FOREIGN AID AND HUMAN RESOURCE DEVELOPMENT THE CASE OF PAKISTAN (1960 TO 1988)

Naheed Z. Khan*
Karamat Ali**

ABSTRACT:

This study analyses the contribution of foreign aid to human resource development of the recipient countries. The evidence from Pakistan shows that only small amounts of aid monies were allocated to make her citizens healthier and better educated, and far too much aid missed the target of human resource development. It is argued that the developing countries' governments are being forced to follow economic reforms that have serious implications for their social sectors. There is urgent need for searching and devising policies that can facilitate adjustment without jeopardising development of the social sector. Finally, this study suggests that foreign aid has not fared well for human resource development because most official aid programmes have been driven, for the most part, by the desire to get something in return: usually, political favour or commercial gain.

INTRODUCTION:

When the modern panoply of foreign aid institutions grew up after the 2nd World War, the intention was not to improve human conditions as such. In theory, aid was seen as a transitional device to help countries reach a point from where their economies would take-off of their own accord. Its use was to remove shortages of capital and foreign exchange, boosting investment to a point at which growth could become self-sustaining. In recent years, however, the faith in development through the accumulation of human capital has given way to a realization of the importance of investment in human capital.

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The main objective of this paper is to explore the relationship between foreign aid and human resource development in developing countries. The case of Pakistan is analysed for the period between 1960 and 1988. The argument is structured around five parts. Part I gives a summary review of Pakistan's achievements on her social front. Before analysing aid's contribution to human resource development of Pakistan in Part III, Part II lists total magnitudes of the foreign aid disbursed to the country. The implications of the Structural Adjustment Programmes for human resource development are discussed in Part IV. Finally, Part V argues that aid donors frequently hope to earn a direct economic or political dividend on the money they give or lend to the developing countries, and given these motives, human resource development scarcely counts in foreign aid allocation decisions.


When a country, particularly one with a largely primitive economic and social structure, passes through the process of development and modernisation, consistent achievements on the social front can shorten the process of transition by changing the character of economic agents in a progressive manner that conforms to rational economic choices. At this point, we would like to recall the three phased thesis of development put forward by the architects of two-gap models who, along with other authors of the theory of aid and development, recognised the first phase as being limited by inadequacy of skilled manpower(1). We believe that in a broader sense this implies that a large number of the inhabitants of a country are simply unable to meet requirements of the development process. This may largely be blamed on poor living conditions and on isolation bred by ignorance and illiteracy, resulting in a ritual approach and attitude to life and work. The extent and the way in which this gap is filled determines the ability of the country to carry out an efficient investment programme, with dividends of sustained and sustainable economic growth. Because progressive character of the manpower of the country is easily adaptable to new economic realities, the economy is provided with a built-in adjustment mechanism, resulting in the most efficient allocation and reallocation of economic resources. Indeed, this was the key to success of the Marshall Plan in Western Europe and Japan. Further, more recently, the experience of South Korea amongst the developing countries, who almost together embarked on the process of development, provides another persuasive model to emulate(2).

Since its independence in 1947, Pakistan's development policies have focused primarily on pursuing the target of high economic growth, while its efforts on the social front have never fared satisfactorily. The respectable GDP growth rate of Pakistan, which has been achieved historically, is given in Table 1. An important finding of Table 1 is that economic growth in Pakistan largely consisted of the expansion of services sector. But, unfortunately, high rate of growth of services sector did not include a proportionate increase of the social services. The evidence listed in Table 2 provides a vivid picture of nearly abysmal record of Pakistan on her social front. Further, in a recent study, the Human Development Index (HDI) for Pakistan was estimated to be 0.423(3). At this level of HDI, Pakistan is ranked 36th from the bottom among the 130 countries considered in the study, and is listed among countries with low level of human development(4).

