

FROM BAILOUTS TO BALANCE: COMPARATIVE GOVERNANCE AND REFORM STRATEGIES FOR PAKISTAN'S LOSS-MAKING STATE-OWNED ENTERPRISES

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Abstract

This article investigates pathways for Pakistan to achieve financial self-sufficiency in its state-owned enterprises (SOEs) by reducing reliance on public subsidies. Employing a comparative case study methodology, it analyzes international experiences, including India's Air India privatization, Germany's railway public-private partnerships, and South Korea's POSCO innovation-driven autonomy. Pakistan's SOEs such as PIA, PSM, and Pakistan Railways exhibit chronic fiscal strain, inefficiencies, and governance challenges, necessitating structural reforms. The study identifies effective strategies including corporatization, outcome-based PPPs, strategic equity partnerships, independent regulatory frameworks, and performance-linked management incentives. Implementation of these reforms could save over Rs 800 billion annually, enhance service quality, strengthen fiscal stability, and attract foreign investment. The findings offer actionable insights for policymakers aiming to transform Pakistan's SOEs into competitive, sustainable, and accountable institutions.

INTRODUCTION

1.1 Pakistan's SOE Landscape

Pakistan's state-owned enterprises (SOEs) have long been central to delivering essential public services, including aviation, transport, energy, and media. However, they have become one of the most significant structural burdens on the national economy. In FY 2023–24, federal SOEs reported aggregate losses of approximately Rs 851 billion, and after accounting for profits from entities under the Pakistan Sovereign Wealth Fund (PSWF), the net loss remained Rs 521.5 billion (Ministry of Finance, 2024).

The Economic Value Added (EVA) for these SOEs is estimated at roughly Rs 2.5 trillion, reflecting systemic inefficiencies that destroy more value than they create. Total SOE assets

stand at Rs 38.43 trillion, with liabilities of Rs 32.57 trillion, leaving a thin net equity of Rs 5.86 trillion. Financing costs remain extremely high, with Weighted Average Cost of Capital (WACC) ranging 17–22% and Return on Equity (ROE) near 0.5%, highlighting structural weaknesses that hinder sustainable operations.

1.2 Fiscal Implications: Subsidies and Public Spending

To maintain these institutions, the government provided Rs 1.58 trillion in FY 2024 through grants (Rs 367 billion), subsidies (Rs 782 billion), loans (Rs 336 billion), and equity injections (Rs 99 billion). In the first six months of FY 2025, an additional Rs 616 billion was

allocated to support SOEs (State Bank of Pakistan, 2024). These transfers represent nearly 13% of federal budget revenues, crowding out funds for development projects and placing an unsustainable burden on public finances.

Key loss-making entities include:

- PIA: Rs 713 billion subsidy requirement
- PSM: Rs 400 billion
- Pakistan Railways: Rs 50 billion/year
- Utility Stores: Rs 35 billion/year
- PTV: Rs 7 billion/year

This level of fiscal dependence underscores the urgent need for comprehensive reform.

1.3 Governance Crisis: Beyond Financial Losses

While fiscal strain is evident, the core problem lies in governance. SOEs in Pakistan suffer from:

- Political appointments in executive roles
- Weak or non-independent boards
- Absence of performance-based incentives
- Fragmented accountability mechanisms

Cabinet-level reviews and State Bank of Pakistan reports highlight that governance failures prevent effective decision-making, impede liquidity management, and inhibit operational efficiency. Circular debt, particularly in the energy sector, reached Rs 4.9 trillion by late 2024, reflecting structural cash-flow challenges (Ministry of Finance, 2024). Without addressing these governance deficits, partial reforms or privatization attempts remain ineffective.

1.4 The Concentration and Magnitude of Losses

Over the past decade, cumulative losses from Pakistan's SOEs have reached an estimated Rs 5.9 trillion, with 15 major SOEs contributing over 99% of total losses in the first half of FY 2024. Notable contributors include:

- National Highway Authority (NHA): Rs 295.5 billion
- QESCO: Rs 120.4 billion
- PESCO: Rs 88.7 billion
- Pakistan International Airlines (PIA): Rs 73.5 billion
- Pakistan Railways: Rs 51.3 billion
- Pakistan Steel Mills (PSM): Rs 31.1 billion

This concentration indicates that operational inefficiencies, high leverage, and lack of commercialization in key sectors energy, transport, aviation are primary drivers of the fiscal burden.

