

## Current Affairs Mock

### Question No 6

Load shedding and ballooning electricity prices badly hit the economy of Pakistan. Critically evaluate the statement and give possible recommendations.

#### INTRODUCTION:

Pakistan is facing an energy crisis like never before. In some villages, there are outages in excess of 12+ hours in this sweltering summer heat. While cities are also facing the brunt of this, with outages lasting up to 16 hours. These outages have reduced the output of the economy and are badly affecting the industrial sector. The tariff structure, loadshedding schedule, power theft and last but not least the supply network and its constraints have compounded the problem into one giant mess. The power sector has become a quagmire of problems and the solutions are not so simple. They require political will, institutional capacity and most of the help of the private sector.

#### LOAD SHEDDING WOES:

Loadshedding is not something new in Pakistan. It started back in the early 2000s, when supply and demand gap had increased so much that the only choice was to disconnect and reconnect users to manage the system.

Today, a new phenomenon has risen called 'Economic loadshedding'

'Economic loadshedding is the process when high-loss making feeders are shut due to pilferage and lack of recovery of dues.'

These feeders have loss rate of 60% or more. Which means for every Rs. 10/- of electricity is sold, the government recovers only Rs. 4/- of the total cost. The rest is borne by consumers across <sup>the country</sup> in order to fill this gap.

## SKewed Tariff Structure

Since long, voices from different segments of society have raised their concerns against this skewed tariff mechanism.

Currently, an electricity bill and overall tariff contains more taxes more than the actual cost of the electricity. The actual bill may be of Rs. 1000 and the additional tariff and taxes push it up to close Rs. 3000/-.

Determination of tariff is done by NEPRA in consultation with NPCC, power division and others.

Power purchased by the government through the CPPA in line with the directions issued by the NPCC cost no more Rs. 1-2 per kWh. Even if transmission and distribution costs are added

The relative cost of the unit may not increase above Rs. 15-20 per kWh. However, currently a unit being purchased by a consumer is in excess of Rs. 40-45 during off-peak and it is above Rs. 50-55 per kWh during peak-hours.

This skewed tariff leads many opting to not pay at all and use unconventional and illegal means to ~~use~~ consume electricity.

## ANALYSIS OF THE IMPACTS OF LOADSHEDDING AND TARIFF STRUCTURE ON THE ECONOMY

### a) Low Recovery Rate due to high Cost/Tariffs:

The Energy sector runs on the revenue and collection. Due to the high cost of electricity, the demand for electricity has subsided. According to the Economic Survey of Pakistan 2023-24,

'Year-on-year demand for industrial and commercial demand fell by 1-2%.'

'Economic Survey of Pakistan 2023-24'

This 1-2% decrease results in billions lost due to the high price of electricity.

### b) Lack of Stable Supply leads to Factories

## c) Opting for their own supply

Currently, factories and large industrial units are mulling over the idea of installing their own supply of electricity. Due to frequent load shedding, factory owners face the brunt as their productivity takes a hit and in the large scale of things the national economy takes a hit.

## d) Supply and the network losses

As previously discussed above, the network losses contribute a lot to the revenue loss. For many decades, Pakistan has not invested in the distribution and transmission network. As every equipment has a life, the majority of equipment has passed its life cycle and is now more inefficient than ever. This leads to reduced consumption and loss of crucial revenue.

## e) Power theft and Pilferage leads to more load shedding

Power theft is a major problem. In order to counter it, the area in which theft occurs suffers when that area's supply is cut. This in turn disenfranchises all those living in the locality paying their dues from electricity. Many suffer because of a rotten few.

## f) Low Recovery Rates compound Circular Debt

As mentioned above, low recovery rates of dues leads to the overall loss of the DISCOs. Since these are govt. owned entities, these <sup>losses</sup> are added on the debt profile of the government.

