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QUARTERLY REPORT ON FOREIGN ECONOMIC ASSISTANCE

July – December 2021

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



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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 2nd 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, 10th May, 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

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.

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).

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.

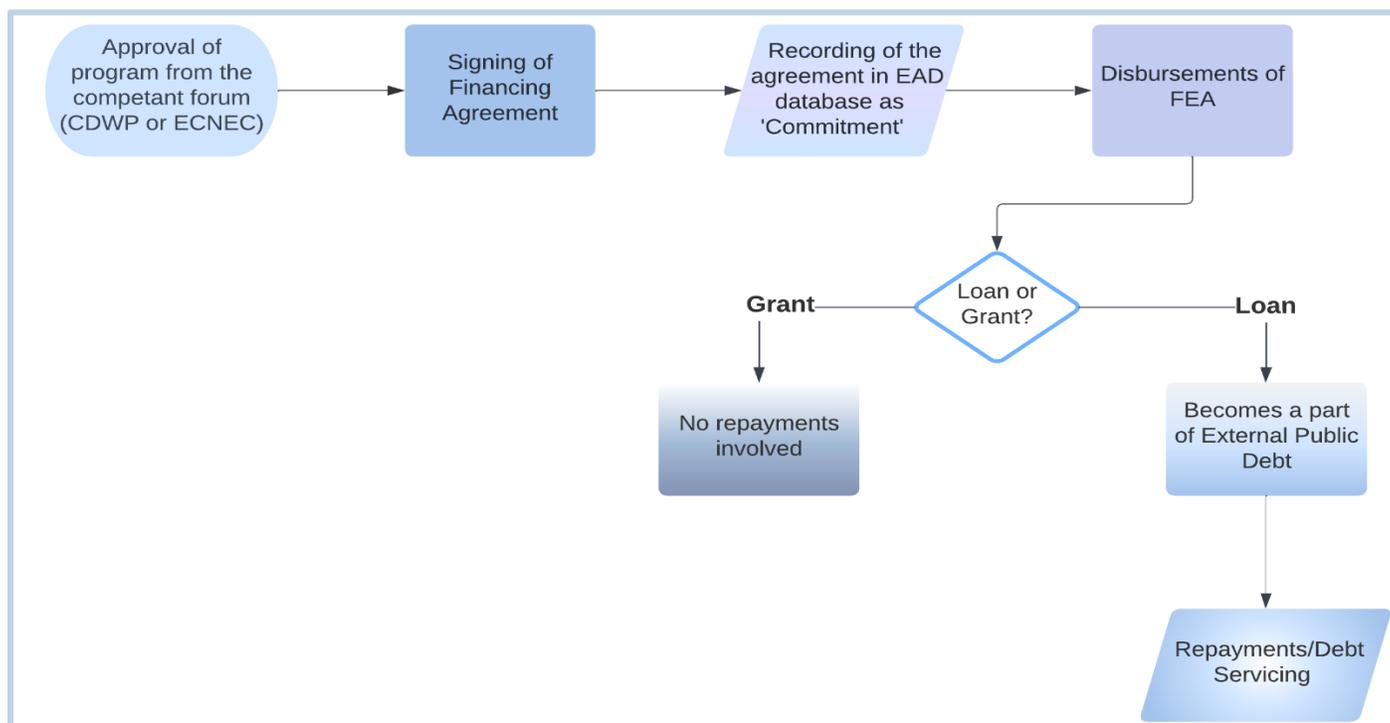
¹ OECD (2020), Net ODA (indicator). doi: 10.1787/33346549-en (Accessed on 18 August 2020)

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.

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 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

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.

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.

