



## Aid, Governance and Development: Case of Pakistan

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*“What is clear is that democracy is not the prerequisite for economic growth that aid proponents maintain. On the contrary, it is economic growth that is a prerequisite for democracy; and the one thing economic growth does not need is aid.”*

Dambisa Moyo

In *‘Dead Aid’*

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## **Abstract**

The political economy of foreign aid is intensely debated in global development discourse and international politics. Many countries who didn't take the "aid path" to development prospered while most of the countries that depended on aid are still under developed. Effectiveness of aid is highly dependent on the governance structures and the political regime in the recipient country, and on the motives of the donor. This thesis aims to discover whether foreign aid in Pakistan is effective or not. Development in macroeconomic variables has been observed but the growth is unequal. Aid (grants and loans) also has detrimental effects on the governance of Pakistan. Moreover, there lies a power dynamic between the recipient and the donor which allows the donor to influence domestic policy making, compromising recipient's sovereignty. Thesis concludes that aid must be avoided at any cost if Pakistan wishes to prosper and remain a free. FDI is seen as a better form of foreign aid as compared to loans and grant.

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## Introduction

Foreign Aid helps developing countries progress. The preceding statement is widely contested in contemporary economics and politics. While policy makers in the West claim that foreign aid would improve socioeconomic conditions in developing countries, many scholars believe in the contrary. Dambisa Moyo in her book 'Dead Aid' writes that countries that rejected the aid route were more prosperous while aid dependent countries remain trapped in the vicious cycle of corruption, market distortions and further poverty – hence, require more aid<sup>1</sup>.

The concept of 'aid-infused' development came into being at a meeting held in July 1944 in Bretton Woods, New Hampshire, USA. The meeting took place against the backdrop of the Second World War, with participation of over 700 delegates from about forty-four countries, to establish a global system for financial management, trade and economic cooperation<sup>2</sup>. According to Moyo, the post-war aid can be divided in seven broad categories: its birth at Bretton Woods in 1940s; the Marshall Plan in 1950s; industrialization in 1960s; aid as the answer to poverty in 1970s; aid as a tool for structural adjustments in 1980s; and aid as a tool to improve governance and impose democracy<sup>3</sup>. Three organizations came into being after the meeting: International Bank for Reconstruction and Development (now known as the World Bank), International Trade Organization and International Monetary Fund (IMF)<sup>4</sup>. The roles and responsibilities of World Bank and IMF were written clearly to facilitate capital investment for reconstruction and to manage global financial system respectively. However, as we all have witnessed, both the organizations have taken the center-stage for development across the world.

In most of the countries aid has not lived up to the expectations. In her book, Moyo focuses on African countries, which have been the biggest recipient of aid and yet have not achieved sustainable economic development and poverty reduction. There are different reasons attributed to the failure of aid programs by its proponent. Some of the reasons are:

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<sup>1</sup> Dambisa Moyo, *Dead Aid: Why Aid Is Not Working And How There Is A Better Way For Africa*(Penguin, 2009).

<sup>2</sup> Ibid.,

<sup>3</sup> Ibid.,

<sup>4</sup> Ibid.,

country's geography, historical factors (such as colonialism), cultural and social norms, and the absence of legit and strong public institutions (the executive, legislature and judiciary).

According to Moyo there are mainly three types of foreign aid – Humanitarian aid, charity-based aid, and systemic aid<sup>5</sup>. Humanitarian aid is in response to some catastrophe or a natural disaster, charity-based aid is given by organizations or people on ground, and lastly, systemic aid is payments made to a government by another government or multinational institutes like the World Bank<sup>6</sup>. This thesis is only concerned with the third type of aid – the systemic aid. Systemic aid is in forms of concessional loans (money that is lent to governments of poor countries on below the market interest rates and with much longer lending periods) and grants (money given for nothing in return). For this thesis foreign aid is considered as loans and grants in all sectors, unless stated otherwise.

This thesis will primarily focus on the case of Pakistan. Pakistan is the country under scrutiny for this paper because since independence Pakistan has been one of the biggest recipient of financial aid which included both concessional loans and grants received from international organizations (multilateral lending) and countries (bilateral lending), especially from the United States. Pakistan presents an interesting case of a promising demography, the most favorable geography, and abundance of natural resources. However, the historical and political factors have not been very advantageous. The ineffectiveness of state institutions and governance apparatus is deeply rooted in Pakistan's colonial past. In addition, Pakistan has had three major military coups since its independence in 1947.

There are multiple research questions and objectives that the study aims to address. Firstly, it aims to answer the very obvious question – has financial aid induced development in Pakistan. Secondly, it aims to assess the impact of bilateral aid on governance, taking into account aid from United States. Thirdly, it intends to assess aid in health sector and apply the findings up till then on Pakistan's Health sector. Lastly, it aims to examine whether a shift in aid from the West to Chinese aid is the way forward. For all the aforementioned points there are various underlying reasons and implications – which will be discussed in

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<sup>5</sup> Ibid.,

<sup>6</sup> Ibid.,

detail as I move towards the conclusion. Broadly speaking, the paper analyzes whether financial aid had any impact on Pakistan's development and governance, explores reasons and gives policy recommendations.

The thesis is divided in three main chapters. Chapter one describes the research methodology used for research and spells out the data sources used. Chapter one also entails literature review on the said topic – defines financial aid and presents cases from around the world and history about the success and failure of financial aid. Chapter two focuses particularly on Pakistan – explains the trends of foreign aid in Pakistan, discusses the case of bilateral aid from United States and the impact of multilateral aid on health sector. Chapter three unfolds the latest shift from western aid to Chinese aid in Pakistan and its implications. Lack of transparency and unavailability of data for Chinese aid was a limitation for the chapter. Further limitation for the thesis was the time constraint. Finally, the last section concludes the findings of the thesis and presents policy recommendations.



## Chapter 1: Research Methodology and Literature Review

### 1.1 Research Methodology

This paper solely relies on data collected through secondary research. I have gathered and utilized data and information from a wide range of resources available on the internet, previous research papers on related topics, official reports and websites of relevant organizations. Data used is mainly the compiled and derived data by the World Bank, the Organization for Economic Cooperation and Development (OECD), United States Agency for International Development (USAID), Freedom House, and Transparency International. Secondary data provides a good source of information to decipher a holistic picture of the situation and subsequently aids in formulating conclusions.

Among many research methods, one of the methods that I have used is the Grounded Theory method. The grounded theory method allows a researcher to move from data to theory in contrast to the traditional methods where research findings mainly depended on the pre-existing theories. According to Willig, Grounded Theory is the identification and integration of ‘categories of meaning’ from data<sup>7</sup>. The methodology aids the researcher in identifying different categories and finding relationships between them. The end-product of the process is a theory<sup>8</sup> or a research finding. Chapter 2 uses this technique to derive results. To derive the final findings and conclusions of research I used different tools which include comprehensive literature review, comparative analysis of data and trends, and SWOT analysis. Literature review gives an in-depth insight into the topic at hand. It gives perspective of different researchers on a particular topic paving way for a more broad and useful discourse. Once the literature review had been carried out it led to comparative analysis of the content. In addition, comparative analysis also entails a rigorous analysis of data collected through secondary means. Analysis will help readers understand raw data by transforming it into useful information. Lastly, SWOT analysis is used to analyze the pilot project of China’s Belt and Road Initiative (BRI), China-Pakistan Economic Corridor (CPEC).

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<sup>7</sup> Carla Willig, "Grounded Theory Methodology", in *Qualitative Interpretation And Analysis In Psychology*, 1st ed. (Mc Graw Hill, 2012).

<sup>8</sup> Ibid.,

## 1.2 Literature review

### *What is Foreign Aid?*

Foreign Aid, essentially, is assistance given by a government or a multinational organization to a less developed country (LDC) or a developing country which could be in cash or in kind<sup>9</sup>. The term is further defined as a voluntary transfer of public resources, from one country to another or from an international organization such as the World Bank or the United Nations Development Program (UNDP) with at least 25 percent grant element<sup>10</sup>. The main purpose of this transfer of resources is to improve social, economic and political situation in the recipient country. Similarly, the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) defines foreign aid as transfer of resources to developing countries to promote economic development where resources are given on concessional terms with at least 25% grant element<sup>11</sup>. The Official Development Assistance (ODA) defined by the OECD includes fund transfer to poor countries for social infrastructure and services, economic infrastructure, production sectors, general budget support, humanitarian assistance, multi-sector support funding and action related to debt<sup>12</sup>. The official USAID website also defines ‘grants’ as fund transfer to developing countries with no expectations of repayment, and defines ‘concessional loans’ as soft loans which characterize low interest rates and grace periods during which the recipient is not expected to repay for a several years<sup>13</sup>.

There has been much debate over the years about the effectiveness of grants and loans. When loans are provided to a developing country, the recipient government is more

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<sup>9</sup> Lungisani Moyo and Leo Tsakata Mafuso, "The Effectiveness Of Foreign Aid On Economic Development In Developing Countries: A Case Of Zimbabwe (1980-2000)", *Journal Of Social Sciences*52, no. 1-3 (2017): 174-177, doi:10.1080/09718923.2017.1305554.

<sup>10</sup> Ibid.,

<sup>11</sup> Clair Apodaca, "Foreign Aid As Foreign Policy Tool", *Oxford Research Encyclopedia Of Politics*, 2017, doi:10.1093/acrefore/9780190228637.013.332.

<sup>12</sup> Ibid.,

<sup>13</sup> "What Sources Of Grants Or Concessional Financing Exist To Help With Mini-Grids In Developing Countries? | Mini-Grids Support Toolkit | Energy | U.S. Agency For International Development", *Usaid.Gov*, 2019, <https://www.usaid.gov/energy/mini-grids/financing/grants>.

mindful of the use of the funds and generates a constant stream of revenue as the funds have to be repaid in the future. However, that depends a lot on how the recipient governments perceive loans – i.e. if the loans are provided on highly concessional terms or are frequently forgiven then it might be perceived as a grant. Repayment of loans also depends on the governance structures, economic conditions and policies, and the government's capacity. There is a growing number of scholars who believe that aid should be provided in form of grants as loans make recipient countries highly indebted thus, have detrimental effects on economic growth. However, grants have their own detrimental impacts on a country's governance as they contribute directly to government's revenue and may lead to greater dependency on aid and make budget planning problematic.

### ***Different views on Aid***

Pedrosa-Garcia writes about how research on foreign aid has evolved over the years. He construes that the opponents of foreign aid usually highlight the mechanism and incentives that it provides while acknowledging the positive results of aid<sup>14</sup>. They criticize aid in reference to moral hazard – that the recipient government knows that the donor will be there and hence slacks off in mobilizing internal resources<sup>15</sup>. Secondly, he also highlights the issue of adverse selection where a corrupt government might be receiving aid which would help them stay in power.

Moyo and Mafuso test the effectiveness of foreign aid on economic development in Zimbabwe and conclude that much of the aid given to developing countries by the western countries and multilateral institutes does not improve economic conditions rather serve the interest of the donors<sup>16</sup>. The study shows that that Zimbabwe was a recipient of aid till 2000 after which the country's economy collapsed displaying heavy reliance on foreign aid and little development<sup>17</sup>. The collapse of the economy also highlights the fact that Zimbabwe

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<sup>14</sup> Jose Antonio Pedrosa-Garcia, "Trends And Features Of Research On Foreign Aid: A Literature Review", *Munich Personal Repec Archive*, 2017, <https://mpra.ub.uni-muenchen.de/82134/>.

<sup>15</sup> Ibid.,

<sup>16</sup> Lungisani Moyo and Leo Tsakata Mafuso, "The Effectiveness Of Foreign Aid On Economic Development In Developing Countries: A Case Of Zimbabwe (1980-2000)", *Journal Of Social Sciences* 52, no. 1-3 (2017): 174-177, doi:10.1080/09718923.2017.1305554.

<sup>17</sup> Ibid.,

had little control on its own policy which was mainly dictated by IMF and World Bank's structural adjustment programmes.

Rady conducts an extensive literature review on the impact of foreign aid on development. The analysis show rather conflicting results about the nature of relationship between the two variables. While there is a negative relationship in some cases, the research makes it evident that in presence of good governance, absence of corruption, and presence of sound economic policies and institutions foreign aid can achieve development goals<sup>18</sup>.

Researching the effects of foreign aid in areas of limited statehood, Dreher and Lang state that the effectiveness of aid highly depends on the policies and institutions in the recipient country and the motives of the donor<sup>19</sup>. They emphasize that aid makes democracies more democratic and autocracies more autocratic. So while it amplifies the current political intuitions in the recipient country it has a positive impact in the democratic societies and detrimental effects in the autocratic regimes. They point out that multilateral aid may have sincere motives as compared to bilateral aid. They finally conclude that in "areas of weak statehood" (the fragile states), that portray weak policies and institutions, aid is ineffective<sup>20</sup>.

Elaya refers to the public interest perspective (PIP) and public choice perspective (PCP) while talking about the effectiveness of foreign aid in developing countries. On PIP basis he quotes the famous 'End of Poverty, Economic Possibilities of Our Time' by Jeffery Sachs and highlights the successful examples of western donors' experiences which include green revolution for food production in Asia, antiviral medicines, increase of family planning programmes, treatment of anti-malarial diseases, and many others<sup>21</sup>. The key to end poverty in developing nations through aid is to enable the poor to determine and

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<sup>18</sup> Tamer Rady, "FOREIGN AID AND DEVELOPMENT: WHAT CAN DEVELOPING NATIONS LEARN", *Journal Of Economics And Economic Education Research* 13, no. 3 (2012).

<sup>19</sup> Axel Dreher, Valentin Lang and Sebastian Ziaja, "Foreign Aid In Areas Of Limited Statehood", *CESIFO*, 2017.

<sup>20</sup> Ibid.,

<sup>21</sup> Moosa Elayah, "Lack Of Foreign Aid Effectiveness In Developing Countries Between A Hammer And An Anvil", *Contemporary Arab Affairs* 9, no. 1 (2016): 82-99, doi:10.1080/17550912.2015.1124519.

achieve their development themselves. However, on the basis of PCP, he argues that aid programs fail largely due to corruption, weak policies and institutions in the recipient countries<sup>22</sup>. He adds that most of the aid programs are run by bureaucrats who work in their self-interest. In addition, donor's intentions and lack of local knowledge contribute to the poor performance of aid in developing countries<sup>23</sup>.

