Question:

State owned enterprizes have been a huge and persistent burden on the budgetory economy of Pakistan. Why and how these enterprises should be privatized?

Answer:

Introduction

The state owned enterprises are a burden on Pakistan's economy. Instead of contributing in the economic uplift of the country, they are a hurdle in the social and infrastructural progress of Pakistan. All the major state owned enterprises (SOEs), be it in the energy sector, transport sector or industrial sector are at major loss. Each year the government has to allocate bailout packages from the budget for SOEs to keep them functioning. For the fiscal year 2024-25, the government allocated a total of 1.36 trillion rupees in subsidies for the SOEs which is 27.3% increase from the revised allocation of previous year. Considering the current economic crisis of Pakistan, it is imperative to privatize the major SOEs.

"Privatization of inefficient state-owned enterprises will not only reduce the fiscal burden but also improve overall economic growth by fostering competation and efficiency"

Dr. Hafeez Pasha
Ex- Finance Minister

An Overview of SOEs at Loss

SOEs at Loss

Energy Sector
(1) DISCOs
(2) PSO
(3) NTDC

Transport Sector
(1) PIA
(2) Railway

Industries/Companies
(1) PSM
(2) NHA

(1) Energy Sector:

Use specific and self explanatory headings

In the energy sector, the major entities at loss are the Distribution Companies (DISCOs). The distribution companies which come which come under the Pakistan Electric Power Company (PEPCO) are responsible for distribution of electricity in the respected allocated areas. All the major DISCOs are ~~all~~ at loss. due to various reasons such as poor infrastructure and theft. In the fiscal year 2024-25, Rs 276 billion were allocated for DISCOs.

DISCOs topping the list in Losses:

(1) Peshawar Electric Supply Company (PESCO)	133 billion
(2) Sukkur Electric Power Company (SEPCO)	19.17 billion
(3) Lahore Electric Supply Company (LESCO)	14.95 billion

Another power transmission company, responsible for power transmission, suffers annual ~~losse~~ loss of 17 pc.

Pakistani Petroleum Corporation (PSO) involved in marketing and distribution of petroleum products suffered losses of ~~Rs~~ 10.43 billion in second quarter of fiscal year 2023-24.

(2) Transport Sector:

(i) PIA:

Pakistan International Airline (PIA) is currently at loss of 400 billion, with 75 billion loss coming in the year 2023. Each year the government, on average ~~Rs~~ 50 to 60 billion, give bailout to PIA.

Reasons of Losses:

(1) PIA employs more employees than it actually requires.

(2) The flights owned by PIA are of old model and in poor conditions. Thus PIA cannot compete with private airlines.

(3) Unlike other companies, PIA does not operates in major international routes. For example, the European Union Aviation Agency (EASA) banned PIA from operating to Europe in 2020, though, lefted the ban in late 2024.

(ii) Railway:

Railways are the major transport system of any country. Pakistan railway department has suffered a loss of 4 billion in last five years.

Reasons:

(1) It is over employed.

(2) It has poor infrastructure. Both the trains and tracks are outdated and in deplorable condition.

(3) The railway has been over taken by truck ~~ad~~ and bus mafia.

Add and highlight references/examples Against these arguments

(3) Industries/Companies:

(i) PSM:

Pakistan Steel Mill currently employs 2.415 employees despite the fact that it is closed since 2016. All the employees are paid at the expenses of government. The accumulated losses of PSM are staggering Rs 224.63 billion.

(ii) NHA:

National Highway Authority (NHA) established in 1991 for construction, repair and maintainance of roads is in major loss and has failed to perform its basic functions. Private companies have overtaken NHA and are performing much better.

Since 2014, NHA has accumulated losses of Rs1.5 trillion.

Why to go for Privatization?

