

Beyond Losses and Liabilities: Reshaping Pakistan's State-Owned Enterprises

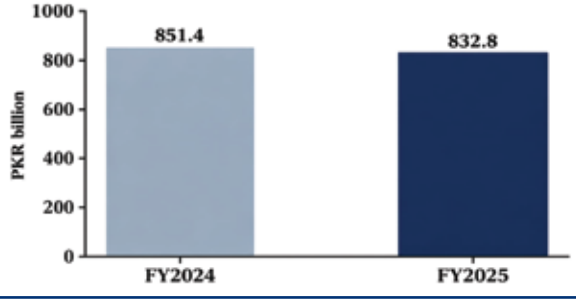
Introduction

State-Owned Enterprises (SOEs) were established to serve the public interest, yet many have become a significant fiscal burden. According to the FY2025 Federal SOE Report, loss-making enterprises incurred losses of PKR 832.8 billion, while the overall portfolio recorded an adjusted net loss of PKR 122.9 billion. Using PIA, Pakistan Steel Mills, and Pakistan Railways as examples, this article argues that repeated bailouts or changes in ownership, without adequate scrutiny and accountability, are insufficient to achieve sustainable reform. Instead, SOE transformation requires transparent management accounting practices, comprehensive financial restructuring, professional governance, and clearly defined performance targets backed by accountability. The article proposes a framework that distinguishes between commercially viable enterprises, strategically important entities, and those fulfilling public-service obligations, with tailored reform measures for each category. Ultimately, sustainable improvement depends on capable, independent leadership and a governance culture in which decision-makers are held accountable for their decisions.

From Fiscal Liability to Economic Contribution

The losses recorded in FY2025 were lower than the peak of PKR 851.4 billion reported in FY2024, which may appear encouraging at first glance. However, the profit of PKR 709.9 billion in FY2025 was insufficient to offset these losses, leaving a net adjusted loss of PKR 122.9 billion. The more complex question concerns the appropriate course of action: should the state retain and reform these enterprises, privatize them, or wind them up? Some SOEs provide essential public services that the private sector may be unwilling or unable to deliver, and the public may be willing to accept lower service quality in exchange for continued access to these services. The challenge, therefore, is to distinguish between costs arising from the provision of public goods and those resulting from operational inefficiencies and mismanagement. As demonstrated in Table 1 below, management accounting plays a critical role in making this distinction and informing evidence-based decisions about the future of SOEs.

Figure 1. Aggregate losses of loss-making federal SOEs (PKR billion).





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Pakistan International Airline (PIA): Privatization Proceeds, but Will it Deliver?

PIA is the most recent example of an SOE in which a change in ownership is expected to address recurring deficits. In September 2026, the National Assembly Standing Committee on Privatization reported that a consortium led by Arif Habib Corporation had bid PKR 135 billion for a 75% stake in PIA, against a reference price of PKR 100 billion. Management control had reportedly been transferred following the initial financial closing in June 2026.

While the new management has the potential to turn PIA around, a change in ownership alone does not guarantee improved performance. At least three lessons can be drawn from the PIA experience. First, ownership change should be accompanied by operational reforms to improve route profitability, revenue yield, aircraft utilization, maintenance efficiency, fuel efficiency, and crew productivity. Second, legacy liabilities should be clearly identified and transparently disclosed. Third, performance should be assessed against a limited set of measurable indicators, including operating profit, cash flow from operations, punctuality, and customer satisfaction. The government should then focus on its regulatory role rather than becoming involved in day-to-day operations.

Table 1: The Three Cases at A Glance

Enterprise	Latest reported figure	Core problem	Priority action
Pakistan International Airlines (PIA)	A bid of PKR 135 billion for a 75% stake, against a reference price of PKR 100 billion	Ownership has changed, but a sustainable operational turnaround is yet to be demonstrated	Monitor operating cash flows, on-time performance, and progress towards operational and financial sustainability
Pakistan Steel Mills	Cumulative losses of PKR 79.3 billion over three years, of which 72% comprised interest expenses	Operations have remained suspended since 2015, while costs continue to accumulate	Make a time-bound decision to revive, restructure, or exit, based on a transparent feasibility assessment
Pakistan Railways	Net loss of PKR 61.19 billion against grants of PKR 64.03 billion in FY2024–25	Commercial operations and public-service obligations are not clearly separated in financial reporting	Introduce route-wise costing and transparent funding for public-service obligations

In my view, cash flow from operations should be the primary indicator of PIA's performance. Although profitability can be influenced by operating leverage and one-off gains or losses, operating cash flow provides a more direct indication of the airline's ability to generate cash from its core business. If operating cash flow does not improve within the first year under the new management, the effectiveness of the turnaround strategy and the credibility of other reported performance improvements should be carefully reassessed.

Pakistan Steel Mills: Time to Say Goodbye?

