



Economic Affairs Division

# Sectoral Analysis of Foreign Economic Assistance

Policy Report 1/2020

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Policy Analysis and Development Wing



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## **PREFACE**

Policy Analysis & Development Wing of Economic Affairs Division has conducted '*Sectoral Analysis of Foreign Economic Assistance*' to provide important insights of sectoral composition of foreign assistance received by the government from multiple sources during July 2014 to December 2019. Data for the analysis is obtained from Debt Management and Financial Analysis System (DMFAS) database managed by Debt Recording and Reporting Center, Economic Affairs Division, Government of Pakistan.

Efforts have been made to produce a sectoral analysis as a comprehensive, informative and useful document for various stakeholders. It is expected that this analysis will help the relevant stakeholders to prioritize the foreign assistance and provide guidance to divert the foreign assistance into those sectors where it needs.

Suggestions for further improvement will be highly appreciated and welcomed.

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Islamabad, 9<sup>th</sup> March, 2020

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# Sectoral Analysis

## 1. Introduction

The economic rationality of foreign aid rests on the provision of additional resources that may not be available through normal budgetary processes in developing countries. Over the years foreign aid has been given significant importance for bringing economic prosperity in the developing countries. The role of foreign aid has been envisaged as pivotal for the achievement of Sustainable Development Goals.

Pakistan is also receiving foreign aid from various bilateral and multilateral development partners to fill the saving-investment gap and to meet the financing needs for improvement in the socio-economic development sector. Foreign aid also helps the government to implement structural and sectoral reforms in the country and to support balance of payments and budgetary requirements. However, there is a need to periodically review government portfolio of foreign aid to assess its sectoral priorities and dovetail with its overall macroeconomic frame work.

### 1.1 Scope of Analysis

An attempt is made in this Report to review and analyse sectoral composition of new commitments made by the government with various bilateral and multilateral development partners. It also analyzes commitments of foreign commercial banks and international capital market investors. Sectoral analysis will cover the period starting from July, 2014 till December, 2019. Data for analysis is obtained from Debt Management and Financial Analysis (DMFAS) database maintained by Debt Recording and Reporting Centre, Economic Affairs Division.

### 1.2 Legal Provision

Under Rules of Business, 1973, Economic Affairs Division (EAD) is responsible for *inter-alia* compilation, accounting and analysis of economic assistance received from all foreign governments and organizations. Accordingly, EAD maintains a database of foreign funds received from bilateral and multilateral sources, foreign commercial borrowing, issuance of Eurobonds/Sukuk and deposit received from China.

Planning Commission's Guidelines for Project Management, 2008 stipulates *inter-alia* criteria for selection of foreign funded projects which is reproduced as under:

*Only the projects which fall under our economic framework as laid down in the long/medium term/annual plans and the policies of the Government should be sponsored for foreign assistance and that, too, only after approval of their PC-I by the competent forum. Development projects should be identified by the sponsoring agencies strictly on need basis and the donors should not be allowed to determine the priorities of the country.*<sup>1</sup>

The above guidelines clearly develop linkage between government priorities revealed through its long/medium term/annual plans as well as policies and the projects to be sponsored for foreign assistance. However, the guidelines do not clearly mention who will check (i.e. Planning Commission, EAD or Sponsoring agency) the conformity of foreign assisted project with government's overall priority. Apparently, it is the responsibility of the Planning Commission to conform the alignment of project with economic framework as following the guidelines; EAD seeks foreign assistance from potential development partners once either Concept Clearance is made by Concept Clearance Committee housed in Planning Commission or approval on PC-I/PC-II is given by Central Development Working Party (CDWP).