Niyonkuru tests the effectiveness of foreign aid for the African countries and finds that it puts the recipients in a perpetual state of dependency and the conditions attached to the aid makes it impossible to eradicate poverty<sup>24</sup>. Aid in form of economic bail out is seen as a form of exploitation, especially IMF fiscal policies which always compel the recipient country to adopt measures that are harmful to the economy in the long run<sup>25</sup>. Niyonkuru goes to extreme lengths in saying that with such conditions poverty and suffering rises which also raises anti-state sentiment which calls for new political formations<sup>26</sup>. The study also points to the hidden agendas of donors in failure of aid programs.

Sarwar and Hassan analyze the effect of foreign aid on governance in case of Pakistan using data from 1984-2012. The empirical evidence suggests that quality of governance deteriorates due to foreign aid<sup>27</sup>. Measure of governance entails indices for bureaucratic quality, corruption and rule of law in Pakistan<sup>28</sup>. Writers argue that foreign aid is the key to fill saving and investment gap and increase productivity in developing countries but such growth has not been observed in Pakistan as depicted by poor performance of social indicators. A report of World Bank in 1989, for the first time, acknowledged the need for good governance for aid to work well. According to some economists, aid undermines government's accountability to its citizens, increases levels of corruption and funds are

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<sup>22</sup> Ibid.,

<sup>23</sup> Ibid.,

<sup>24</sup> F Niyonkuru, "Failure Of Foreign Aid In Developing Countries: A Quest For Alternatives", *Bus Eco J* 7 (2016), doi:10.4172/2151-6219.1000231.

<sup>25</sup> Ibid.,

<sup>26</sup> Ibid.,

<sup>27</sup> ADEEBA SARWAR, MUSHTAQ HASSAN and TAHIR MAHMOOD, "FOREIGN AID AND GOVERNANCE IN PAKISTAN", *Pakistan Economic And Social Review* 53, no. 2 (2015): 149-176.

<sup>28</sup> Ibid.,

eventually misused. The study concludes that since governments are not accountable to the international donors they don't feel obliged to work under the rule of law.

Supporting the public choice theory, foreign aid has minimal effects on growth and indicators of poverty. Williamson explores the failure of foreign aid and emphasized the role of both incentives and information with regards to both – the donor and the recipient<sup>29</sup>. Incentives of all stakeholders that are involved are not coordinated in a manner that can reap maximum benefits of the aid. Moreover, information is usually fragmented. Donor requires local knowledge for the aid programs to be successful and they mainly rely on the bureaucratic government systems. Discrepancies in both the incentives and information become the major cause of failure of aid programs.

Javaid and Qayyum test the effective of aid on Pakistan's growth and find that foreign aid does have a positive impact on growth of the country but with conditions<sup>30</sup>. They test aid growth model empirically over the period 1961-2008 by incorporating a policy index, using bilateral and multilateral aid. The key finding is that aid has positive impact if the macroeconomic policies are stable i.e. trade openness, low inflation and low budget deficit. Moheyuddin also writes that foreign aid may help Pakistan in boosting its economic growth but only under appropriate monetary, fiscal and trade policies<sup>31</sup>. He concludes after empirical analysis that aid increased GDP through structural transformation of the economy, provided technical assistance, policy advice and modern technology and funded projects for social sector development<sup>32</sup>. However, he warns that aid increases debt burden of the recipient country. Pakistan's debt burden has significantly increased overtime and poor macroeconomic policies will only make the issue graver.

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<sup>29</sup> Claudia R. Williamson, "Exploring The Failure Of Foreign Aid: The Role Of Incentives And Information", *Rev Austrian Econ*, 2009, doi:DOI 10.1007/s11138-009-0091-7.

<sup>30</sup> Muhammad Javid and Abdul Qayyum, "Foreign Aid And Growth Nexus In Pakistan: The Role Of Macroeconomic Policies", *PIDE Working Papers 72* (2011).

<sup>31</sup> *Ibid.*,

<sup>32</sup> Ghulam Mohey-ud-din, "Impact Of Foreign Aid On Economic Development In Pakistan [1960-2002]", *Munich Personal Repec Archive*, 2005.

### *The case of US Marshall Plan*

It is pertinent to give an example of one of the biggest aid programs in history. The aim of giving the following example of a successful program is to determine the conditions under which the aid program was effective. The example is of the mammoth aid scheme known as the Marshall Plan. Marshall Plan was United States' program, between 1948 and 1951, to finance economic development in Western Europe after the World-War II events<sup>33</sup>. The aid scheme was officially termed as the European Recovery Program (ERP) and about \$ 13 billion (about \$100 billion at 2003 prices) were poured in Europe to revive its economic growth<sup>34</sup>. The plan turned out to be successful and is considered one of the major factors that laid foundation for what Western Europe is today. During the period, countries involved in the program experienced a rise in their Gross National Product (GNP) of 15 to 24 percent<sup>35</sup>. This post-World War II reconstruction of Western Europe is also an example of one of the success of economic and foreign policy. The conditions set forth by Marshall Plan did have an impact on the long-term growth in Europe, causing an increase in competition, opening trade and improving living standards. The fact of the matter is that Marshall Plan did not promote growth by financing reconstruction of devastated infrastructure, as reconstruction was largely complete before the program came into being<sup>36</sup>. The aid program helped Europe in reviving its economy by significantly changing the policy making environment. The financial resources gave the policy makers room to maneuver, without which they would've had to choose harsh policies. Marshall Plan played an important role in alleviating resources. The conditionality of the plan pushed governments towards a more 'mixed economy'<sup>37</sup>. It is emphasized multiple times that the

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<sup>33</sup> Robert Whaples, "The Marshall Plan, 1948-1951", *EH.Net Encyclopedia*, 2008, <https://eh.net/encyclopedia/the-marshall-plan-1948-1951/>.

<sup>34</sup> *Ibid.*,

<sup>35</sup> Michael Ray, "Marshall Plan EUROPEAN-UNITED STATES HISTORY", *Encyclopædia Britannica*, 2019.

<sup>36</sup> J. Bradford De Long and Barry Eichengreen, "The Marshall Plan: History's Most Successful Structural Adjustment Program", *NBER Working Paper*, 1991.

<sup>37</sup> *Ibid.*,

European economy was already highly developed and the funds under the Marshall Plan contributed to governments' fiscal resources<sup>38</sup>.

One, however, cannot deny that the motivation behind the Marshall Plan was as much political as it was economic. The idea behind the aid program was to support Europe on its path to development so that each nation could resist falling into the Soviet camp.

One of the conditionality was for the European recipients to make cooperation (now famously known as the Organization for European Economic Cooperation, OECD) among themselves to jointly formulate plans for the utilization of funds<sup>39</sup>. Furthermore, the conditions attached to the Marshall Plan were not the same as the structural adjustment programs of IMF or World Bank. Governments were expected to balance their budgets, stabilize exchange rates, and remove distortionary price controls<sup>40</sup>. Along with the conditions the countries received funds to cover at least half of their budget gap. One of the main ingredients that made Marshall Plan as success was the ability of the countries to decide themselves the plan of action. Each recipient government was supposed to submit a plan on how they planned to utilize the resources given. Another key factor important for the success of the plan was the donor was willing to bend where the recipient expressed its limitations. The timeline attached to the aid program also encouraged the recipient countries to play their part in development proactively. The program had a well-defined ending date which made the European countries think about 'life after aid' and hence limited their dependence on aid. Moreover, Europe relatively has educated and trained labor force<sup>41</sup>. There was much damage caused by the war but property rights and rule of law were well established.

### ***Discussion***

The example presented above is of a successful implementation of one of biggest aid programs. Mentioned above are also the conditions under which the program was

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<sup>38</sup> Barry Eichengreen, *Lessons From The Marshall Plan*, World Development Report 2011 (Berkeley: World Bank, 2011).

<sup>39</sup> Ibid.,

<sup>40</sup> Ibid.,

<sup>41</sup> Ibid.,



successful. It gives an insight into why most of the aid programs today fail. The Marshall Plan allowed the recipient countries to come up with their own plans on the utilization of aid – feature which is absent from most of the aid programs today. Formulating the policies themselves gives country autonomy over their domestic policy agendas and reinforces sovereignty. Secondly and importantly, Marshall Plan had a timeline attached to it. Knowing that the aid program would end at a specified date would certainly give countries the incentive to implement ‘good’ policies to foster growth and development. Lastly, and certainly most importantly, even though Western European countries were torn by the war, they still had well established governance institutes and above all rule of law. Good governance structures are undoubtedly vital to increase the effectiveness of aid.

As evident from the literature presented above, effectiveness of foreign aid in developing countries today is a much debated topic. There are many conflicting views present in the previous literature. Many scholars believe that foreign aid helps developing countries grow and alleviate poverty. While their arguments seem valid keeping in mind the success stories, like the Marshall Plan, the arguments against aid cannot be dismissed. As shown above some economists go to extreme lengths and posit that foreign aid has detrimental effects on a country’s economy. However, a more neutral argument can be achieved from the above analysis. The effectiveness of foreign aid is contingent upon two major factors: stability of macroeconomic policies and governance institutions in the recipient country and the motives of the donor country or multilateral institution in case of bilateral aid and multilateral aid, respectively. Countries with stable monetary and fiscal policies and a more open economy have seen growth due to foreign aid. It can also be deduced that multilateral aid programs are generally considered better than bilateral aid as bilateral aid is largely tainted with the donor country’s geostrategic and political agendas. Furthermore, aid in form of concessional loans is seen to have detrimental effects on the economies of developing countries. Many developing countries, including Pakistan, are heavily indebted to donors which leave them with limited funds for development projects. Due to this reasoning, many economists emphasize on the importance of grants. Like loans grants have their own drawbacks. Grants are likely to create the problem of moral hazard and

information asymmetry. Grants contribute directly to a government's revenue stream hence making the former incompetent governance structure even more incompetent. Governments become more dependent on grants, making them ineffective in essence. In addition, information asymmetry may cause the donors to give a particular grant to a corrupt government, strengthening their position. Hence, there are many complications attached with foreign aid. Its effectiveness should be seen in tandem with the economic policies, political situation, historical context and geostrategic importance of a country. The next section analyzes trends of foreign aid in Pakistan since its independence.

## Chapter 2: Foreign Aid to Pakistan

### 2.1 Trends of Aid to Pakistan

#### *Historical and Political overview*

Pakistan became independent from British colonial rule on 14 August 1947. Pakistan, since its independence has been a victim to self-centered and self-beneficial group of leaders<sup>42</sup>. One of the reasons why a stable political regime (“democracy”) couldn’t flourish in Pakistan, while it did in India, is the death of Mohammad Ali Jinnah (founder of Pakistan) in 1948 followed by the assassination of Liaqat Ali Khan (first Prime Minister) in 1951<sup>43</sup>. With their death the vision of democracy was enormously derailed and civil bureaucracy took over matters swiftly.

It is pertinent to note that the subcontinent, before partition, was under British colonial rule and Pakistan inherited that colonial system of governance. The foundations of the political system are rooted in imperial feudal system and the British Raj<sup>44</sup>. Hamza Alavi writes in his article ‘the state in post-colonial societies’ that the military-bureaucratic oligarchy in most post-colonial societies can be traced back to the structural changes brought about by the colonial time period and the arrangement of classes by the superstructures of political and administrative institutions<sup>45</sup>. The operations of the indigenous social classes are regulated and controlled by the overdeveloped state apparatus and its institutionalized practices<sup>46</sup>. It is well known that there are about 200 families who have been active in Pakistani politics since its independence<sup>47</sup>. These politicians have exploited the country along with the military for only one thing – power. Military rule in itself is dictatorship but the unfortunate

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<sup>42</sup> Umbreen Javaid and Amir Latif, "Historical Analysis Of Successive Governments In Pakistan: A History Of First Six Decades, 1947-2007", *Pakistan Vision* 18 (2017): 214-228.

<sup>43</sup> Ibid.,

<sup>44</sup> Ibid.,

<sup>45</sup> Hamza Alavi, "The State In Post-Colonial Societies: Pakistan And Bangladesh", *New Left Review*, no. 74 (1972): 59-81.

<sup>46</sup> Ibid.,

<sup>47</sup> Taimoor ul Hassan, "Roots Of Authoritarianism In Pakistan", *Journal Of Political Science*, no. 15 (2009).

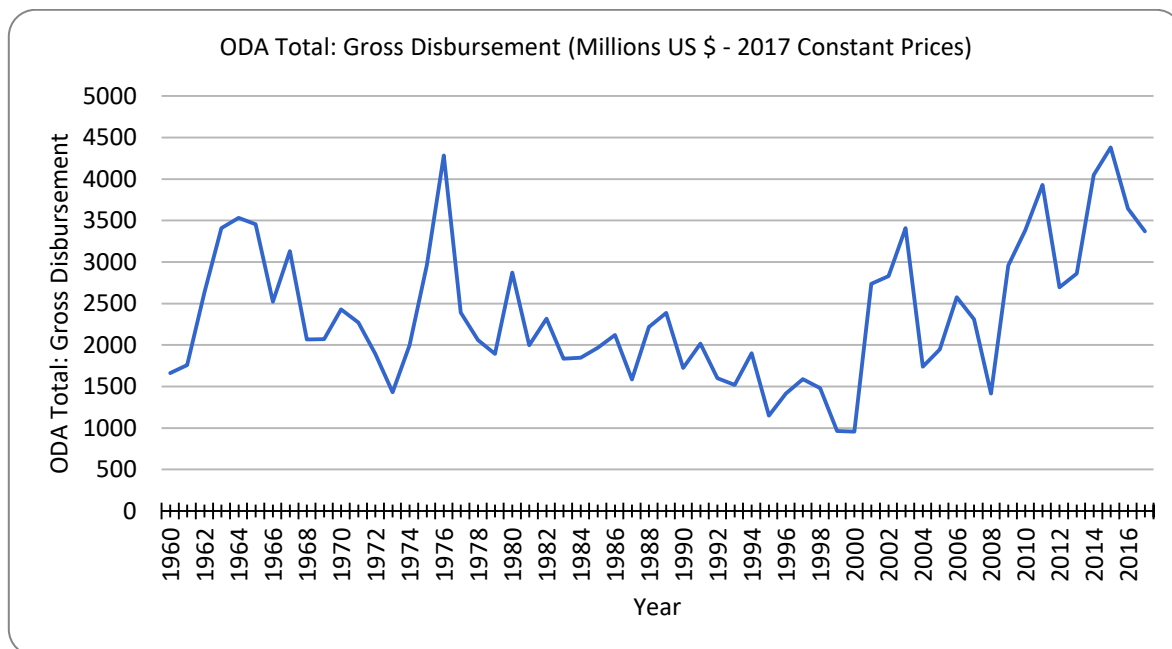
and miserable fact about Pakistan is that its civilian politicians were no less than authoritarians.

