



One Size Fits None: Reforming Pakistan's SOEs through International Lessons and Tailored Strategies

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The Fiscal Cost of State Ownership

State-owned enterprises (SOEs) play an important role in Pakistan's economy by providing essential services and supporting strategic sectors. However, their continued relevance depends on the economic and social value they deliver against public resources consumed. Declining profitability, rising fiscal support and uneven performance highlight concerns about their financial sustainability, governance and effectiveness.

The OECD's Guidelines on Corporate Governance of State-Owned Enterprises 2024 offer a framework for reform, emphasising clear ownership objectives, accountable boards, operational autonomy, transparent disclosure and explicit funding of public-service obligations. Pakistan needs a differentiated, performance-based approach that considers each SOE's commercial viability, strategic importance and public-service role.

Concentration of Profitability and Losses Across SOEs

The top ten profit-making and loss-making SOEs show that profitability is concentrated among a relatively small group of enterprises, while major losses are concentrated in infrastructure, transport and electricity distribution.

The contrast between profitable and loss-making power distribution companies also suggests that reforms should consider entity-level performance rather than apply a uniform sector-wide approach.

Financial Performance and the Deteriorating Fiscal Return

Pakistan's SOE portfolio is facing an increasing gap between financial performance and fiscal obligations. Aggregate revenue declined by 3% during July–December 2025, while net profit fell by nearly 30%. On the other hand, government support increased by 31%, whereas contributions from SOEs declined by 19%. As a result, the portfolio's net fiscal flow contracted sharply, indicating that the government is receiving substantially lower net fiscal returns despite committing greater public resources.

- **Weakening earnings position:** Net profit declined despite largely unchanged aggregate losses, indicating a deterioration in the portfolio's overall earnings performance.

Table 1: Top 10 Profit-Making and Loss-Making SOEs (2026)

Rank	Profit-Making SOEs (PKR bn)	Profit	Loss-Making SOEs (PKR bn)	Loss
1	Oil and Gas Development Company (OGDCL)	73.0	National Highway Authority (NHA)	124.7
2	National Bank of Pakistan (NBP)	42.9	Quetta Electric Supply Company (QESCO)	35.3
3	Pakistan Petroleum Limited (PPL)	40.2	Sukkur Electric Power Company (SEPCO)	34.9
4	Pak Arab Refinery Company (PARCO)	31.2	Pakistan Railways	29.4
5	Government Holdings (Private) Ltd (GHPL)	22.2	Peshawar Electric Supply Company (PESCO)	23.7
6	Water and Power Development Authority (WAPDA)	21.2	Government Holdings (Private) Ltd (GHPL)	22.2
7	Multan Electric Power Company (MEPCO)	20.4	Hyderabad Electric Supply Company (HESCO)	18.0
8	National Power Parks Mgmt. Co. (NPPMCL)	19.3	Neelum Jhelum Hydropower Company	14.5
9	Faisalabad Electric Supply Company (FESCO)	16.6	Pakistan Steel Mills Corporation	13.0
10	Pakistan State Oil Company (PSO)	16.2	Pakistan Post Office	7.0

Source: Federal State-Owned Enterprises Bi-Annual Report, H1-FY2026, Finance Division, Government of Pakistan.

Table 2: Financial Performance and Fiscal Returns of SOEs

Indicator (PKR billion)	Jul–Dec 2024	Jul–Dec 2025	Change
Aggregate revenue	6,459.2	6,264.8	–3%
Aggregate profits	457.2	423.3	–7%
Aggregate losses	342.9	342.8	Almost unchanged
Net profit	114.3	80.5	–30%
Government fiscal support	616.0	804.0	+31%
SOE contributions to government	1,043.0	839.8	–19%
Net fiscal flow	427.0	35.8	–92%
Net Return on equity (ROE)	1.67%	1.26%	–0.41 percentage points
Net Return on assets (ROA)	0.30%	0.22%	–0.08 percentage points

Source: Federal State-Owned Enterprises Bi-Annual Report, H1-FY2026, Finance Division, Government of Pakistan.