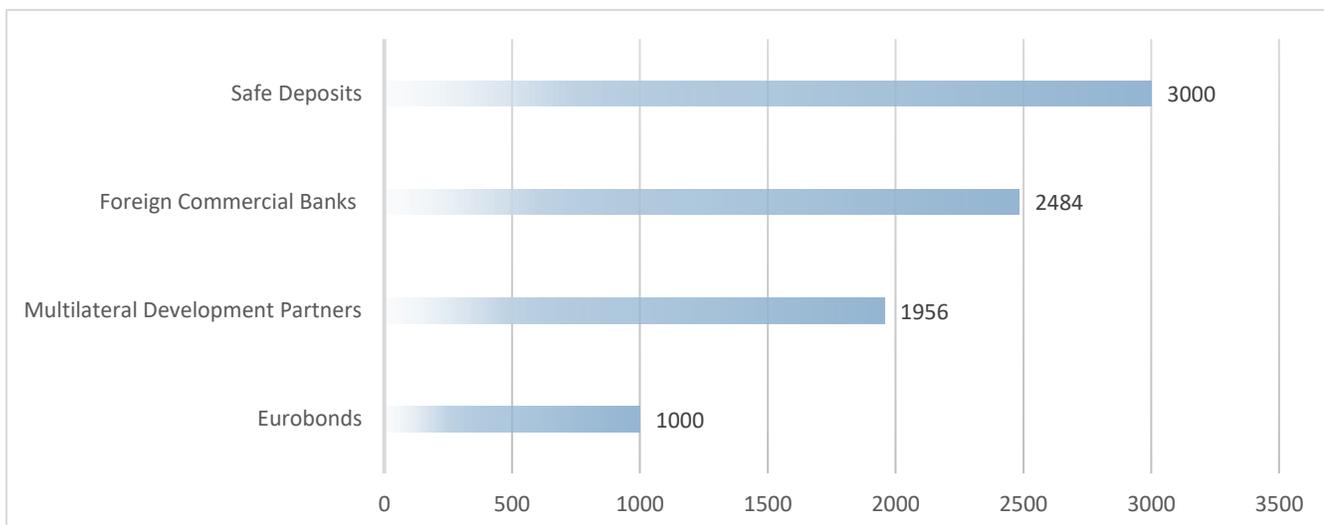
During 1st half of FY 2021-22, the Government of Pakistan signed new agreements worth USD 8,481 million as commitments

- USD 2,484 million with Foreign commercial banks
- USD 1,956 million with multilateral development partners
- USD 3000 million as safe deposits
- USD 1000 million committed as of Eurobonds
- USD 1,000 million from international capital market through tap-issuance⁴

- Among the multilateral development partners, the following banks emerged as the largest partner in terms of new commitments of FEA:

- Islamic Development Bank with USD 834 million (USD 762 million as short term and USD 72 million as long term)
- ADB with USD 800 million (40% of multilateral partners)
- The World Bank (16% of multilateral partners).

Figure 2: Composition of New Commitments (USD Millions)



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

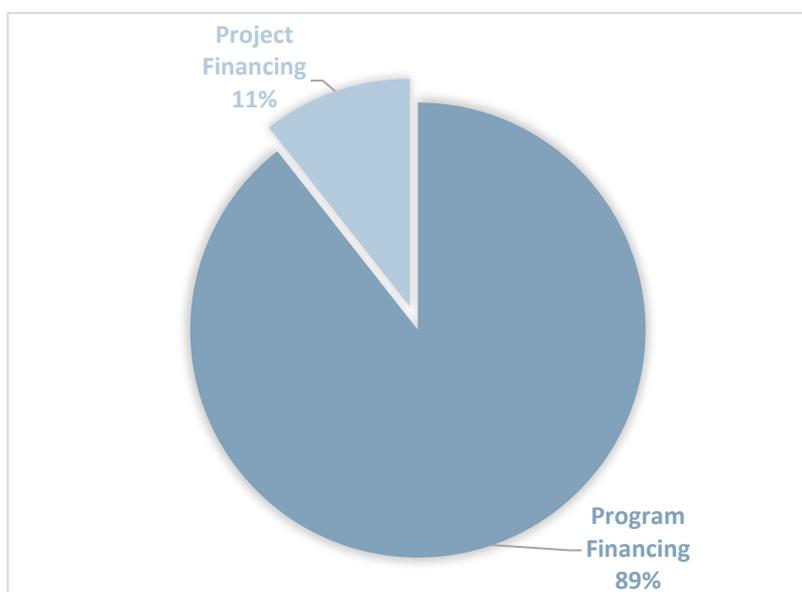
⁴ It's a procedure to issue new bonds based on past bonds/ debt instruments at current market price with the same coupon rate, maturity date and par value.

