ANNUAL REPORT ON FOREIGN ECONOMIC ASSISTANCE

(FY 2019–20)

MINISTRY OF ECONOMIC AFFAIRS
Government of Pakistan

PREFACE

Policy Analysis & Development Wing of Economic Affairs Division has prepared this '***Annual Report on Foreign Economic Assistance***' to provide comprehensive analysis of Pakistan's external inflows, outflows, external public debt and debt servicing. Main objective of the report is to provide readers including researchers, economists and local and international development partners, with the opportunity of gaining deeper understanding of external economic assistance position of Pakistan.

The report consists of four chapters. To begin with, Chapter 1 explains rationale and procedure for obtaining external economic assistance. Chapter 2 outlays total commitments from the developing partners with the Government of Pakistan during the FY 2019-20. Chapter 3 narrates the total disbursements made by the development partners during the FY 2019-2020. Lastly, Chapter 4 deals with the external public debt and its servicing.

Data for the Bulletin is obtained from Debt Management and Financial Analysis System (DMFAS) database managed by Debt Recording and Reporting Center, Economic Affairs Division, Government of Pakistan. Electronic copy of the Bulletin can be downloaded from Economic Affairs Division'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.

I take this an opportunity to appreciate hard work done by the Policy Analysis & Development Wing of EAD; particularly by Dr. Muhammad Arshad, Chief (Policy) and Dr. Naeem Akram Assistant Chief (Policy-I). I also pay special appreciation to Mr. Azam Khan, Deputy Secretary (World Bank) and Mr. Muhammad Abdullah, Research Associates (DPCO) Finance Division for their significance contribution.

Mr. NOOR AHMED
Secretary (EAD)

Islamabad, 11th December, 2020

Contents

List of Tables

List of Figures

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, Islamic Development Bank, Asian Infrastructure Investment Bank or United Nations, etc. The purpose of obtaining FEA is to undertake social, development and economic 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 also 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 is intended to provide a comprehensive overview of the FEA (both in the form of loans and grants) received by the Government of Pakistan from multilateral and bilateral development partners from July 2019 to June 2020. Data has been obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by Debt Recording and Reporting Centre, Economic Affairs Division, Government of Pakistan[2].

1.1. Recording Procedure

The Rules of Business, 1973 empowers the Economic Affairs Division (EAD) to, *inter-alia*, compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, EAD maintains a database called DMFAS and follows the following procedure to record transactions pertaining to the FEA.

[1] OECD (2020), Net ODA (indicator).doi: 10.1787/33346549-en (Accessed on 18 August 2020)

[2] The report does not contains data of IMF, Pakistan Banao Certificates and foreign portfolio investment in GoP's domestic securities.

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 the details of amount of the loan or grant that will be disbursed during the tenure of Agreement. The Agreement 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 requirement of the project/program, initiates withdrawal application and send 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 informs the EAD accordingly. On confirmation from the development partner or the Executing Agency, the amount is entered in EAD's database as "Disbursement". If disbursed amount is against the grant then no repayment is involved and it does not become part of external public debt stock. However, in case of 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. For this, EAD coordinates with the relevant sponsoring/executing agency, development partner and State Bank of Pakistan. EAD also regularly conducts the portfolio reviews of foreign funded projects/programs to ensure quick disbursement and facilitate sponsoring/executing agency for timely completion of projects/programs.

The following chapters explain the total commitments and disbursements made by the development partners and the foreign commercial banks during the FY 2019-20. It also discusses the external public debt composition and its debt servicing.

