Impact of Foreign Debt on Labour Rights in Pakistan

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List of Abbreviations

ADB	Asian Development Bank
BRI	Belt and Road Initiative
CPEC	China-Pakistan Economic Corridor
GDP	Gross Domestic Product
HDI	Human Development Index
ICSID	International Centre for Settlement of Investment Disputes
ILO	International Labour Organization
IMF	International Monetary Fund
PKR	Pakistani Rupee
SDGs	Sustainable Development Goals
SOE	State-owned enterprise
TCC	Tethyan Copper Company
UN	United Nations
WHO	World Health Organization

Foreword

Pakistan's current debt crisis should not come as a surprise to anyone, including its creditors. Debt stress occurs for a range of reasons include as a result of increases in inflation and interest rates in foreign countries, because of increases in commodity prices of imports, because governments take on debt for unproductive infrastructure, because governments subsidise big business and fail to properly tax the rich, because of disasters that impact on production and require spending or because of the high cost of military expenditure, and because credit agencies deem them a risk and charge exorbitant interest rates. the case of Pakistan, all these factors, combined with the pandemic and historic climate induced floods, have brought it to the brink of default.

Yet, as the authors of this report, Zulfiqar Shah and Muhammad Rafique, reveal, the cycle of sovereign debt stress Pakistan is experiencing is not new, it has been a recurring feature of its economy for decades. Pakistan has been paying more in debt repayments for the past twenty years than it receives and yet in that the amount owing has grown 200%.

Pakistan is in a debt trap – public revenue is being spent to pay high interest rates on its foreign loans, leaving no money for public investment in infrastructure and services. As a result the economy can't grow. As a result the currency continues to depreciate, the real cost of its debt goes up, credit agencies reduce its ratings and interest rates continue to skyrocket.

When countries experience debt distress, workers almost always pay the price. International Financial Institutions protect creditors at the expense of workers, public services and human rights. They inevitably prescribe spending cuts, privatisation, slashing wages and conditions of workers and shifting the tax burden on to workers and the public.

Yet these prescriptions will not end the debt trap and they will do immeasurable harm to human rights. The only way to end a debt trap is to cancel debt. Foreign creditors have profited from this debt trap and know the risks. Their risks should not be shouldered by the workers of the country and the users of public services.

PSI affiliates in Pakistan cover community health workers, energy, water and sanitation, local government services and public administration workers. The IMF pressure to freeze or cut the public sector wage bill threatens wages and conditions but also occupational health and safety and the availability and standard of public services. This report reviews the impacts of loan conditionalities on public services and attempts to provide important recommendations to international financial institutions and to the Government of Pakistan. We hope this report becomes an important reference document for policy makers and for the public hearings on privatisation and debt.

I thank the authors for laying bare the reality and consequences of this debt trap.

Thanks also to Niels Hegewisch, Country Director, FES Pakistan and Abdullah Dayo, Programme Advisor of FES Pakistan for their persistent support and collaboration with PSI Asia Pacific Office. I also acknowledge the support of my colleagues Kannan Raman, Sub-regional Secretary for PSI South Asia and Gopalakrishnan Manicandan, Trade Justice Campaigner, PSI-AP.

In solidarity,

Kate Lappin
Regional Secretary
Public Services International – Asia - Pacific Region

Executive summary

Pakistan is a country of nearly 220 million people, and its population is expected to exceed 330 million by 2050. According to the 2017 Census, women account for 48.8 percent of the population, 40.3 percent are under the age of 15, and only 3.7 percent are aged 65 years or above. Hence, Pakistan has one of the world's youngest populations. Urdu is Pakistan's lingua franca, but the country's largest ethno-linguistic groups include Punjabis (38.8 percent), Pashtuns (18.2 percent), and Sindhis (14.6 percent).

In 2021–22, Pakistan had a ranking of 161 on the Human Development Index (HDI). The country was categorized as having "low HDI," which is far lower than India (132, Medium HDI) and Sri Lanka (73, High HDI). In 2021, Pakistan scored 3.5 on the World Bank Country Policy and Institutional Assessment social protection rating and has consistently scored low since 2010; Pakistan is the worst performer on social protection among all South Asian countries except Afghanistan, according to the International Labour Organization (ILO). In addition, the country has the world's second-highest number of out-of-school children, with almost 23 million children between the ages of 5 and 16 not attending school in 2016, representing 44 percent of the total population in this age group. Finally, only half of the country's population has access to essential health services/Universal Health Coverage, which lags far behind the goal to boost the service coverage index to 80+ globally by 2030.

Pakistan's total budget for 2022–23 was estimated at PKR 9,579 billion, of which PKR 1,052.2 billion was allocated for development. Pakistan's Gross Domestic Product (GDP) growth increased significantly from –1.3 percent in 2020 to 6 percent in 2021. However, it is projected to shrink to 4 percent in 2022 and further to 3.5 percent in 2023 amid the ongoing flood devastation and the Government's efforts to tackle fiscal imbalances. The country's current account deficit widened from US$ 0.5 billion in 2021 to US$ 13.8 billion in 2022, whereas the trade deficit increased by 49.6 percent from US$ 22 billion in 2021 to US$ 32.9 billion in 2022.

Pakistan's ranking on the World Press Freedom Index fell from 145 in 2021 to 157 in 2022. Freedom House declared Pakistan "not free" and assigned the country an internet freedom score of 25/100. Since 2021, the Pakistan Government has only intensified suppression of the media and voices of dissent, allowing the authorities to use draconian laws and practices against the media, civil society and political parties. Moreover, the World Justice Project's Rule of Law Index placed Pakistan at 130 out of 139 countries in 2021, whereas the 2022 Global Gender Gap Report ranked it the second worst in terms of gender parity in the world. Furthermore, the 2020 International Trade Union Confederation Global Rights Index notes that there is no guarantee of rights for workers, while the Walk Free Global Slavery Index has ranked Pakistan 8 out of 167 countries, with over 3 million people estimated to be living in modern slavery. Furthermore, less than 1 percent of the labour force is unionized in Pakistan.

Pakistan's total public debt stands at PKR 44,336 billion as of March 2022, while the country's debt–to–GDP ratio was recorded at 71.8 percent as of June 2021, which is higher than the 59 percent threshold to be achieved by 2020–21, as stipulated in the Fiscal Responsibility and Debt Limitation Act. During fiscal year 2022/23, Pakistan earmarked PKR 3.95 trillion for debt servicing, accounting for 41.57 percent of the country's total budget.

Of the total public debt, PKR 16,290 billion (US$ 88.8 billion) is taken up by the country's external public debt in the form of multilateral loans (49 percent), bilateral loans (30 percent), commercial loans (11 percent) and Eurobonds/Sukuk (10 percent). Moreover, China has launched 56 projects in Pakistan under the Belt and Road Initiative (BRI). Of these, 26 projects worth US$ 17 billion have been completed, while 30 projects worth US$ 8.5 billion are under construction.

During 2020–21, Pakistan received US$ 13.3 billion as external debt inflow while repaying US$ 6.9 billion, less than the US$ 9 billion repaid in the preceding year. However, Pakistan needs US$ 12 billion in 2023 to bridge the gap between its foreign currency holdings and what is required to pay for loans and imports.

Interestingly, between 2000 and 2020, Pakistan paid more (US$ 117.9 billion) to external creditors than it received (US$ 112.6 billion) from them. Moreover, in fiscal year 2020/21, Pakistan paid PKR 2.3 trillion in principal and interest to foreign creditors, which was almost twice the amount (PKR 1.2 trillion) spent on development.

The current economic situation of Pakistan and the future agenda of the Government indicates that Pakistan has fallen into a debt trap. The country's debt and liabilities have risen steeply to PKR 35.1 trillion, or 91.2 percent of the size of the economy. Yet the Government has indicated interest in taking on more loans, particularly from the International Monetary Fund (IMF) and friendly countries. However, an increased level of external debt can pose a great risk to the fiscal framework of an economy when the current account deficit is high, foreign reserves are at low levels, and the exchange rate is under pressure.

Contrary to international financial institutions' claims that borrowing benefits developing countries to facilitate the development process and boost economic growth, debt servicing has become an acute problem for Pakistan. In the last 20 years, Pakistan has not only paid external creditors more than it has received from them, the shift in the lending programmes of international financial institutions has resulted in Pakistan's consumption loans increasing from 7.7 percent in 1990 to 70 percent in the 2000s. Furthermore, the advice of international financial institutions to Pakistan has not always been helpful. For example, as per the World Bank's evaluation, power sector reforms, the Social Action Program, structural assistance loans, and the Tax Administration Reforms Project have achieved mixed results. Pakistani taxpayers have to pay back the loans involved with interest, yet creditors face no consequences for their weak program design, particularly in relation to governance challenges and the capacity constraints of the country's economy. For instance, consumers' inability to pay the high cost of power was ignored while costly power production was promoted. Such loans, ultimately, have harmed the economy of Pakistan.

Foreign debts are not always bad. Borrowing countries can use loans to boost growth and exports by integrating loans into their growth strategy and maintaining overall fiscal discipline. However, in the case of Pakistan, debt overburdening, repayment, inappropriate use of external loans, and the conditions associated with foreign debt have been among the critical obstacles to sustainable socioeconomic development and respect for people's rights.

As per political commitments and provisions outlined in a number of United Nations (UN) Treaties, including the UN Charter, the international community, as individual States or as members of international financial institutions, commits to cooperation to solve problems of economic, social, cultural or humanitarian character, and to promote and encourage respect for human rights and fundamental freedoms for all without distinction as to race, sex, language or religion.

Generally, States bear the responsibility of realizing human rights within their territories. However, human rights transcend national boundaries. International cooperation and assistance enable developed States to fulfill their extraterritorial obligations to respect people's rights in developing countries. These extraterritorial human rights obligations imply that international creditors, too, are legally bound to ensure that their debt-related policies do not adversely affect the fulfillment of human rights in debtor countries. Like many other developing countries, Pakistan's debt problems are exacerbated by creditors' conditions (e.g., austerity drives, privatization, and retrogressive economic reforms) and pose challenges to achieving the Sustainable Development Goals (SDGs) and respect for people's rights. Providing debt relief to debt-distressed countries is a way forward for international creditors to observe their duty of international cooperation and assistance.

Keeping in view the universality of human rights and the issue of foreign debt, it is imperative to recommend solutions as per the UN Human Rights Council's Guiding Principles on foreign debt and human rights to propose equitable and lasting solutions to the debt crisis in line with the political commitments of the international community, consistent with the human rights obligations of all States:

- Lenders should ensure new loans do not affect borrowing countries' capacity to fulfill human rights obligations; refrain from financing projects involving infringement of human rights; avoid linking policy measures to loans and debt relief; and suspend debt repayment in circumstances beyond the control of borrowers. Moreover, creditors should ensure debt sustainability assessment and transparent, periodic debt audits in relation to the impact of debt on the achievement of human rights and development goals.

Creditors should also establish an independent international debt workout mechanism;

- The UN General Assembly's resolution (A/69/L.84) proclaims that sovereign debt restructuring processes should be guided by the basic principles of State sovereignty, good faith, transparency, equitable treatment of creditors and debtors, immunity from the jurisdiction of foreign courts, and execution regarding sovereign debt restructuring as a right of States and sustainability;
- The Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial Obligations of States on the Full Enjoyment of All Human Rights, particularly Economic, Social, and Cultural Rights, recommends that international financial institutions (a) include in their policy documents to respect human rights; (b) undertake human rights impact assessments before and after determining reforms to borrower states; (c) ensure that the terms of transactions and proposals do not undermine the borrower/recipient State's ability to respect, protect and fulfill its human rights obligations; (d) propose a list of measures to ensure conformity of reform policies with the human rights obligations of States; (e) regard human rights as a priority target; (f) add a human rights dimension to their debt sustainability analysis; and (g) include the findings of human rights impact assessments and monitor their evolution;
- States, as members of international financial institutions, are recommended to (a) exercise their functions as members of international financial institutions and of various boards in line with human rights standards; (b) demand that international financial institutions have human rights policies and monitor their implementation; (c) push for the inclusion of mandatory ex ante and ex post human rights impact assessments in negotiation processes and official methods of work; (d) ensure that human rights impact assessments are conducted before going forward with decisions and/or recommendations implying economic reforms at the country level; and (e) encourage those international financial institutions that have independent accountability mechanisms already in place to strengthen them, and those international financial institutions, such as the IMF, that do not yet have such mechanisms to create them, ensuring that they are accessible and widely known.

