REVIVING PAKISTAN'S SOES

From Liabilities to Champions

ECONOMIC POLICY
& BUSINESS
DEVELOPMENT

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Introduction

State-Owned Enterprises (SOEs) are firms that are owned or controlled by the state. They exist in various forms - from companies wholly owned by national or sub-national governments to those with partial state ownership through direct shareholding or indirect control via investment funds or holding companies.

Reforming SOEs has become an increasingly critical issue globally and particularly in Pakistan. Between 2000 and 2023, SOEs among the world's 500 largest enterprises by revenue increased from 34 to 126, collectively holding assets worth USD 53.5 trillion and generating over USD 12 trillion in revenue[1]. In Pakistan, SOEs constitute a significant portion of the economy but have become a substantial fiscal burden, with consistent losses over the past eight years requiring steady government support.

This case study examines Pakistan's SOE challenges in comparison with select countries to draw actionable lessons for effective reform. The analysis focuses on understanding how Pakistan can transform its SOEs from fiscal burdens into efficient entities that contribute to economic growth and provide quality public services.

1. https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/ownership-and-governance-of-state-owned-enterprises-2024_136e9151/395c9956-en.pdf

Importance of SOEs & Global Landscape

SOEs play a substantial role in the global economy. As of 2023, companies with more than 25% public sector ownership account for nearly 12% of global market capitalization, representing 2,037 companies worldwide[2]. However, their prominence varies considerably across markets - in OECD countries, such firms constitute just 2% of market capitalization, compared to 16% in Latin America and over 40% in some markets[3].

State-Owned Enterprises (SOEs) operate across a range of sectors, primarily in natural monopolies such as network industries and public utilities—including electricity, water, transportation, and telecommunications. In addition, SOEs are active in banking and finance, as well as in the transportation, manufacturing, and industrial sectors as shown in figure 1.

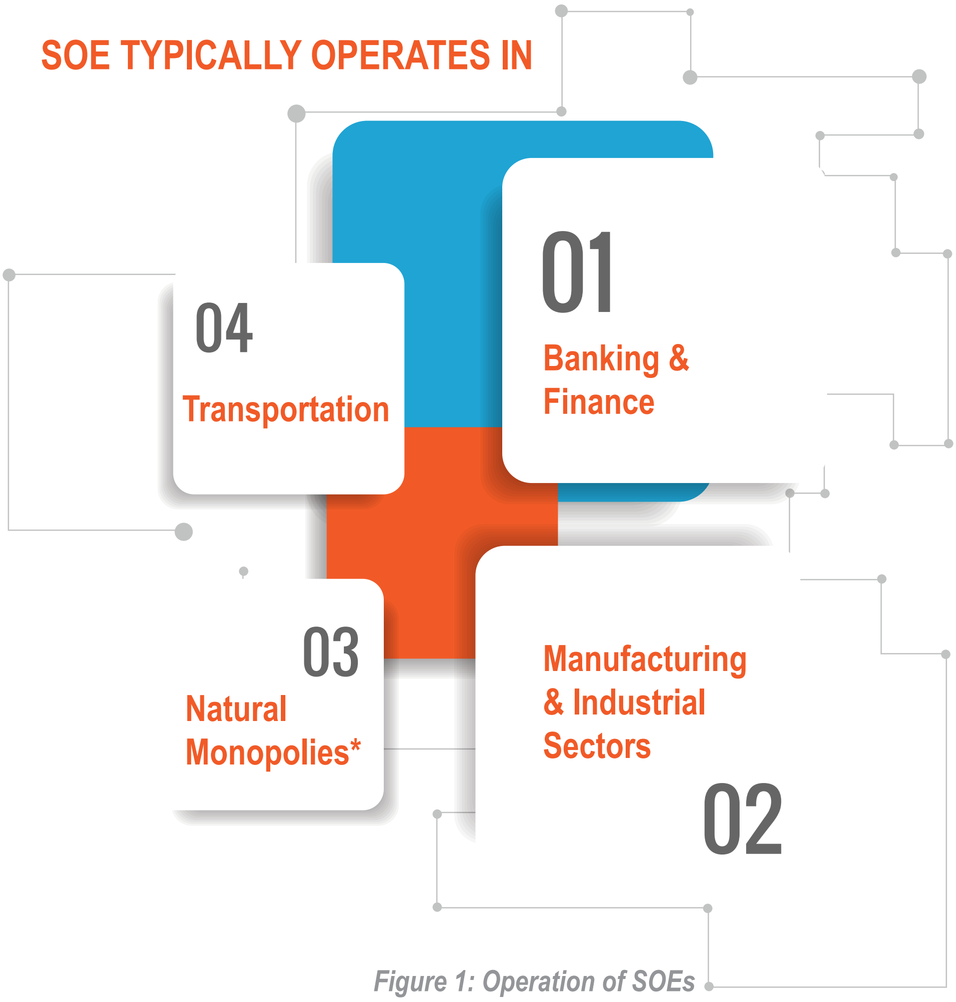

Figure 1: Operation of SOEs

2. *https://www.pwc.com/gr/en/publications/assets/state-owned-enterprises-catalysts-for-public-value-creation.pdf*
3. *https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/ownership-and-governance-of-state-owned-enterprises-2024_136e9151/395c9956-en.pdf*

