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PUBLIC SECTOR ENTERPRISES

LECTURE 02



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





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وَأَنْ لَّيْسَ لِلْإِنْسَانِ إِلَّا مَا سَعَىٰ ﴿٣٩﴾ وَأَنْ
سَعْيُهُ سَوْفَ يُرَىٰ ﴿٤٠﴾ ثُمَّ يُجْزَاهُ الْجَزَاءَ
الْأَوْفَىٰ ﴿٤١﴾

اور یہ کہ انسان کو وہی ملتا ہے جس کی وہ
کوشش کرتا ہے ﴿٣٩﴾ اور یہ کہ اس کی کوشش
دیکھی جائے گی ﴿٤٠﴾ پھر اس کو اس کا پورا
پورا بدلا دیا جائے گا ﴿٤١﴾

**The beautiful verse of the holy Quran, Chapter 53 Surah
Najm verse 39-41:**

***PUBLIC SECTOR
ENTERPRISES***

Course Outline

- 1) Understanding (What are Public Sector Enterprises)
- 2) Key Challenges & Issues
- 3) Reforms & Way forward
- 4) Past Papers Questions/Live Discussion
- 5) Suggested Readings

Key Challenges & Issues in Public Sector Enterprises



FY 2019

VOL 1: COMMERCIAL SOEs

March 2021

Implementation and Economic Reforms Unit

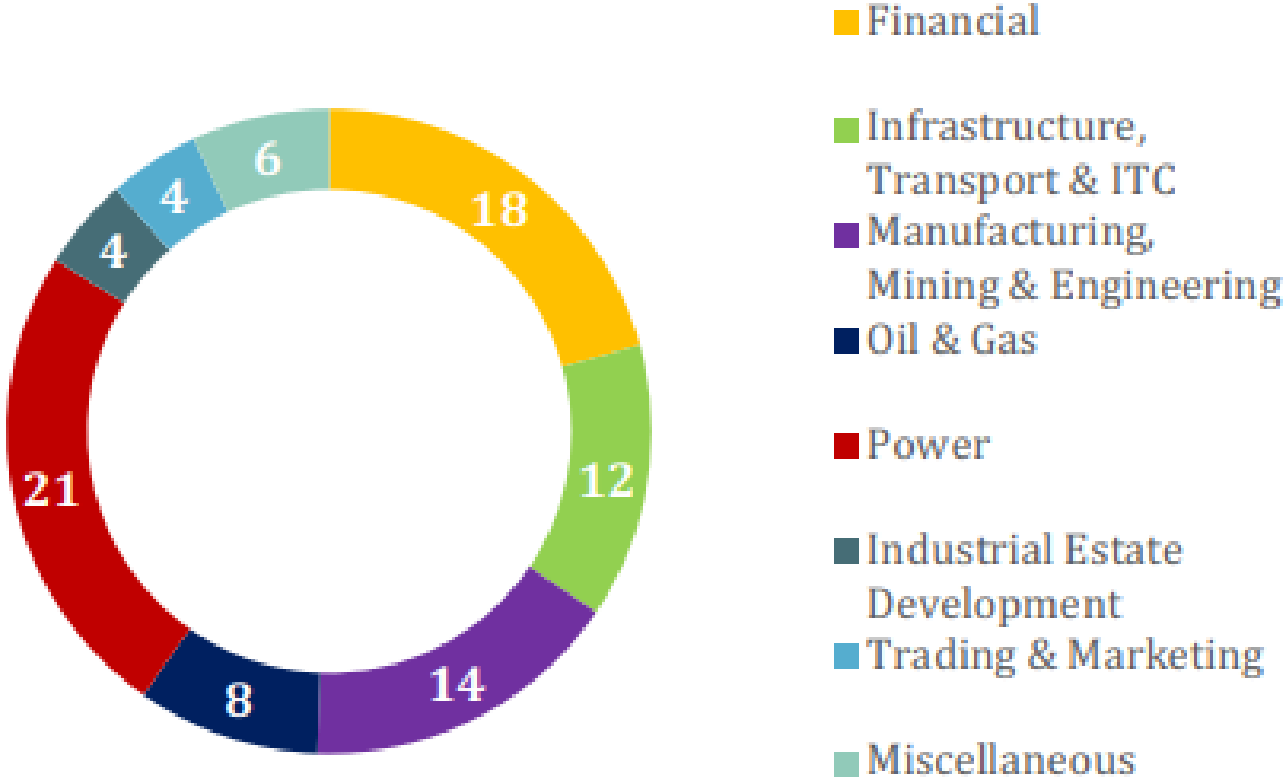
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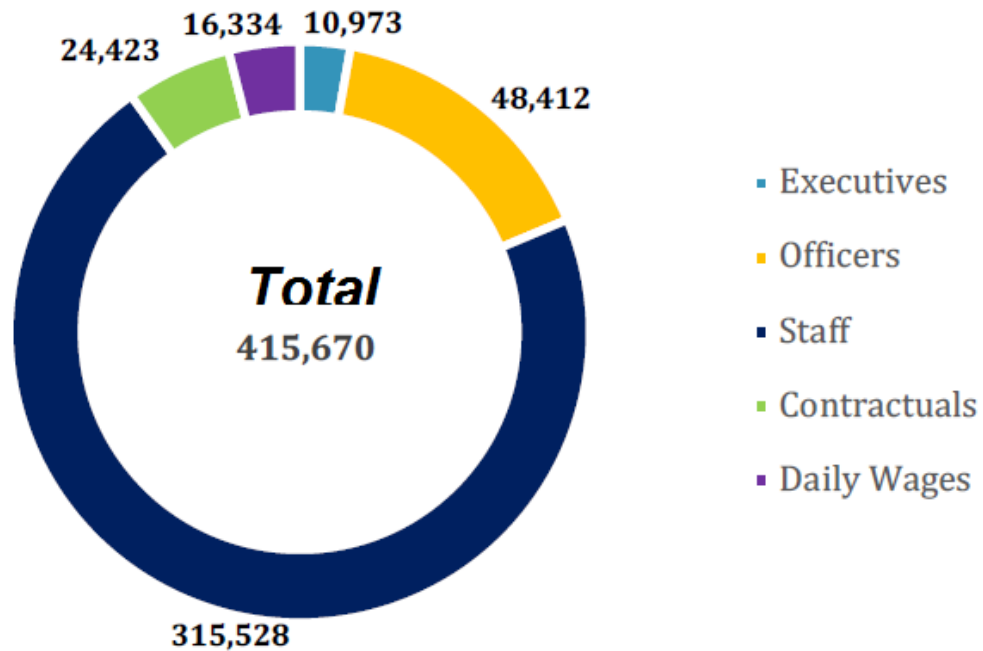
FEDERAL FOOTPRINT SOEs ANNUAL REPORT

