

AID

Effectiveness in Pakistan:

A Citizen's Perspective



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Preface

The focus of this study is on the foreign aid received by Pakistan, from the perspective of a citizen. The study attempts to analyze the effect it has had on human development indicators with a special focus on Education.

Pakistan's performance with respect to the Paris Declaration and Accra Agenda for Action has been analyzed with a view to gauge the shortcomings in meeting the targets set by the Paris Declaration. Measures necessary to increase the effectiveness of foreign aid along with the role of donor agencies have also been examined in this regard.

Traditionally, Pakistan has been heavily reliant on grants and loans from donor countries and multilateral institutions. Although foreign aid formed about 40% of net government expense by the 1970s, but over the following years, it has significantly dropped and in the last six years it stands at about 8% of the total government expenditure.

In the last one and a half decade, four events have markedly shaped the aid landscape of Pakistan. In the order of their occurrence, the needs and costs arising from the country's commitment to the Millennium Development Goals in 2000, the war on terrorism in the aftermath of attacks on the World Trade Centre on September 11, 2001, the catastrophic earthquake in October 2005 and the devastating floods in July 2010 resulted in a steep rise of aid disbursements. This surge has deepened the already existing concerns about the quality of aid programming, conditionality, external debt liability and transparency. This has made the aid effectiveness debate more relevant for Pakistan than ever before.

Within this context it is important to examine the impediments to the effectiveness of aid in Pakistan and suggest remedial measures that can optimize the effect of foreign aid. Oxfam believes that a vigorous debate in the context of Pakistan is necessary to develop an effective framework of aid for both Pakistan and the donors. We intend to bring to forefront the perspective of the citizens of Pakistan in envisaging this effective framework.

Oxfam resolves to continue advocating for good aid that is centered at human development in the 21st century, working towards alleviating poverty.

Arif Jabbar Khan
Country Director
Oxfam GB, Pakistan

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Acronyms

AAA	Accra Agenda for Action
BISP	Benazir Income Support Program
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DFID	Department for International Development
EAD	Economic Affairs Division
EGF	Economic Growth Framework
FAPF	Foreign Assistance Policy Framework
GDP	Gross Domestic Product
GNP	Gross National Production
HDI	Human Development Index
IMF	International Monetary Fund
KPK	Khyber Pakhtunkhwa
LHWs	Lady Health Workers
MDGs	Millennium Development Goals
MTDF	Medium-Term Development Framework
NGOs	Non-governmental Organizations
OA	Official Aid
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OOF	Other Official Flows
PBS	Pakistan Bureau of Statistics
PDF	Pakistan Development Forum
PFM	Public Financial Management
PIFRA	Project to Improve Financial Reporting and Auditing
PIU	Project Implementation Unit
PPP	Pakistan Peoples' Party
PPRA	Public Procurement Regulatory Authority
PRSP	Poverty Reduction Strategy Paper
SBP	State Bank of Pakistan
TA	Technical Assistance
USAID	United States Agency for International Development
USD	United States Dollars

CHAPTER 1

Introduction

1.1 Background

1.2 Objectives of the Study

1.3 Analytical Approach

1.4 The Data

1.5 Scheme of Chapters

1.6 Limitations

Introduction

1.1 Background

Pakistan has been relying on grants assistance and loans from donor countries and multilateral institutions uninterrupted throughout its history. However, the volume of net aid flows has fluctuated considerably over years depending on the domestic social, political and economic circumstances and external relations with donors and power blocks. In 1973, foreign aid accounted for as much as 45% of total central government expenditure. This percentage fell subsequently to 10-20% during the 1980s and 5-10% during the 1990s¹. In 2009, net official development assistance (ODA) to Pakistan was to the tune of USD 2.78 billion, equivalent to approximately 218.31 billion rupees. About 83% of Pakistan's core ODA came from top five donors, namely the United States, the United Kingdom, Japan, Germany and the Netherlands². Since 2005, the net ODA has averaged 9% of central government expense and 1% of Gross National Income. In relative terms, aid dependency has decreased over years, but in absolute terms, Pakistan still receives substantial aid flows.

The debate on foreign aid in Pakistan is apparently skeptical about the net benefits it brings to the common man. This skepticism has gained strength from the poor state of human development, abject poverty of a substantial proportion of populace and low economic growth. Nevertheless, the turbulent history of political governance underpins this state of affairs and all of this cannot be wholly attributed to the role of foreign aid. There exists a widespread belief, however, that aid has never worked well in Pakistan. Concerns persist about failures of donors as well as government to honor their commitments about mutual coordination, harmonization, transparency and accountability in relation to disbursements and utilization of aid. The global commitments under the 2005 Paris Declaration (see chapter 3 for details) have further reinforced these concerns and raised the need for greater citizen oversight of the progress made by the government and donors on aid effectiveness agenda. This is particularly important in key sectors such as education and health.

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1. Malik, Rabea (2007), 'Aid Effectiveness and the Role of Donor Interventions in the Education Sector in Pakistan – a Review of Issues and Literature', RECOUP Working Paper 6, DFID and University of Cambridge.
 2. These statistics are from OECD reports and World Development Indicators, cited in OECD (2011), *Aid Effectiveness 2005–10: Progress in implementing the Paris Declaration*, Pakistan Chapter, OECD Publishing.

This debate, however, has to be viewed as a part of the wider discourse on objectives and intended impact of aid. There are three main phases of this discourse. The first phase coincides with the ruthless use of aid by the United States and the former Soviet Union to support their allies in the Cold War. Pakistan also received billions of dollars as economic and military aid due to its explicit, though transactional, support to the United States for containing the spread of Communism. The orthodox critique on aid during this phase is that it helped to spread militancy in the process to support the United States against political developments in Afghanistan³. The second phase began in the late 1980s with the end of Cold War era and marked a shift in the objectives and priorities of aid; it came to be viewed as an important vehicle for financial and technical help for the developing countries to alleviate poverty and promote human development. This shift witnessed huge criticism of different approaches and requirements imposed on the recipient countries leading to duplication as well as huge transaction costs. The third and current phase began as a result of surge in aid after 2000, and is overwhelmed by a critique on Pakistan's progress in Millennium Development Goals (MDGs) as well as political stakes of donor countries linked to the prevailing security paradigm.

Over the past one and a half decade, four events have markedly shaped the aid landscape of Pakistan. In the order of their occurrence, the needs and costs arising from the country's commitment to the MDGs in 2000, the war on terrorism in the aftermath of attacks on the World Trade Centre on September 11, 2001, the catastrophic earthquake in October 2005, and the devastating floods in July 2010 resulted in a steep rise of aid disbursements. This surge has deepened the already existing concerns about the quality of aid programming, conditionality, external debt liability and transparency. This has made the aid effectiveness debate more relevant for Pakistan than ever before.

1.2 Objectives of the Study

The key objective of this study is to look at the progress made by the government and donors on aid effectiveness from the eyes of a citizen in general and in education sector in particular. Specifically, it adds a public perspective on achievements and developments on which the Pakistan government has reported globally in 2010 under the Paris Declaration commitments. Based on a review of the available evidence and views of the government and donors, the study acknowledges the successes and highlights the actions which are crucial for

3 Wright, Lawrence (2011), 'The Double Game: The Unintended Consequences of American Funding in Pakistan', The New Yorker.
http://www.newyorker.com/reporting/2011/05/16/110516fa_fact_wright

increasing the impact of aid, but they have received no attention, or progress on them is slow or invisible. The ultimate goal is to reinvigorate the debate on aid effectiveness and urge the government and donors to take full account of citizens' concerns as legitimate stakeholders. Evidence is presented from a case study on aid effectiveness in education sector. The hope is that civil society and citizens will pick up evidence and advocate with the donors and government to come together for making aid relevant for poverty reduction, economic development and welfare in the real sense.

1.3 Analytical Approach

The concept of aid effectiveness is concerned with the impact of development assistance on poverty reduction, economic development and welfare. The impact is dependent on the nature of processes and relationships that occur among the key players in the "aid triangle": donors, recipients and end beneficiaries. Pakistan's donors comprise of OECD countries and multilateral institutions such as the Asian Development Bank, the World Bank, the United Nations and Islamic Development Bank. They account for bulk of the ODA flows. The recipients include the federal or provincial governments for budget support and non-governmental organizations (NGOs), international NGOs, and private sector for off-budget donor-funded initiatives. The end beneficiaries are citizens who are intended to benefit, directly or indirectly, from all donor-funded programmes. Thus, aid is disbursed and spent on behalf of citizens in all democratic societies. Civil society and NGOs play dual roles. They are recipients of grants assistance on behalf of citizens as well as acting as representatives of citizens.

Each of these players operates with a set of incentives and interests which interact with each other to establish the processes and relationships in the aid triangle of donors, recipients and end beneficiaries. Donors are interested in disbursement of aid partly because they have pledged internationally to make contributions towards poverty reduction, and partly due to their own geopolitical and economic incentives in Pakistan. These incentives may not necessarily be the best fit with the national development priorities of the recipient federal and provincial governments. Moreover, these incentives vary for each donor and may not allow them to come together and harmonize their aid policies and procedures. However, the government generally accepts foreign aid even if it is not totally aligned behind national development priorities because it needs funding to abridge fiscal deficit and foreign exchange for balance of payments. The technical assistance that comes with foreign aid is also considered valuable for building national systems. The end beneficiaries (i.e. citizens) are concerned with results, accountability and transparency. From their perspective, aid is not worth anything if it does not improve the social and economic conditions of those who deserve it most – the poor and marginalized people. Moreover, because foreign aid is

essentially disbursed and consumed on behalf of citizens, they have the legitimate right to question where and how aid is spent.

tiveness is an outcome of the interaction among incentives and interests in this triangle. The Paris Declaration and the Accra Agenda of Action (see chapter 3 for details) together form the most widely accepted framework which articulates this interaction in the form of a set of shared responsibilities, namely ownership, alignment, harmonization, managing for development results and mutual accountability (see chapter 3). Pakistan is also a signatory of these international instruments and is obliged, along with donors, to implement these responsibilities within the Paris Declaration framework. The analysis presented in this study approaches the question of aid effectiveness within this framework. From a citizen's perspective, it looks at Pakistan's progress on these responsibilities up to 2010. For this purpose, it analyzes the data and its official interpretation presented in the Pakistan chapter of the 2011 OECD survey on the Paris Declaration. The analysis is not limited to any particular donor or sector, but it draws examples specifically from the education sector. The study also acknowledges the limitations of this framework and discusses issues which have been seemingly put aside by the Paris Declaration agenda.

It is important to clarify at the outset that the responsibilities laid down in the Paris Declaration and subsequent Accra Agenda of Action apply to donors and government; NGOs and INGOs as the recipient of foreign aid are not obliged to adhere to these responsibilities, though they are expected to do so normatively. In this sense, their role is to honor these principles on voluntary basis as well as to act on behalf of citizens to urge the donors and the government to meet their respective obligations. This study, therefore, is mainly concerned with the interaction between donors and government on the matter of aid effectiveness. Similarly, discussion in the chapter on education also mainly focuses on donor funding for public education sector. There is another reason for excluding them from the purview of this study. The nature of aid instruments used for the NGOs and INGOs and implementation modalities are different than those used in the budget support and financial aid for governments and deserve examination in a separate study.

The analysis presented in the first three chapters is applied to education sector in chapter 4. The objective is to review the extent, broadly, to which progress on Paris Declaration commitments is reflected in aid to education. The chapter also presents an analysis of trends in aid flows, predictability and distribution of aid across regions and sub-sector. Issues most frequently observed by representatives of donors, civil society and government in aid to education are summarized.

1.4 The Data

The study relies heavily on primary and secondary data from multiple sources. The main source is the official data presented in the Pakistan chapter in 2011 OECD monitoring survey on the Paris Declaration. Other key documents include the original texts of the Paris Declaration, Accra Agenda for Action, Pakistan's official statements, and the draft Foreign Assistance Policy Framework (FAPA). The statistics about aid flows, debt and external liabilities are taken mainly from Pakistan Economic Survey, which in turn uses data from Pakistan Bureau of Statistics, State Bank of Pakistan, and Economic Affairs Division. The Development Assistance Database (DAD-Pakistan) also records aid flows but they are not always up-to-date. Qualitative information was collected through interviews with a number of organizations. In addition, the study benefits from a large body of research and analyses specifically focusing on issues of aid in Pakistan.

1.5 Scheme of Chapters

The study is divided into five chapters. The first chapter sheds light on the rationale, objectives, analytical approach and structure of the study. The second chapter delves into depth on Pakistan's aid effectiveness agenda in three parts. It looks at the country's reliance on foreign aid and the extent to which it is believed to have made a difference on development outcomes. The chapter presents a summary of concerns and apprehensions which have emerged from the story of aid's impact on human development, poverty reduction and economic growth. The third chapter presents the main piece of analysis and reviews Pakistan's progress made on each of the five principles of the Paris Declaration. Keeping in view that many stakeholders do not fully understand what the principles of partnership under the Declaration mean, the chapter begins with a simplified explanation of ownership, alignment, harmonization, results and mutual accountability. Then, it presents the official version of progress reported on each of these principles followed by a critical analysis from the eyes of citizens. The chapter pays special attention to the actions which are critical for achieving aid impact, but they have either received no attention or progress on them is slow or invisible. The fourth chapter focuses on aid effectiveness in education within the Paris Declaration framework. It reviews the pattern of commitments and disbursements of donors in education sector and highlights issues in aid flows and predictability, harmonization, alignment and accountability. The fifth chapter presents a summary of discussion and recommendations.

1.6 Limitations

The analysis presented in this study is constrained by a number of factors. The first relates to scarcity of up-to-date data on aid commitments, their disbursements and

their break-down into various expenditure categories. The data is not easily available in the public domain except in the DAD Pakistan and Pakistan Economic Survey. Secondly, the study limits the analysis to external loans and official grant assistance; private capital inflows such as individual charity and contributions from abroad, are not discussed in detail. Thirdly, the study relies mainly on the official data presented in Pakistan chapter of 2011 OECD monitoring survey. It does not verify the official data on 12 indicators of Paris Declaration framework independently but comments on the quality and shortcomings in the reported progress.

CHAPTER 2

Aid, External Liabilities and Development

2.1 Introduction

2.2 Reliance on Foreign Aid

2.2.1 Grants Assistance

2.2.2 External Loans and Liabilities

2.3 The Story on Development Impact

2.3.1 Human Development

2.3.2 Poverty Reduction

2.3.3 Economic Growth

Aid, External Liabilities and Development

2.1 Introduction

Pakistan has had been a major recipient of external loans and grant assistance from country governments and multilateral organizations, in addition to foreign private capital inflows and foreign direct investment. The question of aid effectiveness has revolved mainly around external loans and grants. Nevertheless, given that the need for external loans and grant assistance is also partly driven by dynamics of macroeconomic environment, issues related to domestic borrowing, private capital inflows and foreign direct investment also become relevant. These issues are touched upon at some places but the primary remit of this chapter is to look at Pakistan's aid effectiveness agenda from the vantage point of external loans and outstanding debt and official grant assistance which have received the bulk of disparagement concerning aid.

Foreign aid became relevant to Pakistan as soon as it came into being after partition of the sub-continent. The country needed liquidity and foreign exchange for meeting the needs of its nascent economy and addressing the poor state of human development. Cold war between the United States of America and the Soviet Union played an instrumental role in making Pakistan an attractive client for aid from these two superpowers as they were looking for strategic allies to advance their ideologies of capitalism and communism respectively. Pakistan's tilt towards America was visible from the very beginning and ushered in a political relationship of which aid was an indispensable element. Over time, the pool of donor countries expanded to include a number of other Paris Club countries and the Arab States, but still over 80% aid comes from the five top donors including the United States, the United Kingdom, Japan, the Netherlands and Germany.

2.2 Reliance on Foreign Aid

The volume of aid inflows into Pakistan has fluctuated over time with the changes in domestic and international policies. Initially, it was a substantial proportion of government expenditure. Foreign aid accounted for as much as 45% of the total central government expenditure in 1973. This percentage fell subsequently to 10-20% during the 1980s and 5-10% during the 1990s⁴. Recent estimates suggest that aid constitutes about 5-6% of the government's expenditure and 2% of the

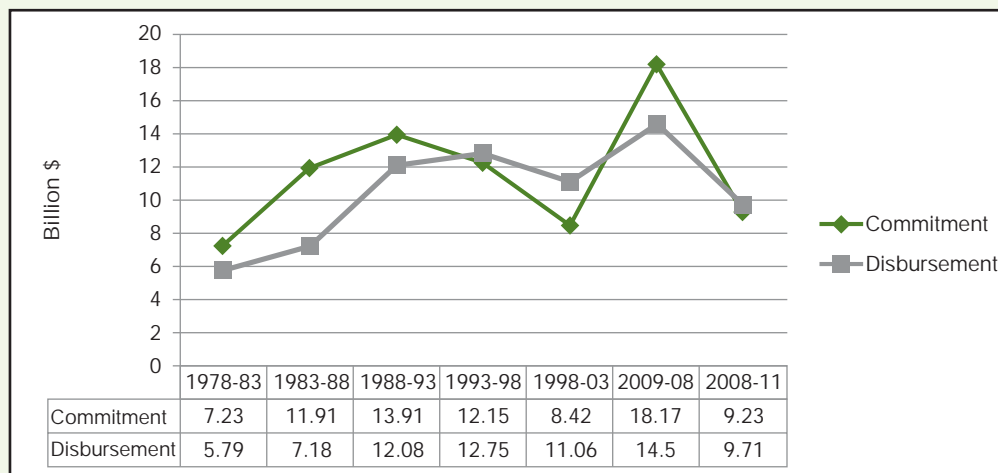
4 Malik (2007)

Gross Domestic Product (GDP)⁵. This burden multiplies hugely if external debt and liabilities are considered which constituted 28.2% of the GDP in 2011. In relative terms, aid dependency has decreased over the years, but in absolute terms, Pakistan still receives substantial quantities of foreign aid.

2.2.1 Grants Assistance

The commitments and disbursements of loans and grant assistance by donors have increased steadily. If looked historically exclusive of IMF loans, the disbursements increased from USD 5.79 billion in the 5th Plan to USD 7.18 billion in the 6th Plan, USD 12.08 billion in the 7th Plan, and USD 12.75 billion in the 8th Plan. This trend continued more or less until 2005-06 when the disbursement of loans and grants exceeded USD 3 billion a year for the first time in the history of Pakistan and have remained above this mark since then. Over the five year period between 2005-06 and 2009-10, Pakistan received USD 18.7 billion which is much higher than any five-year period before. These disbursements fell short of commitments in 26 years since 1978-79. There are five exceptional years in which disbursements exceeded the annual commitment, i.e. 1992-93, 1996-97, 1997-98, 1990-00 and 2000-01. This pattern raises questions about predictability of aid which is a critical factor in ensuring effectiveness and impact.