## **2. Composition of Foreign Assistance**

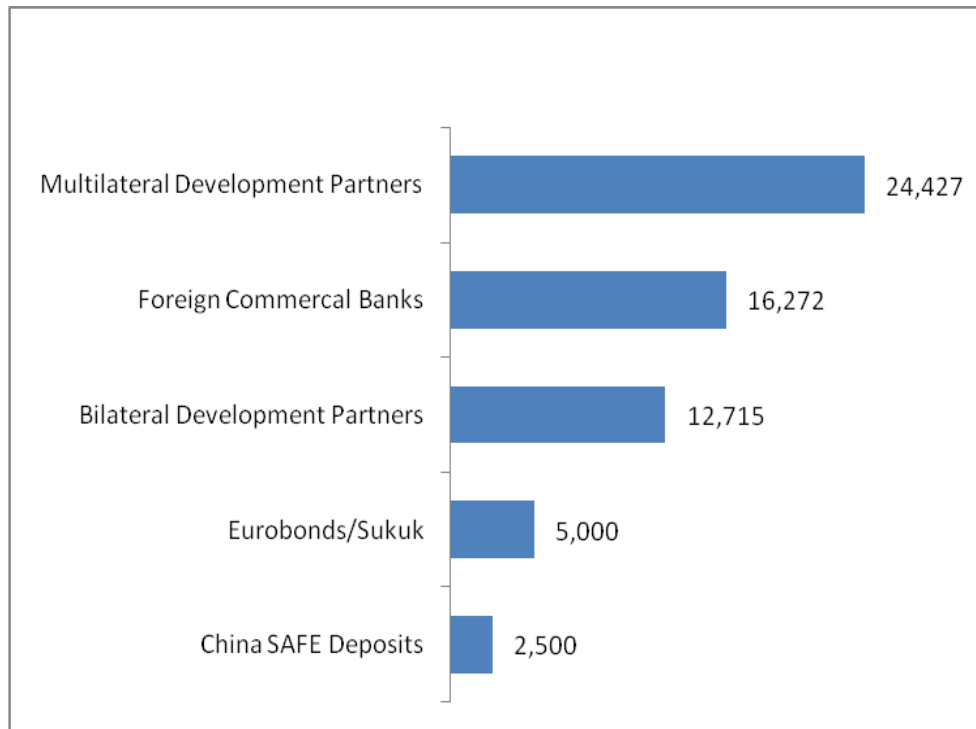
From July 2014 to December 2019, the Government has signed new financing agreements amounting to USD 60,914 million with various financing partners. Of which, USD 24,427 million worth of financing agreements were signed with multilateral development partners that constitute 40% of the total commitments (see Figure 1). With bilateral development partners, USD 12,715 million (21%) worth of new financing agreements signed to finance its development projects and implement structural and sectoral reforms in the country. It is worthwhile to mention that disbursements under these agreements are to be made in piecemeal over the period of next 5 to 10 years depending upon the progress of the project/program activities.

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<sup>1</sup> 'Guidelines for Project Management', Planning Commission, Government of Pakistan, 2008, Page - 34

In addition, the government during the said period raised USD 16,272 million (or 27% of total new agreements) from foreign commercial banks and USD 5,000 million (8%) from international capital markets to support its balance of payments and budgetary requirements. The government also received USD 2,500 million from China in the form of deposits to enhance its foreign exchange reserves.

**Figure 1: Composition of New Commitments (USD Million)**



Data Source: Debt Recording and Reporting Centre, EAD

### 3. Sectoral Composition of Foreign Assistance

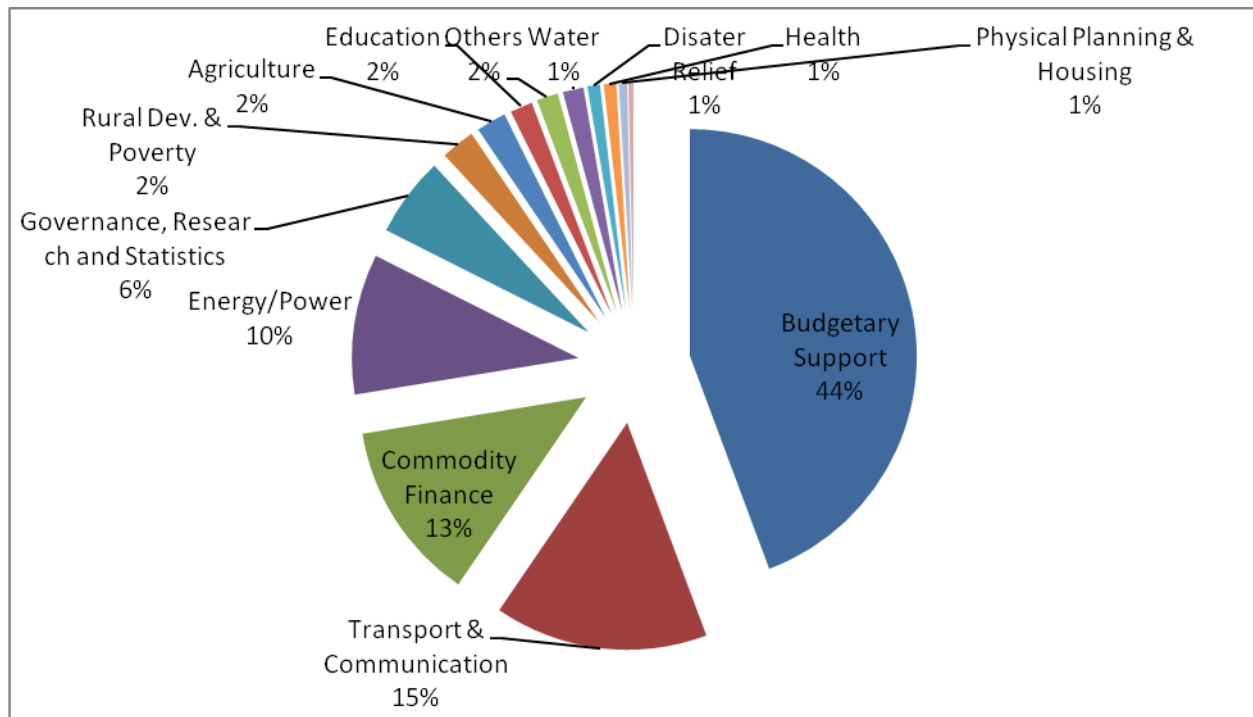
Pakistan is receiving foreign assistance for various sectors of the economy which ranges from energy/power to transport and communication; and from health and education to agriculture and rural development. Besides social and economic sectors, the government also receive foreign funds for balance of payments and budgetary support.

