Foreign Aid and Its Role in Economic Development

Definition of Foreign Aid:

Foreign Aid occurs when the recipient country receives additional resources in foreign currency over and above the capacity to import generated by exports. In simple words, foreign aid means those additional resources which are used to raise the performance of the recipient country above the existing level. It can be defined as the debt which is given by a country to another country on the concessional rates. The concessional elements may be:

(a) Lower rates of interest than the prevailing rate of interest in the international commercial money market.
(b) Longer period for repayments.
(c) Grants which does not entail the payment of other principal or interest, i.e., a free gift.

A country which gives loan is called donor and the country which receives the loan is called recipient country.

Types of Foreign Aid:

There are two types of foreign aid, according to their source:

(a) Bilateral Aid: Bilateral aid is the aid which is given from the government of the donor country to the recipient country. It depends upon political and economic relationships of various countries and it also depends on the will of donor country.

(b) Multilateral Aid: Multilateral aid is the aid given by certain financial institutions, agencies or organisations to the government of developing country. It is distributed in a fair manner in order to raise the pace of economic development. So it is better than bilateral aid which is given on the basis of political considerations and the fear of the domination of a donor country is also removed in the case of multilateral aid which may be helpful in raising the pace of economic development.

Forms of Foreign Aid:

Following are the forms of foreign aid:

(a) Financial Aid: The simplest form of capital inflow is the provision of convertible foreign exchange, but very little foreign capital indeed comes to the underdeveloped world so conveniently. Financial aid is further divided into various sub-forms, i.e.:

(i) Tied Aid: Tied aid is of two types:

- **Nation Tied Aid:** is given to the recipient country on the condition that she will spend it in the donor country to solve the BOP problems of that country and to stimulate exports, i.e., if Pakistan is given aid by US and is asked to import raw materials or machinery from US only then it is 'nation tied aid' or 'resource tied aid'.

- **Project Tied Aid:** is given only for specific projects and the recipient country cannot shift it to other projects.

(ii) **Untied Aid:** Untied aid is the aid which is not tied to any project or nation. It is, in all respects, better than the tied aid because it offers more efficient use of foreign resources. It is much desired because in the case of untied aid the recipient country is not bound to spend the foreign resources on specific projects or in the donor country which may charge higher prices than international market.

(iii) **Grants:** A grant is that form of foreign aid which does not entail either the payment of principal or interest. It is a free gift from one government to another or from an institution to a government. It is much desired because it increases the internal expenditures and generates income. It is given on the basis of humanitarianism, especially in days of emergencies, earth quakes, floods, wars, etc.

(iv) **Loans:** It is the borrowing of foreign exchange by the poor country from the rich country to finance short-term or long-term projects. They are further sub-divided into two types:

- **Hard Loans:** Hard loans are also called short-term loans. In order to finance industrial imports they are given usually for a period less than five years, and they are paid in the currency borrowed. It contains no concessional element but interest rate is usually lower than the prevailing rate of interest in the international market.

- **Soft Loans:** Soft loans are also known as long-term loans. Soft loans are made for 10-20 years and it is repaid in the currency of recipient country. Interest on these loans is lesser than hard loans and often these loans invoice grace period. Concessional elements are comparatively greater.

(b) **Commodity Aid:** Commodity aid, in fact, is another type of tied aid, which relates to agriculture products, raw materials and consumer goods. Under commodity aid, the donor country has much political influence on the recipient country, for example, in 1960s, US gave wheat to Pakistan under PL-480 and had much influence on the development policy of Pakistan. Commodity aid may be received in cash form or in the form of food grains:

(i) **<u>In Cash Form:</u>** If it is received in cash form it may be more helpful because then a country may buy more commodities from cheaper sources.

(ii) **<u>In Food Grain Form:</u>** It is a special type of commodity aid, which is given in the form of food grains only, for example, US gives food grains to the poor country under Public Law (PL-480) and funds obtained from it are used on American companies and agencies operating in the recipient countries. The rest of the aid is granted.

