

Centre on Regulation and Competition

Regulation, Competition and Development: Setting a New Agenda

CRC International Workshop, 4-6 September 2002
Crawford House Lecture Theatre, University of Manchester

Paper for Session 4: Country Studies

Developing and Applying Regulatory Impact Assessment Methodologies in Low and Middle Income Countries

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August 2002

ECONOMY AND THE GOVERNMENT: PRIVATISATION AND REGULATION IN PAKISTAN

by

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I. INTRODUCTION

Whereas in the early 50s and 60s the role of the government in almost all the developing economies was restricted to the provision of the physical and social infrastructure, in the 1970s there was a wave of nationalisation on the pretext of market failure. In the 1980s, however, various economic activities have been deregulated and public enterprises have been divested on the assumption of the government failure. It is argued that privatization and deregulation of economic activities improves efficiency levels, and through efficient resource allocation it results in higher welfare levels. For example, privatization of telecommunications and succeeding deregulation in several advanced countries has brought lower telephone charges, better services and increased opportunities to enjoy various cellular phone services (Kagami: 1999). Moreover, because debt burden in many developing countries is large and fiscal deficit continues to be high, the divestiture of public assets may help them in retiring debt and resultantly in reducing fiscal deficit. However, experience of many developing countries including Pakistan shows that privatisation *per se* does not necessarily lead to higher levels of efficiency unless competition is ensured and divestiture has not helped in reducing the fiscal deficit.

In line with the global trend Pakistan started deregulating its economy in the 1980s. The unnecessary regulations that were constraining the private sector activities have been removed. The import policy has been liberalised, investment sanctions have been discontinued, the foreign exchange control has been considerably eased, and price controls have been removed. Similarly, most of public enterprises in the manufacturing sector, two banks and a small percentage of shares of the telecommunication and Pakistan international Airlines have also been divested.

Moreover, government has a rather ambitious privatisation program and it would like to sell all of the public enterprises in the fields of manufacturing, banking and finance, telecommunications, power, oil and gas. The main force behind the process of privatization has been the poor performance of the public entities resulting from mismanagement of resources, overstaffing, inappropriate and costly investments, poor quality of services, high debt and fiscal deficit, and production and profits were below the potential level.

The success of privatization is associated with the existence of competition and therefore, in case of monopolies an effective regulation system is absolutely essential. However, in the developing countries legislation relating to competition is non-existent and where it exists, rules and guidelines for competition are poorly implemented. Access to information is the key for better regulation and that is rather poor in these countries. Consequently economic liberalisation has not necessarily reduced the economic powers of the large dominant enterprises and privatisation has not been all that successful.

The objective of this study is to trace the role of government in different phases of the economy of Pakistan, i.e. mixed economy until late sixties, nationalization in the seventies; privatisation, deregulation, and the establishment of regulatory authorities in 80s and 90s. The plan of the study is as follows. After this introductory section, changing roles of the government in Pakistan are been discussed in section II. Various regulatory authorities and their structure are analysed in section III. Major conclusion are summarized in section IV.

II. CHANGING ROLES OF GOVERNMENT IN PAKISTAN

Though Pakistan's economy has always been a mixed market economy, until 1970s it relied mainly on the private sector for the economic growth. Nevertheless, there have been government interventions, direct as well as indirect to prevent the consumer from the monopolistic exploitation.

GOVERNMENT INTERVENTION IN THE 1950S AND 1960s

At the time of the independence in 1947 Pakistan inherited very little manufacturing industries and infrastructures. Adverse international conditions, precarious domestic situation and the influx of refugees on the one hand and a large number of entrepreneurs leaving the country on the other, aggravated the problems even further. Because there have been very few entrepreneurs, the public sector had to assume a significant role in the growth process. Nevertheless, the mercantile class made windfall gains during the Korean War in 1952 and this coupled with a sharp increase in the profitability due to severe import controls in the form of quota restrictions and the high import duties paved the way for rapid industrialization by the private sector. Government provided massive incentives to the private sector in terms of tax holidays, over-valued exchange rate, import controls etc. While in the 1960s trade policy was liberalised and price controls were lifted, foreign exchange controls, credit controls, investment sanctions and many other controls on the activities of the private sector continued. Since private sector was shy of investing in the non-traditional sectors, Pakistan Industrial Development Corporation (PIDC) was established which invested in the non-traditional sectors and sold the profit making units to the private sector. This helped in diversification of the manufacturing sector at least to some extent

