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Introduction:

Circular Debt is a persistent problem of Pakistan that has caused significant economic and energy related challenges. Despite the efforts by successive governments, the challenge of circular debt has not been controlled. Though the circular debt emerged in 2006, its seeds were sown in the 1990, with the implementation of short term plans with IPPs. Moreover, expensive power generation, flawed and delayed power tariff determination and unbudgeted subsidies are also the causes of contributing to the growing circular debt in power sector. The problem in power sector and circular debt can be addressed if the financial performance of DISCOs are improved, removal of electricity subsidies, and by reducing the cost of energy generation. The circular debt has negatively impacted Pakistan's economy. So, the problem of circular debt needs immediate attention.

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II - WHAT IS PAKISTAN'S CIRCULAR DEBT ISSUE IN THE ENERGY SECTOR ?

The Power Generation companies, such as IPPs produces electric power which is sold to Power Purchasing Agencies, CPPA-G on behalf of distribution companies, DISCOs through the transmission companies, NTDC. The DISCOs supply power to the end users.

Similary, Central Purchasing Power Agencies, CPPA-G. have to make payments to the power producing companies and NTDC on behalf of DISCOs within a given timeframe.

The Problem stems from the DISCOs being unable to make timely payments due to reasons including lower recoveres from the end customers and Transmission and Distribution lesses. It will be discussed further. This in turn hinders CPPA-G is making payments to power producing companies and Transmission companies.

So, the cycle goes on as the Power Producing companies are unable to make payments to fuel suppliers. Under the PPAs, the delayed payments to power companies bears mark-up and increases financial liability.

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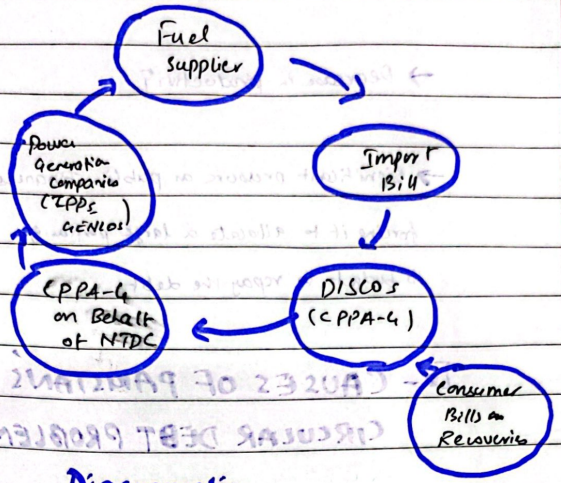

Diagramatic Representation of Circular Debt

III IMPACTS OF CIRCULAR DEBT ISSUE IN PAKISTAN

Circular debt has far reaching and damaging implications on the economy. Some impacts are:

- → It had led to high tariffs
- → High cost of doing business
- → Decline in investment

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→ Increase in power outrages

→ Decrease in productivity

→ Significant pressure on public finances, forcing it to allocate a large portion of its budget to repay the debt

IV- CAUSES OF PAKISTAN'S CIRCULAR DEBT PROBLEM:

IV-A Flawed Contracts with the Independent Power Producers (IPPs)

Power policy in 1994 and successive power policies have provided lucrative incentives to IPPs such as tax exemptions, free repatriation of equity and dividends and guaranteed capacity repayments to Independent Power Producers (IPPs) for adding into the installed generation capacity. Moreover, it has also added the cheeles of IPPs for adding expensive fuel utilization. These steps have added the generation cost of electricity. The dollar based rate of return to IPPs have further

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burdened the national exchequer as the rupee is declining. So, it causes the circular debt to increase.

IV-B High cost of Power Generation contributing to High rate of Circular Debt

Pakistan's energy mix is highly expensive as it has been relied on imported fuels for over 40 years. Over the years, Pakistan's reliance on re-gasified liquefied natural gas (RLNG) and imported coal has also increased. The high cost of electricity does not allow the people to pay the bills and as a result exacerbate the circular debt issue.

IV-C Pitfalls and delays in the Tarrif Determination

The Tarrif determination rate is ~~also~~ delayed by an average 9-12 months. It adds to repayment arrears. To cover the gaps between actual cost and notified rate, as the government notified tarrif rate is often recommended by NEPRA due to political reasons, the government provides subsidies to the DISCOs. Many a time, government delays

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these payment and passes on the costs to compliant customers through taxes, surcharges and tarrif hikes. It puts burden on the customer leading to reduce electricity demand and lower bill collection by DISCOs. The bill lower recovery exacerbates the circular debt

IV-D High Transmission and Distribution losses and Poor Revenue collection by the DISCOs

All the Discos including K-electric have been incurring huge Transmission and Distribution losses and facing low recovery of the billed amount which add to the circular debt

Financial loss due to transmission and Distribution losses is 195 billion rupee, according to Prime report

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IV-E Unbudgeted Subsidies

Government provides tarrif differential subsidies to DISCOs for distributing electricity to end consumers at government notified power tariffs. But doesnot provide these subsidies fully to DISCOs. It led to increase in circular debt

V- HOW THE PROBLEM OF PAKISTANI CIRCULAR DEBT CAN BE MINIMIZED?

V-A- Improving the Financial Performance of DISCOs

The performance of DISCOs must be improved. The bureaucratic management must be replaced with professional and decentralized management. The DISCOs must be divided into smaller units do the DISCOs are responsible for T&D losses. when DISCOs are decentralized there is a large gap between control centers and operational that lead to the more transmission losses and less recovery bills. So, there is a need for dividing large geographical

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domains of DISCOs into two or three parts

V-B Electricity subsidies must be removed.

The electricity subsidy must be reduced so that it will eliminate the perception that electricity is an entitlement of government. The people would use the electricity with care. Moreover, the government has subsidized electricity for the poor but the rich are also using the electricity for a subsidized rate. It has led to burden for the country's economy. So, the electricity bill should be taken on the original rates not the subsidized one

V-C Use of technology for making electricity excludable to non-payers

Instead of blocking out the electricity of the whole area, some technological tools could be employed to make electricity excludable to non-payers.

Example

Lunda-resistant cables must be deployed in high

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theft region so that electricity may not be theft. It would increase the bill payments and reduce theft and circular debt. Smart metering is also a technique that should be used by DISCOs to know those areas who are consuming electricity but are not paying bills.

IV-D Reducing the cost of Energy Generation.

The cost of energy generation must be reduced. It can be reduced by:

a- Replace the dollar-indexed rate of return to IPPs with the one based on Pakistani Rupee.

b- In order to reduce reliance on imported fuel, government needs to work on indigenous energy resources such as Thar coal and renewable energy resources.

V- CONCLUSION

Circular Debt is a major challenge for Pakistan's economy and energy sector. There are

many causes behind this problem such as flawed contract with IPPs, high cost of power generation, delays in tarrif determination, high transmission and distribution losses etc. The problem of circular debt can be addressed by improving the financial performance of DISCO, removal of electricity subsidies, use of technology and reducing the cost of energy generation. If the problem of circular debt is solved, the economy of Pakistan can be improved.