Benefits of Privatization

- Retirement of dept
- Capital market development
- Reduction in fiscal Budget
- Improved efficiency
- Generate Revenue

"The privatization of state-owned enterprises is essential to reduce the fiscal deficit, improve public sector efficiency, and attract private investment"

IMF report on Pakistan's economy

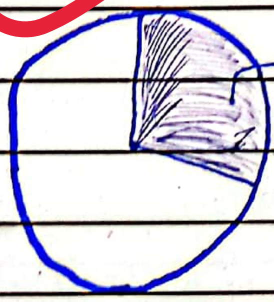
Privatization is must to address key budgetary challenges in case of Pakistan. Technology, globalization, and management models have advanced significantly in the last couple of decades, and it would not be appropriate to continue with the same model of governance and management of SOEs. Privatization continue to economic growth through productivity gains, efficiency, better governance and management.

(1) **Retirement of debt:**

One of the primary benefits of privatization of public assets is that it leads to reduction of public sector debt burden. The burden of debt can be reduced by selling the assets for which debt was initially created. This will also minimize the chances of further debt acquiring and use of debt servicing money on public development.

(2) Reduction to Fiscal Burden:

Each year government allocates approximately 16% of the budget to bailout the SOEs. The annual allocation for subsidies to public sector enterprises can be reduced by privatization, and the money can be utilized for public welfare.



Total Budget

(3) Improved Efficiency:

It is true that the process of privatization leads to improved efficiencies of all sectors. Private sector is much better prospects to prosper through alternative choices, competitive pricing, technological updating and improved services. The society is most likely to benefit from privatization.

(4) Revenue Generation:

The SOEs are dependent on government to be bailed out instead of revenue generation. Through privatization, the major entities will be bound to pay taxes in large sum to the government.

(5) **Capital Market Development:**

The listing and sale of shares in SOEs has helped develop capital market in many countries. For example, the for SOEs are one of the largest sources of shares for the public to invest in. Apart from this, privatization creates an open market, attracting foreign investment.

Challenges to Privatization in Pakistan

Challenges:
- Resistance from Unions & Workers
- Political Resistance
- Corruption & mismanagement
- Judicial Interference

(1) **Resistance from Unions & Workers :-**

Employees may fear job losses or changes in working conditions. Similarly, trade unions may strongly oppose privatization. For example, young doctor association in Balochistan are in protest against a government's move to privatize health sector.

(2) **Political Resistance:**

Privatization of Large SOEs such those in energy and transportation may face severe resistance from political Parties. Most of these SOEs employes thousands of party workers, which the political parties ~~to~~ assume may end up to unemployment

(3) **Corruption & mismanagement:**

Another significant challenge to privatization has been corruption and mismanagement. There have been many cases where SOEs were sold at much lower prices than actual value.

For example, Associated Cement Rohri, with production capacity of 270,000 tons of cement per annum, 195.3 acre of Land and another 24.45 acres of agricultural Land was sold at a low price of 255 million.

(4) **Judicial Interference:**

Perpetual interference of judiciary in bureaucratic and government's moves to privatization has been a big hurdle. Administrative officers often ~~due~~ use delay tictics to avoid the wrath of judicial ~~activitis~~ Proceeding. For example, the privatization of stell Mill was reverted by Supreme Court in 2006.