**TABLE 1**

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth Rate of GDP</th>
<th>Sectorial Growth Rate and Contribution to GDP Growth**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Plan 1960-65</td>
<td>6.91 (1.65)</td>
<td>3.87 (1.65)</td>
</tr>
<tr>
<td>3rd Plan 1965-70</td>
<td>6.86 (2.50)</td>
<td>6.33 (2.50)</td>
</tr>
<tr>
<td>Non-Plan 1970-78</td>
<td>4.54 (0.61)</td>
<td>1.77 (0.61)</td>
</tr>
<tr>
<td>5th Plan 1978-83</td>
<td>6.88 (1.27)</td>
<td>4.22 (1.27)</td>
</tr>
<tr>
<td>6th Plan 1983-88</td>
<td>6.59 (1.05)</td>
<td>4.01 (1.05)</td>
</tr>
<tr>
<td>1960-88</td>
<td>6.13 (1.33)</td>
<td><strong>3.80 (1.33)</strong></td>
</tr>
</tbody>
</table>

Source: Pakistan Economic Survey, 1988-89

* Figures are annual average growth rates in constant market prices of Pakistan. The base year is 1959-60.

** The contribution of each sector to total GDP growth is computed as that sector's growth rate multiplied by its share in total output.
### Table 2

**Human Resource Development in Pakistan: Balance Sheet**

**Human Progress**  
Average life expectancy increased by 1.5 times during 1961-88 and is now 78% of the developed countries.

**Human Deprivation**  
Average life expectancy is still 17 years shorter than that of the developed countries.

**Life Expectancy**

<table>
<thead>
<tr>
<th>Education</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are about 34 million literate. Literacy rates have increased from 17% in 1961 to 52% in 1988.</td>
<td>Average per capita income increased by 3.04% per annum between 1961 and 1988.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>About 69% people have access to safe water and 52% of population has access to sanitation facilities.</td>
<td>Nearly 47 million people are deprived from health facilities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Food and Nutrition</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>The per capita average calories supply increased by 0.9 per cent per annum between 1961 and 1988.</td>
<td>The female literacy rate is still 20.5%, i.e. less than a half of that for males.</td>
</tr>
</tbody>
</table>

**Infant Health**

- Infant mortality rates have gone down from 131 in 1961 to 113 in 1988.
- Nearly 11% of the kids die before their first birthday.

**Availability of calories is still 7% short of the requirement.**


### II. Foreign Aid to Pakistan: An Overview

Pakistan is one of the most relevant cases to study the foreign aid and economic development relationship. The country survived 1950s only with the help of some loans and massive amount of free grants from her anti-Communist allies. However, the absolute amount of all types of external assistance did not reach significant proportions during that decade. But since 1960, Pakistan has been one of the major recipients of developed countries’ aid. In Table 3, along with aid’s contribution to her capital formation, we have listed the constant dollar magnitudes of net and gross aid flows to Pakistan between 1960 and 1988.

Table 3 shows that, in real terms, net inflow of the foreign aid resources was declining overtime. Yet the significance of foreign aid does not appear to have diminished, since during the 5th and 6th Plan periods foreign aid was still contributing 45.41% and 45.60% respectively of investment in Pakistan.

United States has been the largest source of foreign aid to Pakistan. In the 1950s, over three third of all economic assistance was from the US; this share fell to a little over a half in the 1960s, and...
was considerably less during 1971-77(3). The relative fall in the US aid to Pakistan continued until after the Soviet invasion of Afghanistan in 1979. The Carter Administration then offered Pakistan US$422 million in economic and military assistance. This offer was rejected on the grounds that it was not worth the price that Pakistan would have to pay in terms of its relations with the former Soviet Union(4). Later, the Reagan Administration’s offer of a package deal, involving a five-year US$1,575 million defence and a six-year US$1,625 million economic assistance, was accepted by the Government of Pakistan(7). The US Government’s motive behind this new initiative was purely political: the principal aim at that time was to enable Pakistan to stand up to Soviet pressure from Afghanistan.