Commercial SOEs Sectoral Classification

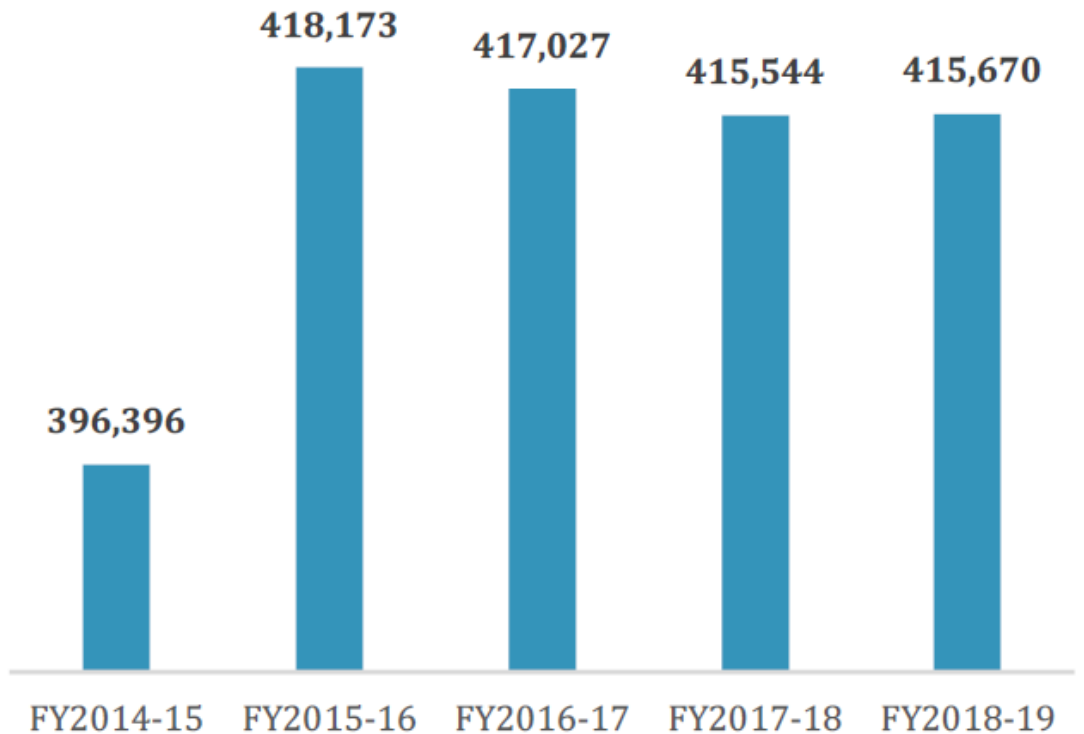


Total No of Employees Working in Commercial SOEs

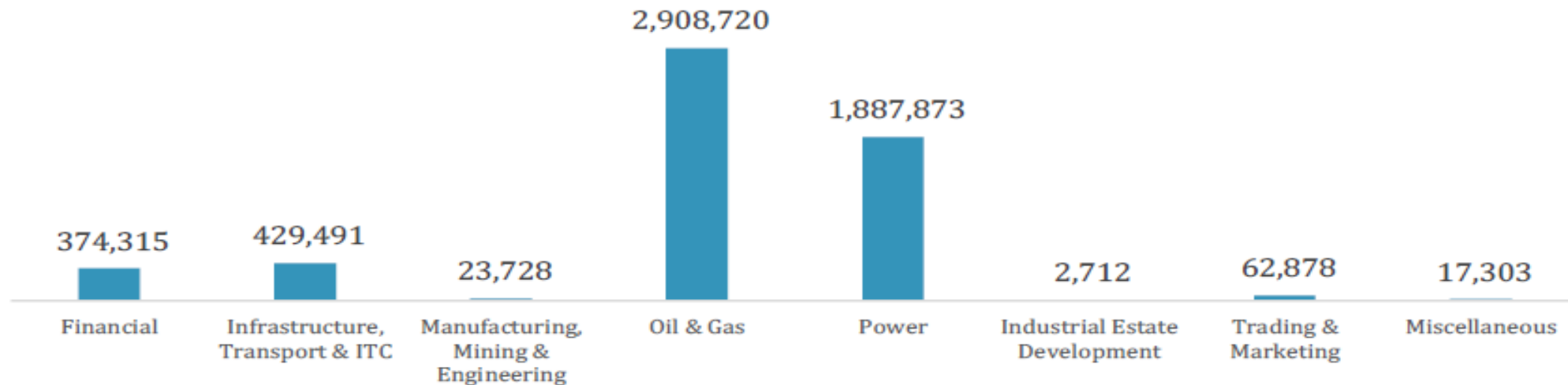
Commercial SOEs HR Classification



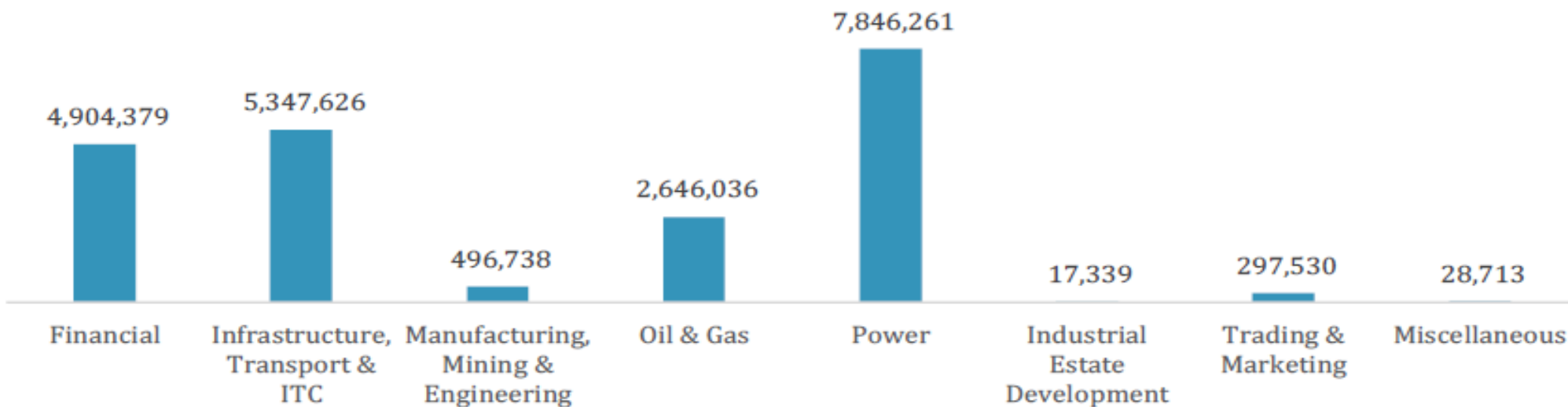
Commercial SOEs Total HR



Revenue - Sectorwise Classification



Total Assets - Sectorwise Classification





Top Ten Profit Making Companies (Rs. Million)		
FY2019		
1	OGDCL	118,386
2	PPL	59,459
3	GHPL	34,179
4	NPPMCL	18,993
5	NBP	16,647
6	PARCO	12,335
7	NTDC	11,236
8	PSO	10,587
9	SNGPL	7,076
10	GEPCO	6,496

Top Ten Loss Making Companies (Rs. Million)		
FY2019		
1	NHA	(173,792)
2	PIAC	(56,121)
3	QESCO	(36,832)
4	LESCO	(31,621)
5	PESCO	(29,263)
6	MEPCO	(22,782)
7	ZTBL	(18,153)
8	PSM	(16,550)
9	SEPCO	(10,956)
10	Pakistan Post Office	(9,135)

State-Owned Enterprises Triage: Reforms & Way Forward

Finance Division
GOVERNMENT OF PAKISTAN
03 March 2021

Section 1: Overview of SOEs in Pakistan
Section 2: Triage Methodology
Section 3: Results of SOE Triage
Section 4: Way Forward

سیکشن 1: پاکستان میں ایس او ایز کا جائزہ
سیکشن 2: ٹریج طریقہ کار
سیکشن 3: ایس او ای ٹریج کے نتائج
سیکشن 4: آگے بڑھنے کا راستہ

Section 1: Overview of SOEs in Pakistan

Currently, there are around 212 SOEs operating in various sectors of Pakistan with the following breakdown:

- 85 commercial SOEs,
- 44 Non-commercial SOEs (Section 42, not-for-profit entities as well as trusts, universities, training institutions and welfare funds), and
- 83 subsidiaries of the commercial SOEs

The 85 commercial SOEs, to which this exercise is focused, mainly operate in 7 sectors: Power; Oil and Gas; Infrastructure Transport and Communication; Manufacturing, Mining and Engineering; Finance; Industrial Estate Development and Management; and Wholesale, Retail and Marketing

The concern that the financial performance of SOEs portfolio has declined over time is evident from the fact that in 2013-14, the year for which the consolidated data of SOEs is available, the SOEs recorded an overall net profit of Rs. 204 billion which fell to Rs. 61 Billion in the following year and declined further to record an aggregate loss.

Since FY 2015-16 SOEs have consistently incurred significant losses creating a heavy burden on the Government fiscal position.

