

Quarterly Report on Foreign Economic Assistance

July – September 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 1st quarter of FY 2021-22; 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, 15th March, 2022

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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 of the People's Republic of China
SBP	State Bank of Pakistan
UK	United Kingdom
UN	United Nations
USA	United States of America

CHAPTER 1

INTRODUCTION

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 a 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.

The 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 as well as in international agendas to meet SDGs targets specifically 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 2021 to September 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 Division² (EAD).

1.1. Recording Procedure

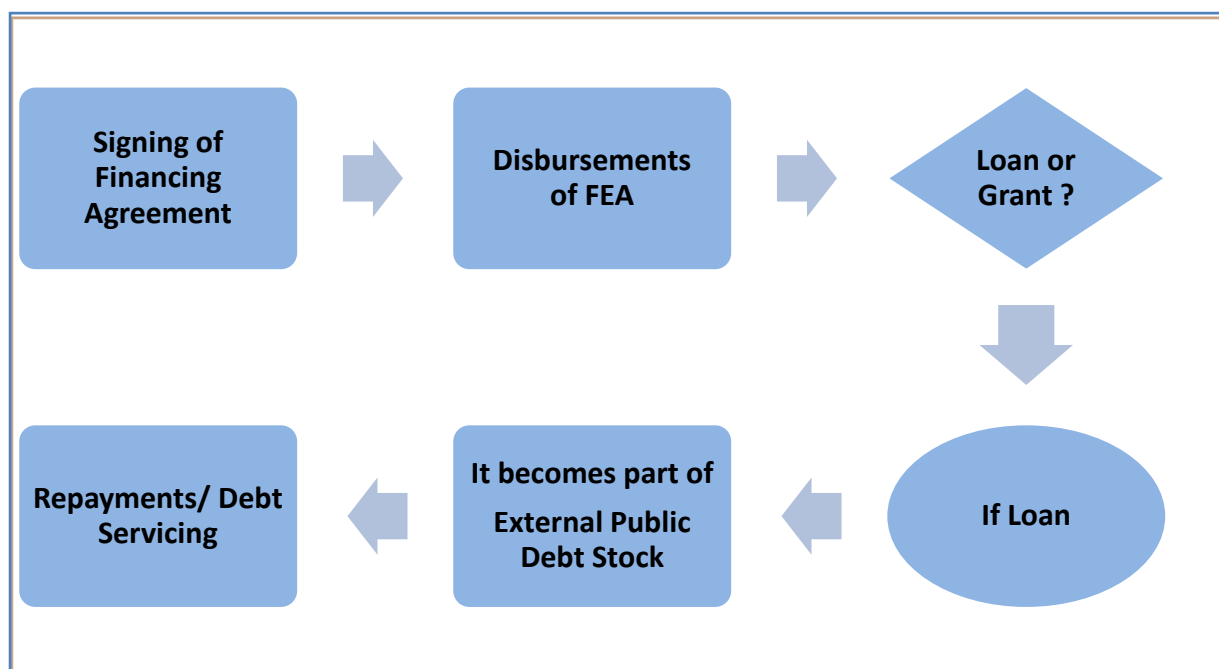
The Rules of Business, 1973 empowers EAD to compile and analyze FEA obtained from all multilateral and bilateral sources. Accordingly, EAD maintains a database namely DMFAS to

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.

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:

Figure 1: Procedure of External Public Debt Recording



Source: PA&D Wing

- Upon approval of a 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 details of the 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 a "Commitment". The Executing Agency, depending upon the requirements of the project/program, initiates a 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 a 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, optimal utilization 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 are likely to be disbursed in the next five to six years³. 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.

During 1st quarter of FY 2021-22, the Government of Pakistan signed new agreements worth USD 2,313 million with multilateral development partners and Foreign Commercial Banks. Out of the total new agreements, USD 628 million worth of financing agreements were signed with multilateral development partners and USD 686 million with foreign commercial banks (see **Figure 2**).

Figure 2: Composition of New Commitments (USD Million)



Data Source: DMFAS Database

In addition, the Government has also successfully received USD 1,000 million from international capital market through tap-issuance⁴. The Eurobonds were issued at the premium amount of USD 22 million along with additional USD 20 million in terms of accrued interest.

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

⁴ It's a procedure to issue new bonds based on past bonds/ debt instruments at current market price with the same coupon rate, maturity date and par value.