Ownership Styles & Policies

Centralized model

One central decision-making body functions as shareholder for all state-controlled enterprises. This approach consolidates expertise, ensures consistent governance, and helps separate ownership from regulatory functions.

Co-ordinating agency model

A department with significant but not complete authority over SOEs advises other shareholding ministries on operational issues.

Dual ownership model

Two ministries share ownership in each SOE, typically with one (often Finance) setting financial objectives while another (typically a sectoral ministry) handles policy priorities.

Twin track model

Multiple government institutions simultaneously exercise exclusive ownership functions over separate SOE portfolios.

Dispersed model:

SOEs are owned and managed by various line ministries or government institutions with little central coordination.

Countries increasingly favor more centralized models to promote consistency, transparency, and separation between ownership and regulation.

Figure 2: Justification of SOE Ownership

Rationale for SOE Ownership

The rationale for state ownership of enterprises typically stems from a combination of social, economic, and strategic considerations. Governments often maintain ownership to provide essential public services where private sector participation is limited or unviable—particularly in sectors like water, electricity, and transportation. State-Owned Enterprises (SOEs) are also used to remedy market failures, ensure the supply of goods and services that lack viable private providers, and maintain control over natural monopolies. Additionally, SOEs support strategic industries vital to national interests, promote regional and sustainable development, and address national security concerns. These roles justify public sector involvement in sectors critical to long-term economic stability and societal well-being as shown in figure 2.

A Snapshot of the SOE Landscape in Pakistan (FY2024)

As of FY2024, Pakistan has 88 commercial, 45 non-commercial and 79 subsidiaries making it a total of 212 SOEs in Pakistan[4]. Of these, 121 federally owned SOEs, with 73% classified as commercial entities and the remainder as non-commercial entities established for sectoral development needs. The commercial SOEs are primarily concentrated in:

- Finance
- Oil and gas
- Power
- Infrastructure, transport and Information Technology & Communication (ITC)
- Manufacturing
- Trading and marketing

For FY2024, federal SOEs generated gross revenues of Rs 13,524 billion, reflecting a 5.2% increase year-over-year. However, despite this growth, the sector reported aggregate net losses of Rs 30.6 billion. When the Pakistan Sovereign Wealth Fund (SWF) entities are excluded, net aggregate losses rise to Rs 521.5 billion.

The economic footprint of these entities is substantial - their total revenues amount to approximately 14% of GDP, while their share in total bank loans to the non-government sector has remained high at an average of 15% between FY14-FY23.

Financial Performance & Contributions

SOE PORTFOLIO

Description	FY 2024	FY 2023	%Change
Total revenue	13,524,374	12,848,822	5.26%
Total net loss	(30,648)	(274,265)	88.83%
Aggregate losses with govt support (grants & subsidies added in revenues)	(851,366)*	(990,331)	-14.03%
Aggregate profits	820,718	716,066	14.61%
Total asset base	38,434,841	36,134,569	6.37%
Total liabilities	32,571,448	30,522,218	6.71%
Total equity	5,863,394	5,612,351	4.47%
Total tax revenue	372,857	475,574	-21.60%
Total other taxes (sales tax, levies, royalties)	1,400,513	1,279,911	9.42%
Total dividends paid	82,753	64,718	27.87%
Total employment	343,884	346,915	-0.87%
Size of GDP of Pakistan	105,740,766	84,068,755	25.78%
Annual budget receipts	12,361,462	9,404,896	31.44%