During the period July 2014 to December, 2019 around 44% of total new commitments were came for budgetary support, improving balance of payments position and maintaining foreign exchange reserves at certain level (see Figure 2). Share of transport and communication



sector in total pie was 15%, followed by commodity finance (13 %), energy and power (10 %), and share of governance, research & statistics sector was 6%. Similarly, around 2% each came for rural development & poverty reduction, agriculture, and education sectors. Interestingly, only 1% each was allocated for water, health and physical planning & housing sectors.

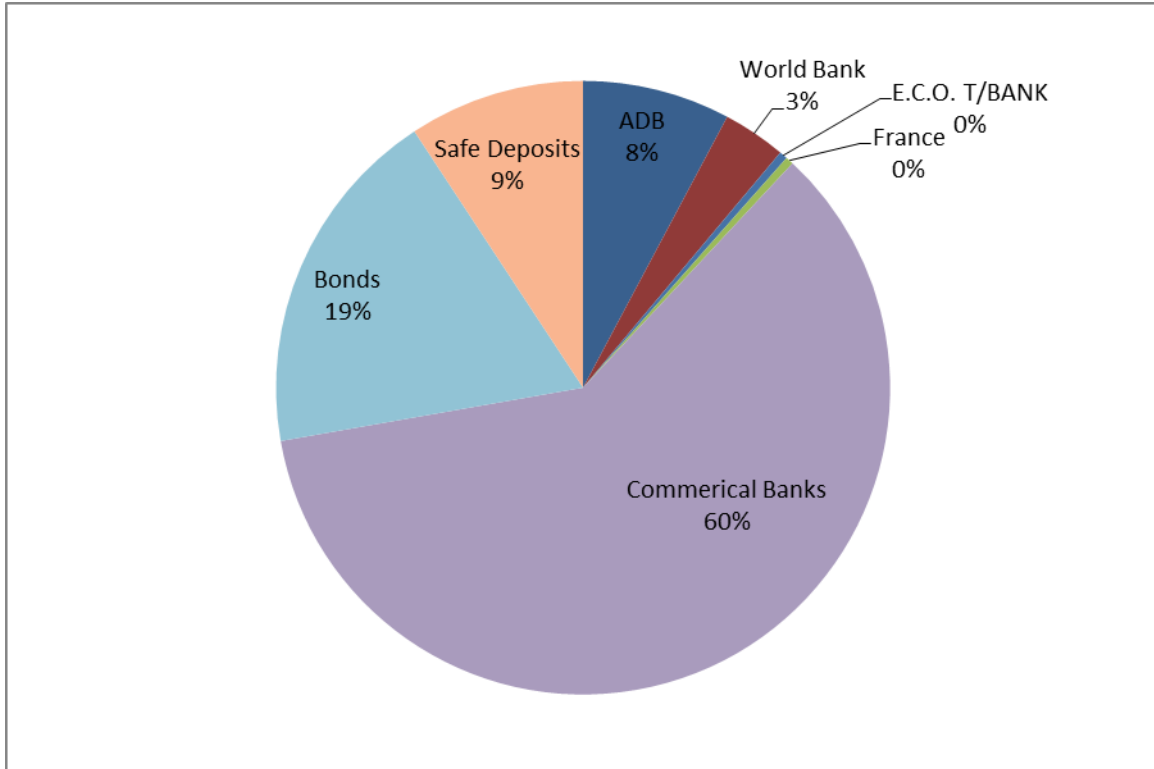
**Figure 2: Sectoral Composition of New Commitments**



Data Source: Debt Recording and Reporting Centre, EAD

### **3.1 Budgetary Support**

During the period under review, USD 26,803 million were committed for budgetary/balance of payments support. Around two-third of total commitments for this sector were committed by foreign commercial banks, followed by international capital market investors and from China in the form of deposits (see Figure 3). In addition, Asian Development Bank and World Bank also helped the government to initiate structural and sectoral reform programs.

