CENTRE OF EXCELLENCE
China Pakistan Economic Corridor

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Reforming the State-Owned Enterprises of Pakistan: Learning from China & BRI Countries

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Ministry of Planning, Development & Reform
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Pakistan Institute of Development Economics
Islamabad

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Roundtable Conference on Reforming the State-Owned Enterprises of Pakistan: China and BRI Links

Welcome Address and Opening Remarks
Dr. Shahid Rashid
Executive Director, CoE-CPEC

Dr. Shahid Rashid Executive Director Centre of Excellence welcomed the dignitaries and explained that the Round Table Conference (RTC) is jointly organized by Centre of Excellence China Pakistan Economic Corridor (CoE-CPEC), Al-Aman Holding and the Pakistan Institute for Development Economics (PIDE). The purpose of the conference is to observe the current situation of the State-Owned Enterprises (SOEs) in Pakistan and deliberate on what lessons can be learned from the Chinese reforms of State-Owned Enterprises to ensure the efficient role of SOEs in CPEC and the Belt & Road Initiative (BRI).

Inaugurating the roundtable conference, he highlighted the importance of the revival of State-Owned Enterprises through restructuring. It was emphasized that these enterprises may be managed under one umbrella of a sovereign fund or a holding company with modern practices of the corporate sector. The priority shall be given to the bigger ones like, Pakistan International Airlines (PIA), Railways and Steel Mills, etc.; however, the smaller ones cannot be ignored. In this regard, a wide spectrum of restructuring and reorganization of SOEs must be carried out for performance improvement. The reforms may be in the form of privatization, mergers, performance enhancement and restructuring through signaling system and corporate planning, so that the SOEs of Pakistan can emerge as a vibrant sector of Pakistan.

Dr. Shahid further added that there are 197 SOEs in Pakistan as of 2015-16 year including 179 Public Sector Companies (PSCs), 8 Development Finance Institutions (DFIs) and 10 Federal Authorities. Their total assets are of Rs.11, 552 billion with total net revenue of about Rs.3, 056 billion and net loss of Rs. 44.77 billion. These SOEs are mainly from energy, finance, industry, engineering, trade and transport sector etc. and most of them are appearing in loss, therefore, we may learn from China and other BRI countries through their structural reforms.

He then briefly introduced the Centre of Excellence for China Pakistan Economic Corridor (CoE-CPEC), Islamabad. The Centre of Excellence for CPEC is a joint initiative of Pakistan Institute of Development Economics (PIDE) and Ministry of Planning Development and Reform (Mo PD&R), Islamabad. It is a first official think tank for carrying out policy research on different aspects of CPEC. It aims to become an evidence-based research and policy guiding think tank on CPEC for Policy makers, Project Implementers, Business community and Society at large. The Centre conducts research on six thematic areas including:

1. Financing and Financial Sector Integration under CPEC
2. Urban Development in Pakistan under CPEC
3. Socio Economic Impacts of CPEC
4. CPEC Trade and Industry Cooperation
5. Regional Connectivity under CPEC
6. Job Growth and Human Resource Development

The participants included H.E. Yao Jing, Ambassador People's Republic of China to Pakistan, Dr. Asad Zaman, Vice-Chancellor, PIDE. Mr. Istaqbal Mehdi, Chairman, Al-Aman (Pvt) Ltd, Dr. Arshad Zaman, former Chief Economist, Mr. Hassan Dawood PD-CPEC, Dr. Shahid Rashid, Executive Director, Centre of Excellence-CPEC, Dr. Noureen Adnan, Policy Head Centre of Excellence-CPEC, Dr. Idrees Khwaja Dean Air University, Dr. Karim Khan PIDE, and Mr. Younas Kakar Senior Research Fellow Centre of Excellence-CPEC.

Welcome Address and Opening Remarks
Dr. Shahid Rashid
Executive Director, CoE-CPEC

H.E Mr. Yao Jing, Ambassador of People's republic of China was the chief guest for the round table conference. He addressed the RTC and shared his views on the gradual reforms of SOEs in China that started in 1978 and focused on devolution of corporate power with emphasis on incentivizing the managers and employees to achieve higher profits and growth. Different strategies for the radical reforms were introduced since then; including the protection of property rights, responsibilities of SOEs, professional management and separation of business and regulatory functions.

