DHP-1: WORLD BANK PROJECTS $1.3BN FINANCING GAP

ISLAMABAD: Terming implementation progress on Dasu-1 hydropower project moderately satisfactory, the World Bank (WB) has estimated a total financing gap of $ 1.3 billion due to increased forex requirements.

The Bank Mission, visiting Pakistan from February 20 March 11, 2023 has submitted a detailed update of project costs and available financing. The mission argues that despite delay in implementation, the total cost is expected to be increased only 3% for the hydropower component. However, due to increased requirements of forex, the total financing gap in dollars for DHP- 1 is about $ 1.3 billion. Given the construction schedule and associated expenditures and keeping in mind the overall financing strategy for Dasu, the World Bank will start preparatory work for potential additional financing to partially address this gap, tentatively before the end of 2024.

Dasu-1 is 2.160 MW hydropower plant on the main Indus River which can be expanded to 4,320 MW in future at a very low cost. The project is a “high-risk-high-reward” operation aimed at providing low cost non-carbon renewable energy.

According to the World Bank, the preliminary updated estimate suggests that despite the delays and variation orders, the total cost of the hydropower component will be about $ 4.004 billion which is about $ 106 million (+3%) higher than the estimated cost of $3,8977 billion at project appraisal in 2014.

The total estimated forex is $2.158 billion and the required local currency is Rs 452 billion. The cost increase is primarily from two sources - increased cost of preparatory works, relocation of KKH (by about $319 million) and consulting services (by about $85 million).

The overall savings in main works (MW-01, MW-02 and E&M) is about $l 181 million (-6%). The other components, including land acquisition, social development costs and capacity building, also have savings of about $101 million (-18%) which helps offset the cost increases.

These estimates can change going forward and depend largely on price escalation and potential changes in the construction design in future. Price escalation factor is now high in the major contracts, particularly in dollar terms in January 2023. The total expenditures on Dasu Hydropower project as of February 19, 2023 was $ 1.040 billion of which $ 945 million is on hydropower component developed by WAPDA and $ 95.5 million is on Dasu transmission line by National Transmission and Despatch Company (NTDC). Of the hydropower component, $ 319.1 million is disbursed from IDA credit and $ 166.8 million is from Credit Suisse loan. About $ 333.32(Rs 45 billion equivalent) is from local commercial bank (HBL and $ 126.03 million (Rs 19.8 billion) is from WAPDA equity.

About 61 per cent of IDA credit has been disbursed. IDA funds are mostly used to finance the foreign exchange component of preparatory works, including relocation of Karakoram Highway, access road, colonies and resettlement activities.

The project’s progress towards achievement of the project development objectives is rated “satisfactory” as the commissioning of DHP-1, 2,160 Megawatt (MW) and over annual 12,000 gigawatt hours (GWh) of cheap power, is progress and will provide very large economic benefits for Pakistan.

DHP-1 remains relevant as Pakistan suffers high power generation costs. Despite delays due to slow land acquisition, Covid-19 and extreme floods in 2002, the river diversion was achieved on February 18, 2023. Diversion of Indus River is an historic milestone for hydropower development in the world, taking the project to the next phase of development. With this major milestone achieved, the roadmap for the project’s completion is now well defined. WAPDA’s institutional capacity is being strengthened by the project, as WAPDA mobilizes expert consultants and supervises the performance of contractors on large contracts.

The overall implementation progress of the project remains “moderately satisfactory.” DHP-1 had experienced delays since its commencement in 2014 but has turned a page as major land acquisitions and procurements are complete, the river diversion has been done and works are advancing. The dam construction site is now in full control of the main contractor. Preparatory works have advanced. The three contractors for construction of Dasu 765 KV TL for evacuation of power with the total contract value of over $ 650 million were mobilized in March 2023.

Land acquisition and resettlement is now well advancing, with 95 per cent of all land acquired and a total $ 164 million spent on compensations for land, built-up property, trees and crops, which has sparked local socioeconomic development. Another $ 19 million has been disbursed so far on the enhanced self-relocation package. Close to $ 2 million has been provided for local area development, school buses, medical camps, the Bank added.

SOEs: PM FORMS BODY FOR REFORMS, RESTRUCTURING

ISLAMABAD: Prime Minister Shehbaz Sharif has constituted a Cabinet Committee on State-Owned Enterprises (CCoSOEs) comprising ministers of four political parties, meant to propose reform and restructuring pertaining to State Owned Entities (SOEs).

