"Oh you who believe! Stand out firmly for Justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor"

An-Nisa, 4:135

Islamic Relief Pakistan

UNLOCKING THE CHAINS OF DEBT

A CASE for DEBT CANCELLATION

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A Case for Debt Cancellation:

A Review of Pakistan's External Debt

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Please use the following citation:

A Case for Debt Cancellation: A Review of Pakistan's External Debt, **Islamic Relief Pakistan, Position Paper Series No. 2015-01: Islamabad, Pakistan.**

Published by Islamic Relief Pakistan

Plot 02, Street 07

Sector G-10/2

Islamabad

Pakistan

http://www.islamic-relief.org.pk/, http://www.facebook.com/PakistanUnderDebt, http://twitter.com/PakUnderDebt

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ADB	Asian Development Bank
CRW	Crisis Response Window
ECA	Export credit agencies
EFF	Extended Fund Facility
ESAF	Extended Structural Adjustment Facility
FRDL	Fiscal Responsibility and Debt Limitation Act
GDP	Gross Domestic Product
GNP	Gross National Product
G8	Group of Eight
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association (of the World Bank)
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MTDS	Medium-Term Debt Management Strategy
OECD	Organization for Economic Co-operation and Development
PRGF	Poverty Reduction and Growth Facility
PCDR	Post Catastrophe Debt Relief Trust Fund (PCDR)
SBA	Stand By Agreement
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
DPCO	Debit Policy Coordination Office
GNI	Gross National Income

1.1. Brief History of Debts

In the 1950s and 1960s, poor countries were lent large amounts of money for the sake of economic development. The lending, by rich countries, was prudent with fewer strings in the beginning since many western countries were keen to support developing countries as being their potential allies in the cold war. They lent money regardless of whether developing countries direly needed it or not and even aided and abetted oppressive regimes. So, much of the present "debt stock" of the poor countries was the result of reckless or self-interested lending by the rich countries to poor ones.

Although debt increased the productive potential of the economies of poor countries in 1950s and 1960s, the dollar denominated debt (borrowing and repaying in dollars) proportionately increased to lesser extent. However, the worldwide inflation of the 1970s owing to the higher oil prices increased the burden of the debt (higher debt servicing cost for the poor countries) which, exacerbated the miseries of the masses in the developing countries.

Since the foreign debt was dollar denominated, the poor developing economies did not have the dollar earning capacity. For instance, the prices of many commodities produced by poorer countries had fallen, sometimes drastically due to international competition since 1980s. Poor countries thus have less hard currency to service their debts and the 'knock-on' impact on exchange rates meant that poor country debts (often counted in foreign currency like US dollars) ballooned furthering real terms for the country. The result was that many countries ended up owing huge amounts, even after repaying far more than they or their former regimes – had previously borrowed.

1.2 Third World Debt

The Third World (developing) countries sought foreign debt to increase the productive potential (capacity) of their economies. Although productive potential of the economies increased to some extent, yet it promoted "debt seeking behavior" a great deal. This behavior is closely associated with unlimited desires, which in turn pump up artificial demand. Hence it can be said that study of foreign debt is the study of "debt seeking behavior".

The statistics show that the developing country debt swelled from $ 70 billion in 1970 to $ 1340 billion in 1990, $ 1970 billion in 2000, and $ 3,545 billion in year 2009. Thus the debt burden in absolute terms increased almost 40 times in 35 years[1]. On the contrary, the share of developing countries in the world GDP slightly increased from 15.4 % in 1970 to around 22 % in 2010. By combining these two statistics, it can be safely claimed that foreign debt outsmarted the size of the economy i.e. GDP. Moreover, the share of developing countries in the world population increased from around 73 % in 1970 to 82 % in 2010[2], showing that more people became poor in the developing countries.

These countries are paying debts to International Financial Institutions; World Bank, the IMF, other international bodies (all controlled by rich countries); rich country governments and to private fund management companies. For the poorest countries, most of their debt also owed to other regional development banks like; Asian Development Bank, African Development Bank or Inter-American Development Bank.

[1] Damien Millet and Eric Toussaint, *La dette ou la vie, Aden,* 2011

[2] UN, Population Division, UNDATA

The debt bill of the developing countries continued to increase since early 1980s. Taken together, interest payments and capital repayments represent a real gold mine for the creditors. From 1980 to 2009 the amount paid by South in repayments of borrowed capital was about $ 666 billion, which is 8 times of amount of Marshall Plan[3] (Marshall Plan was $ 100 billion). While rich countries give $136 billion per year in aid to poor countries – a figure touted by western leaders as evidence of their benevolent concern for the wretched of the earth. On top of this, poor countries pay about $600 billion to rich countries in debt service each year, much of it on the compound interest of loans accumulated by rulers long since deposed. These figures alone amount to nearly 18 times the size of the aid budget.

The third world debt did not prove to be beneficial for the local populations. It has allowed the transfer of massive amounts of capital from poor countries to rich countries. The reimbursements under debt servicing impact directly on the poor countries' social welfare budgets, and has resulted in the "economic re-colonization" of the periphery by the transnational companies and governments of the most industrialized countries.

1.3 Global Debt

The "debt seeking behavior" is a global phenomenon owing to unlimited desires, which leads to consumerism. Therefore, global debt is outpacing the growth of GDP and has soared by $57 trillion since the outbreak of the financial crisis in 2007[4]. The amount of world debt reached $199 trillion at the end of 2014 and the debt to GDP ratio increased from 269 to 286 percent. The only countries that managed to cut their debt were Argentina, Romania, Egypt, Saudi Arabia and Israel, according to new research[5] carried out by consultants McKinsey in 47 countries.

Geographically, Ireland was the country where the public debt to GDP ratio saw a record increase and is around 130 %, while the ratio of Japan is the world's highest at 230 %. In Greece the debt-to-GDP ratio saw huge increase, which stands at 175 %. Italy, Iceland and Portugal are also in troubling zone with their debt-GDP ratio stands at 135%, 130% and 130 % respectively. China Public debt-to-GDP ratio is around 23 %, however, the massive credit expansion has ballooned the credit to GDP ratio at 200 % since 2008. This huge credit expansion might bring a catastrophic financial crash in China.

The global debt crisis has its true manifestation in Greece, where the policies of Troika; The EU, European Central Bank and IMF has pushed Greece Economy in worst crisis, through enforced austerity. In 2012 the Troika restructured the Greek debt to benefit private creditors, mainly banks. Resultantly Greece Economy has shrunk by 25%, while unemployment is up at 25%, with youth unemployment almost 55%.

[3] Damien Millet and Eric Toussaint, *La detteou la vie, Aden*, 2011
[4] http://rt.com/business/229883-world-debt-sharp-increase/
[5] http://www.mckinsey.com/insights/economic_studies/debt_and_not_much_deleveraging

2.1 Patterns, Trends and Composition

In technical sense, the debt to GDP ratio is an important statistics, which shows to what extent a country is "solvent", meaning the ability of a country to repay its debt. This ratio has considerably declined since 2001 when it touched 90 %. Although the successive governments got rescheduling with Paris Club creditors on multiple occasions[6], the last restructuring was availed in December 2001 by the Musharraf regime. This restructuring provided a much-needed breathing space to the economy as shown in Figure-2.1. The sharp fall in the domestic and external debt from FY02 to FY07 can be traced due to this rescheduling in 2001.

Figure 2.1.1 Pakistan Public Debt Profile (% of GDP)

Despite all odds, the ratio is hovering around 60 % since 2008, and the period between FY08-FY13[7], which was very troubling internationally, did not aggravate the situation.

2002 until 2014 in Pakistan, reaching an all time high of $ 66490 million in the third quarter of 2011 and a record low of $ 33172 million in the third quarter of 2004[8]. Pakistan's foreign debt continued to be a major risk to the country's macroeconomic stability during FY11-13. When external inflows were squeezed further during the period, the Government substituted foreign debt for domestic one. The shift to domestic debt was a prudent strategy since a government can never default on the domestic debt and the reports of the State Bank of Pakistan even mention this point. However, a government can default on to its external debt and commitments, which has happened to many emerging and developed countries.

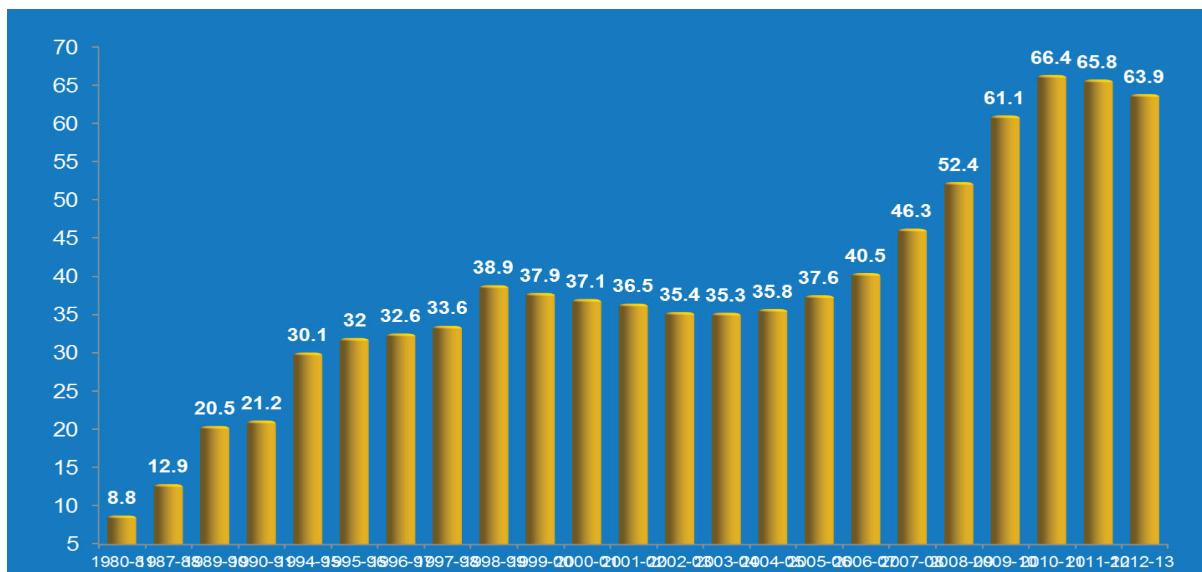
[6] Pakistan has entered into debt rescheduling arrangements with the Paris Club creditors in FY72, FY74, FY81, FY99, FY01 and FY02. Last time Pakistan entered into a debt rescheduling agreement with the Paris club creditors in December 2001. This also paved the way for pre-payment of expensive debt, loan write-offs and adjustment in the domestic debt stock. For details see Special Sections 1 & 2 in SBP's 2nd Quarterly Report for FY02.

[7] The international oil price shock of FY08 and the consequent emergence of circular debt have caused significant expansion in Pakistan's fiscal deficit during FY08-13. Average fiscal deficit rose to 6.8 percent of GDP during FY08-13, compared to 3.7 percent of GDP during FY01-07. This, along with the international recession that resulted in large external imbalances, has led to significant additions in country's public debt stock since FY07. Current account deficit averaged at 5.5 percent of GDP between FY08-10.

[8] http://www.tradingeconomics.com/pakistan/external-debt

However the composition of domestic debt was very imprudent since the Government shifted towards the short-term debt. Medium-to-long term debt has been converted into short-term debt with serious consequences for government's debt management. This is because of the shorter duration of floating debt, which is raised by the government through treasury bills. The share of floating debt in domestic public debt stood at 55% at the end of FY 2013. The rising share of short-term debt raises roll-over and interest rate risks to some extent, but the Government, instead of the State Bank of Pakistan, borrowed heavily from the commercial banking system during FY 2011 to 2013, which was very costly. This behavior of the Government nurtured a culture of laziness among the commercial banks and made them profitable.