(c) **<u>Food Aid:</u>** There is more than enough food produced each year to feed adequately everyone on earth. However, food is so unevenly distributed that malnutrition and hunger exist in the same country or region where food is abundant.

During 1960s, the United States sold a sizable fraction of its agricultural exports under a concessionary Public Law 480, where LDC recipients could pay for the exports in inconvertible currency over a long period. During late 1970s, about three-quarters of the food aid went to low-income countries. It was about one-third of their cereal imports. Projections indicate that food deficits are likely to increase in the 1980s and 1990s. In the early 1980s, the United States, which provides the bulk of total food aid, reduced its food assistance.

Critics of food aid argue that it increases dependence, promotes waste, does not reach the most needy and dampens local food production. Nevertheless, the food aid has frequently been highly effective. It plays a vital role in saving human lives during famine or crisis, and if distributed selectively, reduces malnutrition. Unfortunately, poor transport, storage, administrative services, distribution networks and overall economic complex hinder the success of food aid programmes, but the concept itself is not at fault.

(d) **<u>Technical Aid:</u>** Technical aid is another form of tied aid and is much useful for the recipient country to increase the pace of economic development by using the modern technology or skill in some specific sectors of the economy. Under this aid programme, training facilities are provided by the donor country's government and it bears all the expenditures involved in the training of advisory technocrats. Technical assistance from the donor's point of view takes two main forms:

(i) **<u>Through Recruitment:</u>** Technical assistance may be given through recruitment. Selected people of recipient country are recruited in the donor country for service overseas, partly, often largely, at the expense of the donor government.

(ii) **<u>Through Scholarships & Training Facilities:</u>** The second form of technical assistance is scholarship and training facilities in donor country for foreign students (from recipient country).

(e) **Foreign Direct Investment (FDI):** It is also included in the category of foreign aid. In Pakistan, the examples of FDI are Lever Brothers, Reckitt and Colman, Bata, Philips, etc. It is often argued that FDI should be run under strict control, like licensing, annual auditing, compulsory treatment of foreign capital as domestic capital, etc.

(f) **Double Tied Aid:** It is also known as 'procurement tied aid'. It is the aid which is tied both for projects as well as for resources.

Types of Foreign Aid to Pakistan:

The foreign aid received by Pakistan can be categorised as follows:

(a) **Project Assistance:** The large bulk of foreign aid received by Pakistan has been in the form of project assistance which is tied in most cases, to both source and utilisation. Project aid is a type of aid allocated for particular development ventures like irrigation projects or large industrial and communication networks which require a substantial imported component.

Besides the imported component, there is also a local finance component of a particular project which has to be covered by raising the necessary resources domestically. Once the domestic component of the project has been raised, the government has to open a special account for the project and withdrawals from the account are possible only after the approval of Aid Mission of the donor countries or agencies.

(b) **Commodity Assistance:** Commodity assistance, the second largest component amongst the different types of aid received by Pakistan, has allowed some degree of flexibility to the country by not being tied to utilisation although in most cases it is tied to sources. It is for this reason that Pakistan has preferred commodity over project assistance. However, commodity assistance as a ratio of total aid decreased from 34% in 1960-65 to 23% in 1979-80.

(c) **Food Aid under PL 480:** The third largest component of aid received by Pakistan is commodity assistance under PL 480 provided by USA through the sale of surplus agricultural commodities. These commodities, ranging from wheat to edible oil, have been purchased by Pakistan Government from US Government and were paid for Pakistani rupee till 1967 and in rupee and dollars after 1967. The funds generated by the sale of these surplus agricultural commodities are then deposited in a special counterpart fund controlled by US Government through its Aid Mission to Pakistan. The allocation of these funds, termed as aid, between different activities has been prerogative of the US Government.

