman, PC, knew well that there was a lot riding on this transaction. Before investors could really be convinced of the viability of Pakistan's privatisation plan, Zubair and his associates had to convince bankers, advisers, lawyers and accountants that the country was serious. Pakistan had hired equity advisers in the recent past, only to have those planned deals go nowhere.

“I went to New York and London within two months of taking the job (to talk to the financing community),” said Zubair, who was appointed in December 2013. “This was the first indication for them that we were serious about this. If we couldn't convince them, obviously we couldn't do this.”

Arif Habib, Credit Suisse and Elixir Securities were eventually named joint lead managers.

Because the bank was already listed, and the government held a minority stake, it was easier to garner political support for the trade.

“Pakistan restarted its privatisation programme with the less controversial deals, and it's a smart move,” said Ali Naqvi, Head of Equities for Asia Pacific at Credit Suisse. “They sought to sell companies that were already partially privatised – and at smaller stakes.”

In the end, foreign investors bought almost 80 of the 241.9 million shares on offer.

"Investors liked the story a lot because the banking sector is growing and, with more stock from the sale, the name would become more liquid," Naqvi said.

Additionally, money managers Templeton Asset Management, Wellington Management, Everest Asset Management, Lazard, BlackRock and Morgan Stanley participated, despite reports of militant attacks at the country's main airport days before the deal closed.

"It was actively participated by the major funds," Zubair said. "When we went around on the roadshows, we were able to sell the Pakistan story – Pakistan as a place to invest. There is interest in our economic momentum."

Professional Team

The transaction also put the country in good stead for what would come next.

"United Bank's story is good, and the government delivered on execution like a professional team," Credit Suisse's Naqvi said. "Because of that, we were able to generate a well-oversubscribed order book. Then, once it was listed, the stock did well, which was good news for the remaining privatisation plans."

United Bank priced at PKR 158 in early June and on 5 August it hit a 2014 high of PKR 202. That was good news because Pakistan had plans to sell takes in Allied Bank and Habib Bank.

The government did not waste any time building on the success of the United Bank sale. Weeks afterwards, it sold a 5% stake in Pakistan Petroleum for PKR 15 billion, its second capital markets privatisation of the year and one that was heavily marketed to domestic investors.

"We went around the country to places where the Privatisation Commission would never have gone (in the past) to drum up interest, even among people who never would have participated," Zubair said. "We wanted to spread the idea of privatisation around the country to everyone in the country."

It sold 70.1 million shares at PKR 219 per share in a mainly domestic deal that was twice covered, with a handful of foreign investors also taking part.

Not every deal was a success, however. Oil and Gas Development Corp decided to pull its offering of up to PKR 69.8 billion in global depositary receipts, owing to a weak response from investors as oil prices tanked globally. Zubair said the country would try to sell the deal again in 2015.

As ever, it is difficult to disentangle the fiscal benefits of privatisation from politics. Indeed, one way the government sought to put Pakistan in a positive light locally was to show citizens how much international investor interest there was for its companies.

“That was another challenge. We had to say to people: 'Look, Pakistan's not falling apart. These financial institutions participating in UBL is a great thing for us. This is positive momentum',” Zubair said.

UPCOMING TRANSACTIONS

Since the reinstallation of the program by the present government in 2013, after a gap of almost six years, the Commission has successfully completed three capital market offerings, namely UBL, PPL and ABL, raising gross proceeds of ~Rs.68 billion, including foreign exchange of over USD 350 million, compared to proceeds of PKR 476 billion raised by the completion of 167 transactions between 1991 and 2008. Global debt and equity offerings by the GOP have been acknowledged internationally, as is evident from the award of "Issuer of the Year" given to Pakistan by IFR Asia. Furthermore, the UBL transaction also received the "Best Deal Award" for Pakistan by The Asset, one of Asia's most prestigious corporate ranking journals. This has put Pakistan firmly back on the global markets map besides improving the standing of domestic capital markets.