He further elaborated the most challenging thing of the time was competition in the market. In the 2nd stage China started a new policy "social accumulation policy". By social it means that the major companies or the major ownerships will be controlled by the state. Initially, distribution of resources become a little controversial because market was huge. Government provided support in management and distribution of resources. In 2000, The Global strategy was adopted in China, through which social and economic reforms were made. In 2005, process of financial deepening started and SOEs reforms were enforced in 15 sectors. Top five companies get listed on stock exchange.

He further stated that Pakistan is focused to mitigate its economic problems, considering different reforms to establish strong economic system. Young population of Pakistan need skills, education, and better business opportunities. Government of

Pakistan took appreciable initiatives like provision of high skilled education, establishment of favorable business environment. The collaboration for policy development between the two nations is necessary for the betterment of both countries. Centre of excellence can work as a bridge between China and Pakistan to learn from Chinese experience.

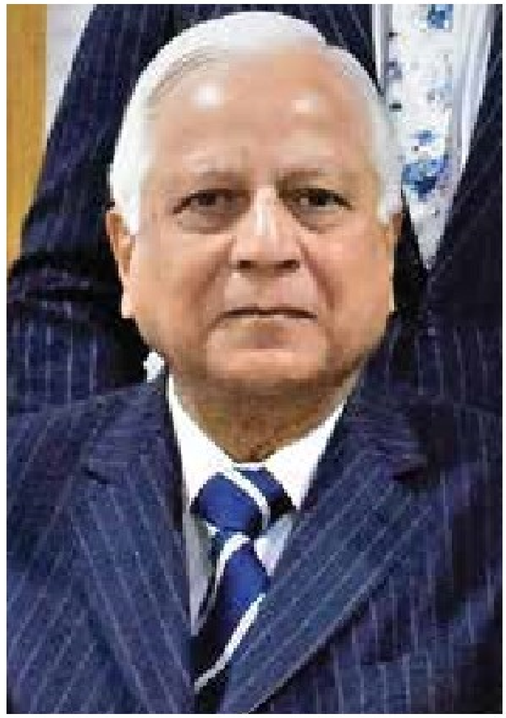
Remarks:
Dr. Arshad Zaman
Former Chief Economist (MoPDR)

Dr. Arshad Zaman endorsed H.E. the Ambassador's suggestion that CoE-CPEC become a bridge for mutually sharing and adapting the two countries' experiences. In this connection, Dr. Zaman mentioned that Pakistan can learn from China's strategy of classifying their Central SOEs (yangqi) between welfare (gongyilei) and commercial (shangyilei) SOEs and developing different reform programmes for each type. In order to institutionalize this learning, he suggested the possibility of establishing a BRI Centre for SOEs, like the UN-sponsored International Centre for Public Enterprises in Developing Countries (ICPE), established in 1974 in Yugoslavia (now the International Centre for Promotion of Enterprises, in Slovenia). The Ambassador was receptive to the idea and asked Mr. Mehdi and the CoE-CPEC to send him a proposal on it.

Dr. Arshad Zaman also observed that the focus of all public discussion has been on what China can do for Pakistan. For better balance, he asked H.E. Yao Jing what Pakistan can do for China under CPEC? The Ambassador replied that Pakistan has done much for China as China-Pakistan relations were central to the new diplomatic pattern being pursued by China. In the current international scenario, Pakistan has provided China access not only to Indian Ocean but also to West Asia and the Middle East. Also, Pakistan is a potential market for China, and CPEC is central to the success of China's key Belt & Road Initiative (BRI). Finally, he saw Pakistan as a bridge to the Muslim world, in which state-to-state relations are expanded to become a core for mutual interactions between civilizations.

In closing, H.E. the Ambassador appreciated the value of this RTC and suggested conducting a follow-up seminar on SOEs in China to initiate a dialogue between Pakistani and Chinese experts on SOEs. With these remarks inaugural session ended.

Reforms of SOEs in Pakistan
Mr. Istiqbal Mehdi
Chairman, Al-Aman (Pvt.) Ltd.



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1. Efficient Organizational Structure: A three tier Italian model organization was conceived for managing public industrial sector in Pakistan. In this model 75 industrial enterprises were managed by a super holding corporation i.e. Board of Industrial Management (BIM) though 8 specialized holding corporations. Subsequently, BIM was replaced by a highly professional body called Expert Advisory Cell (EAC).

