Impact of foreign aid on economic development in pakistan

Impact of Foreign Aid on Economic Development in Pakistan explains that Pakistan is getting into a steady wave of debt burden. It is the International Monetary Funds in general and United States, Great Britain, Japan etc in particular which Pakistan uses as a main source of taking Debt. IMF alone has given more than 11 Billion US Dollars to Pakistan as debt. The researcher has narrowed down the wide topic into two main variables. First one being the Debt burden and other one explained as Economic growth in terms of Gross Domestic Product's growth. The researcher argues that there are many reasons that make a country rely on foreign aid and debts. First reason is more of a political reason and the terms and conditions attached to the foreign aid, which in general are beneficial for the country taking it in a shorter term perspective. The other main reason is associated with the composition and the break – up of external aid to loans in hard form. With the passage of time, there is a shift from providing grants to any Underdeveloped or friendly country to aid, which is further associated with interest payments and principal – payback. The world today is facing a paradigm shift in terms of equipping someone with capital, from friendliness to enmity in the form of heavy interest re-payments. It was also concluded that there are many sides of the external debt and the way it interacts to solves the basic economic problems of a country. External aid brings positive as well as negative results in the long term aspects. Foreign aid no matter brings a positive up thrust in the Gross Domestic Product of a country in short term, as it boosts up agriculture, Informational Technology, Education, Health services etc. But in many cases the long run results are much difficult to handle. The major draw back seen of heavy external debt is the Balance of Payment Deficits. This deficit in Balance of Payments is covered by the allocated funds of the Social Sector development. The researcher also explains about the policy matters which are the most important part in handling the external debt and its servicing. Proper and effective policies are to be made in order to retire the aid taken for better implementation of the policies, which in return will ensure the effectiveness of aid taken by the country and all the problems linked to mis – utilization and mis – management of the resources taken from external resources.

Amakom Uzochukwu S. in his Research paper Nigeria Public Debt and Economic Growth: An Empirical Assessment of Effects on Poverty argues that there should be external debt to be raised by Under developed countries like Nigeria in Africa but there should be a limit attached to every country which should define to what extent the debt is to be raised. This limit is definitely be calculated and research watching all the financial indicators of past and futuristic look on the same indicators should also be given some weight. He also suggest that if proper weight is not given to the financial indicators of the country, it will in the end cause supplementary in-debtness of the International Monetary Funds and other sources of debt to be taken. He explains that the Public debt of Nigeria is slightly more than 75% of the total Gross Domestic Product of Nigeria. This is a very big number in absolute terms and according to the International Monetary Funds and The World Bank, Nigerian Effective debt to export ratio is also more than 200 percent with a total debt accounted for approximately 28. 5 Billion US Dollars by 2002. This figure is not alone as it is also associated with the debt retirement of 3. 3 Billion US Dollars in 2002 and 5. 3 Billion US Dollars in 2003. The situations in Nigerian on financial aspects are much worse. There is immense poverty in the country where Gross Domestic Product growth rate is stagnant over the years, where the intake of debts from IMF and other domestic source has been shooting up randomly. Income per Capita is far-off from the total figures of debt that has been taken by the country. The researcher in his research paper has applied the crash of public debt and growth on poverty using the per capita income approach where he majorly focused on public debt the country is raising and the way it is creating more problems or solutions for alleviating poverty from the country. The end results of the research also showed the impact of loans taken from internal as well as International Monetary Funds on the economic and poverty structure of Nigeria. It was concluded that poverty in Nigeria is growth and debt elastic, as there is enormous poverty spread through out the country and the total accounted figure for debt is around 28 Billion US Dollars. There were multiple factors which were accounted fro in the case of Nigeria including population, domestic and external debt figures, employment rate, school enrolment rates, Balance of Account and terms of trade which are directly linked with the Economic growth of the country.

James Njeru in his Research, The impact of foreign aid on public expenditure explains that for many of the Sub – Sharan countries, taking economic aid from International Monetary Funds and The World Bank constitutes as an important participation for the sake of running economical as well as political structures of the country. In most of the African countries like Kenya, almost all the financial indicators are not in a good health. They all share relatively same narrow tax base, low on export side and large deficits in Balance of Payment Accounts. Saving of the people is also negligible since poverty head count is much on a higher side. The paper majorly focus on the response of the Kenya's Government in terms of its expenditure when experiencing massive aid cut from IMF and internal malfunctioning of public debts. The research showed that the spending outline of the government gets changed when this is an inflow of economic aid from International Monetary funds of debt is raised from internal resources. On the other hands, it was really difficult for Kenya in short term to deal with the effects of the aid freeze which were much influential in ordinary days supporting fiscal structure of the country. Fiscal measures were not capable sufficient to offset the change and started facing a downfall in no time. It was also concluded that the rise seen in the Kenyan domestic debt was always attributed to the persistent fiscal gap present in the country which caused suspension of the load payment by International Monetary Funds in 1991. This caused real problem for Kenya's economy as to overcome the fiscal deficit, the recipient country in result of getting suspended by loans has to look for many other new options, like raising the normal and corporate tax rate, increase domestic borrowing from the central bank as well as other commercial banks, having a massive cut in development and social development expenditure and printing more money which causes inflation and employment in the country. The mentioned problems were a major threat to the Kenya's economy, which it had face in terms of the crowding out effect in investment and added to the domestic debt. The situation got further difficult when Kenyan economy faced major expenditure cuts in government's cutting in social development sector and unemployment after having sky – high inflation. Over reliance on external debt, particularly from International Monetary Funds made financial matter more critical for Kenya’s economy and the effects of 90’s is still faced by it.

