



Pakistan: Supporting State-Owned Enterprise Corporate Governance and Performance

Project Name	Supporting State-Owned Enterprise Corporate Governance and Performance				
Project Number	55185-001				
Country	Pakistan				
Project Status	Approved				
Project Type / Modality of Assistance	Technical Assistance				
Source of Funding / Amount	<table border="1"> <tr> <td>TA 6791-PAK: Supporting State-Owned Enterprise Corporate Governance and Performance</td> <td></td> </tr> <tr> <td>Technical Assistance Special Fund</td> <td>US\$ 500,000.00</td> </tr> </table>	TA 6791-PAK: Supporting State-Owned Enterprise Corporate Governance and Performance		Technical Assistance Special Fund	US\$ 500,000.00
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Technical Assistance Special Fund	US\$ 500,000.00				
Strategic Agendas	Inclusive economic growth				
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development				
Sector / Subsector	Public sector management - Reforms of state owned enterprises				
Gender Equity and Mainstreaming	Some gender elements				
Description	The knowledge and support technical assistance (TA) to the Government of Pakistan will improve the corporate governance and performance of its 212 state-owned enterprises (SOEs). The Asian Development Bank (ADB) will provide support to the government in high priority areas that are included in the draft SOE (Governance and Operations) Bill 2021, which is before National Assembly of Pakistan (Parliament), and the new SOE Ownership and Management Policy (SOMP) that is being developed. The TA contains actions and initiatives in support of the following reforms: (i) the strategic policy framework for SOEs improved, (ii) the legal and regulatory framework for SOE reform improved, (iii) SOE corporate governance improved, and (iv) institutional capacity for SOE reform implementation and ownership monitoring improved. The TA is aligned with the priorities of ADB's Strategy 2030, particularly the accelerating progress in gender equity and strengthening governance and institutional capacity operational priorities, the Sustainable Development Goals, the country operations business plan for Pakistan, 2020 2022, and the country partnership strategy for Pakistan, 2021 2025.				
Project Rationale and Linkage to Country/Regional Strategy	<p>Status of Pakistan state-owned enterprises: Pakistan has 212 SOEs which are incorporated under various legal structures. The majority of the SOEs, 186 of these, are established under the Companies Act 2017 of which 139 are deemed commercial entities while 47 are registered as Section 42 companies. Section 42 companies are deemed non-commercial enterprises. The remaining 20 SOEs comprise 11 statutory authorities and 9 development financial institutions. SOEs operate in most economic sectors including transport, ports, power, highways, manufacturing and heavy industries, postal and financial; they are often either the dominant or monopoly service providers in their respective sectors. In fiscal year (FY) 2017 the SOE portfolio generated a combined output of 10.9% of gross domestic product (GDP) and had an asset value that represented 53.7% of GDP. In creating SOEs, the government has a responsibility to ensure that they are run efficiently and in the best interest of their ultimate owners, the people of Pakistan.</p> <p>Poor financial performance. Despite its size and economic significance, the SOE portfolio financial and operational performance has been weak. For FY2018, the most recent data available, the portfolio comprised \$119.0 billion in total assets and \$31.5 billion in total equity but generated negative returns of -1.37% return on assets and -5.16% return on equity. The only sectors in which SOEs achieved positive results were the financial sector and promotional and advocacy sectors, that is, generating 0.70% and 0.68% return on assets, respectively (footnote 5). The three sectors with the largest negative returns on assets were industrial and engineering (-6.63%), transport (-4.17%), and services (-3.04%). Losses in the four largest SOEs (Pakistan International Airlines, Pakistan Steel Mills, Pakistan Railways and National Highway Authority) totaled over 3.0% of GDP. The government has continued to provide loss-making SOEs with ongoing financial support, which has also exacerbated the negative impact of the coronavirus disease (COVID-19) pandemic on the fiscal position. Loans and subsidies paid to SOEs, and funded from the federal government budget, totaled \$3.51 billion in FY2017 (around 1.8% of GDP). In the 5 year period FY2013 to FY2017 the total of loans and subsidies paid to SOEs from the federal budget was \$12.8 billion (footnote 5).</p> <p>Government state-owned enterprise reform agenda. In July 2019, to assist the Government of Pakistan to address significant balance of payment challenges, the International Monetary Fund (IMF) agreed to a \$6 billion 39-month Extended Fund Facility (EFF). SOE reform was identified as a high reform priority under the EFF and central to the government's plans to address structural impediments to investment and job creation, balanced economic growth, and human capital development. The government agreed to four initial structural benchmarks to improve SOE governance, transparency and efficiency: (i) the privatization of seven SOEs ; (ii) increased SOE transparency through new audits of Pakistan International Airlines and Pakistan Steel Mills; (iii) a triage of SOEs that will designate them as either for sale, liquidation or retention under state ownership. The Ministry of Finance, with support from the World Bank, undertook the triage which was completed in April 2020; and (iv) development of an overarching SOE legal framework aimed at modernizing and clearly defining the role of the State as owner, regulator and shareholder and drawing from international best practices in corporate governance principles.</p> <p>Potential ADB support. In February 2021, following the preparation of a 2020 ADB-funded diagnostic study on the status of SOEs in Pakistan (footnote 4) and ADB support for the development of the final SOE structural benchmark under the EFF, that is, the development of a new SOE law, the government requested follow-on ADB TA support to build on these early achievements and help it progressively implement its reform priorities. These included: (i) adopting and implementing the new SOE law that is before Parliament (para. 1), (ii) improving the SOE legal framework to increase the number of independent SOE directors, (iii) developing and adopting a skills-based selection process for all SOE directors, (iv) establishing clear roles and accountabilities for SOE directors, (v) ensuring that SOE boards operate under a clear commercial mandate, (vi) developing a comprehensive community services obligation framework that would apply to all commercial SOEs, (vii) developing an effective forward-looking business plan containing financial and non-financial performance targets, and current audited accounts, (viii) developing and adopting a SOE ownership and reform policy that would guide future reform activities, and (ix) establishing a central SOE ownership monitoring entity to enable effective ownership monitoring including ensuring the SOE board is held accountable for performance.</p>				
Impact	Macroeconomic management strengthened and more sustained and inclusive growth supported				
Project Outcome					

Description of Outcome	SOE corporate governance, commercial performance, and public service delivery improved; and reliance on the national budget decreased.
Progress Toward Outcome	
Implementation Progress	
Description of Project Outputs	Strategic policy framework for SOEs improved. Legal and regulatory framework for SOE reform improved. SOE corporate governance improved. Institutional capacity for SOE reform implementation and performance monitoring improved.
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Nation-wide

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Business Opportunities	
Consulting Services	The TA will require consulting input of 6 person-months of international and 24 person-months of national experts on intermittent basis. ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions

Responsible ADB Officer	Tora, Laisiasa Natakubu
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	Ministry of Finance Q-Block, Finance Division, Pak Secretariat, Red Zone, Islamabad, Pakistan

Timetable	
Concept Clearance	16 Jul 2021
Fact Finding	23 Aug 2021 to 23 Aug 2021
MRM	-
Approval	04 Oct 2021
Last Review Mission	-
Last PDS Update	05 Oct 2021

TA 6791-PAK

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
500,000.00	0.00	0.00	0.00	0.00	0.00	500,000.00	-	0.00

Project Page	https://www.adb.org/projects/55185-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=55185-001
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