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Foreign Aid, Governance and Human development Nexus: An empirical analysis from Pakistan

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Abstract: The study analyses the impact of foreign aid on Human development and governance in case of Pakistan by employing ADRL approach, by keeping in view the current debate on effectiveness of foreign aid in the recipient countries. Time series data for a period from 1985 to 2023 is used. To measure the quality of governance an index has been developed with three indices of corruption, bureaucratic quality and the rule of law in Pakistan. After controlling for other factors, the study finds that foreign aid has positive impact on HDI in Pakistan. Conversely, aid has a negative impact on governance in Pakistan which implies that aid dependence is deteriorating the quality of governance in Pakistan, by increasing corruption, less fear of accountability among the ruling elites and government personnel. Findings of the study suggest two lessons for policy makers. First, aid should effectively be used for achieving the higher levels of Human development in Pakistan. Second, aid may be effective in improving the quality the quality of governance in Pakistan.
Key Words: Governance, Human Development, ARDL

1. Introduction

"Foreign aid is one of the most powerful weapons in the war against poverty. Today that weapon is underused and badly targeted. There is too little aid and too much of what is provided is weakly linked to human development" (United Nations Development Program 2005).

Developing countries are heavily dependent on aid because of extreme poverty, all over the world especially, in some regions. Individuals living in extraordinary destitution need to confront some of the unimaginable

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conditions of life-threatening hunger, poor sanitation, epidemic disease, lack of basic education, unclean and contaminated drinking water, with the problem overgrowing population and are in a state of deprivation since ages, resulting from staggering economic growth rates paired with worst rule of law and instable political setup. The developing world is receiving a whopping amount of foreign aid. According to the OECD 2016-17 estimates, Sub-Saharan Africa got the biggest measure of ODA, at $26,297 million. South and central Asia got the second biggest sum at $13,755 million. The top ten gross ODA getting nations all together were India ($3,516 million), Afghanistan ($3,024 million), and Vietnam ($2,308 million), Ethiopia ($2,172 million) Iraq ($2,102 million), Bangladesh ($1,874 million) and Pakistan ($ 1,765 million). Approximately, 147,160.3 million $ ODA in total has been granted in 2017. In spite of receiving heavy aid, the developing countries are at the tail of the world ranking based on Human development indicators. While the state of poverty and human sufferings is also, quite critical in these countries. According to a report of World Bank, in 2015, “Approximately 790 million people in the developing world are constantly undernourished, almost two-thirds of them reside in Asia and the Pacific”. Moreover, 10 % population in the world still live on under US$1.90 every day. The greater part of the outrageous poor live in the Sub-Saharan Africa. Indeed, number of poor in the area has risen by 9 million, while 413 million people living on short of $1.90 every day, in 2015. “Causes of poverty comprise nonexistence of resources, inadequate income distribution in the world and in specific countries, hunger and conflicts

itself" (The World Bank, 2016). The hole among rich and poor countries is getting wider, for instance the world's richest nation, Luxembourg has GDP per capita of $104,103.04 which is found 496 times richer than Burundi, which has per capita income of $292.01 being the poorest nation of the world (World Bank national accounts data, 2017).

Therefore "foreign aid effectiveness" in triumphing its main goals of economic development along with reduced human sufferings, has been called in question.

Actually, the debate over aid effectiveness for economic, social development and welfare of human beings is still inconclusive and gives birth to three divergent hypotheses. The conventional writing on financial development offers accentuation to the positive job of outside guide to quicken the procedure of monetary development and improvement. Aid should be used to accelerate development process and aid has the potential to improve human welfare by increasing the specific public spending, proving community interest predictions (Sen 1999; Sachs 2005; Morrissey et al 2005), The other hypothesis is defined as public choice perspective, argues that aid is ineffective and it may disrupt future growth process (Easterly 2001; Filmer and Pritchett 1999; Brautigam and Knack 2004; Knack 2001; Heckelman and Knack 2005). In these investigations, the creators for the most part focus around the effect of remote guide on financial improvement and locate no significant connection between the two. An alternate body of literature states that aid ineffectiveness owes to the absence of sound and stable governance system in the recipient

country. Moreover, the presence of good governance in aid recipient countries, for effective use of aid has also been identified and endorsed by the international donors as a condition for granting further aid. "Improving good governance in developing countries has turned out to be both an objective and a condition for foreign assistance. Thus uniting these two objectives in aid policies represents a hard challenge for development establishments". (Santiso2001).