Figure 2.1 Commitments and Disbursements of Loans and Grants (Billion \$)



Source: Economic Affairs Division (EAD), Pakistan Economic Survey 2010-11
 Note: Exclusive of IMF loans

2.2.2 External Loans and Liabilities

External loans and liabilities are an indispensable element of aid effectiveness

5 World Bank (2006), Improving Aid Effectiveness: Implementing Paris Declaration. Presentation delivered at Pakistan Development Forum on May 11, 2006. Islamabad.

debate in Pakistan. In this regard, a caveat needs to be made at the outset. All external loans are not necessarily measured as Official Development Assistance (ODA) unless they have a grant element of at least 25 percent and the recipients are on Part II of the Development Assistance Committee (DAC)'s List of Aid Recipients. Pakistan is classified as a lower middle-income country on this list⁶. In popular terms, all external loans and grants are perceived as forms of "foreign aid" and are subject to public scrutiny and criticism.

The government of Pakistan has been a major recipient of ODA and non-ODA loans from country governments and multilateral organizations. Historically, the total debt stock has increased consistently and uninterruptedly. Table 2.1 provides an overview of debt liabilities over the past 8 years. Total external public debt was Rs. \$31.3 billion (Rs. 1802.88 billion) in 2004 which increased to \$53.4 billion (Rs. 4576.38 billion) in the 3rd Quarter of 2011 – up by 71% for dollar values and 154% for rupees value. The largest proportion of this debt stock comprises of medium and long-term loans for more than one year.

Table 2.1 Pakistan: External Debt and Liabilities

		End-June							
		2004	2005	2006	2007	2008	2009	2010	2011
In Billions of US Dollars									
1	Public and publicly guaranteed debt	29.9	31.1	32.9	35.3	40.6	42.6	43.1	45.6
	A. Medium and long term (>1 year)	29.9	30.8	32.7	35.3	39.5	41.1	42.3	44.6
	B. Short term (<1 year)	0	0.3	0.2	0	1.1	1.5	0.8	0.9
2	Private non-guaranteed debt (>1 year)	1.7	1.3	1.6	2.3	2.9	3.3	3.4	3.8
3	IMF	1.8	1.6	1.5	1.4	1.3	5.1	8.1	8.9
	Total external debt (1-3)	33.4	34	36	39	44.9	51.1	54.6	58.3
	of which Public	31.3	32.1	33.9	36.5	40.7	45.9	50.1	53.4
4	Foreign Exchange Liabilities	2	1.8	1.6	1.5	1.3	1.3	1.3	1.2
	Total external debt and liabilities (1-4)	35.3	35.8	37.6	40.5	46.2	52.3	55.9	59.5

6 The latest DAC List of ODA Recipients was approved in October 2011 and is effective 1 January 2012 for reporting on 2011, 2012 and 2013 flows. This list is revised every three years.
http://www.oecd.org/document/45/0,3746,en_2649_34447_2093101_1_1_1_1,00.html

		End-June							
		2004	2005	2006	2007	2008	2009	2010	2011
	of which Public Debt	31.3	32.1	33.9	36.5	40.9	46.3	49.5	53.6
In Percent of GDP									
	Total external debt (1-3)	34.1	31.1	28.2	27.3	27.4	31.5	30.8	27.7
1	Public and publicly guaranteed debt	30.6	28.4	25.8	24.7	24.8	26.3	24.3	21.6
	A. Medium and long term (>1 year)	30.5	28.1	25.7	24.7	24.1	25.4	5494	5494
	B. Short term (<1 year)	0	0.2	0.1	0	0.7	0.9	6451	6451
2	IMF	1.8	1.5	1.2	1	0.8	3.2	4.6	4.2
	Total External Debt	34.1	31.1	28.2	27.3	27.4	31.5	30.8	27.7
3	Foreign Exchange Liabilities	2	1.6	1.2	1	0.8	0.8	0.7	0.6
	Total External Debt and Liabilities (1-4)	36.1	32.7	29.5	28.3	28.2	32.3	31.6	28.2
Memo									
	GDP (billions of Rs.)	5641	6500	7623	8673	10243	12724	14837	18063
	GDP (billions of U.S. dollars)	98	109.5	127.4	143	163.8	162.1	177	210.8
	Exchange Rate (Rs./USD Period Average)	57.6	59.4	59.9	60.6	62.5	78.5	83.8	85.7

Source: State Bank of Pakistan, Pakistan Economic Survey 2010-11

External borrowing has witnessed a huge surge during the present regime led by Pakistan Peoples Party (PPP) since early 2008. The surge was unprecedented particularly in loans from the International Monetary Fund (IMF) which shot up from \$1.4 billion (Rs. 84.84 billion) preceding the 2008 elections to \$8.9 billion (Rs. 762.73 billion) in the 3rd Quarter of 2011 – up by nearly 584.62% for dollar value. Overall, public debt has increased during the present political regime from \$36.5 billion (Rs. 2211.9 billion) in 2007 to \$53.4 billion (Rs. 4576.38 billion) in 2011 – up by \$16.9 billion (Rs. 1311.78 billion) in four years⁷. The domestic debt stock is also on rise and reached Rs. 803.9 billion in July-March 2010-11.

The cost of debt servicing is also rising steadily in real terms. A sum of Rs. 889.56 billion was allocated for debt servicing in 2010-11. Out of this amount, Rs.

7 Rs. equivalents are based on average period exchange rate as given in Table 2.1.

76.80 billion was earmarked for interest. During the past nine years from 2002-03 to 2010-11, a sum of Rs. 547.87 billion has been paid annually on the account of debt servicing. On average, the government has paid Rs. 54.60 billion as interest on foreign debt annually during this period. As Table 2.2 indicates, there has been a significant increase in the cost of debt servicing during the present political regime since early 2008. This is attributed to excessive external borrowing as well as the devaluation of Pakistani currency.

Table 2.2 Debt Servicing

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 B.E	Mean
Total debt servicing (Rs. Billion)	284.11	349.66	292.45	341.41	456.53	578.24	880.83	858.08	889.56	547.87
Interest on foreign debt (Rs. Billion)	39.33	41.44	39.3	42.11	49.86	59.49	79.06	63.98	76.80	54.60
Federal interest on foreign debt as % of total debt servicing	13.84	11.85	13.44	12.33	10.92	10.29	8.98	7.46	8.63	10.86
Interest on foreign debt as % of GDP	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.4	0.40	0.59

July 2009-March 2010
Source: Budget Wing, Finance Division

Excessive reliance on external debt has created huge liabilities on the citizens of Pakistan. This has been a key factor in the macroeconomic instability in recent years, further perpetuated by the energy crisis and costs associated with the war on terrorism. "Pakistan has experienced serious debt problems in the recent past and accordingly witnessed deterioration in the macroeconomic environment, leading to deceleration in investment rate and economic growth and the associated rise in the incidence of poverty."⁸

2.3 The Story on Development Impact

The concept of aid effectiveness has received huge attention in development literature in recent years, as is evident from a large and growing body of studies. According to a University of Cambridge study, 97 studies on this topic were available by 2004 which used econometric models to examine the impact of aid⁹. On a broader level, it has been applied in varying contexts to ask questions about the impact of aid on poverty reduction and economic growth. However, many

8 Pakistan Economic Survey 2010-11, p.120.

9 Doucouliagos and Paldam (2007), The Aid Effectiveness Literature: The Sad Results of 40 Years of Research, Cambridge Working Papers in Economics. Also see Foster and Fozarrd (2000), Ishfaq (2004), ODI (2006), Malik (2007), and Dodd and Hill (2007).

technical complexities arise when this concept is unpacked. The first is about the magnitude of impact, i.e. how much improvement in development outcomes should be considered a measure of effectiveness? What does it mean for the poor and marginalized population? The second is about constraints in the measurement of effectiveness due to ambiguities that surround the results chain. It is not always possible to establish a clear relationship between aid and outcomes with scientific rigor¹⁰. As a result, there is an overwhelming emphasis on measuring inputs and outputs, rather than high-level outcomes, in donor-funded programmes.

The causal relationship between aid and development impact has been hugely vague and unclear for various reasons. The first is that development outcomes cannot be fully attributed to success or failure of foreign aid because it always constitutes a portion of total government expenditure in education, health, energy or any other sector. Even if it is a significant proportion, the impact of aid cannot be completely isolated from exogenous factors which might affect the outcomes. This has been the case even for direct funding to non-governmental organizations and private sector. That is why most of the impact evaluation studies establish a correlation at outcome level or below.

The extent to which aid contributes to the highest order of goals and impact is generally a domain of qualitative judgment. "Because most aid appears to be fungible, the rate of return on a specific donor-funded project tells little about the impact of that assistance; a better approach may be to tie foreign aid to an overall public expenditure programme that provides adequate resources to crucial sectors."¹¹ To overcome this limitation, some donors prefer to attribute impact in proportion to their share of funding in the total expenditure in a given sector. If this principle of attribution is stretched further, donors can also be blamed for failures in development along with the government, at least as much as is their proportion of financial contribution.

2.3.1 Human Development

Despite a long history of donor interventions in social sector and other arenas which bear upon education and life expectancy, human development indicators of Pakistan lag behind many other comparable developing countries. In 2011, the country was placed at 145th position globally with human development index (HDI) at 0.504 among a league of 187 nations. This HDI value is very low compared

10 Bourguignon and Sundberg (undated). 'Aid Effectiveness – Opening the Black Box'. The World Bank.

11 Feyzioğlu et. al. (1998). 'A Panel Data Analysis of the Fungibility of Foreign Aid'. The World Bank Economic Review. Volume 12, Issue 1, pp.29-58.

with the world average of 0.682 and South Asia average of 0.548. However, there has been an incremental improvement in the state of human development. Since 1980, Pakistan has lifted up the human development indicators steadily. The life expectancy at birth and mean years of schooling has definitely improved, but the pace of progress has been extremely slow as shown in Figure 2.2.

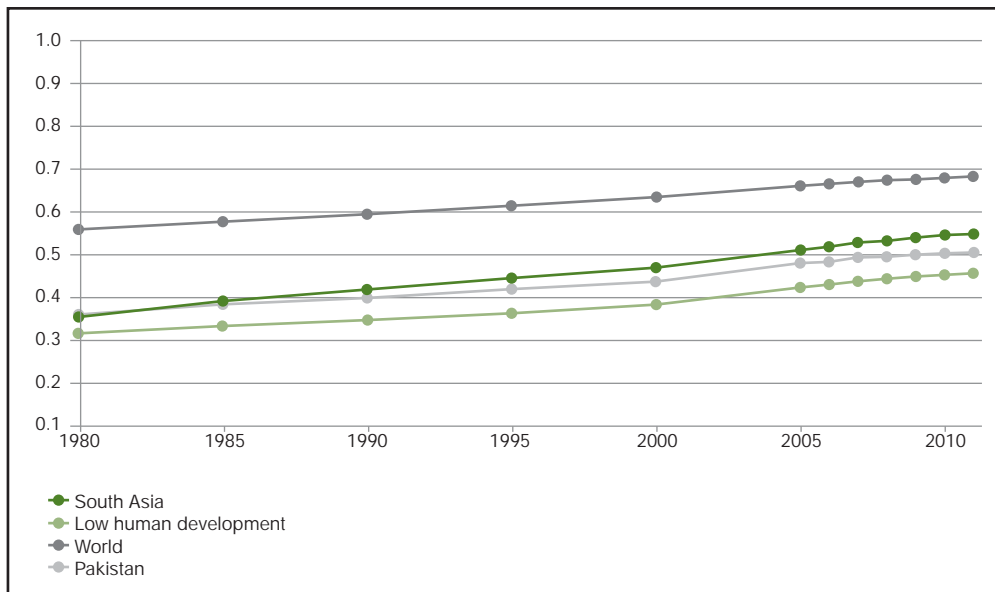
Box 2.1

100 years lag in human development

Based on trend analysis of the past six years, it will take 43 years for Pakistan to attain the world average of Human Development Index. In a business-as-usual scenario, the country will take over 100 years to achieve "Very High Human Development", comparable with developed nations such as Norway, Australia, Netherlands, etc.¹² This is an extremely slow pace of improvement in HDI indicators.

The slow pace of improvement is also evident in education which is an essential element of human development. A huge proportion of foreign aid has gone into this sector since the 1960s, which has involved financial aid as well as technical assistance to build capacity of the education departments to deliver better quality education. However, the country still has some of the worst access and quality indicators in the world.

Figure 2.2 Human Development Index of Pakistan over 30 Years



Source: <http://hdrstats.undp.org/en/countries/profiles/PAK.html>

12 These calculations are made by I-SAPS from historical HDI values data of the United Nations.

Pakistan is placed second in the global ranking of countries in relation to the proportion of out-of-school children. Roughly one in every ten children who are out of primary school worldwide lives in Pakistan, placing the country second in the global ranking of out-of-school children¹³. The national assessment data indicates that even those who attend schools are not learning well.¹⁴ These issues will be further discussed in detail in chapter 4.

2.3.2 Poverty Reduction

Any grant or a loan from donor government agencies or multilateral institutions can qualify to be measured as official development assistance only if they are administered with the promotion of economic development and welfare of developing countries as the main objective. Poverty reduction is implicit in this objective and is considered an essential element of economic development. The element of welfare in the definition of ODA denotes social protection and direct assistance for the poor. Therefore, a fundamental rationale for and criterion to measure the effectiveness of aid is whether it is reaching the poor and making any difference in their lives.

Statistics on poverty reduction in Pakistan are patchy and contentious. There has always been a controversy on the precision of poverty estimates due to measurement problems arising from multi-dimensionality of this concept, along with political traction in all governments to hide poverty as much as possible. However, there is a general consensus that poverty has definitely gone down over the past two decades. According to World Bank estimates, the proportion of population living on less than \$1.25 a day reduced from a very high 72.9% in 1981 to 58.5% in 1990 and further to 22.6% in 2005. If this poverty definition is used, Pakistan has made progress which is far ahead of other South Asian countries and indeed met the MDG Goal 1 in 2005. However, the MDG indicator measures poverty as proportion of population below the calorie based food plus non-food poverty line.¹⁵ On this basis, the MDG 2015 target for Pakistan is 13%, whereas the proportion of population living below poverty line according to calories-based method was 22.3% in 2005.

Even if conservative estimates are accepted, Pakistan has been unable to alleviate poverty for a substantial proportion of its population despite huge

13 UNESCO (2010), *Reaching the Marginalized*. EFA Global Monitoring Report. Oxford University Press.

14 See reports of National Education Assessment System (NEAS) and Annual Status of Education Report (ASER) 2010.

15 Pakistan MDG report 2011 defines this indicator as "headcount index based on the official poverty line of Rs. 673.54 per capita per month in 1998-99 prices consistent with attainment of 2350 calories per adult equivalent per day".

Table 2.3 Regional Comparison of Progress on Poverty Reduction

Country	Proportion of population living on less than \$1.25 a day			2015 Target	Annual Rate of Change (1990-2005)	Change needed to achieve the target (2005-15)	Annual rate of change needed to achieve the target (2005-15)
	1981	1990	2005				
Nepal	-	77	54.7	38.5	-2.3	-16.2	-3.5
Bangladesh	44.2	49.9	50.5	24.9	0.1	-25.6	-7.1
India	59.8	51.3	41.6	25.7	-1.4	-15.9	-4.8
Bhutan	47.4	51	26.8	25.5	-4.3	-1.3	-0.5
Pakistan	72.9	58.5	22.6	29.3	-6.3	a	a
Sri Lanka	31	15	10.3	7.5	-2.5	-2.8	-3.2
Total (S. Asia)	59.4	51.7	40.3	25.9	-1.6	-14.5	-4.4

Source: World Bank, Development Research Group (2009)

technical and financial support from the donor countries and multilateral organizations. Indeed, the national statistics hide regional disparities and pockets of deep exclusion and deprivation e.g. Southern Punjab and Balochistan. At the macro level, research suggests that foreign aid did not contribute favorably to GDP growth and income equality, though it has helped, in a limited way, in poverty reduction¹⁶. This conclusion, however, cannot be generalized because causal relationship between aid and poverty is weak globally.

2.3.3 Economic Growth

In order for any official financing to qualify as ODA, it has to be “administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount)”¹⁷. Economic development, by definition, is a broader concept than economic growth; it is about quantitative and qualitative changes in the economy of which growth is one. The bulk of literature which studies the correlation and causality between aid and economy is overwhelmingly concerned with growth as a key measure of development. However, there appears to be a broad consensus that aid's impact on poverty reduction is mediated by fast and sustainable growth performance.

16 Ishfaq, Mohammad (2004), Aid Effectiveness, Debt Capacity and Debt Management in the Economy of Pakistan. PhD Dissertation. Quaid-e-Azam University, Islamabad.

17 OECD definition of ODA, see Box 1.2 in chapter 1.

Pakistan's economy has passed through many volatile periods post-1960s when it grew at an impressive high rate comparable with fastest economies. During the past three decades, GDP has grown on average by 4.9 percent, which is low comparable with the regional growth performance. Indeed, economic performance has been highly unsteady and unpredictable in each year. There was substantial economic upturn during 2002 and 2007 due to consumer-led growth, speculative sector boom, remittances and foreign aid driving this growth¹⁸. After this boom, the economy has “considerably lost significant growth momentum during the last three years as the economic growth averaged just 2.6 percent as against 5.3 percent in the preceding eight years. There are many reasons for deceleration of growth momentum like massive terms of trade shock of 2008, global financial crisis, intensification of war on terror, security hazards and high profile killings”¹⁹. In 2011-12, GDP growth rate is being re-based due to controversy over calculation method and is expected to be somewhat higher than 3 percent²⁰.

Table 2.4 Growth Performance of Components of Gross National Product
(% Growth at Constant Factor Cost)

	1980s	1990s	2000s	2004-05	2007-08	2008-09	2009-10	2010-11
Commodity Producing Sector	6.5	4.6	4.5	9.5	1.3	1.8	4.7	0.5
Services Sector	6.6	4.6	5.1	8.5	6	1.7	2.9	4.1
GDP (cfp)	6.1	4.6	4.8	9	3.7	1.7	3.8	2.4
GNP (cfp)	5.5	4	5.3	8.7	3.7	2.2	4.8	2.9

Source: Pakistan Bureau of Statistics, Pakistan Economic Survey 2010-11.

The statistics in Table 2.4 clearly indicate that Pakistan has been unable to ensure steady generation of equitable and sustainable growth. A number of studies concentrate on the extent to which huge inflows of external loans and grants assistance have impacted upon the growth performance. For example, Ishfaq

18 Government of Pakistan (2010), Pakistan Millennium Development Goals Report 2010. Centre for Poverty Reduction and Social Policy Development, Islamabad.

19 Pakistan Economic Survey 2010-11

20 Pakistan Bureau of Statistics' estimate of GDP was 3.2 percent for 2011-12. However, the Bureau's Governing Council nullified this growth rate as it was calculated by using new base 2005-06. Under existing system the GDP growth of current fiscal year 2011-12 is likely to be at 3.8-3.9 percent. PBS' council nullifies 3.2pc GDP growth estimates for 2011-12, May 5, 2012
http://www.dailytimes.com.pk/default.asp?page=2012%5C05%5C05%5Cstory_5-5-2012_pg5_7

(2004) noted that foreign aid did not contribute favorably to GDP growth and income equality, though it has helped, in a limited way, in poverty reduction²¹. Griffen and Enos (1970), Weisskopf (1972), Ridell (1987) and White (1992) point to the existence of a negative relationship between assistance and growth. A key reason apparently is that the bulk of aid, especially loans, has been used to overcome fiscal deficit, trade imbalances and other ad-hoc needs, rather than building fundamental systems of the economy.

