

THEME-1

Challenges Ahead to Level
Playing Fields between SOEs and
the private Sector

Recent Progress and Challenges
in Pakistan

Progress

The independent regulators like NEPRA, OGRA, PEMRA, PPRA and SECP are treating both SOEs and private sector entities equally

The Company Ordinance 1984 provides level playing fields as the provision are applicable equally to both listed SOEs and private sector companies

The Companies Ordinance 1984, Code of Corporate Governance, 2002, the Credit Rating Company (Methodology for Rating Corporate Governance Developed) and Corporate Governance Institute are all reforming the corporate governance in the companies. The Corporate Governance Rules on PSEs is in process of finalisation.

Corporate Governance Code 2002, provides shareholders rights.

Appointment and removal of the directors, the major transaction like changes in Articles of Association and capital, major investment or divestment are done through shareholders meetings

Flexibility in SOE capital structure as envisioned in the OECD principles of corporate governance.

Addition of capital as per Articles of Association with the approval of Regulator i.e. SECP. The reduction in capital is also provided in the Companies ordinance 1984 through intervention of Company Judge

Government exercises its right as shareholders in SOEs through its nominee directors on the Board, which participate and vote in shareholders meetings. The ownership entity and coordinating entities are provided all information including annual statements

The companies which tend to be global are adopting the Code of Governance voluntarily

Challenges

The government actively supports SOEs by providing loans, equity, picking up their cash short falls, restructuring and rescheduling their loans with the banks, picking up their debt/interest servicing liabilities, by standing as guarantor for SOEs loans from the commercial banks. This creates market distortion and defeats the concept of level playing fields

The judiciary is not as efficient as it
should be, expensive, time
consuming

and

hence ineffective source of
redressal of grievances of
shareholders

Little effectiveness of the shareholders meeting;

lack of expertise of the board members and improper remunerations.

Short term return approach of financial institutions, brokerage and investors

Chairman and Chief Executive in most of the companies is the same person.

Board do not appoint Chief Executive and Chairman. They are being appointed by the government without consultation of the board

The PSEs are required to hire services with the approval of government.

The salaries are approved by government.

Administrative policies are approved by the government

The SOEs do ask for compensation from the government in the shape of subsidy and tax relief for their cost of social responsibility.

PSEs are mostly relying on government and there is lack of commercial and independent decision making

The government nominees on the board are nominated on the basis of posting and seniority without taking into consideration, relevant experience, professionalism and specialization

There is no formal consultation between minority shareholders with other majority shareholders.

There is no continuous dialogue between the SOEs and the external auditors or with Auditor General of Pakistan

Ownership Policy has not been made so far by the Ownership entity.

Thank You