

Beyond Bailouts: Charting a New Course for Pakistan's SOEs

Introduction

Pakistan's state-owned enterprises (SOEs) are at a critical stage. Despite this footprint, many continue to place pressure on public finances, with accumulated losses reaching Rs. 7.22 trillion. The portfolio's thin net profit of Rs. 80.5 billion masks an unrecognized balance sheet risk of up to Rs. 2.5–3.5 trillion from unfunded pensions and IFRS gaps as per H1-FY2026 report.

The issue extends beyond financial losses. Continued government support absorbs scarce fiscal resources, while inefficient operations and limited competition constrain private-sector participation. Pakistan's SOE reform agenda, therefore, needs to move beyond reducing losses towards improving governance, operational efficiency and economic value creation.

The State-Owned Enterprises (Governance and Operations) Act, 2023 the SOE Ownership and Management Policy, 2023 and the government's privatisation programme provide a framework for this transition. The central question is how privatisation and public-private partnerships (PPPs), supported by stronger governance, can help transform SOEs from fiscal liabilities into productive economic entities.

Understanding the Scale of the Challenge

The FY2025 SOE report presents a mixed picture of the sector. The portfolio's return on invested capital (ROIC) stood at approximately 2.2%, substantially below its estimated weighted average cost of capital (WACC) of around 15%. The resulting negative EVA indicates that the portfolio is not generating sufficient returns to cover the cost of capital invested in it (Finance Division, 2025).

Nevertheless, recent figures suggest some marginal improvement. During the first half of FY2026, profitable SOEs generated gains of Rs. 423.3 billion, while loss-making entities recorded losses of Rs. 342.8 billion. This resulted in a narrow net adjusted profit of Rs. 80.5 billion for the sector. Consequently, the net fiscal flow to the government—representing the difference between SOE contributions and government support—stood at approximately Rs. 35.8 billion as per H1-FY2026 report.

Although these developments indicate progress, they do not eliminate the underlying structural weaknesses. Sustainable improvement will require better financial management, commercial discipline and accountability rather than continued reliance on government support.



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Privatisation: Moving Beyond a Change of Ownership

Privatisation remains an important component of Pakistan's SOE reform strategy. The government has identified up to 50 entities for privatisation over the next three to four years, with the process covering energy distribution companies, aviation and other commercial enterprises.

However, Pakistan's experience demonstrates that transferring ownership alone does not guarantee improved performance. Research on post-privatisation enterprises has found mixed results, with some firms recording insignificant or negative performance changes (Faraz & Samad, 2022). Similarly, lengthy transaction processes and institutional weaknesses have affected the pace and effectiveness of earlier initiatives.

The privatisation of Pakistan International Airlines (PIA) offers important lessons. Before the transaction, the government absorbed more than Rs.670 billion in liabilities and debt, transferring a substantial part of the historical financial burden to taxpayers (Daily Times, 2026). This highlights the importance of addressing legacy liabilities, operational inefficiencies and governance weaknesses before transferring ownership.

The objective should not simply be to sell an enterprise but to establish a commercially viable business operating under transparent rules and genuine competition.

Privatised entities should not continue to depend on preferential treatment, implicit subsidies or market protection. Where an enterprise is fundamentally unviable, liquidation may also need to be considered rather than repeatedly committing public resources to an unsuccessful sale process.

The power sector presents another major test. The privatisation process for IESCO, FESCO and GEPCO has been initiated, while further distribution companies are expected to follow. However, the government must first address circular debt arrangements and outstanding financial obligations to ensure that these liabilities do not continue to undermine the financial position of the companies after privatisation (Profit by Pakistan Today, 2026).

Public-Private Partnerships (PPPs)

Not every SOE requires a complete transfer of ownership. Public-private partnerships offer an alternative where the government wishes to retain ownership while engaging private-sector expertise, investment and operational capacity.

This approach is particularly relevant to infrastructure, transport, energy and public-service delivery. Pakistan's airport management initiatives illustrate this distinction: rather than selling Karachi, Lahore and Islamabad airports, the government has considered long-term concession arrangements to improve operational efficiency and service standards.