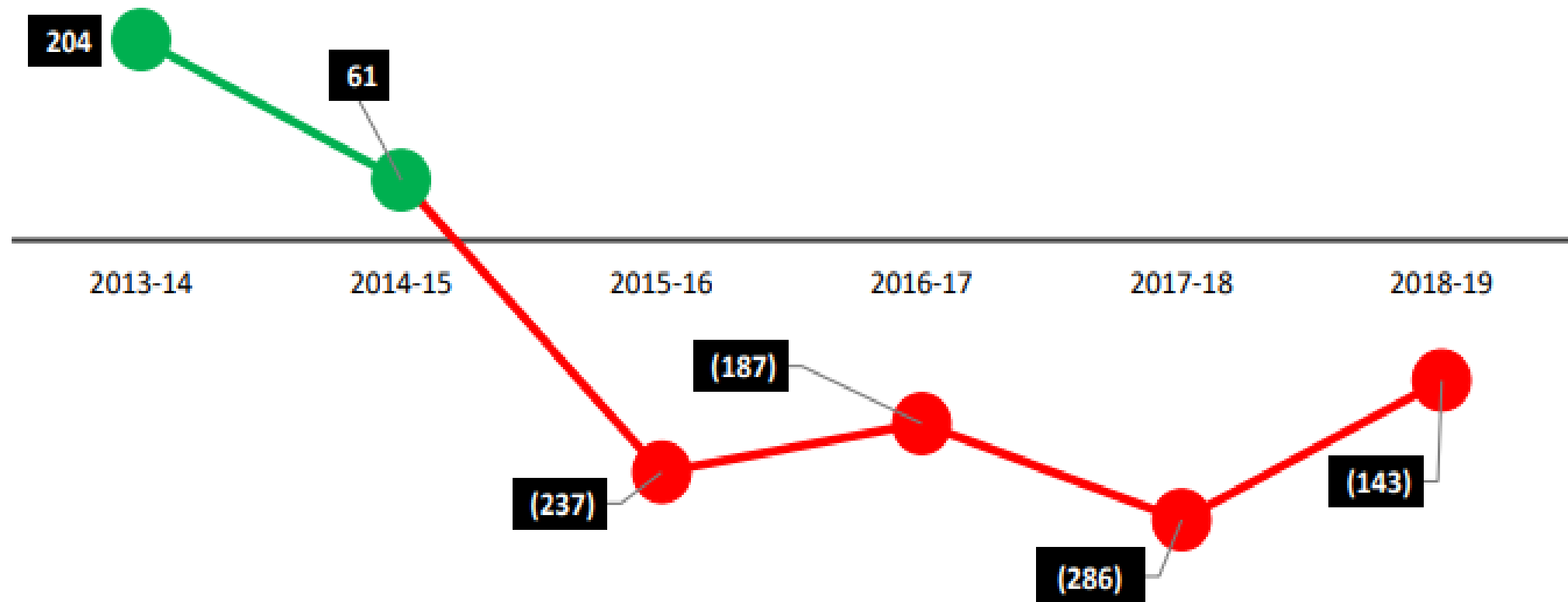
وقت کے ساتھ ساتھ ایس او ایز پورٹ فولیو کی مالی کارکردگی میں کمی کا خدشہ اس حقیقت سے واضح ہے کہ 2013-14 میں ، جس سال ایس او ایز کے مجموعی اعداد و شمار دستیاب ہیں ، ایس او ایز مجموعی طور پر 204 ارب روپے کا خالص منافع ریکارڈ کیا گیا جو اگلے سال کم ہو کر 61 ارب روپے رہ گیا اور مجموعی نقصان ریکارڈ کرنے کے لیے مزید کمی واقع ہوئی۔

مالی سال 2015-16 کے بعد سے ایس او ایز کو مسلسل نمایاں نقصان اٹھانا پڑا ہے جس سے حکومت کی مالی پوزیشن پر بھاری بوجھ پڑا ہے۔

Further breaking down the performance of SOEs reveals that over past six years, one-third of the commercial SOEs have experienced losses intermittently. Moreover, the sum of the losses of top-10 loss-making SOEs contributes around 90% to the total losses of SOEs portfolio each year. NHA, Pakistan Railways, PIA and power sector DISCOs have been among the major, top 10 loss-makings SOEs

ایس او ایز کی کارکردگی کو مزید توڑنے سے پتہ چلتا ہے کہ پچھلے چھ سالوں میں ، ایک تہائی تجارتی ایس او ایز کو وقفے وقفے سے نقصانات کا سامنا کرنا پڑا ہے۔ مزید برآں، خسارے میں چلنے والے ٹاپ 10 ایس او ایز کے نقصانات کا مجموعہ ہر سال ایس او ایز پورٹ فولیو کے کل نقصانات میں تقریباً 90 فیصد حصہ ڈالتا ہے۔ این ایچ اے، پاکستان ریلویز، پی آئی اے اور پاور سیکٹر ڈسکوز خسارے میں چلنے والے 10 بڑے ایس او ایز میں شامل ہیں۔

Figure 02: SOEs Net Profit/(Loss) FY 2014-19
Rs. Billion



Section 2: Triage Methodology

سیکشن 2: ٹریج طریقہ کار

Public Policy Framework

The fundamental principle to evaluate if an Commerical activity must be undertaken by the government itself hinges on two questions i.e.,

a. Does the Commerical activity to be undertaken fall within the **public policy framework** of the government?

b. Can the Commerical activity be performed by the private sector?

