The recent discussions regarding the Kerry Lugar Bill and the debate about the value of aid in general on its sidelines, brings to the fore the understanding that both sides—donors as well as Pakistan—have very high expectations of aid in terms of what it can deliver and catalyze. Before setting such high hopes, it is critical that we impartially analyze the past impact of aid on various outcomes in Pakistan. Whilst doing so, it is important that we move beyond polarized and politicized discussions on the subject; balance sensitivities with pragmatism; get a common understanding of the evidence that can guide future action; and carefully plan so that the interest of Pakistan as well as the global community can converge.

Before flagging the analytical dilemmas, a key prerequisite is to get the bearings right. The aid ‘industry’ is complicated. A number of actors—multilateral and bilateral development agencies, the United Nations system, global health initiatives, and private foundations are part of its landscape. Aid is delivered as grants, concessional loans, debt swaps, and bail out packages through various instruments under different policy and contractual norms. In Pakistan, it is a conglomeration of humanitarian assistance; military assistance, in-kind aid, particularly in the case of food aid; budget support; and Official Development Assistance—the commonly used measure of development aid. In case of the government, support is on-budget and off-budget and on-PSDP, off-PSDP. There are projects of various cycles with information relevant to allocation, disbursement and expenditure, which need to be taken into account. Before analyzing impact, it is important to ascertain if information is in order to allow analysis. The Donor Assistance Database of the Economic Affairs Division needs to be reviewed in this regard and other sources of information identified to allow triangulations.

Many questions emerge with regard to the actual impact of aid. The first is overarching in nature. Pakistan’s history of aid is closely related to its role as an ally in international politics during the ‘three decades’ of surges in international aid—1960s, 1980s and 2001 onwards—during which donors envisaged support to lead to a set of outcomes. Outcomes, of course, mean very different things depending on which side of the fence you are on. Pakistan was successful in enabling the donors to meet their foreign policy objectives in these decades. But how strongly did the decision makers of the time think of how to exercise leverage on the support provided to Pakistan to strengthen process of the state and bring welfare to its people. Did the conflicting policies pursued in concert with the latter two ‘cycles of support’ inadvertently pave the way for the current conflict. We must delve into these determinants, and learn lessons. The purpose is certainly not to discredit aid during these years, as aid also brought significant value, but to use strategic insights to shape policy.

Secondly, the impact of aid on macro-economic outcomes needs to be ascertained. Aid has led to growth in the
'three decades', but growth couldn’t be sustained. Expert economists can help ascertain why that was the case and determine the impact of aid on other macroeconomic outcome-related parameters. Was aid able to bring about improvements in productive assets and did it go preferentially into projects that could generate resources necessary to pay back loans? To what extent did aid build national capacity to mobilize domestic savings and raise domestic revenue? Is there any correlation between aid and domestic savings and between aid and the tax-GDP ratio? Were grants ever used to repay debts? What exactly has the impact of grants been on contributing to dependency? And how predictable has aid been? The government should conduct and consolidate an empirical analysis in order to draw on objective insights, which should then be used to shape policy.

In the third place, the potential within aid vis-à-vis other resource mobilization options needs to be objectively ascertained. Aid is perceived today as the option of choice, despite the understanding that widening the tax net is a more sustainable option. It is generally stated that the latter cannot be achieved because of state capture by the elite, in particular feudal landlords and interest groups, which are currently outside of the tax net. It needs to be ascertained if that is the case and if the links created through political patronage can further such collusive behavior. The institutional capacity constraints at the level of governance, which limit the ability of the government to access financial markets and/or mobilize funds through innovative means are also particularly important in this regard and need to be determined. It takes a lot more than aid to improve macroeconomic and development outcomes—a consideration the writer has recently alluded to in these columns on September 28. In the same comment, the potential within external resource transfers/support other than aid has also been underscored—in particular with reference to debt relief, foreign remittances, terms of trade and intellectual property.

In the fourth place, the impact of aid on social outcomes must be assessed. Was there any increase in aggregate allocations for the social sectors during the ‘three cycles;’ did utilization improve; was there any impact of aid on plugging pilferages and leakages from the system? What has the effect of aid been on outcome indicators? Can improvements be attributed to the inflow of aid? And if that has not been the case, were the central systemic issues that impeded the impact of aid on outcomes, included as targets in subsequent rounds of aid indicators?

Donors have invested in a number of projects over the years. Were these grounded in practical pragmatic realities? What percentage of them could be up-scaled and how many had a knock on effect on broader systems restructuring. Was there any accountability of public functionaries for not taking recommendations of technical assistance reports—many of which were funded through loans—to fruition? These areas are difficult areas of policy research, but are nevertheless very important to get a sense of before renewing the expectations of what aid can achieve.

In the fifth place, assessing the impact of conditionality on performance and ownership becomes critical, particularly in view of the recent divide of opinion over the Kerry Lugar conditionalities. Pakistan has complied with a number of aid-related conditionalities in the past. IMF’s stipulations in order to overcome external payment problems, structural adjustments and privatization of state enterprise, changes in policy norms and legislative arrangements are all examples of conditionalities that Pakistan has complied with in the past. The impact of these conditionalities should be assessed. The Paris Declaration on aid effectiveness indicates that conditionalities can undermine country ownership—in case of the Kerry Lugar Bill that does appear to be the case. However, on the other hand some conditionalities, particularly those that relate to transparency building reform of governance can be useful in the long term if the fundamental structural reforms stipulated as part of these polices are faithfully implemented.

Lastly, we must explore if there were any negative inadvertent consequences of aid. Is there evidence of aid having crowded out the space for domestic investments, particularly in the social sectors? And if that was the case, was it due to issues with utilization or the fear of long term unpredictability of aid. Evidence from some countries demonstrate that governments might use international aid to keep their foreign exchange reserves stable and spend the local currency counterpart with resulting macroeconomic problems, such as inflation. The potential impact of this phenomenon in today’s complex environment must be taken into account.
Aid can be an important catalyst. However, its impact is directly related to the robustness of the local system of governance. Evidence-guided planning is needed for addressing the challenges in making aid effective. In order for that to happen we must seek answers to these questions.

The author is the founder president of Heartfile. E-mail: sania@heartfile.org