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.

Out of the total commitments agreed during Jul - Dec of FY 2021-22, USD 7,545 million (or 89% 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 894 million (or 11% of the total commitments) was allocated for project financing (see **Figure 3**).

Figure 3: Mode of Commitments



Source: DMFAS Database

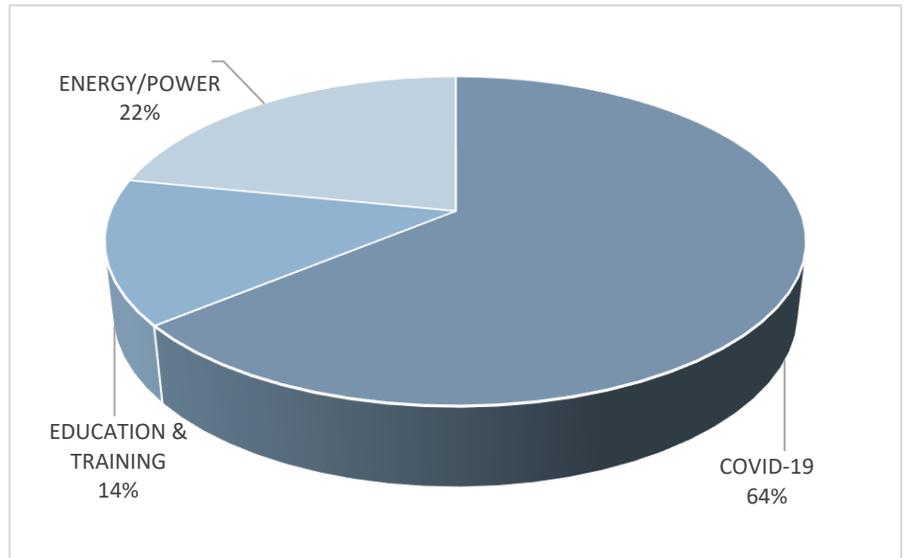
2.2. Sectoral Distribution of New Commitments

During the period under review, the Government committed USD 894 million as project financing for the procurement of Covid-19 vaccines, Energy/Power and Education and Training Sectors 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**.

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

Figure 4 illustrates that financing for the procurement of Covid-19 vaccine has become the key priority of the Government in the first and second quarter of CFY 2021-22. Specifically, ADB has committed USD 500 million in the first quarter and USD 72 million in the second quarter against the project “COVID-19 Vaccine Support Project”. Similarly, USD 195 million has been committed for Energy/Power Sector and USD 127 million to Education Sector’s project titled “Sindh Early Learning Enhancement through Classroom Transformation (SELECT)”.

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



Source: DMFAS Database

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 9,131 million during July – December 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 2,907 million or 32% of total disbursements were from the multilateral development partners, mainly ADB, World Bank, and IsDB;
- b) USD 2,032 million or 22% of total disbursements were from foreign commercial banks.
- c) USD 1,000 million or 11% of total disbursement were from international bond holders
- d) USD 150 million or 2% of the disbursements were from bilateral development partners particularly China, USA and the UK.
- e) USD 3,000 million or 33% of total disbursements were recorded under SAFE deposits.

