

Independent Power Producers (IPPs) in Pakistan: An Elite Capture

Gul Muhammad	PhD Scholar, Department of Political Science and IR, Qurtuba University of Science and IT Peshawar bahirgm@gmail.com
Dr. Aziz Ur Rahman	Associate Professor, Department of Political Science and IR, Qurtuba University of Science and IT Peshawar dr.azizku@gmail.com

Abstract: *Elite capture significantly hampers equitable development by allowing powerful elites to manipulate resources and policies for their own benefits. This dynamic is particularly evident in Pakistan's power generation sector, where Independent Power Producers (IPPs), including both government-owned and privately owned entities dominate electricity production. The agreements with IPPs impose rigid financial obligations on the state, mandating payments for the total production capacity, regardless of actual consumption. This results in significant financial strain, particularly during periods of low demand, such as winter, where electricity needs are minimal. The high costs associated with these payments inhibit industrial competitiveness, stifling economic growth and increasing unemployment. 48% of the IPPs working in the country are privately owned. They belong to elite groups including big businessmen, politicians or establishment. This study aims to investigate that whether the enigma of IPPs is an example of elite capture in Pakistan. The study adopts qualitative research where both primary and secondary sources are used for data collection. Procedurally, data has been collected by conducting interviews with experts in the relevant field, which has been then codified and analyzed through the thematic data analysis technique. The study found that IPPs is an important example of elite capture in Pakistan because the government is reluctant to conduct a forensic audit against them as it is unable to absorb pressure of the IPP owners. They compel the government to make policy in their own interest instead of addressing the energy needs of the nation. In order to serve elite's interest, the government compels the masses to stay connected to national grid instead of going towards the cheaper sources of energy.*

Keywords: IPPs, energy, corruption, forensic audit, solar panel, neo liberal economy, capitalist, subsidv. tax. elite. elite capture

Introduction

Elite capture is a process by which powerful elites use the resources of poor people and shape policies to protect their own interest. It is a situation where the elite design the process of development according to their own needs or use resources of development for private gain (Zulfiqar & Moosvi, 2022). Elite capture refers to the phenomena of local elites controlling superior economic and political status to usurp the benefits of community development and decentralization programs that transfer control over public assets to lower-level governance structure, which are assumed to be more susceptible to elite capture because of greater opportunity for collusion (Shapland, Paassen, & Almekinders, 2021). According to Diya Dutta, elite capture is the presence of unequal access to power. Some elements have greater access to power due to lineage, caste, gender, economic wealth or some other reason. Resources

and public goods such as attention, knowledge and values are unfairly distributed just as much as political power and material wealth are. Elite capture is symptomatic of social systems with unequal balance of power (Taiwo, 2022).

Elite capture occurs when the advantaged few control institutions and resources that could benefit their own interests and aims. The term is used in social science to describe the way socially advantaged people try to get control over the benefits that belong to everyone. In this context it can be called corruption and has the same symptoms of undue influence such as bribe. But the concept has always been applied to the process of hijacking the political projects in principle or in effect in the well positioned and better resourced.

When powerful wielders of politics like civil-military bureaucracy, big landlords and businessmen, control the process of policy formulation and make the rules of the game themselves to safeguard the interest of their group, it results in the unequal distribution of wealth of the nation and leads to the alienation of citizen from the state. Elite capture involves making of policy by a small group to use public wealth for their own benefits (Baber, 2022).

Independent Power Producers (IPPs), known as non-utility generators (NUGs) are private companies that produce electricity before selling it to the national grid competitively. They generate electricity by using different sources like wind, solar and nuclear energy. NUGs are not owned by the public and in Pakistan they sell electricity to WAPDA. (Fraser, 2005) They negotiate a tariff with the regulatory authority National, Electric Power Regulatory Authority (NEPRA) under a competitive bidding process. (Arafat, Nazir, & Khan, 2019).

WAPDA and the Karachi Electric Supply Corporation (KESC) owned all power generating plants in Pakistan up until the mid-1980s. In 1985, a lack of funds in the public sector forced the Government to discontinue its support to WAPDA. However, since the country's energy demands were continuing to grow, it developed a long-term energy strategy—with World Bank support—that encouraged private companies to invest (Ali & Beg, 2007).

In Pakistan, the first private sector generation project entered the system in 1987 when Gen. Zia signed one-page policy paper, which paved the way for private generation companies in the country. The feasibility of the first private power project, HUB power plant (HUBCO) having a capacity of 1292 MW was completed in 1988. The plant signed an agreement with WAPDA in 1992 to develop a power plant of 1992 MW. The project was supported by World Bank. The power purchase agreement was signed at 6.1 cents/KWh, equivalent to 234 paisas. This power plant started selling power to WAPDA in 1997. The power plant was given license in 2003, which will expire in 2025 (Malik A. , 2022).

In 1994, the Benazir government announced an investor-friendly policy to develop IPPs based on oil, coal and gas. Following this policy, 16 IPPs were established. In 2002, the new government of Gen. Pervaiz Musharaf adopted a new policy under which 12 more IPPs started functioning. Then in 2015, Pakistan adopted a new power policy under which 13 more IPPs were established (Safi, 2024).

The concept of IPPs was introduced to attract the private investment in power generation. The power policies of 1994 and 2002 encouraged the exploitation of local resources. Despite the severe criticism on the earlier policies new policies came up with same incentives for the generators in 2015. First of all, these agreements were more than our requirement. Then there was a condition in these agreements that whether Pakistan takes electricity from them or not, it will be bound to pay the total cost of their production. We have never taken their total production. In winter our electricity need is very low. But we have to pay the power price to the IPPs according to their total production capacity.

