Day: 43707- Shanza Sehar-002 Date: 1-01-2026

5 Foreign aid: Road to stability or recipe for disaster.

Outline

1 Introduction:

Foreign aid has been a significant feature of Pakistan's economic and political landscape. It is often presented as road to stability, especially during economic crisis and natural disasters yet. some critics argue that excessive reliance has become a recipe for disaster

2 Foreign aid

2.1 Grants or concessional loans

2.2 Bilateral or multilateral.

3 Foreign aid as a road to stability.

3.1 Humanitarian aid relief during disaster

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3.2 Economic stabilization and balance of payments support.

3.2.2 Disbursment under IMF's (International Monetary Fund) EFF (Extended Fund Facility

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3.3.1 United states's aid for Mangla & Tarbela Dam

3.4 Institutional and capacity building.

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4- Foreign aid as a recipe for disaster.

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Foreign aid has long been considered a instrument of boosting economic growth. Political stability and humanitarian releif in developing countries. For Pakistan, foreign aid played a significant role since independence, es-pecially during wars, economic crisis, and natural disasters. Hower the long term impact of this aid remain controversial. While supporters see it as a road to stability, critics argue that it has turned into a recipe of disaster by fostering dependency weakening institutions, and undermining sovereignty. There are certain steps, countries particularly Pakistan should take to reduce their dependency on foreign aid and get full sovereignty Malaysia and Singapore are the example of this. They have done economical and governance reforms to get rid of this curse. So It is necessary for Pakistan to do reforms to reduce dependence on any country's aid or any organization's aid.

Foreign aid is the voluntary transfer of financial material, or technical resources from one country or organization to another, primarily to promote economic development, welfare, and stability in receipient country. This aid can be direct assisstance from one country to another. It can be multilateral aid funneled through international organizations like the UN, World Bank, or International Monetary Funds. It can be in form of grants that don't need to be paid. It can be loan, means money provided with repayment terms (soft loans with low interest). Official Development Assistance or ODA is the formal name of what is more commonly known as foreign aid. This term cover all type of funds given to developing countries.

Foreign aid as a road to stability is true in certain aspects for Pakistan. Pakistan got it as a humanitarian releif

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during disaster. Pakistan is highly vulner-able to floods, earthquake, and climate induced disasters. Foreign aid provides immediate relief in the form of food, shelter, medical assistance, and rehabilitation supports. It prevents large scale human suffering and social unrest. Pakistan received humanitarian aid in devastating earthquake in 2005, in floods of 2022. Several countries and organizations gave assistance during those disasters

Foreign aid also helps with economic stabilization and balance of payments. Economic balance of payments support through foreign aid to help nation cover imports costs, stabilize currency, manage immediate debt, fund development projects, often boosting foreign exchange reserves. The IMF's (International Monetary Fund) Extended Fund Facility stabilizes Pakistan's economy. Recently IMF gave an immediate disbursement of $1 billion to to Pakistan as a part of its Extended Fund Facility (EFF). It support stabilization through macroeconomy stabilization, fiscal consolidation, rebuilding of foreign exchange reserve

Foreign funded projects have contributed to the developments of roads, dams, power plants, schools, and hospitals particularly in under developed region Pakistan constructed Tarbela, and Mangla Dams with United States aid. World Bank and Asian Development Bank provides loan for infrastructure including energy, roads, railways. water, and sanitation

Foreign aid in Pakistan also aimed to build instituitions and capacity buildings through education, health. governance reforms, and infrastructure. They also often provide technical assisstance. Some examples of this includes donor-supported foundations like Edhi, Shaukat Khanum. These instituitions build significant instituational capacity in social welfare and healthcare system.

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There are some challenges in this including aid dependency, misuse of political agendas, and crowding of local policies.

Another positive side of foreign aid is it helps to reduce poverty and boost social sector development. Foreign aid did provide funding for rural programs, empowering womens (Ehsaas Programs), improving health care and education (United Nations). Pakistan Poverty Alleviation Fund is funded by World Bank. It provides microfinance loans to rural entrepreneurs, boosting incomes. and stability. Ehsaas Program targeted marginalized groups, especially women. Benazir Income support program is also supported by foreign aid. It is a social safety net to reduce poverty.

Foreign aid also strengthens international relations with Pakistan by fostering strategic patnership (like with United-States, post-9/11 for counter terrorism), supporting economic stability (World Bank, International

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Monetary Fund) They funded for critical dams and road's construction. United States Provide developmend and military aid to secure Pakistan's cooperation in the War on Terror, solidifying a crucial alliance.