Michael Atingi-Ego in his report Budget Support, aid dependency and Dutch Disease argues that Uganda’s economy is another difficult economy which has been facing sever challenges and threats in successfully running and implementing financial system of the country. It was due to the mere support of many countries on bi – lateral and multi – lateral country which supported Uganda’s economy from crashing many times in history. Presence of International Monetary Funds in Uganda’s economny is another problem since the country is not capable of abiding by the rules and regulations put by International Monetary Funds on it. It was until Financial year 1999, Support inflows to Uganda were comparatively small than the newer ones, constituting 200 Million US Dollar on annual basis. It was the help of numerous donors which in terms of grants or debt gave cushion to Uganda’s economy many times and helped to decrease its fiscal and monetary deficits. Uganda is another African country where unemployment, low tax base, inflation, less saving by the public and high balance of payment accounts are seen over the time with no proper source of revenue excluding contacting International Monetary Funds for raising external assistance. For the sake of supporting budget deficits till FY 1996, loans from other countries in Uganda does the major source constitute 56%. Grants taken by donor countries also constituted to 73% moderately support the uptrend of Uganda’s external debt and financial sustainability of the country. Uganda’s government has also put ceiling on taking aid which can be taken in the form of loans and grants. In adding up to the upper limit and the suggested ceiling, it is always to evaluate that both domestic revenues and grants are insufficient to finance the national budget that government has skinny and less loans that are highly concessional. As a multi – lateral donor, World Bank has also taking part in Uganda’s fiscal deficit financing giving 225 Million US Dollars by 2001, International Monetary Funds being 53 Million US Dollars. The research shows that Uganda is heavily laid on the mercy of budget support which is on an average more than 50 percent of its total expenditure. These measures have created inflationary and unemployment in the country which the country is trying to control on, but the over all situation is so much aid – dependent, exchange rate and interest rates are out of the reach of Government to control them and bring positive financial changes in the country.

Bazoumana Ouattara in his Research paper Foreign Aid, Public Savings Displacement, and Aid Dependency in Cote d’Ivoire explains that the economic effectiveness in any developing country is an important issue which is dependent upon the policies which are formulated in terms of raising aid from any of the external sources present in the world in the time of financial deficit. Right now, the donor countries and agencies are also inclined to issue loans to such countries which have effective and efficient economical structure, which has the muscle to return back the loan well in time with healthy interest payments. Government’s workings and efforts in increasing the tax base and consuming on a lower side explains the good financial environment in any country. Public savings are another factor which has not been addressed directly which is another important concern when looking on the over – all financial deficits and issuing external debt. In countries having huge public – saving gaps, it is much important to look as on the issues such are over dependency on external aid from International Monetary Funds and The World Bank, which are the most important factors if the relationship is to be gauged between taking aid and the economic growth of the country. If the public saving gap is reduced, the dependence for external debt even on the internal sources of debt will be minimum in order to finance the fiscal deficits in ant country. This brings macro economic stability and a self sustainable growth with long – term dependence on external sources of Financing as International Monetary Funds. In the case of Côte d’Ivoire during the period of 1975 to 1999, it was observed that the wide gap of domestic saving caused another wide gap in monetary gaps in the country which are to be addressed immediately by contacting International Monetary Funds and other sources of International and Domestic sources of funding the gap. It was also concluded that aid dependence of Côte d’Ivoire increased with an increase in Financial Program aids into the financial system, where as Technical Assistance grants and Food Aid Programs helped to reduce the aid dependence. Nevertheless, Côte d’Ivoire faced massive challenges and is still facing many financial threats which it has to face in terms of heavy interest payments as well as other imposing clauses made by the donors.

Bazoumana Ouattara in his Research paper Disaggregating the Aid and Growth Relationship explains that foreign aid and debt there is a mystery which has not been solved by any Under developed country regarding its usage and encouraging economic growth in the country. Many of the researches by Papaneck any many other concluded the relationship between aid dependence on external source and growth to be open to doubts and questionable. But the recent researches by Burnside and Dollar claims that external aid is a way which can bring fiscal and monetary muscle in the economy and also helps to promote the trade policies of the country. Again the researcher argues that there are numerous bodies which are present through out the world giving loans and debts to less developed countries where they get into their trap when they have to take further money to pay back the previous one. So, there should be some policy which should elaborate some financial indicators which explains the solid financial policy atmosphere. In the research, it was concluded that the aid incomings into the countries which are already facing financial problems in their structure so get a positive response by the financial structure and it sponsors growth and financial augmentation but there are many other factors which are to be accounted for in order to create a healthy balance in taking loans and dealing with financial or fiscal deficits with – in the country. Role of International Monetary Funds, according to the researcher, is the most important yet crucial one to discuss. They sanction aid to the less developed countries which have to stand for the monetary rules and regulations framed by IMP consultants. As a matter of fact, a country asks for monetary help since the internal situation on financial side is facing a serious ailment. Due to the new policies being compelled to that country, it always bring about further confusion and disorders in terms of inflation, unemployment, heavy debt piles, low tax generation, and most of the time its comes with massive political instability in the country, which further worsen the over all financial conditions of deficit edge. The research was mainly focused on the policy making which should be drafted with a lot of care and having a revolutionary thinking in – order to eliminate the dependence of borrowed resource, interest payments with plod of principal payments and a lot of harass for the next generations of any particular country.

