

Nexus Between Aid & Security: The Case of Pakistan

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Outline

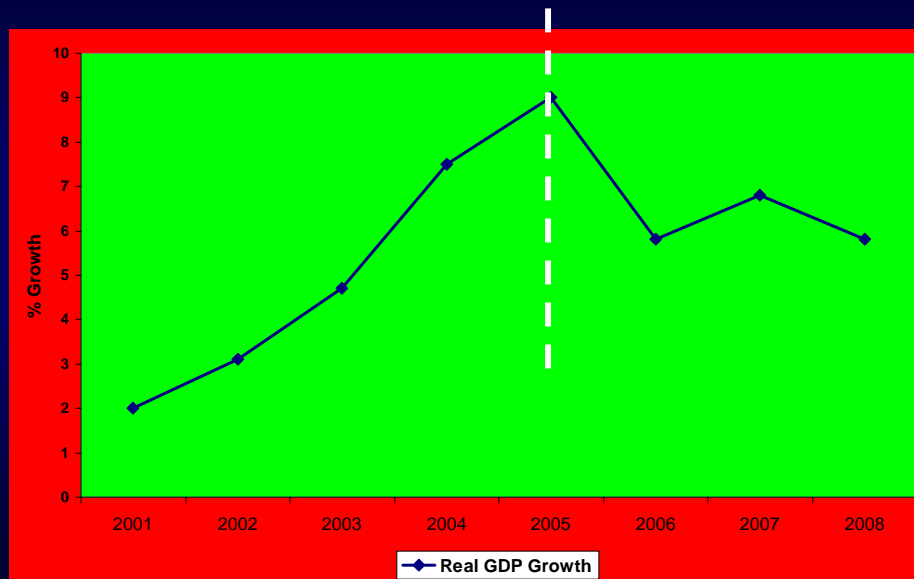
- **Linking Macroeconomy with Aid**
- **Macro – Micro Impact of Foreign Resources**
- **Role of Aid in Pakistan Economy**
- **Foreign Assistance and Regional Security**
- **Aid Effectiveness in Pakistan**
- **Priorities for Aid Policy Reform in Pakistan**

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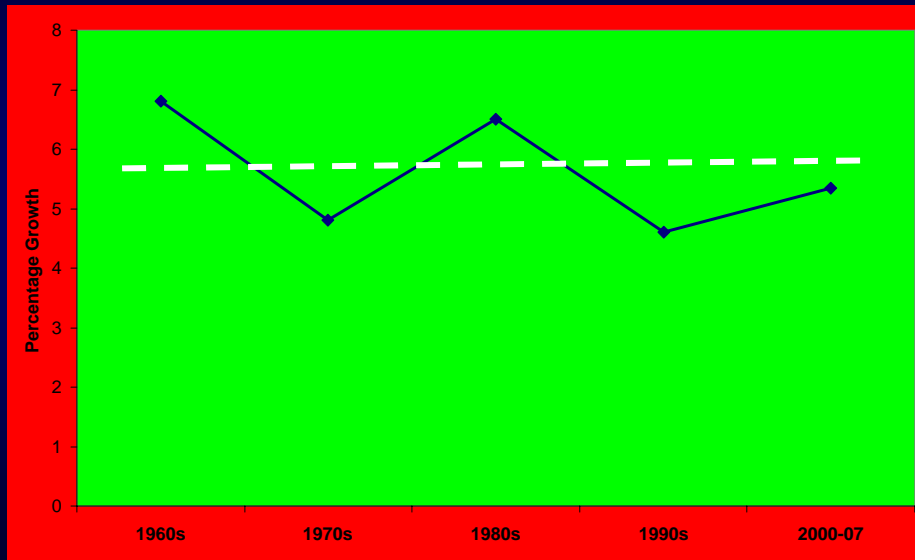
Linking Macroeconomy with Aid

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Economic Growth 2001-08



Economic Growth 1960 - 2007



Trends 2005 – 2010 (\$ Billion)

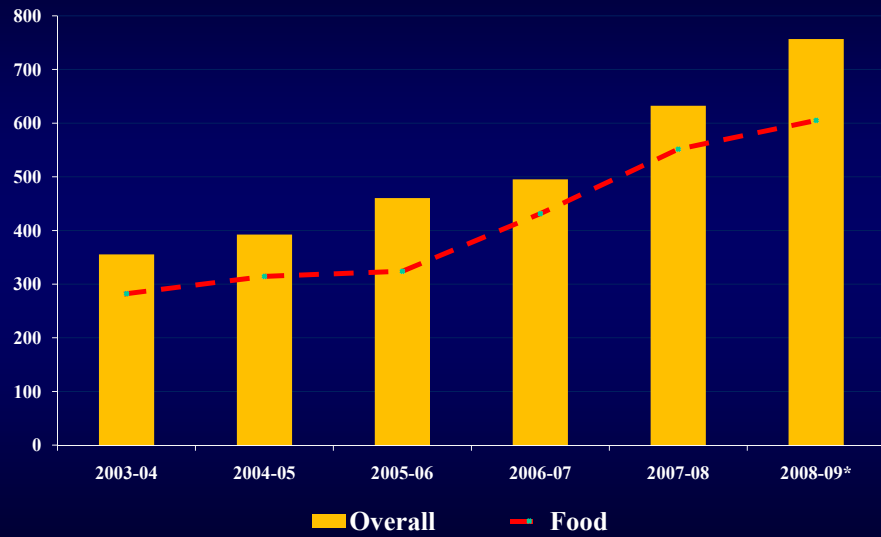
Indicators	2005	2007	2008	2009	2010	% Δ 2007-2009
GDP Growth	9.0	6.8	3.7	1.2	4.1	
Export	14.5	17.3	20.4	19.1	19.6	10.4
Import	19	27	35.4	31.7	30.5	17.4
Remittances	4.2	5.5	6.5	6.4	8.9	16.4
Private Capital Inflow	1.2	7.1	6.2	3.1	2.9	-56.3
Official Capital Inflow	1.3	2.2	1.8	1.0		-54.5
Official Assistance	0.47	1.79	1.17	0.04		-97.8
Foreign Direct Investment	1.5	5.1	5.4	3.7	2.3	-27.5
Inflation (CPI %)	9.3	7.8	12	22.4	10.1	
Pro-poor Expenditure	5.3	7.0		3.8		-45.7
Poverty headcount (%)	23.9			35		