2. Literature Review

Burnside & Dollar (2000) argue that aid shall be effective if it is delivered with the condition of good policies, to inspect link among foreign aid, economic policies and per capita growth of GDP. The paper investigates a new hypothesis about aid: that aid does affect growth, but in the presence of good policies. The panel data analysis is conducted by using a panel of 56 countries.

Santiso (2001) states that donor agencies especially the World Bank, have started reviewing policies regarding the aid usefulness among recipient countries. The World Bank has extended its policy boundaries by incorporating the good governance as the central and essential component of its development aid strategies by making it provisional for the developing world to improve its governance so that development aid can be used effectively.

Sharma & Gani (2004) studied that foreign direct investment (FDI) affects the human development. The regression outcomes of the fixed effects

model show that FDI has constructive impact on human welfare in both the set of states. The bidirectional regression results of HDI on FDI suggests a stronger positive and significant impact of HDI on FDI.

Harms & Lutz (2006) examine the question whether foreign aid promotes foreign private investment in the recipient country or depresses it by converting resources towards unproductive dimensions in case of developing countries. The findings reflect that institutional quality also affects the volume of private investment.

Rajan & Subramanian (2007) state that aid may be associated with poor governance in recipient country as it happens to slow down the industrial growth by hampering the manufacturing sector growth.

Chandar (2007) explores the role of institutions and governance in improving the growth rates in the developing countries and examines whether there exists any cross sectional relationship between governance and financial aid and how improved governance affects the usefulness of aid in economic growth promotion.

McGillivray & Noorbakhsh (2007) examine influence of aid on human development Index in the presence of conflict. The results show that HDI has negative association with conflict and positively linked with democracy, governance and investment.

Williamson (2008) inspects the relationship among health and human advancement by empirically testing the hypothesis: whether human development can be improved through health sector engaged foreign aid.

The panel data set is constructed from 1973-2004 for a group of 208 countries. As per the consequences of the study foreign aid is found ineffective to increase the overall health and the human development.

Booth (2008) elaborates that Catholic teachings stress upon the importance of good governance for the effective utilization of aid but the problem is that if recipient country has poor governance structures then how the donor country can meet its obligations in social justice and goals of aids. The paper also discusses the negative association of aid with growth progress of recipient state because aid has tendency to be misused to benefit the ruling elites in developing countries instead of being spent for improved health and education.

Haq & Zia (2009) state that pro-poor choices and good governance are very important for the alleviation of poverty. This study examines the connection among administration and star poor development if there should arise an occurrence of Pakistan for a period, from 1996 to 2005. The findings of the study implies that good governance, poverty alleviation and inequality are strongly linked in case of Pakistan. It concludes that corruption can be reduced by indorsing the pro-poor policies that will ultimately decrease poverty and inequality in long run".

Askarov & Doucouliagos (2013) employ a Meta Regression Analysis to evaluate the aid and institutional quality association. The results reveal that aid has zero, almost negative impact on democracy but this relation turns positive in case of transitional economies of Europe. Moreover, aid

happened to have positive influence on governance during the Cold War but that effect became zero in the Post- Cold War era.

Ndinda (2016) examines the impact of governance on aid allocated to the health sector in Kenya, Africa. This study investigates the correlation between governance in Kenya and foreign aid flow in the country. Key findings suggest that foreign assistance to health sector has been diminishing and due to corruption the donors are advancing aids to the NGOs instead of government.

Sheehan & Young (2014) this paper studies the impact of aid, institutions and growth upon each other altogether. The results show that aid flows are responsible of deteriorating both economic and political institutions in recipient countries by disturbing their legal systems, property right and the trade openness. However, aid flows are absolutely and vigorously related to economic growth, the study reflects. Stevic et al. (2016) test governance with linked with various dimensions of sustainable human improvement. Study explores good governance influence over some specific socio-economic indicators of sustainable human development by conducting panel data analysis. The results show that good governance has important and positive relationship with economic growth and a moderately substantially negative relation with poverty head count ratio. The study further concludes that there is no “one size fits all” model of good governance for all the countries because the results vary with the type of countries.