Pakistan's economic outlook, social indicators as well as human rights record suggest that, apart from other factors, external debt has not significantly contributed to socio-economic development, improving public service delivery, or achieving respect for people's rights. Hence, there is a need to revisit the country's strategy of seeking and utilizing external debt in the future. The Government of Pakistan is therefore recommended to:

- Carry out a comprehensive review of external debt, particularly in the context of the country's socioeconomic development, public service delivery and human rights. The Government should develop a strategy, guided by the review's findings and recommendations, to overcome its debt trap. This could include limiting the country's external debt to a predetermined GDP ratio according to the size of the country's economy; gradually phasing out the acquiring of budgetary support loans; and allocating budgetary resources for debt repayment in proportion to the allocation of resources for development, public service delivery and human rights;
- Introduce reforms for economic stabilization that may involve taking steps to increase foreign reserves, stabilize the currency exchange rate, maintain the GDP growth rate, control inflation, and allow the economy to flourish. In addition, take steps to address debt overburdening, the implications of debt servicing, inappropriate use of external loans, and the impacts of conditions associated with foreign debt;
- Acquire and utilize external loans only for the purpose of boosting the country's economic growth and exports while maintaining overall fiscal discipline;
- Prioritise domestication of the seven core ILO conventions and the eight core human rights conventions to which Pakistan is a State party. This involves creating conditions to ensure compliance with the civil and political rights of people as well as the allocation of ample budgetary resources for the progressive realization of economic, social, and cultural rights.

Pakistan's relevant government bodies, national human rights institutions, and civil society actors should proactively engage with UN human rights mechanisms to advocate, together with other partners, compliance with international standards to address the effects of foreign debt on human rights.

1. Pakistan country context

a. Population and demography

Pakistan reported a population of 213.2 million in the 2017 Census; the Asian Development Bank (Asian Development Bank, 2022a) estimates that this rose to 222.5 million by 2022. This makes Pakistan the fifth-most populous country in the world after China, India, the United States and Indonesia (Ahmed, 2021). Pakistan has maintained an average annual population growth rate of 2.1 percent from 2016 to 2021, which is higher than India (1.1 percent), Indonesia (1.0 percent), and Sri Lanka (0.9 percent) (ADB, 2022a). It is expected that by 2050, Pakistan's population will exceed 330 million, swelling its population density from 287 to 438 people per square kilometer (Worldometer, n.d.). Moreover, Pakistan is among the top nine countries projected to account for more than half of the increase in global population between 2020 and 2050 (United Nations Department of Economic and Social Affairs, 2021).

The 2017 Census revealed that women account for 48.8 percent of the total population, up from 47.9 percent in 1998 (Pakistan Bureau of Statistics, 2017). Further, 40.3 percent of Pakistan's population was under the age of 15, and only 3.7 percent were aged 65 or above. Hence, Pakistan has one of the world's youngest populations. The 2017 Census also showed that 63.3 percent of the country's population still lives in rural areas though this ratio declined from 65.6 percent in 1998 (Pakistan Bureau of Statistics, 2017, Table). Moreover, as of June 2022, Pakistan continues to host 1.3 million (registered) Afghan refugees (UNHCR, 2022).

Other than Urdu being Pakistan's lingua franca, the country's largest ethno-linguistic groups include Punjabis (38.8 per cent), Pashtuns (18.2 per cent) and Sindhis (14.6 per cent) (Pakistan Bureau of Statistics, 2017, Table 11n). A smaller proportion of the country's population also speaks Balochi, Seraiki, Hindko, Brahui and so on.

According to the 2017 Census, 96.47 percent of the population are Muslims, followed by Hindus (2.14 percent), Christians (1.27 percent), Ahmadis (0.09 percent) and others (0.02 percent). The 2017 Census showed an increasing share of Hinduism, mainly caused by a higher birth rate among Hindus in Sindh province. This Census also recorded Pakistan's first Hindu-majority district, Umerkot District, where previously Muslims were in the majority. On the other hand, the population of the Christian and Ahmadiya communities has declined in terms of population share since the last census.

According to the 2020 Pakistan Demographic Survey (Pakistan Bureau of Statistics, 2022a), the country's total fertility rate is 3.7, the crude death rate is 6.7, the crude birth rate is 27, and the rate of natural increase is 2.04. The infant mortality rate, although quite high still, declined from 62 in 2016–17 to 56 in 2018–2020. Life expectancy at birth in Pakistan is 65 years.

b. Social indicators

Human development: According to the Human Development Report 2021/2022, Pakistan ranked 161 out of 192 countries on the Human Development Index (HDI) and was categorized as having "low HDI, "–far lower than Sri Lanka at 73 (High HDI) and India at 132 (Medium HDI) (United Nations Development Programme, 2022). Historically, Pakistan has demonstrated relatively slow progress on the HDI, which has only risen from 0.512 in 1990 to 0.557 in 2019 (Asian Development Bank, 2022b). In fact, the recent report reveals that Pakistan has dropped seven places from its HDI ranking of 154 (out of 189 countries) in 2021 (Siddiqui, 2022). The report observes that climate shocks, including floods in Pakistan, are affecting the world order, pushing back the growth that was achieved in the past few years (United Nations Development Programme, 2022).

Social protection: According to the World Bank's Country Policy and Institutional Assessment social protection rating, Pakistan has had a score of 3.5 since 2010. While the International Labour Organization (ILO) noted in 2021 that the Benazir Income Support Programme reached 7.2 percent of the population in 2018, an estimated 31 percent of Pakistanis lived below the poverty line (International Labour Organization, 2021a). *Ehsaas* emergency cash transfers reached

16.9 million families (including 5 million Benazir Income Support Programme beneficiaries and 11.9 million new beneficiaries), although government estimates warned that 18.5 million people would become jobless as a result of the Covid-19 pandemic. Coverage of other poverty-targeted schemes, such as *Zakat*, is also low, according to the ILO (2021a).

According to the ILO (2021b), Pakistan is the worst-performing among South Asian countries, with the exception of Afghanistan, with low rankings for social protection of children (5.4), persons with severe disabilities (1.7), the unemployed (0.0), older persons (5.8), workers in case of a work injury (2.7), vulnerable persons covered by social insurance (5.0), labour force covered by a pension scheme (5.7) and Universal Health Coverage (45.0).

Status of education: According to ADB (2022b), Pakistan has the world's second-highest number of out-of-school children, with almost 23 million children between the ages of 5 and 16 not attending school, representing 44 percent of the total population in this age group. More girls are out of school than boys at every level, especially in Sindh (58 percent) and Balochistan (78 percent). Pakistan achieved 95.4 percent gross primary education enrolment in 2019, but only 70 percent of the children were expected to reach Grade 5. The secondary gross enrolment ratio rose from 22.0 percent in 1990 to 43.8 percent in 2019, yet both primary and lower-secondary net enrolment rates in Pakistan lag far behind that of regional peers, including India, Bangladesh, Sri Lanka, and Bhutan, and remain considerably below the average for lower-middle-income countries. Limited and uneven school access, shortage of schools, long home-to-school distances, poor transport facilities and a non-conducive environment at schools are key challenges to augmenting enrolment and completion of schooling. Education indicators are generally much worse for girls than for boys. For instance, except in Islamabad, the gross enrolment ratio among girls is much lower than among boys, especially at post-primary levels. Moreover, girls are more likely to drop out of school than boys with higher levels of education. Students have an average of 8 years of schooling in Pakistan (Siddiqui, 2022).

Public spending on education was only 2.9 percent of Pakistan's Gross Domestic Product (GDP) in 2018, much lower than in other comparable countries (Asian Development Bank, 2022c). Capital or development items represent only a small portion of the federal and provincial education budgets, whereas recurrent items, mainly teacher salaries, account for a majority of the federal and provincial education budgets. These reflect the limited public investment in education infrastructure despite high population growth and limited school access, especially in rural areas. Every year, provincial governments underspend the budget allocated for education, which results in substantial opportunity costs in terms of forgone school participation.

On the other hand, private education has been on the rise in Pakistan since 1990. In 2017/2018, the private sector represented 37.9 percent of all educational institutions and 44.3 percent of total enrolments countrywide. The share of private schools in total educational institutions at middle and high school levels stood at 64.5 percent and 57.2 percent, respectively (Asian Development Bank, 2022d). The share of enrolment in private schools has grown from 28 percent to 38 percent at the primary level over 2008–18 (Asian Development Bank, 2022d). Moreover, a variety of public–private–partnership concepts and practices have emerged in the school education sector in recent years. This has resulted in an exponential increase in enrolments in Punjab and Sindh. However, education expenses have also gone up by 30 percent for average-income middle or lower-middle-class families (Bhatti, 2017).

Health coverage: Only half of the country's population has access to essential health services/Universal Health Coverage, far behind the global service coverage index target of 80+ by 2030 (Ministry of National Health Services, Regulations and Coordination, 2021). Yet Pakistan has achieved improvement in the Universal Health Coverage index, from 40 in 2015 to 50 in 2020. According to the 2020–2021 Pakistan Economic Survey (Pakistan, Ministry of Finance, 2021, Chapter 11), life expectancy at birth in Pakistan stands at 67.3 years, which is lower than that of its South Asian neighbors, including India (69.7), Bangladesh (72.6), Sri Lanka (77), Nepal (70.8) and Bhutan (71.8). The maternal mortality ratio in Pakistan is 140 (per 100,000), which is better than that in India (145), Bangladesh (173), Nepal (186), and Bhutan (183) but worse than Sri Lanka (36). However, the under-5 mortality rate in Pakistan is 67.2 (per 1,000), which is higher than India (34.3), Bangladesh (30.8), Sri Lanka (7.1), Nepal (30.8) and Bhutan (28.5). The Economic Survey report also reveals that 40 percent of children under 5 years of age are stunted, 18 percent are wasted, and

29 percent are underweight. Similarly, 57 percent of adolescent girls and 42 percent of women of reproductive age are anemic (Pakistan, Ministry of Finance, 2021, Chapter 11).

Pakistanis were less affected by the Covid-19 pandemic, with only 1.57 million cases and nearly 30,000 deaths, compared to neighboring India, with 44.6 million cases and over 500,000 deaths (Worldometer, n.d.). Deaths per 100,000 in Pakistan stood at 9.6, which is less than in India (24.7) but higher than in Bangladesh (7.7) and Sri Lanka (7.5). However, just 3.6 percent of Pakistanis were vaccinated by June 2020, less than the 15.82 percent in India (Pakistan, Ministry of Finance, 2021, Chapter 11).

Pakistan's current health care system largely provides tertiary care, with very little focus on prevention (Wasay and Malik, 2019). Hence, despite continued international support, Pakistan is one of only two countries in the world with ongoing poliovirus transmission, alongside Afghanistan (Pakistan, Ministry of Finance, 2021, Chapter 11).

In 2019/20, Pakistan allocated PKR 4.82 billion to health care, which accounts for 1.2 percent of the country's GDP (Pakistan, Ministry of Finance, 2021, Chapter 11). As per 2017–18 estimates, Pakistan spent US$ 45 per person on health care, while Iran spent US$ 484, and Qatar spent US$ 1,716 per capita (Mirza, 2021). The breakdown is even more disturbing as only US$ 14 is spent by the public sector on each citizen annually, while the citizens themselves spend US$ 28 (private sector spending) and a mere US$ 3 comes from external sources. Nevertheless, the High-Level Task Force on Innovative International Financing for Health Systems sets the standard at US$ 271 per person. The fact remains that 70 percent of Pakistan's population (66 percent rural and 76 percent urban), including many from the lower socioeconomic segments, are compelled to seek private healthcare services (Zaidi, 2019). The private health sector, which has grown phenomenally in response to deficiencies in government health services, is firmly entrenched and highly entrepreneurial, according to Zaidi. This makes it difficult for people to bear their healthcare costs. For instance, 2015 estimates show that 4.5 percent of the people in Pakistan spent more than 10 percent of their household budget on health care (Pakistan, Ministry of National Health Services, Regulations and Coordination, 2021). As a result, high out-of-pocket health expenditures pushed nearly 1 percent of Pakistan's population into extreme poverty (United Nations Economic and Social Commission for Asia and the Pacific, 2022).

c. Economic Outlook

Pakistan's GDP growth rate has increased significantly, from –1.3 percent in 2020 to 6 percent in 2021 (World Bank, n.d.). However, it is projected to shrink to 4 percent in 2022 and further to 3.5 percent in 2023 amid the devastation caused by flooding and the Government's efforts to tackle fiscal imbalances (Asian Development Bank, 2022e). Despite being faced with underlying macroeconomic imbalances and associated domestic and international risks, the country achieved 4.4 percent growth in agriculture, 7.19 percent growth in the industrial sector, and 6.19 percent growth in the service sector (Pakistan, Ministry of Finance, 2021, Chapter 22). The country's economy rebounded from the Covid-19 pandemic, with a 0.94 percent contraction in 2020. Yet the recent flooding added profound risks to the country's economic outlook. Persistent political instability, elevated inflation at 21.3 percent in June 2022–the highest since 2008, and forecast to stay at 18 percent in 2023–coupled with a projected increase in global food and energy prices, pose additional risks to the country's economy (Asian Development Bank, 2022e). Business and consumer confidence have fallen since June 2021 due to high inflation and interest rates (World Bank, n.d.).