In a nutshell, Pakistan's performance in human development, poverty reduction and economic growth has been slow and somewhat unsteady over the decades. The latest country report on MDGs reinforces this conclusion. Pakistan is off-track, slow or lags behind on all MDG indicators except that it is on-track on three and ahead on six indicators. Those which are off-track include indeed the major ones which could have brought about transformative change and development to the poor. On eradication of extreme poverty and hunger, the situation has worsened since 2006. Similarly, the country lags on universal primary education.

An overarching inference from the literature is that foreign aid did contribute to maintain or improve the outcomes, but it has not really played the role of a catalyst to transform the development landscape of the country. In the future, donor governments and multilateral institutions need to shift their role as providers of money to one of a change catalyst for reducing the distance Pakistan needs to cover for reaching the high levels of human development, welfare and economic prosperity.

21 Ishfaq (2004)

CHAPTER 3

Pakistan's Progress on Aid Effectiveness

3.1 Introduction

3.2 Principles of Partnership Commitments

3.3 Pakistan's Progress on Partnership Commitments

3.3.1 Ownership

3.3.2 Alignment

3.3.3 Harmonization

3.3.4 Results

3.3.5 Mutual Accountability

3.3.6 Overcoming Limitations of the Paris Declaration

Pakistan's Progress on Aid Effectiveness

3.1 Introduction

The Paris Declaration on Aid Effectiveness marks a turning point for development co-operation globally. It recognizes that significant efforts are required by both donors and partner countries to ensure that aid is effective in helping to meet development goals, including the Millennium Development Goals (MDGs). Although the contemporary conversations on impact of aid had begun in the late 1980s, the first main effort was made in the form of the International Conference on Financing for Development on March 18-22, 2002 in Monterrey Mexico. Hosted by the United Nations, this conference is believed to be the first High Level Forum on Aid Effectiveness. It brought together over 50 Heads of States and over 200 ministers and leaders from the private sector and civil society. The outcome was the Monterrey Consensus which stressed that “to build support for ODA [official development assistance], we will cooperate to further improve policies and development strategies, both nationally and internationally, to enhance aid effectiveness.”²²

Pakistan has actively participated in the process leading to the evolution of global aid effectiveness framework. In the 2002 International Conference on Financing for Development held in Monterrey Mexico which marks an important point in this process, the Minister for Finance, Shaukat Aziz, represented the country. Pakistan is one of over 100 countries which have signed the Paris Declaration. This act is apparently driven by the need to improve the outcomes from the use of multilateral and bilateral aid on which the country has long relied upon, almost uninterruptedly, for bridging the resource gap for economic growth, poverty reduction and social development. In the fulfillment of this obligation, Economic Affairs Division (EAD) is leading on actions to implement the commitments.

Two developments have contributed significantly to take forward this debate. Firstly, Pakistan Development Forum (PDF) has been and continues to be an important platform for dialogue between donors and the Government of Pakistan on this agenda. Discussions on aid effectiveness are a permanent PDF theme and underscore the willingness of donors as well as the government to

22 United Nations (2003), *Monterrey Consensus on the International Conference on Financing for Development*, March 18-22, 2002, Monterrey, Mexico. Paragraph 41.

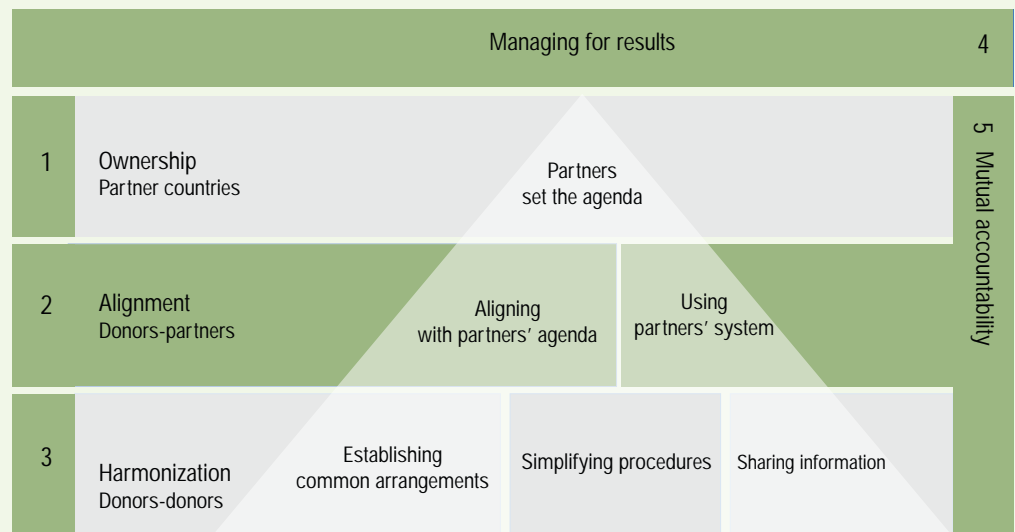
improve transparency and accountability in the way aid is spent. Secondly, a draft Foreign Assistance Policy Framework (FAPF) has been developed as a result of policy discussions. This document is Government of Pakistan's policy statement on ownership, alignment, harmonization, results and mutual accountability, though it has yet to be finalized.

3.2 Principles of Partnership Commitments

The Paris Declaration places an emphasis on ownership of the development agenda – and aid – by partner countries, and agrees a set of shared responsibilities for implementing a set of actions to strengthen ownership, alignment, harmonization, managing for development results and mutual accountability (see Chart 4.1). It outlines the following five fundamental principles for making aid more effective:

Ownership:	Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.
Alignment:	Donor countries align behind these strategies and use local systems.
Harmonization:	Donor countries coordinate, simplify procedures and share information to avoid duplication.
Results:	Developing countries and donors shift focus to development results and results get measured.
Mutual accountability:	Donors and partners are accountable for development results.

Figure 3.1 The Paris Declaration Pyramid



Source: OECD (2011)

These principles assume that, if strictly implemented, they will lead to better value for money in terms of aid's impact on poverty reduction and economic growth. The OECD strongly believes that these principles are not mere assumptions but are born out of decades of experience of what works for development and what does not. These principles have gained support across the development community, changing aid practice for the better²³. To measure progress on these principles, the Declaration lays out a practical, action-oriented roadmap to improve the quality of aid and its impact on development. It puts in place a series of specific implementation measures and establishes a monitoring system to assess progress and ensure that donors and recipients hold each other accountable for their commitments. At the country level, a set of 12 indicators of progress has been agreed with targets to be achieved by 2010.

3.3 Pakistan's Progress on Partnership Commitments

Globally, some progress on implementing the aid effectiveness agenda has been made but it is far from a meaningful advancement. The OECD has so far conducted three surveys to monitor the progress on implementation of the Paris Declaration in 2006, 2008 and lately in 2011. Each of these surveys has shown that partner countries as well as donors are moving slowly to meet their commitments. The 2011 monitoring survey has revealed that only 1 out of 13 indicators set for 2010 has been met by a narrow margin – co-ordinated technical cooperation. Overall, those indicators for which the primary responsibility lies with partner governments have met with better progress than those which require joint efforts by both developing countries and donors or donors' efforts only.²⁴

Box 3.1

Pakistan's Participation in OECD Monitoring Surveys

The OECD conducted two surveys to monitor the progress on these indicators in 2006 and 2008. The third survey was completed in 2011. A total of 78 partner countries and territories volunteered to participate in this round of the survey, which looks at the progress in 2010. Pakistan did not participate in the first two surveys, probably because no meaningful progress was made until 2008. In 2011 monitoring survey, Pakistan participated first time and shared progress on the Paris Declaration commitments globally.

23 DCD-DAC, 'Paris Declaration and Accra Agenda for Action'.
http://www.oecd.org/document/18/0,3746,en_2649_3236398_35401554_1_1_1_1,00.html

24 OECD (2011).

Pakistan did not participate in the first two surveys. It was not until 2011 when the government reported progress on the partnership commitments for the first time globally. This chapter is dedicated to discussion on this progress from the viewpoint of citizens. For this purpose, we use the official data presented in Pakistan chapter of the 2011 OECD monitoring survey and analyze the achievements and weaknesses to arrive at recommendations for donors, government and civil society. In the following sections, progress is discussed separately for each of the five principles, namely ownership, alignment, harmonization, results and mutual accountability.

3.3.1 Ownership

Is Pakistan driving its own development agenda?

The critical literature and discussions on aid in Pakistan frequently use the catchphrase “donor-driven agenda”. This implies that geopolitical and economic stakes of donors are driving their aid inflows and priorities on which these inflows are spent. These stakes can be categorized as “ideological” and “distributional” in nature. Anti-aid groups believe that the “ideological” stakes advance Western agenda and culture which clash with Islamic values. Particularly, donor-funded programmes to promote women's rights are criticized by some factions on these grounds. The “distributional” stake is concerned with strategic choices on aid spend to achieve the maximum political gains. Critics argue that the United States and European countries have distributed aid disproportionately to Iraq, Afghanistan and Pakistan to counter their own perceived threat from militancy and terrorism. This has reduced aid to other countries where it is needed more. Even within Pakistan, the distribution of aid among provinces is believed to be driven by donors' own priorities and objectives. Critics refer to Balochistan which is at the tail end of ODA inflows into Pakistan.

While this perception persists strongly at the grassroots level, Pakistan is obliged to develop and lead on its own strategies for poverty reduction, improvement of institutions and tackling corruption under the Paris Declaration. This commitment requires that a national development policy is not only in place, but is backed up by strategies clearly outlining development priorities along with well-costed plans such as medium-term expenditure framework. The draft FPAF states that “Pakistan takes responsibility for setting its own development vision, goals and priorities. In this respect, the Government shall make a continuous effort towards country ownership, which entails the building of a supportive policy environment and a country-led system that would increase space for Pakistani people to take lead in, and ownership of, their own development”²⁵.

25 Government of Pakistan (2010), draft Pakistan Foreign Assistance Policy Framework, Economic Affairs Division, Islamabad.

Where does Pakistan stand on “ownership”? The official standpoint, reported in the 2011 OECD monitoring survey, is that the country has operational development strategies which were rated “C” initially, but have improved to “B” category. This rating is based on evidence provided against a given criteria, and this has been translated into a score by the World Bank. The 2010 target for Pakistan was to achieve either A or B rating. In this sense, this target has been met according to the Government.

From the viewpoint of citizens and civil society, it is important in the first place to be aware of the strategy about which ownership is being discussed. The rating appears to be based on qualitative assessment of Vision 2030 and the Framework for Economic Growth (FEG). The narrative that explains this rating in the Pakistan chapter of the 2011 monitoring survey does not refer to Poverty Reduction Strategy Paper II (PRSP II) even in the footnote, despite that the draft FPAF brings the PRSP in the forefront of the ownership agenda. The PRSP represents a national development strategy which was prepared in consultation with a broad range of stakeholders, but it appears to be superseded by FEG which has relatively a narrow base as it focuses only on economic growth, which is a pre-condition for poverty reduction and development but not sufficient.

Moreover, a key achievement, *inter alia*, used to justify this rating is that “Broad public consultations on the Framework for Economic Growth and the 10th Five-Year Plan have been enhanced via an online service on Ministry of Planning and Development website” (see Table 3.3). Provision of an online service for consultation does not deserve to be an “achievement” in itself; as it does not represent anything else except a beginning towards allowing the Internet users to comment and feedback. Although the usage of the Internet is high in Pakistan, few people use it on their own to make any meaningful contributions to policy documents such as FEG; it is not a substitute for off-line face-to-face interactive dialogue and consultation with civil society and other stakeholders. Although some consultations have definitely taken place on FEG, the level of meaningful citizen participation has seriously dropped, in comparison with PRSP.

The above concerns aside, the “B” rating is not sufficient and Pakistan needs to improve the authenticity and quality of its operational development strategies. The Government needs to put the PRSP in centre and front and prepare a time-bound action plan to move from this rating to the highest score “A”, including actions for more meaningful ways and means to create citizen and civil society ownership of the development agenda.

Table 3.1 Pakistan – Baseline, 2010 Targets and Actual Progress on Paris Declaration Commitments

Indicators		2005 Reference	2007	2010 Actual	2010 Target
Ownership					
1	Operational development strategies	C	C	B	B or A
Alignment					
2a	Reliable PFM systems	3.5	3.5	3.5	4.0
2b	Reliable procurement systems	N/A	N/A	N/A	N/A
3	Aid flows are aligned on national priorities	--	--	60%	85%
4	Strengthened capacity by co-ordinated support	--	--	80%	50%
5a	Use of country PFM systems	--	--	75%	No Target
5b	Use of country procurement systems	--	--	28%	No Target
6	Strengthened capacity by avoiding parallel PIUs	--	--	32	No Target
7	Aid is more predictable	--	--	86%	No Target
8	Aid is untied	84%	76%	88%	> 84%
Harmonization					
9	Use of common arrangements or procedures	--	--	31	66%
10a	Joint missions	--	--	17	44%
10b	Joint country analytic work	--	--	60	66%
Managing for Results					
11	Results-oriented frameworks	C	C	B	A & B
Mutual Accountability					
12	Mutual accountability	N/A	N/A	Y	Y

Source: Adapted from Pakistan chapter, OECD Monitoring Survey 2011

3.3.2 Alignment

Are Pakistan government and donors fulfilling their responsibilities to align aid on national development priorities?

Alignment is the most important pillar of aid effectiveness agenda, as over half of the Paris Declaration indicators are designed to measure it (see Table 3.1). This commitment requires the Pakistan government to reform procurement and public financial management systems (PFM) broadly in line with good practices. Subject to these reforms, all donors will have to align behind the national development strategies and use local systems. The progress is measured in terms of the quality of procurement and PFM systems; percent of donors and of aid flows that use country procurement systems which either adhere to broadly accepted good practices or have a reform programme in place to achieve these; aid flows reported on government budgets; and percent of donor capacity-development support provided through co-ordinated programme consistent with national development strategies. The draft FPAF lays down Pakistan's official viewpoint on alignment as follows: "foreign assistance is recorded in the national budget, aligned with national priorities expressed in PRSP and MTFD, increasingly untied and disbursed by using country systems"²⁶.

The progress reported in the 2011 monitoring survey is as follows: "Pakistan has made progress in several of 2010 targets associated with alignment: two out of the eight indicators associated with alignment have met the target, five of them did not have a target for 2010 and one indicator has not changed since 2005. Indicator 4 (strengthening capacity through co-ordinated support) scored 81%, well above the 50% target. The past five years have seen an improvement in untied aid, increasing from 84% to 88%. Indicators on the use of countries' PFM systems, procurement systems, strengthening capacity by avoiding parallel Project Implementation Units (PIUs) and aid is more predictable did not have targets in 2010"²⁷. A brief description is given below.

Alignment of aid inflows with national priorities

Aid is effective when it supports the development strategies agreed nationally in a consultative process. Therefore, all donors are required to align their funding with national development priorities. According to the official statistics reported in the 2011 monitoring survey, 60% of Pakistan's incoming aid was aligned with government's national priorities (see Table 3.1). The remaining 40% of aid flows were disbursed outside the government system.

26 Draft Pakistan Foreign Assistance Policy Framework 2010

27 Pakistan Chapter, 2011 OECD Monitoring Survey

From the viewpoint of civil society, the overall extent of alignment has to be interpreted cautiously for two reasons. First, disbursement of aid through the government system does not guarantee that aid is aligned with national development priorities. This issue is especially important because there is some confusion around the question of national development strategy behind which the government expects the donors to align their funding. Is it PRSP? Is it Economic Growth Framework? Is it Vision 2030? The draft FAPF requires the donors to align behind PRSP and MTDf, but the country report to OECD mentions the Economic Growth Framework as development strategy.

The 18th Constitutional Amendment has created substantial issue around the question of alignment and subsequently risks to effective utilization of aid. Given that provinces have taken charge of education, health, and other subjects which were previously in the domain of the federal government, the donors are either ambivalent about supporting vertical national programmes or are increasingly aligning their funding behind provincial programmes which may or may not be in line with the national development strategies.

The issue of incoherence between national and provincial priorities is inevitable due to variation in the political control of national and provincial governments. For example, Benazir Income Support Programme (BISP) is a national social protection initiative which is associated with the current national government run by Pakistan Peoples' Party (PPP), but it operates in all provinces. The donors that are partly funding this programme including the World Bank and DFID are concerned about the ownership of this programme in Punjab where the government is run by the opposition party. In the post-election scenario, the outcomes from this aid might be seriously jeopardized if the future government is from a different political party and is averse to carrying this programme forward. Similar concerns exist about provincial ownership of vertical health programmes such as Lady Health Workers' (LHWs) programme after the 18th Amendment.

Secondly, the geopolitical and economic stakes of donors discussed above also drive their aid commitments. There are concerns among the civil society that the alignment is driven more by the donors' headquarter policies and their own bilateral and multilateral aid reviews and assessments, and not necessarily by the national development priorities. While there are definitely sector level synergies, there is little evidence available to demonstrate the specific nature and extent of alignment and changes in it since 2005.

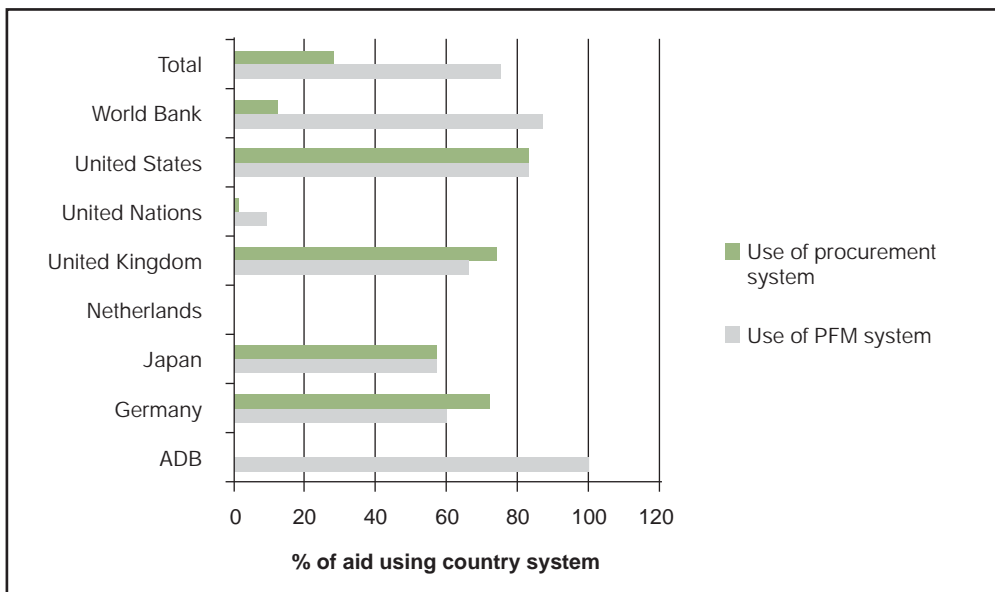
Thirdly, it does not make any sense to assume that all aid disbursed outside the government system through NGOs or other non-state partners is not aligned with national development strategies. The NGOs also work on poverty reduction and development priorities. Therefore, the measurement of alignment should account for their work also, irrespective of the delivery method.