Figure-2.1.2 Chronology of Pakistan foreign debt



Source: Ministry of Finance

Furthermore, concerns about debt sustainability deepened with the growing burden of debt servicing[9]. Worryingly, 47% of whatever the government generated in revenues between July-March 2013-14 went to paying off the debt against 44% in the previous year. Despite the one percentage point reduction during FY13-14, Pakistan's public debt is still 63.3 percent of GDP – slightly higher than the ceiling of 60 percent under the Fiscal Responsibility and Debt Limitation Act (FRDL) of 2005[10]. The surge in debt servicing, which is not supported by a corresponding improvement in tax revenues specifically direct taxes, is leading to large fiscal imbalances that have to be financed from domestic sources.

The factors which nurtures "debt seeking behavior" includes the persistence of large fiscal deficit (on average over 7 percent of GDP) for long period of time, reckless borrowing from IFIs leading to sharp depreciation of exchange rate (over 40 percent) and slower growth in economy (on average, 3 percent per annum). The persistence of large fiscal deficit represents government's inability to collect more revenues. The current higher public servicing has reduced fiscal space to undertake much needed public investment in infrastructure. Comparing the debt to GDP ratio of Pakistan with other developing and emerging economies, Pakistan's ratio is significantly higher (Table-1). It also shows that unlike other emerging economies, Pakistan's debt burden has risen fast.

[9] Overall debt servicing increased to 6.7 percent of GDP during FY13, compared to 6.3 percent in the previous year. The ratio of external debt servicing to foreign exchange earnings deteriorated to 12.0 percent on end-Jun 2013, compared to 9 percent, a year earlier. The ratio of overall interest payment to tax revenues (after adjusting for provincial share) deteriorated to 118.9 percent, from 103.9 percent in FY12

[10] In an effort to ensure fiscal discipline, government adopted a „rule based" fiscal policy stance in FY05 through the enactment of FRDL Act, which placed a limit of 60 percent of GDP on government debt to be reached by the end FY13.

Table-1: Comparison of debt to GDP ratio with other countries/economies

Countries/Economies	2011	2012	2013
Advanced economies	105.5	110.2	109.3
Euro Area	88.1	92.2	95.5
Emerging market economies	36.7	35.2	34.3
China	25.5	22.8	21.3
India	66.4	66.8	66.4
Pakistan	60.1	64.3	63.2
Low income countries	41.1	42.5	42.0

Source: IMF, Fiscal Monitor (April 2013)

2.2 PML-N Government Debt

The Prime Minister Nawaz Sharif during his election campaign, made claims that on assuming power he will get rid of external debts, however, the PML-N government is no different from its predecessor in this regard and knocking the doors of international lenders vigorously and vehemently. Pakistan's external debt and liabilities stood at $61.8 billion as of March 31, 2014, rising by $906 million in previous nine months. Most of this external debt is made up of loans from multilateral lenders and Paris Club. Islamabad owes International Monetary Fund (IMF) around $3.6 billion. The main priority of the government is to rely more on external borrowing than mobilizing own resources. The average time when all this external debt matures and has to be paid off is approximately 10.8 years.

Although the current regime sought Extended Fund Facility (EFF) from the IMF worth $6.6 billion for a bailout package for FY2013-2016. The PML-N government is said to have little choice due to its balance of payments crisis and sharply declining foreign exchange reserves. The EFF provided a green signal to other multilateral donor agencies to pour money into Pakistan. Therefore the Finance Minister is approaching to the Asian Development Bank and the World Bank for further borrowing: $1.5 billion from the World Bank, $1.6 billion from the Asian Development Bank, and $2.4 billion from other countries.

Since this program requires the Government to build additional reserves during 2013-16, it is in a desperate mood to buy foreign exchange from right and left to build the reserves and reached an agreement with a consortium of seven domestic and international banks to borrow $625 million to boost foreign exchange reserves[11]. This commercial loaning would prove to be very costly for a developing country like Pakistan.

Furthermore, the narratives of foreign and domestic debts are described through the perspective of expensiveness (by assuming or not taking into account the devaluation of exchange rate). It is widely propagated that foreign debt is cheaper than domestic debt so debt servicing cost will be reduced through foreign debt, which provides the basis for tapping the international debt market. Pakistan has already launched $ 2 Billion Euro Bonds and $ 1 Billion Sukok Bonds on which interest payments would be made in dollars. Interestingly, huge external liabilities would mature in 2018-19 for the upcoming governments to face the music.

[11] http://epaper.dawn.com/DetailImage.php?StoryImage=24_09_2013_001_005

3 DEBT RESCHEDULING

Pakistan was able to secure a major debt relief by the donor community after 9/11 when the Musharraf regime secured debt rescheduling under Paris Club arrangement in November 2001[12]. Till 2003, Pakistan almost completed the rescheduling of $12.5 billion loans from the member countries of the Paris Club[13].

3.1 Paris Club Rescheduling

The Paris Club[14] had agreed to reschedule debt for 35 years with a 15-year grace period. Pakistan was granted a repayment period of 38 years with a grace period of 15 years for Official Development Assistance (ODA) loans. The Paris Club has also decided to defer for three years all the amortization payments on post-cutoff date debts and interest on restructured loans due to be paid between November 30, 2001 and June 30, 2002. In addition, 20 per cent of the interest payments due in next two years were also deferred.

From the Paris Club creditors, Denmark and Commonwealth Development Corporation (CDC) of the UK have waived off their entire outstanding debt of $18.4 million and $29.5 million respectively, while Netherlands has also given remission in debt services payment falling during October 2001 to December 2002 equivalent to $14.3 million and the total cancellation of debt, thus comes to $62.2 million.

The rescheduling agreement signed so far included Austria $33.18 million, Belgium $42.93 million, Canada $3,420.61 million, Denmark $16.49 million, Finland $6.06 million, France $1,061 million, Germany $1,146 million, Netherlands $89.56 million, Norway $49.51 million, Spain $75.63 million and Switzerland $68.38 million and Japan $4.5 billion.

Japan loan constitutes 36 per cent of the total rescheduled Paris Club debts of $12.5 billion and is the largest among 18 Paris Club creditors' countries. Perhaps the biggest single country debt rescheduling agreement was signed with Japan under which the repayment period of about $4.5 (536 billion yen) has been extended to 38 years including a grace period of 15 years.

No.	Name of Country	Amount rescheduled (in $ million)
1.	Austria	33.18
2.	Belgium	42.93
3.	Canada	3420.61
4.	Denmark	16.49
5.	Finland	6.06
6.	France	1000.61
7.	Germany	1100.46
8.	Japan	4500.0
9.	Netherlands	89.56
10.	Norway	49.11
11.	Spain	75.63
12.	Switzerland	68.38

[12] Five donor countries i.e. Belgium, Canada, Germany, Italy and Norway entered into debt swap agreements with Pakistan under this arrangement. The Government of Italy cancelled 50% of its debt against expenditures incurred by GOP on Afghan refugees' related projects For the remaining 50% (approximately US$ 100 million) Government of Italy and Government of Pakistan signed an Agreement on Debt for Development Swap that became operational on January 2009. www.ead.gov.pk, Pak Italian Debt Swap Agreement (PIDSA)

[13] http://www.pakistaneconomist.com/issue2003/issue15/f&m3.asp (By AMANULLAH BASHAR)

[14] The Paris Club was created gradually from 1956. It comprises 19 permanent members including United States, Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, and the United Kingdom. Officials from the international financial institutions (IFIs) are also represented in the Club, and present their assessment of the debtor country's economic situation to the Paris Club. To date (December 2013), the Paris Club has reached 429 agreements worth over $583 billion, with 90 debtor countries.

This was a major debt relief in Pakistan's debt history owing to international political economy favoring Pakistan since it decided to side with the western countries in the war against terrorism. This debt rescheduling provided a much-needed fiscal (breathing) space to the incumbent government and the economy grew and it has been witnessed above that the debt to GDP ratio went down. Hence the gain proved to be short lived.

Evolution of bourgeoning debt

The debt seeking behavior has been nurtured in Pakistan over a period of time. A bit of history is traced to throw light on its evolution. The Economic Affairs Division (EAD) and the Ministry of Finance at a briefing in 2013 to National Assembly Special Committee on Debt released the figures 07 the last 28 years. Pakistani economy relied heavily on borrowing, which did not proportionately improve the economic potential of the country. According to these figures, during the period from 1985 to 2012, a total amount of $72.261 billion loans and grants were received by Pakistan, including $59.240 billion as loan and $13.020 billion as grants. However, after repayment of total outstanding amount of foreign loans as of July 31, 2012, it now stands at $46.4 billion while total amount of grants received so far by the country are at $13 billion.

During the period of **Muhammad Khan Junejo** (1985-88), the total foreign assistance received by the country was $6.37 billion including $4.6 billion as loans and grants of $1.7 billion. During the 1988-90, in **PPP's first** Government, $4 billion as foreign loans and $1.11 billion as grants were received by the country.

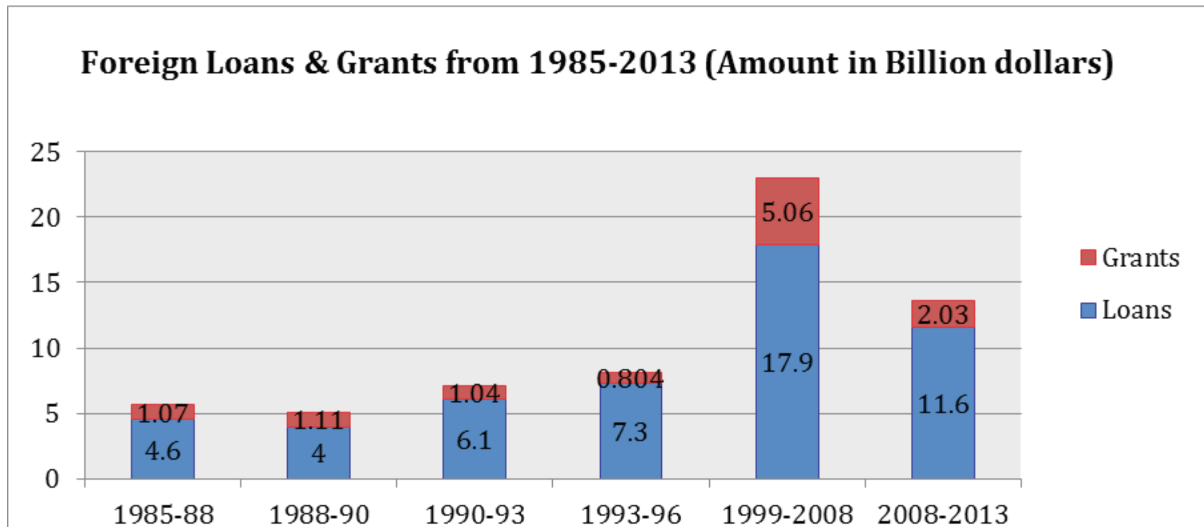
From 1990-93 during the first stint of **PML-N** Government, a total of $7.5 billion as foreign assistance including $6.1 billion as loans and $1.4 billion as grants were received. From 1993-96, during the second **tenure of PPP** a total of $8.1 billion foreign assistance including $7.3 billion as loans and $804 million as grants were received.

