

Reforming State-Owned Enterprises in Pakistan: The 2023 Act in Global Context



Author
Dr. Qaiser Rafique Yasser
Unit Head,
Ministry of Finance (GoP)



Co-Author
Abdul Rahim Suriya, FCMA
Partner, Suriya Nauman Rehan & Co.,

Preamble

State-owned enterprises (SOEs) play an important role in Pakistan's economy by delivering critical services, supporting strategic industries, and implementing public policy. But their performance and accountability have been called into question due to longstanding governance issues, political interference, operational inefficiencies, and financial risk. The State-Owned Enterprises (Governance and Operations) Act, 2023 is an important initiative to overcome the challenges in order to establish a more structured governance framework for the state-owned enterprises to re-establish the ownership, management, monitoring, and disclosure principles. The Act is based on international practices that attempt to reconcile commercial discipline with public-sector responsibilities. However, the success of SOE reform is not just dependent on quality legislation but also on the independence of the institutions and the ability of oversight bodies to punish enterprises and government officials.

Pakistan's State-Owned Enterprises Act, 2023

Pakistan's State-Owned Enterprises Act, 2023 is a lengthy piece of legislation comprising 37 sections, 11 chapters and 6 schedules. It proposes a framework to improve the performance of SOEs with respect to the setting and strengthening of commercial targets, strengthening the boards of directors and the transparency of their reporting, and the systematic way of government oversight. An important factor is that the SOEs are required to pursue certain commercial goals and prepare a three-year business plan that is rolled out every three years. The Act also recognizes that enterprises are involved in activities not only out of business interest, but also for public policy.

International Experiences in SOE Governance

The international experience shows that there is no one-size-fits-all formula for SOE reform, ranging from an explicit commercial mandate in New Zealand, a centralised Governance Commission in the Philippines to a governance law focused on integrity in Brazil, to holding company models in Indonesia and South Africa, centralised asset oversight with accountability in China, and existing company law with explicit ownership policies in Europe; but in all these variant approaches, the clear message for Pakistan is that the key to successful SOE governance is the clear definition of ownership objectives, centralised and accountable oversight, measurable performance indicators tied to board responsibility, increased transparency and internal controls, and unambiguous coordination between the state, holding entities, and individual enterprises.

- **New Zealand** — Under the State-Owned Enterprises Act, 1986, New Zealand established a commercial operating framework requiring SOEs to operate as successful businesses, with a focus on profitability, efficiency and performance comparable to private-sector enterprises. The key lesson for Pakistan is to establish clear commercial objectives, measurable performance targets and accountability mechanisms to assess SOE performance.

- **Philippines —** The GOCC Governance Act, 2011, and the Governance Commission for GOCCs (GCG) provide centralised supervision of performance evaluation, appointments and remuneration to the board, restructuring, mergers and privatisation. The lesson for Pakistan is that the evaluation of performance should be coupled with accountability of boards and remedial measures.
- **Brazil —** Law No. 13,303/2016 strengthens internal control, standards and compliance in public procurement processes. There is a lesson for Pakistan in this; it is to increase transparency and strengthen internal controls while reducing corruption risks and not compromising on commercial efficiency.
- **Indonesia —** The implementation of the strengthening of the BUMN Law and the BUMN institution in 2025 has resulted in the centralisation of BUMN institutions' supervision, which refers to state ownership and holding companies. The lesson for Pakistan is: State and holding companies' roles in ownership and coordination vis-à-vis individual SOEs need to be clearly communicated.
- **South Africa —** The draft National State Enterprises Bill introduces a 'holding company' structure to improve the effectiveness of coordination and oversight of state enterprises. The lesson for Pakistan is to think about mechanisms for central oversight, but remember this is a proposal, and not a law.
- **China –** The State-owned Assets Supervision and Administration Commission (SASAC) is responsible for the centralised management of state-owned assets and enterprises. The lesson for Pakistan is to specify the ownership and the coordinated oversight and systematic monitoring of performance as in SASAC.
- **European countries —** Through clear and open accountability and ownership goals, existing company law and state ownership policies, such as those in Sweden, Norway, Denmark, Germany and the United Kingdom, have created a framework that supports European countries. The takeaway message for Pakistan is that 'good governance' of SOEs is possible through the existing legal framework, provided that there are well-defined goals of ownership, professional management and accountability.