In April 2020, the IPPs inquiry committee formed by the government, submitted a report to the then Prime Minister Imran Khan, in which it was revealed that the IPPs established after 1994 were involved in over-costing of projects and contracts against national interest. While the example of the agreements

made is not found anywhere else in the world. According to the report, lenient treatment was also given to plant owners under the policy of 1994. A huge tariff was obtained from NEPRA by adding 2 to 15 billion rupees to the cost of each power plant installed in Pakistan. While the cost of coal power plants alone was shown to be 30 billion rupees extra. The Prime Minister was told that an agreement was made with the owners of the power plants to purchase electricity on a 'take and pay' basis, under which the government and the public would pay billions of rupees annually even if the power plants were shut down or the demand for electricity decreased. The report stated that power plant owners were making unfair profits by generating more electricity with less fuel. There is no example of profit of power plants in Pakistan in any country of the world. Due to bad contracts, the revolving debt has exceeded 1800 billion rupees. The committee had recommended a recovery of Rs.100 billion from the owners of IPPs and a reduction in tariffs by revising contracts (Bhutta, 2020).

According to the Acting President of FPCCI, IPPs are currently receiving Rs.150 billion monthly capacity payments. This includes payments to both non-operational and partially operational plants. According to an estimate, Pakistan has to make capacity payments of Rs.2,091 billion to IPPs for the current financial year (2024-2025). The highest capacity payment for nuclear plants is estimated at Rs.465.7 billion. The capacity payment of hydropower plants is estimated at 446.4 billion rupees, while for imported coal power plants, 395.4 billion rupees will be required. Thar coal power plants require Rs.256 billion for capacity payment while LNG power plants require Rs.168 billion. It is estimated that 168 billion rupees will be required for capacity payment for wind power plants and 81 billion 33 crore rupees for furnace oil power plants. The estimated capacity payment for gas power plants is Rs.61 billion 21 crore while for solar power plants it is Rs.41 billion 63 crore. Finally, the capacity payment for power plants generating electricity from bagasse (sugarcane residue) is estimated at 6.9 billion rupees have been invested (Safi, 2024).

On the other hand, IPPs owners' stand is that they have entered into agreements under sovereign guarantees, at the time when these agreements were signed, Pakistan was in dire need of electricity and no one was ready to invest in Pakistan. These companies invested when there were risks, now when this business is making profit, why is it being objected? There is no bad faith in this and everything is being done under the agreed agreements to which all parties are bound.

Literature Review

According to Farooqi (2024), under the power generation policy of 1994, Pakistan started its journey with IPPs. Now a day a total of 100 IPPs are working in the country significantly contributing to the energy mix of the country. These IPPs provide 55% of the installed capacity of the country by generating 24958 MW.

Ali & Beg, (2007) highlight the complexities surrounding Pakistan's 1994 power policy, emphasizing the need for regulatory reform, stakeholder engagement, and thoughtful restructuring of existing bodies to foster a healthier investment climate and a more reliable electricity supply. This paper states that the 1994 power policy in Pakistan is a pivotal case study in foreign direct investment (FDI) and regulatory challenges within the country's power sector. While it successfully attracted substantial FDI, it was marred by controversy, particularly regarding allegations of independent power producers (IPPs) engaging in illegal practices to obtain lucrative contracts. This paper outlines the primary issues arising from the implementation of the policy. Notably, the decision-making process surrounding power policy has typically occurred with minimal engagement from affected stakeholders. This lack of inclusivity has led to dissatisfaction among various groups, raising questions about accountability and transparency.

To address these issues, it has been suggested that the path forward requires a multifaceted approach. Strengthening electricity regulation is crucial, ensuring that policies are effectively enforced and that IPPs operate within a legal framework that promotes fair competition. Empowering civil society is

equally important; fostering a more engaged public can help hold policymakers accountable and ensure that diverse perspectives are considered in future policy formulations.

Siddiqui (1998) states that since May 1998 a significant concern for policymakers in Pakistan has been whether independent power producers (IPPs) generate costly electricity. Critics argue that the high prices of IPP power have led to the bankruptcy of the state utility, Water and Power Development Authority (WAPDA). There are also claims that IPPs engaged in corrupt practices and colluded with WAPDA officials to secure contracts that facilitated the procurement of unaffordable power for WAPDA. This paper evaluates the discourse surrounding IPPs, concentrating on the crucial question of whether IPPs actually produce costly power. If it can be demonstrated that IPPs provide electricity at lower prices than WAPDA, it weakens the argument that WAPDA's financial struggles are due to expensive IPP power. The allegations of corruption are not addressed, as they fall outside the paper's focus.

Qudrat-Ullah (2015) explores Pakistan's journey through electricity reforms linked to various energy policies implemented over the last two decades. It analyzes the impact of privatization broadly and specifically examines the investments of Independent Power Producers (IPPs) in the country's electricity sector. The study demonstrates the development, validation, and application of a unique dynamic model for a comprehensive assessment of electricity reforms and IPP investments. Contrary to the commonly held belief in the benefits of privatization and IPP investments, Pakistan's electricity sector faces significant supply-demand gaps, elevated electricity prices, and rising emissions of CO₂, SO₂, and nitrogen oxides (NO). IPPs, primarily due to substantial investments in oil-based generation, contribute significantly to electricity-related pollution. An immediate government intervention promoting a policy focused on indigenous resources could potentially lead to more affordable and cleaner electricity in Pakistan.