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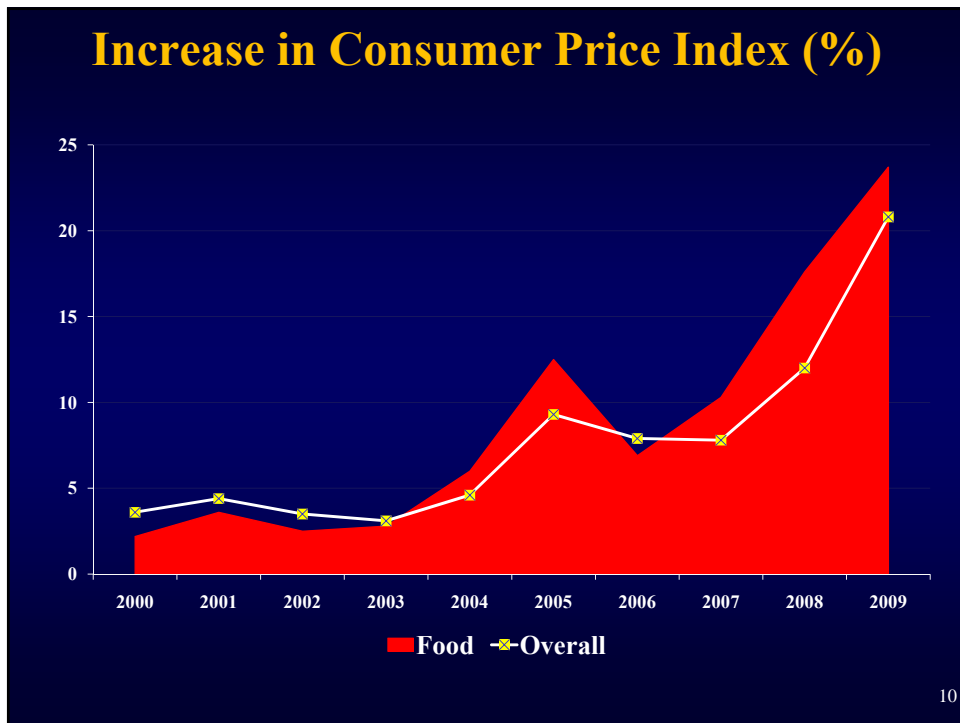
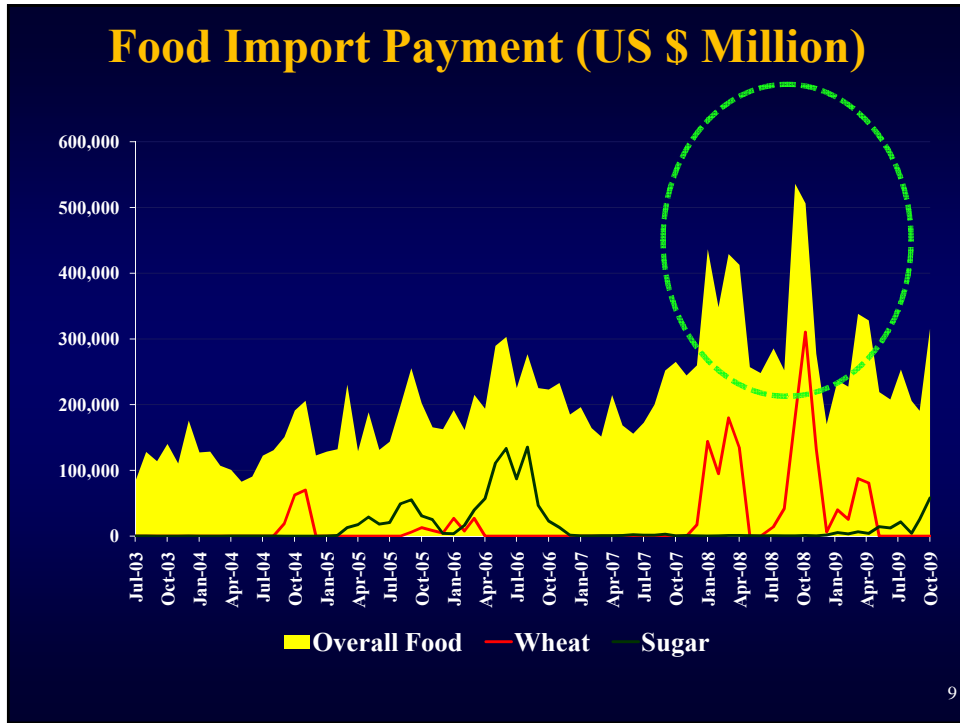
All change is not due to Financial Crisis!

