

From Public Liability to Economic Asset: Rethinking the Future of SOEs in Pakistan

Introduction

State-Owned Enterprises (SOEs) play an important role in Pakistan's economy by providing essential services in electricity, transport, water and infrastructure. However, persistent financial losses, weak governance and dependence on government support have turned many of these enterprises into a significant fiscal burden.

The challenge is not simply to privatise or retain state ownership. Pakistan needs a more selective approach that determines which enterprises should remain under public ownership, which require restructuring, and which may perform better under private management.

The future of SOEs therefore depends on moving from fiscal dependence towards financial sustainability, operational efficiency and greater economic value.

Why Does the State Own Enterprises?

State ownership can be justified where private markets cannot adequately serve the public interest or where national priorities require government involvement. Key reasons include:

- **Public service delivery:** Providing essential services that may not be commercially attractive to private investors.
- **Strategic interests:** Maintaining control over sectors critical to national security and economic stability.
- **Development objectives:** Supporting infrastructure and economic activities where private investment is insufficient.

However, state ownership must have a clear purpose. Without defined objectives and accountability, political interference, administrative inefficiencies and competing priorities can undermine enterprise performance.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024) emphasise that state ownership should serve long-term public value while ensuring efficiency and sustainability.

Pakistan's SOE Challenge: Governance and Financial Performance

Weak governance and inadequate accountability remain major obstacles to SOE performance. A recent assessment indicated that:

- 86% of SOEs did not meet key governance requirements.
- 64 out of 74 enterprises failed to comply with at least 60% of the assessed standards.
- Political interference, fragmented oversight, weak board accountability and limited financial transparency continue to affect performance.



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The financial position also reflects these weaknesses. During FY2024–25:

- Profitable SOEs generated profits of Rs. 709.9 billion.
- Loss-making SOEs incurred losses of Rs. 832.8 billion.
- The resulting net financial position was a loss of approximately Rs. 122.9 billion.

Some improvement was reported in the first half of FY2025–26, when profitable SOEs generated Rs. 423.3 billion, while losses of loss-making enterprises declined to Rs. 342.8 billion. This resulted in a positive net financial flow of Rs. 35.6 billion in favour of the government.

Nevertheless, losses remain concentrated in particular sectors. Ten electricity distribution companies reportedly incurred losses of Rs. 299 billion and received subsidies of Rs. 551 billion. This highlights the need for sector-specific reforms alongside broader governance improvements.

Pakistan's Reform Framework

The State-Owned Enterprises (Governance and Operations) Act, 2023 and the SOE Ownership and Management Policy, 2023 provide the foundation for improving the management and oversight of public enterprises.

The reforms aim to:

- Strengthen financial discipline and corporate governance.
- Improve board independence and professional management.
- Establish clearer ownership objectives and performance expectations.
- Enhance transparency and accountability.
- Improve monitoring through centralised institutional oversight.
- Define and finance public service obligations to reduce reliance on open-ended government support.

These measures provide an important institutional foundation. However, their success will depend on consistent implementation and effective enforcement.

Privatisation and Restructuring: What Does the Evidence Suggest?

International evidence generally indicates that privatisation can improve operational and financial performance, particularly where competition, regulation and institutional safeguards are effective. However, results vary across countries and sectors.

Research by Bachiller (2017) found that privatisation through public offerings can produce better outcomes than some alternative methods. Similarly, D'Souza and Megginson (1999) documented improvements in the financial and operating performance of privatised firms.

For Pakistan, privatisation should therefore be considered where it can improve efficiency, attract investment and reduce the fiscal burden. However, it should not be treated as a universal solution, particularly for enterprises performing essential public or strategic functions.

Strategic Pathways: Turning SOEs into Economic Assets

A sustainable SOE reform strategy should move beyond the simple choice between public and private ownership. The following measures can help improve performance:

1. Clarify the Rationale for State Ownership

- Define why each enterprise needs to remain under government ownership.
- Identify its commercial, strategic or public service objectives.
- Periodically review whether continued state ownership remains justified.

2. Strengthen Board Governance

- Appoint qualified and independent board members.
- Reduce political interference in operational decisions.
- Introduce measurable performance targets and accountability mechanisms.
- Strengthen financial reporting and disclosure requirements.

3. Undertake Business Restructuring

- Address excessive costs, operational inefficiencies and over-employment.
- Review debt and improve financial management.
- Modernise business processes through digital transformation.
- Improve asset utilisation and introduce stronger risk management.

4. Leverage Capital Markets

- Consider public listings and partial divestment where appropriate.
- Use capital markets to mobilise investment and improve transparency.
- Explore private management arrangements where they can improve performance without compromising public objectives.

