

# Implementing the 2030 Agenda in Pakistan

## The Critical Role of an Enabling Environment in the Mobilisation of Domestic and External Resources

*Murad Ali*

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## Abstract

This study examines the role of an “enabling environment”, an atmosphere of good governance and effective public financial management (PFM), in mobilising resources needed for the implementation of the ambitious 2030 Agenda for Sustainable Development. Achievement of the 17 Sustainable Development Goals (SDGs) requires substantial financial resources, and generation of those resources is largely contingent on the presence of an enabling institutional and policy environment. If an environment of good governance with effective PFM institutions can be ensured, the domestic and external resources necessary for the achievement of the SDGs can be mobilised. In environments where PFM systems are ineffective, corruption is rampant, and transparency and accountability are minimal, it is unlikely that sufficient resources for sustainable development will be mobilised. There are four principal financing sources: domestic, international, public and private. While the sources have grown in recent years, they are still markedly less than adequate for successful implementation of the 2030 Agenda. This paper first assesses the centrality of enabling environments for sustainable development at the global level, then applies the framework to a Pakistan case study. The operationalisation and implementation of the 2030 Agenda is examined at the country level by analysing the implications of an enabling environment, or lack thereof, for domestic resource mobilisation (DRM) and for attracting foreign financing in the form of development cooperation and foreign direct investment (FDI). In view of the overall strong link between an enabling environment and its potential for resource mobilisation in developing countries, including Pakistan, there is a need for consistent locally-driven efforts and strong political will to improve the quality of governance and create an environment that is conducive to resource generation for the successful implementation of the 2030 Agenda.

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Murad Ali

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## Abbreviations

AAAA	Addis Ababa Action Agenda
CPEC	China-Pakistan Economic Corridor
CPI	Corruption Perceptions Index
DAC	Development Assistance Committee
DRM	domestic resource mobilisation
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
HDI	Human Development Index
MDG	Millennium Development Goal
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PEFA	public expenditure and financial accountability
PFM	public financial management
PPP	public private partnership
SDG	Sustainable Development Goal
SDIP	Sustainable Development Investment Partnership
SOE	state-owned enterprise
SSC	South-South Cooperation
TI	Transparency International
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNDG	United Nations Development Group
UNDP	United Nations Development Program
US	United States of America

## 1 Introduction

In the 2015 United Nations (UN) Summit on Sustainable Development world leaders agreed on a broader and more comprehensive set of Sustainable Development Goals (SDGs) to replace the Millennium Development Goals (MDGs). The ambitious 2030 Agenda established 17 goals and 169 targets centred around the “5Ps” (people, planet, prosperity, peace and partnership), all of which require substantial resources, sound policies and effective institutions.

The main aim of this study is to highlight the fact that mobilisation of the resources integral for implementing the 2030 Agenda globally, and especially in Pakistan, largely depends on the existence of an enabling institutional and policy environment. To this end, the study first explores the significance of a favourable environment for resource mobilisation and sustainable development. It argues that if the systemic issues related to governance are addressed, additional domestic and external resources will certainly be mobilised, thus facilitating achievement of the SDGs. Following this, the paper explores the principal means of financial resources that could be tapped by governments in developing countries to implement the 2030 Agenda. The paper identifies four main sources of financing: domestic, international, public and private. Domestic public sector resources are derived from taxation and royalties, while domestic private resources come from private investments and pension funds. Similarly, external public sector resources could include development cooperation organizations, while international private resources include Foreign Direct Investment (FDI) and charity from private entities. While in recent years, the flow from these four resource types has increased, the volume is still markedly less than the trillions of dollars needed for successful implementation of the 2030 Agenda at the global level (UN/ICESDF, 2014; World Bank, 2015b).

After analysing the role of an enabling environment as well as multiple forms of domestic and international resources globally, this paper focuses on Pakistan. By applying the global framework to the context of Pakistan, it examines the operationalisation and implementation of the 2030 Agenda at the country level and discusses how the country can proceed to achieve the SDGs. Pakistan is an instructive case for three reasons. First, Pakistan was the first country in the world to adopt the 2030 Agenda through a unanimous parliamentary resolution in February 2016. Second, Pakistan’s own key development goals, as identified in the country’s long-term development policy “Vision 2025”, are closely aligned with the SDGs. Third, unlike the MDGs, there has been little research on the 2030 Agenda and the SDGs at the country level. Thus, this study first explores the overall development policy framework in the Pakistan and analyses the role of an enabling environment as well as recent socio-economic indicators and trends. Following this, the paper examines the role of domestic resource mobilisation (DRM) as well as foreign means of financing, focusing specifically on development cooperation and FDI. In view of the finding that the lack of an enabling environment in Pakistan has affected both DRM as well as international financing, the significance of an enabling environment to Pakistan’s acquisition of sufficient resources and implementation of the 2030 Agenda is underscored. The study concludes that while there are numerous options for financing the SDGs both globally and in Pakistan, the presence of an enabling environment is vital to attracting said resources and making efficient use of them for sustainable development. The two main objectives of this study are: to contribute to the debate about the significance of governance issues in development policy, practice and cooperation, without which the



2030 Agenda could not be successfully implemented; and to highlight numerous means and methods for achieving the SDGs.

The paper is structured as follows. Section 2 provides the background of the MDGs and highlights the progression from the MDGs to the 2030 Agenda and subsequent SDGs. It finds that SDGs encompass economic, social and environmental aspects of development and as such are broader and more comprehensive than its predecessors. Section 3 defines an enabling environment in the context of this study and discusses its significance for development in general and for raising the additional resources necessary for implementing the 2030 Agenda. Various means of implementation and a chain of domestic, international, public and private resources are discussed in Section 4. Section 5 focuses on the Pakistan case study and highlights the significance of a conducive environment as well as various means of implementation. This part of the paper delves into Vision 2025, the Government of Pakistan's long-term development policy consisting of seven key goals. Analysing the significance of an enabling environment in the context of Pakistan and current socio-economic trends and prospects, this section also explores opportunities and constraints in achieving both indigenously set goals and the SDGs. It underscores the critical role of enabling environments in terms of institutions and governance for implementing the 2030 Agenda. Section 6 offers conclusions.

## **2 The journey from MDGs to SDGs**

At the turn of the current millennium, the global community, under the United Nations' umbrella, envisaged a set of interrelated development goals to be achieved by 2015. The MDGs' focus was to halve extreme poverty, achieve universal primary education both for girls and boys, reduce infant and maternal mortality, promote gender equity and ensure environmental sustainability (UN, 2000). The overall progress towards the MDGs has been mixed and uneven across different regions and various targets. For example, a number of countries have fared relatively well regarding certain MDGs, such as achieving universal primary education (Goal 2), promoting gender equality and empowerment of women (Goal 3), fighting against diseases (Goal 6) and forming global partnerships for development (Goal 8) (TAC Economics, 2016; UN, 2015b). However, progress towards eradicating extreme poverty (Goal 1), reducing child mortality rates (Goal 4), improving maternal health (Goal 5) and ensuring environmental sustainability (Goal 7) has been unsatisfactory in most countries. The 2015 MDG report acknowledges that there are "uneven achievements and shortfalls in many areas [...] the work is not complete, and it must continue in the new development era" (UN, 2015b, p. 4). Hence, the prevalence of extreme poverty, hunger, disease, inequality and environmental degradation are the grim realities of the present age, and if they are not properly addressed they will pose grave challenges to the development of future generations.

While 2015 marked the deadline for the MDGs, the UN had already started preparing a new development agenda. At the Rio+20, the UN Conference on Sustainable Development held in Brazil in 2012, UN member states decided to build on MDGs and spearhead a process for launching a broader and more comprehensive set of SDGs. The conference report titled "The Future We Want" acknowledged at the outset that "poverty eradication is the greatest global challenge facing the world today and an indispensable

requirement for sustainable development” (UNGA, 2012, p. 1). The document called for the establishment of an Open Working Group (OWG) comprising 30 members to ensure “fair, equitable and balanced geographical representation” (UNGA, 2012, p. 47). To come up with a new set of SDGs, the UN document reiterated that the OWG would fully commit “to ensure the full involvement of relevant stakeholders and expertise from civil society, the scientific community and the United Nations system in its work, in order to provide a diversity of perspectives and experience” (UNGA, 2012, p. 47).

Considering this, the United Nations Development Group (UNDG) selected 11 key themes for global consultations related to the post-2015 development agenda. These themes cover various facets of development challenges and include conflict and fragility, education, energy, environmental sustainability, food security, governance, growth and employment, health, inequalities, population dynamics and water (UNDG, 2013). Following a comprehensive consultative process with governments, the private sector, think tanks, civil society and academia, a report titled “A Million Voices: The World We Want” was released by the UN in 2013. The report reveals that participants have set issues such as ending extreme poverty and hunger, accomplishing gender equality and improving health services and access to education for every child as their foremost concerns, and they want the future development framework and agenda to primarily address these issues (UNDG, 2013).

In this context, during the Third International Conference on Financing for Development held in Addis Ababa in July 2015, all UN member states agreed to strengthen the framework to finance sustainable development. They committed to mobilising resources at the domestic and international fronts to effectively implement the 2030 Agenda. With the Addis Ababa Action Agenda (AAAA), participants vowed to ensure “that the actions to which we commit are implemented and reviewed in an appropriate, inclusive, timely and transparent manner” (UN, 2015a, p. 2). Following this, during its 70th session in September 2015, the United Nations General Assembly adopted the post-2015 development agenda titled, “Transforming Our World: The 2030 Agenda for Sustainable Development” (UNGA, 2015). With 17 SDGs and 169 targets centred around the 5Ps, UN member states resolved to eradicate global poverty, combat inequalities, “build peaceful, just and inclusive societies”, “protect human rights and promote gender equality” and “ensure the lasting protection of the planet and its natural resources” (UNGA, 2015, p. 3). The declaration builds on the agenda of the MDGs and promises to achieve the unaccomplished MDGs by 2030.

### **3 Conceptualising the role of an enabling environment in achieving the SDGs**

The key factor in successful implementation of the 2030 Agenda is an enabling environment. While the availability of adequate resources is a huge challenge, the prevalence of an enabling environment plays a vital role in mobilising domestic resources and attracting international resources for sustainable development. Effective and “functioning PFM systems are vital for developing countries” to execute policies efficiently and attract both domestic and foreign resources (Klingebiel & Mahn, 2011, p. 2). Effective PFM systems and institutions are vital to the proper implementation of

national poverty reduction and development strategies. The existence of efficient PFM institutions is critical for sustainable development as they tie together intended and net available resources with government planned development objectives. Thus, functioning PFM ensures that revenue is collected efficiently and utilised appropriately and transparently (PEFA, 2016). PFM systems are part and parcel of governance issues as they constitute an integral component of government. If a government has effective PFM systems, its effectiveness and efficiency is increased, which will “consolidate the legitimacy of the state” (Klingebiel & Mahn, 2011, p. 3). In the prevalence of ineffective PFM institutions, governments are often marred by corruption and inefficiency, which results in the loss of respect, integrity and legitimacy.