In **Pervez Musharraf's** regime from 1999-2008, a total of $23 billion loans and grants were received by the country that included $17.9 billion as loans and $5.06 billion as grants while in 2008-2013 the previous PPP government received the total foreign assistance of $14 billion, including $11.6 billion as loans and $2.3 billion as grants. Table 1 and figure below provides a disaggregated analysis in this regard.

Table-1: Total loans and grants Pakistan secured in 28 years (1985-2013)

No	Period	Loan	Grant	Total
1	1985-88	$4.6 billion	$1.07 billion	$6.37 billion
2	1988-90	$4.0 billion	$1.11 billion	$5.11 billion
3	1990-93	$6.1 billion	$1.04 billion	$7.05 billion
4	1993-96	$7.3 billion	$804 million	$8.01 billion
5	1999-08	$17.9 billion	$5.06 billion	$23.0 billion
6	2008-13	11.6 billion	$2.03 billion	$14.0 billion
Total	**28 years**	**$59.240 billion**	**$13.020 billion**	**$72.261 billion**

Source: figures provided by the Economic Affairs Division (EAD) and the Ministry of Finance at a briefing in 2013 to National Assembly Special Committee on foreign and domestic loans formed by the NA Speaker, Fehmida Mirza on 27 July 2012

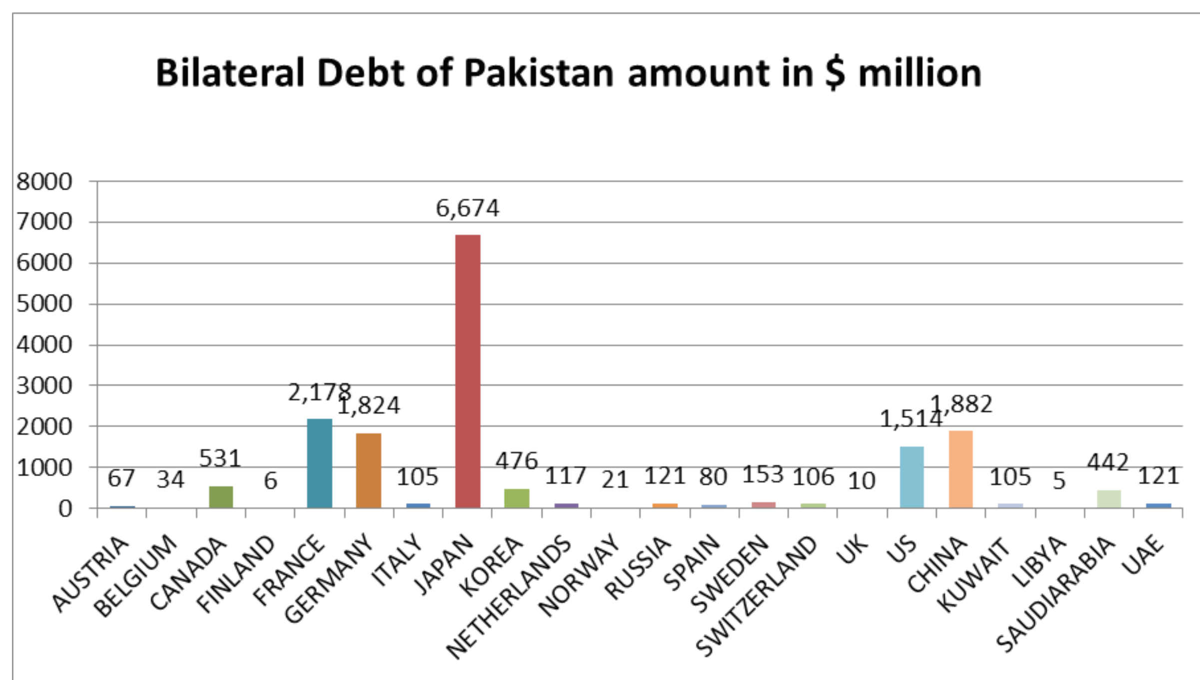


The two regimes of, Gen Zia and Gen Musharraf together secured $21.5 billion out of total existing foreign debt of $59.240 billion as of June 2013. This total makes almost 1/3 of the total foreign debt and this percentage may further go up if loans taken in Gen Zia's remaining period of 7 years (1977-84) are added up. Basically these regimes took enormous benefits of favorable international political economy since Pakistan was a front line state in the first and the second Afghan war.

Bilateral debt

The bilateral debt is a debt agreement between two governments and it can be classified into 'Debt' and 'Export Credit Debt'. The debt is solely given in the form of loans. But most bilateral debt is 'export credit debt'. This is owed for projects or goods supplied by companies in the creditor country, which were guaranteed or insured by these creditors. For instance, the UK government gives guarantee for building of a power plant in Pakistan by a UK company. If Pakistan has difficulty paying the debt, the British government pays out its guarantee to the company, and the debt becomes a debt of Pakistan to the UK. Many export credit deals are mired in corruption: governments tend to be more concerned with securing contracts for their own companies than with assessing whether the project is viable or desirable for the country concerned.

Total public and publically guaranteed external debt of Pakistan is US $ 58.7 billion as of September 2010, bilateral debt is $ 17.2 billion (of which Paris Club loan is $ 14 billion), while IMF debt is $ 8.3 billion and rest of the debt comprises bonds of US $ 1.5 billion and commercial loan of $ 275 million. Further breakup of the current bilateral debt, Pakistan owed to Paris club and non-Paris Club countries is as under;



Multilateral Debt

The multilateral debt is owed to institutions such as the ADB, the WB and the IMF. Out of the total debt of $ US 58.7 billion, the multilateral debt stands at $ 24.6 billion on September 2010.

ADB: The Asian Development Bank (ADB) is Pakistan's biggest multilateral partner to date.

WB: The World Bank is the second biggest multilateral partner Of Pakistan. It mainly provides loans for the social and infrastructures sectors.

IMF: The IMF is considered as the lender of the last resort and Pakistan approaches to the IMF when balance of payment crisis breaks out.

7 DEBT SERVICING FROM FY 2008 TO FY 2013

The debt servicing means the repayment of debt in the form of principal and interests. Table below shows the debt servicing of Pakistan during 2008 to 2013 along with the foreign exchange reserves at the end of the year. This debt servicing hovers around $ 3 to 5 billion, which drains out the foreign exchange reserves a great deal. This can be observed by the situation at the end of FY 2013.

External debt servicing (2008-13) amount in million dollars and Foreign Exchange Reserves

Repayment	FY2008	FY 2009	FY2010	FY2011	FY2012	FY2013
Principal	1,866.7	2,837.4	3,139.9	2,457.8	3,276.3	5,046.4
Interest	1,247.8	1,158.8	1,015.0	1,073.7	1,018.5	932.7
Total	**3,114.6**	**3,996.2**	**4,155.0**	**3,531.4**	**4,312.4**	**5,979.1**
Foreign Exchange Reserves	**13,299**	**13,715**	**16,750.4**	**18,243.8**	**15,288.6**	**11,019.6**

Sources: State bank of Pakistan (Annual Report 2012-13)

Table below shows the break up of the debt servicing between bilateral and multilateral donors in FY 2012-13. The actual debt servicing of foreign loans amounted to $ 3,006 million, comprising $ 2,970 million central loans and $ 36 million guaranteed loans. Debt servicing of central loans amounted to $ 2,970 million, comprising $ 2,243 million principal repayment and $ 727 million interest payments. About 23.52% ($707 million) of the total debt servicing went to the bilateral creditors and 63.14% (1,898 million) to the Multilateral Creditors. About 86.66% (2,605 million) was against the Medium & Long-Term loans while 13.34% (401 million) was against the Short-Term loans[15].

External Debt Servicing -2012-13 (Amount in million dollars)

Particular	Principal Amount	Interest Amount	Total Amount
(A) Medium & Short term			
(1) Bilateral	337	370	707
Paris Club	176	387	463
Non-Paris Club	161	83	244
(2) Multilateral	1539	359	1898
Total A (1+2)	1876	729	2605
(B) Short Term	390	11	401
Grand Total A+B	**22,66**	**740**	**3006**

Source: Economic Affairs Division, Year Book 2012-13

Similarly during FY13, government of Pakistan had doled out over Rs.1.542 trillion of interest to its local and foreign debtors. The huge mark-up, constitutes 6.7 percent of the country's gross domestic product (GDP). The debt servicing remains the top category of Pakistan's budget expenditure in the FY 2014-15, the government will spend two-fifths (42.1 percent) of the budget's outlay[16]. The successive governments have piled up trillions of rupees public debt without sensing its negative fallout. During the budget year 2014-15, the country will expend Rs100.6 billion on foreign debt servicing, Rs333.17 billion on foreign loan repayment and Rs1.224 billion on domestic debt servicing. The Government is bound to curtail the Public Sector Development Program (PSDP), which is Rs525 billion due to debt servicing. This curtailment of the PSDB makes the existing projects more expensive since delayed projects become more expensive over time due to inflation.

[15] http://www.ead.gov.pk/gop/index.php?q=aHR0cDovLzE5Mi4xNjguNzAuMTM2L2VhZC91c2VyZmlsZXMxL2Zp-bGUvWWVhciUyMEJvb2tzL0ZpbmElMjB5ZWFyJTIwYm9vayUyMDIwMTItMTMucGRm
[16] http://www.thenews.com.pk/Todays-News-13-30735-Debt-servicing-to-consume-421pc-budget-expenditure

8 CONDITIONALITY LIST OF THE IMF

In September 2013 the IMF approved latest bailout loan of $6.64billion under Extended Fund Facility. In exchange, it demanded such strict austerity measures that have created a lot of problems for the working class. Pakistan would have to implement tough fiscal measures such as imposition of more taxes (mainly indirect taxes since direct taxes have a thin base), withdrawal of tax exemptions, raise the power tariff, elimination of power tariff subsidies and privatization of public sector enterprises. Although the newly elected Pakistan Muslim League Nawaz (PML-N) government has negotiated to some extent with the IMF regarding the conditionality list, most of the demands have been met.

Budget cuts to lower the fiscal deficit from 8.8 percent of gross domestic product (GDP) to 6.3 percent, 4.9 percent in 2014-15 and 4.3 percent in 2015-16[17]. This budget cut is not allowing the meaningful energy reforms to take place.

Subsidies cuts. One immediate target of subsidy cuts is electricity. The government agreed to a around 30 percent increase in the electricity prices for domestic users. Gas prices are also being "rationalized," with a new levy[18].

Currency depreciation. The Pak Rupee will be devalued. However, the Government resisted this proposal to some extent.

Privatization: Speeding the restructuring and privatization of state-run enterprises. The government will select 30 public firms for privatization, beyond the 35 that have already been chosen[19]. About 1.2 million jobs are expected to cut down as result of privatization bandwagon. The push for privatization is supported by the business leaders.

Increase in taxes. From current levels of 9.7 percent of GDP to 15 percent by 2018. In July 2013, sales tax on imported and domestic second-hand clothes, largely consumed by the poor, was more than doubled from 2% to 5%. While Pakistan has failed to meet many of the lenders demands to increase its overall tax revenue, the government managed to find a way to push through sales tax with focus on indirect taxation[20].

Enhance foreign Exchange: The commercial banks which agreed to provide foreign exchange include; Bank of Tokyo, Al-falah Bank Limited, Credit Suisse, Standard Chartered Bank, National Bank of Pakistan, United Bank Limited and Allied Bank Limited[21]. The highest contribution of $150 million will come from Bank of Tokyo.

Pressure to sell Gold: The International Monetary Fund (IMF) in March 2014 also pushed Islamabad to convert its gold reserves worth $2.7 billion into cash to boost foreign currency reserves.