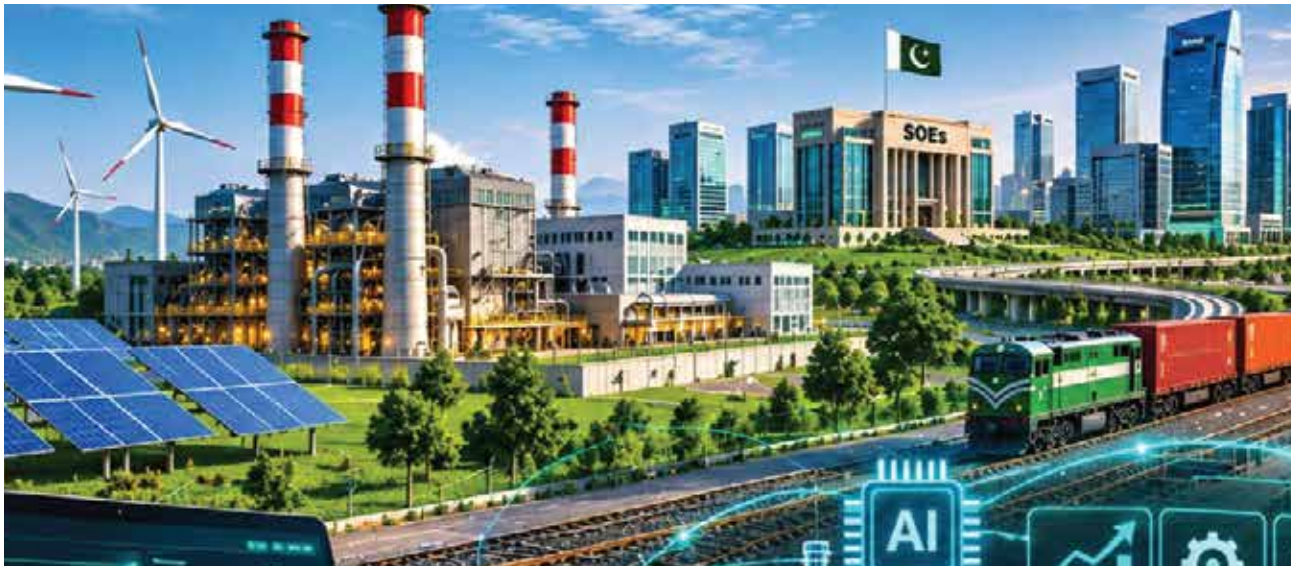
5. Strengthen Fiscal Risk Management

- Identify and transparently report contingent liabilities.
- Introduce risk-based provisioning for potential government obligations.
- Link financial support to measurable performance and service delivery.
- Replace open-ended subsidies with clearly defined and costed public service agreements.

Balancing Public Interest and Commercial Viability

SOEs must balance two responsibilities: operating efficiently as commercial entities and delivering services in the public interest. These objectives are not necessarily incompatible, provided that public service obligations are clearly defined, transparently funded and independently monitored.

The SOE Act, 2023 provides a basis for formalising these obligations. Rather than requiring enterprises to absorb the cost of non-commercial activities, the government should establish transparent financing arrangements that protect both service delivery and financial sustainability.



International experiences, including reforms in Ethiopia and other developing economies, also demonstrate the importance of clear ownership objectives, effective institutions and transparent privatisation procedures.

Pakistan has made progress in establishing a legislative framework, but a gap remains between policy commitments and implementation. Sustainable reform will ultimately require domestic ownership, institutional capacity and consistent political support.

Conclusion: A Selective and Performance-Based Approach

Transforming Pakistan's SOEs from fiscal burdens into economic assets requires a differentiated reform strategy rather than a uniform ownership model.

The government should classify enterprises according to their strategic importance, public service role and commercial viability:

- **Retain:** Enterprises essential for national security, strategic interests and critical public services, subject to strong governance and performance standards.
- **Restructure:** Enterprises with viable operations but persistent financial or managerial weaknesses.
- **Privatise or partially divest:** Commercially viable enterprises where private ownership and competition can improve efficiency.
- **Reform public service obligations:** Ensure that essential non-commercial activities are transparently funded and independently monitored.

The SOE Act, 2023 and Ownership and Management Policy, 2023 have established an important foundation. The priority now is to translate these reforms into measurable improvements in governance, financial performance and service delivery.

Ultimately, the success of SOE reform should not be measured by the number of enterprises privatised or retained, but by their ability to generate economic value, deliver quality public services and reduce their dependence on taxpayers.

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