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The Impact of Corruption, Conflict, and Donor Interests on
Foreign Aid Effectiveness & Human Development in Pakistan

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Abstract

Pakistan is one of the largest recipients of foreign aid. However, this aid has not contributed to significant advancements in human development (life expectancy, access to knowledge, and standard of living). This research paper utilizes “access to knowledge” to measure foreign aid effectiveness. It finds that aid to Pakistan is ineffective in promoting human development because of corruption, regional conflicts and domestic terrorism, and donors’ interests. This study examines how these factors have influenced the allocation and use of foreign aid and describes their impact on Pakistan’s education sector.

Keywords

Foreign aid, Pakistan, human development, corruption, regional conflict, domestic terrorism, donor interests, United States, education

Since Pakistan's independence in 1947, it has received over \$97 billion in foreign aid. Large influxes of foreign aid in the 1960s and 1980s coincided with periods of higher economic growth measured by the state's annual GDP per capita (Anwar and Michaelowa 2006; Asian Development Bank 2013; Easterly 2003). William Easterly (2003, 439) notes that while Pakistan's economy grew an average of 2.2 percent per capita per year from 1950 to 2000, the state's human development remains low for its level of economic growth. Easterly refers to this as "growth without development." This research paper examines the question: Why has foreign aid not led to greater human development in Pakistan despite the country receiving billions of dollars in aid? It argues that foreign aid to Pakistan is ineffective in promoting human development, measured by "access to knowledge," because of 1) corruption, 2) regional conflict and domestic terrorism, and 3) donors' interests. The paper is organized around three sections. The first describes the measure of development used in the case study, the second is a review of the literature on foreign aid, and the third section presents the argument on why foreign aid's impact on human development in Pakistan has been minimal.

I. Measures and Research Design

This research paper utilizes a qualitative approach in the form of a case study on Pakistan to describe the ways in which corruption, regional conflict and domestic terrorism, and donors' interests have reduced foreign aid effectiveness in promoting human development within the state. While foreign aid comes in various forms (e.g. economic aid, goods such as technology or food, and military assistance) and from different sources (e.g. governments, multilateral institutions, and nongovernmental organizations) (Masud and Yontcheva 2005), this study focuses on official development assistance (ODA) and U.S. military aid. ODA is defined as

government aid (financial loans and grants) designed to promote the economic development and welfare of developing countries. It therefore excludes aid for military purposes (OECD 2018). These two forms of aid were selected due to the availability of reliable, long-term data provided by the Organization for Economic Cooperation and Development (OECD), U.S. Agency for International Development (USAID), and several scholarly articles. To evaluate the interaction between foreign aid, human development, and the three factors, scholarly work from others, case studies, historical data on Pakistan, and data from the World Bank and Transparency International's Corruption Perceptions Index were used.

One dimension from the United Nations Human Development Index (HDI) is used to measure foreign aid effectiveness. The HDI is a measure for assessing and comparing states' progress in three dimensions of human development: 1) a long and healthy life, 2) access to knowledge, and 3) a "decent" standard of living (United Nations Development Program 2016, 2). This paper focuses on "access to knowledge." Recent studies and news articles on foreign aid to Pakistan and the state's education sector provide the data necessary for evaluating the impact of aid on this particular dimension.

The use of a human development dimension to measure aid effectiveness is a significant departure from the approach followed by many contemporary scholars on foreign aid. Much of the literature, which is discussed in the next section, utilizes economic measures of development. This study assumes that it is possible for economic measures of development and measures of human development to produce contradictory conclusions regarding foreign aid effectiveness. In the case of Pakistan, the state has experienced periods of economic growth, and yet its human development remains low for its level of economic growth (Easterly 2003; United Nations Development Program 2016). Rather than attempt to identify whether foreign aid directly

contributed to this growth and to economic development, the study examines three factors that negatively impact the interaction between foreign aid and human development. The distinction between human and economic measures of development is important because there may be cases where foreign aid is effective in promoting economic development but, at the same time, has a negligible impact on human development. Future research on factors that impact these two categories differently could identify solutions for improving overall foreign aid effectiveness.

II. Literature Review

Newly sovereign developing countries received huge sums of foreign aid during the post-colonial era. The scholarly literature addressing foreign aid focused on its effectiveness in promoting development within these countries. The measurement most frequently used to assess development was economic growth based on increases in per capita GDP (Durberry, Gemmell, and Greenaway 1998; Burnside and Dollar 2000; Guillaumont and Chauvet 2001; Collier and Dollar 2002; Easterly, Levine, and Roodman 2003; Dalgaard, Hansen, and Tarp 2004; Heady, Prasad Rao, and Duhs 2004). This review of the literature describes the most recent scholarship by organizing the four main debates about foreign aid: 1) its impact on economic growth, 2) its association with corruption, 3) its role in reducing internal conflict, and 4) whether donors' self-interests supersede recipients' needs.

