An Opinion Piece on

Privatization in Pakistan: The Role of International Financial Institutions

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The privatization is not a new word but there are new avenues which need to be discussed; there are mainly two parts for the discussion, why privatization & how it is logical to privatize the state owned enterprises? What are the reason(s) behind privatization in Pakistan? And what is the role of international financial institutions in this regard?

The largely perceived view about privatization of state owned enterprises (SOEs) is good with the presumption that it is only the private sector that can deliver a quality product at the lowest possible price. However, privatization is as complex as most of the things in life. Before going into the details of international schema, it will be more suitable to take a look at some of the most commonly held views about privatizing of state owned enterprises. There is a tendency of bankruptcy of governments due to lack of revenues as well as incompetence in spending. Besides, high quality products & services are
available at lower cost in the private sector. Government employees are inefficient. Private enterprises efficiently use funds and eliminate waste. It is commonly perceived that all will benefit due to private sector and studies also show that privatization is better.

The challenge to the governments during the past few years has been budget deficit which is due to decrease in the revenue generation and losing of main sources of revenue. There is a lower tax rate on those who earn the most and on corporations. The tax cuts on wealthiest increased the wealth of richest but due to decrease in revenue generation governments are having problems of deficit. Corporations not only take the advantage of tax cuts but also demand huge subsidies against the job opportunities given. (e.g Kentucky, BMW etc.)

There is also an allegation that governments are incompetent in spending, and are responsible for misuse and fraud in fund allocation. It is argued that privatizing eliminates this problem. If we judge private sector on same standards, it is evident that the private sector does not escape from the problems of waste and fraud as it is on record that many corporate leaders sent off to prison for corruption. General Motors is a big example of mismanagement which despite annual losses of billions kept paying huge salaries to the very officers. There is no reason to think that these problems will not arise in the case of subcontracted public services.

It is also an argument that due to market forces and competition in the market high quality services are delivered at lower cost in the private sector. If we see logically into this argument from an economic perspective, a question comes into mind, "Is it possible for the private sector to deliver the service for less and earn profit as well?" There is an adverb of pennywise & pound-foolish. If we see the legal status of the private companies, it is their legal obligation to make profit for their shareholders. Keeping in view the legal obligation of a private company, in case of privatization, it will be the obligation for the same organization (SOE) to cut the share of investors from money available to provide the service. It is not affordable for a privatized unit to pay profit to the shareholders and provide the same level of service at less cost than the public sector. If this is happening, it means privatized unit is either providing sub-standard service or service being sponsored in shape of subsidies from the public money or service with costs not reflected in the total amounts spent. This is the easiest way to increase the number of poor people through decrease in wages & benefits and hence company’s profit comes at a huge cost to public which is very rarely documented.

There is an opinion that public employees are bad workers and it is impossible to get rid of bad public employees, so they don’t care about their jobs. If we see from another perspective in reality there are good as well as bad people in the society. The bad workers can be fixed against their deficiencies.

There is another general perception among the pro-privatization circles that the efficient use of funds means saving more at the least cost. This can only be possible at large by cutting jobs. It is seen in almost all the cases there are downsizing after any SOE is privatized. But in the real sense downsizing has not meant downsizing the work those people once did. Those who are retained see their workloads increased.
There is also a view that due to privatization all will become richer and more money is spent in the community. This has been a popular opinion since the 1980's. However, if we look into the consequences of privatization around us, we can observe a large number of jobs have been eliminated during this time. However some people became the richer rather than all and most were the sufferer as a result of privatization. Due to jobs loss, spending in the community reduced, mostly the jobs are not available and in case of availability of jobs the wage rates are very low. This results in closure of multiple businesses like super stores, restaurants, etc.

There is a perception in the common man's mind that every study shows that privatization is the best alternative. It is compulsory to find that, where do studies come from? Who are the experts who made these findings? If we look into depth, some influential groups spent a lot of time and money convincing the public that privatization is better. Like in US the Reason Foundation and the National Council for Public Private Partnerships try to convince the public by spending money that privatization is better. And in the developing countries this proof is enough to tell the public that similar thing is happening in the developed countries and success is tied with what the people in the developed countries are doing.

The other reason of people’s attraction to privatization, which is largely discussed in the media, is that privatization is shown as unblemished and the ultimate solution. It is portrayed that government will save in case of privatization and the quality of service will improve, but there is hardly any follow up on what has happened. Privatization failures are never publicized.

There is also no reason to subcontract that cannot be subdivided among many competing providers, if it is considered that privatization is efficient because of competition. Merely efficiency is not due to private sector it is actually competition. Where there's no competition, then the services might as well stay in-house.

Pakistan is the country which is under economic attack and passing through the phase of privatization. If we take the example of Pakistan, the concept of privatization is quite old in Pakistan. In 1952 Pakistan Industrial Development Corporation (PIDC) was established to set up industrial units in the country. After running successfully 50 industrial units were transferred from state owned enterprises to private sector enterprises.

In Pakistan the privatization results achieved were mixed and after the privatization there was no significant improvement in the performance indicators. In a post & pre-privatization performance analysis by taking the indicators like profitability, operating efficiency, capital investment, output, employment, leverage and dividends, 22% of the privatized units performed better and 34% were worse than before, while 44% registered no improvement or deterioration. The reason behind the privatization was to improve the efficiency of SOEs, and 1/5 of the SOEs could attain the same, whereas the rest were working with the same efficiency or worse than before. As a whole, operational efficiency deteriorated after privatization.