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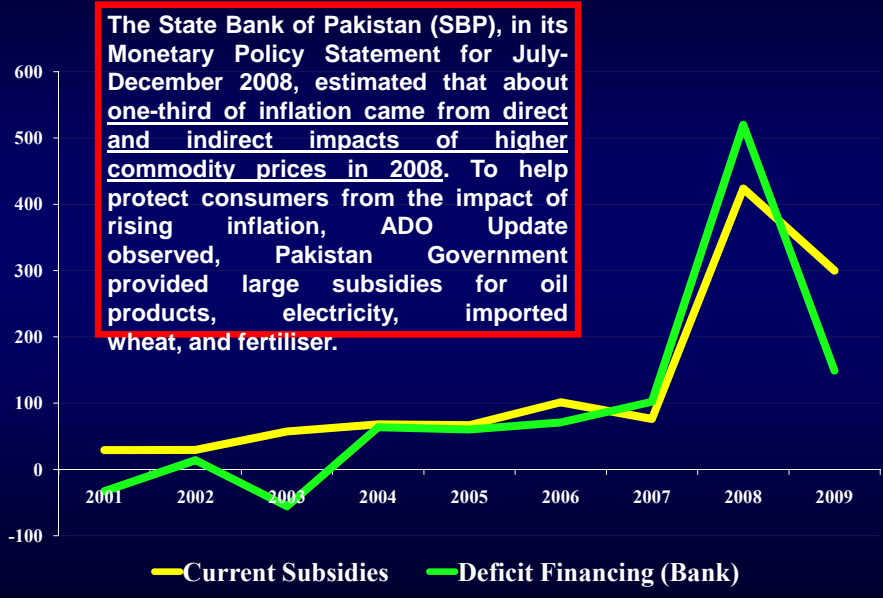
Unit Values of Imports - Pakistan (1990-91=100)



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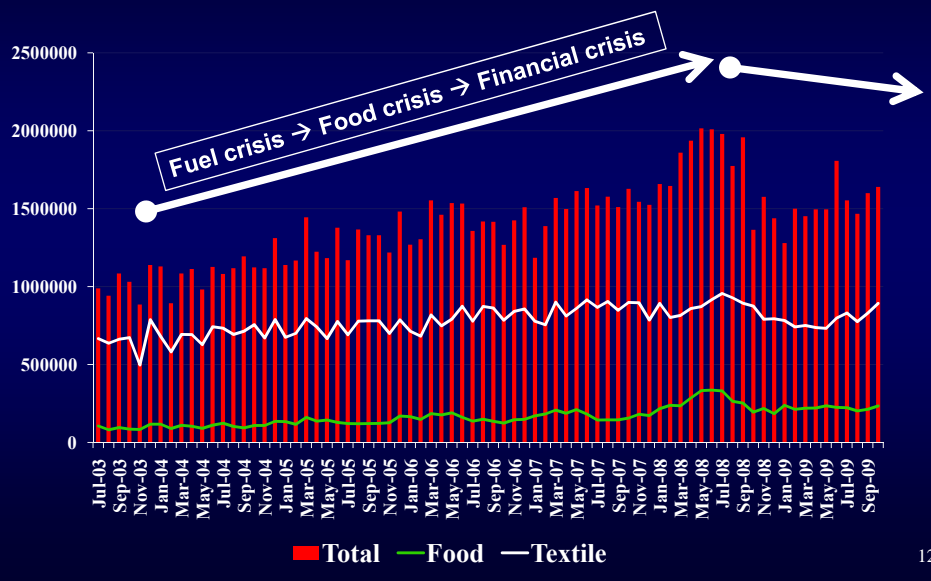


Subsidies and Bank Financing of Deficit (Rs billion)

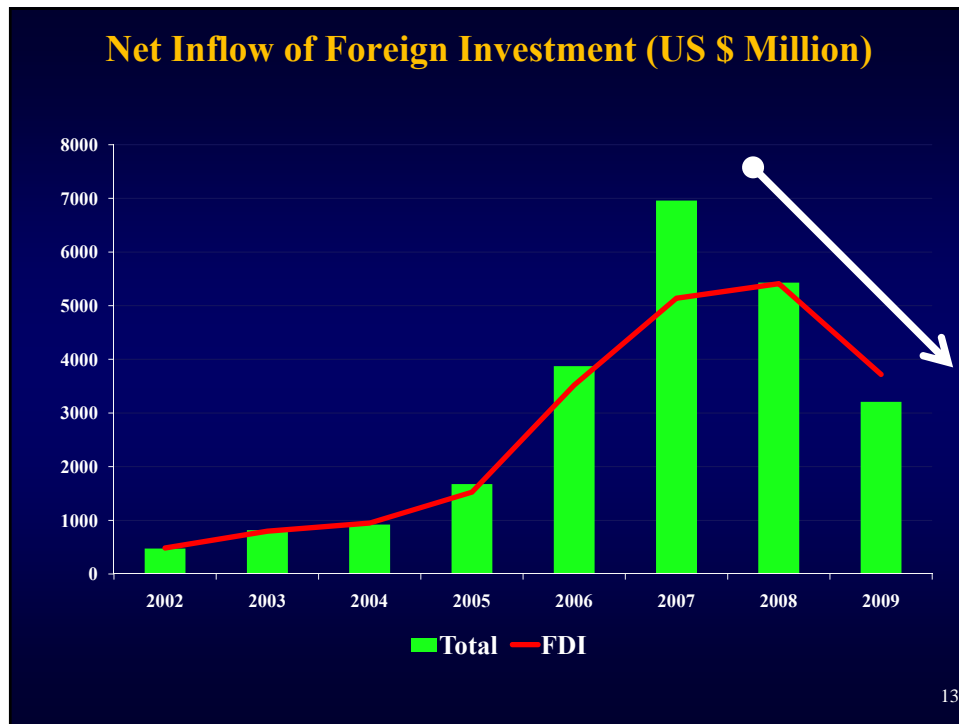


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Export Receipts (US \$ Million)



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IMF Standby Arrangement

- Programme initiated on November 24, 2008
- Programme facility: \$7.6 billion
- Interest rate of 3.5 to 4.5 percent
- Average tenor of facility is 3.5 – 5 years

Major IMF Conditionalities

- **Reduce Fiscal Deficit to 4.2% of GDP by June, 2009**
- **Tax Revenue to increase by 13.5% of GDP during programme period**
- **Elimination of subsidies (oil & electricity)**
- **Limit SBP financing of budget deficit**

