



Balochistan Foreign Debt Management Policy 2025

(Government of Balochistan)

Debt, Risk and Investment Management Unit
(Finance Department)

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“
Money is
good for
nothing
unless you
know the
value of it by
experience.

- PT Barnum

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FOREWORD

It gives me immense satisfaction that the Government of Balochistan has approved the *Balochistan Foreign Debt Management Policy 2025*, a landmark initiative reflecting the Government's commitment to prudent financial governance, transparency, and sustainable economic management.



This Policy provides a comprehensive framework to regulate and monitor foreign debt, ensuring that external borrowing contributes effectively to provincial development priorities while maintaining fiscal discipline. By establishing clear institutional arrangements, standardized procedures, and robust monitoring mechanisms, the Policy seeks to safeguard provincial interests and enhance debt sustainability.

The Government of Balochistan is determined to strengthen fiscal responsibility and public trust through evidence-based policymaking. This Policy marks a decisive step toward achieving long-term financial stability, enabling the province to pursue inclusive growth and resilient development.

I commend the Finance Department for formulating this important document and urge all stakeholders to ensure its effective implementation for the prosperity of Balochistan and its people.

MIR SARFARAZ BUGTI
(Chief Minister, Balochistan)



STATEMENT FROM MINISTER FINANCE DEPARTMENT

The formulation of the *Balochistan Foreign Debt Management Policy 2025* represents a significant milestone in the Province's journey toward strengthening fiscal discipline and enhancing transparency in public financial management. This Policy establishes a clear and structured framework for managing foreign debt—ensuring that every borrowing decision is aligned with the development priorities and repayment capacities of the Government of Balochistan.



Through this Policy, the Finance Department aims to institutionalize best practices in debt recording, reporting, and monitoring, while fostering coordination among all relevant departments and development partners. It reinforces our commitment to responsible borrowing and prudent utilization of external resources for socio-economic progress.

I extend my appreciation to the Secretary, Special Secretary, and technical teams of the Finance Department for their dedication and professionalism in developing this important Policy. I am confident that its implementation will contribute to stronger financial management, sustainable growth, and improved public service delivery across Balochistan.

MIR SHOAIB NOURSHERWANI

**Minister Finance Department
(Government of Balochistan)**



PREFACE

The *Balochistan Foreign Debt Management Policy 2025* is an important step toward establishing a coherent and transparent system for managing the Province's external obligations. As development needs expand and engagement with international partners grows, the importance of a well-defined debt management framework cannot be overstated.

This Policy sets out the guiding principles, institutional responsibilities, and operational procedures required to ensure that foreign borrowing supports sustainable development and remains within prudent fiscal limits. It emphasizes accountability, timely reporting, and coordination across departments to promote effective decision-making.

The Finance Department's initiative in preparing this comprehensive document reflects the Government's broader vision of fiscal discipline and evidence-based governance. I am confident that the implementation of this Policy will strengthen the Province's financial management capacity and enhance the credibility of its fiscal operations.



SHAKEEL QADIR KHAN
Chief Secretary
(Government of Balochistan)



ASSOCIATIVE STATEMENT

The *Balochistan Foreign Debt Management Policy 2025* is a timely and strategic initiative that will significantly contribute to strengthening the Province's financial and development planning framework. As the Government continues to engage with international development partners to mobilize resources for priority infrastructure and social sector projects, it is imperative to ensure that such borrowings are managed prudently, transparently, and sustainably.



This Policy provides a structured mechanism for aligning foreign financing with provincial development goals while maintaining fiscal responsibility. By introducing standardized procedures for debt recording, analysis, and monitoring, it ensures that external resources are effectively utilized to achieve tangible developmental outcomes for the people of Balochistan.

I commend the Finance Department for taking the lead in developing this important Policy in close coordination with relevant stakeholders. Its implementation will not only enhance the efficiency of development financing but also promote better integration between fiscal management and development planning in the Province.

ZAHID SALEEM
Additional Chief Secretary (Dev)
(Government of Balochistan)



EXECUTIVE SUMMARY

The *Balochistan Foreign Debt Management Policy 2025* has been formulated to provide a comprehensive and structured framework for the prudent management of external debt in the Province. Recognizing the growing engagement with development partners and the increasing need for external financing to support infrastructure and socio-economic development, this Policy seeks to ensure that all foreign borrowing is effectively planned, transparently managed, and sustainably utilized.



The Policy establishes guiding principles, institutional arrangements, and operational mechanisms for the entire debt management cycle—covering negotiation, contracting, disbursement, utilization, monitoring, and repayment. It defines clear roles and responsibilities among the Finance Department, Planning and Development Department, line departments, and project implementing agencies to promote accountability and coordination.

A central objective of the Policy is to strengthen debt sustainability by maintaining an optimal balance between the Province's development financing needs and its repayment capacity. It introduces standardized procedures for debt recording, reporting, and analysis, in line with international best practices and national frameworks, to ensure fiscal transparency and informed decision-making.

Furthermore, the Policy underscores the importance of integrating debt management with the broader fiscal and development strategies of the Government of Balochistan. By enhancing institutional capacity and establishing monitoring systems, it aims to safeguard the Province from unsustainable debt exposure while ensuring efficient utilization of external resources.

The *Balochistan Foreign Debt Management Policy 2025* reflects the Government's strong commitment to sound financial governance, transparency, and sustainable development. The Finance Department remains dedicated to ensuring its effective implementation through close coordination with all stakeholders and development partners.

