ICMA INTERNATIONAL
lead strategically

ICMA POLICY NOTE

ISSUE # 03 | AUGUST 2024

Brief analysis of specific economic issues for providing useful input to policymakers

Can Privatizing Loss-Making SOEs Bring Long-Term Budget Stability to Pakistan?

ICMA Research and Publications Department

Institute of Cost and Management Accountants of Pakistan

Message from the Vice President and Chairman, Research and Publications Committee

I am pleased to share our latest Policy Note from the Research & Publication Department of ICMA. This third issue in our series addresses the financial strain caused by loss making State-Owned Enterprises (SOEs) and the continuous government financial support despite a persistent budget deficit.

Our Policy Note underscores the urgent need for SOE reforms. Without prompt action, our budget deficit could triple. ICMA recommends either restructuring these SOEs or, where necessary, privatizing them to mitigate this issue.

The Policy Note provides an in-depth evaluation of these entities, prioritizing those needing immediate attention. It analyzes their financial profiles, historical performance, accumulated losses, and government support, offering a clear picture of the financial burden they impose on the government.

Furthermore, the document critically examines previously privatized SOEs, revealing mixed results. This highlights the need for a carefully considered approach to privatization, tailored to each entity's unique circumstances.

Among the SOEs recommended for privatization are the National Highway Authority, Pakistan International Airlines Corporation, Pakistan Steel Mills Limited, and Pakistan Railways, due to their significant financial losses and the burden they place on the government.

I extend my heartfelt thanks to my colleagues in the Research and Publications Committee and acknowledge the hard work put in by the R&P Department in creating this Policy Note. Insha Allah, we will continue to produce insightful publications for the benefit of policy makers and other stakeholders.

Muhammad Yasin, FCMA
Vice President ICMA and
Chairman, Research and Publications Committee

Can Privatizing Loss-Making SOEs Bring Long-Term Budget Stability to Pakistan?

Preamble

The Research & Publication Department of the Institute of Cost and Management Accountants of Pakistan (ICMA) presents a comprehensive policy note addressing the critical issue of financially loss making State-Owned Enterprises (SOEs) in Pakistan and the government financial support to these SOEs despite persistent government budget deficit. The policy note concludes the possible risk of budget deficit to persistently grow up to 22% to 24% per annum. This rate can increase the yearly deficit up to three times greater than current value. To slow down this deficit rate, restructuring the framework or the privatization of SOEs, where necessary, are recommended.

The policy note aims to evaluate the performance of these entities and propose the initially prioritized list of some SOEs to be privatized and strategic measures to relieve the substantial financial burden they impose on the government. The note also presents the financial profiles of proposed SOEs, analyzing their historical performance, accumulated losses, and government support over the years. There is a debate among the experts whether to completely privatize all SOEs, or to keep them under State ownership.

The purpose of this policy note is to serve as a proposition for the consideration of the policy makers, that is in alignment with the ongoing Standby Arrangement with the International Monetary Fund (IMF) which necessitates a thorough assessment of loss-making SOEs, and accordingly, the Ministry of Finance has established an Economic Reform Unit (ERU) which name as Central Monitoring Unit (CMU). The Ministry of Finance's reports, titled "State-Owned Enterprises Triage: Reforms & Way Forward," and a report by its CMU, titled "Aggregate Annual Report Federal State-Owned Enterprises (SOEs): FINANCIAL YEAR 2023" serve as the foundational reference, emphasizing that around ten SOEs contribute to 90% of the total losses incurred by all state-owned entities. This alarming statistic highlights the urgency for strategic interventions to address the financial woes of these entities and, subsequently, relieve the government's fiscal strain.

The policy note employs a step-by-step analysis of aggregate-level financial data, emphasizing the increasing losses incurred by SOEs and the corresponding escalation in government support over the years. Key findings reveal a growing financial burden along with the Balance of Payment (BOP) & Budget deficits which intensifying the country's reliance on external loans.

The policy note also reviews historical data on privatized SOEs, finding that most have become profitable over time. This supports our hypothesis that privatizing the proposed loss-making SOEs would eventually ease the government's financial burden and contribute to budget stability and long-term economic growth.

The ICMA proposes a set of SOEs for privatization, strategically identified based on their significant financial losses and their overall financial burden on government. The National Highway Authority (NHA), Pakistan International Airlines Corporation (PIAC), Pakistan Steel Mills Limited (PSML), and Pakistan Railway (PR) emerge as prime candidates for privatization, with detailed financial profiles illustrating the urgency and magnitude of their financial challenges.