III. The Social Sector of Pakistan: Contribution of Foreign Aid

Table-4 provides some convenient measures of contribution made by the foreign aid to Pakistan’s social sector between 1960 and 1988. We observe two interesting comparisons: total aid and aid for social sector as percentage of GDP and as per capita of population. The latter comparison gives us further measures by listing separate estimates for nominal and real values of per capita aid funds.

Table-4 shows that Pakistan received the largest volume of the foreign aid during her 2nd Plan period, 8.87% of the GDP. This significant ratio compares poorly to the foreign aid funds allocated for developing Pakistan’s social sector, a negligible 0.06% of the GDP. A little, successive, improvement is observed, however, for the later periods.

Estimates of per capita aid, in Table-4, present a more vivid scenario. In the 1980s, when most of the donor governments had started freezing their aid programmes—some even cut back, Pakistan was still receiving more than $3, in real terms, of the total foreign aid per capita. At the outset, nominal aid per capita for the social sector portrays a more favourable picture compared to its counterpart for total aid. But, in most economic analyses, the nominal figures hide more than they reveal. A closer look at real values would lead, also in this case, to rather different findings.

<table>
<thead>
<tr>
<th>Period</th>
<th>Aid Disbursement** (US Million)</th>
<th>Aid’s Contribution to Capital Formation (% of Total Investment)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross Aid</td>
<td>Net Aid</td>
</tr>
<tr>
<td>2nd Plan 1960-65</td>
<td>437</td>
<td>397</td>
</tr>
<tr>
<td>3rd Plan 1965-70</td>
<td>454</td>
<td>367</td>
</tr>
<tr>
<td>Non-Plan 1970-78</td>
<td>338</td>
<td>229</td>
</tr>
<tr>
<td>5th Plan 1978-83</td>
<td>333</td>
<td>176</td>
</tr>
<tr>
<td>6th Plan 1983-88</td>
<td>322</td>
<td>114</td>
</tr>
<tr>
<td>1980-88</td>
<td>375</td>
<td>256</td>
</tr>
</tbody>
</table>


** Annual averages in constant market prices of the OECD, the base year is 1950-52.

* Net of service payments.
TABLE-4

MEASURES OF FOREIGN AID DISBURSEMENT
(Pakistan: 1960 to 1988)

<table>
<thead>
<tr>
<th>Period</th>
<th>Aid % of GDP</th>
<th>Aid Per Capita (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Aid</td>
<td>Aid for the Social Sector</td>
</tr>
<tr>
<td></td>
<td>Nominal</td>
<td>Real*</td>
</tr>
<tr>
<td>2nd Plan</td>
<td>8.87</td>
<td>0.06</td>
</tr>
<tr>
<td>1980-85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd Plan</td>
<td>6.12</td>
<td>0.11</td>
</tr>
<tr>
<td>1965-70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-plan</td>
<td>4.43</td>
<td>0.11</td>
</tr>
<tr>
<td>1970-78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th Plan</td>
<td>2.52</td>
<td>0.23</td>
</tr>
<tr>
<td>1978-83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6th Plan</td>
<td>1.57</td>
<td>0.27</td>
</tr>
<tr>
<td>1983-88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966-69</td>
<td>4.68</td>
<td>0.15</td>
</tr>
</tbody>
</table>


* Annual averages in constant market prices of the OECD, the base year is 1959-60

Foreign Aid and Human Resource

First of all, we observe that total nominal aid per capita increased to $14.63 during the 6th Plan period from $9.68 of the 2nd Plan years, while the corresponding increase for nominal aid to the social sector was from 6 cents to a little under a dollar, 94 cents, more than fifteen times larger. These encouraging results, unfortunately, do not hold up to real aid values: the corresponding increase in per capita aid for social sector is only from 6 to 21 cents, only three and a half time as much as during the 2nd Plan period. This, comparatively, dismal improvement scarcely accommodates the switching from growth and equity paradox of the 1960s to basic needs approach of the 1970s and thereafter.