Since independence Pakistan faced numerous hardships in the political and social arena. There have been three major military coups since 1947. The country went to War with its neighbor, India, twice – first in 1965 and in 1971 the second time. War in 1971 resulted in separation of East Pakistan (now known as Bangladesh) from West Pakistan. It was not possible for a newborn state like Pakistan to grow on its own. Hence, it relied immensely on foreign aid since the beginning. In fact, the topic of aid was one of the earliest disputes in Liaqat Ali Khan's cabinet<sup>48</sup>. American assistance was refused multiple times during the 1950s and much deliberation was done over World Bank Loans. In the 1950s Pakistan accepted the Common Wealth Aid<sup>49</sup>. Foreign Aid inflows continued to grow when the government could not maintain the two main gaps: the Savings and Investment, and Balance of Payments.

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<sup>48</sup> Ghulam Mohey-ud-din, "Impact Of Foreign Aid On Economic Development In Pakistan [1960-2002]", *Munich Personal Repec Archive*, 2005.

<sup>49</sup> Ibid.,



**Figure 1: Official Development Assistance (ODA) to Pakistan from 1960-2017 (in Millions US\$ expressed in 2017 current prices) | Data Source: OECD Data**

The figure above represents the Official Development Assistance (ODA) given to Pakistan over the period 1960-2017. ODA is the most common type of aid. ODA, defined by the OECD, means aid provided to developing countries to promote their economic development. The financial resources given to a poor country must be used for development and to combat poverty. ODA financial resources must be given to the public sector, for promotion of welfare, and on favorable terms. It includes grants, soft loans (where the element of grant is at least 25 percent of the total) and provision of technical assistance<sup>50</sup>. Loans and grants for military assistance are not added in ODA. The graph above depicts the trend for gross ODA disbursed which includes all the components of this aid. From the graph it can be inferred that there has been a downward trend from 1964 till 2000 with a lot of fluctuations and a major peak during 1976. An upward trend can be seen after 2000, again with numerous fluctuations. However, a sudden peak can be observed thrice – 2003, 2011, and 2015. The first peak refers to increase in aid by United States after 9/11 attacks for their War against terror. The second peak in 2011 can be attributed to the

<sup>50</sup> "Official Development Assistance (ODA) - Net ODA - OECD Data", *OECD*, 2019, <https://data.oecd.org/oda/net-oda.htm>.

Kerry Lugar Bill (a plan through which US aid to Pakistan was increased by three times; details mentioned in section 2.3). The third peak may refer to aid coming from China under the ambit of China-Pakistan Economic Corridor (CPEC) (discussed in chapter 3 in detail).

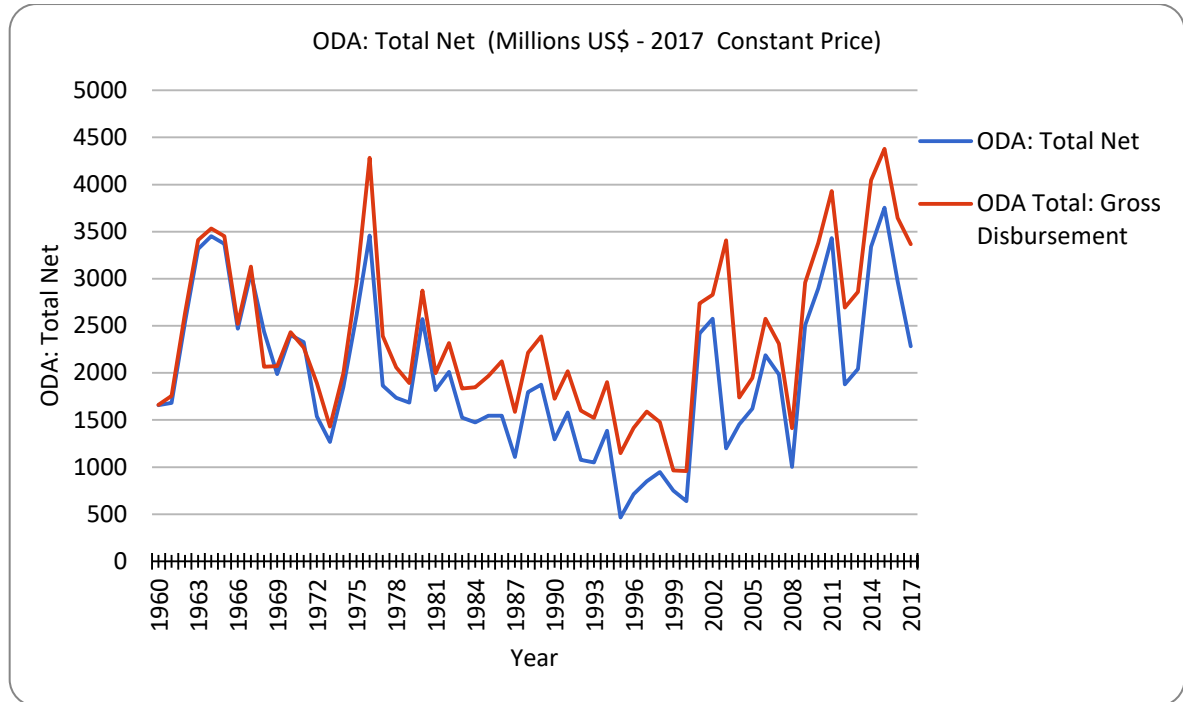


Figure 2 ODA Net Total & Gross Disbursement | Data Source: OECD Data

The second figure shows both: ODA Gross disbursement and ODA Net total. Net ODA refers to total amount disbursed over a given accounting period, less repayments of loan principal during the same period, no account being taken of interest<sup>51</sup>. The total net follows pretty much the same trend as the gross disbursement. The interesting thing to note here is the gap between the two. Keeping basic economics in mind, the gap here represents the loan payments made by the government. It is pertinent to note that with time the gap has increased. It can be inferred that with time the loan component of ODA rose. Another imperative point here is that the net total value does not take into account the interest payments. The gap would be much bigger if interest payments are accounted for.

<sup>51</sup> Ibid.,

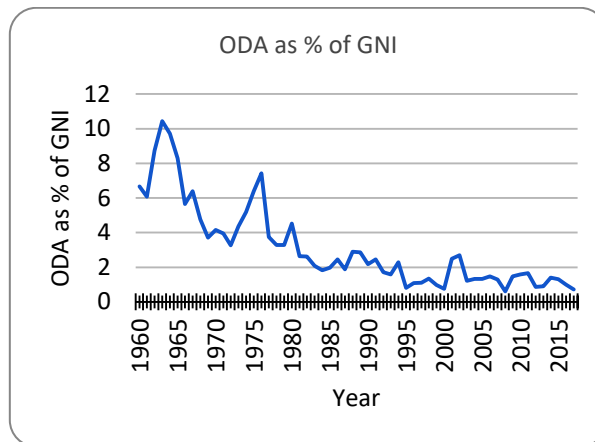


Figure 3 ODA as percentage of GNI | Data Source: OECD Data

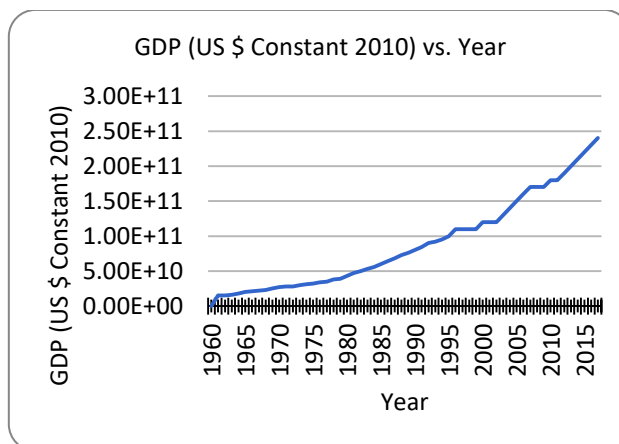


Figure 4 GDP US \$ (Constant 2010) | Source: World Bank Data

The two graphs above show the trends for ODA as a percentage of Gross National Income (GNI) and trend for Gross Domestic Product (GDP). GDP is the key tool for policy makers, economists and students for strategic decision making. GDP represents the total economic activity taking place within the national bounds of a country. From the graphs above, it can be seen that ODA as a percentage of GNI has dropped quite significantly. One reason for this is rise in GNI overtime. However, it is worthy of noticing that ODA levels were not kept proportional to the growth in GNI. On the other hand, GDP is seen to rise over the years depicting increase in overall economic activity and growth in the country. At this stage it is tough to say whether ODA has contributed to the economic growth over the years or not.

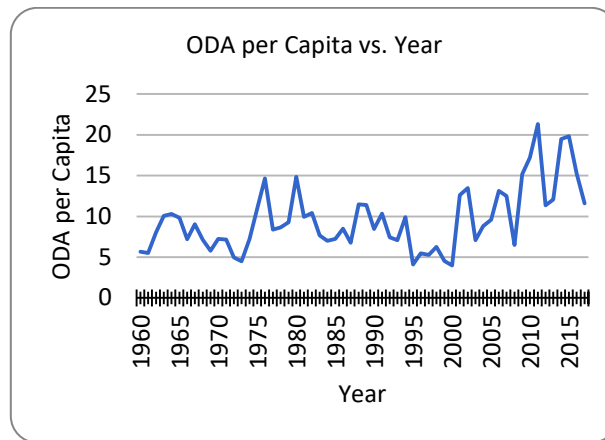


Figure 5 ODA per Capita (\$ US Current) | Data Source: OECD Data

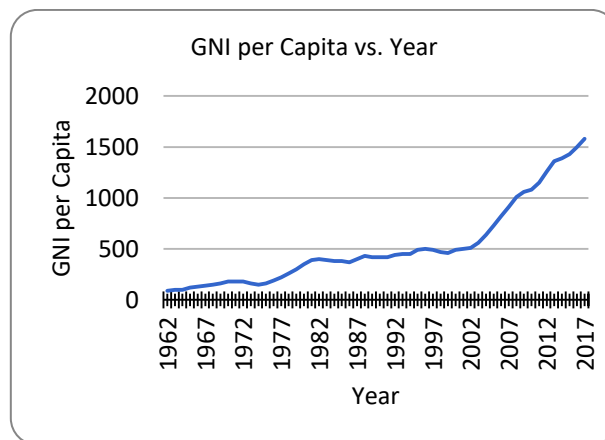
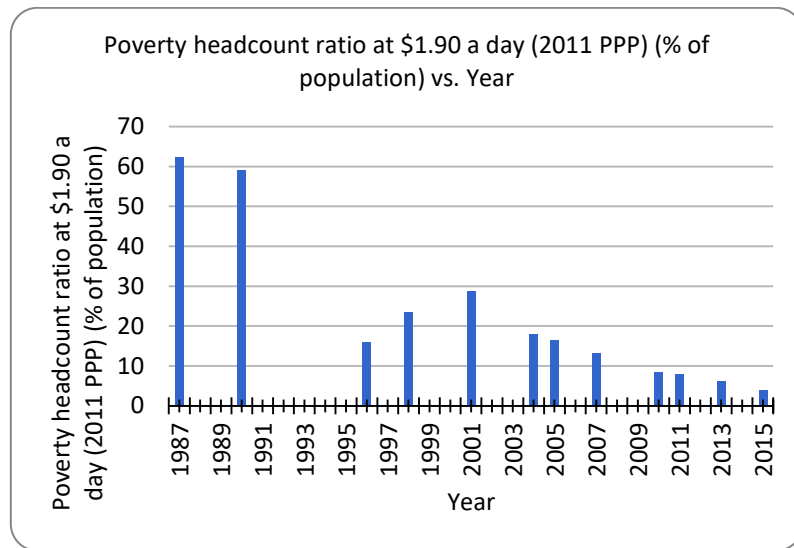


Figure 6 GNI per Capita (\$ US current) | Source: World Bank Data

The two graphs above are presented for comparison. The first graph represents ODA per capita which is ODA divided by the mid-year population. It is an estimation to show how much ODA is given to one citizen of the recipient country. The second graph represents Gross National Income (GNI) per capita which is GNI divided by mid-year population. The indicator denotes average income earned by a citizen. ODA per Capita displays an overall constant trend (with a lot of fluctuations) till 2000 and shows an overall upward trend after 2000 (again, with numerous fluctuations). GNI per capita rises slowly till 2000. After that a swift rise in the indicator can be witnessed. The overall trends of both the indicators are same however; the fluctuations in ODA make it evident that the rise in GNI per capita was not quite contingent upon aid.





**Figure 7 Poverty Headcount ratio at \$ 1.9 a day (2011 PPP) (percentage of population) | Data Source: World Bank Data**

The bar chart above is imperative in the foreign aid and development discourse. Above is the indicator to measure poverty. There were many gaps in the data – hence, values that were found on the World Bank database have been used. The bars show the percentage of population living below the poverty line of \$1.9 a day. \$ 1.9 a day is the international poverty line set forth by the World Bank. It is evident from the figure that poverty reduced significantly from 1987 onwards till 1996, after which an increase in the percentage of population living under the poverty line can be seen. This rise can be attributed to immense political unrest in the 1990s. Poverty figures, again, can be seen to decline after 2001. The latest recorded figure is 3.9 in 2015. While the decline shown in the bar chart above is impressive, definition of poverty needs to be taken into account. 3.9 figure mainly refers to the percentage of population that is living below the poverty line, \$ 1.9 a day. Even 3.9 figure refers to roughly 7.5 million people who are surviving (I am hesitant to use ‘living’) on \$ 1.9 a day. If the poverty line is changed to \$ 5.5 a day, the poverty headcount changes drastically. 2013 and 2015 figures change from 6.1 percent and 3.9 percent to 79.5 percent to 75.4 percent, respectively<sup>52</sup>. Hence, it can be concluded that in 2015 3.9 percent of the

<sup>52</sup> "Pakistan | Data", *Data.Worldbank.Org*, 2019, <https://data.worldbank.org/country/pakistan?view=chart>.

population lived under the poverty line of \$1.9 a day while 75.4 percent of the population lived under the poverty line of \$5.5 a day. This analysis gives a broad perspective that although there has been an increase in economic activity overtime (GDP and GNI), there hasn't been a significant rise in the living standard of common citizens. High levels of GDP and GNI have not translated into low levels of poverty for the population. It can be inferred that economic growth which was in tandem with rise in foreign aid has promoted inequality in Pakistan.