Similarly, PPPs can support investment in energy infrastructure, including battery energy storage systems, without requiring the government to finance the entire investment.

The distinction between privatisation and PPPs is important. Privatisation transfers ownership, whereas PPPs establish contractual arrangements through which private partners may finance, develop, operate or manage public assets. The choice should depend on the commercial viability, strategic importance and service-delivery requirements of each enterprise.

A transparent project-selection process, appropriate risk allocation, competitive bidding and effective contract monitoring will be essential to ensure that PPPs deliver value rather than create new contingent liabilities for the government.

Governance: The Foundation of Sustainable Reform

Ownership changes and private-sector participation cannot deliver lasting results without effective governance. The SOE Act, 2023 and Ownership and Management Policy, 2023 provide a framework for professional boards, greater managerial autonomy and clearer accountability.

An important institutional development is the establishment of the Central Monitoring Unit (CMU) within the Finance Division. Its role includes monitoring SOE financial performance, assessing operational risks and evaluating financial and quasi-fiscal implications. The integrated digital reporting platform further supports standardised data collection and performance monitoring (Finance Division, 2025).

However, implementation remains critical. SOE boards must comprise qualified and independent professionals with the authority to make commercial decisions without unnecessary administrative interference. Political and bureaucratic involvement in routine management can weaken accountability and discourage capable professionals from serving on boards.

Equally important is the transparent treatment of Public Service Obligations (PSOs). Some SOEs provide services that may not be commercially viable but remain essential for public welfare. Such obligations should be clearly defined, costed and funded through explicit government allocations rather than being concealed within operating losses. This would allow enterprises to distinguish commercial performance from the cost of delivering public services.

Turning Reform into Economic Value

Pakistan's SOE reform agenda requires a differentiated approach rather than a uniform ownership model. Commercially viable entities operating in competitive markets may be suitable for full privatisation. Enterprises requiring substantial investment or specialised management may benefit from concessions and PPPs, while strategically important entities may remain under state ownership with stronger governance and performance requirements.

Government financial support should also be linked to measurable outcomes, including return on invested capital, EVA, cost recovery and operational efficiency. A performance-linked funding framework would help ensure that public resources support restructuring and measurable improvements rather than perpetuating recurring losses (The Nation, 2025).

In the energy sector, reducing circular debt requires sustained attention to cost recovery, operational efficiency, metering infrastructure and improved financial settlements between distribution companies and power producers. Temporary financial arrangements alone cannot resolve the structural weaknesses responsible for recurring liabilities.

Policy Priorities

The following measures can help translate the reform agenda into measurable results:

- **Strengthen SOE governance:** Ensure qualified independent boards, clear mandates and greater operational autonomy under the SOE Act 2023.
- **Link funding to performance:** Make government financial support conditional on measurable financial and operational targets, including ROIC and EVA.
- **Adopt a differentiated ownership strategy:** Identify entities suitable for privatisation, PPPs, concessions or continued state ownership.
- **Address legacy liabilities:** Resolve outstanding debt, pension obligations and sector-specific financial weaknesses before privatisation.
- **Formalise public service obligations:** Cost, contract and transparently finance all non-commercial services provided by SOEs.
- **Improve market competition:** Strengthen regulatory oversight and ensure that privatised enterprises operate under fair and competitive conditions.
- **Expand digital monitoring:** Use the CMU's reporting platform to improve transparency, track performance and identify financial risks.

Conclusion

Pakistan's SOE challenge is no longer simply about reducing financial losses; it is about ensuring that public assets generate sustainable economic and social returns. The reforms introduced through the SOE Act 2023, the privatisation programme and the growing use of PPPs provide an opportunity to address long-standing weaknesses.

However, the success of these initiatives will depend on implementation. Privatisation without competition, PPPs without effective risk allocation, and state ownership without professional governance will offer limited improvements. A coordinated approach combining financial discipline, independent oversight, operational restructuring and transparent public-service funding is essential.

Ultimately, the performance of Pakistan's SOEs should be measured not by their size or the scale of government support they receive, but by their contribution to productivity, service delivery, fiscal sustainability and national economic value.

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