IMRAN ZARKOON
Secretary, Finance Department
(Government of Balochistan)



1. INTRODUCTION

Balochistan has limited resources to generate sufficient revenue for financing current and development expenditures of the province, therefore the Government of Balochistan rely heavily on Federal Government transfers through divisible pool and straight transfer. A government typically borrows to spend on subsidies, infrastructure, Public Sector Development Programs (PSDP) and other social sectors. In addition, Emerging markets have high debt because of higher government spending. There always exists a fiscal gap between income and expenditure and to fill this gap the government ultimately resorts to external and internal borrowing.

The 18th amendment has given more fiscal space and options to the provinces for acceleration of development agenda. Under Article 167(4) (inserted in 18th Amendments) of the Constitution of Pakistan a Province may raise domestic or international loan or give guarantees on the security of the Provincial Consolidated Fund within such limits and subject to such conditions as may be specified by the National Economic Council (NEC).

1.1 OBJECTIVE & PURPOSE OF THE POLICY

The main objective of this Policy is to describe the policies and procedures of Government of Balochistan relating to external debt management. It identifies the best practices among the various departments which will be used to improve their procedures. This Policy also identifies the role of the Debt, Risk and Investment Management Unit established under the PFM Act, 2020 in the Finance Department. This Policy incorporates guidelines, institutional and legal framework and practices and procedures to facilitate all stakeholders involved in debt management. The Policy is intended to assist stakeholders to: -

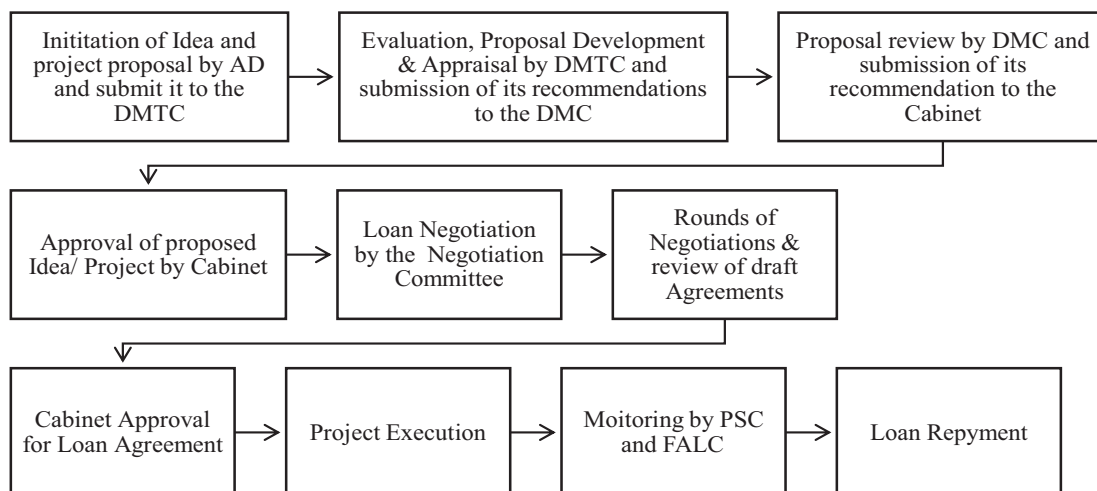
- (a) Understand institutional and legal frameworks necessary for effective debt management;
- (b) Understand the relationship between a Debt, Risk and Investment Management Unit and other government departments, institutions and international organizations;
- (c) Understand the roles and mandates of various participants/ members in debt management operations; and,
- (d) Understand and appreciate the importance and use of Information Technology in debt management and control the quality of inputs, outputs and processes in managing public debt.
- (e) Feasibility, assessment, recommendation, approval, implementation, monitoring, completion.



2. OVERVIEW OF DEBT MANAGEMENT

2.1 DEBT PROCESS FLOW CHART

Debt management process shall be grouped into the following main components referred to as the “Debt Process Flow Chart” as shown below:



***DMTC:** Debt Management Technical Committee

***DMC:** Debt Management Committee

***PSC:** Project Steering Committee

***FALC:** Foreign Assistance Lead Committee

2.2 EXTERNAL DEBTS AND SOURCES

External debt is defined internationally as debt owing to non-residents, i.e. the portion of the province's debt that has been borrowed from foreign lenders including commercial banks, bilateral governments and international financial institutions/multilateral funding agencies. These loans, including interest, are usually disbursed/paid in the currency in which the loan was contracted but will be repayable in the currency designated by the donor or lending agency.

The currencies in which the province can borrow are PKR, AUD, CAD, CNY, DKK, EUR, INR, JPY, KRW, MYR, NOK, GBP, SAR, SDR, SEK, CHF, THB and USD or other currencies as approved by the Competent Authority.

The Government of Balochistan can finance itself externally from multilateral and bilateral sources (i.e. development partners, other countries, and international agencies) and from commercial banks. Bilateral sources are further divided into Paris club and non- Paris club countries. While Multilateral sources include international institutions such as Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Fund for Agriculture Development (IFAD), European Union (EU), European Investment Bank (EIB), Islamic Development Bank (IDB), Nordic Development Fund (NDF), Nordic Investment Bank (NIB), and Organization of Petroleum Exporting Countries (OPEC) Fund.