GOVERNMENT CONTROLS/INTERVENTIONS IN 1970

Role of the government increased sharply in the 70s. There were both direct as well as indirect controls over the economy. Direct controls took the form of price regulation; restriction to entry and exit; allocation of inadequate resources, services and credit; issuing licenses for new investment; and regulation of monopolies, trade and marketing, to prevent inefficiencies in economic transactions. Indirectly, government intervened in the economy through taxation, provision of subsidies and incentives in the form of protection, tax exemptions, infrastructure and social services. Public sector was responsible for the provision of all infrastructures including energy and communications and financial services but it also participated in the manufacturing activities as well. Since privatisation and deregulation started in the 80s probably it is useful to examine the role of the government in the seventies in various areas of the economy.

In the manufacturing sector government intervention took three forms. Firstly, controls on prices, investments and imports with a view to ensuring the right of the consumers, regulating

the level and pattern of investment, and ensuring that the sector is provided necessary protection, machinery, and other industrial inputs. Secondly, government influenced the profitability of different production activities through changes in the prices of inputs and outputs and provision of subsidies. Third intervention was direct involvement in the production activities via establishment of public enterprises in various economic activities

Government instituted a system of **price controls**. Procurement/support prices of agricultural products and regulation of prices of goods produced in the public sector were instituted to contain inflation. At the same time the government thought mistakenly that price control would help in foreign exchange earnings and increasing production. To check the prices, Price Control and Prevention of Profiteering and Hoarding Act, 1977 was promulgated and the Office of the Controller General of Prices (CGP) was established in the Ministry of Industries. It allowed the government to fix maximum prices of essential products, and to establish a price consultation mechanism that allowed the producers and the importers to consult in advance for increase in the prices of their products. To compensate producers of items subject to price controls, the government assisted them through the system of subsidies and surcharge, to guarantee an adequate return, e.g., export subsidy, preferential export financing, fiscal incentives (tax holidays, tax credits, accelerated depreciation allowances), and above all by massive protection through high import tariffs. In practice, however, government allowed market mechanism to work and the price of only four commodities were fixed. However, prices of goods produced in public industries remained under constant check.

Cost-Plus Pricing was introduced to encourage investment in the industries whose prices were controlled. When profits exceeded the specified limit, they were squeezed through surcharges and when they fell short, they were provided subsidised. The system was introduced in edible oil, cement, fertilizers and petroleum refining industries. It encouraged investment but at the cost of efficiency. Therefore these industries were deregulated later in 1985 and prices and profits were left for the market to determine.

Exchange control system remained in operation ever since the Rupee became overvalued in 1952. It regulated the inflow and outflow of foreign exchange resources to ensure that foreign exchange payments do not exceed the foreign exchange receipts. Under the system, the exporters deposited their foreign exchange earnings to the State Bank of Pakistan, which regulated its expenditure according to its foreign exchange budget. It took into consideration

expected receipts through exports and foreign assistance and then made allocations to the private and public sectors through import licenses issued to commercial and industrial users by the Chief Controller of Imports and Exports (CCI&E). The Exchange Control System was made up of an elaborate licensing system, where the ceilings were fixed for the import of each product. Three types of import licenses were issued: commercial, industrial and investment. The government relied on licensing rather than tariffs to restrict imports because of the unstable prices, unavailability of accurate projections of demand and supply of foreign exchange, and an insufficient level of foreign exchange reserves.

Private investment had been regulated through **investment licensing**. The purpose was to ensure optimal utilization of resources. But the process was lengthy and the feasibilities of projects were so maneuvered that the proposals were always accepted. It served no purpose but delayed the implementation of investments.

With a view to ensuring that monetary and credit expansion is in safe limits, State Bank prepared **Credit Plans** and implemented these through administrative measures. The plan outlined the credit limits on various financial institutions, distribution of credit to private and public sectors, and mandatory credit targets for priority sectors in line with national priorities.