Evaluation of the Financially Loss Making SOEs

The suboptimal performance of the majority of State-Owned Enterprises (SOEs) in Pakistan can be attributed to various factors. Some economic experts believe to completely privatize all SOEs, while some experts resist to keep them under State ownership. The report titled "State-Owned Enterprises Triage: Reforms & Way Forward," released by the Ministry of Finance in 2021, asserts that a predominant portion, precisely 90% of the aggregate losses borne by all the SOEs are due to just top ten of SOEs. In addition to a significant balance of payment and budget deficit, these total SOEs losses every year put a huge financial burden on the budget of the Government of Pakistan. These issues worsen the economic stability and compel the Government to seek loans from international institutions, like IMF and other countries. The already on-going Standby Arrangement (SBA) program with the IMF, demanded to assess the loss-making state-owned enterprises (SOEs). For which the government has established an Economic Reform Unit (ERU) of the Division of Finance, which name as Central Monitoring Unit (CMU). The CMU has published its report titled "Aggregate Annual Report Federal State-Owned Enterprises (SOEs): FINANCIAL YEAR 2023. The core structure of the report consists of financial details of SOEs, their financial risks, IFRS applicability, governance assessment and the analysis of the business plan.

Aggregate level financial profile of State-Owned Enterprises (SOEs)

Table 1 shows the overall financial performance of all the SOEs in Pakistan. The financial performance of aggregate SOEs shows growing huge losses which causes the financial strain on the government. The data also suggests that government support to SOEs has increased over the years. The data in Table 1 indicates that the government has been providing substantial financial support to SOEs to sustain these entities. This support increases the opportunity cost to the economy, diverting resources away from essential development projects crucial for achieving sustainability.

Year-Wise Financial Profile of Total SOEs

Table: 1

Total Number of SOEs	Years	Total Assets (Rs. bn)	Total Revenue of SOEs (Rs. bn)	Total Dividend Received by GoP (Rs. bn)	Total SOEs Profit or Loss (Rs. bn)	Total Government Support to SOEs (Rs. bn)
---	2012-13	8,385.00	4,720	63.10	123.50	520.60
190	2013-14	9,633.00	5,257	59.10	193.50	555.50
183	2014-15	10,823.00	4,175	65.85	52.34	751.70
197	2015-16	11,552.78	3,056.30	69.70	-44.77	569.93
204	2016-17	17,114.04	3,481.75	57.27	-191.53	1175.87
---	2017-18	18,933.74	4,388.98	59.93	-285.03	804.41
---	2018-19	21,668.40	5,707.02	59.73	-140.05	1005.41
---	2019-20	---	10,689.28	---	-605.26	659.09
---	2021- 22	30,450.04	10,366.26	44.41	-777.62	1,771.9
---	2022-23	35,218.28	11,922.11	63.66	-979.73	1,022.8

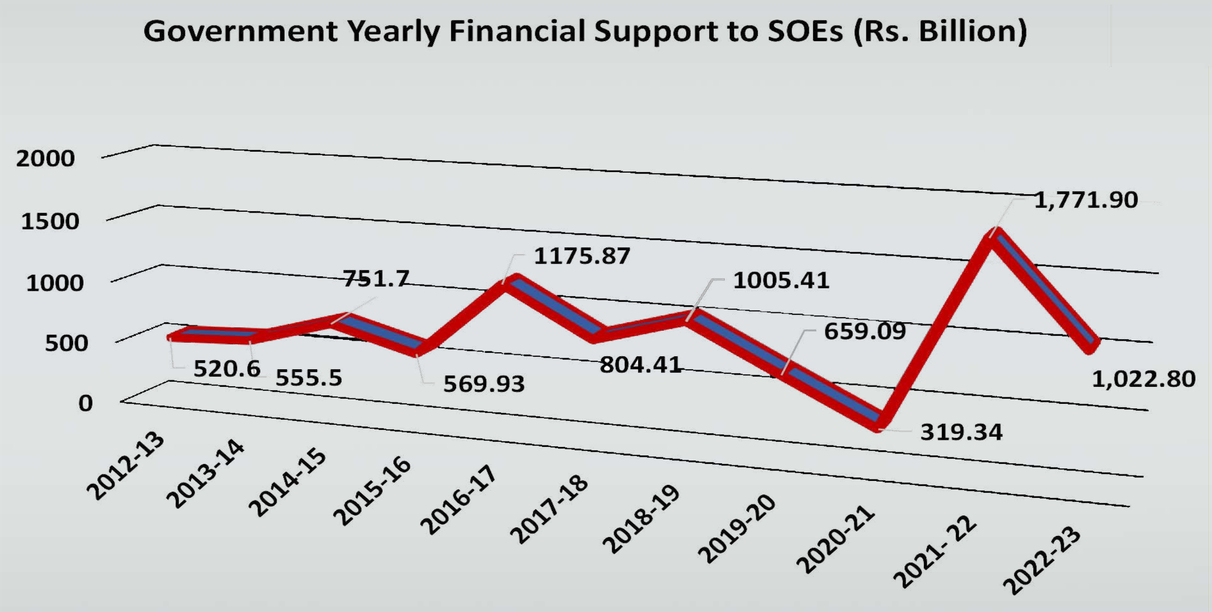
Source: Ministry of Finance (SOEs Reports), Analysis by ICMA. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans". The "---" shows, data is not available on relevant sources.