Source: Annual Report SOE FY24

4. Ministry of Finance also mentioned that the number may change due to restructuring and reclassification

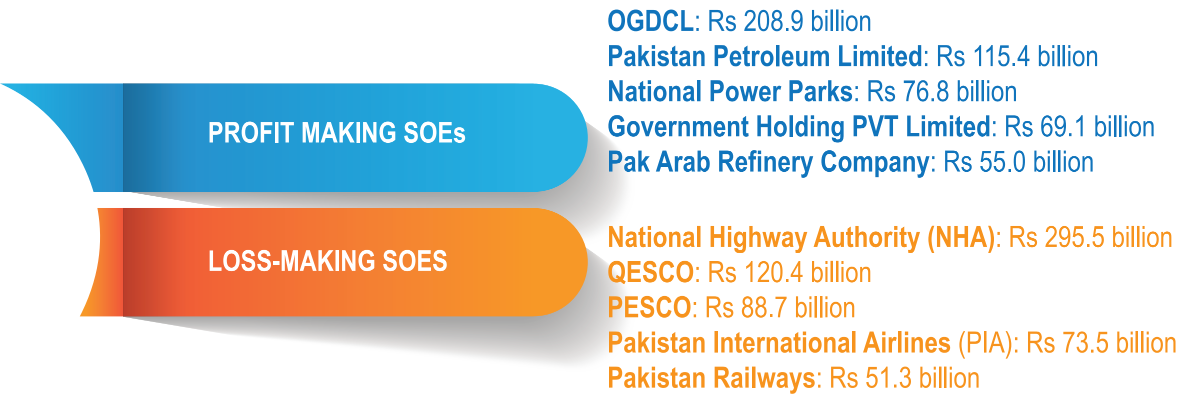

Figure 3: Profit and loss making SOEs FY'24

According to the Aggregate Annual report on SOEs Federal State-Owned Enterprises Fiscal Year 2024, the total aggregate profits reached Rs 820 billion, reflecting a 14.61% increase year-over-year. However, despite accounting profits, many entities face issues with free cash flow and high Weighted Average Cost of Capital (WACC). On the other hand, loss-making SOEs reported aggregate losses of Rs 851 billion, though this represents a 14.03% decrease year-over-year. These losses include government assistance of Rs 782 billion in subsidies and Rs 367 billion in grants added to revenues. However, the accumulated losses across all SOEs have reached a staggering Rs 5,748 billion, with the majority occurring in the past decade alone.

Despite facing financial challenges, State-Owned Enterprises (SOEs) in Pakistan made substantial contributions to the national exchequer in FY2024. Their total aggregate contribution amounted to Rs 2,062 billion. This included Rs 372 billion in tax payments, Rs 1,400 billion in non-tax revenues such as sales taxes, royalties, and levies, Rs 82 billion in dividends, and Rs 206 billion in interest payments. These figures (in figure 4) underscore the critical fiscal role SOEs continue to play in supporting the national economy.

Fiscal Risks in Pakistan's SOEs

Pakistan's SOE sector faces severe liquidity issues caused by working capital lock-up due to prolonged aged receivables and payables within the supply chain. The circular debt has reached approximately Rs 3,600 billion, primarily stemming from inefficiencies within the power sector, particularly the Distribution Companies (DISCOs), and spreading across the entire SOE chain[6]. This cascading financial contagion has adversely impacted even otherwise financially strong entities like Government Holdings (Private) Limited (GHPL), Oil and Gas Development Company Limited (OGDCL), Pakistan State Oil (PSO), and Pakistan Petroleum Limited (PPL), creating systemic risk throughout the economy. The accumulation of inter-company debt is severely affecting balance sheets and operational efficiency, especially concerning since IFRS 9 with stage 3 provisions on circular debt hasn't been fully implemented across SOEs[8]. This incomplete accounting reform masks the true extent of credit risk exposures and prevents transparent assessment of SOEs' financial health.

5. According to media reports and NHA, the federal government provided development funds to the NHA annually in the form of a cash development loan through the Public Sector Development Programme (PSDP) at a specified markup rate. Therefore, the net deficit reflects the impact of non-cash expenditures, such as finance costs on PSDP and foreign-relented loans, exchange losses on foreign loans, and depreciation. Therefore, the NHA is not incurring financial losses in real terms, as these factors are accounting adjustments rather than actual cash outflows. In addition, NHA is planned by federal government, funded by PSDP and only executed by NHA.
https://www.dawn.com/news/1898419
https://www.dawn.com/news/1899966
6. https://www.finance.gov.pk/publications/SOEs_Annual_Report_FY2024.pdf
7. IFRS 9 (Financial Instruments) is to ascertain credit risk pertaining to circular debt, which pose the biggest risk within the SOE portfolio. These measures are vital for improving governance, financial transparency, and overall risk management
8. Ibid

Governance deficiencies represent another critical challenge across Pakistan's SOE landscape. Many SOEs suffer from a lack of empowered and independent boards, with politically appointed directors and management lacking appropriate commercial experience. Business planning processes are often perfunctory rather than strategic, failing to respond to changing market conditions or incorporate risk management frameworks. Political interference in operational decisions -from procurement to pricing and hiring undermines management authority and commercial discipline. Historical patronage has led to significant overstaffing in many SOEs, with Pakistan Railways alone employing over 60,000 workers despite chronic inefficiency[9]. These governance failures have persisted despite multiple reform attempts, reflecting deeply entrenched patterns of political economy that the recent SOE Act attempts to address through professional boards and performance-based contracts.