With the benefit of hindsight, we may suggest that donors' aid disbursement patterns, given in Table-4, amply reflect practical priorities of Pakistan's Government. For instance, between 1973 and 1988, peak years of the basic needs rhetoric, only 1.62% of the GDP was annually allocated in Pakistan's budget for social sector's development(8): aid donors made an 'unfairly' proportionate addition of 0.15% of GDP annually between 1960 and 1988. Further, per capita annual allocation to the social sector was 4.84 nominal dollars in Pakistan's budget between 1973 and 1990(9), which oddly conforms to per capita 38 nominal cents annually contributed by foreign funds between 1960 and 1980.

The analysis of the foreign aid allocation to different economic and social categories may shed some more light on Pakistan's social sectoral ranking in donors' aid allocation priorities. Table-5 lists sectoral shares as percentages of total project aid disbursed to Pakistan between 1960 and 1988. Total social sector's contribution of the foreign aid for rural development, population welfare and education was 1.46%, 1.88% and 1.35% respectively. It can be inferred from these figures that improvement of dismal social conditions of Pakistan did not rank high in donors' priorities: amount allocated to the social sector was less than 5% of the total project aid disbursed.

Although almost 70% of Pakistan's population lives in the rural sector of the country, the amounts of foreign aid allocated to the development of this sector have been small and negligible proportions of the total over the years. During the 2nd and 3rd Plan periods, rural development almost did not count at all in donors' aid priorities: only 0.16% and 0.02% of the total project aid respectively was allocated to this sector. Some meagre addition in the amount is observed during the Nonplan period. The allocations for the 5th and 6th Plan periods.
however, witnessed considerable improvement compared to the past years, probably because of the recognition by donors of eminent bottlenecks in the economic system which may eventually turn the country into a defaulter.

The aims and objectives of the population welfare programme are, in most cases, overlapping and inter-linked with rural development. The record of the allocation of aid to this head is almost the same as for the rural development programme.

The low priority treatment of rural development of Pakistan by donors, which we observe in Table 5, might be due to the fact that agricultural research and human capital investment, in order to improve human capabilities in this sector, have been too readily neglected in most of the developing countries. But as far back as in the early 1960s, Schultz blamed low productivity of farm labour largely on the absence of specific factor inputs, such as research and education, rather than on the shortage of reproducible capital(10). In some of his later work, he shows that an integral part of the modernization of the economies of high and low income countries is the decline in the economic importance of farm land and a rise in that of human capital skills and knowledge(11).

The rhetoric of the Rural Development Programme in Pakistan is that all aspects of rural life are interrelated and no lasting impact can be created so long as they are considered in isolation from each other. In practical terms it means that agricultural production, which is the most important component of rural development, is related directly to the literacy of the farmers which, in turn, is related to factors such as health, nutrition, sanitation, communication and electric power(12). Nevertheless, in reality, the rural inhabitants of Pakistan are markedly disadvantaged compared to their urban counterparts. The distribution of health services, in particular, paints a very grim picture. In 1987, the rural population was provided with only 23% of the hospitals, 34% of the mother and child health centres, 18% of the beds, 15% of the doctors and 5% of the nurses(13). Thus, at the outset, Pakistan has a health care system which is inaccessible to the vast majority of rural inhabitants. Further, only as far back as in 1983, 77% of the urban and 22% of the rural population in Pakistan had access to safe drinking water, while sanitation and sewerage facilities were accessible to 48% of the urban and, merely, 4% of the rural inhabitants(14).