The data also reveals significant findings, the substantial increase in total assets from 2015 onwards has contributed to a persistent aggregate loss among SOEs.

Figure 1 shows the data of Total Government Support to State-Owned Enterprises, reaching its peak at 1,771.9 billion Rupees in 2021-22. This cumulative burden on the government is notable, raising concerns about long-term fiscal implications and highlighting the need for a balanced approach to avoid excessive strain on public finances. This data underscores the importance of periodic evaluations and strategic adjustments in government support policies to ensure effective allocation of resources and financial sustainability for both the government and the supported enterprises.

Government of Pakistan Financial Support to SOEs

Figure: 1

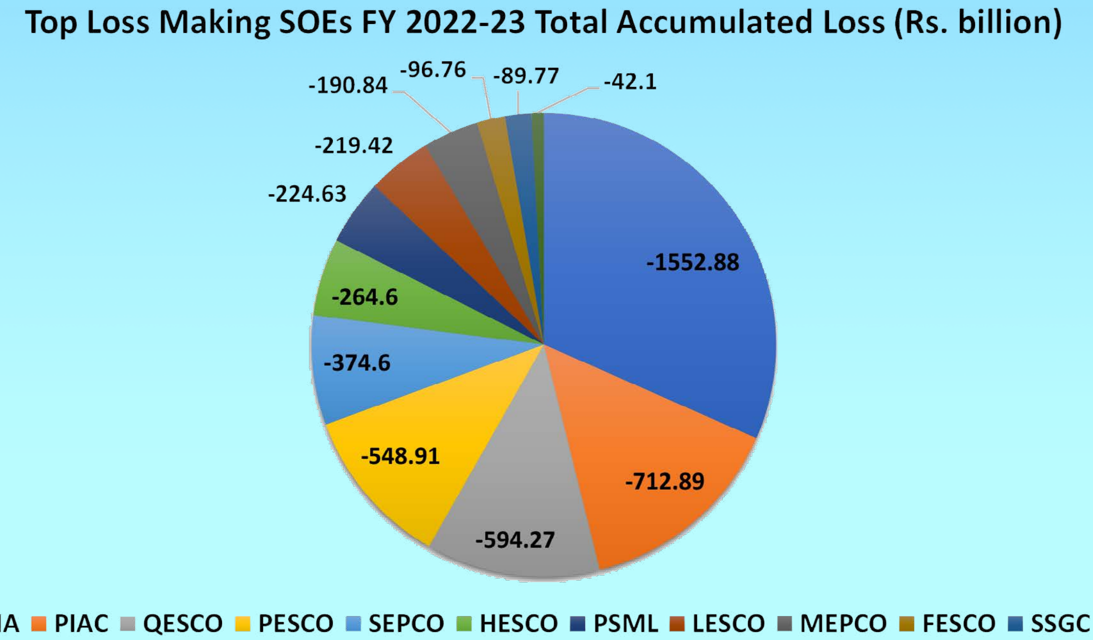


Source: Ministry of Finance (SOEs Reports), Analysis by ICMA. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans".

Figure 2 identifies the top loss-making State-Owned Enterprises (SOEs) up to FY-2022-23, highlighting significant financial challenges. The National Highway Authority (NHA) and Pakistan International Airlines Corporation (PIAC) stand out with losses of Rs. 1552.88 billion and Rs. 712.89 billion, respectively. This points to deep financial issues possibly due to operational inefficiencies, mismanagement, or external economic factors. Other major loss-makers include power distribution companies QESCO, PESCO, SEPCO, HESCO, LESCO, MEPCO and FESCO. Also, the Pakistan Steel Mills Limited (PSML), Sui Southern Gas Company (SSGC) and Pakistan Railway (PR) are among the consistent top loss making SOEs.

