

QUARTERLY REPORT ON FOREIGN ECONOMIC ASSISTANCE

(July 2020 – March 2021)

Government of Pakistan
MINISTRY OF ECONOMIC AFFAIRS
Policy Analysis and Development Wing

PREFACE

Preparation of '*Quarterly Report on Foreign Economic Assistance*' is a regular feature of EAD. This provides an overview of Pakistan's external inflows, outflows, external public debt and debt servicing. The report provides valuable information to researchers, economists and local and international development partners on external economic assistance position of Pakistan.

The report is divided into four chapters. 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 July 2020-March 2021. Chapter 3 narrates the total disbursements made by the development partners during the period. 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 of Economic Affairs Division. Electronic copy of the bulletin is available on 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 welcomed.

NOOR AHMED
Secretary (EAD)

Islamabad, 30th June, 2021

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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 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 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 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 March 2021. Data has been obtained from the Debt Management and Financial Analysis System (DMFAS) database maintained by Debt Recording and Reporting Centre of the Economic Affairs Division².

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 namely DMFAS besides follows the following procedure to record FEA transactions.

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

²The 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 detail 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 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 "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.

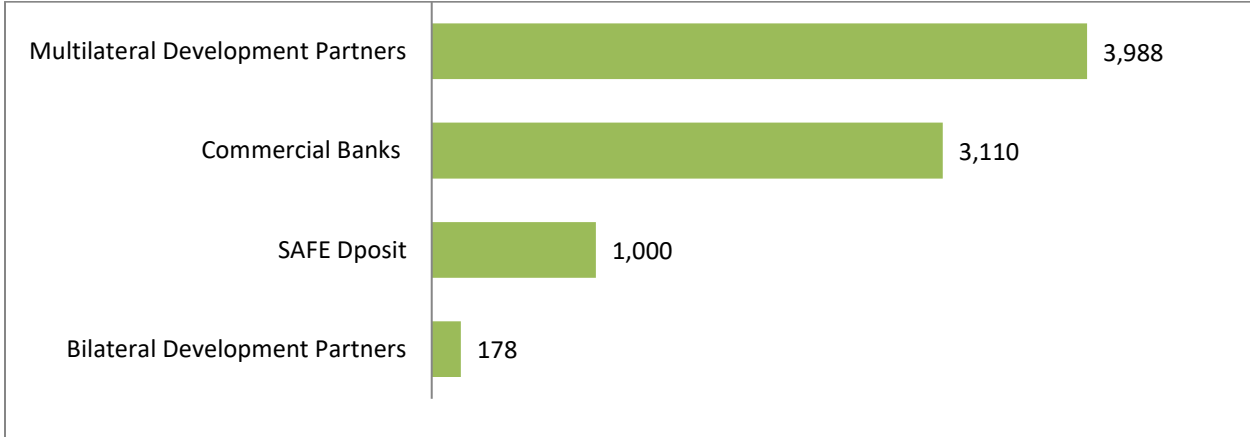
Chapter 2

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 and Justice 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 2020-21, the Government of Pakistan signed new agreements worth USD 8,276 million with various development partners, SAFE deposits and foreign commercial banks. Out of total new agreements, USD 3,988 million worth of financing agreements were signed with multilateral development partners, USD 3,110 million with foreign commercial banks, USD 1,000 million as SAFE deposit, and USD 178 million with bilateral development partners (see **Figure 1**).

Figure 1: Composition of New Commitments (USD Million)