Use of Country Systems

Transparency and quality of PFM and procurement systems are central to the effectiveness of aid, as they reduce risks of corruption and increase efficiency in the utilization of funds. Interviews with representatives of donors indicate that their confidence in Pakistan's PFM system has improved due to reforms in the accounting systems, especially due to roll out of the computer-aided Project to Improve Financial Reporting and Auditing (PIFRA). This has increased access of donors to expenditure information. However, donors are still concerned about wider fiduciary risks many of which relate to public sector procurement, especially pertaining to civil works and Technical Assistance (TA) components.

The official data indicates that overall, country PFM systems are used for 75% of donor aid. This percentage is as high as 100% for Asian Development Bank (ADB), Canada, European Union (EU) institutions and Islamic Development Bank. The World Bank's usage of country PFM system is 87%. These figures validate the impressions of interviewees that the confidence of donors in the PFM system is high. However, surprisingly, the use of country PFM system by the United Nations is just 9%. Some bilateral donors such as Netherlands, Korea and Turkey do not use Pakistan's PFM system at all (see Table 3.2 and Chart 3.1).

Chart 3.1 Use of Country PFM and Procurement Systems by Major Donors



Source: Compiled from data presented in Pakistan chapter, OECD monitoring survey 2011

The use of country PFM system depends largely on the risk appetite within the donors to take fiduciary risks and their ability to manage them. Donor-funded

programmes, especially budget support, are vulnerable to fungibility and various types of fiduciary risks. Although donors tie aid to specific projects or indicators, this association is largely notional because “the funds legally designated for specific development purposes may finance projects whose purposes are not in line with development objectives”.²⁸ While this issue concerns all donors, robust empirical evidence on this subject is scant. Khilji and Zempelli constructed an econometric model and found that US assistance to Pakistan, whether military or non-military, is fully transformed into fungible resources with an impact on public spending less significant than expected. Another study concludes that “aid is fungible in three out of five sectors examined. Developing-country governments receiving earmarked concessionary loans for agriculture, education, and energy reduce their own resources going to these sectors and use them elsewhere; only loans to the transport and communication sector are fully spent on the purposes intended by donors.”²⁹

In the specific context of Pakistan, fungibility of budget support is possible because the donors cannot fully track their funds. The government rules require that donor funds are disbursed via the State Bank of Pakistan (SBP). The SBP transfers the funds to the Federal Consolidated Fund if the recipient is a federal agency and to the Provincial Consolidated Fund if the recipient is a provincial agency. In the Consolidated Fund, the donor funds get mixed with government budget and hence cannot be precisely tracked beyond this level. It makes difficult to ascertain whether the funds are being used for the intended purpose. In addition, donor-funded programmes face various fiduciary risks. They come out as a mirror of government programmes because they face the same problems which plague public expenditure. Corruption is a major one, some donors are increasingly using sector-specific and programme-specific fiduciary risk assessments to manage these risks and fungibility issues, but it calls for a consistent dialogue between the government and the donors, particularly those who have low confidence in the PFM system.

The Paris Declaration calls upon the member governments to reform their procurement systems in line with good practices. Interviews conducted for this study indicate that the perception about Pakistan's procurement system is generally negative, and characterized by lack of transparency, inefficiencies, and leakages. Although Public Procurement Regulatory Authority (PPRA) rules are enforced, their implementation is too weak to raise donors' confidence. As a result, the incidence of outside-government procurement is high in grants assistance.

28 Nasir M. Khilji and Ernest M. Zampelli (1991), 'The Fungibility of US Assistance to Developing Countries and the Impact on Recipient Countries: A Case Study of Pakistan', *World Development*. Volume 19, No. 8, pp. 1095-1105.

29 Feyzioglu et. al. (1998). 'A Panel Data Analysis of the Fungibility of Foreign Aid'. *The World Bank Economic Review*. Volume 12, Issue 1, pp.29-58.

Table 3.2 Performance of Donors on Aid Effectiveness Indicators in Pakistan

Donor	Aid Scheduled by donors for disbursement in 2010 (USD m)	Aid disbursed for government sector in 2010 (USD m)	Government's budget estimates of aid flows in 2010 (USD m)	Disbursement recorded by government (USD m)	Co-ordinated technical cooperation (%)	Use of country PFM system	Use of country procurement system	United bilateral aid (%)	No. of parallel PIUs	Program-based approach (%)	Co-ordinated missions (%)	Co-ordinated analytic work
Asian Dev. Bank	100	979	390	346	0%	100%	0%	100%	0	0%	53%	67%
Australia	18	11	0	0	0%	..	..	100%	0	..	0	..
Canada	0	0	3	1	53%	100%	100%	100%	8	1%	10%	33%
EU Institutions	27	11	12	18	87%	100%	100%	100%	0	0%	0%	100%
Finland	0	0	0	0	..	..	..	100%	0	0%	100%	..
France	4	0	0	0	100%	0%	0%	100%	0	0%	0%	..
GAVI Alliance	54	48	0	0	..	0%	0%	3%	0	0%	..	..
Germany	44	52	25	19	99%	60%	72%	100%	0	28%	0%	63%
Global Fund	8	10	0	0	..	0%	100%	100%	0	0%	25%	33%
IFAD	42	32	..	0	..	100%	100%	100%	0	100%	100%	100%
IOM	16	0	..	..	100%	0%	0%	86%	0	100%	0%	100%
Isl. Dev Bank	0	1	13	14	100%	100%	0%	100%	13	0%	100%	100%
Italy	0	0	0	0	0	..	..	0%	0	0%	0%	..

Donor	Aid Scheduled by donors for disbursement in 2010 (USD m)	Aid disbursed for government sector in 2010 (USD m)	Government's budget estimates of aid flows in 2010 (USD m)	Disbursement recorded by government (USD m)	Co-ordinated technical cooperation (%)	Use of country PFM system	Use of country procurement system	United bilateral aid (%)	No. of parallel PIUs	Program-based approach (%)	Co-ordinated missions (%)	Co-ordinated analytic work
Japan	157	161	182	88	100%	57%	57%	100%	0	84%	0%	17%
Korea	3	3	0	13	100%	0%	0%	100%	0	0%	0%	0%
Netherlands	22	16	0	0	60%	0%	0%	100%	0	0%	0%	..
Norway	5	5	3	6	75%	94%	96%	100%	0	11%	0%	0%
Switzerland	0	0	0	0	53%	..	..	..	0	100%	3%	56%
Turkey	0	12	0	0	0	0%	0%	100%	0	0%	0%	..
United Kingdom	140	138	136	131	100%	66%	74%	100%	5	77%	50%	65%
United Nations	256	237	50	37	76%	9%	1%	100%	5	56%	28%	92%
United States	185	239	216	443	78%	83%	83%	100%	1	28%	..	..
World Bank	632	799	640	358	93%	87%	12%	88%	0	44%	31%	71%
Total	1714	2691	1621	1474	80%	75%	28%	88%	32	31%	17%	60%

July 2009-March 2010
Source: Budget Wing, Finance Division

These perceptions are validated from the statistics on the use of country procurement systems by the donors. Overall, only 28% of aid uses country procurement system. This percentage is extremely low compared with the use of PFM system, and is attributed to lack of confidence of major donors in government's procurement policies and procedures. The World Bank uses country procurement system only for 12% of aid, the United Nations for just 1% and Japan for 57% of aid. The ADB does not use the national procurement system at all (see Table 3.2). Given that donor-funded programmes involve substantial procurement, their impact is substantially dependent on the quality of procurement of goods and services. Some of the fiduciary risks highlighted above basically emerge in this area. This area poses a serious challenge to the Pakistan government to improve its procurement policies and raise the donor confidence.

Co-ordination in technical co-operation and implementation arrangements

Co-ordination in technical co-operation is an area in which donors have displayed significant progress. About 80% of technical cooperation is co-ordinated and jointly driven. Among the major donors, Asian Development Bank and Canada are the ones for whom co-ordinated technical cooperation is as low as 0% and 53% respectively. A major issue in this regard concerns the role of government which is blamed to be "too slow" and "lethargic" to procure technical assistance (TA) in budget support programmes. This affects the pace and quality of reforms in programmes.

On implementation arrangements, the number of parallel PIUs is reported to have decreased substantially over years. However, still 32 parallel PIUs exist most of which belong to Islamic Development Bank (13), Canada (08), United Kingdom and United Nations (5 each) and the United States (01). The existence of parallel PIUs is an indicator of low trust in implementation systems of the government and other donors.

Aid Predictability

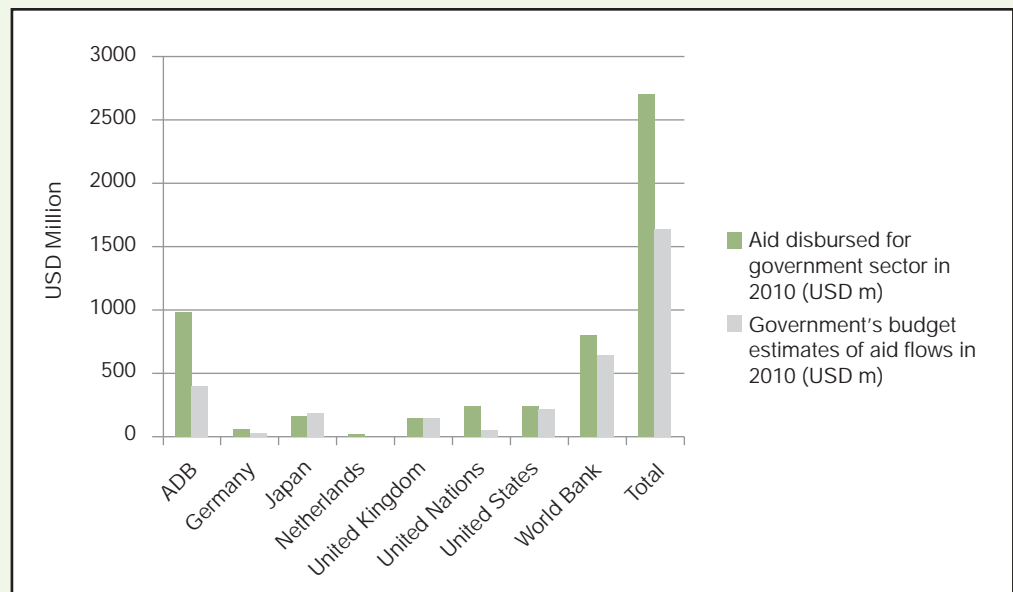
Donors are generally blamed for their inability to meet their aid commitments fully. This issue affects the ability of the government to factor in aid in their planning.³⁰ Historical data shows that disbursements of grants assistance and loans fell short of commitments in 26 years since 1978-79. There are five exceptional years in which disbursement exceeded the annual commitment, i.e. 1992-93, 1996-97, 1997-98, 1990-00 and 2000-01 (see Annex II). This pattern raises questions about predictability of aid which is a critical factor in ensuring its effectiveness and

30 Ali, Mukhtar Ahmed (2010). A Policy Scan of Official Development Assistance(ODA). Pakistan Coalition for Education, Islamabad

impact. A case in point is its impact on economic growth, which is negatively correlated with volatility of foreign aid.³¹

The official statistics on aid in the Pakistan chapter of 2011 OECD monitoring survey reinforce the concerns about aid predictability. The aid scheduled for disbursement by donors in 2010 totaled USD 1.71 billion, whereas the actual disbursement to the government sector was USD 2.69 billion. The scheduled aid as well as the disbursement was higher than the government's budget estimates of USD 1.62 billion aid flow. The aid recorded by the government was to the tune of USD 1.47 billion. As is evident from these figures, there is huge gap in predictability and flow of information between donors and the government. Due to this issue, the government cannot properly factor in the aid resources in development planning. This also indicates that the aid data systems such as Development Assistance Database (DAD) are not robust enough to provide information that could be used for realistic expenditure planning.

Chart 3.2 Aid Disbursements of Major Donors and Government's Budget Estimates of Aid Flows



Source: Compiled from data presented in Pakistan chapter, OECD monitoring survey 2011

Untying Aid

The issue of untying aid is an important one, but it is less understood as it applies in

31 Sami, Azim and Siddique (2011), 'Impact of Foreign Aid Volatility on Economic Growth in Pakistan. International Conference on Management, Business Ethics and Economics, December 28-29, 2011, Lahore.

the context of Paris Declaration. According to OECD, "untied aid is Official Development Assistance for which the associated goods and services may be fully and freely procured in substantially all countries"³². This means that the indicator of "untied aid" is not about untying aid from all types of conditionality such as about macroeconomic policy or structural adjustment etc. It is about allowing the recipient countries to procure goods and services (e.g. vaccines, consulting, etc.) locally. The official statistics suggest that 88% aid to the government sector is "untied", i.e. Pakistan government is free to procure goods and services locally.

Some donors prefer to tie aid to procurement of goods and services above a certain threshold from donor countries or elsewhere. Interviews with recipients of donor aid indicate that such restrictions on procurement have not been totally abolished; there is an inherent preference among donors to benefit their own service providers. As a result, donors procure their own administration-related goods and services associated with ODA from their own countries. Precise figures are not available due confidentiality of data, but presumably it would constitute a small proportion of total ODA. However, there is also high incidence of sourcing out high value contracts to consulting firms from donor countries³³. In interviews, civil society representatives demanded that the donors must disclose the percentage of ODA for which the associated procurement and outsourcing is done from their own country.

The matter of "untying aid" should not disguise donor conditionality, which is one of the most important elements of criticism on foreign aid in Pakistan. Particularly, the International Monetary Fund (IMF), World Bank and some bilateral donors such as USAID are criticized for tying aid to conditions which have a negative bearing on national sovereignty and entail adverse effects on the poor. The Structural Adjustment Programmes are a case in point. "The conditions posed by IMF mostly include the close monitoring, reduction of government spending, revision in tax collection policies, change in policy/discount rate etc. to make sure that funds granted to the borrower country are utilized in optimal manner. The IMF loans greatly impact the economic indicators and bring change in the regulatory framework which has both positive and negative impacts on the country. Pakistan saw a decline in GDP growth rate and other economic indicators right after infusion of IMF funds in the economy except in the second last lending arrangement in Musharraf's regime when full amount of loan was drawn from IMF."³⁴

32 SOECD, Glossary of Statistical Terms, <http://stats.oecd.org/glossary/detail.asp?ID=2817>

33 The EU donor countries manage procurement above a threshold centrally through a process called OJEU.

34 Saira Yousaf (2009), 'IMF Loans to Pakistan: History and Current Prospects'. Economistan. http://www.economistan.com/?data_id=221

Table 3.3 Learning from Success and Challenges

	Achievement or Challenge	Lesson or Priority Action
Ownership	Achievement: Broad public consultations on the Framework for Economic Growth and the 10th five-year plan have been enhanced via an online service on Ministry of Planning and Development website.	Lesson: the 2011 review of aid management policy through the Foreign assistance Policy Framework might broaden participation at sector level.
Alignment	Achievement: The Pakistan Development assistance Database (DAD) provided an alternative aid management system that captured all donor flows and can be used to support planning as well as to promote alignment and monitoring. Challenge: Internal auditing, legislative scrutiny and oversight on public expenditures remains	Priority action: the sector working group structure will be developed and put in place in 2011-12 to ensure a forum for active dialogue on sector alignment.
Harmonization	Achievement: Programme-based approaches (PBAs) ensured a coherent sector strategy where donors can harmonise capacity assessments and align to government-led capacity development planning.	Lesson: Capacity development activities have often taken the form of piecemeal projects, which has led to duplication and fragmentation.
Managing for Results	Achievement: the Common Results Framework should further strengthen the linkages between external and internal inputs to outputs and eventually to development outcomes.	Priority action: Ensure that data is reliable and collected from primary and secondary sources in a timely fashion.
Mutual Accountability	Achievement: Consultation on the upcoming (10 Five Year Plan) and the recently approved Framework for Economic Growth has been broadened by an online system whereby citizens can directly comment and voice an opinion on the strategy.	Priority action: implement both the evaluation system developed in 2006 by the Planning Commission and also the Development Partner scorecard to annually rank donors against a set of 15 indicators.

Source: Pakistan chapter, OECD Monitoring Survey 2011

The above discussion indicates that some progress on alignment has definitely taken place, but it is far from satisfactory especially because the government and donors are chasing no target on very important aspects, i.e. procurement, the use of PFM systems, procurement systems, strengthening capacity by avoiding parallel PIUs and aid predictability. The problem arising from the 18th Amendment

is further likely to hamper this progress. The very fact that no targets were set for five out of eight indicators of alignment underscores serious lack of commitment and drive on the part of the government and donors to move ahead on this agenda. If targets are not agreed on some of the most important aspects such as PFM, procurement and aid predictability even after seven years since the Paris Declaration was signed in 2005, it is difficult for many to believe that any conscious efforts have been made to align the foreign aid with national development priorities.

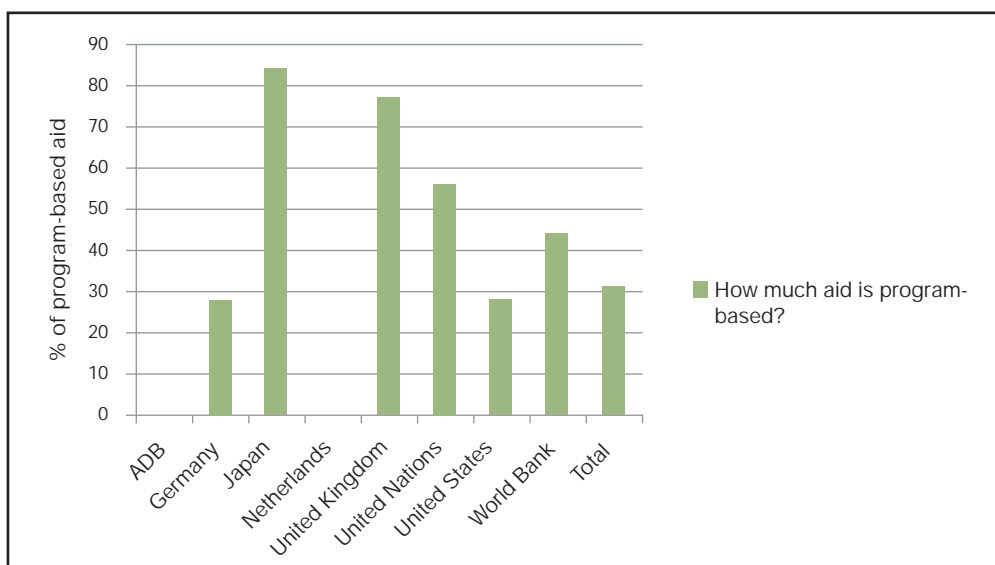
3.3.3 Harmonisation

Are donors coordinating with each other and using common procedures and analytics?