Even with the growth in the export of goods and services (39 percent in 2022), the current account deficit has widened significantly, from US$ 0.5 billion in 2021 to US$ 13.8 billion in 2022, mainly due to a 46 percent increase in the imports of goods and services (Pakistan, Ministry of Finance, 2021, Chapter 22). The surge in global commodity prices, Covid-19 vaccine imports, and demand-side pressures contributed to the increase in imports. Moreover, Pakistan's trade deficit increased by 49.6 percent from US$ 22 billion in 2021 to US$ 32.9 billion in 2022, while the services account posted a deficit of US$ 3.6 billion in 2022 against US$ 2.1 billion in 2021 (Pakistan, Ministry of Finance, 2021, Chapter 22).

Table 1: Pakistan's fiscal outlook

	2021–2022 (PKR, billions)	2022–2023 (PKR, billions)	% Change
Total Budget	8,487.0	9,579.0	12.9
Total Revenue	4,992.6 (8.9% of GDP)	5,876.2 (8.8% of GDP)	17.7
Total Tax Collection	3,765.0	4,821.9	28.1
Total Non-tax Revenue	1,227.6	1,052.2	–14.3
Total Expenditure	6,644.6	8,439.8	27.0
Total Development Expenditure	668.0	1,032.7	54.6
Federal PSDP Share	353.0	452.3	28.1
Fiscal Deficit	1,652.0 (3% of GDP)	2,565,6 (3.8% of GDP)	55.3
Primary Balance	451.8 (surplus)	447.2 (deficit)	-1.0
Non-bank Borrowing	1,246.0	1,996.0	60.2
Bank Borrowing	681.0	843.0	23.8
Privatisation Proceeds	252.0	96.0	-61.9

Source: Government of Pakistan (2021); Government of Pakistan (2022).

According to the 2021–2022 Pakistan Economic Survey, direct taxation increased by 28.5 percent, sales tax by 28.2 percent, federal excise duty by 14.6 percent, and customs duty revenue by 34.0 percent during fiscal year 2022. The Government borrowed PKR 1,765.2 billion for budgetary support in 2022, as compared to PKR 473.8 billion in 2021. Furthermore, workers' remittances witnessed a 7.6 percent increase, from US$ 24.2 billion in 2021 to US$ 26.1 billion in 2022. Year-on-year remittances have increased 11.9 percent, from US$ 2.8 billion in 2021 to US$ 3.1 billion in 2022.

Pakistan received US$ 1,455.6 million as Foreign Direct Investment in 2022, which is 1.6 percent less than the US$ 1,480 billion received in 2021. The country's foreign exchange reserves stood at US$ 16.4 billion by April 2022 (Pakistan, Ministry of Finance, 2021, Chapter 22).

Pakistan witnessed a 10 percent expansion in private consumption during fiscal year 2022, resulting in improved employment conditions and higher household income (Asian Development Bank, 2022e).

Agricultural output increased by 4.4 percent in 2022 but is expected to remain moderate due to flood losses and high input costs in 2023, which may also diminish services growth in terms of wholesale and retail. Continued rupee devaluation and the Government's efforts towards fiscal adjustments and monetary tightening are expected to contract domestic demand, which will result in a reduction of industrial output as well (Asian Development Bank, 2022e).

Table 2: Pakistan's key economic indicators in comparison with neighboring countries

Indicators	Pakistan	Bangladesh	India	Sri Lanka
Nominal GDP US$ billion	314.4	416.2	3.152.2	84.5
Annual GDP Growth Rate (2021)	5.6	6.9	8.9	3.7
Annual Growth Rate of Real GDP per Employed Person (%)	1.2	2.3	4.1	2.1
Per Capita Gross National Income (GNI) in US$ (2020)	1,270	2,030	1,920	3,720
Inflation Rate % (2021)	8.9	5.6	5.4	6
Current Account Balance 2021 (% of GDP)	–0.6	–0.9	–1.6	–4.2
Growth Rates of Household Expenditure or Income per Capita (%)	1.3 (2013–18)	-	-	4.1 (2012–16)
Growth Rates of Household Expenditure or Income per Capita among the Bottom 40% of the Population (%)	1.3 (2013–18)	-	-	3.7 (2012–16)
Debt Service as a Percentage of Exports of Goods and Services (%)	26.6	5	5.1	33

Source: Asian Development Bank, 2022a

Impacts of Covid-19: The Covid-19 outbreak initially put the Pakistan Stock Exchange under pressure, resulting in an average loss of 1,500 points daily, followed by an overall economic contraction of 0.47 percent. This meant that 44 percent of the country's population was potentially vulnerable (including the 24.3 percent already living below the poverty line), coupled with nearly 19 million job losses. Moreover, the pandemic adversely impacted children's access to schooling, public health care, and other everyday life issues (Pakistan, Ministry of Finance, 2021, Annex IV).

According to the Pakistan Ministry of Finance, 27.31 million workers were affected, and 6.7 million people claimed that their income had declined. Not surprisingly, 74 percent of informal workers were affected: own account workers (non-agriculture) were the most affected (30 percent), followed by casual paid employees (29 percent), regular paid employees (19 percent), and piece rate employees (15 percent) (Pakistan, Ministry of Finance, 2021, Annex IV).

Impacts of floods: Pakistan's economy is expected to grow by only 2 percent in 2022/23, reflecting the damage and disruption caused by catastrophic floods, the Government's tight monetary stance, high inflation, and a less conducive global environment (World Bank, 2022a). Poverty in the hardest-hit regions is likely to worsen due to the flooding, and the national poverty rate may increase by 2.5 to 4 percentage points, pushing between 5.8 and 9 million people into poverty.

The flood damage assessment estimates total damages to exceed US$ 14.9 billion and total economic losses to reach about US$ 15.2 billion (Reliefweb, 2022). Estimated needs for rehabilitation and reconstruction in a resilient way are at least US$ 16.3 billion, not including much-needed new investments beyond the affected assets to support Pakistan's adaptation to climate change and the overall resilience of the country to future climate shocks.

d. Status of labour and human rights

The overall human rights situation in Pakistan is bleak. According to the Reporters Without Borders press freedom index (2023), the country's ranking fell from 145 in 2021 to 157 in 2022 out of 180 countries. This is far behind other South Asian countries, including Nepal (76), Sri Lanka (127), Bangladesh (152), and even Myanmar (140) (Dawn, 2022a). Freedom House (2023) declares Pakistan "not free" on the basis of its 25/100 internet freedom score for 2022. Since 2021, the Pakistan Government has intensified controls over the media and voices of dissent, allowing authorities to use draconian laws and practices against the media, civil society and political parties (Human Rights Watch, 2022).

The World Justice Project's 2021 Rule of Law Index placed Pakistan among the lowest-ranked countries at 130 out of 139. Among South Asian neighbors such as Nepal, Sri Lanka, India, and Bangladesh, only Afghanistan is rated below Pakistan.

The 2022 Global Gender Gap Report ranked Pakistan 145 out of 146 countries in terms of gender parity (World Economic Forum, 2022). The report identifies women's poor economic participation and opportunity (145), educational attainment (135), health and survival (143) and political empowerment (95) in Pakistan.

Women, religious minorities, and transgender people continue to face violence, discrimination, and persecution, with authorities failing to provide adequate protection or hold perpetrators to account (Human Rights Watch, 2022). The Government continues to do little to hold law enforcement agencies accountable for torture and other serious abuses. Roughly 1,000 women are victims of so-called honor killings every year; 22 percent of girls marry before 18 years of age, and women from religious minorities are particularly vulnerable to forced marriage (Human Rights Watch, 2022).

Pakistan has the world's ninth-largest labour force–71.76 million in 2021–but the unemployment rate stands at 6.3 percent, meaning that 4.51 million persons remained unemployed in 2020/21 (Pakistan, Ministry of Finance, 2021, Chapter 12). The country's overall population–to–employment ratio is 42.1 percent (64.15 percent male and 19.4 percent female). Furthermore, 37.4 percent of the country's labour force works in the agriculture sector, 37.2 percent in the services sector, and the rest work in other industrial and commercial sectors.

According to the 2020/21 Labour Force Survey (Pakistan Bureau of Statistics, 2022b), informalisation of employment remained at 72.5 percent, in comparison with 27.5 percent in formal employment. The female average monthly wage (PKR 20,117) is significantly less than male average monthly wage (PKR 24,028). Moreover, half of the female workers (55.9 percent) toil as contributing family workers.

The 2020 International Trade Union Confederation Global Rights Index placed Pakistan in category 5, which means there is no guarantee of rights. In the Global Slavery Index 2018, Pakistan was ranked 8 out of 167 countries, with over 3 million people estimated to be living in modern slavery and an estimated vulnerability to modern slavery of 74.1/100 (Walk Free, 2018).

The European Union's 2020 GSP+ report on Pakistan notes that the gender wage gap remained relatively static (45.4 percent), the vulnerable employment rate continued to hover above 50 percent, occupational safety and health continued to be an issue, and the labour inspection system was too weak to ensure proper enforcement and monitoring of the application of labour laws and safety standards (European Union, 2020).

Trade unions play an important role in labour rights protection and the harmonization of relations between employees and employers. However, it is observed that less than 1 percent of the country's labour force is unionized (Kunwar, 2022). As a result, the majority of workers experience an abusive environment with blatant violations of their rights–forced to work overtime, denied minimum wage, social protection, old-age benefits, etc. Problems that lead to the violation of labour rights are often due to the absence of written contracts and established legal agreements between workers and employers.

Other critical issues include child labour, bonded labour, challenges pertaining to freedom of association and collective bargaining, and the absence of labour laws in Export Processing Zones and Special Economic Zones (European Union, 2020). Furthermore, the competence of provincial governments with regard to labour policy design and delivery post-devolution is also an issue.

Pakistan has ratified seven core international human rights treaties and eight core labour rights conventions. However, the implementation of ILO and United Nations (UN) conventions relating to labour standards and human rights is an ongoing challenge (Fair Wear, 2021).

2. Overview of Pakistan's public debt situation

Pakistan is faced with severe economic issues due to domestic political instability and global economic recession (Raza, A., 2022). This has created a severe decline in the State Bank's reserves, a foreign exchange shortage, and a devaluation of the Pakistani rupee. Sadly, these challenges have recurred throughout Pakistan's 75 years of history. The country has failed to mobilize domestic resources, which has led to a reliance on foreign borrowing.

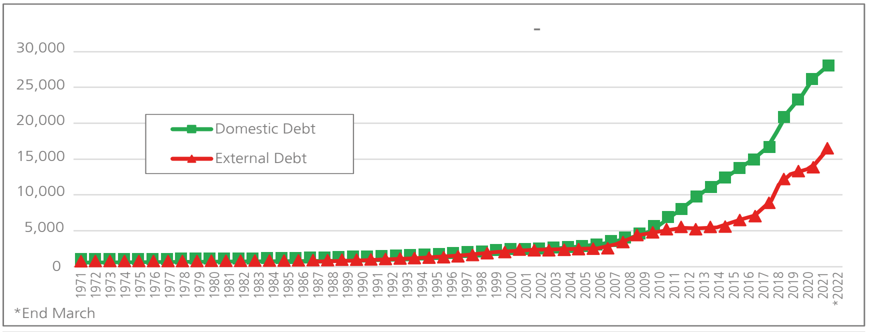
Overall public debt: Pakistan's total public debt stands at PKR 44,336 billion as of March 2022 (Pakistan, Ministry of Finance, 2021, Chapter 22). It registered an increase of PKR 4,500 billion during the first 9 months of the fiscal year 2021/22 due to financing of the federal fiscal deficit, a 26 percent depreciation of the Pakistani rupee against the US dollar, and a decrease in the Government's cash balance.

