Annual Report on Foreign Economic Assistance

July 2020 – June 2021

Government of Pakistan
Ministry of Economic Affairs
Policy Analysis and Development Wing

PREFACE

Preparation of the '***Annual Report on Foreign Economic Assistance***' is a regular feature of Economic Affairs Division (EAD). This document provides an overview of Pakistan's external inflows, outflows, external public debt and debt servicing. The report contains useful information for researchers, economists and for local and international development partners on the external economic assistance position of Pakistan.

The report is divided into four chapters. Chapter 1 explains the rationale and procedure for obtaining external economic assistance; Chapter 2 depicts the total commitments from the developing partners with the Government of Pakistan during FY 2020-21; Chapter 3 narrates the total disbursements made by the development partners during the period; and Chapter 4 deals with external public debt and its servicing.

Data for the bulletin is obtained from the Debt Management and Financial Analysis System (DMFAS) database managed by the Debt Recording and Reporting Center, EAD. An electronic copy of the bulletin is available on EAD's Website (www.ead.gov.pk).

We hope readers will find this report useful. Comments and suggestions for further improvements of this Report are welcome and may be emailed to policy-1@ead.gov.pk

MIAN ASAD HAYAUD DIN
Secretary (EAD)

Islamabad, 3rd December, 2021

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
CDWP	Central Development Working Party
DMFAS	Debt Management and Financial Analysis System
EAD	Economic Affairs Division
ECNEC	Executive Committee of the National Economic Council
EU	European Union
FEA	Foreign Economic Assistance
IMF	International Monetary Fund
IsDB	Islamic Development Bank
IFAD	International Fund for Agriculture Development
PA&D Wing	Policy Analysis & Development Wing
SAFE	State Administration of Foreign Exchange
SBP	State Bank of Pakistan
UK	United Kingdom
UN	United Nations
USA	United States of America

CHAPTER 1

INTRODUCTION

The Foreign Economic Assistance (FEA) can be defined as "government aid designed to promote the economic development and welfare of developing countries"[1] . It includes concessional loans, grants and technical assistance which is provided bilaterally or through multilateral agencies such as the World Bank, the Asian Development Bank (ADB), Islamic Development Bank(IsDB), Asian Infrastructure Investment Bank (AIIB) or United Nations (UN), etc. The purpose of obtaining FEA is to undertake social and economic development projects with larger and sustainable impact on public welfare. Foreign assisted programs also help developing countries to achieve higher and sustainable economic growth through adoption of economic reforms and greater economic integration. It provides immediate relief to the developing countries facing fiscal imbalances and facilitates them to achieve their intended development objectives.

Government of Pakistan has been receiving foreign assistance mainly to achieve two major strategic objectives: (a) sustainable social and economic growth as envisioned in its development plans to reduce poverty and inequality; and (b) to address the fiscal imbalances for enhanced macroeconomic stability.

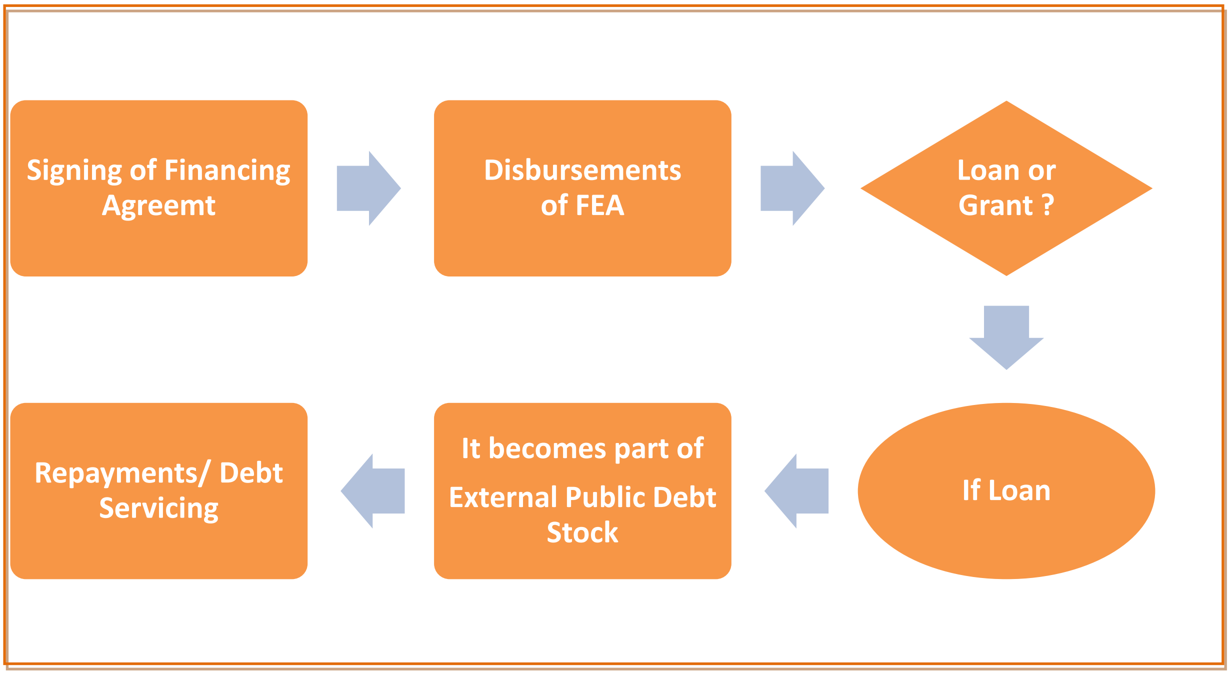
This report intends to provide first-hand information about the FEA (both in the form of loans and grants) received by the Government of Pakistan from multilateral and bilateral development partners from July 2020 to June 2021. Data is obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by Debt Recording and Reporting Centre of the Economic Affairs Division[2] (EAD).

