



Karachi School of
Business & Leadership

SOE Privatization in Focus

Policy Brief



About Us:

The Insight Lab is a research center at the Karachi School of Business and Leadership (KSBL) where academic rigor meets the **intellectual integrity**. Operating at the intersection of business, policy, and applied research, the Lab ensures its work is grounded in principles of ethics and anchored in market realities. By combining high-level competence with ethical stewardship, it addresses real-world economic and institutional challenges. The Lab functions as a bridge between academia, industry, and the policy community, fostering the dialogue necessary to strengthen decision-making across the public and private sectors.

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Why Are SOEs Back on the Reform Agenda

The Pakistan International Airlines, once a symbol of pride, has been on the chopping block for a while. Years of losses and chronic operational inefficiencies culminated in its public tug of war with PSO, another state-owned entity, for delayed fuel payments¹. After almost two decades of back and forth, the national carrier was sold in a televised live auction, like what happens in sports leagues. Now, it joins a growing list of SOEs privatized since 1991, when the Privatization Commission was founded to implement the government's divestment agenda².

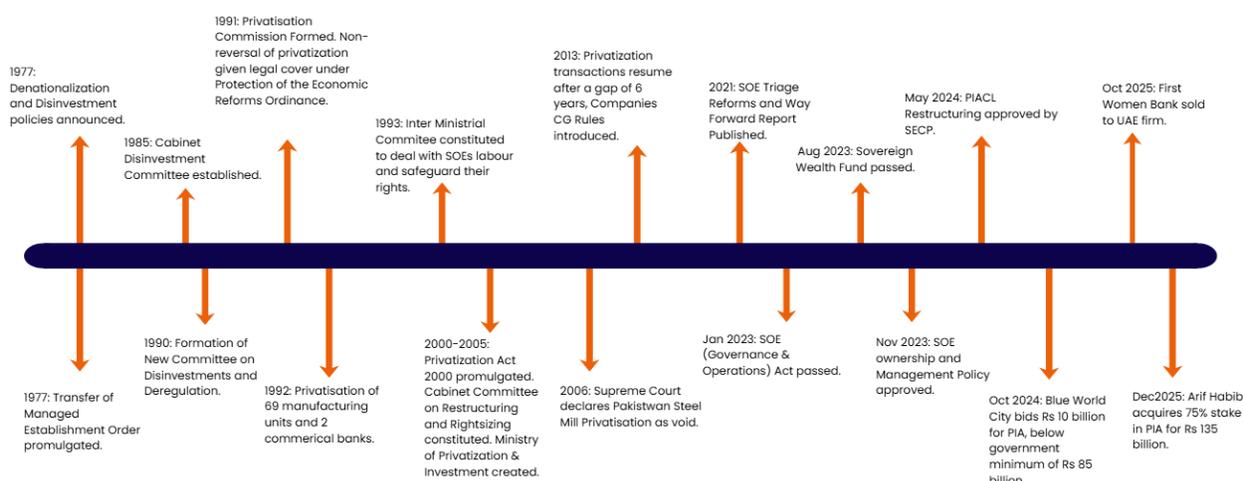
At the time of independence, Pakistan, like many other post-colonial states, inherited a sizeable infrastructure of SOEs, which steadily increased in response to market failures and public policy needs of the newly formed country. Nationalization policies under Zulfikar Ali Bhutto expanded the state's role in the 1970s³. In the early years, these SOEs played an important role in providing essential services like energy and transport, while also shaping the young nation's culture. For instance, PTV's productions brought iconic dramas like *Khuda Ki Basti* while the PIA patronized sports, giving us stars like Jehangir Khan, Hanif Mohammed and Shahbaz Ahmed Senior.

However, that era is long over amid an evolving role of the state itself globally. More importantly, decades of mismanagement and inefficiencies have pushed SOEs to be a burden on the taxpayer, causing PKR 122B in net losses to the national exchequer in FY25⁴. In fact, privatization remains one of the biggest agenda items in IMF negotiations⁵. After the new \$7B IMF deal approved in September 2024, the government unveiled a 5-year privatization roadmap in August 2025 to privatize 24 SOEs across three phases⁶.

The first phase kicked off with First Women Bank sold to a UAE firm in October 2025⁷. The litmus test was always PIA, among the most (un)prized assets on government books. After the first attempt failed to attract significant investor interest, the government changed deal terms and held an open auction on December 23rd, where the Arif Habib Consortium emerged victorious with a bid of PKR 135B⁷, with most of the money expected to be injected as capital for the carrier's revival.