Pakistan's debt–to–GDP ratio was recorded at 71.8 percent at the end of June 2021, which was a reduction of 4.7 percentage points compared to 2020, mainly due to the appreciation of the Pakistani rupee's value against the US dollar (Pakistan, Ministry of Finance, 2022). Despite this improvement, this ratio still remained higher than the 59 percent threshold to be achieved by 2020/21, as stipulated in the Fiscal Responsibility and Debt Limitation Act. The Ministry of Finance spends 36 percent of the total budget to service the public debt (Majid, 2022). For fiscal year 2022/23, Pakistan has earmarked PKR 3.95 trillion for debt servicing, which accounts for 41.57 percent of the total budget (Khan, 2022).

In global terms, Pakistan has performed relatively well in terms of managing its debt burden during the pandemic, given that the debt–to–GDP ratio was projected to increase by 18 percent for advanced economies, 10 percent for emerging markets, and 6 percent for low-income countries (Pakistan, Ministry of Finance, 2022).

However, the existing economic situation of Pakistan and the future agenda of the Government indicates that Pakistan has fallen into a debt trap. The country's debt and liabilities have risen steeply to above 92 percent of the size of the economy (Majid, 2022). Yet the Government has indicated its desire to take on more loans, especially from the International Monetary Fund (IMF) and friendly countries. The worrisome part of Pakistan's debt trap is: what will happen when these loans mature? The thirteenth IMF bailout package matures in 2022, Saudi Arabia's loan (US$ 9.6 billion) and the UAE's loan (US$ 6.2 billion) mature in 2023, and China's loan (US$ 100 billion) matures in 2024.

Figure 1: Pakistan's public debt (PKR in billions)



Source: Pakistan Ecnomic Survey 2020-2021, Ministry of Finance, Chapter 9

External debt: Pakistan's external public debt stands at PKR 16,290 billion (US$ 88.8 billion) and is mainly derived from four key sources: 49 percent from multilateral loans, 30 percent from bilateral loans, 11 percent from commercial loans, and 10 percent from Eurobonds/Sukuk (Pakistan, Ministry of Finance, 2021, Chapter 22). Debt from multilateral and bilateral sources cumulatively constituted around 79 percent of the external public debt as of March 2022. During 2021/22, the Government secured PKR 1.1 trillion by issuing Sukuk bonds, received US$ 1,053 million from the IMF, and had US$ 3,000 million deposited by Saudi Arabia, which was utilized for budgetary support. In addition, in July 2021, Pakistan raised US$ 1 billion by issuing Eurobonds and raised US$ 1 billion by issuing International Sukuk in January 2022. The Government's cumulative debt retirement against State Bank of Pakistan debt stood at PKR 2.3 trillion from July 2021 to March 2022. The Government also repaid US$ 1 billion against the maturity of International Sukuk in October 2021. In addition, China has launched 56 projects in Pakistan under the Belt and Road Initiative (BRI). Of these, 26 projects worth US$ 17 billion have been completed, while 30 projects worth US$ 8.5 billion are under construction (Pakistan, Ministry of Finance, 2021, Chapter 22).

Table 3: Pakistan's external debt (as of 31 March 2022)

Institutions/Countries		Amount (US$ millions)
Total External Public Debt		88,765
Government External Debt		81,294
Long-term (over 1 year)		
I.	Paris Club	9,708
II.	Multilateral	34,513
III.	Other Bilateral	17,151
IV.	Euro/Sukuk Global Bonds	8,800
V.	Commercial Loans/Credits	8,210
VI.	Local Currency Securities (PIBs)	96
VII.	NBP/BOC deposits/Pakistan Banao Certificates	58
VIII.	Naya Pakistan Certificates	1,327
Short-term		
I.	Multilateral	1,301
II.	Local Currency Securities (T-bills)	130
From IMF		
I.	Federal Government	4,368
II.	Central Bank	3,103

Source: Pakistan Ecnomic Survey 2020-2021, Ministry of Finance, Chapter 9

Of the 22 permanent Paris Club member countries,[1] 17 are Pakistan's creditors, including Japan, France, Germany and the United States (Pakistan, Ministry of Finance, 2021, Chapter 22). Other than the Paris Club, Pakistan owes debts to China, Saudi Arabia, UAE, Libya and Kuwait. Other than the IMF, a number of multilateral institutions are Pakistan's creditors, including ADB, the International Bank for

1. For details: https://clubdeparis.org/en/communications/page/permanent-members Accessed on October 18, 2022.

Reconstruction and Development, the International Development Association, the Asian Infrastructure Investment Bank, the Islamic Development Bank, the International Fund for Agricultural Development, the Nordic Development Fund, Organization of the Petroleum Exporting Countries Fund and the ECO Trade and Development Bank (Pakistan, Ministry of Finance, 2022).

Pakistan recorded a 24.4 percent share of the external debt–to–GDP ratio in 2021 (Pakistan, Ministry of Finance, 2021, Chapter 22), which is comparatively higher than India (19.9 percent) (The Hindu, 2022) and Bangladesh (11 percent), and below the IMF's 40 percent threshold (AIR News, 2022).

Pakistan used the Debt Service Suspension Initiative to withhold payment of US$ 2.3 billion during 2021/22, approved by the G-20 countries to minimize damage caused by the Covid-19 pandemic, restore economic growth, maintain market stability and strengthen the resilience of developing countries (Pakistan, Ministry of Finance, 2022).

During 2020/21, Pakistan received US$ 13.3 billion as an external debt inflow but repaid US$ 6.9 billion, less than the US$ 9 billion repaid in the preceding year. In 2019, Pakistan required US$ 12 billion to close the gap between its foreign currency holdings and what was needed to pay for loans and imports (Majid, 2022).

Domestic borrowing: By the end of March 2022, Pakistan's domestic debt stood at PKR 28,076 billion, which represented an increase of PKR 1,811 billion during the first nine months of fiscal year 2021/22. The country's domestic debt comprises three main categories: permanent debt (medium and long-term), floating debt (short-term), and unfunded debt (primarily made up of various instruments available under National Savings Schemes) (Pakistan, Ministry of Finance, 2021, Chapter 22).

Permanent debt constituted 76 percent of the country's domestic debt portfolio and was recorded at PKR 18,714 billion by the end of March 2022. Floating debt was recorded at 19 percent of total domestic debt, at PKR 5,241 billion, whereas unfunded debt stood at PKR 3,609 billion, constituting around 13 percent of the country's total domestic debt (Pakistan, Ministry of Finance, 2021, Chapter 22).

a. Pakistan's history of international borrowing

According to A. Raza (2022), Pakistan's reliance on external financial aid started in the 1950s. Initially, this represented cheap money with large grant elements and long repayment periods at low borrowing costs. At independence, Pakistan's only external debt of PKR 2 billion was to India, representing its 17.5 percent share of pre-Partition liabilities.

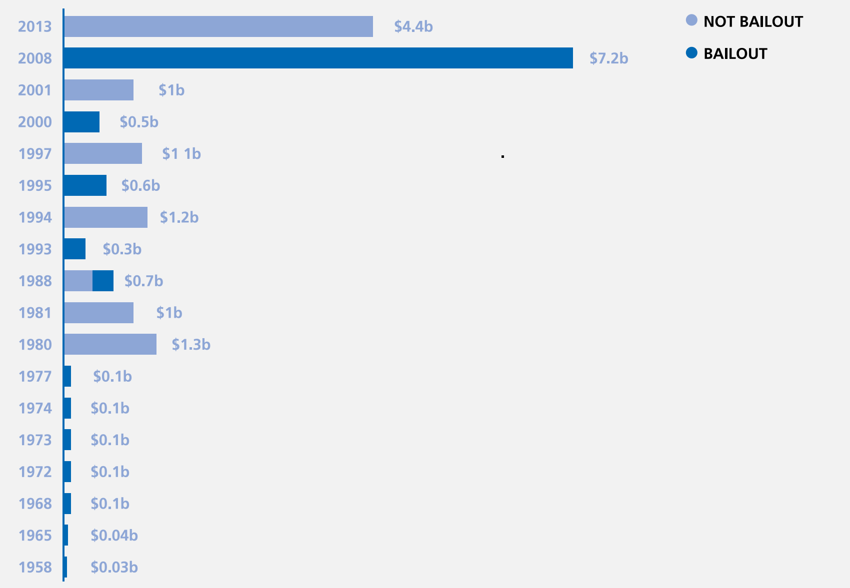
Faced with severe resource constraints and the need to deal with millions of refugees, the newly created country requested, in October 1947, US$ 2 billion from the US: this was refused (Raza, A., 2022). However, the country received an in-kind grant amounting to US$ 770,000 in 1948 and continued to receive grant-based assistance from 1947–49 from Canada, Australia, and New Zealand.

The World Bank approved US$ 27.2 million as a first loan for Pakistan in 1952, while the IMF signed its first stand-by agreement with Pakistan in 1958, although this was rejected. Pakistan's engagement with the World Bank and the IMF can be attributed to the signing of a defense pact between Pakistan and the US in 1954 (Raza, A., 2022). Henceforth, Pakistan continued to borrow from Bretton Woods institutions through the 1960s.

Foreign assistance to Pakistan increased while concessional assistance declined to 21 percent in 1960–65, which further declined to 9 percent during 1965–70. Meanwhile, the proportion of non-concessional loans went up from 23 percent in the 1950s to 32 percent by 1961–65 and 39 percent by 1966–70. A debt trap materialized, increasing Pakistan's repayments from 10 percent of its exports in 1960–65 to 25 percent in 1969. The situation led Pakistan to approach the IMF in 1965 and 1968 for loan and fiscal management guidelines. However, both these programs delivered little (Raza, A., 2022). Pakistan's debt servicing as a proportion of its exports jumped to 34.5 percent by 1971–72.

International Monetary Fund: Pakistan and the IMF have signed 22 agreements for loans since 1958, comprising 10 programs under the Poverty Reduction Growth Trust and the General Resource Account of the IMF, and 12 bailouts. The current 39-month bailout plan has raised Pakistan's external debt by US$ 6 billion. This is the thirteenth time Pakistan has gone to the IMF since the 1980s (Majid, 2022).

Figure 2: Loans taken by Pakistan from the IMF



Historically the SDR has gravitated between 0.6 and 0.7 USD, currently 1 SDR = 0.71 USD

Source: Majid, 2022

The current IMF bailout has laid down several conditions on the Pakistani Government, including taxes and subsidies, government spending, interest rates, and the foreign exchange rate (Majid, 2022). The most stringent condition is to account in detail Chinese financial outlay through the China–Pakistan Economic Corridor (CPEC) and provide firm assurances that Pakistan will not divert IMF loans to service its China debts.

World Bank: Pakistan has been a member of the World Bank since 1950. Since then, the World Bank has provided US$ 40 billion in assistance to Pakistan (World Bank, 2022b). Its current portfolio in Pakistan includes 45 projects and a total commitment of US$ 13.1 billion to assist Pakistan in energy, private sector development, inclusion and service delivery.

ADB: Since 1966, ADB has been helping Pakistan to reduce poverty and contribute to the country's prosperity and resilience by supporting infrastructure, urban services, the private sector, energy and food security, transport networks and social services (Asian Development Bank, 2022f).

The bank has committed US$ 37 billion through 723 public sector loans and grants, as well as technical assistance to Pakistan. So far, US$ 28.27 billion has been disbursed, financed by regular and concessional ordinary capital resources, the Asian Development Fund and other funds.

CPEC: CPEC is China's 15-year, US$ 62 billion investment in Pakistan and the flagship project of its BRI (Pakistan Board of Investment, n.d.). It is an extension of China's proposed twenty-first-century Silk Road Initiative. CPEC aims to connect Gwadar Port of Pakistan to China's Xinjiang region via a network of highways, railways and pipelines. Key components of CPEC include China's investment of US$ 33,793 million in Pakistan's energy sector, US$ 9,784 million in the transport infrastructure sector, and US$ 792.62 million in Gwadar Port.