Mira (2017) studies good governance influence on economic progress. The study uses a group of forty five under developed states chosen by region i.e., “Mena, Latin America, East Asia,” and South to analyze the link between growth rate and good governance through an empirical model. The results do not suggest a strong governance and growth rates associations for these developing states. Staicu & Barbulescu (2017) studies relationship of Human development with foreign aid in Africa with objective to evaluate aid effectiveness in poverty reduction and improvements in living standards in countries of Africa. The final findings show that aid is positively related to life expectancy indicator in comparison of polity score and ILE.

Haider & Qayyum (2012) investigate the link of economic growth with aid and external debt, using a panel of numerous countries which are facing the problem of bad governance for a period from 1984-2010. For the model specification, the study extends the neo-Growth model of Solow and Swan through which the reduced form version of behavioral link among for aid and external debt with a role of governance is developed. The empirical findings show that all the results are significant and matches with the expectation as governance and foreign aid both positively affect output while external debt is found to be significant and negatively related with output.

Carnegie & Marinov (2017) investigate the question whether foreign aid work as an effective incentive or conditionality to promote human privileges and democracy in the recipient states. The study introduces a

novel approach over this debate by analyzing an exogenous factor of aid allocation, that is, the rotating presidency of European Union Council by hypothesizing that if a previous settler holds the presidency of the council in budget making process than that country will get more foreign aid allocation than other than countries. This paper also analyzes the timings, life and effects of the reforms made by the aid receiving country in the area of human rights and democracy. The instrumental variables are used for estimation, the Cingranelli -Richards index (CIRI) is used to measure the overall human rights which is developed by using seven sub indicators. While, for democracy measure used the Polity IV combined score/index and data on official development aid is used as proxy for aid variable. The empirical findings based on the hypothesis suggest that aid has positive relationships with democracy and human rights but these effects are short-term, as soon as the volume of aid drops these effects shall also dissipate. The paper suggest that Donor countries should ensure that aid levels will not fall, then more persistent and irreversible reforms in the recipient countries may take place.

Erbeznik (2011) examines the rule of law link with foreign aid in case of developing countries. The study makes an extensive over view of previous efforts being taken to rebuild the rule of law in the aid recipient developing countries and found that reforms could not succeed because reformers mainly had focused on the general reforms in the rule of law while, completely ignoring the political and cultural factor of rule of law. The paper likewise thinks about the effect of remote guide on the nations in the Africa and presumes that guide isn't the main purpose for the frail

principle of law in these nations. In light of in general discoveries the examination contends that outside guide debilitates the standard of law in beneficiary nation by reducing willingness of the ruling elites and governments to make good reforms in rule of law due to its subsidizing impact on the institutions. It is also suggested true and sustainable reforms cannot be achieved in the absence of social commitment to follow the rule of law particularly by the government and the political elites in recipient countries.

Bussolo et al (2001) test a well-confined hypothesis, whether globalization has impact on governance. The study makes an overview of existing theoretical descriptions of causal link between governance and globalization. The study with the help of microeconomic theory recognizes trade policy, antagonism between overseas manufacturers and the intercontinental financiers, the openness-related variances in building institutions expenses and benefits, being main instruments by which openness affects corruption levels in any country. The empirical model takes corruption as dependent variable while gross domestic output per capita, country score on political rights and economic policy variables, like degree of trade liberalization are selected as explanatory. A cross-section of one hundred and nineteen countries for periods from 1984-88 to 1990-98 is used in the study while multivariate OLS regressions results suggest that an increase in trade openness do strongly reduce corruption,

Emara & Chiu (2016) analyze the governance effect on growth by using cross-sectional data set for years 2009 and 2013 for a sample of 188

countries, mainly, focusing on the twenty-one Middle Eastern and North African countries called MENA. More, specifically, the study seeks to answer two questions, first, how does economic growth changes in response to change in governance index. Second, which of the governance component is more significant in explaining economic growth rates variations among different countries. The econometric model uses log of per capita income and a composite governance index (CGI) that is defined by Worldwide Governance indicators. The Principal Components Analysis (PCA) method is used for analysis and results suggest that 9 countries of the MENA region show positive association between governance and growth of economies which includes, countries that have experienced deterioration accompanied by deterioration and those countries that have experienced an improvement followed by an enhancement in governance index and economic growth.

3. Theoretical Frame work

To study the foreign aid impact on Human development, governance in Pakistan, following models are analyzed.

