

Question #1:

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State owned enterprises have a huge and persistent burden on the budgetary economy of Pakistan. Why and how these enterprises should be privatised?

11/20

Introduction:

Pakistan inherited a very poor and underdeveloped industrial and economic infrastructure from British. There was almost absence of industrial infrastructure. To address the socio-economic disparities, Pakistan and balance the economic growth across the region, Pakistan opted for state owned enterprises. These enterprises were mostly initiated during Bhutto's era of 1970s but lacked its importance due to its failure to achieve its goals of economic growth. Resultantly, the idea of privatisation took pace in 1980s and 1990s till now. The government today is working to privatize these SOEs (State owned Enterprises) but is facing difficulties. This question will explore the reasons behind privatization of SOEs and methods to achieve them.



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## Understanding the Concept and historical Background of SOEs in Pakistan

"A publically owned enterprise, chartered upon federal, provincial or local laws for a particular business of financial purpose" ~ Professor Demorck

Pakistan opted this concept after its inception, due to the poor and underdeveloped industrial infrastructure provided by the government. First, the country formed PIDC (Pakistan Industrial Development Corporation) for medium and heavy industries, and PICIC (Pakistan Industrial Credit and Investment Corporation) for the credit to these industries. Moreover, there was an issue of refugees, economic and balance of economic growth among provinces. To tackle all these issues, government formed SOEs to address the issue of unemployment, basic needs of citizens and growth of country. However, it failed to do so and even affected the investment in country. Currently, there are 206 SOEs with 88 commercial, 45 non-commercial and rest subsidiary of SOEs.



## Solutions to the Failure of SOEs:

There are various solutions to reduce the burden and of SOEs but the most appropriate is Privatization.

## Understanding the concept of Privatization:

Privatization is a policy to attain growth by removing barriers in and exit from a particular business, attracting investment both <sup>at</sup> domestic and international level and bringing economic competition.

## Why the State Owned Enterprises (SOEs) be Privatized:

The SOEs have a huge and persistent burden on the budgeting economy of Pakistan. The key reasons are following:

### I- Political Interference and Personal Benefits

#### Hindering Growth of SOEs:

State Owned Enterprises are at Govt's length means that they leave their own inter-



However, in 1973, the nationalization policies of Bhutto overhanded the control and run of these enterprise, companies and corporations in the hands of state. It not only destroyed the investor's confidence but also discouraged foreign investor. Resultantly, these opened doors for political interference and personal benefits of politicians.

## II. Weak Control of Legislature:

Public corporations and SOEs are formed under the act of legislature. However, when there is a weak democratic system and absence of rule of law in country, there will be weak external control of corporation.

## II. Persistent Causes of Corruption:

Due to bad governance, wastage and poor management of corporation and enterprises and political involvement in corporation there is a <sup>rising</sup> causes of corruption, fraud and theft leading to the destruction of SOEs.



#### IV. Mismanagement of Resources:

The board of governance or directors of corporation mostly mismanage the resources. They misuse the assets, mostly choose faulty decisions for enterprise. Moreover, these policies are mostly influenced by politicians meaning that they are managed to serve political interest not corporate interest.

#### V. Increasing High Losses:

The SOEs are bear high losses. Since the profit earners are monopolistic. According to World Bank Report:

"In 2023, loss making SOEs reported a loss of Rs. 905 billion, a 23% increase from previous year."

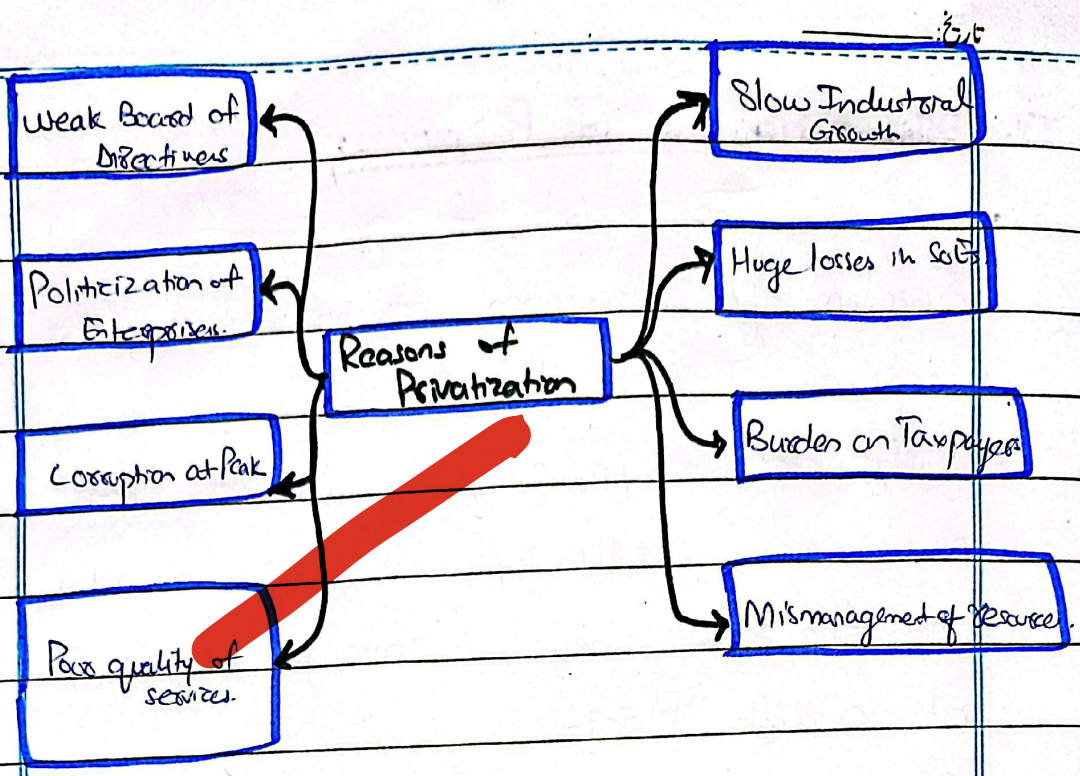
(World Bank)  
Even world Bank has called Pakistan's SOEs the worst in Asia.