2.3 DEBT CLASSIFICATION

Loans will be classified based on the utilization of loans, falling under the following two categories:

- a) Project Loans; and
- b) Program/Budget support Loans

(a) Project Loans

Project loans are loans for a particular project which must be repaid from the cash-flow of that project. Normally, Foreign Loans and credits are contracted to finance the cost of machinery, equipment and technical services for a specific project and are defined in “Project Agreement”. A Project Agreement is the formal statement signed by Government of Balochistan and the lending country/agency describing with respect to an individual project, the objectives and work program, and the obligation on both sides for its implementation. On finalization of the Agreement the project authorities are required to conclude contracts for supply of machinery and equipment and services and to act for the utilization of the loan/credit for the implementation of the project for which the loan was contracted. Project loans can either be contracted by the Federal Government and relented to the project authorities/agencies or directly contract by the project authorities/agencies but guaranteed by the Federal Government.

(b) Program/Budget support Loans

Program or Budget support loans are provided to support the budget of the province or budget deficit of the province. These loan can be either General budget support or sector budget support. These loans are aimed at to support the implementation of macroeconomics reforms such as (i) reducing the budget deficit and the debt burden in order to bring them to more sustainable levels; (ii) improving productivity in the traditional sectors of the economy with a view to restoring their competitiveness and facilitating the development of exports; (iii) improving the institutional framework for business by streamlining procedures for business registration and incentives schemes in order to attract more Foreign Direct Investments, and (iv) facilitating employment creation and promoting social equity.

2.4 STATISTICAL AND ANALYTICAL ASPECTS OF LOAN

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

- i) Debt flows [disbursement and debt-servicing];
- ii) Debt by Currency;
- iii) Debt by lenders;
- iv) Kinds of Debt;
- v) Debt Service Projections and Arrears;
- vi) Maturity Structure;
- vii) Interest Rate Structure;
- viii) Net Present Value of Debt, and Debt indicators and etc.



3. DEBT COMMITTEES

3.1 DEBT MANAGEMENT COMMITTEE (DMC)

The role of this committee is to advise government on all issues relating to debt management policy, and to ensure an efficient, effective and professional management of government debt. This committee is chaired by the Chief Secretary of the Government of Balochistan. The DMC shall meet at least on a quarterly basis to review developments in debt management. Ad-hoc meetings shall be convened as the DMC chair deems necessary. The DMC shall be responsible for:

- a) Formulate debt policy taking into consideration the province's development objectives and macro-economic policies;
- b) Formulate debt-ceiling policy and approve debt strategy;
- c) Review debt sustainability reports and identify the costs and risks government may be exposed to;
- d) Approve the annual debt plan of the province;
- e) Monitoring progress on the implementation of the debt strategy;
- f) Reviewing the debt financing operations of the province.
- g) Recommending amendments in the Debt Management Policy and procedures to the Government;
- h) Reviewing existing capacity on debt management and make proposals for capacity building for public debt management. Propose capacity building programs on debt management;
- i) Reviewing institutional arrangements including management structures, job descriptions for debt managers in line with international best practice;
- j) Review and approve recommendations by the Debt Management Technical Committee (DMTC).
- k) Monitor, direct and coordinate all debt management activities.

The DMC shall consist of the following while its quorum shall not be less than five members:

- 1) Chief Secretary-Chairman
- 2) Additional Chief Secretary (Dev)-Member
- 3) Secretary Finance-Member
- 4) Secretary Law-Member
- 5) Principal Secretary to the Chief Minister Office-Member
- 6) Head of Debt, Risk and Investment Management Unit-Member cum Secretary of DMC

3.2 DEBT MANAGEMENT TECHNICAL COMMITTEE (DMTC)

This committee is made up of senior technical managers/ experts/ professionals of debt. The Committee addresses operational issues on public debt administration and plays an advisory role to the Debt Management Committee. It ensures that the terms & conditions in loan agreements conform to the laws, regulations, policies, and strategies including benchmarks set by government and its agents from time to time. This committee shall meet before and after the meetings of DMC.



Specifically, it should perform the following functions: -

- (a) Make policy recommendations to the Debt Management Committee (DMC);
- (b) Recommend to the DMC on coordination of information flows among all stakeholders in order to enhance harmony and avoid duplication of roles;
- (c) Review analytical reports from the Debt, Risk and Investment Management Unit;
- (d) Act as a screening body for all new debt proposals based on review of solid concept paper/feasibility report, evaluation, outcomes and contribution in provincial GDP, which line departments and government agencies submit;
- (e) Ensure that there is no overlapping of the proposed project with any other existing projects in the province;
- (f) Propose medium to long-term borrowing targets consistent with government policy.
- (g) Review reports on debt service costs of different borrowing strategies to ensure that they are in tandem with financial characteristics of government revenues, expenditures and financial assets and on that basis make recommendations on benchmarks to the DMC.
- (h) Review debt sustainability reports and identify the costs and risks that government may be exposed.
- (i) Review results of stress tests to understand how recommended strategies will perform in prevailing or expected economic and financial settings.

The Debt Management Technical Committee consists of the following:

- 1) Additional Chief Secretary (Dev) -Chairman
- 2) Secretary of the concerned Administrative Department member
- 3) Special Secretary, Finance Department- Member
- 4) Chief Economist P&DD-Member
- 5) Chief of Section (Foreign Aid) P&DD-Member/Secretary.
- 6) Head of Debt, Risk & Investment Management Unit. Finance Department, Member
- 7) MD PP UNIT/ Technical Independent Market Expert-Member.