The composition of the CCoSOEs will be as follows: (i) Minister for Finance (Chairman); (ii) Minister for Commerce (Member); (iii) Minister for Economic Affairs and Political Affairs; (iv) Minister for Communications; and (v) Minister for IT and Telecom. Special Assistant to Prime Minister on Government Effectiveness, Dr. Jehanzeb Khan will attend meeting as special invitee. The terms of CCoSOEs will be as follows: (i) to enforce and monitor the implementation of the SOE Act, 2023 and other related law and policies; (ii) matters pertaining to appointment on the Boards of SOEs; (iii) reform and restructuring proposals pertaining to SOEs; (iv) periodical review of financial and operational performance of SOEs; (v) consideration and recommendation to the Cabinet of policies, instructions and guidelines to SOEs; (vi) proposals for insurance of direction to SOE and public service obligation; and (vii) any other related matter envisaged in the SOEs Act, 2023 and other related laws and policies.

Last year, Dr Ishrat Husain, an ex-aide of former Prime Minister Imran Khan who prepared a report on SOEs said the past six years, noted that one-third of the commercial SOEs have experienced losses intermittently. As many as 51 of these made profits in FY 19 amounting to Rs 336 billion but this was outstripped by the 33 loss making entities. The top ten loss-making SOEs contribute around 90% to the total.

The set includes NHA, Pakistan Railways, PIA, Pakistan Steel, five power sector Discos and ZTBL. The top ten profit-making SOEs include six in the Oil and Gas sector, three in Power, and National Bank of Pakistan, together generating net profits of Rs 294 billion. At independence, Pakistan inherited 12 SOEs. This number rose a bit in the 1950s and 1960s as some development authorities and corporations (e.g., PIDC and WAPDA) were established. Then an explosion in numbers took place in the 1970s with the nationalization of large scale industries, banks, insurance companies, and educational institutions.

A process of reversal eventually began in the 1990s. Between 1991 and 2015 as many as 172 privatization transactions were completed. The process then slowed, leaving the government with 212 SOEs at present. These are divided as follows: 85 are commercial SOEs while another 83 are subsidiaries attached to one or another SOE; and 44 are non-commercial entities (such as trusts, foundations, regulatory bodies, universities, research and training institutions, promotional and advocacy bodies and welfare funds).

The 85 commercial SOEs operate mainly in seven sectors: Power, Oil and Gas, Infrastructure Transport and Communication, Manufacturing, Mining and Engineering, Finance, Industrial Estate Development and Management, and Wholesale, Retail and Marketing.

The overall revenues of the SOEs in FY19 were Rs. 4 trillion while the book value of their assets was around Rs. 21 trillion. Excluding financial institutions, the assets of non-financial companies were Rs. 16 trillion. Power sector companies had assets of Rs 7.8 trillion, infrastructure Rs 5.3 trillion and oil and gas Rs 2.6 trillion. The revenues that year were roughly 10% of nominal GDP. Additionally, SOEs provided employment to more than 450,000 people which constitutes around 0.8% of the total workforce. Despite their important role in providing essential public goods and services, the financial performance of several SOEs has remained unsatisfactory.

In FY 19, the commercial SOEs collectively recorded net losses of Rs. 143 billion which was significantly lower than net losses (Rs. 287 billion) incurred by the SOEs in FY 18. This improvement was driven by policies to encourage growth in local up-stream oil and gas markets and some operational improvements in the power sector.

WITH EFFECT FROM JAN 1 2023: CATEGORY-WISE CONSUMER GAS PRICES REVISED BY GOVT

ISLAMABAD: The federal government revised the category-wise consumer gas prices with effect from January 1, this year, to meet revenues of Sui companies during current financial year and to avoid flow of circular debt — and the concept of protected and non-protected was introduced with the aim that poor segment to be protected from price increase whereas high-end user to pay for the actual cost of gas, Petroleum Division informed the Senate on Tuesday.

Under Section 8(1) and (3) of the Ogra Ordinance 2002, Oil and Gas Regulatory Authority (Ogra) determines an estimate of the total revenue requirement of both Sui companies for natural gas, reads a reply from the Petroleum Division shared in the Senate session, to a question posed by Mushtaq Ahmed Khan from Jamaat-e-Islami (JI).

The JI senator sought from the Petroleum Division the reasons of substantial increase in natural gas prices from January 1, this year, for domestic consumers (both protected and unprotected).

"The federal government accordingly within 40 days — to advice the authority of minimum charges and the sale price for each category of retail consumer, based on the determination of estimated revenue requirement (ERR) for fiscal year 2022-23 by Ogra, the government was required to revise the gas prices w.e.f 01-07-2022, however, the said decision was deferred. Later, based on revised estimated revenue requirements, the government revised the category-wise consumer gas prices w.e.f 01-01-2023 to meet revenues of Sui companies during current financial year and to avoid flow of circular debt.

