

Regulatory Framework in Pakistan

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I. INTRODUCTION

Until the mid-1970s, governments all over the world (especially in the developing economies), intervened in markets on the pretext of market failure arising from externalities, decreasing cost industries, and equity considerations for maximising social welfare. In Pakistan, where the private sector has played a dominant role, except probably for the 1970s,¹ private sector activities have all along been regulated through various types of controls and regulations on entry and exit, prices, credit, foreign exchange, imports, investments, etc. These regulations were imposed with a view to ensuring that private sector allocations were in accordance with the national priorities [see Pakistan (1983-84)]. However, the objectives were rarely realised and, in fact, these regulations have been responsible for red-tapism and corruption.

On the grounds of government failure, privatisation and deregulation policies are being practised almost everywhere in the hope that they would help in efficient allocation of resources and higher levels of productivity. Considerable regulatory reforms have also been effected in Pakistan over the last two decades. Investment and import licensing have been withdrawn, most of the foreign exchange restrictions have been removed, capital market regulations have been simplified, price controls have been lifted, and interest rates have been deregulated. However, there is considerable room for further regulatory reforms. Similarly, various public enterprises in the manufacturing and financial sectors have been privatised, telecommunication, airlines, and energy firms have been partially divested, and the government has an ambitious privatisation programme of divestiture in various other fields. The main force behind the process of privatisation is the need to address the problems of mismanagement of resources, overstaffing, inappropriate and costly investments, poor quality of services, and heavy losses of various public enterprises.

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¹Banks, insurance companies, chemicals, light and heavy engineering, petro-chemicals, petroleum refining, vegetable ghee and cement were exclusively in the public sector in 1970s. Only in 1980 and afterwards was the private sector allowed to invest in these industries.

Privatisation policy is pursued in the hope that it will help in improving the levels of efficiency. However, experience with privatisation in Pakistan and elsewhere has been mixed [for example, see Kagami (1999) and Kemal (1996, 1999)]. While privatisation and deregulation in several advanced countries has brought down costs and improved services, the experience of many developing countries shows that the efficiency levels did not improve after divestiture where private sector indulged in monopolistic practices. In Pakistan, privatisation of the banking sector seems to be a big success, but in most of the manufacturing industries the formation of cartels has led to higher prices by restricting output levels.

Privatisation in a competitive framework generally results in higher efficiency levels, but in the case of unregulated natural monopolies it is not necessarily so. However, if such industries are properly and effectively regulated, they would also show higher efficiency levels. Unfortunately, in the developing countries legislation relating to competition is either non-existent and/or the rules and guidelines for competition are implemented poorly. It needs to be underscored that access to information is the key factor for better regulation, but that is rather poor in developing countries.

II. RATIONALE FOR REGULATION

Governments have long used economic, social, and administrative regulations to better align public and private interests, and the two most common arguments for the regulatory intervention are market failure and equity considerations. If the economies of scale exist in an activity, a single firm would be able to meet the entire demand at the lowest cost, but in that case the monopolistic power of the firm will have to be restrained through regulation to ensure potential improvement in production efficiency.² Besides these, various regulations directly impact the market decisions such as pricing, competition, market entry or exit.

It is obvious that only if the regulations are effectively implemented will the intended policy objectives be realised. However, in most of the countries, the results of regulation have been quite disappointing. Interestingly, regulatory failures tend to result in even more regulation and very rarely the underlying reasons for failure are assessed. Failure may arise due to various factors.³ First, economic regulation requires information on the cost and demand structure of an industry, to which the regulators typically do not have any access. Second, producers find it very difficult to comply with the rules which are quite complex and technical. Moreover, the actions to improve compliance have been uncoordinated and asystematic. Third, regulations are sometimes used to influence private gains rather than to correct

²The arguments of natural monopoly have been diluted over the last few years because of development in technology [Boylaud and Nicoletti (2000)].

³For details, see Guasch and Hahn (1999).

market failure. The regulatory instruments such as quotas, licences, and subsidies have been used in Pakistan, and elsewhere, to channel significant amount of wealth to influential groups in the society.