1.1. Recording Procedure

The Rules of Business, 1973 empowers EAD to, inter-alia, compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, EAD maintains a database namely DMFAS to record the details of FEA committed or disbursed by the development partners from time to time. The complete cycle of data recording of FEA can be seen in the following flow chart:

[1] OECD (2020), Net ODA (indicator).doi: 10.1787/33346549-en (Accessed on 18 August 2020)
[2]The report does not contain data of Pakistan Banao Certificates (PBC), Naya Pakistan Certificate (NPC) and foreign portfolio investment in GoP's domestic securities.

Figure 1: Procedure of External Public Debt Recording



Source: PA&D Wing

- Upon approval of foreign funded project/program from the competent forum (i.e. CDWP or ECNEC); a Financing Agreement is signed by EAD with the respective development partner(s).
- The Agreement provides detail of amount of the loan or grant that will be disbursed during the tenure of the Agreement which broadly covers project/program activities, terms and conditions of loan/grant including interest rate, commitment or other charges, if any, and amortization schedule.
- Once the Agreement is signed, it is recorded in EAD's database as "Commitment". The Executing Agency, depending upon the requirements of the project/program, initiates withdrawal application and sends it to the respective development partner.
- After scrutiny, the development partner disburses the amount directly to the project assignment account maintained by the Executing Agency and intimates EAD accordingly.
- Upon confirmation by the development partner or the Executing Agency, the amount is entered in EAD's database as "Disbursements".

If the disbursed amount is against the grant, then no repayment is involved, and it does not become part of the external public debt stock. However, in case of a loan, the disbursed amount becomes part of the external public debt stock. Based on the amortization schedule, the repayment of the loan is managed by EAD and it coordinates with the relevant sponsoring/executing agency, development partners, Finance Division and State Bank of Pakistan (SBP). EAD also regularly conducts the portfolio reviews of foreign funded projects/programs to ensure quick disbursements and facilitate the sponsoring/executing agency for timely completion of projects/programs.

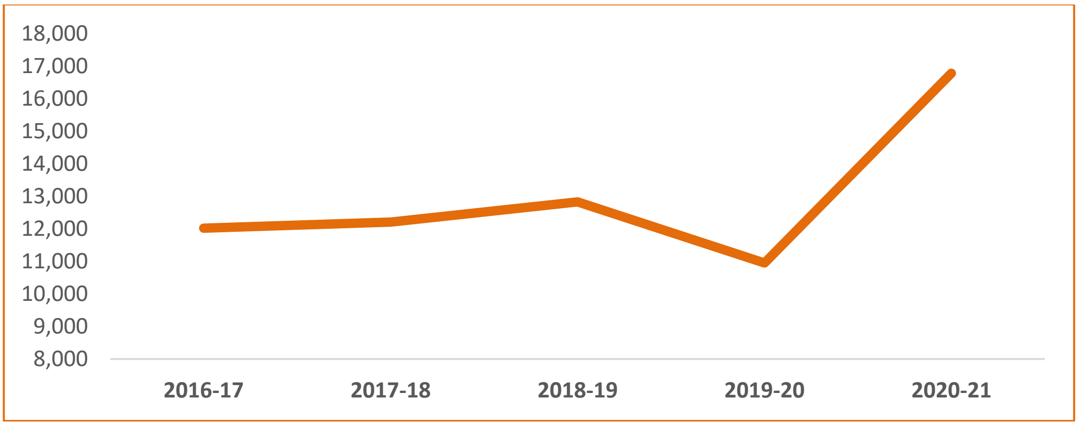
CHAPTER 2

NEW COMMITMENTS

New commitments are the amounts of FEA which have been committed by the development partners during the observed time and is likely to be disbursed in the next five to six years[3] . The new commitments are recorded by the EAD after the signing of the “financing instruments” with the development partners. EAD signs each instrument after rigorous consultations and negotiations with the stakeholders including Finance Division, Law and Justice Division and relevant sponsoring/executing agency of Federal/Provincial Governments. In addition to this, the foreign loans signed by the Finance Division are also recorded in the EAD’s database as “Commitments”. The Finance Division raises funds from the international financial institutions and capital markets in the shape of foreign commercial loans and through issuance of Eurobonds/Sukuk to stabilize foreign exchange reserves and provide budgetary/balance of payments support.

Figure 2 depicts historical trend of new commitments over the last five years. The new commitments of FEA have shown a relatively stable trend till FY 2019-20. However, to mitigate the pressure on the current account deficit, strengthen foreign exchange reserves, enhance external debt servicing capacity and provide requisite financing to water sector development, the Government made higher commitments during the current financial year.

Figure 2 Historical Trends of New Commitments (USD Million)



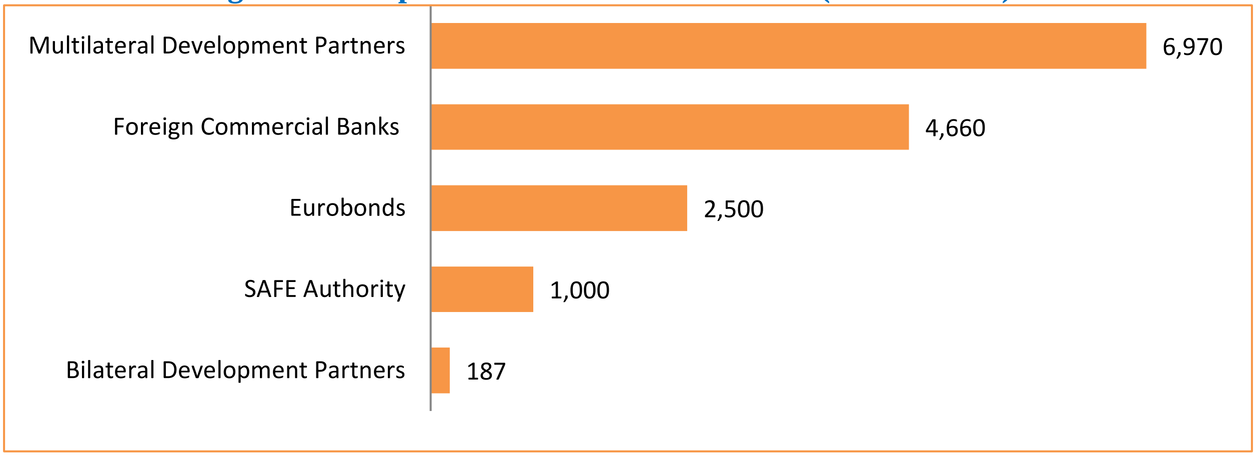
Source: DMFAS Database

During FY 2020-21, the Government of Pakistan signed new agreements worth USD 15,316 million with various bilateral and multilateral development partners, State Administration of

[3] The disbursement period is dependent upon the execution period of the project/program

Foreign Exchange (SAFE) Authority, China and Foreign Commercial Banks. Out of the total new agreements, USD 6,970 million worth of financing agreements were signed with multilateral development partners, USD 4,660 million with foreign commercial banks and USD 187 million with bilateral development partners (see **Figure 3).** In addition, the Government also obtained USD 2,500 million from international capital markets through issuance of Eurobonds and USD 1,000 million from SAFE Authority China as deposit.