### ***Discussion***

The analysis above has shown that foreign aid has a positive impact on economic development and growth indicators. The GDP and GNI trends show an increasing trend over the years. One ponders why improvement in these development indicators is not reflected in the living standards of the common citizens. There are multiple reasons for this.

Firstly, the governance structure and institutions in Pakistan, like most developing countries, are underdeveloped. The government is 'democratic' on the face of it but most of the activities and decisions are taken by other state actors. History of Pakistan plays a key role in its failure to establish good governance systems. As mentioned above, the military-bureaucratic oligarchy and the overdeveloped state apparatus in post-colonial societies decide the operations of the indigenous class. According to the Freedom House data 2019, Pakistan is a 'party free' country with an aggregate score of 39/100 (100 being most free) which is drop from the 2018 number (43)<sup>53</sup> (refer to figure 11 of the appendix). Freedom House calculates this score based on three main components – freedom rating, political rights and civil liberties and as of 2019 Pakistan has scored 5 in all of the components<sup>54</sup>. The scoring is done on a scale of 0-7, 7 being least free. The subcomponents of these components are mainly electoral process, functioning of the government, safeguards against corruption, transparency, freedom of expression, rule of law, personal autonomy and individual rights, and many more. Throughout history, Pakistan has never achieved a

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<sup>53</sup> "Pakistan", *Freedomhouse.Org*, 2019, <https://freedomhouse.org/report/freedom-world/2019/pakistan>.

<sup>54</sup> *Ibid.*,

score below 4 for any of the component (the freedom house figures can be found in the appendix). Moreover, the Corruption Perception Index (CPI) of Pakistan by Transparency International reached its highest level, 33/100 (100 being the least corrupt – clean government) in 2018 (for CPI trend over the years refer to figure 10 in the appendix). The government of Pakistan has been plagued with corruption and military-bureaucratic oligarchy which makes key institutions inefficient and doesn't allow them to perform on their full potential. When aid is given to such governments there is a high chance of moral hazard and the desired result of aid is not achieved.

Secondly, the reason why aid does not translate into actually alleviating poverty is because Pakistan, a developing country, does not dictate the terms and conditions of the aid. In most of the cases the aid donors, developed countries or the multilateral donor agencies like the IMF or World Bank, are the ones who decide which sector aid is needed and how much. As mentioned in chapter 1 as well, local information is the key for successful implementation of aid programs. When foreign donors come to Pakistan they have limited local knowledge hence can make a mistake while deciding the terms of the aid program. Moreover, the conditionality attached with aid, such as structural adjustments, are detrimental to the economy. Conditionality (broadly discussed in the next section), in my opinion, plays a vital role in the ineffectiveness of aid.

Thirdly, an interesting and unsettling feature of the trends of aid shown above is that it fluctuates a lot. The fluctuations fundamentally mean that the trend is not stable over the given time period. As stated in the previous sections as well, aid contributes directly to the revenue stream of the government. Hence when aid starts to flow in, governments tend to slack off and start relying more and more on foreign aid. When aid levels are lowered it gives the governments a major setback. So, for governments, like Pakistan, who start relying enormously on foreign aid suffer due to the unsteady nature of foreign aid which leaves the country's on donor's mercy – compromising sovereignty.

Lastly, motives of the donors are extremely important in the effectiveness of aid. It is said that when foreign aid is bilateral, the impact of aid is influenced heavily by the motives and

agendas of the country which makes one think that multilateral aid is better and “agenda-free”. John Perkins, in his famous book *Confessions of an Economic Hitman*, contradicts the preceding statement. He writes about his own personal experiences working with a consultancy firm that advised the World Bank<sup>55</sup>. He talks about how poor countries are plunged into insurmountable debt which has to be paid back through extraction of natural resources, military assistance and political support<sup>56</sup>. He elaborates different tactics used by these multilateral organizations to pressure the developing countries into agreeing to worst possible terms which seem detrimental to the local development. Furthermore, these organization and donor countries (he specifically talks about the US) foster greed and corruption in the developing countries to advance their own agendas.

## 2.2 Conditional Aid - what are the conditions?

According to Wikipedia, in political economy and international relations the term conditionality is defined as “the use of conditions attached to the provision of benefits such as a loan, debt relief or bilateral aid which are set forth by international financial institutions or regional organizations and are intended to improve economic conditions within the recipient country”<sup>57</sup>. Petroia quotes Erica Gould to explain the term conditionality as, “the term of an arrangement between a member country and the international financial institution that specify policies, performance criteria, or standards that country must meet in order to receive resources from the financial bodies”<sup>58</sup>.

World Bank, one of the largest donors, has defined ‘Development Policy Lending’ whereby “the borrower (1) maintains an adequate macroeconomic framework, (2) implements its overall program in a manner satisfactory to the Bank, and (3) complies with the policy and

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<sup>55</sup> John Perkins, *Confessions Of An Economic Hit Man*, 1st ed. (San Francisco: Berrett-Koehler Publishers, 2004).

<sup>56</sup> Ibid.,

<sup>57</sup> "Conditionality", *Wikipedia*, 2019, <https://en.wikipedia.org/wiki/Conditionality>.

<sup>58</sup> Andrei Petroia, *CONDITIONALITY OF FOREIGN AID AND ITS CONSEQUENCES. CASE OF THE REPUBLIC OF MOLDOVA* (ACADEMY OF ECONOMIC STUDIES OF MOLDOVA Center for Financial and Budgetary Consulting and Analysis, 2016).

institutional actions that are deemed critical for the implementation and expected results of the supported program”<sup>59</sup>.

In my opinion the word ‘conditionality’ broadly means a set of policy adjustments that the aid recipient country needs to make so that the aid program is rendered effective. I also believe that conditionality is not just set forth by financial institutions but also by donor countries. However, their conditionality might differ from the ones imposed by financial institutions and may reflect their motives and incentives. The conditionality set by different donor institutions also differs. For example, IMF conditions mainly target the fiscal variables like budget deficits or inflation targets. On the other hand, World Bank conditionality is more focused on project specific reforms such as reforms in civil service<sup>60</sup>. Aid programs cannot magically transform the socioeconomic condition of a country; development will occur with the efforts of the indigenous. Hence, these conditions are primarily fixed to complement the aid program. Broadly speaking, good conditions, as outlined by the World Bank, entail a framework of accountability and transparency, customize modalities to country circumstances, and choose actions critical for achieving specific project goal<sup>61</sup>.

The policy reforms upon which most of the IMF and World Bank (two of the largest donors to Pakistan) programs are contingent upon are fiscal reforms. Fiscal reforms are measures to be taken by governments to improve their fiscal balance. Measures entailed in fiscal reforms are reducing expenditures, reducing public investment, decreasing government employees and removing subsidies. Moreover, it entails reforming tax system to increase government revenue.

There has been increase in trend for ‘good governance’ conditionality but highly varies among different donors. Broad level of governance, democracy, military expenditure and human rights records seem to effect the allocation of aid<sup>62</sup>. There has been a new trend in

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<sup>59</sup> World Bank, *Review Of World Bank Conditionality*, 2005.

<sup>60</sup> Andrei Petroia.

<sup>61</sup> Ibid.,

<sup>62</sup> Jörg Faust, Nadia Molenaers and Sebastian Dellepiane, "Political Conditionalities And Foreign Aid", in *Workshop On Political Conditionalities And Foreign Aid* (ECPR, 2013).

the selectivity of recipient countries by the donor. Studies show that less corrupt countries tend to give aid to less corrupt countries<sup>63</sup>. Moreover, commitment to development in the recipient country influence by the quality of democracy in donor countries. A number of studies show that a coherent conditionality based on economic and political aspects can have the desired development in the recipient country. An example of that would be the implementation of Marshall Plan in European countries (as mentioned above). Studies also warn against donor-driven conditions which can have detrimental effects on development<sup>64</sup>.

The opinions on the effectiveness of conditional aid are highly polarized. Opponents argue that many countries who received conditional aid did not develop as expected and they attribute the failure to the policies tied to aid<sup>65</sup>. On the other hand, proponents suggest that it is the weak government institutions and poor policies that aid programs failed in these countries that led to the failure of the aid programs. This argument, to me, is void as underdeveloped countries that are facing economic crisis would understandably have social and political unrest; hence the need for aid. Studies on the success of IMF and World Bank programs (which are of course conditional) have shown that the success rate is low<sup>66</sup>. Success rate being low and not zero means that there have been a few situations where the conditional aid has helped countries. Government of Nicaragua implemented the structural adjustment program of the Bretton Woods institutes and Nicaragua's government deficit as a percentage of GDP declined from 20 percent in 1990 to 8 percent in 1996<sup>67</sup>.

Montinola writes after extensive research and analyzing data of about 68 countries over two decades that aid conditionality promotes policy reforms in countries that are more democratic<sup>68</sup>. Aid conditionality is largely contested by numerous scholars because of persistence of poverty and low standards of living in the poor countries. However, studies have shown that the effectiveness of conditional aid depends chiefly on the recipient

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<sup>63</sup> Ibid.,

<sup>64</sup> Ibid.,

<sup>65</sup> Gabriella R. Montinola, "When Does Aid Conditionality Work?", *Studies In Comparative International Development* 45, no. 3 (2010): 358–382.

<sup>66</sup> Ibid.,

<sup>67</sup> Ibid.,

<sup>68</sup> Ibid.,

country's governance and political regime. Montinola argues that due to political competition democratic leaders are more likely to spend almost all aid they receive, while autocrats tend to stockpile aid and still maintain power<sup>69</sup>. Since democrats don't stockpile aid as much, the impacts of conditional aid are higher.

While, I believe that conditions are vital to complement the aid programs, they may not always produce the desired outcome if they are not well-thought and coherent with the recipient country. In case of Pakistan, which has been a beneficiary of the IMF bailout programs, conditional aid (by IMF, especially) had detrimental effects on the economy. 'Austerity' measures of IMF shrink the economy, impacting the lower and middle class population adversely. These stringent conditions are one of the reasons why foreign aid did not translate into lower poverty headcount ratio (as specified in the previous section). Furthermore, in its brief history Pakistan has had three military coups, lasting almost a decade every time. Elaborating on Montinola's finding, continuous political unrest and meddling of the military in political affairs has impacted the effectiveness of aid over the years.

The next section specifically zooms into bilateral aid from United States (which has been the biggest bilateral aid donor) to Pakistan and its effects on governance structures. An interesting trend of aid from United States and military regimes was observed.

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<sup>69</sup> Ibid.,

## 2.3 Implications of Bilateral Aid from United States on Governance Structure

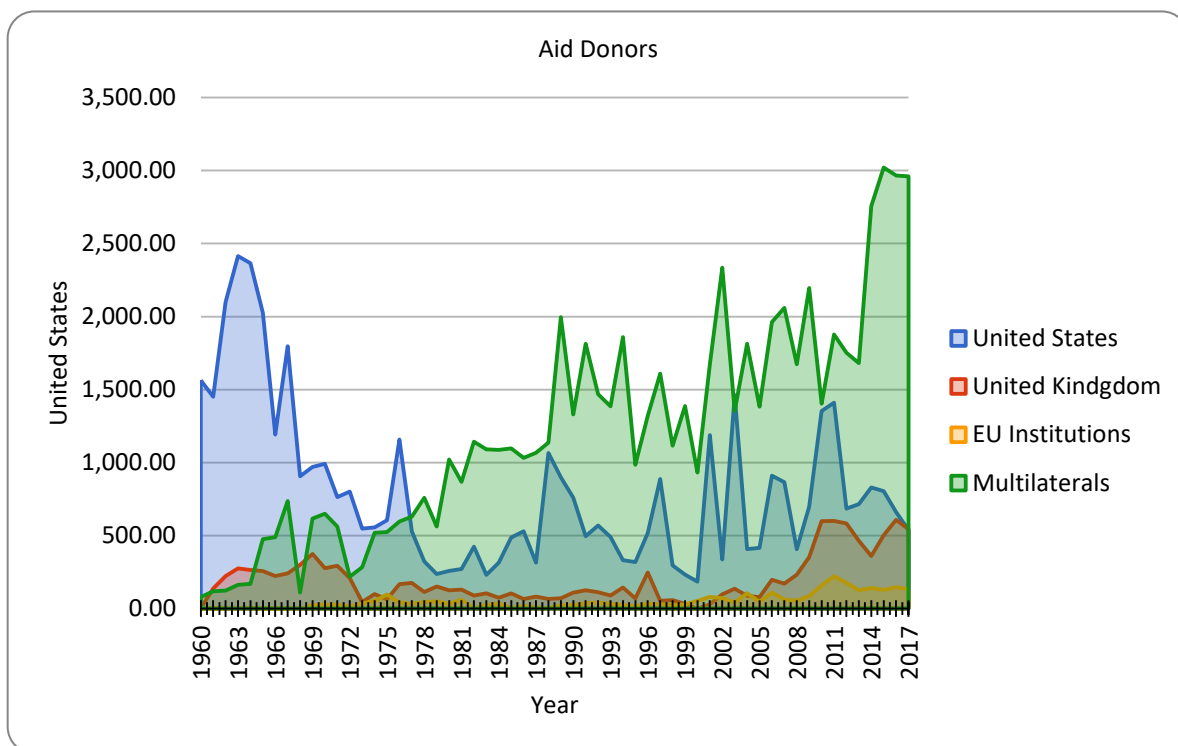


Figure 8 Trends of Aid by different donors | Data Source: OECD Data

The graph above shows the Gross Aid inflows to Pakistan from different donors. As it can be seen in the figure above multilaterals contribute the most to aid inflows in Pakistan. United Kingdom has also been a prominent donor for Pakistan, especially in the education sector. Among bilateral aid flows United States has been the biggest donor to Pakistan, even more than the multilateral institutes before 1970s. Figure 9 below shows United States aid transfers to Pakistan. There seems to be a relationship between US aid and Pakistan's military regime hence only the time period 1960-2010 is taken into account for the analysis.