- **Sharp decline in net fiscal returns:** Net fiscal flow contracted significantly due to higher government support and lower SOE contributions.
- **Declining returns on investment:** Lower ROE and ROA indicate reduced returns relative to shareholders' funds and assets, raising concerns about capital productivity and the effectiveness of public investment.

Despite strong financial-sector growth and higher oil and gas profits, total SOE revenue declined by 3.0% and aggregate profit fell by 29.5%. The power sector's shift to a loss and persistent infrastructure deficits underscore how concentrated sectoral losses continue to erode overall profitability, reinforcing the need for targeted restructuring, stronger accountability, and sector-specific performance benchmarks.

Pakistan's Governance Indicators and Their Relevance to SOE Performance

Pakistan's Worldwide Governance Indicators provide an important institutional context for assessing the performance and reform of state-owned enterprises (SOEs). Between 2020 and 2025, all five governance indicators deteriorated, particularly political stability, rule of law, and regulatory quality. The decline in control of corruption also raises concerns about the institutional safeguards needed to ensure transparent procurement, effective oversight and accountability in public enterprises. These trends do not demonstrate that governance weaknesses directly caused SOE financial losses; rather, they suggest that SOEs operate within an institutional environment that may complicate the implementation of commercial reforms, investment decisions and performance monitoring. The relevance of this institutional context becomes clearer when considered alongside SOE financial results for the first half of FY2026. The 29.5% decline in SOE net profit, alongside a 30.5% increase in government fiscal support during H1 FY2026, highlights the need for stronger financial discipline and accountability.

Furthermore, the fiscal relationship between state-owned enterprises (SOEs) and the government weakened significantly in the first half of FY2026.

Table 3: Sector-wise Revenue and Profitability

Sector (PKR billion)	Revenue H1 FY2025	Revenue H1 FY2026	Profit/(loss) H1 FY2025	Profit/(loss) H1 FY2026
Financial	308.1	527.6	45.5	75.0
Infrastructure, Transport and ITC	387.1	378.2	–160.8	–153.8
Manufacturing, Mining and Engineering	16.2	18.2	–8.4	–7.1
Oil and Gas	3,466.5	3,296.8	178.2	191.3
Power	2,168.0	1,963.5	68.2	–23.9
Industrial Estate Development	4.8	4.3	1.4	1.5
Trading and Marketing	97.9	61.3	–9.5	–5.0
Miscellaneous	10.6	14.9	–0.4	2.6
Total	6,459.2	6,264.8	114.3	80.5

Sources: H1 FY2025 report, pp. 26–27; H1 FY2026 report, pp. 26–27. bi_annual_report_2025 (2).pdf; FY_2026_SOE_Biannual_Report _6 Months (1).pdf. Note: Change compares the same six-month period in both years.

Table 4: Pakistan's Governance Indicators and Their Relevance to SOE Performance

Governance indicator	2015	2020	2025	Change (2020–2025)	Relevance to SOE performance and reform
Political Stability	**22.87**	**37.56**	**31.43**	**–6.13**	Political uncertainty may disrupt policy continuity, investment planning, and long-term restructuring.
Government Effectiveness	**42.42**	**41.71**	**39.94**	**–1.77**	Weak implementation capacity may constrain operational improvements and reform execution.
Regulatory Quality	**43.97**	**43.47**	**39.69**	**–3.78**	Regulatory uncertainty may weaken investment incentives and commercial discipline.
Rule of Law	**44.08**	**45.67**	**41.06**	**–4.61**	Weak contract enforcement and institutional predictability may increase transaction costs and governance risks.
Control of Corruption	**28.26**	**29.13**	**26.49**	**–2.64**	Corruption-related risks may undermine procurement integrity, transparency and accountability.

