

Red Ink State Enterprises-By Design

Introduction: The Growing Cost of SOE Underperformance

Pakistan's State-Owned Enterprises (SOEs) play a critical role in the national economy, particularly in strategic sectors such as power, oil and gas, infrastructure, transport and finance. However, their persistent financial losses, operational weaknesses and poor service delivery have placed a considerable burden on public finances and the wider economy.

During FY2024–25, loss-making federal SOEs incurred aggregate losses of Rs 832.8 billion. Total accumulated losses to date have reached Rs 6,848.9 billion, while total sovereign guarantees issued stand at Rs 2,164.0 billion and total government support provided reached Rs 2,078.5 billion. These figures highlight the urgency of addressing the structural weaknesses that continue to undermine their performance, as the sector currently destroys approximately Rs 2,020 billion in economic value (EVA) annually.

The problem is not necessarily public ownership itself. Rather, it raises fundamental questions about leadership, accountability, decision-making and the sense of responsibility with which these enterprises are managed. Two recurring weaknesses stand out such as nepotism and delayed decision-making. Both weaken institutional discipline, discourage merit and prevent timely corrective action.

Public Ownership Does Not Mean Poor Performance

The Economic Importance of SOEs

Many SOEs operate in sectors that directly affect economic stability and public welfare. The federal portfolio includes enterprises in power, oil and gas, infrastructure and financial services, among other areas. Their performance influences the cost, availability and quality of essential services.

When these enterprises operate inefficiently, the consequences extend beyond their financial statements. Expensive utilities, supply disruptions, inadequate infrastructure and declining service quality increase the cost of doing business, constrain industrial activity, affect agricultural productivity and place additional pressure on households.

International and Domestic Examples

It would be incorrect to conclude that public-sector enterprises are inherently inefficient or that privatisation is the only solution. International examples demonstrate that state ownership can coexist with strong commercial performance.



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China operates a vast portfolio of wholly and partially state-owned enterprises, while Saudi Aramco, Emirates Airlines and Singapore's Temasek have demonstrated the commercial potential of state-linked businesses. At the domestic level, organisations such as OGDC, PPL, KPT and NBP have also demonstrated that public ownership does not automatically result in financial losses. The Fauji Foundation, which operates through a group of companies, provides another example of substantial commercial activity under institutional ownership.

These examples reinforce an important point: the performance of an enterprise depends less on who owns it on paper and more on how it is governed, managed and held accountable.

Ownership: Beyond Legal Control

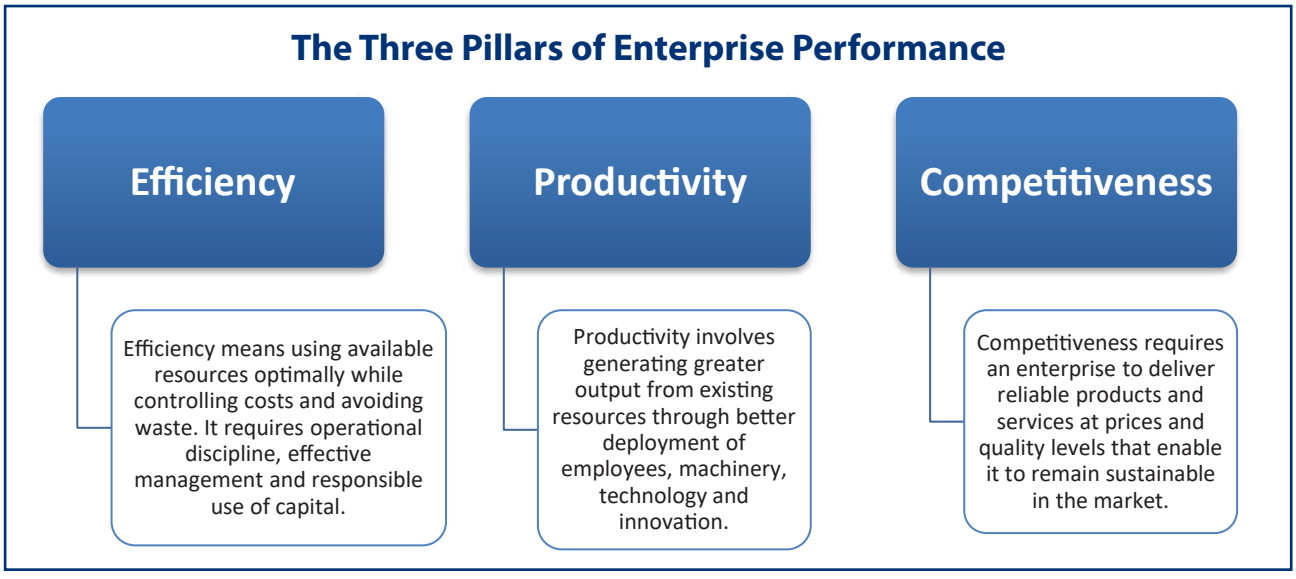
Developing a Sense of Institutional Responsibility