Figure 3: Composition of New Commitments (USD Million)



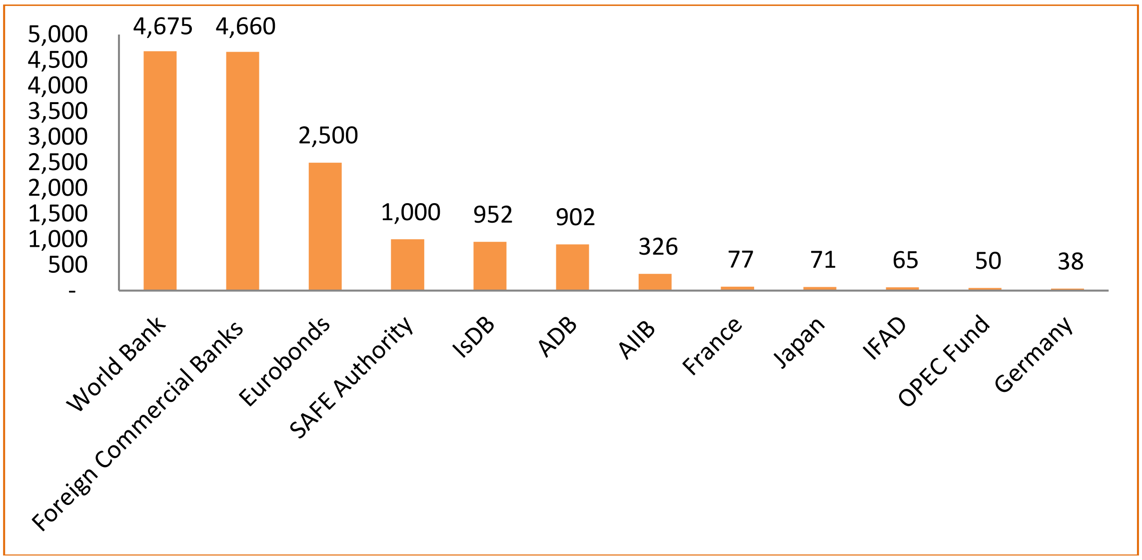
Data Source: DMFAS Database

1.1. New Commitments by Development Partners

Around USD 4,802 million worth of agreements, which constituted 31% of the total new commitments were commercial borrowing and most of them were signed by the Finance Division to refinance the maturing foreign commercial debt (see **Figure 4**). The Finance Division also issued Eurobonds worth of USD 2,500 (16% of the total commitments) in the international capital market. During the FY 2020-21, an amount of USD 1,000 million (or 7% of the total commitments) has been arranged from SAFE Authority, China to repay deposit to a friendly country.

Among the multilateral development partners, the World Bank emerged as the largest development partner in terms of new commitments of FEA followed by IsDB, ADB and AIIB.

Figure 4: Composition of New Commitments (USD Million)



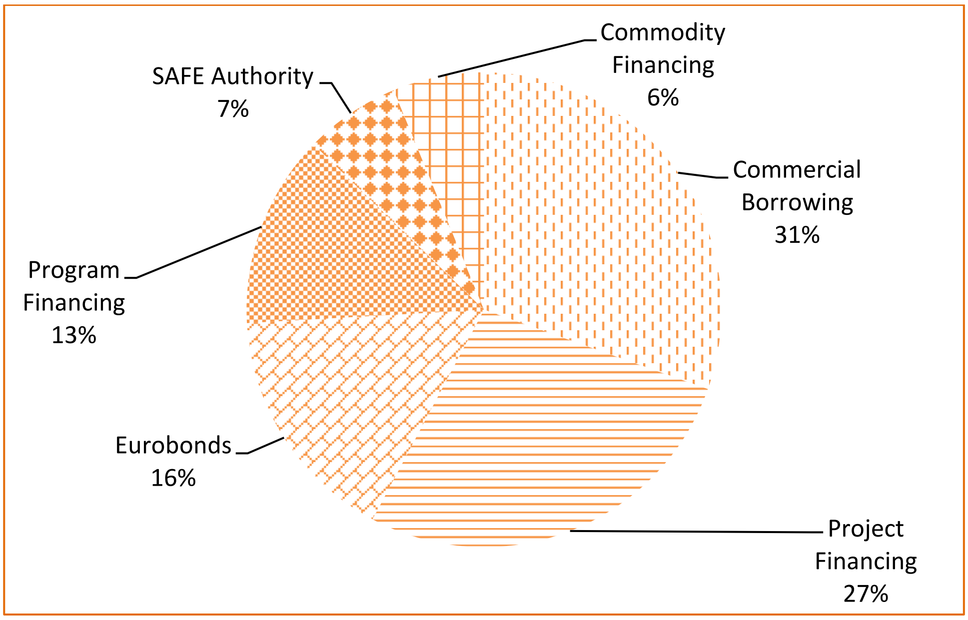
Source: DMFAS Database

1.2. Mode of Financing of New Commitments

FEA in Pakistan is broadly categorized as: (a) Project financing; (b) Program financing; and (c) Commodity financing. Project financing is obtained for funding socio-economic and infrastructure development projects. Program financing is secured to support the wide-ranging economic reforms and balance of payments and is generally obtained from multilateral development partners such as ADB, World Bank, AIIB, etc. (on concessional terms and conditions with longer maturity). Commodity financing is arranged for the procurement of crude oil mainly from the IsDB. In addition, the Government also raises funds from international financial institutions and capital markets to meet its immediate fiscal and liquidity requirements.

