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Operational Necessity: Harnessing State-Owned Enterprises Privatization for Economic and Governance Reform in Pakistan

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KEYWORDS	ABSTRACT
State-Owned Enterprises, Privatization, Sustainable Development, Transparency	State-owned enterprises (SOEs) privatization presents a critical pathway for achieving economic and governance reform. This paper explores the operational necessity of privatizing SOEs to address systemic inefficiencies and promote sustainable development. By transferring ownership to the private sector, SOEs can undergo restructuring, enhancing efficiency, and fostering competition. Privatization facilitates improved governance mechanisms, reducing bureaucratic hurdles and enhancing transparency and accountability. Economic benefits emerge through increased productivity, innovation, and investment, driving economic growth and job creation. Furthermore, privatization can alleviate fiscal burdens by reducing government subsidies and debt obligations associated with inefficient SOEs. However, successful privatization strategies require careful planning, including regulatory frameworks to safeguard public interests and mitigate monopolistic tendencies. Additionally, transparent and inclusive processes are essential to address concerns about equity and social impact. Harnessing SOEs privatization as a tool for economic and governance reform requires a comprehensive approach, balancing economic objectives with social considerations to ensure sustainable development and equitable outcomes.
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1.0 Introduction

According to the OECD, *a state-owned enterprise (SOE) is characterized as being under the control of the state, either via the state's ownership of the majority of voting shares or by the exercise of a comparable level of control*. A State Owned Enterprise (SOE) refers to a legally established entity established by the government to engage in commercial operations (Vickers & Yarrow, 1991). State-owned enterprises (SOEs) are primarily established to engage in commercial endeavors on behalf of the government. The government has the authority to acquire whole or partial ownership of a state-owned firm, often granting it permission to engage in certain activities. Various state-owned enterprises (SOEs) exist globally, such as Fannie Mae and Freddie Mac, which get sponsorship from the United States Government (Yarrow, 1986).

In the majority of nations endowed with ample resources, it is customary for the government to own a share of ownership in domestically produced minerals, oil, and gas. The resources are acquired via the ownership or operation of shares by a state-owned firm, which is facilitated by an operating license. The license grants a state-owned enterprise (SOE) the authority to engage in a production-sharing agreement with other businesses on behalf of the government, therefore enabling the generation of money (Starr, 1988). Furthermore, income may be earned when organizations with whom a state-owned enterprise (SOE) is doing transactions make payments in the form of royalties instead of physical currency. In addition to serving as a representative of the government in commercial endeavors, a state-owned firm also engages in the sale of tangible assets, mostly to trading entities and corporations. The administration of state resources, such as oil and gas, is primarily entrusted to state-owned enterprises (SOEs) in several nations. This arrangement allows for the government to be held responsible for issues related to extractive resources (Vickers & Yarrow, 1988).

Privatization encompasses a wide range of activities, although in essence, it refers to the process of transferring assets or service delivery from the government to the private sector. Privatization encompasses a wide spectrum, whereby government engagement may vary significantly, ranging from minimal to the establishment of partnerships between governments and private service providers, with the government maintaining a prominent role (Hanke, 1987). According to the definition, *a federal agency decision to transfer control and ownership of a government-owned and government-operated commercial activity or firm to the private sector. During privatization, the agency removes related assets and resources, such as the workforce and cash needed for the task."* According to the Government Executive, the task of providing a precise definition for "privatization" is challenging. At its core, the phrase denotes the transfer of the manufacturing of a product or the delivery of a service from the government to the private sector, often via the sale of assets controlled by the government (Munir & Naqvi, 2017).

The underperformance of State-Owned Enterprises (SOEs) in Pakistan may be attributed to a multitude of factors. The argument around the present and future performance of state-owned enterprises (SOEs) is polarized, similar to other economic and social policy debates.

There is a desire to privatize all state-owned enterprises (SOEs). Some individuals are unwilling to sell their government shares in any state-owned enterprises (SOEs). The primary focus of the conversation often centers on ideological inclination (Khan, 1991). Presently, Pakistan is experiencing a profound economic crisis. Hence, it is crucial to provide a justification for the ownership or privatization of state-owned enterprises (SOEs). In recent decades, there have been notable advancements in technology, globalization, and management paradigms. Therefore, it is deemed inappropriate to continue with the same methods of governance and administration of state-owned enterprises (SOEs) that have been adhered to since their inception in the past (Naqvi & Kemal, 2002).