Going forward, the momentum is only expected to pick pace. Luckily, Pakistan's own privatization experience in the 1990s can potentially offers lessons that remain relevant today. The first wave, launched in 1991, saw the sale of over 100 SOEs over the following decade across banking, manufacturing, and telecommunications. While the results were mixed, the broader lesson was clear: rushed divestments without transparent processes and strong regulatory oversight risk undermining both economic gains and public confidence. These historical missteps underscore why the current roadmap must prioritize institutional readiness alongside fiscal urgency.

Key SOE Reform Measures Timeline



Source: State Bank of Pakistan, KSBL

Ownership, Incentives, and Institutions

The issue of privatizing public sector organizations is not a Pakistan-specific phenomenon and remains a key policy debate across developing and developed markets. Governments around the world have turned to it after running into the same set of problems: state-owned firms tend to suffer from weak accountability, blurred ownership, and persistent political interference, all of which dilute commercial discipline⁸. Where no single owner bears responsibility, inefficiency is rarely punished and losses are often absorbed by the state, funded by the taxpayer. Shifting ownership to the private sector can realign incentives, but only under the right institutional conditions⁹.

Experience shows that ownership change alone is not enough. The privatization of British Telecom and British Airways in the 1980s worked largely because divestment

was paired with credible, independent regulation, which restrained monopoly power while allowing firms to operate commercially⁹. On the other hand, Russia’s experiment in the 1990s tells the opposite story: rapid sell-offs in the absence of strong institutions produced concentrated ownership and rent extraction, with little improvement in efficiency. The contrast shows that ownership changes matter far less when institutions are weak¹¹.

Privatization Transactions From 1991 – 2024

Year	Total Transactions	Total Value (Rs Mn)	Top Sector (by Count)	Top Sector (by Value)
1991	4	3,519	Banking and Finance	Banking and Finance
1992	48	8,082	Roti Plants	Cement
1993	14	597	Ghee	Newspapers
1994	4	30,651	Telecommunications	Telecommunications
1995	9	686	Chemical	Chemical
1996	13	13,345	Chemical	Energy
1997	3	1,703	Banking and Finance	Banking and Finance
1998	2	211	Roti Plants	Tourism
1999	6	460	Miscellaneous	Tourism
2000	2	389	Energy	Energy
2001	3	1,069	Banking and Finance	Banking and Finance
2002	22	37,571	Energy	Banking and Finance
2003	7	31,951	Banking and Finance	Banking and Finance
2004	9	10,743	Cement	Energy
2005	12	212,143	Energy	Telecommunications
2006	4	65,314	Cement	Energy
2007	5	56,411	Banking and Finance	Banking and Finance
2008	1	1,340	Fertilizer	Fertilizer
2014	3	68,006	Banking and Finance	Banking and Finance
2015	2	104,882	Banking and Finance	Banking and Finance
2021	2	76	Sale of Public Properties	Sale of Public Properties
2024	1	1,410	Engineering	Engineering