Top Loss Making SOEs

Figure: 2



Source: Ministry of Finance (SOEs Reports) & Company Financial Reports, Analysis by ICMA. The National Highway Authority (NHA), Pakistan International Airlines Corporation (PIAC), Quetta Electric Supply Company Limited (QESCO), Peshawar Electric Supply Company Limited (PESCO), Sukkur Electric Power Company Limited (SEPCO), Hyderabad Electric Supply Company Limited (HESCO), Pakistan Steel Mills Limited (PSML), Lahore Electric Supply Company Limited (LESCO), Multan Electric Power Company Limited (MEPCO), Faisalabad Electric Supply Company Limited (FESCO), Sui Southern Gas Company Limited (SSGC) and Pakistan Railway (PR).

The cumulative losses in the billions across these entities underscore the urgent need for comprehensive restructuring, strategic interventions, and possibly privatization to alleviate the financial burden on the government and ensure the long-term viability of these SOEs. The analysis calls for a targeted approach to address the specific challenges faced by each entity to mitigate their financial losses and enhance overall economic sustainability.

Future Prospects of Government Budget Deficit

The government budget deficit of Pakistan in Table: 2 has exhibited a notable trajectory over the years, with a substantial rise from Rs. -1028.42 billion in 2012-13 to Rs. -4349.09 billion in 2021-22. The subsequent years witnessed a surge in deficit, reaching Rs. -9,758.00 billion in 2024-25 and a forecasted Rs. -11484.07 billion in 2025-26. The growing deficit trend, especially in the forecasted years, as calculated by ICMA, raises concerns.

Table: 2

Years	Budget Deficit (Rs. Billion)
2012-13	-1028.42
2013-14	-665.37
2014-15	-360.18
2015-16	-145.92
2016-17	-248.57
2017-18	-520.44
2018-19	-1591.96
2019-20	-2840.84
2020-21	-2093.82

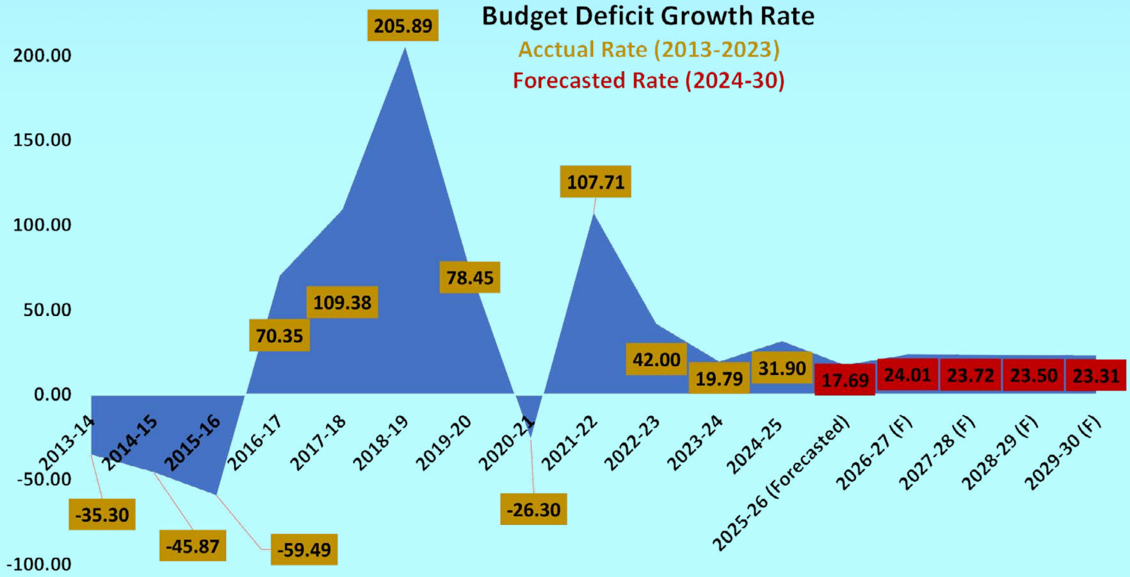
Continued....

Years	Budget Deficit (Rs. Billion)
2021-22	-4349.09
2022-23	-6175.86
2023-24	-7398.23
2024-25	-9,758.00
2025-26 (Forecasted)	-11484.07
2026-27 (F)	-14241.26
2027-28 (F)	-17619.88
2028-29 (F)	-21759.99
2029-30 (F)	-26833.21

Source: Ministry of Finance, Budget statements, forecasted by ICMA using E-Views Software.

