Reducing bleeding by State-Owned Enterprises (SOEs)

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Background

- Privatization and efforts for reorganizing and transforming SOEs has had limited success.
- The PTI-wealth fund concept, Hussain's effort to restructure bureaucracy, concept of a "CPEC" and "Reko Diq Authority", "CIRC" of past cleaning balance sheets of HBL/UBL for privatization and then suggestions and attempts at empowered non-political autonomous boards, signing of performance KPI based contracts with CEOs selected on merit by boards- have all failed as strings continue to be controlled by parent Ministry.
- State-owned Enterprises (Ownership and Management) Policy 2023 aims to enhance governance and operations of SOEs but Board Nomination Committee in the relevant Ministry/Division are yet to be activated and when will BNC ensure compliance to the guidelines in the policy and enforcement of provisions of SOE Act? The hurdles need to be overcome.
- The SOE (Governance and Operations) Act 2023 progress is at a snail pace and now a committee constituted by Finance Division comprising Power and Petroleum Divisions to propose appropriate amendments to the Act to enable review of Board of Directors of SOEs to bring in competent professionals.
- Fear of NAB/FIA has limited out of box approaches and decision making causing thinking of CPEC Authority be given immunity from these institutions, said it all; not to forget Reko Diq award resulting in Foreign Investment (Promotion and Protection) Bill, 2022 passage highlighted the extreme protection now sought for FDI.
- With the Bill & Act in place, the next goal should have been restructuring of SOEs and their assets/debts, learning from "Sarmaya-e-Pakistan" which aimed to facilitate P3P transitions but lost its direction due to lack of preparedness and political will to see it through to its logical end.

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In the Box Solutions

- **Challenge 1- SOEs**

- *There is no instant gratification*
- Lesson: Turnaround requires time, patience, and endurance
- *Instead of a big bang hopium based approach, sustained efforts by an effective empowered leadership team is required, to manage the SOEs based on principle of working for profit and not being bailed out beyond 3 years.*
- Although, privatization success stories in banking and of K-Electric have been a game changer, it is increasingly apparent and necessary to catalyse SOEs disinvestment under a P*3P mode of implementation and by reviving PIDC.*
- This <u>disruptive approach of reviving PIDC</u> is essential especially given our history of privatization being a long drawn process e.g disinvestment of HEC was in *fifth attempt* after 14 years!
- Shares of the 207 SOEs be placed under a "Revived PIDC"
- Each SOE be then placed into verticals (holding companies) e.g **a)** refinery, E&P, OMC, Gas, Coal; **b)** Power generation, DISCOs and transmission; **c)** Industry, Fertilizer, Minerals; Media and Communication; **d)** Logistics and Supply Chain; **e)** Services, Engineering, Conservation; **f)** Fund, Bank, Insurance etc.
- The Foreign Investment (Promotion and Protection) Bill, 2022 be extended and applicable to "Revived PIDC" Board, Holding Company Verticals and their team across the hierarchy.
- <u>This disruptive measure is necessary to manage commercial assets, hold government shareholding of SOEs, undertake aggressive transformation, consolidation of roles including reduction/merger of departments, companies; followed by undertaking strategic investments (lowering losses, infrastructure, energy conservation, developing regional footprint) and partnering with defence production industry to increase engineering exports and introducing products into the local market.</u>

- **Challenge 2- DISCOs**

- We continue to dream of stemming rot in our DISCOs by privatizing them, provincializing them, handing over management control, propagating changing of BODs and continuing narrative of empowering CEO and management further.

- *A lost cause without MoE role being eliminated. We need not to reinvent the wheel in case of DISCOs.*
- **We should appreciate the benefit and success of a vertical utility** K-Electric (KE) that required 15 years of focus, spines of steel and team commitment to achieve over 50% reduction in T&D losses (34.2 to 15.8% over past 17 years and 2030 target of 12.8%), deliverance of reliable power and improvements in customer service.
- Transformed KE is now willing to compete in the distribution segment and unbundled license has been approved by NEPRA and has initiated vision to achieve 30% generation of 1182 MWs through renewables and investment of Rs. 484bn by 2030.
- Provincialism of DISCOs under P3P between province, federal government and IPPs of the DISCO franchise area could be with *m*ajority equity held by the IPP and public with a 25% free float but at no time is GOP/Provincial share to exceed 30% and investment by an experienced partner encouraged.
- The implementation and operational efficiency focus has to start with PESCO, SEPCO, HESCO, TESCO, AJK, QESCO *(83% electricity losses of Rs 520.30bn in FY23),* increasing recovery from low 92.7% in FY23 to 96% by FY 26. Leave out IESCO and FESCO as they have demonstrated success story of turnaround.