4. FRONT OFFICE

4.1 INTRODUCTION

The Front office regarding debt is P&DD in Government of Balochistan. The Front Office has the responsibility of mobilizing resources from these sources efficiently and at minimum cost. In this Policy the Front Office procedures on external and domestic debt function have been separated. The main objective of the Front Office is to rise funding for the government at the minimum cost subject to an acceptable level of risk as defined in the province's borrowing strategy. The office is in charge of the external borrowing process in consultation with the Finance Department, the Line departments and different debt management committees that advise government on all issues relating to debt management.

- 1) Conformity with the legal and regulatory framework:** The Front Office should always operate within the legal and regulatory borrowing framework that instills confidence and protects investors, lenders and rating agencies. It should always adhere to government debt guidelines and strategy and should also adhere to systems and procedures that ensure that the government's funding and risk management activities are conducted in a timely and transparent manner.
- 2) Interaction with funding sources:** It is the responsibility of the Front Office to maintain well-informed and coordinated relations between the government and the markets, investors, credit rating agencies and international lenders. Periodic reports of the country's debt and risk management strategies, funding needs and development priorities help to increase stakeholder's awareness while promoting transparency and confidence.
- 3) Evaluation of funding alternatives:** The Front Office should be able to evaluate funding prospects and their impact on the debt portfolio in terms of compliance with the approved strategy. Evaluation should be made of the technical, financial and legal terms and conditionalities of the external loan proposals, including the loan purpose, conditions for disbursing loans and the degree of concessionally.
- 4) Compliance with middle office guidelines:** Front Office activities need to conform to the parameters of the medium- and long-term debt management strategy as recommended by the middle office and approved by the policy makers. The Front Office should adjust the borrowing mix to the recommended guidelines: grant element and other benchmarks ratios, instrument to be issued, redeemed or rolled over and the borrowing currencies; interest rates, maturities and debt-service profiles that could help avoid a lumping of maturities.



Some of the main responsibilities undertaken by the Front Office include: -

- (a) Prepare and Implement Annual borrowing plan based on the strategy approved by the government of Balochistan.
- (b) Mobilize resources from external sources based on the province's borrowing strategy;
- (c) Function as a clearing house for requests for information from/to donors/lenders, international financial institutions, commercial banks etc.;
- (d) Lead & coordination of Negotiation and signing of the loan agreement,
- (e) Ensure the fulfillment of the loan conditionalities in connection with all stakeholders,
- (f) Scope and cost revision if any;
- (g) Timely intimation of 3rd party / direct payments and interest capitalization to the Finance Department Accountant General Office and District Account Office Quetta for incorporation into the financial statements;
- (h) Monitoring of the project loan Disbursement (Cash, 3rd Party Payments, Interest Capitalization)
- (i) Implement strategies that minimize costs and risks of debt management.

4.2 ANNUAL BORROWING PLAN

It is the responsibility of the P&DD Department being front office to prepare Annual Borrowing Plan for external loans in consultation with Finance Department and other stakeholders which will be in line with the Annual Public Sector Development Program (PSDP). The Annual Borrowing Plan will include aggregate borrowing requirements, and cost/risk assessment of borrowing options.

Procedures; Formulation of Annual Borrowing Plan

P&DD FD EAD	Consult with stakeholders in order to obtain and prepare the following information; (a) Obtain medium-term primary balance and cash flow projections. (b) Obtain medium-term economic and financial projections and/or scenarios. (c) Obtain Project utilization and expected schedule of loan disbursement, and pipeline for new project loans. Consult with stakeholders to ensure that the debt analysis is consistent with the PDP
P&DD	Prepare Annual Borrowing Plan
P&DD TDMC	Review and sign-off the Annual Borrowing plan and submit it to DMC
DMC	Review the Annual Borrowing plan and recommends Chief Minister for the approval of Annual Borrowing Plan.
P&DD	Circulate/Publish the annual borrowing plan.



4.3 POTENTIAL LENDER IDENTIFICATION

P&DD is responsible for assessment of requirement, programming and negotiation of foreign loans from foreign governments and organization at the provincial level. However, as all foreign loans are contacted by the Federal Government and then re-lend to the provincial government, these negotiations are led (held) by Economic Affairs Division.

In P&DD, the foreign loan negotiation and contracting is the responsibility of the Foreign Aid Section. The executing agencies/line departments, however, play an important role as they have better knowledge of the projects and programs to be aided and are responsibility for loan utilization. These departments are generally the primary point for putting up proposals to initiate foreign loan mobilization and negotiation efforts.

P&DD acts as the coordinating agency and keeps close liaison with both the line departments and the lenders. For effective coordination, communication between P&DD and line departments on the one hand and between P&DD and the lenders on the other hand, a systematic procedure is as followed.

Procedures; Potential Lender Identification	
Line Department	Submit proposals regarding foreign loan requirements in accordance with the Annual Borrowing Plan.
TDMC	Evaluate/review each proposal and recommend possible lender for the proposed foreign loan requirement based on the following criteria; (a) The type of support traditionally provided by the lender, (b) The traditional sectors and projects supported by a particular lender, (c) Concessionally and amounts of the loan instrument and other financial terms at which the loan instrument is offered, (d) The channels through which the resources will be delivered to the province, (e) The flexibility of the lender in accommodating the provincial government's funding requirements, (f) Predictability of the lender in the delivery of the committed loan able funds, (g) Conditionality associated with the disbursements of the committed loans and how strictly they are enforced and (h) Assessment of the degree to which a lender plays an independent role in the policy dialogue relating to disbursements of loans. That is, how strict is the lender's disbursement tied to the performance of provincial government.
PDWP	Once potential lender is identified, the proposal is submitted to the PDWP for recommendation.
P&DD	Share the proposal with EAD for initiating negotiation with the potential lender. Before negotiation begins, prepares the necessary pre-negotiation authorization and approvals to be obtained from the appropriate competent authority and submit for approval.
CDWP/ECNEC	Approve the proposed project/program from (as the case may be dependent upon the size of the project) prior to going into the negotiation.