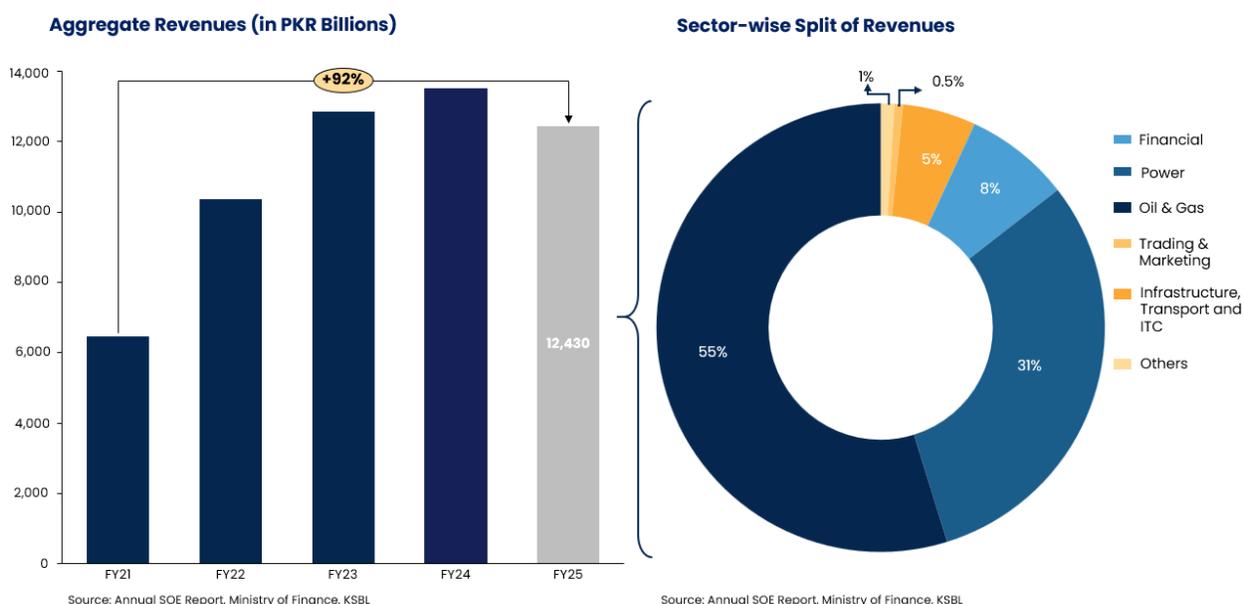
Source: Ministry of Privatisation, KSBL

Pakistan’s challenge is compounded by weak regulatory capacity and endemic corruption¹². Whether inefficiency stems from inherent public sector limitations or governance failures is partly academic, the taxpayer bears the cost either way. What matters is whether privatization accompanied by regulatory reform can break this cycle. But before getting into the impact, it’s important to understand the sheer magnitude of the public sector in our economy as they constitute some of the largest organizations, be it by number of employees, revenues or some other indicator.

The Anatomy of Financials

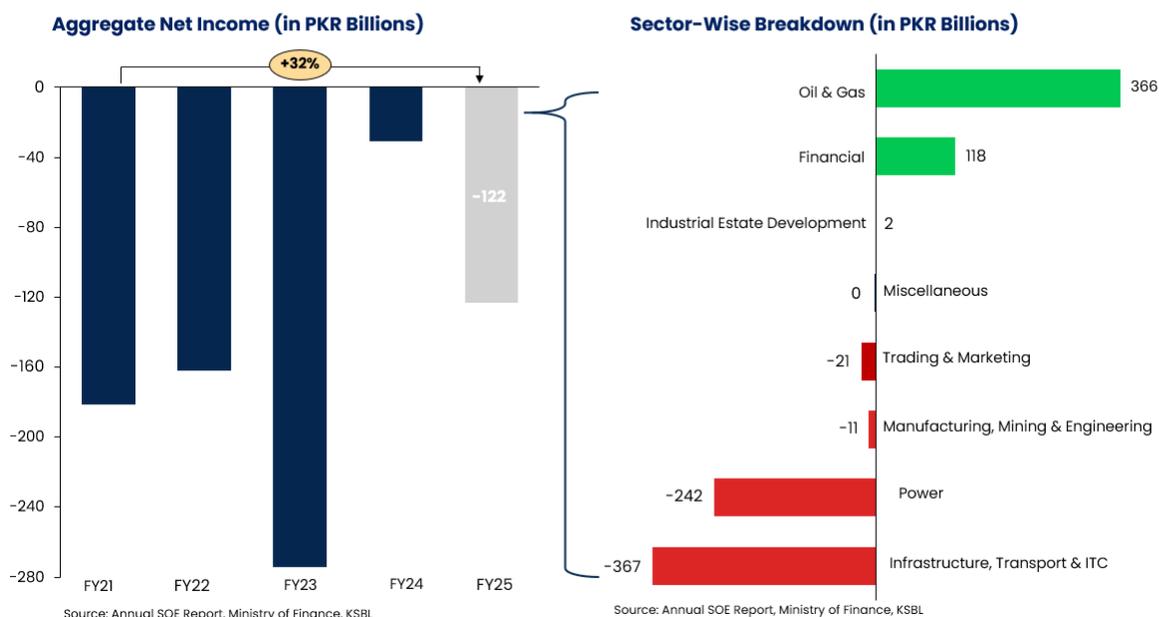
In FY25, Pakistani SOEs recorded consolidated revenues of PKR 12,430B, accounting for 10.9% of the nominal gross domestic product. However, the topline represented a decrease of 8% from PKR 13,534B in the preceding year. Expectedly, the oil and gas sector alone contributed 55% to the topline, led by Pakistan State Oil (PKR 3,318B) and Sui Northern Gas Pipelines (PKR 1,408B). Power followed behind with 31%, driven by Lahore Electric (PKR 663B) and Multan Electric (PKR 542B)¹³.