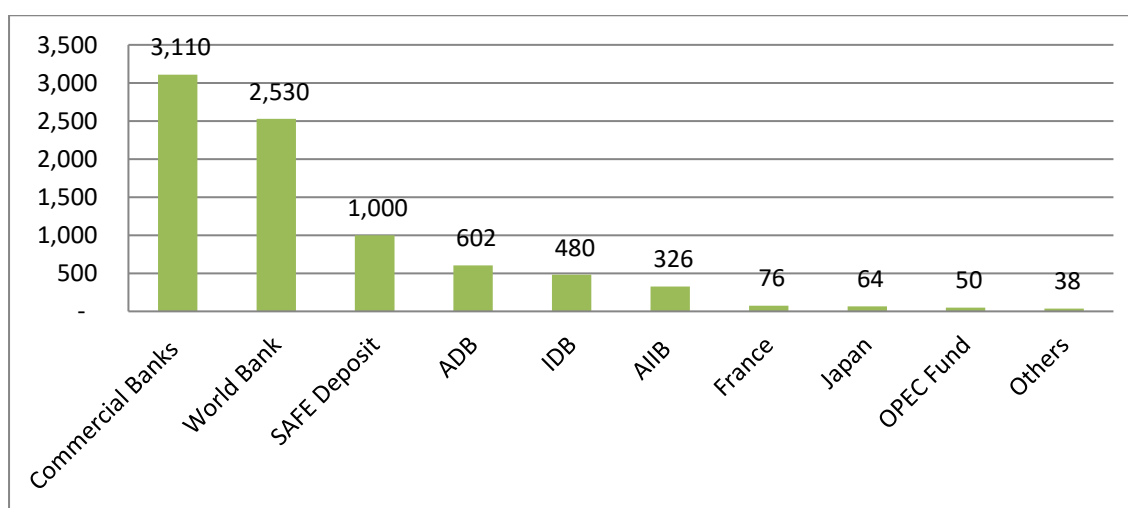


Data Source: DMFAS database

2.1. Commitments by Development Partners

Around USD 3,110 million worth of agreements, which constituted 38% of the total new commitments were commercial borrowing (see **Figure 2**). This financing was arranged to refinance maturing commercial debt. An amount of USD 1,000 million (12%) has been arranged from China SAFE authority to repay deposit to a friendly country. After commercial banks and SAFE Deposit, World Bank emerged as the largest development partner in terms of new commitments of FEA (30%) followed by Asian Development Bank (7%), Islamic Development Bank (6%) and Asian Infrastructure Investment Bank (4%).

Figure 2: Composition of New Commitments (USD Million)



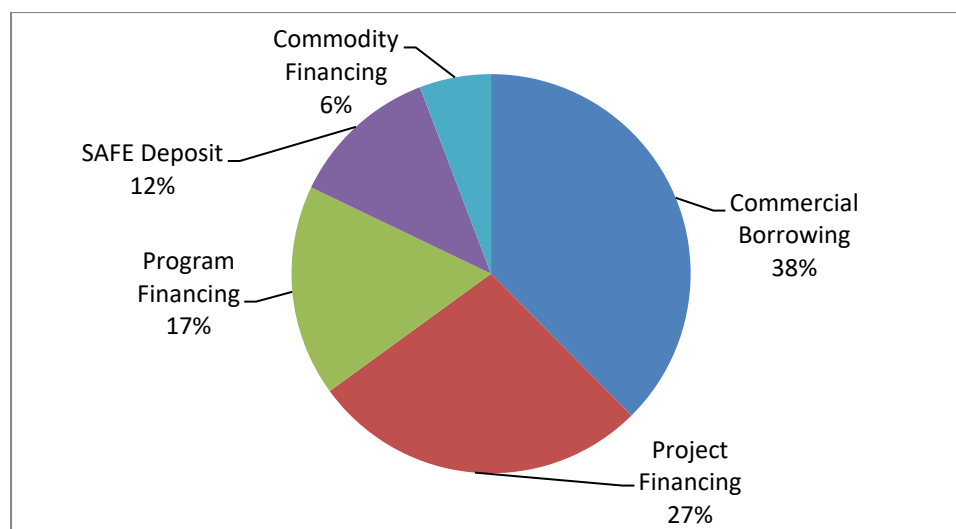
Source: DMFAS database

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 and is generally obtained from multilateral development partners such as ADB, World Bank, AIIB, etc. (on concessional terms and conditions with longer maturity). The commodity financing is arranged for the procurement of crude oil mainly from the IDB. In addition, the government also raises funds from international financial institutions and capital markets to meet its immediate fiscal and liquidity requirements.