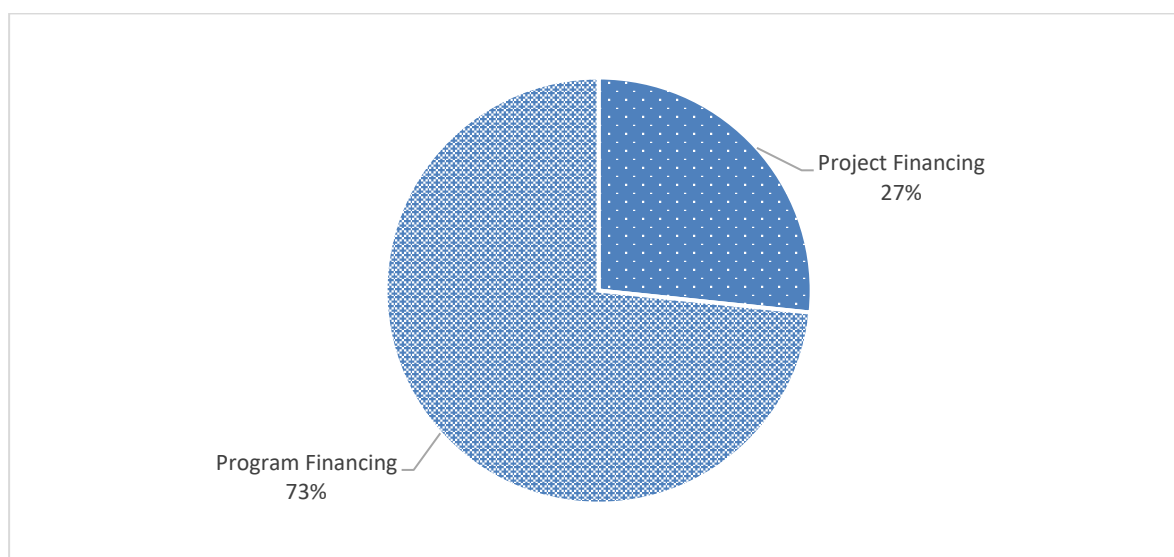
This reflects higher demand of Pakistan's financing instruments and confidence of international investors in Pakistan's economy. However, no financing agreement has been concluded with the bilateral development partners in the aforesaid period. Among the multilateral development partners, ADB emerged as the largest partner in terms of new commitments of FEA of USD 500 million (21% of total commitments) followed by the World Bank.

2.1. 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 1st quarter (Jul - Sep) of FY 2021-22, the Government of Pakistan signed new agreements worth USD 2,313 million. Out of which an amount of USD 1,685 million (or 73% of the total commitments) was earmarked as program financing through foreign commercial banks and Eurobonds to broaden and deepen the financial system, improve fiscal management and regulatory framework to foster growth and competitiveness in Pakistan. An amount of USD 628 million (or 27% of the total) was allocated for project financing (see **Figure 3**). Hence, no funds have been committed for commodity financing in the 1st quarter.