With respect to the impact of foreign aid on development, numerous studies support the general argument that it is effective. However, these studies diverge in their selected methodologies for measuring the impact of aid and, as a result, arrive at very different conclusions regarding the necessary determinants for effective aid. Durberry, Gemmell, and Greenaway (1998), Burnside and Dollar (2000), and Collier and Dollar (2002) focus on recipient characteristics (quality of macroeconomic policies and governmental institutions) while

Dalgaard, Hansen, and Tarp (2004), Guillaumont and Chauvet (2001) and Heady, Prasad Rao, and Duhs (2004) emphasize the role of exogenous factors (geographic location, climate, and terms of trade). Durbarray, Gemmell, and Greenaway (1998) examine the interaction between foreign aid flows and states' macroeconomic policies (budget surplus, domestic savings, trade openness, and private capital flows). Their results show foreign aid has a positive impact on growth for states with stable macroeconomic policy environments. However, the impact varies according to a state's income level (i.e. aid had negligible effects on growth in low-income states) and the amount of aid received. Burnside and Dollar (2000, 847) use the variables of budget surplus, inflation, and trade openness in their foreign aid-macroeconomic policy model. They find that aid has a positive impact on growth in states with "good fiscal, monetary, and trade policies" and a negligible effect in "the presence of poor policies." Collier and Dollar (2002) examine the interaction between aid and a state's policy environment by testing 20 variables related to macroeconomic issues, structural policies, public sector management, and policies for social inclusion. Their results indicate that inflows of foreign aid in a "good" policy environment have a highly significant, positive effect on economic growth.

Other studies support the claim that foreign aid has a positive impact on economic growth, but the major determinants they identify contradict those proposed by Durbarray, Gemmell, and Greenaway (1998), Burnside and Dollar (2000), and Collier and Dollar (2002). Dalgaard, Hansen, and Tarp (2004) use the Collier and Dollar model but add an exogenous factor (a state's fraction of land in the tropics) to it. Their results show aid has a significant positive impact on development in many states but is less effective in tropical areas. They conclude that in some cases an exogenous factor (e.g. climate) may have a greater impact on the aid-growth nexus than endogenous factors. According to Roodman (2007, 259), Guillaumont and

Chauvet (2001) use a model consisting of a policy index and an environment index (volatility of agriculture and export earnings, long-term terms of trade trends, and population size) to test the interaction of these factors with foreign aid. They find no evidence that improved policies increase aid effectiveness. However, the results show that foreign aid has a greater positive impact in states with worse environments. The authors conclude that aid accelerates growth in more vulnerable states (Guillaumont and Chauvet 2001, 87). Heady, Prasad Rao, and Duhs (2004, 3-4) test the significance of over 50 “aid interaction terms” related to economic, political, social, and geographic factors and find that aid effectiveness is largely determined by economic instability, geographical factors, conflict, and levels of foreign direct investment flows. The results show that aid is more effective in economies experiencing economic shocks or recovering from war and less effective in states that are “geographically disadvantaged” or at war.

On the other side of the debate, studies show foreign aid to be ineffective in promoting economic growth or even detrimental to a state’s economy. Easterly, Levine, and Roodman (2003) test the Burnside and Dollar model by adding additional states and extending the data by four years. Their results show no sufficient evidence to suggest that aid promotes growth in good policy environments. Thus, the results of the Burnside and Dollar model do not hold when new data is included. Rajan and Subramanian (2008, 644; 2007; 2005, 1) find no “robust positive correlation between aid and growth” in general. Instead, their results show that aid flows have “systematic adverse effects on a country’s competitiveness,” which is reflected in a decline in the share of labor intensive and tradable industries in the manufacturing sector. In their 2005 study, a state’s share of manufacturing in GDP declined by 0.3 of a point for every one percentage point of GDP increase in aid (from donors with colonial history or cultural ties). Easterly (2006) and Moyo (2009) also argue that foreign aid does not lead to growth because it either creates or

perpetuates corrupt environments and is generally tied to the economic interests of donor states, which often increases the debt owed by recipients (Ashta 2013; Yamagata 2008).

With respect to the debate on whether foreign aid is associated with high levels of corruption in recipient states, those who argue that a positive association exists include Svensson (2000), Knack (2001), Alesina and Weder (2002), Batten (2009), and Sarwar, Hassan, and Mahmood (2015). In their review of the literature on foreign aid and corruption, Menard and Weill (2016) describe the findings of Svensson (2000), Knack (2001), and Alesina and Weder (2002). They note that Svensson finds evidence linking foreign aid to increases in corruption in recipient states, particularly in those that are ethnically fragmented. He concludes this may be due to groups competing to gain control of public resources derived from aid. Knack's study of a sample of 80 countries over the period of 1975 to 1995 indicates that aid can be a source of rents for the recipient. Furthermore, Alesina and Weder find no association between foreign aid and a decline in corruption. They note that certain donors, such as the United States, tend to increase their allocations to more corrupt states. According to Butt and Javid (2013, 12), Batten (2009) provides empirical evidence that foreign aid contributes to a government's "irresponsible behavior" in development expenditures and leads to a decline in tax collection. Sarwar, Hassan, and Mahmood (2015, 149) also find that aid has a negative impact on the quality of governance in some states. Aid can increase corruption, weaken accountability, and decrease tax collection and government funding for the social sector.