Pakistan's Economic Crisis and the IMF Bailout Package explains the significance of the International Monetary Fund that has already approved a bailout package of $7. 6 Billion in order to help Pakistan avert from getting a default on its repute as far as the external debt is in question. Various meetings have been conducted in which IMF put is condationalities and imposments inorder to make a mechanism to get back the sum of many it lends to the country. Immediate pacts were agreed in providing an immediate $3. 1 Billion sum to reinforce the country's speedy weakening foreign exchange treasury. The ultimate goal of the arrangements to in ensure socio-economic firmness and re-establish investor assurance in Pakistan by looking keenly on the macro-economic unevenness and problems in the country. At the same time it also sends a message to the outer world that Pakistan has lost much in the war on terror and needs money in order to gain its original status of early 2000s. The country needed around $20 billion in order to prevent itself falling in the default list of Balance of Payment. Initially Pakistan was always reluctant to ask for help from the IMF due to their tough conditions on the subsidies and developmental expenditures but it was the last resort as Plan A and B did not work form the multilateral institutions and friendly countries. Going to the IMF was the need in time as there is a huge and persistent Balance of Payment and secondly, there is tax-to-GDP ratio sticking below 1o percent which is more than 17% in many of the developing countries. Furthermore there are sky high capital budget followed by public debt remaining as high as 55 percent of GDP. The arrangements made by The international Monetary funds if turns into a successful venture, it will help Pakistan in general to gather the goals and objectives in the field of fiscal and monetary deficit to some degree, mainly the phasing out of financial backing to the poor people from the government in the form of subsidies and developmental budget. All this will help the Finance ministry to increase the revenue base of the government as reforms in tax administration will be there which will be causing 1% increment in the GST from fifteen to sixteen percent implemented in the FY2009 budget) will assist lift tax-to-GDP ratio. In the medium-term, the government will have to go for numerous steps such as eliminating exclusion in GST and the income tax and imposing Agriculture tax.

A Comprehensive U. S. Policy to Pakistan states the mismanagement of Pakistan’s case by the Americans authority in monetary terms. It explains the current economic misery being faced by Pakistan due to its involvement in the War on Terror and other problems like political instability and terrorism. It explains that USA has put millions of Dollars in to Afghanistan and Iraq but Pakistan is the ally and much more important to the American objectives in Asia. America’s assistance to Pakistan is not up to the mark and there is growing anger of the people of Pakistan in the current democratic government and The US. Even the massive Kerry-Lugar bill was rejected by the people of Pakistan on the same grounds. There come the IMF, where Pakistan could go to. The irony of the situation is in the presence of USA, Pakistan still has to goto the IMF where it is always clear that there will be more problems coming up in the country due to the hard rules and regulations imposed by IMF. Thus there is an immediate need that should be showed by USA in consultation with International Financial Institutions and other donors which should also take their part in providing Pakistan with significant balance of payments and budgetary support designed to prevent financial collapse and to alleviate the immediate humanitarian effects of high food and energy prices.

Funds obtained from The International Monetary Funds are catered in the budgetary financing and is to be included in the respective fiscal year. On the other hand, Total Public Debt (TPD) includes domestic debt payable in Pak Rupee as well as the short, medium and long term Public Debt portion of External Debt & Liabilities (expressed in Rupee term). Internal debt of Pakistan is also not showing a good picture. It is increasing day-by-day. Total Public Debt (TPD) showed a growth of 12. 2 percent during the first nine months of the current fiscal year and reached Rs. 8, 160 billion at the end of March 2010. Pakistan’s government takes again internal and external debts to service back the public deb. As far as the internal debt is concerned, government do have some grip on it but the moment the external debt comes in it, government loses its grip on the grip. In spite of the risks of extreme dependence on domestic debt, it is significant in nature to observe that government debts through local aspects is fundamental in motivating investment and personal savings, as well as intensification of native financial markets, since it provides deepness and liquidity; the important aspect to run the business.

The outstanding amount of IMF debt now stands at $ 7. 2 billion where it was just $ 5. 1 billion at the end of FY09, which shows an increment of 40 percent. Moreover, the IMF authorities have agreed to make it $11 Billion. Out of this unpaid sum; approximately US$ 1100 M is kept for the use of budgetary deficit, where the remaining should be used on the negative Balance of payment. The latest installment of approximately US$ 1. 13 Billion was received on May 19, 2010.