2. Autonomy Structure: An efficient autonomy structure was conceived based on the research work done by two scholars i.e. Ellioit & Jacues in 1975-76. The autonomy framework specified six areas to be controlled by the government/owners. The seventh area was "Do nothing else". This indeed is the most difficult condition in managing SOEs in a political environment owing to their multiple objectives and plural contracts.

3. Signaling System for Public Enterprises: The signaling system is managed under a concept that SOEs should be managed by its results and not by processes. The system revolved around an incentive linked and pre-demined target-based evaluation system. The system focused on improving operational efficiency in the short period.

4. The reform program was strengthened by an early warning system i.e. Management Information System (MIS).

5. Scope of Signaling System was also strengthened by a corporate planning system to improve performance in longer term. The corporate Planning System was acquired from World renowned consulting firm i.e. M/S Arthurs D.Little.

The impact of the SOEs reform in the 1980s resulted in positive change in Pakistan. Almost all the 75 public industrial enterprises turned corner and were converted into profit making. This accomplishment lead to numbers of research work and surveys by scholars i.e. Mary Shirley and John Nellis etc. of multi-lateral agencies like the World Bank. All of them concluded that the reform program of Pakistan has changed the behavior of SOEs managers in a positive way.

As a consequence of these accomplishments large number of countries such as South Korea, Philippine, Mexico and India adopted Pakistan's reform model. Ironically while the reform program has been disbanded in Pakistan, it continues to operate in India, South Korea etc.

Mr. Mehdi summarized following actions needed to be taken to move forward:

I. A series of Conferences/RTCs be organized in which the experts of the two countries participate, and also evolve a program that benefit the SOEs of two countries and subsequently BRI countries.

II. An institution on the model of ICPE Slovenia may be established. As the ICPE has changed its functions away from SOEs management, it is extremely critical that an institution specializing in SOEs management i.e. Research, training and advisor in reform of SOEs be established.

III. In order to avoid wasting time, a committee comprising China and Pakistan SOEs experts be constituted to attain the given objectives.

Privatization of State-Owned Enterprises
Dr. Asad Zaman
Vice Chancellor (PIDE)

Dr. Asad Zaman emphasized on the "motivational" factor and the need of collective action. He asserted that the role of honesty, integrity and morality is ignored from the motivational factors development. He further added that for revamping of enterprises, the parameters i.e. institutional factors, rules and regulations, internal and spiritual aspects are of pivotal importance. For the efficient functioning, public and private sectors are dependent on each other. Comparison of private and public sectors portrays wrong perception of solution. Once the possibility of collective action is lost due to this dichotomy (Private vs state owned), then there is only one possibility for collective action, acting as one community. Single community can define common goal and can achieve rule of Law.

On the Chinses learning experience; he said that Chinese SOEs are strongly committed to social welfare and these SOEs are currently more than 50% of their GNP. However, he suggested that we must use the strategy, which is culturally aligned. China has Confucian model that is based on social and ethical philosophy, and we have an Islamic system based on religion therefore, it is imperative to align our motivation with our cultural and religious norms. He proposed that motivation should be service oriented rather than profit oriented, and our prime focus should be on community-based development by adopting the human capability approach, which is near to Islamic teachings. We must create our own models and our Islamic heritage has those models.

To establish efficient SOEs, we need to work on re-aligning the motives of the workers in the SOEs. The idea that the profit motive can replace the social service motive has been proven wrong by many different examples. The Global Financial Crisis was caused by the search for profits, without regards to social responsibility. In contrast, Chairman Mao-Tse-Tung changed the destiny of the Chinese by inspiring them with a powerful vision based on their past. Similarly, campaign based on inspirational poetry aligned with our heritage based on Islamic ideals can launch the internal changes required to create great managers in both public and private sectors.

Situational Analysis of Pakistan SOEs and learning from China

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Senior Research Fellow
Financing and Financial Sector Integration
Centre of Excellence for CPEC, Islamabad

Dr. Noureen Adnan
Policy Head
Financing and Financial Sector Integration
Centre of Excellence for CPEC, Islamabad

Financing and Financial Sector Integration Division of Centre of Excellence for CPEC conducted an analysis of State Own Entities for FY16. Dr. Noureen Adnan and Mr. Younas Kakar presented a snapshot of operational and financial performance of SOEs in Pakistan for future reform strategies and policy actions. This analysis also attempts to identify possible benchmark institutions based on certain parameters for enhancement of performance of the poor performing entities. The role of state-owned entities is pivotal for overall economic growth in an economy, so it is imperative to revamp SOEs for economic uplift of the country. The data used in this section is taken from Ministry of Finance, Government of Pakistan.