It is therefore quite clear that there is a real risk that regulations may become an obstacle to achieving the very economic and social well-being for which they are intended. Accordingly, any such regulation that creates unnecessary barriers to trade, investment, and economic efficiency or protects vested interests that seek protection from competition must be withdrawn. The hidden costs of inefficient regulation are so high that failure to reform can place the entire economy at great disadvantage, requiring protectionist policies, heavy subsidies, and other forms of support.

Liberalising trade, encouraging competition, and reforming government institutions are mutually supportive. Stable macroeconomic policy, flexible labour markets, appropriate regulation of capital markets, and complementary structural reforms provide a supportive environment that facilitates adjustments flowing from the regulatory reform.⁴ It is quite obvious that in case of natural monopolies, injection of more competition by introduction of additional firms into market would be counter-productive. In such activities, regulations may be necessary to curb the monopolistic exploitation. However, close regulation of investment and other decisions of the firms may leave very little room for improving the levels of efficiency. As has rightly been argued by Baumol (1996), regulation may be detrimental to growth of productivity unless regulation is efficient; if the regulators pursue inconsistent policies, the producers would be unable to take decisions in accordance with the market conditions in time.

While the transparency of regulatory process is essential, it must promote efficiency. If the regulation is done through accounting conventions such as cost-plus formula or the guaranteed rates of return, there will hardly be any incentives for reducing the cost of production. There has been considerable debate over the use of prices and output as instruments of control. Weitzman (1974) points out that the preferred policy instrument depends on the relative steepness of the marginal benefit and cost curves. Chen (1990) argues that uncertainty at the decision stage breaks down the equivalence of price and quantity as instruments of control. Fraja and Iossa (1998) believe that “break-down is due to the presence of both asymmetry of information and the competitive fringe: without either of them price and quantity regulation are

⁴The major benefits of regulatory reforms include boosting consumer benefits by reducing prices for services and products such as electricity, transport, and health care, and by increasing choice and service quality; reducing the cost structure of exporting and upstream sectors to improve competitiveness; and addressing a lack of flexibility and innovation in the supply-side of the economy, thereby reducing national vulnerability to economic shocks. At the same time, concerns about costs to workers in restructuring sectors, the quality of new jobs in terms of security and benefits, and consumer protection must not be overlooked.

equivalent". While it is possible to devise a regulatory mechanism such as a price cap, yielding both lower prices and stronger incentives for cost reduction, Fraja and Iossa also suggest that by setting the 'output floor', regulators make sure that there are improvements in the efficiency levels and these are shared between the firms and the consumers—rather than all of these accruing to the firm only.

Stigler (1971) points out that the regulatory capture would shape policy outcomes depending on how the interest groups' influence evolves over time and the regulatory institutions are able to ward off their influence. The regulatory commissions all over the world go through a life-cycle starting out as vigorous, imaginative, and enthusiastic protagonists of the public interest, but over time they gradually become devitalised with limited perspective, indulge in routine and bureaucratic policies and procedures, and increasingly become protective of the interests of the companies they are supposed to regulate. The influence of interest groups increases over time, collusions are formed, and they are quite costly to the society. [see Lierson (1949); Bernstein (1955); Huntington (1966); Downs (1967) and Olson (1982)]. Because of the close relationship with industry, the regulators get information which can be socially useful, but the regulators tend to use this information and discretionary powers to get bribes or future job opportunities in the industry [Laffont and Tirole (1993)].

To the extent effective regulation improves the prospects for competitive outcomes, it reduces overall rents that can be appropriated by a private investor. An analysis of the regulation of entry in 85 countries shows that heavier regulation of entry is generally associated with greater corruption and a large unofficial economy, but not with better quality of private or public goods. It is also found that the countries with less democratic, and more interventionist, governments regulate entry more heavily. This evidence is difficult to reconcile with public interest theories of regulation but supports the public choice approach, emphasising rent extraction by those who could influence. [For example, see McChesney (1987) and Shleifer and Vishny (1993)].