The concept of ownership extends beyond legal or physical possession. It also involves a sense of responsibility and commitment among those entrusted with managing an organisation. When employees, managers and leadership consider an enterprise their responsibility, they are more likely to protect its assets, improve performance and pursue its long-term interests.

In a private company, financial gains and losses primarily affect its investors. In an SOE, however, the consequences ultimately extend to the State and its citizens. Public losses are borne by taxpayers, while inefficiencies are reflected in the cost and quality of services.

Accountability as a Public Responsibility

The real challenge is to develop a culture of ownership among those responsible for public enterprises.



The government may retain legal ownership, but boards, chief executives and relevant public officials must demonstrate genuine accountability for the organisations under their control.

Article 29 of the Constitution of Pakistan provides the framework for the application of the Principles of Policy by organs and authorities of the State. This broader responsibility reinforces the importance of public officials acting in accordance with their institutional obligations.

The persistent decline of enterprises such as Pakistan Steel Mills, several power distribution companies and Pakistan Railways raises a fundamental question: who takes responsibility for their performance? When the government owns the enterprise but no individual or institution takes ownership of its results, accountability becomes diluted.

Pakistan Steel Mills is a particularly striking example of how institutional neglect, delayed decisions and a lack of responsibility can undermine a strategic national asset.

SOEs operating in monopolistic or protected environments may face limited competitive pressure to improve their operations. Without appropriate performance targets and accountability, this can weaken cost discipline, service quality and financial sustainability.

The solution lies in strengthening management practices, introducing modern technologies, encouraging innovation and linking managerial performance with measurable results. These three pillars should be embedded in the organisation's operating culture rather than treated merely as performance indicators.

Creating Economic Value While Protecting Public Welfare

Converting Resources into Economic Value

Economic value is created when a product or service becomes useful, accessible and affordable at a particular place and time. Natural resources, for example, have limited economic value until they are extracted, processed and made available for productive use. Similarly, seawater becomes useful for human consumption only after treatment.

SOEs have an important role in converting national resources into economic value. However, the cost of this process must be managed carefully. Enterprises operating in oil, gas, power, water and transport must seek efficiency through research and development, automation, better procurement, reduced overheads and improved operational practices.

Balancing Commercial Performance and Public Welfare

Unlike ordinary commercial products, essential utilities have a direct bearing on public welfare. Their performance cannot be assessed exclusively through profitability. While financial sustainability is necessary, affordability, availability and service quality must also remain central objectives.

Where the government requires an SOE to provide services below commercial cost for public-policy reasons, the resulting obligation should be transparently identified and appropriately funded. This would help distinguish genuine public-service costs from operational inefficiencies.

The objective should be to establish a sustainable balance between commercial performance and public welfare, ensuring that essential services remain accessible without placing an excessive burden on public finances.

Leadership and Institutional Revival

The Role of Leadership Commitment

The revival of loss-making SOEs requires commitment from the highest level of leadership. Clear direction, timely decisions and consistent accountability can address many of the weaknesses that have persisted for years.

Strong leadership must actively discourage political interference, nepotism and conflicts of interest. It should also empower professional management to make timely commercial decisions while holding it accountable for measurable outcomes.

International Governance Models

The performance of international enterprises demonstrates the importance of institutional commitment. Singapore's Temasek model, for example, separates the government's role in policymaking from the commercial management of its investments. This provides a distinct ownership structure focused on long-term value creation.

China's SOE model also demonstrates the importance attached to state oversight and institutional discipline, although its governance arrangements differ considerably from those of other economies.

The World Bank and Asian Development Bank have emphasised governance improvements, institutional capacity, performance evaluation, transparency, board accountability and appropriate commercial incentives as important elements of SOE reform. These principles offer useful guidance for Pakistan.

Pakistan's SOE Governance Framework

The SOE (Governance and Operations) Act, 2023

Pakistan introduced the SOE (Governance and Operations) Act, 2023, to strengthen the governance and management of state-owned enterprises. The framework seeks to clarify the government's role as policymaker and owner, strengthen board autonomy and improve performance monitoring.