The negative fallouts of the IMF program have been diluted with the huge drop in the international oil prices. Had higher international oil prices remained, the consequences for the working class would have been harsh. Hence the government is quite lucky this time around.

[17] http://www.thenews.com.pk/Todays-News-13-25258-Pakistan-accepts-tough-IMF-conditions-for-$66-billion-bailout-package
[18] Ibid
[19] Ibid
[20] http://www.thenews.com.pk/Todays-News-13-25258-Pakistan-accepts-tough-IMF-conditions-for-$66-billion-bailout-package
[21] Ibid

In view of the prevailing situation, the Finance Division, Debt Policy Coordination Office has developed its first medium-term debt management strategy (MTDS 2013/14-2017/18)[22] by giving due consideration to financial risks[23]. Presently the debt management operations are fragmented across several agencies and presently the DPCO has a limited role in public debt management. The government intends to strengthen public debt management functions through MTDS.

The MTDS provides alternative strategies to meet the financing requirements of the government. The four different borrowing strategies have been assessed with associated costs and risks analysis under the alternative interest and exchange rates scenarios. The cost and risk trade-off analysis is based on the existing debt cash flows, market and macroeconomic projections and alternative borrowing strategies. The robustness of alternative debt management strategies was evaluated by applying stress/shock scenarios for interest rates and exchange rates. The MTDS contains a policy advice on an appropriate mix of financing from different sources with the spirit to uphold the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005.

According to the MTDS document, Pakistan needs to follow the strategy which results in lengthening of its maturity profile to reduce the refinancing risk along with providing sufficient external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk trade-offs. The MTDS also provides strategic guidelines for comprehensive debt management, which include widening of investor base; development of domestic debt markets; lengthening of maturities of debt instruments; and stimulation of external finance.

10 DEBT CANCELLATION: EXAMPLES FROM HISTORY

Beginning in 1996, industrialized countries sought to cancel a part of some poor countries' debt through two vehicles: the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Through these two initiatives nearly $110 billion worth of debt was forgiven, $93 billion of which was in African countries. In exchange for this debt relief, qualifying countries agreed to channel their debt savings to poverty reduction activities.

10.1 The Heavily Indebted Poor Countries (HIPC) initiative: This is the major international debt relief scheme launched in 1996 for the poorest countries. While it has led to some reductions in debt burdens, HIPC, which is run by creditors, is open to too few countries, doesn't properly assess the need or justification for debt cancellation, and offers too little, too slowly, with harmful conditions attached. HIPC cancels debt to a level that it considers 'sustainable' - based on countries' export earnings, but not taking into account the other demands on their finances, nor whether are the debts themselves legitimate. More than $49 billion has so far been cancelled for 28 countries.

10.2 The Multilateral Debt Relief Initiative (MDRI): MDRI is the scheme that came out of the G8 agreement in 2005: the decision came after massive campaigning pressure through Global Call to Action against Poverty. It is only open to countries that have already been through HIPC and met all its conditions. Once they complete HIPC, MDRI means that they get cancellation of more World Bank, IMF, African Development Fund, and more recently Inter-American Development Bank debts that was originally agreed through HIPC. By early 2010, 28 countries had around $45 billion cancelled under the MDRI.

[22] http://www.finance.gov.pk/publications/DPS_2014_15.pdf
[23] http://www.dawn.com/news/1162252

10.3 The Paris Club Relief: Often the Paris Club just agrees to 'reschedule' debts – that is, to let poor countries pay them off over a longer period. Pakistan also received Paris Club loan rescheduling in 2001 soon after 9/11. Yet, the Paris Club is notoriously opaque: Finance Ministers of poor countries approaching the Club have complained that there are no clear rules for rescheduling, and that rich countries dominate decision-making.

10.4 Ebola Debt Relief: In February 2015, The International Monetary Fund (IMF) provided debt relief worth $330 million to aid Ebola-impacted countries. The plan includes $170 million of debt relief and grant-like aid for Liberia, Sierra Leone and Guinea. Prior to the announcement, Liberia, Sierra Leone and Guinea owed a combined $372 million to the IMF. The three countries have a combined total debt stock of over $3 billion; much of that debt comes from dictatorships, civil wars and one-party rule. The three countries paid a total of $81 million in debt service in 2013. In 2012, Guinea, where the outbreak began, spent more money on debt than on public health. However, the World Bank has remained silent in the face of this crisis.

The new plan also expands a debt relief facility previously used to cancel debt after Haiti's 2010 earthquake. The new expanded facility, the Catastrophe Containment and Relief Trust (CCRT), is now a permanent debt relief facility for the world's poorest countries when they experience shocks such as epidemics or natural disasters[24].

$100 million of debt relief will come through the IMF's new Catastrophe Containment and Relief Trust. Another $70 million in debt relief will come from other governments who hold debt in the three countries. Concessional loans of $160 million add up to a grand total of $330 million in new financing. The package also includes a new financing mechanism designed to deliver funds to disaster-impacted countries quickly without worsening debt burdens.

10.5 Germany's Debt Relief: "One of the great beneficiaries of debt forgiveness throughout the last century was Germany: on multiple occasions (1924, 1929, 1932 and 1953), the western allies had restructured German debt[25]". There is ample precedent within Europe for both debt relief and debt restructuring. There is no economic ground for Germany to be the only European country in modern times to be granted official debt relief on a massive scale and certainly no moral ground either, asserts Benjamin Friedman[26].

10.6 Debt Relief – Not for all poor countries! To date, only 24 countries have reached completion point in HIPC. Meanwhile, as a result of the financial crisis, a number of developing countries that have already received debt relief are again facing the risk of debt distress as exports fall, foreign reserves dwindle and currencies depreciate.

First, not all poor countries were able to benefit from the first two rounds of debt cancellation. Some countries, for example, were excluded from the original HIPC deal because they had done a relatively good job in managing their debts. Today, these countries still spend a significant portion of their resources in servicing debts.

A second emerging challenge is that a significant number of countries, which benefited from the first rounds of debt cancellation, are now accumulating new debts. The World Bank and the IMF estimate that more than half of the countries that were included in Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Imitative (MDRI) are now under high or moderate risk to re-incur unsustainable debt levels.

[24] http://www.theguardian.com/world/2015/feb/05/imf-ebola-debt-relief-sierra-leone-guinea-liberia
[25] Source: http://www.ft.com/intl/cms/s/0/927efd1e-9c32-11e4-b9f8-00144feabdc0.html
[26] Benjamin M. Friedman is Professor of Political Economy, and formerly Chairman of the Department of Economics, at Harvard University. He has written extensively on economic policy, and in particular on the role of the financial markets in shaping how monetary and fiscal policies affect overall economic activity.

Creditors maintain control of the process of debt forgiveness. This has included requirements that the country liberalizes trade and capital flows, and undertakes privatizations. These conditions often harm the country concerned specifically the process of industrialization. Also pertinent to mention here is that cancelled debts are counted as 'aid' to the countries concerned, despite the fact that they were not run-up for development purposes.

10.7 Why Pakistan was upgraded to Middle Income Countries Group?

In Dec 2010, soon after super floods, Pakistan was upgraded from low - income group to the ranks of middle-income countries[27]. Does this elevation represent anything significant? Or was it meant to deprive Pakistan of the financial benefits, a low income country can qualify' like IMF's Post-Catastrophe Debt Relief Trust Fund[28] (PCDR) and World Bank's Crisis Response Window (CRW)[29]

In case of Pakistan, GNI criterion was mainly applied to upgrade it from low income to lower middle income country. However, GNI criterion is not a good measure of economic well-being since it does not take into account the distribution of income, environmental consequences, happiness, social inequality and poverty[30]. Although Pakistan's per capita contribution to global warming is lower than that of the average for middle-income countries, the degradation of its own resources is high. Per capita gross national income (GNI) measure generally serves as the official bottom-line for evaluating developmental success and is used to classify countries as low- (below $1,000 per person in 2009), middle- or high-income (above $12,000 per person in 2009)[31].

A deeper analysis highlights Pakistan's multiple weaknesses compared with other middle-income countries. While absolute poverty in Pakistan is relatively high, almost 60 per cent Pakistanis earn less than the $2 per day benchmark. Moreover, Pakistan's status on gender equality is also poor. Pakistan's status on human capital possession is mixed. Almost half the population is illiterate while the percentage possessing secondary school certification, probably the minimum requirement for even a laborer position in a high-tech factory, is much lower. Pakistani manufacturing generally produces low value added exports. Thus, only one per cent of its exports are considered high-tech compared with an average of 20 per cent of middle-income countries.

10.8 Conditions with Cancellation: There are a number of conditions attached to debt cancellation which are normally monitored by the IMF and the World Bank. The developing economies have to cut public spending or privatize basic industries in order to get debt relief. These conditions seems quite harsh since important decisions to run a country are taken away from the government, parliament and people and technocratic solutions are imposed.

These conditions have also often proved extremely damaging particularly for the poorest sections of society[32]. Independent economists, political scientists, sociologists and organizations like the United Nations Development Program condemn these conditions[33]. On account of such tough conditions much-needed debt relief is delayed for many years while countries struggle to meet the targets set by creditors.

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[27] http://www.thebrokeronline.eu/Articles/The-new-bottom-billion

[28] The PCDR Trust Fund allows IMF to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters. " *Eligible countries are able to get two years relief of debt repayments, as well as, "full cancellation of a country's stock of debt to the IMF ... in cases where the disaster has created substantial and long-lasting balance of payments needs, and where the resources freed up by debt stock relief are critical for meeting these needs."*

[29] World Bank's International Development Association (IDA)'s Crisis Response Window (CRW) includes both natural disasters and economic crises resulting from external shocks. "*The Crisis Response Window is supposed to provide special financing to IDA countries facing natural disasters and other exogenous shocks. A country would become potentially eligible for support through the Crisis Response Window if it faces a severe natural disaster*".

[30] *http://www.nature.com/news/development-time-to-leave-gdp-behind-1.14499*

[31] http://www.dawn.com/news/632964/middle-income-status

[32] According to James Sackey, former World Bank Country Representative in Sierra Leone, these instructions include privatizations, trade liberalization, high interest rates etc. Trade liberalization for under-developed economies could have some serious attendant effects (http://www.globalenvision.org/library/23/1524)

[33] http://foreignpolicy.com/2009/11/16/think-again-debt-relief/

11 IMPACT OF THE DEBT BURDEN

The average common person of Pakistan has suffered from a crippling national debt for long. The devastating earthquake of 2005, the global financial crisis of 2008 and the horrific floods of 2010, and so-called war on terror have increased the miseries of people. These internal events such as earthquake and floods have created a dearth of food items, while the external event made the oil prices expensive. These internal and external events increased inflation a great deal in Pakistan since 2008. The double-digit inflation since 2008 has impacted the purchasing power of the common man. This higher inflation normally impacted those people who receive fixed income such as pensioners, contractual workers, disabled, widowers etc., while other segments of population remained insulated since they may demand wages according to the rise in inflation.

The production of electricity has been mainly done through hydro-sources from 1947 to 1990s. Unfortunately, the energy mix radically changed in favour of thermal means in early 1990s. Presently, the production of electricity is mainly done through thermal means, which contribute around 60 %, while the hydro share is around 38 %. The global financial crisis of 2008 played a pivotal role in increasing the international prices of crude oil from $ 60 to $ 120 per barrel. The heavy reliance of Pakistan on imported oil not only put strain on the foreign exchange reserves owing to high international crude oil prices, but also contributes heavily to circular debt, resulting into increasing the existing debt burden.

