

EXCLUSIVE INTERVIEW

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Muhammad Ali

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ICMA: Public-Private Partnerships (PPPs) and outright privatisation involve fundamentally different risk and ownership structures. What decision framework should policymakers use to determine whether a project is better suited to a PPP, concession, management contract, or full privatisation?

Muhammad Ali: I think the starting point should be the nature of the asset, the role the State needs to retain, and where the private sector can create the greatest value. Public-Private Partnerships (PPPs) concessions, management contracts and privatisation are different tools and the right choice depends on the circumstances and objectives of each project.

The first question is whether the State needs to retain ownership. Where ownership is important for strategic, public-service or regulatory reasons, forms of private-sector participation may be more appropriate than outright privatisation. If the principal challenge is operational performance, a management contract may be sufficient. Where an asset can be commercially operated with private investment over a defined period while ownership remains with the State, a concession may be appropriate. Where a project requires significant private capital, expertise and long-term performance, a PPP can be considered, with risks allocated to the party best able to manage them.

Privatisation becomes relevant where there is no compelling reason for the State to remain the owner and the enterprise can operate effectively in a competitive and appropriately regulated market.

The assessment should also consider value for money, fiscal implications, market appetite, affordability, regulatory capacity and the long-term allocation of risk. The objective is not to favour PPPs or privatisation as a matter of preference, but to match the structure to the asset, the public policy objective and the capacity of the market to deliver.

Ultimately, the question is: what role does the State need to retain, what risks should it carry, and where can private-sector participation deliver better value and better outcomes?

ICMA: Pakistan has recently engaged with global financial institutions including BlackRock, J.P. Morgan, Citi, Barclays and Rothschild & Co, while 55 global investment funds also participated in meetings with Pakistan's delegation at the J.P. Morgan Emerging and Frontier Markets Opportunities Conference. How do you assess the significance of this renewed institutional interest, and what must Pakistan do to convert investor engagement into actual long-term investment and successful privatisation transactions?

Muhammad Ali: The interest from BlackRock, J.P. Morgan, Citi, Barclays and Rothschild, and the 55 funds that met our delegation, reflects improved confidence in Pakistan's stabilisation and reform direction. Interest alone does not bring capital, so the focus is on delivery. The completed transfers of PIA and First Women Bank, and the three DISCOs now in the market with bidders conducting due diligence, are the proof investors look for. Converting interest into investment rests on some critical elements, including the following:

- **Policy continuity:** The privatisation programme must stay on course across political transitions. The SOE Act, 2023 and the 2024–2029 roadmap give investors a predictable pipeline.
- **Market-ready transactions:** Restructuring, clean titles and settled sector rules must be in place before the launch of transactions.
- **Market sounding:** It is mandatory before any transaction goes to market, so that structures match what investors will actually bid for.
- **Regional and economic stability:** Investors price in currency, interest rate and security risks before they bid. A stable exchange rate, lower inflation and interest rates, and a calm regional environment lower the risk premium and support better valuations. A stable macroeconomic, political and security environment must therefore be ensured and sustained.

ICMA: The Privatisation Commission has received 10 EOIs for IESCO, with investors seeking between 51% and 100% ownership together with management control. Given the strong response, what does the investor interest tell you about the commercial potential of Pakistan's power-distribution sector, and what concerns do investors continue to raise during due diligence?

Muhammad Ali: Investors see commercial potential in Pakistan's electricity distribution sector when the business is properly structured and professionally managed. Ten expression of interests (EOIs), with investors considering ownership levels from 51% to 100% along with management control, show that this is not merely an interest in acquiring an asset, it is an interest in operating and transforming the business.

There are several reasons for that interest. IESCO has a large and diversified customer base, established infrastructure, a significant electricity market and relatively stronger operational fundamentals compared with many other DISCOs. More importantly, there is considerable value creation potential through loss reduction, better customer service, technology, metering and investment in the network. In other words, investors are not only looking at today's financial performance; they are also looking at what the business could become under better management.

The due diligence of IESCO has started, all ten national and international Interested Parties have been pre-qualified. However, during the market sounding and roadshows, local and international investors asked about tariff and regulatory certainty, the treatment of legacy liabilities and circular debt, uniform tariff arrangements, subsidy mechanisms, regulatory capacity, future market opening, quality and reliability obligations, and the extent of commercial and regulatory risks that will ultimately sit with the investor.

These are legitimate concerns. Privatisation Commission's objective is not to remove every risk from the investor, as that would defeat the purpose of privatisation.

The objective is to allocate each risk to the party best able to manage it. The investor should bear operational, efficiency and commercial risks, while the regulatory framework should provide reasonable predictability and protect consumers.

So, PC would interpret the strong EOI response as confidence in the underlying commercial opportunity, provided that the transaction is accompanied by a credible regulatory and market reform framework.

ICMA: IESCO, FESCO and GEPCO collectively serve more than 14 million consumers, making DISCO privatisation not simply a financial transaction but a major public-service reform. What performance obligations should be built into the post-privatisation framework to ensure that investors are accountable for loss reduction, recovery, reliability, investment and customer service?