The commitment to harmonization requires the donors to coordinate, simplify procedures and share information to avoid duplication. More specifically, they are expected to come together to use programme-based approaches and undertake shared analyses through joint field missions, reviews and analytical work. The progress reported on donors' harmonization in Pakistan in the 2011 monitoring survey shows that none of the three targets has been met (see Table 3.1).

The use of programme-based approach in funding is a widely accepted indicator of alignment. Only 31% of donor aid in Pakistan is programme-based. This percentage is very low for some of the key donors: World Bank (44%), United States (28%), United Nations (56%), Netherlands (11%), and Canada (1%). The ADB and EU institutions are among the league of many donors who do not use programme-based approach at all.

Chart 3.3 How Much Aid is Programme-based?



Source: Compiled from data presented in Pakistan chapter, OECD monitoring survey 2011

On co-ordination in missions and analytical work, donors have shown least progress despite that they could have made fast progress in these areas without any changes in country level or central policies. Only 17% donor missions and 60% analytical works are co-ordinated. As Table 3.2 shows, these percentages are low for both major and small donors: ADB (53%, 67%), Canada (10%, 33%), Germany (0%, 63%), Japan (0%, 17%), United Kingdom (50%, 65%), United Nations (28%, 92%) and World Bank (31%, 71%). What does this low co-ordination mean? From the viewpoint of citizens, it represents duplication and waste of resources which could have otherwise been saved to achieve additional development outcomes. It also seriously affects the government business, as it consumes a lot of productive time of officials and takes them off their core duties. In this sense, lack of co-ordination among donors is actually counter-productive and needs serious attention from the donors.

These statistics suggest that donors are not coming together at pace to avoid duplication in arrangements and reviews associated with the use ODA. This obviously means that a portion of aid which could have been effectively used to achieve more outcomes is being wasted on parallel work by the donors. Informed observers believe that the process of harmonization has to start at the level of donor country governments, rather than country offices. Given that the country programmes are implemented within under central policies and guidance, there is little that the country offices can do to harmonize their procedures. For these reasons, the efforts among donors to come together are limited mainly to information sharing on ad-hoc basis.

There are numerous examples of joint financing by donors using programme-based approaches such as World Bank-DFID-CIDA funding for Punjab Education Sector Reforms Programme. However, there are concerns that such arrangements have not entirely eliminated duplication of analytical work, though it does reduce operational and management costs of co-financers. For instance, each donor prepares its own project document even in joint financing, which takes months along with expensive analytical work. Similarly, co-financers have a tendency to undertake their own separate programme reviews and evaluations, which not only increases the implementation costs but also creates additional liabilities for counterpart organizations and departments in terms of time and reporting requirements.

Harmonization is critical to gain efficiency and save duplication costs for better development outcomes. The main responsibility lies with the donors to come together and harmonize their processes, which cannot be achieved unless they overcome their political, ideological and branding issues. The poor performance on this end also reflects on the weak bargaining position of government which accepts to work with complex and duplicate procedures of multiple donors within the same programme.

3.3.4 Results

Are the Pakistan government and donors jointly measuring results?

Donors and Pakistan, like other developing countries, have committed to shift focus on development results. This commitment is judged from the use of transparent and monitorable performance assessment frameworks to assess progress against national development strategies and sector programmes. The draft FPAF also emphasizes the use of common results frameworks. The target of A or B has been met for the results-oriented framework indicator for 2010, with a rating of B from the World Bank. This indicates improvement since 2005, when Pakistan received a rating of C (Table 4.1).

While the shift of donors towards results-based funding is evident, the level at which these results are measured is suboptimal. By and large, the results are considered to be equivalent to “outputs” which may or may not lead to intended outcomes and goals. The choice of “outputs” as results is a pragmatic one. Donors are always under pressure to spend money against forecasts as a key criterion for measuring their own performance is their annual spend. Therefore, they link the disbursement of funds to outputs. To some extent, this is helpful because it incentivizes performance, but at suboptimal level. For example, in education sector budget support, results are measured in terms of outputs such as provision of stipends to girls, construction of schools and provision of missing facilities, etc. Donor disbursements are seldom linked to actual results measured in terms of changes in enrolment, learning outcomes and quality of governance. Nevertheless, these results are monitored, but it does not “push” either the donors or the government to focus on improvement in a real sense.

Who is benefitting from aid? Do donor-funded projects bring about a real change in the lives of the poor? These questions are fundamental to the debate on results and impact of aid in Pakistan. Donors as well as recipients of aid – government, non-governmental organizations – are blamed to extract resources in the name of the poor, but these resources get captured by the elite. This criticism is basically about the wider impact of aid it has made on human development, poverty reduction and economic growth. The disappointment from aid's inability to deliver results is evident from the following statement: “The United States' failure to produce aid efficacy in Pakistan has put its credibility at stake. The people of Pakistan can see that the programmes are not working and they are basically doubting our credibility and our intelligence”.³⁵

35 Altaf, Saima, 'Aid Effectiveness in Pakistan: Case Study of the Health and Population Sector'. July 9, 2008. Woodrow Wilson Centre.
http://fffp.org.pk/index.php?option=com_content&view=article&id=80

3.3.5 Mutual Accountability

Are there any mechanisms in place for accountability on aid?

The commitment to mutual accountability requires donors and Pakistan as their development partner to undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in Paris Declaration. The official viewpoint is that the “target for mutual accountability for 2010 has been met in Pakistan. The country's aid policy and strategies undergo a long series of consultations with donors and parliament. Consultation on the recently approved Framework for Economic Growth was broadened by an online system whereby citizens can directly comment and voice an opinion on the strategy. Some donors have developed their own country-specific aid effectiveness targets”³⁶.

The grounds on which this progress is based are untenable. In the first place, the aid policy has not been properly debated at any level. Indeed, it is not known to the wide range of stakeholders within the political parties, government and NGOs in Pakistan. Similarly, the creation of an online forum to broaden the consultation on EGF is not worth to be called a mechanism for mutual accountability which is a more discreet concept for answerability to each other on the results achieved. The most important accountability institutions including the parliament and standing committees hardly get involved in aid impact debate. Pakistan Development Forum allows relatively more informed discussions, but even it allows accountability discussions in a narrow sense due to weak beneficiary monitoring in joint results-frameworks, reviews and impact evaluations. Mutual accountability can be achieved only if donors and government shift their emphasis to evidence-based discussions on whether aid is working for the poor.

Transparency and access to information about where and how aid is spent is central to the concept of effectiveness and impact. This issue is primarily linked to the broader risks of fungibility, corruption, and procedural violations. Pakistan's adverse ranking on Transparency International's corruption perception index has further raised doubts among the public, international media as well as donors about misappropriations. Some measures have been taken such as publication of aid statistics on DAD and in Pakistan Economic Survey, but it can be used to portray only a picture at aggregate level. A lot of information does not come out in the public domain due to which perceptions about corruption are widespread. One piece of evidence relates to the emphasis placed by the United States on Pakistani government to improve transparency as a precondition for disbursement of aid committed in the Kerry Lugar Bill. The responsibility of poor transparency lies with

36 Pakistan Chapter, 2011 OECD Monitoring Survey

donors as well as the government and non-governmental recipients which have been unable to implement comprehensive information disclosure regimes.

3.3.6 Overcoming Limitations of the Paris Declaration

Although the Paris Declaration is considered to be a turning point in the global efforts for effectiveness of aid, it has received a gale of criticism from international NGOs and anti-aid lobbies. It is argued that the Declaration is process-heavy and focuses on a narrow set of indicators. Critics argue that it tends to hide the wider strategic issues of aid effectiveness such as aid conditionality. It focuses only on untying aid to allow freedom to the recipient countries to procure goods and services locally, but ignores other conditions which are perceived to be harmful such as those under the Structural Adjustment programmes. Similarly, it tends to disregard the issues concerned with aid necessity and external debt liabilities.

Aid necessity, for example, is a critical element of the aid effectiveness debate but it does not neatly fall within the purview of the Paris Declaration framework. The question of aid necessity is concerned about the question of inevitability of external assistance for Pakistan. Two incompatible strands of opinion overshadow this debate. The first strand represents ideologues and proponents of self-reliance who reject foreign aid straightaway, particularly the assistance in the form of loans. This concern is especially important because "grant components has gradually been eliminated from the international funding, be it from donor countries, consortium partners or international financial markets and bank, particularly IMF and the World Bank".³⁷ They perceive it as a curse and a new instrument of colonialism and imperialism which donor countries use to

Box 3.2

Aid Necessity versus Corruption

Does Pakistan really need foreign assistance? One answer to this question comes from champions of tax reforms and zero tolerance to corruption. According to some estimates, Pakistan loses Rs. 3,100 billion annually in corruption. This amount includes Rs. 1,900 billion in tax evasion³⁸. In 2009, the net ODA to Pakistan equaled Rs. 218.31 billion approximately – 7% of the amount lost to corruption every year. This means that reduction in corruption even by a quarter degree can save an amount of resources higher than ODA received by Pakistan.

37 Bengali, Kaiser (undated). 'Usage of International Funding/Aid'. Journalists for Democracy and Human Rights website www.jdhr.org/publications/media-and.../Dr%20Kaiser%20Bengali.pdf

38 Daily News, Economic Paradox, October 31 2011. <http://www.dailynews.net.pk/oct2011/31-10-2011/daily-news-editor.asp>

advance their own economic and political objectives. They argue that Pakistan can enhance its own revenue base by reforming the tax collection and tackling the corruption (see Box 1.1).

The second strand views aid as essential for coping with economic and financial shocks, development needs and humanitarian crises. Indeed, it considers the aid flows insufficient and emphasizes on the donor countries to meet their international obligations of committing ODA equivalent to at least 0.7% of GDP. However, there is a strong belief that aid is not to stay forever; Pakistan will have to move towards self-reliance in the long term, and transform the present money-driven aid landscape to one which is based on technical cooperation.

Similarly, debt burden is a huge issue from the perspective of citizens, but it tends to be sidelined by the Paris Declaration framework. Loans constitute a substantial proportion of total ODA inflows into Pakistan. The national government enjoys massive discretion to procure external loans. External borrowing has witnessed a huge surge during the present regime led Pakistan Peoples Party (PPP) since early 2008. The surge was unprecedented particularly in loans from the IMF which shot up by 584.62%. A sum of Rs. 889.56 billion was allocated for debt servicing in 2010-11. Out of this amount, Rs. 76.80 billion was earmarked for interest. The amount paid on interest only is 60% higher than federal government's total expenditure on education³⁹. External borrowing has created huge liabilities on the citizens due to harsher terms of loans and rising cost of debt servicing in real terms. These issues need to be at the center and front of aid effectiveness debate in Pakistan.

In a nutshell, Pakistan has made some progress on commitments made in the Paris Declaration but it is far from satisfactory. On ownership, the key issue is that PRSP has been ignored as a national development strategy and instead EGF is being presented as something behind which donors should align their funding. On alignment, 40% aid flows are not aligned with national priorities. Donors and government lack serious commitment as targets have not been set for key areas. Procurement and reliability of PFM system continue to hamper progress. On harmonization, donors have failed to make any meaningful progress in using common procedures and avoiding duplication. The focus on results is suboptimal, as donors want to disburse money and link it to outputs rather than higher level outcomes. Mutual accountability mechanisms are weak and notional, as they are not "beneficiary-centered".

39 The federal government's education expenditure was Rs. 47.76 billion in 2010-11. See I-SAPS (2011), Public Financing of Education in Pakistan: Analysis of Federal and Provincial Budgets, Islamabad.

CHAPTER 4

Aid Effectiveness in Education Sector

4.1 Introduction

4.2 Pakistan's Performance on Education

4.3 Education Financing and Foreign Aid

4.4 Issues in Effectiveness of Aid to Education

Aid Effectiveness in Education Sector

4.1 Introduction

Education is a fundamental building block of human capital formation. Therefore, investment in education of citizens becomes a high priority of every nation which aims to develop its human capital for driving economic growth and development. Globally there is considerable evidence in support of a direct relationship between investment in education and per capita income and economic prosperity⁴⁰. This has led to a consistent demand on developing countries to spend at least 4 percent of Gross Domestic Product (GDP) on education. In particular, reference is made to investment of the East Asian countries on education which played an instrumental role for them to emerge as economic leaders in the world⁴¹. These countries invested a significant proportion of their budgets on education and developed quality human capital which led the process of their industrial advancement.⁴²

The need for investment in education is of paramount importance from the perspective of citizen rights as well. "Education is a human right with immense power to transform. On its foundation rest the cornerstones of freedom, democracy and sustainable human development."⁴³ An educated person has better capability to realize other human rights and participate in state-building through greater self-consciousness, knowledge and skills. The Universal Declaration of Human Rights (1948) stipulates that "everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory."⁴⁴ This right is enshrined in the Millennium Development Goals (MDGs) also which oblige each signatory nation to achieve universal primary education by 2015. This commitment has created further pressure on developing countries to expand their education systems and create equal opportunities for free and compulsory primary education.

40 See, for example, Stevens and Weale (2003), 'Education and Economic Growth', National Institute of Economic and Social Research, London. Also see Soto (2006), 'The Causal Effect of education on aggregate income'. Instituto de Análisis Económico, Barcelona.

41 World Bank (1993). The East Asian Miracle: Economic Growth and Public Policy. World Bank Policy Research Report. Oxford University Press. USA.

42 King and Guerra (undated), Education Reforms in East Asia: Policy, Process and Impact', World Bank. USA.

43 Kofi Annan's statement cited in UNICEF (1999), The State of World's Children 1999.

44 Article 26, Universal Declaration of Human Rights

In Pakistan, this impetus additionally has come from the insertion of Article 25 (a) in the 18th Constitutional Amendment which obliges the state to provide free and compulsory education to every child in the age group of 5-16 years. In constitutional terms, it requires the state to bear the full costs of educating children in this age group in public as well as private schools.

Investment in education is faced with immense challenges in Pakistan. The country is passing through a demographic transition that entails extraordinary implications for its human capital, economic growth and development. By the mid-21st century, Pakistan's population is likely to increase from the current 180 million to over 300 million. This population bulge will be characterized by a thriving young workforce. This change promises huge demographic dividend if the country is able to provide quality education to its young population. While many more children will enter into school-age in future, there are presently 12.9 million out-of-school children at primary and lower secondary levels⁴⁵. This challenge requires huge expansion in the education system on one hand, and calls for making the quality of teaching and learning better on the other.

Despite the enormity of the challenge, public expenditure on education has been low at around 2-3 percent of the GDP and has historically competed with financing needs for other social sectors, debt repayments, huge subsidies to public corporations, and massive military expenditure. Unless the tax-to-GDP ratio is improved, it is difficult to make a case for a huge leap in state funding for education and therefore part of the financing gap is met through foreign aid from various bilateral and multilateral donors. Although aid constitutes a small proportion of overall education expenditure, it has had been subject to huge criticism, especially from the civil society. Appraisal of this criticism within the framework of Paris Declaration is the main subject of this chapter.

4.2 Pakistan's Performance on Education

Pakistan is faced with multifarious challenges in providing quality education to its population. All key indicators present a dismal state of affairs. At the primary level, the Gross enrollment Rate (GER) and Net Enrollment Rate (NER) are 91 percent and 61 percent respectively. This indicates that a large number of children do not enter into school at the right age. Enrollment falls down sharply at middle and matric levels where the NER is 20 percent and 12 percent respectively. It indicates the inability of the education system to retain children. A huge proportion of population has never attended a school. The literacy rate is 58 percent which is among the lowest in the world. More women are illiterate than men. The rural population is particularly disadvantaged. Only 49 percent rural population aged 10

45 UNESCO Institute of Statistics 2010

years and above is literate compared with a literacy rate of 74 percent for urban areas.

Table 4.1 Pakistan's Key Education Indicators

	Overall	Male	Female	Rural	Urban
Population that has ever attended school (%)	60	71	47	51	75
Population that has completed primary education or above (%)	49	59	39	40	67
Gross enrollment rate (GER) primary 4-9 years	91	98	82	85	106
Net enrollment rate (NER) primary 4-9 years	61	65	57	56	73
NER middle 10-12 years	20	22	19	17	29
NER matric 13-14 years	12	12	12	9	18
Literate population 10 years and older (%)	58	46	69	49	74
Out-of-school children – primary (million)	5.1	..	..	..	..
Out-of-school children- lower secondary (million)	7.8	..	..	..	..
Children who can read a sentence in Urdu/Sindhi (%)	..	33.7	26.5	41.8	..
Children who can read a sentence in English (%)	..	35.7	27.9	25.8	..
Children who can at least do subtraction (%)	..	32.6	25.06	40.1	..

Sources: PSLM 2010-11; ASER 2011; UIS 2010

These indicators lead to the key challenge for Pakistan which is to tackle deprivation and exclusion from education by bringing the large number of out-of-school children into the education system. According to the UN estimates, 12.9 million children are out of school at primary and lower secondary level in Pakistan. The country is placed second in the global ranking of countries in relation to the proportion of out-of-school children. Roughly one in every ten children who are out of primary school worldwide lives in Pakistan, placing the country second in the global ranking of out-of-school children⁴⁶. Although the demand-side factors such as poverty and cultural barriers have played an important role in keeping the children out of school, the public education system has also been unable to tailor the access strategies to specific needs of excluded groups such as girls and child laborers.

Private schools are playing an important role in meeting the educational needs of population. Between 1999-2000 and 2007-08, the number of private educational institutions increased 8 times faster than the public sector. This growth

is much higher for single-sex schools than mixed schools and much higher in rural areas than urban areas. In addition, the rise of private schooling has significant impact on enrolment in government schools. Between 1999-2000 and 2007-08, public sector's percentage share of enrolment decreased by 3%, 19% and 10% at primary, middle and high levels respectively because the private sector was able to attract greater number of children. Another important trend is visible in the form of higher growth of girls' enrolment during this period which is likely to change the conventional ratio in which boys exceed girls in absolute numbers in private schools.

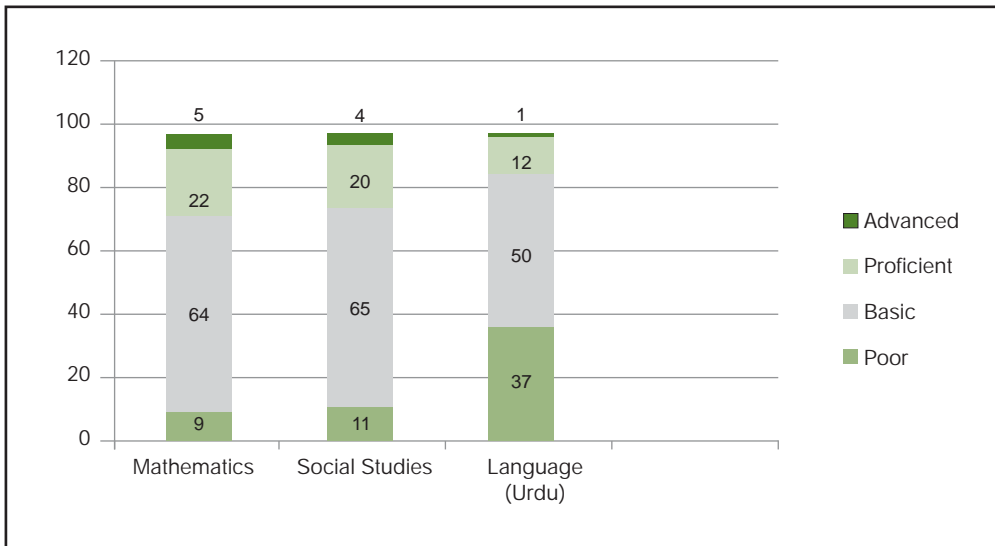
Although there is a thriving private sector catering to over a third of total school enrollment, a huge proportion of school-age population is still out of reach. In order to educate these children, more and better investment in infrastructure, teacher training and governance is needed. The need for more resources becomes even more acute to fulfill the constitutional duty to provide free education to all children up to the age of 16.