The fiscal impact of underperforming SOEs creates substantial macroeconomic strain for Pakistan. Commercial SOEs have posted consistent losses - Rs 30.6 billion in aggregate for FY2024 (or Rs 521.5 billion excluding Pakistan Sovereign Wealth Fund entities) - requiring substantial government support through subsidies (Rs 782 billion), grants (Rs 367 billion), loans, and equity injections. This continuous drain on public resources diverts funding from critical development needs while contributing to Pakistan's challenging fiscal position. The accumulated losses across SOEs have reached Rs 5,748 billion, with the majority occurring in the past decade alone, highlighting the accelerating nature of the problem. Despite this support, service quality in many SOEs remains poor, creating a vicious cycle of underinvestment, deteriorating assets, declining service, and worsening financial performance that ultimately demands even greater fiscal resources to maintain essential public services.
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CONTRIBUTION TO NATIONAL EXCHEQUER

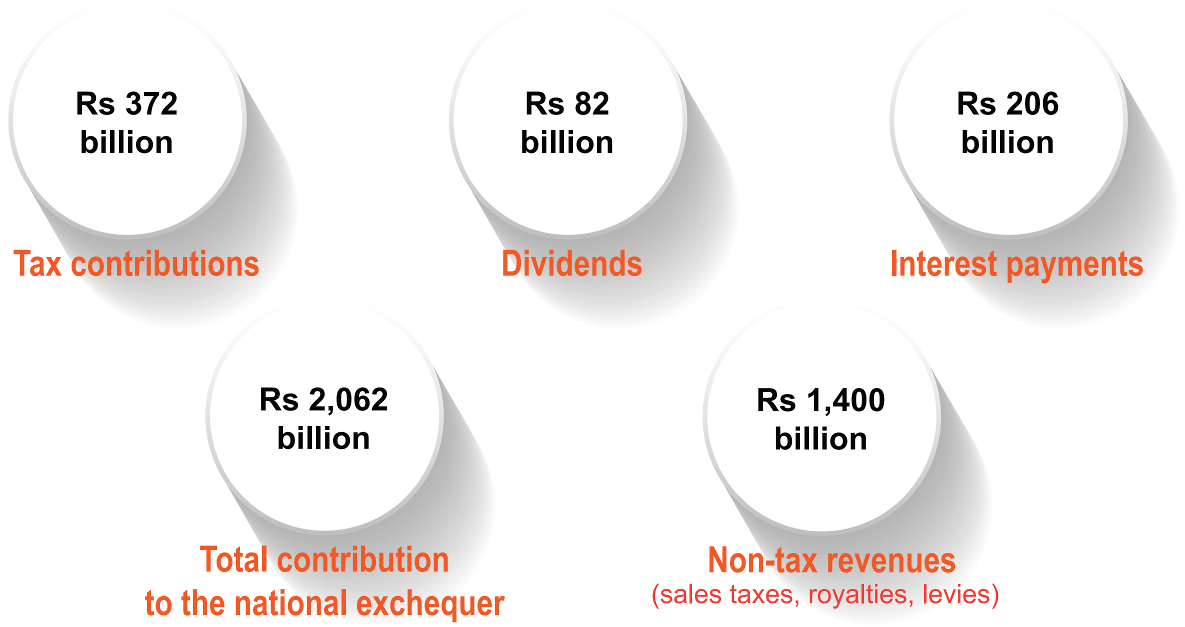

Figure 4: Contribution to National Exchequer
Source: Annual Report SOE FY24

9. https://tribune.com.pk/story/2426213/criminal-exploitation-of-coolie

Recent Reform Initiatives

In 2023, Pakistan undertook significant `governance reforms to overhaul its state-owned enterprises (SOEs). The enactment of the SOE (Governance & Operations) Act in January 2023[10], followed by the SOE Ownership & Management Policy in November 2023, marked a historic shift in how SOEs are managed. These frameworks introduced professional boards with a majority of independent directors, mandated performance-based CEO contracts, and established a Central Monitoring Unit (CMU) under the Ministry of Finance to oversee compliance and efficiency. The policy also outlined clear ownership objectives, categorized SOEs as strategic or essential based on defined criteria, and introduced performance monitoring mechanisms along with directives to ensure competitive neutrality. In August 2023, the government passed the Sovereign Wealth Fund Act (SWFA) as part of broader SOE reform efforts. However, this legislation appears to conflict with elements of the SOE Act and Policy, raising concerns about coherence in implementation[11].
Under the SOE Act, CMU ensures transparency, however, the SWFA exempts the notion of transparency of assets of SOEs if approved by cabinet, unlike in the case of SOE Act. The success of these reforms will largely depend on their execution and whether they can effectively transform SOEs from persistent fiscal liabilities into productive, transparent institutions that drive economic development and public service delivery.

