

Usage of International Funding/Aid

Dr Kaiser Bengali

Trends

If we look at the last two decades, we find that 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.

The trend is now much of credit and not of aid. Since, developing countries has predominantly being facing a balance of payment crisis over the last 20 years, hence they are being supported through loans under certain specific programmes such as structural adjustment programmes of IMF. These loans are generally granted for balance of payment support, debt servicing and other similar purposes. Projects aid has been reduced quite considerably and soft loans are largely being reduced and are being replaced with commercial loans. International lending is available now at credit on 24% interest rates to pay off previously obtained loans on 6% interest rates. This means that short term high interest lending is widening the debt burden and literally further aggravated the balance of payment crisis for which countries such as Pakistan are getting more and more expensive loans.

These trends have increased the overall debt burden and weakened the developing economies.

Usage of international funding

Since international aid and loans are being utilized in the budgetary framework of the economy, we have been noticing that the share of development expenditure as of the percentage of GDP has been reduced from an average of 8 percent to 3 percent over the last couple of decades. This means that aid has not literally been used for development sector that could otherwise have benefited the masses. So, the aid or loans were largely used for balance of payment support and debt serving of the expensive loans in an unwise manner, defence and public administration, subsidies in public services (Wapda and Karachi Electric Supply Corporation together give Rs 100 billion subsidy in a year).

Expenses on public administration and defence were not decreased, despite the fact that successive governments could have moved to curtail them.

If we look at the public finance, hardly any amounts are spent on health, housing, education, transport and development of agricultural and physical infrastructure from the tax revenue.

Due to irrational use of international lending through budgetary framework, finance structure becoming irrational too thus providing space for growth in income inequalities in terms of real purchasing power as only during 1988-2002, purchasing power of top 10 percent of population (high income groups) has increase to 33 percent while the purchasing power of the lowest 10 percent of the population (poor and low income groups) has gone down by 9 percent. This is the net result of the usage of international

aid for supporting other than the poor segments of society in terms of raising their real incomes through a process of development and real growth.

The incidence of poverty has been 17 percent in 1988 while it jumped over to 38 percent in 2001 and is more than 40 percent at the moment due to irrational use of all international aid that could not be utilized for the poor rather it was used in certain areas that as a result increased the burden of debt on the economy.

If we calculate in real terms the inequality ratio given above, we see that the rich got Rs 133 from Rs 100 due to rise in income while the poor lost Rs 9 per Rs 100 due to decrease in real income (purchasing power). This happened because the international aid was not utilized for poverty reduction and real development.

Impact on Policy

Since we have an unequal power structure, we see that 5 percent people in our society including traditional and non traditional elite, feudal lords, businesspersons, industrialists, civil and military bureaucrats and religious elements control over 90 percent of our wealth and resources.

Having certain consequences, international aid always relaxed budgetary constraints for states and ruling classes in terms of easing out pressure for reform process in real sense. International aids/foreign assistance reinforced political and economic powers of the elite. On the policy front, international aid has been diversified and contradicted in certain ways as if some donors provided money for themes such as women empowerment, gender equality, abolition of honour killing, bonded labour and so on, yet other donors supported tyrant military regimes that allowed retrogressive elements to grow in the society and that compromised on human rights and democratic norms. The military governments always used these retrogressive forces to gain strength for their illegitimate regimes.

This means that at one hand, donors supported causes of the people through civil society networks and on the other hand, they allowed military governments to continue with their retrogressive policies to tarnish democracy. The United States and some other big donors have always supported Mullah (religious leader) directly or through military regimes that is why still no civil society could face these retrogressive forces. In this way, international aid has been creating far reaching impacts on our social and economic and political life.

Issues and Options

For future, we must keep in mind what has been happening in the past on the front of international aid and should have certain measures to ensure that aid is used for the purpose of poverty alleviation and achieving real growth and development targets.

In Pakistan's context, all international aid should be linked to land reforms. The government should use international aid to purchase land for its free distribution to the poor landless people and this process should be monitored so that rich should not come into the fold due to any corrupt practice and only the poor should get the piece of land.

Another important issue is the growing corporate interests of the military in Pakistan that range from real estate to banks, insurance, housing to road construction and water to

petroleum sector. There is a dire need to de-corporatize the military, limit its role to borders to give fair chance to democracy to flourish. This could be materialized if all international aid is conditioned to de-corporatization and de-politicization of the military to strengthen democratic norms in the country. The defence budget should also be linked to international aid in a sense that if defence budget is increased, quantum of loans and grant should be decreased with the ratio of the increase in the defence spending.

International aid should be linked directly to healthcare, education and social sector development expenditures. Aid should be given in a sector as a matching grant with that of the government allocations for that particularly sector.

Donors' hypocrisy should be exposed. We feel that if Norway, Sweden, Canada and other donors contribute huge sums for a social change, these kinds of grants and aids produce no tangible results when the United States supports dictators such as Gen Musharraf to stay in power at the cost of democracy and the whole parliamentary system.

UNDP once invited killer of her daughter in the name of the so-called honour, the then president of Peshawar chamber, to participate in a meeting on women's rights. Exposing this hypocrisy on the part of the UNDP, renowned NGOs boycotted this session and wrote a protest letter to the UNDP. There is a need to expose such donors with double standards on the rights issue.

Former Prime Minister Zulfikar Ali Bhutto gave boost to sugar industry and dented the feudal influences and gave rights to labour in the country. But his successor Gen Zia with the support of donors, particularly the United States, snatched fundamental rights not from the labour but also from the common citizens. He deprived countrymen of civic liberties and democratic rights. The United States also extended all out support to Gen Zia at the cost of the democracy and the rights of the people of Pakistan. All the bulk of aid during Zia was used to strengthen dictatorial regime and suppress political elements in the country.

International aid now should come mostly in health sector as hepatitis, Tuberculosis and other deadly diseases are damaging a large number of people across communities and regions. If donors divert their resourced and attention towards setting up a dozen of good hospitals across the country with sufficient healthcare facilities, it would be a booster in poverty alleviation in Pakistan's context.