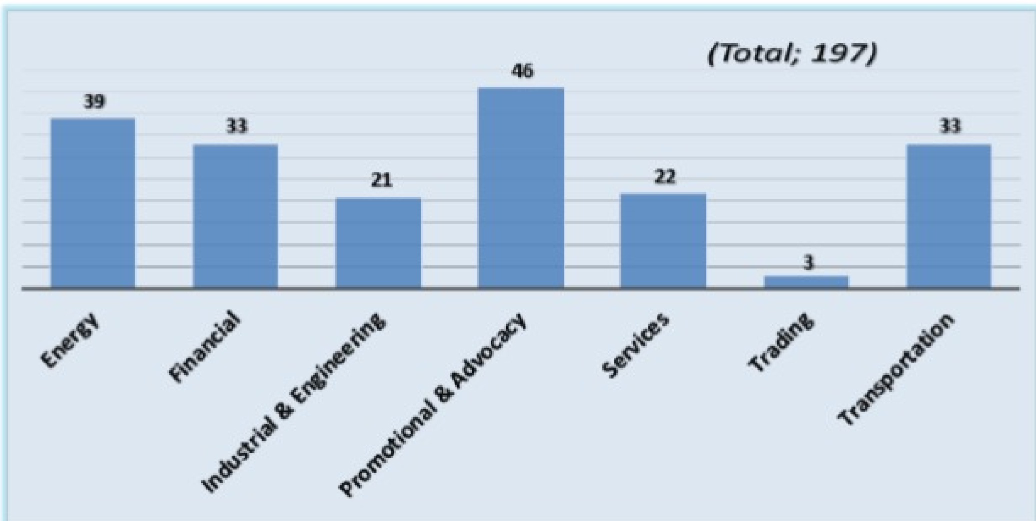
Table 1

Executive Summary	
Total Number of SOEs	*197*
Total Revenue (Rs. Million)	*3,056,295*
Total Assets Deployed (Rs. Million)	*11,552,783*
Total Net Profit/(Loss) (Rs. Million)	*(44,772)*
Total Human Resource	*424,014*

Values are for FY16

Table 1 broadly summarises the status of SOEs in Pakistan for FY16. It can be seen that during FY16, 197 SOEs generated net loss of 44.77 Billion with total asset and human resource deployment of Rs. 11,552 Billion and 424,014 respectively. Total revenue generated for FY16 is Rs. 3,056 Billion.

Figure 1. Sectoral Classification of SOEs



Values are for FY16

Figure 1 shows that out of 197 SOEs, 46 comes from Promotional and Advocacy sector followed by Energy sector with 39 SOEs. Trading sector is the smallest with only 3 SOEs in FY16.