Learning also presents another important challenge. The national and provincial assessment data indicate that even those who attend schools are not learning well. The Annual Status of Education Report (ASER) which measures basic literacy and numeracy skills of children confirms it. Only a third of the children assessed are able to read properly in Urdu and English and do simple subtraction. Learning is marginally better for boys than girls and in private schools than public education system. The data collected by the Punjab Education Assessment System (PEAS) through more rigorous learning tests of Grade IV students also shows that a majority of children's performance falls in poor and basic categories in Mathematics, Social Sciences, and Language (Urdu). Only 22 percent students in Grade IV are proficient in Mathematics, 20 percent in Social Studies and 12 percent in Language. Those who are at advanced learning level are extremely few (see Chart 4.1).

Gender inequality and regional disparity present a huge challenge.⁴⁹ The figures in Table 4.1 also point out the incidence of disparity between boys and girls, and rural and urban population. In terms of enrollment, gender disparity is high at the primary level and narrows down at middle and matric levels unlike the rural-urban disparity which is more conspicuous in secondary education. A research on the current status of education in the districts of Punjab in comparison with the

- 46 UNESCO (2010), *Reaching the Marginalized*. EFA Global Monitoring Report. Oxford University Press.
- 47 I-SAPS (2010), *Private Education in Pakistan: Mapping and Musing*, Islamabad.
- 48 See National Education Assessment System (NEAS) reports and Annual Status of Education Report (2010 and 2011).
- 49 According to PSLM, none of the provinces has achieved parity in enrolment of boys and girls at any level.

Chart 4.1 Subject-wise Performance of Grade IV Students in Punjab (% of Children)



Source: Punjab Education Assessment System (PEAS) Report 2011

attainment in 1998 illustrates this problem as follows: “The relative pattern of education status across Punjab has hardly altered in the last ten years even with the considerable progress that has been witnessed. This shows that an unchanging relative ranking of districts seems to exist unless significant endorsement of education takes place within the lowest ranked districts”.⁵⁰ The Southern Punjab is a classic example of education poverty. This region has been unable to move up in education ranking over several decades.

Box 4.1

Pakistan is in a state of EDUCATION EMERGENCY even after over 50 years of financial aid and technical assistance from donors in this sector.

Pakistan has 12.9 million children out of school at primary and lower secondary level - second highest in the world after Nigeria.

There is ZERO chance that Pakistan will meet the Millennium Development Goal on education.

At the current rate of progress, all children will be able to realize their constitutional right to education in 2041 in Punjab, in 2049 in Sindh, in 2064 in Khyber Pakhtunkhwa, and in 2100 in Balochistan.

Sources: UIS (2010); Pakistan Education Task Force (2011)

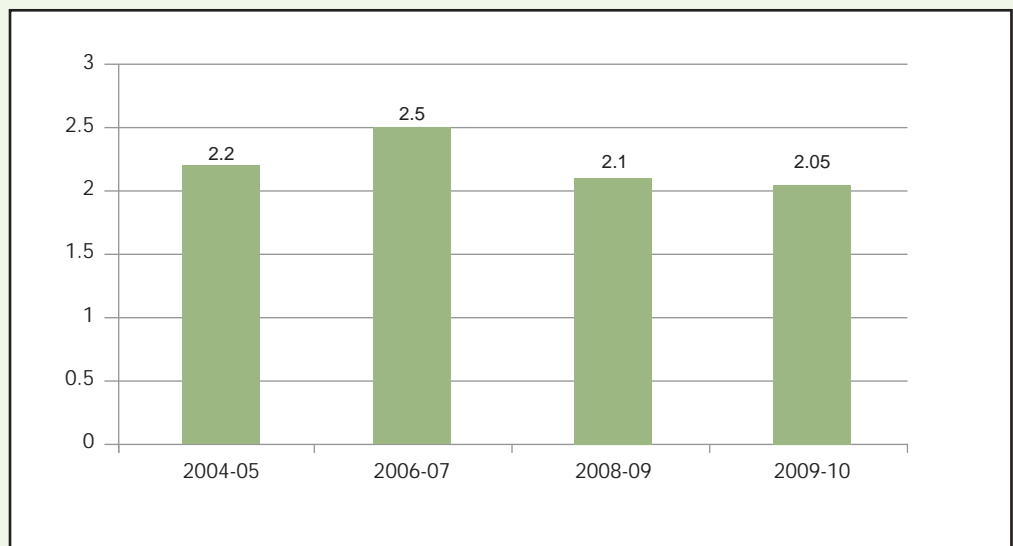
50 Aisha Khan (2009), 'Education Order in Punjab'. Centre for Research in Economics and Business. Lahore School of Economics

Low access, poor learning and persistent disparity have come together to affect the ability of Pakistan to meet the MDG 2 and achieve universal primary education. Progress on this commitment is measured on indicators of NER, primary completion rate and literacy rate. Pakistan lags on all these indicators. There is a zero chance that it will achieve the MDG 2 by 2015. A new National Education Policy was adopted in 2009 to accelerate progress and more help sought from donors to meet this target, but still the access and learning challenge are unprecedentedly immense.

4.3 Education Financing and Foreign Aid

The education system of Pakistan is hugely diverse and large in size. Punjab alone caters to the education needs of a population which is twice as much as the UK's entire education system does. There are 27.4 million children who are enrolled in public and private schools at primary, middle and matric levels in the country⁵¹. In addition, 12.9 million children in primary and lower secondary age groups are still out of school and have to be provided with access to an education. The major source of financing education of these children is public expenditure, though out-of-pocket expenditure on public and private education is also believed to be significant. The spending of federal and provincial governments has risen steadily and is in the region of approximately 300 billion rupees annually.⁵² As a percentage

Chart 4.2 Public Expenditure on Education as % of GDP



Source: Economic Survey (various issues)

51 Pakistan Economic Survey 2011-12

52 Estimate from public expenditure data given in Pakistan Economic Survey (various issues).

of the GDP, it is still in the vicinity of 2 percent which is comparably lower than many developing countries at the same level of GDP and per capita income.

In the literature,⁵³ it has been argued that this capability has not been attained because the expenditure on public education system has long been 'insufficient' and 'inefficient', given that the government is still the dominant service provider. There has been a huge push from the civil society and international development partners to increase the government funding up to at least 4 percent of GDP. Although almost all the education policies set the expenditure target at this level, it never happened in reality. The latest National Education Policy 2009 was even more ambitious to set the target at 7 percent of GDP. It is argued that it is not financially possible to increase the expenditure further because Pakistan's tax-to-GDP ratio is very low. In 2011-12, it stood at 9.5 percent⁵⁴. In addition, a high proportion of the GDP goes to debt servicing, subsidies to public corporations (i.e. Pakistan International Airlines, Water and Power Development Authority and Pakistan Steel Mill) and defense expenditure annually.

Increase in the education expenditure is possible only if the government increases its revenues and mobilizes foreign aid. While the emphasis on increase in education expenditure remains intact, debate is gradually opening up to focus also on improving the quality of expenditure and optimizing the efficiency of current level of funding by setting the priorities right and reducing waste. This shift is evident from criticism on rising expenditure on salaries, reductions in non-salary budget, low expenditure, expensive and non-transparent public sector procurement, to name a few⁵⁵. In this context, aid to education sector is viewed important for bridging the funding gap on one hand, and for increasing the capacity of education system to deploy the available resources more effectively through sound reforms, additional programming, and leveraging the support from NGOs and private sector on the other hand.

Education sector has been a major recipient of Official Development Assistance to Pakistan historically. Prior to the 1990s, the aid has mostly been spent on standalone projects. However, as the discourse on international aid to education in the early 1990s shifted to a Sector Wide Approach using existing institutional mechanisms, the donor support to education in Pakistan also changed to this funding modality, though small donors continue to fund

53 See, for example, Government of Pakistan (2009), National Education Policy, Islamabad. Also see I-SAPS (2010), Public Financing of Education in Pakistan: Analysis of Federal and Provincial Budgets, Islamabad.

54 Pakistan Economic Survey 2011-12

55 I-SAPS (2010), Public Financing of Education in Pakistan: Analysis of Federal and Provincial Education Budgets, Islamabad.

standalone projects (see Table 4.3). The decade of the 1990s witnessed a major investment in education as part of the overall investment in the social sector under the Social Action Programme (SAP). The completion of SAP was followed by donor funding for provincial Education Sector Reforms⁵⁶. In addition to funding modalities, the aid portfolio has been very diverse in terms of volume of aid flows and sub-sector priorities as well.

Table 4.2 Aid to Education in Pakistan

Year	Total Aid to Education (US \$ Million current prices)	Aid to education as % of total ODA	Aid to education as % of total government expenditure on education
1990	48.8	4.3	4.8
1991	63.8	4.7	5.5
1992	91.0	9.0	7.6
1993	90.1	9.0	7.3
1994	106.4	6.6	7.4
1995	78.8	9.6	4.7
1996	112.7	12.8	6.3
1997	83.1	13.9	5.3
1998	80.8	7.7	5.3
1999	84.2	11.5	5.9
2000	71.6	10.3	5.1
2001	59.6	3.1	4.7
2002	43.0	2.0	2.9
2003	52.3	4.9	2.4
2004	47.5	3.3	2.0
2005	194.6	12	6.8
2006	16.82	0.5	..
2007	411.28	11.2	..

56 Malik and Naveed (2010). Financing Education in Pakistan: The Impact of Public Expenditure and Aid on Education Outcomes, RECOUP Working Paper No. 42, Cambridge, UK.

Year	Total Aid to Education (US \$ Million current prices)	Aid to education as % of total ODA	Aid to education as % of total government expenditure on education
2008	241.08	5.1	..
2009	820.07	22.3	..
2010	521.45	19.9	..
2011	129.75	7.8	..
Annual Average	156.8	8.7	4.4

Source: 1990-2005 data based on Malik and Naveed (2002); 2006-2011 data updated by I-SAPS from DAD database and EAD ODA statistics.

The volume of total aid inflows into Pakistan has fluctuated over time with changes in domestic and international policies and events. Recent estimates suggest that aid constitutes about 5-6% of government expenditure and 2% of GDP. Thus, aid dependency has decreased over years. The level of aid dependency in education sector is also modest. Over the past two decades from 1990 to date, aid to education has been just over 4 percent of total education expenditure on the average. In relative terms, this contribution is very small, as the bulk of expenditure still comes from the government. In some years, donor contribution has been as low as just 2-3% and as high as 6-7%. Education's share in total ODA is 8.7% on the average.

The volume of aid to education has also fluctuated in absolute terms. In 1990, total aid to education in Pakistan stood at USD 48.8 million. The aid increased sharply in 1992 to the tune of USD 91 million due to the commencement of SAP which included a huge component on primary education. However, this level of funding declined considerably after SAP. The figures in Table 4.2 indicate that aid to education in the post-MDGs period was even lower than the SAP period. This is contrary to the popular perception that donors increased their funding to help Pakistan achieve the MDG-2. Indeed, the funding declined in the first few years after the Millennium Declaration. The disbursement of aid was the lowest in 2006 at USD 16.82 million, though commitments were much higher than this amount. This is mainly due to diversion of donor funding for recovery and rehabilitation work in the aftermath of October 2005 earthquake.

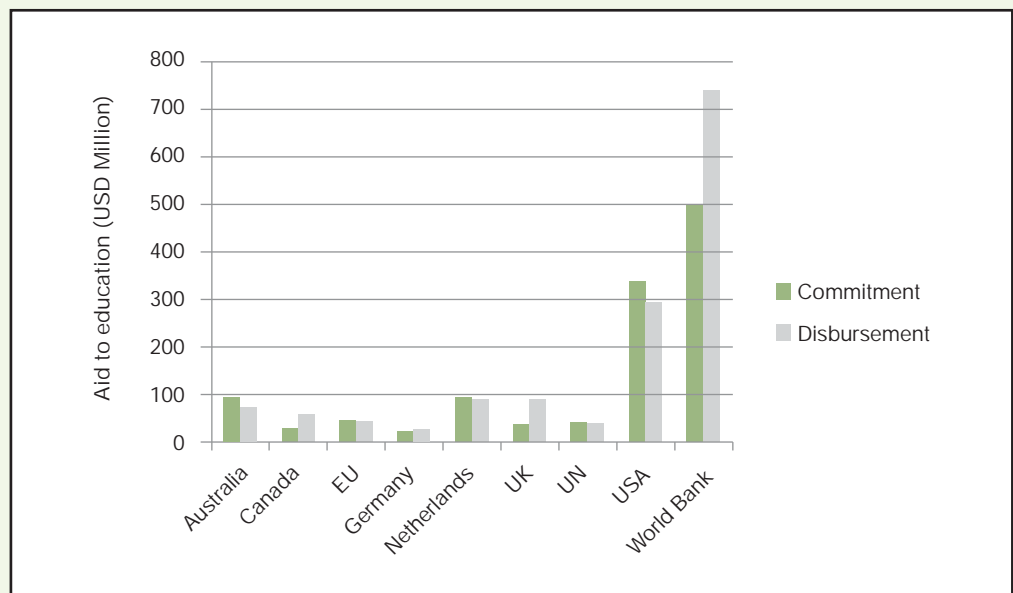
The rise in aid to education occurred only after the realization that Pakistan will not be able to achieve the universal primary education by 2015. Thus, financial support from the donors to realize the MDGs came in very late. This is evident from huge aid flows to the tune of USD 820.07 and USD 521.45 million in 2009 and 2010

57 Exchange rate of USD 1=90 rupee is used for this conversion.

respectively. In 2011, the level of funding has again decreased, but overall, the country received USD 1471.27 million over the past three years – equivalent to approximately 132.3 billion rupees⁵⁷ - in aid to education.

The source of this aid is a pool of over 30 bilateral and multilateral donors. However, the bulk of aid to education comes from a few donors. In the past three years, 97% aid came from nine donors including Australia, Canada, European Union (EU), Germany, Netherlands, the United Kingdom, the United Nations, the United States and the World Bank. The World Bank was the largest donor which provided USD 739.89 million for education, followed by USA (USD 291.36 million), Netherlands (USD 88.40 million) and UK (USD 87.4 million). The funding from World Bank comprises of loans for education sector support projects from primary to tertiary levels. These loans alone constitute 50% of total aid to education in Pakistan in 2009, 2010 and 2011.

Chart 4.3 Commitments and Disbursements of Major Education Donors (2009-11)



Source: Compiled from data presented in Pakistan chapter, OECD monitoring survey 2011

Aid to education spans all provinces and territories including Federally Administered Tribal Areas (FATA), Gilgit-Baltistan and Azad Jammu and Kashmir. Most of the donor-funded education programmes concentrate on more than one province. Out of a total disbursement of USD 1471.25 million over three years from 2009 to 2011, 32% (USD 466.65 million) went to two or more provinces and territories. The share of country-wide donor-funded education projects stands at

57 Exchange rate of USD 1=90 rupee is used for this conversion.

Table 4.3 Donor-wise Breakdown of Aid to Education in Pakistan 2009-2011

Donor	No. of Projects	2009-10						2010-11		2011-12		Total (3 Years)			D as % of C
		C		D		C	D	C	D	C	D	C	D		
		C	D	C	D										
ADB	5	0	4.82	0	4.04	0	6.62	0	15.48	0	0	0	15.48	..	
Andorra	1	0.007	0.007	0	0	0	0	0	0.007	0.007	0	0	0.007	100	
Australia	28	35.89	28.29	57.93	35.85	-1.67	6.6	92.15	70.74	76.77	76.77	76.77	76.77	76.77	
Austria	2	0	0	0.17	0.17	0	0	0.17	0.17	0.17	0.17	0.17	0.17	100	
Belgium	1	0	0	0.37	0.37	0	0	0.37	0.37	0.37	0.37	0.37	0.37	100	
Canada	18	22.87	31.26	5.66	19.62	-1.62	4.71	26.91	55.59	206.58	206.58	206.58	206.58	206.58	
Czech Republic	1	0	0	0	0	0	0	0	0	0	0	0	0	..	
Denmark	4	0.03	0.03	4.41	3.06	-1.12	0.22	3.32	3.31	99.70	99.70	99.70	99.70	99.70	
EU	12	5.73	15.71	37.98	15.88	0	8.98	43.71	40.57	92.82	92.82	92.82	92.82	92.82	
Finland	1	0.31	0.31	0.31	0.31	0	0	0.62	0.62	100	100	100	100	100	
France	2	0.08	0.08	0	0.27	0	0.08	0.08	0.43	537.5	537.5	537.5	537.5	537.5	
Germany	11	14.48	18.16	4.18	5.99	0	0	18.66	24.15	129.42	129.42	129.42	129.42	129.42	