(d) **Technical Assistance:** This type of foreign aid is of great significance to Pakistan, because in Pakistan, there is a shortage of technical knowledge, entrepreneurial skill and skilled labour. This type of foreign aid helps in increasing the intangible value of our skill and semi-skill labour in particular projects, for example, construction of sea ports, dams and other water projects, fly-overs, highways, motorways, underground railway system, high rise buildings, etc.

However, as these foreign experts are paid much higher salaries than what a local person of the same qualification can expect to receive, the real value of technical assistance can be reduced with obvious resentment amongst local experts.

Need of Foreign Aid:

The principal economic arguments advanced in support of foreign aid are as follows:

(a) **Foreign Exchange Constraints:** External finance (both loans and grants) can play a critical role in supplementing domestic resources in order to relieve savings or foreign-exchange bottlenecks. This is the familiar 'two-gap' analysis of foreign assistance, which will be briefly discussed later in this chapter.

(b) **Growth and Savings:** External assistance also is assumed to facilitate and accelerate the process of development by generating additional domestic savings as a result of the higher growth rates that it is presumed to induce. Eventually, it is hoped, the need for concessional aid will disappear as local resources become sufficient to give the development process a self-sustaining character.

(c) **Technical Assistance:** Financial assistance needs to be supplemented by 'technical assistance' in the form of high-level manpower transfers to assure that aid funds are most efficiently utilised to generate economic growth. This manpower gap filling process is thus analogous to the financial gap filling process.

(d) **Absorptive Capacity:** Finally, the amount of aid is determined by the recipient country's absorptive capacity. Typically, the donor countries decide which LDCs are to receive aid, how much, in what form (i.e. loans or grants, financial or technical assistance), for what purpose and what conditions on the basis of their assessment of LDCs absorptive capacity.

Criticism on Foreign Aid:

The following criticism has been forwarded on foreign aid:

(a) According to critics, foreign aid ***does not promote faster growth*** but may in fact retard it by substituting for, rather than supplementing, domestic savings and investment and by exacerbating LDCs balance of payments deficits as a result of rising debt repayment obligations and the linking of aid to donor country exports.

(b) The foreign aid is generally ***focussed on and stimulates the growth of modern sector***, thereby increasing the gap in living standards between the rich and the poor in Third World countries. Rather then relieving economic bottlenecks and filling gaps, aid, and for that matter private foreign investment, not only widens existing savings and foreign exchange resource gaps but may even create new ones (e.g. urban rural or modern traditional sectors gaps).

(c) If the aid given is concerned with unproductive fields or obsolete technology, it will ***have the effect of increasing the inflation*** in the country.

(d) The biggest objection which is imposed on foreign aid is that donor countries make ***interference in the economic and political activities*** of the recipient country. The recipient country has to devise its economic policies in accordance with the wishes of donor countries or international financial institutions.

Two-Gap Model:

The two-gap model was presented by Hollis Chenery and A. Strout as an approach to economic development. According to them, most of the developing countries faced either:

- a shortage of domestic savings to match investment opportunities (i.e. the saving gap or constraint), or
- a shortage of foreign exchange to finance needed imports of capital and intermediate goods (i.e. foreign exchange gap or constraint).

They also further assume that the savings and foreign exchange gaps are *'unequal'* in magnitude and that they are mutually *'independent'*. In other words, there is no substitutability between savings and foreign exchange, which is an unreal assumption.

In an economy where the demand of investment cannot be met entirely by domestically generated savings nor through imports financed by the country's own export earnings, resources are transferred from abroad in the form of either loans, credits, grants, remittances, or direct private foreign investment. This is the traditional 'two-gap' or dual approach to the analysis of the role of foreign aid in economic development where foreign resources are assumed to fill both a saving-investment gap as well as a foreign exchange gap in the recipient country. According to the assumptions of the two gap model, foreign aid, given an MPS, raises the level of domestic savings by raising the level of income and exports with the result that at some terminal date, foreign inflows are reduced to zero.

