

Transforming State-Owned Enterprises: From Fiscal Dependence to Economic Contribution

The Cost of Underperformance

State-owned enterprises (SOEs) control substantial public assets and play a critical role in Pakistan's economy, particularly in electricity, transport, infrastructure and essential services. Yet, instead of consistently generating economic value, many have become a recurring burden on public finances.

In FY2024–25, loss-making SOEs recorded combined losses of Rs. 832.8 billion, while government support reached Rs. 2.078 trillion, an increase of 37%. The sector's outstanding debt stood at approximately Rs. 9.57 trillion, including around Rs. 2.03 trillion in unfunded pension liabilities.

These figures point to a fundamental problem: public capital is tied up in enterprises that often fail to deliver adequate financial or operational returns. The resulting fiscal pressure limits the resources available for essential priorities such as education, healthcare and infrastructure.

The challenge, therefore, is not simply to reduce government ownership, but to ensure that public assets deliver measurable economic and social value.

Rethinking the Purpose of State Ownership

State ownership remains justified where enterprises serve strategic national interests, provide essential public services or support areas where private investment is insufficient. However, ownership must have a clearly defined purpose and measurable outcomes.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (2024) emphasise that governments should act as informed and active owners, ensuring that enterprises operate efficiently while fulfilling their public policy objectives.

For Pakistan, this requires distinguishing between three broad categories:

Strategic enterprises: Those essential for national security, critical infrastructure and public service delivery.

Commercial enterprises: Those operating in competitive markets and expected to generate sustainable financial returns.

Underperforming enterprises: Those requiring restructuring, private investment, management changes or possible privatisation.

A uniform approach to all SOEs is unlikely to succeed. Each enterprise needs a reform strategy based on its commercial viability, public purpose and long-term contribution to the economy.



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The Governance and Performance Gap

Weak governance remains one of the major reasons behind the underperformance of Pakistan's SOEs. Political interference, unclear mandates, inadequate board oversight and limited transparency have weakened operational discipline and accountability.

The Asian Development Bank's assessment of Pakistan's SOE sector has highlighted weaknesses in governance, monitoring arrangements and financial disclosure. The problem is further aggravated when enterprises are required to provide services at below-cost rates without adequate government compensation.

A sustainable reform programme should focus on:

1. Appointing professional and independent boards.
2. Strengthening financial reporting and timely audits.
3. Introducing measurable performance indicators for management.
4. Linking government financial support to operational improvements.
5. Clearly defining and compensating public service obligations.

The State-Owned Enterprises (Governance and Operations) Act, 2023 provides an important foundation for these changes. However, legislation alone cannot transform the sector. Its effectiveness depends on consistent implementation and accountability.

Lessons from International Experience

Experiences from other countries demonstrate that state ownership and economic efficiency are not necessarily incompatible.

What matters is how public enterprises are governed, monitored and held accountable.

China has focused on strengthening the competitiveness of its central SOEs, with greater emphasis on innovation, strategic investment and measurable performance.

Vietnam has pursued restructuring and partial divestment, placing greater importance on transparency, enterprise valuation and modern corporate governance.

Uzbekistan has sought to reduce the government's role in competitive sectors, strengthen independent oversight and attract institutional investors through its National Investment Fund.

Although these approaches differ, they offer a common lesson that a successful SOE reform requires clear ownership objectives, professional management, transparent decision-making and performance-based accountability.

Turning Public Assets into Economic Value

Pakistan needs to move from a system of repeated financial support towards one in which public investment is assessed against measurable results. Five priorities can help achieve this transition.

Link Financial Support to Performance

Government assistance should not be automatic. Financial support should be linked to agreed performance targets, including profitability, operational efficiency, service delivery and return on invested capital. Enterprises that consistently fail to meet their targets should be required to implement corrective business plans.

Strengthen Corporate Governance

Professional and independent boards should have clear responsibilities for strategic direction, risk management and management oversight. Regular performance reviews, transparent financial statements and stronger audit enforcement are essential to improving accountability.

Rationalise the SOE Portfolio

Not every enterprise needs to remain under government ownership. Strategic and essential service providers may be retained with appropriate safeguards, while commercially viable but inefficient enterprises should be restructured. Where private ownership can improve performance and competition, privatisation or partial divestment should be considered.

Mobilise Private and Capital Market Investment

Listing commercially viable SOEs on the stock exchange can improve transparency, strengthen market discipline and attract investment. Public-private partnerships and strategic private investment can also provide capital, technology and management expertise without necessarily transferring full ownership.

Build a Performance-Driven Culture

Each enterprise should operate under a standardised performance framework supported by measurable key performance indicators, digital monitoring systems and management performance contracts. Financial targets should be accompanied by service delivery, productivity and asset utilisation indicators.

From Ownership to Accountability

The real test of SOE reform is not how many enterprises remain under public ownership or are transferred to the private sector. It is whether these enterprises use public resources efficiently, provide reliable services and contribute to national economic development.

Pakistan has taken important steps through the SOE Act 2023 and its ownership and management policy. The next priority is to translate these frameworks into practical improvements in enterprise performance.

The government must move beyond repeatedly financing losses and adopt the role of an active, performance-oriented owner. Public service obligations should be transparently funded, commercial operations should be financially disciplined, and underperforming enterprises should face meaningful restructuring.

Ultimately, public assets must work for the public. The transition from fiscal burden to economic value will depend on ensuring that every rupee invested in state-owned enterprises delivers a measurable return—whether through financial performance, essential services, stronger infrastructure or sustainable economic growth.

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