During the period an amount of USD 4,527 million has been committed as budgetary support; of which USD 1,417 was committed by multilateral development partners as program financing. The program financing has been arranged to broaden and deepen the financial system, improve fiscal management and regulatory framework to foster growth and competitiveness in Pakistan. The remaining amount of USD 3,110 million was arranged from foreign commercial banks. An amount of USD 2,269 million was allocated for project financing. Similarly, USD 1,000 million has also been arranged from SAFE authority. The remaining amount of USD 480 million has been arranged for the commodity financing purposes (see **Figure 3**).

Figure 3 Mode of Commitments



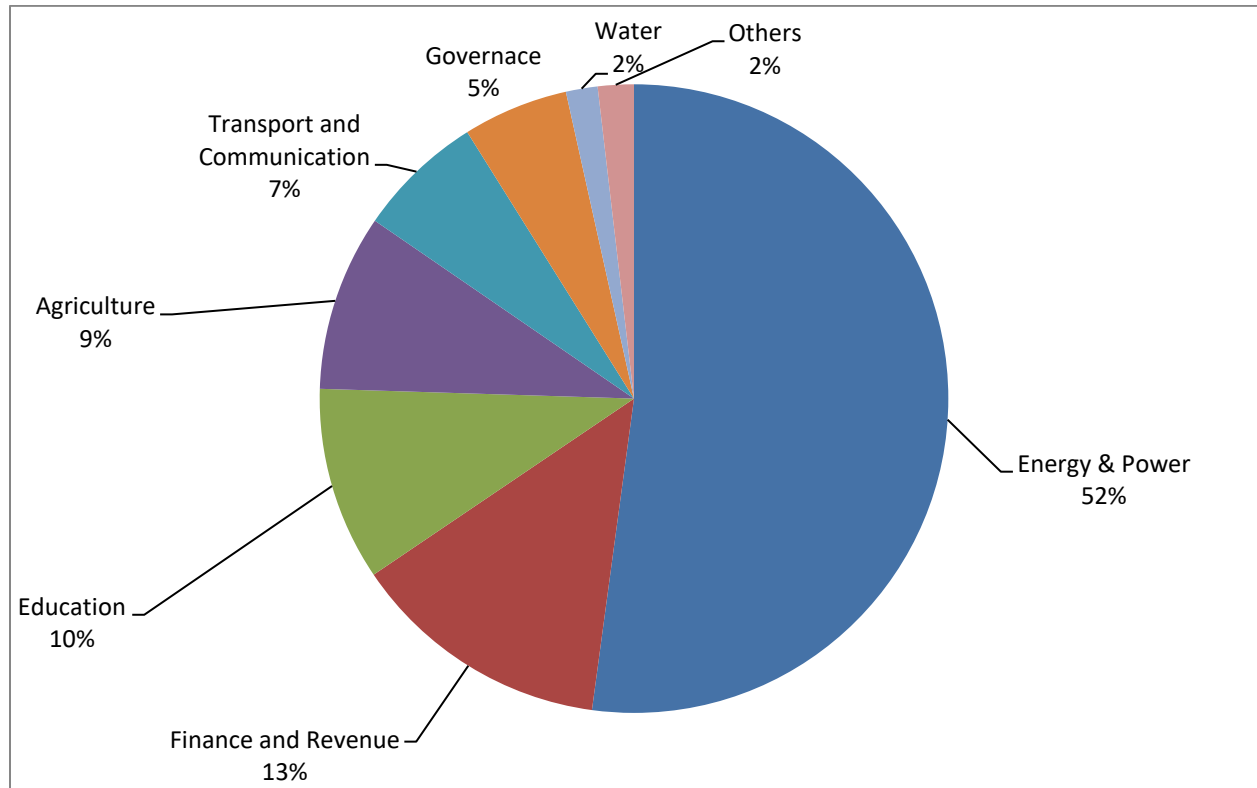
Source: DMFAS database

2.3. Sectoral Distribution of Commitments

The government is receiving project financing³ for various sectors of the economy, ranging 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 the period 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 Energy & Power is the key priority of the Government during the July 2020-March 2021 with the total share of 52%. Finance and Revenue emerged as second priority with a share of 13%, followed by Education (10%), Agriculture (9%), Transports and Communication (7%), Governance (5%) and Water (2%).