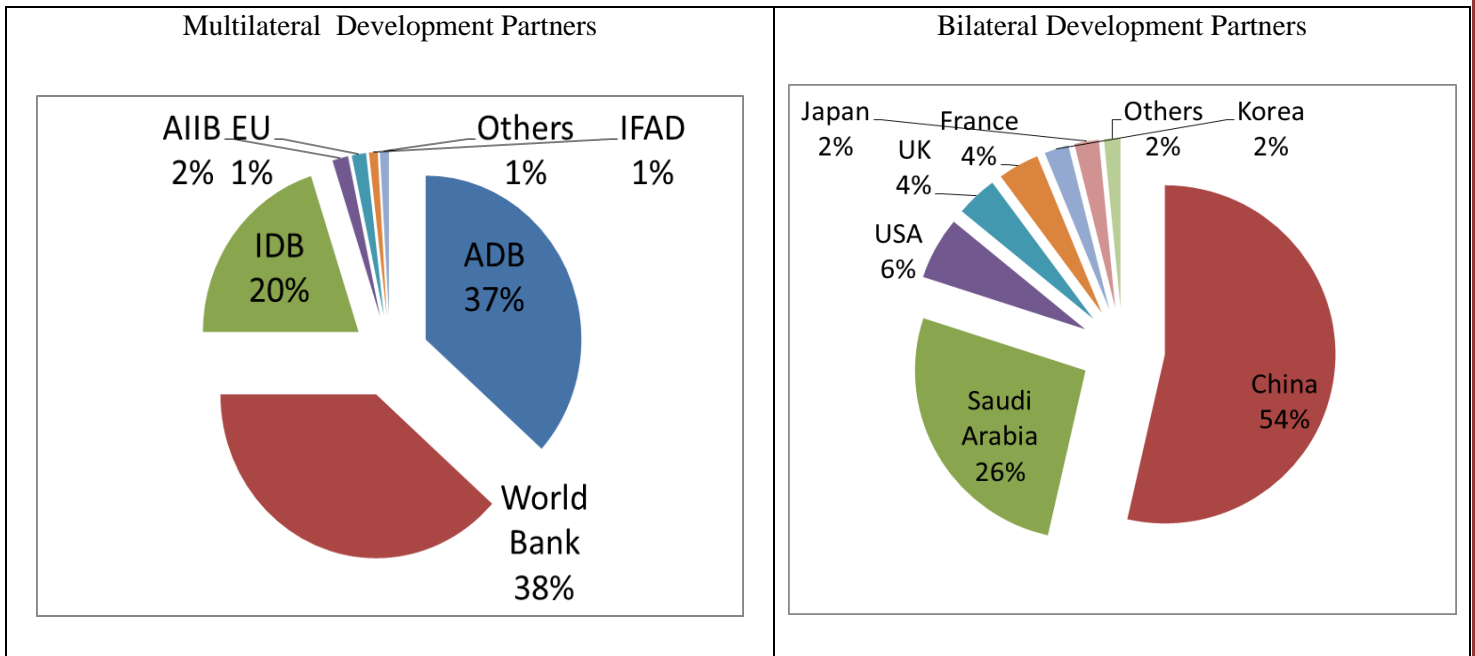
**Figure 3: Composition of Budgetary Support**

Data Source: Debt Recording and Reporting Centre, EAD

### ***3.2 Assistance from Bilateral and Multilateral Development Partners***

Since July 2014 till December 2019, the government has signed new agreements amounting to USD 37,142 million with its bilateral and multilateral development partners. Of which, two-third (i.e. USD 24,427 million) of the total commitments were made by multilateral development partners and remaining by bilateral development partners. Within the multilateral group, 95% of the commitments came from three major financial institutions namely: World Bank (38%), Asian Development Bank (37%) and Islamic Development Bank (20%) (see Figure 4). Similarly in the bilateral group, majority of new agreements were made by China (54%) followed by Saudi Arabia (26%), USA (6%), UK (4%) and France (4%). Sector-wise commitments of loans and grants by multilateral and bilateral development partners are at **Annex-I** and **Annex-II**.