The forecasted values of budget deficit in Table:2 & Figure:3 are estimated by employing dynamic forecast technique using E-views software, assuming all other factors constant.The forecasted values give an idea about the range in which budget deficit might occur. Notably, the years following 2015-16 saw inconsistent fluctuations in the growth rate, with a significant increase in 2016-17 (70.35%) reaching to a highest rate of 205.89% in the year 2018-2019. The forecasted years from 2024-25 to 2029-30 suggest a continued upward path, emphasizing the challenges ahead. While higher deficits can stimulate economic growth in the short run, but detrimental in the long run. they also pose risks such as inflation, increased debt burden, and potential challenges in meeting fiscal obligations. Policymakers must carefully balance the need for fiscal stimulus with the imperative of maintaining fiscal discipline to ensure long-term economic stability.

Figure: 3



Source: Ministry of Finance, Budget statements, Forecasted by ICMA.

Performance Review of previous SOEs Privatization

The provided data in Table:3 illustrates the financial performance of several State-Owned Enterprises (SOEs) before and after privatization. The K-Electric Company (KE) exhibits a significant transformation, experiencing losses in millions before privatization in 2005 but subsequently achieving net profits in 2021 and 2022. On the other hand, the Pakistan Telecommunication Company Limited (PTCL) and Pak American Fertilizers (Agri Tech) reveal a mixed picture, with PTCL showing consistent net profits after privatization, while Agri Tech faces losses in the post-privatization period. Javedan Cement Company Limited also demonstrates a notable change, transitioning from profits before privatization to a mixture of profits and losses afterward.

Evaluation of Pre & Post Privatization of SOEs

Table: 3

List of Previous SOEs	Before Privatization			After Privatization		
KESC (KE)	**2003**	**2004**	**2005 (Pvt)**	**2021**	**2022**	**2023**
(Net Profit/ Loss) Rs. Million	(8,298)	(10,376)	(14,630)	11,998	8,524	(30,897)
PTCL			**2005 (Pvt)**	**2020**	**2021**	**2022**
(Net Profit/ Loss) Rs. Million	---	---	---	6,030.37	6,873.98	9,053.38
Pak American Fertilizers (Agri Tech)			**2006 (Pvt)**	**2020**	**2021**	**2022**
(Net Profit/ Loss) Rs. Million	---	---	---	(4,486.52)	(3,017.75)	(3,215.89)
Javedan Cement Company Limited	**2004**	**2005**	**2006 (Pvt)**	**2015**	**2016**	**2017**
(Net Profit/ Loss) Rs. Million	1,606.73	(63.67)	(1,070.74)	800.52	279.18	435.17

Source: Company Own Financial Statement, Analysis by ICMA. The "Pvt" in the year shows privatization year. The "---" shows, data is not available on relevant sources.

The diverse outcomes underscore the importance of evaluating each SOE individually before privatization, considering factors such as industry dynamics, management efficiency, and market conditions. While privatization has led to positive outcomes for some entities, the varied results emphasize the need for a thorough examination of each SOE's unique circumstances before determining the suitability of privatization as a strategy for enhancing efficiency and financial viability.

Proposed SOEs for Privatization

After analyzing the financial loss of major SOEs and financial burden of government to support them, ICMA proposes the privatization of the four SOEs on priority basis as mentioned in Table:4. This will ease the government financial strain and encourage these SOEs to operate efficiently and sustainably.

Proposed SOEs for Privatization
Table: 4

Year	SOEs	Total Assets (Rs. Billion)	Total Accumulated Loss (Rs. Billion)	Yearly Average Government Financial Support (2016-23) (Rs. Billion)
2022-23	National Highway Authority (NHA)	Rs. 5,840.16	Rs.1,552.88	Rs. 173.06
2022-23	Pakistan International Airline Corporation (PIAC)	Rs. 160.38	Rs. -712.89	Rs. 30.12
2022-23	Pakistan Steel Mills Limited (PSML)	Rs. 830.83	Rs. - 224.63	Rs. 12.25
2022-23	Pakistan Railway (PR)	Rs. 409.49	Rs. - 42.1	Rs. 41.99

Source: Ministry of finance, AGP & company financial statement.

Financial Profiles of SOEs

National Highway Authority (NHA)

The financial profile of the National Highway Authority (NHA) in Table: 5 reveals a concerning trend of increasing accumulated losses over the years, reaching -1,552.88 billion Rupees in 2022-23. The annual increase in the accumulated loss rate, peaking at 32.16% in 2015-16, indicates a growing financial challenge for the NHA. The government support to NHA has also risen substantially, with the financial burden on the government escalating to Rs. 103.7 billion Rupees in 2022-23. This represents a significant share, amounting to 10.14%, in the total aggregate financial support provided to all State-Owned Enterprises (SOEs). While the total Government support to SOEs has fallen, but the NHA share is still significant. The consistent rise in government support reflects the NHA's reliance on external assistance to sustain operations and also show the need for a comprehensive assessment of the NHA's financial management and operational efficiency.