Figure 2. Sectoral Classification of Human Resource

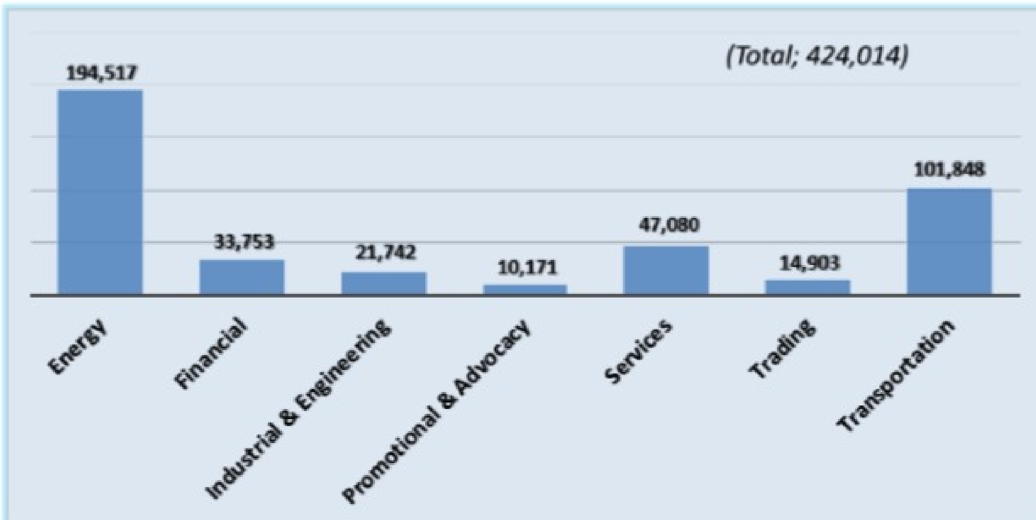
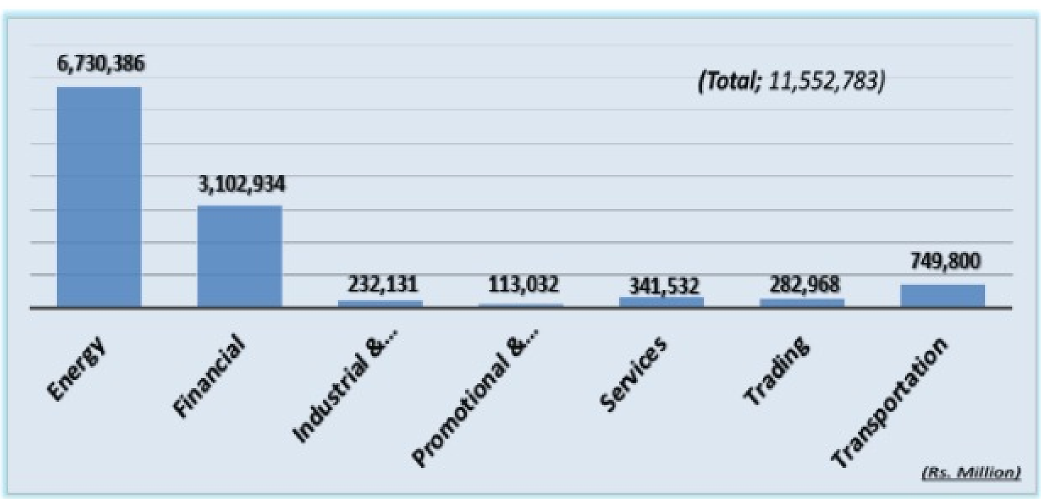


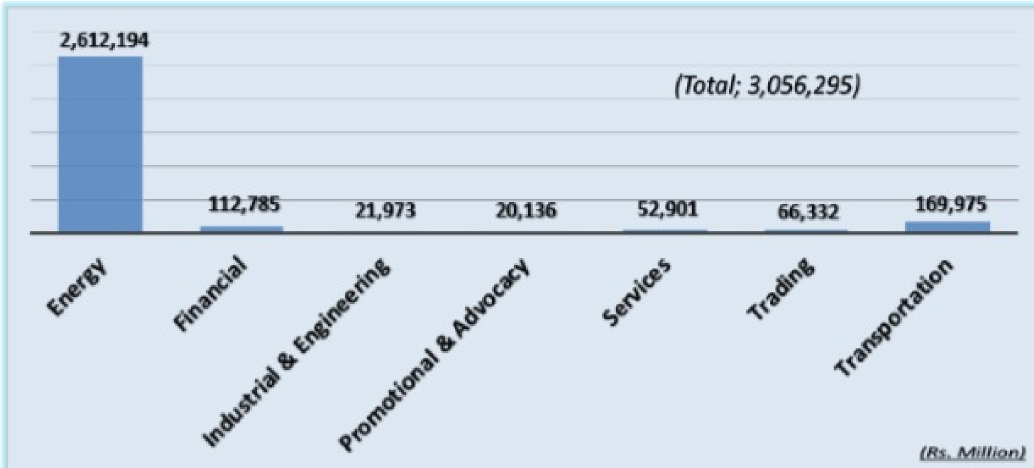
Figure 2 depicts that energy sectors has the highest human resource deployment with 195,517 employees followed by transportation with 101,848 employees. Promotional and Advocacy has the lowest human deployment with 10,171 employee.