Figure 3 Mode of Commitments

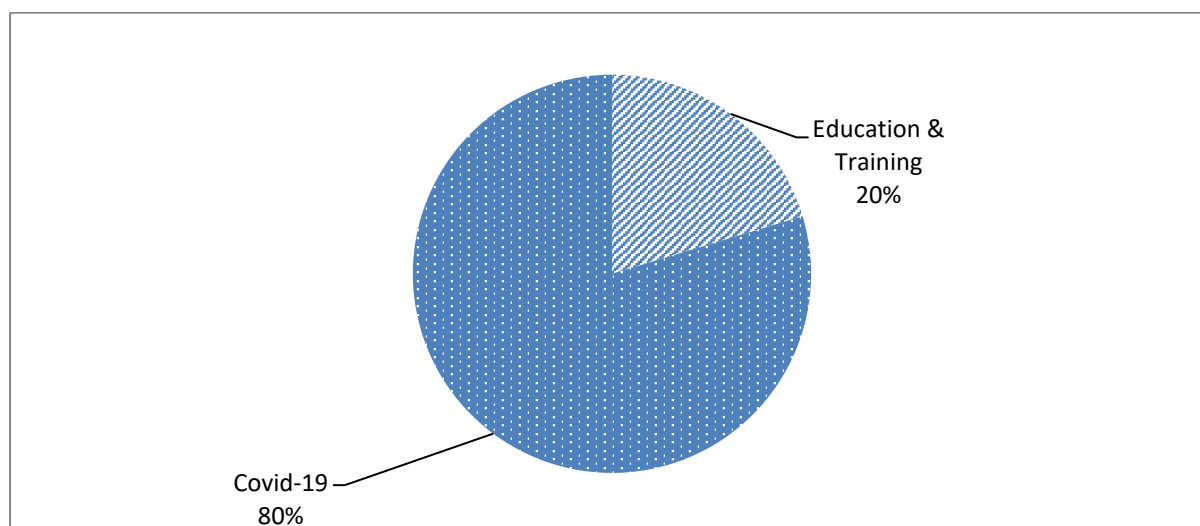


Source: DMFAS Database

2.2. Sectoral Distribution of New Commitments

During the period under review, the Government committed USD 628 million as project financing for the procurement of Covid-19 vaccines and Education and Training Sector of the economy.⁵ The sectoral composition of the new commitments reflects the priority development objectives of the Government and is summarized in **Figure 4**.

Figure 4: Sector-wise Composition of New Commitments (Project Financing)



Source: DMFAS Database

Figure 4 illustrates that financing for the procurement of Covid-19 vaccine has become the key priority of the Government during the July 2021- September 2021 period with the total

⁵ Since program and commercial financing are mainly for the budgetary support, this section only analyzed the sectoral distribution of project financing.

share of 80%. Specifically, ADB has committed USD 500 million against the project “COVID-19 Vaccine Support Project”. Similarly, USD 127 million has been committed by the World Bank to finance a project titled “Sindh Early Learning Enhancement through Classroom Transformation (SELECT)” earmarking 20% of project financing to Education & Training.

CHAPTER 3

DISBURSEMENTS

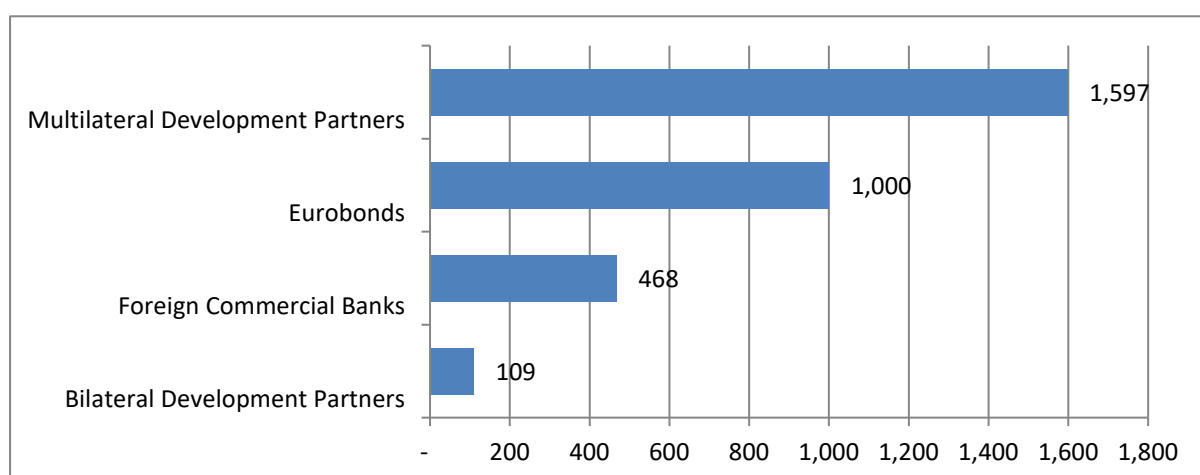
Disbursements of FEA represent the total amount of funds received by the Government from its development partners. Direct comparison of past and current disbursements with new commitments is methodologically counterintuitive as the new commitments are planned to be disbursed in the future over the time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

3.1. Composition of Disbursements

Disbursements of USD 3,174 million during July – September 2021 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions (see **Figure 5**). The composition of disbursements is as follows:

- a) USD 1,597 million or 50% of total disbursements were from the multilateral development partners, mainly ADB, World Bank, and IsDB;
- b) USD 468 million or 15% of total disbursements were from foreign commercial banks.
- c) USD 1,000 million or 32% of total disbursement were from international bond holders
- d) USD 109 million or 3% of the disbursements were from bilateral development partners particularly China, USA and the UK.