4.4 NEGOTIATION COMMITTEE

Once the expression of interest and draft project documents have been received from the potential lender, an appropriate negotiating team will be selected that should be composed of well-trained and experienced professionals who can meaningfully negotiate.

The P&DD prepares documentation for the requested negotiation committee. The committee will be composed of the following;

- 1) Additional Chief Secretary (Dev)- Chairman,
- 2) Secretary, Finance Department,
- 3) Secretary of concerned Department,
- 4) Chief of Section (Foreign Aid), Planning & Development Department secretary
- 5) Debt, Risk and Investment Management Specialist, Finance Department.

A negotiation strategy needs to be agreed upon by the team during preparations so as to ensure that guiding principles are developed and conformed to. Extensive preparations for negotiations need to be done and this should lead to formulation of a game plan, which will be a basis for negotiations. The time and resources for preparing for negotiations is an important aspect of the loan negotiation process. It is difficult to prescribe the amount of time and resources that may be required because they are dependent on the type of lender and the purpose of the loan/credit proceeds.

The negotiating team should also have its national data and information on important variables, which might be crucial in arguing out their case for the best possible loan terms. Other documents that may be required by the lender are the project and lender documents. Appraisal reports (PC-1) on the project in question are also considered and all other relevant documentation. The team must obtain a legal, technical and financial opinion on the draft documents before proceeding for negotiations.

4.5 NEGOTIATION PROCESS

The Loan negotiation involves the following four main stages;

- 1) Pre-negotiations,
- 2) Negotiations,
- 3) Post-negotiations,
- 4) Re-negotiations.



Procedures; Negotiation Process

PRE-NEGOTIATIONS

Negotiating Committee	Obtaining and analyzing all loan information based on the standard strategy of the province. This involves reviewing the project documents (e.g. appraisal documents (PC-1), draft agreements, disbursement and procurement procedures etc.) including the legal obligations. Importantly, this review helps to ensure that the proposed obligation's clauses are not in conflict with the objectives and laws of the province. This committee shall identify the lender/ donors and shall seek offers from the interested potential lender/ donors for the approved project. The Negotiation Committee will prepare before going into negotiations and all relevant data and analysis will be obtained before meeting the donors
Debt, Risk and Investment Management Unit (DRIMU)	Provide the negotiation committee with the basic financial analysis of the potential loan along with alternative funding sources of the lender so as to be better prepared for the negotiation.

NEGOTIATIONS

Negotiating Committee	Enter into negotiation with at least three potential lenders. The type of negotiations will vary from one lender to another.
DRIMU/Line department / Executing Agency	Assist the negotiation committee in their area of expertise.

POST-NEGOTIATIONS

EAD	1) Once the negotiations are completed, share the minutes of the negotiation with all the parties concerned. These minutes are signed both by the lender and the negotiating committee. 2) Before putting together, the final loan documents, both parties must confirm these minutes to avoid any later confusion or disputes.
Negotiation Committee	The committee shall submit its recommendations, duly signed minutes of the negotiation along with draft agreements before the Provincial Cabinet for deliberation and approval.

RE-NEGOTIATIONS

P&DD	There are instances where the need to re-negotiating terms of existing debts by either rescheduling or refinancing arises. The re-negotiation can arise where to Government needs to; • Restructure its debt, where the instruction of a loan or a portfolio of loan is changed (Currency, interest rate, basis, maturity, repayment profile and etc.) • Currency and interest Rate Swaps and • Reschedule its debt service obligation where there is re-negotiation with the lender to change the repayment profile of a loan or portfolio of loans. In such instances, the practice is to go through the whole process as if dealing with a new loan.
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4.6 SIGNING OF THE LOAN AGREEMENT

After all stages of negotiations are completed and where the process is successful, the final draft agreements are shared by the lender with the Economic Affairs Division and P&DD. The agreement is signed between the donor and representative of the Front Office (after approval of Provincial Cabinet) the and Loan agreement by the representative of the Federal Government and the Lender. Economic Affairs Division send letter to P&DD stating that loan has been re-lent to the Provincial Government according to the prevailing re-lending policy.



5. MIDDLE OFFICE

5.1 INTRODUCTION

The middle office of the province undertakes analytical functions that enable the Government to meet its financing needs and its debt service obligations at the lowest possible cost with a prudent degree of risk exposure. It also monitors the front office's performance in terms of compliance with the chosen strategy and risk and cost limits. In Government of Balochistan, the role of middle office is performed by Debt, Risk and Investment Management Unit, Finance Department. The Debt, Risk and Investment Management Unit is headed by an expert whose reporting line is Special Secretary, Finance Department. The unit shall be part of all the debt committees mentioned in this Policy.