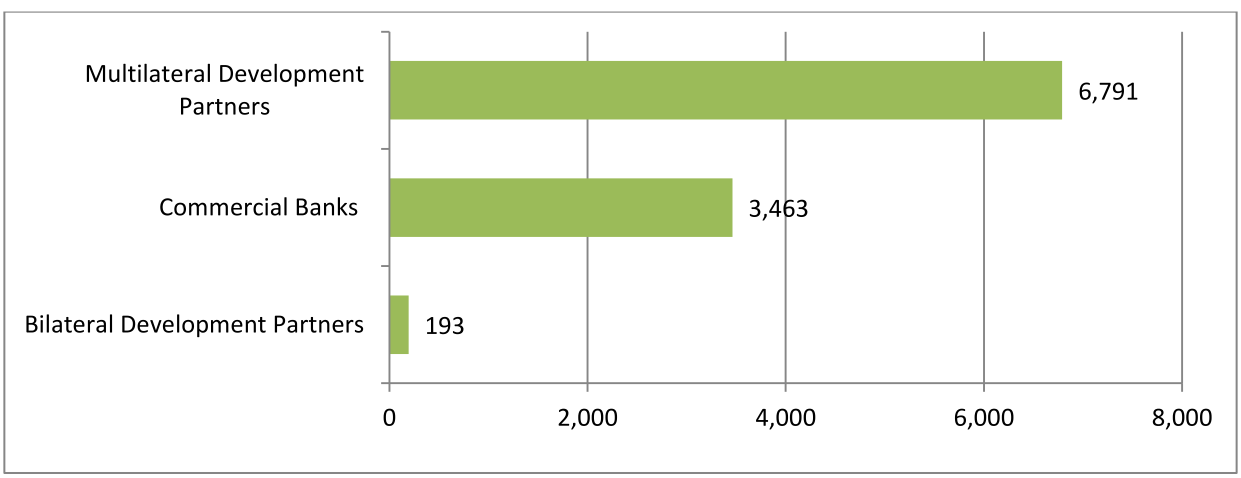
Chapter 2

New Commitments

New commitment signifies the amount of FEA which has been committed by the development partners during the observed time period and is likely to be disbursed in the next five to six years. The new commitment is recorded by the EAD after the signing of the "financing instrument" with the development partners. EAD signs the instrument after rigorous consultations and negotiations with the stakeholders including Finance Division, Law Division and relevant sponsoring/executing agency of federal/provincial governments. In addition, the 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.

During FY 2019-20, the Government of Pakistan signed new agreements worth USD 10,447 million with various development partners and foreign commercial banks. Out of this, 99% of the new commitments were for the loans and rest of the 1% was for the grants commitments. Out of total new agreements, USD 6,791 million worth of financing agreements were signed with multilateral development partners, USD 3,463 million with foreign commercial banks and USD 193 million with bilateral development partners **(see Figure 1).**

Figure 1: Composition of New Commitments (USD Million)

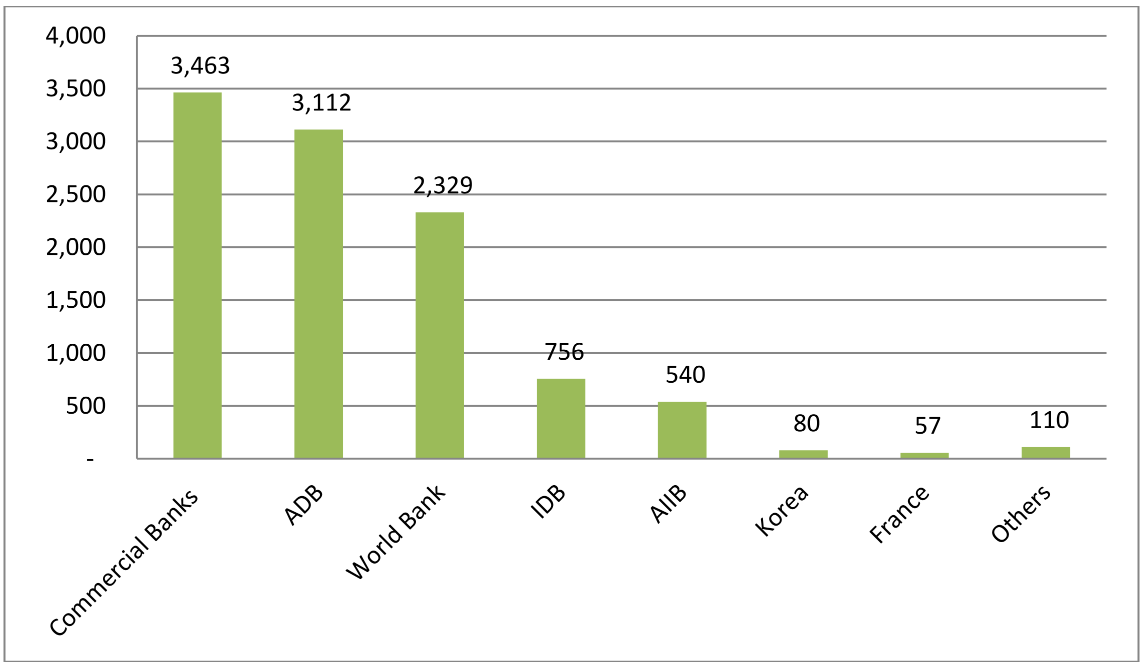


Data Source: DMFAS database

2.1. Commitments by Development Partners

Around USD 3,463 million worth of agreements, which constituted 33% of the total new commitments, were by the commercial banks **(see Figure 2)**. This high level of commercial financing was arranged to refinance maturing commercial debt during the year. The Asian Development Bank emerged as the largest development partner in terms of new commitments of FEA (30%) followed by World Bank (22%), Islamic Development Bank (7%) and Asian Infrastructure Investment Bank (5%). These five financial institutions extended financing of approx. 98% of total new commitments.

Figure 2: Composition of New Commitments (USD Million)