Government intervened directly as well in the production process through **nationalisation and new investments**. The government of Pakistan took over chemicals, fertilizers, automobiles, cement and petroleum refining industries in 1972, vegetable ghee mills in 1974 and rice milling, flour milling and cotton ginning in 1976¹. Similarly, the banking and insurance sector was also nationalized. Besides the government was present in various activities including telecommunication, transport, mining, construction. In January 1974, **banking** sector was nationalized. The 13 commercial banks after nationalisation were regrouped into four large commercial banks while another bank was already in the public sector. However, the banking industry suffered both because of rather large and unnecessary recruitment and advances of credit to unviable projects. The quality of services started declining and the proportion of defaulted loans increased to rather high proportions (Aziz: 1996). Therefore reforms in this sector were on top of the privatisation agenda in the 1990s.

¹ Since the nationalization experience was unfavourable rice, flour and ginning mills were denationalized soon afterwards.

Transport and Communications, except for the road transport all other mean of communication and transport i.e., telecommunication, railways, shipping and aviation have always remained in the public sector. This was due to the fact that capital cost was high and the private sector was unwilling to commit its resources.

The **energy** sector has mostly been under the control of the government. The fuel sector, was managed by the Oil and Gas Development Corporation (OGDC), and the power generation and supply was the responsibility of Water and Power Development Authority (WAPDA). Karachi Electric Supply Company (KESC), a corporate sector body, worked under WAPDA's control.

Mining and Quarrying had remained under control of the government throughout except for the coal mining, where 85 percent of the total coal production was in the private sector.

For promotion of the **Agriculture** sector and ensuring efficient resource use and stable cropping patterns in compliance with local and foreign demand, government provided inputs (seeds, fertilizers, machinery) at subsidized prices. Government also fixed support prices of agricultural output to stabilize farmers' income, higher production, and a stable and balanced cropping pattern. For this purpose Agriculture Price commission was established in 1981. Moreover, there has been intervention in the agriculture sector through procurement of agricultural products for export purposes or for domestic markets.

DEREGULATION AND PRIVATISATION DURING 1980s AND 1990s

De-regulation and decontrol policies are not new for Pakistan; it was in practiced even in 1960s when they were uncommon in developing countries. However, major efforts at deregulation and privatisation were initiated in the 80s and 90s. Major de-regulation took place in the following activities:

?? Trade policy has been liberalised. In 1983-84 a negative list of the products whose imports were not allowed and a restricted list that could be imported subject to certain restrictions were issued. Whereas in the early 1990s restricted list was abolished, and a number of products from the negative list were removed each year. At present it includes

only those products that are restricted for religious, security and health reasons. There is no longer any product on the list that has been included for protection purposes.

- ?? Foreign exchange market has also been liberalized. The rupee has been made convertible on the current account and restriction on the royalty, technical fees, raising of capital from outside the country have been eased. Permission has been granted for the establishment of the foreign exchange companies, foreign private investment on repatriable basis has been allowed, and the exchange rate has been floated.
- ?? To encourage foreign equity investment, all restrictions on the investment from foreigners or overseas Pakistani's have been removed. They are free to invest without any prior approval except for few industries (for security or social reason). Foreigners are allowed to own 100 percent of equity in a venture and they could purchase equity in existing industrial companies on a repatriable basis. Access to borrowing has been greatly liberalised. All the controls on the operation of foreign currency accounts by foreign firms and individuals have been abolished.
- ?? Investment licensing first was liberalised partially and at present there is no requirements of investment sanctions.
- ?? Sugar and wheat flour rationing was discontinued in 1983, vegetable ghee (hydrogenated oil) prices have been deregulated and producers have been allowed to import themselves the vegetable oil in 1984. Cement and fertilizer industry was de-regulated in May 1985 though the government continued price controls on imported fertilizers. Petroleum trade has been deregulated recently.
- ?? Privatisation has been pursued with a view to improving the efficiency levels; reduction in fiscal deficit and debt burden of the government; broad basing equity capital; and releasing resources for the physical and social infrastructures.
- ?? Pakistan has so far privatized 109 units mostly the manufacturing units but also 2 major banks and 3 NDFIs, 10 % shares of Pakistan International Airlines (PIA), 12% share of Pakistan & 26% shares of Kot Adhu power station.