**Figure 4: Commitments from Bilateral and Multilateral Development Partners**



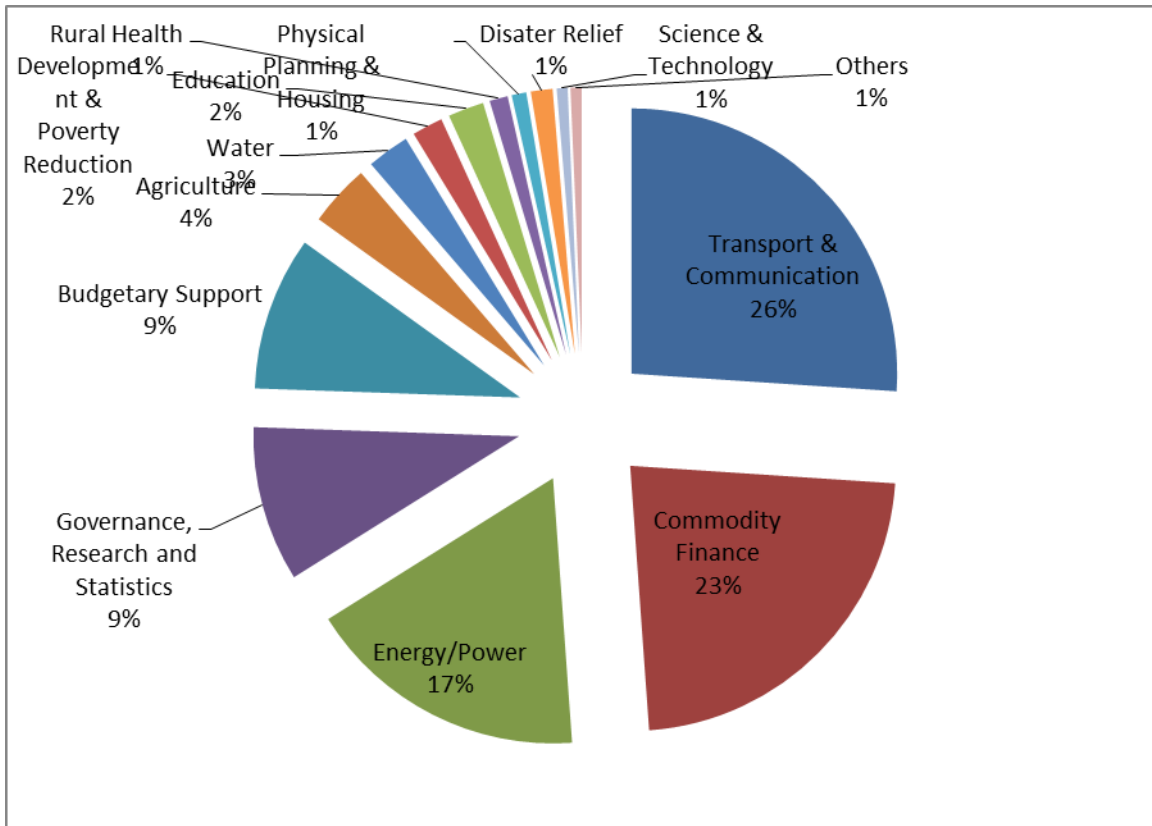
Data Source: Debt Recording and Reporting Centre, EAD

To fulfil development needs, the government is receiving foreign aid for various sectoral developments. During the period under review, one-fourth of the total commitments were made in the transport and communication sector, followed by commodity financing, energy and power sector, governance, research and statistics and budgetary supports<sup>2</sup> (see Figure 5).

Eighteen Constitutional Amendments shifted responsibility to manage *inter-alia* health, education, agriculture, and rural development to the Provinces. Beside devolved subjects, the Federal government helped provincial governments to enhance development in health, education, agriculture and rural sector by arranging foreign aid for these sectors. During the review period, the Federal government arranged 4% each of total commitments for agriculture, rural development and poverty reduction, 3% for education, 2% for water and 1% for health.

<sup>2</sup> It does not include the budgetary support came from commercial borrowing, issuance of Eurobonds and Sukuk

**Figure 5: Sectoral Break-up of Foreign Assistance**



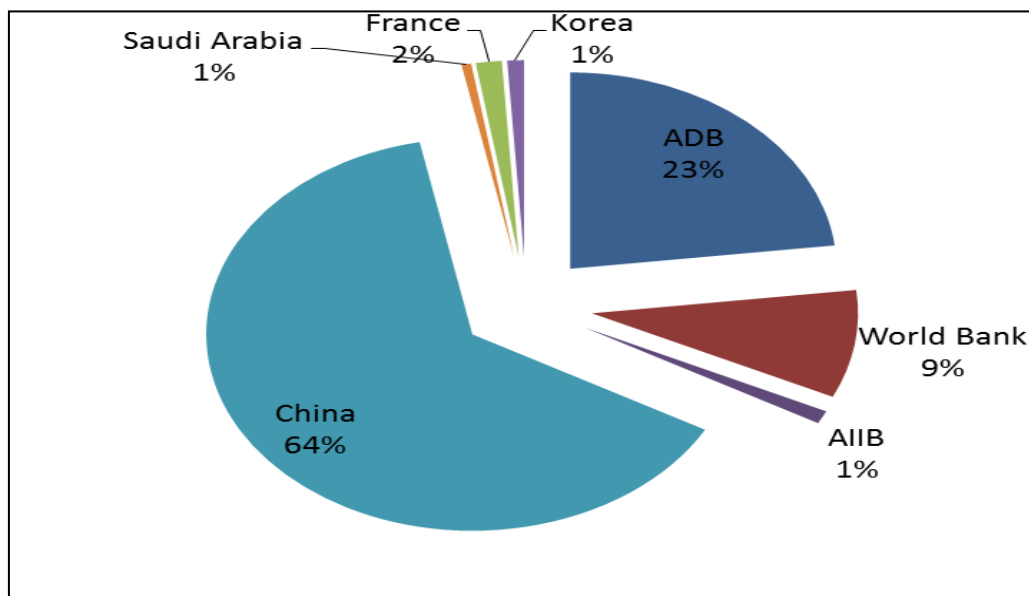
Data Source: Debt Recording and Reporting Centre, EAD

### 3.2.1 Transport and Communication

Economic growth and social development are hardly possible without adequate provision of transport, connecting isolated rural areas to markets and improving agricultural supply chain. These factors are essential for converting agriculture sector from subsistence to a commercial activity. In small and otherwise isolated markets, better transport may weaken monopolistic practices. Better transport and communication system help factories and other segment of societies to provide finished goods to markets, reduces inventory costs and avoids shutdowns. In addition, reduced transport costs permit efficient regional specialization and adoption of new productive activities and techniques.