According to this model, a country passes through three stages on its way to self-sustained growth:

(a) In the first stage, the dominant constraint is that of ***absorptive capacity***, i.e. the economy is so primitive and backward that it cannot invest beneficially the minimum amount, i.e. 15% or so, necessary to achieve the required rate of growth let say 5 to 6%. The purpose of foreign aid at this stage is to increase the absorptive capacity of the country by providing technical assistance, training, education, managerial ability, entrepreneurial talent and so on. Once the absorptive capacity of the economy has increase sufficiently, the constraint on growth is that of domestic savings.

(b) The second stage is the stage where there is a ***saving constraint*** on the economy. A country, like Pakistan, with a low level of income and a large proportion of its population at subsistence level can hardly be expected to save 15-20% of its national income. The suggested way out is that foreign aid may be used to supplement domestic savings and fill the gap between domestic savings and the investment required for a reasonable level of growth. During this stage, the saving gap will be greater than trade gap, and there may be some deficit BOP and high inflation as well.

(c) The third stage is the stage of ***trade constraint***. As the economy grows, more and more inputs are required in the form of capital goods, industrial raw materials, etc. Exports cannot keep pace with increasing imports and the resultant difference between the two becomes larger and larger until it exceeds the difference between domestic savings and the required savings. Therefore, at this stage, the trade gap is said to be dominant and the foreign aid is now required to bridge this gap. However, at this stage, there is less need of foreign aid and assistance, because as the economy develops further rising levels of income result in an increase in savings as a proportion of national income until the required level is attained and the saving gap is closed. Also as development proceeds, first import substitution of consumer goods, then their export and import substitution of capital goods takes place with the result that exports grow faster than the imports and ultimately catch up with them and hence the trade gap is also filled. With the filling of this gap, the need for foreign aid and assistance is now closed.

Foreign Aid to Pakistan:

Before discussing the foreign capital inflow in Pakistan, it is important to distinguish between pledges, commitments, disbursement and utilisation of aid. These terms are frequently used to describe the various stages through which foreign aid passes before being utilised in the recipient country. A pledge is a promise by the donor country to advance a specified amount of foreign aid, commitment implies the allocation of foreign aid by the donor for specific projects or programmes, disbursement of aid means the transfer of resources from donor to the recipient, and utilisation implies the actual implementation of foreign aid financed projects.

Pakistan, like many other developing countries, has been relying on foreign assistance to supplement national saving to finance investment. In order to bridge the resource gap, it started foreign borrowing as early as 1950s.

Over the years, there has been a continuous decline in the aid inflows to Pakistan. Net transfer which constituted about 90% of the gross disbursements in 1964-65 dropped to 56% in 1977-78 and 50% in 1979-80.

In the early periods greater proportion of aid was received as grant or grant like aid or assistance. This type of assistance was gradually reduced and its place was taken by hard terms foreign loans and credits repayable in foreign exchange with strict terms and conditions such as tied aid and other conditionalities.

The share of grants and grants like assistance in total commitments was 80% during the first plan which was reduced to 46% during the second plan, 31% during third plan and came to as low as 12% during non-plan period. Moreover, its share increased slightly to above 20% during the fifth and sixth five year plan periods mainly due to relief assistance for Afghan refugees.

Pakistan's Debt Servicing:

By subtracting the annual debt servicing (repayment of principal and interest) from gross aid, we deduce the net foreign aid which is available to the recipient country for financing its imports and gross investment.

The annual debt servicing charges shown in official statistics are net of relief provided in the form of a moratorium. A moratorium on debt means the postponement of the annual debt servicing obligations till some later time which no doubt provides temporary relief to a foreign exchange crisis-ridden country. But since the debt has to eventually be repaid, a moratorium only delays, by increasing its foreign exchange earnings, would at some later stage be in a position to fulfil its debt servicing obligations.