During FY 2020-21 the Government of Pakistan signed new agreements worth USD 15,316 million. Out of which an amount of USD 2,015 million (or 13% of the total commitments) was earmarked by multilateral development partners as program financing to broaden and deepen the financial system, improve fiscal management and regulatory framework to foster growth and competitiveness in Pakistan. USD 1,000 million (or 7% of the total) has been arranged from SAFE Authority, China as deposit. The remaining amount of USD 4,660 million (or 31% of the total) was arranged from foreign commercial banks and USD 2,500 million (or 16% of the total) was arranged through issuance of Eurobonds in the international capital markets. An amount of USD 4,190 million (or 27% of the total) was allocated for project financing and USD 952 million (or 6% of the total) for the commodity financing purposes (see **Figure 5**).

Figure 5 Mode of Commitments



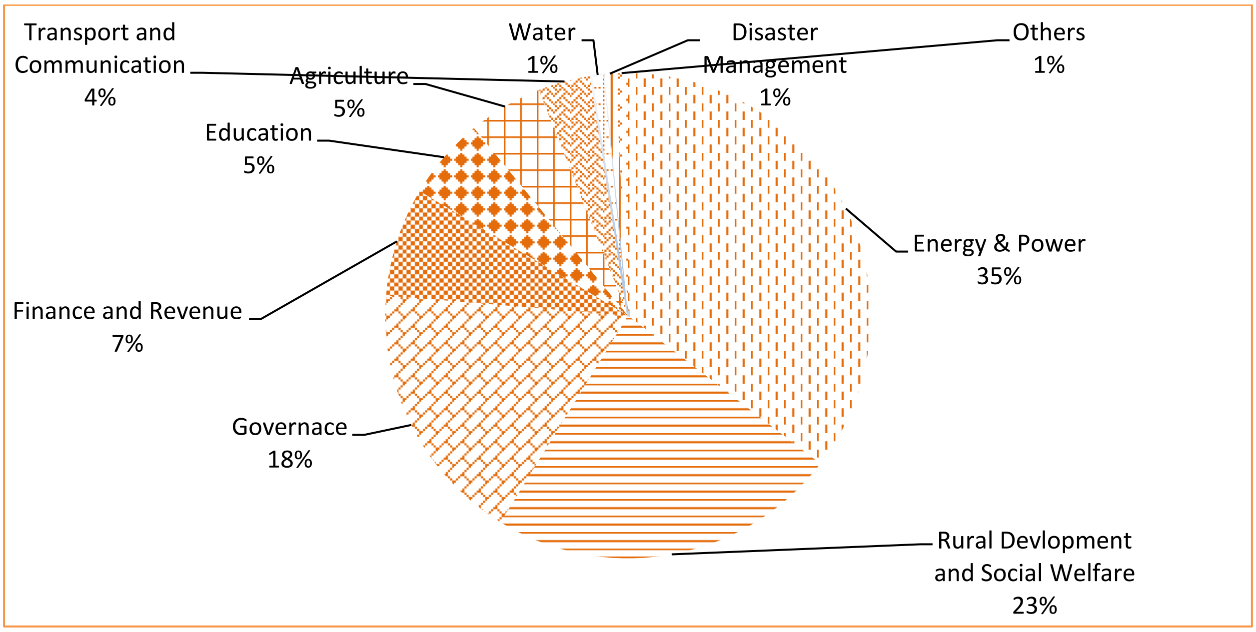
Source: DMFAS Database

1.3. Sectoral Distribution of New Commitments

During FY 2020-21, the Government committed USD 4,190 million as project financing for its various sectors of the economy [4], ranging from Energy/Power to Transport & Communication; and from Health & Education to Agriculture & Rural Development. The sectoral composition of the new commitments reflects the priority development objectives of the Government and is summarized in **Figure 6.**

[4] Since program and commercial financing are mainly for the budgetary support, we analyzed in this section the sectoral distribution of project financing only.

Figure 6: Sector-wise Composition of New Commitments (Project Financing)



Source: DMFAS Database

This pie chart shows that Energy & Power is the key priority sector of the Government during the July 2020-June 2021with a total share of 35% out of total committed project financing of USD 4,190 million. Rural Development and Social Welfare emerged as second priority with a share of 23% of the total project financing, followed by Governance (18% of the total), Finance and Revenue (7% of the total), Education (5% of the total), Agriculture (5% of the total) and Transport and Communication (4% of the total) respectively.

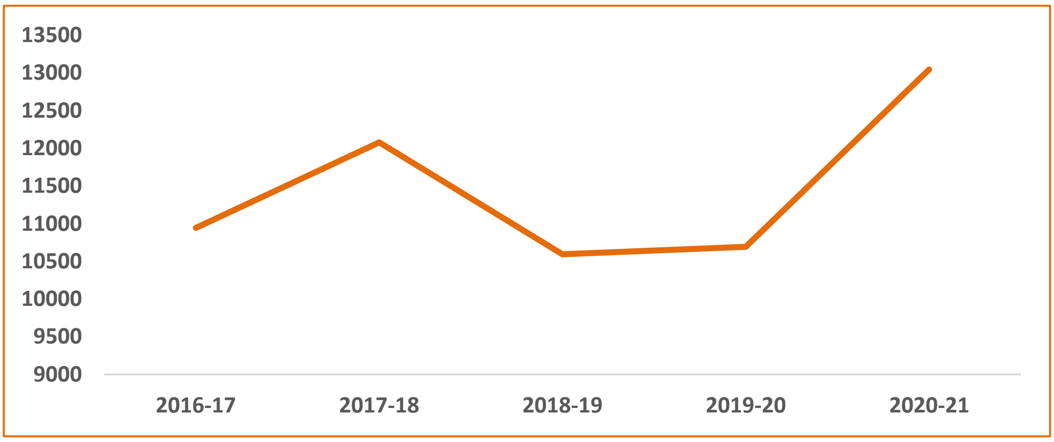
CHAPTER 3

DISBURSEMENTS

Disbursements of FEA represent the total amount of funds received by the Government from its development partners. Direct comparison of past and current disbursements with new commitments is methodologically counterintuitive as the new commitments are planned to be disbursed in the future over the time span of five to six years, whereas disbursements during a period are the cumulative sum of current disbursements against new and old commitments.