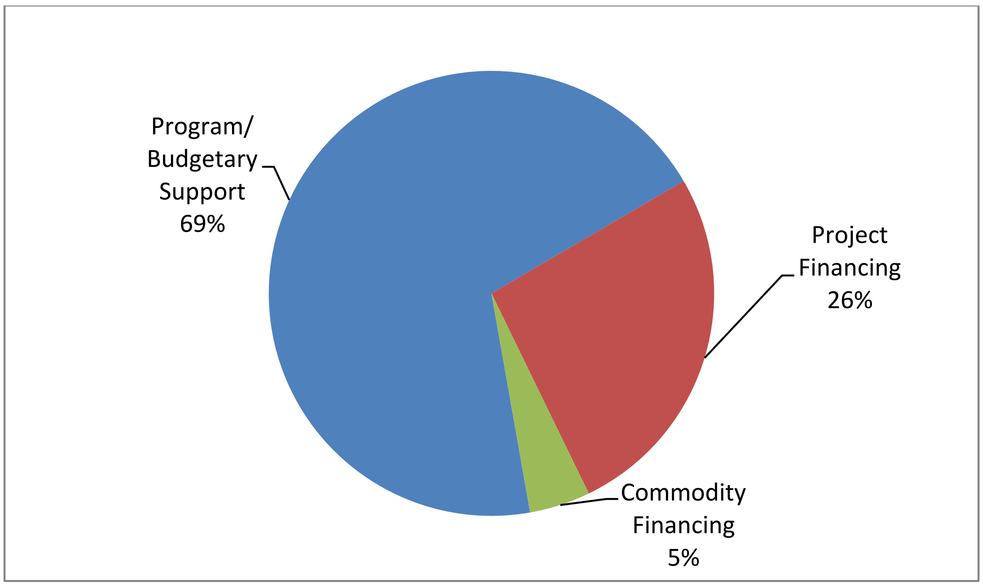
Source: DMFAS database

2.2. Mode of Financing of New Commitments

Foreign economic assistance 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 support and is generally obtained from multilateral development partners such as ADB, World Bank, AIIB, etc. (on concessional terms and conditions with longer maturity). In addition, the government also raises funds from international financial institutions and capital markets to meet its immediate fiscal and liquidity requirements.

Figure 3 illustrates that 69% of the new commitments during FY 2019-20 were made under the category of budgetary support. This high level of budgetary support was secured mainly to off-set socio-economic impact of COVID-19 pandemic and to meet the higher external financing requirements for external debt retirements. About 26% of the new commitments were allocated for project financing while the rest of the new commitments i.e. 5% were for the commodity financing. It is pertinent to mention here that an amount of USD 7.5 billion has been committed as budgetary support; of which USD 4.0 billion was committed by multilateral development partners as program financing and remaining was obtained from foreign commercial banks.

Figure 3: Mode of New Commitments



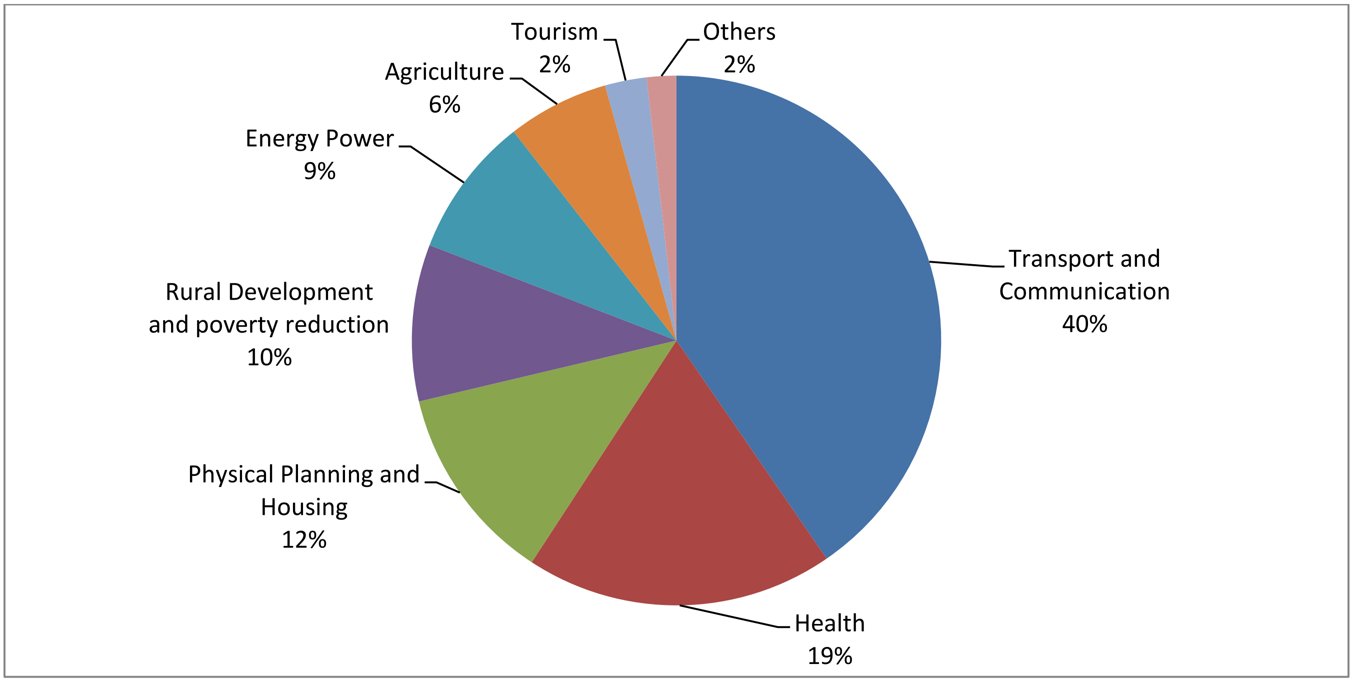
Source: DMFAS database

2.3. Sectoral Distribution of Commitments

The government is receiving project financing[3] for various sectors of the economy, which ranges from energy/power to transport & communication; and from health & education to agriculture & rural development. The sectoral composition of the commitments reflects priority development objectives of the government. Sectoral composition of newly committed loans and grants during FY 2019-20 is summarized in **Figure 4**.

