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# Investment alert

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Could China end investment in Pakistan's power sector? At the recent Senate hearing, these concerns seem to have been raised by Pakistani power-sector officials. There have also been reports that Chinese investors in the power sector have asked the government to set up a 'revolving fund' to ensure payments are not delayed. The verdict from the government is to set up a Rs49.4 billion revolving fund that will be entrusted to the Central Power Purchasing Agency (CPPA) to ensure Chinese power plants receive timely payments. Any Chinese investor coming to Pakistan to invest in the power sector would be well aware of the major issues that have crippled the sector. Perhaps, they were made assurances that these issues would not affect them, but this would not seem like a situation for a prudent investment. Hubco's CEO has said that late payments from the government have already put Chinese investors on the edge. Late payments result in delayed payments to banks, which in turn results in an escalation of the interest payments, which contractually the government is obliged to pay for the delay. It is no surprise that the Pakistan government, facing a financial crunch, has to date refused to pay the interest. Chinese investors would only need to look at the fate of Pakistan's arbitration with IPPs over capacity payments to get a sense of what the country's approach to crisis management is.

While Pakistan is known for offering generous terms to foreign investors in the power sector – taking a cue from the IPP contracts from the 1990s or RPP contracts from the 2000s – it continues to default or delay payments promised. This becomes the basis for the larger circular debt crisis in the power sector. One could say that the government should do better at fulfilling promises if it wants more investment in the power sector, but the bigger problem is that it needs to review the types of contracts it dishes out to investors. The current patterns of staggered payments in the power sector make investment in Pakistan's electricity production a risky investment. The result is that foreign investors can name their price for setting up an electricity generation facility in Pakistan citing a severe risk to their investment. If Pakistan wants to continue to rely on foreign investments to solve its power crisis, it will need to get its act together. This will allow it to negotiate rates that can actually be paid on a timely basis, rather than being held to ransom. Such a situation will keep the power sector perennially in crisis. The Chinese investments under CPEC could still offer a way out of the power crisis, but Pakistan's needs must be prioritised properly. Only then can the country stop foreign investors from withdrawing their capital.