Commercial SOEs– Aggregate Revenues



The scale of topline is far from an ideal metric, as most are effective monopolies, enabled by years of unchecked control. What matters is whether they contribute to or drain the exchequer and that is where the performance begins to appear underwhelming, to put it mildly, as the aggregate SOE portfolio has remained in persistent deficit throughout the years. While net loss improved to PKR 122B in FY25, from PKR 181B in FY21, this turnaround was driven almost entirely by oil and gas, where rupee depreciation and higher prices lifted profitability of the sector by 55% to PKR 367B¹⁴.

Commercial SOEs – Aggregate Net Income



On the flip side, the losses sit squarely in power and infrastructure at PKR 242B and PKR 335B, respectively in FY25. The former faces structural inefficiencies — tariff gaps, high transmission and dispatch losses along with weak recoveries, which translate into a crisis that has time and again required the government to bail out. Meanwhile, the latter’s negative bottom-line can be attributed to debt-financed projects and rising financing costs, even as losses declined 37% from their peak of PKR 533B in FY23. This pattern is understandable as sectors with natural monopoly characteristics or public good elements (power distribution, highways) are most prone to political capture and pricing distortions. Without cost-reflective tariffs and hard budget constraints, losses then become structural¹⁵.

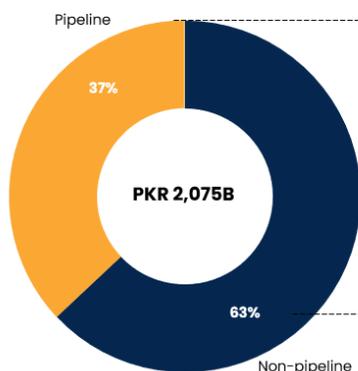
The Cost of Sustaining SOEs

To sustain these entities requires sovereign largesse that ultimately falls on taxpayers. In FY25, total monetary support to SOEs reached PKR 2,075B (roughly 12% of aggregate budgetary receipts), driven in large part by equity injections, which surged to PKR 729B (35%) alongside subsidies at PKR 726B (35%) while loans followed behind at PKR 354B (17%) and PKR 269B in grants (13%). The outsized share of equity injections in FY25 was largely a one-off phenomenon: payments made to IPPs as part of the power sector’s circular debt resolution were channeled through SOEs as equity injections, driving the

figure from PKR 99.5B in FY24 to PKR 729B in FY25 – a more than seven-fold increase in a single year¹⁶.

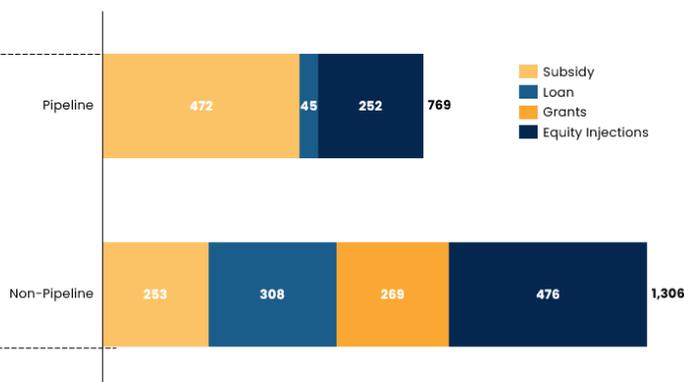
Commercial SOEs – Government Support

Government Support by Privatization Status



Source: Annual SOE Report, Ministry of Finance, KSBL

Government Support by Type (in PKR Billions)