[3] Since program and commercial financing are mainly for the budgetary support, we analyze sectoral distribution of project financing only

Figure 4: Sector wise Composition of New Commitments (project financing)



Source: DMFAS database

Figure 4 illustrates that Transport & Communication is the key priority of the Government for the FY 2019-20 with the total share of 40%. Health emerged as second priority with a share of 19%, followed by Physical Planning and Housing (12%), Rural Development and Poverty Reduction (10%), Energy Power (9%) and Agriculture (6%).

Although the 18th Constitutional Amendment devolved the subjects of health, education, agriculture, and rural development to the Provinces; however the sectoral distribution of FEA manifests the continuous support of the Federal Government to the provinces in vital sectors of the economy and society.

Chapter 3

Disbursements

Disbursements of FEA represent the total amount of FEA received by the government from its development partners. Direct comparison of disbursements with new commitments is not advisable as the commitments are planned to be disbursed over the time span of five to six years, whereas disbursements during a particular period is the cumulative sum of disbursement against new and old commitments.

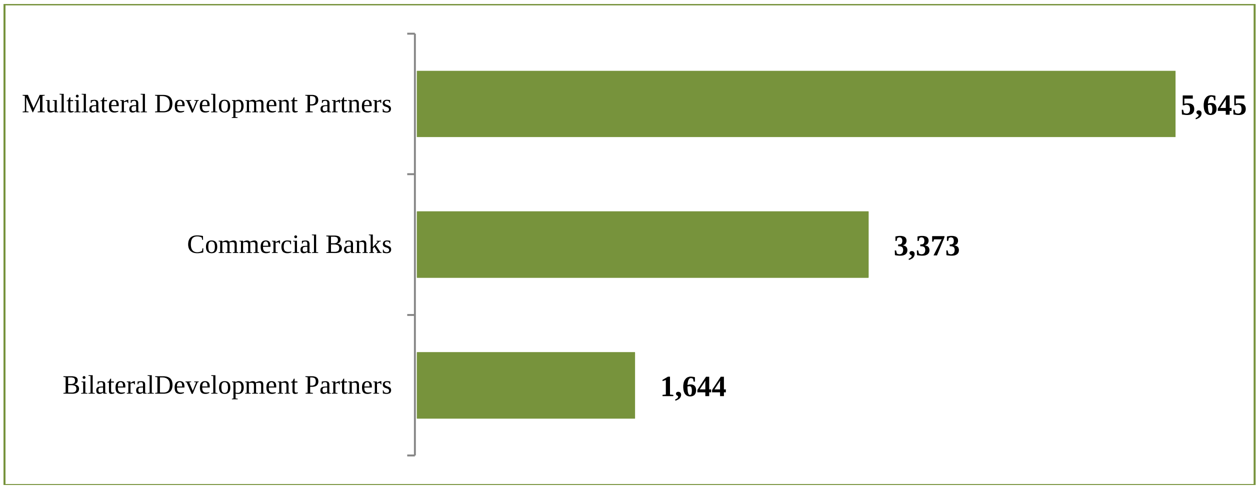
During FY 2019-20, an amount of USD 6.5 billion has been disbursed by multilateral and bilateral development partners as compared to USD 4.1 billion last year, registering 59% growth. In addition, the government also raised USD 3.4 billion from foreign commercial sources to meet its external debt obligations and support balance of payments. Out of the total disbursement of USD 10.7 billion, 97% were loans and 3% were grants.

3.1. Composition of Disbursement

Disbursements of US$ 10.7 billion during FY 2019-20 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions. The composition of disbursement is as follows:

a) USD 5,645 million or 53% of total disbursements were from the multilateral development partners mainly from Asian Development Bank, Islamic Development Bank, Asian Infrastructure Investment Bank and World Bank;
b) USD 3,373 million or 32% of total disbursements were from foreign commercial banks mainly to refinance maturing commercial debt of past periods.
c) USD 1,644 million or 15% of the disbursements were from bilateral development partners particularly Saudi Arabia, China and the UK.