## g) Domestic Consumers Shift to Solar?

As of <sup>May</sup> 2024, close to 6000 MW has been imported in solar panels. These panels have been fitted behind the meter, meaning that solutions are entirely off-grid in nature. This results in a drop in overall demand and loss of revenue which again contributes to the growing ~~debt~~ circular debt. This shift can be linked to the high prices of electricity and unstable supply.

## b) Commercial and Industrial Shift to Overseas Locations

Due to the lack of stability in the supply side of electricity, many firms have either shifted or are about to shift to lucrative locations abroad. These locations promise the investors a tax-free environment and stability in the energy which has caused forex from our country to there.

## POSSIBLE RECOMMENDATIONS TO SOLVE THIS ISSUE

### a) Privatization of DISCO's and De-regulating Electricity Markets

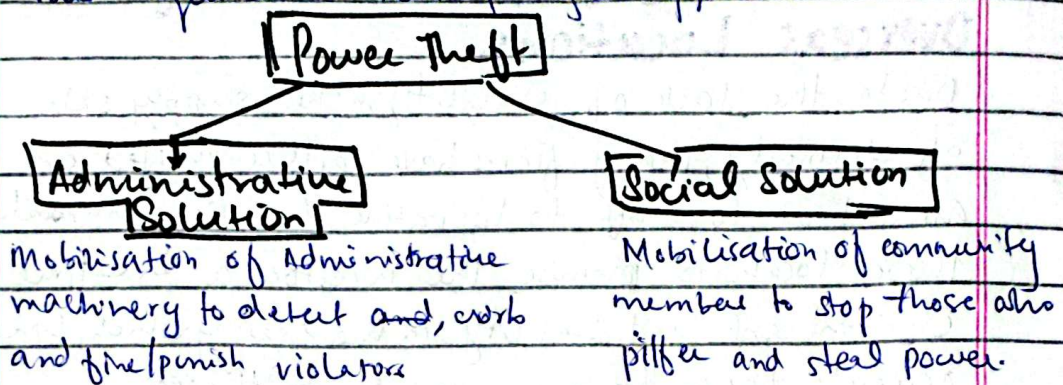
The government has no business to do business. This is a quote that has been echoed by the Finance minister and members of parliament. Privatization of the DISCO's shall enable better service delivery and the de-regulation of the market shall enable competition which will force the companies to improve their standards.

## b) Revising Tariff Schemes to Encourage Demand:

This is a necessary step to ensure the economy gets back on track. The uniform tariff scheme should be done away with. A rational tariff structure should be laid out to stir up demand and in turn generate revenue both for the power sector and the economy as a whole.

## c) Curbing Power Theft and Pilferage:

This requires a two-pronged approach.



## d) Increasing Investments in Transmission Network Capacity:

This is a self-explanatory step. By increasing the investment in new modern equipment, the overall losses faced by the system operator will be lessened and furthermore, downstream consumers shall receive more due to less upstream losses.

## e) Capacity Building of Power Divisions:

Power division is a relic of what it used to be. Competent officers need to induct and through training needs to be conducted so that it can formulate policy, guidelines and new proposals that are in-line with requirements that the country faces.

## CONCLUSIONS

—x— As we have, the problems and solutions are massive. There is no quick fix to the problems at hand. These solutions require consensus at the political, economic and social level. If these are not enacted, the only loser would be the economy of Pakistan. Energy is the artery of the Pakistan and right now that artery is clogged. From transmission constraints to power theft all problems have compounded into the conundrum presented before the country. To solve them a unified and collective approach must be taken for the betterment of the country.

## Question No. 7

CPEC projects have become increasingly slow. Critically evaluate the reasons and find out solutions.

## CPEC - A BRIEF INTRODUCTION

CPEC (China - Pakistan Economic Corridor) is the beating heart of the Belt and Road Initiative. This project encompasses economic zones, infrastructure, energy projects and so much more. This deal was inked in 2015 and work on it is continuing under various phases. The largest investment under the CPEC banner is the ML-1 or main line-1 project, valued close to 62 Billion USD, it is a rail-link from Quadae to the north of country that will connect to the Chinese border and act as a rail-link between the two.

