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World Bank cancels $500m loan to Pakistan

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ISLAMABAD:

The World Bank has cancelled over $500 million budget support loan to Pakistan after Islamabad could not timely implement some major conditions, including revision of the China-Pakistan Economic Corridor (CPEC) power purchase agreements. The Washington-based lender would also not provide any new budget support loan during the current fiscal year, which may impact the government's budget estimates of receiving $2 billion in fresh loans during the current fiscal year. A key reason for not giving any new budget support loan is that Pakistan has largely exhausted its quota.Government sources said that the lender had cancelled the $500 to 600 million loan under the Affordable and Clean Energy programme, known as PACE-II. Initially the World Bank had agreed to provide a $500 million loan, which it subsequently indicated at $600 million to bridge the external financing gap. In June 2021, the World Bank had approved the PACE programme and also released the first tranche of $400 million. But the second tranche was pegged with multiple conditions, including negotiations with all the Independent Power Producers (IPPs), including Chinese power plants set up under CPEC. Pakistani authorities said that no breakthrough could be achieved in renegotiations with CPEC power plants. China has multiple times refused to reopen these deals, including its refusal to restructure the energy debt totalling around $16 billion, said the sources. As part of its efforts to reduce the electricity prices, the government is in the process of renegotiating the energy deals with power plants set up under the 1994 and 2002 policies. The Chinese power plants and the government-owned power plants, mainly four LNG-fired and two nuclear-powered plants, are set up under the 2015 energy policy. So far, the government has renegotiated about 22 energy contracts. But there have not been any major savings in terms of per-unit reduction in electricity price that is still around Rs65 to Rs70 per unit, including taxes and surcharges. The government is shying away from abolishing up to Rs16 per unit cross subsidy that it charges from the higher consumption users to reduce prices of below 200 units monthly consumers. If the government decides to abolish unjustified cross-subsidy, it can substantially reduce the burden on the residential and commercial electricity consumers. When contacted, a spokesperson for the World Bank confirmed that "slower-than-expected progress led to a shift in strategy in our support for reform" in the energy sector of Pakistan. The World Bank had been requested to comment whether it cancelled the PACE-II loan.The spokesperson said that the World Bank has been supporting the power sector reforms through the Programme for Affordable and Clean Energy (PACE) development policy operation. She added that the PACE-I was approved by the board in June 2021 and was intended to be followed by PACE-II in fiscal year 2022. However, due to slower than expected progress the World Bank changed its lending strategy. The spokeswoman said that the Word Bank has sustained its support through direct financing of low-cost hydropower projects, including an additional financing of $1 billion for Dasu Hydropower project. Additionally, the Bank continued to work closely with all counterparts on accelerating the implementation of the Electricity Distribution Efficiency Improvement Project, which aimed at improving efficiency in the distribution sector, while also providing technical assistance for the private sector participation in DISCOs [power distribution companies], she added. To a question whether the World Bank will provide any new budget support loan to Pakistan, the spokesperson stated: "No budget support is in the pipeline for the current fiscal year," ending in June 2025. For the current fiscal year, the government has budgeted a total $2 billion lending from the World Bank. The World Bank has disbursed about $349million or 18% of the annual plan during the July-October period of this fiscal year. Under the PACE-II programme, Pakistan was also required to address the power distribution companies' inefficiencies and plug the flow of the circular debt. The government has failed to achieve both these objectives. As part of PACE-I, the government had approved a roadmap for private sector's participation in the distribution sector. This was never achieved. The implementation of this roadmap was a key to being able to assess that the power sector reform programme was on track but it did not happen. The National Electric Power Regulatory Authority (Nepra0 reported this week that the power distribution companies' inefficiencies caused Rs660 billion losses in the last fiscal year. Besides, the circular debt further increased to Rs2.393 trillion in the last fiscal year – far higher than the targets agreed with the International Monetary Fund (IMF) and the World Bank.In order to hide its inefficiency, the Power Division does not regularly update the monthly circular debt report on its website, which is in violation of the Circular Debt Management Plan framework commitments. For this fiscal year, the IMF had identified a $2.5 billion external financing gap, which has to be filled with new loans. The World Bank's decision not to give any new policy loans may make it difficult to bridge this gap. However, Finance Minister Muhammad Aurangzeb appears optimistic. “The external financing gap is covered and we will now borrow on our own terms at very competitive rates,” he said on Wednesday. Pakistan has also budgeted a $1 billion Eurobond loan but so far it has not entered the global markets. At a CCC-Plus rating Pakistan annot access the international capital markets to float sovereign bonds, said the finance minister.