Figure 5 Composition of Foreign Economic Assistance(USD Million)

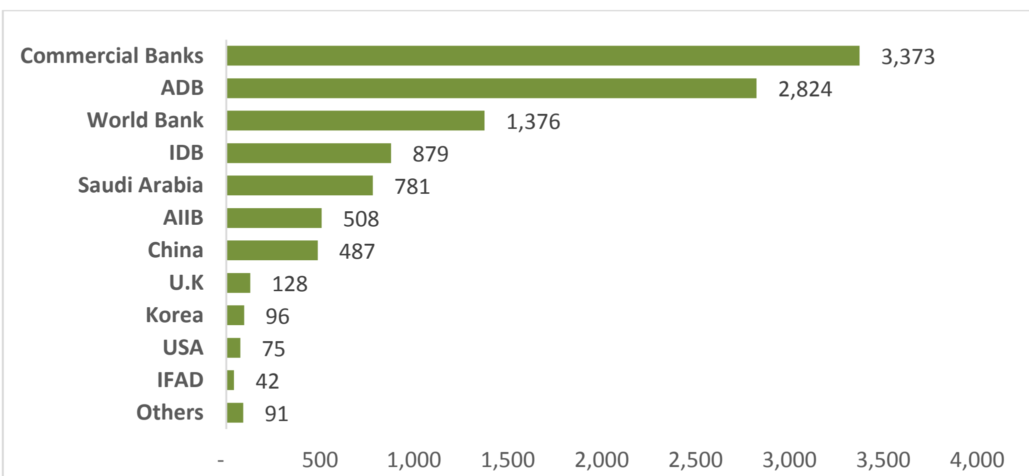


Source: DMFAS database

Increased level of inflows from our multilateral and bilateral development partners is indicative of their commitment to support development priorities of the Government as well as strengthening of institutional capacity to implement the reforms in the priority areas of revenue, fiscal management, debt management, PSEs, energy sector reforms and ease of doing business. These inflows are long term and on concessional terms with lower cost which is a reflection of healthy composition and quality of our external public debt.

Detail of the disbursements made by development partners is summarized in **Figure 6**. After commercial banks, ADB is the largest development partner with disbursement of USD 2,824 million (26%) followed by World Bank (13%), IsDB (8%) and Saudi Arabia (7%).

Figure 6 Donor wise composition of Foreign Economic Assistance (USD Million)



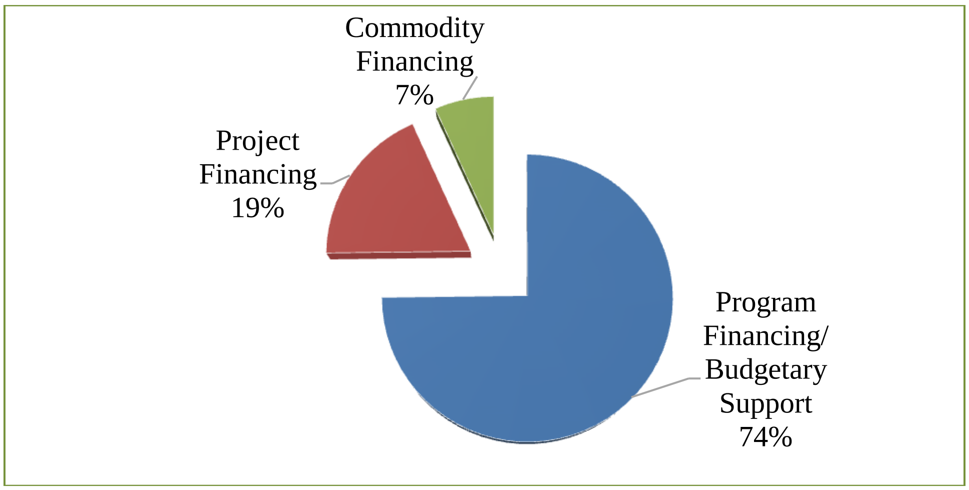
Source: DMFAS database

3.2. Mode of Disbursements

As mentioned earlier, the government is mainly receiving FEA in the shape of program financing, project financing and commodity financing.

During the period under review, 74% of the total disbursements were program financing/budgetary support, 19% project financing while remaining 7% commodity financing mainly from Islamic Development Bank for purchase of crude oil (see **Figure 7**). Out of this total budgetary support component, USD 4.6 billion was the program support and remaining USD 3.3 billion was arranged as re-financing by the Finance Division from various foreign commercial banks.

