

PAKISTAN SUDDENLY RECEIVES MYSTERIOUS \$1.5 BILLION

Back in January, I mused on whether Pakistan was making a play for counterterrorism funds that were being freed up by the US cutting back on its funding plans for Afghanistan. It now appears that Pakistan is not only starting to receive renewed flows of US defense funding, but US development funding is flowing, as well. I probably shouldn't be so surprised by this, since the article I cited on the US cutting back on Afghanistan funding mentioned both defense and development funds, but it still remains remarkable that those funds are being so clearly moved from Afghanistan to Pakistan.

It appears that Pakistan has had to quickly establish a new fund for accepting the newly designated development money, which totals a whopping \$1.5 billion in only one month:

As the State Bank of Pakistan remains tightlipped over the source and purpose of funding, Pakistan received another tranche of \$750 million in the newly-established Pakistan Development Fund (PDF), taking the total contribution to \$1.5 billion so far.

Highly-placed sources told *The Express Tribune* that friendly countries have injected another sum of \$750 million in the PDF – an account opened to channel money from abroad. The last tranche was received in February that stabilised the dwindling official foreign currency reserves.

It is the first time that any country has generously given \$1.5-billion assistance to Pakistan within one month, as Islamabad never received such an amount as 'upfront' payments. The US, which remains the largest contributor,

always gave amounts in tranches spreading over several years. Under its five-year, \$7.5-billion Kerry Lugar aid package, Washington gave less than \$2.5 billion in government-to-government assistance in over three years.

However, it was not clear whether the money received is a grant or depositary loans aimed at temporarily bailing out the country.

At the very end of the article, the Express Tribune notes that Pakistan is also asking the US to expedite payments under the Coalition Support Fund, which is the route through which Pakistan is reimbursed for its defense spending related to Afghanistan security. That is very interesting, since it was only a month ago that there was a major disbursement in the CSF:

United States has released second tranche of \$352 million out of a total of \$1.4 billion Coalition Support Funds (CSF) that Pakistan is budgeted to receive during the current fiscal year.

This was revealed by US Ambassador Richard Olson in a meeting with Finance Minister Ishaq Dar on Tuesday.

According to Finance Ministry, the ambassador assured the Financial Minister that the remaining amount will be disbursed as soon as possible,

Pakistan had hoped to receive the second tranche in December last year.

It certainly stands out that what changed between December and February was Pakistan's new-found enthusiasm for military action against the Taliban. The article also notes that this payment was meant to cover Pakistan's expenses incurred during January to March of 2013, so the payments are lagging spending by about a year. That would be why today's news has

Pakistan urging the US to shorten the time until reimbursement:

Pakistan has asked US to speedily reimburse \$1.6 billion under Coalition Support Fund (CSF) for the year 2013. Finance Minister Mohammad Ishaq Dar stated this here on Monday in a meeting with Thomas Williams, Charge'd Affairs, US Embassy.

The minister informed the Charge'd Affairs that the structural reforms, the new government undertook in the last eight months have started to yield positive results and all economic indicators are as per our projection or even better.

/snip/

The minister emphasised that, at this stage, the US need to expedite reimbursements to Pakistan on account of CSF. The Charge'd Affairs assured the minister that US would continue to maintain partnership with Pakistan and will work for peace and stability in the region. He said that we are looking forward to enhance our existing relations in all areas of mutual interest. He assured the Finance Minister that the reimbursements to Pakistan will be fast tracked.

And there we have it. "Development" funds are flowing into Pakistan, almost certainly from the US, at a rate so fast a whole new fund and program had to be established to handle them. At the same time, the US has promised to fast track clearing the backlog of funds owed under the defense fund.

Plans for next year's funding are now being discussed:

US President Barack Obama has proposed \$ 882 million in foreign aid

to Pakistan for next year, a substantial drop of 18 % from the fiscal 2013.

According to Congressional experts, who have tabulated the budgetary proposals which was sent to the Congress by Obama, the President has proposed \$ 546 million in total economic-related assistance and \$ 336 million in total security related assistance to Pakistan.

The assistance to Pakistan in fiscal 2013 was \$ 1.2 billion – \$ 834 million economic and \$ 361 million security related aid.

There is a huge problem with the totals discussed here, though. The linked article does eventually get around to noting that the defense aid discussed here is separate from the Coalition Support Fund, which one would think is in line to grow by a lot with all the new military action. However, the mysterious \$1.5 billion in development funding just received is not discussed. How much more US funding will flow into the PDF?

The huge wildcard in this entire scenario is the current 30 day ceasefire that Pakistan has negotiated with the Taliban. Will military action resume when the period ends or will peace talks continue and make progress? Continued US funding at these new extraordinary levels may well be conditioned on the military action resuming.

Update March 13: Reuters says the \$1.5 billion injection into the Pakistan Development Fund is a loan from Saudi Arabia.