Figure 5: Composition of Foreign Economic Assistance (USD Million)

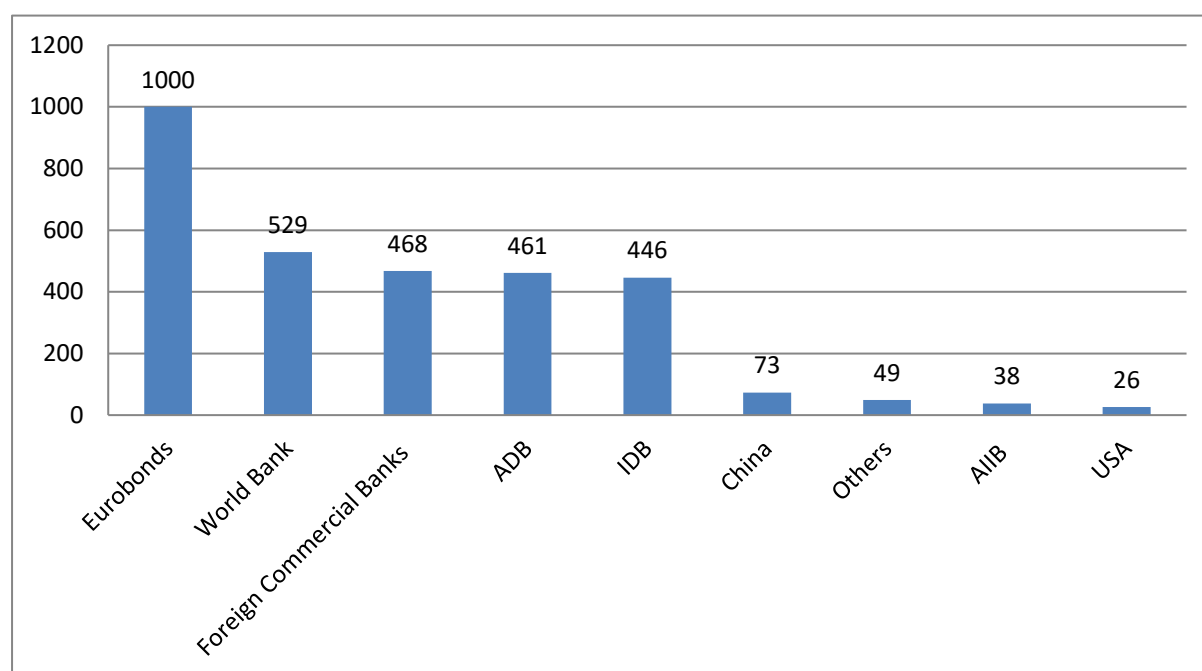


Source: DMFAS Database

Details of the disbursements made by development partners are summarized in **Figure 6**. Around USD 1,597 million (50% worth of disbursement) came from multilateral development

partners and disbursement of USD 1,000 million (32% of total disbursements) were from bond holders. Amongst multilateral development partners, World Bank and ADB were the largest development partners with disbursements of USD 529 million and USD 461 million (16% and 14% of total disbursement) respectively followed by IsDB and AIIB. Similarly, China was the largest among bilateral partners who disbursed USD 73 million or 67% of total bilateral development partners' share of USD 109 million.

Figure 6: Donor-wise Composition of Foreign Economic Assistance (USD Million)