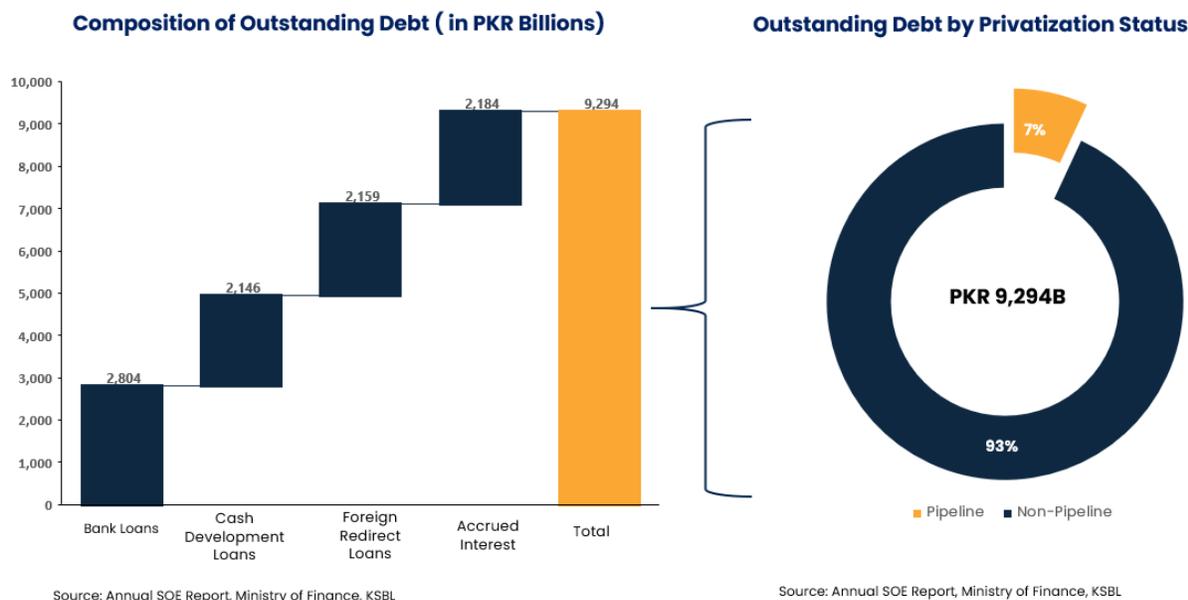


Source: Annual SOE Report, Ministry of Finance, KSBL

The power sector received PKR 1,663B (80% of total government support), followed by trading and marketing at PKR 95B (5%) and infrastructure PKR 234B (11%). Subsidies and grants offset tariff gaps and fund operational liquidity, while repeated loans have translated operating shortfalls into a growing debt stock of PKR 9,294B as of FY25¹⁴.

However, it's important to realize that not all SOE debt arises from operational inefficiencies. For instance, the National Highway Authority alone accounts for PKR 3,758B or roughly 40% of total SOE debt outstanding¹⁴. These liabilities are associated with debt-financed highway construction, where expenditures are incurred upfront and cost recovery through toll revenues is partial and spread over time, and usually not enough.

Total Debt Outstanding



It serves to highlight a critical distinction we must keep in mind while pursuing the privatization agenda: not all debt, or even losses, reflect operational failure. Entities like the NHA are fundamentally tasked with building core infrastructure and providing public goods, an inherently capital-intensive mandate that generates long-term social returns rather than immediate financial breakeven from toll collections. While the space and rationale for state ownership has increasingly diluted over time, there remain some notable exceptions in the strong portfolio of 77 commercial entities where the government can theoretically plug an important market gap but the extent of involvement needs to be reconsidered¹⁴.

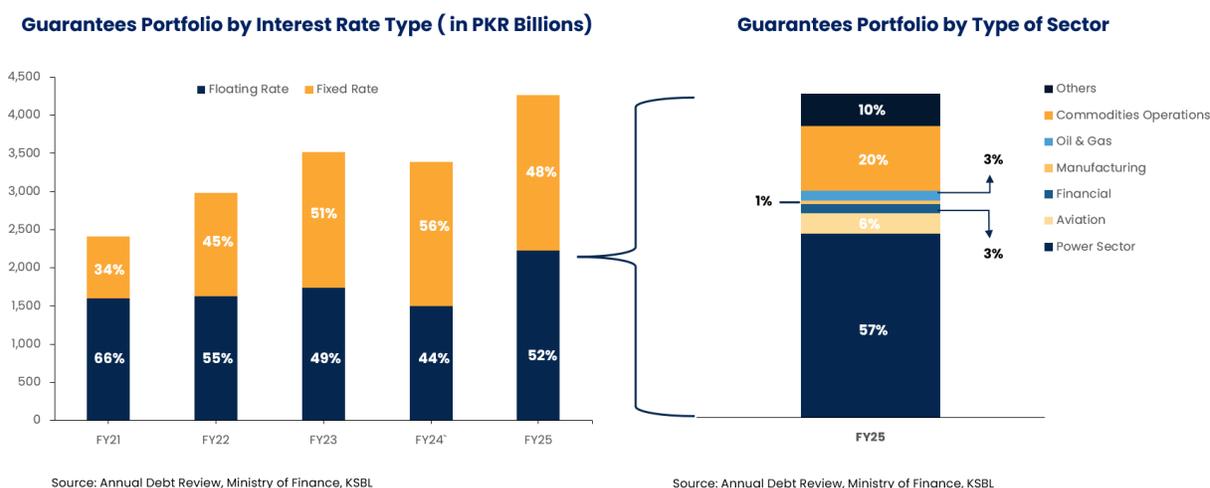
By contrast, the power sectors total debt outstanding of PKR 2,861B as of FY25, is a cautionary tale against state involvement as the liabilities stem from accumulated circular debt, a classic soft budget constraint problem where political pricing, weak governance, and expectation of bailouts perpetuate inefficiency¹⁴.