Fraser (2005) discusses the background and development of the Independent Power Producers (IPP) program by the World Bank Group, reflecting on key lessons learned. The Hub Power Project, a significant 1292 MW, \$1.6 billion initiative, was praised for demonstrating the feasibility of private infrastructure financing in developing nations upon its completion in 1995. This success led to Pakistan's adoption of a Private Power Policy in 1994, enabling 19 additional IPPs to secure financial closure. Praised by international financiers and recognized as "the best energy policy in the world," this era of growth shifted by 1998 when the government attempted to terminate 11 IPPs over alleged corruption. This shift, characterized by perceived governmental coercion, led to strained relations with the international investment community and a tumultuous three-year renegotiation period amid Pakistan's financial turmoil.

Wazir & Ullah, (2023) Pakistan's energy sector has endured a serious crisis for decades, driven by a growing population and industrial expansion, which have stressed its power infrastructure. Independent Power Producers (IPPs) were introduced to attract private investment and ease the burden on the public sector while accelerating power project development. Initially celebrated, IPPs have encountered numerous challenges, prompting a critical evaluation of their effectiveness. Major concerns include excessive dependence on costly fuels, circular debt, and inefficient transmission and distribution networks. The sector must now incorporate best practices to resolve these issues, adopt sustainable solutions, and enhance tariff policies. Moreover, improving distribution efficiency and privatizing distribution companies could boost revenue collection and operational performance. Timely completion of power transmission projects is essential for effectively managing electricity output from new power plants. This policy paper outlines key interventions needed to address Pakistan's energy crisis and promote a more efficient and sustainable energy sector.

Research Gap

Literature is available regarding elites, types of elites, power elites in Pakistan, the role of elites in Pakistan, influence of power elites on democracy in Pakistan etc. Various scholars have also done work on the IPPs, different power policy of Pakistani government and agreements with IPPs but very limited coverage has been given to IPPs through the lens of elite capture.

Methodology

This study answers one question i.e. (i) to what extent elites control the IPPs? And what is the nature of their control? While the main objective of the study is to investigate elite capture of the IPPs and the nature of their control. This is a qualitative study uses both primary as well as secondary data. Primary data has been collected through interviews. The data has then been analyzed through thematic analysis.

Power Generation Policy of 1994

The primary goal of this policy was to invite both local and foreign investors in power generation projects. It offered a number of incentives including a secure investment environment, fiscal incentives, and a competitive package to attract the investors (GOP, 1994).

Load shedding increased as the HUBCO project was underway, with an anticipated power shortage of 2,000 MW. In 1993, an energy task force was established to assess electricity demands until 2020. Their findings led to the 1994 private power policy aimed at attracting foreign investment, incorporating tariff and fiscal incentives from the task force report. This marked a significant push for private investment in Pakistan's power sector, allowing independent power producers to use various technologies and fuels, excluding large hydro on the Indus. (Ali & Beg, 2007).

The 1994 power policy initiated government cooperation with the private sector to address the country's energy issues. Investors were allowed to select locations, fuels, and technologies for electricity production, with a restriction on Indus River projects due to flood protection. The tariff agreement established that Independent Power Producers (IPPs) would sell power only to WAPDA/KESC through long-term contracts, with a bulk power tariff of US cent 6.5/kWh paid in Pakistani currency for the first ten years. An additional premium of US cents 0.25/kWh was available for projects over 100 MW commissioned by 1997. The tariff included capacity and energy prices, with a minimum investment requirement of 20% of total project costs. The government created a Private Sector Energy Development Fund (PSEDF) supported by USAID, the World Bank, and other lenders. Which were liable to provide 40% of the total cost incurred in the project with the interest rate of 14% annually for a period of 23 years (Arafat, Nazir, & Khan, 2019). In order to act upon this policy, 16 furnace oil and gas based IPPs, with capacity of 4100MW were added to the system. These IPPs invested Rs.51.8 billion and have earned (so far) Rs.415 billion (Malik, 2022).

The 1994 Power Policy in Pakistan has faced significant criticism over the years. Many argue that it imposed a considerable financial strain on the nation due to substantial capacity payments made to independent power producers (IPPs), even when they weren't generating electricity. Additionally, the bulk power tariff established by the policy was deemed excessive, resulting in higher electricity costs for consumers. The assured 18% return on investment was also perceived as overly generous and unsustainable in the long term. Furthermore, the policy contributed to the rising circular debt, with the government's unpaid obligations to IPPs continuing to accumulate. Concerns about regulatory inconsistencies and the absence of a fair playing field for all investors further fueled dissatisfaction with the policy (Bhutta, 2014).

According to the report of inquiry committee formed by the government to investigate IPPs 16 out of 17 projects collectively invested Rs51.80 billion, generated profits exceeding Rs415 billion, and distributed dividends totaling Rs310 billion, according to financial statements from the National Electric Power Regulatory Authority (NEPRA) and SECP (Bhutta, 2020).

Power Policy a2002

Since 1994, new power policies emerged, but did not impact the Independent Power Producers (IPPs) from that era. The 2002 Power Policy, informed by the 2001 National Task Force, avoided specifying capacity figures or a preference for public versus private power, stating such decisions depend on future demand. It introduced public-private partnerships, which equate public projects with private conditions, allowing case-by-case evaluations of benefits and drawbacks. A key change was the removal of the bulk power tariff, replaced by international competitive bidding (ICB), aiming to lower electricity costs for consumers. The policy retains positive aspects like standardized agreements, a dual tariff system, and guaranteed returns on equity, while also preserving criticized fiscal incentives to attract investors (Ali & Beg, 2007).