Financial Profile: (NHA)

Table: 5

Year	Total Accumulated Loss (Rs. bn)	Increase in Accumulated Loss Rate (%)	Yearly Government Support (Rs. bn)	GoP Support to NHA share % in Total GoP Support to SOEs
2012-13	-292.27	---	---	---
2013-14	-312.63	6.97	81.46	14.66
2014-15	-335.18	7.21	61.95	8.24
2015-16	-442.97	32.16	106.99	18.77
2016-17	-576.46	30.13	212.63	18.08
2017-18	-717.21	24.42	260.53	32.39
2018-19	-794.64	10.80	230.10	22.89
2019-20	-854.933	7.59	---	---
2020-21	-1,079.19	26.23	100.58	31.5
2021-22	-1,186.95	9.99	61.47	15.49
2022-23	-1,552.88	30.83	103.7	10.14

Source: Ministry of Finance (SOEs Reports), Analysis by ICMA. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans".

The data highlights the substantial impact of NHA's financial performance on the overall burden faced by the government in supporting SOEs, prompting a closer examination of strategies to address the underlying issues and ensure the financial sustainability of both NHA and the broader portfolio of SOEs.

Pakistan International Airline Corporation (PIAC)

PAKISTAN International Airlines
Great People to Fly With

The financial history of PIAC from 1965 to 2012 as indicated in the Table: 6, reveals a pattern of alternating operating profit and loss phases. During 1965-90 and 1991-95, PIAC experienced profit, suggesting periods of financial stability and success. However, intermittent years, such as 1990-91, 1996-97, and 1999-20, reflect instances of operating losses, signifying challenges and financial setbacks. The data indicates a significant downturn in 2005-09, marked by a substantial operating loss of -51.34 billion Rupees. While there were subsequent profitable years in 2010, the years 2011-12 witnessed another notable operating loss of -39.27 billion Rupees. The financial history shows the need for comprehensive strategies to address the underlying issues affecting PIAC's financial performance.

History of PIA Operating Profit & Loss Phases

Table: 6

Year	Operating Profit or LOSS (Rs. Billion)
1965-90	Profit
1990-91	-0.117
1991-95	Profit
1996-97	-0.117
1998	Profit
1999-20	-3.708
2001-04	Profit
2005-09	-51.34
2010	Profit
2011-12	-39.27

Source: Ministry of Finance, Statistical Supplements 2006-2012.
Analysis by ICMAP, Operating Profit = Operating Revenue - Operating Expenses

The Financial Profile of Pakistan International Airline Corporation (PIAC) from 2012-23 illustrates in Table: 7 shows a concerning trajectory with consistently increasing accumulated losses, reaching Rs. -712.89 billion in 2022-23. The marked rise in the accumulated loss rate underscores the severity of PIAC's financial challenges. The government support, while fluctuating over the years, reveals a continuous burden on public finances, with PIAC's share in the total Government support to SOEs remain substantial. The data highlights the magnitude of PIAC's financial troubles and the significant strain it places on government resources. This indicates the urgency for comprehensive strategies to revitalize the airline's financial health, potentially involving restructuring, operational efficiency enhancements, and strategic planning to ensure sustained viability and reduce the burden on government finances.

Pakistan International Airline Corporation (PIAC)

Table: 7

Year	Total Accumulated Loss (Rs. bn)	Increase in Accumulated Loss Rate (%)	Yearly Government Support (Rs. bn)	GoP Support to PIAC share % in Total GoP Support to SOEs
2012-13	-151.91	---	---	---
2013-14	-191.03	25.75	38.50	6.93
2014-15	-227.49	19.09	58.82	7.83
2015-16	-261.53	14.96	19.00	3.33
2016-17	-307.58	17.61	44.00	3.74
2017-18	-353.89	15.06	36.00	4.48
2018-19	-437.70	23.68	17.93	1.78
2019-20	-488.7	2.91	---	---
2020-21	-562.15	24.80	---	---
2021-22	-652.13	16.01	30.82	16.36
2022-23	-712.89	9.32	21.85	23.37

Source: PIAC Financial Statements & Ministry of Finance (SOEs Reports), Analysis by ICMA. The "---" shows, data is not available on relevant sources. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans".