Sovereign guarantees represent a further layer of contingent fiscal exposure. The government's guarantees portfolio stood at PKR 4.2T in FY25 — up from PKR 2.4T in FY21 — with the power sector accounting for 57% of the total¹⁴. These are not losses today, but obligations the sovereign would be compelled to honour upon default. With over

half the portfolio on floating rates, this exposure is also sensitive to interest rate movements – and unlike subsidies or equity injections, a default event can impose sudden and large fiscal costs with little warning.

What’s evident is that SOE-related fiscal stress is not system-wide but concentrated in a small set of structurally weak sectors where policy-driven pricing, limited cost recovery, high financing costs, and sustained reliance on government support have translated persistent operational shortfalls into rising liabilities and fiscal exposure. Naturally, they should be the ones where the government must divest to optimize its fiscal operations while for the remaining organizations, there is perhaps a need for a bigger debate on the role of state in businesses.

Sovereign Guarantees



The Privatization Pipeline: Rethinking the State’s Commercial Role

The privatization roadmap is cognizant of this reality. SOEs currently for divestment account for 30% of aggregate SOE revenues in FY25, amounting to PKR 3,751B. Despite their scale, their losses stood at PKR 128B. Absent them, the SOE portfolio would have posted a net profit of PKR 6B instead of the reported loss of PKR 122B, highlighting the extent to which a relatively small subset of organizations continues to drag aggregate performance into deficit¹⁴.

SOEs Privatization Plan – Portfolio Overview

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No of Commercial SOEs

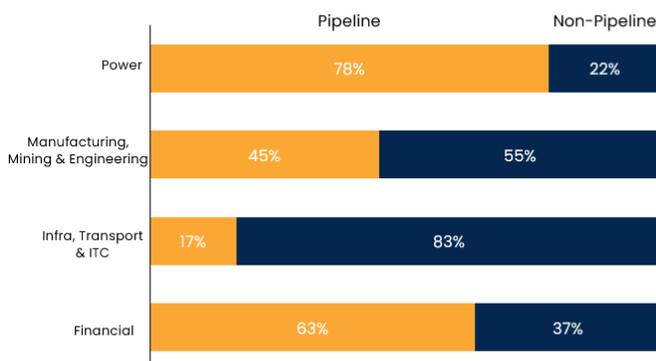
PKR 3,751B

Aggregate Revenues

PKR 128B

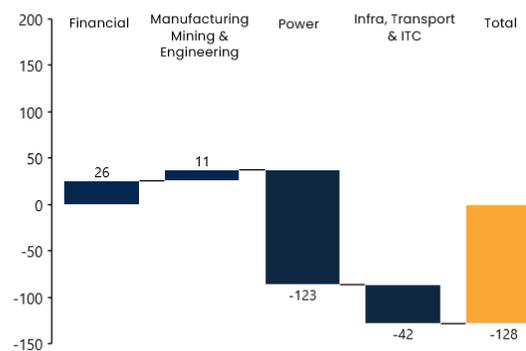
Aggregate Loss

Revenue Share by Privatization Status



Source: Annual SOE Report, Ministry of Finance, KSBL

Aggregate Net Income (in PKR Billions)



Source: Annual SOE Report, Ministry of Finance, KSBL

Bleeding is primarily concentrated in power: seven of the nine loss-makers belong to this sector, accounting for PKR 155B of pipeline losses. Peshawar Electric alone lost PKR 92B due to exceptionally weak recoveries and high T&D losses. Unsurprisingly, eleven of twenty-five power SOEs are in the privatization roadmap. PIA Holding Company with an PKR 49B loss is one of the two non-power entities among top loss-makers, though legacy liabilities will remain with the state post-divestment¹⁴.