During the last five years, transport and communication remained an important sector which received USD 9,276 million or 25% of total new commitments. Major reason behind its huge share was that during the period under review, Pakistan initiated various projects to improve its road infrastructure under CPEC which made this sector a priority sector. China under the umbrella of CPEC committed USD 5,913 million (64% of total new commitments in transport and communication sector), ADB's share was USD 2,143 million and World Bank USD 825 million (see Figure 6).

**Figure 6: Foreign Assistance for Transport & Communication Sector**



Data Source: Debt Recording and Reporting Centre, EAD

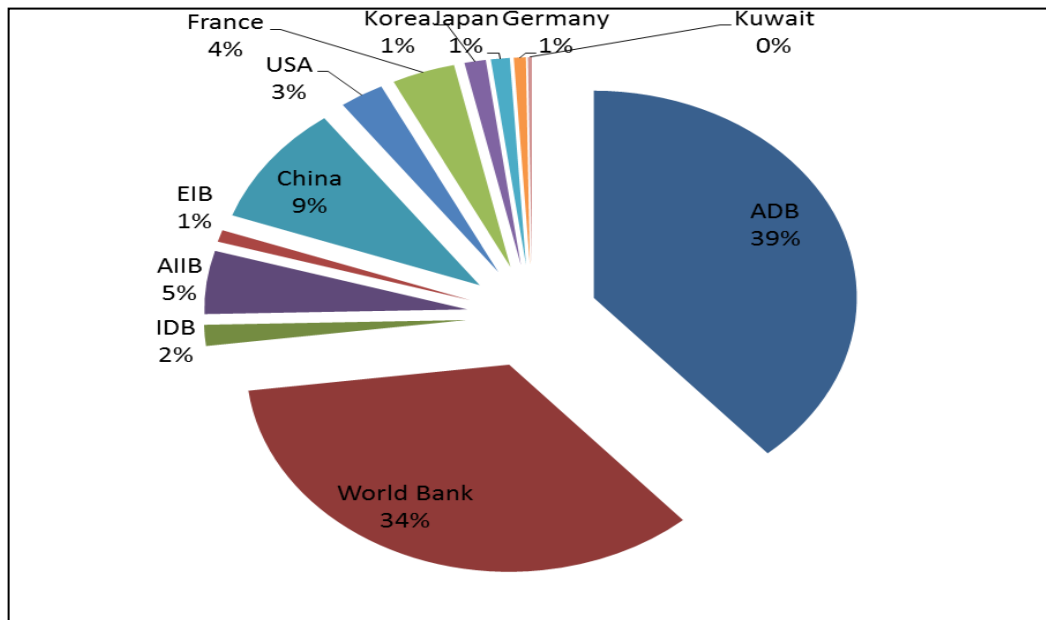
### 3.2.2 Commodity Financing

Pakistan is amongst those developing countries that spend substantial amount of export earning to import petroleum products. A larger share of oil importing bill has significant impact on the balance of payments. One of the recipes for reducing pressure of import payments on foreign exchange markets is to defer the oil import payments. Consequently, the government signed agreements with International Trade Finance Corporation, an arm of Islamic Development Bank (IsDB) and Saudi Arabia to maintain supply of crude oil on defer payment basis. During the last five years, IsDB committed USD 4,598 million and Saudi Arabia USD 3,240 million for import of oil on defer payment basis.

### 3.2.3 Energy and power

Energy plays a critical role in the development process. It is also a major determinant of the external viability of a country. The need to cope with growing energy demand has widely been recognised. Due to power crisis, Pakistan negotiated with various development partners to enhance the power generation capacity. Consequently, energy and power emerged as third largest sector in terms of new commitments of foreign aid during the last five years (see Figure 7). Major funds committed for this sector were ADB USD 2,347 million (39%), World Bank USD 2,102 million (34%), China USD 576 million (9%) and AIIB USD 100 million (5%).