CPEC has substantially increased Pakistan's external debt portfolio from US$ 44.35 billion in 2013 to US$ 90.12 billion in 2021 (Younus, 2021). China's lending to Pakistan has increased from 9.3 percent of Pakistan's external debt in 2013 to 27.4 percent in 2021 (US$ 24.7 billion). Other than bilateral governmental investment, the growing investment by Chinese companies in Pakistan's Stock Exchange, textile manufacturing, microfinance banking, and other areas is expected to create employment and economic opportunities across Pakistan. However, CPEC projects could exacerbate weakness in Pakistan's governance and contribute to the already unsustainable debt load of the country (Younus, 2021).

b. International debt servicing

As per State Bank of Pakistan data, Pakistan paid US$ 13,424 million in fiscal year 2021 and US$ 15,071 million in fiscal year 2022 to service its external debt (State Bank of Pakistan, n.d.). Yet Pakistan's total foreign debt servicing is projected to climb to US$ 23 billion by 2022/23 (The News, 2022).

From 2000 to 2020, Pakistan paid more (US$ 117.9 billion) to its external creditors than it has received (US$ 112.6 billion) (Institute for Policy Reforms, 2021). Moreover, Pakistan's external debt servicing increased from 1 percent in 2014 to 5 percent of GDP in 2020. In fiscal year 2020, Pakistan paid PKR 2.3 trillion in terms of principal and interest to foreign creditors, almost twice the amount (PKR 1.2 trillion) spent on development. Moreover, Pakistan spends the bulk of government revenue on paying interest on public debt. From 2011 to 2020, the Government spent an average of 60 percent of annual federal net revenue receipts on payment of interest incurred on the Government's domestic and international borrowings.

c. Possible future outlook

The existing economic situation of Pakistan and the future agenda of the Government indicates that Pakistan has fallen into a debt trap. The country's debt and liabilities have risen steeply to PKR 35.1 trillion, or 91.2 percent of the size of the economy. Yet the Government has indicated its interest in taking more loans, especially from the IMF and friendly countries. An increased level of external debt can pose a great risk to the fiscal framework of an economy when the current account deficit is high, foreign reserves are at low levels, and the exchange rate is under pressure (Haq, Bukhari and Shakoori, 2022). Pakistan has repeatedly faced a situation where debt payments are falling as short-term borrowing creates a liquidity crunch, which destabilizes the exchange rate and also adversely impacts the overall economic outlook of the country. A decline in the exchange rate is also increasing the debt burden of external loans measured in local currency. Moreover, Pakistan's borrowing needs are increasing every day due to successive governments' inability to introduce and implement the reforms required to stabilize the economy.

Since 2018, Pakistan's GDP growth rate has declined continuously and is rated as the lowest in the region. The country's revenue targets are being met through oppressive and indirect taxation measures, making it difficult for small and medium enterprises, which are considered the backbone of the country's economy, to operate (Haq, Bukhari and Shakoori, 2022).

Due to the terms and conditions imposed by the IMF's current loan agreement, Pakistan is anticipating a new tax culture/regime, enhancement in foreign exchange reserves, and increased credit ratings through a reduction in the default rate risk of Pakistan (Majid, 2022). However, Pakistanis will have to pay the cost through devaluation of the Pakistani rupee, freezing of spending on non-developmental government activities (e.g. subsidies on electricity and gas, civil department and federal ministry spending), a decline in economic activity that will lead to a decline in GDP and allied economic indicators, a rise in the mark-up rate and cost of inter-bank transactions, and an increase in central excise duty on the service and agriculture sectors (Majid, 2022).

Under these arrangements, Pakistan has to raise tax revenue and expand its tax net. Moreover, the Government is required to withdraw tax exemptions amounting to PKR 350 billion and will have to reduce subsidies as well as collect PKR 340 billion from energy consumers. The rupee's value will be free-floating so that its real value in dollars and its market value equates in the long run (Majid, 2022).

Historically, Pakistan has never been able to achieve the IMF objective of increasing the revenue of borrowing countries. In the long run, the IMF plan hints towards an even bigger financial crunch for the economy. Multiple IMF programs, including those that ended in 2016, have not helped Pakistan address weaknesses that have led to the balance-of-payments crisis (Majid, 2022).

The debt taken by Pakistan from the IMF has increased in rupee terms from PKR 70 billion to PKR 811 billion due to currency devaluation. Hence, in the long run, the IMF loan has the potential to harm Pakistan and its economy in an even more devastating and brutal way than the loan taken from China under the CPEC. The chances that Pakistan will benefit from a positive impact on the exchange rate in the long run are slim (Majid, 2022).

3. Impact of foreign debt and international financial institution conditions on Pakistan's development direction

There is a common understanding that the inflow of loans from international financial institutions and developed economies to developing countries benefits recipients (Institute for Policy Reforms, 2021). However, even the Government notes that external finance imbalance is Pakistan's major economic problem. Yet it continues to borrow. Moreover, the Ministry of Economic Affairs claims that the Government has successfully harnessed foreign assistance to achieve sustainable socioeconomic development and economic growth, reduce poverty and inequality, and reduce fiscal imbalance.

The Government is trying to control the current account deficit, yet the economy is expected to remain in a state of low growth and low exports, with a risk of default. This may result in further devaluation of the rupee, more restrictive monetary policies, and an increase in commodity prices. If it happens, the cure may turn out to be worse than the disease (Institute for Policy Reforms, 2021).

The most critical problem faced by Pakistan's economy is the repayment and servicing of external debt. For instance, in the last 10 years, external debt servicing has grown from 1 percent of GDP in 2014 to almost 5 percent of GDP in 2020. Moreover, the principal and interest paid by Pakistan in 2020 (PKR 2.3 trillion) was almost twice the amount spent (PKR 1.2 trillion) on all development expenditures. Interest paid to foreign creditors (PKR 406 billion) was one-third of total development expenditures (Institute for Policy Reforms, 2021).

In the last 20 years, Pakistan has paid external creditors more than it has received from them. Yet, its external debt has grown by 200 percent, from US$ 37.2 billion in 2001 to US$ 112.9 billion in 2020. Between 2001 and 2020, external debt disbursed to Pakistan was US$ 112.6 billion, whereas the country paid US$ 117.9 billion (interest and principal) to foreign creditors. Hence, the country paid back US$ 5.2 billion more than it received, a negative resource transfer. Pakistan paid US$ 27.2 billion (US$ 1.4 billion/year) as interest to foreign creditors. Nevertheless, external loans acquired at high-interest rates are being used for repayment of previously acquired loans. Borrowing to service past debt, coupled with the effect of compounding, makes concessional credits expensive. From 2010 to 2020, Pakistan spent an average of 60 percent of federal net revenue on payment of interest against domestic and external loans. In 2019, interest payment was 103 percent of net revenue receipts (Institute for Policy Reforms, 2021).

According to the Ministry of Finance's debt policy, developing countries need to borrow to facilitate the development process. The policy requires the use of borrowed money to boost economic growth and exports but with an eye on overall fiscal discipline. Moreover, investment financed from foreign debt should be used to boost productivity and international competitiveness and address infrastructure bottlenecks, but not on a scale that creates risks for the economy (Institute for Policy Reforms, 2021).

The Government of Pakistan's logic for incurring foreign debt is that it helps economic development and macro stability. Yet the evidence shows that most macroeconomic indicators worsened between 2001 and 2020: the current account deficit has stayed high, the rupee has weakened, and inflation has resisted the tightening of monetary policy. Moreover, Pakistan has curbed imports, which has restricted GDP growth and caused a slowdown in the economy. Savings, investments, and exports have been affected, resulting in declining agriculture and industrial production (Institute for Policy Reforms, 2021).

In the 2000s, the shift in the lending program of international financial institutions pushed Pakistan to acquire budget support loans. Pakistan's consumption loans, therefore, increased from 7.7 percent in the 1990s to 70 percent in the 2000s. The advice of international financial institutions to the Pakistan Government has also not always been helpful. Power sector reforms, the Social Action Program, the Tax Administration Reforms Project, and structural assistance loans, as well as ADB's judicial reform project, have had mixed results. Despite failures, international financial institutions continue to lend to Pakistan, including through the Structural Adjustment Programme-II (Institute for Policy Reforms, 2021).

Pakistani taxpayers have to pay back the loans involved with interest, yet creditors face no consequences for their weak program design, particularly in relation to governance challenges and the capacity constraints of the country's economy. For instance, consumers' inability to pay the high cost of power was ignored while costly power production was promoted. Such loans, ultimately, have harmed the economy of Pakistan (Institute for Policy Reforms, 2021).

Pressurized public services delivery: Pakistan is facing numerous development challenges due to political instability followed by an economic meltdown. These challenges include an energy crisis, water scarcity, and worsening social indicators, already below the South Asian average, which are the outcomes of policy neglect and insufficient public expenditure. A large chunk of the country's fiscal resources is being spent on repayment of public debt, high administrative and security spending, subsidies, and covering the losses of state-owned enterprises. This results in the unavailability of resources to finance public services for a rapidly growing population (Research and Advocacy for the Advancement of Allied Reforms, 2015).

Just 36 percent of Pakistan's population had access to safely managed drinking water services in 2020, declining from 38 percent in 2000 (World Bank, n.d.). The Government spends just 1 percent of GDP (instead of the 1.4 percent required) to provide safely managed water and sanitation to underserved populations across the country (Ahmed, 2018). Moreover, Pakistan's water resources are under immense pressure due to its rapidly growing population, and it is estimated that there will be a shortfall of water in Pakistan of 32 percent by 2025. Yet successive governments have failed to allocate sufficient resources and to formulate a cohesive policy to deal with the shortages of an increasing demand for water (Janjua and others, 2021).

The energy crisis in Pakistan has deepened, with an electricity shortfall that has increased to over 6,400 megawatts, causing power outages of 5 to 6 hours in cities and 8 to 10 hours in rural areas. The demand in the country for electricity has surged to 28,200 megawatts, while supply remains at 21,800 megawatts. Several power plants have been shut down as the Ministry of Power Division has failed to address the shortage of oil and gas (The Nation, 2022). The Energy Ministry has suggested increasing the electricity surcharge from PKR 3.2 to PKR 31.6 per unit to collect PKR 700 billion and reduce circular debt as proposed by the IMF (Rana, 2022a). Representatives of the Water and Power Development Authority Hydro Electric Union point to a sharp increase in electricity tariffs if the Government decides to privatize profit-making electricity distribution entities on IMF recommendations. Union representatives also identify an acute shortage of line staff and negligence of workers' safety, which adversely impacts electricity supply to consumers (Dawn, 2022b).

Pakistan currently ranks 154 out of 195 countries in terms of the overall performance of its healthcare system. As a developing country with less than 2 percent of its GDP allocated to health expenditures, Pakistan struggles to maintain a proper healthcare system with regard to quality and accessibility. For instance, Pakistani doctors choose to practice abroad due to a poor service structure and increased workload in-country (The Borgen Project, 2020). Moreover, the arrival of Covid-19 put the country's healthcare system under immense pressure, with frontline workers taking the brunt of the virus. An estimated 3 percent of the total cases in the country consisted of healthcare workers. Medical professionals, including female health workers, nurses, and doctors, took to strikes and protests over the lack of protective gear necessary to safely treat patients. The World Health Organization (WHO) has recommended that Pakistan's Ministry of Health increase healthcare expenditures to 5 percent of GDP. Doing so would not only put an end to controllable diseases but will also ensure that the healthcare system is able to deal with dangerous outbreaks in the future (The Borgen Project, 2020).

Currently, Pakistan has the world's second-highest number of out-of-school children, with an estimated 22.8 million children aged 5–16 not attending school. Moreover, disparities based on gender, socioeconomic status, and geography are significant. For instance, in Sindh, 52 percent of the poorest children (58 percent of girls) are out of school, and in Balochistan, 78 percent of girls are out of school (UNICEF, n.d.). Gaps in service provision at all education levels are a major constraint to education access. At the systems level, inadequate financing, limited enforcement of policy commitments, and challenges in equitable implementation impede outreach to the most disadvantaged. A recent increase in the education budget (2.8 percent of GDP) is still short of the 4 percent target (UNICEF, n.d.). There is a substantial shortage of public sector schooling infrastructure and teachers. For instance, the Punjab School Education Department is facing a shortage of around 90,000 teachers across the province. According to the President of the Punjab Teachers' Union, government schoolteachers are engaged in various duties, adding to their workload amid a staff shortage (Lodhi, 2022). In Sindh, thousands of schools have been shut down over the past 10 years due to non-availability of teachers (The Express Tribune, 2022).