Legend: C – Commitment; D – Disbursement

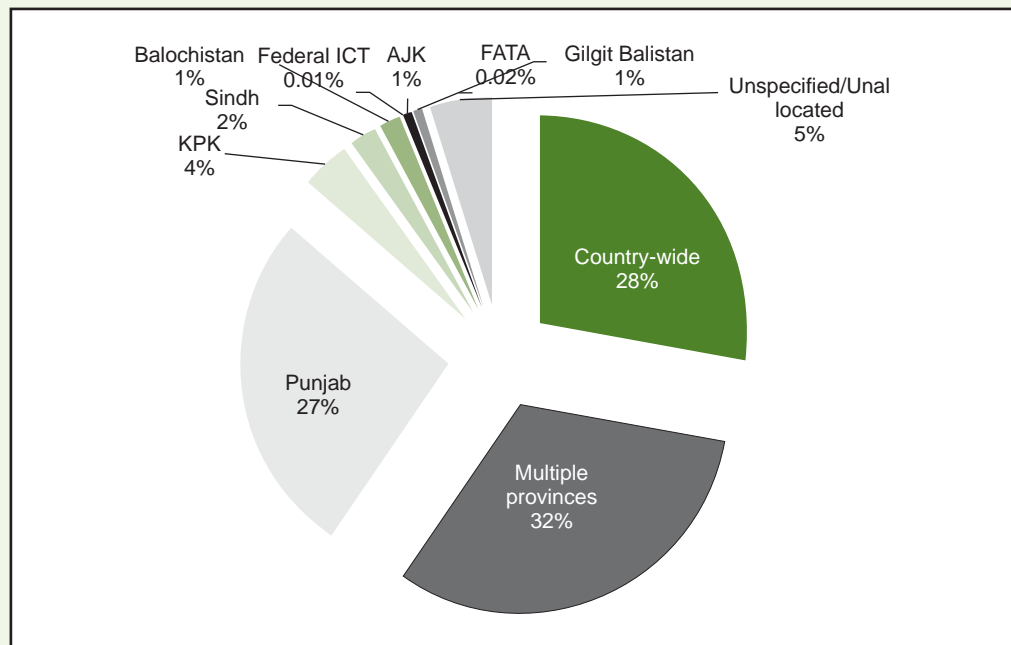
Donor	No. of Projects	2009-10		2010-11		2011-12		Total (3 Years)			D as % of C
		C	D	C	D	C	D	C	D	D	
Hungary	1	0	0	0.35	0.35	0	0	0.35	0.35	0.35	100
Islamic Dev Bank	3	0	0	0	0	0	0	0	0	0	..
Int. Private Donors	5	0.01	0.41	0.28	0.29	0.4	0.4	0.69	1.1	1.1	159.42
Ireland	1	0	0	0.36	0.36	0	0	0.36	0.36	0.36	100
Italy	10	2.15	0.64	2.5	1.62	0	0	4.65	2.26	2.26	48.60
Japan	30	1.9	5.39	3.25	1.06	10.7	0	15.85	6.45	6.45	40.69
Netherlands	15	32.07	21.23	67.11	53.86	-7.96	5.55	91.22	80.64	80.64	88.40
New Zealand	1	0	0	0	0	0	0	0	0	0	..
Norway	9	6.74	2.03	0.8	6.38	0	0	7.54	8.41	8.41	111.54
OPEC Fund	1	0	0	0.26	0.25	-0.01	0	0.25	0.25	0.25	100
Saudi Arabia	3	0.88	0.88	3.26	2.47	-0.79	0	3.35	3.35	3.35	100
Spain	1	0.99	0.99	0	0	0	0	0.99	0.99	0.99	100
Sweden	3	0.25	0.25	0.31	0.31	0	0	0.56	0.56	0.56	100

Legend: C – Commitment; D – Disbursement												
Donor	No. of Projects	2009-10		2010-11		2011-12		Total (3 Years)			D as % of C	
		C	D	C	D	C	D	C	D	D		
Switzerland	4	0.03	0.03	0.05	0.05	0	0	0	0.08	0.08	100	
UK	21	16.87	44.97	19.02	41.73	0	0.7	35.89	87.4	87.4	243.52	
UN	33	5.5	3.68	4.53	4.27	1.48	1.62	11.51	9.57	9.57	83.15	
UN Globally Mobilized Non-Core Assistance	17	7.31	7.14	20.3	19.11	0.15	1.06	27.76	27.31	27.31	98.38	
USA	29	147.94	239.1	190.09	52.26	0	0	338.03	291.36	291.36	86.19	
World Bank	7	100	394.54	100	252.07	300	93.28	500	739.89	739.89	147.98	
Unspecified	1	0	0.09	0.09	0	0	0	0.09	0.09	0.09	100.00	
Total	281	402.08	820.07	523.18	521.45	299.55	129.75	1224.81	1471.27	1471.27	120.12	

Source: Compiled by I-SAPS from DAD Pakistan statistics accessed on July 11, 2012.

28% (USD 409.07 million). About the same proportion (27% or USD 394.5 million) was received by Punjab alone. This proportion is in addition to aid received in country-wide and multi-province projects⁵⁸. As a result, Punjab stands out to be the largest recipient of foreign aid to education in Pakistan. The shares of Khyber Pakhtunkhwa, Sindh and Balochistan were 4%, 2% and 1% - equivalent to USD 55.79 million, USD 30.53 million and USD 24.21 million respectively. FATA and Islamabad Capital Territory received the smallest proportion (see Chart 4.4). Information about geographical coverage of 5% aid is not available in DAD reports. These percentages may change over years due to variations in yearly disbursements, but they provide a fairly clear picture of the spatial distribution of donor aid.

Chart 4.4 Province-wise Breakdown of Aid to Education (2009-11)



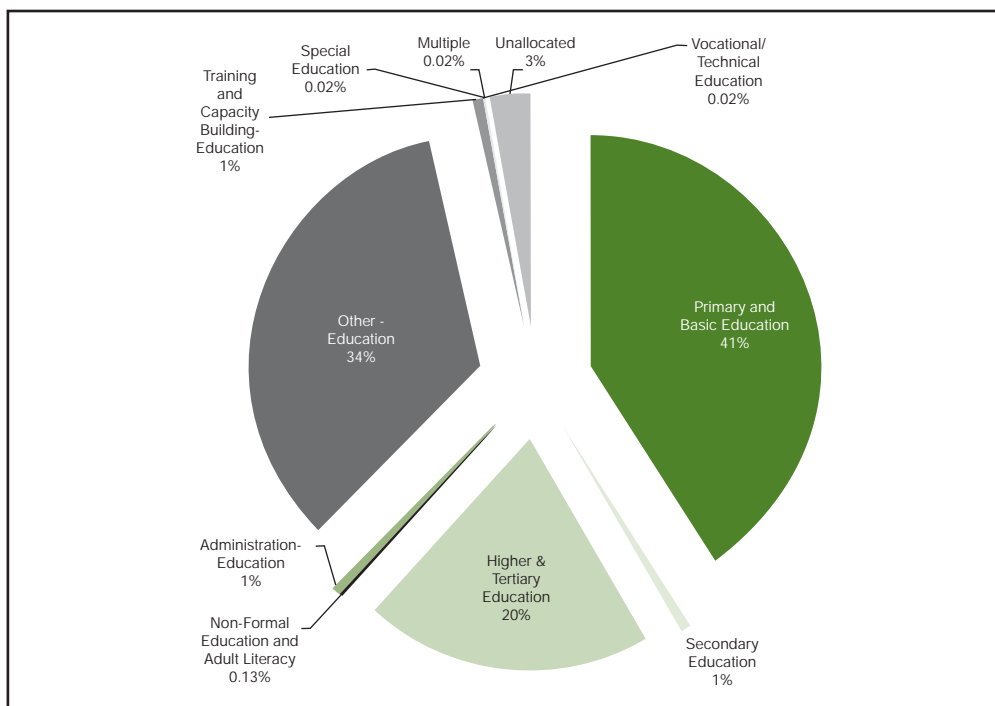
Source: Compiled by I-SAPS from DAD Pakistan statistics accessed on July 11, 2012.

58 Aid to provinces is not disaggregated in country-wide and multi-province projects in DAD Pakistan statistics.

59 Project titles indicate that "Other -Education" includes projects on earthquake emergency assistance, Early Childhood Education, teacher education programme - STEP, etc. This category is vaguely defined as it also includes support for girls' stipends and textbooks in KPK which can easily be classified in primary and secondary education.

In terms of sectoral priorities, primary and basic education is the largest recipient of aid to education. Out of a total disbursement of USD 1471.25 million over three years from 2009 to 2011, 41% (USD 602.75 million) went to primary education projects. An overwhelmingly high proportion equivalent to 34% went to “Other-Education”. This represents donor funding of about USD 500 million on sub-sectors other than mainstream primary, secondary, tertiary or vocational education. It is not clear from DAD reports what is included in this category. In terms of size, these two categories are followed by disbursement of 20% aid for higher and tertiary education (USD 295.85 million) and unallocated funding to the tune of 3% (USD 41.33 million). Secondary education received extremely small proportion of aid to education at 1% (USD 9.73 million). The remaining funds went to projects for training and capacity building, administration, non-formal education and literacy and special education (see Chart 4.5).

Chart 4.5 Sub-Sector wise Disbursement of Aid to Education (2009-11)



Source: Compiled by I-SAPS from DAD Pakistan statistics accessed on July 11, 2012.

Although aid is highest for primary and basic education, aid disbursement per primary school age child is among the lowest in the world, and stands at only US\$ 6, compared with US\$ 19 in Afghanistan, US\$ 14 in Nepal and Nigeria.⁶⁰ Donor priorities are often criticized on this and other grounds which will be discussed in the following section.

4.4 Issues in Effectiveness of Aid to Education

Based on the analysis of patterns in aid to education and views of donors and recipients collected through interviews conducted for this study, this section enlists key issues which undermine the effectiveness of aid. This list is by no means exhaustive but it captures the issues which have been most frequently cited by representatives of civil society, donor agencies and government. While there is some discussion on the broader question of relationship between aid and educational outcomes, this section mainly views effectiveness from the perspective of Paris Declaration commitments of ownership, alignment, harmonization, managing for results and mutual accountability.

Quantity of Aid to Education:

Pakistan's educational challenge is immense due to millions of children who are still out-of-school, and also because the children who are in schools need to learn better. Slow economic growth and costs associated with the war on terrorism have shrunk the domestic fiscal space. Low tax-to-GDP ratio at 9.5% does not permit a major rise in government's education expenditure up to 4% of the GDP. Donor contributions have increased steadily in absolute terms over the past two decades (see Table 4.2). The turning point was 2007 when disbursement of aid to education exceeded USD 400 million. The interest of donors in this sector is also evident from consistent support from key donors including the World Bank, USAID and DFID. Presently, DFID's investment on education in Pakistan is its largest portfolio in this sector worldwide. It has made a commitment to spend £ 645 million over the next four years. This grant will be provided in the form of sector budget support in Punjab and KPK, along with investment in outreach and innovation, political advocacy, and service delivery through low-cost private schools. Similarly, a number of other donors including CIDA, GIZ, AusAid and Netherlands have been continuously supporting the government and non-governmental organizations in primary and secondary education, teacher training and capacity building.

The main issue is that donor aid has been very low as a proportion of total education expenditure. Over the past two decades, the average annual disbursement amounted to just 4.4% of total expenditure on education. This includes large loans from the World Bank. If loans were not included, then the proportion of grants to education would have been even lower around 2% of the total education expenditure which is extremely low to close the financing gap and increase expenditure to the international benchmark for developing countries. Donor aid actually declined after 2000 when Pakistan needed more resources to meet the MDGs commitments. Thus, the quantity of aid is not commensurate with the needs and challenges facing the education sector of Pakistan.

60 OECD-DAC (2009) in UNESCO (2010).

Predictability:

Predictability is an important indicator of aid effectiveness, as it is a pre-requisite for medium and long-term forecasting of resources available to finance education. Over the past three years, there were 13 donors whose disbursements of aid fully matched with their commitments or were very close to it. However, overall flows of aid to education, like all ODA, have been highly volatile and unpredictable. This is a serious problem because the governments cannot properly forecast donor assistance during the budget preparation process. Annual commitments and disbursements are still predictable to some extent, but medium to long term forecast cannot be made. Therefore, aid does not factor into strategic financial planning for education sector. Over the past three years, donors exceeded by 20% on their commitments overall, but this is mainly attributed to 47% higher disbursement of loans than commitment by the World Bank. Some donors fell short of their commitments including Australia, Italy, Japan, Netherlands, and United Nations.

Reliance on Loans:

About 50% of aid to education in Pakistan comprises of loans from the World Bank. Over the past three years, the Bank was the largest donor in education sector and disbursed loans worth USD 739.89 million –equivalent to approximately 66.59 billion rupees. In 2011-12, a loan of USD 300 million – equivalent to about 27 billion rupees – has been committed. For the period of 2009-12, education loans from the Bank amounted to USD 365.77 million – equivalent to approximately 32.92 billion rupees. The debt liability it has created for each student in public sector schools and Punjab Education Foundation schools is Rs. 2,784⁶¹. This reliance has to be directly attributed to government's own failure to increase tax-to-GDP ratio and address malpractices and bad governance which compel it to inject billions of rupees into large public corporations like PIA and WAPDA. Inefficiency in spending of available resources also inflates the need for external financing. A case in point is the rise in wages and allowances of teachers which are not linked to performance and learning outcomes. This has to be seen whether the returns on education are greater than huge liabilities of loan repayments.

Focus on results and Impact:

Evidence on impact of donor-funded programmes is mixed. In a study which examines improvements in enrollment, teachers and retention, the authors

61 Estimate of per student debt in Punjab is based on calculations from World Bank loan worth USD 365 million (equivalent to 32.92 billion rupees at exchange rate of 1 USD= 90 rupees) for 2009-12 and total enrollment of 11.82 million including 1.2 million children in PEF schools in Punjab.

conclude that “there appear to have been improvements in areas where the donors have focused, either through direct intervention, or have put pressure on the government to address national and provincial policies. Primary school enrolments increased as the donors and the government focused on expanding schools and infrastructure in the early 1990s. Gender parity in particular has improved and the divide in enrolments between urban and rural areas has decreased. All three areas are part of the international aid agenda as explicit goals and are attached as target goals for aid to Pakistan”⁶². Similarly, impact evaluations of individual programmes also point out difference made by donor interventions. For example, girls' stipends programmes in Punjab and KPK have increased enrollment of girls up to 13%.

Evidence points out to failures of donor-funded initiatives also. A case in point is the multi-donor funded Social Action Programme which did not yield the desired results in primary education. Representatives of civil society believe that the focus of donors as well as that of partner governments is overall on high-end results and the impact is not very promising, as they are overwhelmingly concerned with measuring outputs, rather than actual results measured in terms of increase in enrollment and learning outcomes. For example, the results matrix of Punjab Education Sector Reforms Project 1 (PESRP) did not include learning as a main objective. Most donor-funded projects measure their success in terms of inputs delivered (e.g. textbooks, stipends, teachers, schools, etc.). In particular, quality is grossly ignored. Even sector budget support projects of major donors do not link disbursements to improvements in learning levels.

Sub-Sector and Geographical Distribution of Aid:

The pattern of aid distribution indicates that Punjab remains the largest recipient, mainly due to loans from the World Bank. Regions which are extremely poor and vulnerable are at the tail and do not benefit from either loans or grants. Balochistan and FATA received only 1% and 0.02% aid in education over the past three years. Similarly, secondary education and special education are hugely ignored by donors. Nearly 1/3rd of donor disbursements go to sub-sectors which are not related either to primary or secondary education. Aid to education is spent to meet recurrent expenditure such as textbooks, stipends, and school repair and maintenance funds. Thus, aid becomes less effective as it is not used for development schemes and new initiatives.

The role of government is also crucial in setting aid priorities through co-ordination and ownership of education sector plans. However, this has not

62 Malik and Naveed (2010). Financing Education in Pakistan: The Impact of Public Expenditure and Aid on Education Outcomes, RECOUP Working Paper No. 42, Cambridge, UK.

happened in Pakistan. The government is weak in driving the agenda, and getting the donors to allocate resources in an equitable way. For example, government itself does not accord high priority to investment in education of children with special needs. This is also reflected in distribution of aid. Similarly, government's own education budget is heavily skewed towards recurrent expenditure on teacher salaries and allowances, rather than on expansion and quality of education system.

Alignment:

Alignment of donor aid with national education priorities is a fundamental building block of effectiveness. This process, however, is still far from satisfactory. The provincial ownership of National Education Policy 2009 is unclear after the 18th Constitutional Amendment. The donors are increasingly engaged at the provincial level, but they can't find a high-quality education strategy aligned with national development strategies. The KPK government has developed an Education Sector Plan (ESP) whereas Balochistan is struggling to develop one. In Punjab, there is no proper Education Sector Plan and as a result, donors are supporting some interventions and reforms agreed with the Government of Punjab. In strict sense of the term, there is no Education Sector Plan in Pakistan because this document has essentially to be sector-wide. Even the KPK ESP does not qualify to be called a sector plan because it only deals with education up to higher secondary level.

Use of Government Systems:

The Paris Declaration requires the donors to use country systems such as public financial management or procurement system. It also requires the governments to put in place reforms to make the government systems better to an acceptable level. The use of government procurement systems by education donors seems low. This is attributed to lack of appetite within the government to reform the system in line with the best practices, and as a result, aid spending is vulnerable to similar levels of corruption as local taxpayers' money. Education involves substantial size of civil works in the form of construction of schools, textbooks, up-gradation, purchase of equipment and instructional material, etc. There is general perception among donors that procurement through the government system is expensive, time-intensive and lacks transparency. Therefore, some prefer to procure civil works outside the government system. For example, the new DFID-funded KPK Education Programme will complete the civil works for construction of schools outside the public works department.

Donors' trust in public financial management system also seems low. During interviews, concerns were raised about the quality of expenditure data which donors need to track their funds. Although availability of data has improved due to the use of PIFRA, donors still find it difficult to get a hand on accurate and

timely expenditure in education sector. Multiple sources conflict with each other. For example, there are discrepancies in education expenditure statistics available from PRSP Monitoring, Education Department, and budget books. The classification of foreign project assistance (FPA) in budget documents is sometimes lacking or is incomplete, and further complicates the task of fund tracking. This problem is especially pronounced for non-earmarked sector budget support, as donor monies get mixed up with government budget in Federal and Provincial Consolidated Fund. This problem can lead to “fungibility” of donor funds. Donors also complain about the slickness of government to effectively enforce internal audit, and resolve audit issues quickly.

Deployment of Technical Assistance (TA): Most of the donor-funded projects for government include a Technical Assistance (TA) component. Generally, the purpose of TA is to refine the on-going reforms, design new initiatives, and monitoring the implementation. This component plays a crucial role in meeting the research and evidence needs by bringing in new cutting-edge knowledge and resources. Donors think that government does not implement the TA effectively, if it is placed within the government systems. For example, expenditure on PESP I TA in Punjab, which was placed under the Programme Monitoring and Implementation Unit (PMIU) remained extremely unutilized. This implies that the government of Punjab could not benefit much from possible technical assistance, though funds were available for this purpose. This is attributed to long and cumbersome processes of procuring consultants and service providers. As a result, some donors even prefer to keep the TA outside the government systems.

Common Procedures and Analytics:

Education has been a priority sector for all major multilateral and bilateral donors in Pakistan. Over the past few years, some obvious improvements have taken place in terms of alignment and harmonization of aid to education. Most notably, donors now prefer to use joint financing aid modalities in Punjab, KPK, Balochistan and Sindh. As a result, the duplication of PIUs is also avoided. Due to this shift, significant reductions are expected in administrative costs. There are also some examples of joint missions to the government and coordination meetings.

The problem of duplicate procedures and analytics is not fully resolved yet. There are examples of parallel procedures also which results in waste of resources and substantial demand on the time of government officials. For example, even where donors pool in funds for joint financing, they prepare their own project documents and memoranda which may take months at huge costs. During interviews, government officials complained about too many visits and reporting requirements. Some officials were of the view that the time spent on dealing with donors was much higher than their proportionate share in the total education expenditure.

Aid Instruments:

A large number of donors still prefer project-based financing. As Table 4.3 indicates, there were 281 education projects funded by donors over the past three years. Some donors administer a large number of projects. The United Nations is on the top with 40 projects followed by Japan (30), USA (29), Australia (28) and UK (21). It is not clear how this large number of projects aligns with national priorities in education and how it aggregates up the results on enrollment and learning. The bulk of funding, however, is still channeled through sector-wide approaches. The main objective of donors in a sector budget support is to influence the overall priorities, rather than any particular sub-component or a program. Therefore, donors do not generally earmark their loans or grants to any program. As a result, it becomes very difficult to track where their money is spent because it mixes up with larger pool of government funds in the federal and provincial consolidated fund. Thus, donor funds face the same level of fiduciary risks as the government budget does. Donors are concerned that their money can easily be used to fund the on-going programmes to allow the government to take funds out from the budget sector and use them elsewhere.