III. REGULATORY AUTHORITIES IN PAKISTAN

Distorted prices, lack of competition, and poor government management of businesses have hindered economic development, and have introduced inefficiencies in the economies of developing countries. The basic objective of privatisation therefore, is to increase the efficiency levels and resultantly enhancing the quantity and quality of goods and services². However, divestiture of the economic activities where scale economies are significant involves a danger that the monopolists and oligopolists may restrict the output and raise the prices leading to lower efficiency levels at the equilibrium of the firm. Therefore, unless such activities are effectively regulated it may lead to lower levels of growth and productivity. Regulation is also necessary to prevent the dominant firm from exercising market power and to enable competitors to enter and survive (see Baumol: 1996). In the case of natural monopolies, regulation in the form of setting of prices, profits and quality standards is absolutely necessary.

As pointed out by Parker (2000), there are three stages of regulation associated with the development of natural monopoly viz. regulating the monopoly right after privatization; promoting and policing competition; and maintaining that competition through effective national competition laws. Regulation, a combination of economics, politics and law, is a difficult and complex task to perform. The prerequisites for efficient

² As Cook (2001) has argued that a successful private enterprise economy is a central building block of a successful and sustained anti-poverty policy. Efficient markets are thus central to growth and poverty reduction' (See Cook: 2001).

and effective regulations are government's willingness to establish the regulatory rules and allow regulators to operate with high degree of autonomy within these rules. These include stable economic environment which will not allow any change in rules; and a political system with checks and balances to avoid any abrupt policy change. The institutions selected or established for regulatory functions, must have proper systems of accountability, transparency, targeting and consistency. High risks associated with the process of regulation arise from uncertainties associated with the nature of rules and information asymmetries.

Pakistan's divestiture policy has been successful in quantitative terms, but efficiency levels hardly improved. The evidence on growth of output and change in prices in the activities so far privatized showed that the producers have been able to exercise their monopoly power (See Kemal 1996, 1999). The other objectives of privatisation were not realized either. Nevertheless efficiency improved in the denationalized banks.

Aziz (1996) highlights four issues viz. autonomy of the divested enterprises, conducive environment to promote efficiency, macroeconomic stability and the regulatory framework in which the private sector operates. There is need for not only regulating monopolies but also to ensure that during transition to fully competitive markets, private enterprises do not operate to the disadvantage of others particularly consumers. Regulatory framework in Pakistan has been quite weak and, therefore, the government has decided to reduce the import duties to expose the industries to competition from the imported products and have appointed various regulatory authorities. The structure, objectives and their performance is evaluated in the following:

a. National Electric Power Regulatory Authority (NEPRA): Heavy losses suffered by Pakistan's major electric power suppliers, WAPDA and KESC, created the need for their restructuring. It was argued that power generation and transmission, capacity expansion and efficiency could only be achieved with the involvement of the private sector. The government in 1992 prepared the strategic plan for the privatization of the power sector and also approved the establishment of an autonomous regulatory agency. Accordingly NEPRA was established with a view to introducing transparent and judicious economic regulation in the power sector of Pakistan.

NEPRA is responsible for regulating the provision of the electric power service in the country. It is an independent regulatory body and has been established with a view to improve the

efficiency and availability of electric power services while protecting the interests of consumers, investors and the operators equally, and to promote competition and to deregulate power sector activities where competition exists. Its major responsibilities include: issuing of licensing for generation, transmission and distribution of electric power; enforcement of quality standards and ensuring of safety in the operation and supply of electricity to consumers; determine tariffs for generation, transmission and distribution of electric power; and approving the investment and power acquisition programs of the utility companies. Besides, NEPRA is mandated to set fees for licenses and their renewal, fines for breaking the rules; setting a uniform system of accounts for generation, transmission and distribution companies; setting and reviewing the performance standards of all companies; and inform government about the activities of the power companies.

To achieve the functional capability in each of the above areas NEPRA has to design the basic legal framework in the shape of rules or procedures or codes. In its initial phase the professionals in NEPRA are involved in the finalisation of rules and procedures for implementation. Nevertheless both WAPDA and KESC, the two institutions involved in generation, transmission and distribution have approached NEPRA for increase in power prices.