Comparative Analysis of State-Owned Enterprises-Lessons for Pakistan

A Snapshot of the Countries in Comparison

Macroeconomic Indicators[12]				
	GDP (Current USD)	GDP per capita (Current USD)[13]	Inflation Rate, consumer prices (annual %)[14]	Unemployment, total (% of total labor force)[15]
Pakistan	337.91 billion	1,365.3	30.8	5.4
India	3.57 trillion	2,480.8	5.6	4.2
Bangladesh	437.42 billion	2,551	9.9	4.5
China	17.79 trillion	12,641.1	0.2	4.7
United Kingdom	3.38 trillion	49,463.9	6.8	4
Russia	2.02 trillion	13,817	6.69	3.1
Singapore	501.43 billion	84,734.3	4.8	3.9
Malaysia	399.71 billion	11,379	2.5	3.4

10. https://www.finance.gov.pk/SOEs_Act_2023.pdf
11. Sovereign Wealth Fund Act, Section 50
12. The data is from Year 2023
13. https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=PK-IN-BD-GB-CN-RU-SG-MY&start=2015
14. https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=SG-MY&start=2022
15. https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=PK-IN-BD-CN&start=2022

Governance and Social Innovation Indicators					
	Corruption Perception Index (CPI) 2024*[16]	Regulatory Quality 2023**[17]	Political Stability & Absence of Violence 2023**[18]	Global Innovation Index 2024***[19]	Human Development Index 2024****[20]
Pakistan	135	19.81	6.64	91	164
India	96	47.17	21.33	39	134
Bangladesh	151	18.87	15.64	106	129
China	76	38.68	25.12	11	75
United Kingdom	20	92.92	62.09	5	15
Russia	154	12.74	13.27	59	56
Singapore	3	100	97.16	4	9
Malaysia	57	73.11	50.71	33	63

Ownership Styles & Governance Frameworks

Pakistan's approach to SOE ownership currently operates as a hybrid model, primarily under dispersed ministerial control. This arrangement has proven problematic as demonstrated by the persistent losses in key sectors - NHA (Rs 295.5 billion), QESCO (Rs 120.4 billion), and PIA (Rs 73.5 billion). The recently enacted SOE Act and Policy of 2023 attempts to address these challenges by establishing a Central Monitoring Unit while maintaining line ministry ownership, but falls short of the more fundamental ownership reforms seen in high-performing systems worldwide.
The most successful SOE ownership models globally feature professional holding companies that create effective buffers between political authorities and operational management. Singapore's Temasek Holdings exemplifies this approach, overseeing Government-Linked Companies (GLCs)[21] with a clear separation between ownership and management functions. This has allowed Singaporean GLCs to achieve profit-to-sales ratios of 9.6%, significantly outperforming both foreign and local private firms, while contributing substantially to government revenue through annual dividends averaging $7 billion between 2010 and 2019.

Similarly, Malaysia's Khazanah Nasional Berhad[22] manages Government-Linked Companies through a professional oversight structure, though with greater political connections than Singapore's model. During Malaysia's GLC Transformation Programme (2005-2015), this structure supported improvements in financial performance with market capitalization growing from RM134 billion to RM386 billion and net profit reaching RM26.2 billion by FY2014. Pakistan has adapted elements of these models by establishing a professional holding company for commercial SOEs, providing expert oversight that will reduce direct political interference. China offers another instructive model with its functional categorization of SOEs (commercial in competitive

16. https://www.transparency.org/en/cpi/2024
** Corruption Perception Index shows the ranking of countries*
17. https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access
*** The data is based on percentile rank (0 to 100)*
18. Ibid
19. https://www.wipo.int/web-publications/global-innovation-index-2024/assets/67729/2000%20Global%20Innovation%20Index%202024_WEB3lite.pdf
**** Global Innovation Index shows the ranking of countries*
20. https://hdr.undp.org/data-center/country-insights#/ranks
***** Human Development Index shows the ranking of countries*
21. https://www.sciencedirect.com/science/article/pii/S0954349X21001454
22. https://www.khazanah.com.my

industries, commercial in strategic sectors, and public service enterprises), each with distinct performance expectations[23]. This pragmatic approach has delivered impressive results. Data from China's Ministry of Finance indicates that the return on equity (ROE) for SOEs was 2.8% in December 2022[24]. Pakistan might benefit from similarly categorizing its SOEs according to function rather than traditional sector-based classifications, establishing appropriate performance metrics for each category.