These higher international prices aggravated the domestic energy crisis and the crisis has worsened to the extent that government has no option but to close down its educational institution. So much so that operation theaters in rural areas hospitals have to suspend their work due to lack of power. Labor has been laid off due to closure of industrial units on account of load shedding, causing unemployment. The labor-intensive textile sector is devastated by chronic power crisis, rendering thousands of workers out of work.

Pakistan had to approach the IMF to ward off the balance of payment crisis in 2008 and 2013. A condition of IMF package, public spending are being cut and prices for food increased in order to reduce the budget deficit. Under Extended Fund Facility, the IMF has increased its indirect influence in policy-making substantially by setting fiscal, monetary, financial and energy sector criteria. These long lists of reforms have the worst implications on the lives of the poverty-stricken people. Since Pakistan has to repay its debts at any cost, it is unable to resolve its pressing problem. Under IMF pressure the increase in indirect taxation on daily use items has further made the life of those millions living below poverty line, miserable. Increase in VAT in the budget 2013-14 has made people to pay the price by compromising on the education and health of their children. Many poor families have no choice but to withdraw children from schools, particularly girls. These children are sliding down to the child labor market.

Pakistan is currently unlikely to meet many of the Millennium Development Goals (MDGs), including on hunger, education, gender equality, child and maternal mortality and access to basic sanitation. High debt payments, and cuts in government spending, make it more difficult for the state to provide decent quality public services such as healthcare and education. According to the World Bank's Poverty Head Count Analysis for 2014, if income per adult in Pakistan is taken as $1.25 per day, then 21.04pc of the population lives below the poverty line (according to 2008 population estimates). But if the poverty line is raised to $2 per day in line with international standards then 60.19pc of the population falls below the poverty line[34].

This debt has done little for the majority of Pakistan's people. It has increased inequality, and depended impoverishment. About 46% of the people in Pakistan live below poverty line.

[34] http://www.dawn.com/news/1110248

http://www.dailytimes.com.pk/business/03-Jun-2014/earning-2-a-day-60-19-population-live-below-poverty-line

(Economic Survey for 2013-14)

Worryingly, 47%[35] of whatever the government generates in revenue between July-March 2013-14 went to paying off the debt against 44% in the previous year. Ideally, this ratio should be less than 30% to allocate more resources to social and poverty related expenditures.– more than on Education & Health combined.

Education is equally neglected sector as average Govt. spending on education stands around 2.2 per cent of the GDP[36]. There are 5.5 million out-of-school children in Pakistan; three times more than India. A report by UNESCO revealed in 2013 that Pakistan boasted the second largest number of out-of-school children in the world. The only other country bypassing Pakistan in this notoriety was Nigeria. And the conditions of the existing primary educational facilities are dismal. A number of schools, particularly in villages, with facilities like boundary wall, toilet, playgrounds, furniture, teaching aids teachers and classrooms missing fully or partially.

The state of public health is even worst. Due to poor health facilities in government hospitals people have to buy these facilities in private sector. So expensive are the private hospitals that poor people prefer self-medication or consult the local quacks, risking their health. In the last year, more than 460 children died from measles in Sindh. The lives of about 200 people were claimed by Dengue last year in Punjab province alone. One of the major reasons for this epidemic is the lack of vaccination coverage in different parts of the country. Pakistan spends 2.6 per cent of its GDP on health, which is the lowest in South Asian countries with comparative spending of 7.4pc in Afghanistan, 4.2pc in India, 4pc in Sri Lanka and 5.6pc in China[37]. Today, nearly half of Pakistan's children and mothers suffer from under-nutrition. The existing health/medical facilities in rural areas are undersupplied. About 352000 children die every year due to lack of basic health services. This situation has not improved for over forty years; Pakistan risks being left behind in the global economy if it fails to act soon.

Contrary to health and education sectors, the debt servicing is consuming significant portion of the existing budget. Pakistan will spend Rs.1.658 trillion (42.1% of Budget) during the fiscal year 2014-15 on public debt retirement and payment of interest on the huge borrowing piled up on the nation where more than half of the population lives below the absolute poverty. The amount allocated for public debt servicing is far more than the planned expenditure of the country's development and 65 percent of the GDP[38].

The successive governments of former military ruler Pervez Musharraf, the PPP and the PML-N have made huge borrowings to run the affairs of the government, which compromised the productive potential of the economy. The debt burden is mounting every day leaving little space to spend on dilapidated infrastructure and much desired social spending. On top of that, the "debt seeking behavior" is closely associated with mismanagement of public money, promoting lavish spending on wasteful expenditure.

[35] http://tribune.com.pk/story/716725/every-pakistani-now-owes-rs82627/
[36] http://www.dawn.com/news/1110128
[37] http://www.dawn.com/news/1018604
[38] http://www.thenews.com.pk/Todays-News-13-30735-Debt-servicing-to-consume-421pc-budget-expenditure

Keeping in view the above argument, there is a need to exercise the right of foreign debt cancellation. For instance, the losses incurred by different sectors of Pakistan's economy as result of US-led war on terrorism in the last 13 years might go close to $102 bn mark a rough estimate[39]. In return, Pakistan had so far received around $15bn through official channels on account of over $10bn in shape of Coalition Support Fund (CSF) compared to official losses of $68bn till fiscal year 2010-11, so only 14% losses were reimbursed by the US. In the head of military assistance in shape of FMF (Foreign Military Fund), Pakistan received $2.1bn, grants for the economy to the tune of $1.5bn, budgetary support of $1.2bn and debt write- off $1.5bn[40].

Pakistan had to face innumerable economic as well as precious human losses. On top of that, the wave of suicidal attacks has a heavy toll on the psychology of the society. Consequently, economic growth slowed and demands for imports reduced with consequential decline in tax collection and inflows of foreign investment were naturally adversely affected, accentuated by the travel bans issued by western governments to its traders, entrepreneurs, tourists etc. Pakistan continued to pay a heavy price in terms of both the economic and security terms. A large portion of its resources, both men and material, are being consumed by this war for the last several years. The economy was subjected to enormous direct and indirect costs, which continued to rise from $2.669bn in 2001-02 to $13.6bn by 2009-10, and rose to $17.8bn in 2010-11, and moving forward, the direct and indirect costs to the economy might rise further.

Pakistan got debt rescheduling from Paris Club in 2001/2002 in return for supporting war on terrorism, but the country was ignored by the Paris Club and other donors when it was in dire need of debt relief during the 2005 earthquake and 2010 and 2011 floods. Pakistan deserved a real debt relief on both the occasions, however, donors did little and their help remained limited to humanitarian aid. The international community led by America has cancelled debt on the basis of 'humanitarian concern' doctrine with Nigeria enjoying $18bn debt relief in 2005. Iraq received $30bn debt relief from the powerful Paris Club with 80% of its debts cancelled courtesy of US support and world happily cancelled the debt for Haiti owing to the effects of its awful earthquake. Pakistan deserves equal treatment to Nigeria and Iraq and must demand that its debts are cancelled too. Even more recently IMF cancelled $330 million debt of Ebola-hit Liberia, Sierra Leone and Guinea. But a terror-hit and flood-hit Pakistan was ignored.

For many years Pakistan was run by undemocratic technocratic regimes aided and abetted with western support, which did little for the masses. It's very clear that the debt contracted by these regimes is a major portion of Pakistan's debt and about 50% may be easily cancelled since the two Afghan wars and their spillovers have destroyed part of the economic potential of Pakistan along with social rights of the population.

Under such dismal economic and financial conditions when Pakistan is already trapped in vicious circle of debt, cancellation of foreign debt is one of the viable, timely and right option; Pakistan should seek to get rid of this rising burden as early as possible. Instead of accepting fresh loan offers from IFIs, it should seek grants to help out the needy people. The country needs all its available resources to meet the basic needs of its population in distress. It cannot afford to allow much-needed resources to fly out of the country in the shape of debt servicing. Owing to reckless borrowing, Pakistan repays its loans at average rate of $3-4bn a year, which is very difficult to maintain under the current circumstances.

[39] Source: http://www.gulf-times.com/

[40] Ibid

For many economic managers the debt cancellation demand may be illogical and kind of daydreaming, but for many others this demand is quite logical and sensible from human rights perspective. On the one hand various laws, precedents and international protocols urge IFIs to cancel poor countries debt under extraordinary circumstances (like the one Pakistan is going through) and on the other hand allow Pakistan to announce unilateral suspension on debt repayments. A demand for cancellation of Pakistan's un-payable and unjust debts is not unjustified. Pakistan needs grant aid, rather than loans, to stand back on its feet. Such kind of demand is not new. There had been more than 600 restructurings of debt since 1950. A lot of countries have suspended payment of the debt, and in the case of Pakistan, if it succeeds in imposing a large cancellation of its foreign debt, which is totally possible, then there is no real problem, after several years, (for Pakistan) to go back to the market if Pakistan needs it[41].

To suspend payment of foreign debts is not a new thing; many poor countries have exercised this lawful right in the past[42]. Far from being an end in itself, these measures should be seen as first step towards a radically different model of development based on a guarantee of fundamental human rights. If a war-torn Germany can get debt relief four times during the period from 1929-1953, why not terror-torn Pakistan. This is also important from the perspective of global peace. A terror-torn Pakistan may destabilize the global peace since we live in an interconnected world.

Lorie Tarshis aptly remarked to favor developing countries "The United States should gain more by canceling Least Developing Countries debt today than by imposing austerity for another decade. Developing countries need to buy our capital goods and we need to export"[43].

[41] Joseph Stiglitz, 2001 Nobel Prize in Economic Sciences in Memory of Alfred Nobel, chair of President Bill Clinton's Council of Economic Advisors from 1995 to 1997, chief economist and vice-president of the World Bank from 1997 to 2000, gives strong arguments to those who seek a suspension of public debt repayment. In a collective book published by OUP in 2010, |1| he claims that Russia in 1998 and Argentina in the 2000s are proof that a unilateral suspension of debt repayment can be beneficial for countries that make this decision: "Both theory and evidence suggest that the threat of a cut-off of credit has probably been exaggerated." (p.48).

[42] In 1985 Peru a small Latin American country refused debt repayment to World Bank and IMF. In 1986 Cuba refused $2.5 billion debts to Paris Club, Russia. In 2001 Argentina suspended repayments of $ 80 billion. In 2005 Paraguay refused $ 85 million debt to Swiss banks.

[43] Tarshis, Lorie (1987) Disarming the Debt Bomb. Challenge Magazine pp. 18-23

13 CONCLUSION:

Contrary to what some people believe that Pakistan's debt burden is under control, the country is not just heading into a full-blown external debt crisis, slowly but surely, it is slipping into the uncharted territory of external debt to be matured in 2018. There is a high probability that Pakistan would take another IMF program in 2018 due to low dollar earning capacity of our exports. That prospect should be enough to shatter the sanguinity and complacency of any responsible government. This analysis shows that Pakistan is effectively in a debt-deficit spiral.

1. The successive governments are unable to grow tax revenues, which is further widening the fiscal deficit and increasing the debt servicing further
2. Large fiscal imbalances have resulted in a sharp increase in the stock of public debt, which entails a heavier debt-servicing burden in the future;
3. Deficit financing is primarily met through costly short-term borrowing from the banking system, which is an imprudent strategy
4. Increasing interest payments have constrained development spending, which dampens the country's growth prospect and potential

The assessment also shows that Pakistan experienced a similar problem in the early 2000s, which resulted in a comprehensive restructuring of its Paris Club debt in December 2001. In the current environment, short term domestic debt is putting immense pressure on the fiscal side. Unless very ambitious fiscal reforms are undertaken that can guarantee results, the country's domestic debt dynamics will not converge (i.e., it will continue to grow at a compounded rate) until administrative measures are adopted. For foreign debt, the present government has adopted a risky strategy.