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Macro – Micro Impact of Foreign Resources

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Results from CGE Model

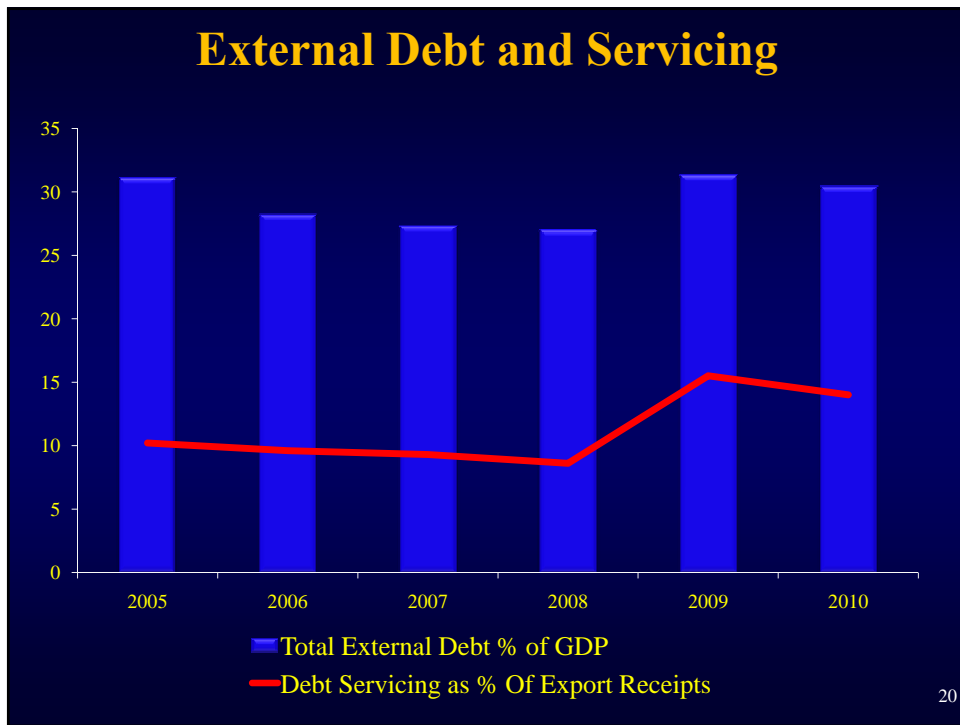
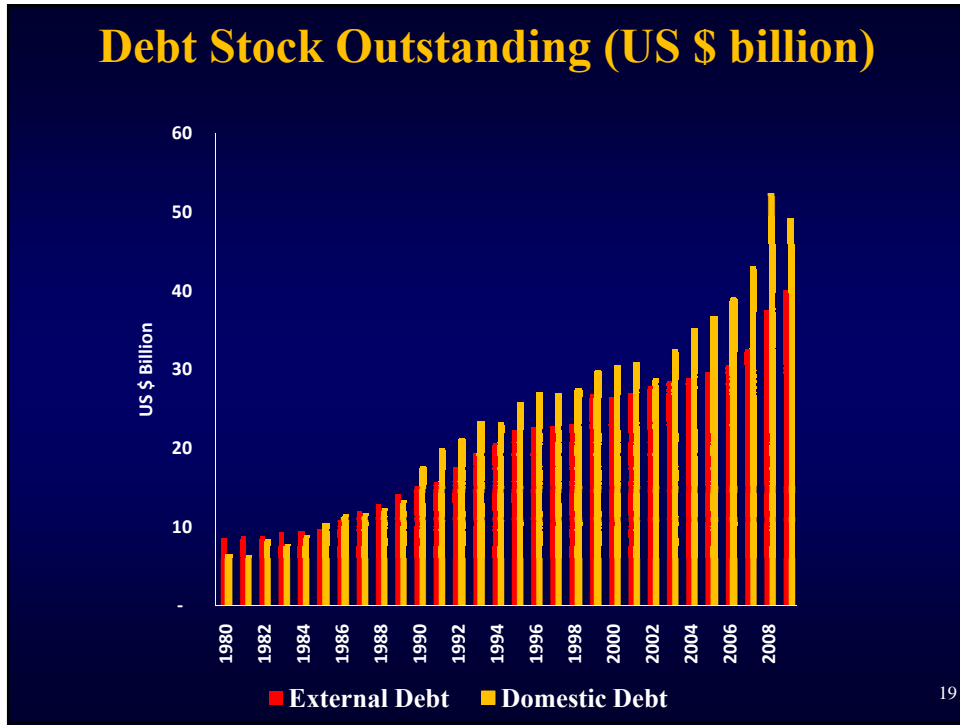
- **A 50 percent increase in foreign savings:**
 - Increase in real private consumption by 2.8 percent
 - Given the greater amount of foreign exchange available, imports increase by 3.7 percent.
 - However exports decline by 6.5 percent.
 - Poorest farmers gain more in income terms
 - Household welfare increases for all segments [highest for rural workers]

Welfare Gain Vs. Dutch Disease

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Role of Aid in Pakistan Economy

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Revenue Mobilization

Year	Tax to GDP Ratio
2003	11.4
2004	10.8
2005	10.1
2006	10.5
2007	10.3
2008	10.3
2009	9.5

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Plan –wise Disbursements (\$ Million)

Period	Loan	Grants	Total	% of Grant
I. Upto 30-06-1960	192	650	842	77.2
II. 2nd Plan (1961-65)	1232	1162	2394	48.5
III. 3rd Plan (1966-70)	2324	719	3043	23.6
IV. Non-Plan (1971-78)	5083	634	5717	11.1
V. 5th Plan (1979-83)	4418	1375	5793	23.7
VI. 6th Plan(1984-88)	5158	2025	7183	28.2
VII. 7th Plan (1989-93)	9540	2541	12081	21.0
VIII. 8th Plan (1994-98)	11522	1226	12748	9.6
IX. 1999-2007	12824	5380	18204	29.6
Grand Total	52293	15712	68005	23.1