The most problematic ownership structures globally mirror Pakistan's traditional approach, with direct ministerial oversight leading to operational inefficiencies and conflicting objectives. Bangladesh's dispersed ministerial control has contributed to its SOEs' dramatic profitability decline, with aggregate net profit falling from 10,677.23 crore Taka in FY 2018-19 to just 138.04 crore Taka in FY 2022-23[25]. Russia's complex mix of joint-stock companies, unitary enterprises, and state corporations reflects political priorities rather than commercial logic[26], while the UK's experience with railway privatization demonstrates how structural flaws can require ongoing state intervention despite ownership changes[27].

Political Influence & Performance Implications

Political interference emerges as a critical factor undermining SOE performance in Pakistan. Despite generating gross revenues of Rs 13,524 billion in FY2024, federal SOEs reported aggregate net losses of Rs 30.6 billion (or Rs 521.5 billion when excluding Pakistan Sovereign Wealth Fund[28] entities)[29]. These losses occur despite substantial government assistance through subsidies (Rs 782 billion) and grants (Rs 367 billion), reflecting deep structural inefficiencies driven by non-commercial objectives.

The circular debt crisis (Rs 3,600 billion) exemplifies how political decisions affect financial sustainability across sectors, particularly in power distribution companies. Political appointments to boards and management positions have historically prioritized loyalty over professional qualifications, while government interventions in pricing and operational decisions have undermined commercial viability. Pakistan's SOEs have effectively become vehicles for various political objectives – employment generation, subsidized services, and patronage networks - at the expense of financial performance.
By contrast, countries that have successfully insulated SOEs from direct political interference while maintaining strategic alignment show markedly better outcomes. Singapore's governance approach features professional boards with clear separation between CEO and Chairperson roles, directors hired from "the open market," and a commercial orientation with no special privileges or government bailouts. This governance model has helped Temasek achieve an annual Total Shareholder Return of 14% over four decades, significantly outperforming market benchmarks[30].

Even in systems with substantial political oversight like China, clear delineation between commercial and policy objectives supports better performance. China's Party Committees maintain influence through an "ex-ante procedure" before board meetings, but within a framework that sets distinct performance expectations based on SOE categorization. This has enabled Chinese SOEs to balance political considerations with

23. https://www.sciencedirect.com/science/article/pii/S1755309122000168
24. https://www.ceicdata.com/en/china/nonfinancial-enterprise-state-owned-and-holding/cn-soe-mof-return-on-equity
25. (PDF) Performance Analysis of Nonfinancial State-Owned Enterprises in Bangladesh
26. https://www.wto.org/english/thewto_e/acc_e/rus_e/wtaccrus58_leg_360.pdf
27. https://gala.gre.ac.uk/id/eprint/23207/7/23207%20LETHBRIDGE_The_Politics_of%20State-Owned_Enterprises_2019.pdf
28. Sovereign Wealth Fund contribute for sustainable economic development through the management of its funds and assets to achieve their optimal use according to the best international standards, policies and practices to maximize their value for future generations.
29. Aggregate Annual report on SOEs Federal State-Owned Enterprises Fiscal Year 2024 (July 2023 to June 2024)
30. https://www.temasek.com.sg/en/about-us/temasek-at-a-glance

commercial efficiency across 96 central SOEs that contribute significantly to GDP, employment, and investment. India's performance contract approach through Memorandums of Understanding (MoUs) represents a middle path, establishing targets while providing enhanced autonomy to high-performing SOEs through tiered classifications[31]. While this system has delivered mixed results - with declining aggregate profitability from 1.4% of GDP in 2009/10 to 0.7% in 2019/20 - it demonstrates how performance incentives can be structured within a politically influenced system.

The UK's experience with railway privatization provides a cautionary tale particularly relevant to Pakistan. The separation of infrastructure (Railtrack) from operations (franchised to private companies) created coordination failures that ultimately required greater state intervention than under the original nationalized system. This included creating Network Rail (following infrastructure failures) and establishing government-operated services when franchises failed[32]. Pakistan should note how structural flaws can necessitate ongoing state involvement regardless of formal ownership arrangements.

Reform Strategies & Governance Innovations

The most successful SOE reforms globally demonstrate that governance improvements can enhance performance even without immediate ownership changes. Pakistan's recent SOE Act and Policy framework incorporates many international best practices, including professional boards with independent directors, performance-based CEO contracts, and a Central Monitoring Unit for evaluation. These reforms represent a significant step forward, but implementation will determine their effectiveness.
Malaysia's GLC Transformation Programme offers particularly relevant lessons for Pakistan, having achieved substantial performance improvements through focused governance reforms in a comparable development context. Key elements included enhancing board effectiveness through the "Green Book"[33] initiative, strengthening directors' capabilities, improving monitoring frameworks, and intensifying performance management[34]. This comprehensive approach delivered impressive results without fundamentally changing ownership structures - an important consideration given Pakistan's political constraints.