5.2 FUNCTION OF MIDDLE OFFICE

- (a) Supporting P&DD in preparing the annual borrowing plan;
- (b) Determining borrowing ceilings for government consistent with fiscal and monetary policy requirements;
- (c) Formulating of debt strategy;
- (d) Providing reliable medium and long-term forecasts of debt servicing and interest income that feed into fiscal forecasts;
- (e) Monitoring unplanned debt requirements;
- (f) Performing adjustments to borrowing plans in the course of fiscal year based on budget monitoring outcomes and fiscal policy adjustments;
- (g) Estimating of effects of changes in interest rates and exchange rate on debt service;
- (h) Undertaking frequent portfolio analysis to assess future debt service obligations and problems and propose action that should be taken to overcome them;
- (i) Preparing debt sustainability analysis to assess the long-term sustainability of projected borrowing levels;
- (j) Assessing external vulnerability using debt and reserves adequacy indicators;
- (k) Recommending policy changes in debt management;
- (l) Providing inputs on public debt to periodic economic and financial reports and data for presentation to Cabinet as well as Parliament;
- (m) Coordinating with Economic Affairs Division for effective debt management;
- (n) Designing benchmarks or reference debt portfolios that reflect the province debt strategy in order to guide the Front Office in its funding and hedging operations. Such benchmarks include the currency composition of debt, interest rate structure, duration etc.;
- (o) Identifying and quantifying exposures related to contingent liabilities including designing strategies that will allow effective management of these exposures or risks;



- (a) Implementing the risk control, compliance and performance monitoring of the Front Office;
- (b) Making recommendations for debt restructuring as and when necessary;
- (c) Formulation, preparation and publication of Debt Bulletin;
- (d) Monitoring and supervising performance against set benchmarks; and
- (e) Periodic reconciliation of debt portfolio with Economic Affairs Division.

5.3 DEBT ANALYSIS

There are two main categories of analysis undertaken by the Middle Office namely: instrument and portfolio analysis.

5.3.1 INSTRUMENT ANALYSIS

Instrument analysis is necessary for the purpose of assisting the Front Office arrives at the best options of instrument mix to be used for borrowing in conformity with set benchmarks. Through sensitivity analysis, evaluate the impact of the instrument mix on the overall debt portfolio. Instruments analysis could include determining concessionally for external debt, tenure and duration.

5.3.2 PORTFOLIO ANALYSIS

Portfolio analysis is the critical analysis of the status of the loan portfolio. This includes financial analysis as well as sector analysis focusing on source and use of funds.

The analysis can be broken down into the following broad categories: -

- 1) Lender category: Analyzing debt by major source of finance to the province i.e. multilateral sources, bilateral sources etc.
- 2) Maturity structure of debt: An analysis of the maturity structure of debt stock is important in identifying bunching of payments well in advance, so that corrective action can be taken. This helps to minimize roll over risks.
- 3) Interest rate structure: Determining the interest rate structure of the debt portfolio is important in order to assess the risk and the performance against set benchmarks.
- 4) Currency composition; the currency composition of any debt portfolio is crucial to mitigate against the impact of volatility of exchange rates in the debt portfolio.
- 5) Disbursements profile: An analysis of loan disbursements profile is important because it shows expected inflows, which is an input to cash flow analysis.
- 6) Debt service arrears: an analysis provides an indication of the liquidity and solvency status of the province.
- 7) Financial Terms; In the financial terms analysis the coverage would include: -
 - (a) Average borrowing terms: It provides the general indication of the cost and structure of borrowing.
 - (b) Debt Sustainability Analysis; Debt sustainability analysis is important because it gives a Province a medium to long-term perspective of its debt burden.



5.4 DEBT RISK MANAGEMENT

Debt Risk Management means meeting resource gap at minimum cost and risk and ensuring that borrowing doesn't lead to build up of unsustainable debt burden. Governments are prone to a number of financial risks such as Interest rate risk, Currency risk, Rollover/Refinancing risk, Liquidity risk etc. Failure to guard against such risks may be detrimental and may force Governments to incur high costs of servicing the debt. The analysis needs to be performed by the Debt, Risk and Investment Management Unit at the time of formulation of Annual Debt Report or Period Debt Bulletin. The Risk of debt can be managed as follows;

- a) Borrowing at low interest rate with long maturity/grace period as short term debts are more risky than long term debts due to refinancing risk.
- b) Borrowing fixed interest rate debts as variable interest debts are more prone to interest rate risk.
- c) Debt denominated in or indexed to foreign currencies is considered riskier than debt denominated in domestic currencies due to FX risk.

5.5 DEBT STRATEGY FORMULATION AND REVIEW

Based on the outcome of the overall portfolio analysis, the strategy will assist province to achieve set benchmarks. Middle Office should design strategies that will enable the province to meet its financing needs and set benchmarks. This includes determining borrowing criteria with respect to maturity structures, marketing strategies and borrowing terms. The province's debt strategy involves:

- (a) Objectives and guidelines for the debt management;
- (b) Financing requirement of the government for the fiscal year. Setting borrowing levels that will ensure debt sustainability;
- (c) Description of the risks being managed such as foreign exchange, interest rate and re-financing risk and the historical context for the debt portfolio;
- (d) Description of the future environment for the debt management including fiscal and debt projection, assumptions about interest and exchange rates and constraints on portfolio choice;
- (e) Description of the analysis being undertaken to support the debt management strategy, clarifying the assumptions used and limitations of the analysis;
- (f) Concessional debt to be borrowed or interest rates and maturity of debt to be issued during any particular period;
- (g) Currencies in which debt will be issued or borrowed;
- (h) Interest rate structure of new debt that balances the portfolio;
- (i) The proportion of short-term vis-à-vis long-term debt;
- (j) The proportion of domestic debt vis-à-vis external currency debt that should be issued;
- (k) The markets in which new debt should be issued; and
- (l) Risk and cost tolerance of the sovereign debt.