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Harsher Terms

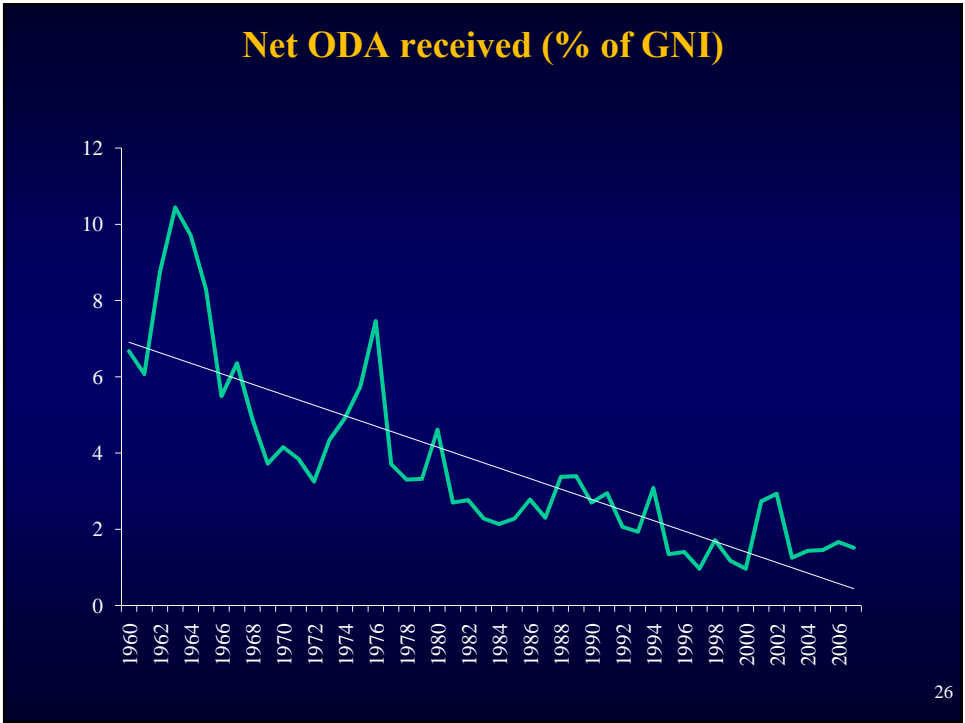
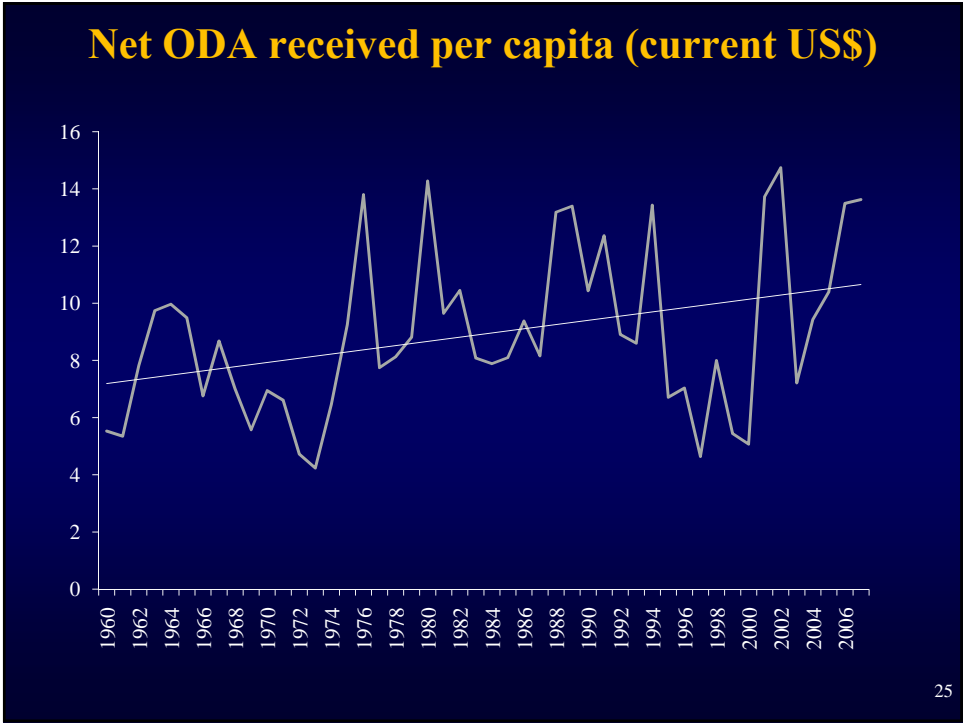
Period	Interest %	Payment (Years)	Grace period (Years)
1960s	3.3	30	7
1970s	3.6	25	6
1980s	4.8	28	7
1990s	4.4	21	6

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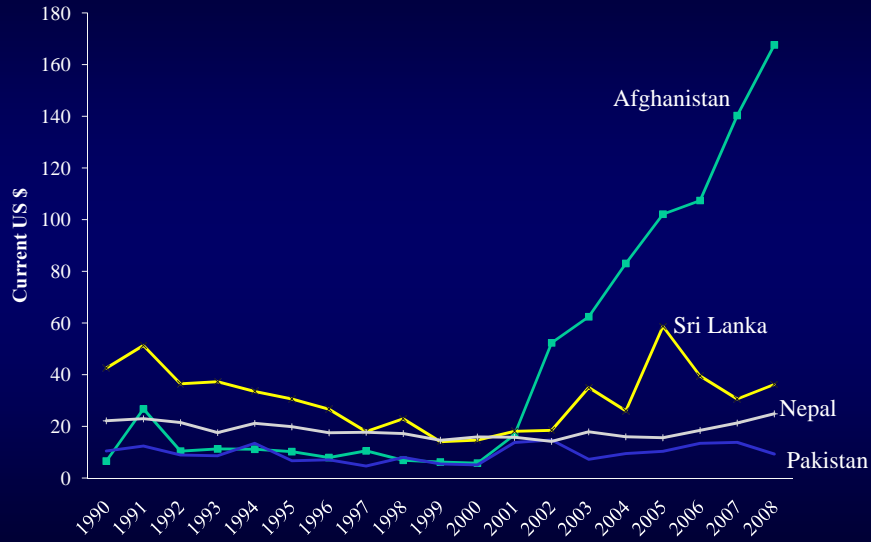
Top 5 Sectoral Disbursements 2000 and 2009