Chapter 3

Disbursements

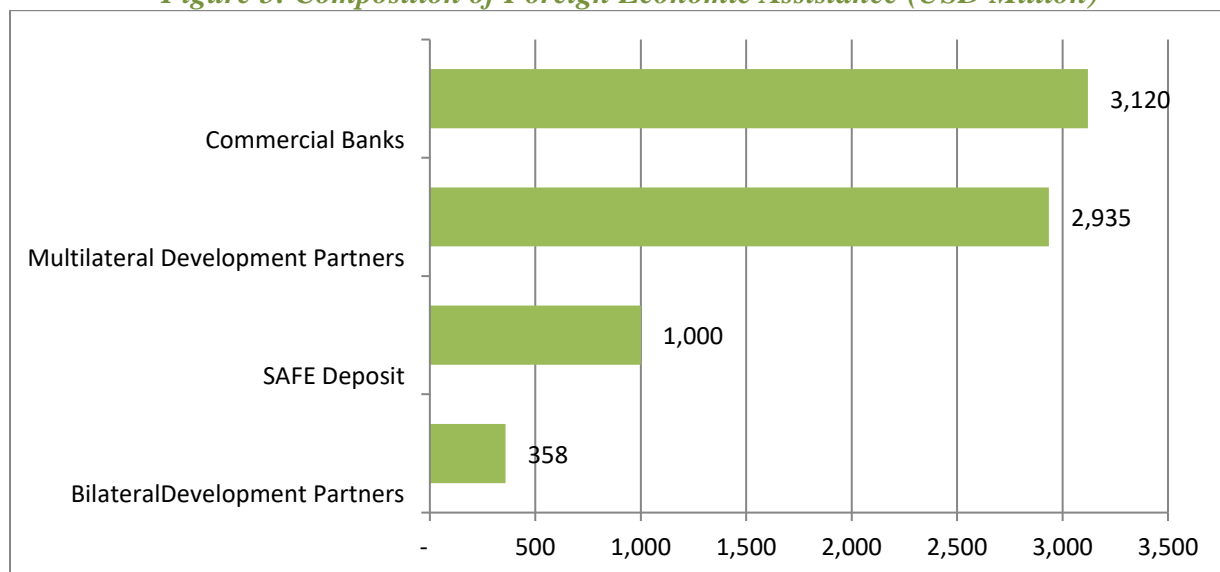
Disbursements of FEA represent the total amount received by the government from its development partners. Direct comparison of disbursements with new commitments is not useful as the commitments are planned to be disbursed over the time span of five to six years, whereas disbursements during a particular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

3.1. Composition of Disbursement

Disbursements of USD 7.4 billion during July 2020-March 2021 were mainly under the projects and programs loans/grants from multilateral, bilateral development partners and financial institutions (see **Figure 5**). The composition of disbursement is as follows:

- a) USD 2,935 million or 40% of total disbursements were from the multilateral development partners, mainly Asian Development Bank, World Bank, Islamic Development Bank and Asian Infrastructure Investment Bank;
- b) USD 3,120 million or 42% of total disbursements were from foreign commercial banks.
- c) USD 1,000 million or 13% of total disbursement were from SAFE deposit.
- d) USD 358 million or 5% of the disbursements were from bilateral development partners particularly China, France, USA and the UK.