Key institutional arrangements include:

- **Cabinet Committee on SOEs:** Oversees broad ownership policies and related decisions.
- **Central Monitoring Unit (CMU):** Located in the Ministry of Finance, it is responsible for monitoring SOE performance and reporting.
- **Line ministries:** Maintain their respective policy and oversight responsibilities.
- **Independent boards:** Intended to strengthen professional management and corporate accountability.

The Implementation Challenge

The framework also provides for transparent treatment of public-service obligations. Where the government requires an SOE to provide a service at a price below its cost, the resulting financial difference should be addressed through an explicit subsidy.

However, the effectiveness of these arrangements depends on implementation. Board autonomy must be meaningful, appointments should be merit-based, and performance monitoring must lead to timely corrective action. Without these safeguards, administrative structures alone cannot deliver the desired transformation.

Lessons from Three Steel Mills

The contrasting experiences of Pakistan, India and South Korea offer an important illustration of how leadership and institutional commitment influence the performance of public-sector enterprises.

All three countries established major steel facilities with foreign technical assistance, yet their subsequent trajectories differed significantly.

POSCO, South Korea

Established in 1968 with an initial capacity of approximately 1.3 million tonnes, POSCO expanded substantially over the following decades. Its growth was supported by consistent leadership, investment in automation, reinvestment of profits and a strong focus on productivity and international competitiveness.

Bhilai Steel Plant, India

Established in 1958 with an initial capacity of approximately 1 million tonnes, the plant experienced several operational and financial challenges but continued to evolve and remains an important part of India's steel industry.

Pakistan Steel Mills

Established with an initial production capacity of approximately 1.1 million tonnes, the facility ceased operations in 2015. Years of neglect, governance weaknesses and delayed decisions have left a major industrial asset largely unutilised.

The contrast is not simply about ownership. It reflects differences in institutional continuity, investment decisions, management accountability and the ability to respond to changing industrial requirements.

Infrastructure Development: The Cost of Delayed Decisions

Pakistan's experience with major infrastructure projects offers another perspective. Tarbela and Mangla dams were completed in 1976 and 1967, respectively, and remain important national assets.



By contrast, the prolonged development of the Diamer-Bhasha Dam, accompanied by substantial increases in estimated costs, highlights the consequences of delays and weak project execution.

These examples demonstrate that institutional discipline and timely decision-making are essential for delivering large-scale public investments.

Privatisation: A Solution or an Admission of Management Failure?

Assessing the Right Course of Action

Privatisation is often presented as the principal remedy for loss-making SOEs. While it may be appropriate for certain enterprises, it should not automatically be considered the only option.

The decision to privatise should follow a thorough assessment of an enterprise's financial position, strategic importance, market conditions and prospects for recovery. Before transferring public assets to private ownership, the government should examine whether restructuring, professional management, operational improvements or public-private partnerships could deliver better results.

Making Management Accountable for Turnaround

The chief executives of loss-making enterprises should also be held accountable for presenting credible turnaround plans with measurable targets and realistic timelines. Their performance should be assessed against improvements in productivity, reduction in losses, service quality and financial sustainability.

Privatisation should not become a substitute for institutional accountability. Equally, public ownership should not be retained merely to avoid difficult decisions. The objective must be to protect public value and select the most appropriate ownership and management structure for each enterprise.

> **“ Ultimately, the choice is between genuine ownership and institutional apathy. ”**

Public assets should not be allowed to deteriorate through neglect and then be disposed of at distressed valuations. Timely decisions are essential, whether the chosen course is restructuring, partnership or privatisation.

Conclusion: A Choice Between Ownership and Apathy

Pakistan's SOE crisis is not a consequence of public ownership but reflects weaknesses in leadership, governance and management. Their revival requires committed leadership that ensures integrity, timely decision-making and freedom from undue interference, alongside professional management focused on productivity, efficiency, innovation and responsible use of public resources. Ultimately, sustainable improvement depends on developing a genuine sense of ownership, where those entrusted with public assets take responsibility for performance and remain accountable for results.

About the Author: Syed Shamim Ahmed *is a Fellow member of ICMA. He retired as General Manager Finance from the Karachi Port Trust (KPT) where he served for around 22 years in various positions. He was also a member of the Karachi Dock Labour Board for 7 years. After earning his MBA from IBA Karachi, he began his career at Citibank before moving to Awami Autos (now Pak Suzuki).*