In a nutshell, we need a radical new way of dealing with debt and a sound financial system where lenders are not rewarded for making irresponsible, reckless and selfish loans and the poorest in borrowing countries are not punished for these same loans. There is also a need of a financial system, which allows people in the developing world to hold their governments accountable for their actions, rather than having those governments instructed by IFIs and creditors in rich countries. Some alternative way of financing development can also be imagined–fiscal reform; reducing the taxes paid by the poor and increasing the taxes paid by the richest 1% of the population and big private enterprises could allow the government to raise sufficient money not to be obliged to go to the market and contract new debt. And for the other part of the debt, which will not be cancelled/abolished, a reduction of the interest rates and an extension of the maturity of payment are necessary too.

Government of Pakistan

- We urge the government of Pakistan to establish a Debt audit commission In line with the recommendations of the Special Committee on Foreign and Domestic Loans (SCFDL), "Govt. must obtain expert opinion of the independent economists for impartial assessment of country's alarming debt situation". It is high time for Pakistan to set up an independent, impartial and comprehensive parliamentary debt audit commission after the model Ecuador did in 2007-2008.
- We urge the Government of Pakistan to empower the Parliament to decide on the Acquisition, Disbursement & Repayment of all (new/old) loans.
- We urge that the government should re-negotiate with the IMF and other multilateral donor agencies and work seriously to address the structural problems of the economy
- We urge the Government of Pakistan to reduce debt dependency by increasing tax to GDP ratio through progressive taxation & to fill the gap of fiscal deficit. The government should not put huge burden on the masses as the economy remained in the double digit inflation for seven years. The past high inflation entails huge political cost in the form of unrest, law and order and terrorism.
- We urge the Government of Pakistan to stop acquiring program loans and if necessary project loans can be acquired thus ensuring that reckless international borrowing must be stopped.
- We urge the Government of Pakistan to fulfill its commitment to engaging with Swiss authorities under the new Swiss law, `The Restitution of Illicit Assets Act, 2010` (RIAA) and take practical steps to bring back the Pakistani money.

Civil Society of Pakistan

- We urge the Civil Society of Pakistan to advocate the government for seeking alternate means of financing the Basic Services for its citizens and reducing debt dependency.
- We urge the Pakistani media to play its due role in highlighting the adverse effect of debt on Pakistan's economy and sensitize the political leadership and educate the masses.
- We urge the Academia to encourage academic researches on the impacts of debt on Pakistan's economy and Sovereignty as well as identification of alternative sources of financing for sustainable development.

IFIs/Donors

- We urge the Creditors to observe responsible lending to ensure just spending of the funds. They should stop demanding regressive economic conditions.
- We demand that IMF should expand the criteria for the new Post-Catastrophe Debt Relief Trust Fund by including the countries elevated to middle income level. Pakistan is bearing heavy cost of US-led war on terror, which has inflicted economic cost of $102 billion[44] in the last 13 years. We demand **"DEBT RELIEF"**.
- We welcome the passage of the UN Resolution A/68/L.57/Rev2 to establish a multilateral legal framework for sovereign debt restructuring processes and curtailing activities of vulture funds. This is right step towards enhanced accountability and mutual responsibility into global lending practices.
- We urge the donor countries to transform official development assistance (ODA) into grants in the light of commitment made at 1992 Rio conference.
- We urge the Creditors to pay increased attention to the increasing debt burdens of low and middle income countries, especially the continued presence of odious debts.
- We urge that the IMF should not put huge symmetric burden (sharing the burden equally by creditor and debtor) on the deficit country, Pakistan by considering the global structural problems.

[44] http://tribune.com.pk/story/716558/economic-survey-13-year-war-on-terror-cost-102-5-billion/

ANNEXURE-1

The international rules/legal spaces for debt forgiveness

There are number of spaces available in international law that can be invoked as legal justification to refuse the external debt under extraordinary circumstances.

- **Rule of State of Necessity**

"This rule is characterized by a situation that jeopardizes a State's economic or political survival - such as the situations which creates the factor of impossibility of fulfilling the very basic needs of the populations (health, education, food, water, housing etc). The "State of Necessity" justifies the repudiating of debt, since it implies establishing priorities among different obligations of the state".

The natural calamity-like the one hit Pakistan in August 2010, creates the very factor of "State of Necessity". Therefore, Pakistan can invoke this very rule to stop foreign debt repayments to fulfill the fundamental needs of its flood-hid population.

- **UN Human Rights Commission Resolution 1999**

The UN Human Rights Commission has adopted numerous resolutions on the issue of debt and structural adjustment. One such resolution was adopted in 1999, asserts that

"The exercise of the basic rights of the people of the debtor countries to food, housing, clothing, employment, education, health services and a healthy environment cannot be subordinated to the implementation of the structural adjustment policies, growth programs and economic reforms[45]".

- **Rule of State Responsibility**

This rule adopted by the UN Commission on International law 1980 says that

"A state cannot be expected to close its schools, hospitals and universities, abandon public services to the point of chaos, simply to have money to pay its foreign debts".

- **Post-Catastrophe Debt Relief Trust Fund.**

The PCDR Trust Fund allows IMF to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters.

" Eligible countries are able to get two years relief of debt repayments, as well as, "full cancellation of a country's stock of debt to the IMF ... in cases where the disaster has created substantial and long-lasting balance of payments needs, and where the resources freed up by debt stock relief are critical for meeting these needs."

On July 21, 2010, the IMF agreed to use the PCDR Trust Fund to eliminate all of Haiti's $268 million debt stock to the Fund. However, this cancellation was not so simple and straight. It came along with a new loan of $ 60 million[46]. From one perspective IMF's cancellation of Haiti's debt, looks good step but at the same time it looks totally absurd that the poor ravaged country is burdened with fresh loan. The eligibility criteria for the PCDR Trust are also flawed. It is far too narrow and the financing far too little to provide needed debt relief to the poor countries.

It must be expanded to countries that suffer severe natural disasters as assessed by the United Nations Disaster Assessment and Coordination team. And also the post-conflict countries whose infrastructure and productive capacity has been severely destroyed should have the right to avail the benefit.

[45] Commission on Human Rights Resolution 1999/22, 23 April 1999, § 3: http://ap.ohchr.org/ documents/E/CHR/resolutions/E-CN_4-RES-1999-22.doc, adopted by 30 votes in favor (Bangladesh,Bhutan, Botswana, Cape-Verde, China, Cuba, Ecuador, Democratic Republic of the Congo, Guatemala,India, Indonesia, Liberia, Madagascar, Mauritius, Morocco, Mozambique, Nepal, Niger, Pakistan,Philippines, Qatar, Republic of Congo, Rwanda, Senegal, South Africa, Sri Lanka, Sudan, Tunisia,Uruguay and Venezuela), 15 against (Austria, Canada, Czech Republic, France, Germany, Ireland,Italy, Japan, Latvia, Luxembourg, Norway, Poland, Rumania, United Kingdom, United States) and8 abstentions (Argentina, Chile, Colombia, El Salvador, Mexico, Peru, Russia and South Korea).

[46] http://www.imf.org/external/np/sec/pr/2010/pr10299.htm

- **Crisis Response Window (CRW)**

World Bank's International Development Association (IDA)'s Crisis Response Window (CRW) includes both natural disasters and economic crises resulting from external shocks. "The Crisis Response Window is supposed to provide special financing to IDA countries facing natural disasters and other exogenous shocks. A country would become potentially eligible for support through the Crisis Response Window if it faces a severe natural disaster". The CRW for natural disasters do not take into account the very different characteristics of IDA countries with respect to their size, absorptive capacity and ability to mobilize resources for reconstruction.

- **Moral grounds for debt forgiveness**

The fact that IFIs are devoid of any respect for human rights, has been proved once again. Soon after the flood calamity in Pakistan, the World Bank made announcement to provide new loan to Pakistan of $ 1 billion. Following the suit, Asian Development Bank offered $2 billion emergency loan. This is a time when Pakistan needs unconditional help but IFIs handing over further loans capitalizing on the misery of the people of Pakistan. Pakistan is already paying huge amount under debt servicing at the heavy cost of denial to basic needs of majority of its population. The country owes heavy amount of about $ 24 billion to IFIs including Asian Development Bank and the World Bank. Further loaning, without doubt, will lead an already debt-trapped Pakistan to worst economic mess.

Therefore, instead of accepting new loans, Pakistan must stand for the total and unconditional repudiation of its foreign debts. This is our moral right. Time and again, countries facing tragedies, like Pakistan's catastrophic flooding, are forced by International Financial Institutions and donor countries to mortgage their future as they borrow for relief and recovery efforts. Thus, the tragedy is magnified for years to come.

- **Debt Repudiation as Human Right**

In 1987, President of Burkina Faso, Thomas Sankara said "The debt cannot be repaid, firstly because if we do not pay, the money lenders will certainly not die, on the other hand if we pay, we will certainly die. Those who have led us to debt trap have gambled as though in casino. When they were winning there was no debate. But now when they have lost through gambling, they demand that we repay them. No! According to rules of the game we cannot pay and refuse to pay all foreign debts."

- **Extraordinary human crisis**

There is extraordinary human crisis in Pakistan. The country needs to be able to mobilize all available resources toward relief and rehabilitation efforts. Instead of serving billions in debt services, Pakistan should be able to divert those resources in recovery for its people in urgent need. Furthermore, the international community should provide grant support instead of new loans that will push Pakistan further into debt.

ANNEXURE-2

Public Debt Management - Roles and Responsibilities of Federation and Provinces in post-18th Amendment Scenario:

The 18th Amendment has huge implications on the overall allocation of subjects between the Federation and the provinces, entailing a structural shift in the roles and responsibilities at the provincial level. The concurrent list stands abolished while the provinces have been given enhanced role in policy-making of a number of crucial sectors, including Public Debt Management.

International borrowing, signing agreements with foreign donors/creditors, holding negotiations with international financial institutions and overall formulation of public debt management policy has been exclusive domain of the Federal Government. No province could directly secure foreign loans without mandatory sovereign guarantee from federal government. However, after 18th constitutional Amendment, Federal Government is supposed to allow provinces to directly approach the foreign creditors and go for international borrowings.

After 18th Amendment the Federal Finance Ministry is now bound to prepare an annual plan for provinces to borrow directly from foreign sources and submit this plan to Council of Common Interests (CCI) for approval. Meanwhile provinces are also required under 18th Amendment to place in mechanism and functions regarding public debt management. However, provinces have yet to take number of necessary steps in this regard including; formulation of policies/procedures and regulatory laws related to agencies involved in dealing with external borrowings, conditions regarding debt terms and borrowings purpose, etc. Similarly at operational level, a strategy is required for seeking external funds, especially the markets to tap, the instruments to use, the currencies in which to borrow, the interest rate and maturity structure, etc.

Government borrowing from external sources always necessitates a well-established legal basis for contracting debt. In this regard, a clear legal framework governing the mobilization, management and monitoring of external resources must be in practice at provincial level as well. On the pattern of the Debt Desk at federal level, the provinces are now required to set up their own respective structures responsible for assessment of borrowings, programming and negotiations of external economic assistance and constituent units to deal with foreign governments and multilateral agencies.

The Finance Ministry has even after 4 years yet to prepare annual plan under the 18th Amendment to allow provinces to borrow directly from foreign sources under federal sovereign guarantee. Finance Ministry would submit the plan to the Council of Common Interest (CCI) for approval.Although provinces could provide sovereign guarantee against their foreign borrowing, however, no foreign institution would accept their guarantee as they would seek federal guarantee against such loans.