Some

#### Other Reasons of Privatization:

Following are some other reasons of privatization of SOEs:





How the State-owned Enterprises (SOEs) be Privatized

I. Modes of Privatization of a public Enterprise:

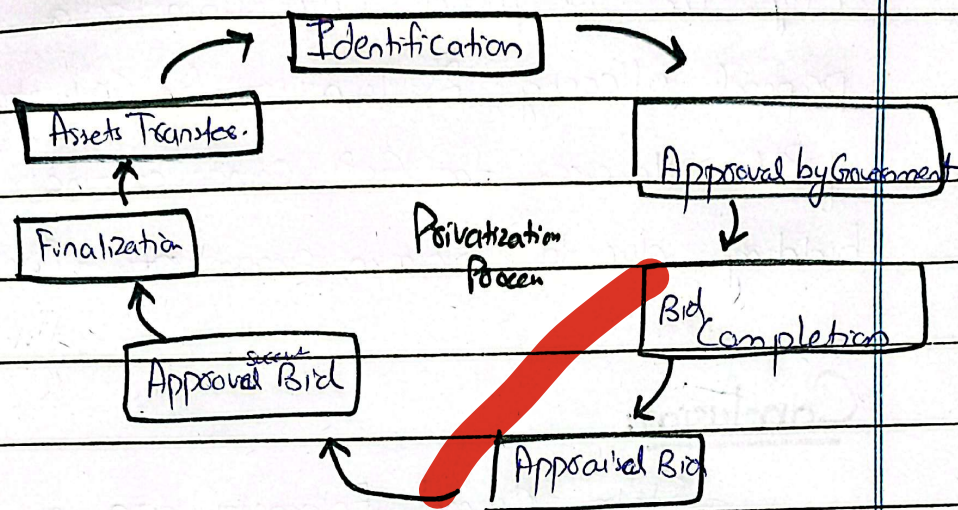
To privatize a public enterprise, following are the possible modes:

- (1) Sale of assets and business
- (2) Sale of shares through tenders
- (3) Public offering of shares through Stock Exchange
- (4) Employee buyout of SOE.
- (5) Lease, management or concession contracts



(6) Public-Private Partnership

## II. Privatization Process of SOEs in Pakistan:



The first step is the identification of SOEs and their valuation. Then, these SOEs privatization is approved by government. The next step is the completion of bid through a tender. Then, the appraisal and approval of bid is done. After that, the successful bidder is approved and then called for signature. Finally, the assets are transferred to the bidder.

## III. The Case of PIA:

The government of Pak (GoP) decided to privatise the Pakistan International Airlines (PIA).



It proposed the the idea through a tender-  
For bid process, six groups were short-listed  
to bid for PIA stocks, including Blue World  
City. The Blue World City submitted a  
proposal offering Rs. 10 billion for 60% stake  
of PIA. However, the Gov cancelled the  
bidding due to minimum amount of offer.

### Conclusion:

State Owned Enterprises are a  
good option for countries like China. However,  
in Pakistan they proved unsuccessful and  
burdened the already pathetic economic situation  
of country. The privatization is the only  
successful way to lessen this burden and  
lead the country to economic stability.  
However, the government is facing different  
kind of hurdle from opposition, employees  
and even at time from Judiciary on the process  
of privatization. But, privatization is  
the best way to come out of these <sup>economic</sup> crisis.



## Question #2:

Persistent Budget deficit and ballooning balance of payment crisis compel Pakistan to acquire more loan. IMF in return imposes its conditionalities that has far reaching negative implications on Pakistan. Critically evaluate the statement and give recommendations.

