Early Warning System

ADB-55185-001

Supporting State-Owned Enterprise Corporate Governance and Performance

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Quick Facts

Countries	Pakistan
Financial Institutions	Asian Development Bank (ADB)
Status	Approved
Bank Risk Rating	U
Voting Date	2021-10-04
Borrower	Government of Pakistan
Sectors	Law and Government
Investment Type(s)	Advisory Services, Grant
Investment Amount (USD)	$ 0.50 million
Grant Amount (USD)	$ 0.50 million

Project Description

According to Asian Development Bank (ADB) documents, the proposed investment seeks to provide knowledge and support technical assistance (TA) to the Government of Pakistan, which will improve the corporate governance and performance of its 212 state-owned enterprises (SOEs). 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

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.

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).

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.

Investment Description

- Asian Development Bank (ADB)

The TA is estimated to cost $500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources).

Contact Information

Responsible ADB Officer	Tora, Laisiasa Natakubu
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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

ACCESS TO INFORMATION

You can submit an information request for project information at: https://www.adb.org/forms/request-information-form

ADB has a two-stage appeals process for requesters who believe that ADB has denied their request for information in violation of its Access to Information Policy. You can learn more about filing an appeal at: https://www.adb.org/site/disclosure/appeals

ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main.

Bank Documents

- Project Disclosure PDF [Original Source]
- Supporting State-Owned Enterprise Corporate Governance and Performance: Technical Assistance Report [Original Source]