Obviously if regulations become inefficient, they should either be lifted or reformed so that the intended objectives are realised. The reform must aim at designing regulatory and other instruments, such as market incentives and goal-based approaches that are more flexible, simpler, and effective at lower cost. Since administrative regulations, through which governments collect information and intervene, have substantial impact on private sector performance, reforms must aim at eliminating regulations that are no longer required, streamlining and simplifying those that are needed, and improving the transparency of application. Regulatory reform that enhances competition and reduces regulatory costs can boost efficiency, reduce prices, stimulate innovation, and improve the ability of economies to adapt to change and remain competitive in global markets.

III. CHANGING ROLES OF GOVERNMENT AND REGULATORY REFORMS IN PAKISTAN

On the assumption that markets are not always perfect and the consumer needs to be protected against monopolistic exploitation—and that governments have political goals that market must serve, public intervention has remained the rule in Pakistan. However, not only the intended objectives of regulations were never realised, it led to delays in implementation of decisions. 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. It needs to be noted that a successful private enterprise economy is a central building block of a successful and sustained anti-poverty policy [see Cook (2001)]. In the case of natural monopolies, regulation in the form of setting of prices, profits, and quality standards is necessary.⁵

The prerequisites for efficient and effective regulations are government's willingness to establish the regulatory rules and allow regulators to operate with high degree of autonomy within the rules. A stable economic environment which does not allow changes in rules, and a political system with checks and balances to avoid any abrupt policy change, goes a long way in achieving the intended objectives. The institutions 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, information asymmetries, and implementation lapses.

Now we examine the regulatory reforms carried out over the last decade and also the regulatory authorities that have been established.

Manufacturing Industries

In the manufacturing sector, government interventions have taken three forms: first, controls on prices, investments, and imports with a view to regulating the level and pattern of investment; second, government influence on the profitability of different production activities through protection against imports, export subsidies, and fiscal incentives; third, direct government intervention in the production process through investments and nationalisation.

Private investment was regulated through investment licensing until the 1980s with a view to ensuring optimal utilisation of resources. But the process was lengthy and the feasibilities of projects were so fabricated that the proposals were always accepted. It served no purpose but delayed the implementation of investments. Accordingly, the investment licensing requirements were gradually withdrawn and at

⁵As pointed out by Parker (2001), there are three stages of regulation associated with the development of natural monopoly, viz., regulating the monopoly right after privatisation; promoting and policing competition; and maintaining that competition through effective national competition laws.

present neither the indigenous nor foreign investors are required to seek prior approval for setting up any industry. Nevertheless, there are still some irritants in the way of private sector as was noted by the Finance Minister in his budget speech and the government is implementing recommendations of a de-regulation committee for this purpose. An effective one-window facility would be rather helpful in this regard.

The government has been encouraging the manufacturing sector through import policy, tariffs, and subsidies. High effective protection rates, levying export duties on inputs used in various industries, fiscal incentives such as tax holidays, tax credits, accelerated depreciation allowances and export subsidy and preferential export financing resulted in sharp growth of the industries. However, as a number of studies [Lewis and Guisinger (1968), Naqvi and Kemal (1991), Kemal, Mahmood and Ahmad (1994)] show, the real contribution of the manufacturing sector to GDP has been fractional. Over the last two decades imports have been liberalised, tariffs have been rationalised, and the system to provide favours to the industries and firms through SROs has been discontinued. The rationalisation is expected to result in higher efficiency levels and allocation of resources in accordance with comparative advantage. The 1997 Industrial Policy spells out quite clearly the various types of fiscal incentives, including the initial depreciation allowances and the duty on imported machinery for different types of industries. Since protection is the main source of enhancing profitability, it is not quite clear if the protection and fiscal incentives mutually reinforce each other or work in opposite directions.

The government of Pakistan has been directly intervening in the manufacturing sector. It established PIDC in 1958, which set up the industries and divested the profitable ones. However, in 1972, various industries including chemicals, fertilisers, automobiles, cement, and petroleum refining were nationalised. Subsequently in 1974, vegetable ghee mills, and in 1976 rice milling, flour milling, and cotton ginning were also nationalised. Throughout 1970s, heavy amount of public investment flowed into the manufacturing sector. Since quite a few of these industries were making losses, and efficiency was low, most of the manufacturing public enterprises have been divested.