11/20

## Introduction:

International Monetary Fund (IMF) was established after the WWII in 1945 to manage global exchange <sup>object of</sup> range. Later, it has evolved from financial assistance to countries to tackle the balance of payment crisis and restore economic growth. Pakistan, in almost sixty-five years, has entered into 23<sup>rd</sup> IMF program. These IMF programs are a temporary relief to the vicious circle of budget deficit and securing balance of payment crisis. However, these conditionalities often have long-term economic and social implications on Pakistan.



## Understanding the Concept of Persistent

### Budget Deficit:

#### I. Reason for Deficit:

<sup>Budget</sup> Deficit is a state where expenditures are more than earning. Budget deficit in Pakistan is due to its high expenditures in the form of Discretionary spendings (extra funds or subsidies), excessive defense spending and inefficient state owned enterprises. Moreover, the tax base is narrow, and tax evasion is widespread and there is more dependency on indirect taxes. It results in borrowing loans, increases debt levels.

## Understanding the Reasons Behind the Balance of Payment Crisis in Pakistan:

The Balance of Payment crisis is due to:

#### I. Trade Deficit - A major Issue:

The trade balance of Pakistan is highly vulnerable. There is more reliance on imports than on exports, especially the energy,



and processed goods.

## II. Debt Servicing - Major Chunk consuming

### Revenues:

Pakistan is trapped into a vicious circle of acquiring loans. It has to pay a debt by acquiring more loans. There is high external debt payment. According to IMF "Pakistan's Govt. revenue goes towards public debt and interest payments."

## II. Role of External Shocks:

External shocks also add to already wounded situations. Such as 2022 floods in Pakistan had a loss of around \$60 billion as claimed by government of Pakistan.

These result in seeking IMF support.

How the IMF conditionalities negatively  
Impact on Pakistan?



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IMF <sup>always</sup> provides a bailout package with severe conditionalities impacting the social and economic situation of the country. Below are the impacts of IMF conditions:

### I. Tight Fiscal and Monetary Policies:

The demands of IMF mostly surround in tight fiscal policy i.e. <sup>cut in</sup> public spending and hike the interest rate. The reduction in development spending and higher borrowing cost hinder the economic growth.

### II. Broaden the Tax Base:

The taxation reforms proposed by IMF include broadening the tax base, often the indirect taxes like GST (General Sales Tax). It will impact the lower income groups and increase inequality in the country.

### III. Removal of Energy Subsidies:

IMF demands the state to



Implement certain energy tariffs which include cut in the energy subsidies and increase the price for utilities. It results in the high price of production costs, <sup>rise of</sup> inflation and disturbance among general public.

#### IV. Devaluation of Exchange Rates:

IMF recommends a market-determined exchange rate. It automatically devalues the rate of currency. Currency devaluation leads to higher import costs and rising the inflation and social unrest.

#### Issues in the IMF Bailouts:

The IMF programs often provide short term relief but in long-run it fails to resolve the problem of Pakistan. Moreover, it enhances certain structural issues such as weak institutional reforms, low productivity, high inflation, rise of poverty and lack of economic diversification.



# Recommendations to Improve the State of Pakistan:

## I. Improving the fiscal discipline:

The first and foremost step is to enhance the tax net and bring the untaxed or undertax sectors into tax net like agriculture sector. Moreover, indirect taxes should be reduced. The next step is to prioritize the essential spending including education, health and infrastructure on non-essential spending. Moreover, the SOEs which are burden on the state should be privatized.

## II. Promoting Export Led Economy:

### (A) Enhance Exports:

The current world is focusing on technology - Pakistan should focus on enhancing export in the sectors of IT and pharmaceuticals, and also enhance its textile sectors.



### (B) Trade Agreement:

The trade relations with regional partners should be strengthened but with a balance between imports and exports.

### III. Investment in Renewable Energy:

Pakistan should reduce the dependency on energy imports. Rather, there is a need of renewable energy reforms to benefit the economy and environment. The subsidies should also be provided in it.

### IV. Strengthening the Governance and Policies:

According to Ishaq Hussain in his book "Governing the Ungovernable":

"In Pakistan, the primary reason for unsustainable economic development is a lack of governance. Since a good governance promotes economy and the economy improves all the social evils."

By enhancing the role of governance and making consensus based policies would help us the country.



to make progress:-

## I. Reducing dependence on Pak to IMF:

Pakistan should enhance the investment sector and reduce the dependence on IMF. Rather, it should find alternative bilateral sources.

## II. Enhancing the Relief Programs:

To ensure the social protection, targeted program like Benazir Income Support Program (BISP) should be ensured and promoted.

## Conclusion:

The reliance on IMF reflect deep-rooted structural weaknesses in Pakistan. It provides a temporary relief but negatively impacts Pakistan's economic, social and political sectors. There is a dire need to address these issues and break the dependency on IMF for loans.