Based on the set of questions, an appropriate analytical framework was developed with the technical assistance of World Bank which is briefly discussed below.

Market Failure

Financial Viability

اس بات کا جائزہ لینے کا بنیادی اصول کہ آیا حکومت کو خود تجارتی سرگرمی کرنی چاہئے یا نہیں، دو سوالات پر منحصر ہے یعنی،

ایک. کیا تجارتی سرگرمی حکومت کی عوامی پالیسی کے فریم ورک کے اندر آتی ہے؟

ب. کیا تجارتی سرگرمی نجی شعبے کے ذریعہ انجام دی جاسکتی ہے؟

سوالات کے سیٹ کی بنیاد پر، ورلڈ بینک کی تکنیکی مدد سے ایک مناسب تجزیاتی فریم ورک تیار کیا گیا تھا جس پر ذیل میں مختصر طور پر تبادلہ خیال کیا گیا ہے۔

Question A.

Question A. Does the Commerical activity to be undertaken fall within the **public policy framework** of the government?

Public Policy Framework

Public Policy Framework refers to the overall economic development priorities of the Government of Pakistan. These priorities are reflected in a number of policy documents including Principles of Policy (Clause 3 of the Constitution of Islamic Republic of Pakistan), and the sectorial polices like Agriculture Policy, Industrial Policy, Trade Policy Framework etc. Moreover, important decisions regarding the institutional set-up for policy implementation are also part of the Public Policy Framework

عوامی پالیسی فریم ورک

پبلک پالیسی فریم ورک سے مراد حکومت پاکستان کی مجموعی معاشی ترقی کی ترجیحات ہیں۔ ان ترجیحات کی عکاسی متعدد پالیسی دستاویزات میں ہوتی ہے جن میں پالیسی کے اصول (اسلامی جمہوریہ پاکستان کے آئین کی شق 3)، اور زرعی پالیسی، صنعتی پالیسی، تجارتی پالیسی فریم ورک وغیرہ جیسے شعبہ جاتی پالیسیاں شامل ہیں۔ مزید برآں پالیسی کے نفاذ کے لئے ادارہ جاتی سیٹ اپ سے متعلق اہم فیصلے بھی پبلک پالیسی فریم ورک کا حصہ ہیں۔

In order to focus the applicability of PPF in the choice of SOEs for **retention or privatization**, the PPF is used in the context of Pakistan's economic environment whereby the following categories of SOEs are categorized as Performing Core Functions:

- i. Ensuring national food security
- ii. Developing and managing large scale infrastructure requiring substantial investments
- iii. National defense and security related entities
- iv. Entities established through G2G or inter-governmental arrangements
- v. Entities supplying goods and services of national economic interest

Market Failure

Question B.

Can the Commercial activity be performed by the private sector?

The second question in our analytical framework relates to an evaluation if an Commercial function can be performed by the **private sector or not?**

Accordingly, each SOE was individually evaluated in terms of its operations and functions to assess if the function can be performed by the private sector based on existing market structure.

The following aspects were duly considered while evaluating the SOEs:

a. Is the SOE a natural monopoly? If yes, is there an appropriate **regulatory framework** present to ensure socially optimal and cost effective service delivery in case the function is performed by the private sector?

ہمارے تجزیاتی فریم ورک میں دوسرا سوال اس تشخیص سے متعلق ہے کہ آیا نجی شعبے کے ذریعہ معاشی کام انجام دیا جاسکتا ہے یا نہیں؟ اس کے مطابق،

انفرادی طور پر اس کی کارروائیوں اور افعال کے لحاظ سے اندازہ لگایا گیا ہے کہ آیا موجودہ مارکیٹ کے ڈھانچے کی بنیاد پر نجی شعبے کے ذریعہ فنکشن انجام دیا جاسکتا ہے۔

مندرجہ ذیل پہلوؤں پر مناسب طریقے سے غور کیا گیا جبکہ ایس او ایز کا جائزہ لیا گیا:

ایک۔ کیا ایس او ای ایک قدرتی اجارہ داری ہے؟ اگر ہاں، تو کیا نجی شعبے کی طرف سے کام انجام دینے کی صورت میں سماجی طور پر زیادہ سے زیادہ اور کم لاگت سروس کی فراہمی کو یقینی بنانے کے لئے ایک مناسب ریگولیٹری فریم ورک موجود ہے؟

مالی استحکام FINANCIAL VIABILITY

In order to further support our analysis regarding the categorization of SOEs, the recent financial performance of SOEs was taken into account to divide them into financially viable and/or financially stressed entities. The brief explanation of financial viability analysis is given below.