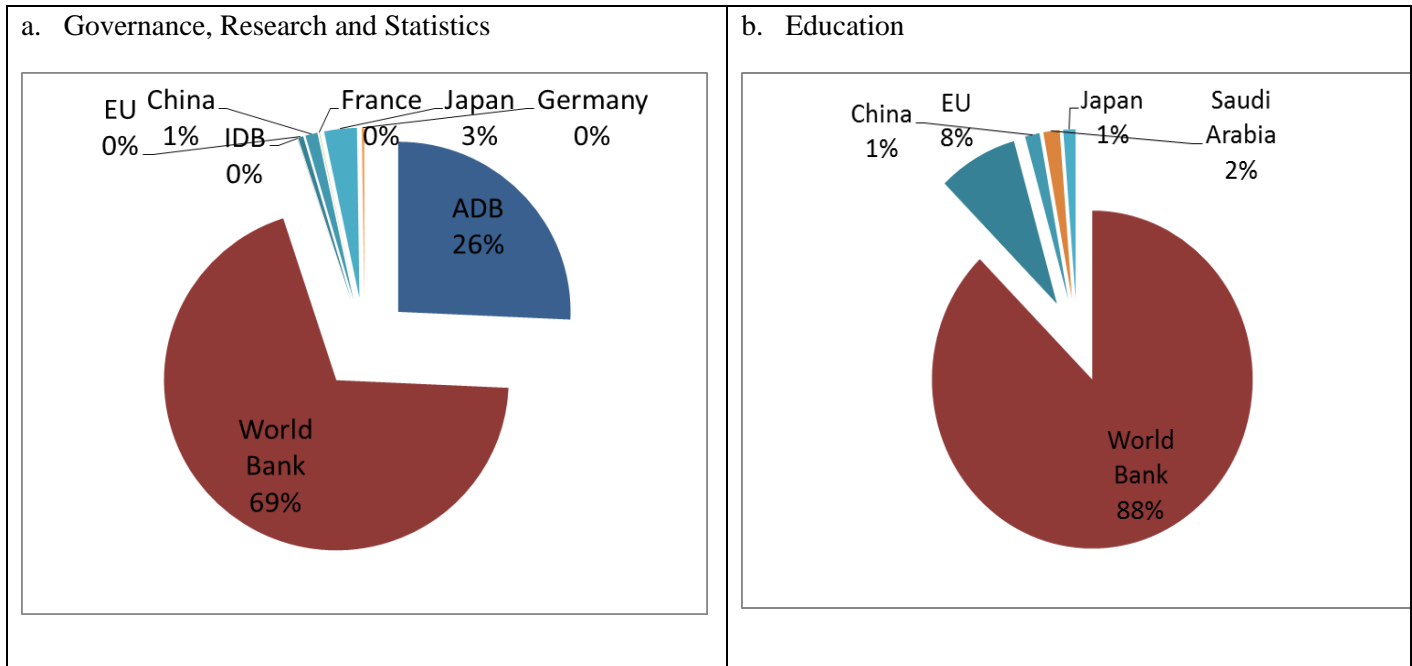
**Figure 7: Foreign Assistance in Energy & Power Sector**



Data Source: Debt Recording and Reporting Centre, EAD

### 3.2.4 Other Sectors

It can also be revealed from the above analysis that in each sector, contribution by different donor varies to great extent. For example, in governance, research and statistics/capacity building sector, majority of commitments were from World Bank (69%) and ADB (26%) and in case education, 88% of the commitments were from World Bank and 8% were from European Union.

**Figure 8: Foreign Assistance in other Sectors**

Data Source: Debt Recording and Reporting Centre, EAD

## 4 Main Findings

The above sectoral analysis of foreign economic assistance reveals the following main points for consideration:

- i. Since July 2014 till December 2019, the government has signed new agreements amounting to USD 60,914 million with various financing partners. About two-third of the total commitments were made by multilateral and bilateral development partners.
- ii. Slightly lower than half of total commitments were made for budgetary support. Within the group, around two-third contributions were made by foreign commercial banks, one-fifth by international capital market investors and remaining by deposit made by SAFE Authority of China, ADB and World Bank.

- iii. From multilateral and bilateral sources, one-fourth of total commitments were made in the transport and communication sector, one-fifth in commodity financing, followed by energy and power sector (16%), governance, research and statistics (9%).
- iv. Despite the huge share of agriculture in our economy, only 4% of the new commitments were made for agriculture sector
- v. Very limited commitments of foreign assistance were made for the social sectors, i.e. education (3%), health (1%), rural development and poverty reduction (4%).
- vi. Portfolio of multilateral and bilateral development partners are also not diversified in terms of commitments made in various sectors of the economy. For example, 87% of new commitments from China are for transports and communication sectors. South Korea is having projects only in health, transport, energy and science and technology sectors.

## 5 Policy Recommendations

Based on the above analysis the following policy recommendations have been emerged which are categorized by responsibility for ease of implementation:

### a) Ministry of Planning, Development and Special Initiatives

- i. There is a need to amend Guidelines for Project Management, 2008 for bringing clarity and fixing responsibility for the alignment of foreign funded projects with overall economic framework of the country.
- ii. If it is the responsibility of Ministry of Planning, Development and Special Initiatives, it will ensure that the sectoral distribution of foreign funded projects are fair, equitable and align with the government priorities.