SOE Reform as a Fiscal-Risk Management Instrument

SOE reform is an important tool for managing fiscal risks and reducing the financial burden on the government. Moreover, the governance of SOEs must also be assessed within the context of Pakistan's fiscal-risk management system. The total amount of direct government budget support to these enterprises since 2016 has reached 8¾ percent of GDP. To address these challenges, Pakistan has enacted the SOE Act (2023), followed by the Ownership and Management Policy (2023), and set up the Central Monitoring Unit (CMU). The IMF is withholding the next $1 billion tranche until Pakistan amends 9–10 SOE laws to align with the SOE Act, 2023 at mid of November, 2026, as deadline Pakistan has repeatedly missed deadline of August 2026 while SOE debt has ballooned to Rs 10.1 trillion. The government should also put in place an effective implementation of the new legal regime, the completion of the plans for privatisation and restructuring of the SOEs, and the reinforcement of the role of the CMU in overseeing the performance of SOEs. The following actions are necessary to improve efficiency, reduce the effects of the public finances and to better serve citizens.

A Tailored Framework for SOE Reform

The governance and ownership of public enterprises should not be uniform, in accordance with SOE reform. The state ownership of uniform state-owned enterprises (SOE) should be replaced by a specific portfolio strategy that considers strategic importance, viability, and financial risk. In this model, the performance targets are strict for the viable units or private transition, and the non-viable enterprises are merged and/or privatised or closed. This ends continuous financial bailouts through independent evaluations to maximize economic efficiency and fiscal sustainability. Table 1 shows differentiated reforms pathways for Pakistan's SOE portfolio.

Gap, Challenges & Recommendations

The Act is broadly drafted, although it may be inhibited by a number of weaknesses. These challenges point to a mismatch between the governance principles identified by the Act and the institutional capacity needed to ensure effective governance. Table 2 highlights key governance gaps and challenges in Pakistan's SOE sector and outlines corresponding recommendations to address them.

Conclusion

The SOE Governance and Operations Act, 2023 has huge potential in the area of governance and operations of state-owned enterprises of Pakistan. But the law is not enough to guarantee sustainable reform. This will require its consistent application, professional and independent boards, credible performance monitoring, and a government that is ready to address long-term financial risks and inefficiencies. The measurable outcomes approach will help to ensure that SOE performance is enhanced, public finances are not strained, and essential services are delivered based on statutory requirements.