In 2002, the energy policy reduced the tariff rate for International Competitive Bidding (ICB) participants and established that variable tariffs would last the project's duration. Project selection relied on evaluation, offers, prequalification, and Request for Tender (RFT) issuance. A feasibility report was mandatory for competitive bids on hydel and renewable projects, and a Letter of Support (LOS) would be issued only after this report. A Letter of Interest (LOI) required feasibility studies to be approved with a bank guarantee. Hydel projects followed a Build-Own-Operate-Transfer (BOOT) model, while thermal projects operated under BOOT or Build-Own-Operate (BOO). Following the concession period, projects would transfer to the Government of Pakistan. The Energy Purchase Price (EPP) included components affected by a low Purchase Price of Energy (PPE), with the government guaranteeing agreement terms. Independent Power Producers (IPPs) could import machinery tax-free, and local engineering firms were encouraged to partner with foreign companies to enhance the power sector (GOP, 2002). As a result of this policy 13 IPPs with capacity 2934MW; IRR 15%; and project life 25-30 years; furnace oil and gas based plants. These IPPs invested Rs.57.81 billion and earned (so far) Rs.152billion (Malik, 2022).

The Power Policy of 2002 in Pakistan has faced several criticisms over the years. Critics argue that the policy offered excessively high returns on investment (ROI) to independent power producers (IPPs), leading to significant financial burdens on the government. It also contributed to the accumulation of circular debt, as unpaid dues from the government to IPPs kept piling up. The bulk power tariff introduced under the policy was considered high, resulting in increased electricity costs for consumers. Additionally, the policy encouraged the establishment of thermal power plants that relied on imported fuels, contributing to recurrent current account deficits. Furthermore, there were concerns about regulatory inconsistencies and the lack of a level playing field for all investors (Bhutta, 2020).

According to the report of inquiry committee formed by the government to investigate over the past eight to nine years, these companies generated Rs203 billion in profit from a Rs57.81 billion investment, yielding a net profit of Rs152 billion after debt adjustments and dividend payments totaling Rs111 billion. Profitability varied among power plants, with some achieving an 87% average return and dividends up to seven times their investments. A significant issue was excess payments to IPPs from the 2002 policy due to discrepancies between actual fuel consumption and payments for electricity. Additionally, while NEPRA set tariffs for RFO-based IPPs based on their reported heat rates, many IPPs operated at higher efficiencies than those submitted.

Power Policy 2015

This policy was introduced to further enhance the energy sector and attract more investors. The policy offered several incentives, including duty free imports of equipment, tax holidays and a competitive tariff structure. A one-window facility was offered to Independent Power Producers (IPPs) for operations in AJK and Gilgit-Baltistan. All taxes were exempted except for a 5 percent duty on imported equipment not manufactured in Pakistan. The government guaranteed provincial obligations and protects power purchasers. Additionally, IPPs were safeguarded against unforeseen taxes and political

interference. Attractive returns on equity (ROE) were provided by the regulator: 27.3% for imported coal, 29.5% for local coal, 34.5% for Thar coal, 17% IRR (23% ROE) for hydro and 15% IRR (18% ROE) for gas/LNG. The rates will be based on the Pakistani Wholesale Price Index (WPI) and the US Consumer Price Index (CPI). It was the government's responsibility to convert other currencies into Pakistani rupees (GOP, 2015). In order to act upon the policy 7 IPPs with capacity 8253MW; IRR 15% to 17%; and project life 20-25 years; imported coal and RLNG based plants. One imported coal power plant has already recovered 71% of its investment in two years of its operation, and second one has recovered 32 % of its investment in the same period. These plants have been offered 17%IRR in US\$, which in Pakistani Rs. after recent devaluation is equal to 43% (Malik, 2022).

The 2015 Power Policy in Pakistan has faced several criticisms over the years. Critics argue that it offered excessively high returns on investment (ROI) to IPPs, leading to significant financial burdens on the government. Additionally, the policy contributed to the accumulation of circular debt, as unpaid dues from the government to IPPs kept piling up. The bulk power tariff introduced under the policy was considered high, resulting in increased electricity costs for consumers. It also encouraged the establishment of thermal power plants reliant on imported fuels, which contributed to recurrent current account deficits. Concerns were raised about regulatory inconsistencies and the lack of a level playing field for all investors. These criticisms highlight the need for ongoing reforms to address the shortcomings of the 2015 Power Policy and ensure a more sustainable and efficient power sector in Pakistan (Shah, 2023)

An evaluation of two imported coal-based power plants set up under the Power Policy 2015 reveals that one has recouped 71% of its investment within two years, while the other has recovered 32% in just one year of operation. These plants have been granted a 17% return rate in dollars, equivalent to 27%. Due to the depreciation of the rupee against the dollar, the return rate in rupees is 43%. The dollar's appreciation against the rupee at an average of 6% per annum resulted in excess payments to select IPPs amounting to Rs237.65 billion, while total excess payments to all IPPs (excluding those from 1994 and 1995 policies) reached Rs565.88 billion. Additionally, a discrepancy in debt payments occurred; NEPRA estimated quarterly payments while CPPA-G made monthly payments, incurring late payment surcharges. This led to increased working capital for IPPs, the cost of which was included in the tariff based on Kibor plus 2% (Bhutta, 2020).