Muhammad Ali: Privatisation Commission (PC) fully agrees that, with more than 14 million consumers across IESCO, FESCO and GEPCO, this cannot be treated simply as a financial transaction. The real test of privatisation will be whether consumers receive better and more reliable service.

Therefore, ownership change must be accompanied by a clear, measurable and enforceable performance framework. To achieve this, the Privatisation Commission would focus on five areas.

First, loss reduction. The investor should have clearly defined annual targets for technical and commercial losses, with a credible baseline and a mechanism to reward outperformance and penalise persistent underperformance.

Second, recovery and commercial discipline. Recovery should improve through better metering, billing, collection, disconnection management and reduction of theft. However, the investor should not simply be rewarded for passing higher costs or tariffs to consumers. The emphasis should be on operational improvement and efficient collection.

Third, reliability and quality of supply. Key Performance Indicators (KPIs) such as System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI), outage response, time, restoration time and voltage quality should form part of the regulatory performance contract. Consumers should be able to see whether service quality is actually improving.

Fourth, investment. Privatisation should bring new investment into the distribution network, particularly in grid modernisation, automation, smart metering, system reinforcement and technologies that reduce losses and improve reliability. But investment obligations should be linked to outputs and outcomes, rather than simply requiring investors to spend a certain amount of money. This avoids unnecessary or inflated capital expenditure.

Fifth, customer service. There should be measurable standards for new connections, complaint resolution, billing accuracy, call centre response, outage communication and consumer grievance redressal.

The important point is that these should not be aspirational targets. They should be incorporated into the regulatory framework with transparent monitoring, incentives for genuine outperformance and meaningful penalties for persistent underperformance.

At the same time, PC should avoid designing a framework that transfers all risk back to the government. A private investor should earn better returns by becoming more efficient, not by receiving guaranteed returns regardless of performance.

Ultimately, the principle is simple: the investor should have the freedom to manage the business, but that freedom must come with accountability for measurable outcomes. The consumer should see the benefit through lower losses, better reliability, improved service and a more responsive distribution company.

ICMA: Pakistan's federal SOEs recorded Rs. 832.8 billion in losses in FY2024–25, while accumulated losses to amounted to around Rs. 6.563 trillion. How should these numbers influence the sequencing of the government's 27-transaction privatisation programme, and should fiscal cost be the primary criterion for deciding which entities are prioritised?

Muhammad Ali: The Rs. 832.8 billion losses in FY2024–25 and the Rs. 6.563 trillion accumulated losses explain why the programme cannot wait.

They set the urgency, but they should not be the only criterion for sequencing. A heavy loss-maker is not necessarily a saleable asset, and a transaction launched before it is ready tends to fail or fetch a poor price. Experience shows that delays come mainly from market conditions, political transitions, exchange-rate volatility and court challenges, not from the process itself. Earlier phases also stalled where balance sheets were not cleaned up before bidding, labour concerns were not addressed, and regulatory gaps remained. Sequencing therefore requires consideration of several factors, including:

- **Readiness:** Legal clearances, restructuring, treatment of legacy liabilities, and the labour position.
- **Sector rules:** Proceeds depend heavily on tariffs, licensing conditions and the competition framework after sale. Where these reforms are a prerequisite, they come first.
- **Market appetite:** Capital market transactions and smaller deals can close in 4 - 8 months, and major strategic sales take 12–18 months. Early closures build credibility for the harder ones.
- **Fiscal drain:** The size of the drain on the budget decides how fast the larger, more complex entities are moved.

The programme is already following this approach. PIA and First Women Bank have been transferred to the successful buyers. Three DISCOs are already in the market, and more DISCOs are in the pipeline.

ICMA: Pakistan is attempting to shift the role of the state from being a direct operator of commercial assets toward that of a regulator, facilitator and enabler of private investment. Looking ahead to 2030, what measurable changes in SOE losses, government support, private investment, productivity, service quality and capital-market participation would demonstrate that this transition has genuinely created economic value rather than simply transferred ownership?

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Muhammad Ali: The state is moving from operator to regulator, facilitator and enabler. This has created value only if the entities and the economy perform better afterwards, so the measures to be tracked against baselines to 2030 may include:

- **SOE losses and government support:** Lower annual losses, and lower budgetary transfers, subsidies and guarantees. Fiscal space freed up should be redirected to health, education and climate resilience.
- **Private investment:** New private investment in the sectors where SOEs have been divested.
- **Productivity:** Output per employee and asset utilization: For DISCOs, this could include reductions in technical and commercial losses and better recoveries.
- **Service quality:** In the case of DISCOs, fewer outages and delays, better coverage, and fewer consumer complaints.
- **Capital markets:** More listings and secondary offerings, a wider free float, and a broader investor base.
- **Regulation and governance:** Independent regulators including NEPRA, CAA, SBP, OGRA, PTA and CCP enforce the rules. Boards appointed professionally and monitored under the SOE Act 2023.
- **Wider economy:** Foreign Direct Investment (FDI) inflows, integration of logistics, aviation and energy into global supply chains, and export competitiveness.

*The Editorial Board thanks **Mr. Muhammad Ali, Advisor/Chairman, Ministry of Privatisation-Privatisation Commission, Government of Pakistan** for sparing his precious time to give an exclusive interview for Chartered Management Accountant Journal.*