Figure 7: Mode of Disbursements



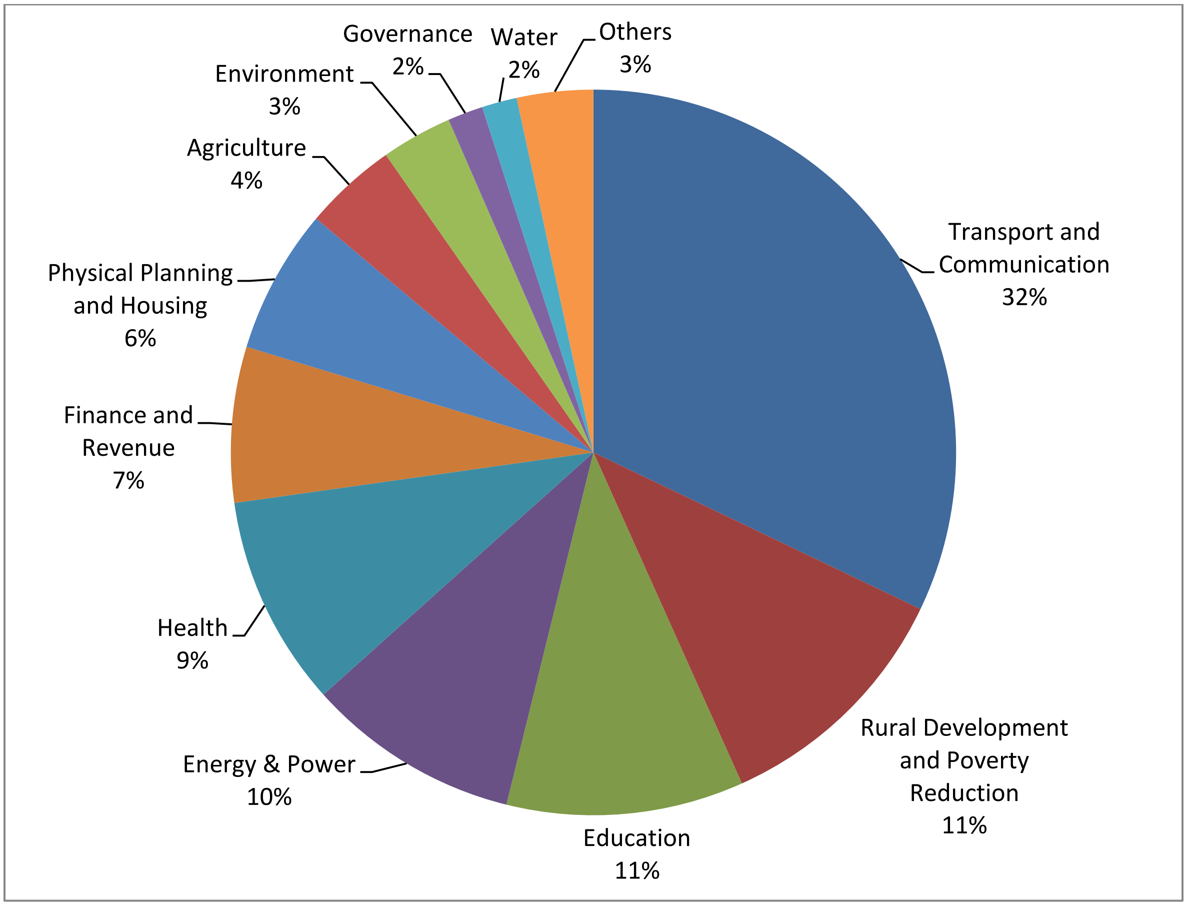
Source: DMFAS database

3.3. Sectoral Distribution of Disbursement

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

The sectoral comsopition of project assistance is summarised in **Figure 8**. The largest sector in terms of disbursements is Transport & Communication (32%) followed by Rural Development & Poverty Reduction sector (11%), Education (11%), Energy and Power sector (10%) and Health Sector (9%).

Figure 8 Sector wise composition of FEA (project assistance)



Source: DMFAS database

Chapter 4

External Public Debt

Externl financing has become an important source for developing countries including Pakistan to finance development intervensions and generate economic activity in the economy. It not only improves efficiency of resource allocation and economic growth but also helps government to augment its limited financial resources allocated for the provision of public goods such as health, education, safety nets, etc. On one hand, it finances mega development projects like dams, power transmission, roads and rail networks and other infrastructure projects while on the other hand, it provides support to 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 available resources and to cover the budget deficits.