Financial viability refers to an organization's ability to generate sufficient revenues to meet operating costs, debt commitments and where applicable, to allow to invest in its business to achieve growth while maintaining desirable service levels. Financial viability is assessed through different measures that evaluate the SOE's profitability, cash flows and its ability to continue as a going concern. Keeping the above in view, the financial viability test of SOEs was based on the following criteria:

- a. **Negative Shareholders' Equity:** Negative equity creates a material uncertainty regarding a company's ability to continue as a going concern, as it indicates that a company's liabilities exceed its assets. Any entity which has negative equity for the last three years are deemed financially stressed because its balance sheet is not bankable and therefore it is dependent on government's support to obtain finances from the commercial banks under GoP guarantee or direct support from the budget.

- b. **Continuous losses:** Any entity having losses during the last three years is also categorized as financially stressed because the losses result into dependence on GoP support or lead to gradual erosion of equity.
- c. **Return on Assets (ROA):** One of the key measures to assess financial viability of a company is its Return on Equity (ROE). However, if shareholder's equity is negative, the ratio of profit to equity results in a negative ROE which is not an appropriate measure to evaluate performance. Therefore, a more appropriate measure is ROA which tells how well the management is utilizing the company's various resources(assets) to generate earnings. ROA is also preferred over ROE as ROE can be impacted by the SOE's gearing – the ratio of total debt to total assets. If total debt is high, then assets are supported by comparatively less equity and therefore the ROE would be higher than if the SOE had less debt and more equity. ROA is calculated by dividing net profit by total assets. As per industry standards, SOEs that do not have an ROA of 5% or above for the last three consecutive years is categorized as financial stressed.

Section 3: Results of SOE Triage

SOE Triage کے نتائج

Category 1

SOEs to be retained under state ownership

The SOEs in this category are those which are performing core functions and fall within the scope of Public Policy Framework. These SOEs are sub-divided into two categories according to their financial performance.

Subcategory (1a)

Annex-III

The SOEs which are performing core functions and are financially viable/profitable.

Subcategory (1b)

Annex-IV

Retain and Restructure

Already Under Restructuring & Reform

The SOEs which are already under restructuring and sectoral reforms.

Immediate Restructuring Required

The SOEs to be retained but need restructuring for improved financial performance.

Category 2

SOEs to be Privatized or Liquidated

This category includes SOEs which are not performing core functions as covered in the Public Policy Framework and therefore are recommended either for privatization or liquidation. Accordingly, the SOEs are grouped into following four sub-categories.

Subcategory (2a)

Annex-V

Already Under Privatization

Subcategory (2b)

Annex- VI

SOEs to be Privatized in Next Phase

Subcategory (2c)

Annex-VII

Potential Privatization Candidates

Subcategory (2d)

Annex-VIII

Under Liquidation

Why Govt is Doing These Above Steps

Key Challenges & Issues in the Experts Eyes & Public Lens

Key Challenges & Issues

- 1) *Heterogeneous (متضاد) Governance Regime*
- 2) *Complex Internal Rules & Policies*
- 3) *Structural Issues*
- 4) *Weak Board of Directors*
- 5) *Budget Constraints*
- 6) *Weak Compliance with Corporate Governance Rules*
- 7) *Politicization*
- 8) *Incompetent and uncommitted management*
- 9) *High Inefficiency and lack of discipline*
- 10) *Lack of contemporary Skillsets*
- 11) *Poor employees performance*
- 12) *Absence of Performance Management System*
- 13) *Lack of Performance Audit*
- 14) *Corruption*
- 15) *Outdated organizational culture*
- 16) *Lack of innovation and Advancement*
- 17) *Unadoptibility of Modern Technologies*
- 18) *Personal Goals preference rather than organization goals*