First conceptual model is following

Human development index = f (Official development assistance, GDP per capita growth rate, population growth rate, life expectancy, primary school enrollment)

In the first model, to measure the human development in Pakistan, Human development index is used as the dependent variable for self-determining

variables, aid as % of GNP as most of the previous studies have used aid as a percentage of GDP/GNP/GNI to study the effect of aid on human development (Boone, (1996), Burnside and Dollar, (2000), Haider & Qayyum (2012). The studies, (Williamson, (2008), Feeny, (2003), Staicu & Barbulescu, (2017) McGillivray & Noorbakhsh, (2007)) have found that GDP per capita growth rate, population growth rate, life expectancy and primary school enrollment which is taken as proxy for literacy rate have effects on human development.

Second model seeks to examine the effect of "foreign aid on Governance in Pakistan."

Governance= f (Official development assistance, GDP per capita growth rate, population growth rate, political right, government stability).

Governance is taken as dependent variable, which is an index created by using three sub governance measures i.e., corruption, bureaucratic quality and rule of law. There are studies which have used the same index as a proxy of governance quality (Mahmood et al, (2015), Brautigam & Knack, (2004)). The independent variables in the model are selected on the literature that have found that GDP growth rate, population growth rate, political right and political stability can affect the quality of governance (Mahmood et al, (2015), Mohamed,(2015), Cheang, (2009)).

4. Data and Methodology

4.1 Description of Variables

It is given in table 1.

Name	Description	Source and Definintion
Human Development	HDI	The present study utilizes the Human Development Index (HDI) calculated annually by UNDP to capture the levels of Human Development. It is the most widely used and accepted, approach to assessing progress in Human Development (Seth & Villar, 2017). The index is based on the dimensions of health, education, and standard of living. The HDI scores range between zero and one reflecting the lowest and highest levels of human development respectively.
Governance	GOV	A composite index of governance index), ranges from 0 to 16, is generated by adding up the three measures: corruption (6-points), bureaucratic quality (4- points) and rule of law (6-points). The upper value indicates good governance, a value closer to zero indicates poor governance. (International Country Risk Guide)
Official Development Assistance	ODA	Official development assistance (ODA) comprises of loans distribution at discounted footings and donations by official agencies of Development Assistance Committee (DAC) members, by multilateral organizations, and by non-DAC countries for promoting development and welfare in countries and regions on DAC list of ODA beneficiaries. Loans with a grant factor of not less than

		25 % are included. (World Bank)
Gross Domestic Product	GDP	Per capita gross domestic product is attained by dividing gross domestic product by total population of a country. (World Bank)
Political Rights	PR	This is an index, ranging from 1-7. Its highest value means absence of political rights in a country while lower value reflects good condition of political rights in a country. (Freedom House)

4.2 Data sources.

For empirical analysis of the economic variables time series data for 32 years is gathered ranging from 1985-2023. Software E-views 9 has been used for empirical testation. Data is collected from the "World Bank, OECD site", from the several issues of "Economic Survey of Pakistan", the "International country Risk Guide (ICRG) and Freedom House".

4.3 Econometric Model

In the study, two separate models are estimated using Human Development Index and Governance Index as dependent variables. The econometric form of models is following.

$$\mathbf{HDI = \alpha 0 + \alpha 1 ODA\_GNI + \alpha 2\ GDPPCG + \alpha 3 PPGR + \alpha 4 LE + \alpha 5 PSENR + \mu 1t \quad \_\_\_\_\_ Eq\ (i)}$$

Gov = α5+ α7 ODA_GNI + α8 GDPPCG + α9 PPGR + α10 PR + α11G Stab + μ2t ___ Eq (ii)

Abbrevation of Variable

HDI	Human Development Index.	**G Stab**	Governmen
ODA	official development assistance is taken as percentage of GNI	**PPGR**	Population
GOV	Governance index	**PSENR**	Primary sch
R	Political rights	**GDPPCG**	GDP per Ca

4.4 Hypothesis

H0: there is no impact of foreign aid on human development in Pakistan

H1: there is impact of foreign aid on human development in Pakistan.

H0: there is no impact of governance on human development in Pakista

H1: there is impact of governance on human development in Pakistan.

4.5 Research Methodology

we shall decide the econometric technique that should be applied after checking the stationarity, if data is stationary at level simple OLS will be applicable or else other econometric technique e.g. autoregressive distributed lag may be used that was established by Pesaran et.al in 2001. "By Cointegration means there exists of long run equilibrium association among two or more time series variables which are non-stationary at their level, independently." (Gujrati, 1995).