Figure 7 shows historical trends of disbursements over the last five years which represents a cyclical trend. When the economy is in a growth trajectory, it has an impact on the current account deficit which necessitates external funds to meet additional financing requirements. These requirements are generally met through issuance of Eurobonds/Sukuk in the international capital markets and securing funds from foreign commercial banks and bilateral and multilateral development partners.

Figure 7: Historical Trends in Disbursements of FEA (USD Million)



Source: DMFAS Database

1.1. Composition of Disbursements

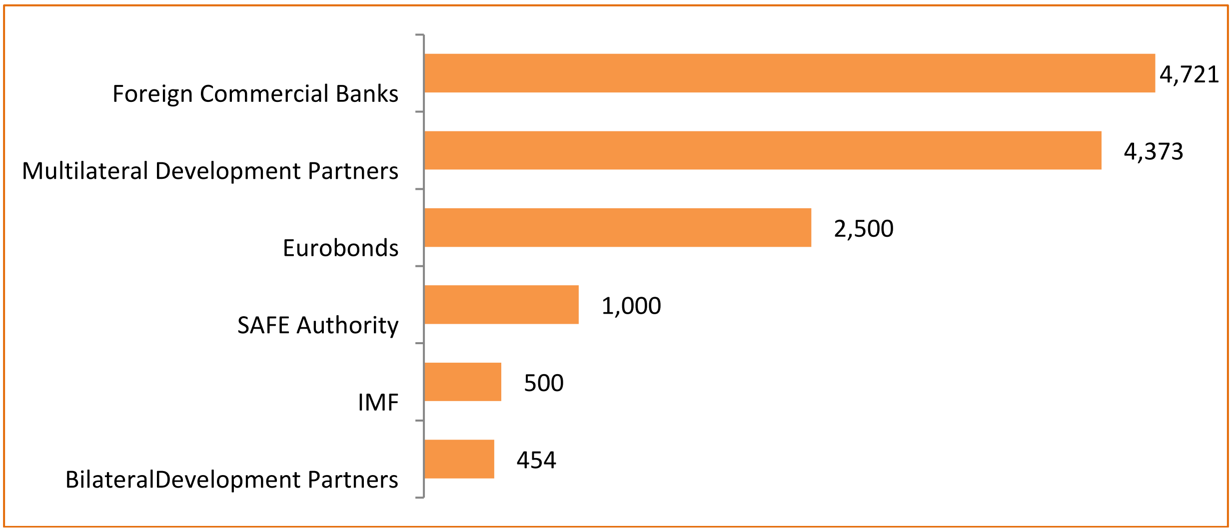
Disbursements of USD 13,547 million during July 2020-June 2021 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions (**see Figure 8**). The composition of disbursements is as follows:

a) USD 4,373 million or 33% of total disbursements were from the multilateral development partners, mainly from ADB, World Bank, IsDB and AIIB.

b) USD 454 million or 3% of the total disbursements were from bilateral development partners particularly from China, France, USA and the UK.
c) USD 4,721 million or 35% of total disbursements were from foreign commercial banks.
d) USD 1,000 million or 7% of total disbursements were from SAFE Authority, China.
e) USD 2,500 million or 18% of the disbursements were from issuance of Eurobonds in the international capital markets.
f) USD 500 million or 4% of the disbursements were received from IMF.

The inflows from the multilateral and bilateral development partners are indicative of their commitments to support the development priorities of the Government. These inflows are based on long term loans on concessional terms with a lower cost of borrowing which reflects the healthy composition and quality of the country's external public debt.

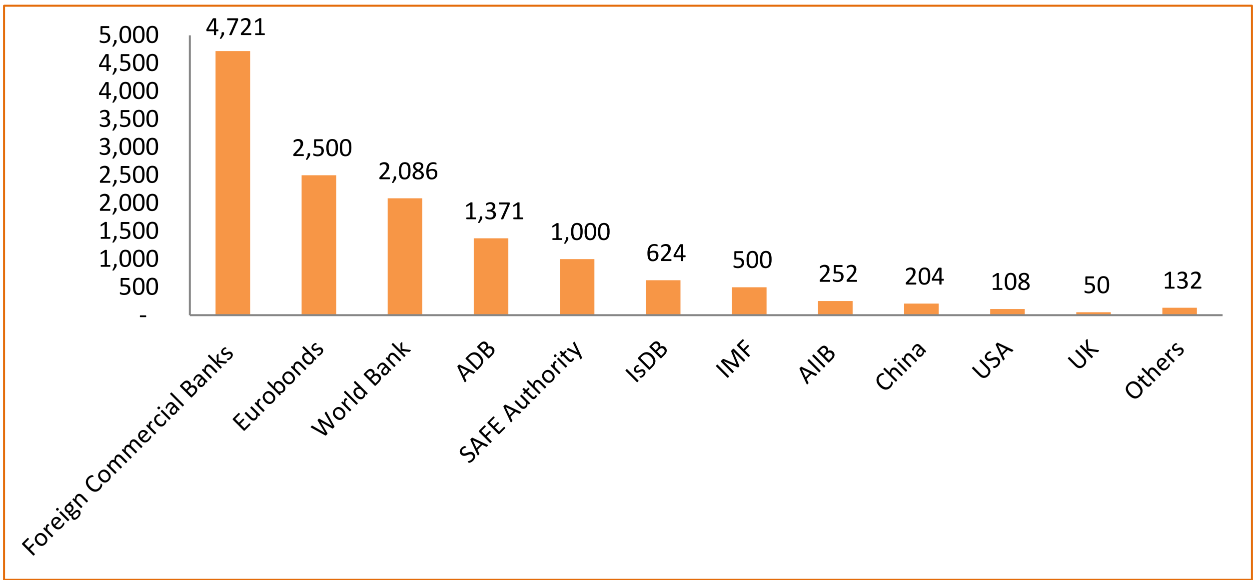
Figure 8: Composition of Foreign Economic Assistance (USD Million)