Thus, in this study, an enabling environment is defined by the presence of efficient and effective PFM systems and institutions. To elaborate further, under the SDG 16, the UN General Assembly has underscored the need for “effective, accountable and inclusive institutions at all levels” (UNGA, 2015, p. 25). The same goal is the basis of various targets including to “promote the rule of law at the national and international levels”, “significantly reduce illicit financial and arms flows”, “substantially reduce corruption and bribery in all their forms” and “develop effective, accountable and transparent institutions at all levels” (UNGA, 2015, p. 25). There is a consensus that well-functioning institutions and “effective PFM systems help to build trust between the state and its citizens and among international investors and donors” (Klingebiel & Mahn, 2011, p. 3). Thus, in an enabling environment there is supremacy of the rule of law, transparency, accountability and good governance characterised by sound and effective PFM systems, where corruption is minimal and citizens and external stakeholders (aid-providers and investors) have full trust in the government and its institutions.

### 3.1 Significance of an enabling environment for aid effectiveness and sustainable development

The significance of a favourable environment for aid effectiveness and overall poverty alleviation has been under academic debate for decades. After the Cold War, the strategic and security interests of major bilateral donors changed because communism was no longer a threat. Providers of development cooperation shifted their focus to a new set of issues, with more emphasis on poverty reduction, democratisation, human rights, control of corruption, misuse of power and authority, good governance, the rule of law and freedom of the press (Crawford, 2001; Neumayer, 2003a, 2003b, 2003c; Raffer, 1999). While most of these matters had remained secondary vis-à-vis political and security objectives during the Cold War, the 1990s brought increased concentration on democratisation and good governance in the allocation of Official Development Assistance (ODA) or aid (Burnell, 1994; Carapico, 2002; Carothers, 1997; Chakravarti, 2005; Neumayer, 2003c). Another result of the transformation of the political and security landscape in the post-Cold War period was a general recognition that “aid on its own is not enough to promote development” (Janus, Klingebiel, & Paulo, 2015, p. 157). Debates arose on why aid did not work as it should and how it could be made more effective to spur economic growth and alleviate poverty.

Among the pioneering works that led to a series of studies was the 1998 World Bank report on the assessment of aid. It stated that ODA would be more effective if given to

countries with stable macroeconomic environments, open trade regimes and efficient public bureaucracies and institutions that deliver education, health, and other public services (World Bank, 1998). Emphasising the significance of a favourable and sound environment, the report argues that “a USD 10 billion increase in aid would lift 25 million people a year out of poverty but only if it favors countries with sound economic management” (World Bank, 1998, p. 3). On the other hand, the report adds that a similar increase of USD 10 billion would lift only 7 million people out of poverty if allocated to countries without giving due consideration to institutional and policy environment. Overall, the report promoted “[giving] more money to good policy performers” because “in poor policy environments, ideas are more important than money” (World Bank, 1998, p. 17).

Several studies pertaining to the allocation of ODA and its effectiveness in poverty alleviation assessed factors such as the quality of institutions, rule of law, good governance, prevalence of corruption and lack of accountability. The widely-cited study of Burnside and Dollar examined correlations among aid, good policies and economic growth in 56 aid-receiving countries between 1970 and 1993 (2000). The authors distinguished effective policies from ineffective policies by employing variables such as trade openness, inflation and institutional quality. They found that “the impact of aid is greater in a good policy environment than in a poor policy environment” (Burnside & Dollar, 2000, p. 859).<sup>1</sup>

These findings led to various models seeking a more suitable, selective or prescriptive approach of ODA allocation to maximise development impact. Collier and Dollar conceived their “poverty-efficient” model in 2002 (Collier & Dollar, 2002). Their study employed the World Bank’s Country Policy and Institutional Assessment scores comprising 20 different elements covering macroeconomic issues, structural policies, public sector management and institutions, and policies for social inclusion to measure a country’s policy environment. It argues that the impact of ODA to reduce poverty could be doubled if aid were to be allocated to countries and territories that have undertaken or are willing to carry out policy reforms. According to Collier and Dollar:

In our sample of countries aid as currently allocated sustainably lifts 10 million people per year out of poverty. The same volume of assistance, allocated efficiently, would lift an estimated 19 million people out of poverty. Thus, the productivity of aid could be nearly doubled if it were allocated more efficiently. (2002, p. 1477)

Since then, numerous studies and reports have investigated factors and causes that result in making foreign aid effective or ineffective. According to R. C. Riddell (2014, p. 18), between 1994 and 2005, no fewer than 300 studies assessed the impact of aid interventions at the country level. These studies have focused on different sectors, countries and regions during different periods. One key piece of evidence is that the

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1 In contrast to the findings of Burnside and Dollar (2000), and employing the same sets of data over extended periods of time, Easterly finds that the relationship between aid and policy is insignificant (2003). Citing previous literature and giving examples of various countries that have received aid for years, the author asserts that the empirical links between aid and economic growth are far more fragile than what the advocates of aid claim (Easterly, 2003). Similarly, the author has also criticized the aid regime and international aid agencies for failing to reduce extreme global poverty despite delivering over USD 2.3 trillion in aid over the past five decades (Easterly, 2006).

impact of aid on growth and on poverty alleviation is contingent on the policies and institutions of aid-receiving governments. The main message is that although ODA has worked in most countries, it has worked better in countries with better policy regimes (Burnside & Dollar, 2004; Collier & Dollar, 2001; Collier & Dollar, 2004; Collier & Hoeffler, 2002; Denizer, Kaufmann, & Kraay, 2013; Dollar & Levin, 2006; Pronk, 2001; Riddell, 2007; Riddell, 2014; Temple, 2010). It is argued that without good institutions and governance, we would be throwing more money at the problem of development without commensurate gains (Alesina & Dollar, 2000; Collier, 2006; Easterly, 2006). The discussion about the significance of conducive governance and policy regimes for aid effectiveness is aptly summarised by Riddell:

If the over-riding objective is to make as much aid as possible work as well as it can, then aid would be given to countries characterised by good governance; with democratically elected, accountable governments and strong parliamentary systems capable of scrutinising public finances and officials; a free press and a vibrant civil society [...] where the rule of law is respected [...] and where strong regulatory agencies are able effectively to address the market abuses of the rich and powerful. (Riddell, 2014, p. 29)

The role of effective institutions is considered vital not only to improving the efficacy of ODA but also to achieving prosperity and development. Acemoglu and Robinson (2012), in their book titled “Why Nations Fail”, argue that the key difference between developed and developing countries is that the former have developed “inclusive” institutions while the latter have nourished “extractive” institutions. They assert that inclusive institutions lead to “a more equitable distribution of resources than extractive institutions [...] as such, they empower the citizens at large and thus create a more level playing field, even when it comes to the fight for power” (Acemoglu & Robinson, 2012, p. 355). Thus, they have the potential for inclusive growth and development. In the prevalence of extractive institutions, local elites capture and monopolise resources, resulting in little distribution of wealth and opportunities and hindering growth and development. Overall, such a situation leads “to the persistence of extractive institutions and the persistence of the same elites in power together with the persistence of underdevelopment” (Acemoglu & Robinson, 2012, p. 386). Giving the example of Sierra Leone, which has valuable natural resources, including diamonds and agricultural land, Baland, Moene, and Robinson (2010, p. 4612) argue, “had governance been better, Sierra Leone may not have become South Korea or Taiwan, but at worst it would have become Botswana”. To sum up, the prevalence of good governance and the creation of effective and inclusive PFM institutions is vital not only to enhancing the effectiveness of development aid but also to generating additional resources (both domestic and external) and achieving development.

### 3.2 The enabling environment necessary to achieve the SDGs

As discussed in the previous section, the concept of an enabling environment has occupied a central place in the debates and discussions about aid effectiveness and sustainable development. Various working groups engaged in the formulation of the 2030 Agenda also emphasised the significance of favourable environments for achieving the SDGs. In a study conducted by the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, it was clearly stated that “without sound domestic and global

institutions there can be no chance of making poverty reduction permanent” (UN, 2013, p. 4). Similarly, in another UN-mandated work carried out by the Intergovernmental Committee of Experts on Sustainable Development Financing, it was asserted that “efforts to reduce corruption and to adopt more economically and socially effective public sector policies are thus important” for implementing the 2030 Agenda (UN/ICESDF, 2014, p. 7).

There has been so much emphasis on the importance of a favourable environment because without improving the governance situation, the efficient generation and management of adequate resources is an insurmountable task. It has been argued that “effective institutions and policies and good governance are central for the efficient use of resources and for unlocking additional resources for sustainable development” (UN/ICESDF, 2014, p. 18). In this context, Bird, Martinez-Vazquez, and Torgler empirically demonstrate that “governance factors clearly matter”, “societies’ willingness to tax themselves depends on good government institutions”, and “a more legitimate and responsive state is likely an essential precondition for a more adequate level of tax effort in developing countries” (2008, p. 68). Thus, the prevalence of a supportive domestic environment is the cornerstone for mobilising more resources to implement the 2030 Agenda. If there is a favourable domestic institutional and policy environment, more resources can be generated and attracted, domestically and abroad.<sup>2</sup> Hence, there has been significant emphasis on the role of enabling environments as it is widely recognised that “improved policies (domestic and international) can be close substitutes for, as well as complements to, additional finance” (Kharas, Prizzon, & Rogerson, 2014, p. 10).

In the absence of an enabling environment, and the presence of ineffective PFM institutions and rampant corruption, it is hard to raise domestic resources and attract international financing. Wei (1997) examined FDI flows from 14 Organisation for Economic Cooperation and Development (OECD) member countries, including the seven largest investing countries, to 45 recipient countries between 1990 and 1991. Having graded all FDI-receiving countries on a scale of one to 10 for corruption, his analysis shows that “a one-grade increase in the corruption level is associated with a 16 per cent reduction in the flow of FDI” (Wei, 1997, p. 11). The findings also suggest that a 1 per cent increase in the marginal tax rate reduces the inward FDI flows by about 5 per cent. This implies that corruption in developing countries is a huge impediment to FDI and has a more noteworthy impact on the role and behaviour of investors than raising the tax rate. Corruption not only affects the flow of FDI but it also has enormous negative effects on domestic investment and economic growth, which are remarkably lower in more corrupt countries (Wei, 1998). Thus, creating an enabling environment by curbing corruption and improving governance would lead to the attraction of more FDI as well as additional domestic investment, which could consequently result in better sustainable development outcomes.

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2 There is considerable evidence that a favorable environment leads to the generation of more domestic resources and international resources in the form of FDI. However, it does not have a linear relationship with various other kinds of foreign resources, such as ODA from numerous bilateral donors whose aid programmes have political, security, commercial and geo-strategic objectives along with poverty alleviation. Similarly, even in some resource-rich countries, potential investors would prefer poor governance environment in order to exploit the situation in cohort with local elites and extract maximum benefits. In such an environment, more ODA/FDI could bring benefits for some selected groups, but it could hardly contribute to overall development and welfare of masses at large.