Pakistan's debt situation reached unsustainable level by 1999 because of persistence of large fiscal and current account deficits during the last two decades. The 'twin deficits' resulted in an explosive accumulation of both domestic and external debt. Domestic debt grew at an average annual rate of almost 28 % during the first half of the 80's; 22 % during the second half and 16 % during the first nine years of the 90's. In other words; Pakistan's total external debt and foreign exchange liabilities which stood at $ 9 billion in 1980-81, reached almost $ 22 billion by the end of the 80's and by 97-98 touched a high figure of $ 42.7 billion.

The stock of public debt stood at Rs 155 billion by end of the 1970's and by end of the 80's another Rs 646 billion was added which caused public debt to rise at Rs 801 billion. But by end of the 90's, another Rs 2430 billion was added to the public debt, which stood at Rs 3231 billion. The absolute number of public debt is not much of interest. What is more damaging is the burden of the public debt, which means as percentage of GDP or total revenue. At the end of 70's, the public debt was 56 % of GDP or 317 % of total revenue. It rose to 92 % of GDP or 505 % of the revenue by the end of the 80's. It was over 100 % of GDP and 630 % of the revenues by the end of the 90's. By any standard, this was horrifying number for any country. It was horrifying because almost two-third of the revenues were consumed for debt servicing alone which forced the government to cut Public Sector Development Programme (PSDP).

The various composition of expenditure also continued to change over the years. The share of defence in total expenditure was 24 % in 1980-81 while interest payment accounted for only 9 % and development budget was 41 % of total expenditure. By the end of 1980's, defence spending increased marginally to 26 % from 24 % in beginning of 80's. The share of interest payments more than doubled during this period from 9 % to 21 %. Development spending continued to shrink from 41 % to 25 %. In other words, interest payment was taking over development expenditure in the country. As Pakistan entered the decade of the 90's the composition of expenditure continued to deteriorate. Interest payments increased further to 33 % of total expenditure by the end of the 90's, while development spending decline to 13 % and defence spending also shrank to 20 % .The onslaught of rising interest payments continued to crowd out not only development spending but defence spending as well.

With President's Musharraf's policies, Pakistan has rescued the worst economic situation, but still there are lot of improvements needed in the economy, especially in manufacturing sector and energy sector. The economy is now more stable. Interest payment has started declining, it was as high as Rs 240 billion in 1999-2000 and declined to Rs 210 billion in 2003-04. Interest payments were drastically reduced to 22.4 % from 33 % in the past. Most importantly public debt as percentage of GDP, which was over 100 % a few years back, has declined to 91 %. Similarly public debt has percentage of total revenue which was as high as 633 % has come down to 516 %. Most importantly, the external debt and foreign exchange liabilities have declined from $38 billion to $35 billion. Pakistan's external debt and liabilities to foreign exchange reserves ratio was 22 times in 1998-99 but with the decline in debts and increase in foreign exchange reserves, the ratio declined sharply to 2.8 times in six years.

External Debt

(All figures in billion rupees)

Particulars	2000-01	2001-02	2002-03
External Debt	2059.5	2005.6	1927.7
Total Debt Servicing	340.3	431.2	304.7
Total Debt as % of GDP	113.5	104.3	95.1
External Debt as % of GDP	60.2	55.3	48.0
Ratio of External Debt Servicing to:			
• Export Earnings	38.0	44.8	28.8
• Foreign Exchange Earnings	23.7	26.5	16.0
Ratio of Total Debt Servicing to:			
• Tax Revenues	77.1	90.2	55.1
• Total Revenues	61.5	69.1	43.2
• Total Expenditure	47.4	52.2	34.1
• Current Expenditure	52.7	61.6	41.8

Pakistan's Earthquake Disaster and the Role of Foreign Aid:

An earthquake of 7.6 magnitude struck Pakistan, India, and Afghanistan, on October 8, 2005. The epicentre of the earthquake was located near Muzaffarabad in Pakistani-administered Kashmir, and approximately 60 miles north-northeast of Islamabad. The most affected areas are the NWFP and Azad Kashmir. More than 80,000 were killed, thousands of people injured and more than 3 million people were homeless in Pakistan.