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

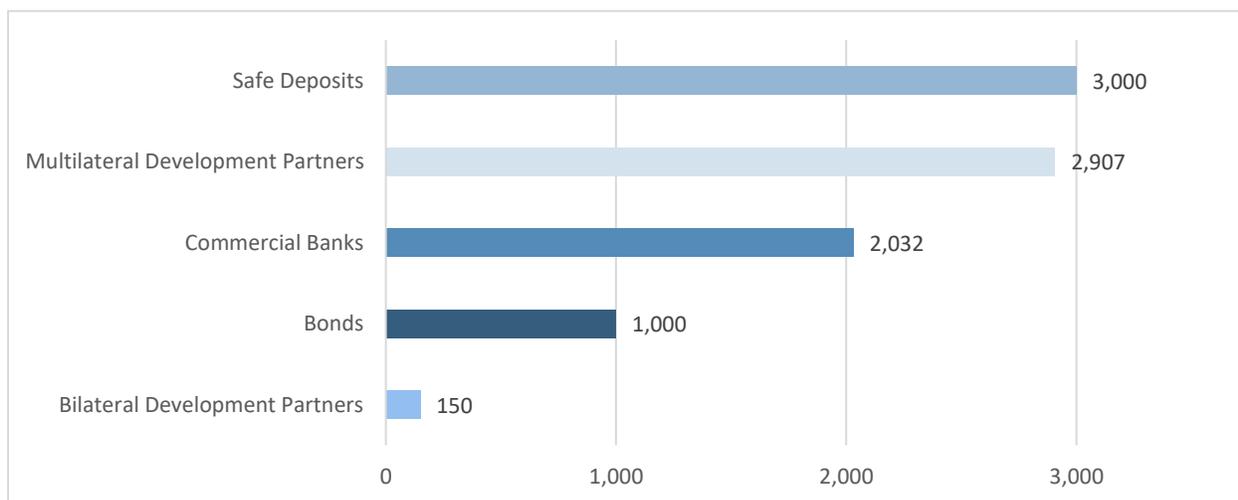
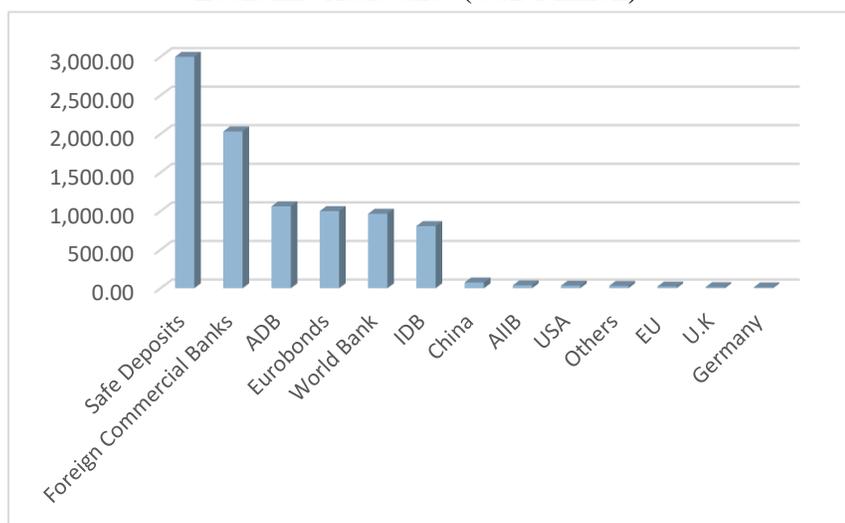


Figure 6 shows that around USD 2,907 million (32% worth of disbursement) came from multilateral development partners. Amongst multilateral development partners, ADB and World Bank were the largest development partners with disbursements of USD 1062 million and USD 965 million (12% and 11% of total disbursement) respectively followed by IsDB. Similarly, China was the largest among bilateral partners who disbursed USD 75 million or 60% of total bilateral development partners' share of USD