The high cost of the Reko Diq project: Following Pakistan's denial of a mining lease for the Reko Diq project, the World Bank's International Centre for Settlement of Investment Disputes (ICSID) awarded US$ 5.894 billion-plus interest of US$ 700,000 per day in damages to Tethyan Copper Company (TCC) following arbitration claims the company had filed against the country. In addition, the London Court of Arbitration also imposed another US$ 4 billion fine on Pakistan (Maik, 2022). The case between the Government of Pakistan and TCC involved an alleged breach of the Australia–Pakistan Bilateral Investment Treaty and Pakistan's denial of mining rights to TCC at the Reko Diq Mine in Chagai District, Balochistan (Murard, 2019).

However, in March 2022, Pakistan managed to escape the penalty–which totaled more than the country's foreign exchange reserves (Kiani, 2022)–after reaching an out-of-court settlement with the Barrick Gold consortium (in which TCC is a partner) for reviving and developing the Reko Diq project. The International Finance Corporation, which serves as the World Bank's commercial arm, will partner with Barrick Gold. As per the new agreement, Barrick Gold Corporation will own 50 percent of shares, the Balochistan Government will own a 25 percent share, while the remaining 25 percent will be shared among state-owned enterprises, namely the Oil and Gas Development Company, Pakistan Petroleum Limited and Government Holdings Pakistan (Raza, S. I., 2022). However, the project's share of capital and operational expenses will be borne by the Federal Government. To ensure the deal is compliant with all the laws, the Government will submit the matter before Parliament and the Supreme Court. It is expected that future governments will support this project, for which earnings of $100 billion have been estimated (Maik, 2022).

The question for Pakistan now is what lesson can be learned from the events that led to the ICSID decision. Arguably, the Government of Pakistan, the Government of Balochistan, and the Supreme Court

> The Reko Diq case is like an "enforced" settlement between distressed sovereign and powerful international players. It raises concerns about the complexities of cross-country trade, investment treaties, and international dispute resolution mechanisms in relation to vulnerabilities of the people in countries like Pakistan who have precious resources, such as gold, underneath their lands.
>
> Sultan Muhammad Khan, Representative, All Pakistan Coal Mines Labour Federation

failed to fully appreciate the potentially far-reaching and damaging effect of the case. Both the Pakistan Government and the Supreme Court have considerable experience with international arbitration agreements: the Hub Power Company Limited v. Water and Power Development Authority decision, in particular, appears to bear a strong resemblance to the Reko Diq decision because the procurement of both contracts involved corruption. However, the two decisions are different because, unlike the Hub Power Company Limited case, the Reko Diq dispute is not merely a contractual dispute between the Balochistan Government and TCC; it also falls within the ambit of the Bilateral Investment Treaty, according to the terms of which the Federal Government has agreed to promote and protect investments made by Australian investors, desist from expropriating or nationalizing these investments, and resolve disputes through international arbitration before ICSID (Darr, 2019).

These case events show that governments should be cautious when agreeing terms of bilateral investment treaties. There is a need to create awareness among stakeholders and pose sufficient limitations on the terms of investment treaties before entering into the agreement. In light of the Reko Diq award, "the Government of Pakistan should now reassess its investment trade policy going forward and consider whether or not the protections offered to foreign investors are worth risks assumed by the Government of Pakistan in providing this enhanced protection." (Ogunlende, 2019)

Moreover, Pakistan is required to "recognize that cases such as Reko Diq raise significant public interest issues and must be addressed with the utmost legal transparency and with an understanding of Pakistan's obligations in matters involving BITs [bilateral investment treaties] and international investment arbitration. An even greater challenge for Pakistan is to accept responsibility for what appears to have been a crisis of governance and to devise a coordinated strategy for dealing with international investment in the future." (Darr, 2019)

4. International standards to address the effects of foreign debt on rights

The UN recognizes that economic choices made by the State, whether acting alone or as members of an international financial institution, must comply with their international human rights obligations, including during times of economic crisis (United Nations, n.d.). States are obliged to manage their fiscal affairs and adopt economic policies to ensure that they respect, protect and fulfill human rights. They must devote as much of their available resources as possible to the progressive realization of economic, social, and cultural rights.

Table 4: Relevant international treaty provisions

Treaty	Provision
UN Charter	**Article 1(3):** "The purposes of the United Nations are: … To achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion" **Article 56:** "All Members pledge themselves to take joint and separate action in co-operation with the Organization for the achievement of the purposes set forth in Article 55."
Universal Declaration of Human Rights	**Article 28:** "Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized."

International Covenant on Economic, Social, and Cultural Rights	**Article 2(1):** "Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the present Covenant by all appropriate means, including particularly the adoption of legislative measures." **Article 22:** "The Economic and Social Council may bring to the attention of other organs of the United Nations, their subsidiary organs, and specialized agencies concerned with furnishing technical assistance any matters arising out of the reports referred to in this part of the present Covenant which may assist such bodies in deciding, each within its field of competence, on the advisability of international measures likely to contribute to the effective progressive implementation of the present Covenant." **Article 23:** "The States Parties to the present Covenant agree that international action for the achievement of the rights recognized in the present Covenant includes such methods as the conclusion of conventions, the adoption of recommendations, the furnishing of technical assistance and the holding of regional meetings and technical meetings for the purpose of consultation and study organized in conjunction with the Governments concerned."
Convention on the Rights of the Child	**Article 4:** "States Parties shall undertake all appropriate legislative, administrative, and other measures for the implementation of the rights recognized in the present Convention. With regard to economic, social, and cultural rights, States Parties shall undertake such measures to the maximum extent of their available resources and, where needed, within the framework of international co-operation."

Convention on the Rights of Persons with Disabilities	**Article 4(2):** "With regard to economic, social and cultural rights, each State Party undertakes to take measures to the maximum of its available resources and, where needed, within the framework of international cooperation, with a view to achieving progressively the full realization of these rights, without prejudice to those obligations contained in the present Convention that are immediately applicable according to international law. **Article 32:** "States Parties recognize the importance of international cooperation and its promotion, in support of national efforts for the realization of the purpose and objectives of the present Convention, and will undertake appropriate and effective measures in this regard, between and among States and, as appropriate, in partnership with relevant international and regional organizations and civil society, in particular organizations of persons with disabilities. Such measures could include, inter alia: (a) Ensuring that international cooperation, including international development programs, is inclusive of and accessible to persons with disabilities; (b) Facilitating and supporting capacity-building, including through the exchange and sharing of information, experiences, training programs, and best practices; (c) Facilitating cooperation in research and access to scientific and technical knowledge; (d) Providing, as appropriate, technical and economic assistance, including by facilitating access to and sharing of accessible and assistive technologies, and through the transfer of technologies."

Source: United Nations, n.d.

a. Declarations of political commitments[2]

The international community is agreed on a number of declarations and political commitments that are imperative to address the negative impacts of foreign debt on people's rights:

- **The Vienna Declaration and Programme of Action** call upon States to meet their commitments to and cooperate internationally for human rights protection, democratic transition, and economic development, as well as the alleviation of the debt burden of developing countries to supplement the realization of people's rights.
- **The Declaration on the Right to Development** calls upon States to develop an "international economic order based on sovereign equality, interdependence, mutual interest, and co-operation among all States, as well as to encourage the observance and realization of human rights" (Article 3(3)).
- **The Millennium Declaration** assigns responsibility to States, among others, to uphold sovereign equality, respect human rights, share responsibility for managing worldwide economic and social development, and undertake to meet the special needs of least developed countries, including through debt relief and development assistance for poverty reduction.
- **General Assembly Resolution 1803 (XVII)** of 14 December 1962 affirms international cooperation for the economic development of developing countries.
- **The Declaration of Commitment on HIV/AIDS**, adopted by the UN General Assembly resolution S-26/2 of 27 June 2001, calls for debt cancellation of Heavily Indebted Poor Countries and concerted action to address the debt problems of least developed as well as lower and middle-income countries, particularly those affected by HIV/AIDS, to improve their capacity to deal with the HIV/AIDS epidemic.

2. This section draws on the International Standards described in United Nations, n.d.

b. Guiding Principles on human rights impact assessments of economic reforms

The Independent Expert on foreign debt and human rights submitted the Guiding Principles for assessing the human rights impact of economic reform policies to the Human Rights Council in February 2019, during the Council's fortieth session. Resolution A/HRC/RES/40/8 of the Human Rights Council endorsed the Guiding Principles (United Nations, 2019a).

The Guiding Principles set out principles and standards that apply to States, international financial institutions, and creditors when designing, formulating, or proposing economic reforms (United Nations, 2018a). Based on the existing human rights obligations and responsibilities of States and other actors, the Guiding Principles underline the importance of systematically assessing the impact of economic reforms on the enjoyment of all human rights before decisions are taken to implement such reforms, as well as during and after their implementation (United Nations, 2018a). Economic policymaking must be anchored in and guided by substantive and procedural human rights standards. Human rights impact assessments are a crucial process that enables States and other actors to ensure that economic reforms advance, rather than hinder, the enjoyment of human rights by all. The Guiding Principles consist of 22 principles, divided into the following five categories (United Nations, 2020):

- **Principles 1 to 4:** obligations of national and subnational governments with respect to economic policies and human rights;
- **Principles 5 to 10:** applicable human rights standards;
- **Principles 11 to 12:** articulation of policies;
- **Principles 13 to 16:** other obligations of States, international financial institutions and private actors;
- **Principles 17 to 22:** human rights impact assessments.

c. The UN Guiding Principles on foreign debt and human rights[3]

According to the Office of the United Nations High Commissioner on Human Rights, "The UN's Guiding Principles on foreign debt and human rights, presented to the Human Rights Council in 2012, represent an attempt to contribute to the search for an equitable and lasting solution to the debt crisis in line with the political commitments of the international community, consistent with the human rights obligations of all States. Furthermore, some economic policies, such as fiscal consolidation, structural adjustment/reforms, privatization, deregulation of financial and labour markets, and lowering environmental protection standards, can have adverse consequences on the enjoyment of human rights."

The Guiding Principles were endorsed by the Human Rights Council in June 2012 through Resolution A/HRC/RES/20/10. They are designed to assist States and all relevant actors, including private and public institutions, national and international financial institutions, bilateral lenders, and organized groups of bondholders in the conduct of their respective activities and pursuit of their respective interests relating to external debt.

d. General comments and concluding observations of treaty bodies[4]

Committee on Economic, Social and Cultural Rights, General Comment 2, Article 22 (International Technical Assistance Measures): "A matter which has been of particular concern to the Committee in the examination of the reports of States parties is the adverse impact of the debt burden and of the relevant adjustment measures on the enjoyment of economic, social and cultural rights in many countries … international measures to deal with the debt crisis should take full account of the need to protect economic, social and cultural rights through, *inter alia*, international cooperation. In many situations, this might point to the need for major debt relief initiatives."

3. This section draws on the International Standards described in United Nations, n.d.

4. This section draws on the International Standards described in United Nations, n.d.

Committee on Economic, Social and Cultural Rights, General Comment 3 (The Nature of State Parties' Obligations): "The Committee notes that the phrase 'to the maximum of its available resources' was intended by the drafters of the Covenant to refer to both the resources existing within a State and those available from the international community through international cooperation and assistance … The Committee wishes to emphasize that in accordance with Articles 55 and 56 of the Charter of the United Nations, with well-established principles of international law, and with the provisions of the Covenant itself, international cooperation for development and thus for the realization of economic, social and cultural rights is an obligation of all States. It is particularly incumbent upon those States which are in a position to assist others in this regard. The Committee notes in particular the importance of the Declaration on the Right to Development adopted by the General Assembly in its resolution 41/128 of 4 December 1986 and the need for States parties to take full account of all of the principles recognized therein."

Committee on Economic, Social and Cultural Rights, General Comment 11, Article 14 (Plans of Action for Primary Education): "Where a State party is clearly lacking in the financial resources and/or expertise required to 'work out and adopt' a detailed plan, the international community has a clear obligation to assist."

Committee on Economic, Social and Cultural Rights, General Comment 13, Article 13 (Right to Education): "Articles 2(1) and 23 of the Covenant, article 56 of the Charter of the United Nations, article 10 of the World Declaration on Education for All, and para. 34 of the Vienna Declaration and Programme of Action all reinforce the obligation of States parties in relation to the provision of international assistance and cooperation for the full realization of the right to education ... the Committee wishes to emphasize that it is particularly incumbent on States parties and other actors in a position to assist, to provide 'international assistance and cooperation, especially economic and technical' which enable developing countries to fulfill their core and other obligations".