The objective of privatization was to earn money from the sale of the SOEs and payoff foreign and domestic debts; in spite of denationalization of hundreds of units in 1990 the cumulative loss increased from 27.8 to 220 billion in 2009.
The argument coming from other side was that after nationalization the public-run units doubled the payment of their taxes as compared to the pre-nationalization. They also said if the public sector enterprises making profit would be denationalized then they would have a negative effect on the budget. Another objective of the privatization was to attract direct foreign investment.

Moreover, the consequence of privatization was the closure of many units that had severely affected the national economy by lowering industrial & economic growth rate in the first phase of privatization. The GDP in the post privatization period reduced to 4% from 6% in 1980s. The SOEs were sold in hurry, without considering the financial position and experience of bidder. In some cases SOEs were taken over after even single installment and then buyers of SOEs immediately removed the machinery & equipment and sold the real state. The other pessimistic effect of privatization was increase in prices to a maximum level and consumers were exploited as cartels were formed by the owners of the privatized units.

The purpose of privatization was not other than to implement the instructions of International Monetary Fund, World Bank and Asian Development Bank. On the role of International Financial Institutions that why they instruct or restrict the borrowers? The IMF’s limited view of ownership conditionality guidelines has caused severe social crisis. The financial institutions like IMF, World Bank, were created under the costume of helping poor nations, but these institutions caused sufferings, crisis, failures and destroyed economies by pushing the countries towards privatization and liberalization, interfering in the decisions of the borrowing countries (i.e. privatization of cotton sector of Mali despite of opposition). In Benin, seven out of the thirteen conditions in 2005 required privatizing state-owned enterprises in infrastructure, telecommunications and cotton sectors.

Although IMF and World Bank were created for the benefit of poorer and developing nations but their agenda seems to rule the nations by adopting the core financial principles, which are: firstly, reduced protection of domestic industries. In this regard countries are not encouraged to protect and foster the domestic production. As a result countries face unemployment, lack of self-sufficiency, constantly forced to import from the developed countries. Secondly, remove or decrease financial regulations, as a result western corporations and ruling elites can take money out any time with no restrictions. A glaring example in this case is the capital flight which led to economic collapse in Indonesia in 1997. Thirdly, no or minimum state control, that is foreign governments and corporations have more say and as a result the country and its resources serve the interest of foreign actors. Fourthly, cuts on social spending that is to force the governments to reduce expenditures on health-care, education etc, which results to poorly-educated generation, higher fees for medical service, less treatment, more sufferings, and needless deaths. Fifth, removal of price control i.e. markets are to be abused by entrepreneurial greed which leads to rapid rise in prices of basic goods and services. Last but not least is raising interest rates to tackle inflation i.e. only extremely wealthy and well-connected elites can afford to borrow and build businesses. As a result small companies are kicked-out of business and markets become vulnerable to monopoly/oligopoly. The balanced solution is to look for innovative options to the way services are currently provided by improving the utilization of the existing workforce. The public sector reforms can be made through dialogue, discussion, and negotiations and without the involvement of international financial
institutions.
Instead of opposing the sale of SOEs, some politicians, following the instructions of World Bank to silence local critics, happily flog state owned enterprises, because of the involvement of heavy commissions for cutting off few billion from the sale price. It is being stated by the World Bank (World Bank's 51% owner is US treasury) that after the careful investigation for every poorer nation loans are restructured, but according to insider Stiglitz, the Bank's 'careful investigation' is not more than meetings with begging ministers in five stars hotels and ministers are given a restructuring agreement pre drafted for voluntary signature.

Some Individuals are promoted with the help of media & money to change voters’ perception. The same faces keep on rotating, with no alternate choices for public to choose their representatives,(i.e. in Pakistan a finance minister and later on prime minister of Pakistan was imported during former President Pervez Musharaf's period, and later on another finance minister was appointed who was mutually acceptable to Pervez Musharaf’s & PPPP’s governments, similar approach appears to be followed still). This also happened in Russia in 1995 when privatization was made with the involvement of US-backed oligarchs and made Russian industry vulnerable, with the effect that national output was cut nearly inb half.

In conclusion, we find privatization to be, at its best, a disrupting, socially destabilizing, and ultimately destructive method of cost saving. At its worst, privatization can actually increase costs, lower the quality of goods & services, lessen public accountability, weaken government control and sovereignty, increase costs and marginalize citizen’s involvement in the democratic process.

In Pakistan, balanced solution is to look for innovative options to the way services are currently provided by improving the utilization of the existing workforce. The public sector reforms can be made through dialogue, discussion, and negotiations and without the international financial institutions involvement. Rather opting for privatization of SOEs, government should improve the governance of the sick units, it is governance which can improve or reduce the performance of the organization.

International Financial Institutions (IMF, World Bank, etc.) at large are responsible for raising unemployment, inflation, making poor poorer, increase in the imports of developing countries from developed countries, economic collapses in the developing countries, implementing or enforcing the policies in such a way that foreign governments and corporations have more say and as a result the country and its resources serve the interest of foreign actors.