

Is Privatization of Public Services Beneficial or Detrimental To Developing Countries?

1. Introduction

Thesis Statement

2. How privatization is beneficial for the developing countries:

a. Increase efficiency and performance
- Example of K. Electric

b. Enhance Foreign Direct Investment

c. Positive competition among private entities

i. Competition among banks companies in Pakistan

ii. Competition among educational institutes in Pakistan

d. Increase accountability and transparency

e. Quick decision making

f. Less political interference in decision making process

g. Reduce financial burden on government

Pakistan International Airlines (PIA) as a burden on state

ii- NHA (National Highway Authorities) as example

3- Antithesis

Why privatization is detrimental to the developing countries:

a. Violation of consumer rights

i. Increase cost of products or services in hospitals and education institutes

b. Job losses and unemployment that exacerbates poverty

c. Lack of consensus among political parties

i. Protests and upheavals

e. Sometimes, can lead to judicial activism

i. National steel Mill, Karachi Case

g. Case study of privatization of electricity sector in South-Africa

4. Rebuttal

Case studies that indicates that privatization is beneficial to developing nations:

a. Delhi - Metro Project in India

b. Enhanced performance of PTEL after privatization

c. Comparison of performance of public and private hospitals

5. Conclusion

"Privatization is a bitter pill but it is a pill that will cure"

Privatization is defined as transfer of ownership and management of public services from government to private companies. There is a great debate among scholars regarding the privatization process. Some of them are of the view that privatization is detrimental to the developing nations as

it can result in job loss, lack of consensus among political parties and other problems like increased cost of things. However, in both developing and developed nations privatization is becoming common, which is a clear indicator that benefits of privatizations overshadow the challenges of privatization. To the developing countries like Pakistan, privatization is the need of the hour. Majority of the people believe that privatization of public services like education sector, healthcare sector, banks, telecom companies and airlines like Pakistan International Airlines should be privatized. So, privatization is beneficial to the developing countries as it increase efficiency and performance of public services, enhance Foreign Direct Investment, competition and accountability in private entities.

There is no denying the fact that privatization can result in enhance efficiency and performance of public services. This is evident from the privatization of Distribution Company like **K-Electric**. Majority of the enterprises were privatized in 1970s, in Pakistan during nationalisation era and one of them was DISCOs (**Distribution Companies**). Most of the DISCOs were going through losses and then privatization of DISCOs like K-Electric took place. It reduced the transmission losses from **33%** to **10%** after being privatized, indicating

that privatization is beneficial for developing nations. Its efficiency increased significantly after privatization. Performance of K-Electric rapidly began to improve as compared to other DISCOs, that are not privatized yet.

Similarly, privatization results in attracting more **Foreign Direct Investment (FDI)**. FDI refers to the investment of foreign companies in a country. It is one of the indicators of economic growth. International Monetary Fund (IMF) usually demand privatization in Structural Adjustment Programs (SAPs). IMF also helps developing nations in fulfilling criteria of SAPs. This gives a green signal to the foreign investors to invest in the developing country as they believe that economic condition of developing nation will improve. As, privatization is one of the conditions of SAPs, so it is evident that privatization also attracts FDI.

Apart from enhanced efficiency, productivity and FDI, privatization can increase **positive competition** among private entities. The element of competition automatically improve financial performance and private entity can

generate revenues for the country. Each company tries to excel others in terms of performance and due to this factor competition increases. Privatization is driven by profit motive that compels every worker in private companies to work best and, consequently customer service increases. Benefit of positive competition is that every company or entity will try to its best to give quality service to the customer.

For example, privatized banks like **HBL and Allied Bank** are improving their service to attract customers and both generates millions of revenue for the country. Likewise, educational institutes are vying with each other to gain the trust of the public. This has **improved educational outcome** significantly. It can be further illustrated from the fact that people preferably tend to join private institutes for better education, as compared to public education institutes. Evaluation of the performance of both public and private education institutes indicates that, private institutions perform much better than public.

Another factor that indicates that privatization is beneficial for the developing nation, is the increased **accountability and transparency** in private entities. In public companies chances of corruption are more as

compared to private. This is due to the fact that the money received in public companies comes from the government. **Pakistan ranks 133 out of 180** in terms of corruption, according to **Transparency International**. The corruption increases when public services are owned by government, because the budget allocated to them are not used for the right purpose. On contrary, in private sectors investors invest their money, so there is more transparency and accountability. If anyone violates the law or is found involved in illegal activities, he/she is held accountable for their actions.

Moreover, **quick decision making** is another factor that is beneficial for the developing nations. Privatization usually increases the chance of quick decision making due to lack of government intervention. Decisions are not only quickly made, but also swiftly implemented. This is, because of the **right person for right job**. Professionals are hired who are well trained and they regulate the functioning of the private entity.