Indeed, disadvantaged rural living is a common phenomenon in underdeveloped countries like Pakistan. A vast majority of the world’s population, living in the countryside of underdeveloped countries, is
surviving below the poverty line. Table 6 shows the staggering proportions of the disadvantaged lot of the underdeveloped world. Too often, these poor people are treated as consumers, who have to be kept alive, rather than as potentially valuable producers. If the world wants to help the rural poor, it should provide them with land, technology and credit. In the present conditions, a vast majority of human resources is being wasted in developing countries due to inaccessibility of opportunities. Small farmers, herdsmen and fishermen in poor countries remain poor with low productivity levels. Mostly for none of their own faulting, but because government policies penalise them and aid donors seem to be indifferent to their needs. Their way of life will not necessarily improve when a country’s economy is reformed. Structural changes are essential to alleviate poverty, but, on their own, it may not be enough. The rural poor need special services tailored to their requirements. They would be helped, for instance, by changes in

TABLE-6
Rural Population Below Poverty Line*
(1988)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Rural Population (Million)</th>
<th>% Below Poverty Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Developing Countries</td>
<td>2,584</td>
<td>36</td>
</tr>
<tr>
<td>Least Developed Countries**</td>
<td>368</td>
<td>96</td>
</tr>
<tr>
<td>Region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>123</td>
<td>61</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>337</td>
<td>59</td>
</tr>
<tr>
<td>Asia</td>
<td>2,019</td>
<td>30</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>106</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: International Fund for Agricultural Development (IFAD)

* Income insufficient to meet minimum nutrition needs.

** 42 least developed IFAD members.

Another very important social sector in Pakistan, scarcely addressed by aid donors, is education. Figures in Table 5 show that this sector has the lowest allocation of aid for the period as a whole. By any standard, this record of donors’ concern is regrettable for a country where a marked proportion of the population, about 68%, is illiterate. If one were to look at the gender breakdown, then women are extremely disadvantaged. 84.8 percent of them are illiterate. Moreover, Pakistan is one of those few countries which are prominent in not achieving UNESCO’s projected enrolment ratio at primary school level. The ratio even declined from 55 percent in 1979 to 44 percent in 1986, much below the required 68 percent. Pakistan’s failure in this area has undoubtedly damaged its economy as well as the hopes of its people. A report last year by the World Bank, analysing Asia’s success, pointed out that one of the few policies economically successful countries had in common was heavy investment in education. Table 7 shows that Pakistan fares poorly not just against those countries, but also against its poorer neighbours, such as India. Aid donors, who in Paris on February 25th agreed to provide $2.5 billion worth of aid for Pakistan in 1994-95, appear to have been as much indifferent to this vital issue as successive regimes of Pakistan.

Furthermore, small fraction of foreign aid allocated to education was used, for the most part, to finance higher education, very often overseas; the large number of recent US scholarships for Ph. D. degrees under the Science and Technology Development Scheme are a case in point. Also, foreign aid has been used to establish or maintain the Centres of Excellence in selected disciplines at some of the universities of Pakistan. A proxy of foreign aid’s discriminatory spending can be taken as the high degree of divergence in public expenditures on different levels of education. Table 8 lists public expenditures per student by level of education for four developing countries for the year 1985. The per student expenditures on tertiary education as compared to what were incurred at the primary level were only four times higher in Bangladesh in 1985. For Iran they were 9 times higher. Malaysia, on the contrary, incurred lower expenditures on higher education than at the primary level. In Pakistan the former were 50 times greater than the latter.
TABLE-7
GDP Per Head and Years of Schooling

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Per Head 1991 PPP $*</th>
<th>Years of Schooling 1990 Average</th>
<th>Primary and Secondary Enrollment rate 1987-90 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2,730</td>
<td>3.9</td>
<td>81</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1,970</td>
<td>1.9</td>
<td>29</td>
</tr>
<tr>
<td>China</td>
<td>1,680</td>
<td>4.8</td>
<td>88</td>
</tr>
<tr>
<td>India</td>
<td>1,150</td>
<td>2.4</td>
<td>68</td>
</tr>
</tbody>
</table>

* Purchasing Power Parity

TABLE-8
Public Expenditures on Education
($US Per Student : 1985)

