

Is Privatization of Public services beneficial or detrimental for developing countries?

- Outline

1. Introduction

a) Definition

b) General Statement

c) Thesis

2.

Advantages of Privatization in developing countries

A. Improved Quality of Service

Case study of Banking service in Pakistan

B. Expanded Outreach

C. Economic Growth

d. Employment opportunities

e. State owned entities are <sup>Financial</sup> burden on Government

- Case study of PIA

- Case study of NHA

3. Disadvantages of Privatization



- a) National and Strategic Interest
- b) Consumer Protection
- c) Unemployment
- d) Sharp decline in Investment Activity
- e) Private enterprise can lead to monopolistic environment
- f) Private setup is not too much capable in developing countries
- d) Government can easily be pressurized by private owners to get concessions

When a government-owned business, operation, or property become owned by a private, non-government party. These are the services usually delivered by govt. department but are sold to private sector for better performance. It is done in various ways: all or some of the assets of the public enterprise are sold, or leasing of such assets is done, or government remains the owner, but enterprise is run by



private sector.

The privatization of banks in Pakistan in early 1990s is good example for privatization in other sectors. By 2004, more than 77% of Pakistan's bank were owned by private companies.

Before that ~~to~~ government owned these bank and their performance was not very well. But, under private ownership; banks excel to their full potential. Take

MCB as an example. MCB was paying  $\$$  below 1 billion pkr in 90s but after privatization, it is paying more than 30 billion pkr and the number of employees has not even

reduced. Many countries earn through privatization and their privatized institutions are doing very well. For example, by 1987, Uk raised 21 billion dollars through privatization.

Privatization should be done for improved quality of service, expanded outreach, economic growth, employment opportunities.



to reduce burden on governments

~~To start with private~~ The first half of this essay demonstrates the advantages of privatization while other half focuses on the disadvantages of privatization.

To begin with the advantages, privatization leads to the improved quality of service. Private entities can often deliver services more efficiently and with a focus on consumer satisfaction. One such example is privatization of banking services in Pakistan. After privatization, banking sector showed very positive progress. They started offering ~~man~~ working better, providing better services, loan payment.

Then comes the expanded outreach. When ~~the~~ any state owned entity is privatized, it shows expanded outreach. It shows full potential and start to diversify its services. For example,



banks in Pakistan after privatization started offering services like investment banking, commercial banking and loans for regular people. When these entities are privatized, they show full potential.

Privatization helps in economic growth. Government sells its entity on specific terms and keeps getting profit. Privatization of banks contributed to the expansion of the GDP, generating higher tax revenues and overall public welfare.

Privatization is necessary because state own entities are financial burden on the government. Right now, 100+ state own entities should be privatized. PIA faces loss of more than 400 billion pks. NHA is facing loss of 600 billion pkr. The job of government is not to run the business but to regulate it. Every year, the government of Pakistan has to pay



minimum 400 billion pks to these enterprise as bail out packages. Moreover, government has to pay salaries of the employees of these enterprises. If these entities are privatized, Pakistan's financial sector would be able to save at least 1 trillion USD of saving.

Th. According to some critics privatization is not advantageous as it seem. The arguments given as disadvantages are as follow.

To begin with, the argument is that national and strategic interest can be threatened. Some sectors such as energy, transportation are considered of national and strategic importance. Critic argue that privatizing these entities could jeopardize national security and sovereignty. Private companies may prioritize profit over national interest, potentially compromising critical infrastructure.



Private companies, driven by profit motive, may engage in anti-competitive behavior, and exploitation of consumers. In such situations, establishing regulatory authority becomes ~~emp~~ important.

Privatization can lead to workforce reduction, as private companies aim to streamline operations and cut costs. This can result in job losses, particularly in sectors like Pakistan railways, which employs a large number of people.

Private ownership often leads to the monopolistic behavior. Private entities start monopoly over any particular sector like British Telecom, and British gas once. But ~~is~~ a regulation authority was established to control and regulate.

Private setup in most of the times is not capable in developing countries. So there is always chance of foreign investment. Foreign investment in buying institution is not favored.



People think it as ~~an~~ conspiracy. Moreover, politicians for political gain start saying so. This is the reason that why PIA and Pakistan Steel Mills are not privatized to. No local investor is able to buy these entities, and strong protest reaction comes against privatization to foreign investment.

In  $\odot$  Developing countries, it is very difficult for government to get the consensus for privatization. When governments privatize institution, they are easily pressurized. Investors get concessions, undue favours and many grants which in future leads to many losses. For example, Karachi electric (KE) due to many grants shows negligence in ~~ser~~ services and not answerable to any authority.