# WHY PROJECTS ARE FACING DELAYS?

CPEC projects are the ~~top~~ lifeline of the Pakistani nation. However due to a number of reasons (mentioned below) these projects have been put on the back-burner. These reasons range from the fiscal problem currently being faced by the government to the lack of security and safety of the Chinese staff. Moreover, these are compounded by political instability, bureaucratic <sup>agencies</sup> hurdles and to some extent foreign involvement.

## ANALYSIS OF THE REASONS FOR DELAYS &

### a) Lack of Financing from the Govt Side

The government currently has no means other than floating bonds to finance these projects. Even the Chinese ~~banks~~ <sup>Banks</sup> that were backed by the Chinese govt. have left the table due to the lack of enthusiasm shown by the government regarding the financing of CPEC projects.

### b) Security Concerns and Safety of the Chinese Engineers

Recent attacks on the Chinese Engineers have raised alarm bells in Beijing and Islamabad over the safety and security of the Chinese staff working on these projects.



### c) Foreign Involvement in Sabotaging Projects

There should be no doubt that hostile intelligence agencies are acting from third countries and sabotaging the progress made by the teams working on these projects. These intelligence agencies further use banned outfits such as the TTP to do their bidding.

### d) Bureaucratic Red-tapism

Red-tapism and fear of repercussion hold's back our bureaucracy from planning and executing these projects. Furthermore, land acquisition and payment to the affected is a also a whole challenge to the viability and completion of the projects. These are due to the bureaucratic lethargy processes that take ages to complete.

### e) Lack of Political Stability and Continuity of Policy

This is a problem that has devastated Pakistan's international image. A country with no political stability is not considered friendly for investment. Moreover, lack of continuity of policy also compounds to this problem. No investor would want to invest in this type of situation.



## POSSIBLE SOLUTIONS FOR EXPEDITING

### DELAYS

#### a) Bringing Sustainable Financing from the Chinese side

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Financing and securing <sup>it</sup> from the Chinese side is one of the most paramount challenges. In order to complete these projects, extensive dialogue must be held to allay investor concerns and take on-board the financial stakeholders.

### b) Streamlining Bureaucratic Procedures &

Land acquisition problems have ~~marked~~ <sup>marred</sup> the progress of these projects. Moreover, policy implementation delays have also impacted progress. Moreover, the process of obtaining No-Objection certificates must also be revised. National single window facility must be streamlined and enhanced to ensure that opportunities are not squandered due to red-tapism.

### c) Ensuring Political Stability and Addressing concerns of all stakeholders &

Political Stability leads to economic stability. These projects are decades long and require consensus on the political that whosoever comes to power shall ensure the continuation of the policy and shall ensure the timely completion of the project. It would only happen if all stakeholders are allayed.

### d) Ensuring Policy is continued and is not affected by change of Government &

Policy continuation, as mentioned above, is a problem. However, through consensus and dialogue and by ensuring political stability ~~policy~~ <sup>policy</sup> can be continued and implemented effectively.

## e a) Strengthened Response to Combat Terrorism

This is essential to secure and make safe our assets from the surge of terrorism. A unified and strengthened response is required by all the stakeholders involved. Furthermore, dealing with foreign backed proxies must be dealt with an iron hand to ensure the safety and security of the projects.

## CONCLUSION

All in all, Pakistan if it desires to get these projects back on track, it must tackle these delays on all fronts. These include the financial front (getting sustainable from lenders), security (stopping attacks on the Chinese), Bureaucratic (streamlining policy implementation and removing red-tape), Political (ensuring political stability and continuity of policy). All of these combined shall ensure Pakistan's recovery and timely completion of these projects.

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