Emphasising the importance of good governance and limited corruption, and how the two affect the development trajectory of a country, a World Bank report finds that if a country with a per capita income of USD 2,000 addresses the issue of corruption and takes measures to improve governance and the rule of law, its per capita income level could reach USD 8,000 in the long run (World Bank, 2004). Thus, it is quite evident that a lack of good governance and the prevalence of corruption considerably affects economic progress and development. In view of this, there is a dire need for “a transparency revolution so citizens can see exactly where their taxes, aid and revenues from extractive industries are spent” (UN, 2013, p. 9). While the issues of corruption and good governance are multi-faceted and require a multi-fronted approach, ultimately, success depends primarily on the reform process of institutions in countries plagued by corruption (Baland et al., 2010; Labelle, 2014; Wei, 1998). In this regard, Temple (2010, p. 4473) has stated that “what matters most is the existence of a domestic constituency genuinely willing to support and defend a set of reforms”. There is a broad consensus that “success depends on political leaders making a long-term commitment [...] to develop equitable and transparent fiscal systems even when this means challenging powerful political interests” (Mackie, Klingebiel, & Martins, 2013, p. 113). Without sustained homegrown and locally-driven efforts to reform the PFM systems, it is difficult to change the status quo and create an enabling environment that is a prerequisite for generating sufficient resources to implement the 2030 Agenda.

To sum up, it is vital for developing countries to launch far-reaching reforms and earnestly address the issue of good governance and rule of law. Governments faced with these challenges need to work with development partners that already have effective accountability mechanisms with proven successes and achievements. Developed countries could help by providing policy advice and relevant technical and technological assistance to improve the standard and quality of PFM institutions and to curb corruption. Collaborating with “international institutions [and] governments could bring about a swift reduction in corruption, money laundering, tax evasion and aggressive avoidance” (UN, 2013, p. 9). However, political will and commitment of governments to establish strong institutions are ultimately most important. Without strong domestic demand and government-led sustained reforms in the way the PFM functions, there is hardly any panacea for good governance and elimination of corruption.

#### **4 Where are the resources? Financing the SDGs**

For implementing the 2030 Agenda, all member states have committed under SDG 17 to forge a renewed and reinvigorated global partnership. It has been clearly laid out in the AAAA as well as in the 2030 Agenda that governments in developing countries are required to increase their DRM and the international community would help complement their efforts. According to the OECD, while there are various modes of resources already available, “the annual SDG financing gap in developing countries is estimated at approximately USD 2.5 trillion” (OECD, 2016b, p. 69). The same report adds that although this seems an unlikely amount to be mobilised, it is merely 3 per cent of the global gross domestic product (GDP), 14 per cent of the global annual savings and 1.1 per cent of the value of global capital markets. This section identifies key financing instruments available to developing countries. Broadly, there are four ways in which

governments can generate resources: through domestic, international, public sector and private sector sources (Mackie et al., 2013). While highlighting these streams of resources, the fact that generation and mobilisation of such resources largely depends on the prevalence of an enabling environment is also discussed.

#### 4.1 Domestic resources for implementing the 2030 Agenda

Domestically, governments can generate and mobilise resources through the public sector and the private sector. Both are discussed below.

##### 4.1.1 Role of domestic resource mobilisation: public sector

The primary responsibility for implementing the 2030 Agenda lies with the participating governments; they are responsible to their citizens for proper planning, and resource mobilisation and its effective utilisation to achieve the SDGs. Unlike during the era of the MDGs when aid was considered a key source of development financing, “there is broad agreement that domestic resource mobilisation should be a key means to finance any post-2015 development framework” (Mackie et al., 2013, p. 109). Governments have various means of DRM, including taxation, rents from government properties, income via state-owned enterprises (SOEs) and royalties from extractive industries. Among these, taxation is one of the major domestic sources of revenue in most countries. Mobilising indigenous “resources in the form of taxes is relevant not only with regard to the amount of finance available, but also in terms of governance structures” (Ashoff & Klingebiel, 2014, p. 20). However, as compared with developed countries, numerous low-income countries lag behind in developing a proper tax system and culture. At present, tax-to-GDP ratio in developing countries is in the range of 10-14 per cent as compared with about 35 per cent in the OECD’s Development Assistance Committee (DAC) countries (UN/ICESDF, 2014; UNDP, 2015b). Fortunately, a consistent upward trend has been observed in domestic revenue generation in a number of developing and low-income countries since 2000. Because of this positive trend, “public domestic finance in developing countries more than doubled between 2002 and 2011, increasing from USD 838 billion to USD 1.86 trillion” (UN/ICESDF, 2014, p. 12).

The above figures clearly indicate that there is significant potential and room for improvement in developing countries in raising domestic resources. The SDG 17 has asked developing countries to “strengthen domestic resource mobilisation” and “improve domestic capacity for tax and other revenue collection” (UNGA, 2015, p. 26). Analysing tax rates of a sample of 67 countries during the 1990s, Besley and Persson assert that “broadening the tax base, rather than changing the tax rates, would be the key to increasing tax revenues in many low-income countries” (2014, p. 105). They further add that “low-income countries typically have a large informal sector and many small-scale firms [...] having a large informal sector makes broad-based taxation of income next to impossible” (Besley & Persson, 2014, pp. 109-110). Thus, in order to raise additional resources in the form of taxes, governments need to broaden the tax base and register all businesses so that most untaxed businesses and entities are brought into the tax regime. The informal economy, which functions outside the purview of the tax system, needs to be incentivised but at the same time ought to be properly documented and taxed.



Enabling environments characterised by functioning PFM institutions could be a catalyst for DRM. The lack of such an environment results in the emergence of an informal economy as well as low taxation. This is because most citizens are disinclined to comply with the rules and norms of taxation due to weak institutional capacity, prevalence of corruption and lack of checks and balances in government departments (Bird & Das-Gupta, 2014; Bird et al., 2008; Torgler, 2007). Citizens have little trust in the PFM systems of their governments and believe that their money is spent by the ruling elite and their cronies for their own welfare rather than for public service delivery. All these factors push “many low-income countries into a situation of a low tax/GDP ratio levied on a narrow tax base and a narrow set of individuals” (Besley & Persson, 2014, p. 112). In the absence of robust and accountable PFM institutions, when checks and balances are minimal and corruption is rampant, citizens try to avoid paying taxes. Consequently, Besley and Persson have noted that “it is perhaps not so surprising to find a strong positive correlation between less corruption and the level of taxation” (2014, p. 114). Similarly, analysing the tax performance of 177 countries between 2007 and 2008, von Haldenwang and Ivanyina argue that “if a country is governed in a democratic and transparent manner and if the government implements public policies effectively, revenue mobilisation may not be a major issue” (2012, p. 23).

In view of this, as already discussed in Section 3, to increase DRM, an enabling environment with effective and efficient PFM institutions is the first prerequisite. While the 2030 Agenda does not prescribe institutional models or a specific blueprint for an enabling environment, under the SDG 16, it has clearly outlined the need for “effective, accountable and inclusive institutions at all levels” (UNGA, 2015, p. 25). There is a strong message that transparency and accountability are fundamental to the functioning of institutions at the domestic, regional and international levels. The prevalence of effective, accountable and responsive institutions has two advantages: while it is an end in itself, it is also essential for ensuring domestic stakeholders (tax-payers and private investors), as well as external or foreign resource providers, that their concessional money (if it is in the form of development cooperation) or private investment (if it is FDI or another form of private financing) is going to be utilised adequately and transparently. Therefore, to implement the 2030 Agenda the first priority is to create an enabling environment by improving the domestic institutional and policy environment.

#### 4.1.2 Domestic private resources for sustainable development

Governments also have the policy option of using domestic private financing to fund development interventions in various sectors. The private sector is relatively far-reaching as it comprises “a wide range of diverse actors, from households to multinational corporations and from direct investors to financial intermediaries, such as banks and pension funds” (UN/ICESDF, 2014, p. 26). Although the role of the domestic private sector is limited in numerous development sectors and in financing sustainable development in developing countries, if properly targeted, it can play a significant role in the funding of infrastructure projects. Private investment in various sectors, particularly in physical infrastructure, education and health, has played a considerable role in employment-generation as well as in the provision of improved services and goods in several countries.

One of the key challenges associated with private financing, whether domestic or foreign, is its primary focus on maximising profit rather than poverty alleviation, sustainable development or improving public service delivery. In such a situation, private financing is more appropriate for infrastructure projects in the energy and communication sectors where there are significant long-term benefits and dividends for investors and financiers. According to Wentworth and Makokera (2015, p. 327), “urban developments, like toll roads and urban rail – with relatively high user tariffs attached - can be attractive and even lucrative for private actors in the long term”. Private financiers can also have fruitful long-term investments in energy infrastructure. For example, in Pakistan, independent power plants produce about 50 per cent of the country’s generation capacity (Private Power & Infrastructure Board, 2016). They play a significant role in reducing the energy shortage and filling the increasing demand-supply gap, which during times of acute need can reach 7,000 megawatts (Government of Pakistan, 2014). As a result of the privatisation drive in the country, “over 77 per cent of the commercial banking sector, 100 per cent of the textile and telecommunications sector, and a significant part of the cement, sugar, automobile and fertiliser sector are in the private sector” (Asian Development Bank, 2008, p. i). While all of this is not directly related to sustainable development or SDGs, it does highlight the importance of domestic private investment and financing and how it indirectly contributes to numerous SDGs, such as access to decent employment, transport and energy.

It is imperative to explore various avenues and unlock the true potential of domestic private resources for sustainable development targets. In comparison with other sources of private financing, most developing countries rely mainly on the banking sector and to a lesser extent on domestic bonds and national pension funds (UN/ICESDF, 2014). Pension funds could be “potential major providers of long-term investment funds” (Asian Development Bank, 2008, p. 59) as shareholders of such funds are usually provided their financial benefits after being in the business cycle for 10 to 20 years or even up to 30 years. That is why Wentworth and Makokera argue that “pension fund managers have been cautiously looking towards infrastructure as an asset with higher potential returns for their beneficiaries” as they could be “an ideal fit for financing longer-term infrastructure assets” (2015, p. 329). Accordingly, domestic private resources are more suited to diversion to physical infrastructure, including transport, communication, power, water and sanitation facilities, as these are vitally significant for facilitating travel, trade and overall socio-economic uplift. Thus, private financing has a critical role to play in contributing to achieving a number of SDGs, either directly or indirectly, and its true potential needs to be unlocked.

## 4.2 External financing for sustainable development

Implementation of the 2030 Agenda also needs considerable external means of financing. Without sustained external support, it is highly unlikely that many resource-scarce countries will achieve the SDGs. Ashoff and Klingebiel (2014, p. 17) appropriately argue that because of “a lack of state structures, poorly functioning or insufficiently legitimate governments, and related problems”, numerous countries would be in need of development cooperation for the foreseeable future. Sachs (2005, p. 18) states, “a large number of the extreme poor are caught in a poverty trap, unable on their own to escape from extreme material deprivation”. He argues that to lift developing countries out of this poverty trap a “big push” is required. Sachs (2005, p. 250) elaborates that “targeted

investments backed by donor aid lie at the heart of breaking the poverty trap” to enable developing countries to become productive enough to meet their basic needs. Sachs posits that extreme poverty could be eliminated by 2025 if development assistance is increased and global business regulations are made fair for developing countries (2005, p. 25). Thus, to complement the efforts undertaken by governments on the domestic front, external financing would play an integral role in contributing to the implementation of the 2030 Agenda.