4.6 Autoregressive Distributed Lag (ARDL) Approach

In the present study, ARDL approach is employed for its general applicability and robustness. The ARDL approach is comprised of two steps, at first step, the long run relationship between variables is verified using f-statistics to decide the significance of the lagged levels of variables in the unrestricted error correction model. While, at the second step, the coefficient of short and long run relationships are inspected. The bounds test approach is utilized to decide the presence of long run relationship among factors. “Akaike Information Criterion (AIC) or Schwarz Information Criterion (SIC) is connected for long run coefficients estimation in ARDL method. The Schwarz Information Criterion (SIC) is thought to be predominant and steady than the Akaike Information Criterion” (Pesaran and Shin, 1997).

4.7 Diagnostic tests.

To check the validity of the models some post estimation tests will be run. The Cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive residuals of square (CUSUMS) will be conducted for checking stability of the models. Afterwards, other diagnostic tests like the serial correlation LM test for checking the autocorrelation problem in the model and BreuschPagan Godfrey to check the heteroscedasticity problem, will be conducted.

5 Results

5.1 Unit root test.

For checking the order of integration of all series used in study, the "Augmented Dickey Fuller (ADF)" test of unit root problem is applied

Table 2

Variable	Integration order
HDI	**I (1)***
ODA_GNI	**I (1)*****
Gov	**I (1)***
GDPPCG	**I (0)****
LE	**I (1)****
PPGR	**I (1)***
PSENR	**I (1)*****
PR	**I (1)***
GStab	**I (1)***

The *, **, and *** depicts the significance levels i.e., 1%, 5% and 10%, respectively

According to the reported results of the above table, the variables have mixed integration orders i.e., some are stationary at level while some are integrated at first difference and no variable is stationary at second difference. We can apply ARDL approach for estimation.

Results and Interpretation of Models:

The models to be estimated in the study are following

(1)- HDI= $\alpha 0$ +$\alpha 1$ODA_GNI+$\alpha 2$ GDPPCG+$\alpha 3$LE+$\alpha 4$ PPGR+ $\alpha 5$PRENR + $\mu 1t$

(2)- Gov = α6 + α7 ODA_GNI + α8 GDPPCG+ α9PPGR+ α10 PR + α11 GStab + μ2t

Variables	Calculated values	
R2	0.96	0.90
Adjusted R2	0.91	0.87

The value of R-square for model-1 implies that 96% of variations in human development index are described by the dependent variables, selected. R-square value for model-2 implies that 90 % of variations in the governance index are explained by the dependent variables**.**

4.3 Bound Test

After performing the stationarity test, the presence of long run association between variables, can be explored and Bounds test use F- statistic to observe the co-integration among variables.

For Bound test the hypothesis will be

Ho: there exist no long run relationship (no co-integration)

H1: there is long run relationship (co-integration)

Table-3 Bounds Test Results

Model	F-Statistics	Confidence level 95%		Confidence level 90%	
		LB	UB	LB	UB
Model-1	14.23648	2.62	3.79	2.26	3.35
Model-2	3.944787	2.52	3.89	2.36	3.75

.* (Appendix-C)

In the event that the estimation of determined F-insights is greater than upper bound farthest point, either at 5 % or 10% importance levels, the H0

will be rejected and it will be inferred that there is co-mix among factors. The calculated F-test values for the models 1and 2 are greater than upper bound limit at both 5 % and 10% level of significance. That shows, there is co-integration among variables of both the models.

5.2 Long-run Coefficients

After testing the existence of long run association among the variables through Bounds test, the long keep running just as the short run relapses on every condition in the examination, can be run.

Table 4

Independent Variables	**Model-1 HDI (Dependent)**	**Model-2 Governance (Dependent)**
	Coefficients (P-values)	Coefficients (P-values)
ODA_GNI	0.062961* (0.0039)	-1.391362*** (0.0743)
GDPPGR	0.042132* (0.000)	-0.199923** (0.0229)
LE	0.248022* (0.000)	---
PPGR	-0.014838*** (0.0941)	-0.056355 (0.1969)

PENR	0.027829** (0.0592)	---
PR	---	-0.827098* (0.0028)
GStab	---	0.412721* (0.0004)

The *, * * and *** depicts 1%, 5% and 10% significance levels respectively

The above table summarizes long run results for both the models. The first column of the table presents the long run estimates of model-1 that shows. If ODA increases by one percent HDI increases by .06 percent and it has t probability 0.0039, which is significant. If life expectancy rises by 1 year at the time of birth, HDI increases by .025 % and it has t probability 0.000 which is significant. If GDP per capita growth increases by 1% then HDI increases by .003 %. If the population growth rate increases by 1 % the HDI will decrease by 0.0147 %, and it has t probability 0.0941 which is significant. If primary school enrollment increases by 1 %, HDI will increase by .02 percent, it has probability 0.0592 and which is significant.