- **Challenge 3- Pakistan Development and Wealth Fund, EXIM**

- Pakistan Development Fund of USD 1.5bn set up in 2014, EXIM Bank of Pakistan set up in 2015 was inaugurated last year in 2023, establishment of sovereign wealth fund last year and capitalising it with $8 billion in shares in state-owned enterprises.
- They all need a road map of also promoting the SOEs. Why not merge the three funds and use them for growth of SOEs and they undertake P3P and G2G transaction modes effectively?
- Alternatively they need to operate with an independent Board of local and external professionals only, who's Chairman with strong academic credentials and experience having rank of a Deputy Prime Minister/Senior Minister e.g Saudi Arabia's Public Investment Fund, Qatar's Investment Authority, Emirates and Abu Dhabi Investment Authority. The Board and its decisions are to be protected under the Investment Bill by Parliament and SC with reporting lines leading to PM.

Accountability and performance measurement focus be by Senate

- PM is bogged down by chairing ECC, NSC, Inter-Ministerial Economic Committee etc and cannot provide focus
- Instead SIFC undertake integrated planning with a National Development and Reform (NDR) function to define national strategy with Cabinet owning detailed Ministerial time based action plans whose progress is reported by a PMU under AGP that reports status to SIFC (not PAC) who in turn presents in parliament for debate and approval.
- AGP is to play its role to facilitate process improvements and not produce volumes of paras.
- Lean Government requires consolidation of roles of Commerce and Industry, Exports, BOI, Maritime Affairs, Railways and Communication, Science and Technology, IT and Education, Energy, Defence Industry, Foreign Affairs, Agriculture and Planning Commission under NDR headed by a Deputy PM/Sr Minister.
- Another Deputy PM/Sr Minister having reporting of Defence, Interior, Finance and Revenue, Law and Parliamentary Affairs, Religious Affairs merged with Population Planning Inter Provincial Affairs, Cabinet and Establishment Divisions, SoEs
- Both to report to PM

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- **Prime Minister** providing focus (like a Chief Executive of a large MNC) to reduce cost of operations, taking the difficult economic measures, ensuring actions by Establishment Division to consolidate roles, undertaking merger of responsibility and thereby eliminating redundancy in Government structure; reducing bleeding in 206 SOEs by rebuilding and revitalizing through 50/60 SOEs that control over 97% of the assets held; pursuing vertical integration of DISCOs with generation plants rather than initiating green field developments over the next 3 years is critical.
- By retaining SOEs, implementing strategic reforms, enhancing transparency, merger and fostering innovation, we can harness the potential of the state-owned enterprises by turning them around and ensuring they contribute significantly to national development.
- *This homegrown solution requires continued long term effort, commitment with clear understanding that there is no shortcut to deliverance of results and that they will not occur immediately, despite all the hopium portrayed.*
- There is no significant venture capital or project funding available nor is $1.2bn FDI over next 3 years sufficient
- Sinosure, Gulf countries and bilateral funds sitting on the fence awaiting policy reforms and improvements, yet SOEs bleed, circular debt reduction containment effort is not getting off the ground, SEZs are real estate business opportunity, agriculture, cottage industry SMEs and IT continue to seek a holding hand and tourism industry is clueless.
- *They will queue when we show visible commitment, make requisite structural changes in the SOEs, ensure timely resolution of issues instead of passing monkey onto the investor as our chequered history unfortunately depicts and visible pursuit of action plan to eliminate* Circular Debt
- We know this to be a hard task but one that is essential and without which P3P, privatization, revival of SOEs and independent regulators will not happen.
- Nor will integrated planning occur or a rolling 15 year strategy evolve, nor redefining of governance will take place without an accountability process that encourages out of box approaches including a mind set that believes in a competitive environment, profit making being kosher and discourages culture of subsidies.