

DAWN

[Regulation and deregulation](#)

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TIME has shown that the ideological debate between regulation and deregulation is largely misplaced. Governments and regulators have different roles under varying market structures and circumstances. In some areas, they regulate more actively; in others, they oversee operation of market forces. Evidence and outcomes, not ideology, should determine the state's role. In Pakistan, the formal sector is often overregulated and burdened by procedures and discretionary powers that discourage innovation, investment and technological adoption. Regulatory enforcement is weak. Quacks, unsafe buildings, counterfeit drugs, etc, escape oversight.

Excessive regulation in the formal sector and lax enforcement elsewhere encourages informality. Hence, thousands of enterprises prefer to remain outside the documented economy. Had they not had to face needless constraints, many could have grown into medium-sized firms, increasing output, employment, tax revenues and efficiency, while reducing the informal economy.

Why is regulation required? In a mixed public-private economy, regulation is essential to ensure fair competition and protect consumers. Until the early 2000s, the same ministry made policies, owned enterprises and regulated the sector in which those enterprises operated. Recognising the inherent conflict of interest, the government initiated reforms to separate the functions. Ministries were assigned responsibility for policy formulation, SOEs for commercial operations and independent regulators for oversight and consumer protection.

The logic was simple. A private firm can't compete fairly with an SOE if the regulating ministry also owns one of the competitors. The ministry can alter policies, provide subsidies, absorb losses, grant tax concessions or create barriers that disadvantage private firms. Hence independent regulators were set up to create a level playing field and encourage competition. Have the aims of reform been achieved 25 years later?

The challenge is to regulate intelligently, promote competition and enforce rules impartially.

Take the energy sector. Though it has specialised regulators, we still face high energy tariffs, unaffordable electricity, poor service delivery and a circular debt running into trillions. One reason is that ministries and bureaucracies never fully accepted the transfer of authority to regulators and SOEs; conflicts between ministries and regulators weakened regulatory autonomy. The regulators' governance structures, too, have been problematic. Appointments to bodies such as energy sector regulators Nepra and Ogra have often been influenced by considerations of loyalty and post-retirement accommodation, instead of expertise. Many positions are occupied by retired bureaucrats, instead of specialists in economics, finance, engineering, law or energy markets. Roles and responsibilities are blurred. Regulators make policy and regulatory decisions while exercising operational oversight over management, thus weakening accountability and creating confusion. Experience of over two decades suggests that Nepra and Ogra need significant restructuring.

Removing direct price determination from their mandates is the first step. The SBP provides a model. It regulates the banking system and enforces prudential standards but doesn't directly determine banking services prices. Similarly, petroleum and gas prices should gradually be deregulated and determined through market competition. Ogra should evolve into a modern supply-chain regulator, ensuring efficient utilisation of refineries, storage facilities, pipelines, terminals, etc. It should facilitate investment across the value chain, support development of strategic reserves and promote digitalisation of the fuel supply ecosystem. Ogra needs strong legal powers to act against hoarding, cartelisation, collusion, market manipulation and non-compliant OMCs, which requires a clearer demarcation of responsibilities between Ogra and the CCP.

The Directorate General Petroleum Concessions' regulatory functions should also be separated. Contract administration and compliance with concession agreements may remain with the concessionaire authority, while regulatory oversight should be transferred to Ogra. The Department of Explosives should

also be integrated into Ogra. Power sector reform must begin with dismantling the single-buyer model and implementing the CTBCM, allowing multiple buyers and sellers to participate in electricity markets. The government would continue to own the transmission network and recover wheeling charges, while suppliers compete for customers. At an appropriate stage, Pakistan should gradually replace the uniform national tariff with targeted subsidies for remote, disadvantaged regions. Such a system would improve efficiency, reduce leakages and manipulation, lower end-user prices, encourage higher consumption and reduce capacity charges.

Privatising Discos should not merely replace public monopolies with private monopolies. The underlying assets, including surplus land, should remain publicly owned and be leased to competitively selected operators. This would promote competition and safeguard public assets.

Under this framework, Nepra's role would shift from price setting to market surveillance, consumer protection, prevention of anti-competitive behaviour, enforcement of grid neutrality and promotion of transparent governance. It would focus on reliability, loss reduction, digitisation and service quality rather than tariff determination. The National Grid Company must also expedite investment in transmission infrastructure, especially removing bottlenecks between southern generation centres and northern demand hubs.

Governance structures needed corresponding changes. Provincial representation should continue, but board members must focus on oversight, policy, transparency, audit, accountability and approval of plans and budgets. Once they become members, they can't take directives implicitly or explicitly from the centre or provincial government to preserve neutrality and objective decision-making. Operational management should report to a professional CEO rather than directly to board members. Board composition should be broadened to include independent experts in energy, law, economics, finance, technology and information systems. Finally, recruitment and promotion within the regulators must be merit-based. Professional staff should be selected through open competition, while advancement should depend on performance. Continuous training and exposure to international regulatory best practices should be an integral part of capacity building.

Pakistan's real challenge is not to choose between regulation and deregulation, but to regulate intelligently, promote competition and enforce rules impartially. Strong, independent and professionally managed regulators are essential for attracting investment, protecting consumers and ensuring

affordable, reliable energy supplies. Only then can regulation become an instrument of economic efficiency, instead of remaining an obstacle to growth.

The writer was chairman, National Commission for Government Reforms (2006-2008) and adviser to the PM on institutional reforms (2018-2021). He thanks former chairmen of the regulatory bodies for their input.

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