Committee on Economic, Social and Cultural Rights, General Comment 18 (The Right to Work): "States parties that are members of international financial institutions, in particular the International Monetary Fund, the World Bank and regional development banks, should pay greater attention to the protection of the right to work in influencing the lending policies, credit agreements, structural adjustment programs and international measures of these institutions. The strategies, programs, and policies adopted by States parties under structural adjustment programs should not interfere with their core obligations in relation to the right to work and impact negatively on the right to work of women, young persons, and disadvantaged and marginalized individuals and groups."

Committee on the Rights of the Child, General Comment 1 (Aims of Education): "Implementation of comprehensive national plans of action to enhance compliance with article 29 (1) will require human and financial resources which should be available to the maximum extent possible, in accordance with article 4. Therefore, the Committee considers that resource constraints cannot provide a justification for a State party's failure to take any or enough of the measures that are required. In this context, and in light of the obligations upon States parties to promote and encourage international cooperation both in general terms (arts. 4 and 45 of the Convention) and in relation to education (art. 28 (3)), the Committee urges States parties providing development cooperation to ensure that their programs are designed so as to take full account of the principles contained in article 29 (1)."

Committee on the Rights of the Child, General Comment 4 (Adolescent Health and Development in the Context of the Convention on the Rights of the Child): "A multisectoral approach to the promotion and protection of adolescent health and development will not be effective without international cooperation. Therefore, States parties should, when appropriate, seek such cooperation with United Nations specialized agencies, programs and bodies, international NGOs and bilateral aid agencies, international professional associations and other non-State actors."

5. Impacts of external debt on human rights protection in Pakistan

Pakistan continues to pursue loans with a view to achieving sustainable socioeconomic growth, reducing poverty and inequality, and reducing fiscal imbalance for macro stability. However, international borrowing and assistance has not achieved socioeconomic development, macroeconomic stability, or respect for people's rights.

This is not to say that foreign debts are always bad. Some countries have used foreign loans to boost growth and exports by making loans part of their growth strategy and maintaining overall fiscal discipline. For example, China's external debt was over 2.1 trillion by 2019, which is 14.4 percent of its GDP (compared to Pakistan's 45.5 percent) and less than its annual exports of US$ 2.5 trillion. China's debt servicing amounts to US$ 470 billion, less than its trade surplus. In the case of Pakistan, debt overburdening, repayment, inappropriate use of external loans, and conditions associated with foreign debt are critical problems.

a. Debt overburdening

For most developing countries, debt accumulation is perceived as the root cause of their financial problems, including widening fiscal deficits (Shabbir and Yasin, 2015). At a meeting of the Development Assistance Committee of the Organisation for Economic Co-operation and Development in 1996, socioeconomic targets were set for borrowing countries to be achieved by 2015; the Organisation for Economic Co-operation and Development's assistance to developing countries was tied to visible progress in achieving these goals. Subsequently, the UN General Assembly approved the agenda of the Millennium Development Goals (now the Sustainable Development Goals, or SDGs) in 2003, which aimed at eradicating poverty and hunger, and providing better health and basic education, accompanied by a sustainable environment. However, most developing countries like Pakistan remain trapped in a vicious debt circle that hinders them from achieving these global goals (Shabbir and Yasin, 2015).

In 2021 Pakistan's external debt–to–GDP ratio was 24.4 percent, which is below the IMF's 40 percent threshold, although it is higher than that of India, Bangladesh, and China. Also, the country's debt portfolio recorded a sharp increase, from US$ 44.35 billion in 2013 to US$ 90.12 billion in 2021. However, an increased level of external debt can pose a great risk to the fiscal framework of an economy when the current account deficit is high, foreign reserves are at low levels, and the exchange rate is under pressure. (Haq, Bukhari and Shakoori, 2022).

The country's weak economy, afflicted with debt overburdening, makes it difficult to allocate sufficient resources for public service delivery and the realization of people's rights. This reflects the country's progress towards achieving the SDGs. In 2021, Pakistan scored 59.3 and ranked 125 (out of a total 129 countries), below India (121), Sri Lanka (76), Bangladesh (104) and Iran (88) (Subohi, 2022).

b. Debt repayment

Public expenditure is an important determinant of economic growth, and governments in developing countries have to spend appropriately in social sectors such as education and health (Shabbir and Yasin, 2015). However, debt servicing can adversely affect constructive fiscal allocations in low-income countries like Pakistan. The very objective underlying foreign borrowing (to promote development) is depressed by debt servicing, which consumes a sizeable part of the scarce resources generated through exports and/or foreign remittances, and little is left to finance development.

As described above, Pakistan's external debt servicing increased from 1 percent in 2014 to 5 percent of GDP in 2020. Moreover, the country paid PKR 2.3 trillion to foreign creditors in 2020, twice as much (PKR 1.2 trillion) as was spent on development. Additionally, from 2011 to 2020, the Government spent an average of 60 percent of annual federal net revenue receipts on payment of interest incurred on its domestic and international borrowings. From 2001 to 2020, external debt disbursed to Pakistan totaled US$ 112.6 billion, whereas Pakistan repaid US$ 117.9 billion, of which 27.2 billion was interested: a negative resource transfer of US$ 5.2 billion (Committee for the Abolition of Illegitimate Debt, 2022).

Therefore, high levels of debt servicing have taken place at the expense of social investment and realization of human rights: Pakistan is characterized by slow progress on human development, inadequate social protection, inadequate delivery of health, education, and other public services, precarious work conditions as well as other sorts of rights violations (Committee for the Abolition of Illegitimate Debt, 2022).

For instance, Pakistan’s share of investment to GDP is 15 percent, one of the lowest in the world and less than half of the South Asian average (30 percent), which translates into inadequate infrastructure and lack of access to sufficient energy, water, schools, and hospitals (Waheed and Ghumman, 2019).

Yet the Federal Government has decided to cut the development budget by a total of PKR 300 billion while there is an additional demand for PKR 254 billion to complete ongoing development projects (Rana, 2022b). Similarly, in 2020/21, the Government released PKR 500.94 billion (77.1 percent), including PKR 82 billion in foreign aid under the Public Sector Development Programme, against the budgeted allocation of Rs 650 billion (Butt, 2021).

c. Inappropriate use of debt

According to Shabbir and Yasin (2015), “The persistence of heavy outstanding debt, among other factors, is detrimental to economic growth. Reduction in the pace of growth, in turn, implies lower household incomes and poor public revenue collection. Consequently, poverty is likely to rise, with an adverse impact on social sectors. The dilemma for most developing countries, especially in Asia, is that the rise in non-development expenditure has outstripped spending on the social sectors to the extent that many governments are divesting themselves of the burden of providing basic health and education, and gradually shifting this to the private sector.”

For example, as per the World Bank's evaluation, power sector reforms, the Social Action Program, structural assistance loans, and the Tax Administration Reforms Project have achieved mixed results. Pakistani taxpayers have to pay back the loans involved with interest, yet creditors face no consequences for their weak program design, particularly in relation to governance challenges and the capacity constraints of the country's economy. For instance, consumers' inability to pay the high cost of power was ignored while costly power production was promoted. Such loans, ultimately, have harmed the economy of Pakistan.

d. Creditors' conditions

The IMF, World Bank, and other lending institutions usually compel borrowing countries to several economy-related structural changes, including consolidation of the fiscal deficit, a tax increase, limiting public expenditure, and privatizing public entities (Committee for the Abolition of Illegitimate Debt, 2022). However, the costs and risks of these conditions are invariably transferred to the people. On 1 September 2022, the IMF issued a staff report on the seventh and eighth review of Pakistan's Extended Fund Facility (Pakistan Institute of Development Economics, 2022). The IMF, as a result, extended the

Implications of IMF conditionalities

Successive IMF programs have required Pakistan to adopt more withholding taxes (never to be refunded), surcharges, and levies on essential goods such as oil and electricity, even though these measures hurt employment and investment growth.

Alongside distortionary tax policies, the IMF has also forced Pakistan to impose spending cuts. It ended up dismantling Pakistan's National Bus Service in the 1990s, and since then, funding for public services such as railways, police, health, and education has been cut to the bone.

The IMF usually talks about reforms to overcome the country's power shortage but never discusses mounting losses, the costs of mismanagement, and debts held by private power producers.

The pattern remains the same. With the approval of the IMF, the government goes on a shopping spree, taking out costly loans for expensive projects, thus building up even more debt and adding new inefficiencies. After a few years, another crisis ensues, and it is met by another IMF program.

Source: https://www.project-syndicate.org/commentary/pakistan-misguided-imf-programs-by-nadeem-ul-haque-2018-07

Extended Fund Facility to June 2023 along with extra Special Drawing Rights of 720 million, bringing total access under the Extended Fund Facility to about US$ 6.5 billion and allowing Pakistan to draw US$ 1.1 billion against measures to address fiscal and external challenges. Yet, this involves implementation of an approved budget, a market-determined currency exchange rate policy, prudent monetary policy, expansion of the social safety net, and structural reforms related to the performance of state-owned enterprises and governance (Pakistan Institute of Development Economics, 2022).

The resumption of the IMF program for Pakistan in 2019, coupled with other factors, has led to an increase in inflation and erosion of the purchasing power of millions of people in the country (Committee for the Abolition of Illegitimate Debt, 2022). Price increases in energy, fuel, food, and other essential commodities and services have increased poverty. The World Bank estimates that poverty in Pakistan has increased from 4.4 percent to 5.4 percent. More than two million people fell below the poverty line, whereas 40 percent of households suffered moderate to severe food insecurity (Committee for the Abolition of Illegitimate Debt, 2022).

As a result of the IMF conditions, the share of indirect tax increased by 7 percent against direct taxes during 2019/20. On the other hand, the share of direct tax collection decreased correspondingly to 32.1 percent in 2019/20 against 38.7 percent in 2010/11. The growing share of indirect taxes and presumptive levies in tax revenues means that the burden of the rich is being shifted onto low-middle-income people (Committee for the Abolition of Illegitimate Debt, 2022).

e. Austerity drive

Against the backdrop of Pakistan's debt-stricken economy, the austerity measures proposed by the IMF have started to have negative impacts on the country's low and middle-income communities. For instance, the withdrawal of sales tax exemption for various crop seeds, agricultural inputs, and farm implements will have far-reaching impacts on already struggling farming communities, especially in terms of the rising cost of cultivation. Additional taxes on maize, rice, and vegetable seeds may result in productivity loss and food security concerns (Committee for the Abolition of Illegitimate Debt, 2022).

As a direct effect of an increase in petroleum prices, the prices of all essential items, including milk, pulses, flour, and lentils, have shot up massively. The inflationary storm engulfing Pakistan (over 18 percent) is far more significant than that in peer economies such as India (6 percent) (Committee for the Abolition of Illegitimate Debt, 2022).

f. Human rights violations in the context of retrogressive economic reforms[5]

Debt servicing, creditors' conditions, and the retrogressive economic reforms recommended have contributed to the country's inability to achieve respect for people's rights.

The Report of the Independent Expert on the Effects of Foreign Debt and Other Related International Financial obligations of States on the Full Enjoyment of All Human Rights, particularly Economic, Social and Cultural Rights, submitted to the UN General Assembly in 2019 (United Nations, 2019b), confirms that:

- The introduction of austerity measures does not contribute to economic recovery, but has negative consequences in terms of economic growth, the debt ratio and equality, and results in negative human rights impacts;
- Unlike social and environmental impact assessments, human rights impact assessments are usually ignored either by the borrower state, the creditor, or both. Hence, both the borrower state and the international creditor(s) can be held responsible for avoidable human rights damage caused by retrogressive economic reforms;
- The causal link between international financial institution assistance (through loans, surveillance and technical assistance, and associated conditionalities) in the commitment of internationally wrongful acts (complicity) and the harm done (human rights violations) is evident and well documented. Hence, international financial institutions may be held responsible for complicity in the imposition of economic reforms that violate human rights.

Moreover, according to the report, a thematic study on financial complicity submitted to the Human Rights Council in 2014 (A/

5. This section draws on United Nations, 2019b.

HRC/28/59) concluded that lending to a State that commits gross human rights violations may contribute to regime consolidation and increase the likelihood of further gross violations of human rights.

The report further hints that structural adjustment programs are linked to a decline in economic growth, employment, debt sustainability, and quality. The combination of an economic downturn and fiscal policy contraction has affected human rights, especially the rights of vulnerable sections of society. It has become obvious that a threat to government expenditures, when and where needed the most, results in high risks of human rights violations.