Pakistan Steel Mills has remained closed since June 2015. Figures published by the Ministry of Industries in September 2026 highlight the substantial financial burden associated with retaining the enterprise on the government's books. Between FY2023–24 and FY2025–26, the mill accumulated losses of PKR 79.3 billion, of which PKR 57.4 billion represented interest on loans.

My recommendation is to adopt a time-bound, evidence-based approach to determining the future of Pakistan Steel Mills, focusing on its assets, liabilities, and commercial potential. An independent assessment of the mill's viability should be conducted, taking into account its physical assets, workforce capabilities, financial position, and potential market demand. Based on this assessment, a clear decision should be made on whether to revitalize, restructure, or close the enterprise. If revival is considered viable, it should be supported by a credible business plan and a realistic financing strategy, potentially involving negotiations with creditors to restructure outstanding loans or, where feasible, secure debt relief. If no viable restructuring or revival option exists, alternative uses for the assets or an orderly closure should be considered. Public funds should not continue to finance an enterprise without a credible path to financial viability or a clearly defined exit strategy.

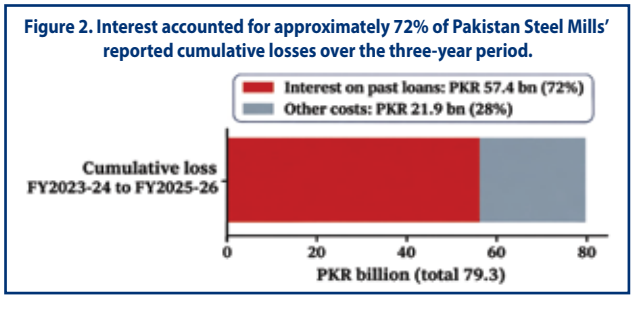
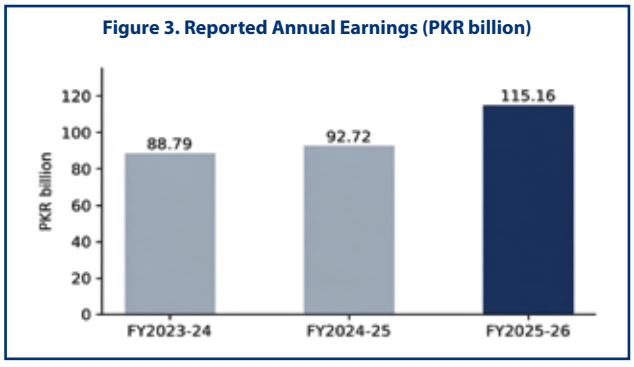


Figure 2. Interest accounted for approximately 72% of Pakistan Steel Mills' reported cumulative losses over the three-year period.

The experience of the former Sidex steelworks in Galați, Romania, offers a useful, though not directly comparable, lesson. Its modernization, efficiency improvements, and working capital optimization were linked to specific milestones established by the European Bank for Reconstruction and Development (EBRD). The European Commission subsequently concluded that most of the indicators relating to improved viability and productivity had been met. Loan disbursements, grants, and audits were tied to an approved operational programme, illustrating the importance of linking financial support to measurable performance targets and verifiable progress.

Pakistan Railways: Costs, Profits, and Public Services

The FY2024–25 loss of PKR 61.19 billion was recorded against total revenue and other income of PKR 92.72 billion. During the same period, the federal government provided PKR 64.03 billion in revenue grants and PKR 34.79 billion in capital investment. According to Dawn, Pakistan Railways' revenue increased from PKR 88.79 billion in FY2023–24 to PKR 92.72 billion in FY2024–25 and PKR 115.16 billion in FY2025–26, despite the enterprise continuing to report losses.



From a management accounting perspective, I would recommend five measures to improve the financial performance of Pakistan Railways:

1. **Route and service profitability:** Measure revenue and avoidable costs by route and service category to determine which services should be retained, modified, or discontinued.
2. **Public-service funding:** Identify and quantify the costs of essential public services separately to establish a transparent and informative subsidy requirement.
3. **Asset and maintenance management:** Plan major maintenance activities on a rolling-stock lifecycle basis, prioritizing safety, cost-efficiency, and service reliability.
4. **Procurement and internal controls:** Promote competition in procurement, strengthen contract oversight and internal audits, and ensure that identified control weaknesses are addressed.
5. **Performance reporting:** Report monthly performance indicators on a per-passenger and per-tonne basis, alongside punctuality and safety metrics, to assess progress against targets and strengthen accountability.

Governance and People: The Final Frontier

Although the performance of SOEs is often assessed in financial terms, personnel and governance policies are frequently underlying causes of financial underperformance. In my experience, some SOE directors and executive managers lack the professional competence, confidence, or authority needed to take responsibility for difficult commercial decisions. Consequently, many SOEs drift from one government administration to the next without the commercial discipline and managerial consistency required for sustainable performance.