During this time, there have been three military coups in Pakistan; the table below summarizes the different political regimes in Pakistan since independence<sup>70</sup>:

**Table 1: Political regimes in Pakistan**

<b>Phase</b>	<b>Regime</b>
<b>First Phase (1947-1958)</b>	<b>Manipulation with Democracy</b> Prime Ministers changed 7 times
<b>Second Phase (1958-1971)</b>	<b>Military Regimes</b> Ayub Khan's Regime (1958-1969) Yayha Khan's Regime (1969-1971)
<b>Third Phase (1971-1977)</b>	<b>An attempt at 'democracy': Zulfiqar Ali Bhutto (1971-1977)</b>
<b>Fourth Phase (1977-1988)</b>	<b>Military Regime</b> Zia's Experimentation Regime
<b>Fifth Phase 1988-1999</b>	<b>Immaturity of the Political Leadership</b> Benazir (1988-90) Sharif (1990-93) Benazir (1993-96) Sharif (1997-99)
<b>Sixth Phase (1999-2008)</b>	<b>Military Regime (Of Course!)</b> Pervez Musharraf (1999-2008)

<sup>70</sup> Umbreen Javaid and Amir Latif, "Historical Analysis Of Successive Governments In Pakistan: A History Of First Six Decades, 1947-2007", *Pakistan Vision* 18 (2017): 214-228.

<b>Seventh Phase (2008-2018)</b>	<b>An attempt for transition to Democracy</b>
	Pakistan People's Party (PPP) headed by Asif Ali Zardari (Widow of the assassinated Benazir Bhutto) (2008-2013)
	Pakistan Muslim League – Nawaz (PMLN) headed by Nawaz Sharif (2013-2018)
	Pakistan Tehrik-e-Insaf (PTI) (2018-__)

To make the analysis more simple only Economic Assistance, Economic Assistance (through USAID) and Military Assistance is taken into account. The total Assistance is the sum of the three aforementioned.

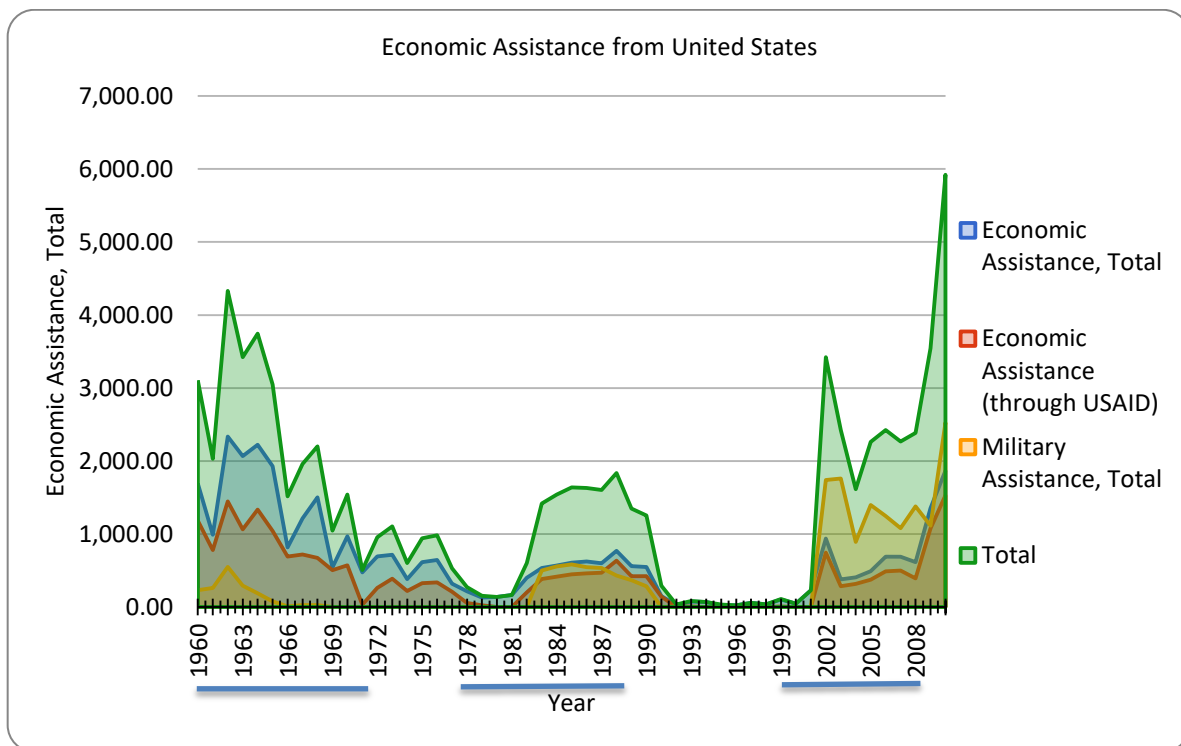


Figure 9 Economic Assistance from United States (\$US millions) | Source: Wren Elhai, Center for Global Development, 2011<sup>71</sup>

The graph above does not show a consistent or a stable trend. It rather shows a lot of fluctuations, even near zero values in the nineties. There can easily be seen three major peaks on the graph – during the sixties, eighties, and then in the 2000s. In the early 1950s US and Pakistan had pledged mutual defense agreement which include military as well as economic aid<sup>72</sup>. US had pledged a near total of \$67 billion (2011 constant prices) between 1951 and 2011. However, with changing geostrategic interests of US the aid figures have fluctuated quite a lot. From mid-fifties till mid-sixties there was significant aid inflow from US. In 1965, due to the Pakistan-India war military aid was suspended to Pakistan, while economic assistance continued. By the end of 1970s due to Pakistan’s nuclear enrichment program all aid was suspended, except for food aid<sup>73</sup>. Military and economic aid was

<sup>71</sup> The data has been collected and compiled through different sources by Wren Elhai, Center for Global Development

<sup>72</sup> "Aid To Pakistan By The Numbers", *Ideas To Action: Independent Research For Global Prosperity*, 2013, <https://www.cgdev.org/page/aid-pakistan-numbers>.

<sup>73</sup> Ibid.,

increased again in the eighties after Soviet invasion of Afghanistan. During the 1990s all aid was cut off again because of Pakistan's involvement in developing its nuclear weapons. Aid hit a bottom low after the 1998 nuclear tests by the government of Pakistan. Aid is seen to spike again after 2001. That spike in aid mainly occurred because of the 9/11 attack in and the subsequent war on terror by the United States government.

The bars below the graph, along the X-axis, roughly mark the time periods when there was military rule in Pakistan. It seems like a strange coincidence that the highest level of financial aid received from United States was roughly during the military regimes. Military regimes are characterized by low civil and political freedom, censorship of media, no freedom of expression, and high levels of corruption. Yet, US aid to Pakistan is the highest during these regimes. Main reason for this is that the policy agendas of the military leaders have aligned more easily with geopolitical strategies of United States. In addition, military leaders are more easily molded into agendas of external actors as they don't feel accountable to the general public. A democratically elected, civil leader is accountable to the people who have elected him hence cannot align policies with agendas of external actors.

It is imperative to note here that US aid got suspended thrice during the time period under scrutiny. First was in 1965 due to Pakistan-India conflict. Second was in late 1970s due to nuclear enrichment program. Stopping aid because of this reason shows how US tries to intervene in the domestic policy making of recipient countries. Stopping aid to Pakistan can be termed as a punishment! The nuclear program was initiated and underscored by the civilian leader, Zulfikar Ali Bhutto. It is also important to note that democratically elected civilian leaders are more likely to take decisions that are in the betterment of a country, even if it offends one of the biggest aid donors. Aid was again stopped in the 1990s due to the same reason. 1990s, as shown in the table above, was the decade of political turmoil.

US aid was increased in the 1980s, with Zia-ul-Haq in power, mainly because of Soviet invasion in Afghanistan. This is the classic example of donors giving aid to developing countries to advance their own geopolitical strategies and agendas. Giving aid meant

getting something in return. In this case they got access to Afghanistan through Pakistan's land. Pakistan faced numerous detrimental effects of that war in the following years. Financial aid was also increased after 2001, after the 9/11 attacks in United States. This time, again, US had its own agenda in mind. Through high level of funds US could easily influence policy making in Pakistan.

Western countries (especially US) and multilateral institutes are strong proponent of democracy. When giving financial aid to developing countries, they often times have stringent rules like improved governance structures, eradication of corruption, etc. It is peculiar as to why US aid to Pakistan has been the highest during the non-democratic regimes. From the analysis above it can be said that US (in this case) did not care about development as such. They were/are interested in advancing their own political agendas in the region. Furthermore, it can be concluded that support of an autocratic leader is easier as compared to a democratically elected leader. An autocratic leader does not feel accountable to the public hence can be swayed away more easily.

John Perkins, as mentioned above, talks about modern day imperialism by the United States through the multilateral institutes like the World Bank. He talks about the influence and power of United States in the World Bank<sup>74</sup>. Loans provided to the developing countries is the main tool used by these organizations to exert their influence. The loans are intentionally so big that the developing countries are unable to repay and become heavily indebted which guarantees their support to the United States' political agendas<sup>75</sup>. Hence it makes sense that when the US was transferring aid to Pakistan, political regime did not matter. Geostrategic and political agendas of United States matter the most.

In 2009 the United States Congress approved the Enhanced Partnership for Pakistan Act (commonly known as the Kerry-Lugar-Berman bill, or KLB). The main purpose of KLB was to have two different streams for security and development. The idea was to isolate the development agenda from unpredictable geopolitical and military events for smooth inflow of funds for development purposes. Due to this act, development related assistance to

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<sup>74</sup> John Perkins.

<sup>75</sup> Ibid.,

Pakistan almost tripled where \$ 7.5 billion was given over a five year period (2010 – 2014). The funds aimed at improving the governance of Pakistan, support its economic growth and invest in the local people. Since 2011 aid has significantly declined (refer to figure 13 of the appendix).

Very little improvement has been seen in raising the living standards of common citizens. Looking back at Chapter 1, motives and incentives of the donors are crucial for the effectiveness of aid. In this case, it is obvious that US' motives were not inclined too much towards development. Furthermore, referring to chapter 1, again, foreign aid makes democracies more democratic and autocracies more autocratic. High levels of aid flows from the US during the military regimes had detrimental effects on the country's governance, major institutes and rule of law. It strengthened the military. Hence, aid from United States over the years has had negative impact on Pakistan's governance.

## 2.4 Implications of Multilateral Aid on Health Sector

This section sheds light on the impact of multilateral foreign aid on the health sector, particularly in Pakistan. The section specifically zooms into the health sector of Pakistan and analyzes whether the discussion and findings up till now can be applied to this particular sector or not. Moreover, the section elaborates the nuances of foreign aid and how effective it is in social uplifting (focused on health policy) of a society. As seen in the preceding sections foreign aid is an ambiguous topic and one cannot reach a conclusion about its effectiveness that simply. A major feature that characterizes aid programs, that is also under attack, is the conditionality attached to it. Structural Adjustment Programs (SAP) (as explained above as well) is key component of aid programs of multilateral donors like the IMF or World Bank. According to my understanding, the recipients are expected to implement the structural adjustments in their economies in order to exploit the maximum benefits of aid inflows. Structural adjustments, in many cases, have proven to be detrimental to the growth of an economy. The recipient government is expected (under an agreement) with the financial institute to bring profound economic, political and social changes. Some of the changes, as mentioned by Pfeiffer and Chapman, are reduction in public sector workforce, reduce public sector budget, remove subsidies and price controls, devalue local currency, reduce taxes on Foreign Direct Investment (FDI), sell state-owned enterprises and services, weaken state environmental and labor regulations, and deregulate movement of capital<sup>76</sup>. They talk about the effects of these structural changes on the public health sector from an anthropological perspective. Taking a step back into history, the concept of global health policy started in 1978 with World Health Organization (WHO) conference that brought about Primary Health Care (PHC). PHC promoted 'Health for All' by 2000 and had a good package that included a lot of medicines, vaccines and health care services<sup>77</sup>. It was soon realized that the SAP, that came about in early 1980s directly conflicted the PHC. Soon a lot of other health policies in the global arena were introduced

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<sup>76</sup> James Pfeiffer and Rachel Chapman, "Anthropological Perspectives On Structural Adjustment And Public Health", *The Annual Review Of Anthropology* 39 (2010): 149–65, doi:10.1146/annurev.anthro.012809.105101.

<sup>77</sup> Ibid.,

by international organizations. Finally, in 2000 the Millennium Development Goals (MDGs) were adopted by the United Nations as health targets for the next 15 years<sup>78</sup>.

The proponents of aid programs and the subsequent SAPs state that the adjustment policies may have negative impact on the economy in the short-run but eventually the economy progresses. However, it is important to note that the negative impacts of SAPs on the health sector impose major threats to lives of poor in the developing countries. The structural policies can impact the health sector by reducing the basic health sector spending, reducing care services, imposition of fees for basic health facilities, declining incomes of workers in the sector, unemployment due to layoffs, increase in prices of food and medicines due to decline in subsidies, and economic vulnerability caused by high prices as a result of currency devaluation. In addition, studies show that the changes in policies brought by the structural adjustment programs also contribute to growing inequality in developing economies. Growing inequality, class formation, limited access to land and food, gender disparities, and unemployment caused by austerity measures impact health of the public<sup>79</sup>.

For foreign aid (directed towards the health sector) to be effective, functioning of the national health system is critical. To address health issues there needs to be an effective policy apparatus in place. There must be significant budget to develop a proper health care system – which needs to be managed by the state. The large-scale response to AIDS treatment around the world highlighted the importance of an efficient public sector for managing millions that were provided for the treatment<sup>80</sup>. Effective utilization of funds and successful implementation of the program requires a well-functioning national health system. Moreover, Pfeiffer and Chapman quote anthropologist Smith-Nonini, who writes that health system should be seen as a common and not as a market<sup>81</sup>.

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<sup>78</sup> Ibid.,

<sup>79</sup> Ibid.,

<sup>80</sup> Ibid.,

<sup>81</sup> E. Michelle Taylor and Ian Harper, "The Politics And Anti-Politics Of The Global Fund Experiment: Understanding Partnership And Bureaucratic Expansion In Uganda", *Medical Anthropology* 33, no. 3 (2014), doi:10.1080/01459740.2013.796941.



The Global health Initiatives (GHIs) has been widely criticized but it is important to acknowledge the substantive contributions to the global health systems and the outcome. The initiatives have been able to raise significant amount of funding to raise awareness, target diseases and engage multiple stakeholders at the local and global level. The main criticisms that arise against them are because of the distortionary effects they have on the local governance structures, lengthy and bureaucratic process of application, and inadequate local knowledge. Due to these reasons ultimately the initiatives are not as effective as they are perceived to be.