1.5 International Expectations and Reform Pressures

The persistent financial underperformance of SOEs places Pakistan under significant macro-economic scrutiny. International financial institutions, particularly the IMF, have linked Pakistan's fiscal stabilization to structural SOE reforms. In 2024, IMF missions stressed the need to:

- Reduce government subsidies
- Restructure debt-laden SOEs
- Introduce transparent governance systems

The government has begun preliminary steps, such as announcing partial or full privatization of PIA, but these initiatives are often constrained by political considerations, incomplete governance reforms, and lack of institutional capacity.

1.6 Lessons from Global SOE Reforms

Successful international experiences highlight models that Pakistan can adapt:

- India: Air India privatization with strategic sale to Tata Group and staff restructuring, achieving profitability by 2024.
- Germany: Deutsche Bahn reform through infrastructure-operations separation and PPPs, enhancing efficiency without bailouts.
- South Korea: POSCO's independent board and innovation-led export strategy generating \$61.6B revenue.
- Rwanda: Minority equity sale of RwandAir to Qatar Airways, improving operational efficiency and market reach.
- China: Strategic retention of global expansion-focused SOEs with IPOs, increasing accountability and revenue.

Common reform principles include corporatization, independent governance, performance-based incentives, strategic private

participation, and transparent financial reporting.

1.7 Why Previous Reforms Failed

Past SOE reform efforts in Pakistan have largely been fragmented and unsustainable:

- Boards lacked independence and were subject to political influence
- Executive appointments remained non-meritocratic
- Subsidies were used as political tools rather than temporary support
- No robust regulatory or performance monitoring systems were in place

As a result, operational culture and efficiency within SOEs did not improve, and financial sustainability remained out of reach.

1.8 A New Reform Paradigm

To achieve financial self-sufficiency, Pakistan needs a comprehensive, governance-driven reform framework:

1.8.1 Institutional Governance

- Independent boards with fixed tenures
- Merit-based executive appointments
- Performance-linked KPIs and management incentives

1.8.2 Financial Restructuring

- Asset monetization (land, intellectual property)
- Outcome-based public-private partnerships
- Access to sovereign funds and diaspora investment

1.8.3 Regulatory Autonomy

- Establish SOE regulatory authority
- Grant public legal entity status to major SOEs

1.8.4 Operational Efficiency

- Transparent reporting and auditing
- Strategic planning aligned with profitability and service delivery

1.9 Research Objectives

- To analyze the governance and operational factors driving fiscal losses in Pakistan's SOEs.
- To examine global SOE reformed models and identify best practices applicable to Pakistan.
- To propose a comprehensive framework for financial self-sufficiency and improved governance in Pakistan's SOEs.

1.10 Research Questions

Q.1 How do governance structures and operational inefficiencies contribute to the financial unsustainability of Pakistan's SOEs?

Q.2 What lessons can Pakistan adopt from international SOE reform models to reduce dependency on public subsidies?

Q.3 How can strategic financial, legal, and regulatory interventions enhance the performance and self-sufficiency of Pakistan's SOEs?

1.11 Significance of the Study

This study is significant because it addresses the persistent fiscal and governance challenges of Pakistan's state-owned enterprises (SOEs), which drain billions of rupees annually and impede national economic growth. By examining comparative international cases including India's Air India privatization, Germany's railway PPPs, and Korea's POSCO autonomy the study provides actionable insights into how Pakistan can achieve financial self-sufficiency in its public sector institutions. It highlights the critical role of governance reforms, independent regulatory frameworks, and strategic private-sector participation in transforming loss-making SOEs into sustainable, performance-driven entities. The findings offer policymakers a structured roadmap for reducing subsidies, enhancing operational efficiency, and improving public service delivery. Furthermore, this research contributes to academic discourse by integrating fiscal, legal, and institutional perspectives, bridging gaps between theory, practice, and contextual application in Pakistan.

1.12 Hypotheses

- Weak governance structures and political interference significantly increase the financial losses of Pakistan's SOEs.
- Internationally proven reform strategies such as corporatization, PPPs, and independent boards can be adapted to improve SOE sustainability in Pakistan.
- Introducing legal, financial, and regulatory reforms reduces Pakistan's SOEs' reliance on government subsidies and enhances operational efficiency.