ANNEXURE-3

Functions of External Debt Management [EDM]

1) The functions of EDM may be summed up into five main groups namely, policy, regulatory, operational, accounting and statistical analysis, which are briefly explained below:

a) Policy

There are several agencies involved in dealing with external borrowings, which must coordinate to ensure that the national policies are implemented. Hence, a well-defined debt policy and strategy consistent with the country's development objectives, macroeconomic policies and relevant international covenants must be formulated;

b) Regulatory

A regulatory framework i.e., laws governing borrowings level, approval to borrow, conditions regarding debt terms, borrowings purpose, etc., must be clearly defined;

c) Operational

At the operational level, there should be a strategy for seeking external funds, especially the markets to tap, the instruments to use, the currencies in which to borrow, the interest rate and maturity structure, etc. In general, it is governed by the borrower's creditworthiness. These decisions will determine the structure of the debt portfolio and should be constantly reviewed to judge the impact that changes in the global borrowing climate and the country's own situation have on the opportunities available;

d) Accounting

Collecting detailed information on the country's debt on a loan-by-loan basis and putting in place the appropriate mechanisms to ensuring timely debt servicing are part of the accounting functions of debt management; and

e) Statistical and Analytical Aspects

Analysis of aid data through the following processes should be available to the policy makers and the rest of the stakeholders:

- Debt flows [disbursement and debt-servicing];
- Debt by Currency;
- Debt by Creditors;
- Kinds of Debt [ODA / Non-ODA];
- Debt Service Projections and Arrears;
- Maturity Structure;
- Interest Rate Structure;
- Net Present Value of Debt, and
- Debt Indicators, etc.

ORGANIZATIONAL SET UP

2) EDM involves complex, diverse and specialized functions/responsibilities like aid negotiations, evaluating borrowing alternatives, signing of loan/grant agreements, on-lending, disbursement, monitoring, analysis, debt service payments, and managing currency, interest and maturity risks etc.

The activities are distinguished by the initial process [loan negotiations and contracting], analytical examination [risk management and advisory services] and the follow up phase [accounting, debt-servicing, databank, etc.] The requisite organizational structure is correspondingly the Front, the

Middle and the Back Office for the initial, analytical and the follow-up phases, respectively.

3) The Front Office and Back Office are located in the EAD while the Middle Office is in the Ministry of Finance. The functions of these three offices are briefly as under:

OFFICE	FUNCTIONS
Front Office [Policy Sections in EAD] Negotiating & Borrowing	✓ Borrowing Plan/needs; ✓ Consultations with the stakeholders; ✓ Negotiation & signing of the loan/grant agreement; ✓ Fulfillment of the conditionalities [if any]; ✓ Modifications to agreements [deferring disbursement closing date, cancellation, enhancement of commitments, etc]; ✓ On-lending; ✓ DPs Co-ordination; ✓ Disbursements; and ✓ Follow-up regarding undisbursed amounts, etc.
Middle Office [DPCO in Finance Div] Debt & Risk Analysis	✓ Debt Policy/Strategy; ✓ Portfolio Review/Analysis; ✓ Borrowing Strategy; ✓ Sustainability Analysis; ✓ Risk Analysis; and ✓ Risk Management, etc.
Back Office [R&S/DM/CC in EAD] Information Management i.e., Inflow & outflow of foreign aid.	✓ Database Maintenance/Administration; ✓ Debt Recording; ✓ Debt Reporting; ✓ Debt Servicing; ✓ Debt Settlement; ✓ Rescheduling; ✓ Pre-payments; ✓ On-lending Policy; and ✓ Analytical/Statistical Reporting, etc.

Government borrowing from external sources necessitates a well-established legal basis for contracting debt. In this regard, a clear legal framework governing the mobilization, management and monitoring of external resources is in practice in Pakistan. The EAD is responsible for assessment of requirements, programming and negotiations of external economic assistance related to the government of Pakistan and its constituent units from foreign governments and multilateral agencies. The issues regarding external debt management and matters relating to technical assistance to foreign countries, credit to friendly countries on lending/re-lending of foreign loans and monitoring of aid utilization are being handled by this Division, under Rules of Business, 1973.

1) Laws, regulations and policies, which stipulate the limits of external public debt limit of government borrowing, are also there like "Fiscal Responsibility and Debt Limitation Act, 2005 [FRDLA]".

Front office

2) The Front Office has the prime responsibility of mobilizing foreign funding for the development of the

economy, within the legal and policy framework, in an efficient and effective manner i.e. looking for the most efficient funding cost. In the EAD, Policy Wings are termed as Front Office which are:

- World Bank Wing [deals with matters pertaining to WB, IFAD, OPEC and IDB]
- ADB/Japan Wing [deals with matters pertaining to the ADB and Japan]
- PC Wing [deals with matters pertaining to the Paris Club countries]
- UN/China Wing [deals with matters pertaining to the UN and China]; and
- EC Wing [deals with matters pertaining to the countries not covered above.

3) The Policy Wings, comprising many policy sections [PSs] of the EAD are responsible for aid negotiation, signing of the loan/grant agreements, getting fulfilled conditionalities [if any], on-lending, disbursements, debt swaps, hedging, development partners [DPs] co-ordination and conducting meetings like Pakistan Development Forum, Joint Commissions, Disbursement Review Meetings, etc.

4) In negotiating external assistance, efforts should be made to shun costly and low quality goods and services. Although it is not always possible to exercise a free choice in this respect but at least unfavorable choice should be avoided. A judicious mix of the country's foreign exchange, commodity aid, project aid and technical assistance should be attempted to meet the multiple demands of the development process. Time is of essence in implementing development programs. At times, it becomes very difficult to line up financing for a project or program at the right time.

It is, therefore, important to kick off the process of aid negotiation at a very early stage - at a time when ideas on projects or balance of payments gap have been formed. Proper judgment is required in determining the stage at which external assistance should be considered, sought and then negotiated. All these objectives namely, financing of development budget, obtaining supplies of goods, services and raw materials, ensuring that the sources of supplies are worthy and obtaining support for projects and programs from likely sources at the quickest opportunity, must be clearly understood in negotiating and allocating external resources.

Middle office

5) The functions of middle office are analytical one that enables government to meet its financing needs and its debt service obligations at the lowest possible cost with a prudent degree of risk exposure. It has to provide policy advice on keeping external debt at sustainable level and to warn a cautionary note when the borrowing threatens to breach sustainability levels. The middle office is responsible for debt and risk management and undertakes portfolio analyses, prepares risk management strategy and borrowing scenarios, and compares the emerging debt indicators with agreed benchmarks. In short, it is responsible for debt analysis and advice on debt management strategy. Under the present scenario, Middle Office function is the duty of "Debt Policy Coordination Office" which has been established in the Finance Division under the FRDLA, 2005.

Back office

6) The responsibility of the Back Office is to maintain a high quality database of the external debt i.e. a database that is complete, accurate, up-to-date and consistent in respect of disbursements, payments, debt restructuring, on-lending, etc. Besides, the Back Office is also responsible for budgetary projections for debt service as well as for disbursement projections. In the EAD, Back Office functions are the responsibility of and being performed by four different Wings, namely:

- R&S Wing [responsible for the inflow or disbursement of external resources]
- DM Wing [responsible for the outflow or debt-servicing of foreign debt]
- Rescheduling Wing [Basically part of the DM Wing and is responsible for rescheduling of the external debt, when need arises]
- Computer Centre or IT Centre [responsible for maintaining the database through DMFAS].

ANNEXURE-4

Observations of Special Committee on Foreign and Domestic Loans (SCFDL)

Suggest reducing debts; minimize reliance on foreign and domestic loans. The Special Committee on Foreign and Domestic Loans (SCFDL) comprising chairperson Begum Shehnaz Wazir with members including Rashid Godil, Ahsan Iqbal, Hamid Yar Hiraj, Mian Abdual Sattar and Rana Tanvir Hussain. The officials from the Economic Affairs Division (EAD) briefed the members and the Ministry of Finance with following points.

Pakistan's total public debt has reached Rs.12.625 trillion including domestic debt of Rs.7.6 trillion while the foreign debt has increased to Rs.5.025 trillion. The committee hailed the Ahsan Iqbal's proposal for having views of private and independent economists on the debt situation. It was decided that members of the committee from political parties would propose names of independent economists of their choice.

1. Rashid Godil

There should be a proper mechanism to judge how the amount of money received under loans has been utilized and in which sector. The committee should be informed about the complete schedule of the repayments of foreign loans. The borrowed amount is spent where it should not be. It is a matter of serious concern that there were some personal loans that were waived of as some banks were nationalized.

2. Ahsan Iqbal

In the year 2008, total public debt was Rs.5.5 trillion that has doubled to Rs.12 trillion in FY 2012-13, which shows too much borrowing by the government without any proper mechanism. It is a matter of grave concern that the country is relying heavily on loans from the multilateral donors like the Asian Development Bank (ADB) and these donors already having sovereign guarantees, are getting more in the shape of repayments with high interest rates than the amount they provide as loans.

There is no proper use of the loans received by the country for the projects. For example 'access to justice' was a project financed by ADB but the outcome of the project was zero. The lending agencies make fun of our implementation mechanism of the projects. Yugoslavia was destroyed due to excessive borrowing and high inflation and similarly growing debt burden in Pakistan is the biggest threat to national security as well as for the already ailing economy.

3. Shanaz Wazir Ali

The proper utilization of loans within a specific timeframe is the way to achieve maximum benefits of project. Deputy Chairman Planning Commission will be called in next meeting in order to get a clear idea about the projects in which foreign loans are being utilized and what is their implementation status.

4. Hamid Yar Hiraj

Parliamentarians are even not aware of where the privatization proceeds have gone as these proceeds were to be utilized for debt retirement. Clear terms of reference of the committee be defined to enable the committee to recommend measures for overcoming debt crisis.

5. Wajid Ali Rana (Former Finance Secretary)

Requested the committee that provinces and other federal executing agencies utilized majority of the loans and their representative should also be invited in the meeting for having explanation from them

of utilization of loans. They should also be asked that for what purpose they obtained loans and were the targets achieved after their utilization on their proposed projects.

