

Is aid the answer?

Dr. Sania Nishtar

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The meeting of Friends of Democratic Pakistan (FoDP) convened on the sidelines of the United Nations General Assembly in New York concluded by signalling unprecedented support to Pakistan. This was evidenced in both the representation at the meeting as well as the approval announcement of the Kerry Lugar Bill, which is aimed at facilitating economic, security and socio-economic assistance. This comment, with its focus on the development perspective is centred on exploring if aid is the answer to the current development challenges the country faces. The importance of three points is being underscored in this regard.

First of all, it must be recognized that the best way to improve development outcomes is through sustaining growth, increasing the employment rate and per-capita income and by addressing the core disparities of power, money and resources. This notwithstanding, it is generally accepted that if aid is used as a strategic input into a system and if the central systemic barriers which continue to impede its greater impact are addressed, it can be a useful tool and can catalyze development in a developing country setting. Based on this premise and research results, it is justified to argue for increased aid. However, expecta-

tions about its impact must be kept at reasonable levels in a country as large as Pakistan where aid is often grafted on local institutions without strengthening them from within.

Experiences from around the world show that "more resources" do not automatically translate into "more development". If that was the case, Nigeria and Angola would be advanced countries based on oil resources alone, and would not rank 154th and 157th out of 179 countries on the Human Development Index. Clearly, the effectiveness of aid is dependent on some specific characteristics of a country—the critical link being the effectiveness of governance.

Secondly, even if we imagine that development depended critically on external resource transfers, there are many sources besides aid, which should additionally be leveraged. Friends could forgive more debt and could even go as far as wiping out external indebtedness, as they have done for some countries in Africa. They could give Pakistan better market access, a point being repeatedly made by Finance Minister Tarin these days. Friends must also carefully explore the amount of tariffs they collect vis-à-vis the money they provide in aid and facilitate trade by

dismantling the barriers to exports from Pakistan, if they want a sustained effect of the goodwill they have signalled yesterday.

They could also facilitate ethical "export" of human resource on the premise that the approach can enable earning foreign remittances, albeit whilst concomitantly building country capacity to implement appropriate retention regulation to ensure that the critically needed workforce is retained in the country. They could also help widen the definition of public goods by easing some of the impediments that are inadvertently placed on development such as through Intellectual Property Rights, particularly in the domain of medical products and technological solutions. Pakistan will have to be fully compliant with the patent regime under the stipulations of World Trade Organisation Agreements and Pakistan's Patent Ordinance, in 2016, which is when these considerations will assume importance. Furthermore, as Pakistan is envisaged to face the most deleterious consequences of global warming, given the storage capacity of glaciers and monsoon patterns, the Friends can also help by building capacity for responsible environmental management. Most importantly,

strategic technical inputs, subsidies, diplomatic and market interventions in many other areas can ensure energy, food and water security—all of them critically needed as the backbone of development.

Thirdly, much can be done within the purview of traditional bilateral and multilateral Official Development Assistance (ODA) to enhance effectiveness. As a starting point, clarity of objectives is critical. A historical review of ODA in Pakistan shows that integration of foreign policy and development objectives has not yielded far-reaching development dividends in Pakistan, so far. There has traditionally been a very strong correlation between geo-political motivations and the volume of ODA channelled into Pakistan. The increase in ODA in the decade of 1964-64 in concert with Pakistan's signing of mutual defence assistance agreements with the US in the Cold War era; in the 1980s in the wake of the Afghan war, post-9/11 for obvious reasons and the troughs in the pattern of aggregate allocations in the periods in between, are illustrative in this regard. Donors must therefore clearly separate objectives and develop broad-based channels of communication so that they can benefit from impartial inputs from a

broad constituency of stake holders, and analyse the implications of integrating foreign policy and development objectives in Pakistan's complex body politic.

The mode of channelling of resources is another consideration. Over the years, donors have rallied around a number of approaches to disbursement, each with its own set of problems. Experiences with Project assistance and Sector Wise approaches led to intra and inter-sectoral imbalances. Programme assistance was introduced as a way of mitigating these challenges. It was envisaged that by agreeing on a set of criteria with the government and reimbursing them according to a predetermined percentage, as in the case of the Social Action Programme (SAP), earlier problems could be mitigated. SAP dominated donor disbursement strategies from 1992-96 but without the impact envisaged. More recently, the tendency to give aid on budget is the third disbursement channel—an approach endorsed by the Paris Declaration and Accra Agenda. Many bilateral development agencies operating in Pakistan have made increasing use of this disbursement channel, on the understanding that coordinating and pooling aid in support of strategies

led by the government, can strengthen country systems and minimise duplication and high transaction costs. However, systemic weaknesses have prevented the government from fully benefiting from ODA inputs, whilst also precluding realisation of donor development objectives. Donors are experimenting with yet another approach to disbursement in the new package of assistance, as evidenced in yesterday's announcement through the creation of a multi-donor trust fund. The approach has the potential to be useful if the fund parameters include a truly impartial, inclusive, and participatory governance arrangement, open disclosure policies and third party audit.

There are other things that both sides can do to improve aid effectiveness. The Pakistani government should strengthen fiduciary systems and prioritise transparency-building measures, a call for which has been renewed in the tabling of Transparency International's recent reports. The Friends, on the other hand, must be sensitive to connotations of conditionality, refrain from using regional unified approaches to policy such as AF-Pak, which the foreign office dislikes and ensure that aid does not undermine local ac-

countability. Donors should also look beyond traditional modes of development assistance to help create frameworks that can incentivise private-sector participation in development and infrastructure building; some core considerations in this regard have been flagged in these columns by the author on June 11, this year.

Most importantly, in the present drive to scale up, it is also important not to promise too much and be mindful of the fact that the Tokyo pledges remain fully unrealised. This package of support is not analogous to the Marshall Plan for many reasons, which have been highlighted by the author in these columns on April 28. This is a very different world; the donors are just emerging from the throes of a financial crisis and Pakistan is faced with many internal and external, conventional and unconventional security challenges. We need to use donors' inputs and development resources to catalyze broad-based change rather than pursuing conventional time bound outcome based targets. Aid can only be a catalyst and that too, if effectively used. The ultimate onus of responsibility for making the quantum leaps needed in Pakistan today lies on the shoulders of those who govern it.

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