1.13 Delimitation of the Study

This study is delimited in scope to Pakistan's major loss-making SOEs, including Pakistan International Airlines, Pakistan Steel Mills, Pakistan Railways, PTV, and Utility Stores Corporation. The analysis focuses on governance structures, financial sustainability, and reform strategies, while excluding operational technicalities such as daily management practices or sector-specific technical processes. Comparative international cases are selectively chosen from countries with successful SOE reform experiences India, Germany, South Korea, Rwanda, and China to illustrate transferable lessons, but not all global examples are included. The research relies primarily on publicly available financial statements, government reports, IMF and World Bank assessments, and peer-reviewed academic literature, without access to confidential internal documents. The study emphasizes macro-level policy and governance insights, rather than micro-level operational evaluations, to ensure practical relevance for national-level reform strategies in Pakistan.

1.14 Data Collection

The data for this study were collected using a comparative qualitative case study approach, focusing on Pakistan's major loss-making state-owned enterprises (SOEs) and relevant international examples. The primary objective of data collection was to identify factors contributing to financial inefficiency, governance

weaknesses, and reliance on public subsidies, and to examine reform strategies successfully implemented elsewhere.

1.14.1 Primary Data Sources

- Official Government Reports: Annual financial statements, audit reports, and budgetary allocations from the Ministry of Finance, State Bank of Pakistan, and relevant SOE annual reports. These provided detailed insights into revenue, expenditure, liabilities, and subsidy trends.
- IMF and World Bank Assessments: Reports on Pakistan's fiscal management and SOE performance, including structural reform recommendations. These sources offered authoritative guidance on macroeconomic and policy implications.
- Academic and Peer-Reviewed Publications: Studies analyzing governance, privatization, corporatization, and PPP frameworks in both domestic and international contexts, offering theoretical grounding and empirical comparisons.

1.14.2 Secondary Data Sources

- International Case Studies: Data from India (Air India), Germany (Deutsche Bahn), South Korea (POSCO), Rwanda (RwandAir), and China (strategic SOEs) were gathered from published reports, annual reviews, and credible news outlets. These sources allowed comparative evaluation of strategies, outcomes, and best practices.
- Media Reports and Policy Briefs: Insights from credible newspapers, economic journals, and think tanks provided real-time evidence of SOE reforms, challenges, and public perceptions. Data collection emphasized accuracy, credibility, and relevance, ensuring that all figures, policy interventions, and outcomes were verified from multiple sources. Triangulation of government reports, international studies, and media analyses enhanced the reliability of findings and supported the development of a robust reform framework for Pakistan's SOEs.

2. Literature Review

2.1 The Economic Role and Governance Challenges of SOEs

State-owned enterprises (SOEs) remain central to national economic development, particularly in sectors requiring strategic investment or public service delivery. Globally, SOEs are tasked with balancing profitability, social objectives, and public accountability (Chang, 2007). However, structural inefficiencies, fiscal strain, and governance weaknesses frequently compromise their performance, imposing significant burdens on public finances. In Pakistan, the fiscal stress of SOEs is particularly severe, with losses totaling approximately Rs 851 billion in FY 2023–24, and net losses of Rs 521.5 billion after accounting for profitable entities under the Pakistan Sovereign Wealth Fund (Ministry of Finance, 2024).

Research consistently highlights governance as the root cause of inefficiency. Weak board independence, politically motivated appointments, absence of performance incentives, and ambiguous regulatory frameworks prevent SOEs from operating as professional commercial entities (SBP, 2023–24). Agency theory explains that managers without aligned incentives may act in self-interest rather than maximizing public value. Public choice theory further elucidates how political interference distorts objectives, prioritizing patronage over efficiency. Moreover, high financing costs and low operational productivity exacerbate fiscal pressure, with Pakistan’s SOEs collectively having liabilities of Rs 32.57 trillion against assets of Rs 38.43 trillion, yielding a thin net equity of Rs 5.86 trillion (Ministry of Finance, 2024).

2.2 Competitive Neutrality and Market Efficiency

Competitive neutrality the principle that SOEs should not enjoy undue advantages over private competitors is central to contemporary SOE literature (Capobianco & Christiansen, 2011). Many SOEs benefit from preferential financing, implicit government guarantees, and regulatory leniency, which insulate them from market discipline. This distortion reduces efficiency, discourages innovation, and perpetuates dependency on subsidies.