Privatization of K-Electric: a flickering bond

Over a decade has passed since K-Electric's privatization, but the people of Karachi still face prolonged load-shedding, which also hampers trade and economic activities in the city. Not only have power tariffs been enhanced significantly, the quality of services provided to consumers has become unsatisfactory. K-Electric's production, transmission, and distribution system neither produces nor supplies the required amount of electricity to consumers.

However, it has managed to turn from a loss-making to a profit-earning company because consumers, whether poor or well-off, are compelled to pay comparatively higher tariffs. A major reason for continued power crises in Karachi is the lack of investment due to the investors' expectation of a low-profit ratio.

Source: https://tribune.com.pk/story/2254121/karachi-and-k-electric-a-flickerin-bond

Impacts of privatization on human rights: Privatisation is generally seen as a solution for managing resources and reducing fiscal deficits. However, it is part of an economic and social philosophy of governance. Privatization often involves the systematic elimination of human rights protections and leads to further marginalization of the interests of low-income earners and those living in poverty (United Nations, 2018b).

International financial institutions are selling privatization as a remedy for economically troubled and debt-ridden developing countries like Pakistan (Shah and Ramey, 2020). The IMF, World Bank, and Group of 20 are strong advocates of privatization, particularly to increase the private sector's involvement in development finance and to meet the SDGs (United Nations, 2018b).

However, people living in poverty can be negatively affected by privatization. For example, the privatization of the criminal justice system and imposition of charges and penalties start impacting the poor, diminishing the quality of service and reducing prospects of justice. It leaves prisoners at the mercy of private operators. It enables corporations to influence public policies that reflect corporate interests rather than public interests. Moreover, the privatization of social security systems empowers private actors but neglects poor people as a result of the prioritization of clients with the ability to pay. Furthermore, privatization of infrastructure and public services (water, sanitation, electricity, roads, transport, education, health care, social and financial services) compels the poor to pay or otherwise live in distress (United Nations, 2018b).

For instance, the Pakistan Government approved the privatization of seven state-owned enterprises (SOEs), including Pakistan Steel Mills, during the Zia regime (1978–88), primarily as a reaction to nationalization in 1972–77. Since then, the process has continued in phases: 1988–99, 2000–08 and 2009 to date. Nearly 100 SOEs were sold during 1988–99 for PKR 59 billion, and 60 more SOEs were sold during 2000–08 for PKR 416 billion (Tahir, 2014).

Contrary to the outlined objectives, since the start of the privatization process, Pakistan has witnessed a decline in economic, social, and political indicators. The economic cost is reflected in the debt burden and fiscal deficit, whereas social and political costs are reflected in low development expenditure, increasing poverty, and increasing unrest. Therefore, privatization should be seen as an option to overcome structural challenges in the economy and governance but should be reassessed as a policy option given the fact that it has not contributed to the efficiency, profitability, and competitiveness of SOEs (Tahir, 2014).

Moreover, privatization has negatively impacted the working class, resulting in a declining number of registered trade unions, from 7,382 in 1999 to 6,793 in 2008, of which only 1,209 were reporting data. This has resulted in increased informalisation, wage rates far below that needed for a decent living standard, reduced social security coverage, and the exposure of workers to unsafe work conditions.

6. Recommendations

It is generally assumed that states bear the responsibility of realizing human rights. However, experts argue that human rights transcend national boundaries; that is, the extra-territorial obligations of developed states to respect people's rights in developing countries stems from "international cooperation and assistance" (Villaroman, 2010).

Debt repayments undermine the capacity of a borrowing country to fulfill its people's rights because resources are diverted to debt servicing. Hence, international creditors' extraterritorial human rights obligations imply that they are legally bound to ensure that their debt-related policies do not adversely affect the fulfillment of human rights in debtor countries. Creditors, therefore, are required to ensure that their actions, with transnational ramifications, do not undermine borrowing countries' efforts towards the realization of people's rights.

Providing debt relief to debt-distressed countries is a way forward for international creditors to observe their duty of international cooperation and assistance (Villaroman, 2010). The recent expression of international creditors' adherence to this duty is Goal 17 of the SDGs, which is related to strengthening global partnerships for sustainable development.[2]

In recent decades, external debt owed by developing countries has increased from US$ 500 billion in the 1980s to US$ 11.1 trillion in the 2020s (SDG Pulse, n.d.). The world's poorest countries face a US$ 10.9 billion surge in debt repayment, as a group of 74 low-income countries will have to repay US$ 35 billion to international creditors during 2022, up 45 percent from 2020 (Financial Times, 2022). Yet about 60 percent of low-income countries are at risk and need to restructure their debts.

Like many other developing countries, Pakistan's persistently precarious financial situation has landed it into a deep debt trap, wherein the country's tax revenue is consumed by debt servicing, resulting in a lack of capacity to achieve socioeconomic development and respect for people's rights.

Against the backdrop of the continued debate on the universality of human rights and the issue of foreign debt, the UN Human Rights Council introduced the Guiding Principles on foreign debt and human rights in 2012 (resolution 20/10) (United Nations, 2011). The Guiding Principles are meant to assist States and other relevant actors in the conduct of their activities and pursuit of their interests with regard to external debt. They elaborate the following measures designed to ensure that States' obligations relating to debt do not undermine human rights (Lumina, 2015):

- Ensuring that the servicing of new loans does not affect the capacity of the borrowing State to perform its human rights obligations (para. 39);
- Refraining from financing projects that are likely to infringe human rights and, in this regard, conducting credible human rights impact assessments or request a human rights institution in the borrower State to conduct such an assessment (paras. 40 and 46);
- Avoiding linking policy measures (such as austerity, privatization, and structural reform) to loans and debt relief (para. 56);
- Suspending debt payments when a profound change in circumstances beyond the control of the borrower State occurs (para. 58);
- Limiting amounts recoverable by litigating holdout creditors to amounts payable to other creditors as agreed under an international debt relief mechanism (para. 61);
- Prohibiting the sale of debt on the secondary market to holdout creditors in order to prevent such creditors (termed "vulture funds") from claiming extortionate profits from indebted countries (para. 62);
- Ensuring that debt sustainability assessments take into account the impact of debt on the achievement of human rights and development goals (para. 65);
- Periodic, transparent, and participatory debt audits, the results of which should be publicly disclosed, to assess the loan contraction process, the use of loan funds, the impact on the development and realization of human rights, and in particular, to inform future decisions on borrowing (paras. 67 and 68);

- State monitoring and regulation of external lending and borrowing by the private sector in order to prevent private debt burdens being created, which bring financial instability (para. 72);
- Establishing an independent international debt workout mechanism (para. 84).
- Furthermore, the UN General Assembly's resolution (A/69/L.84) proclaims that sovereign debt restructuring processes should be guided by the following nine basic principles (Lumina, 2015):
- Sovereignty (that is, States have the right to design their macroeconomic policies, including restructuring their sovereign debt, and this should not be frustrated or impeded by any abusive measures);
- Good faith on the part of both the sovereign debtor and its creditors in order to ensure constructive debt restructuring negotiations;
- Transparency, which focuses on the need to enhance accountability of the actors concerned;
- Impartiality in relation to the conduct and decisions of all institutions and actors involved in sovereign debt restructuring workouts;
- Equitable treatment of creditors and debtors;
- Sovereign immunity from the jurisdiction of foreign courts and execution regarding sovereign debt restructurings as a right of States, exceptions to which should be restrictively interpreted;
- Legitimacy, which entails respect for the requirements of inclusiveness and the rule of law;
- Sustainability, which implies that sovereign debt restructuring should lead to a stable debt situation in the debtor state, preserving creditors' rights while promoting economic growth and sustainable development, reducing economic and social costs, ensuring the stability of the international financial system and respecting human rights;
- Majority restructuring, which implies that sovereign debt restructuring arrangements that are approved by a majority of creditors should not be frustrated by other States or a non-representative minority of creditors.

Most of the above basic principles bear a striking similarity to the Guiding Principles on foreign debt and human rights. In addition, the report of the independent expert on the effects of foreign debt on all human rights offers the following recommendations for international financial institutions (United Nations, 2019b):

- "Include in their policy documents an explicit commitment to respect all human rights, including labour rights, in their lending, surveillance, and technical assistance policies;
- Undertake independent, participatory, informed, transparent and gender-sensitive human rights impact assessment of economic reform policies before and after determining certain conditionalities and, more generally, economic reforms to State borrowers/recipients, in line with the guiding principles: this assessment should not replace (nor be replaced by) existing practices regarding environmental and social impact assessments;
- Ensure that the terms of their transactions and their proposals for reform policies and conditionalities for financial support do not undermine the borrower/recipient State's ability to respect, protect and fulfill its human rights obligations: this includes identifying and avoiding economic reforms policies that would have negative implications for the enjoyment of human rights, in particular of those in the most vulnerable situations;
- Propose a (non-exhaustive) list of preventive and mitigating measures, which goes far beyond targeted social protection measures to ensure conformity of the economic reform policies considered with the human rights obligations of States, and make sure that these mechanisms provide redress to those directly negatively impacted by the policies of international financial institutions;
- Regard human rights priority spending targets as binding conditions, with concrete financial implications if they are not met;
- Add a human rights dimension to the debt sustainability analysis, and ensure that the findings of impact assessments systematically play a role in debt restructuring;
- Include the findings of human rights impact assessments and monitor their evolution through a review of international financial institutions and reporting processes already in place;

- Engage, as other creditors often do, in debt relief and restructuring negotiations, with the aim of supporting the freeing up of fiscal space to safeguard the capacity of States to meet their human rights obligations: in the case of international financial institutions complicit with economic retrogressive measures this obligation is even stronger".

States, as members of international financial institutions, are recommended to (United Nations, 2019b):

- "Exercise their functions as members of international financial institutions and of various boards, in line with human rights standards;
- Demand that international financial institutions have human rights policies and monitor their implementation;
- Push for the inclusion of mandatory ex-ante and ex-post human rights impact assessments in negotiation processes and official methods of work;
- Ensure that human rights impact assessments are conducted before going forward with decisions and/or recommendations implying economic reforms at the country level;
- Encourage those international financial institutions that have independent accountability mechanisms already in place to strengthen them, and those international financial institutions, such as IMF, that do not yet have such mechanisms to create them, ensuring that they are accessible and widely known."

Recommendations for the Government of Pakistan

Pakistan's economic outlook, social indicators as well as human rights record show that, apart from other factors, external debt has not significantly contributed to socio-economic development, improving public service delivery, or achieving respect for people's rights. Hence, there is a need to revisit the country's strategy to seek and utilize external debt in the future. The Government of Pakistan therefore is recommended to:

- Carry out a comprehensive review of external debt, particularly in the context of the country's socioeconomic development, public service delivery and human rights. The Government should develop a strategy, guided by the review findings and recommendations, to overcome the debt trap and seek and utilize external debt in the future. This may include limiting the country's external debt to a determined GDP ratio according to the size of the country's economy; gradually phasing out acquiring budgetary support loans; and allocation of proportionate budgetary resources for debt repayment in comparison with allocation of resources for development, public service delivery and human rights;

- Introduce reforms for economic stabilization, which may involve taking steps to increase foreign reserves, stabilize the currency exchange rate, maintain the GDP growth rate, control inflation, and allow the economy to flourish. In addition, take steps to deal with debt overburdening, the implications of debt servicing, the inappropriate use of external loans, and prevention of the impacts of conditions associated with foreign debt;
- Acquire and utilize external loans only for the purpose of boosting the country's economic growth and exports while maintaining overall fiscal discipline and making loans a part of the economic growth strategy;
- Prioritise incorporation of the seven core ILO conventions and eight core human rights conventions to which Pakistan is a State party. This involves creating the conditions to ensure compliance with people's civil and political rights as well as the allocation of ample budgetary resources for the progressive realization of people's economic, social, and cultural rights;
- Government bodies, national human rights institutions, and civil society actors should proactively engage with the UN human rights mechanisms to advocate, together with other partners, ensuring compliance with international standards to address the effects of foreign debt on human rights. This may involve:
    - Alleviation of the debt burden of developing countries to supplement the realization of people's rights;
    - Debt cancellation of Heavily Indebted Poor Countries and concerted action to address the debt problems of least-developed as well as lower and middle-income countries;
    - Implementation of the Guiding Principles on foreign debt and human rights for assessing the human rights impact of economic reform policies applicable to States, international

financial institutions, and creditors when designing, formulating, or proposing economic reforms;

- Implementation of the Guiding Principles to contribute to the search for equitable and lasting solutions to the debt crisis in line with the political commitments of the international community.

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