Pakistan Steel Mills Limited (PSML)

Pakistan Steel
Building the Nation - Serving the Nation
Ministry of Industries & Production, Government of Pakistan

In Table: 8, the Financial Profile of Pakistan Steel Mills (PSM) from 2011-2023 shows a consistent and alarming trend of accumulated losses, peaking at -224.63 billion Rupees in 2022-23. The increase in the accumulated loss rate, particularly notable in the early years, signals significant financial challenges. The government support to PSM has fluctuated over the years, but its share in the total Government support to State-Owned Enterprises (SOEs) remains substantial. The data highlights the persistent financial strain on PSML and the growing burden it places on government resources. The recent data of 2022-23 shows a rise of PSML share in the total Government support to SOEs. And the substantial accumulated losses emphasize the urgency for a comprehensive and strategic approach, potentially involving restructuring or privatization, to address PSM's financial woes and ensure its long-term sustainability while increasing the strain on government finances.

Financial Profile: (PSM)

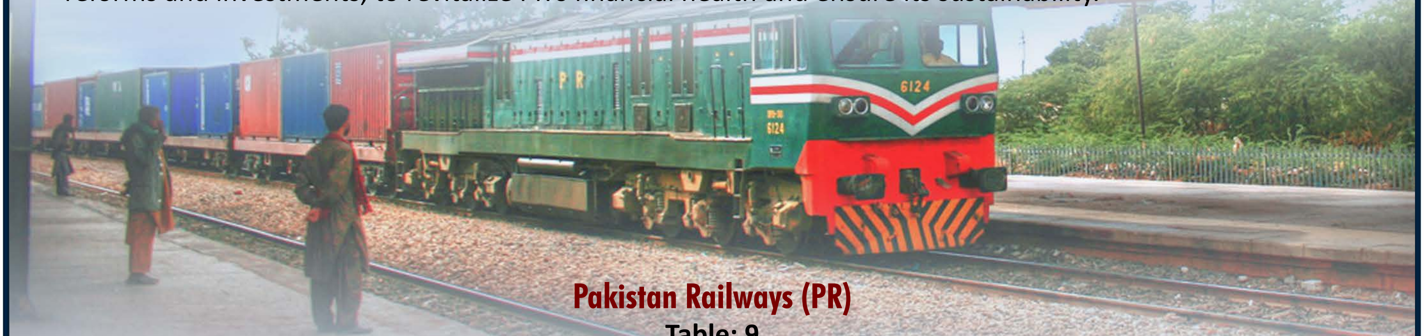
Table: 8

Year	Accumulated Loss (Rs. Bn)	Increase in ccumulated Loss Rate (%)	Yearly Government Support (Rs. bn)	GoP Support to PSM share % in Total GoP Support to SOEs
2011-12	-63.19	---	---	---
2012-13	-95.03	50.39	24.50	4.71
2013-14	-118.78	24.99	15.50	2.79
2014-15	-141.83	19.41	14.76	1.96
2015-16	-157.81	11.27	4.99	0.88
2016-17	-167.49	6.13	3.93	0.33
2017-18	-174.10	3.95	4.56	0.57
2018-19	-189.73	8.98	6.52	0.65
2019-20	-209.24	10.28	---	---
2020-21	-218.46	4.41	37.89	11.87
2021-22	-206.07	-5.67	8.35	0.47
2022-23	-224.63	9.01	46	4.45

Source: PSM Financial statement & Ministry of Finance (SOEs Reports), Analysis by ICMA. The "---" shows, data is not available on relevant sources. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans".

Pakistan Railways (PR)

The Financial Profile of Pakistan Railways (PR) in Table: 9 from 2011-2023 portrays a concerning trend of accumulated losses, culminating in -42.1 billion Rupees in 2022-23. The increase in the accumulated loss rate, particularly notable in 2019-20, underscores significant financial challenges faced by PR. The government support to PR has fluctuated, with its share in the total Government support to State-Owned Enterprises (SOEs) showing variability over the years. While the support remained consistent till 2018-2019, but in recent years, there is a significant rise in the government support to PR in 2020 to 2023, which raises questions about the efficiency of railway operations. The financial burden on the government emphasizing the need for strategic interventions, including potential reforms and investments, to revitalize PR's financial health and ensure its sustainability.



Pakistan Railways (PR)

Table: 9

Year	Total Accumulated Loss (Rs. billion) (Source: AGP)	Increase in cumulated Loss Rate (%)	Yearly Government Support(Rs. bn)	GoP Support to PR share % in Total GoP Support to SOEs
2011-12	-29.35	---	30.47	---
2012-13	-30.50	3.92	33.37	6.41
2013-14	-32.53	6.66	33.50	6.03
2014-15	-27.25	-16.23	37.00	4.92
2015-16	-26.99	-0.95	37.00	6.49
2016-17	-40.70	50.8	37.00	3.15
2017-18	-36.62	-10.03	38.40	4.77
2018-19	-36.92	0.82	37.00	3.68
2019-20	-33.37	53.05	45.00	6.83
2020-21	-36.92	-5.82	47.50	14.87
2021-22	-42.10	0.54	47.06	2.66
2022-23	-42.10	0.00	47.50	4.64

Source: Audit report (AGP) & Ministry of Finance (SOEs Reports), Analysis by ICMA. The "---" shows, data is not available on relevant sources. The "Government support includes Subsidies, Equity Investments, Guarantees Issued, Domestic Loans & Foreign Loans".