Source: DMFAS Database

Detail of the disbursements made by development partners is summarized in **Figure 9**. Around USD 4,721 million (or 35% of the total) worth of disbursements came from foreign commercial borrowing, USD 2,500 million (or 19% of the total) from Euro bonds, disbursements of USD 1,000 million (or 7% of the total) were from SAFE Authority, China as deposit to repay deposit received from a friendly country and the IMF has provided financial assistance of USD 500 million (or 4% of the total) during the period under review. Among the multilateral and bilateral development partners, World Bank and ADB have the largest portfolio with disbursements of USD 2,086 million (or 15% of the total of USD 13,547 million) and USD 1,371 million (or 10% of the total) respectively followed by IsDB (5% of the total), China (2% of the total) and AIIB (2% of the total).

Figure 9: Donor-wise Composition of Foreign Economic Assistance (USD Million)

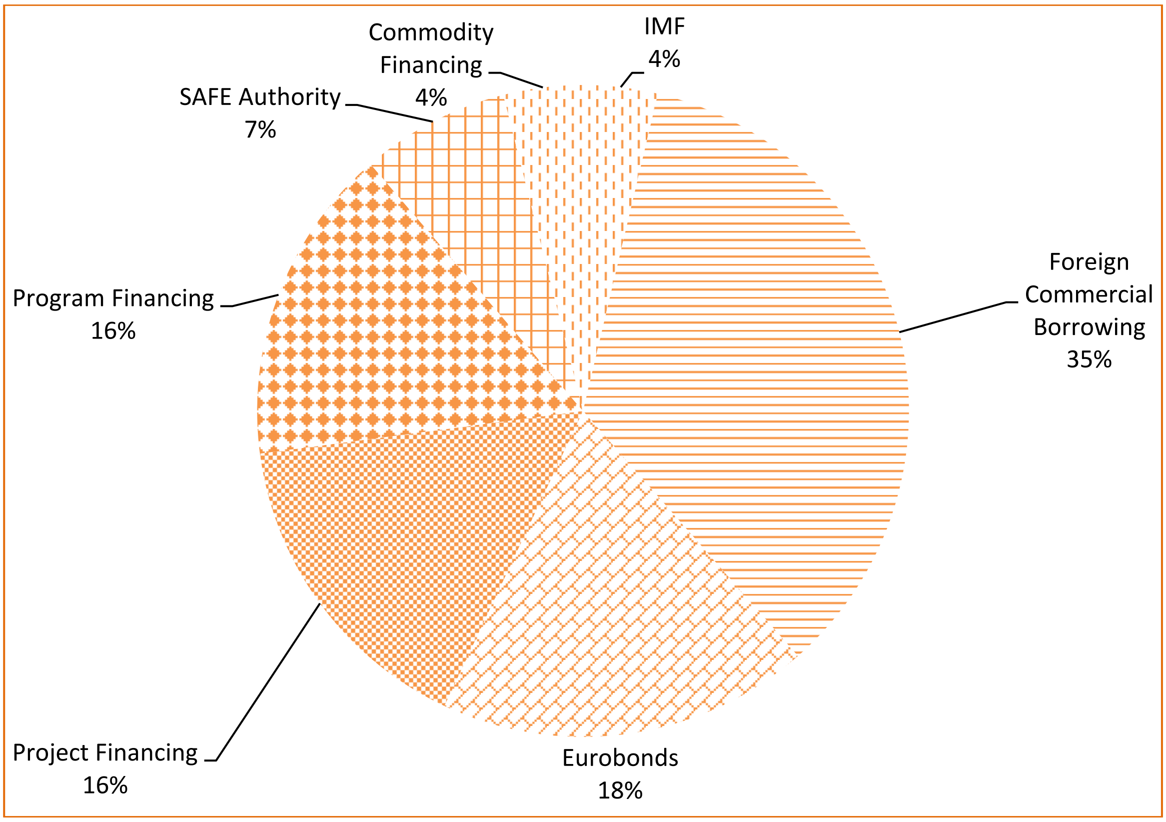


Source: DMFAS Database

1.2. Mode of Disbursements

FEA is mainly received in the shape of program financing, budgetary support, project financing and commodity financing. During the period under review, 16% of the total disbursements were program financing (see **Figure 10**) which have been arranged to broaden and deepen the financial systems, improve fiscal management and regulatory framework to foster growth and competitiveness in Pakistan. An amount of USD 1.0 billion (7% of the total disbursements) was obtained from the SAFE Authority, China to repay deposit received from a friendly country. An amount of USD 4,721 million (or 35% of the total) was obtained from foreign commercial banks and USD 2,500 million (or 18% of the total) through issuance of Eurobonds in international capital markets. The amount of USD 2,156 million (or 16% of the total) as project financing and USD 500 million (or 4% of the total) was obtained from IMF. The remaining 4% of the disbursements were for the commodity financing purposes.