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



3.2. Mode of Disbursements

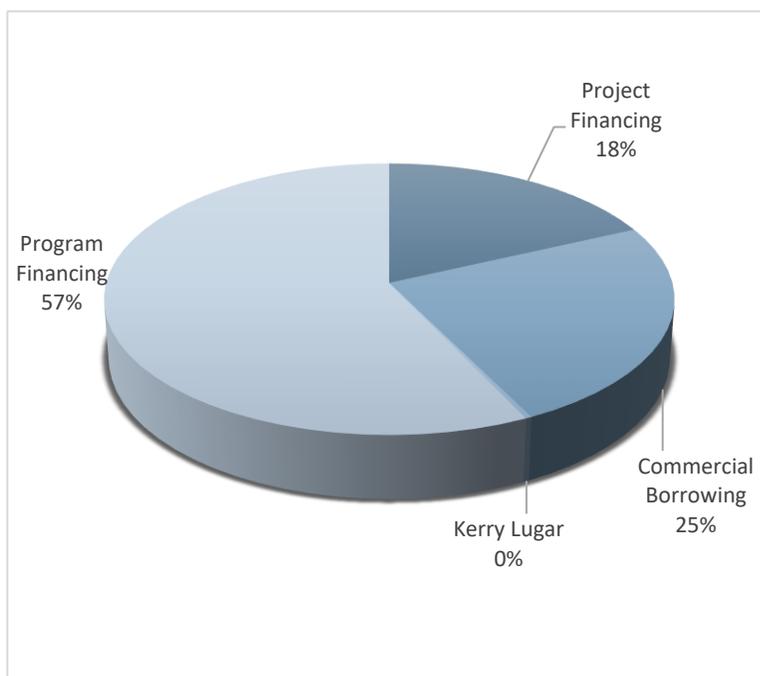
FEA is mainly received in the shape of program financing, budgetary support, project financing and commodity financing.

During the period under review, 57% 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 2,031 million (or 25% of the total) was obtained from foreign commercial banks and USD 1,506 million (or 18% of the total) as project financing.

The remaining USD 26 million of the disbursements were received under the Kerry Lugar Program.

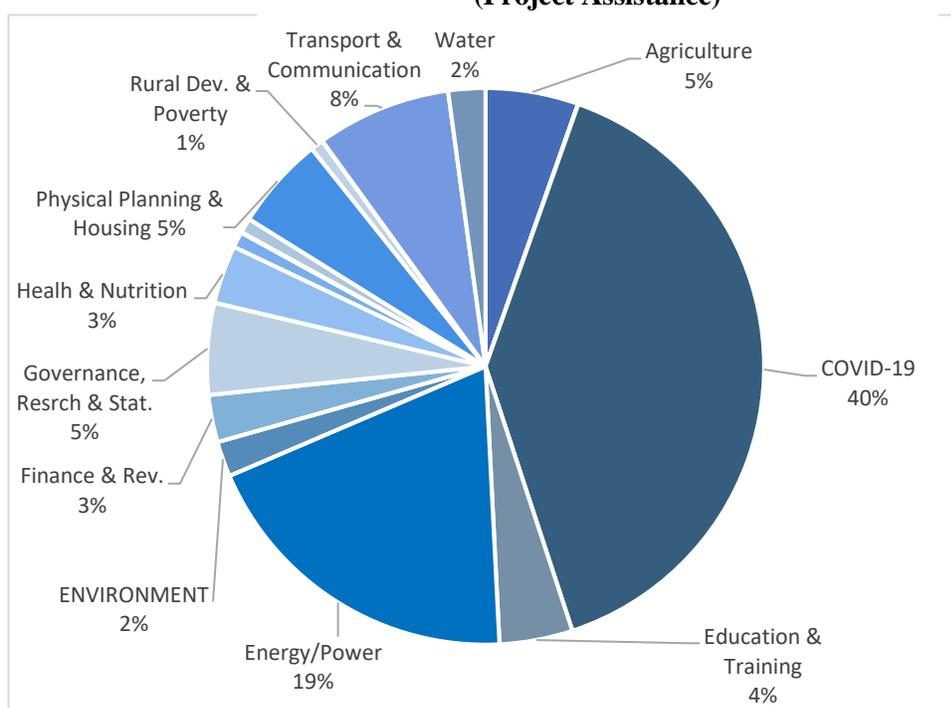
Figure 7: Mode of Disbursements



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)



The sectoral composition of project assistance is summarized as follows:

- During the 1st half of the FY2021-22, the largest share of disbursements i.e. 40% 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 19% share in the total project assistance of USD 291 million, followed by Transport & Communication (8% share), Governance, Research & Statistics (5% share), and Physical Planning and Housing (5% share) in the total project assistance.