Owners of the IPPs

Hamir Mir, Pakistan's leading news anchor, reports that the government holds a 52% stake in independent power producers (IPPs), while private investors own the remaining 48%. Mir states there are 100 IPPs operating in Pakistan, with 51 belonging to private companies and groups. Notably, seven of these are owned by influential politicians, and 18 are backed by international firms from China, Singapore, and Norway. Mir highlights that the Mian Mansha Group possesses four IPPs and received Rs4 billion in capacity payments. Additionally, Abdul Razzaq Dawood's Rousch (Pakistan) Power Limited (RPPL) operates a plant that generated 4% of the country's power last year, garnering Rs6.88 billion in capacity charges (Mir, 2024).

Nadeem Babar partners with the Mahmood Group, owners of Orient Power Project, which produced 32% of power and received Rs5.80 billion in capacity charges. Jahangir Khan Tareen is affiliated with two IPPs; JDW Sugar Mills Unit 2 received Rs1.9 billion, while JDW Unit 3 was paid Rs77 crore in capacity charges last year (Mir, 2024).

Prime Minister Shehbaz Sharif's son, Salman Shehbaz, owns Chiniot Power Limited IPP, which generated 33% of the power last year and received Rs1.55 billion in capacity payments.

According to Saleem Safi, Mansha Group owns 4 IPPs. Habibullah Group owns 6 IPPs, 3 separately and 3 jointly, one with foreign firm China Power International and 2 with local firms HABCO and Engro, Mian Muhammad Abdullah's Sapphire Group owns 5 IPPs separately and two with foreign firm

Engie France, Jahangir Tareen Group owns 3 IPPs while Hussain Dawood Group owns 3 IPPs. Along with this, Shamim Khan owns 2 IPPs, Nadeem Babar owns 2 IPPs, one separately and the other jointly with Mahmood Group, Suleman Shahbaz Sharif Group owns one IPP (Chiniot Power Limited) while Razak Dawood Group owns one IPP (Rosh Power Plant). Like Sapphire Group and Habibullah Group, Nizam Energy operates 2 joint IPPs with a foreign firm Sactec Solar Norway (Safi, 2024).

According to the former Federal Minister Dr. Gohar Ejaz most of the IPPs belong to 40 Pakistani families, who are not afraid of anyone but he asked them to be afraid of Allah because they themselves have not kept the agreement (Recorder, 2024).

Controversial Aspects of IPPs

Capacity Payment

A highly debated element of the agreements with Independent Power Producers (IPPs) is the notion of capacity payments. These are compensations provided to power producers based on their potential to generate electricity, regardless of their actual output. In other words, an IPP can be paid even if it produces no electricity at all, simply for its capacity to do so. This approach was intended to maintain the financial stability of IPPs, motivating them to invest in the essential infrastructure for electricity generation. Due to capacity payment, In Pakistan a significant part of payments is made for electricity that is never generated. Capacity payments inflate electricity bills as well.

In the FY25 it has come out that the capacity payments have projected to be over Rs2tr (Khan, 2024). This figure includes payment to different types of power plants with the highest payments going to nuclear plants at Rs.465 billion, seconded by hydropower plants receiving Rs.446.4 billion while the power plants using imported coal are expected to need Rs.395.4 billion. The Thar coal power plants are expected to require Rs.256 billion in capacity payments, with LNG power plants estimated at Rs.168 billion. Wind power plants are projected to need Rs.168 billion in capacity payments, whereas furnace oil power plants are anticipated at Rs.81.33 billion. Gas power plants are estimated to require Rs.61.21 billion for capacity payments, while solar power plants are projected at Rs.41.63 billion. Lastly, the capacity payments for bagasse-based (sugarcane residue) power plants are estimated to be Rs.6.9 billion (Desk, 2024).

Tax Breaks

The tax exemption for Independent Power Producers (IPPs) surpasses capacity payments, projected at approximately Rs2.091 trillion for the current fiscal year. These IPPs are owned by 40 influential families connected, either directly or indirectly, to those in power. Both domestic and foreign firms benefit from corporate tax exemptions on profits and gains from electric power plants established after July 1, 1988. Since that date, both democratic and autocratic governments have enacted about five power policies, leading to the establishment of 106 IPPs that receive lifetime tax exemption concessions. Official records obtained by Dawn indicate that successive governments reported tax exemption data for IPPs in economic surveys until 2018-19. However, after this period, when the value of tax exemptions rose, they ceased disclosing this information (Khan, 2024).

Socio-Economic Implications

The capacity payments system in Pakistan requires the government to pay power producers to ensure electricity availability, significantly straining its finances. This financial pressure forces the government to redirect funds from critical public services, such as healthcare and education, which are vital for the population's well-being and development.

The high cost of electricity resulting from these payments makes it difficult for industries to compete, negatively impacting economic growth and job opportunities. When businesses struggle due to elevated energy costs, they hire fewer employees and may even lay off workers, leading to rising unemployment.

For ordinary citizens, the rising electricity bills diminish their disposable income, making it harder to afford basic necessities such as food and healthcare. Families are often left with difficult choices, having to prioritize essential expenditures. This situation is even worse for those in rural areas and informal settlements, where electricity is not only costly but also less accessible. These communities face a continuous challenge in affording electricity, compounding their financial struggles and impacting their quality of life.