<table>
<thead>
<tr>
<th>Country</th>
<th>Level of Education</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Primary</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>14.81</td>
</tr>
<tr>
<td>Iran</td>
<td>344.35</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2822.85</td>
</tr>
<tr>
<td>Pakistan</td>
<td>26.59</td>
</tr>
</tbody>
</table>


Foreign Aid and Human Resource

How are the benefits and costs of such policies related to the various stages of development? At very low levels of income, the impact of a few highly trained people can be very significant. Many African countries which suffer from severe shortages of skilled manpower are cases in point. But an indiscriminate increase in the number of trained and highly educated graduates beyond the level that is warranted by the extent of development results in unemployment. The educated usually insist on getting white collar jobs with high salaries in urban areas. The paradoxical situation of unemployed educated and trained people in underdeveloped countries, including Pakistan, is a common one(18). Table-8 gives the evidence that compared to the expenditures incurred on primary education, per student public expenditures on higher education in Pakistan are very large. In our opinion, there is an acute need in Pakistan for more domestic and foreign funding of compulsory ‘universal education’ at the primary level. Funding at this level is mainly for literacy. Moreover, it goes without saying that a sound footing at the primary level of education democratises the whole educational system, and greatly helps to improve the general character of the population in a manner which is conducive to sustainable growth. At the secondary and higher levels, skills should approximately be matched to opportunities to work. Indeed, the supply of capital equipment, the demand for skilled labour and the demand for goods produced by the factors of production are required to match the supply of manpower with specific or adaptable skills.

IV. Structural Adjustment Programmes: Legacy of Foreign Aid.

Since the early 1980s, the net balance of costs and benefits of the foreign aid has started to reflect in Structural Adjustment Programmes of the IMF and the World Bank, imposed on a vast majority of developing countries as a condition for further development financing from outside. The last decade saw a huge increase in Structural Adjustment Loans (SAL) to tide a country through a period of economic reform. These programmes started as a response to the debt crisis in developing countries in the early 1980s. Recently, distributional implications of these adjustment packages have received increasing scrutiny. These programmes have been fiercely criticised for seeking excessive reduction in aggregate demand, thus resulting in an unwarranted contraction of output, employment and living standards of the poor(19).

The circumstances for Pakistan have been changing for the worse during the last few years. The U.S. aid has become much more uncertain since the end of the Cold War. Excessive and growing
external debt burden, accumulated by foreign aid, along with growing government deficit and unfavourable export markets are all problems that, unfortunately, could threaten the country's future human resource development effort. During the 1980s, the generally satisfactory performance of Pakistan in terms of growth and inflation was, nevertheless, marred by worsening macroeconomic balances. As a consequence, by FY1989 the growing pressure from two fronts, domestic fiscal imbalance and deteriorating external current account, led to the introduction of IMF-supervised structural reforms. The main features of these programmes include plans to reduce expenditures, generate revenue and rationalize pricing structure. Such programmes are detrimental, however, to human resource development. Falling real wages, rising food prices and declining social sector spending often hurt the poor who, in the first place, tend to have gained the least from the earlier aid-financed growth. The broad dimensions of Pakistan's development experience have been outlined in Table-2. This somewhat dismal scenario is further complicated by the sustained imbalance between income and expenditures that requires a concerted action in the form of a structural adjustment plan. But, in Pakistan, there is serious need for conducting an adjustment programme in ways where economic costs do not become human costs. In many developing countries, such programmes often have been accompanied by a squeeze on social sectors, worsening income distribution, and regression in the provision of human rights. In Pakistan's case, a budget squeeze every year is worsening an already grim situation. There are concerns about the breakdown of civil order, manifested in growing civic intolerance and political violence, increasing corruption and irresponsibility in public services, a growing cynicism towards public institutions and public morality, and a virtual collapse of the system of higher education. The argument for "adjustment with a human face" is basically an economic and not a moral one. It is not that citizens have inalienable human and civic rights, however important that certainly is, but that long-run development is impossible without the protection of these rights, without the participation of the entire population in development activities and without the maintenance and improvement of the health and educational level of the masses.