Bureaucracies in both, the recipient governments and the donor agencies undermine the success of the aid programs. In case of health sector aid, the donors need to manage risks effectively and rapidly. Often times and in many cases the process of obtaining aid is made so complicated that it impacts its efficiency. Taylor and Harper, analyze the case of Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM) for Uganda. GFATM is an international financing institution that distributes funds for the ‘big three’ infectious diseases – HIV/AIDS, tuberculosis, and malaria. The writers list elaborate bureaucracies in the governance structures of Uganda and GFATM as one of the reasons for the failure of the Global Fund<sup>82</sup>. They explain that during the round of negotiations GFATM did not understand what Uganda wanted and was asked to revise the proposal for funding a number of times. With each round the demands of GFATM rose and there were more layers added to the application process. A simple aid instrument was made complex and time consuming.

Important to mention in the health policy discourse is the role of intermediary actors apart from the bureaucrats - clinicians, technicians, NGO staff and health workers, who translated global health policy into their ambitions and interest<sup>83</sup>. The following example of aid given to Pakistan for HIV/AIDS will help understand the asymmetries caused in the governance apparatus by foreign aid, particularly in the health sector. Pakistan, during the Musharraf Regime was offered soft loans as part of the World Bank Enhance HIV and

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<sup>82</sup> Ibid.,

<sup>83</sup> Ayaz Qureshi, "Up-Scaling Expectations Among Pakistan's HIV Bureaucrats", *Global Public Health* 9 (2014), doi:10.1080/17441692.2013.870590.

AIDS Control Program. Throughout the negotiations, the Ministry of Health was sidelined and Ministry of Finance took on the lead role<sup>84</sup>. Literature criticizes Pakistan on not being able to follow the ‘best practices’ and emphasizes the need for capacity building. However, it is often times forgotten that dependence on external aid coupled with up-scaled expectations, government employees are exposed to job security and unfortunately undermines the continuity of the program<sup>85</sup>.

Khan et al discuss the influence that the donors practice over the recipient’s public policy. They recently conducted elaborate interviews of individuals working in the health sector in the Government of Pakistan. They highlight how damaging this influence can be and how problems can arise with donor dominance in health policy processes<sup>86</sup>. Donors can influence health policy process at different stages – priority setting, policy formulation, policy implementation and monitoring and evaluation<sup>87</sup>. Many studies argue that effects can be harmful if the donors overlook recipient’s priorities and absorptive capacities of the national health system. Khan et al after conducting interviews with various policy makers in Pakistan and analyzing the information report that donors in the health sector in Pakistan practice influence by means of financial resources<sup>88</sup>. Since they have direct control of the finances they decide their allocation and the timeframe. It was found that often times the donors decided which health issue need to be put on top of the national health agenda and what type of tools needs to be used to resolve the issue. It was found that as there is limited funding given by the governments, policy makers have limited power in influencing the policy agenda. Hence, there is a power dynamic created due to differences in financial resources because of which policy makers have limited voice in priority setting for the formation of policy in their own countries.

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<sup>84</sup> Ibid.,

<sup>85</sup> Ibid.,

<sup>86</sup> Mishal S Khan et al., "How Do External Donors Influence National Health Policy Processes? Experiences Of Domestic Policy Actors In Cambodia And Pakistan", *Health Policy And Planning* 33, no. 2 (2017): 215-223, doi:10.1093/heapol/czx145.

<sup>87</sup> Ibid.,

<sup>88</sup> Ibid.,

The power the donor agencies or the donor country's to influence recipient country's international standing beyond the health sector also allows them to influence policy making<sup>89</sup>. Khan et al report, "Two interviewees (policy makers) from Pakistan believed that the threat of travel and trade restrictions being introduced by international organizations if polio was not controlled was important in placing polio high on the national agenda"<sup>90</sup>. Similarly, according to an interviewee the National AIDS program was initiated swiftly because of the global preference given to the disease not because there was urgency in Pakistan.

In addition to influencing policy setting, donors are also seen to use their technical expertise to influence policy formulation. In developing countries and particularly in case of Pakistan donors are perceived to have greater proficiency in using data to formulate sound policies<sup>91</sup>. Secondly some of the interviewees were reported to have said that the technical reports made by the donors to inform policy are written in English using technical jargons that create a barrier for the local policy makers. Speaking about the motives behind capacity building by donors, one of the interviewees from Pakistan stated, "I think they (donors) also want to "burn" their money. They just want to spend the money. Their aim is not to make Pakistan independent. They also do not take exactly evidence based decisions"<sup>92</sup>.

Moreover, the implementation of policy was also observed to be influenced by the financial resources of the donors. Similarly, some interviewees confirmed that donors set the timelines for targets for the national health system. One of the main reasons for the frustration of the interviewees with international organizations was the lack of funding in the national health system from their own governments. The power dynamics highlighted between the donor and recipient in the study are important to note because they are played out in a subtle manner by excluding policy makers from information and formation of policy.

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<sup>89</sup> Ibid.,

<sup>90</sup> Ibid.,

<sup>91</sup> Ibid.,

<sup>92</sup> Ibid.,

In *So Much Aid, So Little Development: Stories from Pakistan*, Samia Altaf highlights how aid works and why does it have such little impact. Altaf worked on the Social Action Plan (SAP) as a technical expert which ran from 1993 to 2003 in Pakistan. It was one of the biggest social sector development programs which required a total funding equal to US \$ 8 billion (out of which US \$ 450 million were loans)<sup>93</sup>. Altaf writes that “what happened to SAP was exactly what should have happened. Failure should not be a surprise; it was an integral part of the project design”<sup>94</sup>. She further states that “her own understanding of this situation is that program designs are based on limited conceptual frameworks that reflect a woefully inadequate knowledge of local realities, and thus are inappropriate in the context of national constraints”<sup>95</sup>.

She writes about how women in the rural areas take part in ‘capacity building’ programs but that does not translate into number of workers in the health sector. Most of the women conform to societal and household pressures and stay at home – an issue which is ignored by the donors<sup>96</sup>. Some women who acquire skills through the capacity building trainings either move to other locations in search for better jobs or open their own private practice. The funny thing, as Altaf highlights, is that the donors and the recipients, both, view these programs as success. Women in rural areas get trained on health care but the positions in the health care departments never get filled. Still, the donor counts this as a success and the bureaucrats let this happen to keep the aid money pouring into their economies. Provision of health care is not improved and the cycle continues. She also highlights the ‘lack of local knowledge’ of the foreign experts and in health sector lack knowledge about the women’s social constraint in Pakistan.

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<sup>93</sup> Samia Waheed Altaf, *So Much Aid, So Little Development: Stories From Pakistan* (Baltimore: The Johns Hopkins University Press, 2011).

<sup>94</sup> Ibid, 9.

<sup>95</sup> Ibid, 3.

<sup>96</sup> Ibid.,

The following table depicting progress of MDG 4 (2014) (progress of MDGs 5 and 6, related to health, can be found in the appendix) have been extracted from progress report prepared by the National Task Force on MDGs<sup>97</sup>:

#### Status of Indicators – MDG 4

Indicators	Latest National Value	Target	Status
<b>Goal 4: Reduce Child Mortality</b>			
Under 5 Mortality Rate (Deaths per 1000 Live Births)	89	52	Off Track
Infant Mortality Rate (Deaths per 1000 Live Births)	74	40	Off Track
Proportion of Fully Immunized Children 12-23 Months	80	>90	Off Track
Proportion of under 1 year children immunized against measles	81	>90	Off Track
Proportion of Children Under 5 Who Suffered from Diarrhea in the Last 30 Days ( percent)	8	<10	Achieved
Lady Health Workers Coverage ( percent of target population)	83	100	Off Track

Pakistan did not achieve its Millennium Development Goals (MDGs) related to maternal and child care<sup>98</sup>. Improvement on other MDGs related to social development like poverty, female education and empowerment was low whereas for some indicators, like nutrition, the situation had worsened<sup>99</sup>. While there was some progress in reducing child mortality since 1990 till 2015, neonatal and maternal mortality rates have been pretty much the same<sup>100</sup>. Most of the MDGs were intertwined. Nutrition indicators worsened by 2015. Moreover, moderate anemia and micronutrient deficiencies in pregnant women, and incidence of diarrhea in children had increased by 2015. Progress on contraception, antenatal care, skilled birth and delivery, coverage of essential interventions such as ORS for diarrhea and antibiotics for pneumonia have remained stationary<sup>101</sup>. Hence it is apparent that Pakistan's progress on the MDGs related to health sector, target 4, 5, and 6, were not achieved during 2000-2015.

<sup>97</sup> National Task Force on MDGs, *National Mdns Orientation For Parliamentary Task Forces 2014*(Islamabad, 2014).

<sup>98</sup> Arjumand Rizvi et al., "Pakistan And The Millennium Development Goals For Maternal And Child Health: Progress And The Way Forward", *Paediatrics And International Child Health* 35, no. 4 (2015): 287-297.

<sup>99</sup> Ibid.,

<sup>100</sup> Ibid.,

<sup>101</sup> Ibid.,

With millions of dollars pouring in and with “so little development” happening, one wonders why it is so. Pakistan has faced numerous challenges like terrorism, natural disasters, etc. since 2000 but those challenges alone do not account for limited growth and progress in the health sector. Pakistan lacks sound policies and a coherent national health system. The example of funds transfer to combat HIV and AIDS during Musharraf’s regime shows how foreign aid serves the interests of bureaucrats and individuals who occupy high level government positions. It is shocking to learn that for an aid program that mainly targets the health sector; the Ministry of Health had been sidelined and not consulted for program negotiation or implementation. This example alone portrays the asymmetries present in the state institutions that become a barrier in successful implementation of aid programs. Development mainly depends on institutions – political, social and economic. Corruption and governance problems in the key institutions of Pakistan undermine success of the aid programs.

Moreover, failure of these programs can be attributed to the conditions imposed by and workings of the international donors to a large extent. The austerity measures of international financial institutes, as conditionality to aid, undermine the success of aid programs in the health sector. Conditions have a direct negative impact on budget for public health facilities, labor force in the health sector and ultimately the provision of quality services. Similarly, the process of obtaining funds have increasingly become complex. The process has become more bureaucratic at the donor’s end which stimulates bureaucracy and corruption in the recipient countries. The unfortunate truth is that these bureaucracies at both ends do not care for the impact of these aid programs. The donors want to spend their money and the governments simply want to maintain that inflow of cash. With low levels of positive incentives and motives for actual development the projects rarely translate into provision of good health care services.

The most important point note from the above literature analysis is the influence that the donors have over domestic policy making of recipient countries. Through financial resources and technical expertise the donors influence health policy making at every level – setting the agenda and priorities, policy formation, implementation and finally monitoring

and evaluations. Through different examples it has been shown that some issues were made a priority in the policy agenda to please the donor institutions so that Pakistan's international standing is not compromised. It is imperative to mention that with such international interventions in a country's domestic policy formation, sovereignty is compromised. Sovereignty is one of the key pillars of a country's statehood. In the post-World War II scenario influence and power is exercised by powerful states through foreign aid rather than using military might.

### Chapter 3: A shift towards Chinese Aid?

#### *Decline in assistance from the West and rise in assistance from the Rest – is this the way forward?*

*Disclaimer: Chinese aid to Pakistan (China-Pakistan Economic Corridor, CPEC) is a vast topic that is multifaceted. There are various projects under its ambit which have innumerable implications. However, I strictly look at it through the lens of my thesis topic – aid and governance. Moreover, this section considers loans, grants and FDI as foreign aid. In addition, lack of data availability for Chinese aid was a limitation for this section.*

As shown in the preceding sections, United States has been Pakistan's largest aid donor in the past. However, this trend is now changing due to changing political and strategic agenda of US. Figure 13 in the appendix shows the trend of US financial assistance obligations, 2001 onwards<sup>102</sup>. 2010 shows the highest amount (almost US \$ 3 billion) since 1962 – this was primarily because of the Kerry Lugar Bill (as mentioned above). Since 2010 a significant decline in the amount of aid obligation from US can be observed. The amount for 2018 is \$ 362 million and this is further set to decline to \$ 125 million this year (2019). Decline in foreign aid by US is not just observed in Pakistan but many developing countries will face the cuts in developing aid coming from US. This is part of President Trump's vow to put "America first". A spokesperson of USAID said that the Government intends to make the best use of US taxpayer's money by prioritizing America's interest<sup>103</sup>. Moreover, about 41 countries are facing cuts in health funding as well<sup>104</sup>. The State department's budget indicates that funding for health programs in other countries will decline by 25 percent<sup>105</sup>. Tom Kenyon, CEO of Project Hope (a global health nonprofit) is reported to have said, 'there's just no question people would die from this'<sup>106</sup>. This would also put America at risk in case of a major epidemic.

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<sup>102</sup> "Foreign Aid Explorer: Trends", *Explorer.Usaid.Gov*, 2019, <https://explorer.usaid.gov/aid-trends.html>.

<sup>103</sup> Bryant Harris, Robbie Gramer and Emily Tamkin, "The End Of Foreign Aid As We Know It", *Foreign Policy*, 2017, <https://foreignpolicy.com/2017/04/24/u-s-agency-for-international-development-foreign-aid-state-department-trump-slash-foreign-funding/>.

<sup>104</sup> *Ibid.*,

<sup>105</sup> *Ibid.*,

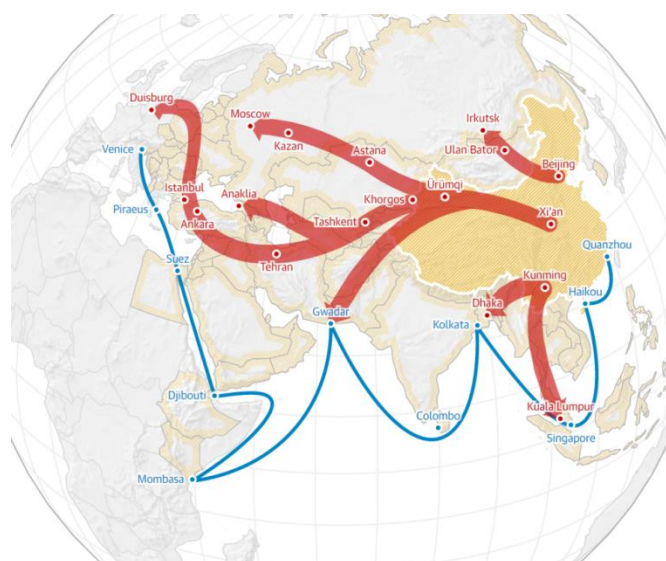
<sup>106</sup> *Ibid.*,



The situation presented above makes policy makers wonder whether due diligence was done while planning these cuts in development programs across the world. Development aid to developing countries was one of America's major foreign policy. However, this was not the only change that happened over the past few years. Another changing and emerging trend is the rise of China. In Africa, China invested nearly \$ 90 billion last year (2018), and United States does not even get close to that<sup>107</sup>. China is assisting developing countries with the model of economic partnerships under the auspices of its Belt and Road Initiative (BRI). Henceforth, this section observes a shift in foreign aid arena in Pakistan where aid from China seems to rise and take the center stage in development discourse today.

