

Privatization Process in Pakistan

1- What is privatization process?

- Privatization is the process by which the responsibility of producing goods and services is transferred from the public sector, the government, to the private sector.
- It is also referred as “Denationalization”.
- It’s a policy tool for generating growth & opening up the economy to competition.

2- Reasons of Privatization

Government takes privatization stance

- To reduce its burden in terms of underutilization of resources.
- To reduce fiscal burden, financial crises, heavy losses and subsidies in order to improve and strengthen competition
- For management in both Physical and Human resources.

One of the reasons for privatization has been the need to **Raise Revenue**.

3- History of Privatization

- In Pakistan, the concept of the privatization was introduced in the late 1990. And after introducing this concept privatization was suddenly implemented in different forms in Pakistan, which includes the direct sale and auction of public assets, outsourcing, commercialization, and Public private partnership.
- The privatization program was launched on 22 Jan 1991 by Prime Minister Nawaz Sharif.
- In the early phase of privatization, the programme was unsuccessful with few bidders for the targeted firms. Since privatization was a cornerstone of the government’s economic policy, the government revised its strategy and

accelerated the process. It improved the legal and administrative procedures, and while it had decided initially to adopt the policy of offering only a few units for sale at a time, it reversed this policy in October 1991, and advertised all the 105 industrial units for immediate sale. Attempts were also made to make the entire privatization procedure more 'Transparent' and effective.

- Program was envisioned to improve the GDP growth of the national economy of Pakistan & attract foreign investment.
- In 2004, a more intensified privatization program was launched under the presiding leadership of Prime Minister Shaukat Aziz.
- Programme ended effectively at the end of 2007 when 80% to 90% of the industries were put under the management of Private ownership.

4- Privatized Sectors

The three most coveted sectors to be privatized were the energy sector, Telecommunications and the Four Commercial Banks. By the late 1990s, the telephone and telegraph sector had been partially privatized and of two banks, The Allied Bank Limited was sold to its employees, and the Muslim Commercial Bank to a private business house. The balance sheets of the banks show that these 'newly privatized banks have rapidly improved their performance'. Two commercial Banks, the Habib Bank Limited and the United Bank Limited, and the two Industrial Banks, The National Development Finance Corporation and the Industrial Development Bank of Pakistan, were privatized by the Musharraf Government after 1999.

5- Spontaneous Phase (1989-1993):-

- A large scale privatization program was launched on 22 January 1991 as the primary economic policy by Prime Minister Nawaz Sharif who came to national power after securing a flight-winning victory in the 1990 general elections.
- The program was in direct response to Bhutto's nationalization.
- Denationalization of banking sector and industries to private sector, starting first with MCB limited.

Sharif termed his privatization as:-

“Turning Pakistan into (South) Korea by encouraging greater private saving and investment to accelerate economic growth”.

- From 1990-93 around 115 industrial units were hastily privatized, including the Privatization of two major banks, 68 industrial units and 10% Shares of Sui Northern Gas Pipelines Limited.
- In 1992, the leader of the Opposition Benazir Bhutto, vehemently criticized the whole policy measure program at the public circles while Commerce minister Faisal Hyatt and Finance Minister Sartaj Aziz enthusiastically projected the privatization as a **“success Phase”**

6- Second Phase (1993-1999):-

- The second phase of the privatization program began in 1993 under the “disciplined macroeconomics policy” of PM Benazir Bhutto
- It involves the privatization of financial institutions, telecom, thermal power plants, oil and gas sectors.
- Benazir's government did not privatize all state corporations especially those who were collecting large revenues abroad; only certain industries were privatized which were at the brink of financial collapse.

- By the end of 1996, 20 industrial units, one financial institution, one electric power plant and 12% shares of Pakistan Telecommunications Ltd. Were privatized by Benazir Bhutto.

Advantages and Disadvantages of Privatization

7- ADVANTAGES:-

- **Increase in efficiency and profitability:-**

Most govt. industries and services are inefficient and running in losses.

For Example: (PIA) when these will be transferred to private sector, their administration will improve.

- **Lack of political Interference:-**

Managers in SOEs are motivated by political pressures rather than sound economic & business sense.

For example: employing surplus workers to avoid negative publicity.

- **Short Term View:-**

A government may think only in terms of next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election.

- **Shareholders:-**

It is argued that a private firm has pressure from shareholders to perform efficiently. If the firm is inefficient then the firm could be subject to a takeover. A state owned firm doesn't have this pressure and so it is easier for them to be inefficient.

- **Exploitation by Private Sector:-**

Privatization will result in exploitation by rich people. They may charge more prices for their goods and services. They may terminate workers to

reduce cost of production. Thus different types of exploitation may be started and the concept of welfare state for Pakistan will be jeopardized.

8- Disadvantages

- **Inflexibility** :-

There is also an issue of inflexibility that can come with privatization. Typically, governments sign lengthy contracts can span for decades, locking residents into one service provider for lifetimes. Although a private company might take itself attractive to win a contract, its service can take a quality nosedive once it's in place and its consumers are complacent.

- **Higher Costs to Consumers** :-

Although privatization is usually promoted on the basis that it will reduce consumers cost, it can also drive costs up. According to nonprofit consumer advocacy group Food & Water watch, a proposed private water service for Milwaukee would cost residents 59 percent more than they are paying for public water service.

9- In Short Privatization Pros and Cons are

Pros

- Great efficiency
- Lower taxes for residents.
- Reduces opportunities for political influence to drive services.
- Better services through competition.

Cons:-

- A greater opportunity for fraud and Corruption to occur.
- Higher costs for consumers.
- Inflexibility due to long-term contracts.
- Profit, rather than residents needs, as a primary motivator.