Rank	2000	2009
1	Power	Transport and Communication
2	Social welfare	Power
3	Transport and communication	Rural Development and Poverty Reduction
4	Fuel	Water
5	Water	Education and Training

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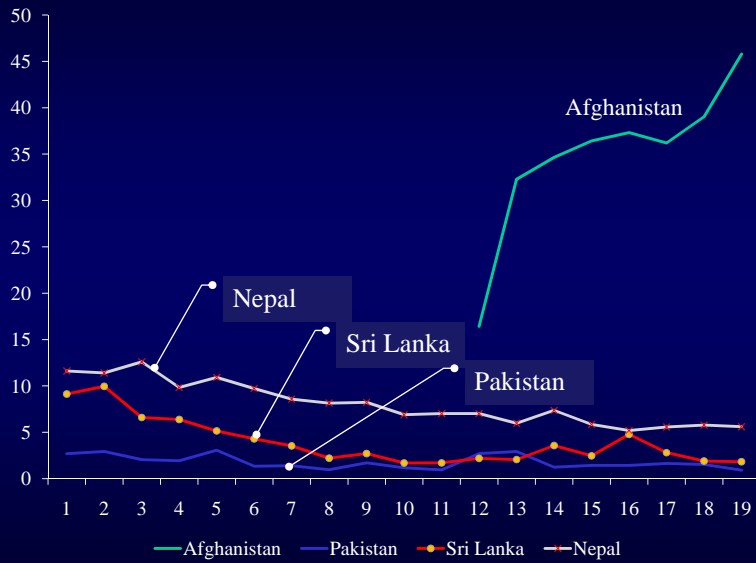


Net ODA received per capita (Current US\$)

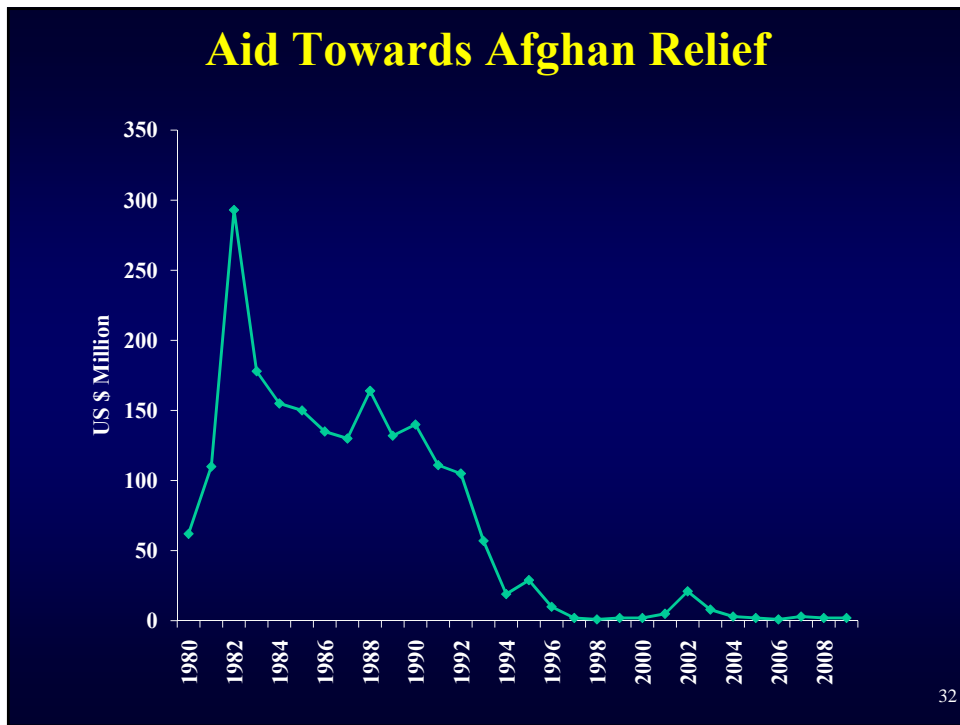
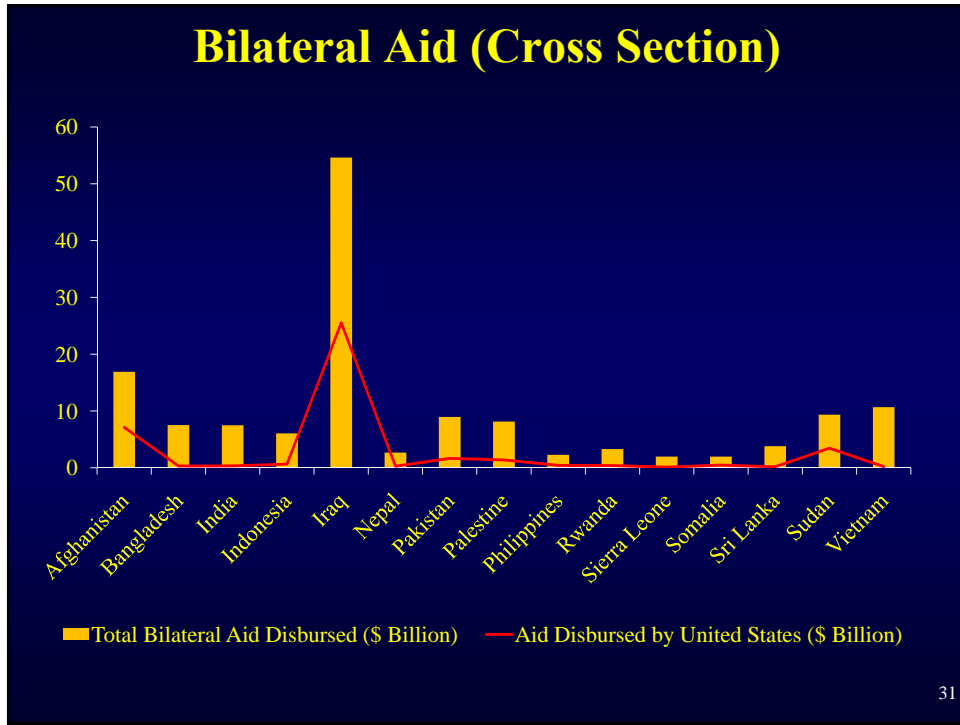