### ***What is the BRI and CPEC?***

Kuo and Kommenda write that BRI is described as the 21<sup>st</sup> century Silk Road, made up of a "Belt" of overland corridors and a maritime "road" of shipping lanes<sup>108</sup>. Below is a representation of the BRI routes prepared by them<sup>109</sup>:



**Image 1: The planned Belt and Road Initiative routes**

<sup>107</sup> Adrian Monck, "The Choice Facing A Declining United States", *The Atlantic*, 2018, <https://www.theatlantic.com/ideas/archive/2018/08/americas-global-influence-is-declining/568708/>.

<sup>108</sup> Lily Kuo and Niko Kommenda, "What Is China's Belt And Road Initiative?", *The Guardian*, 2018, <https://www.theguardian.com/cities/ng-interactive/2018/jul/30/what-china-belt-road-initiative-silk-road-explainer>.

<sup>109</sup> Ibid.,

The Belt and Road Initiative is mainly China's overly ambitious development project that expands over 71 countries in Asia, Africa and Europe and is worth \$ 1 trillion<sup>110</sup>. The countries that are part of the tentative BRI plan account for a quarter of world's GDP and half the population<sup>111</sup>. The project was announced in 2013 by President Xi Jinping and aims to enhance cooperation among the countries of the three continents in policy, facilities, unimpeded trade, financial integration and people-to-people bonds. BRI is sometimes also termed the 'Chinese Marshall Plan' – a state-backed campaign for global dominance<sup>112</sup>. The tools of financing used under BRI range from interest free loans and grants to concessional loans to Foreign Direct Investment (FDI). Critics of the initiative worry that China would use "debt-trap diplomacy" to advance its strategic goals in recipient countries. This will not be the first time a country uses this tactic for its agenda. Majority of the projects under this initiative are financed by Chinese state-owned banks and the China Development Bank<sup>113</sup>. In addition, Asian Infrastructure Investment Bank and Silk Road Fund are also new financing partners.

Broadly speaking, BRI entails six economic corridors and one of them (relevant for this thesis) is the China-Pakistan Economic Corridor (CPEC). Pakistan has been struggling with energy crisis, low levels of foreign investment due to challenging security issues and weak infrastructure<sup>114</sup>. CPEC is a \$ 62 billion initiative that includes projects in the energy sector, infrastructure development which entails construction of a port in Gwadar, highways, railways, mass transit systems, Special Economic Zones (SEZs), and certain other projects. Basically CPEC is an elaborate foreign assistance program that aims to uplift Pakistan's

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<sup>110</sup> Ibid.,

<sup>111</sup> Ibid.,

<sup>112</sup> Ibid.,

<sup>113</sup> Muhammad Khudadad Chattha, *China-Pakistan Economic Corridor (CPEC): Where Is The Money Going?*, Corridors, Culture & Connectivity (Islamabad: Pakistan-China Institute and Konrad Adenauer Stiftung, 2018).

<sup>114</sup> Barbara Kelemen, *CHINA'S TWOFOLD CPEC STRATEGY IN PAKISTAN: Present Security Challenges And Future Prospects*, Spreading Knowledge About Asia (Bratislava: Institute of Asian Studies, 2017).

economy, eradicate poverty and boost development. The financing tools used by China are<sup>115</sup>:

- Investment
- Concessional loans
- Interest-free loans
- Grants

Out of \$ 62 billion, projects worth \$ 19 billion are under construction or are completed. For these projects the share of investment has been 70 percent, and 28 percent and 2 percent of the finances came from concessional loans and interest-free loans and grants, respectively. CPEC, like most projects under BRI, is largely criticized for increasing external debt of Pakistan. Chatta writes that Pakistan's external financing needs will rise in tandem with the external debt overtime and will stabilize at around 9.5 percent of the GDP in 2020<sup>116</sup>. As forecasted by IMF the external financing need will reach a maximum value of 9.9 percent of the GDP in 2023<sup>117</sup>. The gap between external debt and financial need was the highest in 2017, in recent years, and 10 percent of debt services can be attributed to China; Chinese funding is not the only source of rising external debt<sup>118</sup>.

### ***Economic condition in Pakistan***

Pakistan's economic condition is deteriorating as it faces the largest twin deficit, worsening foreign currency reserves, low exports, weak currency, low tax revenues, heavy external debt payments, and rising sovereign debt<sup>119</sup>. With rising political tensions between Pakistan and the United States, Pakistan has been increasing its diplomatic ties with other countries like China, Saudi Arabia, Dubai, and so on. Saudi Arabia has pledged investment deal

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<sup>115</sup> Muhammad Khudadad Chatta.

<sup>116</sup> Ibid.,

<sup>117</sup> Ibid.,

<sup>118</sup> Ibid.,

<sup>119</sup> "Pakistan Requests 13Th IMF Loan, Amid US-China Tensions", *Bretton Woods Project*, 2019, <https://www.brettonwoodsproject.org/2019/04/pakistan-requests-13th-imf-loan-amid-us-china-proxy-battle/>.

worth \$ 20 billion to support the fragile economy<sup>120</sup>. After months of back and forth negotiations with IMF, Pakistan finally secured a \$ 6 billion bailout loan which is the 13<sup>th</sup> time in the past three decades<sup>121</sup>. Large numbers of people were against getting financial aid from IMF due to the reasons elaborated in the preceding sections. Some of the previous adjustment programs and austerity measures were found to increase unemployment rates, inequality and poverty<sup>122</sup>. International civil society organization Islamic Relief and Jubilee Debt Campaign UK wrote in a report that Pakistan's 'sustained lack of debt sustainability' can be attributed to the economic conditions imposed by IMF that make it even harder to build a sustainable future<sup>123</sup>.

The report went on to say, "The IMF lends money so debt payments can be made. It bails out the original lenders at the cost of the future generations which inherit the debt. Pakistan's history is just one of many examples of how this strategy is failing the world's poorest communities"<sup>124</sup>. Hence, under such circumstances - derailing economy, rising unemployment, worsening of twin deficit, and rising external debt – is CPEC a ray of hope or will it further worsen the situation?

### ***Chinese aid compared to aid from the West***

I use SWOT analysis to analyze whether CPEC would ultimately benefit Pakistan or not. SWOT analysis mainly lists the Strengths, Weaknesses, Opportunities and Threats of the project under scrutiny and analyses them one by one to give a holistic picture to make an informed decision. The SWOT has been adapted from the report 'Economic Benefits of Modern Silk Road' jointly published by the Pakistan-China Institute (PCI) and ACCA, Pakistan<sup>125</sup>. It is pertinent to note that following are the views and estimates of the general

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<sup>120</sup> "Saudi Prince Signs \$20Bn In Pakistan Deals", *BBC News*, 2019, <https://www.bbc.com/news/business-47274672>.

<sup>121</sup> "Pakistan Requests 13Th IMF Loan, Amid US-China Tensions".

<sup>122</sup> *Ibid.*,

<sup>123</sup> *Ibid.*

<sup>124</sup> *Ibid.*,

<sup>125</sup> Malik Mirza, *Economic Benefits Of The Modern Silk Road: CPEC* (Islamabad: ACCA & PCI, 2017).

public (collected via workshops). CPEC is still in the implementation stage and its effectiveness will become apparent after the projects are completed.

<b>SWOT</b>	
<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Favorable demographics – 29 percent population is between age 15-29</li> <li>• Abundance of natural resources</li> <li>• Increase in investment opportunities</li> <li>• Favorable strategic location</li> <li>• Increase in Tourism activity, giving a boost to the tourism sector</li> <li>• Port at Gwadar</li> </ul>	<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Increase in employment opportunities</li> <li>• Increase in Foreign Direct Investment</li> <li>• Infrastructure Development – leading to an increase in exports</li> <li>• Access to wider market – China, Central Asia and Middle East</li> <li>• Local industries will flourish</li> <li>• Rise in public-private partnerships</li> <li>• Rise in innovation and technology development</li> <li>• Enhanced global image</li> </ul>
<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Lack of education and skills in the labor force</li> <li>• Weak governance and institutes</li> <li>• Lack of Rule of Law</li> <li>• Demented bureaucracy</li> <li>• High corruption and low accountability</li> <li>• High Military influence/interference in governance</li> <li>• Lack of trust of general public in Chinese investment (in any form of aid due to past experiences)</li> <li>• Weak bargaining power of Pakistan’s government</li> <li>• Soaring debts</li> <li>• Increasing dependency on foreign aid</li> <li>• Lack of long-term policies</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Rise in Carbon Emissions and environment degradation because of various activities under CPEC – especially coal power plants</li> <li>• Increase in competition for local companies</li> <li>• Cheaper imports from China may lead to further rise in trade deficit</li> <li>• Rise in external debt</li> <li>• Dominance and influence of China</li> <li>• Cultural imperialism</li> <li>• Damaging relations with other countries</li> <li>• Increase in authoritarianism</li> </ul>

## *Analysis*

The SWOT table above lists all the major strengths, weaknesses, opportunities and threats that Chinese aid (CPEC) would have for Pakistan. It is imperative for me to emphasize again that CPEC is a multifaceted project and entails many more strengths, weaknesses, opportunities and threats but they are out of scope of this thesis. In my analysis I will only discuss the ones that are relevant to this thesis topic and not the ones that are out of scope of this thesis.

Unlike Western aid, Chinese aid is not just loans and grants but major part of the composition of it entails investment. Increase in FDI boosts investors' confidence. Ever since the launch of this initiative many other countries have shown interest in investing in Pakistan. Pakistan presents the most favorable demography and location. According to UNDP's National Human Development Report (NHDR) 2018, 64 percent of total population of Pakistan is below age 30, and 29 percent is between 15-29 years old<sup>126</sup>. The availability of a large of labor force is the biggest strength of Pakistan. Favorable demographics can translate into high levels of development (as in the case of ASEAN countries). The strategic location of Pakistan, in my opinion, is also one of its major strengths. Gwadar, a city located in the south of Balochistan (the South-Western province of Pakistan), borders the Arabian Sea. Construction and operation of port at Gwadar is also a part of CPEC. The port would be one of the biggest transit cargo facilities in the world<sup>127</sup> and would increase Pakistan's exports as well as generate numerous jobs. Having being fortunate to have Gwadar in its territory, Pakistan can leverage this as the project is of immense importance to China. It would provide China alternate economic route that would reduce its dependence on Strait of Malacca<sup>128</sup>. It would also give them a potential benefit in

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<sup>126</sup> "Pakistan Currently Has Largest Youth Population Of Its History: UNDP Report", *TheNews.Com.Pk*, 2018, <https://www.thenews.com.pk/print/311910-pakistan-currently-has-largest-youth-population-of-its-history-undp-report>.

<sup>127</sup> Barbara Kelemen.

<sup>128</sup> *Ibid.*,

the South China Sea, where China has been trying to increase its dominance for the past few years<sup>129</sup>. Hence, CPEC is (almost) as important to China as it is to Pakistan.

Shedding light on the opportunities presented by CPEC, employment opportunities will rise with the implementation of various projects, especially during the construction phase when there will be high demand for unskilled labor. Rise in FDI and improvement in physical infrastructure will provide numerous opportunities for the local industry to flourish and to increase exports. Generally when companies invest in a foreign country they tend to establish Corporate Social Responsibility (CSR) programs that focus on local development in the area their office is located in. In addition, improvements in economic routes would provide access to a wider market. Most importantly, CPEC provides an opportunity for Pakistan to improve its economic and governance structure to attract more foreign investors. Consequently, it would lead to an improved image of the country in the world.

The first weakness, lack of education, is highly imperative but is out of scope for this thesis. Moving on, as discussed in preceding sections Pakistan lacks strong governance structures, institutions, and rule of law. Without these three it is simply impossible to reap benefits of CPEC. There is extreme lack of transparency when it comes to CPEC projects. As I researched for this thesis, there was a major lack of information on CPEC, the terms of agreement between the governments and details of projects. In fact, this is the case of all Chinese projects around the world. General public is not aware of the terms of agreement of this huge initiative which exposes it to a lot of criticism and skepticism. This is also one of the reasons that the public does not trust the foreign aid coming from China. There's lack of trust in foreign aid generally because none of the aid initiatives have actually induced development in the country. Moreover, due to colonial past, a lot of people worry that this is China's way of colonizing Pakistan. Additionally, there is a lack of long-term policies. Every government is elected for a term of five years and which limits their incentive to implement long-term sound policies. Interference of the military in politics and decision-making of the government is a major weakness of Pakistan's governance structure. There is a high risk that Pakistan would become more dependent on foreign aid which has been the

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<sup>129</sup> Ibid.,

case in the past. Due to all the aforementioned weaknesses and poor economic conditions the country has low bargaining power. This, as discussed above as well, creates a situation where donor is in a position to influence domestic policies to advance its own strategic and political motives.

Many suspect that rise in Chinese aid in countries will lead to rise in their military presence and will encourage authoritarianism in those countries. As explained in chapter 1 foreign aid promotes the types of regime that the donor has in the recipient country. Rise in authoritarianism is a major threat to Pakistan's civil rights and freedom. Moreover, with the initiation of CPEC there has been a significant increase in the number of institutes teaching Mandarin to professionals as well as students. Many fear that it may lead to cultural imperialism. Moreover, Pakistan's ties with China have angered a lot of nations especially United States. Putting diplomatic ties with other nations in jeopardy is a major threat of Chinese aid in Pakistan. Additionally and most importantly, concessional loans are one of the main tools of financing CPEC and they pose a key threat to Pakistan's economy. Owing high levels of debt to China will give Pakistan lower bargaining power and will put it on the risk of compromising its sovereignty. China is reported to be setting up an international court to resolve issues related to BRI. Jonathan Hillman writes that BRI is not just a project of hard infrastructure but also a vehicle for China to write new rules, establish institutions that reflect Chinese interests, and reshape 'soft' infrastructure<sup>130</sup>.