Independent Power Producers and Elite Capture

The term "elite capture" often arises in discussions about the struggles of marginalized or middle-class communities, with the wealthy typically facing criticism. Elite capture involves privileged individuals using their formal power to influence governance, while state capture occurs when those with informal power manipulate decision-making processes. This type of corruption hampers effective governance and misallocates public resources, depriving communities of intended benefits.

In Pakistan, Hamza Alvi highlights the concentration of wealth and power among a few elites, driven by land ownership and military influence, which deepens inequality and restricts social mobility. Akmal Hussain notes that alliances among economic, political, and military elites reinforce these power structures, further disadvantaging the general populace (Kamran, 2024).

The situation with Independent Power Producers (IPPs) in Pakistan is a prime example of elite capture. IPPs are frequently blamed for increasing electricity prices, overshadowing other critical factors such as mismanagement, technical inefficiencies, and underused energy capacity. Major expensive projects, like Nandipur and the Neelum-Jhelum TRT cracks, which have incurred billions in repairs and energy losses, significantly contribute to this dilemma. Although capacity payments to IPPs influence rising electricity bills, the broader problem involves Pakistan's mismanagement of its energy infrastructure (Yahya, 2024).

Independent Power Producers (IPPs) have significantly contributed to the consolidation of elite control over Pakistan's economic resources. This trend originated with the power policy initiated in 1994 under the Pakistan People's Party (PPP), continuing through the Pakistan Muslim League-Nawaz (PML-N) administrations to promote private investment in the energy sector. However, due to a lack of capacity and willingness among local investors, the government had to offer attractive terms to draw in foreign investments. These incentives were primarily based on guaranteed returns tied to the US dollar, along with a link to US inflation rates, rather than inflation specific to Pakistan. During this period, the appealing Return on Equity (ROE) of 17% became a significant enticement, complementing various favorable conditions.

Consequently, local investors were drawn to these incentives and joined the IPP movement, driven by the promise of continuous high returns that persisted even after the 2002 power policy revision. The main change was a reduction of the ROE to a still appealing 12%. This highlights the ongoing attractiveness of lucrative terms in the power sector, reflecting the broader implications of IPPs on the allocation of economic resources and the interests of elites in Pakistan (Kamran, 2024).

The situation with Independent Power Producers (IPPs) in Pakistan highlights how a small group of elites can manipulate systems to their advantage, often at the cost of ordinary citizens. This began with the privatization of the energy sector in the 1990s, where IPPs were established under favorable terms, influenced by powerful political and business figures. As a result, these companies enjoy guaranteed payments and high tariffs, which ultimately burden consumers, especially those from lower-income households, while allowing the elites to reap substantial profits from state subsidies. Allegations of corruption further complicate matters, as government officials and business leaders often collude, leading to inefficiencies and inflated costs that remain unaddressed. The regulatory bodies that should oversee these practices are frequently compromised by connections to the very companies they are meant to regulate, creating a lack of transparency around energy contracts that leaves the general public

feeling powerless. Moreover, many IPP owners maintain ties to influential politicians, fostering an environment where policies cater to their interests rather than addressing the nation's energy needs. This intricate web of politics and business exemplifies a troubling dynamic where a few benefit significantly, illustrating the detrimental effects of elite capture on society as a whole (Ahmad D. M., 2024).

The high capacity payment of the government to IPPs even, when they are not generating electricity place a heavy burden on the state and consumers. These payments benefit the elite who own these IPPs which lead to high electricity prices and economic disparity in the country. Due to favoritism towards certain IPPs fair competition is hindered. This favoritism enables the elite to keep their control over the energy sector. Elite class business groups have important influence over energy policies and decisions, resulting in policies that support their interest, further resulting in regulatory inconsistencies and favoritism towards certain IPPs (Azhar, 2019).

IPPs are often portrayed as the primary villains, with their contracts blamed for all the problems in the energy supply chain. However, isn't it the government's responsibility to protect the interests of the average consumer when entering into these business agreements with the IPPs? Key concerns include a lack of transparency in contract negotiations, leading to allegations of corruption and favoritism. Many contracts lasted 20 to 30 years, providing stability but restricting adaptability. The tariff structure in IPP contracts is often fixed, misaligning with fluctuating energy production costs, leading to complex fuel adjustment surcharges. Recent litigations between Pakistan's government and IPPs over capacity payments and performance guarantees have been costly and time-consuming. Additionally, environmental and social impacts are frequently overlooked, with inadequate enforcement of regulations like mandatory environmental and social impact assessments (ESIAs) prior to IPP project approvals (Ahmad F. , 2023).

Elite are capitalist groups that receive a large amount of wealth in various ways like tax breaks, subsidies, grants etc. In Pakistan, among them the elite who have invested in energy sector are the most powerful because they are various national and international bodies behind them which support them. According to the principles of neo-liberal more and more benefits will be given to companies instead of consumers. As Pakistan had to follow neo-liberal economy due to IMF and World Bank, consequently Pakistan People's Party changed its constitution, and started to privatize energy sector. World Bank played important role in agreements with IPPs. IPPs have hindered the economic growth of the country by affecting other industries in the country and especially textile industry. The protests of textile sector against IPPs is an example (Khan S. , 2025)

According to Dr. Irfan Ashraf the enigma of IPPs is a perfect example of elite capture. In 1994 when we went towards IPPs, its main aim was to open up the state resources for elites as provided by the principles of neo-liberal economy. Neo-liberal economy is another name of elite capture which aims to tax the poor people and give tax breaks, subsidies etc. to the capitalist class. Loans are taken by elites and are paid by the poor people in the form of taxes. This elite capture is maintained through militarization. The phenomenon of IPPs can be justified under the system of neo-liberal economy, as the government privatized a sector which could be handled by it. The agreements with IPPs have no benefits for common citizens; these agreements have caused an economic disaster in the country (Ashraf, 2025).