The concept of protected and non-protected was introduced with the aim that poor segment to be protected from price increase whereas high end user to pay for the actual cost of gas," the Petroleum Division replied. Speaking on the floor of the house, State Law Minister Shahadat Awan said, gas supply situation for the consumers is "better this year as compared to the previous years because of the timely steps taken by the government." Meanwhile, Senate passed the government's Pakistan Council of Research in Water Resources Amendment Bill 2023 that deals with recruitments at Pakistan Council of Research in Water Resources (PCRWR).

The PCRWR was established in 1964 and is working as a body corporate vide PCRWR Act 2007 under Ministry of Science and Technology (MoST), according to the statement of objects and reasons of this bill.

According to PCRWR Act 2007, rules of PCRWR shall have provision for two-track appointments: contractual and permanent which is a complicated way of recruitment as it allows to advertise a specific post twice, the statement said. In order to make recruitment process simple and much transparent, the amendment is proposed in the act, the statement added. The house was adjourned till Friday.

R 5-4-2023

NEPRA, KE TOLD TO ISSUE REVISED BILLS TO TEXTILE, LEATHER EXPORTERS

The Sindh High Court (SHC) has directed the National Electric Power Regulatory Authority (Nepra) and K-Electric to issue revised electricity bills to textile and leather exporters for the month of March in accordance with the concessionary rate of Rs19.99/kW.

The court also restrained KE from taking any coercive action against the petitioners, including power disconnection. The orders came on the petitions of textile and leather exporters who challenged the discontinuation of the concessionary ZRI (zero-rated industrial) package by the Ministry of Energy (Power Division). The petitioners' counsel said the federal government had fixed concessionary rates for electricity consumption by the textile and other industries at Rs19.99/kW with effect from October 1, 2022, to June 30, 2023. He said the Centre arbitrarily withdrew the concessionary notification from March 1, thus violating the vested right of the petitioners who had made huge investments and obtained export orders in accordance with the concessionary rate. The withdrawal has adversely affected the petitioners' industries and export as well, he added. He said the vested right could not be withdrawn retrospectively to the disadvantage of the petitioners, and requested that the impugned withdrawal of the concessionary rate be declared illegal. KE had issued the petitioners electricity bills for March charging an increased rate, he added.

The counsel said the petitioners are willing to pay the electricity charges in accordance with the concessionary rate, while the remaining amount will be deposited to the court's Nazir in the form of pay order or bank guarantee. The court issued pre-admission notices to Nepra and KE, directing them to file comments on the petitions.

The court directed the KE to issue revised March bills to the petitioners in accordance with the concessionary rate, granting that the remaining amount would stay with the Nazir until the next hearing. It also restrained KE from taking any coercive action against the petitioners.

TN 5-4-2023

DRAP, PHARMA PRODUCERS DECIDE AGAINST 'BLANKET' PRICE HIKE

ISLAMABAD: The regulator and pharmaceutical manufacturers have agreed to not raise medicines prices across the board and discuss the increase on a molecule-to-molecule basis. According to the Pakistan Pharmaceutical Manufacturers Association (PPMA) officials, talks have been ongoing with the Drug Regulatory Authority of Pakistan (Drap) to negotiate the price hike. PPMA Chairman Syed Farooq Bukhari said although negotiations were going on, no headway has been reached due to the delaying tactics by Drap and the government.

“The Drap and the government are playing back and forth and these delaying tactics have resulted in massive suffering for the industry and people,” Mr Bukhari added. An official of the Ministry of National Health Services (NHS) confirmed that meetings have been held with the manufacturers but refused to comment further before any agreement was reached.

The pharmaceutical industry has been demanding the government raise medicine prices as their production cost has increased on the back of significant rupee depreciation. The matter was to be placed for discussion during the meeting of the Economic Coordination Committee (ECC) of the cabinet on March 27, but it was deferred as Drap was unable to brief the committee due to a lack of preparation.

The ECC had directed Drap to prepare the case again and discuss the issue with pharmaceutical industry representatives. Talking to Dawn, PPMA representative Arshad Mehmood said during the meetings, Drap accepted that the production cost of the industry has increased as the rupee has been devalued to around Rs 300 against the US dollar. “However we have been told to negotiate the price hike on a molecule-to-molecule basis rather than across the board,” Mr Mehmood added. “Now we are Drap which molecules prices have increased and they become unviable to produce.” Talking to Dawn, PPMA Central Executive Committee’s member Usman Shaukat said: “On Tuesday we had a meeting with Special Assistant to the Prime Minister Dr Jehanzeb Khan and discussed issues with him. We hope our concerns will be addressed soon.”

Dawn 5-4-2023