### ***Discussion***

Taking everything into account, Pakistan cannot rely on foreign aid forever. For a country with lack of good governance institutions, grants only create the problem of moral hazard. Given the grave situation Pakistan is in loans cannot be completely dismissed at this point. Hence, concessional loans and FDI is the way to go about it. Unlike donors from the West, China is not just giving aid in form of grants and loans but is also bringing in FDI. Pakistan sure has immense issues pertaining to high levels of debt but with the right policies it can be sustained. BRI is a fairly new phenomenon; lack of transparency in all Chinese projects

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<sup>130</sup> Lily Kuo and Niko Kommenda.



across the world raise skepticism. Taking all the threats and weaknesses into consideration, CPEC does promise a bright future. It would not only improve the physical infrastructure of the country but also improve the energy crisis and create employment opportunities. Establishment of Special Economic Zones (SEZs) would boost economic activity and give impetus to the export sector. For Pakistan it is pertinent to work to improve its governance structure and think of long-term policies. It is imperative to remember that CPEC is not just beneficial for Pakistan but also for China. CPEC is pivotal in China's BRI and Pakistan needs to leverage that.

Furthermore, the difference between Western FDI and Chinese FDI is that the former invest in countries with better property rights and Rule of Law<sup>131</sup>. Chinese FDI is tied up in State-State to deals hence; they are indifferent towards property rights or the governance in the country; only political stability matters to them<sup>132</sup>. Chinese FDI in developing countries confirms the preceding statement. Pakistan lacks both property rights as well as Rule of Law and FDI from China is not contingent upon that. If this were to be a condition for China to invest in Pakistan, it would've incentivized the government to improve its governance structure. Lastly, it has been stated multiple times in this thesis that the type of political regime in the donor country is accentuated in the recipient country and thriving China-Pakistan relation could be detrimental to Pakistan's transition to democracy.

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<sup>131</sup> Wenjie Chen, David Dollar and Heiwai Tang, "How Similar Is Chinese Investment In Africa To The West'S?", *Brookings*, 2019, <https://www.brookings.edu/blog/order-from-chaos/2015/08/18/how-similar-is-chinese-investment-in-africa-to-the-wests/>.

<sup>132</sup> *Ibid.*,

## **Conclusion and Policy Recommendations**

The thesis makes it quite evident that foreign aid is not a simple topic. Just because aid contributes directly to revenue stream of the government does not mean that it should be accepted. There are multiple things to be considered when accepting or rejecting foreign aid. As Dambisa Moyo points out, countries that rejected the aid path prospered while most of countries that chose the aid path for development did not have the desired growth. Simply put, the thesis concludes that foreign aid did not induce development in Pakistan. The major macroeconomic indicators seem to have improved over the years but there has not been a significant decline in poverty for almost 75 percent of the population, indicating unequal growth. The research also concludes that foreign aid did not improve governance structure in Pakistan. According to Freedom House data Pakistan is still as partially free country and has high levels of corruption. There are low levels of accountability and Rule of Law. In fact, bilateral aid from United States has been bolstering military regimes in the country. Moreover, this research finds that in case of multilateral aid, donors have high level of influence on the policy formation process of the recipient country, compromising their sovereignty. The study presents the case of Pakistan's health sector and finds that aid donors do influence policy formation in the health sector. Additionally, aid cripples the national health system and does not translate into higher provision of health services (evidence – poor performance on the three MDGs related to health).

The failure of aid programs can be attributed to the workings of the donors and the governance structure and policy making environment in the recipient country. Incentives and motives of the donors are of immense importance. Generally the donors are driven by their geostrategic and political agendas that compromise the purpose of aid. Local knowledge of the recipient country is also crucial for the success of aid program. The donors should take into account recommendations of locals for the successful implementation of the program. The aid programs should be more focused on enabling the locals to decide for themselves. Moreover, the conditions attached with aid should be institutional improvement rather than structural adjustment. Conditionality is another reason why aid programs have failed in Pakistan. Conditionality is imposed to improve fiscal conditions of the country but the irony is that Pakistan's fiscal circumstances are

worse than ever. With increased levels of debt there are limited funds available for development projects. As the case of Marshall Plan demonstrates, timeline attached with aid is critical for its effectiveness. Timeline makes the recipient wonder about ‘life after aid’ and motivates the recipient not to depend entirely on aid.

Good governance, stable government institutes, low levels of corruption, and rule of law in the recipient country are crucial for the effectiveness of aid programs. Some studies have also shown that aid is effective in a democratic regime rather than in an autocracy. Pakistan since its independence has been a victim of political turmoil and does not have transparent governance institutes, educated labor force and rule of law. Furthermore, high levels of corruption and low development budget also create hindrance in the successful implementation of aid programs. Policies are mostly influenced by irrelevant ‘state actors’ and external agents.

Most importantly failure of aid programs is due to what aid really represents – grants and loans. Grants contribute to the revenue stream of government; hence create moral hazard in the recipient government. Countries tend to get heavily dependent on aid and if the flow of funds stops the economy collapses. Loans also have their own drawbacks. John Hopkins’ book offers a startling reminder that debt is the new form of prison. Entire countries are handicapped by their debt to the donors. He stresses to avoid debt at all costs if a country wishes to remain free.

There has been a shift in the recent past to donors with authoritarian regimes, like China, Saudi Arabia and Dubai. This shift will have implications on governance in the years to come. The SWOT analysis for Chinese aid (CPEC) in Pakistan shows that aid in form of FDI is better than loans or grants. FDI in infrastructure development projects mobilizes local resources, increases employment opportunities, promotes public private partnerships and grows local markets. However, CPEC has loans and grants component as well which should be watched out (especially the debt component). Moreover, as I research for this thesis, there was limited information available on CPEC. Lack of transparency in the project is raising public’s skepticism about the project.

Pakistan, currently, is facing numerous challenges ranging from twin deficit crisis to governance challenges to under-development. With high interest of Chinese to invest in the country, Pakistan needs to leverage its strengths and come up with comprehensive policies that would help reap max benefits from foreign aid. Some policy recommendations are listed below:

- Pakistan must start to limit its reliance on aid programs. Through appropriate policy measures it must reduce its dependence on aid every year. And when aid programs are being implemented it is vital for the government to enable the locals to decide development agenda for themselves. Many donors think that they know what the country needs – which is simply incorrect. Complete transparency from the donors should be demanded. Terms of agreement must be made public to boost investor and public’s confidence in government. The procedure should be made transparent and less bureaucratic in nature.
- Policy makers who do not deliver must be held accountable.
- Government must avoid loans and bailouts at any cost and should implement effective growth oriented policies – export oriented sector should be boosted, diversify streams of revenue generation (industry/sectors that are less prone to shocks should be explored and grown), and progressive tax policies should be introduced. Tax base should be increased and collection of taxes should be made more transparent to increase funds to the central bank.
- Policy making should be ‘rule-based’. Investors and public should be informed beforehand to avoid any shocks in the economy.
- With increase in Chinese investment public-private partnerships should be encouraged.
- The national budget should include development budget. Development projects must be prioritized according to local needs
- Nepotism must be ended. Competent people should be hired.
- Lower barriers to investment – initially to attract investment taxes should be lowered and laws and procedures should be simplified to encourage investors.

- Pakistan has abundance of labor force – access to education and skills training should be provided
- Strict laws against corruption should be in place. (I am unable to give recommendations to establish rule of law as I find the term extremely complex and is established gradually overtime.)

As Dambisa Moyo states, unlike what the West thinks democracy is not a prerequisite for economic development; when economic development takes place democracy and good governance will follow. I conclude the thesis with a quote from the former president of United States, Barack Obama who said, *“Foreign assistance is not an end in itself. The purpose of aid must be to create conditions where it is no longer needed.”*

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## Appendix

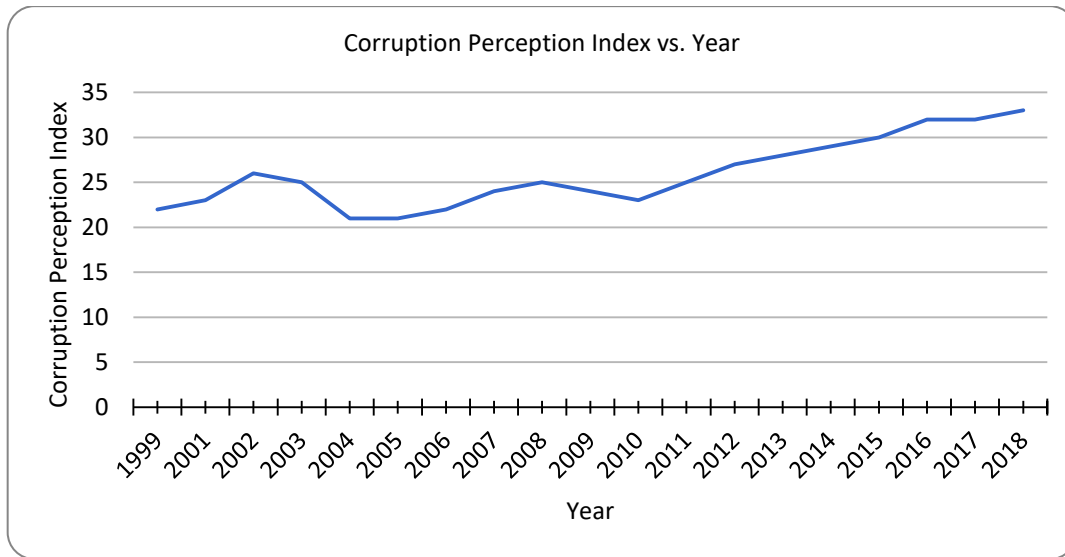


Figure 10 Corruption Perception Index for Pakistan | Data Source: Transparency International

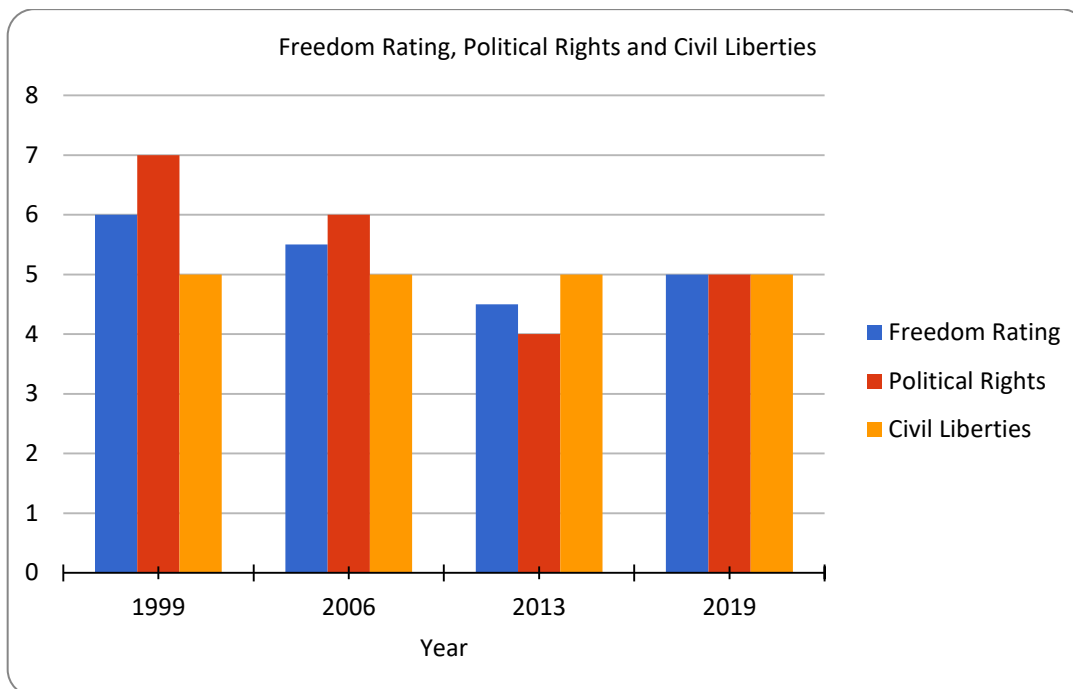


Figure 11 Data Source: Freedom House Data

### Status of Indicators – MDG 5

Indicators	Latest National Value	Target	Status
<b>Goal 5: Improve Maternal Health</b>			
Maternal Mortality Ratio	276	140	On Track
Proportion of births attended by Skilled Birth Attendants	52.1	>90	Off Track
Contraceptive Prevalence Rate	35.4	55	Off Track
Total Fertility Rate	3.8	2.1	Off Track
Proportion of women 15-49 who had given birth during last 3 years and made at least one antenatal consultation	68	100	Off Track

### Status of Indicators – MDG 6

Indicators	Latest National Value	Target	Status
<b>Goal 6: Combat HIV/AIDS, Malaria and Other Diseases</b>			
HIV prevalence among 15-49 year old pregnant women	0.041	Baseline reduced by 50%	On Track
HIV prevalence among vulnerable groups	IDU = 37.4 FSW = 0.8 MSW = 3.1 HSW = 7.3	Baseline reduced by 50%	Off Track
Proportion of population in malaria risk areas using effective prevention and treatment measures	40	75	Off Track
Incidence of TB/10,000	230	45	Off Track
TB cases detected and cured under DOTS	91	85	Achieved

Figure 12 Health related MDGs progress by the year 2014

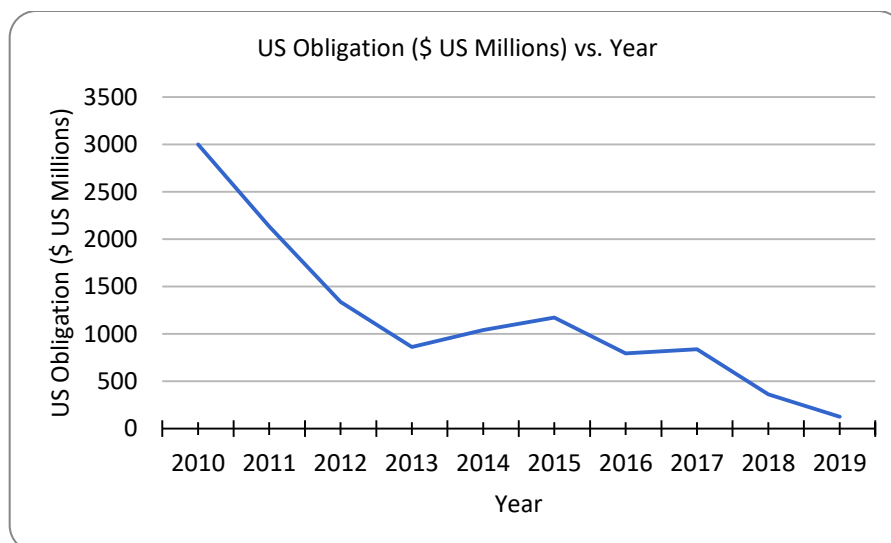


Figure 13 United States obligations to Pakistan from 2010 onwards