China's multi-phase reform process demonstrates the value of strategic sequencing. Rather than rushing privatization, China began with expanding SOE operating rights (1978-1984), implemented contract responsibility systems (1984-1992), established modern corporate governance (1992-2002), created state asset management systems (2003-2012), and only then pursued extensive reforms including mixed ownership[35]. This gradual, pragmatic approach has allowed China to improve SOE performance while maintaining state control in strategic sectors - potentially more feasible in Pakistan's context than radical privatization.

31. https://www.adb.org/sites/default/files/publication/546876/adbi-wp1057.pdf
32. https://gala.gre.ac.uk/id/eprint/23207/7/23207%20LETHBRIDGE_The_Politics_of%20State-Owned_Enterprises_2019.pdf
33. The Green Book is a core initiative of Malaysia's GLC Transformation Program (2005-2015) specifically designed to enhance board effectiveness in Government-Linked Companies. It provides comprehensive guidelines on corporate governance practices, director selection, and board oversight processes to strengthen GLC leadership and performance. As one of ten "colored books" in the transformation framework, the Green Book helped Malaysia's GLCs align with international governance standards while improving operational effectiveness. This self-regulatory approach contributed to significant improvements in GLC performance before Malaysia implemented more formal regulatory frameworks for state-owned enterprises.
34. https://www.krinstitute.org/assets/contentMS/img/template/editor/8%20State%20Owned%20Enterprises.pdf
35. https://www.sciencedirect.com/science/article/pii/S1755309119300437

Singapore's governance innovations include market discipline through public listings, transparent reporting requirements, and professional board oversight with clear performance expectations. By 2019, Temasek had significant stakes in 25 Singaporean listed companies, using market mechanisms to enforce accountability[36]. Pakistan could similarly benefit from increased market exposure for its better-performing SOEs, creating external discipline while maintaining strategic control.

Transparency emerges as a critical reform element across countries. In Pakistan, several SOEs (including Pakistan Post, Karachi Port Trust, and Lahore Electric Supply Company) failed to prepare audited financial statements for FY2023[37], while others show material misstatements or departures from accounting standards. India's MoU system, China's performance monitoring, and Singapore's reporting requirements all demonstrate how improved transparency contributes to accountability and supports commercial discipline. The UK's pragmatic reforms following privatization failures offer lessons in balancing ideology with practical necessity. After infrastructure failures under private ownership, the government created Network Rail (a not-for-profit company) and established Directly Operated Railways to manage failed franchises. Between 2009 and 2015, the publicly-operated East Coast Mainline improved service quality and returned £640 million to taxpayers, demonstrating how well-structured public operations can outperform private alternatives in certain contexts[38].

Sectoral Priorities and Strategic Considerations

Pakistan's SOE losses are heavily concentrated in two sectors - power distribution and transportation/infrastructure suggesting these should be priority areas for reform. The power sector alone accounted for 29% of total SOE losses in FY2023, with five distribution companies among the top loss-makers. Infrastructure and transport entities, particularly NHA (Rs 413.5 billion in losses) and Pakistan Railways (Rs 49 billion), represent significant drains on public finances despite their strategic importance.

International experiences offer sector-specific insights for these challenging areas. China's approach to power sector reform has maintained state control while introducing competitive elements, with SOEs categorized by function (generation, transmission, distribution) and different performance expectations for each. This has supported efficiency improvements without sacrificing strategic control or service reliability.

In transportation, Singapore's and Malaysia's models demonstrate how professional management and clear commercial mandates can improve performance even in traditionally state-dominated sectors. Conversely, the UK's experience with railway privatization highlights the dangers of fragmentation - separating infrastructure from operations created coordination failures that ultimately increased costs and required greater government intervention.

36. https://www.researchgate.net/publication/358962897_Insights_on_Corporate_Governance_Practices_of_State-Owned Enterprises_SOEs
37. Aggregate Annual Report Federal State-Owned Enterprises (SOEs) Financial Year 2023
38. https://gala.gre.ac.uk/id/eprint/23207/7/23207%20LETHBRIDGE_The_Politics_of%20State-Owned_Enterprises_2019.pdf

For Pakistan's most problematic entities like Pakistan Railways, strategic options include:

- Functional separation between infrastructure maintenance and service operations (learning from UK mistakes by maintaining coordination mechanisms)
- Corporatization with professional management before considering privatization (following Malaysia's approach)
- Clear delineation between commercial services and public service obligations with transparent subsidies for the latter (adapting Singapore's model)

Pakistan's oil and gas sector, which includes top profit-making entities like OGDCL (Rs 208.9 billion) and Pakistan Petroleum Limited (Rs 115.4 billion), demonstrates the potential for well-managed SOEs to contribute positively to public finances[39]. However, the circular debt crisis affecting even profitable entities highlights the need for comprehensive sectoral reforms rather than entity-specific interventions.