However in state owned Enterprises (SOEs) usually government appoint person of their own choice, who is often ill-suited for the post or job.

As a result, decisions are often delayed due to inefficiency and nepotism.

One of the most important reason that privatization is beneficial to the developing nations is that, it **reduces financial burden** on the government. SOEs have become burden on the state as they have become **white elephants** and majority of the budget is spent on them.

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Money is given to the employees of the public service even if they are not working. This is evident from the example of **National Steel Mill Karachi**. It was closed in the past but still employees were paid. This reflects that it is a burden on the state. Similarly, PIA is currently a burden on the state, along with **NHA (National Highway Authority)**. The current loss is 1.9 trillion. Furthermore, 700 Arab bailout package has been given to PIA. It indicates the pressure on the government and the need of privatization. They are not generating revenues for Pakistan and huge amount of money is spent on them, that can be used in any other sector.

However, there are few people who are of the view that privatization is detrimental to the developing countries. They believe that when public services are privatized, there is no one to keep a check on them and as a result, they violate consumer rights. Interference of the government is essential to regulate the price or cost of the service they provide. This can be

explained using the example of private health care sector and educational sector.

Private institutions are not affordable for economically challenged people, because the cost of service is very high. Rich or elite class usually go to private hospital and schools, while poor people mostly have no access to private hospitals and clinics. So, it will be not wrong if it is said that **privatization reinforces class difference**. Furthermore, in educational institutions content material that is taught in public and private sector is quite different. There should be same syllabus at all level and for that institutions must be owned by state.

Privatization is also detrimental to the developing nations, because it results in job losses and further unemployment. So, the employees of SOEs, usually protest against the privatization and act as major hurdle on the way of privatization. Losing jobs in third world or developing countries will further exacerbate poverty. Instead of providing benefit, privatization, further declines economic growth. It will culminate

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in public protests and upheaval in the country.

Judicial activism is another reason that privatization is detrimental to the developing countries. In judicial activism judiciary interferes in the work of the government and disturbs the separation of power. Privatization is often viewed as a reason of judicial activism sometimes.

Privatization of National Steel Mill Karachi: is one of such examples. When it was privatized Supreme Court interfered and halted the process of privatization saying that it will result in job loss and protests of the employees. Most of the scholars believe that interfering in the government affairs is beyond the jurisdiction of judiciary, so it is one of the drawbacks of privatization in developing countries.

Additionally, lack of consensus among different political parties in countries like Pakistan, on the issue of privatization is also considered as detrimental to the nation. It will widen the gap between opposition and government and culminate in political instability. The party opposing privatization will go for sit ins and protests that can disturb the political environment of the particular country. Different parties have

different interests in public services and it is possible that everyone will have different stance on the issue of privatization. It will result in clashes and chaos across the country. Currently, in the privatization of PIA two major political parties have different stance.

Moving on, one of the failed case of privatization was **privatization of electricity sector in South-Africa**. It resulted in power outage and increase cost. As a result, number of people emerged took to the streets and it disturbed the environment of the country. It clearly reflects the drawbacks of privatization, as electricity bills increased to new heights due to privatization.

Keeping in view the above discussion, it can be said that despite drawbacks of privatization in developing countries, still the benefits of privatization outweighs the problems. Privatization is beneficial to the developing nations, as it enhance performance, productivity and efficiency. Considering the **privatization of PTCL** (Pakistan Telecommunication Company Limited), it is not wrong to say that Ptel is generating revenues for Pakistan. It's performance is much better as compared

to other telecom companies. Furthermore, Delhi - Metro project in India is classic example of public - private partnership. Government is responsible for generating formulating policies and private company take the lead role of construction. Now, Delhi - Metro Project Railway is one of the best mode of transportation and its performance enhanced significantly after privatization. Likewise, performance of several public and private hospitals indicates that private hospitals are more equipped with advanced technology and there is no delays in procedures. On the other hand, in public hospitals due to rush of people there are frequent delays in procedures. Hence, it is prominent that privatization is the cure of certain problems of the developing nations.

By and large, it can be said that there are different point of views regarding privatization of public services in developing nations among the scholars. One view is that, it is beneficial as it improves financial performance, enhances FDI, create positive competition

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among entities, increases transparency and accountability. Apart from that there is quick decision making, less financial burden on the government and less political interference. While the other stance is that it is detrimental, because privatization can cause job loss, increase cost or fees in schools and hospitals, major conflicts among political parties, protests and sometimes judicial activism as well. But the case study of various entities like PTCL, Delhi Metro Project, HBL, Allied bank and other entities reflects that privatization is a difficult but more rational and good choice for the development of developing countries.