The OECD (2011) emphasizes governance reforms including:

- Independent boards with professional expertise
- Clearly defined ownership functions for government ministries
- Transparent performance metrics linked to operational and financial outcomes

Countries such as Germany, South Korea, and Estonia have demonstrated measurable improvements following such reforms. Estonia’s state-owned innovation agencies, for example, leveraged independent boards to foster private-public R&D collaborations, driving sectoral growth while maintaining fiscal discipline (Tonurist & Karo, 2016). In Pakistan, the lack of competitive neutrality is evident in sectors like power, aviation, and retail, where politically influenced pricing and subsidized operations prevent market-driven efficiency and innovation.

2.3 International SOE Reform Models

Comparative studies indicate that reform structure and strategy critically influence outcomes and table summarizes key international SOE reform cases:

Table 2.1: International SOE Reform Cases

Country	Sector	Reform Strategy	Outcome
India	Air India	Full privatization, staff restructuring	Profitable by 2024
Germany	Deutsche Bahn	PPPs, infrastructure-operations split	Increased efficiency, no bailout needed
South Korea	POSCO (Steel)	Independent board, export-led innovation	\$61.6B revenue, global leader

Rwanda	RwandAir	Strategic minority sale	Improved connectivity, higher load factor
China	Energy & Telecom	Global IPOs, local control	\$63B revenue, improved accountability
Vietnam	Manufacturing SOEs	Gradual corporatization	Mixed results, sector-dependent
Latin America	Water, energy, transport	Hybrid privatization & performance contracts	Reduced political patronage, fewer bailouts

Hybrid approaches that combine partial privatization, corporatization, and performance-based contracts often yield superior results, balancing fiscal sustainability with strategic public control (Musacchio et al., 2015). For example, South Korea’s POSCO benefited from export-led growth while retaining government oversight, illustrating that institutional design and performance accountability drive both innovation and profitability.

2.4 International Failure Cases in SOE Reforms

While global experience provides strong examples of successful SOE reforms, the literature also documents numerous failure cases, offering critical lessons for Pakistan. One of the most cited failures is Venezuela’s nationalization wave, where state control expanded dramatically across energy, food, steel, and utilities. Studies by Corrales (2018) and IMF reports show that over-nationalization created unfunded liabilities, hyper-politicized appointments, and operational collapse. SOEs became instruments for regime patronage rather than commercial performance, leading to a 65% productivity decline in major enterprises between 2004-2014. This case demonstrates how politicized governance can neutralize even well-designed reforms.

Another relevant failure is Kenya Airways, often cited as a “partial privatization failure.” According to the World Bank (2020), despite private ownership stakes and a dual-board structure, political interference in route decisions, excessive debt-backed expansion, and weak financial controls resulted in losses exceeding USD 690 million between 2015-2020. The Kenyan Parliament ultimately recommended re-nationalization in 2023. This case shows that

partial reforms without governance autonomy merely shift inefficiencies rather than resolving them.

Similarly, Argentina’s 1990s privatization reforms demonstrated short-term efficiency gains but long-term decline due to weak regulatory frameworks, poorly structured concessions, and renegotiations influenced by interest groups. Post-2001 economic crisis, many privatized utilities returned to state control, burdening the treasury without performance improvements.

These failure cases collectively highlight that SOE reforms collapse primarily when:

- governance independence is absent,
- boards lack professional capacity,
- reforms are driven by political cycles rather than institutional logic, and
- regulatory agencies are weak or compromised.

Pakistan’s reform design, therefore, must anticipate these risks rather than replicate these global missteps.

2.5 Theoretical Mapping of International SOE Models

International SOE reform experiences align closely with the theoretical models guiding this study. South Korea’s POSCO reflects agency theory in practice: strong, incentive-driven management and an independent board structure minimized managerial self-interest while maximizing productivity and export competitiveness. India’s Air India illustrates public choice theory, where decades of political interference, overstaffing, and state-mandated pricing blocked commercial restructuring until full privatization. China’s gradual SOE corporatization aligns with institutionalism,

demonstrating how reform rooted in path dependence and incremental restructuring produces stability in politically embedded systems. Conversely, failures in Latin America such as Petrobras and PDVSA correspond to public choice dynamics, where political rent-seeking and weak oversight institutions overwhelmed corporate governance reforms. This mapping underscores that theoretical frameworks are not abstract models but predictive tools explaining why some SOE reforms succeed while others collapse.

2.6 SOEs as Drivers of Innovation and Strategic Growth

SOEs, when managed effectively, can act as catalysts for innovation and strategic development. Tonurist and Karo (2016) highlight that SOEs can mitigate coordination failures in national innovation systems, supporting R&D, technology adoption and sectoral growth. South Korea's POSCO, leveraging board autonomy and strategic planning, became a top global steel exporter.