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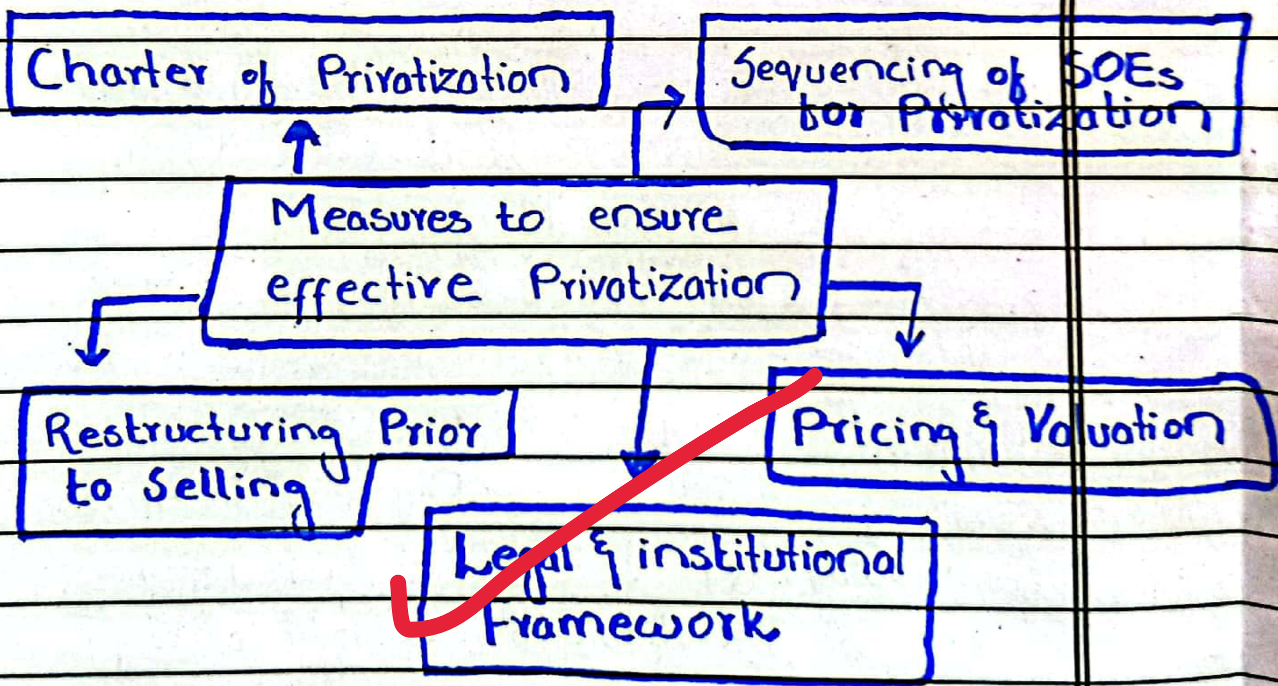
Use marker for references

How to Proceed With Privatization:

Privatization will be easier and more effective when appropriate institutions and regulatory bodies are in place. Privatization must be well planned and executed into phases. In the initial phase, competitive sectors such as manufacturing, ~~tr~~ and retail sectors be prioritized for privatization to attain the confidence of investors. This will lead to national and international competitions, economic growth, reforms and market liberalization.



(I) Charter of Privatization:-

Prior to going for privatization, it is imperative to go for a charter of Privatization to ensure effective privatizing. A collective policy, after approval from parliament, must be implemented. This will veto the perpetual interference of judiciary and bureacracy towards privatization.

(2) **Privatization: divided into phases:**

Complete privatization may not always be the best solution for particular SOEs. In the first phase, SOEs which are in absolute phase must be privatized. Secondly, the vast lands owned by government entities should be given on lease for comertial purposes to generate revenues.

Punjab university has given a significant portion of its land for agricultural and commertial purposes.

(3) **Restructuring Prior to Selling:**

Certain SOEs need reforms and restructuring to attracts buyers. Restructuring can involve changes such as legal form, new management, shutting down, or splitting off part of SOEs that will not be sold or needs to be sold separately. It may also involve new investments for modernization or rehabilitation.

(4) **Pricing and Valuation:**

The prices should be set

using transparent auction procedures. The market must decide the sale prices through competative bidding procedures. This will ensure transparency and speed up the process. Countries such as Chila, Mexico and Tunisia benefited from privatization because they left valuation to the market.

(5) **Legal and Institutional Framework:**

A well-functioning legal framework is important to privatization. Creating a framework involves promulgating business legislation such as property laws, competation and corporate laws and many other relevant laws. Setting up specialized and independent privating bodies to set objectives, identify SOEs for privatization, take major decisions and oversees implementation is the ~~mo~~ best way to go for privatization.

Karachi Electric is evident of the fact that privatization alone cannot solve all problems, but there should be appropriate reforms to gain efficiency.

Conclusion:

After considering the prospects and challenges of privatization, it is imperative for Pakistan to go to privatization. It will pave the way towards ~~peace and~~ prosperity and efficiency of government owned entities. It will foster a culture of free market and capitalization.