Table 1: Differentiated Reform Pathways for Pakistan's State-Owned Enterprises

SOE category	Key characteristics	Recommended approach and Performance Measures	Example
Commercially viable SOEs	Profitable, financially sustainable and operating in competitive markets	Retain under professional state ownership, with more autonomy in the board, and clearly defined commercial objectives ***Performance Measures:*** Profitability, return on assets, productivity.	**Pakistan Railways**—Revenue Recorded Rs 115.157 billion in FY2025-26, a 24.19% increase over the previous year and the highest in its history. The turnaround was driven by governance reforms, digitalization, public-private partnerships, and cost management.
Strategically important but underperforming SOEs	Offer key services or support strategic sectors and have ongoing weaknesses in their operations or finances.	Adopt a time-bound restructuring plan, enhance management accountability, and regularly review the progress of restructuring. ***Performance measures:*** Achieve reduction in operating losses, efficiency and reliability of service provision	Pakistan International Airline--PIA accumulated Rs 500bn in losses over the past decade, with its decline beginning in 2009. In December 2025, the airline was privatised when the Arif Habib Consortium acquired a 75% stake for Rs 135 billion. The new owners plan to more than triple the fleet to 64 aircraft.
SOEs suitable for private participation	Operate in markets where private sector investment, competition or alternate delivery mechanisms can deliver greater efficiencies.	Privatisation, competitive concession, joint venture or public-private partnership (PPP), depending on feasibility and safeguards for the public interest. ***Performance Measures:*** Investment, service quality, operating efficiency and fiscal savings.	**Three Major International Airports + 6 DISCOs + 5** Other Entities. The revised 5-year privatization roadmap covers 25 SOEs across 3 phases, with 11 entities in Phase 1 (within one year).
SOEs with explicit public-service mandates	Provide socially required services that may not be economically self-supporting when offered individually.	Introduce Public Service Obligation Agreements with costed and clear service standards and compensation. ***Performance Measure:*** Cost per beneficiary, service coverage, quality, and compensation transparency.	**Power Distribution Companies (DISCOs)** — IESCO, LESCO, MEPCO, etc. manage government subsidies and relief packages, creating non-commercial costs. Under the SOE Act 2023, PSO Agreements aim to ensure these costs are fully funded by the government. In FY2025, recovery reached 96.6%, under-recoveries fell 42%, and T&D losses declined to 17.6%.
SOEs without a sustainable ownership rationale	No clear demonstrated continuing public ownership rationale, and have ongoing viability issues.	Considerations of merger, orderly closure or exit, including legal obligations, market conditions and social costs. ***Performance Measures:*** Fiscal savings, liabilities resolved and continuity of essential services.	**Pakistan Steel Mills (PSM)** — Shut down since June 2015, yet received approximately Rs 58 billion from the government over the past decade despite zero production. Cumulative losses now stand at roughly Rs 600 billion, with annual interest payments of nearly Rs 20 billion.

Table 2: Governance Gap Challenges and Recommendations

Governance Gaps and Implementation Challenges	Recommendations
• **Board Autonomy Constrained (Section 22(2)):** First, the veto power of ex-officio nominee directors under Section 22(2) may affect the autonomy of the board and enable the government to play a role in making collective decisions, thereby reducing the professional and independent governance of the board. • **Weak Enforcement Framework:** Second, however, there is a lack of clear and meaningful penalties for non-compliance, disclosure failures, and governance shortcomings, which could introduce a risk of a disconnect between what is required and what is held accountable. • **Exclusions & Uniformity Issues (Section 3):** Third, there is an issue of uniformity of oversight since large state-controlled entities are excluded from the common governance regime under the sovereign wealth fund carve-out, which is included in Section 3. • **Unfair Competition & Neutrality Gaps:** Fourth, the lack of any formal complaints and review process for competitive neutrality complicates it for any complainant to prove a competitive disadvantage or unfair advantage stemming from state ownership. • **Harmonization Time Lags (Section 36(4)):** Lastly, the time lag of harmonisation of the statutory SOEs, in accordance with Section 36(4) of the Act, may further lead to governance, disclosure and accountability imbalances in the public enterprise sector.	• Review Section 22(2) veto to strengthen board independence. • Need to put in place 3-year plans with measurable goals. • Increase the capacity of CMU to monitor and enforce compliance. • Report subsidies, guarantees, and contingent liabilities. • Implement differentiated reform per category of SOE. • Implement realistic consequences for breaking rules. • Align the other 12 SOEs in the Act. • Link government funding to improvements in reform. • Define roles and responsibilities of ownership and management. • Roadmap for sequence privatization (Phase 1) (11 entities).

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About the Author & Co-author: ***Qaiser Rafique Yasser,*** *PhD, is Unit Head of the Central Monitoring Unit at the Ministry of Finance, Government of Pakistan, where he oversees the governance and performance of State-Owned Enterprises and has led implementation of the SOE Act 2023. He holds a PhD in Financial Economics from Universiti Malaysia Sarawak and has over 21 years of experience across government, academia, the development sector and the private sector. His research focuses on corporate governance, CSR and ESG, with more than 40 publications to date.*

Abdul Rahim Suriya *is the Fellow Member of the ICMA.*