This research aims to elucidate the underlying factors driving privatization in Pakistan. This demonstrates the need of privatization for the economic development of a nation. This research aims to assist individuals in evaluating the efficacy of the Privatization Commission and gaining insights into the significant role that privatization plays in fostering economic stability in Pakistan. This paper will also address the issues and consequences associated with privatization. The objective of privatization is to bolster public finances and attract fresh investment, while concurrently improving the quantity and quality of products and services (Mehmood & Faridi, 2013). Privatization has the ability to unlock the company's capabilities by recruiting superior management and workers, as well as by removing bureaucratic obstacles and processes associated with the public sector. The enhanced efficacy and accessibility of capital, in conjunction with inherent incentives to enhance customer service, will lead to increased consumer satisfaction and a reduced need for tax increases. (Fatima & Rehman, 2012)

Aims and Objectives

- ✓ Explore SOE privatization's role in enhancing economic efficiency and fostering competition.
- ✓ Assess privatization's impact on governance transparency and accountability in SOEs.
- ✓ Analyze economic benefits like productivity, innovation, and investment from privatization.
- ✓ Propose balanced privatization strategies for sustainable development and equitable outcomes

2.0 Literature Review

2.1 Concept of Privatization

The policy makers of this nation are familiar with the notion of privatization. The origins of Pakistan Industrial growth Corporation (PIDC) may be traced back to the 1950s, when it was created in 1952 with the aim of enhancing industrial growth in the nation. The prominent corporation successfully developed more than 50 industrial enterprises around the nation. Following their effective operation and administration, these entities were subsequently transferred from the public sector to the private sector. In 1977, the process of nationalization, which had a widespread impact on the whole economy during the first half of the 1970s, was reversed. In the late 1980s, the government began using the privatization of State Owned Enterprises (SOE) as a significant tool for economic strategy (Bennett, 1997). The privatization process in Pakistan gained effectiveness in 1991. The privatization of state-owned enterprises (SOEs) is a complex and intricate process that is also politically and socially delicate. A meticulously crafted privatization strategy for state-owned enterprises (SOEs) effectively addresses the concerns of many stakeholders, including labour, consumers, investors, government, and the whole economy. It facilitates the advancement of capital, products, and labour markets inside the nation. The process of privatization in Pakistan has undergone many stages and has played a significant role in redefining the dynamics between private and public enterprises and government agencies. The following paragraphs provide a detailed account of the historical development and progression of the privatization process in Pakistan (Bailey, 1987).

2.2 State Owned Enterprises (SOEs) in Pakistan

Government sources indicate that there are around 200 state-owned enterprises (SOEs) affiliated with the federal government. Nevertheless, this numerical value is deceptive. Only over 50 state-owned enterprises (SOEs) own a substantial portion of the holdings held by public sector SOEs. The majority of these state-owned enterprises (SOEs) are engaged in the Energy, Communication, and Manufacturing industries. Conversely, the majority of state-owned enterprises (SOEs) are exclusively non-profit organizations established as project businesses or project management units. A significant number of these entities need to be closed, dissolved, or liquidated. Hence, it can be said that significant efforts are required for around 50 state-owned enterprises (SOEs) (Naveed et al., 2018).

2.3 Historic Context of Privatization

The nationalization programme implemented in the early 1970s resulted in a significant expansion of the public sector, reaching an uncontrollable magnitude. The nationalization process did not meet the anticipated outcomes. The policies of denationalization, disinvestment, and decentralization were implemented by the new administration in July 1977 with the aim of restoring the trust and confidence of private investors. In September 1977, the government announced the denationalization of around 2000 Agro-based enterprises as part of these measures. In addition, the government provided some State-Owned Enterprises (SOEs) with Management Contracts and implemented a performance signaling system to enhance their performance and streamline their operations and management (Hanif et al., 2020). The Transfer of Managed Establishment Order, enacted in September 1978, granted the Federal Government the authority to extend offers to the previous proprietors of nationalized businesses, giving them the opportunity to acquire their establishments by means of shares or proprietary interest. The aforementioned Order unambiguously acknowledges the pre-emptive entitlement of the prior proprietors to transfer control. Nevertheless, if the previous owners did not respond positively, the government had the freedom to transfer the administration and control to any other party according to its own criteria. Additionally, the Order envisioned the transfer of managerial control over profit-generating entities. During this era, the government's disinvestment programme had limited reach and lacked a comprehensive legal and institutional framework. As a result, only two industrial units were successfully restored to their original owners (Malik et al., 2021).