Advancing the privatization agenda can generate notable budgetary savings. In FY25, the entities now part of the divestment group received government support of ~PKR 771B, which is 37% of total SOE support. Almost PKR 473B was in the form of subsidies (61%), PKR 252B in equity injections (33%), while another PKR 46B in loans (6%). Phase II, which is targeting 6 power-sector companies, accounts for the lion's share and if they are shed off the books, it could shave off roughly 1.8% of federal expenditure¹⁴.

Pipeline entities also happen to be more leveraged (0.82 vs. 1.2 portfolio-wide) in part due to their smaller asset bases, with PKR 644B in outstanding debt. Of this, PKR 498B sits with PIA Holding Company whereas far bigger stock of PKR 8,649B in borrowing remains with entities not in the privatization plan¹⁴.

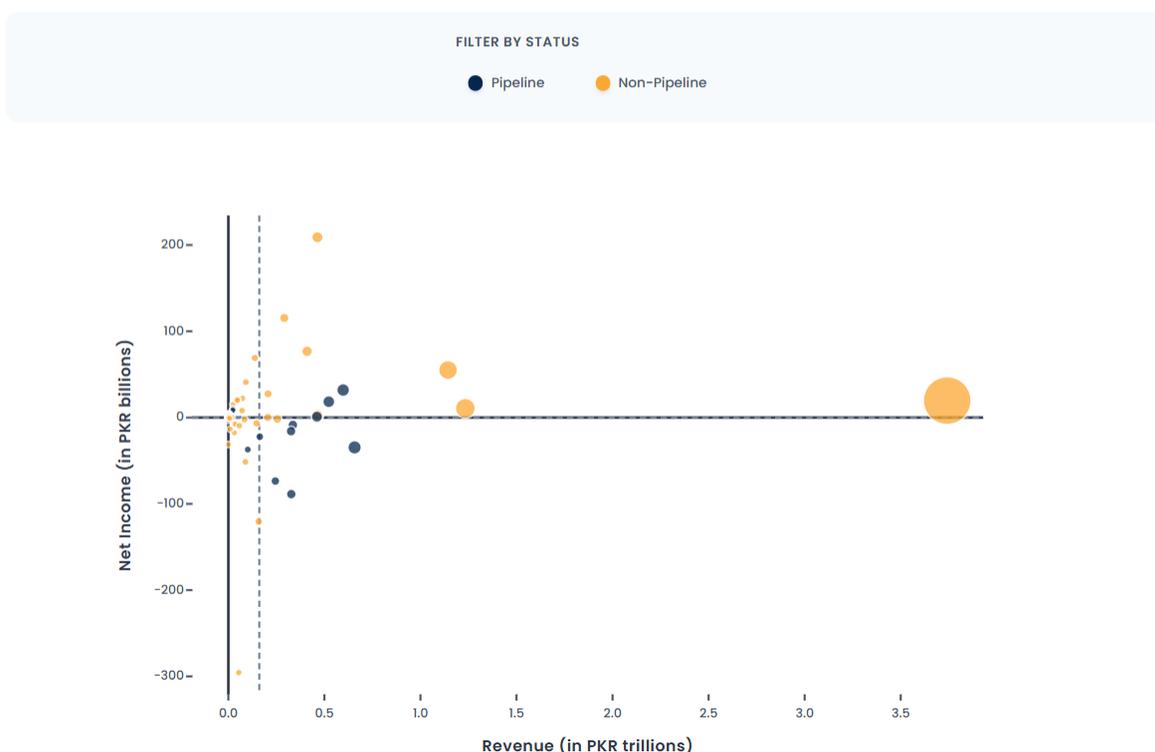
Interestingly, the divestment group includes some profitable entities too: State Life Insurance Corporation (PKR 14.7B profit), Gujranwala Electric Power Company Limited

(PKR 13.6B profit), and Zarai Taraqiati Bank Limited (PKR 9.6B profit)¹⁴. Their inclusion suggests that the divestment plan is not limited to loss-making or distressed firms, even if that seems to be the immediate priority. Instead, it appears to extend to commercially viable activities where continued state ownership may no longer be seen as necessary or even a net negative for the respective sector's growth.

SOE Financial Performance Analysis



Interactive visualization of state-owned enterprises by privatization status. Hover over bubbles to view details on individual SOEs.