The second column presents the long run estimates of model-2 that shows. If ODA increases by 1 % governance index decreases by 1.39 points on a scale of 16 points and it has t probability 0.0783 which is significant. When, GDP per capita growth rate increases by one 1 %, the governance index declines by 0.19 points and it has significant t probability value, 0.0229. If government stability increases by 1 point governance increases by 0.41 points and it has significant t probability value, 0.0004. If absence

of political rights increases by 1% then governance index decreases by 0.82 points on the scale. The population growth has a negative coefficient but insignificant impact on governance.

5.3 Vector error correction term result

Table 5

Independent Variables	**Model-1 HDI(Dependent)**	**Model-2 Governance (Dependent)**
	Coefficients (p-values)	Coefficients (p-values)
D(ODA_GNI)	0.003072* (0.0144)	-0.211201*** (0.0476)
D(PPGR)	0.081620** (0.0215)	-0.038756 (0.225)
D(GDPPCG)	0.001561* (0.0011)	-0.040673 (0.3059)
D(LE)	0.121996* (0.0033)	---
D(PR)	---	-0.296051* (0.0091)
D(GStab)	---	0.222727* (0.000)
Coint(-1)	-0.795887* (0.000)	-0.539656* (0.0001)

:The vector error correction term in fact portrays the speed of modification towards harmony in long pursued having stuns. The outcomes exhibit that coefficient esteem of ECM for model-1 is -0.795887 with 1 % level of significance that means model reverts back by 79% per year towards the equilibrium from short run to long run if the model faces external shock. While for model-2 the value of ECM is -0.539656 that means the model reverts back by 53% per year towards the equilibrium from short run to long run if the model faces external shock.

5.4 Diagnostic tests

Diagnostic tests are performed for inspecting the robustness and strength of the models. The regression parameters will be assumed unreliable for any policy recommendation until they pass through certain diagnostic tests. The Breusch-Pagan Godfrey test is used to diagnose whether there is a problem of heteroscedasticity and the Lagrange Multiplier (LM) diagnostic test is used for detecting Autocorrelation.

5.4.1 Diagnostic test result

Table 6

Problems	**Model-1**	**Model-2**
	F-stats	F-stats
(Heteroscedasticity) **H0:** There is no heteroscedasticity.	0.5032	0.852
Serial correlation	0.5013	0.8317

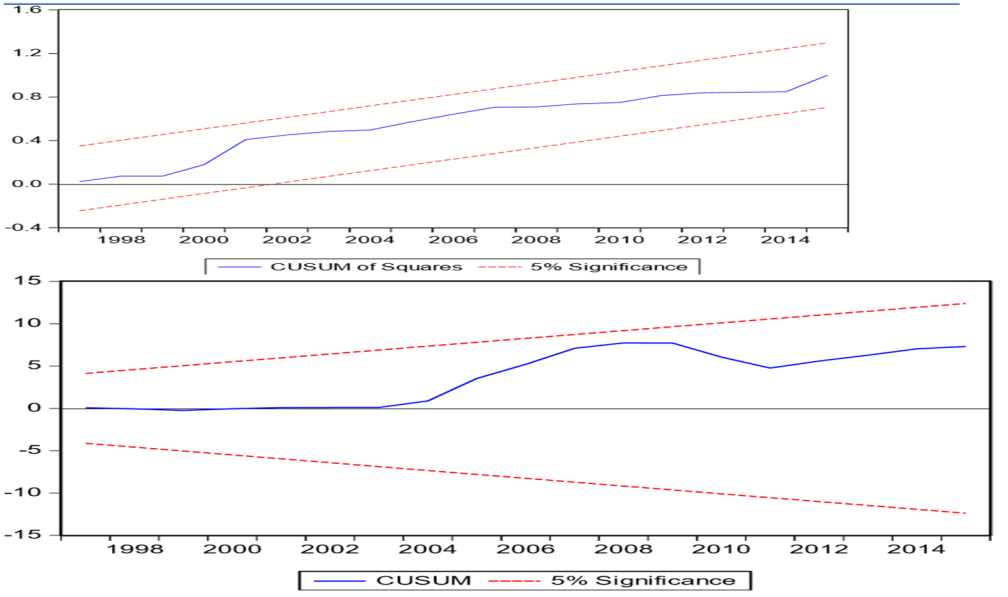
H0: There is no serial-correlation.		

