

## "Part II"

Q.3: State owned enterprises have been a huge and persistent burden on the budgetary economy of Pakistan. Why and how these enterprises should be privatized?

Answer:

### Introduction:

State owned enterprises have been a huge and persistent burden on the budgetary economy of Pakistan. These are organizations that are owned, fully or partially, and controlled by the government to engage in commercial or industrial activities. They operate to provide public services, generate revenue or achieve broader economic objectives. SOEs exist in various sectors, such as energy, transportation, healthcare and banking. The most impacting reason for the privatization of SOEs is that when <sup>government</sup> enterprises is facing

a per repetitive decline in its revenue generation, with the help of better administration and revenue generating capacities of private enterprises the huge financial losses can be brought down. However, the privatization is to be done by the government itself through policy making, strengthening institutions, administrative role and most importantly infrastructural development.

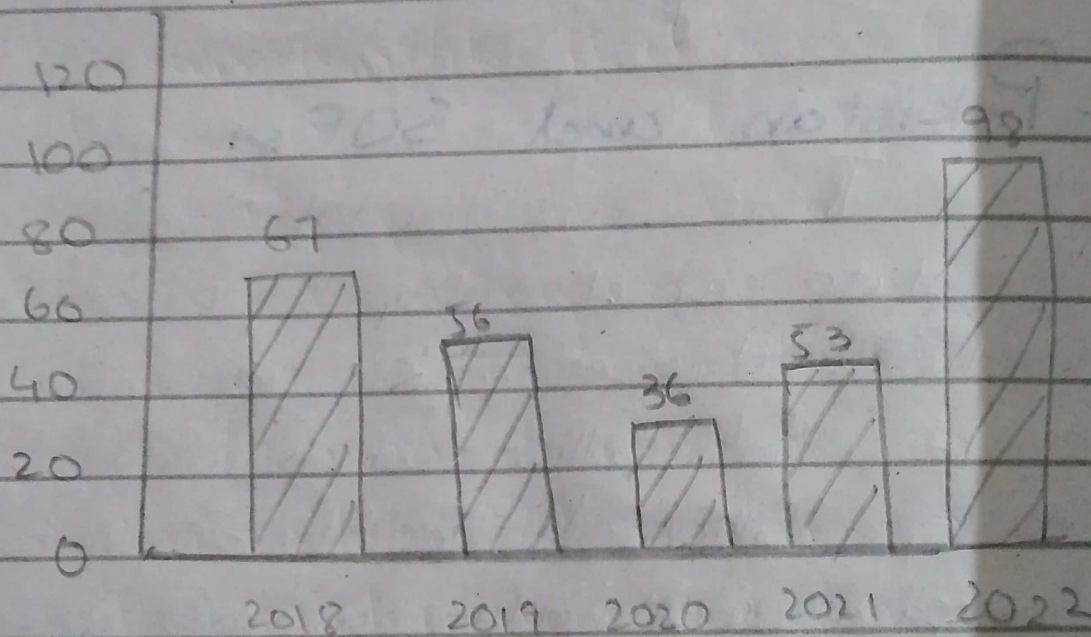
### a- Pakistan and SOEs:

There are a total of 113 state owned enterprises in Pakistan. And the total losses make an annual loss of \$4.1 billion which makes upto 1200 pkr billion. If the losses are to be compared with education spending i.e. \$2.8 billion and healthcare spending i.e. \$3.8 billion, the annual losses make up to 1.5 times more than these sectors.

## b- Comparison of SOEs and Privatized Enterprises:

The most recent privatization in the pipeline is of the Pakistan International Airlines. The facts and figures are discussed below:

### 1bA - Pakistan International Airlines:-



During Covid-19 world faced many challenges as well as gained opportunities in all public and private sectors.

World airlines were on the brink of losses due to the shutdown of inter and intra-travel across the globe.

But post-Covid, world airlines made huge profits and ticket prices tripled. Private sector airlines made a gross margin of 25-30%, whereas, PIA was at -0.4%.

