



Rethinking SOE Reforms in Pakistan: Balancing Privatisation, Public-Private Partnerships and Strategic State Ownership

The Growing Case for SOE Reform in Pakistan

Pakistan's federal government owns more than 207 entities classified as State-Owned Enterprises (SOEs), operating across eight major sectors: Financial; Infrastructure, Transport and ITC; Manufacturing, Mining and Engineering; Oil and Gas; Power; Industrial Estate Development; Trading and Marketing; and Miscellaneous.

The financial performance of these sectors varies considerably. While a limited number of enterprises contribute significantly to the overall profitability of the SOE portfolio, others continue to accumulate substantial losses. These financial difficulties reflect a combination of factors, including circular debt, global economic developments, climate-related challenges, weak governance and erosion of equity.

According to the Ministry of Finance's Annual Aggregate Report on SOEs for FY2024–25, profitable SOEs collectively generated profits of PKR 709 billion, while loss-making entities recorded aggregate losses of PKR 832.8 billion.

The reported Fiscal Efficiency Index of 1.01 further highlights the limited fiscal returns generated by the SOE portfolio relative to government support. This indicates that for every PKR 1 of government support, SOEs return approximately PKR 1.01, reflecting their continued dependence on public resources and limited capacity to generate sustainable internal cash flows.

Legislative and Institutional Reforms

The State-Owned Enterprises (Governance and Operations) Act, 2023, represents a significant legislative development and an initial step towards implementing a broader governance and fiscal reform agenda. A subsequent policy amendment in October 2026 introduced a unified International Financial Reporting Standards (IFRS) reference framework for commercial SOEs registered under the Companies Act.

Other major reform measures include greater private-sector representation on SOE boards, the establishment of oversight bodies, replacement of the legacy 2004 procurement framework with the 2026 Public Procurement Rules, and implementation of the Five-Year Privatisation Programme (2024–2029).

Under the government's fiscal triage exercise, 84 major commercial SOEs were assessed. Of these, 44 entities (52%) were designated for complete privatisation or liquidation, while 39 entities (46%) were identified for strategic restructuring and retention.



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The 142-item Economic Governance Reform Agenda announced in January 2026 also identifies SOE reform as a central pillar, targeting financial losses, operational inefficiencies and collective liabilities exceeding PKR 9 trillion. The ongoing privatisation programme further seeks to reduce the state's commercial footprint through targeted ownership and management reforms.

The broader policy debate centres on whether shifting from public to private management can improve operational efficiency, service quality, cost management and revenue generation through commercially driven strategies.

Pakistan's Experience with Privatisation: Historical Perspective

Pakistan's privatisation journey has evolved through several phases, reflecting changing economic priorities, political considerations and approaches to public-sector management.

Industrial Development and the Early Privatisation Phase (1952–1972)

Pakistan's industrial development initially relied heavily on public-sector investment. The establishment of the Pakistan Industrial Development Corporation (PIDC) facilitated the development of approximately 90 industrial projects, including Karachi Shipyard and Engineering Works Limited, Pakistan Machine Tool Factory, Heavy Mechanical Complex, Sui Northern Gas Pipelines Limited and Sui Southern Gas Company Limited.

Transfer of Managed Establishments (1978)

In 1978, the Transfer of Managed Establishment Order (TMEO) introduced a mechanism through which shares and associated property rights could be offered to original owners. However, the mechanism remained underutilised and did not result in widespread private-sector ownership.

Privatisation and Denationalisation (1990–1993)

A renewed privatisation drive began in 1991 with the denationalisation of Muslim Commercial Bank (MCB), targeting key sectors and drawing inspiration from the privatisation policies pursued under Margaret Thatcher in the United Kingdom.

Between 1990 and 1993, approximately 115 industrial units, including banks and manufacturing enterprises, were privatised. The process, however, attracted criticism over allegations of political favouritism, procedural irregularities and inadequate transparency. These concerns also raised questions about wealth concentration, employment and the broader socioeconomic implications of privatisation.

Limited Privatisation and Economic Outcomes (1993–1996)

Between 1993 and 1996, privatisation activity slowed considerably. Approximately 20% of the 112 industrial units, one financial institution, one power plant and 12% of PTCL shares were privatised.

Despite these transactions, the expected improvement in fiscal conditions remained uncertain, partly because rising interest payments offset some of the gains generated through privatisation proceeds.

During this period, GDP growth declined from 5.44% in the pre-privatisation period (1986–1991) to 4.15% in the post-privatisation period (1992–1997). Investment levels also declined from 5.55% to 1.82%.