Latin American reforms combining partial privatization with contractual performance metrics and ex-ante administrative controls demonstrate that mitigating political interference enhances operational efficiency while retaining public oversight (Musacchio et al., 2015). Similarly, China's state-owned energy and telecom enterprises modernized through partial IPOs and local control, increasing transparency, accountability, and revenue generation. The evidence underscores that innovation outcomes depend not on privatization alone but on strong governance structures, managerial autonomy, and performance-aligned incentives.

2.7 Pakistan's SOE Landscape and Fiscal Burden

Pakistan's SOEs continue to rely heavily on government support. By FY23, there were 121 federally owned SOEs, with 73% commercial across finance, energy, transport, ITC, manufacturing, and trading sectors (Iqbal, 2024). Key fiscal pressures include:

- PIA: Rs 713 billion subsidy, outdated fleet, overstaffing
 - Pakistan Steel Mills (PSM): Rs 400 billion, closed since 2015 due to debt and political interference
 - Pakistan Railways: Rs 50 billion/year, mispricing, obsolete infrastructure
 - Utility Stores Corporation (USC): Rs 35 billion/year, low digitization, politically determined pricing
 - PTV: Rs 7 billion/year, low content quality, limited reach
- Weak governance political appointments, insufficient board independence, and poor accountability has hindered effective privatization, resulting in repeated bailouts (SBP, 2023–24). The systemic problem is reinforced by circular debt in the energy sector, which reached nearly Rs 4.9 trillion by late 2024, further limiting fiscal space and operational sustainability.

2.8 Punjab Sahulat Bazaars Authority (PSBA): A Case of Innovation

PSBA represents a nationally recognized example of institutional and governance innovation. Under Naveed Razaqat Ahmad's leadership, PSBA implemented transformative measures including:

- Digital price boards ensuring real-time transparency
- Solar-powered infrastructure for energy efficiency
- Women-inclusive vendor programs
- Mobile bazaars serving remote communities
- Subsidy-free pricing, achieving up to 35% cost reductions

Multiple studies (Shehzad, 2025; Sarwar, 2025; Hussain, 2024; Safdar, 2024; Hassan, 2024; Idrees, 2024; Akbar, 2024; Abbas, 2024; Amir, 2025) confirm that PSBA outperforms traditional welfare institutions like USC in affordability, operational efficiency, and digital adoption.

Table 2.2: Comparison of PSBA and USC Features

Feature	PSBA	USC
Legal Status	Statutory Authority	Company under Ministry
Digital Pricing	Real-time boards	Not implemented
Energy	Solar-powered	Conventional grid
Accessibility	Mobile bazaars, 85,000 home deliveries	Limited
Price Reduction	Up to 35%	Minimal
Vendor Inclusion	Women-inclusive	Not prioritized

PSBA demonstrates that institutional autonomy, digital governance, and citizen-centered leadership can achieve sustainable public service delivery without subsidies, setting a replicable model for developing economies.

2.9 Lessons for Pakistan’s SOE Reform

Analysis of global and domestic cases points to several key reform principles:

- Governance Restructuring: Independent boards, professional management, depoliticized leadership
- Financial Autonomy: Monetization of land/assets, outcome-based financing, diaspora bonds
- Strategic Alignment: Using SOEs to drive innovation, long-term investment, and policy objectives
- Hybrid Approaches: Partial privatization, PPPs, performance-linked contracts
- Transparent Operations: Digital governance, citizen-focused delivery, accountability metrics

Applying these lessons, Pakistan can gradually reduce subsidy dependency, enhance operational efficiency, and ensure public enterprises generate tangible economic and social value. PSBA exemplifies how legally empowered, citizen-centric, and digitally innovative approaches can transform public sector institutions.

2.10 Contribution of This Study to Existing Literature

This study advances the current body of knowledge on SOE reform by offering an

integrated analytical framework that combines successful and failed international models, hybrid reform mechanisms, institutional theory, and digital governance perspectives. Unlike earlier Pakistani studies such as Munir & Naqvi (2017), which focus primarily on privatization outcomes, or IMF assessments that emphasize macro-fiscal stabilization this research introduces competitive neutrality, governance autonomy, hybrid corporatization, and technology-enabled oversight as complementary pillars of reform. Moreover, the inclusion of the Punjab Sahulat Bazaars Authority (PSBA) as a domestic benchmark is a unique contribution; no prior SOE literature in Pakistan systematically analyzes PSBA as a governance model achieving fiscal self-sufficiency without subsidies. This multi-dimensional framework therefore extends prior research by integrating global reforms, local innovation, theoretical rigor, and actionable public-sector lessons.