V. Some History Lessons: Political Economy of Foreign Aid

The discussion and statistical evidence, given in this paper, reveals that foreign aid disbursed to Pakistan hardly fares well for human resource development. In our opinion, carefully targeted social expenditure can have a much higher total yield (including all secondary effects) than types of expenditure that result in some imposing visible structure, but whose effects on present and future output in other sectors of the economy are negative or zero. But these expenditures have long been overlooked, both by donors' and recipients' governments, perhaps because of the following reasons:

(a) Their direct output is not easily measurable.
(b) Their effects are widely diffused.
(c) Their effects are spread over a long time.
(d) They cut across the traditional distinction between investment and consumption, on which the theory of aid and development is based (20).

Further, even more importantly, the operations of human resource development activities have little, if any, backward linkage with donor countries' economies: in line with their self-interest, the donors choose arrangements that encourage the use of aid monies increasingly for trade promotion activities and for political motives in donor countries, ironically, to the man in the street aid is synonymous with charity, money doled out to alleviate poverty abroad and guilt at home. But in the case of much of the aid rich countries give to poorer ones, the main motive has not been to end poverty but to serve the self-interest of the giver, by winning useful friends, supporting strategic aims or promoting the donor's exports. One glaring example is that almost half of America's aid budget over the past decade has been earmarked for Egypt and Israel (21). Peace in the Middle East may be worth a lot to America, and to the world, but neither Israel nor even Egypt is among the world's neediest countries. All too often, when the Cold War drove aid flows, donors ignored the incompetence and venality of the receiving governments. Money from one or other superpower block kept bad governments in place and postponed needed reforms. Having given the aid for their own strategic reasons, the givers cared little about how it was used. This carelessness has had bizarre results. The richest 40% of the developing world's population still gets more than twice as much aid per head as the poorest 40% (22). Countries that spend most on guns and soldiers, rather than health and education, get the most aid per head. Only relatively small amounts of Official Development Assistance (ODA) go to the poorest of the countries or to projects that benefit mainly poorest of people. A study of America's aid programme conducted by the Overseas Development Council (ODC), a Washington, DC, think tank, found that more than $250 per person went to relatively high income countries, but less than $1 per person to very low income countries (23). Unfortunately, the Cold War's end has not yet made the motives of aid givers any less political. Developing countries' governments are proved by the contrast between the eagerness of the rich countries to help Russia and the ex-Communist nations of the Eastern Europe, and their miserliness toward
much poorer developing countries. Rich countries’ governments gave only $70 billion in aid and loans to the whole of the developing world in 1992(24). Yet last year the G7 has promised a $40 billion-plus package of debt relief, grants and credits for Russia alone. Such generosity is understandable: should Russia’s reforms fail, the political cost to the West could be huge.

If their political motives can conflict with that of human resource development, then the commercial interests of donors can do so even more. The donors choose arrangements that encourage the use of aid monies for aid promotion activities. All Development Assistance Committee (DAC) countries tie aid, the average is about a quarter(25), to the purchase of their own goods and services. In Britain, for instance, the Aid and Trade Provision Act(1977), uses aid money to lower British companies commercial export costs(26). One problem with tying is that it forces countries to pay higher prices for imports. On average, some estimates suggest, recipients pay 15% more than prevailing price in international market(27). Another is that it often distorts development priorities. It is easier to tie aid to a large item of capital spending, such as a dam or a road, than to a small rural project that may do more good. Furthermore, some kinds of ODA are given in the sure knowledge that the money will be spent mainly in the donor country, but without explicit tying. One example is technical assistance. Of the $12 billion or so which goes each year to buy advice, training and project design, over 90% is spent on foreign consultants(28).