Other studies suggest that foreign aid can have a positive effect on governance or may lower the levels of corruption. Charron (2011) cites the works of Goldsmith (2001) and Tavares (2003) as evidence that foreign aid can improve governance. Using a sample of African states, Goldsmith finds that increases in foreign aid as a proportion of GDP is associated with higher

levels of democratic performance and economic freedom. Similarly, the results of Tavares's study show a "strong and statistically significant relationship with curbing corruption" even when factors such as economic development, oil resources, and political rights are controlled (Charron 2011, 69). Charron (2011, 66) tests the relationship between aid, corruption, and anti-corruption measures adopted by international organizations in the mid-1990s. The results show that after 1997, "the impact of multilateral aid is strongly and robustly associated with lower corruption levels, while bilateral aid is shown to be an insignificant determinant." An increase in aid prior to 1997 was associated with higher levels of corruption or had no impact at all. Menard and Weill (2016), on the other hand, test the relationship between aid and corruption on a dataset of 71 developing countries from 1996 to 2009 and find no significant causal relation between aid and corruption running in either direction.

Regarding the debate on whether foreign aid helps reduce internal conflict, there is support in the literature for both positions. Nielsen et al. (2011, 230) show that large, negative changes in aid allocation to states increase the probability of the onset of conflict. They conclude that aid can affect the "likelihood of violent armed conflict primarily by influencing a state's ability to credibly commit to an agreement that averts war at present and into the future." Nielsen et al. support their research with the work of Collier and Hoeffler (2002) who claim that aid can potentially prevent civil war by increasing economic growth, by reducing government reliance on primary commodity exports, and by increasing the state's military capabilities.

Focusing on terrorism, Azam and Thelen (2012) use two models to test the interaction between foreign aid, education levels, and domestic and transnational terrorist attacks produced by states between 1990 and 2004. States that received more foreign aid and invested more in education generally produced much less terrorist attacks than others. The authors also refer to

Young and Findley (2011) who demonstrate that foreign aid decreases terrorism, particularly when it is allocated to programs for improving education, health, civil society, and conflict prevention. On the other hand, Sharma, Davis, and Findley (2009) and Nasir, Rehman, and Orakzai (2012, 1138) argue that aid increases domestic terrorist activity because “terrorists see foreign aid as a form of Western intervention that can reduce the support for their activities.” Bapat (2011, 303) asserts that military aid that is conditioned on a state’s ongoing counterterrorism operations provides a disincentive for recipients to “accelerate the demise” of local terrorists. He explains that states do not want to lose this source of revenue. Boutton (2016, 1) also finds that increasing aid levels to personalist dictatorships leads to longer-lasting terrorist campaigns. He argues that personalist dictatorships are particularly reliant on external sources of revenue. Therefore, rents from foreign aid encourage them to become counterterrorism ‘racketeers’ that perpetuate the security threat rather than fix it.

Most of the literature on donors’ motives conclude that the self-interests of bilateral donors generally supersede the needs of recipients. These studies contend that the allocation of foreign aid is guided by donors’ political and commercial considerations rather than the economic needs of recipients (Alesina and Dollar 2000; Dreher, Nunnenkamp, and Thiele 2006; Berthelemy 2006a, 2006b; Younas 2008). For example, Alesina and Dollar (2000) find colonial ties and political alliances (represented by voting patterns in the UN General Assembly) are major determinants of bilateral foreign aid. Similarly, Dreher, Nunnenkamp, and Thiele (2006) examine aid from G7 donors and voting patterns in the UN General Assembly. They find that of all the G7 members, the U.S. frequently used aid to buy voting compliance. Berthelemy (2006a; 2006b, 192) and Younas (2008, 672) argue that OECD members allocate aid based on their commercial interests. Berthelemy finds that most OECD donors at least partially target their aid

to their “most significant trading partners.” Younas notes that OECD states allocate a “substantially larger amount of bilateral aid per capita” to recipients who import the donor’s capital goods. He also finds that aid is sometimes given as a reward to recipients for promoting imports of capital goods and lifting trade restrictions.

On the other hand, Clist (2011, 1732) and Dietrich (2013) argue that over the last decade bilateral donors increasingly targeted their foreign aid to programs aimed at alleviating poverty in recipient states. Clist believes that “poverty sensitivity” has increased among some OECD donors. Dietrich finds that many donors are more frequently bypassing corrupt state institutions and directly providing aid to local nongovernmental organizations to maximize the impact of their aid. In addition, the empirical studies of Tingley (2010) and Brech and Potrafke (2014, 73) support the claim that donor ideology influences the composition of aid flows. In comparison to “rightwing” governments, they find that “leftist” governments generally allocate more foreign aid and tend to direct it to least developed states.