Link for live interaction: [SOE Financial Performance Analysis](#)

The Hard Part Begins After Privatization

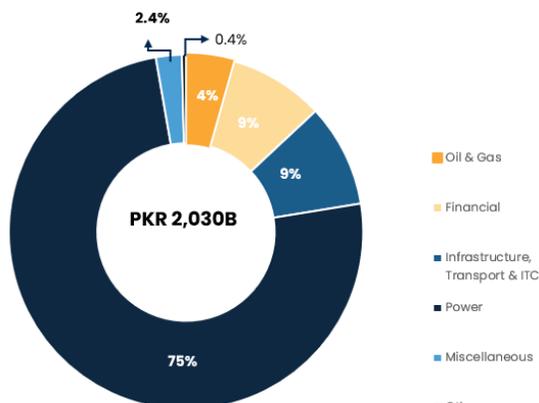
With PIA's bid accepted, Phase I has moved to proper execution and beyond token gestures, even if the momentum reflects limited policy space as much as choice, given IMF conditionality and mounting fiscal constraints. What the privatization can clearly deliver on is some fiscal breathing room by halting new losses and reducing ongoing subsidies, loans, and equity injections. However, this relief is applicable to just the *flow* of losses while substantial *stock* liabilities remain on the government's books

for the foreseeable future and thus eat up a significant chunk of expenditure in the form of financing needs.

Beyond direct fiscal transfers, SOE liabilities extend into a less visible but equally consequential domain: unfunded pension obligations totaling PKR 2,030B in FY25, with the power sector accounting for 75%. Critically, 63% of this burden — PKR 1,269B — sits with pipeline entities, meaning the government is likely to retain these obligations even as it transfers ownership¹⁴. Unlike operational losses, pension liabilities are fixed, legally enforceable, and grow over time, representing perhaps the clearest illustration of why privatization stems the flow of new losses but leaves the stock of inherited obligations firmly on the sovereign balance sheet.

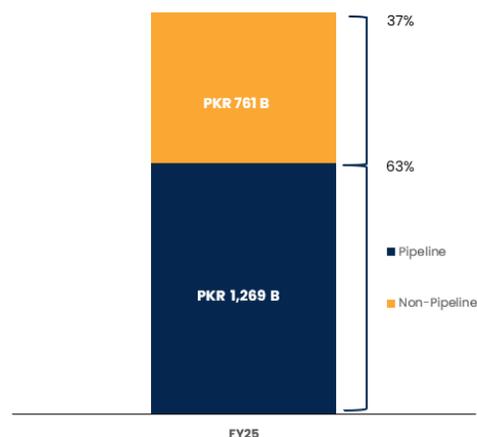
Unfunded Pension Liability

Sector Wise Unfunded Pension Liability



Source: Annual SOE Report, Ministry of Finance, KSBL

Unfunded Pension Liability by Privatization Status



Source: Annual SOE Report, Ministry of Finance, KSBL

More fundamentally, viewing privatization as a panacea would be a mistake. Most pipeline entities operate in regulated sectors i.e. power, insurance and air transport, where natural monopoly characteristics persist. In such industries, the state doesn't truly "exit" but rather transitions from owner-operator to regulator-overseer. Principally, this shift can be beneficial if regulatory capacity is strong, but Pakistan's track record suggests otherwise. Secondly, even in the private sector, reliance on sovereign is a prominent feature, manifesting in the form of subsidies or through distorted demand-supply structures.

K-Electric is a great case in point: despite privatizing in 2005 and improving operations substantially, it remains heavily dependent on subsidies and other support such as sovereign guarantees¹⁷. This is particularly relevant for the power sector, constituting 11 of 25 pipeline entities, many of which face quite similar challenges as the KE did two decades ago including low recoveries, high T&D losses, entrenched theft and governance issues. Therefore, even when “executed” well, divestment may not necessarily translate into the oft-cited budgetary savings and may simply end up creating private monopolies, much to the discontent of the end consumer.

The deeper challenge is that Pakistan's productivity crisis transcends ownership structure. Both public and private sectors suffer from weak contract enforcement, policy unpredictability, inadequate infrastructure, and limited competition. Changing ownership without addressing these systemic constraints merely shifts inefficiency from public to private books. Hence, while fiscally necessary, privatization won't be sufficient to ensure long-term sustainable growth. That would require the sovereign to make sure it capitalizes on the breathing room divestment buys and uses the opportunity to strengthen capacity and rules. Successful examples, such as [Chile's](#) utilities' privatization, can be attributed to the establishment of strong, independent regulators by its state¹⁸.

Without such reforms, privatization is merely a band aid, shifting losses off government books temporarily while failing to unlock the sustained growth required for a country as large as Pakistan.

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