Source: https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access

Total government inflows from SOEs declined by 19.5%, from PKR 1,043.0 billion to PKR 839.8 billion, while fiscal support to SOEs increased by 30.5%, from PKR 616.0 billion to PKR 804.0 billion. Consequently, the net fiscal flow to the government fell sharply by 91.6%, from PKR 427.0 billion to PKR 35.8 billion. Although dividends and tax receipts increased, lower non-tax revenue and interest receipts reduced overall inflows. This widening gap between government receipts and financial support highlights the growing fiscal burden of SOEs and reinforces the need for stronger financial discipline, improved operational performance, and targeted reforms to reduce reliance on public resources.

Identified Challenges

The evidence in Figure 1, highlights four interconnected challenges shaping Pakistan's SOE reform agenda. These challenges call for a differentiated SOE reform framework based on financial viability, strategic importance, and public-service obligations, combining performance-based autonomy, time-bound restructuring, transparent public-service funding, and credible exit mechanisms.

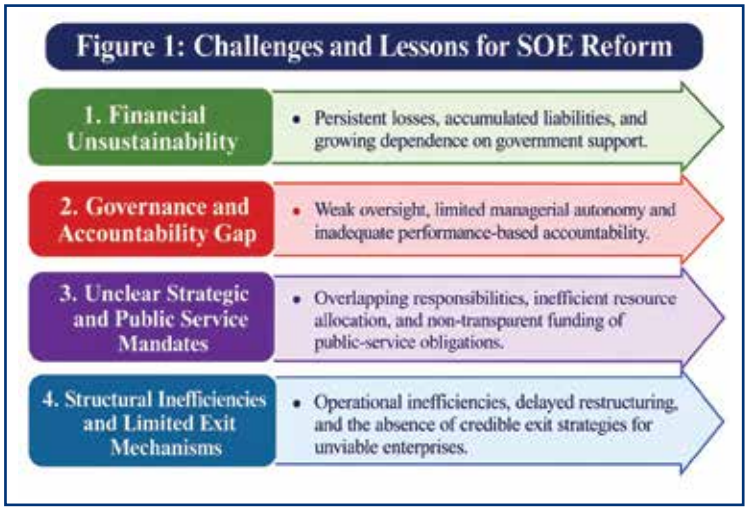
Global Case Studies: Transformation of State-Owned Enterprises

International experience demonstrates that SOE reform is most effective when the restructuring strategy reflects the enterprise's financial position, commercial viability, strategic importance and public-service obligations. Countries have adopted different approaches, ranging from professionalised state ownership and corporatisation to private-sector participation, performance-based governance and financial restructuring.

Singapore: Temasek Holdings

Singapore's Temasek Holdings, established in 1974, demonstrates a professional approach to state ownership through an independent investment holding structure.

Wholly owned by the Singapore Minister for Finance, it operates as a commercial investment company with its own board and management.



The government acts as shareholder without directing individual investment decisions, while the board oversees investment strategy, portfolio performance and corporate governance. Investment decisions are made independently, subject to constitutional safeguards protecting national reserves. This model separates state ownership from day-to-day management, promoting professional accountability and long-term value creation.

Brazil: Vale: Privatisation of a Commercially Oriented Enterprise

Brazil's Vale, formerly Companhia Vale do Rio Doce, illustrates ownership restructuring through privatisation. Established as a state-owned mining enterprise, it was privatised in May 1997 through a public auction at the Rio de Janeiro Stock Exchange. The Brazil Consortium, led by Companhia Siderúrgica Nacional, acquired 41.73% of its voting shares, shifting the company from state to private-sector control. This was followed by international expansion, demonstrating how privatisation can reshape investment incentives and commercial performance. The case also highlights the importance of transparent valuation, competitive bidding, regulatory oversight and safeguards when transferring strategic public assets.

India: Ordnance Factory Board – Corporatisation under State Ownership

India's restructuring of the Ordnance Factory Board (OFB) demonstrates how corporatisation can improve SOE performance without privatisation. In October 2021, the government reorganised the former departmental structure into seven wholly government-owned Defence Public Sector Undertakings, bringing 41 production units under separate corporate entities. These included Yantra India Limited, Munitions India Limited and Armoured Vehicles Nigam Limited. The reform aimed to strengthen operational autonomy, efficiency, innovation and commercial accountability while retaining state ownership. Employee transition arrangements also addressed the protection of wages and retirement benefits.