In December 1988, the newly established government engaged the services of M/s N.M. Rothschild, a British business, as consultants in April 1989. The purpose of their engagement was to conduct a comprehensive analysis on privatization strategy and the process of selecting potential applicants. In May 1989, the consultants presented their report titled "Privatization and Public Participation in Pakistan" to the government. The research proposed that the implementation of privatization on a broad ownership basis would be a suitable approach for Pakistan. The experts referred to "Wide Spread Ownership" as the process of enhancing Pakistan's capital markets by the inclusion of a substantial number of small savers in share ownership, marking a significant milestone in this regard. The research cautioned that the implementation of a widespread participation plan should be meticulously designed to prevent excessive focus on price or scale (especially during the first stages), insufficient preparation, unsuitable regulation, poor marketing, and a lack of connection with the workforce (Iftikhar, 2015). After conducting an examination of over 50 organizations, the experts have identified seven companies that have been shortlisted as prospective initial candidates for wider offers. Habib Bank, Muslim Commercial Bank, Pakistan National Shipping Corporation (PNSC), and Pakistan International Airlines Corporation (PIAO) are all part of this specific group. Sui Southern Gas Company (SSGC), Pakistan State Oil (PSO), and Sui Northern Gas Pipelines Ltd (SNGPL) are the firms brought up. (Tang et al., 2021).

2.4 Method of Privatization

Various nations around the globe have adopted diverse approaches to the privatizations of public assets, depending upon the prevailing economic realities of their respective countries and the economic philosophies espoused by the ruling political party. Privatization is often straightforward for small institutions, but gets more challenging when it comes to identifying suitable purchasers for bigger ones. The selling of state-owned firms to private investors is a prominent approach in the process of privatization (Brauers & Zavadskas, 2006). The determination of which institutions should be privatized would be made by the state, and thereafter, private investors would have the opportunity to purchase shares in each enterprise via the use of market mechanisms. The approach of privatizations has many advantages, including the generation of essential state income and the transfer of privatized enterprises to investors who possess the necessary incentives and resources for investment and restructuring. However, the challenge of locating local investors in undeveloped nations is often challenging. Voucher privatization is another often used approach to privatization. The government provides enterprise vouchers to qualified individuals on a universal basis, allowing them to either sell these vouchers to other investors or swap them for shares in other privatized organizations. The strategy under consideration does not generate money for the state; rather, it expeditiously privatizes state-owned enterprises. Several nations, including Canada and Russia, have used this approach, with the Czech Republic being particularly renowned for its voucher privatization programme (Earle & Telegdy, 2002).

2.5 Privatization with reference to Pakistan

The perspective of theoretical economics, one of the macroeconomic variables used in our much more active in reaching the intended objectives, similar to that field of study. Considering scale economies, productivity effectiveness, and technological First, we created a figure showing the link between the efficiency factors and the achievement of export goals (Fatima & Rehman, 2012). On the other hand, public sector organizations seem to be consistent with our independent variable, privatization, based on the usage of numbers for each and every variable. Labor, not always with the same goals in mind, but more often second, descriptive statistics have been used, and it has been noted that they only represent a variety of political insights on the variables. When there have been incentives to add a large number of unnecessary workers in order to be characterized as Mean, Median, Maximum, and Minimum and win the approval of their loved ones About 67% of the total sum was obtained by the Federal Government, 26% was given back to the legal organizations whose shares were sold, 5% went towards golden handshakes, and 2% went towards costs associated with rehabilitation and privatization . It should be mentioned that all of the transactions were completed using local cash. As opposed to in the context of KotAddu Power Plant, foreign currency accounted for 66.3% of the earnest money received petroleum and gas concessions (KAPCO), Pakistan Tele Communication Limited (PTCL), Habib Credit and Exchange Bank (HCEB), Habib Bank Limited (HBL), United Bank Limited (UBL), Karachi Electric Supply Corporation (KESC), and Oil and Gas Development Company Limited (OGDCL) (HUSAIN, 2018).