The situation with Independent Power Producers (IPPs) in Pakistan highlights how a small group of elites can manipulate systems to their advantage, often at the cost of ordinary citizens. This began with the privatization of the energy sector in the 1990s, where IPPs were established under favorable terms, influenced by powerful political and business figures. As a result, these companies enjoy guaranteed payments and high tariffs, which ultimately burden consumers, especially those from lower-income households, while allowing the elites to reap substantial profits from state subsidies. Allegations of

corruption further complicate matters, as government officials and business leaders often collude, leading to inefficiencies and inflated costs that remain unaddressed. The regulatory bodies that should oversee these practices are frequently compromised by connections to the very companies they are meant to regulate, creating a lack of transparency around energy contracts that leaves the general public feeling powerless. Moreover, many IPP owners maintain ties to influential politicians, fostering an environment where policies cater to their interests rather than addressing the nation's energy needs. This intricate web of politics and business exemplifies a troubling dynamic where a few benefit significantly, illustrating the detrimental effects of elite capture on society as a whole (Ahmad D. M., 2024).

In an interview with Prof. Dr. Qasim Marwat, he justified the installation of IPPs by government in different times. He pointed out that there was an abrupt need of electricity which only be meet through the installation of IPPs. These private IPPs were installed according to the neo-liberal economic policy but on other side the government failed the promote industrialization and other economic indicators of neo-liberal economy due to which the production of energy became surplus and we had to pay capacity payments without using electricity. He gave the example of Mr. Nawaz Sharif's government which aimed to improve trade with India but he was discouraged and ousted by the military establishment through judiciary. He was of the view that country's economy did not develop due to political instability, deteriorated situation of law and order and clashes among the institutions (Marwat, 2025).

Answering to my question whether the enigma of IPPs is an example of elite capture, Dr. Afia Malik, a PIDE energy expert stated that it's an elite capture. All IPPs commissioned to date were under a certain policy, specifically designed to cater to one or the other interest group. The absence of competitive bidding for private generation projects and non-transparent process of procurement has always raised questions regarding the potential of corruption. Agreements of IPPs indicate elite capture through policy manipulation, rent seeking and cronyism (Malik, 2025).

Despite solar panels a cheaper source of energy generation, government is forcing people to remain connected to national grid that serves the purpose of owners and imported fuel mafias. Moreover, guaranteed rate of returns and zero income tax on IPPs show that IPPs serve the interest of elites (Rana, 2025).

In Pakistan IPPs belong to big businessmen, politicians and establishment. After the fall of Dhaka the second major financial that the country has faced is due to IPPs. Those who support IPPs are either stupid or corrupt. They have been paid for the capacity which is much more than their original capacity. These IPPs are involved in corruption with the support of NEPRA. The government is reluctant to conduct forensic audit of these IPPs due to elite capture (Shah S. F., 2025)

Conclusion

Elite capture significantly hampers equitable development by allowing powerful elites to manipulate resources and policies for their own benefit. This dynamic is particularly evident in Pakistan's power generation sector, where Independent Power Producers (IPPs), including both government-owned and privately owned entities, dominate electricity production. Initially introduced to attract private investment, power policies from 1994 and 2002 favored the exploitation of local resources, despite facing extensive criticism. The continuation of similar incentives in 2015 underscored a persistent disregard for the public's interests.

The agreements with IPPs impose rigid financial obligations on the state, mandating payments for the total production capacity, regardless of actual consumption. This results in significant financial strain, particularly during periods of low demand, such as winter, where electricity needs are minimal. The high costs associated with these payments inhibit industrial competitiveness, stifling economic growth

and exacerbating unemployment.

Currently, Pakistan operates 100 IPPs, with 52% state-owned and 48% privately owned, including seven operated by influential politicians and 18 backed by international firms. The disproportionate influence of elite interests in energy policy highlights the ongoing challenges of elite capture, emphasizing the need for reforms that prioritize fair allocation of resources and equitable economic development for all citizens.

Capitalist groups, referred to as elites, receive substantial wealth through tax breaks, subsidies, grants, and other means. In Pakistan, the most powerful among these elites are those investing in the energy sector, bolstered by backing from various national and international organizations. According to neo-liberal economic principles, companies receive increasing benefits over consumers. As Pakistan adopted a neo-liberal economy under pressure from the IMF and World Bank, the Pakistan People's Party amended its constitution and initiated the privatization of the energy sector. The World Bank played a crucial role in forming agreements with Independent Power Producers (IPPs). However, IPPs have impeded the country's economic growth, adversely affecting other industries, particularly the textile sector, which has protested against their influence. The situation with Independent Power Producers (IPPs) in Pakistan illustrates how a small elite group can manipulate systems for their advantage, often at the expense of ordinary citizens. This manipulation began with the privatization of the energy sector in the 1990s, when IPPs were established under favorable conditions influenced by powerful political and business figures. Consequently, these companies enjoy guaranteed payments and high tariffs, burdening consumers, particularly those from lower-income households, while elites reap substantial profits through state subsidies.

Corruption allegations complicate the issue, as government officials and business leaders frequently collude, resulting in inefficiencies and inflated costs that remain unaddressed. Regulatory bodies intended to oversee these practices are often compromised by connections to the very companies they are supposed to regulate, leading to a lack of transparency regarding energy contracts that leaves the public feeling powerless.

