DAWN

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Rising circular debt

QUIETLY, behind the noise and fury of the headlines, the circular debt continues its march. If one only looks at the figures being given publically for the total size of the monster, it is alarming to note the steep increase. The power division officials just told the Public Accounts Committee that the figure has now crossed about Rs1.4tr. In August 2018, while testifying before a Senate panel, the same officials had given the figure of Rs1.14tr. This would mean that the circular debt has climbed by more than Rs200bn in the 137 days in between these two dates. For perspective, consider that the same figure stood at Rs922bn at the end of November 2017, meaning that the size of the debt increased faster from August till today than it did in the preceding ten months. This sharp uptick needs focus, and parliamentary bodies have good reason to summon power division officials and ask more detailed questions about where exactly the acceleration in the circular debt is coming from.

There are a number of different components of the circular debt, and the power division officialdom is becoming quite adept at presenting the numbers in a way to downplay the problem. For example, one method is to omit the amount held by the Power Holding Pvt Ltd, a special-purpose vehicle created specifically for the purpose of financing the circular debt for the power sector, and which pays its financial costs via surcharges built into the consumer tariff. Creating confusion around the numbers is a common tactic for officialdom to avoid scrutiny, and in the power sector they are free to indulge in this habit to their full satisfaction. In the same time period, from August 2018 till today, the recommendations of the Special Committee on Circular Debt formed by the Senate have been silently awaiting action. These recommendations include the establishment of a high-level monitoring committee, as well as a slew of deep-rooted reforms.

Left to its own devices, with the government working in one corner and the bureaucracy in another, this state of affairs will not abate. The increase in the rate of accumulation is alarming because the circular debt can ultimately shut down the power system and impose nearly crippling costs on the fiscal framework. To get a handle on the situation, the minister needs to develop a standard reporting template for all power sector data, both operational and financial, through which progress can be monitored effectively to control recoveries and keep power sector debt from climbing to unmanageable levels. At Rs1.4tr, we might already be approaching that stage. At the moment, increasing quantities of power sector inefficiencies are being passed onto the consumer through miscellaneous surcharges and an elevated target for losses allowed by Nepra. The power sector is crying out for proper leadership, and the costs of inaction are rising by the day.

Editorial