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

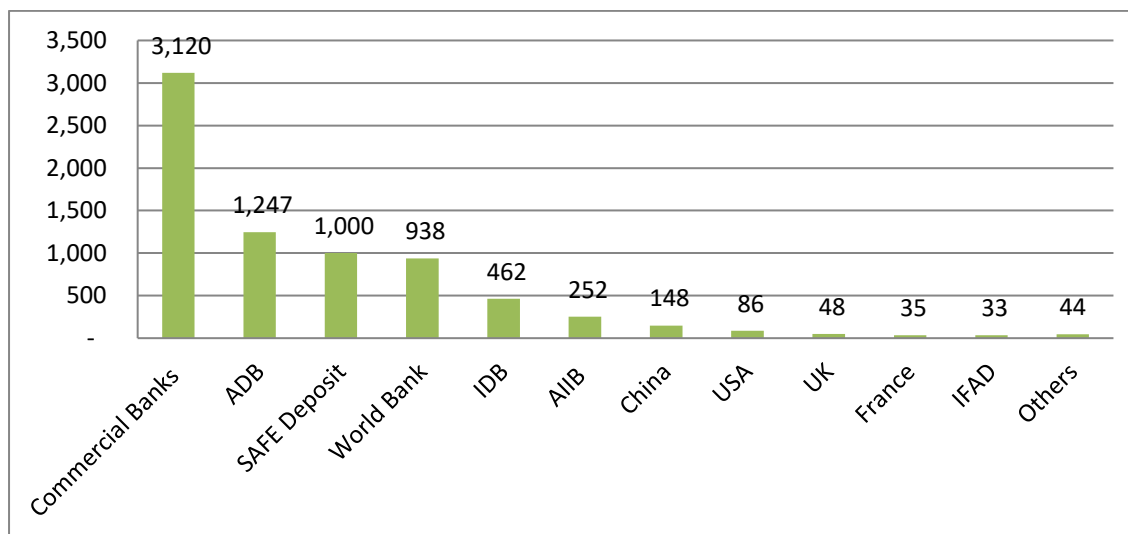


Source: DMFAS database

The inflows from the multilateral and bilateral development partners are indicative of their commitment to support development priorities of the Government. These inflows are long term and on concessional terms with lower cost which is a reflection of healthy composition and quality of external public debt.

Detail of the disbursements made by development partners is summarized in **Figure 6**. Around USD 3,120 million (42%) worth of disbursement came from commercial borrowing and disbursement of USD 1,000 million (17%) were SAFE deposit. After Commercial borrowing and SAFE deposit, ADB and World Bank are the largest development partners with disbursement of USD 1,247 million (17%) and USD 938 million (13%) followed by Islamic Development Bank (6%) and AIIB (3%) and China (2%).