Many of the empirical studies on the impact of foreign aid examine only one or two of the major themes in the literature. This research paper contributes to the literature by synthesizing the findings of multiple scholarly works on corruption, conflict, and donors’ motives into a case study on one of the largest recipients of foreign aid, Pakistan. It also uses a dimension of human development (access to knowledge) rather than economic measures of development to assess foreign aid effectiveness. The purpose is to describe the factors contributing to Pakistan’s “growth without development” as they relate to foreign aid allocation. This research paper argues that foreign aid to Pakistan is ineffective in promoting human development because of 1) corruption, 2) regional conflict and domestic terrorism, and 3) donors’ interests.

III. Argument

From 1960 to 2011, Pakistan received an annual net foreign aid that ranged between one to four percent of its GDP (Tahir 2012). Table 1 reviews the allocation of ODA to the state from 1960 to 2002. It totaled more than \$73 billion. Most of the ODA was bilateral aid and the U.S. was the largest single bilateral donor.¹ Multilateral donors included the World Bank, Asian Development Bank, and International Monetary Fund. Table 2 shows ODA to Pakistan from 2002 to 2011, which totaled more than \$24 billion. Development aid to Pakistan has generally included assistance for the following sectors: agriculture, construction, economic services, education, government and civil society, health, industry, and water (Asian Development Bank 2013, 16).

Table 1

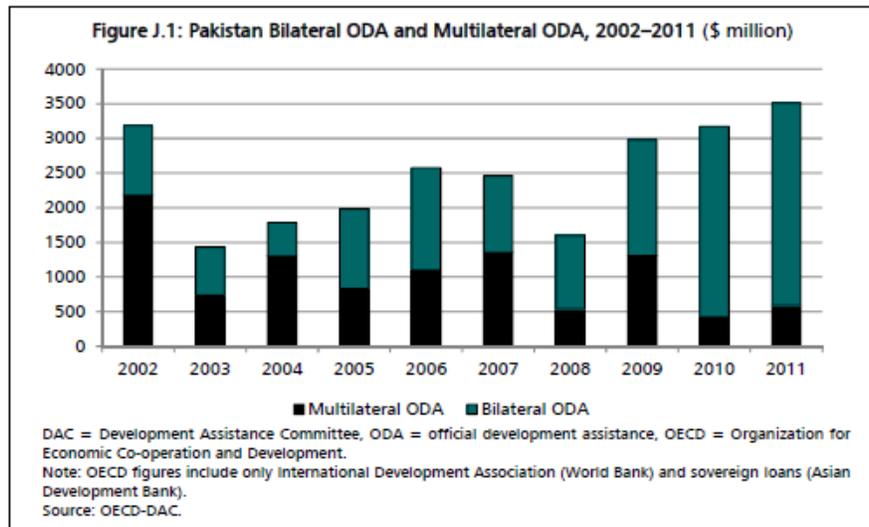
<i>Total</i>	<i>73,143.65</i>	<i>100%</i>
1. Multilateral ODA	20,328.84	27.79% (of total ODA)
2. Bilateral ODA	52,814.81	72.21% (of total ODA)
<i>(of which)</i>		
Non DAC	4,299.43	8.14% (of bilateral ODA)
DAC	48,515.38	91.86%
<i>(of which)</i>		<i>% of DAC ODA</i>
Canada	2,561.90	5.28
France	960.56	1.98
Germany	5,470.90	11.27
Netherlands	1,093.88	2.25
Japan	10,178.34	20.97
UK	3,890.45	8.01
USA	21,864.86	45.06
Others	2,494.49	5.14

Note: 2001 prices—US\$ Millions.
Source: OECD/DAC (2004, Table 2a).

Source: Anwar and Michaelowa (2006, 196)

¹ In Table 1, DAC refers to the Development Assistance Committee of the OECD. The DAC was implemented in 1961. It is an international forum for OECD members and international institutions to discuss issues on aid, development, and poverty reduction in developing countries (OECD 2018).

Table 2



Source: Asian Development Bank (2013, 16)

An important distinction between bilateral and multilateral aid is that bilateral aid is often allocated in the form of grants while multilateral aid is generally dispersed as loans that require the recipient to pay back with interest. In the 1950s and 1960s, almost half the aid Pakistan received was in the form of grants. Multilateral aid increased beginning in the 1970s. By 2004, around 88 percent of aid to Pakistan was in the form of loans (Ahsan 2005, 237). These loans raised the state’s debt burdens, which consequently reduced net aid inflows to the state. For example, debt servicing took up 50 percent of total aid from 2000 to 2010. This reduced the potential impact of the aid on development projects (Nasir, Rehman, and Orakzai 2012, 1138-1139; Javid and Qayyum 2011, 8).