According to United Nations, the loss and damages in October 8's South Asia Earthquake are more than that of Tsunami struck Sri Lanka, Indonesia and India in December 2004.

On call for aid on humanitarian basis from Pakistan, several countries come forward and generously announced aid and assistance for earthquake victims. Initially US and Turkey announced $256 million and $250 million respectively. On 19th November the World Donor Conference 2005 was held in Islamabad, in order to collect donations for the reconstruction and rehabilitation of earthquake affected victims and areas. Among bilateral aid pledges United States was again on top. USA promises to provide $510 million in the Conference. About $5.9 billion were pledged on the same day and about $7 billion have been pledged so far. Most of these pledges include interest-free soft-loans repayable within 40 years.

The ***USAID*** initially pledged $156 million to Pakistan for earthquake disaster relief, which includes $100 million for humanitarian relief and reconstruction, and $56 million to support the Defence Department's relief operations. The aid was further increased to $510 million pledged in the Donor Conference 2005. Around 1000 American emergency management personnel are working in Pakistan to assist with relief efforts and 140 US military and civilian cargo airlifts have delivered thousands of tons of medical supplies, food, shelter material, blankets and rescue equipment to the people of affected areas. Six US military ships have delivered 115 pieces of heavy equipment and 158 tons of humanitarian assistance supplies through the port of Karachi.

In addition, American charitable organizations have raised $21.6 million for the relief effort and US companies have committed $47.9 million in cash and in-kind contributions.

Turkey pledged aid worth $150 million to Pakistan out of which $100 million would be extended as financial assistance and $50 million in the shape of relief goods and technical assistance. Apart from the contributions of US$150 million the Turkish Government has also committed another US $ 3 million at the Geneva Donors Conference. Moreover, the Turkish Prime Minister Tayyip Erdogan became the first foreign leader to visit Pakistan after the earthquake, and assured his country's aid and assistance for relief efforts to Pakistan on long-term basis. Turkey has also sent her medical and rescue teams to Pakistan. Turkey is also providing 1 million blankets and tents, 50000 tonnes of flour and 25000 tonnes of sugar and cooking oil.

Star TV of Turkey organized a live telethon for donations. Turkish Prime Minister, Cabinet members and members of business community participated with a target of is US$ 15 million. Turk Samanyolu TV, another channel collected US$ 3.7 million.

Several other countries and international organisations announced aid packages and assistance for Pakistan **(before Donor Conference 2005)**:

- ***Saudi Arabia*** is on third rank with its financial support of US $133 for the quake victims. Saudi 1 TV Channel has also organised a live telethon for donations and collected millions of dollars for earthquake victims in Pakistan.

- ***UAE*** announced $100 million aid package for Pakistan.
- ***Kuwait*** pledged $100 million to help the victims of the earthquake, half in immediate relief and half to finance infrastructure repairs under the supervision of the Kuwait Fund for Arab Economic Development (a government organisation).
- ***Italy*** converts debts of US $70 million into relief, while another of 15 million US dollars will also be converted to be used for the reconstruction and rehabilitation of the earthquake affected people. The Italian government has also offered training for Pakistani officials in Disaster Management and preparedness.
- ***United Kingdom (UK)*** sent three Chinook Helicopters to Pakistan to take part in relief operations in Azad Kashmir and NWFP. UK has also announced additional ₤20 million in aid.
- ***India*** announced Rs. 1 billion aid.
- ***China*** announced US $6.2 million aid for quake victims and also sent an emergency-response team. The Chinese government sent a 49-member international rescue team.
- ***Australia*** announced Australian $5.5 million (US $4.18 million) in aid, which include Australian $500,000 for immediate medical and relief assistance. The funds will be channelled through Red Cross and Red Crescent.
- ***Ireland*** will provide one million euros to the relief effort in Pakistan.
- ***Afghanistan*** has announced US $500,000 financial help, four helicopters, 30 tonnes of dry fruit and 35-member rescue and relief team. Afghanistan also observed a three-day mourning on the loss of lives due to the earthquake.
- ***Japan*** had sent a 50-strong emergency relief team. The team, formed by disaster rescue experts from fire fighting, police and coast guard organizations, included police, disaster management and coast guard specialists. They are engaged in search and rescue operations as well as information gathering.
- A military plane has been sent from ***Spain*** with emergency doctors, fire-fighters and medical supplies to help deal with the aftermath of the South-Asian earthquake.
- The ***Swedish*** Rescue Services Agency was sending tents and blankets and the Czech government said it was ready to send rescue teams with dogs.
- ***France*** sent sniffer dogs and cutting gear.
- ***Malaysian*** Red Crescent Society sent a 12-member team including four doctors and eight relief workers to Pakistan.
- Red Cross and Crescent workers from other Southeast Asian nations, including ***Indonesia***, the ***Philippines*** and ***Singapore*** will also join the relief efforts in Pakistan.