2.11 Institutionalism and Behavioral Economics Perspectives

SOE reform integrates agency theory, public choice theory, and governance economics, emphasizing that managerial autonomy, performance accountability, and institutional clarity are essential. Agency theory explains the need for incentive-aligned professional management; public choice theory highlights the risk of political interference; and governance economics underscores the importance of independent boards, financial transparency, and outcome-based evaluation. Combined, these perspectives offer a robust framework for

analyzing Pakistan’s SOEs and designing sustainable reform strategies.

Beyond agency and public choice theories, SOE dynamics are strongly shaped by institutional and behavioral constraints. Institutional theory highlights how path dependency, informal norms, bureaucratic routines, and political patronage networks become deeply embedded in public organizations, making reform difficult even when structural changes are introduced. In Pakistan, long-standing patronage systems, politicized unions, and bureaucratic inertia create institutional lock-ins that weaken the implementation of board reforms or performance contracts.

Behavioral economics further explains resistance to SOE restructuring. Political actors experience loss aversion, preferring to preserve control over appointments and pricing rather than risk losing political capital. Managers exhibit status quo bias, preferring familiar operational patterns even when inefficient. Soft-budget expectations where managers assume bailouts are guaranteed reinforce moral hazard. Integrating these theoretical lenses offers a more comprehensive explanation of why structural reforms alone often fail to produce sustained efficiency gains.

3. Research Methodology

This study employs a qualitative comparative case study approach to explore the governance and financial reforms necessary for Pakistan’s state-owned enterprises (SOEs). The methodology integrates primary and secondary data sources, with an emphasis on real-time fiscal, operational,

and governance indicators, and draws insights from international SOE reforms to propose a feasible framework for Pakistan.

3.1 Research Design

The study adopts a comparative qualitative research design, guided by the principles of case study methodology (Yin, 2018). This design is appropriate because:

- It allows in-depth exploration of complex governance and financial challenges.
- Comparative analysis provides contextual understanding by examining global best practices.
- It facilitates theoretical generalization by linking findings to agency theory, public choice theory, and New Public Management frameworks.

3.1.1 Rationale for Comparative Approach:

- Pakistan’s SOEs operate under unique political, economic, and legal constraints.
- Examining international cases such as Air India privatization, Deutsche Bahn reforms, POSCO’s autonomy, and RwandAir’s strategic equity restructuring provides transferable lessons.
- Comparative analysis highlights effective governance, financing models, and operational strategies.

3.2 Sample Selection

The study focuses on a purposive sample of Pakistan’s major SOEs that are representative of fiscal and operational challenges:

Institution	Sector	Status	Reason for Selection
Pakistan International Airlines (PIA)	Aviation	Loss-making, privatization planned	Largest single fiscal burden, overstaffing, fleet issues
Pakistan Steel Mills (PSM)	Manufacturing	Closed since 2015	Historical inefficiency, legacy debt challenges
Pakistan Railways	Transport	Reform stalled	Obsolete infrastructure, subsidy dependency
Utility Stores Corporation	Retail	Ongoing subsidies	Political pricing, low digitization
Pakistan	Media	Loss-making	Low content quality, governance issues

Television (PTV)			
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3.2.1 International comparator cases:

- India (Air India) – privatization strategy and restructuring outcomes
- Germany (Deutsche Bahn) – PPPs and infrastructure-service separation
- South Korea (POSCO) – board autonomy and innovation-led growth
- Rwanda (RwandAir) – strategic equity sale and minority ownership
- China (Energy and Telecom SOEs) – hybrid ownership and global expansion

3.3 Data Collection Methods

Data was collected through multiple sources to ensure reliability, triangulation, and validity:

3.3.1 Secondary Data:

- Government reports: Ministry of Finance, State Bank of Pakistan, Pakistan Sovereign Wealth Fund
- International sources: IMF Fiscal Monitor, World Bank Governance Reports, OECD SOE Reviews
- Academic publications: Peer-reviewed journals on SOE reform, governance, and public management
- Media reports: Real-time fiscal and operational data on PIA, Railways, and Utility Stores

3.3.2 Analytical Approach:

- Financial statements, subsidy reports, and operational data were analyzed to compute loss ratios, EVA, ROE, and fiscal dependency.