Large disbursements of foreign aid have not contributed to major improvements in the welfare of most Pakistanis. Pakistan consistently ranks among the bottom one-third to one-fourth of states in the United Nations HDI. Table 3 summarizes the state’s progress in the index’s three dimensions (long and healthy life, access to knowledge, and a decent standard of living) from 1990 to 2015. During that period, advancements were made in each category and the state’s HDI value increased from 0.404 to 0.550 (with 1.0 being the highest value). However, Khan (2007,

224) notes that Pakistan should score better on the HDI scale given its per capita GDP. The state's 2005 HDI value of 0.501 put it in the lowest quartile of human development of the 177 countries surveyed (Khan 2007). Pakistan's 2015 HDI value (0.550) was below Bangladesh (0.579), India (0.624), and the general South Asia region (0.621) (United Nations Development Program 2016, 4).

Table 3: Pakistan's HDI Trends Based on Consistent Time Series Data

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1990	60.1	4.6	2.3	3,194	0.404
1995	61.5	5.0	2.8	3,393	0.429
2000	62.7	5.4	3.3	3,459	0.450
2005	63.9	6.5	4.5	4,116	0.501
2010	65.1	7.6	4.6	4,460	0.525
2011	65.4	7.6	4.7	4,517	0.529
2012	65.7	7.7	5.0	4,603	0.538
2013	66.0	7.8	5.1	4,704	0.542
2014	66.2	8.1	5.1	4,848	0.548
2015	66.4	8.1	5.1	5,031	0.550

Source: United Nations Development Program (2016, 3)

Corruption within the Pakistani government is one the factors reducing the effectiveness of foreign aid due to the misuse of funds during development projects and the use of aid as a pretext to avoid tax collection. According to Khan (2007), corruption in the form of bribes, kickbacks, and policies serving the personal interests of Pakistani officials and elites exists at all levels of the government and within every cabinet (e.g. agriculture, election commissioner, education, and income tax). In 2016, Pakistan received a score of 1.5 on Transparency International's Corruption Perceptions Index (CPI),² placing it in the bottom two-fifths of the most corrupt states of the 176 surveyed. This is a slight improvement from its 2006 CPI score of 2.2, which put it in the most corrupt quintile of 163 states, and its 1995 score of 2.25, which placed it in the most corrupt quintile of 41 states (Khan 2007, 224).

² Transparency International's CPI is an annual score on states based on how corrupt their public sectors are perceived to be.

In the education sector, Pakistan's 2009 National Education Policy cited numerous corrupt practices including the diversion of funds for personal use, political influence and favoritism in the allocation of resources to districts and schools, non-merit-based recruitment of teachers, and fraudulent practices in the examination process and in awarding degrees (Gilani 2013, 40). Long-term, rampant corruption in this sector has resulted in the phenomenon of ghost schools. These are schools that exist only on paper. However, contractors have been paid for building them and teachers receive pay for teaching in them. A 2006 educational census report found that 12,737 out of 164,579 public schools were 'non-functional' (i.e. ghost schools) (Khan 2007, 224).

With respect to the interaction between corruption and foreign aid, Sarwar, Hassan, and Mahmood (2015, 149) find that inflows of foreign aid to Pakistan between 1984 and 2012 "eroded" the state's quality of governance, which they measured using indices of bureaucratic quality, corruption, and rule of law. Using data from the PRS Group's International Country Risk Guide, they note that influxes of foreign aid were accompanied by increased instances of corruption. Furthermore, the World Bank's 2006 country assistance evaluation report on Pakistan noted "visible signs of corruption identified with some of the Bank's largest projects" (36). Corrupt practices were commonly identified in the areas of recruitment, site selection, absenteeism, and procurement. In one instance, such problems led to the suspension and then cancellation of part of a primary education project in Baluchistan. Bribery, kickbacks, and collusion on bidding have also plagued development projects funded by the U.S.'s main international development agency, USAID. Between 2008 and 2016, the agency frequently cited corruption as an important contributing factor to the delay or cancellation of numerous projects, including the rebuilding of 115 schools that were destroyed during counterterrorism operations in

the Swat Valley in 2009. Aid for the school project was allocated in 2009, but construction had only begun on less than 20 schools in 2011 (Perlez 2011, A16).

The Pakistani government also uses foreign aid as a means to avoid collecting taxes. Taxation is a critical source of funding for a state's nonrevenue-yielding services (e.g. education and health). However, rather than using aid to supplement funds to social services the Pakistani government has used it to supplant government spending. Easterly (2003), Prasad and Nickow (2016, 1617-1620), and Shah (2011, 78) note that Pakistan has maintained a very weak taxation system since the 1960s, enabling government officials, the elite, and the private sector to evade paying taxes. Only two percent of the population pays any taxes, giving Pakistan one of the lowest tax-to-GDP ratios in the world (9.6 percent compared to 14-15 percent for states of comparable income levels).