5.6 MIDDLE OFFICE REPORTS

The middle office will prepare Annual Debt Report to be submitted to DMC. The Contents of Annual Debt Report will include;

- 1) Public debt stocks (historical for past 10 years & projections for next 3 years);
 - (a) By lender classification (multilateral, bilateral); and
 - (b) By lender, residency classification, instrument, currency, interest-rate basis, original maturity, and residual maturity.
- 2) Public debt flows (historical for past 10 years & projections for next 3 years) by disbursements and principal, interest and expense payments.
- 3) Debt ratios/indicators (current & projections for next 3 years);
 - (a) Outstanding debts to the Federal Transfer;
 - (b) Outstanding debts to the provincial own receipts;
 - (c) Principal Repayment to Revenue Expenditure;
 - (d) Principal Repayment to Revenue Receipt;
 - (e) Interest payment to Revenue Expenditure; and
 - (f) Interest payment to Revenue Receipt
- 4) Risk measures of the debt portfolio (current, with some historical comparisons);
 - (a) Fixed-rate/floating-rate debt;
 - (b) Short s term/long s term debt;
 - (c) Average time to interest rate re-fixing;
 - (d) Foreign currency/local currency;
 - (e) Currency composition;
 - (f) Average maturity of the debt; and
 - (g) Maturity profile of the debt.
 - (h) Duration.
 - (i) Other risks measures used by Government.
- 5) Annual review of debt management activities;
 - (a) Review of debt management activities for the previous fiscal year;
 - (b) Evaluation of outcomes against stated objectives (financing and debt management);
 - (c) Performance relative to benchmarks or limits (or both); and
 - (d) Compliance with the Debt Management Strategy.



5.7 RECONCILIATION BY MIDDLE OFFICE:

The Middle Office (Debt, Risk and Investment Management Unit) will perform periodic reconciliation with State Bank of Pakistan, Economic Affairs Division, and Finance Division. The purpose of reconciliation should be:

- (i) To reconcile the cash disbursement received during the period with the Account 01 of the Government of Balochistan (SBP);
- (ii) To ensure that all debts cash receipts are recorded in correct head of account in the Integrated Financial Management Information System /SAP of the Movement (District Accounts Office Quetta);
- (iii) To reconcile the disbursement, payment of interest and principal during the period with database maintained by the Debt, Risk and Investment Management Unit; and
- (iv) To ensure that payment of interest and principal is in accordance with repayment schedule and financing agreement agreed between Debt, Risk and Investment Management Unit and Economic Affairs Division.



6. BACK OFFICE

6.1 INTRODUCTION

The tasks of a back office include debt recording and validation, debt accounting, quality control and debt reporting. It also includes making debt service payments. Accounting transactions should be accurate and should be reflected in Government accounts. Good debt management requires accurate, up-to-date information and efficient storage and retrieval systems.

Disbursements are also accounted at District Account Officer Quetta by entering them into the Government Financial Management System. Similarly, Accountant General Balochistan enters the debt service payments into the Government Financial Management System. Specifically, a Back Office undertakes the following activities:

- (a) Manage debt information systems and maintain an accurate and up-to-date loan database;
- (b) Reconcile all debt transactions with stakeholders;
- (c) Ensure timely and accurate accounting of debt service for external borrowing;
- (d) Monitor disbursements and repayments of loan;
- (e) Validate debt data regularly;
- (f) Prepare statistical and management reports; and
- (g) Coordinate with the Middle Office so that the recording and monitoring of debt balances is done in a timely manner.

6.2 DISBURSEMENTS PROCEDURES

Disbursements refer to the release of funds by the lenders. Disbursements may or may not precede expenditure (it all depends on the method of disbursement).

6.2.1 WITHDRAWAL OF FUNDS

The fact that a loan is effective does not mean that the funds will be released. The Implementing agency/project authorities have to make a formal application for the requisite funds. Some lenders provide standard application forms.

Withdrawal applications are prepared by the project implementing agencies and submitted to the lenders for disbursements.

6.2.2 DISBURSEMENT METHODS

Timely data on loan disbursements is needed for several reasons; firstly, the Back Office must keep track of available loan balances (commitments less disbursements made to date). Secondly, amounts of disbursed debt are also needed to estimate interest due to lenders. Lastly all records of external financing must be consistent with records maintained elsewhere borrowing.