Above are some benefits of foreign aid but due to over dependency, lack of ~~in~~transparency, and poor governance foreign aid has become a recipe for disaster. Pakistan is one of the developing nations who became overly reliant on foregn aid, undermining local capacity and self sufficiency. It leads to a cycle of poverty and true sustainable development becomes a dream.

Foreign aid especially IMF, often comes with strict policy conditions (like privatizations, tax hikes.). It limits a country's economic choice. It is also seen as loss of sovereignty.

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In Pakistan, International monetary fund imposed fiscal and monetary policies, raising concerns about external control over domestic self-determination. It also impose structural reforms like privatization of state owned enterprises, trade liberation and increase in tax.

There is another point which turn this aid into disaster. It is corruption and misgovernance in Pakistan. Foreign aid in Pakistan has often been ineffective, and at times detrimental, due to pervoasive issue of corruption and misgorernance. Aid intended for vital infrastructure, health, education, and disaster releif is frequently siphoned off by corrupt officials or mis-allocated to anon-essential projects. further, lacks of maintanence of essential ~~fund~~ infrastructure (like canals) due to misused fonds, also exacerbates disaster risk. Ghost schools are the best example of this. A USAID- funded program in

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in Sindh province to built and rehabilitate around 100 schools. It faced accusation of mismanagement because of educational institution's existence only on pape, with no actual students and teachers.

In Pakistan, Foreign aid often becomes a disaster by increasing debt, worsening fiscal vulnerability, and failing to drive sustainable growths. As it is seen in projects like CPEC (China Pakistan Economic corridor), or loans ~~att~~ for Post-disaster releif (2010 floods). It all leads to dependency, misuse, balloning debt servicing creating a debt trap for country. High debt service also consumes a large chunk of the national budget, leaving little for development. Pakistan's total Public debt exceeds PKR 80 trillion by mid 2025. Despite substantial aid over decades, Pakistan's economic performance remains poor, with low savings, widening trade gaps, and weak social indicators, suggesting ~~ap~~ aid hasnot translated

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to sustainable development but rather increased liabilities.

Foreign aid in Pakistan has often been criticized in Pakistan for distorting national priorities by trying aid to donor'countries's strategic interest rather than the receipient's long-term development needs. A significant portion of aid received by Pakistan, especially after -9/11 from the United States was tied to military assisstance and counter-terrorism efforts. This focus on security oftem overshadowed crucial domestic needs like improvements in poverty, health, education, and social services.

Foreign aid has been linked to the weakening of domestic institutions in Pakistan contribute to a cycle of dependency and hindering sustainable developments. The inflox of substansial aid without stringent accountability measures has been found to erodo the quality of governance by increasing corruption

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Pakistan's experience with foreign aid is a "double-edged sword": providing crucial funds for humanitarian purpose, infrastructure, defense. crisis releif, especially post 9/11, but also fostering dependency, creating debt traps fuelling corruption, and failing to translate into sustainable socio-economic growth or poverty reduction. The aid is often drive by donor's geopolitical interest rather than Pakistan's core needs. While some projects materialized, overall results are underwhelming, leading to a cycle of aid often just services past debt, highligthing issues with inefficient spending, weak governance and a lack of independent planning.

To acheive independence from foreign aid, Pakistan needs comprehensive reforms in Economy and in governance. We should focus more on domestic resources mobilization, export led growth, attract foreign direct investment. fooster local industries, develop home grown policies

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aligned with national priorities rather than donor agendas, all while building strong domestic institutions and enhancing tax collection. We should also help in economic diversification and domestic focus, promote domestic businesses. also reduced state presence. Govt. should rationalize public sector entities (like Pakistan Air Agencey) has been done). Other reforms involved social, infrastructure, textile sector, energy sector,

Several Countries have reduced their dependency on foreign aid. like South Korea, Singapore, Malaysia. They put their focus on export led growth, strategic industrialization, strong governance and human capital development. These steps help them transforming from aid receipients to donors, with Malaysia now receiving minimal aid and Singa-pore being a key donor and provider for technical assisstance.

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For Pakistan, foreign aid is neither a inherently blessing no a curse. It can be a road to stability if used transparenty and strategically. Foreign aid has long been considered a vital instrument for promoting economic growth, political stability, and humanitarian releif in developing Countries like Pakistan. For Pakistan, foreign aid has played a significant role since independence, particularly during wars, economic crisis, and natural disasters. However, the long term impact of this aid remains controversial. While supporters see it a a road to stability, critics argue that it has turned into recipe of disaster by fostering dependency, weakening institutions, and undermining (institutions)* sovereignty.