NEPRA has been able to rationalize the power tariff rate structure. Cross subsidies have been reduced by increasing the rates for the subsidized classes and reducing or maintaining the rates of subsidizing consumer classes. Flat rate have been abolished and government has been asked to provide subsidies directly if they so desire, without putting burden on other consumers and/or the power supplying organizations. At the same time utilities have been asked to reduce the transmission losses and improve efficiency levels so that the consumers do not have to suffer unnecessarily. The consumer bill has been simplified to include all the surcharges and additional surcharges in the overall rates in such a manner that only fixed and energy charges are reflected in consumer bills. Consumers have been protected from frequent price variation by allowing only quarterly adjustment for fuel price adjustment and unjustified demands of the utility such as charging on the basis of connected load, and increase of rates to cover for inefficiencies has not been allowed.

No company is allowed to carry out business of generation, transmission and distribution without getting a license from the NEPRA. So far NEPRA has granted licenses to 8 distribution companies and around 15 generation companies. With regards to the performance standards,

NEPRA has finalized the benchmarks for performance of the distribution companies (keeping in view the suggestions of the distribution companies and the standards for the distribution companies prevalent in other parts of the world).³ The finalisation of performance standards for the transmission and generation companies have not been notified yet. To maintain the environmental standards, all the generation companies granted license by NEPRA are required to maintain the environmental standards as may be prescribed by the Federal Environmental protection Agency Standards.

Privatization of WAPDA and KESC is not directly the function or responsibility of the NEPRA, but to facilitate the process to bring efficiency in the power sector and to help in ensuring competition where feasible, it is involved in the privatization process. The matter of grant of licenses, the approval of the operating codes, the prescription of a pooling and settlement arrangement and the mechanism for a competitive market will be finalized by the end of June 2002. (NEPRA Annual Report 2000-01). However, still nothing substantial is evident except for the issuing of licences to the distribution and generation companies.⁴

While NEPRA has been successful in some areas, the decisions of NEPRA have not been fully implemented because the government sometimes held them under abeyance. Moreover, how the award or otherwise of an increase in prices was decided, it is not clear. How would it ensure higher efficiency levels need to be clearly spelled out.

b. Pakistan Telecommunication Authority (PTA): PTA is a regulatory body for telecom sector established under the Pakistan Telecommunication (Re-Organisation) Act 1996. It covers fixed line telephone, mobile telephone, wireless communication, satellite consumer, Internet, cable TV, AudioNet, Paging Service, Voice mail and Digital Radio paging. It was formed to ensure and facilitate the availability of high quality, efficient, cost effective and competitive telecommunication services through out Pakistan and protect the interests of consumers and licensees.

³ In subsequent research, these will be explored in detail.

⁴ Transmission and Distribution losses as a percentage of net supply have reduced from the 31.5% in 1998-99 to 26.4% in 2000-2001 (Pakistan Energy Yearbook, 2001).

Its main functions include promotion of competition among service providers; regulating the establishment, operation and maintenance of telecom systems, and services; issuing licenses to telecommunication service providers and ensuring transparency and non-disorientation in their issuance; protect the rights of consumers as well as of the licensees; promoting modernization and setting quality standards for various services in the sector; promoting internet; managing radio frequency spectrum along with Frequency Allocation Board; and taking notice of any complaints against the licensees.

The authority has taken various steps to modernize the position to allow the use of Internet to grow. A number of data and Internet service providers are operating their services in the private sector under license from PTA. Furthermore, after getting the license from PTA, number of private operators have established telecom systems and operate their services through interconnect arrangements with PTCL. As of June 2000, about 325,000 mobile operators in the private sector are in Operation. Most recently, mobile operators have been issued notice to improve services to the standards agreed with PTA, otherwise face penalties. Regarding tariffs, accounting rates for international telephone calls have continued to fall in the previous years. And to compensate the impact of reduction in international settlement rates and in line with global trends domestic tariffs have been rationalized. However, it is too early to evaluate its performance on this score.