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

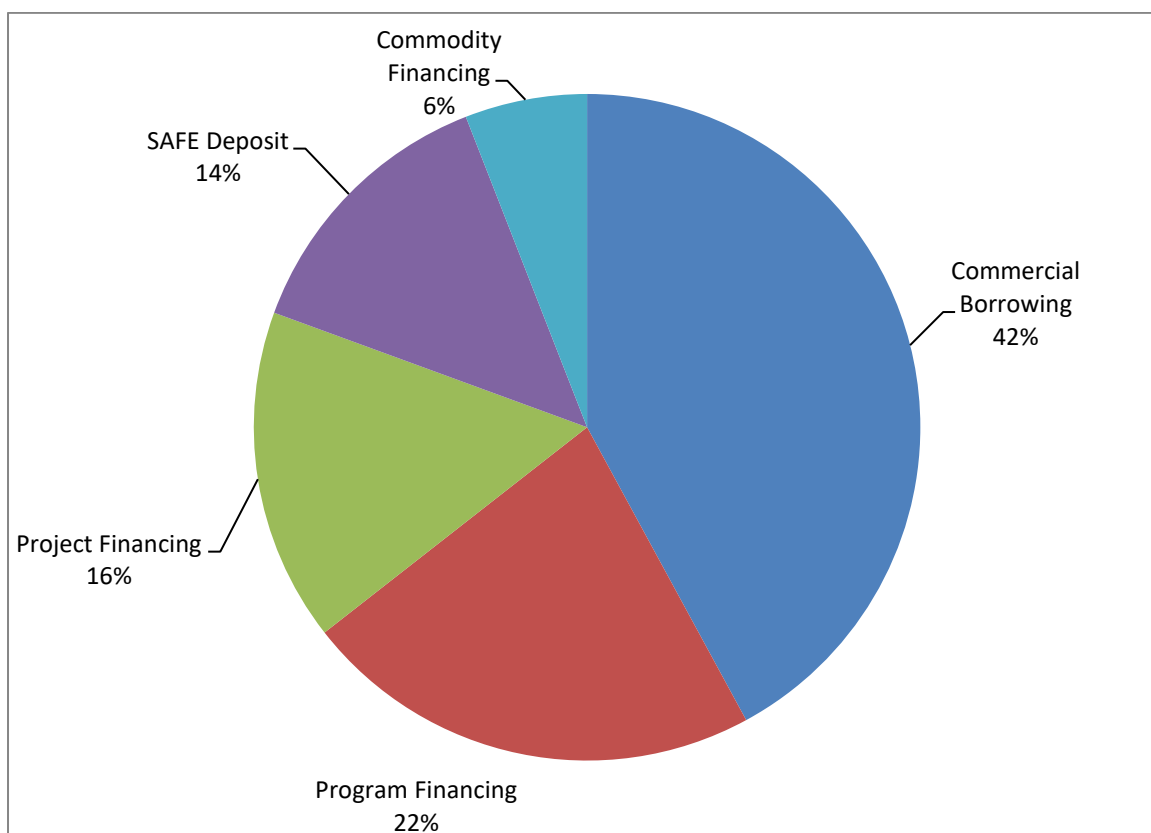


Source: DMFAS database

3.2. Mode of Disbursements

FEA is mainly received in the shape of program financing, project financing and commodity financing. During the period under review, 22% 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 1.0 billion (18% of the total disbursement) was obtained from China SAFE authority to repay deposit received from a friendly country. The amount of USD 3,119 million (42%) was obtained from foreign commercial banks. The amount of USD 1,197 million (16%) was obtained as project financing. The remaining 6% of the disbursement were for the commodity financing purposes.