The data highlights the importance of addressing the root causes of financial challenges faced by PR to alleviate the strain on government finances and enhance the efficiency and viability of the railway sector.

Privatizing loss-making SOEs would promote long-term budget stability

In conclusion, the ICMA Policy Note validates the hypothesis that privatizing loss-making SOEs can enhance long-term budget stability for Pakistan. The analysis of previously privatized SOEs shows that most have become profitable, supporting the argument for privatizing entities such as NHA, PIAC, PSML, and PR. This approach would alleviate the government's financial burden and advance fiscal reform and sustainable economic growth.

Policy Recommendations

The ICMA highlights the severe financial challenges faced by State-Owned Enterprises (SOEs) in Pakistan, with a focus on key entities such as the National Highway Authority (NHA), Pakistan International Airlines Corporation (PIAC), Pakistan Steel Mills (PSM), and Pakistan Railways (PR). In addition to them, the accumulated losses, increasing financial burden on the government, and the impact on the country's fiscal stability demands for a comprehensive policy recommendation. Here are some policy recommendations based on the analysis:

- Given the huge direct and indirect persistent Government's support to all the SOEs, the Government should impose a more rigorous review process on all SOE financing requests, requiring the submission of independently audited financial statements and reliable business plans to mitigate losses.

- The enforcement of SOE loan agreements should be strengthened. With Government support to SOEs at 1.02 percent of GDP in FY23, loss-making SOEs often lack both the capacity and incentive to repay loans due to limited funding sources. Loan repayment should be a key performance indicator for the Board of Directors, promoting financial discipline and reducing new loan requests.

- Considering the rising stock of guarantees, it is advised that additional rules and regulations aligned with international best practices be explored. These rules might include the requirement of collateralizing SOE assets for commercial loans to limit the government's exposure through guarantees.

- Require disclosures and establish monitoring procedures for implicit obligations to the Federal Government, such as non-guaranteed loans, intra-SOE debts, and unfunded pension liabilities for SOE employees. For example, certain DISCOs hold substantial pension liabilities without sufficient pension funds.

- Strengthen the Central Monitoring Unit (CMU) as the central coordinating body for SOE oversight. To ensure clear separation of ownership and regulatory functions. The CMU must enhance its capabilities and acquire the necessary resources and expertise to fulfill its role under the SOE Law. Effective SOE monitoring will require technical assistance, training, and the integration of international best practices.

- Establish a formal system for monitoring SOE performance. Assessments should occur quarterly, backed by timely financial statements that follow the international best practices. Evaluations should compare performance against public policy goals, specific SOE objectives, and private sector standards.

- Strengthen the independence of boards and engage CMAs working in professional bodies and SOEs who can make a comprehensive audit of the organization and suggest suitable measure for implementation.

REFERENCES

Agri Tech Limited (Formerly, Pak American Fertilizers):
http://www.pafl.com.pk/financial-statements/annual-reports
https://agritech.com.pk/

Audit Report on The Accounts of Pakistan Railways:
https://agp.gov.pk/AuditReports

Federal Budget Statement:
https://www.finance.gov.pk/fb_2024_25.html

Javedan Cement Company Ltd Financial Statement:
http://111.68.102.42:8080/xmlui/handle/123456789/7360

K-Electric:
https://www.ke.com.pk/corporate/financial-data/

National Highway Authority (NHA):
https://www.nha.gov.pk/
https://communication.gov.pk/

Pakistan Railways (PR):
https://www.railways.gov.pk/Publications

Pakistan International Airline Corporation (PIAC):
https://www.piac.com.pk/corporate/management/corporate-reports

Pakistan Steel Mills Limited (PSML):
http://www.paksteel.com.pk/FAreports.html

Pakistan Telecommunication Company Ltd. (PTCL):
https://ptcl.com.pk/uploads/Annual%20Report%202023.pdf

Ministry of Finance, SOEs Reports:
https://www.finance.gov.pk/publications_latest.html#pub-3

Acknowledgement

Executive Director - ICMA
Aamir Ijaz Khan, FCMA

Research and Publications Team

Shahid Anwar, Director

Hasan Rashid, Research Officer

Muhammad Wajahat Khan, Graphic Designer