Stopping the financial hemorrhage in public sector enterprises

By Moin M. Fudda

State-owned enterprises (SOEs) are among the more serious and chronic ailments of Pakistan's wobbling economy. They were responsible for hemorrhaging around $3 billion in the fiscal year 2010, according to the finance minister's last budget speech. This amount is two-thirds of the annual defence budget and double the promised annual Kerry-Lugar-Berman assistance to Pakistan. SOEs are a major drain on the country's budget and devour public resources without any remorse or compunction. These corporate behemoths have been maintained by successive governments to fulfill their own political agendas. Governments have bald-facedly resorted to granting excessive and out-of-merit employment at all levels in these organizations, causing acute inefficiencies and deep-rooted corruption.

Even if, at some places, there are honest people at the helm of affairs, by virtue of their background they cannot run enterprises like business managers. They lack business acumen and are too shy to take pure investment decisions like entrepreneurs. Their promotions or reward system is not linked with business performance. They might be competent in matters related to administration, but political appointments and politicized unions are what they have to constantly manage, instead of applying their minds to making the organization commercially viable and profitable.

Staffing of SOEs is a highly politicized matter. Last year the government passed a bill to reinstate thousands of employees, who were let go by the earlier governments, with retrospective benefits. There is no provision for investigating whether those reinstated are already employed somewhere else or established own businesses. As a consequence, they will reap the windfall benefits at the cost of others who are deprived of livelihood. Regrettably, SOEs that are publicly listed and, therefore, partly owned by individuals, companies, and mutual funds, had no say in this bill even though, under the Code of Corporate Governance, such decisions are to be made by the board of directors. Instead, the costly employee reinstatement decision was made by direct intervention from the majority shareholder — the government. This law will no doubt be a cause of further financial hemorrhage to the SOEs and cripple them in the long term.

Thus, privatization in a transparent and open manner is the only way to unleash the pent-up productive potential of the nation's resources and add significant value to those assets. Since the early 1990s, successive governments have pursued significant privatization policies but, unfortunately, the process has come to a screeching halt since 2008. Due to Pakistan's poor image worldwide, foreign investors are wary of investing in the country. Therefore, the government should use the secondary offering of companies already listed in order to generate much-needed funds to reduce state borrowing and curb inflation.

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Realizing that the successful privatization either through strategic sale or by way of public offering will only be possible if the affairs of these SOE's are managed by the competent boards of directors and professional management, Economic Restructuring Unit of the Ministry of Finance in October 2011 constituted a taskforce comprising a wide range of stakeholders including relevant ministries that have ownership of PSEs, representatives from private sector, Securities and Exchange Commission of Pakistan, Pakistan Institute of Corporate Governance, Pakistan Business Council etc. With the assistance of Center for International Private Enterprise, the taskforce became the driving force towards productive debate on this issue. While the Task Force is currently studying the various models of successful ownership and governance structure such as Khazana of Malaysia and Crown Company Model of New Zealand, to begin with, and as s a result of several meetings and internal consultation process, the task force keeping in view the current scenario, concentrated on homegrown corporate governance regulations for public sector entities which were notified by the Securities and Exchange Commission of Pakistan on 22nd March 2012.

The draft regulations have been designed in view of the distinct governance challenges faced by the PSEs. Recommendations made in the draft regulations include measures to optimize the efficiency, enhance the transparency in operations, and provide a mechanism for accountability of the management. Draft Regulations are now available on SECP's website for review and comments.

Aiming at generating further public debate to create awareness about corporate governance in PSEs, in the next phase roundtables in major business centers of Pakistan will be held. It is expected with an active participation of stakeholders at large and interests of the regulators and parliamentarians, soon these draft regulations will pave the way for implementation of ownership structure of SOE's together with the Code of Corporate Governance.

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