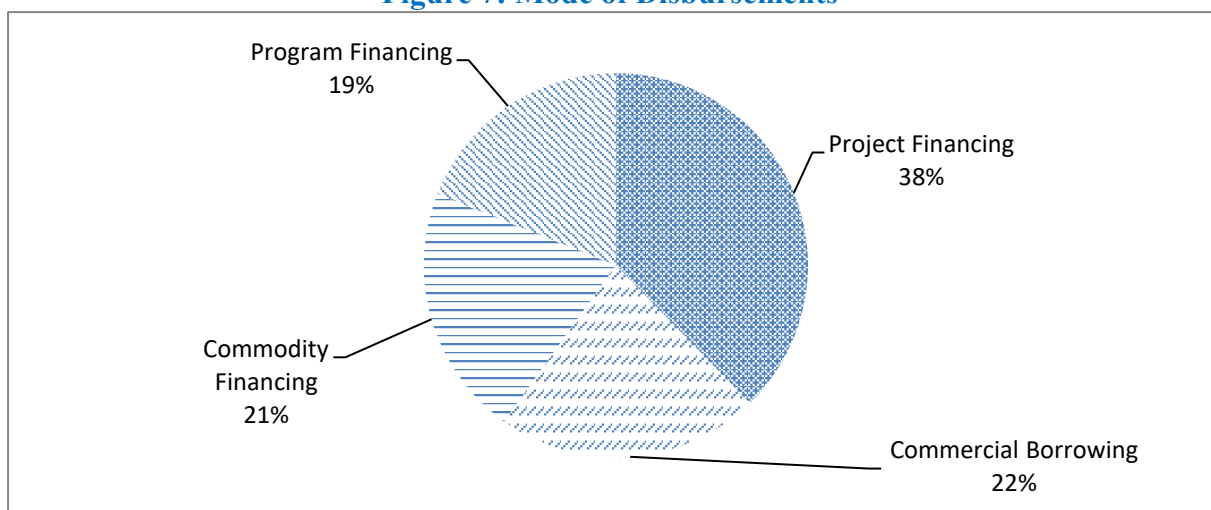


Source: DMFAS Database

3.2. 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, 19% of the total disbursements were program financing (see **Figure 7**) 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 468 million (or 22% of the total) was obtained from foreign commercial banks and USD 796 million (or 38% of the total) as project financing. The remaining 21% of the disbursements were for the commodity financing purposes.

Figure 7: Mode of Disbursements

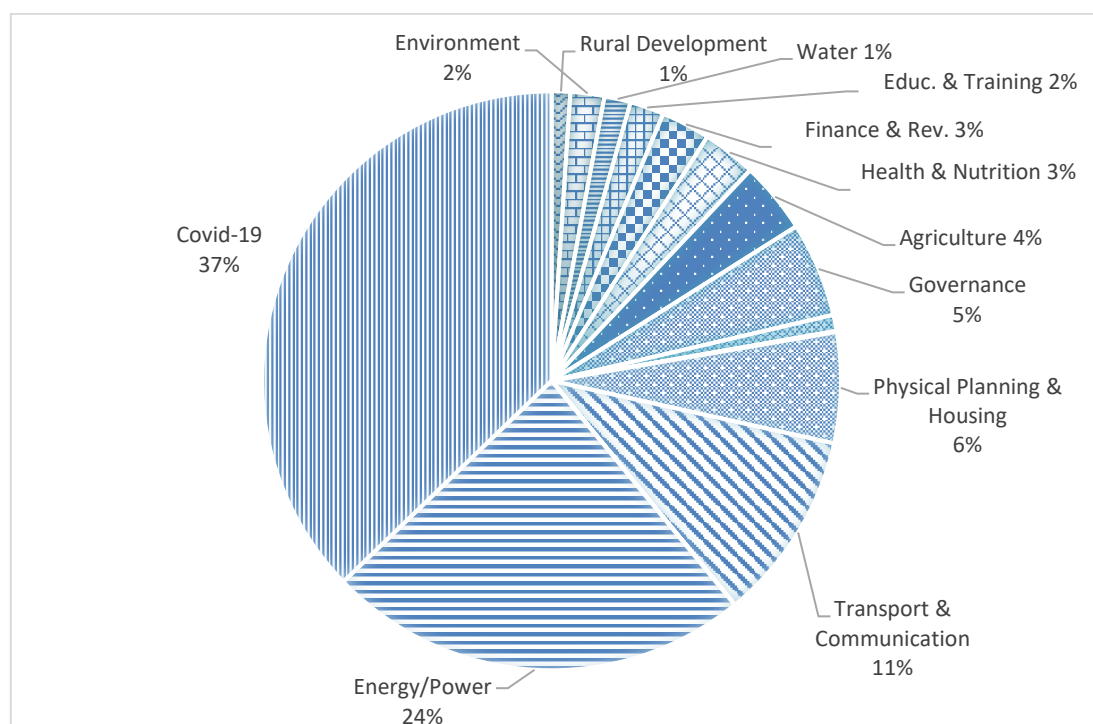


Source: DMFAS Database

3.3. 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 8: Sector-wise Composition of FEA (Project Assistance)



Source: DMFAS Database

The sectoral composition of project assistance is summarized in **Figure 8**. During the 1st quarter of FY2021-22, the largest share of disbursements i.e. 37% of the total was received for Covid-

19 financing needs. On the other hand, the largest sector in terms of disbursements is Energy & Power, having 24% share in the total project assistance of USD 853 million, followed by Transport & Communication (11% share), Transport & Communication (11% share), and Physical Planning and Housing (6% 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 the 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.