If calculated value of Breusch-Pagan Godfrey test is more than critical value 0.05 we shall accept the H0 i.e., there is no heteroscedasticity.Similarly, if the calculated p-value of Lagrange Multiplier (LM) test exceeds the critical value of 0.05, we shall accept the null hypothesis of no serial correlation. As per results reported in the above table, there is no heteroscedasticity and serial-correlation problem in both of the models since all the calculated values are greater than the 0.05.

5.4.2 Stability Test

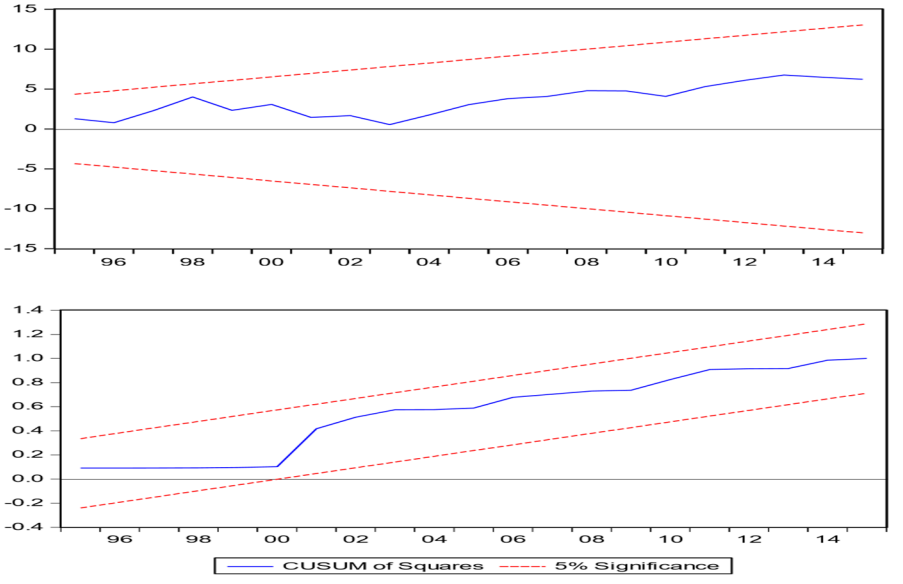
Finally, security test is utilized to break down the steadiness of the assessed models. CUSUM and CUSUM square plots are drawn for checking the stability of each model.

CUSUM plots CUSUM square plots



Model-2

CUSUM



The CUSUM and CUSUMS are plotted for checking coefficients stability. So, if the estimated plots remain between the critical boundaries being created at 5 percent level of significance the model and coefficients are said to be stable and cannot reject the null hypothesis. The above figures show that both CUSUM and CUSUM Square plots, for both the estimated models, fall within the critical bounds through the period under deliberation. This would confirm that the models are steady.

5.5 Discussion

The empirical outcomes of model-1 show that ODA is having a positive and substantial long run impact on HDI in Pakistan. This result support the economic theory about aid and human development relationship that implies, foreign aid mainly aims at promoting the monetary and human improvement in the beneficiary nations directly through increased government spending in the social projects which in turn increases the non-monetary welfare, in the form of better health, education, basic infrastructure and poverty alleviation. Through saving –investment gap, BOP gap and institutional capacity building that ensure effective aid utilization of aid and produce growth of economy and welfare of human, ultimately. The results of model-1further, show that expectancy of life and per capita income growth rate and enrollment at primary school have significant and positive effect on HDI as expected because when per capita incomes increase, people tend to seek more education and education in turn equipped them with the tools of modern technology and progress which improves the human development. While higher life

expectancy reflects the improved health facilities along with better control over fatal diseases and epidemics which directly affect the quality of life and HDI levels in state. population growth rate is happened to have adverse and significant influence on the HDI in Pakistan, as expected because high population growth in a third world countries like Pakistan shall put pressure on the existing weak basic infrastructure with limited resources, for instance, when a piece of cake is to be shared by too many people instead of few, no one will get the enough share. Therefore, the HDI shall decrease when population increases. These empirical results of the study matches with research findings of Smit Shah (2016), Tamer (2013), Abbas et al (2017).