The PC has completed two of the five planned transactions during FY 2014-15, namely the ABL and HBL Offering. Details of the FY 2014-15 Plan are as follows:

S #	Transaction	Actual / Expected Proceeds (PKR)	FX Component (USD)	Status
Capital Market				
1	Allied Bank Limited	14.4 Bln	20 Mln	Completed
2	Habib Bank Limited	136.9 Bln	~764 Mln	Completed
3	OGDCL	Canceled due to significant drop in global oil price		
Strategic Sale				
4	National Power Construction Corp	~2.0 Bln	20 Mln	Ongoing
5	Heavy Electrical Complex	~1.0 Bln	-	Ongoing
Total		**154.3 Billion (equivalent to ~USD1.53 billion)**		

The above stated transactions are expected to generate proceeds equivalent to ~USD 1.53 billion in comparison to the budgeted amount for FY 2014-15 worth USD 1.98 billion.

The expected shortfall of ~USD 450 million is due to the cancellation of the OGDCL transaction, which was expected to generate ~USD 730 million.

However, if market conditions permit, this transaction may be attempted again in the current fiscal year.

In light of the GOP's commitment to strategic private sector partnership, the PC has also initiated work on the power and aviation sectors, which are expected to be completed during FY 2015-16. Following is status of the ongoing program:

S #	Transaction	Status
1	National Power General Co. Ltd. (NPGCL)	Due Diligence is in progress by Financial Adviser (FA)
2	Faisalabad Electric Supply Co. (FESCO)	
3	Pakistan International Airlines (PIA)	
4	Pakistan Steel Mills Corp. (PSMC)	
5	Islamabad Electric Supply Co. (IESCO)	Appointment of FA is in progress
6	Lahore Electric Supply Co. (LESCO)	
7	PIA-IL (Roosevelt and Scribe Hotels)	Plan to invite Expression of Interests for FA hiring during current quarter
8	Convention Centre	
9	National Power Construction Corp. (NPCC)	Appointment of FA completed

As has been the hallmark of the present government, the PC will continue to ensure privatisation in an open, fair and transparent manner, for the benefit of the people of Pakistan, in the right way, to the right people, at the right price.

BENAZIR EMPLOYEES STOCK OPTION SCHEME

Benazir Employees Stock Option Scheme (BESOS) was announced as a flagship programme for empowerment of workers on 14 August, 2008. The scheme envisaged transfer of 12% GOP shares worth ~PKR 116 billion to eligible workers in 80 PSEs free of cost and allocation of a seat on the Board of Directors. The Cabinet approved the scheme on 5 August, 2009. About 500,000 workers in 80 PSEs were expected to benefit from BESOS.

A dividend amounting to ~PKR 9.9 billion has been received by Trusts of PSEs, 50% of which has been credited to Central Revolving Fund (CRF) while the remaining 50 % has been distributed among 33,822 employees. To date, buyback claims amounting to ~PKR 16 billion have been received from 11 PSEs out of which PKR 1.160 billion has been paid to 224 employees of three PSEs by October 2011. The following structural imbalances were noted during the implementation of BESOS:

- Employees joining after 14 August, 2009 are not included in BESOS.

- Distribution of benefits is highly disproportionate as only a limited number of workers in a few PSEs are deriving benefits in companies, such as, PPL, OGDCL, KAPCO and NICL with average payout per employees ranging between PKR 37 million.

- Over 104,000 employees in 17 PSEs receive nothing due to negative net worth of the respective entities.

- Financial viability of the scheme is another concern, as annual deficit for the claims to be funded by GOP is estimated at PKR 1.67 billion with potential to balloon up to PKR 5 billion.

The imbalances were acknowledged by the President of Pakistan and the Cabinet Committee on Privatisation on 2 September, 2012 and 8 November, 2012 respectively. With a view to making the scheme sustainable and fully aligned with its objective, the CCOP while approving certain recommendations, constituted a committee comprising the Secretaries of Finance, Production and Privatisation to revisit the scheme. Terms of Reference of the committee included structural overhauling of the scheme, to make it beneficial for the employees of all Public Sector Enterprises and to propose a mechanism regarding ultimate winding-up of the scheme.