Figure 3. Sectoral Classification of Assets Deployed



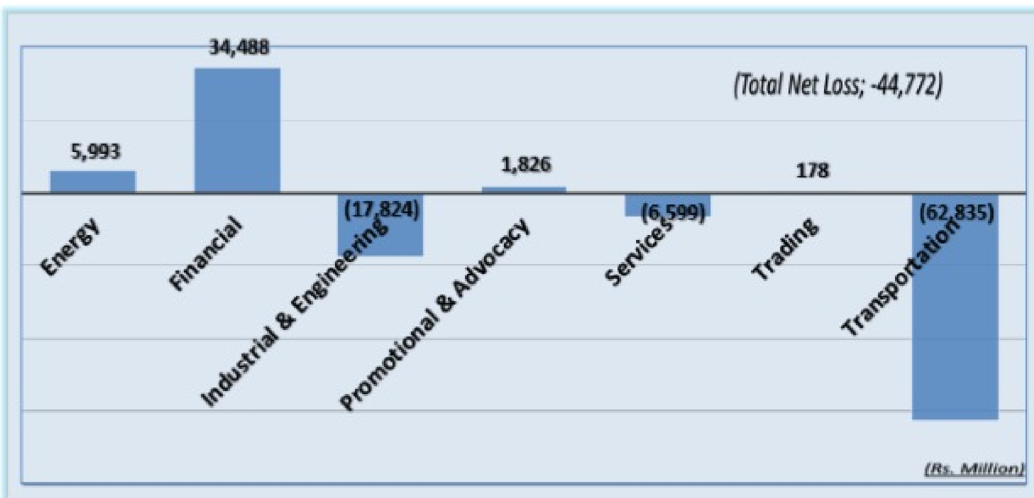
Energy sector is the largest in terms of asset deployment with total asset value of Rs. 6.730 Billion with financial being the second largest with asset value of Rs. 3.102 Billion. Promotional and Advocacy has the smallest having asset deployment of Rs. 0.113 Billion.

Figure 4. Sectoral Classification of Revenue



According to Figure 4, energy sector generates around 85% of the total revenue of SOEs with value of Rs.2.612 Billion. The lowest revenue generating sector is Promotional and Advocacy with revenue of Rs. 0.020 Billion only during FY16.

Figure 5. Sectoral Classification of Profit/(Loss)



The largest profit making sector is financial with profit of Rs. 34.48 Billion while the largest loss making sector is transportation with loss of Rs. 62.83 Billion for FY16. The other two loss making sectors are Industrial & Engineering and Services with cumulative loss of Rs. 24.42 Billion.

Table 2. Sectoral Performance Review

Sector	Asset Turn Over	Return on Asset	Profit/Loss Margin	Operational Ratio	Revenue Per Employee
Energy	0.39	0.09%	0.23%	11%	13.43
Financial	0.04	1.11%	30.58%	51%	3.34
Industrial & Engineering	0.09	-7.68%	-81.12%	9%	1.01
Promotional & Advocacy	0.18	1.62%	9.07%	52%	1.98
Services	0.15	-1.93%	-12.47%	63%	1.12
Trading	0.23	0.06%	0.27%	15%	4.45
Transportation	0.23	-8.38%	-36.97%	59%	1.67

Source: Author's calculation based on Ministry of Finance, Government of Pakistan
Values are for FY16

Sectoral performance against individual parameter show that energy sector has highest asset turnover ratio of 0.39 and revenue per employee of 13.43 which shows that it being the most efficient in utilization of assets and human resource for revenue generation. Promotional & Advocacy sector with the value of 1.62% on parameter of return on asset depicting highest profitability relative to its total assets. Financial sector has profit margin of 30.58%, which the best performing sector as per this parameter. Industrial & Engineering sector has the lowest operational cost relative to its revenue with lowest operational ratio of 9%, representing it as being the sector with lowest operational risk.

Table 3. Sectoral Performance Ranking

Parameter	Sectors Individual Ranking						
	Energy	Financial	Industrial & Engineering	Promotional & Advocacy	Services	Trading	Transportation
Asset Turn Over	1	7	6	4	5	2	3
Return on asset	3	2	6	1	5	4	7
Profit/Loss Margin	7	1	3	4	5	2	6
Operational Ratio	6	2	1	5	7	4	3
Revenue per employee	7	3	2	1	6	4	5
Average	4.8	3	3.6	3	5.6	3.2	4.8
Overall Ranking	**4**	**1**	**3**	**1**	**5**	**2**	**4**

Source: Author's calculation based on Ministry of Finance, Government of Pakistan
Values are for FY16

Financial and Promotional & Advocacy are the best performing sectors based on the aggregate score against all these parameters with the average of 3 each, while trading with an average of 3.2 and Industrial & Engineering with an average of 3.6 are ranked second and third respectively