Additionally, many IPP owners maintain ties to influential politicians, creating an environment where policies cater to their interests instead of addressing the nation's energy needs. This intricate web of politics and business exemplifies a troubling dynamic where a few benefit significantly, showcasing the detrimental effects of elite capture on society.

Even though solar panels represent a cheaper energy generation source, the government compels people to stay connected to the national grid, which serves the interests of IPP owners and fuel import mafias. Furthermore, guaranteed rates of return and the absence of income tax for IPPs highlight how these entities serve elite interests.

References

- Ahmad, D. M. (2024, Feb. 28). An analysis of elite capture in Pakistan 2018-2022.
- Ahmad, F. (2023, September 11). Are IPP contracts original sin? *The Express Tribune*.
- Ahmad, M. (2023). Political economy of elite capture and clientalism in public resources distribution: theory and evidence from Balochistan, Pakistan. *Sage Journals*.
- Ali, F., & Beg, F. (2007). The History of Private Power in Pakistan. *SDPI Working Paper Series # 106*.
- Arafat, Y., Nazir, N., & Khan, J. (2019). The history and problems faced by IPPs in Pakistan (1990-2015). *Indian journal of science and technology*.
- Ashraf, D. S. (2025, Feb. 1). The Enigma of IPPs as example of elite capture. (G. Muhammad, Interviewer)

- Azhar, A. S. (2019, January 06). The elite capture of Pakistan. *The News on Sunday*.
- Baber, F. (2022, December 08). elite capture of state power. *friday times*.
- Bhutta, Z. (2014, May 28). Never again: Power policy for economy. Says ECC. *The Express Tribune*.
- Bhutta, Z. (2020, April 17). Two decades of flawed policies: power producers make billions in pakistan. *The Express Tribune*.
- Desk, W. (2024, July 25). Pakistan to pay Rs.2091 billion in capacity payments to IPPs in FY 2024-25. *The Nation*.
- Farooqi, M. W. (2024). *Mapping IPPs across Pakistan*. Islamabad: Institute of Policy Studies .
- Fraser, J. M. (2005). Lessons from the independent private power experience in Pakistan. *Energy and Mining Sector Board Discussion Paper: Paper No. 14*.
- GOP. (1994). *Policy framework and package of incentives for private sector power generation projects in Pakistan*. Government of Pakistan.
- GOP. (2002). *Policy for Power Generation Projects Year 2002*. Government of Pakistan.
- GOP. (2015). *Power Generation Policy 2015*. Government of Pakistan.
- Hashmi, t. (2024, Febraury 22). An analysis of elite capture 2018-2022. (G. Muhammad, Interviewer)
- Kamran, T. (2024). UNVEILING ELITE CAPTURE: A CLOSER LOOK AT ITS IMPACT ON PAKISTAN'S ECONOMY AND SOCIETY. *THE POLICYBEACON by BNU center for policy research*.
- Khan, M. Z. (2024, August 20). Independent power producers enjoyed tax breaks of Rs1.2tr since 1990. *DAWN*.
- Khan, S. (2025, Feb. 4). The enigma of IPPs as an example of elite capture.
- Malik, A. (2022). *In power projects: history, policy and politics*. Islamabad: PIDE.
- Malik, A. (2025, Feb. 02). The enigma of IPPs as an example of elite capture. (G. Muhammad, Interviewer)
- Marwat, D. G. (2025, January 27). The enigma of IPPs as example of elite capture. (G. Muhammad, Interviewer)
- Mir, H. (2024, July 29). Strict contracts with Ipps. *Geo news*.
- Quadrat-Ullah, H. (2015). Independent power (or pollution) producures. *ELSEVIER*, 240-251.
- Rana, S. (2025, Feb. 01). The enigma of IPPs as an example of elite capture. (G. Muhammad, Interviewer)
- Recorder, B. (2024, August 24). Former caretaker minister steps up criticism of IPPs. *Business Recorder*.
- Richard, F.-N. (2014). working for the few. *OXAM*.
- Safi, S. (2024, July 31). The enigma of IPPs. *Daily Jang Urdu*.
- Shah, S. A. (2023). *Reforming Power Sector: Goog Intensions Bad Outcomes*. Islamabad: PIDE.
- Shah, S. F. (2025, Feb. 03). The enigma of IPPs as an example of elite capture. (G. Muhammad, Interviewer)
- Shapland, P., Paassen, A. V., & Almekinders, C. (2021). How the elite capture critique is used to legitimise top-down control of development resiuces. In P. Shapland, A. V. Paassen, & C.

- Almekinders, *the politics of knowledge in inclusive development and innovation* (pp. 80-100).
- Siddiqui, A. (1998). IPPs: The Real Issues. *The Pakistan Development Review*.
- Taiwo, O. O. (2022). *Elite Capture How the powerful took over identity politics (and everything else)*. Chicago : Haymarket books P.O Box 180165 Chicago.
- Wazir, S., & Ullah, A. (2023). Role of IPPs and Problems in Energy Sector of Pakistan: Critical Evaluation. *Khyber Journal of Public Policy, Autumn 2023, Volume: 2, Issue: 3*.
- Yahya, M. I. (2024, September 24). Elite hold on academia. *The News International*.
- Zulfiqar, F., & Moosvi, A. (2022). understanding elite capture. *Pakistan Institute of Development Economics*.