Lenders should be required to notify the borrower, the Debt, Risk and Investment Management Unit and the executing agency of such disbursements, so that disbursement transactions can be recorded in



a timely manner. Depending on the terms of the loan, different stakeholders get disbursement information at different times. Therefore, it is imperative that all stakeholders inform the back office of disbursement received. The Back Office should enter the record of liability in the debt management system and the Government Financial Management System. Institutional arrangements should be such that the Back office receives details of disbursements irrespective of the method used. There are three methods of disbursement namely: direct, reimbursement and replenishment:

a) Direct disbursements:

Refer to the release of funds by the lender directly to the beneficiary. It is important to note that direct disbursements may be made in kind. In such cases the lending agency should be required to report to the P&DD, and to the Debt, Risk and Investment Management Unit as well as to the implementing agency on the type and value of all direct disbursements to the project. The implementing agency should obtain prior concurrence of the Finance Department before submitting withdrawal application of direct disbursement.

a) Reimbursement method:

In this case, the Government undertakes expenditure from whatever source and then submits evidence of such expenditures to the lender for reimbursement. The funds have to be warranted from Finance Department to the implementing agency before expenditure can take place. The line department or the project involved should ensure that all reimbursement claims are made and paid in order to clear any advances.

b) Replenishment method (or advance/special account disbursements method):

On receipt of a signed copy of a loan agreement and a disbursement letter, the FD writes to the AG Balochistan to open Assignment Accounts in accordance with the loan agreement. Assignment Accounts are required to be opened normally with NBP, although in certain circumstances the account may be with the SBP. The institution holding the Assignment Account must be able to:

- (a) execute foreign exchange and local currency transactions;
- (b) open letters of credit; and
- (c) Handle a large number of transactions promptly.

The lender advances funds, usually on installment basis to the project account. The implementing agency undertakes the expenditure by drawing down the project account. When funds in the project account are reaching a minimum level, the implementing agency, through Government, initiates the reimbursement process by applying to the lenders as per the terms of the loan.



Replenishment or advance disbursements follow the same procedures as reimbursements, but with initial funding provided by the lenders.

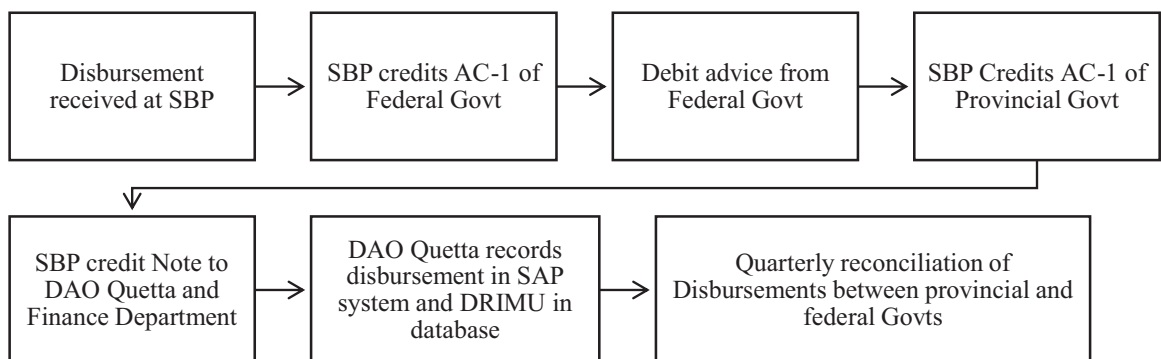
6.3 RE-PAYMENT PROCEDURES

EAD conveys the approved budget to the Finance division for repayment of principal and interest during a financial year. Subsequently the Finance Division recovered/deduct the amount at source on proportionate basis from monthly trench of the divisible pool share of the Government of Balochistan.

6.4 DEBT SERVICE BUDGETING

The Finance Department prepares debt payments falling due in a financial year for inclusion in a government budget for both government direct and guaranteed debt. It is reconciled with the EAD on yearly basis.

6.5 DISBURSEMENTS-PROCESS FLOW





7. FOREIGN FUNDED PROJECTS MONITORING & UTILIZATION STRATEGY

7.1 INTRODUCTION

Foreign funded project are critical sources for financing for development projects, infrastructure, and economic growth. However, mismanagement can lead to debt distress, inefficiency, and wastage of resources. This strategy outlines key steps to ensure effective utilization, transparency and sustainability. The objective of the foreign loans and grants utilization strategy is as follows;

- (a) Ensure optimal allocation of foreign loans;
- (b) Enhance transparency and accountability in fund utilization;
- (c) Improve project implementation, and monitoring; and
- (d) Foster economic growth and development impact.

7.2 FOREIGN ASSISTANCE LEAD COMMITTEE (FALC)

The FALC shall consist of the following:

- 1) Chief Secretary-Chairman
- 2) Additional Chief Secretary (Dev)-member
- 3) Secretary Finance-Member
- 4) Secretary of the concerned Department- Member
- 5) Project Director of the PMU Member cum secretary

The role of this committee is to ensure that foreign assistance aligns with national/provincial development priorities. This committee is chaired by Chief Secretary of the government of Balochistan. The FALC shall meet at least on a quarterly basis to review developments of foreign financing/funded projects. The mandate and delegation of FALC shall be as under:

- (a) Ensuring all foreign grants, loans, and technical assistance are aligned with the objective of the project;
- (b) Reviewing financial and physical progress of the projects;
- (c) Ensuring that progress of project shall be aligned with the time frame set for the project;
- (d) Recommending, assigning and reviewing of 3rd party audit or internal annual audit of the project;
- (e) Reviewing of external audit reports/internal audit reports regarding foreign funded projects if any;
- (f) Facilitating coordination between donors and provincial departments to avoid duplication and fragmentation of aid efforts;
- (g) Providing guidance for smooth execution of project;
- (h) Evaluation of efficiency of project officers and officials and fixation of responsibilities.
- (i) Monitoring the implementation status, disbursement rates, and outcomes of all foreign-assisted projects; and
- (j) Reviewing quarterly and annual reports submitted by implementing agencies and provide policy direction.



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