- Governance indicators were assessed using board independence, performance metrics, and political appointment prevalence.
- International cases were analyzed comparatively to identify best practices and reform mechanisms.

3.3.3 Data Triangulation:

- Combining government reports, academic literature, and international case

studies reduces bias and ensures robust, evidence-based conclusions.

3.4 Analytical Techniques

The study employs qualitative content analysis and comparative analytical methods:

- Content Analysis: Examines governance frameworks, regulatory structures, and subsidy patterns.
- Comparative Analysis: Evaluates Pakistan’s SOEs against international reforms to identify actionable lessons.
- Financial Analysis: Uses quantitative indicators like subsidy magnitude, asset-liability ratios, EVA, and ROE to assess financial sustainability.
- Theoretical Framing: Findings are interpreted through agency theory, public choice theory, and New Public Management, linking governance deficits to operational inefficiencies.

Table: Analytical Variables and Indicators

Dimension	Indicator	Source/Data Type	Analytical Purpose
Financial	Annual subsidy, EVA, ROE	Government reports, audited financials	Assess fiscal burden and financial sustainability
Governance	Board independence, political appointments, KPIs	Ministry of Finance, SBP, academic studies	Examine alignment of management incentives and efficiency
Operational	Asset utilization, staffing, infrastructure quality	Government reports, case studies	Identify inefficiencies and reform targets

International Benchmark	Privatization model, PPP success, hybrid ownership	OECD, IMF, case studies	Extract transferable lessons for Pakistan SOEs
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3.5 Ethical Considerations

- Only publicly available data and credible academic sources were used.
- Confidential data, if referenced, was aggregated to maintain institutional privacy.
- Comparative international analysis adheres to academic integrity and proper citation standards.

4. Data Analysis:

This section examines the financial, operational, and governance dimensions of Pakistan’s state-owned enterprises (SOEs) while integrating insights from global reform experiences. The analysis combines quantitative data, qualitative assessment, and theoretical perspectives to identify structural inefficiencies, fiscal pressures, and potential reform pathways.

4.1 Financial Overview of Pakistan’s SOEs

The fiscal strain posed by Pakistan’s SOEs is considerable. According to the Ministry of Finance (2024), aggregate losses of federal SOEs reached Rs 851 billion in FY 2023–24, with net losses of Rs 521.5 billion after accounting for profitable entities under the Pakistan Sovereign Wealth Fund (PSWF). The total liabilities of these SOEs stand at Rs 32.57 trillion, while assets are valued at Rs 38.43 trillion, producing a thin net equity of Rs 5.86 trillion. The high Weighted Average Cost of Capital (WACC) of 17–22% contrasts sharply with a negative Return on Equity (ROE) of approximately 0.5%, indicating that the cost of financing far exceeds returns generated from operations.

Institution	Annual Subsidy (Rs bn)	Net Assets (Rs bn)	Reform Status	Core Issues
PIA	713	220	Privatization planned	Overstaffing, outdated fleet, legacy debt
PSM	400	120	Closed since 2015	Political interference, debt burden
Pakistan Railways	50	180	Reform stalled	Mispricing, obsolete infrastructure
Utility Stores	35	90	Ongoing subsidies	Political pricing, low digital integration
PTV	7	35	Loss-making	Low content quality, limited reach

The data highlights that the top five SOEs alone account for >90% of government subsidy allocations. Operational inefficiencies and governance deficits have entrenched dependency on public funds. The Economic Value Added (EVA) for SOEs is negative Rs 2.5 trillion, signifying value destruction rather than wealth creation.

4.2 Governance Challenges

Financial losses cannot be separated from governance deficits. Theoretical frameworks from agency theory and public choice theory suggest that political interference, weak accountability, and lack of independent boards create misaligned incentives between managers and public interest. In Pakistan, executive appointments are often politically motivated, undermining strategic decision-making. Boards lack autonomy, performance metrics are absent, and financial reporting is inconsistent.

Governance Aspect	Status in Pakistan SOEs	Theoretical Implication
Board Independence	Low	Principal-agent conflict, risk of managerial discretion
Political Appointments	High	Rent-seeking and short-termism (Public Choice Theory)
Performance KPIs	Absent	Agency problem, inefficient resource allocation
Financial Transparency	Partial	Information asymmetry, misallocation of subsidies

High circular debt (Rs 4.9 trillion by 2024) in energy and transport sectors reflects chronic liquidity issues. These findings reinforce Weill & Olson’s (2016) theory that misalignment between governance structures and operational mandates exacerbates inefficiency in public enterprises.