These historical developments demonstrate that privatisation receipts alone do not necessarily translate into sustained economic growth or fiscal stability. The outcomes depend on the transparency of transactions, the regulatory environment, market conditions and the effective utilisation of proceeds.

Public-Private Partnerships (PPPs): An Alternative Approach to SOE Reform

Given the financial and political implications of complete privatisation, Public-Private Partnerships (PPPs) have increasingly attracted attention as an alternative mechanism for addressing infrastructure constraints, fiscal limitations and public-service delivery challenges.



Pakistan faces an estimated infrastructure financing gap of USD 124 billion by 2040, while public debt stands at 66.3% of GDP. These pressures highlight the limitations of relying exclusively on conventional public financing and create a need for alternative investment arrangements.

PPPs as Instruments of Financing and Operational Efficiency

Although PPPs are frequently viewed as an alternative financing mechanism, their potential extends beyond mobilising private capital. They can also facilitate technological innovation, operational efficiency, improved service delivery and better value for money.

Through the Public-Private Partnership Authority (P3A), established in 2018, the government has provided an institutional framework for attracting private-sector investment and expertise into infrastructure development and public services.

Experts emphasise that PPPs should move beyond serving as substitutes for public expenditure and instead become instruments for effective risk allocation, corporate efficiency and innovation. Financing mechanisms such as inflation-linked bonds, blended finance and revenue-sharing arrangements can further strengthen their viability.

The five-year National Economic Transformation Plan (2024–2029), URAAN Pakistan, also emphasises institutional reforms and improved governance to create a more sustainable environment for private-sector collaboration.

International Experiences and Best Practices

International experiences demonstrate how PPP arrangements can help bridge infrastructure and public-service gaps.

Examples include the Private Finance Initiative in the United Kingdom, the National Concessions System in Chile, the National Highways Authority of India (NHAI) and major airport concessions in India, as well as subnational small-scale PPPs and state-level water concessions in Brazil.

These models illustrate that PPPs can serve not merely as financing instruments but also as mechanisms for institutional transformation, innovation and improved governance.

Beyond infrastructure, PPPs can contribute to the development of education, healthcare, digital platforms, affordable housing and other essential public services. Their effectiveness, however, depends on the government's ability to design transparent contracts, establish accountability mechanisms and maintain public confidence.

Strengthening the Institutional Framework for PPPs

The growing role of PPPs requires a corresponding transformation in the government's institutional responsibilities. Rather than acting solely as a financier or project implementer, the government must increasingly function as an enabler by establishing clear regulations, monitoring performance and ensuring transparency throughout the project cycle.

This requires:

- Strengthening institutional capacity for PPP project design, evaluation and management.
- Simplifying procurement procedures and administrative processes.
- Improving transparency and accountability throughout project implementation.
- Developing effective risk-sharing and dispute-resolution mechanisms.
- Strengthening provincial and local government capacity to identify and manage PPP projects.

An important priority is decentralising PPP development and management to provincial and local governments. This would enable projects to reflect regional requirements and community-level development priorities while strengthening local institutional capacity, financial de-risking and technical assistance.

Given Pakistan's limited fiscal resources and substantial development requirements, PPPs can help bridge the gap between infrastructure needs and available public financing, provided they are supported by sound planning, transparent implementation and effective institutional oversight.

Changing Regulatory and Tax Environment for PPPs

PPPs in Pakistan have traditionally been used to mobilise private investment and deliver public infrastructure and services. However, recent legal, regulatory and taxation developments have introduced additional considerations for project structuring and financial viability.

The Finance Act, 2026 and draft amendments released by the Securities and Exchange Commission of Pakistan (SECP) in June 2026 represent important developments with potential implications for PPP implementation.

The key areas of concern are outlined below in table 1. These developments highlight the importance of regulatory predictability and tax certainty in attracting long-term private investment. Clear transitional provisions and consistent application of tax rules are particularly important for maintaining investor confidence in infrastructure concessions.

Table 1: Regulatory Amendments and Implications

Regulatory Amendment	Potential Implications for PPPs
Revision of withholding tax rates on payments to contractors and service providers	Increases tax deductions at source during construction and operations and maintenance (O&M), potentially reducing the net proceeds available to concessionaires.
Adjustment of corporate tax applicable to infrastructure-sector income	Changes the after-tax return on equity for concession special-purpose vehicles (SPVs), potentially affecting dividend distribution and repatriation calculations, particularly for foreign investors.
Changes to provisions governing pre-existing contracts	Require clarification on whether existing concession agreements remain protected under previous tax arrangements or become subject to revised rates.
Withholding tax on cross-border payments to non-resident subcontractors	Increases the tax burden on payments to foreign subcontractors and may raise overall project implementation costs.