Table 4. SOEs Benchmarking Mechanism

<table>
<tr><th>Parameters</th><th>Sectors</th></tr>
<tr><td rowspan="7">1. Asset Turn Over
2. Return on asset
3. Profit/Loss Margin
4. Operational Ratio</td><td>Energy</td></tr>
<tr><td>Financial</td></tr>
<tr><td>Industrial & Engineering</td></tr>
<tr><td>Promotional & Advocacy</td></tr>
<tr><td>Services</td></tr>
<tr><td>Trading</td></tr>
<tr><td>Transportation</td></tr>
</table>

SOEs benchmarking mechanism is designed to benchmark the best performing SOE among the profitable SOEs in each sector. The operational and financial performance, and the processes of the best performing SOE could be studied and based on this, corrective actions may be taken in the loss making/poor performing SOEs.

Table 5. Sector Wise Top 3 Benchmark SOEs 1/2

Ranking	energy	Financial Services		
		Banks	Insurance	NBFCs & DFIs
1	Government Holdings (Private) Limited	NBP Leasing Limited	Pakistan Reinsurance Company Limited	Pak Kuwait Investment Company (Private) Limited
2	Pak Arab Refinery Company	NBP Exchange Company Limited	State Life (Abdullah Haroon Road) Properties (Private) Limited	Pak Brunei Investment Company
3	Pakistan State Oil Company Limited	NBP Fullerton Asset Management Limited	State Life Insurance Corporation	Pak China Investment Company Limited

Source: Based on Author's calculation on data from Ministry of Finance, Government of Pakistan For FY16

Table 5. Sector Wise Top 3 Benchmark SOEs 2/2

Ranking	Industrial & Engineering	Promotional & Advocacy	Services	Trading	Transport
1	Security Papers Limited	Pakistan Mineral Development Corporation (Private) Limited	Pakistan Tours (Private) Limited	Pakistan Agricultural Storage & Services Corporation Limited	Lahore Shipping (Private) Limited
2	National Fertilizer Corporation of Pakistan (Private) Limited	Livestock & Dairy Development Board	Pakistan Security Printing Corporation (Private) Limited	Trading Corporation of Pakistan (Private) Limited	Karachi Shipping (Private) Limited
3	Pakistan Engineering Company Limited	Agro Food Processing (AFP) Facilities, Multan	Pakistan Revenue Automation (Private) Limited	Utility Stores Corporation (Private) Limited	Shalamar Shipping (Private) Limited

Source: Based on Author's calculation on data from Ministry of Finance, Government of Pakistan For FY16

Table 5 shows top three performing SOEs among the profitable SOEs in each sector. The processes and cost and revenue generating activities of top performing SOEs could be studied by the poor/loss making SOEs of the sector and could bench mark performance against these SOEs for performance enhancement.

Conclusion

Considering the fundamental role of State Own Enterprises in an economy and the potential room for improvement highlighted in the RTC, it is pivotal to restructure the state-owned entities for enhancement of economic activity and growth in Pakistan. During FY16, 197 SOEs generated net loss of 44.77 Billion with total asset and human resource deployment of Rs. 11,552 Billion and 424,014 respectively. Similarly, the largest profit-making sector is financial with profit of Rs. 34.48 Billion while the largest loss-making sector is transportation with loss of Rs. 62.83 Billion for FY16. The other two loss making sectors are Industrial & Engineering and Services with cumulative loss of Rs. 24.42 Billion. Sector wise analysis demonstrates that Financial and Promotional & Advocacy are the best performing sectors based on the aggregate score against all these parameters with the average of 3 each, while trading with an average of 3.2 and Industrial & Engineering with an average of 3.6 are ranked second and third respectively.

SOEs of China are performing well currently after going through different phases of reforms over the last several decades, but the process of reforming is still intact for further betterment in operational and financial performance, and delivery. On the other hand, a snapshot of Pakistani SOEs shows weak performance not only with respect to their poor financial and operational functioning but also their contribution to the welfare of the public in general. Therefore, collaboration for knowledge sharing and policy development is important for efficient management and revamping of SOEs. Similarly, SOEs specific institutions may also be strengthened and expanded that can work with and analyze the SOEs of china and other BRI countries for enhancement of SOEs performance. Strengthening and expansion of such institutions may make the revamping of SOEs smooth and effective by suggesting feasible amendments in the existing organizational models, and also play key role in aligning motivation to our cultural and religious norms.

Moreover, for more sector specific input and recommendations, sector by sector RTCs may be conducted.

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