There are various international financial sources and delivery channels. These include traditional ODA from DAC donors and multilateral donors, South-South cooperation from emerging donors, and aid from private foundations. Like domestic resources, external financial resources can also be divided into two broad categories: public and private. These two sectors can be further divided into two sub-categories: concessional and non-concessional. External resources and their significance for implementing the 2030 Agenda are discussed below.

#### 4.2.1 External concessional financing

Development cooperation in the form of ODA has been a key concessional financial tool available to developing countries and continues to play an important role in poverty alleviation and in assisting governments in improving public service delivery in sectors like health and education. ODA, like DRM, has experienced an upward trend in developing countries in recent years. According to the 2016 Development Cooperation Report of the OECD, the total volume of aid flows from DAC countries reached its highest yet in 2015 at USD 131.6 billion, an increase of nearly 7 per cent from the previous year (OECD, 2016b). The ratio of net ODA to gross national income (GNI) was 0.30 per cent. While the overall levels of development cooperation continue to record upward trends since 2000 (as is the case with domestic revenue generation in developing countries), there are significant variations among donors and their aid allocation policies. In terms of aggregate development cooperation, the largest aid-providers were the US, the UK, Germany, Japan and France. Regarding donors’ commitment to reaching the ODA target of 0.7 per cent of their GNI, as agreed upon under the UN resolution in 1970, “only Denmark, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom” had honoured it as of 2015 (OECD, 2016b, p. 152). Only those six of the 29 DAC members have exceeded the UN target and the majority lag behind.

There is no doubt that implementation of the SDGs requires financial resources far beyond the current aid volume. Since aid is an important financial resource, the donor community in the DAC needs to revitalise their aid efforts to achieve the ODA/GNI ratio of 0.7 per cent. The Rio+20 Conference (2012) and the Addis Ababa Conference (2015) specifically mentioned that DAC members need to achieve the ODA/GNI ratio of 0.7 per cent. The SDG 17 also reiterates that developed countries need to “implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries” (UNGA, 2015, p. 26). In a majority of the SDGs, development cooperation or ODA has been specifically mentioned as a key component for implementation (Rudolph, 2017).

In the 2030 Agenda, ODA has been encouraged to play a catalytic and multiplier role for sustainable development. Rudolph (2017, p. 5) asserts that the Agenda has emphasised the use of ODA “strategically to generate additional domestic resources and incentivise private investment for sustainable development”. It has been always stressed that “aid should have the effect of mobilising other sources of finance [...] that is, aid should help to crowd in – rather than crowd out – other resources” (Ashoff & Klingebiel, 2014, p. 20). The Agenda has clearly stated that ODA could accelerate the mobilisation of additional resources, for example, by assisting and improving domestic tax capacity and other revenue collection (SDG 17.1), by mobilising private investment flows and additional financial resources from multiple sources (SDG 17.3) and by assisting in establishing a regime for promoting investment (SDG 17.5) (UNGA, 2015, p. 36). In its 2014 annual report, the OECD had already stressed the importance of ODA for sustainable development (2014). The report asserts that ODA not only provides crucial funds to fragile and least developed countries, which face challenges in attracting or raising other resources, but ODA can also help countries in raising and managing their own domestic resources through capacity building, policy reform and sharing of good practices (OECD, 2014). Thus, as ODA constitutes an important mode of concessional financing, it is imperative for all major actors, particularly the DAC donors, to increase their aid levels to accomplish the 0.7 per cent ODA/GNI target and play a more central role in contributing to achieving the SDGs directly and indirectly.

#### 4.2.2 South-South Cooperation: development cooperation from non-DAC donors

Besides traditional donors, like DAC members, development cooperation comes from several other actors in today’s international aid landscape. These donors include the “BRICS” (Brazil, Russia, India, China and South Africa), some Latin American and Southeast Asian countries, and various Arab countries, including the United Arab Emirates (UAE), Saudi Arabia, Kuwait and Qatar. Among these donors, the latter group has a long tradition of providing development aid. Partnerships between these aid-providers and developing countries are referred to as South–South Cooperation (SSC). SSC has received significant attention because of shifting geostrategic and economic realities with the rise of China, India and Brazil (Fues, Chaturvedi, & Sidiropolous, 2012). In comparison with traditional DAC donors, this cluster of donors “claims to engage in more horizontal cooperation” (Janus et al., 2015, p. 159) as they underscore the principle of non-interference in domestic political issues in developing countries. Overall, key features of SCC are horizontality, respect for sovereignty, non-interference, non-conditionality, and mutual benefit (Bracho & Grimm, 2016).

These donors contribute considerable aid in various forms to finance development interventions in developing countries. According to OECD (2016b), aid volumes from 29 non-DAC aid providers reached USD 33 billion in 2014, a significant jump from USD 24 billion in 2013. However, development assistance is “only one element of SSC, which often combines loans, grants, trade, investment and technical cooperation” in various fields and sectors (Mackie et al., 2013, p. 114). Although this group of bilateral donors is quite heterogeneous geographically and ideologically, increased SSC has not only led to an enhanced supply of aid, it has also allowed the partners to “come together with new practices, mechanisms and ideas” (Bracho & Grimm, 2016, p. 121). Hence, in addition to

the aid component, the other elements of SSC could significantly contribute to the 2030 Agenda, particularly in infrastructure and productive sectors.

Along with an aggregate aid of over USD 131 billion from DAC donors, development cooperation from non-DAC donors also constitutes an integral element of development financing in numerous developing countries and can play a more significant role if utilised and targeted effectively. However, unlike DAC donors, one of the key challenges with this group of donors is the lack of transparency surrounding their aid volumes and interventions; currently there is no standard reporting or measurement mechanism to track their aid efficacy and effectiveness (Bracho & Grimm, 2016; Fues et al., 2012; Mackie et al., 2013). If properly streamlined and utilised as effectively as possible where it is needed most, SSC can make a significant impact on the lives of those who lack sufficient resources. It can play an integral role in alleviating acute poverty and achieving the SDGs.

#### 4.2.3 External private (concessional) financing for sustainable development

Over the past few decades, the field of development cooperation has changed remarkably with the emergence of private actors. Because of this transformation, “actors from outside of the aid arena are playing a bigger role in the transforming policy area of development cooperation” and “these actors contribute in a number of ways to achieving development goals” (Janus et al., 2015, p. 158). These include a host of private organisations, foundations, philanthropists and charities that contribute substantial amounts of money across the developing world. Like the other resource types, external private (concessional) resources have also shown upward trends in recent years. On account of the active and prominent role of the private sector in development financing, it is argued that the field of development is no longer the “landscape once dominated by official aid agencies and government-to-government bilateral [relationships]” (Kharas, 2014, p. 861).

These non-government entities contribute significantly in various sectors, particularly in health and education. For instance, the Bill & Melinda Gates Foundation, which reports its development efforts to the OECD, disbursed about USD 2.9 billion in 2014, mostly to African countries (OECD, 2016b). According to Adelman and Spantchak, this amount “surpasses the ODA contributions of nine of the twenty-three DAC donor countries” (2014, p. 804). The authors add that private philanthropy from US-based foundations and corporations “amounted to USD 39 billion in 2010, outpacing US ODA by nearly USD 10 billion” (Adelman & Spantchak, 2014, p. 802), illustrating how significant private concessional financing is to the international anti-poverty mission. Overall, it is estimated that private individuals, foundations and organisations contribute around USD 60 billion to developing countries annually (UN/ICESDF, 2014). These actors are particularly active in different sectoral funds at the global level including the Global Fund to Fight AIDS, Tuberculosis and Malaria as well as Gavi, the Vaccine Alliance (UN/ICESDF, 2014). Thus, total concessional financing from DAC and non-DAC aid-providers as well as assistance from private entities was over USD 220 billion in 2014. Adelman and Spantchak assert that “organised philanthropy, which in the past has been considered an American tradition, is now rising in various forms in both developed and developing countries” (2014, p. 803). It forms a vital part of additional concessional funding available to developing countries and contributes to sustainable development outcomes in various ways.

#### 4.2.4 Increased funding for climate change

Some of the SDGs find their key source of financing in the various types of climate-associated funds that can be accessed by actors involved in planetary sustainable development outcomes. Unlike in the MDGs, environment has been a key component in the 2030 Agenda; SDGs 12, 13 and 14 are specifically related to environmental sustainability. The 2030 Agenda has reaffirmed to “conserve and sustainably use the oceans, seas and marine resources for sustainable development” (UNGA, 2015, p. 23). It has emphasised that intense and coordinated efforts will be made by all stakeholders to hold “the increase in global average temperature below 2 degrees Celsius, or 1.5 degrees Celsius above pre-industrial levels” (UNGA, 2015, p. 9).

In this context, the UN Climate Change Conference held in Paris in December 2015 was a historic event during which stakeholders vowed unprecedented commitment to managing climate change. At the forum, all partners promised to significantly increase efforts to address challenges caused by climate change. To this end, it was also decided by the international community to increase funding for climate-related interventions. In the context of the United Nations Framework Convention on Climate Change, developed countries committed to mobilising USD 100 billion per year by 2020 under the Green Climate Fund to assist developing countries in countering adverse effects of climate change (OECD, 2015). Thus, developing countries would have access to this additional financial resource to make progress towards achieving the SDGs, particularly those related to environment and climate change. Unlike the situation a decade ago, “there are now over 50 international public funds”, notably the Global Environment Facility, the Adaptation Fund, the Climate Investment Funds, and most recently the Green Climate Fund (UN/ICESDF, 2014, p. 15). This indicates that, along with a reasonable surge in all other forms of resources to contribute to sustainable development directly and indirectly, there has been a significant increase in climate financing in recent years and if appropriately channelled, it could play a vital role in the achievement of climate-related SDGs.

#### 4.2.5 International private (non-concessional) financing for sustainable development

We now turn to external private financing, which is expected to play a prominent role in implementing the 2030 Agenda. It is argued that achieving SDGs will require a “greater policy coherence between aid and non-aid policies (trade, debt, agricultural subsidies, financial and tax regulations, technology, etc.)” (United Nations, 2014, p. 6). As discussed in the preceding section, although development cooperation in various forms and from various sources (government and private) makes key contributions to the implementation of the 2030 Agenda, it alone is insufficient. Hence, the Agenda has identified “a multitude of implementation strategies by domestic political actors, national governments and international institutions” (Rudolph, 2017, p. 2). Gavas, Gulrajani, and Hart have observed that aid was considered a key financing tool in the era of the MDGs, but the SDGs would “require a host of other measures – both financial and non-financial” (2015, p. 4). Thus, FDI has been identified in the AAAA and the 2030 Agenda as a vital complement to national development efforts (UN, 2015a; UNGA, 2015). There is a general recognition that “these flows represent the most important external contribution to development finance” (Klingebiel, Mahn, & Negre, 2016, p. 8). It is argued that “investments in

developing countries – and even in the least developed countries – are seen as business opportunities” because “companies provide jobs, infrastructure, innovation and social services” (OECD, 2016b, p. 17). Attraction of massive FDI “can also lead to larger tax revenues and more income for households who in turn will spend more on health and education” (Kharas et al., 2014, p. 18). Thus, alongside numerous means of domestic financing and external public financing, external private financing also constitutes an integral part of the overall means of financing the SDGs, although much of it will contribute in indirect ways.