Privatisation versus Public-Private Partnerships: Understanding the Difference

Although both privatisation and PPPs involve private-sector participation, they differ fundamentally in terms of ownership, operational control, duration and allocation of risk.

The choice between these approaches should depend on the commercial viability, strategic importance and public-service obligations of each enterprise rather than following a uniform ownership model.

Based on the financial position and strategic significance of individual enterprises, the following differentiated approach is recommended in table 3.

Linking Financial Performance with Reform Priorities

The Federal State-Owned Enterprises Annual Aggregate Report for FY2024–25 provides an important evidence base for identifying the financial and governance challenges requiring policy intervention.

The Table 4 links the major weaknesses identified in the report with corresponding reform measures.

Table 2: Privatisation vs. Public-Private Partnership

Feature	Privatisation	Public-Private Partnership (PPP)
Ownership	Transferred permanently to the private sector.	Generally retained by the government.
Operations	Primarily managed by the private entity.	Managed jointly or by the private partner under a contractual arrangement.
Duration	Generally permanent or indefinite.	Temporary, with concessions granted for a specified period.
Risk	Primarily transferred to the private owner, subject to applicable contractual and regulatory obligations.	Shared between the government and private partner according to contractual arrangements.

A Differentiated Approach to SOE Reform

Pakistan's SOE reform strategy should account for changing global economic conditions, domestic political considerations and the long-term sustainability of public services. Reform decisions must be transparent, commercially sound and aligned with public interests rather than influenced by political preferences.

Conclusion: Towards a Balanced SOE Ownership and Reform Strategy

SOE reform in Pakistan needs to move beyond the conventional debate over public versus private ownership. The more fundamental question is which combination of ownership, financing, management and governance arrangements can generate the greatest economic and public value from each enterprise.

Table 3: SOE Conditions and Recommended Approach

SOE Condition	Recommended Approach
Commercially viable enterprises operating in competitive markets	Privatisation
Strategically important enterprises requiring capital and technology	PPPs or strategic private-sector participation
Viable enterprises suffering from governance and operational deficiencies	Strategic restructuring
Enterprises providing essential public services or operating natural monopolies	Retention under state ownership, supported by effective regulation and PPP arrangements where appropriate
Persistently non-viable enterprises without strategic justification	Liquidation or orderly exit

Table 4: Problem Identifications and Proposed Reform

Problem Identified	FY2024–25 SOE Position	Proposed Reform
Persistent aggregate losses	PKR 832.8 billion	Entity-level turnaround plans
Net portfolio loss	PKR 122.9 billion	Portfolio-based fiscal triage
High government support	PKR 2.078 trillion	Hard budget constraints
High SOE debt	PKR 9.57 trillion	Debt restructuring and leverage limits
Unfunded pension liabilities	Approximately PKR 2 trillion	Pension liability restructuring
Guarantees and contingent liabilities	Approximately PKR 2.16 trillion	Fiscal-risk ceilings
Concentrated profitability	Major SOEs generate most portfolio profits	Retention of strategic performers and ownership review
Losses associated with public-service obligations	Transport, power and infrastructure	Explicit costing and compensation of public-service obligations (PSOs)
Governance weaknesses	Board composition, business planning and audit deficiencies	Independent boards and KPI-linked evaluations
Weak accountability	Delayed performance reporting and audits	Mandatory and timely reporting
Non-strategic entities	Identified through portfolio triage	Privatisation
Infrastructure constraints	Substantial capital requirements	PPP and concession-based models

Source: Federal SOE Annual Aggregate Report, FY2024–25, Ministry of Finance.

Under this approach, privatisation is appropriate where commercial activities can be performed efficiently by competitive private markets. PPPs are more suitable for strategic assets and public-service responsibilities that require continued government participation but can benefit from private capital, technology and management expertise. Restructuring is necessary where otherwise viable enterprises suffer primarily from governance or operational deficiencies. Meanwhile, continued state ownership is justified where national security, natural-monopoly characteristics or essential public-service obligations require direct government involvement.

This differentiated approach positions privatisation, PPPs, restructuring, regulated state ownership and orderly liquidation as complementary instruments within a broader SOE reform strategy rather than isolated policy interventions.

Ultimately, the objective should not simply be to reduce the number of state-owned enterprises or transfer ownership to the private sector. It should be to establish a financially sustainable, operationally efficient and accountable SOE portfolio that delivers long-term economic and public value.



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