The government also instituted a system of price controls. The Price Control and Prevention of Profiteering and Hoarding Act, 1977 was introduced 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. This system acted as an impediment in the way of investment, but at present that office has been closed. While the market mechanism is allowed to clear the market, the government is expected to intervene to stop monopolistic exploitation. The government is expected to increase the supplies by reducing import duties. Even though the Monopoly Control Authority (MCA) was established in 1971, it has seldom been able to use its influence to protect the consumers. MCA, which used to be a wing of the Corporate Law Authority, has become a separate and autonomous

regulatory authority to check undue concentration of economic powers, monopoly power, and restrictive trade practices.

State Bank of Pakistan

The State Bank is an autonomous organisation and is the custodian of all the financial matters. It is responsible for smooth functioning of money and exchange markets and for monitoring of the banks and other financial institutions.

Exchange Control System

Exchange controls have remained in operation ever since the Rupee was overvalued in 1952. These regulated the inflow and outflow of foreign exchange resources to ensure that foreign exchange payments did not exceed the foreign exchange receipts. Under the system, the exporters deposited their foreign exchange earnings with 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 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 procedure, 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, due to unstable prices, unavailability of accurate projections of demand and supply of foreign exchange, and an insufficient level of foreign exchange reserves.

Major changes have been effected in foreign exchange control in the recent past. Resident Pakistanis, including firms and companies, are allowed to maintain foreign currency accounts in Pakistan and they are allowed to open accounts outside the country as well. Restrictions on holdings of foreign currency and on the foreign exchange allowances for travel have also been removed. The rules governing private sector's foreign borrowing have also been greatly liberalised, especially where no government guarantee is required.⁶ Authorised Dealers have been allowed to import and export foreign currency notes and coins, either to replenish their stock of foreign currency notes or to dispose of surplus holdings of foreign currency notes, without prior approval of the State Bank. Pakistani currency is convertible at the current account and Pakistani rupee is on a free float. Nevertheless, State Bank of Pakistan intervenes in the market to stabilise the exchange rate.

⁶A host of other restrictions on foreign payments have been removed, e.g., for foreign advertisements, education, membership of professional institutions, non-resident journalists' fees, posting of newspaper correspondents abroad, publications, trade fairs and exhibitions, and excess baggage on foreign airlines. The non-residents can also invest in the government securities, including NIT Units, on repatriable basis.

Credit Flows

With a view to ensuring that monetary and credit expansion is in safe limits, State Bank used to prepare and implement a credit plan 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.

Until the reforms were introduced in early 1990s, maximum and minimum interest rates on deposits and advances were set by the State Bank. Similarly, the banks were obliged to buy the treasury bills at the low rate of 6 percent. However, with deregulation, these are the individual banks that decide the rate of interest on deposits and advances. State Bank influences the money supply and interest rates through market mechanisms such as discounts rates, open market operations, and the liquidity requirements.

The financial sector has been deregulated but the State Bank has strengthened its monitoring and surveillance capacity. The new guidelines to the banking sector 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.

Securities Exchange Commission of Pakistan (SECP)⁷

The Commission, established in 1997 as an independent regulatory body, is responsible for regulating the securities and any businesses in stock exchange or in other security markets; 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 advisers or any one associated with security markets; registering and regulating the investment schemes; regulation of securities industry and related organisations 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 organisations; encouraging the development of capital market and corporate sector in Pakistan; regulating acquisition of shares and the merger and takeover of companies; and suggesting reforms in the rules and regulation of companies.

The Commission aims at increasing the demand and supply of capital for promoting investment, expanding industrial output, and generating employment opportunities. After the stock market crisis in May 2000, the Commission took various measures to restore investors' confidence and to achieve a fair, transparent,

⁷Before the establishment of SECP (2001) Corporate Law Authority (CLA) attached to Ministry of Industries had been administering the corporate laws since 1981.

and efficient stock market.⁸ The Commission has also implemented various regulatory reforms including the issuance of the Brokers and Agents Registration Rules and the Insider Trading Guidelines. A major initiative is underway to develop the mutual funds/pension funds to give the market an 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. Futures Contracts Market and National Clearing and Settlement System have also been established.