Again, for attracting external private financing, a favourable domestic environment is vital. The OECD emphasises that “investors want to invest not just in good projects, but also with ‘good’ partners in ‘good’ countries with ‘good’ policies” (OECD, 2016b, p. 61). Good policies and good environment are central not only to attracting FDI but also “to [maximising] the gains from inward foreign direct investment” (Harrison & Rodriguez-Clare, 2010, p. 4100). Hence, as discussed in some detail in Section 3, for effective mobilisation of indigenous and external resources in the form of development cooperation or private financing, it is exceedingly important that there is supremacy of the rule of law and good governance characterised by sound policies and efficient and accountable institutions. For this, the onus is primarily on governments in developing countries to ensure conducive domestic environments. As an enabling environment is considered vital to increasing DRM and its effective utilisation for accomplishing SDGs, it is equally essential for attracting private financial resources in the form of investment. Kharas et al. have observed that it is more likely that private resources will come to countries that take tangible measures to control corruption and curb illicit financial flows as “that should help to unlock more long-term capital for sustainable development” (2014, p. 20).

As this paper has illustrated, an optimistic sign is that almost all types of financial resources have shown an upward trend in recent years, including domestic resources in developing countries as well as external official and private resources in the form of development cooperation. Similarly, the magnitude of FDI has also increased substantially in recent times: “gross flows of FDI to developing countries reached USD 778 billion in 2013, exceeding FDI to developed economies” (UN/ICESDF, 2014, p. 17). According to the same report, FDI constitutes “the most stable and long term source of private sector foreign investment” (UN/ICESDF, 2014, p. 17). Haslam (2012, p. 199) argues that FDI “constitutes the single most important source of new money for developing countries”. As discussed earlier, although the role and importance of FDI for sustainable development is contingent upon various factors, greater investment in the form of FDI certainly plays a significant role in creating economic opportunities and employment. The promotion of inclusive and sustainable economic growth, full and productive employment, and decent work for all not only directly contributes to achieving SDG 8, but also leads to poverty reduction and increased investments in education and health. In most cases, employment constitutes the principal form of income security, allowing people to spend more on health and education. To sum up, along with increasing other forms of financial resources, increasing FDI is essential to achieving several of the SDGs directly and indirectly. All relevant actors are required not only to increase their volume of FDI but also to ensure its investment in ventures that are socially, economically and environmentally beneficial for all stakeholders. The potential role of FDI and its contribution to sustainable development is illustrated in Section 5.5 by the example of the China-Pakistan Economic Corridor (CPEC) The CPEC is a multi-year investment plan by China and Pakistan comprising

numerous projects aimed at developing energy, industry and communication infrastructure costing over USD 50 billion.

#### 4.2.6 Blended finance and public private partnerships

Another initiative is to combine the efforts of various private and public sector entities in the form of blended finance for achieving sustainable development. According to Kharas et al. (2014, p. 36), “the new normal in the international development community is to emphasise action with the private sector”, “blended public-private instruments, and public private partnerships”. These authors add that the private sector is very diverse and consists of a dynamic set of actors ranging from large foundations, international and national non-governmental organisations (NGOs) and multinational businesses, and the role of all these actors is clearly more visible in the development arena than it was one decade ago. The creation of the Sustainable Development Investment Partnership (SDIP), which facilitates public private partnerships (PPPs), is evidence of this shift. The SDIP is an initiative for financing sustainable development made up of development actors including USAID, the OECD, the World Economic Forum and the Swedish International Development Cooperation Agency (OECD, 2016b). The key objective of the SDIP is to mobilise USD 100 billion in private financing over a period of five years to fund potential infrastructure projects in developing countries in line with the SDGs. Consisting of key partners from both developing and developed countries, the aim of this partnership is to promote “cooperation among commercial investors, governments, development agencies and development banks” in support of the 2030 Agenda (OECD, 2016b, p. 80). In the long run, the main goal is to support inclusive growth and poverty alleviation through commercially feasible projects in areas such as water and sanitation, transportation, clean energy, agriculture, health and climate adaptation (SDIP, 2016).

There are challenges and risks in bringing together public and private money for sustainable development. The AAAA recognises that “both public and private investment have key roles to play in infrastructure financing, including through [...] public private partnerships” (UN, 2015a, p. 15). However, the AAAA also highlights the need to “build capacity to enter into PPPs, including as regards planning, contract negotiation, management, accounting and budgeting for contingent liabilities” (UN, 2015a, p. 16). It further stresses the need to “share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards” (UN, 2015a, p. 16). The benefits of using PPPs for financing depend on the context, and the intent and expertise of both the private and the public sector, and there are numerous issues.

Although PPPs combine the efforts of public and private sectors to contribute to sustainable development, there are inherent flaws. According to Hall, “private sector corporations must maximise profits if they are to survive” which is “fundamentally incompatible with protecting the environment and ensuring universal access to quality public services” (2015, p.3). It is also argued that “assessing the development effectiveness of projects funded through blending can be problematic as public-private contracts often contain confidentiality clauses, limiting transparency” (Mackie et al., 2013, p. 124). To overcome such challenges, public sector entities must establish complete transparency concerning the terms and conditions on which to engage with the private sector so that partners are held accountable in case intended outcomes are not achieved.



Sundaram, Chowdhury, Sharma, and Platz have noted that “the prime objective of a PPP is that it should result in an improvement in the quality and efficiency of a given service to the citizen”, however “the performance and viability of PPPs varies greatly across activities and sectors” (2016, p. 12). According to these authors, to ensure that PPPs are an effective mode of financing to improve service delivery in infrastructure “it is critical that countries have an institutional capacity to create, manage and evaluate PPPs, especially in relation to other possible sources of funding” (Sundaram et al., 2016, p. 12). Here again, external support in the form of development cooperation by means of transfer of technology or technical support aimed at building and enhancing the capacity of public sector entities is integral to enabling them to effectively engage and utilise the potential of the private sector for sustainable development.

## **5 Implementing the 2030 Agenda: the case of Pakistan**

To illustrate the challenges faced by developing countries and the potential for improvement through the 2030 Agenda, a case study of Pakistan is presented here. Pakistan is an apt example for several reasons. First, like other UN member states, Pakistan has committed to the implementation of the 2030 Agenda and accomplishment of the SDGs. Pakistan was the first country to adopt the 2030 Agenda through a unanimous resolution of its parliament in February 2016. Second, the long-term, ambitious policy document, Vision 2025, highlights that the Government of Pakistan is determined to achieve the “Sustainable Development Goals of zero poverty and hunger, universal access to health services, education, modern energy services, clean water and sanitation, and join the league of Upper Middle Income countries by 2025” (Government of Pakistan, 2014, p. 3). The government has specified that the “Vision 2025 process builds upon the largely successful pursuit of the MDGs, and is a launching pad for the complete fulfilment of the SDGs before their target date of 2030” (Government of Pakistan, 2014, p. 10). While the policy document is quite aspirational, it is also realistic in that it outlines a roadmap of seven key pillars to focus on and achieve the intended development outcomes. As illustrated in Table 1, the seven principal pillars comprise people first, growth, governance, water, energy and food security, entrepreneurship, knowledge economy and regional connectivity, all of which are closely linked to the SDGs.

Given the consensus that the creation of an enabling environment is vital to generating the required resources to successfully implement the 2030 Agenda, the government is also aware of the fact that without an enabling environment, development outcomes are hard to achieve. The government has also underlined the importance of an enabling environment for achieving the seven pillars identified in Vision 2025. Calling the model a “5+7 framework for economic growth and development”, the document has specified five key enablers for accomplishing the seven central pillars by 2025. These five enablers are “a Shared National Vision, Political Stability, Peace and Security, Rule of Law and Social Justice” (Government of Pakistan, 2014, p. 25). It is hard to agree that development and prosperity can be achieved in the face of insecurity, instability and chaos and in the absence of rule of law and social justice. The government is cognisant of this and has acknowledged that “sustained growth and development does not take place in an environment that is not characterised by the supremacy of the rule of law” (Government of Pakistan, 2014, p. 30). To improve the situation concerning the transparent and fair

application of the rule of law, the government has promised to “create conditions that enable the strict enforcement of the rule of law—by strengthening the judicial system [and] revamping police and the criminal justice system” (Government of Pakistan, 2014, p. 25).

	<b>Pillar</b>	<b>Linkages with the SDGs</b>
1	<b>People first:</b> Development of social and human capital, and empowerment of women	SDGs 1 (poverty), 3 (health), 4 (education) and 5 (gender)
2	<b>Growth:</b> Sustained, indigenous and inclusive growth	SDGs 8 (sustainable economic growth and productive employment), 10 (inequality), 12 (sustainable consumption and production) and 13 (climate change)
3	<b>Governance:</b> Democratic governance, institutional reform and modernisation of the public sector	SDG 16 (accountable and inclusive institutions) and its various targets
4	<b>Security:</b> Energy, water and food security	SDGs 2 (zero hunger), 6 (water security), 7 (energy security) and 11 (safe, resilient and sustainable cities)
5	<b>Entrepreneurship:</b> Private sector and entrepreneurship-led growth	SDG 9 (foster innovation)
6	<b>Knowledge Economy:</b> Development of a competitive knowledge economy through value addition	SDGs 9 (foster innovation) and 4 (education)
7	<b>Connectivity:</b> Modernisation of transport, infrastructure and regional connectivity	SDGs 9 (resilient infrastructure), and 17 (global partnership for sustainable development)

Source: Adapted from Government of Pakistan, 2014

Overall, the government is optimistic that these five key enablers will create a conducive environment for increased generation of domestic resources and for attracting substantial FDI that could eventually play a vital role in achieving progress and development. For instance, the government has targeted to “increase annual foreign direct investment from USD 600 million to over USD 15 billion” and “increase tax to GDP ratio from 9.8 per cent to 18 per cent” by 2025 (Government of Pakistan, 2014, p. 101). While there is a consistent upward trend in FDI that crossed the USD 1 billion mark in 2016, it will gain significant momentum once projects funded under the CPEC enter their full implementation phase (Government of Pakistan, 2016b). It is estimated that economic growth of over 8 per cent would be maintained between 2018 and 2025 which would push GDP per capita from USD 1,300 to USD 4,200 (Government of Pakistan, 2014). Similarly, Vision 2025 has set quite ambitious targets to increase exports “from the current USD 25 billion to USD 150 billion by 2025” and this would enable the government to increase budgetary allocations for social sectors, which is critical for reducing poverty (Government of Pakistan, 2014, p. 44).

To sum up, the government has conceived an aspirational, long-term development vision and has identified the roadmap to be followed to achieve these outcomes. However, the

most important question is how the government is going to achieve these aspirational targets as there is often a big gap between policy documents and on-the-ground realities and challenges. Analysing the significance of an enabling environment in the context of Pakistan and current socio-economic trends and prospects, the rest of the paper aims to explore various policy options for implementing the 2030 Agenda in the case of Pakistan. It underscores the critical role of enabling environments in terms of PFM institutions and governance.