Figure 7: Mode of Disbursements



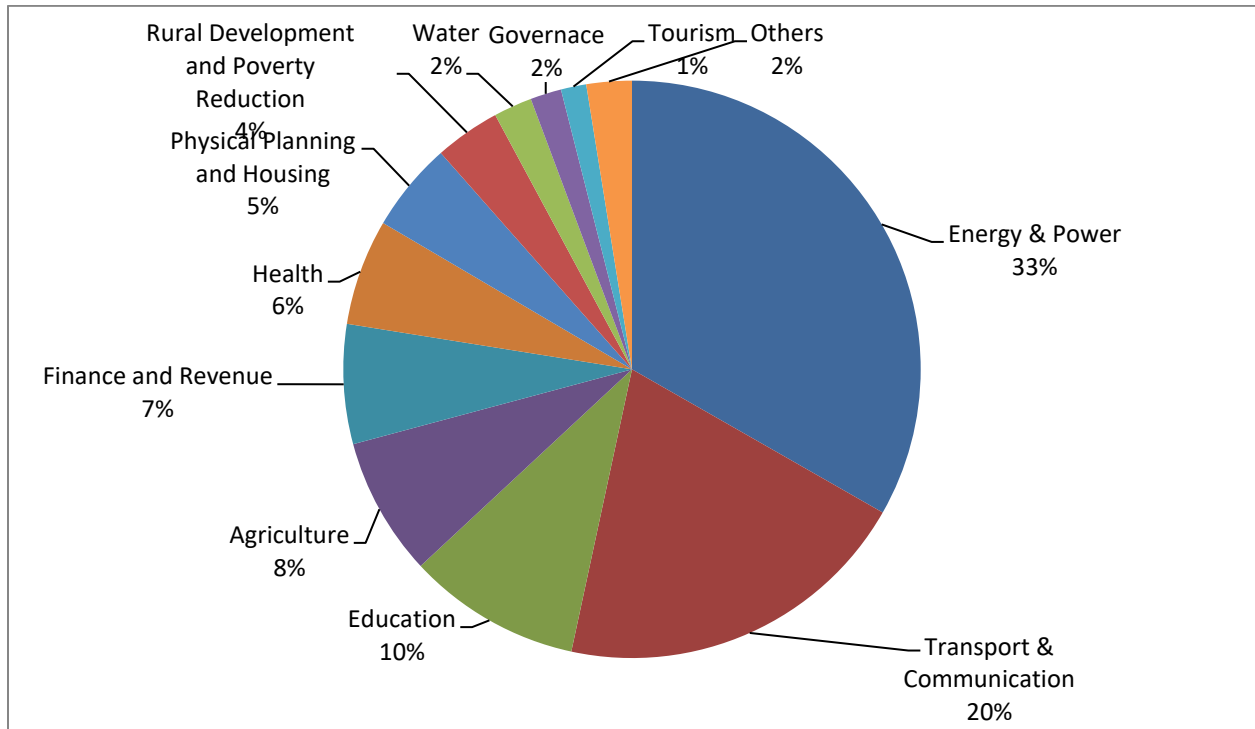
Source: DMFAS database

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 portfolio of project assistance in the country.

The sectoral composition of project assistance is summarised in **Figure 8**. The largest sector in terms of disbursements is Energy & Power (33%) followed by Transport & Communication (20%), Education (10%), Agriculture (8%), Finance & Revenue (7%), Health (6%) and Physical Planning and Housing (5%).

Figure 8: Sector wise composition of FEA (project assistance)



Source: DMFAS database

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 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.

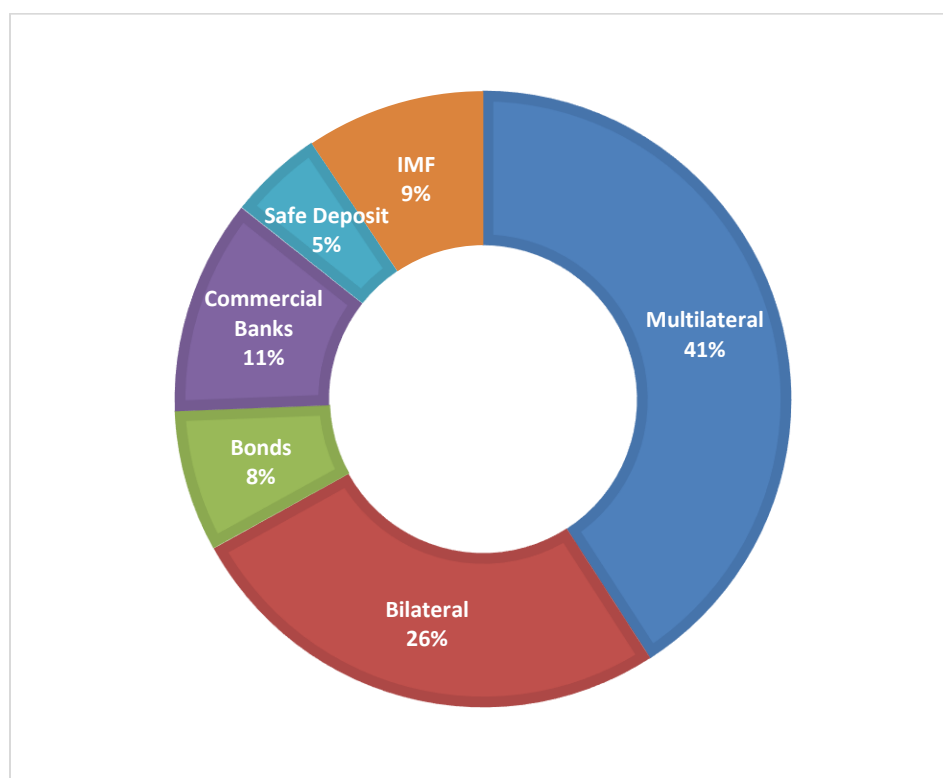
Borrowing can be productive for economic growth of developing countries as long as the economic returns are higher than the cost of borrowed funds. While external debt is useful for growth of the economy, dependence on external debt must be closely monitored and managed. A prudent external debt management 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.