3.0 Methodology

This study adopted a descriptive research design to investigate State-Owned Enterprises Privatization for Economic and Governance Reform in Pakistan. This descriptive approach allowed for the systematic examination and description of existing phenomena, providing insights into the subject matter without altering the natural setting. The examination philosophy underpinning this study revolved around understanding the significance of privatization in the economic development of Pakistan. This was grounded in the belief that effective privatization of state-owned enterprises is crucial for enhancing transparency, efficiency, and citizen engagement in public administration, ultimately contributing to socio-economic development.

Statistics for this study were collected from various sources including reports, books, scholarly articles, available datasets, and indexes related to privatization models, planning commission, and fiscal development in Pakistan. The population included international agencies, national institutions, respective boards, and national databases involved in privatization in Pakistan. Statistical examination of available datasets and indexes were done to identify trends and patterns. Contextual analysis of reports, scholarly articles, and case studies to gain deeper insights into challenges and sector-specific implementation strategies. Ethical considerations were paramount throughout the research process. Data collection was conducted ethically, ensuring respect for intellectual property rights and adherence to data protection regulations. Confidentiality and anonymity of participants were maintained, and proper citation of sources was ensured to uphold academic integrity. Additionally, ethical implications of the research findings were carefully considered, aiming to promote transparency and accountability in digital governance practice.

4.0 Findings and Results

4.1 Privatization contribution to Pakistan's economic uplift

4.1.1 Budgetary Impact of Privatization

The budgetary impact of privatization is the main effect. The anticipated benefits of privatization include the removal of public sector unit losses, which were previously funded by the budget, and the use of sale revenues to pay down the nation's debt. The other viewpoint is that after their nationalization in 1973, state firms increased their tax payments over the previous year. Furthermore, the potential privatization of profitable public sector enterprises may have adverse implications for the budget, particularly if these firms were generating profits and offering the government a return that exceeded the interest rate at which it was borrowing from the market. Therefore, this argument is not applicable for profitable public sector firms.

4.1.2 Capital Markets and Promote Competition

Furthermore, the principal aim of privatization is to augment the efficacy of capital markets and cultivate an environment conducive to competition. If the government were to own full ownership of some industries, such as cement, and thereafter distribute them to many entities, it would promote a robust degree of competition. Nevertheless, in the event that the market conditions allow for the presence of both public and private sector entities for a given product, privatization will not result in any further promotion of competition. The open market facilitates the strengthening of the capital market via the sale of government share holdings, as shown by the examples of PTCL, Muslim Commercial Bank, and Al-Falah Bank. The transfer of a single public sector corporation to a private organization without offering a portion of its shares to the public does not result in any improvement in the capital market. Therefore, in order to facilitate the growth and enhancement of the capital market, it is essential that a portion of publicly listed business shares be accessible to the broader public via stock exchanges.

4.1.2 Encouraging Foreign Direct Investment (FDI)

This is still another impact of privatization, which is to stimulate direct investment from outside. It is quite unlikely that direct foreign investment in lucrative public units would be advantageous to the economy. This is because, in contrast to the advantage of an initial purchase price, one must compute the periodic transfer of profit in foreign money for years and decades to come. It is thus recommended that direct foreign investment be recruited into innovative and riskier operations via policy and design rather than through the acquisition of successful businesses. As a matter of fact, the acquisition of operations that are already in operation by foreign purchasers does not constitute an increase to the capital stock of the nation.

4.2 Two Phases of Privatization and Their Utility

Pakistan has seen two distinct phases of privatization.

4.2.1 First Phase of privatization

The first tide occurred between 1992 and 1994, whereas the subsequent tidal took place from July 2001 to October 15, 2002. The first phase saw the divestment of assets valued at Rs.120 billion, while the subsequent period witnessed the divestment of assets valued at Rs.65 billion. Asian Development Bank's specialists have undertaken a comprehensive analysis of the first phase. The study provides a comprehensive analysis, and the following table presents a concise overview of their results pertaining to the overall evaluation of the privatization process.