## 5.1 The enabling environment in the context of Pakistan

As in many developing countries worldwide, in Pakistan a lack of effective and sound PFM institutions, and the prevalence of corruption and bad governance, have constrained not only the mobilisation of sufficient domestic resources but also the inflow of FDI and the overall process of development. The 2012 Public Expenditure and Financial Accountability (PEFA) report on assessment of PFM systems in the country stated that following the 2009 PEFA assessment, there have been some improvements in certain areas, but overall indicators have not improved significantly (Government of Pakistan and Development Partners, 2012).<sup>3</sup> The report asserted that out of a total of 31 indicators, “the maximum number of indicators remained unchanged” and “there was a decline in 5 indicators and 11 indicators showed positive progress over the period between assessments” (Government of Pakistan and Development Partners, 2012, p. 3). The report states that despite the efforts of the government and its development partners, there are several areas that need further strengthening in order to make the PFM systems work in a more effective way for better policy and development outcomes. Given the overall level of PFM systems, it is a strange anomaly that Pakistan has been under direct military rule for about half of its life, under the fallacy to improve institutions and rid the country of corrupt civilian political leadership. Since its independence in 1947, Pakistan has remained under military reign for about 36 years. While the military had mostly come into power to fight corruption and cleanse the country of corrupt political rulers, it was no less corrupt and instead protected and increased its own fortunes and the military’s enormous commercial interests (Siddiq, 2007). Unfortunately, the two main political parties that ruled the country alternately from 1990 to 1999 were dismissed on charges of corruption, bad governance and misuse of power and authority. As data in Table 2 shows, Pakistan’s performance on the Corruption Perceptions Index (CPI) has been consistently very low and has only improved slightly since 2013.

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3 The PEFA assessment of PFM performance is based on 94 characteristics (dimensions) across 31 key components (indicators) of PFM in seven broad areas of activity (pillars) comprising credibility of the budget, comprehensiveness and transparency, policy-based budgeting, predictability and control in budget execution, accounting, recording and reporting, external scrutiny and audit and donor practices.

Year	Rank	Score	No. of countries ranked
1995	39	2.2	41
1996	53	1	54
1997	48	2.5	52
1998	71	2.7	85
1999	87	2.2	99
2000	N/A	N/A	90
2001	79	2.3	91
2002	77	2.6	102
2003	92	2.5	133
2004	129	2.1	147
2005	144	2.1	159
2006	142	2.2	163
2007	138	2.4	179
2008	134	2.5	180
2009	139	2.4	180
2010	143	2.3	178
2011	134	2.5	183
2012	139	27	176
2013	127	28	177
2014	126	29	175
2015	117	30	168
2016	116	32	176

Source: TI, 2017b

Like Pakistan, the majority of Asian Pacific countries are in the bottom half of the 2016 Corruption Perceptions Index. According to Transparency International (TI), 19 out of 30 countries in the region scored 40 or less out of 100 on CPI in 2016 (2017a). The report further states that countries in the region perform poorly because of factors including unaccountable governments, and lack of oversight and insecurity; both high-profile corruption scandals and everyday corruption issues continue to undermine public trust in governments. Regarding the issue of corruption in Asian countries, Wei (1998) has pointed out that Pakistan's GDP per capita would be substantially higher if corruption were reduced. For example, in its "Country Study Report Pakistan 2003", TI estimated that widespread corruption in all public sectors costs over PKR 200 billion annually to the country's economy, severely affecting overall economic progress (TI, 2003).<sup>5</sup> Similarly, in 2011, the Ambassador of the European Commission of the European Union (EU) to Pakistan expressed a similar opinion about the negative effect of corruption on Pakistan. While addressing a seminar in Islamabad, the Ambassador stated that corruption had

4 From 1996 to 2011, a scale of 0 to 10 was used in CPI, the lowest score indicating the highest levels of corruption and the highest score indicating the least corruption. Since 2012, the scale has been from 0 to 100. A country's rank indicates its position relative to the other countries and territories surveyed and included in the report.

5 In 2003, when USD 1 was equal to PKR 53, a total of USD 3.8 billion was lost due to corruption. This occurred in the presence of various anti-corruption bodies including the Federal Investigation Agency (FIA), the National Accountability Bureau (NAB) and Anti-Corruption Establishments (ACE).

become a bigger hurdle than terrorism for the country's economic development (I. Khan, 2011). Emphasising the role of transparency, the TI chief in Pakistan stated that if Public Procurement Authority Rules are applied across-the-board and all procurements are done on merit by the government, up to USD 5.5 billion could be saved, which constitutes about 30 per cent of the country's development budget (TI Pakistan, 2009).

In view of this, it is not surprising that respondents from Pakistan prioritised these issues in the UN-led global consultation process for the formulation of the 2030 Agenda.<sup>6</sup> In "A Million Voices: The World We Want", Pakistani participants at the national level stressed that "good governance underpinned by the principles of transparency, accountability and the rule of law is the second most pressing priority for the people of Pakistan", after peace and security (UNDG, 2013, p. 75). Thus, there is no doubt that the prevalence of corruption and the lack of an enabling environment are considered major hurdles in the path of economic development and prosperity.

Pakistan's CPI score has improved five points over the last four years and for the first time it has crossed the threshold of 30. There have been no major corruption scandals in the current government. The incidence of corruption is declining and the country is gradually moving in the right direction. However, Pakistan still lags in improving its transparency, the rule of law and good governance. It is not surprising that 35 per cent of respondents from Pakistan in the TI's 2016 Global Corruption Barometer still observed that corruption has increased in the past year, while 28 per cent believed that it has decreased (TI, 2017c). Similarly, although the country has not witnessed any huge corruption scandals of late, that does not mean that all institutions have suddenly been purged of this menace. According to TI, the majority (60 per cent) of Pakistani respondents believe that government officials, including police (76 per cent), the judiciary (41 per cent) and other public sector employees, are highly corrupt (2017c).

To make good use of domestic resources, and to attract substantial FDI and other private financing for implementing the 2030 Agenda, the government must do more to improve its situation concerning peace, stability, transparency and accountability.

## 5.2 The recent socio-economic situation in Pakistan

Pakistan faces a number of development challenges as the country has underperformed on several social and political indicators including health, education, sanitation, gender equality, corruption, political instability, violence and democracy. The Human Development Index (HDI), which measures the level of education, health, income and living standards, ranked Pakistan at 147th out of 188 countries in 2014 (UNDP, 2015a). While various factors contribute to this low ranking, one key factor is the decades-old tension with India regarding Kashmir, over which the two countries have fought three of their four wars. Pakistan has spent a substantial share of its budget on defence, leaving social sectors underfunded. Due to the dominant India-centric security paradigm and substantial defence

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6 The UNDG selected 11 principal areas for global consultations for the formulation of the post-2015 development agenda. These included conflict and fragility, education, energy, environmental sustainability, food security, governance, growth and employment, health, inequalities, population dynamics and water.

expenditures, “the development needs of the country in education, health and other public services [have not been] adequately addressed” (Lodhi, 2011, p. 51). For example, the budget allocated to education was 2.1 per cent of GDP in 2014 and 2.2 per cent of GDP in 2015 (Government of Pakistan, 2016b), while the budget allocated to defence was 2.5 and 2.3 per cent of GDP in 2014 and 2015, respectively. Consequently, while the country is a nuclear power and possesses advanced military technology and missile systems, the overall socio-economic condition of the majority of the population has not improved much over the years.

The “war on terror” on the domestic front has been another major hindrance to Pakistan’s recent development. In the initial years of the war on terror, Pakistan received considerable foreign aid and investment due its role as a frontline US ally and because of political stability and reasonably stable law and order. As a result, the country maintained an impressive annual GDP growth rate, averaging about 7 per cent between 2002 and 2007 (Ministry of Finance, 2010). However, due to intensification of the conflict, increasing political instability and declining law and order, economic growth plummeted from 7.5 per cent in 2007 to 5.8 per cent in 2008 (Ministry of Finance, 2010). The situation further worsened as the country recorded a modest growth of 1.2 per cent between 2008 and 2009 (Government of Pakistan, 2010). Despite all these challenges, Pakistan’s economy showed some resilience and maintained 3 to 4 per cent growth between 2010 and 2013, and 4.7 per cent growth between 2015 and 2016. Overall, the country has been severely affected by terrorist violence, which has resulted in the loss of thousands of lives. In terms of financial losses, the war has cost Pakistan over USD 118 billion as it has affected the country’s exports, led to reduction in the inflows of foreign investment, caused massive additional security spending on numerous military operations, affected the tourism industry, damaged physical infrastructure and resulted in displacement of thousands of people from conflict affected areas (Government of Pakistan, 2016b).

Despite these challenges, for the first time in the country’s history an elected government completed its democratic tenure and handed over power to another elected government following the May 2013 general elections. Similarly, after carrying out several military operations against militants over the past three years, the law and order situation has improved significantly. There is no doubt that development is not possible without resolving the security issues and this has been clearly acknowledged by the government. Pakistan Vision 2025 has identified peace and security among the five enablers and it has been clearly stated that “without an environment of peace and security, economic development can neither be meaningful nor sustainable. Increased investment, growth and economic revival are impossible without peace and security” (Government of Pakistan, 2014, p. 29). Following the gruesome terrorist attack on the Army Public School in Peshawar on 16 December 2014, in which 148 people were killed, including 134 schoolchildren, the government devised a 20-point National Action Plan (National Counter Terrorism Authority, 2017). Under this plan, along with various other tasks, the government decided to intensify military offensives against militants and largely succeeded in bringing normalcy to what was a severely deteriorating security situation. According to the 2016 Pakistan Security Report, the country witnessed a sharp decline (48 per cent from 2014) in terrorist attacks in 2015, and the situation improved further in 2016 with a reported reduction of 28 per cent in acts of terrorism from the previous year (Pakistan Institute for Peace Studies, 2017). The report also states that betterment in the

law and order situation was largely the outcome of extensive intelligence-based military operations conducted by security and law enforcement agencies across the country.

Following the restoration of law and order, Pakistan also achieved a growth rate of 4.7 per cent between 2015 and 2016, which was the highest in the past eight years (Government of Pakistan, 2016a). A key success of the current government has been its attraction of over USD 50 billion in investments from China in the form of the CPEC. Between 2015 and 2030, the CPEC will implement a network of communication projects, energy projects and industrial zones. If successful, CPEC will not only generate enormous economic prosperity but it is expected to rid the country of chronic energy shortfalls and modernise infrastructure. For successful implementation of the 2030 Agenda in Pakistan, the roles of DRM, ODA and FDI in the form of the CPEC are discussed below.

### 5.3 Domestic resource mobilisation in Pakistan

Unlike the Millennium Declaration, under which development cooperation was considered a key financing tool, the 2030 Agenda has focused more on DRM to finance sustainable development. As discussed in some detail in Section 4.1, developing countries have been encouraged to find ways to generate additional resources domestically to make the required resources available for implementing the SDGs. While the overall trend is positive in this regard, the situation in most developing countries, including Pakistan, is not very encouraging. According to a government policy document, in Pakistan “the tax-to-GDP ratio is 9.7 per cent and it is lowest in the region” (Government of Pakistan, 2014, p. 47). As discussed earlier, tax-to-GDP ratios in developing countries are in the range of 10 to 14 per cent, while it is about 35 per cent in the DAC countries. Astoundingly, in Pakistan, a country of about 200 million people, there are only 1 million registered taxpayers (Federal Board of Revenue, 2017).