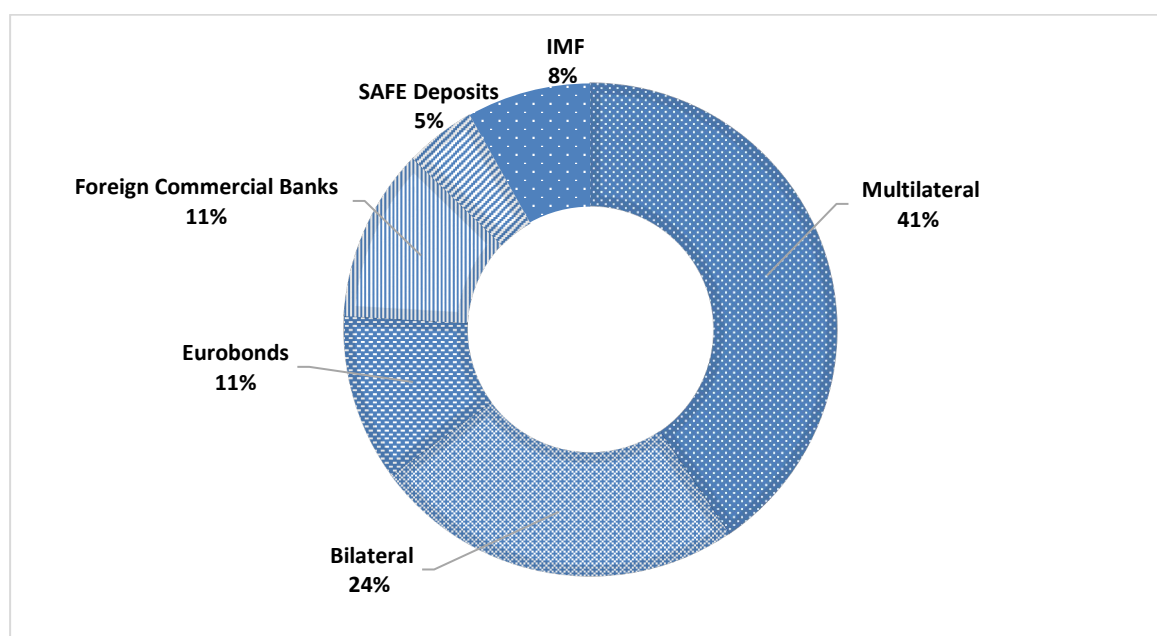
4.1. Composition of External Public Debt

As of 30th September, 2021, Pakistan's total external public debt stood at USD 86.8 billion⁶. The composition of external public debt is summarized in **Figure 9**. 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 (24% share in the total), and foreign commercial banks

⁶ The report does not contain data of Pakistan Banao Certificates (PBC), Naya Pakistan Certificate (NPC) and foreign portfolio investment in GoP's domestic securities.

(11% share in the total). The remaining 16% of the external public debt consists of State Administration of Foreign Exchange (SAFE), China's deposit and Eurobonds (inclusive of Sukuk).

**Figure 9: Composition of External Public Debt
(As of 30th September, 2021)**



Source: DMFAS Database

4.2. External Public Debt Servicing

The Government paid an amount of USD 1,353 million during July – September 2021 on account of debt servicing of external public loans. This consists of principal repayment of USD 1,036 million and interest payments of USD 317 million (see **Table 1**).

Table 1: External Public Debt Servicing (USD Million)

Lender/creditor	Debt Servicing		
	Principal	Interest	Total
Foreign Commercial Banks	315	112	427
World Bank	221	70	292
ADB	245	27	273
IMF	223	36	259
Bonds	-	32	32
China	7	7	14
Kuwait	3	0	3
Others	21	31	53
Total	1,036	317	1,353

Source: DMFAS Database

During the period under review, the bulk of repayments were made to foreign commercial banks, having 32% share in the total repayments, followed by World Bank (22% share), ADB (20% share), and China (14% share in the total).

4.3. 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 debt stock while negative balance depicts a decrease in external debt stock.

For the period under review, net transfers to the Government's external public debt were USD 2,065 million⁷ (see Table 2) whereas it was USD 1,408 million during the corresponding period last year. The share of concessional external loans with longer maturity increased by USD 1,145 million (multilateral and bilateral loans) and the share of commercial borrowing has increased by USD 1,143 million, this includes net borrowing of USD 143 million from commercial banks and USD 1,000 million from Eurobonds.

Table 2: Net Transfers (USD Million)

Source	External Loan Inflow	External Loan Outflow	Net Transfers
Commercial Banks	458	315	143
Bilateral Development Partners	78	10	68
Multilateral Development Partners	1,565	488	1,077
Bond Holders	1,000	-	1000
IMF	-	223	-223
Grand Total	3,101	1,036	2,065

Source: DMFAS Database

⁷ Since net transfers are estimated on actual exchange rate whereas external public debt stock is estimated at a point of time, therefore, due to the difference in exchange rate these two numbers may differ.