Since the late 1960s, large inflows of aid to Pakistan were followed by periods of reduced taxation. According to Prasad and Nickow (2016, 1619-1620), when foreign aid deals ended the Pakistani government did not try to make up for the lost revenue through taxes. Instead, it renewed appeals for more aid and from other sources. In a study comparing the impact of aid on development in South Korea and Pakistan, Prasad and Nickow determine that out of corruption, bureaucratic capacity, and taxation it was the strength of the state's tax system that had the greatest influence on development outcomes. Both states faced similar political, economic, and social plights during their post-independence years. They were also recipients of large sums of aid. However, South Korea achieved considerable economic growth and human development while Pakistan continues to rely on aid and scores very low on the United Nations HDI. The authors explain that South Korea's strong tax system generated substantial revenue that was then spent on development projects. Taxation also helped South Korea overcome its reliance on

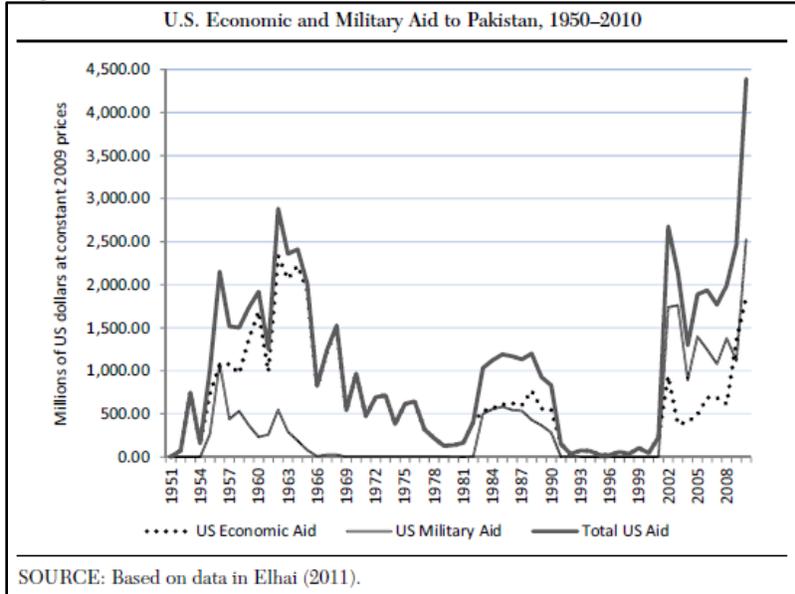
foreign aid. Consequently, the state avoided the debt service burdens that now consume nearly half of Pakistan's total aid.

Conflict is another factor undermining the impact of foreign aid on human development in Pakistan. Regional conflicts resulted in a greater emphasis on military aid over ODA, and the Pakistani government used these influxes of aid to supplant government spending in the social sector. The majority of Pakistan's military and security aid has come from the United States, and the largest aid inflows occurred after the onset of the Soviet War in Afghanistan in 1979 and the U.S. War in Afghanistan in 2001. Figure 1 shows U.S. economic and military aid to Pakistan from 1950 to 2010. It highlights the spikes in U.S aid during the two regional conflicts. In the 1980s, the U.S. provided more than \$8 billion in aid, with economic assistance remaining slightly above military aid. From 2002 to 2010, the U.S. allocated approximately \$19 billion in aid (Khan 2014). However, only 10 percent of that money was 'explicitly' for development and as much as 75 percent was 'explicitly' for military purposes (Carnegie Endowment for International Peace 2011, 5). Of this total aid, around \$5.8 billion was spent in Pakistan's Federally Administered Tribal Areas (FATA) to support counterterrorism activity. Ninety-six percent of that funding was designated for military purposes and only 1 percent for development.

The large aid inflows during the two regional conflicts negatively affected government funding for the social sector. Tahir (2012, 20) examines the interaction between aid and conflict, social sector spending, and per capita GDP in Pakistan between 1961 and 2011. She finds that whenever the state received an influx of aid (of any type) the government reduced its budget for the social sector. In other words, the government diverted its own funding for the social sector somewhere else, probably the military, and used foreign aid to cover the loss. Tahir concludes that the allocation of foreign aid during regional conflicts freed up money for Pakistan to buy

more arms. Thus, large inflows of aid in response to conflicts is another way Pakistan has used aid to supplant rather supplement government spending on social services. The result is a much lower impact on improving human development.

Figure 1



Source: Khan (2014, 69)

Military aid to the state also provided the Pakistani military with an incentive to keep regional and domestic conflicts intensified. Based on a game theory model, Bapat (2011, 316) finds military aid prolongs terrorist campaigns largely because the promise of such aid can make the business of fighting terrorism profitable. In the case of Pakistan, Khan (2014, 70) and Shah (2011, 72) accuse the military of “dragging their feet” in the current fight against the Afghan Taliban by maintaining a “pick-and-choose approach” to counterterrorism. They believe the Pakistani government and military worry the U.S. will withdraw aid if the Taliban were defeated. For example, the military targeted members of the Pakistani Taliban in South Waziristan in the early 2000s, but it “openly refused” to take action in North Waziristan where the headquarters of the Haqqani network (an al Qaeda-affiliated Afghan militant group) is located (Shah 2011, 72).