The issue of tax avoidance and tax evasion in Pakistan has many parallels that have been discussed earlier in the context of developing countries in general. Challenges such as complex and cumbersome taxation policies, inappropriate institutional capacity, the prevalence of informal and undocumented economy, the incidence of corruption and a lack of strong political will are considered some of the principal factors of low tax-to-GDP ratio in the country (Amin, Nadeem, Parveen, Kamran, & Anwar, 2014). It is widely believed that corruption in general, as well as in the tax administration system, add to this situation. A narrow tax base, the exemption of certain sectors from taxation (such as the agriculture sector), dependence on foreign aid, the informal economy and a low literacy rate are additional determinants of the low level of tax revenues and the substantial budget deficit (Chaudhry & Munir, 2010). The same authors argue that “it is [a] very difficult task for Pakistan to design and implement [a] suitable tax system since Pakistan has [a] large traditional agriculture sector and other “hard-to-tax” sectors such as small business, and shadow economy” (Chaudhry & Munir, 2010, p. 449). Thus, it is evident that the lack of an enabling environment, good governance and institutional capacity at different tiers of the government directly or indirectly result in a low level of taxation and insufficient DRM.

The government has planned and reiterated in several policy documents that the tax-to-GDP ratio will be increased to 16 to 18 per cent by 2025 in line with comparable countries

(India 16 per cent, Turkey 19.7 per cent and Thailand 18.8 per cent in 2012) by broadening the tax base and reforming the taxation system (Government of Pakistan, 2014). As mentioned earlier, the narrow tax base is one of the key reasons for low tax revenues. In order to generate sufficient resources domestically, the government must find ways to broaden the tax base and increase the number of taxpayers. Chaudhry and Munir argue that the literacy rate is also an essential factor because “the backbone of an effective tax system is the documentation of the economy” and “documentation comes from a literate tax base” (2010, p. 450). Similarly, Amin et al. suggest that to overcome the issue of tax evasion and corruption, the government needs to “introduce more sophisticated online records and computerise all records through [a] massive e-government campaign in all ministries and departments” (2014, p. 154). There is no doubt that all these measures are vital to improving and enhancing the capacity of relevant state institutions to effectively and honestly perform their duties pertaining to the collection of appropriate tax revenue from all taxable people and entities. However, successful taxation alone would do little without the restoration of trust and confidence of citizens that tax revenue will be used for welfare improvements, and that all citizens have an ethical and legal obligation to pay the correct amount of tax at the right time.

#### 5.4 The role of ODA in the implementation of the 2030 Agenda in Pakistan

To complement the efforts of the government for successful implementation of the 2030 Agenda, the country will also need sustained development cooperation in various forms and from various sources. Historically, both bilateral and multilateral aid-providers have played a significant role in funding numerous development interventions not only in Pakistan but in most of the South Asian region, which is faced with several development challenges. With over 1.7 billion people or about one-fourth of the world’s population, South Asia is not only the most populous and the most densely-populated region in the world, but it is also the region with the highest number of people suffering from acute poverty. As previously mentioned concerning the India-Pakistan rivalry, although many of the region’s countries (including Afghanistan, Bangladesh, India, Pakistan and Sri Lanka) have a shared history and culture, interregional trade and economic integration has been insignificant because of decades-old interstate tensions and mistrust. Also, “all nine countries have experienced internal conflict in the past two decades, and the resulting casualties have outnumbered those from interstate conflicts” (UNDP, 2013, p. 40). Afghanistan and Pakistan are two clear examples of internal insurgency resulting in the deaths of thousands of people and the displacement of millions of residents over the past decade and a half.

A brief analysis of the existing socio-economic situation in South Asia in general, and Pakistan in particular, illustrates that the region would be certainly in need of international development cooperation to enable it to make progress towards the SDGs. The 2015 Millennium Development Goals Report states that “the overwhelming majority of people living on less than USD 1.25 a day reside in two regions – Southern Asia and sub-Saharan Africa” (UN, 2015b, p. 15). According to World Bank, in South Asia “about 399 million people – 40 per cent of the world’s poor – live on less than USD 1.25 a day” (2015a, p. 50). The region has “the greatest hunger burden, with about 281 million undernourished people” (UN, 2015b, p. 21). Similarly, “an estimated 57 per cent of out-of-school children will never go to school” (UN, 2015b, p. 25). The World Bank has stated that over 200



million people in the region live in slums and about half a billion people have no access to electricity (2015a). In terms of access to clean drinking water, India has the highest “number of people living in rural areas without access to clean water – 63 million” (WaterAid, 2017, p. 14). The other two Asian countries in the top ten are Bangladesh and Afghanistan, with 13.6 million and 12.4 million people, respectively, without access to clean drinking water (WaterAid, 2017). Similarly, a number of countries in the region suffer from extreme forms of social exclusion and huge infrastructure gaps. South Asia’s score on HDI is 0.607, and it is only better than Sub-Saharan Africa, which scored 0.518 in 2015 (UNDP, 2015a). Pakistan’s HDI score in 2015 was 0.550, which is below the average of 0.631 for countries in the medium human development group and below the average of 0.607 for countries in South Asia. Thus, development cooperation continues to play a vital role in financing sustainable development efforts in most South Asian countries including Pakistan.

In view of the above situation, it is not surprising that the region has been receiving substantial ODA from a number of bilateral and multilateral actors. In 2014, the World Bank provided USD 7.9 billion for the region for 38 projects (World Bank, 2015a). The main sectors included water, sanitation, and flood protection (USD 1.4 billion), transportation (USD 1.3 billion) and public administration, law, and justice (USD 1.2 billion) (World Bank, 2015a). Similarly, the region received a total of over USD 15 billion from DAC donors in 2014 (World Bank, 2016). The largest aid recipients were Afghanistan (USD 4.8 billion), Pakistan (USD 3.6 billion), India (USD 2.9 billion) and Bangladesh (USD 2.4 billion); smaller countries including the Maldives, Nepal, Bhutan and Sri Lanka also received significant development aid. The largest donors were Saudi Arabia, the US, Germany, the UK, Turkey, the EU, Japan and Australia (OECD, 2016a). This shows that development aid is a critical mode of concessional financing to promote sustainable development in South Asian countries, including Pakistan. In view of the number of people with little or no access to education, health, energy, clean drinking water, food and job opportunities, implementation of the 2030 Agenda and accomplishment of the SDGs in the region, and specifically in Pakistan, will need substantial transnational development cooperation.

Like other South Asian countries, Pakistan is faced with significant development challenges and its own particular set of issues. On account of its role as a frontline US ally in the war on terror, Pakistan has paid a heavy price in the conflict, particularly once terrorists began targeting security officials and common citizens. Besides the human losses of over 61,000 (South Asia Terrorism Portal, 2017), the conflict has cost Pakistan more than USD 118 billion (Government of Pakistan, 2016b). In addition to terrorism, the country has been confronted with three huge humanitarian crises in recent years.<sup>7</sup> Consequently, “the massive social disruption owing to [the] earthquake of 2005, intensification of war on terror since 2007, devastating floods of 2010, and persistent hike in food prices in recent years coupled with [a] slower pace of economic growth” has seriously affected economic progress and had adverse effects on poverty alleviation efforts (Government of Pakistan, 2016b, p. 166). While the overall law and order and economic

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7 The three natural and man-made disasters are the 2005 Kashmir earthquake, which killed 74,000 people; the 2009 militants’ insurgency in the Malakand region in northern Pakistan, which displaced over 3 million people; and the 2010 mega floods that affected 20 million people across the country (Ali, Banks, & Parson, 2016)

situation has considerably improved in recent years, the aforementioned events have had detrimental effects on the pace of development in the country. Consequently, to show tangible progress towards the implementation of the 2030 Agenda, Pakistan, like numerous developing countries across the globe, will require development assistance in various forms.

### 5.5 Foreign direct investment in Pakistan and its importance for sustainable development

As discussed in some detail in Section 4.2, tax, investment and exports along with other factors, are closely linked to economic growth and prosperity. Private financing in the form of investment, particularly FDI, plays an essential role in contributing to employment generation, infrastructure improvement, and the transfer of knowledge and technology, which subsequently lead to development. Thus, the 2030 Agenda has asked to increase all kinds of financial flows “including foreign direct investment, to States where the need is greatest, in particular least developed countries” (UNGA, 2015, p. 21). Financing in the form of FDI “can also lead to larger tax revenues and more income for households who in turn will spend more on health and education” (Kharas et al., 2014, p. 18). Hence, whether directly or indirectly, FDI plays a crucial role and contributes to development in multiple ways.

Historically, due to various policy and regulatory challenges, Pakistan has not been a favourite destination for foreign investors. The principal reasons for low FDI included political instability, bureaucratic inefficiencies, inadequate infrastructure facilities, inconsistent economic policies, delays in the privatisation of SOEs, arbitrary and non-transparent application of government regulations, and the lack of a trained and skilled work force (Khan & Khilji, 1997; Khan, 2007). In the absence of a business-friendly and enabling environment, the overall flow of FDI was quite low until the early 1990s (Khan, & Khan, 2011). In order to attract FDI and other private financing, the government carried out a number of reforms. According to the Asian Development Bank, “beginning in the early 1990s, the Government of Pakistan pursued a strategy of privatisation, deregulation, liberalisation and good governance to promote private sector development” (2008, p. i). In the post-liberalisation era of the 1990s, inflows of FDI from a number of foreign countries and entities steadily increased (Khan & Khan, 2011). For the first time, aggregate FDI inflow was in the range of USD 500 million to USD 1 billion per year (World Bank, 2017).

The reform process continued in the early 2000s. To ensure macroeconomic stability and create a conducive business environment with a clear and transparent legislative framework, the government took various initiatives including passing the Privatisation Act in 2000, creating a Ministry of Privatisation and Investment and setting up of a Board of Investment to facilitate investors (Asian Development Bank, 2008). Currently, the government provides a one-window facility to make starting a business easier. Foreign investment is fully protected by law, and double taxation is avoided (Khan, 2007). The main objective of all these policy measures is to facilitate investors and attract more FDI. As a result of the afore-mentioned initiatives coupled with political and macroeconomic stability, the country not only received substantial development cooperation, but it also attracted a huge amount of FDI. From 2004 until 2011, the FDI inflow to Pakistan was about USD 3 billion a year, and the largest amount, over USD 5.5 billion, was in 2007

(World Bank, 2017). As a result, the country maintained a remarkable annual GDP growth rate, averaging about 7 per cent between 2002 and 2007 years (Ministry of Finance, 2010). According to the Board of Investment, the largest investors have been the US, the UK, the U.A.E, Japan, Hong Kong, Switzerland, Saudi Arabia, Norway, Germany, South Korea and China (Board of Investment, 2017). The sectors that attract the most FDI are power, transport, communication (including IT and telecom), oil and gas, finance, textiles and chemicals (Board of Investment, 2017).