Within poor countries, too, aid is rarely concentrated on the services that benefit the poorest. The World Bank reckons that, of all the aid going to low income countries in 1988, a mere 2% went on the primary health care and one percent on population programmes(29). Even the aid that is spent on health and education tends to go to services that benefit disproportionately the better-off. Aid for health care goes disproportionately to hospitals(30), aid for education to universities. Donors help to build and equip universities which later contribute to a flock of unemployed graduates, when the poor country’s real need is for universal primary education. In sub-Saharan Africa in the 1980s, only $1 of ODA went on each primary pupil; $11 on each secondary pupil; and $575 on each university student(31), as mentioned earlier in Pakistan’s context, such spending patterns often reflect priorities of the recipient governments. But donors have not tried to persuade governments to distribute aid differently, no wonder, their own motives in aid giving, as mentioned earlier, often override the goal of human resource development.

If aid is to work better, donors must first be more honest about what they intend to achieve. America’s Agency for International Development (AID), for instance, is trying to do this by persuading Congress to reduce the number of goals it must meet in fostering development. AID has been encumbered over the years with 33 official goals, devised by a Congress that loved using aid money to buy developing countries’ adherence to its pet ideas. Now, faced with a sharp budget cut, AID is trying to pare down to just four goals, building democracy, protecting the environment, fostering sustainable economic development and encouraging population control(32). Not, however, anything as basic as meeting basic needs. World Bank, though, talks of returning to basic goals, but what is really worrying is the Bank’s tendency to treat the poor as a marginal group. Many of its programmes designed to help the poor, like “social dimension of adjustment”, are safety-nets, not ways of lifting people out of poverty. In Ethiopia, for example, the Bank has introduced food coupons as a way of cushioning the poor from the effect of lifting food subsidies(33). This may help keep city dwellers quiet, but in Africa, where the poor are mainly small farmers, often in remote areas, and usually women, the poor do not need hand-outs. The best way of reaching the poor is to set up credit schemes that enable landless farmers to borrow to buy seeds and tools.

Finally, in any event, donors badly need to rethink their priorities. More aid needs to go into primary education and primary health care and improving the lot of women and children into population welfare programmes. Less should go into large capital programmes. Quality of aid should be improved, donors should try harder to learn from each other’s mistakes, donors should be less keen to reap commercial gains, and they should concentrate harder on meeting basic human needs. Greater clarity might, by itself, nudge the balance in favour of aid that promotes human resource development.
NOTES

1. See, Chenery and Strout (1966).

2. Virtually all observers credit the quality of Korean labour force as being a major perrmissive factor in achieving rapid growth. It was earlier aid effort, to a large extent, that provided such a base. Aid’s emphasis upon education, both in the 1940s, prior to the Korean War, and again during the reconstruction, was crucial to building a foundation upon which later success of export-promotion was based.

3. This index was measured by taking into account three elements of human life, namely, longevity, knowledge and living standards—using life expectancy at birth, adult literacy rate and growth rate of real GDP per capita respectively as proxies.


5. See, Hussain (1985), in Leo E. Rose (ed.).


7. Ibid., pp. 53-4.


9. Ibid.


17. Ibid.

18. See, Streiten (1979), for Pakistan specifically, see Rado (1976), and Ghayur (1989).


20. See, Chenery, op. cit.


22. Ibid.


26. More generally, the use of mixed credits, which reduces the effective interest rate on project loan to developing countries by combining normal export credits with aid in grant or very soft loans, has expanded in recent years; see, Ryrie (1986). The arrangements their inconsistencies and adverse effects on recipients countries are discussed in Toye and Clark (1986).


28. Ibid.


30. Donors offer to build smart hospitals that look like a bargain to poor countries’ governments which, in almost all cases, want to boost prestige of their political regimes. In Rwanda, for example, a 200-bed hospital completed in 1991 has not yet opened because Rwanda cannot pay its running costs. Further, these type of projects provide little benefit to the poor. Sometimes the harm is more subtle, because the need to staff the hospitals entices doctors away from unglamorous jobs in rural areas, where they treat the poor, into wards full of middle-class urban patients.


REFERENCES