Furthermore, U.S. intelligence reports indicate that the Pakistani government has not taken action to rid the Pakistani Inter-Service Intelligence (ISI) of pro-Taliban sympathizers. The ISI and Pakistani military continue to maintain ties with certain militant groups³ to promote the state's own foreign policy goals in the region. Intelligence reports also note that Pakistan used U.S. military aid to improve its conventional defenses against India and diverted portions of aid to its border with India (Bapat 2011, 310; Carnegie Endowment for International Peace 2011, 11; Shah 2011). Consequently, the provision of large sums of military aid to Pakistan has given the state little incentive to accelerate the demise of terrorist groups operating within its borders. The result is a prolonged conflict within the state, making it more difficult to transition to a focus on development projects.

In addition to a positive relationship between regional conflicts and increased military aid, several studies identify a link between aid inflows and increased domestic terrorism in Pakistan. Nasir, Rehman, and Orakzai (2012, 1138) and Tahir (2017) find that in certain instances foreign aid was followed by increases in terrorist activity. Using data from the Global Terrorism Database for the period of 1972 to 2010, Nasir, Rehman, and Orakzai (2012) identify a significant and positive relationship between foreign aid and increased violence during the post-9/11 period compared to terrorist activity prior to 2001. They cite several explanations for their results. First, foreign aid to Pakistan after 9/11 was conditioned on military and logistical support for U.S. and NATO forces (e.g. the use of Pakistani air bases and routes, permission for drone attacks in the tribal region, and Pakistani military support in certain operations). Local

³ Some U.S. officials accuse the ISI of maintaining ties with the Haqqani network and believe this is the reason for the military's refusal to pursue counterterrorism operations in North Waziristan (Carnegie Endowment for International Peace 2011).

extremist groups probably viewed this support by the Pakistani government as a threat to their existence and to the existence of affiliated groups in Afghanistan.

After 9/11, Western donors also increased their economic support for social projects (e.g. education and gender equality). These projects clash with the ideology of terrorists. Religious extremists view educational aid as a threat to Islamic values because it promotes contemporary education in science and the social sciences (Nasir, Rehman, and Orakzai 2012). For example, Tahir (2017, 126) tested the interaction between aid and domestic terrorism in Pakistan from 1961 to 2012 using a data set of different aid commitments (e.g. education policy, teacher training, medical training, family planning, and women's equality organizations). Of all the variables, she found that aid designated for education policy had a significant and positive relationship with increased conflict. Nasir, Rehman, and Orakzai (2012, 1143) also argue that terrorists perceive aid for social transformation as a Western threat because it is considered "an intrusion against the established cultural values and social norms." For these reasons, the nexus between foreign aid and terrorist activity in Pakistan presents an obstacle to improving the state's human development.

The third factor limiting foreign aid effectiveness on human development is the role of donors' self-interests. Donor interests have generally influenced the type of aid and the frequency it was provided to Pakistan. This paper focuses on U.S. aid to Pakistan since the U.S. has consistently provided the largest sums of bilateral aid since the 1950s. U.S. aid also made up a significant portion of total aid (bilateral and multilateral aid), averaging 20 percent of net aid to the state from 1970 to 2010 (Khan 2014, 68). The following paragraphs summarize the types of U.S. aid provided to the state and the "disruption and resumption" of aid in the context of U.S. geopolitical interests (Ahsan 2005, 235). The impact of these two factors on development in the

education sector is then discussed to demonstrate the ways in which donor interests can undermine the potential benefits of development aid.

The U.S.'s foreign aid strategy for Pakistan reflects a "carrot and stick policy" (Kundi 2007, 30) whereby Washington has turned aid "on and off to correspond with U.S. foreign policy objectives and to reflect the state of the bilateral relationship" (Epstein and Kronstadt 2013, 9). U.S. economic aid to the state was at its highest in the early 1960s when Pakistan joined two regional defense pacts supported by the West. Aid was curtailed after the 1965 and 1971 Indo-Pakistani wars and then suspended in the late 1970s in response to Pakistan's nuclear activities. However, when the Soviets invaded Afghanistan in 1979 the U.S. government moved to lift the suspension (Javid and Qayyum 2011; Epstein and Kronstadt 2013). U.S. aid resumed in increasing amounts after Pakistan agreed to support operations against the Soviets and the Soviet-backed Afghan government (Kundi 2007). Khan (2014, 69) states that once the Soviets were defeated in 1988, "Pakistan's importance for U.S. regional policy collapsed" and foreign aid significantly declined in the 1990s.

In 1989, President George H. W. Bush decided to no longer certify that Pakistan did not possess nuclear weapons. Such certification was required by the 1985 Pressler Amendment before aid could be authorized for the state (Epstein and Kronstadt 2013). Consequently, military aid to Pakistan ceased in the 1990s and development aid fell from \$452 million in 1989 to 1 percent of that in 1998 (Carnegie Endowment for International Peace 2011). The U.S. also imposed economic sanctions on Pakistan in 1998 after the state responded to Indian nuclear tests with its own tests. Relations between the two continued to decline after Pakistan underwent a military coup in 1999. This downturn, however, reversed after 9/11 with Pakistan becoming a

key partner in the U.S.'s war in Afghanistan. Pakistan's assistance was rewarded with huge influxes of economic and military aid.