**b) Ministry of Finance**

- i. Previously, heavy reliance was made to fill the fiscal as well as balance of payments gaps by borrowing from foreign commercial banks at prevailing market rates. It is recommended to avoid this practice as it is not only expensive but also have very short maturity.
- ii. In case of dire need, the gap may be filled by generating funds from international capital markets in the form of issuing Eurobond/Sukuk with longer maturity.

**c) Economic Affairs Division**

- i. Once a request for seeking foreign aid for the project is received either from Concept Clearance Committee or Central Development Working Party (CDWP)/Executive Committee of National Economic Council (ECNEC), the said request should be assessed against the following set of criteria:
  - a) Loan projects must have capacity to generate revenue as it will be helpful in reduction of external public debt liabilities and its debt servicing in future
  - b) Contribution to attaining equitable growth by targeting interventions in underdeveloped and/or disadvantaged areas of Pakistan
  - c) It should be feasible in technical, financial, economic, institutional, social, and environmental terms
- ii. Development Partners may be requested to diversify their portfolio and more focus may be put on the projects in education, health, rural development and poverty reduction.

**Annex – I****Table 1: Sector Wise Composition of New Commitments (Bilateral)**

(USD Million)

	China	Saudi Arabia	USA	UK	France	Korea	Japan	Germany	Italy	Kuwait	Turkey	Total
<b>Transport &amp; Communication</b>	5,913	55	-	-	146	94	-	-	-	-	-	<b>6,208</b>
<b>Commodity Finance</b>	-	3,240	-	-	-	-	-	-	-	-	-	<b>3,240</b>
<b>Energy/Power</b>	576	-	167	-	237	80	71	45	-	15	-	<b>1,190</b>
<b>Science &amp; Technology</b>	149	-	-	-	-	76	-	-	-	-	-	<b>226</b>
<b>Budgetary Support</b>	-	-	-	-	112	-	-	-	-	-	-	<b>112</b>
<b>Health</b>	-	26	1	-	-	43	58	48	-	-	-	<b>176</b>
<b>Governance, Research and Statistics</b>	39	-	-	-	2	-	106	8	-	-	-	<b>155</b>
<b>Rural Development &amp; Poverty Reduction</b>	-	-	4	500	-	-	-	22	23	-	-	<b>549</b>
<b>Agriculture</b>	-	-	-	-	-	-	-	-	-	-	-	<b>0</b>
<b>Water</b>	-	-	-	-	-	-	-	7	-	-	-	<b>7</b>
<b>Education</b>	14	16	-	-	-	-	12	-	-	-	-	<b>42</b>
<b>Physical Planning &amp; Housing</b>	-	-	-	-	-	-	48	-	-	-	-	<b>48</b>
<b>Disaster Relief</b>	15	27	-	-	-	-	-	20	-	-	10	<b>72</b>
<b>Others</b>	101	-	588	-	-	-	-	-	-	-	-	<b>689</b>
<b>Total</b>	<b>6,808</b>	<b>3,365</b>	<b>760</b>	<b>500</b>	<b>497</b>	<b>293</b>	<b>295</b>	<b>149</b>	<b>23</b>	<b>15</b>	<b>10</b>	<b>12,715</b>

Data Source: Debt Recording and Reporting Centre, EAD

**Annex – II****Table 2: Sector Wise Composition of New Commitments (Multilateral)**

(USD Million)

	ADB	World Bank	IDB	AIIB	EU	IFAD	E.C.O. T/BANK	EIB	OFID	UNHCR	Total
<b>Transport &amp; Communication</b>	2,143	825		100	-	-	-	-	-		<b>3,068</b>
<b>Commodity Finance</b>			4,598								<b>4,598</b>
<b>Energy/Power</b>	2,347	2,102	100	300				56			<b>4,905</b>
<b>Science &amp; Technology</b>											<b>0</b>
<b>Budgetary Support</b>	2,100	898					115				<b>3,113</b>
<b>Health</b>		161	200								<b>361</b>
<b>Governance, Research and Statistics</b>	890	2,397	1		17						<b>3,304</b>
<b>Rural Development &amp; Poverty Reduction</b>	227	260			251	188					<b>926</b>
<b>Agriculture</b>	583	682				32					<b>1,296</b>
<b>Water</b>	300	589		1							<b>889</b>
<b>Education</b>		856			79						<b>935</b>
<b>Physical Planning &amp; Housing</b>	40	265									<b>305</b>
<b>Disaster Relief</b>	218	201							50	6	<b>475</b>
<b>Others</b>	100	137			14						<b>251</b>
<b>Total</b>	<b>8,948</b>	<b>9,372</b>	<b>4,899</b>	<b>401</b>	<b>361</b>	<b>219</b>	<b>115</b>	<b>56</b>	<b>50</b>	<b>6</b>	<b>24,427</b>

Data Source: Debt Recording and Reporting Centre, EAD