Figure 10: Mode of Disbursements

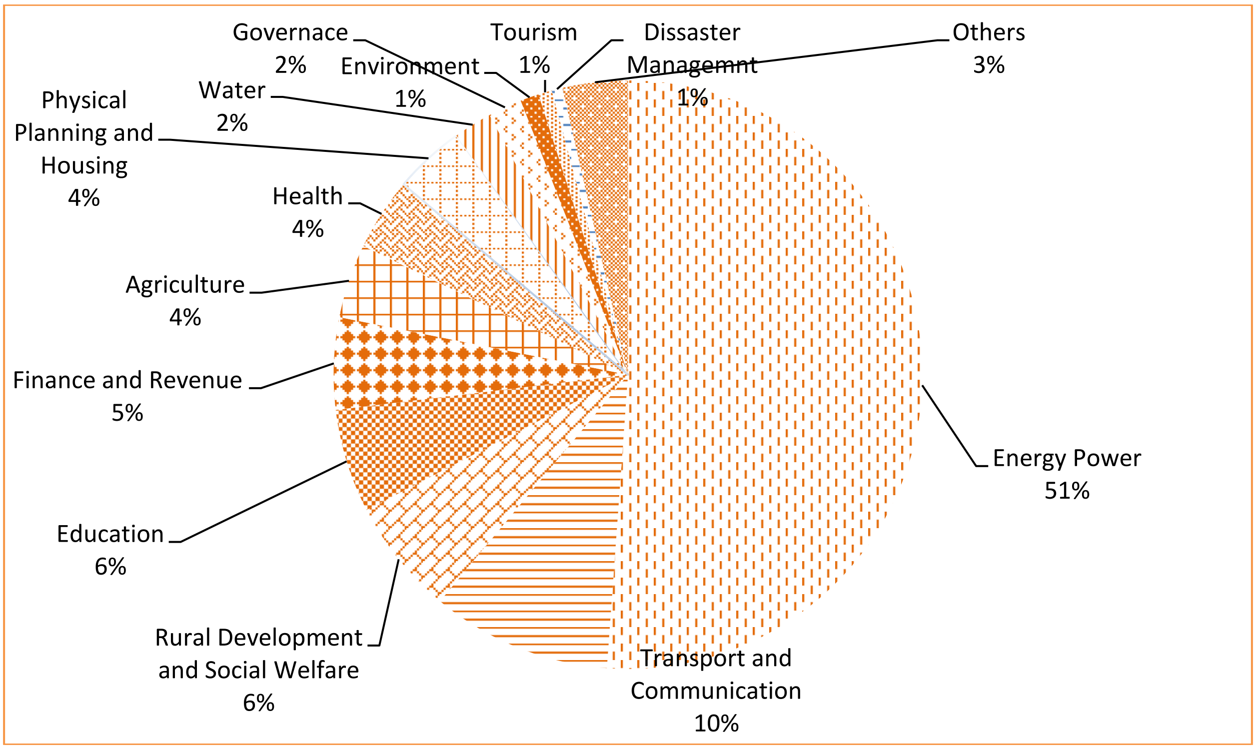


Source: DMFAS Database

1.3. Sectoral Distribution of Disbursements

Sectoral distribution of the disbursements under project financing represents the sectoral priorities of the Government. Basically, it reflects the sectoral composition of the active portfolio of the total project assistance in the country.

Figure 11: Sector-wise Composition of FEA (Project Assistance)



Source: DMFAS Database

The sectoral composition of project assistance is summarized in **Figure 11**. The largest sector in terms of disbursements is Energy & Power, having 51% share in the total project assistance of USD 2,156 million, followed by Transport & Communication (10% share), Rural Development and Social Welfare (6% share), Education (6% share), Finance & Revenue (5% share), Agriculture (4% share), Health (4% share) and Physical Planning and Housing (4% share in the total project assistance).

CHAPTER 4

EXTERNAL PUBLIC DEBT

External financing has become an important source for developing countries including Pakistan to finance development interventions and generate economic activity in the economy. It not only improves efficiency of resource allocation and economic growth but also helps the Government to augment its limited financial resources allocated for the provision of public goods and services such as health, education, social safety nets, etc. On one hand, it finances mega development projects like dams, power transmissions, roads and rail networks and other infrastructure projects while on the other hand, it provides support to the economy for balance of payments and narrows investment-saving gaps. Most of the economies world-wide rely on debt inflows to meet the shortfall in existing resources and to cover the budget deficits.

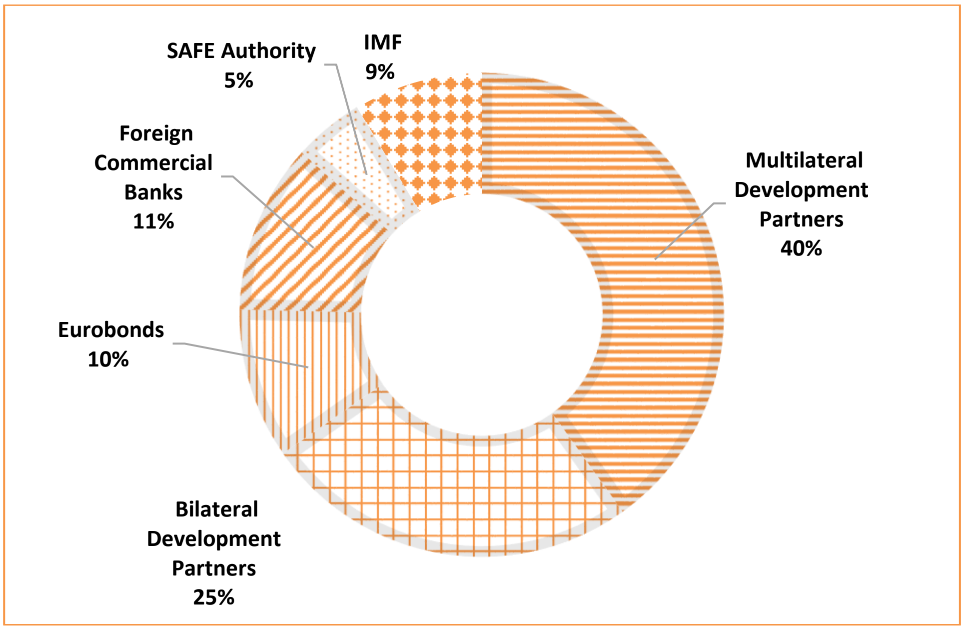
Borrowing can be productive for economic growth of developing countries as long as the economic returns are higher than the cost of borrowed funds. While external debt is useful for growth of the economy, dependence on external debt must be closely monitored and managed. A prudent external debt management strategy coupled with strong institutional arrangements is necessary for managing the external debt and improving the repayment capacity of the country. Good debt accrues assets that generate positive returns and externalities. Bad debt, on the other hand, does the opposite.