Transport and Communications

Except for the road transport, all other sectors such as telecommunication, railways, shipping, and aviation have been in the public sector. However, government intends to privatise the Pakistan Telecommunication and recently its monopoly has been abolished. Two authorities, viz., Pakistan Telecommunication Authority (PTA) and Pakistan Electronic Media Regulatory Authority (PEMRA) have been established to ensure the quality of telecommunication services at reasonable and fair prices.

Pakistan Telecommunication Authority (PTA)

PTA is a regulatory body for the telecom sector in Pakistan and has been established under the Pakistan Telecommunication (Re-organisation) Act 1996. It covers fixed-line telephony, mobile telephone, wireless communication, satellite consumer, Internet, AudioNet, Paging Service, Voice Mail, and Digital Radio Paging. It has been formed to ensure and facilitate the availability of high quality, efficient, cost-effective, and competitive telecommunication services throughout Pakistan and to protect the interests of consumers and licencees. Its main functions include: promoting competition among service providers; regulating the establishment, operation, and maintenance of telecom systems and services; issuing licencees to telecommunication service providers and ensuring transparency and non-disorientation in their issuance; protecting the rights of consumers as well as of the licencees; promoting modernisation and setting quality standards for various services in the sector; promoting Internet; managing radio frequency spectrum along with Frequency Allocation Board; taking notice of any complaints against the licencees; and ensuring transparency and non-discrimination in the issuance of such licencees.

The authority has taken various steps to modernise the system and increase the use of Internet. A number of data and Internet service providers are operating their

⁸Some of the steps taken include implementation of the T+3 settlement system, substantial increase in net capital requirements, stipulation of capital adequacy requirements for brokers, strengthening of margin requirements, 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).

services in the private sector under licence from PTA. After getting the licence from PTA, a number of private operators have established telecom systems and operate their services through interconnect arrangements with PTCL. Mobile operators are issued notices to improve their services; otherwise they face penalties. Regarding tariffs, accounting rates for international telephone calls have continued to fall over the last couple of years. And to compensate for the impact of reduction in international settlement rates and in line with global trends, domestic tariffs have been rationalised.

Pakistan Electronic Media Regulatory Authority (PEMRA)

PEMRA has been established under the PEMRA Ordinance, 2002. PEMRA provides project management guidelines and action plans to the private sector interested in establishing radio, television, and Cable TV stations in the country.

The main objectives of the authority include improvements in the standard of information, education, and entertainment; enlarging the choice available to the people of Pakistan in the media for news, current affairs, religious knowledge, art, culture, science, technology, economic development, social sector concerns, music, sports, drama and other subjects of public and national interest; facilitating the devolution of responsibility and power to the grassroots by improving the access of the people to mass media at the local and community level; and ensuring accountability, transparency, and good governance by optimising the free flow of information.

Energy

The energy sector has mostly been under the control of the government. The Oil and Gas Development Corporation (OGDC) is responsible for all types of fuel supplies and this, together with Pakistan State Oil (PSO), is on the privatisation list. In the power sector, Water and Power Development Authority (WAPDA), and Karachi Electric Supply Company (KESC), a corporate body under WAPDA's control, are the two major suppliers of electricity. The government also intends to privatise the latter, and after corporatising it, it may divest the former as well.

National Electric Power Regulatory Authority (NEPRA)

WAPDA and KESC, the two power agencies, have suffered heavy losses and the need for restructuring of these two organisations was realised almost twenty years back. It was felt that expansion and efficiency of power generation and transmission capacity could not be achieved without the involvement of the private sector.

In 1992, the government prepared the strategic plan for the privatisation of the power sector and also approved the creation of an autonomous regulatory agency to introduce transparent and judicious economic regulation to the power sector of

Pakistan. NEPRA has been established as an independent regulatory body 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 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 programmes of the utility companies.