It is important 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 multinational 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 31st March, 2021, Pakistan's total external public debt stands at USD 81.2 billions. 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 50% inclusive of IMF), followed by bilateral 26%, and foreign commercial banks 11% while remaining 13% of debt consists of SAFE deposit and Bonds (inclusive of Sukuk).

*Figure 9: Composition of External Public Debt
(As of 31st March, 2021)*



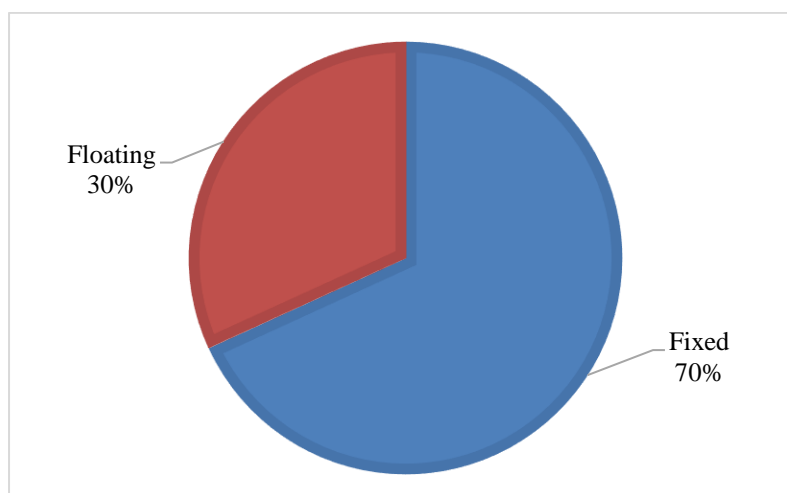
Source: DMFAS database

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 that interest payments are fully predictable and amortization schedule is pre-defined. 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 31st March, 2021, 70% of total external public debt consists of loans on fixed interest rates while 30% loans are obtained on floating interest rates (see **Figure 10**).

Figure 10: Nature of External Public Debt



Source: DMFAS database

4.3. External Public Debt Servicing

Government paid an amount of USD 5,419 million during July 2020-March 2021 on account of debt servicing of external public loans. It consists of principal payment of USD 4,374 million and interest payment of USD 1,045 million. Details are as under:

Table 1: External Public Debt Servicing

(USD Million)

Lender/creditor	Debt Servicing		
	Principal	Interest	Total
Commercial Banks	2,344	275	2,619
IDB	780	59	839
ADB	658	122	780
World Bank	484	184	668
Bonds	-	213	213
China	79	100	179
Others	28	92	120
Total	4,374	1,045	5,419

Source: DMFAS database

During the period majority of repayments were made against the commercial banks (48%), followed by IDB (15%), ADB (14%), World Bank (12%), Bonds (4%) and China (3%).

Net transfer is also critical to analyze overall external debt stock. Net transfers indicate increase or decrease in the external public 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.

For the period under review, net transfers to the government debt were USD 2,850 million⁴. An amount of USD 1,000 million was arranged from SAFE authority to repay deposit received from a friendly country. If that amount is excluded then we have net transfers of only 1,850 million. The share of concessional external loans with longer maturity increased by USD 1,074 million (multilateral and bilateral loans) and the share of commercial borrowing has increased by USD 776 million. This indicates qualitative improvement in external public debt stock.

Table 2: Net Transfers

(USD Million)

Source	External Inflow	External Outflow	Net Transfers
Bilateral Development Partners	207	95	112
Multilateral Development Partners	2,897	1,935	962
Commercial Banks	3,120	2,344	776
SAFE Deposit	1,000	0	1,000
Grand Total	7,224	4,374	2,850

Source: DMFAS database

Pakistan during the period has successfully discharged its debt servicing obligations by 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 confidence of our development partners.

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.