

Who Should Own and Run Pakistan's SOEs? A Case for Strategic Reform



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Introduction

Every citizen of Pakistan contributes to the financial burden of State-Owned Enterprises (SOEs), whether they use their services or not. The cost of inefficient electricity distribution is reflected in power bills, while taxpayers bear the losses of airlines, railways and manufacturing units through subsidies and government grants. Borrowing to finance these losses further increases public debt, passing the financial burden on to future generations.

SOEs were established to serve the public interest, support strategic industries and provide essential services. However, many have become a recurring burden on the national economy. The critical question for Pakistan is no longer whether SOEs need reform, but which businesses the state should own and how those retained under public ownership can be managed efficiently and sustainably.

Why the State Entered Business

At independence in 1947, Pakistan's private sector had limited capital and industrial capacity. The state therefore assumed an active role in establishing industries, banks, airlines and utilities to support economic development and fill gaps in private investment.

The nationalisation policies of the 1970s further expanded government ownership across banking, insurance and manufacturing. The underlying rationale was that state ownership would protect strategic sectors, strengthen economic self-reliance and ensure that the benefits of industrial development reached the wider population.

Some of these initiatives initially achieved considerable success. Pakistan International Airlines (PIA), for example, once enjoyed international recognition, while Pakistan Steel Mills represented the country's industrial ambitions. Over time, however, political interference, weak governance and operational inefficiencies undermined the performance of several enterprises. Their original strategic purpose increasingly became overshadowed by recurring financial losses.

The Size of the Problem

Pakistan has more than 200 SOEs operating across energy, transport, finance, manufacturing, trading and services. While some perform essential public functions, many commercial enterprises are expected to generate sufficient revenue to sustain their operations. Yet a number continue to incur substantial losses.

The financial burden is particularly visible in the following areas:

Power sector: Electricity distribution companies face technical and commercial losses, electricity theft and weak bill recovery. These inefficiencies contribute to the accumulation of circular debt, creating significant pressure on the economy.

Pakistan Railways: Ageing infrastructure, operational weaknesses and substantial pension obligations continue to affect its financial sustainability.

Pakistan Steel Mills: The largely inactive enterprise continues to carry significant liabilities and associated costs despite years of limited operations.

The problem is not equally distributed across all SOEs. A relatively small group accounts for a substantial share of the financial burden, which the federal government continues to absorb through subsidies, grants and guarantees. Every rupee spent covering avoidable losses reduces the fiscal space available for essential priorities such as education, healthcare and infrastructure.

Why Do SOEs Fail?

The recurring losses of SOEs reflect several institutional and operational weaknesses:

1. **Unclear Objectives:** Conflicting commercial and public-service responsibilities without clearly defined priorities and measurable targets.
2. **Political Interference:** Politically influenced appointments, recruitment and operational decisions that undermine merit and accountability.
3. **Weak Corporate Governance:** Frequent management changes, limited board independence and unclear responsibilities.
4. **Dependence on Government Bailouts:** Expectations of financial assistance that weaken incentives for financial discipline.
5. **Lack of Transparency:** Delayed financial reporting and inadequate disclosure of institutional performance.
6. **Overstaffing and Outdated Systems:** Inefficient staffing structures, obsolete technology and limited investment in modern skills.

What Has Been Tried So Far?

Pakistan has introduced several initiatives to address SOE inefficiencies, although implementation remains uneven.

Privatisation: Initiated in the early 1990s, the programme transferred several banks, cement plants and telecommunications businesses to private ownership. However, some transactions faced political opposition, litigation and procedural challenges.

Governance Reforms: The SOE Ownership and Governance Policy and the State-Owned Enterprises (Governance and Operations) Act, 2023 aim to strengthen professional management, transparency and accountability. The Finance Division's Central Monitoring Unit also monitors SOE performance.

IMF Programmes: IMF-supported programmes have encouraged fiscal discipline and SOE restructuring. However, sustainable reform requires continued national commitment beyond external programme conditions.

PIA Privatisation: The privatisation process involving PIA represents an important test of the government's reform agenda. Its outcome should be assessed through improved operations, service quality and economic value.

Rethinking State Ownership: A Practical Framework

The fundamental question for policymakers is: Why does the state own a particular enterprise, and is public ownership still necessary?

SOEs can be classified into three groups:

Group 1: Businesses the State Does Not Need to Own

Commercial enterprises operating in competitive markets, such as hotels, trading companies and certain manufacturing businesses, should be considered for privatisation, restructuring or closure where they are no longer viable.

Group 2: Strategic Enterprises and Essential Services

Enterprises operating in electricity distribution, railways, ports and gas infrastructure may require public oversight but not necessarily direct government management. Private management contracts, public-private partnerships, corporate restructuring and independent regulation can improve their performance.

Group 3: Enterprises with a Public-Service Mandate

SOEs serving remote and underserved communities may remain state-owned, provided their public-service obligations are clearly defined, adequately funded and regularly evaluated. Subsidies for affordable services should be transparently allocated through the government budget.

What Good State Ownership Looks Like?

Where public ownership remains necessary, the government should act as a professional shareholder by ensuring:

1. **Separation of Roles:** Distinct ownership, policymaking and regulatory functions.
2. **Independent Boards:** Merit-based appointments and professional oversight.
3. **Performance Targets:** Measurable financial, operational and service-delivery indicators.
4. **Financial Transparency:** Timely publication of audited financial statements.
5. **Financial Discipline:** Performance-based support instead of automatic bailouts.
6. **Fair Competition:** Equal operating conditions for public and private enterprises.

The Human Side of Reform

SOE reforms must protect the legitimate interests of employees and their families. Restructuring and privatisation should include fair compensation, voluntary separation schemes, retraining opportunities, redeployment and protection of pension rights.

Making Privatisation Work

Successful privatisation requires transparent valuations, competitive bidding, resolution of legal and financial liabilities, effective regulation and protection of public interests. Proceeds should be directed towards debt reduction and productive investment rather than routine expenditure.

The Role of Accountants, Auditors and Professionals

Accountants, auditors and financial professionals can support SOE reforms through reliable financial reporting, stronger internal controls, independent audits, performance evaluation, cost management and professional board oversight.

From Burden to Value: A Vision for 2030

By 2030, Pakistan's SOE reforms should aim to achieve:

- State withdrawal from businesses that do not require public ownership.
- Performance-based management and reduced losses in electricity distribution companies.
- Professional boards, measurable targets and timely audited accounts across retained SOEs.
- Transparent subsidies reaching their intended beneficiaries.
- Redirection of public resources towards education, healthcare and infrastructure.
- Financially sustainable SOEs contributing dividends to the national treasury.

Conclusion

SOEs become a fiscal burden when they lack clear objectives, sound governance and financial discipline. Their economic contribution depends on appropriate ownership structures, professional management and accountability. Pakistan must distinguish between enterprises requiring public ownership and those better suited to private investment, while ensuring that retained SOEs operate efficiently and fulfil their mandates. Reducing avoidable losses will release public resources for essential services and national development.

About the Author: Adnan Mehmood Khan *is a Chartered Accountant and Fellow Member of PIPFA, currently serving as Senior Manager in the Quality Assurance Department of ICAP. He previously worked as an Audit Consultant on PIFRA, a World Bank-supported project of the Auditor General of Pakistan aimed at improving financial reporting, auditing, transparency, and accountability in the public sector. He has also served as a faculty member at LUMS, PIPFA, and CSA, teaching Audit, Accounting, and Public Finance.*