There are various facets of power industry under the purview of NEPRA. One major issue has been the cross-subsidies and NEPRA has achieved some success, though a limited one, in reducing the cross-subsidy. Flat rates have been abolished and the rates for different consumers have been somewhat rationalised. Similarly, NEPRA has asked both WAPDA and KESC to reduce transmission losses and attempt other efficiency improvements to reduce the cost of production. Consumers have also been protected from frequent price variation by allowing only quarterly adjustment for fuel price adjustment.

NEPRA has finalised the benchmarks for performance of the distribution companies. To maintain the environmental standards, all the generation companies granted licenses by NEPRA are required to maintain the environmental standards as may be prescribed by the Federal Environmental Protection Agency. But till now nothing substantial is evident except for the issuing of licensing to distribution and generation companies.

Oil and Gas Regulatory Authority (OGRA)

OGRA was established in 2002 for the development of oil and gas sector enhancement, private sector investment, and protection of consumer interests. It regulates various activities including construction or operation of natural gas and oil pipelines and the testing facilities, starting facilities and natural gas installation; construction or operation of natural gas pipelines, testing facility, storage facility, and natural gas installation; construction or operation of pipelines, testing facility, storage facility, and installation relating to LPG/LNG; construction or operation of oil refinery, oil pipelines testing facility, storage facility, blending facility, and oil-related installation; transmission, distribution, and sale of natural gas; transmission, filling, marketing, and distribution of LPG/LNG; marketing and storage of refined oil products.

The Authority issues licences for regulated activities to ensure provision of open access, common carrier, and common operator—to promote effective competition and enforce better performance of service and safety standards. It also regulates tariffs by taking into account the rate of return, prudent operation and

maintenance cost, and other relevant factors which give a reasonable rate of return. It also determines gas well-head prices and ensures prudent cost-effectiveness and economic efficiency in the investment resources.

IV. SUMMARY AND CONCLUSION

Over the last two decades, Pakistan has significantly reformed its regulatory framework, though more needs to be done still. It has privatised a number of public enterprises and intends to privatise the remaining public enterprises including utilities, some of which may still be considered as natural monopolies. With minimal direct intervention of the government in the economy, there is a need to ensure that private sector allocation of resources is in accordance with the national priorities and that the monopolists do not indulge in fleecing the consumer. Accordingly, the incentive structure has to be reformed so that it promotes dynamic comparative advantage, ensuring consistency between the protection afforded and the fiscal incentives. Similarly, the regulatory authorities will have to be protected against the vested groups, and efficient outcomes ensured.

Reforms in the financial sector have been rather significant. Autonomy of the State Bank has been the major achievement, and one hopes that the spread between deposit and interest rates would be narrowed down as a result of the guidelines provided by the State Bank to the financial institutions. The reforms in the exchange market have been substantial and the floatation of Pakistani rupee through active monitoring of the State Bank would ensure exchange rates in line with long-run equilibrium. Similarly, supervision by the Securities and Exchange Commission would be helpful in encouraging firms to go public, and give confidence to the investors.

With a view to regulating utilities, various regulatory authorities have been set up. Since there is a cycle where the regulatory agencies over time degenerate into protecting the organisations which they are supposed to regulate, checks and balances must be put in place so that persons in responsible positions in these bodies are not corrupted. Moreover, these authorities must have the services of competent officers who are well-versed with the latest regulatory measures. Whereas in some of the authorities the regulators have obtained services of such persons, the others must make an effort towards recruiting them.

It is important how the industries are regulated. Cost Plus Pricing was introduced in Pakistan and in 1980s it was discontinued. Similarly, guaranteed rate of profits was also practised; when profits exceeded the specified limit, they were squeezed through surcharges, and when profits fell short of the limit they were subsidised. Because both of these systems resulted in inefficient outcomes, they were abandoned. Regulators may have to look for better alternatives including output floor.

Let me end by saying that while there have been considerable regulatory reforms in Pakistan, the remaining irritants need to be removed on a priority basis.

Regulatory authorities have a very difficult task ahead. They must be given autonomy so that their decisions gain credibility; and checks and balances should be so formulated that they cannot indulge in corrupt practices.

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