

Q No-2

Introduction:

One of the major issues faced by Pakistan is energy crisis. It has hurt Pakistan's growth and development. The major factor behind energy crisis in Pakistan is its increasing circular debt. According to ministry of energy and power, circular debt records 2.5 trillion.

The root causes of this issue are existing agreement with IPPs, over-reliance on fossil fuels, power theft and power losses. However, these issues can be resolved by taking certain pragmatic measures. Renewal of agreement with IPPs, adoption of alternative energy resources, upgradation of transmission lines, and control on power theft can help resolve the persisting issue of circular debt.

(A) The root causes of Pakistan's circular debt issue

The root causes of Pakistan's circular debt issue are discussed in heads below.

(B) Existing agreement with IPPs

Pakistan signed agreement with Independent power producers called IPPs in 1994 allowing them to produce power. They were in return agreed to be paid for their capacity of production and payment was to be made in dollars.

"Agreement signed with IPPs really hurt Pakistan to the core."

(Khurram Hussain)

(i) capacity payment

As per agreement, Pakistan was to pay to IPPs for their capacity of power production whether it is used by the government or

not. In fact, government has to pay for utilization. The capacity payment has contributed to the circular debt.

(ii) Payment in dollars

Pakistan pays to IPPs in dollars. Due to declining foreign reserves, payment in dollars is a matter of distress for Pakistan. Payment in dollars has also caused the issue of circular debt.

(2) Over-reliance on fossil fuels

Pakistan relies heavily on fossil fuels for production of energy/power. The fuel is imported. So, the import of the fuel has also contributed to circular debt.

(3) Power theft and power losses

The power produced is also wasted in theft and losses. However, Pakistan

was to make payment to IPPs. Thus, they have also added their weight behind circular debt.

② Solutions to break the cycle of circular debt

(1) Renewal of agreement with IPPs

The agreement signed with IPPs in 1994 be renewed. It should be stated in the agreement that Pakistan will have to pay what power is utilized by it. Moreover, it should also be stated that payment will be made in official currency of Pakistan.

② Adoption of alternative energy resources

Alternative energy resources like hydal

and solar power be constructed to reduce reliance on fossil fuels.

③ Construction of dams

Dams should be constructed as they help in power production thus, reliance on fossil fuels is reduced.

④ Revamping of transmission lines

Pakistan has outdated transmission line systems. It contributes to power loss. So, it should be revamped to decrease power loss. It also helps in decreasing the circular debt.

⑤ Control on power theft

Power theft should also be controlled as it leads government

in low recovery for
use of power.

Conclusions

To conclude, circular debt is a vicious cycle for Pakistan's energy sector. The major causes behind it are existing agreement with IPPs and over-reliance on fossil fuels. However, renewal of agreement with IPPs and alternative resources of energy help resolve this issue.