Pakistan Power Sector Reform Development Policy Credit

The First Power Sector Reform Development Policy Credit is the first in a proposed series of two development policy credits (DPCs) supporting Pakistan's goal of developing an efficient and consumer oriented electric power system that meets the needs of its people and economy sustainably and affordably. The proposed DPC focuses particularly on policy and institutional actions that will improve financial viability and thus reduce the burden of public financing for the sector. The DPC is structured around three objectives: reducing subsidies and improving tariff policy; improving sector performance and opening the market to private participation; and ensuring accountability and transparency.

Pakistan's energy sector is facing a serious crisis, especially in electricity. Based on preliminary estimates, the poorly performing electricity sector is thought to have reduced GDP growth by 2 percent per annum for the past several years. The sector relies heavily on government support, through direct subsidies amounting to about 1.75 percent of GDP in FY12/13. Costs that cannot be recovered from consumers or the government accumulate on the books of the public electricity distribution companies (Discos). The Discos in turn fail to pay fully for goods and services they receive, especially electricity, thus spreading the shortfall throughout the supply chain. Commonly called the circular debt, these accumulated arrears amounted to about four percent of GDP in FY12/13. Actions are required to address two main distortions: the longstanding gap between the cost of service and revenues gained either from tariffs or subsides; and the unusually high cost of providing that service. At the same time, there is a need to address the inequities caused by poorly targeted subsidies and ensure that the sector develops in a socially and environmentally sustainable way.

The following results are expected:

- Reducing subsidies and improving tariff policy: a reduction of the subsidies allocated in the Federal budget from 1.8 percent in FY13/14 to 0.7 percent in FY14/15. Intermediate outcomes include reduced time taken for tariff determination and notification; tariffs that reflect the costs of efficient operations. The expected outcome will be better management of the tariff and subsidy by reduction of discretionary policy decisions and lag in tariff approval and implementation.
- Improving sector performance and opening the market to private participation: The expected results are first the rate at which amounts billed are collected is expected to improve from 86 percent now to 94 percent at the end of FY 15/16. Second, the amount of gas supplied from domestic resources is expected to increase from 3.8 billion standard cubic feet per day to five billion standard cubic feet per day by the end of the program. Last, market and systems operations will be separate, providing greater comfort to generators that they will receive contractually-obligated payments on time. The outcomes expected is that more electricity will become available for consumption
- Ensuring accountability and transparency: Greater accountability and transparency is expected to improve the quality of the structural reforms by ensuring better understanding among stakeholders, and thus help sustainability. It will also help manage the risk of reversal. Household awareness of the level to which the government subsidizes electricity will also be improved.