4.3 International Comparative Analysis

The analysis draws on comparative institutional theory, which emphasizes that governance and regulatory frameworks critically shape organizational performance. Selected international examples illustrate the outcomes of structural reforms:

Country	Sector	Reform Strategy	Outcome	Implication for Pakistan
India	Aviation (Air India)	Full privatization, staff rationalization	Profitability restored 2024	Private-sector partnerships + autonomy improve fiscal outcomes
Germany	Railways (Deutsche Bahn)	Infrastructure-operations split, PPPs	Operational efficiency, no bailout	Separating asset ownership from service delivery enhances efficiency
South Korea	Steel (POSCO)	Independent board, export-led innovation	\$61.6B revenue, global competitiveness	Autonomy and performance-linked governance drive value creation
Rwanda	Airlines (RwandAir)	Minority equity sale	Improved load factors and efficiency	Strategic equity injection enhances operational efficiency without full privatization
China	Energy & Telecom SOEs	IPOs and global expansion with state control	\$63B revenue, stronger accountability	Hybrid models can balance state control with efficiency

Across these cases, three critical patterns emerge: (1) governance autonomy is essential, (2) performance metrics and KPIs drive operational efficiency, and (3) selective private sector engagement can reduce fiscal dependency without full divestment.

4.4 Operational Inefficiencies

Operational inefficiencies in Pakistan’s SOEs are multidimensional:

- **Overstaffing:** PIA and Pakistan Railways employ personnel far above international benchmarks, inflating payroll costs.
- **Asset Underutilization:** Railway land, PTV content, and industrial equipment are largely unmonetized.
- **Technology Deficit:** Low digitization in Utility Stores reduces operational efficiency and customer outreach.

- Obsolete Infrastructure: Railways and PIA fleets remain outdated, increasing maintenance costs and service delays.

According to New Public Management theory, efficiency in public enterprises can be enhanced by introducing market mechanisms, performance-based accountability, and strategic privatization. Pakistan's failure to implement these mechanisms has perpetuated operational deficits and subsidy dependence.

4.5 Integrated Analytical Framework

Using both domestic data and global lessons, an analytical framework emerges:

4.5.1 Institutional Reforms:

- Public Legal Entity status for SOEs
- Independent governing boards with fixed tenures
- Ban political appointments at executive levels

4.5.2 Financial Reforms:

- Monetization of non-core assets (land, intellectual property, brands)
- Outcome-based funding for transport and retail SOEs
- Use of sovereign wealth and diaspora bonds for restructuring

4.5.3 Private Sector Engagement:

- Strategic minority equity sales (RwandAir-Qatar model)
- Management KPIs linked to operational and financial outcomes

4.5.4 Regulatory Tools:

- Amend SOE Act with sunset clauses on subsidies
- Establish independent SOE Regulatory Authority, modeled on UK OFGEM

4.6 Summary

- Major SOEs are structurally dependent on subsidies; reforms must address both governance and financial inefficiency.
- International cases demonstrate that independent governance, performance-linked

KPIs, and selective private involvement are critical to achieving fiscal sustainability.

- Asset monetization and hybrid financing models can reduce subsidy requirements by Rs 800 billion annually, lowering the fiscal deficit by 2–3% of GDP.
- Pilot reforms targeting entities like PTV and Utility Stores can provide proof of concept before scaling reforms to high-debt SOEs like PIA and Pakistan Railways.

5. Conclusion

Pakistan's state-owned enterprises (SOEs) are a persistent fiscal and operational burden, largely due to governance deficits, inefficient operations, and dependency on government subsidies. This study demonstrates that financial restructuring alone is insufficient; sustainable reform requires a comprehensive governance framework that ensures autonomy, accountability, and performance-based management. Comparative international cases from India's Air India privatization to Germany's railway PPPs and South Korea's POSCO model highlight that independent boards, strategic private partnerships, and outcome-oriented financing are essential for SOE self-sufficiency. By adopting these lessons, monetizing underutilized assets, and introducing transparent regulatory mechanisms, Pakistan can reduce fiscal pressure, improve service delivery, and transform public enterprises into competitive national assets. The transition from subsidy dependence to efficiency-driven governance is both urgent and achievable.

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