- ***European Union (EU)*** has proposed giving at least €80 million (US $96 million) in aid for reconstruction and relief activities for the survivors of earthquake in Pakistan. This is in addition to the 13.6 million euros emergency humanitarian aid already released, bringing the total proposed aid for 2005-06 to 93.6 million euros (US $111.7 million).
- ***World Bank*** offered US $20 million to Pakistan to help deal with the tragedy unleashed by the South Asia earthquake.

- ***Asian Development Bank (ADB)*** announced reallocation of $10 million for immediate emergency assistance in the worst-affected areas of Pakistan.
- ***World Health Organization (WHO)*** has provided Pakistan with two emergency health kits, which will provide essential medical supplies to care for a total of 20,000 people for three months. It has also announced five more kits as well as packages to cover 1000 surgical operations in coming days.
- ***United Nations (UN)*** has sent its emergency coordination team to join relief efforts after the earthquake.
- ***NATO*** is planning to send engineers teams to open blocked roads and setting up hospitals in the quake ravaged areas.

According to the Government of Pakistan, Rs. 5.15 billion donations have been received in President's Earthquake Relief Fund, while Rs. 5.35 billion donations have been pledged. And some US $ 2.05 billion foreign aid has been announced including US $1.93 billion aid pledges from 15-20 countries. It has been estimated that the time for reconstruction of earthquake devastated areas will take atleast three to five years. The Government will need billions of dollars in the reconstruction and rehabilitation process, which could only be provided through foreign aid.

World Donor Conference 2005:

On 19th November, 2005, the World Donor Conference was held in Islamabad. The purpose of this Conference was to collect the fund necessary for the reconstruction and rehabilitation of earthquake affected victims and areas. More than 56 countries attend the Conference, including the countries like India, Cuba, Russia, etc. President Musharraf and Prime Minister Shaukat Aziz outlined the earthquake relief plan and the strategy to cope with the aftermath of earthquake, and the rehabilitation programme necessary for the affected victims to survive such a mental and physical trauma. The Conference was a success. Government of Pakistan had requested the initial pledge of $5.2 billion from the world community and received the pledge of $5.9 billion on the same day. About $7 billion have been pledged so far by the world community including the big contributors World Bank and ADB with the pledges of $1 billion each. Most of these pledges included interest-free soft-loans repayable in 40 years. A break-up of the aid pledges is given as below:

(All the figures in US$ million)

Country	Pledges
USA	510
China	300
Turkey	250
Saudi Arabia	233
Iran	200
Kuwait	150
Germany	130
UK	120
Japan	110
UAE	100

France	94
Italy	85
Australia	50
Switzerland	40
Norway	35
Sweden	20
Finland	11
Bangladesh	2
Malaysia	1
Indonesia	1
Afghanistan	0.5
World Bank	1000
ADB	1000
IMF	350
Islamic Bank	250
EU	120
Pak-Turkish Education Foundation	36
Ireland	€ 1 million
India	Rs. 1 billion

Besides above Canada, Russia, Singapore, Philippines, Spain, Cuba and many others have also promised to contribute in the relief efforts.