Economic Contribution & Development Role

Despite their performance challenges, Pakistan's SOEs make substantial contributions to the economy. As mentioned earlier, in FY2024, they contributed Rs 372 billion in taxes, Rs 1,400 billion in non-tax revenues, Rs 82 billion in dividends, and Rs 206 billion in interest payments, totaling Rs 2,062 billion to the national exchequer. This economic footprint underscores why reform rather than wholesale privatization may be appropriate for many entities.

SOEs in high-performing systems like Singapore and China play central roles in their development strategies. Singapore's GLCs have been instrumental in developing strategic sectors and expanding internationally, while contributing significantly to government revenue. Chinese SOEs, despite comprising only 5.02% of industrial enterprises, held 38.5% of total industrial fixed assets investment and employed 34.37% of the urban workforce in 2017, demonstrating their critical development function[40].

Malaysia's experience particularly resonates with Pakistan's context, as Malaysian GLCs have balanced commercial objectives with broader development goals including ethnic economic participation. During the GLC Transformation Programme, these entities made substantial domestic investments while expanding employment opportunities - demonstrating how improved governance can enhance both commercial and developmental contributions.

The developmental role of SOEs is evident even in countries that pursued extensive privatization. The UK's experience with railway privatization highlights how private sector failures in essential services can necessitate continued state involvement. This suggests Pakistan should carefully evaluate the broader socioeconomic implications of SOE reforms beyond immediate financial considerations.

39. Aggregate Annual report on SOEs Federal State-Owned Enterprises Fiscal Year 2024 (July 2023 to June 2024)
40. How Much Do State-Owned Enterprises Contribute to China’s GDP and Employment? Chunlin Zhang July 15, 2019

Recommendations for Pakistan's SOE Reform

Based on this comparative analysis, several strategic recommendations emerge for Pakistan's SOE reform agenda.

ESTABLISH A PROFESSIONAL HOLDING COMPANY

Pakistan should establish a professional holding company following Singapore's Temasek model to manage commercial SOEs, providing expert oversight while buffering entities from direct political interference. This would consolidate governance expertise, ensure consistent oversight, and help separate ownership from regulatory functions in a way the current Central Monitoring Unit cannot achieve alone.

DEVELOP SECTOR-SPECIFIC REGULATORY FRAMEWORKS

with independent oversight and appropriate pricing mechanisms, particularly in network industries like power and transportation

IMPLEMENT A FUNCTIONAL CLASSIFICATION SYSTEM

Pakistan should establish a professional holding company following Singapore's Temasek model to manage commercial SOEs, providing expert oversight while buffering entities from direct political interference. This would consolidatePakistan would benefit from implementing a functional classification system for its SOEs inspired by China's approach, categorizing entities as commercial in competitive markets, commercial in strategic sectors, or public service enterprises with distinct performance expectations and governance arrangements for each category rather than treating all SOEs similarly regardless of their purpose. governance expertise, ensure consistent oversight, and help separate ownership from regulatory functions in a way the current Central Monitoring Unit cannot achieve alone.

PERFORMANCE MANAGEMENT ENHANCEMENT

The government can strengthen performance across the SOE portfolio by building on Malaysia's GLC Transformation Programme experience.

This means developing robust performance contracts with clear KPIs and accountability mechanisms, potentially including a tiered autonomy system similar to India's Maharatna/ Navratna/ Miniratna classifications that rewards high-performing entities with greater operational independence.

ADDRESS THE CIRCULAR DEBT CRISIS

Addressing the circular debt crisis urgently is imperative, requiring comprehensive implementation of IFRS 9 standards across SOEs to properly account for expected credit losses, particularly in relation to inter company receivables. This would improve financial transparency and force recognition of underlying problems that currently distort the true financial position of many SOEs.

In addition, enforce strict reporting requirements with timely publication of audited financial statements prepared according to international standards. And establish meaningful consequences for non-compliance with transparency and accounting standards

STRATEGIC RESTRUCTURING

For chronically underperforming entities like Pakistan Railways and power distribution companies, Pakistan should implement comprehensive restructuring that clearly separates commercial activities from public service obligations with transparent subsidy mechanisms, following the UK's East Coast Mainline experience where well-structured public operations outperformed private arrangements. Simultaneously, the government should consider mixed ownership models for selected SOEs through partial listings while maintaining strategic control, following China's example of introducing market discipline without sacrificing national interests, and explore partnerships with international operators in sectors like aviation and railways to transfer knowledge and improve efficiency without relinquishing control, an approach that has worked effectively in Malaysia's transformation of its state enterprises.

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