At that point when private airlines were making huge profits, PIA was going into loss even at gross levels.

## 2b: Pakistan Railways:

Pakistan railways has faced challenges like inefficiency, corruption, outdated infrastructure and significant financial deficits for decades. The national railways of Pakistan is fully owned and operated by the government, under the ministry of railways.

The aging infrastructure, staffing issues, schedule problems, budget cuts, cybersecurity concerns are the most pressing problems of many that are consistent and persistent.

Many privatization efforts have already been made such as public-private partnerships (PPSs) and out-sourcing train operations

and under Pakistan-China Economic Corridor to modernize road infrastructure with foreign investment, particularly focusing on the Main Line 1 project.

## - Needs and Reasons for Privatization of SOEs:

Privatization of SOEs has its own benefits that are discussed below:

### ① Muslim Commercial Bank:

The privatization of banks in Pakistan in the 1990s was a cornerstone of the country's economic reforms aimed at reducing state control, improving the financial sector's efficiency and addressing inefficiencies in public sector enterprises. The privatization of banks in the 1990s includes success stories of MCB, Habib Bank Limited (HBL), United Bank Limited (UBL), etc. as compared to state owned

banks, the National bank of Pakistan (NBP), MCB with its current situation deposited 29 billion Rupees in tax alone.

## ② Karachi Electric (KE):

The power sector is managed by the government of Pakistan, but the distribution companies are privately managed. One such example is Karachi Electric (KE). Before privatization, it faced many line losses, stealing incidents, and huge financial losses. With the complex administration and financial situation of Karachi, the losses were brought down to 15% from 34%.

KE compensated and retired all the golden parachutes heading to better employed people later. In 2005, KE was making a profit of 50 crores and giving 200 million in taxes. Whereas, in 2022, the profit of KE is at 8.4 billion Rupees, and it gave 2.8 billion Rupees in tax.

## - Role of government and Privatization:

Privatization of the SOEs ~~are~~ requires attention from government and its dignitaries. The role of government in the privatization of SOEs ~~are~~ is discussed below:

### (a) Policy Making:

The government plays a crucial role in shaping the business environment through its policy-making functions.

These policies are essential for regulating, supporting and guiding the business sector to achieve economic growth, social welfare and sustainable development.

### (b) Strengthen Institutions.

Strengthen the institutions under the Competitive Commission of Pakistan to ensure good products at good prices, to ensure that any private sector entity does not gain monopoly power.

Also to make sure that companies do not produce cartels with collusion and do not exploit people with product and market prices.

### (c) Administrative Role:

The government should ensure that product quality is good, the goods and services are efficiently provided with manageable prices, avoid adulteration of products and no hoarding should take place, etc.

### (d) Incentive for growth and Development:

Government's role is to encourage business investments, innovation and entrepreneurship. This can be done by offering tax incentives, subsidies and grants for industries such as technology, renewable energy and small businesses. Also by promoting research and development (R&D) through funding and partnerships. This will



encourage innovation, job creation and industrial growth.

## ② Trade and Investment Policies:

The purpose is to facilitate international trade and attract foreign direct investment (FDI) in order to set tariffs, trade agreements and import/export regulations. It will expand global market access for businesses and foster economic integration.

## ③ Infrastructural Development:

The government must ensure rebuilding and renovation of outdated infrastructure. This will promote public-private partnerships mainly by investing in transportation energy and communication networks. This will significantly reduce operational costs for businesses and enhance productivity.

## Conclusion:

To conclude with, the role of government in the provision of services is always a debatable topic. Modern practices in the developed world suggest that government should play its role in administration and business should be run by private sector. However, the government should be a regulatory authority and should play its role as an administrative. State owned enterprises should be privatized by market value and public interests. Loss making entities are just a burden for the economy of the state. Many financial institutions including IMF has suggested Pakistan to privatize its SOEs and that extra burden should be released. The government has to take some serious steps in terms of SOEs. Public-private partnership is the future of Pakistan and sooner or later Government has to adopt the modern approach in terms of Privatization.