It is important to understand the distinction between external debt and external public debt. **External Public Debt** represents the external debt owed by the Government including the obligations of IMF. Whereas, **External Debt** is the sum of external public debt, external debt owed by the public sector enterprises and external debt owed by the private sector including multinational corporations, banks and other private institutions.

3.1. Composition of External Public Debt

As of 30th June, 2021, Pakistan's total external public debt stood at USD 85.6 billion. The composition of external public debt is summarized in **Figure 12**. The chart demonstrates that Pakistan's external public debt is derived from three key sources, namely, multilateral external debt comprising 49% share in the total external public debt (inclusive of IMF funding), followed by bilateral external debt (25% share in the total), and foreign commercial banks (11% share in the total). The remaining 15% of the external public debt consists of SAFE deposit and Eurobonds (inclusive of Sukuk).

Figure 12: Composition of External Public Debt (As of 30th June, 2021)



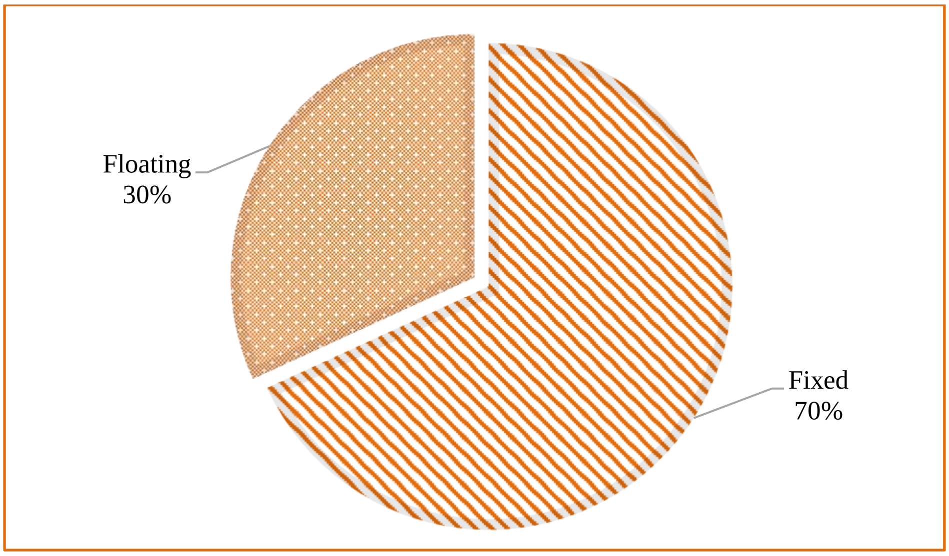
Source: DMFAS Database

3.2. Terms of External Public Debt

Terms and conditions of loans are important for the assessment of debt servicing. Loans are generally obtained either on fixed interest rates or on floating interest rates. The main advantage of having a fixed interest rate is that interest payments are fully predictable and the amortization schedule is pre-defined. In contrast, a floating interest rate is anchored to the prevailing market conditions and is usually indexed with the London Inter-Bank Offered Rate (LIBOR). Interest payments of floating rate debt change in accordance with any changes in prevailing LIBOR rates.

As of 30th June, 2021, 70% of total external public debt consisted of loans on fixed interest rates while 30% loans were obtained on floating interest rates (see **Figure 13**).

Figure 13: Nature of External Public Debt



Source: DMFAS Database

3.3. External Public Debt Servicing

The Government paid an amount of USD 8,393 million during July 2020-June 2021 on account of debt servicing of external public loans. This consists of principal repayment of USD 6,940 million and interest payments of USD 1,453 million (see **Table 1**).

Table 1: External Public Debt Servicing (USD Million)

Lender/creditor	Debt Servicing		
	Principal	**Interest**	**Total**
Foreign Commercial Banks	3,444	337	3,781
IMF	1,079	150	1,229
ADB	847	174	1,021
IsDB	845	71	916
World Bank	600	236	836
Eurobonds/ SUKUK	-	362	362
China	84	109	193
Others	41	14	55
Total	**6,940**	**1,453**	**8,393**

Source: DMFAS Database

During the period under review, the most repayments were made against the foreign commercial banks, having 45% share in the total repayments, followed by IMF (15% share), ADB (12% share), IsDB (11% share), World Bank (10% share), Eurobonds (4% share) and China (2% share in the total).

3.4. Net Trasfer

Net transfer is also a critical variable to analyze the overall external public debt stock. Net transfers indicate any increase or decrease in the external public debt stock and is calculated as the difference between the external public loans received and their repayments made to the foreign creditors during a specific period. A positive balance reflects an increase in external public debt stock while a negative balance depicts a decrease in the external public debt stock.

For the period under review, net transfers to the Government's external debt were USD 6,369 million[5] (see **Table 2**), including USD 1,000 million received from SAFE Authority, China. The share of concessional external public loans with a longer maturity period increased by USD 1,592 million (multilateral, bilateral and IMF loans) and the share of foreign commercial borrowing and Eurobonds have increased by USD 3,777 million. It is pertinent to mention here that due to the outbreak of COVID-19 pandemic developing countries all over the world are hard pressed to mobilize resources to meet urgent health and economic needs. The Prime Minister of Pakistan took the lead in pressing Heads of State, Governments of developed countries and international financial institutions, to provide debt relief to developing countries during these challenging times. Subsequently. the G-20 countries provided debt relief to developing countries including Pakistan by suspending temporarily the external public debt repayments. Due to this respite, Pakistan has to spend less resources on External public debt servicing.

Table 2: Net Transfers (USD Million)

Source	External Public Loan Inflow	External Public Loan Outflow	Net Transfers
Bilateral Development Partners	275	105	170
Multilateral Development Partners	4,313	2,312	2,001
Foreign Commercial Banks	4,721	3,444	1,277
SAFE Authority	1,000	-	1,000
Eurobonds/ SUKUK	2,500	-	2,500
IMF	500	1,079	(579)
Grand Total	**13,309**	**6,940**	**6,369**

Source: DMFAS Database

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[5] Since net transfers are estimated on actual exchange rate whereas external public debt stock is estimated on a particular point of time, therefore, due to difference in exchange rate these two numbers may differ.