* **Our state entities**

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“One of the more pleasurable sins of economic planners,” Mahbubul Haq wrote in 1973, “is their addiction to economic fashions”. This applies to our deeply ingrained tendency to escape the rigour of reflecting on, analysing and solving our own problems by finding a fashionably acclaimed foreign ‘model’ to emulate.

Admitting that “it is probably too much to expect”, Haq advised our decision-makers to keep “their eyes fixed determinedly on their own systems and their unique characteristics” if they wished to get anywhere.

The incoming government’s manifesto declares that “the PTI will turnaround state-owned enterprises (SOEs) by creating a wealth fund, [pursuing] aggressive depoliticisation, and through effective performance management of capable and autonomous leadership”.

To do so, SOEs will be removed from line ministries, corporatised and transferred “to a wealth fund, modelled along the lines of Khazanah [Nasional Berhad] in Malaysia”. Under a time-bound “transformation programme” (an expression with Malaysian history) the government will sign and monitor performance contracts with duly empowered non-political autonomous boards who will select outstanding professional CEOs on merit, with management compensation linked to performance.

While disagreeing on details, there is no denying the manifesto’s central insight that the problem of SOEs in Pakistan is a problem of governance. But enterprise or nation, the Achilles’ heel of all governance reform proposals is: Quis custodiet ipsos custodes? (Who will guard the guards themselves?). These words by Roman poet Juvenal, written 2,000 years ago, underscore that there is no system in the world that can safeguard performance from cupidity.

The best we can do is carefully select good men and women, and try to patiently nurture ‘good-enough’, if not perfect, systems at the three levels of enterprise, government, and an appropriate intermediate entity that insulates enterprises from the government.

At the enterprise level, the real task is to instil in directors and management –especially from the private sector – the integrity needed to govern public assets and manage public funds. While merit-based selection and performance-linked compensation are necessary and desirable, they are no guarantee of probity.

Khazanah, set up to transfer public assets to ethnic Malays (Bumiputras) by privatisation, has been marred throughout by accusations of crony capitalism. Following the ruling party’s election loss, Khazanah’s board resigned in July 2018. Its chairman was arrested on corruption charges, and its new self-appointed chairman, Mahathir Mohamad, is trying to restructure Khazanah. “While we believe in paying good salaries,” Mahathir said recently, “we cannot base it on commercial rates [all the time]”. This too is relevant to Pakistan, where market and regulatory failures have led to unjustifiable stratospheric CEO/management salaries, which the government cannot afford.

Malaysia and Singapore created sovereign wealth funds (SWFs) as intermediate entities. Their scheme consists of government-linked investment companies (GLICs) that invest in government-controlled commercial SOEs called government-linked companies (GLCs). The two GLICs, Khazanah and Temasek Holdings were incorporated in 1993 and 1974, respectively, as public/private limited companies under their companies acts.

While there are many reasons why we shouldn’t hold our SOEs in a SWF, suffice it to recall that these funds are created typically by countries with a surplus (not deficit) on their budget and balance of payments. With self-sufficiency in hydrocarbons and large surpluses from the export of tin, rubber and palm oil (Malaysia), and from commerce, finance and trans-shipment trade (Singapore), the choice of SWFs was appropriate for Malaysia and Singapore. It wouldn’t be for Pakistan.

This brings us to top-level governance. The historical and institutional backgrounds of Malaysia and Singapore are completely different from Pakistan. As a legacy of their colonial past, the Minister of Finance (Incorporated) (MOFI) in both countries is a body corporate under special acts of parliament. MOFI, which is itself a GLIC, is the sole shareholder in Khazanah/Temasek. Temasek is also a constitutional “fifth schedule” entity, which mandates the president of Singapore’s concurrence for many governance matters and for any drawdown of the entity’s past reserves before the term of each new government.

Finally, the character and extraordinary continuity of political leaders and governments, which underpins accountability in the two countries, is not found in Pakistan. These essential differences alone undermine the relevance of Khazanah/Temasek as models for Pakistan.

The real lesson from Malaysia and Singapore is not the outcome, but the process by which it was achieved. Both countries didn’t look to foreign models for guidance. Instead they kept their eyes fixed on their own systems and unique characteristics, and have continuously adapted their arrangements in light of experience.

Learning from our experience of the Board of Industrial Management and Ministry of Production’s Experts Advisory Cell, we should look towards creating either a statutory body or an autonomous organisation as an intermediate entity. This entity should devise and administer a system along the lines suggested in the manifesto, or more ambitiously by Istaqbal Mehdi in his thoughtful article, ‘Reforming public assets management’.

As Mao Zedong (explaining materialist dialectics) once put it: “In a suitable temperature an egg changes into a chicken, but no temperature can change a stone into a chicken, because each has a different basis”. We must work on the stone in Pakistan, not gaze at eggs in East Asia.

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