Committee Recommendations to Government

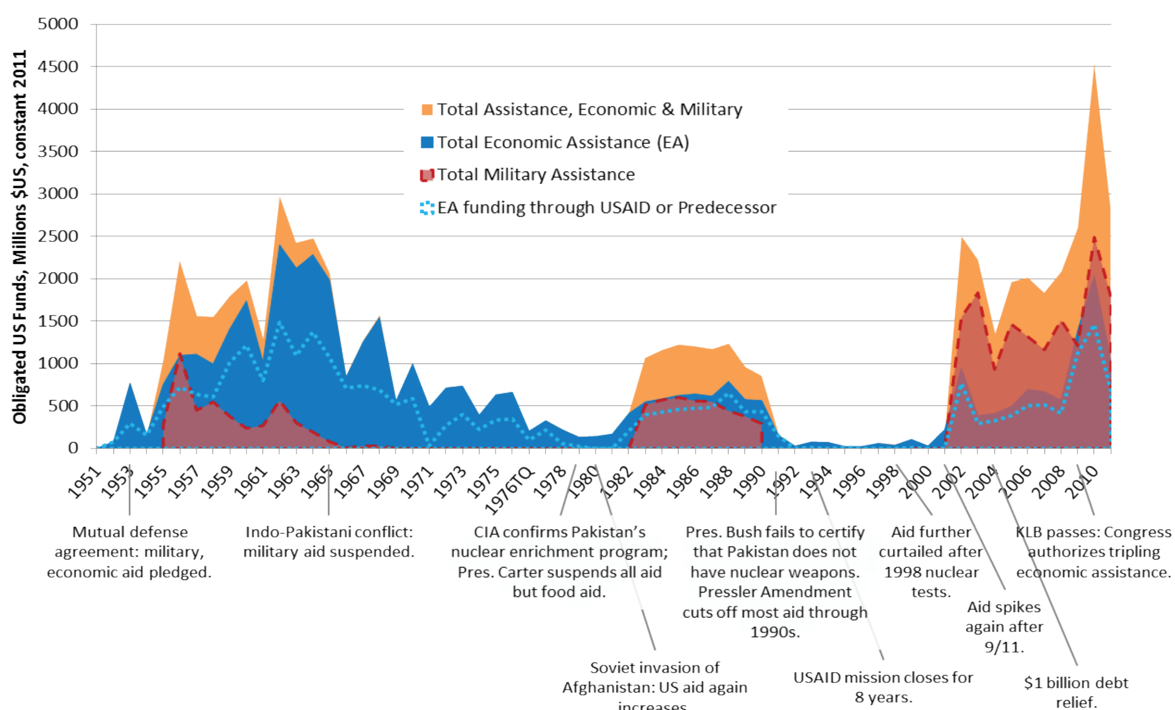
- Reduce the debt burden of the country.
- Minimize reliance on foreign and domestic loans in future.
- Consult federal/provincial governments as well as the executing agencies.
- Obtain expert opinion of the independent economists for impartial assessment of country's alarming debt situation as guiding principle for preparation of recommendations.

ANNEXURE-5

US Assistance

The United States began providing economic assistance along and military aid to Pakistan shortly after the country's creation in 1947. In total, the United States obligated nearly $67 billion to Pakistan between 1951 and 2011. The levels year to year have waxed and waned for decades as US geopolitical interests in the region have shifted. Peaks in aid have followed years of neglect. In several periods, including as recently as the 1990s, US halted aid entirely and shut the doors of the USAID offices. This pattern has rendered the United States a far cry from a reliable and unwavering partner to Pakistan over the years.

History of US Obligations to Pakistan, millions US$(2011)[47]



Source: US Overseas Loans and Grants: Obligations and Loan Authorizations (aka the Greenbook). For the years 2002–2011 we have added data on Coalition Support Funds spending to the military assistance category; while CSF is not technically foreign assistance, it has constituted the bulk of military assistance to Pakistan during the post-9/11 period. Source for CSF amounts is "Direct Overt U.S. Aid Appropriations and Military Reimbursements to Pakistan," prepared for the Congressional Research Service by K. Alan Kronstadt.

In 2009, in an attempt to signal the United States' renewed commitment to Pakistan, the US Congress approved the Enhanced Partnership for Pakistan Act (commonly known as the Kerry-Lugar-Berman bill, or KLB). KLB's intention was to put security and development on two separate tracks, insulating the development agenda from unpredictable geopolitical and military events and facilitating longer-term planning for development. The act authorized a tripling of US economic and development-related assistance to Pakistan, or $7.5 billion over five years (FY2010 to FY2014), to improve Pakistan's governance, support its economic growth, and invest in its people.

Even with strong authorizing language, however, it is up to the administration to request the funds

[47] http://www.cgdev.org/page/aid-pakistan-numbers

and up to the Congressional appropriations committees to approve those requests. As quantified in a recent Congressional Research Service report by Susan Epstein and Alan Kronstadt, in only one of the first four years of KLB's five-year authorization did the final appropriation for US economic-related aid to Pakistan meet or exceed the average annual authorization of $1.5 billion.

Of course, the United States is just one of many countries and institutions that provide financial assistance to Pakistan. The following chart puts the United States' contributions in context by quantifying each donor's share of gross Official Development Assistance (ODA) that flowed into Pakistan in 2011. Total gross disbursements amounted to $4.15 billion (constant 2011 $). The United States was the largest contributor, constituting nearly a third of total ODA to Pakistan, and is followed by the World Bank's International Development Association (21 percent of total ODA), Japan (14 percent), the United Kingdom (8 percent), and the EU Institutions (4 percent).

ANNEXURE-6

Chronology and Assessment of Pakistan-IMF relationship

Every government goes to the IMF for breaking out of balance of payment crisis since it provides a natural solution to the problem. However, opposition parties raises hue and cry to attain political mileage out of it. The interesting phrases to score politically are “begging bowl” and “slavery”. However, they turn a deaf ear to this jargon when they themselves are at the helm of affairs.

IMF has been the most persistent lender to Pakistan and is regularly providing ‘bailout’ loans to Pakistan. For 29 of the past 40 years Pakistan has received loans from the IMF, which amounts to one of the most sustained periods of international lending to any country. Over the period the IMF loans have made Pakistan a more unequal country.

IMF funding to Pakistan has been subject of intense debate, over the last three decades. Proponents and opponents of IMF have produced evidence to support their respective point of views, particularly in broader perspective of international political economy. However, little effort is made to explore the genesis of funding patterns linkage with political objectives of the IMF. In order to understand this crucial aspect of IMF packages we have to go beyond the typical debate of purely economic (technocratic) effects of IMF policies on Pakistan. A careful overview of the particular history of IMF packages for Pakistan in terms of their volume, timing, terms & conditions and rationale provides us an interesting picture of politically motivated patterns of funding.

Pakistan joined IMF in 1950.The first time government of Pakistan went for a loan from IMF was in 1958. It was a Standby Agreement (SBA) worth US $ 25 million. However, the loan was cancelled soon after. It was a period of political upheavals in Pakistan and our first military ruler, Field Marshal Ayub Khan was about to take over. However, in 1960s, during Ayub regime, IMF happily gave two packages; standby agreement in 1965, 1968, to smoothen the administrative affairs. When second military ruler Gen Yahya placed in, IMF continued showering its financial blessing over him and made four more SBA agreements in 70s doling away US $ 330 million.

However, with the first popularly elected government of Z.A. Bhutto coming to power, IMF behavior towards democratic government became lukewarm and it almost deleted Pakistan from the favorite list on account of Bhutto’s nationalization agenda and alignment with Russia.

However, in 1979, with the toppling of Z.A. Bhutto’s democratically elected government at the hands of third military dictator Gen. Zia ul Haq, the nature and extent of IMF involvement drastically changed and it extended lavish package for the dear dictator. Statistics show that in 20 years (1958-1979) Pakistan had collective IMF packages of worth US $ 460 million. However, in Nov 1980, it extended a huge amount of US $ 1.27 Billion to Gen Zia regime through long-term Extended Fund Facility (EFF). The amount was three times the entire amount lent through 7 SBAs packages in 20 years.

The rapid increase in loans, from 1977-8 to 80-81 signifies the importance of Pakistan to the IMF- thanks to the first Afghan war. The continuation of cold war along with political economy agenda of the Western countries financially pampered Zia a lot, making them agrees for funding to Zia’s Government. Contrary to the stringent measures of seventies, IMF extended mild and favorable conditions to the Zia regime in Nov 1980.

The amount of package was ever biggest for any developing country until then. Not only was this exception, rescheduling of repayment of debts also arranged through “Aid to Pakistan” Consortium, rather than by Paris Club. This was a clear deviation from standard lending practices and out of the

way arrangement. There is a subtle difference between the approaches of Paris club and Consortium. Paris Club is primarily made of professional bankers while Consortium reflects long-term global political interests. Thus the fact shows the extent of politically motivated financial blessings for the military rulers.

It is interesting to note that after the passage of decade of 1980s (Zia period) there was major change in the character of IMF packages for the late 80s and 90s. Specifically, the world wide external push for Structural Adjustment Programs and internal support partly from businessmen, academia and practitioners paved the way for these so called reforms. The number of conditions attached to structural adjustment loan, for Benazir Government (1988-91), was increased from average 27 in 1985 to 56 in 1989.

The conditions attached to 1988 IMF package were the most severe in the history of IMF-Pakistan interaction[48] and started the "social engineering" in Pakistan. This manifested the use of conditionality clause. Unfortunately, under structural adjustment program, Benazir government was forced to impose sales tax on 44 daily use items. Pressure was built to withdraw subsidies on major public services and pushed to start privatization. Usually such steps are enough to make any democratic government unpopular in no time.

During the second term of PPP government of Benazir Bhutto, IMF took the civilian government to task and suspended Extended Structural Adjustment Facility (ESAF) and Extended Fund Facility (EFF) after development of controversy with government over reduction in tariff rates. But IMF made financial screws so tight that PPP government bowed down to all conditionalities in order to get the package of US $ 1.2 Billion in 1995. That was the time when the U.S washed its hands off Afghanistan. After dismissal of Benazir Bhutto's 2nd government in 1996, IMF pressure continued over the succeeding civilian government of Nawaz Sharif. Over 66 industrial units were privatized in his period, rendering thousands of workers jobless.

The IMF's technocratic prescriptions continued throughout the 90s. But with the sudden entry of yet another military regime of Gen. Musharraf in 1999, coupled with 9/11 incident in 2001, IMF put off the technocratic hat and put on the political hat once again and softened its behavior towards Pakistan. The moment Musharraf regime agreed to be part of US-led war on terrorism against Afghanistan, IMF indicated easing out its position on the concessional Poverty Reduction and Growth Facility (PRGF). It is pertinent to mention that prospects of PRGF package for Pakistan were quite dismal till a week before 9/11. Thus IMF swiftly changed its position after 9/11 and agreed to support Gen. Musharraf by extending financial support under PRGF.

In a nutshell, the problem partly lies in the public policy failures of successive governments and partly on the conditionality clause of the IMF. The structural weaknesses in the economy have been continuously ignored by successive regimes. The continuous recourse to lender of last resort option i.e. IMF just provides oxygen to already ailed person since the IMF is designed for addressing the balance of payment problems. Finally, it is evident from the above-mentioned brief history that the IMF may swap technocratic and political hats as per the exigencies of time.

[48] TarikSaadat " The way out of logjam of conditionalities" *Daily The Nation*, 31 May 1989

ANNEXURE-7

Fate of Pakistan Money in Swiss Banks

According to various estimations Pakistani ruling elite has deposited a huge amount of some Rs.28 trillion in Swiss and other foreign banks. Finance Minister Ishaq Dar admitted the fact on the floor of the National Assembly that at least $200 billion of `Pakistani money` was stashed away in Swiss banks. An amount of $97 billion is parked only in one bank, Credit Suisse AG. The country can, theoretically, pay off all its debt with the money in Swiss banks and still have nearly a quarter of it left over. This mammoth amount is enough to give jobs to 60 million Pakistani youth and social security for all citizens, ensure a tax-free budget for 30 years, sufficient to construct a countrywide network of 4-lane roads from every village to the Federal Capital.

The finance minister told that government was working under the ambit of a new Swiss law, known as `The Restitution of Illicit Assets Act, 2010` (RIAA), which allows the Swiss government to exchange information which was considered confidential up to now regarding money that may have been obtained illegally and deposited in Swiss banks. However, nation is waiting for the action to get the money back. Pertinent to mention amid a global squeeze on tax evasion, money laundering and blatant outflows of capital, Switzerland`s 11 largest banks housed nearly $7 trillion of the world`s total offshore liquidity stock of $32 trillion.

Notwithstanding the fact as well as need to bring this money back in the country, the question is who are the forces and institutions that help facilitate the local rulers make corruption in loaned money and siphoned off this amount in foreign banks and safe havens? The answer is none other than the same financial institutions and global creditor that consider such corrupt third world rulers inevitable to watch lenders' interests.

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