Malaysia: Government-Linked Companies Transformation Programme

Malaysia's Government-Linked Companies (GLC) Transformation Programme (2005–2015) offers a structured model for improving the performance of state-linked enterprises without relying solely on privatisation. Led by the Putrajaya Committee on GLC High Performance, the programme focused on board effectiveness, professional management, procurement, capital allocation, human resource development and operational efficiency. It introduced measurable key performance indicators (KPIs), performance-linked compensation and stronger management accountability. The programme also encouraged clearer definition of social obligations and the divestment of non-core or unprofitable assets. This approach strengthened commercial discipline while retaining government ownership and strategic oversight.

Romania: OMV Petrom – Strategic Private-Sector Participation with Retained State Ownership

Romania's privatisation of Petrom in 2004 demonstrates a mixed-ownership model involving a strategic private investor. Austria's OMV acquired a controlling 51.01% stake through a combination of share acquisition and a capital increase, investing approximately EUR 1.5 billion in the transaction. The Romanian state retained a 20.7% stake, while the remaining shares were held by pension funds, individual investors and other shareholders. The investment provided capital for modernisation, expansion and operational development, while bringing private-sector management expertise and technology into the company.

Table 5: Key Lessons for Pakistan

International case of SOE Reform	What Pakistan Can Learn
Singapore – Temasek	Separate government ownership from day-to-day management.
Malaysia – GLC Transformation	Improve SOE performance through measurable KPIs, professional management, and continuous monitoring.
India – Ordnance Factories	Corporatisation can improve operational autonomy while retaining state ownership of strategically important enterprises.
Brazil – Vale	Privatisation can attract private investment and commercial discipline in competitive enterprises.
Romania – OMV Petrom	Strategic private-sector participation can mobilise capital, technology and managerial expertise.
South Africa – SAA	Financially distressed SOEs require comprehensive restructuring rather than repeated government bailouts.

The case illustrates how strategic private investment can strengthen a capital-intensive enterprise while allowing the state to retain minority ownership. However, the success of such arrangements depends on clear shareholder agreements, effective regulation and safeguards for public interests.

South Africa: South African Airways – Financial and Operational Restructuring

South African Airways (SAA) entered business rescue in December 2019 after years of financial and operational difficulties. Its restructuring involved cost reduction, debt renegotiation, workforce rationalisation, balance-sheet restructuring and the return of leased aircraft. The government provided approximately ZAR 24.9 billion in financial support, enabling the airline to exit business rescue in 2021. The case highlights the role of formal restructuring in addressing accumulated liabilities and operational inefficiencies. However, the scale of public support and subsequent governance challenges underline the need to combine financial restructuring with operational sustainability and stronger corporate oversight to secure long-term viability. Table 5 shows key lessons for Pakistan based on international practices.

Overall Policy Lesson for Pakistan: The central lesson is that SOE reform must address the underlying causes of poor performance rather than treating ownership change as an end in itself. Pakistan's persistent SOE losses reflect deeper weaknesses in governance, political and administrative interference, financial discipline, and the absence of clear accountability for commercial and public-service mandates.

Therefore, reform requires a shift from protecting individual enterprises to safeguarding public value, with government acting as an effective owner, policymaker and regulator rather than a day-to-day manager.

Ultimately, the success of SOE reform should be measured not by the number of enterprises privatised or restructured, but by sustained improvements in operational efficiency, financial viability, service delivery and the reduction of contingent fiscal risks.

Applying International Experience to Differentiated SOE Reforms and Proposed Framework.

International experiences demonstrate that SOE reforms should not follow a uniform privatisation or restructuring approach. Instead, Pakistan should adopt an enterprise-specific strategy based on the financial viability, commercial potential, strategic importance, and investment requirements of individual SOEs. Figure 2 proposed framework for SOE reforms in Pakistan.



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