Accountability Systems:

Donors and recipient governments are accountable to each on results and also to beneficiaries on whose behalf aid is spent. A dominant view from interviews of stakeholders is that this is not happening because participation of citizens and civil society organizations in programme design and monitoring is negligible. For example, annual programme reviews hardly are based on views of beneficiaries to ascertain whether aid is working for them. Generally, citizens are not even aware about donor-funded reforms. The main issue emerges from the unavailability of information and data on aid statistics, commitments, disbursements and expenditure. While the Development Assistance Database (DAD) is in place, it might not be up-to-date as donors do not input their information always on time. Moreover, after the 18th Amendment, the role of Economic Affairs Division (EAD) in transfer of funds from the donor to the recipient provincial government is no longer necessary. Therefore, some aid to education might not be captured at all, and would be available only from the State Bank of Pakistan. Thus, a reliable national database on aid has yet to be developed.

The issues highlighted above have to be viewed in tandem with the overall agenda of aid effectiveness. The previous chapters point out that Pakistan is yet far from a satisfactory progress on Paris Declaration commitments. Education sector is a very relevant example, as aid to this sector has yet to demonstrate its impact through better alignment, harmonization, greater emphasis on high-end results, and better mechanisms for mutual accountability.

CHAPTER 5

Summary and Conclusions

5.1 Objectives and Scope of the Study

5.2 Pakistan's Reliance on Foreign Aid

5.3 Criticism on Aid in General

5.4 Pakistan's Progress on Paris Declaration Framework

5.5 Aid Effectiveness in Education

5.6 What the Pakistan Government Needs to Do?

5.7 What the Donors Need to Do?

5.8 What the Government and Donors Need to Do Jointly?

5.9 What the Civil Society and Citizens Need to Do?

Summary and Conclusions

5.1 Objectives and Scope of the Study

This study discusses the current thinking on aid effectiveness, develops an idea of the external liabilities and benefits brought about by aid, and appraises Pakistan's progress on implementing the Paris Declaration and the subsequent Accra Agenda for Action in general and in education sector in particular. The key objective is to present an independent perspective on some of the available evidence and views of the government and donors on the progress made so far and identify the barriers to full implementation of the Declaration, particularly in key social sectors including education.

5.2 Pakistan's Reliance on Foreign Aid

Pakistan has been relying on foreign aid uninterruptedly throughout its history. In relative terms, aid dependency has decreased over years, but in absolute terms, Pakistan still receives substantial quantities of foreign aid. Since 2005, net ODA has averaged 9% of central government expense and 1% of Gross National Income (GNI). Over 80% of core ODA comes from top five donors, namely the United States, the United Kingdom, Japan, Germany and the Netherlands. Between 2005-06 and 2009-10, Pakistan received USD 18.7 billion, which represents a significant surge in aid inflows. This surge is mainly attributed to the needs and interests arising out from four events including the Millennium Development Goals (MDGs) in 2000, the war on terrorism in the aftermath of attacks on the World Trade Centre on September 11, 2001, the catastrophic earthquake in October 2005, and the devastating floods in July 2010.

5.3 Criticism on Aid in General

The surge in aid inflows has come with a renewed criticism on the way aid works and affects the lives of the poor. The question of aid necessity is particularly important one. It is argued that reduction in corruption could be the single most effective intervention to move Pakistan towards self-reliance. According to estimates, Pakistan loses Rs. 3,100 billion annually in corruption. This amount includes Rs. 1,900 billion in tax evasion. In 2009, the net ODA to Pakistan equaled Rs. 218.31 billion approximately – 7% of the amount lost to corruption every year. This means that reduction in corruption even by a quarter degree can save an amount of resources higher than ODA received by Pakistan.

The spectrum of criticism, however, is much wider and is concerned with political stakes of donors in deciding aid spend, fiduciary risks, conditionality, and

lack transparency. Aid predictability is another concern. Historical data indicate that disbursements of grants assistance and loans fell short of commitments in 26 years since 1978-79. In education only 66% of aid committed for education was disbursed by donors.

Some of the most serious concerns about aid pertain to loans and the liabilities they create. During the present regime, external borrowing has witnessed a huge surge, particularly in loans from the International Monetary Fund (IMF) which shot up from \$1.4 billion (Rs. 84.84 billion) preceding the 2008 elections to \$8.9 billion (Rs. 762.73 billion) in the 3rd Quarter of 2011 – up by nearly 584.62% for dollar value. This has multiplied the debt burden on citizens due to rising debt servicing costs. This is evident from the fact that the amount paid on interest only is 60% higher than federal government's total expenditure on education.

These concerns emanate from inability of aid to deliver development outcomes. Overall, development indicators have improved over years, but the pace is extremely slow. Based on trend analysis of the past six years, it will take 43 years for Pakistan to attain the world average of Human Development Index. In a business-as-usual scenario, it will take over 100 years to achieve "Very High Human Development. This state of affairs warrants serious attention because the bulk of donor aid has went into sectors which have direct bearing on human development. There is some evidence that poverty has declined but Pakistan has been unable to alleviate miseries of a substantial proportion of its population despite huge technical and financial support from the donor countries and multilateral organizations. Similarly, Pakistan has been unable to ensure steady generation of equitable and sustainable growth.

5.4 Pakistan's Progress on Paris Declaration Framework

In the backdrop of this development story, the emergence of new global framework for aid effectiveness under the Paris Declaration has become more relevant to Pakistan's context than ever before. Pakistan is a signatory of the Declaration and has committed on the principles of ownership, alignment, harmonization, results and mutual accountability. The Economic Affairs Division is leading on this agenda within the government. A key achievement in the process is the formulation of draft Foreign Assistance Policy Framework, but it has yet to be finalized.

Pakistan reported its progress globally on the Paris Declaration for the first time in 2011 OECD monitoring survey. From the viewpoint of civil society and many other stakeholders, some progress has been made, but Pakistan is still far from translating the aid effectiveness rhetoric into a reality.

On ownership, Pakistan has put in place operational development strategies which were rated "C" initially, but improved to "B" category in 2010. This means that they still need improvement to be rated "A". The key issue is that the

government is signaling conflicting messages to donors about the strategy behind which the donors should align. The Poverty Reduction Strategy Paper II (PRSP) has been overshadowed by the new Framework for Economic Growth. This shift raises serious questions about Pakistan's aid policy.

According to the official statistics, 40% aid flows are not still aligned with national priorities. Only two out of the eight indicators associated with alignment have met the target, five of them did not have a target for 2010 and one indicator has not changed since 2005. If targets are not agreed on some of the most important aspects such as PFM, procurement and aid predictability even after seven years since the Paris Declaration was signed in 2005, it is difficult for many to believe that any conscious efforts have been made to align the foreign aid with national development priorities.

On harmonization, none of the three targets has been met. Only 31% donors use common arrangements or procedures, whereas the target was set at 66% by 2010. The percentage of joint missions is extremely low at mere 17%, compared with 40% target for 2010. These statistics suggest that donors are not coming together at pace to avoid duplication in arrangements and reviews associated with the use ODA. This obviously means that a portion of aid which could have been effectively used to achieve more outcomes is being wasted on parallel work by the donors.

On results and accountability, the shift of donors towards results-based funding is evident, the level at which they are measured is suboptimal. By and large, the results are considered to be equivalent to "outputs" which may or may not lead to intended outcomes and goals. Similarly, the grounds on which progress in mutual accountability (e.g. creation of on-line feedback portal) is based are untenable.

5.5 Aid Effectiveness in Education

The education system of Pakistan is hugely diverse and large in size. There are 27.4 million children who are enrolled in public and private schools at primary, middle and matric levels.⁶³ In addition, 12.9 million children in primary and lower secondary age groups are still out of school and have to be provided with access to an education. The spending of federal and provincial governments has risen steadily and is in the region of approximately 300 billion rupees annually⁶⁴. As a

63 Pakistan Economic Survey 2011-12

64 Estimate from public expenditure data given in Pakistan Economic Survey (various issues).

percentage of GDP, it is still in the vicinity of 2 percent which is comparably lower than many developing countries at the same level of GDP and per capita income.

Aid to education sector is viewed important for abridging the funding gap on one hand, and for increasing the capacity of education system to deploy the available resources more effectively through sound reforms, additional programming, and leveraging the support from NGOs and private sector. The level of aid dependency in education sector is modest. The following facts further illustrate the pattern of aid to education in Pakistan:

- In 1990, total aid to education in Pakistan stood at USD 48.8 million. The aid increased sharply in 1992 to the tune of USD 91 million due to the commencement of SAP which included a huge component on primary education. However, this level of funding declined considerably after SAP.
- Over the past three years from 2009 to 2011, disbursement of aid amounted to USD 1471.28 million – approximately 132.41 billion rupees.
- The source of this aid is a pool of over 30 bilateral and multilateral donors. However, the bulk of aid to education comes from a few donors.
- In the past three years, 97% aid came from nine donors including Australia, Canada, European Union (EU), Germany, Netherlands, the United Kingdom, the United Nations, United States and World Bank.
- Over the past two decades, aid to education has been just over 4 percent of total education expenditure on the average.
- Over the past two decades, education's share in total ODA is 8.7% on the average.
- About 50% of aid to education in Pakistan comprises of loans from the World Bank. Over the past three years, the Bank was the largest donor in education sector and disbursed loans worth USD 739.89 million –equivalent to approximately 66.59 billion rupees. In 2011-12, a loan of USD 300 million – equivalent to about 27 billion rupees – has been committed.
- In Punjab, every child enrolled in public sector schools and Punjab Education Foundation (PEF) schools is indebted for Rs. 2,784.

The analysis of aid statistics and information collected from representatives of donors, civil society and government point out a number of issues: insufficient quantity of aid to close the financing gap, unpredictability, excessive reliance on loans, less focus on quality of education, neglect of marginalized areas such as FATA and Balochistan, fungibility and weak accountability structures. See section 4.4 for details.

Based on these findings, key recommendations for government, donors and civil society are as follows:

5.6 What the Pakistan Government Needs to Do?

- 5.6.1 Bring the Poverty Reduction Strategy at the center and front of ownership and alignment agenda as the national development priority; the Framework for Economic Growth and other strategies should complement this priority, rather than overshadowing the Poverty Reduction Strategy.
- 5.6.2 Review the progress on aid effectiveness every year in Pakistan Development Forum, and use this platform for mutual accountability on results as well as Paris Declaration Commitments.
- 5.6.3 Finalize the draft Foreign Assistance Policy Framework at the earliest through an extensive consultative process, and create institutional mechanisms for donors and recipients to act in accordance with this framework, with a higher priority to social sector including education and health.
- 5.6.4 Implement robust reforms to improve country systems, especially procurement and public financial management, in accordance with international systems to enhance donors' confidence.
- 5.6.5 Set missing targets on alignment and other principles of partnership in the Paris Declaration monitoring indicators and prepare a time-bound plan to implement measures to meet those targets.
- 5.6.6 Include the key state accountability institutions in the mutual accountability framework for aid. Particularly, this requires a stronger role of the Parliament, provincial assemblies and standing committees which should lead on the debate on aid impact.
- 5.6.7 Develop a "self-reliance strategy" term to set out the vision and actions for transformation of the role of donors from the givers of financial aid to one which is based on technical co-operation.

- 5.6.8 Cut its reliance on loans which presently constitute half of total aid to education.
- 5.6.9 Introduce effective tax reforms to increase revenue, for meeting its international commitment, to 4% of GDP expenditure on education.
- 5.6.10 Formulate Education Sector Plans in each province and make it mandatory for all foreign aid to align behind those plans.
- 5.6.11 Commission a comprehensive research and evaluation on the effectiveness of aid on quality of education.
- 5.6.12 Negotiate with donors to increase funding and technical assistance from donors for girls' education and to support marginalized and poor regions including Balochistan and FATA.

5.7 What the Donors Need to Do?

- 5.7.1 Overcome differences to come together for harmonization of policies, procedures and processes associated with the planning, disbursement and use of aid. The donors need to establish time-bound action plans and strategies for meeting the Paris Declaration targets pertaining to them.
- 5.7.2 Reduce the time burden on government to free up the officials to concentrate on their core duties. This requires better coordination among donors to join up their reporting requirements, analytical work, missions and assessment.
- 5.7.3 Make the aid flows more predictable and reliable allowing the government to factor in the development processes.
- 5.7.4 Increase the use of country systems and work with the government to reform them in accordance with good practices. To work outside the country system is counter-productive in the long-term because it does not build national capacity to sustain results.
- 5.7.5 Increase the use of programme-based approaches to demonstrate the willingness and commitment to alignment of aid with national development priorities.
- 5.7.6 Increase the use of results-based aid instruments. The results should be measured at optimal level, instead of output-level.
- 5.7.7 Cancel Pakistan's debt or convert it into effective Debt SWAP programmes in priority sectors. This is imperative due to poor development indicators and the security paradigm which is

affecting economic development. The donors need to think globally about expanding the criterion for debt cancellation to include heavily conflict-affected countries such as Pakistan.

- 5.7.8 Increase the predictability and forecast of aid commitments and disbursements to allow the government to develop medium and long-term plans for utilization of aid
- 5.7.9 Increase grants from 4.4% of total education expenditure to at least 10% and deliver on commitments in a timely manner to help Pakistan enhance its education expenditure up to 4% of GDP
- 5.7.10 Focus on high-end results of increased NER and learning levels of children.
- 5.7.11 Set the priorities right: Shift the 1/3rd of aid which goes to "Other-Education" to Primary and Secondary Education. Allocate more funds for deprived areas including Balochistan and FATA.

5.8 What the Government and Donors Need to do Jointly?

- 5.8.1 Bring the citizens and end beneficiaries in the center and front of aid delivery. The government as well as the donors need to properly resource measures for involvement of citizens at the stages of design, implementation and review of programmes. They should be asked whether aid is working for them. So far, the involvement of beneficiaries is notional and limited to diagnostic work.
- 5.8.2 Open up and augment the dialogue on key reform areas and strategic issues of additionality, replacement of donor funds, and aid instruments, etc. The dialogue needs to be pitched at a higher level than the Paris Declaration framework, and should also focus on issues which this framework tends to ignore such as aid necessity, indebtedness, conditionality, etc.
- 5.8.3 Transparency and public communication are among the weakest areas in the aid effectiveness agenda. Specifically, aid data is in a bad shape. DAD statistics are not updated by donors frequently. Some EAD data is published, but still it is difficult to get hold on sector-wise details of aid flows and expenditure. The data that is available does not reach the citizens leading to perceptions of hidden agenda, corruption, and embezzlements. The government and donors need to implement a proper communication strategy on aid flows.

- 5.8.4 Establish mechanisms for mutual accountability including, but not limited to, making DAD Pakistan more effective, and creating more opportunities for citizens to participate in Annual Reviews of programmes and programme design.
- 5.8.5 Do joint analytics and missions to reduce the burden on time of both donors and governments.

5.9 What the Civil Society and Citizens Need to Do?

- 5.9.1 The civil society and citizens should forcefully demand from the government and donors to fully implement their aid effectiveness commitments. The demand should particularly focus on
 - a. Annual review of progress on aid effectiveness at the occasion of Pakistan Development Forum
 - b. Put the PRSP in front and centre of development; donors should fall behind this document instead of Framework for Economic Growth which is narrow in scope.
 - c. Complete Foreign Assistance Policy Framework without any delay, in broad consultation with civil society and citizens
 - d. Introduce large-scale procurement reforms for transparent, efficient and cost-effective procurement of goods and services
 - e. Make DAD Pakistan more effective by ensuring its timely update and quality assurance of data entered.
- 5.9.2 The Paris Declaration framework applies to the government and donors; civil society and non-state recipients of foreign aid are not obliged to adhere to the principles of partnership. However, they can play an effective role in aid effectiveness agenda only if they honour these principles themselves as the recipients of grants assistance. There is a need for serious thinking and actions to adopt these principles or similar code of good practices on voluntary basis.
- 5.9.3 Demand from the government to increase education expenditure at least up to 4% of GDP by improving its revenue base and leveraging more grants from donors.
- 5.9.4 Demand from the government to reduce its reliance on loans for education reforms which currently constitute 50% of aid to education.

- 5.9.5 Demand from the donors to increase their aid to education from the average 4.4% of total education expenditure to at least 10%.
- 5.9.6 Demand from the donors to shift the 1/3rd of aid which goes to "Other-Education" to Primary and Secondary Education. Allocate more funds for deprived areas including Balochistan and FATA
- 5.9.7 Track and publicize aid flows to education and their expenditure on regular basis and influence the donor priorities and commitments.

ANNEXURES

Annex I:

Definition of
Official Development
Assistance (ODA)

Definition of Official Development Assistance (ODA)

Full Official Definition of ODA is as follows:

Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).

By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries ("bilateral ODA") and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions.

OECD, Glossary of Statistical Terms

In other words, ODA needs to contain the three elements:

- (a) undertaken by the official sector;
- (b) with promotion of economic development and welfare as the main objective;
- and
- (c) at concessional financial terms (if a loan, having a grant element of at least 25 per cent).

This definition is used to exclude development aid from the two other categories of aid from DAC members:

Official Aid (OA):

Flows which meet conditions of eligibility for inclusion in Official Development Assistance (ODA), other than the fact that the recipients are on Part II of the Development Assistance Committee (DAC) List of Aid Recipients.

Other Official Flows (OOF):

Transactions by the official sector with countries on the List of Aid Recipients which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a grant element of less than 25 per cent.

Examples:

- If a donor country accords a grant or a concessional loan to Afghanistan it is classified as ODA, because it is on the Part I list.
- If a donor country accords a grant or a concessional loan to Bahrain it is classified as OA, because it is on the Part II list.
- If a donor country gives military assistance to any other country or territory it is classified as OOF, because it is not aimed at development.

Courtesy: Wikipedia

ANNEXURES

Annex II:

Commitments and
Disbursements of
Loans and Grants
to Pakistan
(USD Billion)

Commitments and Disbursements of Loans and Grants to Pakistan (USD Billion)

Year/Period	Commitment	Disbursement
5th Plan (1978-83)	7.23	5.79
6th Plan (1983-88)	11.91	7.18
7th Plan (1988-93)	13.91	12.08
8th Plan (1993-98)	12.15	12.75
1998-99	2.22	2.44
1999-00	1.38	1.75
2000-01	1.64	2.19
2001-02	3.6	2.76
2002-03	1.8	1.92
2003-04	2.48	1.38
2004-05	3.29	2.72
2005-06	4.5	3.36
2006-07	4.15	3.38
2007-08	3.75	3.66
2008-09	6.39	4.69
2009-10	0	3.61
2010-11 (Jul-Mar)	2.84	1.41
Total	109.83	98.63

Source: Economic Affairs Division, Pakistan Economic Survey 2010-11
 Note: Exclusive of IMF Loans

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