The Cabinet while deliberating upon the aforesaid approvals of the Cabinet Committee on Privatisation on 12 December, 2012 directed the Privatisation

Commission to submit a self-contained summary to reassess the proposal of overhauling of the Empowerment of Employees through BESOS as well as the feasibility of its winding up. Accordingly, the Scheme has been reassessed in consultation with the Finance, Industries and Production Divisions. In view of the Finance Division's opinion regarding financial implications, the same have been analyzed and reflected in the summary. Despite attempts to rationalize the scheme, the real benefits shall remain restricted to a limited number of profits earning PSEs at huge cost to the exchequer without attaining the objectives of the scheme.

The Law and Justice Division has opined that Clause 21 of the Trust Deed which stipulates that in the event of winding up of the Trust, its assets left after meeting its liabilities, (if any) shall be transferred to the relevant line ministry to be able to stand the test of judicial scrutiny. The implementation of Clause 21 would entail the payment of PKR 6.5 billion against the aggregated liabilities of PKR 14.5 billion. However, this would again result in the disproportionate allocation of benefits, a compelling reason for revisiting the BESOS framework in the first place as workers in companies like PPL, OGDCL, and KAPCO would receive exorbitant claims ranging between PKR 3 to 7 million while the majority of workers in other PSEs would receive almost nothing.

Therefore, the Federal Cabinet may consider the winding up of the BESOS scheme with effect from 30 June, 2010 when the process was held in abeyance by the Privatisation Commission and not permit any further disbursement of dividend or buyback claims. The estimated amount of PKR 6.5 billion lying with the PC and with the Trusts of the respective entities would be remitted to the Finance Division. However, exercising of this option may potentially lead to legal proceedings against the government.

VISION FOR THE FUTURE

Our long-term vision is of a government that focuses on good governance and regulation, while fostering conditions to provide incentives for the private sector to invest in providing goods and services efficiently. This would generate employment opportunities, which are necessitated by business development, and would ultimately decrease unemployment and alleviate poverty. In short, we believe that the government should exit the role of running businesses. The PC can help to put business into the right hands while freeing the government to focus on such matters as ensuring law and order and making sure that the enabling framework is conducive to investment while being fair to consumers and taxpayers.

A stable macroeconomic and law and order situation is essential for creating a climate conducive for private investment. At the same time, competition, liberalization and deregulation are required for protecting the interests of consumers and for sending the right price signals to customers and investors. However, in infrastructure and utility services, competition may not be feasible. In such cases, a fair and comprehensive regulatory framework must exist to balance the needs of consumers and investors. In addition to defining standards for performance, safety, health and the environment; the regulatory framework must ensure that the prices of goods and services reflect their costs of production and that investors are fairly rewarded for taking risks. The long term interests of consumers are best protected by balancing the needs of investors and consumers.

The privatisation programme includes many PSEs in the banking and finance, oil and gas, telecommunications, power, and industry and other sectors. However, the privatisation agenda is much broader. For example, while Karachi Electric Supply Company was the first company privatised in the power sector, following Kot Addu Power Company, the government is committed to privatising all its power companies. In some areas, such as Pakistan International Airlines, Pakistan Steel Mills and Pakistan Railways, the government is attempting some restructuring and improvements before privatisation.

While there has been little official discussion of privatising other sectors, many possibilities exist. For example, the Federal Government owns substantial amounts of real estate that could be privatised. The post office, which has been successfully privatised in several countries, could also be a candidate. Both ground and surface water resources could be privatised by assigning tradable property rights to water resources to existing users along with the transfer of irrigation infrastructure. This is working well in some Latin American countries and Australia.

Some Latin American countries have also successfully privatised roads, bridges, and water companies and are encouraging the provision of education and health services, through the private sector, by funding such activities rather than investing in them and operating them. The services, themselves, will be provided by private investors, NGOs, or community groups. International experience has shown that the public provision of social services typically does not help the poor, who are often excluded from services or whose quality is too poor to be useful. Options such as voucher schemes and lifeline tariffs can ensure that the poor can avail of the privatised services. Such initiatives may also prove fruitful in Pakistan.

In short, the potential privatisation agenda is large and ambitious. Successful implementation of the existing agenda is key to ensuring further progress in privatisation in order to strengthen public finances and enhance the quantity and quality of Pakistan's goods and services.

FINANCIAL STATEMENTS
AND
AUDITORS REPORT

(Accounts and Report
will be uploaded / included
as and when available