

# Friends, dialogues, poverty and pragmatism

Dr. Sania Nishtar

Some of the statements in wake of the recent meeting of Friends of Democratic Pakistan and strategic dialogues aimed at defining areas of priority for the use of incoming bilateral assistance from United States have been positive and encouraging, including the bold admission by Secretary of State “we have not done a good job of connecting our partnership with concrete improvements in the lives of Pakistanis—with this dialogue we are working to change that”. However, when such statements are accompanied by others from the Pakistani side, which label these dialogues “transformational” in relation to breaking new grounds in poverty reduction they usher in expectations, which must be analyzed in the right perspective. Within this context, the comment attempts to explore where the country stands with regard to poverty eradication, the extent to which such expectations are justified, the prerequisites for leveraging the potential within development assistance and the impediments that exist in Pakistan in this regard.

Aid must not be viewed as a magic bullet. However, experiences from many countries, especially in the post World-War II setting show that when it is deployed in the appropriate context and is strategically harnessed it can be a catalyst for change and can help build productive assets and strengthen institutions with a sustainable knock-on effect on poverty eradication. There are many factors which stand in the way of enabling that in Pakistan. This package cannot be regarded a Marshall Plan for reasons argued in these columns on April 29, 2009. These constraints must bring to bear to temper our expectations vis-à-vis the impact on poverty. Four points are being outlined in this regard.

First, it must be appreciated that several conditions play a significant role in reducing poverty and improving development outcomes. Of these sustained growth, with resulting increase in employment, per-capita income and physical, human, and technological capital are the most important. Sound, consistent and effective policies, good governance, and an environment where peace, security, law and order and justice attract investments are critical for enabling such a transformation. In such an environment sizable poverty reduction becomes achievable when a redistributive hand of the government ensures economic *opportunities* for the poor—land rights and access to financial services—and where impartial oversight attempts to counter organized vested interests and disparities of power, money and resources, to a certain extent. Good governance is the critical enabling factor in this entire equation. Pakistan’s constraints with regard to internal security, law and order and governance place it in a position of disadvantage. The latter also undermine the potential impact of traditional *targeted* interventions—subsidies, income support, safety nets etc.—whether they are financed with indigenous revenues or external aid. It is no wondering therefore, that more than a quarter of Pakistan’s population is below the poverty line of \$1 day, current controversy over poverty empirics notwithstanding. Secondly, in addition to being critical for national development, the quality of governance also determines the extent to which aid can be effective, per se. To put this statement in perspective, the key inference of an important aid effectiveness monitoring survey with generalizable conclusions should be brought to bear. Two rounds of

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## Poverty and pragmatism

Governance

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security, law and order and governance place it in a position of disadvantage. The latter also undermine the potential impact of traditional *targeted* interventions—subsidies, income support, safety nets etc.—whether they are financed with indigenous revenues or external aid. It is no wondering therefore, that more than a quarter of Pakistan’s population is below the poverty line of \$1 a day, the current controversy over poverty empirics notwithstanding.

Secondly, in addition to being critical for national development, the quality of governance also determines the extent to which aid can be effective, per se. To put this statement in perspective, the key inference of an important aid effectiveness monitoring survey with generalizable conclusions should be brought to bear. Two rounds of surveys (in 2006 and 2008) were conducted by the Organisation for Economic Co-operation and Development (OECD) to measure the impact of the Paris Principles on Aid Effectiveness.

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The two monitoring rounds pertinently pointed out that “In order to change practices in international aid, there is the need to shape deep seated behaviours, these changes in the process of development and the nature of aid relationship require time-focused, attention and determined political will. It is not easy to change laws, regulations, practices and mindsets”. The results drive home the point that when there are underlying systemic constraints, the impact of aid is seriously diluted and that the effectiveness of governance in its own right is an important determinant of aid effectiveness.

Thirdly, lessons from the past should be factored into planning as the purse strings are loosened. It is critical that we don’t repeat past mistakes. There have been “three decades of surge” in aid in Pakistan in the 1990s, 1980s and 2001-to-date, each time with a strong correlation between geo-political motivations and the volume of aid channelled. On every occasion development assistance is packaged alongside a more substantial chunk of military assistance. Each time, Pakistan enabled its allies to pursue foreign policy objectives but failed to use aid as a strategic input into the system, when viewed from the development and governance perspective. Productive assets, which could generate resources necessary to pay back loans and capacity to mobilise domestic savings and raise revenues, were not built. Grants were used to repay debts. Systemic governance constraints also re-

mained unaddressed. As a result, Pakistan’s debt burden and fiscal deficit increased, which is now having a domino effect in many spheres. From these insights some common sense lessons are evident—in particular, the risk of integrating development and foreign policy objectives, the cost of inattention to substantive long-term investments in productive assets, and the short-sighted approach to the use of development assistance.

This time there appears to be an effort not to repeat past mistakes from both sides. But there is just too wide a gap to bridge and too many systemic hurdles in the way. There are some allocations which can be system-strengthening, as in the areas of water and energy, but their impact could be mitigated by institutionalised graft and pilferage. Both sides have expressed an interest in negotiating bilateral investment, through the Friends of Democratic Pakistan channel with public-private partnerships as a modality, but sophisticated institutional capacity and consistency in policy direction are needed to make use of these channels—both of which are non-existent in the country. The new envelope is trying various funding approaches (support for indigenous civil society, programme, project- and sector-wide approaches, on-budget support and a new multi-donor trust fund) in an attempt to circumvent existing public finance management bottlenecks, but the latter are far too pervasive with very low in the public sector that are challenging the status quo. In any case, Pakistan’s fiscal crunch means the on-budget component will be substantial, channelled through the existing system, with antecedent opportunities for collusion very much at play. There will be an appalling crowding-out effect in social-sector allocations, unacceptable by aid effectiveness standards.

Lastly, it should be appreciated that development assistance, ‘as aid’, per se, is a small component of ‘external assistance’ that has helped countries make quantum leaps in development and poverty eradication. The example in our neighbourhood is illustrative. At a time when the superpower is signalling goodwill, an astute government is signalling goodwill. They should focus on their strategic relationship with friends to widen the definition of public goods in the domain of technological solutions, ease impediments on development posed by Intellectual Property Rights and get fairer deals in relation to human-resources migration and their working conditions, as the approach can enable earning foreign remittances.

Pakistan should use its strategic position in ways that can benefit its own people, whilst at the same time play a positive role in a globalised world. We need astute capacity, transparent hands, and an unwavering commitment in order to achieve these goals.

The writer is the author of a recently published book on health reform, *Choked*. Ppoe. Email: sania@heartfile.org

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*The author is the founding president of the NGO thinktank, Heartfile. [samia@heartfile.org](mailto:samia@heartfile.org)*