The data shown above provides significant evidence that a mere 22% of the privatized units exhibited improved performance compared to the pre-privatization era. Additionally, around 44% of the units demonstrated same performance, while the remaining 34% saw a decline in performance. The main goal of privatization, which was to improve the efficiency of the units, was only accomplished by around 20% of the units, while the other units continued to function with the same or worse efficiency. It is not surprising that the writers of the aforementioned paper arrived at the conclusion that the public sector and private sector in Pakistan exhibit little positive or negative attributes. Overall, there was a decline in operational efficiency after the implementation of privatization.

4.2.1.1 The Analysis of First Wave of Privatization

This finding suggests that the process of privatization has not effectively accomplished its stated objectives. According to a study by ADB Consultants, the process exhibited a lack of transparency and was characterized by instances of nepotism and corruption. The examination of the parties' credentials was inadequate. The expected fiscal results were not achieved since the funds generated by privatization were not allocated to a distinct Debt Retirement Fund, but instead deposited into the Federal Consolidated Fund, where they were used for urgent expenses.

Table 1. The Analysis of First Wave of Privatization

	Better	*Same*	*Worse*	*Total*
PMEs	9	13	16	38
Misc.	3	10	1	14
Ghee Mills	2	12	5	19
Rice Mills	2	-	6	8
Banks	2	2	-	4
Total	**18**	**37**	**28**	**83**
Percentage	**22**	**44**	**34**	**100**

Source: Impact and analysis of privatization in Pakistan: ADB report

4.2.2. Second Phase of Privatization

Privatization occurred for the second time between July 2001 and October 15, 2002. During this particular time frame, a number of significant privatization initiatives were implemented. The transactions indicated above included the sale of the "Working Interest" of the Government of Pakistan (GOP) in six oil concessions, the sale of a 51% GOP holding in UBL, the sale of Pak Saudi Fertilizers Ltd., and two capital market transactions totaling Rs13.6 billion. The total value of privatized transactions in the whole financial year 2001-2002 was Rs19.6 billion, however this sum only reached Rs19.6 billion in the last three months. The privatized transactions amounted to a total of Rs15 billion, which occurred around six and a half months prior to the transfer of control to the elected authorities. The examination of the functioning and impact of privatization during this period is constrained by its recent date of implementation. The role played by the International Monetary Fund (IMF) in facilitating the privatization of publicly supported assets is clearly apparent. The Fund's current financial mechanism, known as the Poverty Reduction and Growth mechanism (PRGF), was used to implement this effort. However, the list pertaining to privatization neglected to examine the enduring national economic interest and strategic factors. The traditional and wise government strategy, based on national interest, was to establish a "Working Interest" in oil businesses after oil exploration. This policy aimed to guarantee that oil drilling aligns with both the national and commercial interests of the corporation. GOP was granted a seat on the Board of Directors as a consequence of this "Working Interest" arrangement.

Table 2. Statistics of Second Phase of Privatization

Organization	2000-01	2001-02
PSO	2.25	3.19
OGDC	16.49	16.37
PTCL	18.19	19.81

Source: Ministry of Finance

Consequently, oil and gas corporations were unable to conceal any information from the GOP about their production, revenue, and other related matters. The Republican Party (GOP) has just divested its "Working Interest," so creating an opportunity for oil and gas firms to engage in transnational activities. The sale of "Working Interest" was therefore not in the best interest of the country.

5.0 Discussion and conclusion

Privatization has a significant role in fostering economic development by facilitating improvements in productivity, optimizing resource allocation, enhancing governance, and promoting expansion in both production and employment (Uddin & Ahmed, 2021). Profitable enterprises operating within the public sector may generate profits as a result of the distinctive market structure, which may include monopolies or other privileges or concessions granted by the government (Malik et al., 2021). However, this profit-making occurs at the cost of consumers, who are compelled to pay a price that exceeds the prevailing market rate for the respective products or services. Competition among private sector enterprises provides the common customer with advantages such as reduced pricing and improved services, as seen by the banking, telecommunications, and air travel sectors. In a market environment characterized by deregulation, the presence of public ownership poses a significant limitation due to the rule-bound processes and inflexible structure that restrict public sector enterprises from rapidly adapting to changing market circumstances. Moreover, the government's function as a regulator and impartial arbiter becomes dubious when it gets involved in the game via its own corporation. This phenomenon hinders the competitiveness and undermines the potential for development and progress inside private sector enterprises (Qamar & Saeed, 2016).