The results of the second model show that aid has substantial but adverse long run influence on governance in Pakistan, as explored that aid dependence may lead to public sector institutions and governance quality deterioration through several means. The heavy dependence on foreign aid may weaken the sense of accountability among the government personnel and promotes corruption. Foreign aid may prevent governments from devising effective economic and development policies and restructuring institutions for the sake of sustainable growth, since foreign aid provides an instant and solution to all the problems of recipient country. Nonattendance of Political rights has a negative and noteworthy association with administration in Pakistan.

The Gross domestic product per capita development rate has a huge however negative association with administration quality, unlike the

expected, conventional positive relationship. While the government stability variable has strong and positive long run association with governance quality in Pakistan. The term stability means the ruling civil governments are not changing frequently and complete their official tenure and are not dismissed by the military regimes. This positive relation is obvious because a more stable civil government shall demonstrate more sound governance setup and policies.

6. Conclusion and Policy Implications

Keeping in view the most recent discussion over the inadequacy of remote guide in the guide beneficiary nations, alongside the developing worries of worldwide benefactors over the administration issues in the beneficiary nations. The present examination researches the effect of foreign aid on human advancement and administration in Pakistan.

This study yields two main findings, first, aid has a positive impact on human development in Pakistan; and second, aid has negative impact on governance in Pakistan.

The first finding implies that aid has a positive and significant impact on human development in Pakistan as expected but magnitude of this impact is very small, which may rise question on effectiveness of the foreign aid, as Pakistan has been receiving hefty amounts of foreign aid since inception. The main reason behind the limited impact of aid on human development in Pakistan, can, possibly be bad governance because t0he corrupt government personnel and ruling elites divert and misuse the

allocated aid funds and the masses remain deprived of the true benefits of foreign aid which is received on the grounds of poverty for the betterment of the poor.

This result of the study is consistent with the findings of some previous studies explaining that aid is not a growth promoter unless it is supplemented by the good governance environment. “Developing states cannot help the poor without better governance, it does not matter how much aid they get” (Werlin, 2005). Mesquita and Root (2002) Keeping in view the most recent discussion over the inadequacy of remote guide in the guide beneficiary nations, alongside the developing worries of worldwide benefactors over the administration issues in the beneficiary nations. The present examination researches the effect of foreign aid on human advancement and administration in Pakistan.

The second finding shows that outside guide is negatively affecting administration in Pakistan. That means Foreign aid is deteriorating the governance quality in Pakistan. There can be a number of possible reasons behind this, for instance, foreign aid stimulates corruption among the government officers being a part of executing agency. Rising corruption weakens the governance.

Governments of recipient countries are not held accountable to the international loaning agencies if they do not reform the structure of rule of law. A frail sense of accountability is a major reason for promotion of poor governance resulting from foreign aid inflows in Pakistan. In return,

bad and corrupt governance may negatively influence the foreign aid allocation towards Pakistan.

The findings of study suggest that givers just as the beneficiary nations need to assume a more noteworthy job, in cooperation with each other, for aid to be used effectively and efficiently, so that, true benefits of aid can be yield. There are some important policy suggestions that the donors and aid receivers must deliberate to make aid more effective in enlightening human development and governance quality.

6.2 Recommendations

1. The foreign aid programs must clearly be assumed as a temporary tool for development. The idea of achieving sustained economic progress and human welfare through foreign aid is not a practical strategy.

2. There is a dire need for coordination between the recipient governments and the donor community to ensure harmonization and avoid mismanagement of aid funded projects with a strong system of accountability.

3. The donor countries should give sector wise tied aid i.e., health, education and provision of the basic facilities, allocated amounts and targets should be decided before advancing aid to recipient country. Moreover, a strong evaluation system should developed and implemented, strictly.

4. In Pakistan, the policy makers should design such policies that improve governance by reducing corruption, attaining political stability, and improved governing quality, government usefulness and supremacy of law. So, that real goals of foreign aid i.e., economic growth paired with sustained human development levels can be materialized.

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