The escalation of the conflict, the increasing political instability, and the worsening law and order situation have affected economic growth in Pakistan. Private investment fell by nearly half between 2006 and 2007, and fell from 15.4 per cent in 2012 to 8.7 per cent in 2013 (Government of Pakistan, 2014). FDI inflow to the country could not maintain its momentum and remained around USD 1 billion or less per year (World Bank, 2017). Similarly, exports declined from 12.5 per cent of GDP in 2007/2008 to 10.7 per cent in 2012/2013. In addition to the domestic situation, FDI was greatly affected by the global financial crisis.

As mentioned earlier in Section 5.2, when the government implemented the National Action Plan following the Army Public School attack in Peshawar, military operations were expanded and intensified. Special military courts were established for speedy trials of terrorists, and the death sentence was given to those convicted (National Counter Terrorism Authority, 2017). In its efforts to focus on the three E's (energy, economy and extremism), the new government somehow managed to control unscheduled power outages, restore economic growth and restrain the rising incidence of terrorism. On the economic front, one of the major accomplishments of the government has been the execution of a series of Memorandums of Understanding with China to carry out several infrastructure projects under the Belt and Road Initiative.<sup>8</sup> Unlike in the past, when major investors were the US, the UK, the UAE, Japan and Saudi Arabia, the largest investor in Pakistan in the coming years will be China. A number of other South Asian countries have also witnessed rising FDI inflows from China in recent years (UNCTAD, 2015). Nevertheless, overall FDI inflows in the South Asian region is still markedly low as it received USD 32 billion, USD 36 billion and USD 41 billion in 2012, 2013 and 2014, respectively, making up 2.3 per cent, 2.4 per cent and 3.4 per cent of global FDI flows (UNCTAD, 2015). Due to the various challenges discussed earlier having to do with the lack of an enabling environment, FDI flows to Pakistan and other Asian countries is still considerably low.

## 5.6 The role of FDI in the 2030 Agenda: the case of CPEC in Pakistan

Between 2015 and 2030, under CPEC China will have invested over USD 50 billion in communication, energy and industrial projects in Pakistan. CPEC is viewed as a win-win

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8 The Belt and Road Initiative (also known as One Belt, One Road) aims at reviving the ancient Silk Road and maritime silk route. According to some estimates, China will finance over 900 infrastructure projects under the initiative by means of both concessional and non-concessional loans estimated at over USD 1 trillion. The plan encompasses 65 countries and is expected to benefit 4.4 billion people directly or indirectly (Hofman, 2015).

project with numerous benefits to both countries.<sup>9</sup> According to Small, an expert on China-Pakistan relations:

A number of the objectives of the multifaceted One Belt, One Road scheme converge in Pakistan, including the outsourcing of industrial capacity, the search for growth drivers in the Chinese interior, the push to build up new markets for Chinese exports, efforts to stabilise China's western periphery and comprehensively address the threat of rising militancy, and plans for alternative transportation routes that diversify the usual maritime conduits. (2016, p. 169)

In Pakistan, no other policy initiative has received more attention and appreciation than CPEC. It is argued that CPEC projects offer an exceptional opportunity for Pakistan to tackle some of the main issues that hinder its economic development including energy bottlenecks, poor connectivity and limited attraction for foreign investors. The government estimates that CPEC-related investment “will spur economic activity and create around 2 million direct and indirect new jobs” (Government of Pakistan, 2016a, p. 51). Regional connectivity is a key element elaborated by the government in its Vision 2025; the document specifically mentions CPEC as an integral element in realising the potential of regional connectivity and trade with South Asian, Central Asian and South East Asian states (Government of Pakistan, 2014). It is argued that CPEC “offers a unique opportunity to Pakistan to integrate with regional developments and become a hub for trade and manufacturing with Gwadar port developed as an international free port” (Government of Pakistan, 2014, p. 89).

The energy sector is a major recipient of investment in CPEC. According to the Government of Pakistan's Annual Plan 2016/2017, “74 per cent of the total CPEC projects are energy projects, which include: coal, hydro and wind” (Government of Pakistan, 2016a, p. xiii). This sector has the lion's share because for the past several years, Pakistan has suffered from an acute energy shortfall. During times of grave need, the energy shortage reaches 7,000 megawatts and it “disrupts industrial and agricultural production and adds to costs making Pakistani products uncompetitive internationally” (Government of Pakistan, 2014, p. 16). The energy deficit has negatively affected the economy, causing an estimated 4 to 7 per cent loss to the country's GDP (Government of Pakistan, 2014). Consequently, out of the total USD 50 billion in investments, over USD 34 billion have been allocated to the energy component. The government has stated that it aims to “eliminate [the] current electricity supply-demand gap by 2018, and cater to growing future demand [with the] addition of 25,000 MW by 2025” (Government of Pakistan, 2014, p. 59).

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9 For China, CPEC has both economic and geostrategic benefits. Seven provincial regions of China, particularly the less developed areas of Xinjiang, whose imports and exports rely on the ports of China, are about 4,500-5,000 km away and conduct trade with Asian, European, and African countries through more than 10,000 km sea-route (Shulin, 2014-15). With the completion of CPEC, international trade could be conducted through Gwadar, Pakistan, which is about 2,000 km away from Kashgar, the capital city of Xinjiang. The geo-strategic benefit is that the Gwadar port and CPEC provide China an alternative short access to sea, which is free of the conflict that characterises the South China Sea outlet and reduces its dependence on the Strait of Malacca (Rizvi, 2014-15; Shulin, 2014-15). It is argued that in the case of a US-China conflict “China's access to external energy resources could be interdicted” (Ghiasy & Zhou, 2017, p. 7). To avoid such a scenario, “one of China's objectives is to create alternative energy and raw material channels across land bridges from Central Asia, South East Asia and Pakistan—and the Belt facilitates this endeavour” (Ghiasy & Zhou, 2017, p. 7).

An aggregate of USD 16 billion of the total planned investment has been allocated for infrastructure projects in Gwadar and in other areas along the CPEC route to establish special economic zones (SEZs). In its Vision 2025, the Government of Pakistan has listed “modernising transport infrastructure and regional connectivity” among the seven key elements (Government of Pakistan, 2014, p. 10). The policy document also mentions that transport contributes to 10 per cent of the country’s GDP and about 6 per cent of overall employment. A lack of efficient transport and communication networks cost the country’s economy 4-6 per cent of GDP annually. Vision 2025 aims to “ensure reduction in transportation costs, safety in mobility, effective connectivity between rural areas and markets/urban centres, inter-provincial high-speed connectivity” and to establish high capacity transportation corridors connecting major regional trading partners (Government of Pakistan, 2014, p. 86).

Overall, the three main elements of CPEC are energy, communication infrastructure and special economic and industrial zones. SDGs 7, 8 and 9 are specifically related to these components.<sup>10</sup> Thus, the execution of CPEC will directly contribute to achieving these three SDGs. If successfully implemented, CPEC is expected to resolve the chronic issue of energy shortfalls. With the improvements and innovations in the industrial sector will come better job opportunities. With substantial investments in the communication infrastructure, people are expected to have access to better roads and transport facilities. In sum, FDI in the form of CPEC could significantly contribute to achieving several SDGs provided the planned ventures are effectively implemented.<sup>11</sup>

CPEC’s potential to contribute to the 2030 Agenda in Pakistan will be even larger if it succeeds in attracting further investments from other sources. Markey and West (2016, p. 7) argue that “the CPEC will have the best chance of transforming Pakistan’s economic outlook if it also sparks a wave of foreign investment from other countries, including the United States”. Viewed in the context of the 2030 Agenda and SDG 17, which has asked for the “participation of all countries, all stakeholders and all people” (UNGA, 2015, p. 2), CPEC has significant potential for other development actors and investors. As this paper has discussed, the 2030 Agenda and associated SDGs are quite ambitious and its implementation and accomplishment require an equally ambitious response from all stakeholders. CPEC offers one such opportunity to advance the 2030 Agenda and help in achieving numerous SDGs in Pakistan. However, in realising that vision, it is essential to attract other investors as well. Again, for attracting massive FDI from numerous other countries and entities, the prevalence of an enabling environment is a prerequisite.

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10 These three SDGs are: ensure access to affordable, reliable, sustainable and modern energy for all (SDG 7); promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8); and build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation (SDG 9).

11 In addition to contributing to these SDGs directly, CPEC is likely to help in achieving various SDGs indirectly. CPEC is expected to create about 2 million jobs, which means that about 2 million families will have better means of livelihood and subsequently may achieve poverty reduction (SDG 1), food security (SDG 2), access to better health services (SDG 3), access to quality education (SDG 4) and access to clean water and sanitation (SDG 6).

## **6 Conclusions: the strong link between an enabling environment and the potential for resource availability and mobilisation**

The 2030 Agenda has united the world's nations in a focus on a broad and comprehensive set of SDGs. Universal achievement of the SDGs is a massive undertaking. The central argument of this study is that to implement the 2030 Agenda, one of the foremost prerequisites is the responsibility of governments in developing countries to create an enabling environment with effective PFM systems. Enabling environments have significant potential to mobilise various resources domestically and externally, and from both the private and public sectors. Without an enabling environment, it will be hard to generate the resources needed to accomplish the SDGs. Thus, the primary conclusion is that a willing and capable government that is determined to reform PFM systems and generate more resources is well-prepared to achieve the 2030 Agenda. Without improving the quality of governance and creating an enabling domestic environment, implementation of the 2030 Agenda would be impossible. Where capacity lacks, numerous national and international means of implementation are available.

To achieve the vision of a world free of poverty, both the developed world and the developing world need to step up their efforts to accomplish the highly ambitious targets and goals specified under the SDGs. The international donor community and the providers of development cooperation need to increase the quantity and quality of their financing. They need to intensify their aid efforts and increase the volume of ODA to achieve the 0.7 per cent target. The UN emphasises that “further improving ODA quality must be seen as part and parcel of a renewed global partnership’s effort to maximise the development impact of aid” (United Nations, 2014, p. 25). In this regard, it is vital to provide development cooperation in ways that incentivise and enhance the capacity of partner governments in raising and managing their own domestic resources through policy reform and sharing of technology, knowledge and good practice.

In the case of Pakistan, it is evident that an enabling environment, characterised by the presence of efficient PFM institutions, rule of law, peace, security, transparency and accountability, is vital to the generation of additional domestic resources and the attraction of external resources. As the case study has illustrated, in the absence of peace and security, economic growth and pace of development is severely hampered. While the situation has improved considerably in recent years concerning those parameters, there is still much to be done, particularly in relation to corruption. A key lesson from the case of Pakistan is that although public accountability and anti-corruption laws and bodies do exist, their efficacy and efficiency is questionable. A TI report concurs that in Pakistan, “laws against corruption are comprehensive and strict, [but] implementation is very weak” (TI Pakistan, 2014, p. 8). Thus, there is a need for resolve and political will to strengthen PFM and anti-corruption institutions, and to make them autonomous so they can eradicate fraud and corruption across the board. This study has shown that unless Pakistan improves its governance and greatly reduces its corruption levels, it will be hard to generate additional resources at the domestic level and to attract domestic and foreign investors to fully utilise investment. To this end, the government must ensure an environment of greater transparency and accountability in which taxpayers and other stakeholders are fully aware of how, where and by whom public resources are managed and utilised.



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