It is essential to emphasize once again that the presence of private sector ownership and the effective operation of market mechanisms need the existence of certain legal and regulatory institutions. When these institutions are not present, private entities Monopolistic or oligopolistic structures may emerge, market distortions may intensify, and markets may be manipulated to favor a select few. Robust legal and regulatory frameworks has the capacity to effectively combat these malevolent practices and provide equitable conditions for all players within the market. It is essential to enhance the efficacy of the legal and regulatory institutions inside the nation. Public policy should also be directed towards the elimination of preferential treatment or the provision of concessions or advantages to a certain demographic group

(Haroon-Ur-Rashid et al., 2009). Over the last five years, the Government has made efforts to progress in this pursuit and implement measures in a fair and impartial way. There have been no instances of firm-specific SROs being established with the intention of favoring a certain company to the detriment of others. In such conditions, the private sector would generate genuine 'profits' via competition rather than ‘rents', hence reducing the legitimate animosity against the private sector (Plane, 1997).

The examination of privatization requires a comprehensive understanding of the interplay between the state and markets. The state must possess robustness in order to effectively address market excesses and effectively manage instances of market failures. The proposition does not advocate for a diminished or diminished function of the state, but rather for a distinct role that encompasses the provision of a conducive environment for fair and inclusive development, as well as the establishment of essential conditions for growth via investments in human development and infrastructure. In order to foster robust competition and prevent market manipulation by a select few, it is essential to enhance the government's efficacy in regulating and monitoring the market. Markets serve as the primary means for effectively allocating and utilizing resources (Ali et al., 2013).

The concerns of job cuts in the business due to privatization are mostly baseless. The privatization of the banking sector serves as a counterargument to the assertion that privatization leads to job losses. In 1997, as the process of restructuring, downsizing, and privatization of nationalized commercial banks gained momentum, the financial industry employed a total of 105,000 individuals. Following the completion of privatization, the banking sector has seen significant growth, resulting in a workforce expansion to 114,000 individuals. Indeed, there has been a shift in the job landscape, with a greater influx of highly productive and talented people, while simultaneously reducing the presence of low-skilled or unskilled workers. Undoubtedly, the PTCL will undoubtedly grow under its new owners and hire more personnel, namely in the skilled sector. The enhancement of abilities will result in increased production for both the company and the industry(Ali et al., 2013).

The current composition and quantity of the workforce engaged by PTCL are inadequate to address the rising demands of delivering exceptional value-added services and developing new products. One of the challenges encountered by public sector enterprises is their inability to provide market-based compensation to their CEOs or highly skilled personnel (Ghauri, 2013). If the PTCL is prohibited from offering a salary above MP1 scale to its Chief Executive, specifically Rs. 200,000 per month, which is much lower than the remuneration received by top executives in competing private companies, it raises questions about the PTCL's ability to recruit, retain, and motivate highly skilled personnel. The competitive landscape becomes unfavorable for public sector companies due to the presence of skill shortages and redundancies, which hinder their ability to provide value-added services of comparable quality to their private sector counterparts (Zubair et al., 2022).

Consequently, the private sector is the most suitable entity to make choices on the production, quantity, distribution, and sale of commodities and services, rather than relying on bureaucrats. The process of separation and redefinition is crucial in order to mitigate corruption and foster long-term and fair economic development within the nation (Cook & Minogue, 1990). The banking industry in Pakistan has seen substantial reforms in recent years via the implementation of market-based competition, privatization of state banks, and the establishment of a robust regulatory framework. It is recommended that this model be adopted in other regions of the economy. Our economic policies and plans should be guided by pragmatism and the ability to learn from previous failures, rather than being influenced by dogma. Growth occurs only when there is a continuous increase in productivity derived from the available resources. The empirical evidence from throughout the world indicates that, on the whole, productivity tends to decrease or stay static when firms are under government management and operation, hence impeding or hindering the rate of development (Kikeri & Kolo, 2005).

Contributions

Muhammad Raza Zafar: Problem Identification and Model Devolvement

Ahsan Farooq: Literature search, Methodology

Muhammad Hasnain Ali: Drafting and data analysis, proofreading and editing

Conflict of Interests/Disclosures

The authors declared no potential conflicts of interest w.r.t this article's research, authorship, and/or publication.

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