4. EXTERNAL PUBLIC DEBT

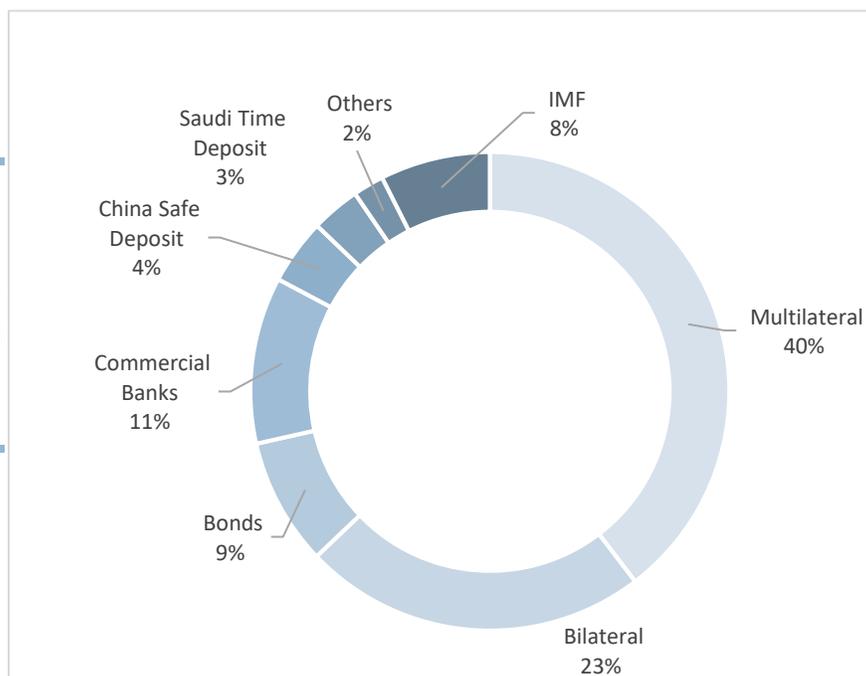
External financing has become an important source for developing countries including Pakistan to finance development interventions and generate economic activity in the economy. It not only improves efficiency of resource allocation and economic growth but also helps the Government to augment its limited 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

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



As of 31st December 2021, Pakistan's total external public debt stood at USD 90.6 billion⁶.

4.2. External Public Debt Servicing

The Government paid an amount of USD 5,039 million during July – December 2021 on account of debt servicing of external public loans. This consists of principal repayment of USD 4,200 million and interest payments of USD 839 million (see **Table 1**).

Table 1: External Public Debt Servicing (USD Million)

Lender/creditor	Debt Servicing		
	Principal	Interest	Total
Foreign Commercial Banks	1,549	183	1732
Bonds	1,000	307	1,307
IMF	516	69	585
ADB	440	74	515
World Bank	338	123	461
IsDB (Short Term)	266	15	281
China	12	17	29
Kuwait	8	2	10
Others	71	49	120
Total	4,200	839	5,039

Source: DMFAS Database

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

4.3. Net Transfer

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 4,772 million⁷ (see Table 2)

Table 2: Net Transfers (USD Million)

Source	External Loan Inflow	External Loan Outflow	Net Transfers
Multilateral Development Partners	2,847	1,109	1,738
Foreign Commercial Banks	2,032	1,549	483
Safe Deposits	3,000	-	3,000
Bond Holders	1,000	1,000	0
Bilateral Development Partners	94	26	67
IMF	-	516	-516
Grand Total	8,972	4,200	4,772

Source: DMFAS Database

⁷Since 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.