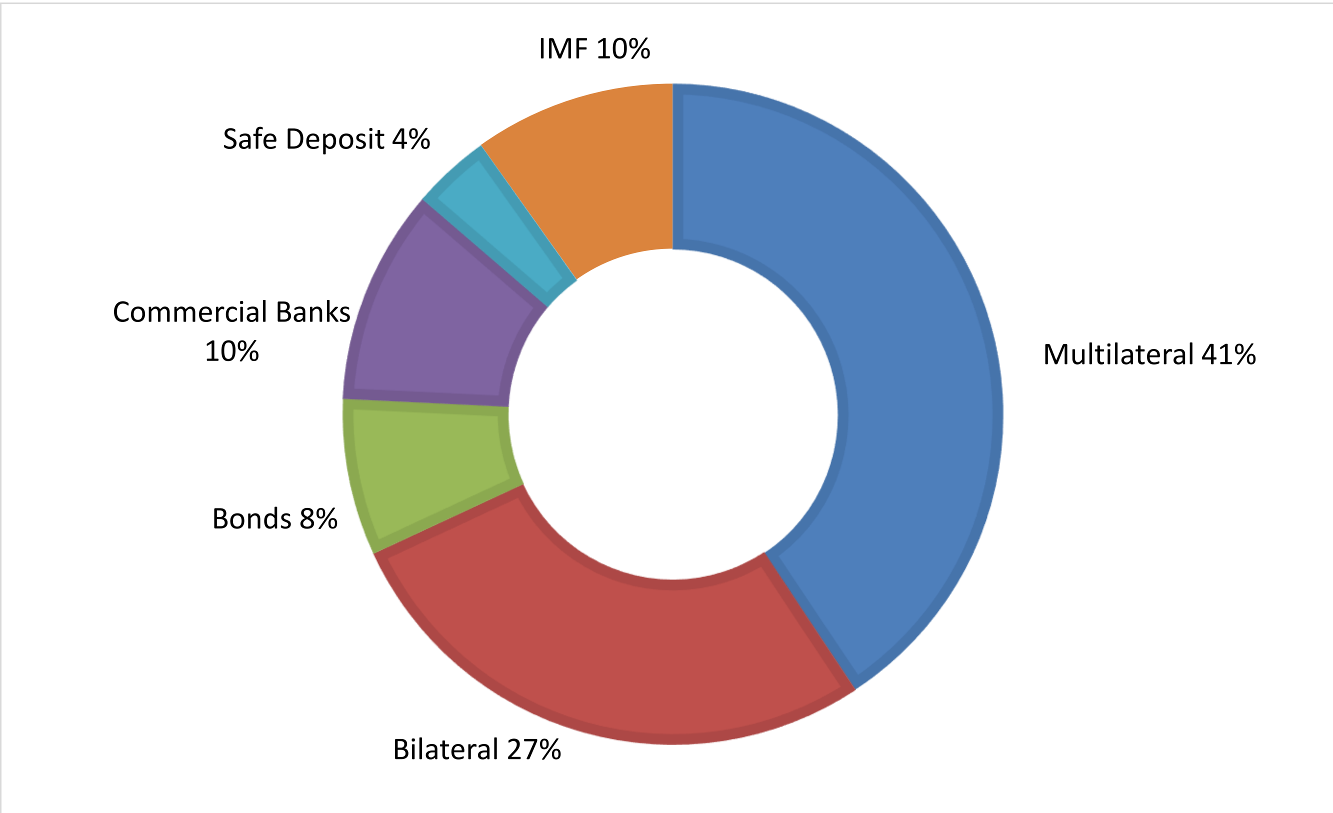
Borrowing can be productive for economic growth of developing countries as long as the economic returns are higher than the cost of borrowed funds. While external debt is useful for growth of the economy, dependence on external debt must be closely monitored and managed. A prudent external debt managemet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

It is impartant to understand the distinction between external debt and external public debt. External debt is the sum of external public debt and external private debt, owed by the private sector including multilnational corporations, banks and other private institutions. Whereas external public debt represents only the debt owed by the government including the obligations of IMF which is to be repayed out of budgetary resources.

4.1. Composition of External Public Debt

As of 30th June, 2020, Pakistan's total external public debt stands at USD 77.9 billions. The external public debt was USD 73.4 billion last year so it grew at the rate of 6%. The composition of external public debt (**Figure 9)** demonstrates that Pakistan's external public debt is derived from three key sources. Major source is multilateral debt (comprising of 51% inclusive of IMF), followed by bilateral 31% (inclusive of China's SAFE deposits) while remaining 18% from foreign commercial banks and institutions (inclusive of Eurobonds and Sukuk).

Figure 9 Composition of External Public Debt (As of 30th June, 2020)



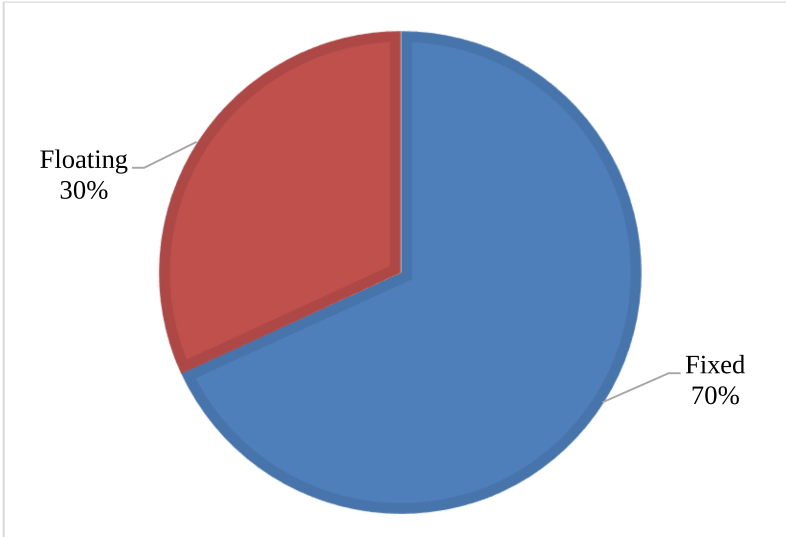
Source: DMFAS database

4.2. 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. Main advantage of having fixed interest rate is fully predictable interest payments and pre-defined amortization schedule. In contrast, floating interest rate is anchored to the prevailing market conditions and is usually indexed with London Inter-Bank Offered Rate (LIBOR). Interest payments of floating rate debt change in accordance with the change in prevailing LIBOR rates.

As of 30th June, 2020, 70% of total external public debt consists of loans on fixed interest rates while remaining 30% loans are obtained on floating interest rates (see **Figure 10**).