Disruptions and resummptions of U.S. aid also occurred after 9/11. At times, the U.S. accused Pakistan of not doing enough in its counterterrorism efforts. The issue was brought to the forefront in 2011 after the U.S.'s covert raid on a compound in the military town of Abbottabad, Pakistan that resulted in the death of Osama bin Laden.⁴ Relations between the two states deteriorated quickly with both sides engaging in tit-for-tat policies. The U.S. suspended a large portion of aid in 2012. Two years later, as relations began to improve, Washington authorized the release of \$1.6 billion in aid (Associated Press 2013). In January 2018, the U.S. announced it was suspending nearly all security aid to Pakistan on the grounds that the state refused to "crack down" on terrorist networks operating within its borders (Landler and Harris 2018). Although the suspension may affect around \$1.3 billion in annual aid, the freeze was not applied to development programs. U.S. officials stated that the freeze was temporary and could be lifted if Pakistan "changed its behavior," including cutting ties with militants and reassigning ISI agents with links to terrorists (Landler and Harris 2018).

U.S. foreign policy interests and the disruption of economic aid in the mid-1990s have limited the potential benefits of foreign aid for the education sector. Since 1989, the U.S. has provided educational aid designated for specific areas near the Afghan-Pakistan border. The goal has been to minimize the influence of religious extremists and militants living in the region (Ahsan 2005). Most of this aid has been directed to the North-West Frontier Province (NWFP)⁵ and Federally Administered Tribal Areas (FATA). These two areas are heavily populated by

⁴ U.S. officials publicly acknowledged that bin Laden had been living at the compound for at least a year, but it was not made clear whether the Pakistani government or military were aware of this (Carnegie Endowment for International Peace 2011).

⁵ The NWFP was renamed Khyber Pakhtunkhwa (KP) province in 2010.

religious extremists, their residents provided support to the *Mujahideen* and then the Taliban, and they were main sites of U.S.-NATO and Pakistani counterterrorism operations after 9/11.

The U.S. initiated a ten-year primary education project in 1989 for the NWFP that was to be funded by a grant of \$280 million. Pakistani educators in the province criticized the U.S.'s conditions for the project, which introduced new curriculum for basic education. The subject of Islamic studies was replaced by social studies and new books contained a "secular approach" to human rights rather than the Islamic ideology of family, social security, and welfare system (Ahsan 2005, 243). In 1994, the U.S. withdrew its support of the project in response to Pakistan's nuclear weapons program. At that time, \$74 million of the \$280 million had been utilized. However, there is no public documentation on where and how the money was spent. Forty-two new primary schools were constructed, compared to the target of 940 schools, and only one-fifth of the work was completed on the construction of four new colleges for female teachers (Ahsan 2005).

After 9/11, aid packages were allocated to the KP and FATA regions for the construction of more than 300 public schools, for the provision of school supplies, and for the training of 1,000 teachers (USAID 2016). While aid has led to improvements in the education sector in these regions, Ahsan (2005, 243) asserts that the development remains minimal. Security threats to project coordinators, corruption, and disagreements between Pakistani officials and USAID employees over the implementation of these projects have stalled the construction of more than half the schools (Ahsan 2005; Perlez 2011).

Ahsan also argues that USAID's educational strategy has been focused more on achieving U.S. national security goals than addressing local needs and systemic issues. For example, USAID allocated funding to train 6,000 teachers throughout Pakistan, but no aid was

provided to hire them. It remains unclear how the federal and provincial governments will increase their educational budgets to pay the new teachers (Naviwala 2015). Furthermore, enduring problems within the state's educational system, such as patronage in the hiring of teachers and widespread teacher absenteeism, undermine the benefits of USAID projects. In a study on the educational achievements in Pakistan's public schools, Andrabi et al. (2007) find that teacher absenteeism was the single greatest factor affecting student performance (teachers were absent one-fifth of the time). Infrastructure, teacher qualifications and training, and pay had a negligible impact on student performance (Andrabi et al. 2007; Naviwala 2015). These local and systemic problems limit aid effectiveness on education development.

Although Pakistan has been one of the largest recipients of foreign aid since the 1950s, the state has not experienced significant improvements in human development. It is an example of a state that has achieved economic growth without development. This research paper examined the question: Why has foreign aid not resulted in greater human development in Pakistan despite the country receiving billions of dollars in aid? The study used the dimension "access to knowledge" to measure aid effectiveness, and it demonstrated that foreign aid has not been effective due to 1) corruption, 2) regional conflict and domestic terrorism, and 3) donors' interests. The paper also highlighted that of the total foreign aid allocated to Pakistan, it was U.S. aid that was most associated with the last two factors. In conclusion, corruption, conflict, and donor self-interests are significant factors influencing the interaction between foreign aid and human development in Pakistan.

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