Over 90 percent of the digitalization has been achieved and the quality of service has improved. For international communication links a SEA-ME-WE-3 Submarine optical fiber system project was commissioned in August 1999. During the year, 1176 international circuits were opened with 19 countries. Steps have also been taken to overcome operational, technical, marketing and accounting weaknesses.

c. Securities Exchange Commission of Pakistan (SECP) SECP has succeeded the Corporate Law Authority (CLA), which was attached to the Ministry of Finance, and had been administering the corporate laws since 1981. CLA being the government department did not have the financial and administrative autonomy therefore it was difficult for the authority to establish the respectable financial sectors with transparency and authenticity. In addition, the expansion of financial markets in early 1990s highlighted the need for an independent regulatory agency with operational and administrative autonomy. The process of restructuring started in

1997 under the Capital Market Development Plan of the Asian Development Bank. Securities and Exchange Commission of Pakistan Act was passed in December 1997 and SECP formally started functioning as an independent regulatory body in January 1999.

The Commission is responsible for regulating the securities and any businesses in stock exchange or in other security markets. Other major functions of SECP includes supervising and monitoring the activities of any central depository and stock exchange clearing house; registering and regulating the working of stock brokers, share transfer agents, portfolio managers, investment advisors or any one associated with security markets; registering and regulating the investment schemes; regulation of securities industry and related organizations like leasing companies and financial institutions; protecting the market from unfair practices; promoting investors education and intermediary training; conducting audit of Stock Exchanges and other intermediary organizations; encouraging the development of capital market and corporate sector in Pakistan; regulating acquisition of shares and the merger and take over of companies; and suggesting reforms in the rules and regulation of companies.

The measures taken so far by the commission are aimed at increasing the demand and supply of capital that would provide the impetus for promoting further investments, expand industrial output and generate employment opportunities. The stock market crisis in May 2000 highlighted fundamental weaknesses in the stock exchanges including poor governance, weak risk management, as well as lack of market integrity and transparency. The commission took some corrective measures to restore investor confidence and to achieve a fair, transparent and efficient stock market. The stock exchange wing implemented number of steps and issued directives to improve the governance and to minimize the risk. Some of the steps taken includes implementation of the T+ 3 settlement system, substantial increase in net capital requirements, stipulation of capital adequacy requirements for brokers and strengthening of margin requirements. Other measures are also taken in line with international best practices to ensure an efficient and transparent capital market in Pakistan, e.g., appointment of 40 percent independent directors on the boards of the stock exchanges and initiation of actions to ensure the independence of the Commission's Chief Executive Officer (CEO) of each exchange. The commission has also implemented various regulatory reforms including the issuance of the Brokers and Agents Registration Rules and the Insider Trading Guidelines.

Institutional investment has been another area of focus recently. A major initiative is underway to develop the mutual funds/ pension funds industry to give the market institutional foundation. Also regulations have been made more flexible to allow floatation of sector specific funds to cater to different investor preferences and investment guidelines have been made less restrictive. Some of the recent developments in the stock market includes the establishment of Futures Contracts Market and National Clearing and Settlement System.

Besides Securities Market Division, the SECP has the Specialised Companies Division, responsible for the regulation and monitoring of leasing companies, modarabas, mutual funds and other specialized companies; and the Enforcement and Monitoring Division (EMD) responsible for the enforcement of corporate laws in respect of listed companies (other than insurance companies and specialized companies). The EMD has taken initiatives to protect the interests of minority shareholders, creditors and other stakeholders by ensuring full and fair disclosure. In year 2000, this division focused its attention to ensure timely holding of annual general meetings by companies and circulation of annual and interim accounts amongst their shareholders within the prescribed period. Unauthorized and unlawful inter-compliance with statutory requirements, mismanagement, oppression and poor financial performance also remained the focal points of the division's surveillance activities. During the same year the division has ordered certain investigations into the affairs of listed companies and based on the findings of the inspectors reports, appropriate penal actions were taken. Recently, the division has also initiated action against auditors for negligence and professional misconduct on their part. This monitoring by the division has resulted in improving corporate governance in listed companies considerably.