Figure 10Nature of External Public Debt



Source: DMFAS database

4.3.External Public Debt Servicing

Government paid an amount of USD 10.4 billion during FY 2019-20 on account of debt servicing of external public loans. It consists of principal payment of USD 8.5 billion and interest payment of USD 1.9 billion. Details are as under:

Table 1:External Public Debt Servicing

(USD Million)

Lender/creditor	Debt Servicing		
	Principal	**Interest**	**Total**
China	358	346	704
Japan	180	48	228
France	67	26	92
USA	45	20	65
Germany	34	10	45
Saudi Arab	30	11	41
Korea	22	6	28
Kuwait	12	3	16
Others	33	15	48
Sub - total	**781**	**485**	**1,266**
ADB	803	202	1,005
IDB	93	40	133

IDB (Short term)	837	48	885
World Bank	537	228	765
OPEC Fund	9	2	12
Others	10	23	33
Sub - Total	**2,290**	**543**	**2,833**
Bonds	1,000	396	1,396
Commercial Banks	4,435	465	4,900
Grand Total	**8,505**	**1,889**	**10,395**

Source: DMFAS database

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

For the period under review, net transfers to the government were USD 1,810 million[4]. A positive net transfer reflects that during the period government has retired less loans in comparison to the new loans. Interestingly, the stock of external loans which was obtained via market-based instruments has declined by USD 2,062 million (Bonds and Commercial borrowing) and the share of concessional external loans with longer maturity increased by USD 3,871 million (multilateral and bilateral loans). This indicates qualitative improvement in external public debt stock.

Table 2: Net Transfers

(USD Million)

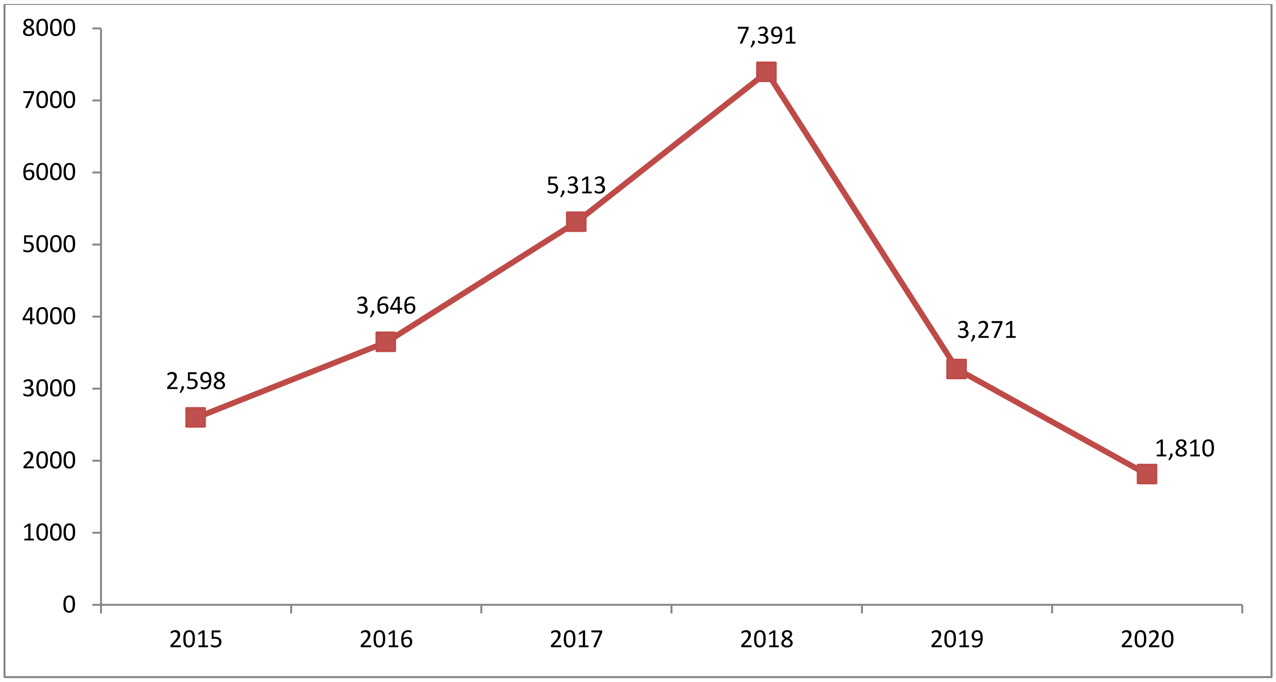
Source	External Loan Inflow	External Loan Outflow	Net Transfers
Bilateral Development Partners	1,399	781	618
Multilateral Development Partners	5,543	2,290	3,253
Commercial Banks	3,373	4,435	(1,062)
Bonds	-	1,000	(1,000)
Grand Total	**10,315**	**8,505**	**1,810**

Source: DMFAS database

[4] 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.

It is also important to mention here that net transfers have remarkably declined after 2018. Trends in net transfers over last 6 years are illustrated in figure 11.

Figure 11: Historical trends in net transfers



Source: DMFAS database

Despite elevated level of external debt servicing, Pakistan has successfully discharged its record debt servicing during FY 2019-20 by successfully mobilizing external resources and shifting focus from short-term commercial high-cost liquidity to long-term concessional flows. This also reflects the prudent external debt management by the government and growing confidence of our development partners.

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