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Net ODA received (% of GNI)



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Damage to Pakistan Economy

	2005	2006	2007	2008	2009	2010	Total 2005-10
Direct Costs (Rs. Billion)	67	78	83	109	114	262	712
Indirect Costs (Rs. Billion)	192	223	278	376	564	707	2340
Total	259	301	361	484	678	969	3052
Total in \$ billion	4.4	5.0	6.0	7.7	8.6	11.5	43.2

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Damage to Pakistan Economy

	2005	2006	2007	2008	2009	2010	Total 2005-10
Total in \$ billion	4.4	5.0	6.0	7.7	8.6	11.5	43.2

- This is loss to physical assets and business only.
- This loss does not account for:
 - Loss of human life
 - Loss of institutions
 - Loss of investors' base
 - Loss of skill base

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Aid, Loss of Life and Damage to the Economy

	ODA current (\$ million)	Aid to Death Ratio	Economic loss (\$ million)	Aid to Economic Loss ratio
2002	2136	-	-	-
2003	1071	3.5	-	-
2004	1439	1.5	-	-
2005	1607	1.9	4400	0.37
2006	2140	1.3	5000	0.43
2007	2244	0.6	6000	0.37
2008	1539	0.2	7700	0.20

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Aid inflows during Various Political Regimes

Regime	From	To	Per-capita Aid (Current US \$)	Aid Received % of GNI	Total Aid \$ Million
Ayub Khan (Military)	1958	1969	7.6	7.0	3904
Yahya Khan (Military)	1969	1971	6.4	3.9	1148
Zulfiqar Ali Bhutto (Civil)	1971	1977	7.5	4.7	3859
Zia-ul-Haq (Military)	1977	1988	9.5	3.0	9641
From 1988 to 1998 (Civil)	1988	1990	9.4	2.2	10525
Pervaiz Musharraf (Military)	1999	2007	10.3	1.7	13096

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Aid Effectiveness in Pakistan

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Paris Declaration Monitoring Survey

- Around **88 percent of total ODA disbursed by the government** sector was recorded in the government system. This was due to increase in budget support in 2005 and government's action to align its budget with priorities defined in Medium Term Development Framework.
- Out of the total ODA disbursed in 2005, 68% was disbursed by using the national procurement systems. In total, 7 out of 16 donors used the national procurement systems.

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Paris Declaration Monitoring Survey

- However, only three of them (WB, ADB, USAID) account together for 97% of the total ODA disbursed by using national procurement systems. **The vast majority of donors disbursed none or very small amounts of ODA by using the national procurement systems.**
- Out of the total ODA provided for technical cooperation in 2005, only 28% was disbursed in support of **coordinated capacity development programmes.**

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Paris Declaration Monitoring Survey

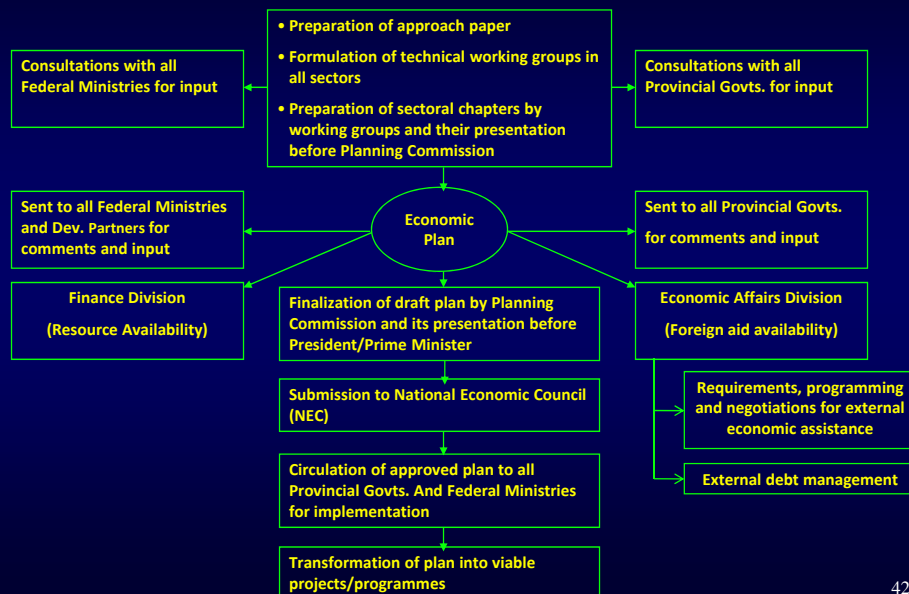
- The proportion of **joint missions and joint analytical work is relatively low at 12% and 41% respectively.** Coordinated missions and analytical work are still only conducted on an ad-hoc basis, but there are plans in place to achieve more systematic coordination.