Company Law Administration Division of the Commission is primarily responsible for administration of the Companies Ordinance, 1984, and the Companies Act, 1974. Its main activities include proposing amendments in the corporate laws and introducing information technology in all its functions for facilitating the general public. And the Insurance division in the SECP is responsible for regulating and monitoring the performance of insurance companies through powers vested in the Commission under the Insurance Ordinance, 2000, in year 2000, general insurance business performed well with around 12 percent growth in gross direct premium. Local companies registered a growth of 12.6 percent in gross direct premium, while for foreign companies growth remained low at 4 percent. Major development in this area was the

joint venture between ALLIANZ AG of Germany and Eastern Federal Union Group of Pakistan to provide health insurance in Pakistan. Another significant change has been the reduction in the compulsory reinsurance with Pakistan Reinsurance Company Limited.

Among the other achievements of the SECP is the setting up of Vigilance Cell to keep track of the complaints, petitions and appeals received by the Commission and facilitate their expenditures disposal. A comprehensive plan has been developed and is currently been implemented for complete automation of the Commission.

While SECP has so far been quite successful in ways enumerated above, the fact that there have been crisis in the market because the Stock Exchange markets were unable to protect small investors against the brokers, that insider trading still continuous indicated the major problems that need to be tackled.

d. Pakistan Electronic Media Regulatory Authority (PEMRA) PEMRA has recently been established under the PEMRA Ordinance. It is responsible for regulating the establishment and operation of all broadcasts and cable TV stations in Pakistan. So far rules and objectives of the regulatory body have not been formally established. There exists an overlapping in the functioning of both PTA and PEMRA in the issuance of licenses for broadcasting and setting up of Cable TV stations in different categories. It has been said that as soon as PEMRA starts functioning formally all functions related to Cable TV will be handed over to PEMRA.

e. Pakistan Gas Regulatory Authority (PGRA) It has been established under the Gas Regulatory Authority Ordinance, promulgated in March 1995. It has been regulating prices quite smoothing. However, its most recent decision to reduce prices rather than increase is being debated. It is said to the result of some confusion in the estimation procedures. forces confusion in the procedures.

f. Monopoly Control Authority (MCA): It also used to be wing of Corporate Law Authority. Now it has become a separate and autonomous regulatory authority to regulate monopolies and check mergers of small units. The objective of the authority is to check undue concentration of economic powers, monopoly power and restrictive trade practices.

g. State Bank of Pakistan (SBP) The State Bank of Pakistan in itself is a regulatory authority, monitoring banks and financial institutions. There is a separate department, Banking Policy and Regulation Department specific for this purpose.

In 1991-92, the financial sector reforms were going on at a rapid speed. Privatization of the banking sector has been an important component of these reforms. It is motivated by the intention to increase the competitiveness and efficiency of the banking system. In 1992, SBP issued new cautious regulations to enhance the supervision and regulation of the banking system. The new guidelines include more strict limits on credit concentration and on conditional liabilities; rigid guidelines on the separation of bank ownership and management; tighter margin requirements on equity based advances; and a strong system of classification and provisioning for non performing assets. In addition, amendments were also made to the banks Nationalisation Act of 1974 aimed at enhancing the administrative and advisory role of the Pakistan banking Council in commercial banking. In 1993, through an amendment in the State bank Act, 1956, the State bank of Pakistan has been given operational independence to conduct monetary policy and regulate and supervise the banking sector.

Recently, an ordinance called Financial Institutions (Recovery of Finances) Ordinance 2001 has been promulgated. According to this ordinance a financial institution or the customer may fill a suit in the banking court, with regard the any default in the finances.

IV. CONCLUSIONS

In Pakistan different economic systems were tried in succession between 1950 to 1970. However, towards the end of seventies, it was quite evident that nationalization was not successful in Pakistan. Consequently, since early eighties the successive governments recognized the importance of deregulation and privatization and started to deregulate and privatize in the mid eighties. Since the early 90s the governments, recognizing the possibilities of emerging monopolies have setup regulatory authorities in all the sectors that are being privatized or deregulated. Although the pace of the regulatory system being introduced is not very significant, but the determination of the regulatory bodies in their implementation procedures suggests that it will be very effective in the years to come. This is particularly true of the regulatory authorities

setup in the financial sector, i.e., the State Bank of Pakistan (SBP) and the Security Exchange Commission Pakistan (SECP).

If the present pace of work and implementation is carried on, regulatory system is expected to be streamlined in all spheres quite effectively in the next few years.

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