Government oversight of SOEs is inevitable given their status as state-owned assets, but political interference in operational and commercial decisions should be minimized. When government ministers influence executive appointments or day-to-day business decisions, establishing effective accountability becomes considerably more difficult. I recommend empowering independent and professionally qualified directors to manage enterprises on commercial principles, report to the government, and remain accountable for performance and the responsible stewardship of public assets.

This is not to suggest that government employees are inherently ineffective or lack integrity. Rather, institutional arrangements can encourage risk aversion and discourage individuals from taking responsibility for decisions that might affect their tenure. Consequently, appointments and decision-making may become oriented towards preserving the status quo rather than addressing persistent commercial weaknesses. Governance structures should encourage responsible decision-making, reward performance, and protect SOE managers from undue political interference.

Ultimately, people and their potential are among an enterprise's most valuable assets. In my experience, family-owned businesses can benefit from a stronger sense of ownership and accountability than enterprises managed through distant government hierarchies. SOE directors should identify key personnel, consult them on policy and commercial matters, and give serious consideration to their concerns and recommendations. These employees possess valuable institutional knowledge and have a direct stake in the enterprise's success. Their insights can be more practical and valuable than those of external advisers, including myself.

What Management Accounting Can Bring to the Table?

Know the real costs- By adopting activity-based costing, SOEs can move beyond broad, accrual-based cost accounting towards a more detailed understanding of cost drivers and resource consumption. This would help management identify inefficiencies, allocate resources more effectively, and evaluate the costs of individual products, services, and operations.

Budget, forecast, and explain variances- SOEs should prepare rolling forecasts, conduct budget-versus-actual analyses at appropriate responsibility levels, and explain significant variances. This would enable management to identify emerging financial pressures, take corrective action, and improve the reliability of financial planning.

Fund according to performance- Public funding should be linked to approved business plans, measurable performance targets, and periodic independent scrutiny. This is particularly important for SOEs, where recurring financial support without corresponding operational improvements can turn temporary fiscal assistance into a permanent liability.

Turning the Ship Around: A Roadmap for Reform

The proposed reform framework consists of five phases, with each SOE placed at the stage most appropriate to its circumstances. Under this framework, PIA would be at Phase 4, with an emphasis on enhanced performance monitoring; Pakistan Steel Mills would be at Phase 2, where the appropriate ownership and restructuring model must be determined; and Pakistan Railways would require measures spanning Phases 1 to 3, covering diagnosis, the selection of an appropriate management model, and implementation of operational reforms.

Phase 1-Diagnose: Conduct independent financial, operational, and governance reviews, focusing on commercial viability, strategic importance, and public-service obligations. Identify key employees whose experience and institutional knowledge are essential to the enterprise's future.

Phase 2- Choose the model: Based on the diagnostic findings, adopt an appropriate approach for each SOE. Options may include private-sector participation for commercial enterprises, professional management and restructuring for businesses with turnaround potential, and clearly defined public-service contracts for enterprises providing essential services.

Phase 3-Deliver: Address budgetary and commercial liabilities, strengthen operating cost systems, and invest in infrastructure where economically justified. Introduce disciplined procurement, financial reporting, and performance management. Establish independent, professionally qualified boards with clear authority over commercial decisions and accountability for results.

Phase 4-Monitor and report: Publish regular performance scorecards covering commercial outcomes, financial sustainability, and public-service objectives. These reports should demonstrate progress against measurable targets and assess whether public resources are generating value for money.

Phase 5-Review and enforce consequences: Where key performance indicators are not met, require corrective action, revise business plans where necessary, and reconsider the management or ownership model if performance remains unsatisfactory. Continued financial support should be justified by demonstrable progress rather than historical allocations or institutional precedent.

Conclusion: Stop Financing the Problem, Start Funding the Solution

Pakistan's SOE challenges are not simply a question of privatization versus nationalization; they are fundamentally about governance, accountability, and the effective use of public resources. PIA will provide an important test of whether a change in ownership and professional management can restore the commercial performance of a major enterprise. Pakistan Steel Mills will test the government's ability to make timely, evidence-based decisions about an asset that has remained unproductive for years. Pakistan Railways, meanwhile, will demonstrate whether stronger commercial discipline can be achieved while fulfilling essential public-service obligations.

Above all, meaningful reform requires professionally qualified and independent directors who have the authority to make difficult decisions and the accountability to deliver results.

An enterprise cannot be considered successful merely because it reports an accounting profit. Its performance must also demonstrate value for money, financial sustainability, and, where applicable, the effective delivery of public services. The objective of SOE reform should therefore be not only to stop the persistent outflow of public funds but also to unlock economic value and redirect resources towards activities that generate lasting economic and social benefits.

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