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Priorities for Aid Policy Reform in Pakistan

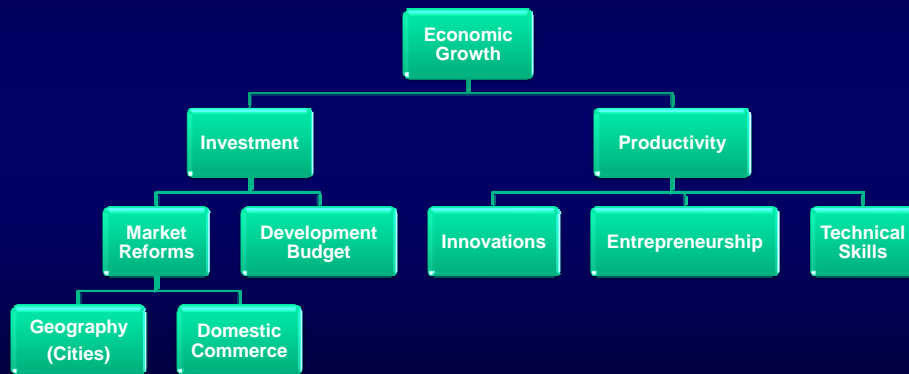
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Development Planning Process



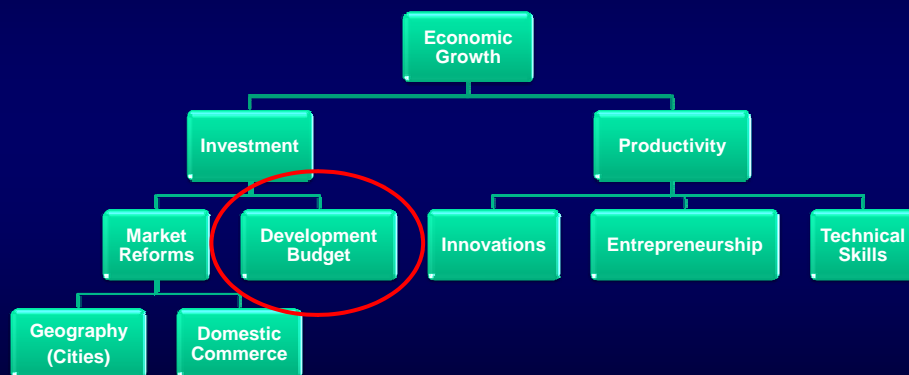
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Planning for Growth



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Planning for Growth



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Planning for Growth



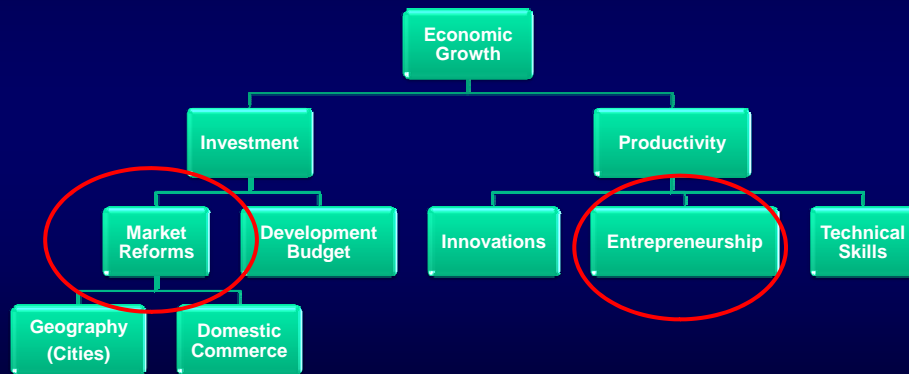
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Planning for (Inclusive) Growth



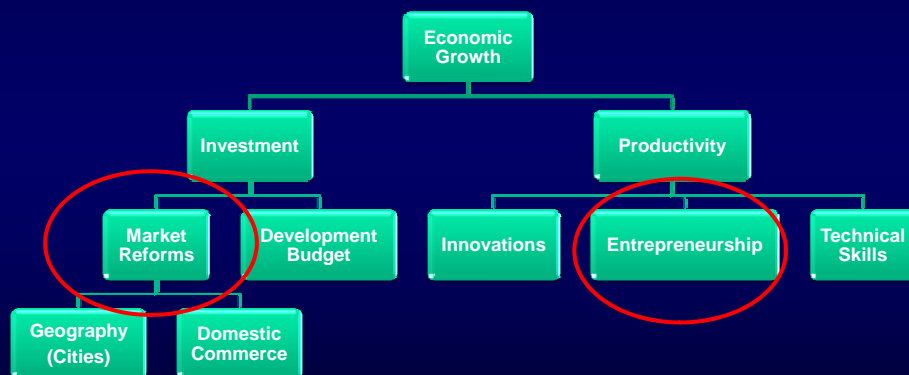
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Planning for (Inclusive) Growth



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Planning for (Inclusive) Growth



Aid Agenda that focuses on Market based solutions

Policy Priorities for Aid Reform

- Draft Foreign Assistance Policy Framework
- Friends of Democratic Pakistan (FoDP)
 - Consensus Building → Security Plan → Governance Plan → Socio-economic Plan
- Kerry – Lugar Bill
- Pakistan as a Global Player

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Conclusion

- The empirical literature on the impact of aid on economic development in Pakistan is inconclusive
- There are more concerning effects at that micro level where society has started to perceive aid as a compensation (and not assistance) for Pakistan's involvement in war
- Pakistan urgently needs a new Aid Policy for managing increased aid flows
- Finally as the reconstruction work takes off in the war-torn areas, there will be increased need for regular/coordinated analytical work by both government and donors

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Many Thanks

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