



# Beyond Bullets and Bombs

## Fixing the U.S. Approach to Development in Pakistan

Report of the Study Group on a U.S. Development  
Strategy in Pakistan

Nancy Birdsall, Chair  
Wren Elhai  
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# Study Group on a U.S. Development Strategy in Pakistan

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This report reflects a broad consensus among study group members, who participated in a personal capacity and on a voluntary basis. It does not necessarily represent the views of any member, the organizations with which they are affiliated, the Center for Global Development, the Center's funders and board of directors, or any other organizations mentioned within.

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# Preface

The U.S.-Pakistan relationship is without a doubt one of the most complex bilateral relationships in the world. As we finalize this report in May of 2011, the continuing fallout from the killing of Osama bin Laden in a Pakistani garrison town has prompted a reassessment of all facets of this uneasy alliance, both in Islamabad and in Washington. In this report, we address in detail one piece of the puzzle: the aid, trade, and investment policies that constitute America's plan to support Pakistan's development.

Intrigued and more than a little alarmed by the way American development policy had become entangled with diplomacy and defense policies in Pakistan, I convened this study group in early 2010. Since its inception, the Center for Global Development has been concerned with how the United States can use its significant resources and its leading role on the international stage most effectively, both for the world's poor and for Americans' own prosperity and security. My intention was for this study group to participate in the broader discussions about U.S. policy that were already at full roar, but to do so from a different starting point than most others. We have approached the big strategic questions of American interests and American power in Pakistan through the lens of long-term development, and in this report we dive more deeply than has been done before into the question of what assistance to Pakistan can accomplish and how it can be done well.

Who should read this report? Most obviously, it is intended for those in the halls of Congress and in the Obama administration who are grappling with the thorny decisions of how to secure American interests in Pakistan and spend taxpayer resources most effectively. We also hope it will be useful to those in the White House and State Department thinking about how aid and other development policies are best deployed in countries of strategic importance to the United States. In the democratizing Middle East and in other states central to U.S. counterterrorism efforts, the issues at the heart of the Pakistan development challenge are likely to play out again. Finally, we hope this report will inform those looking at the broader issues of how the United States deploys its civilian power to handle the development challenges that have moved from the periphery to the center of foreign policy in this century. The ways in which questions of bureaucratic structure affect the coherence and effectiveness of U.S. development and diplomacy are on full display in Pakistan. While we recommend some fixes for this specific development program, they do not reduce the need for development to take on a more prominent role in the broader U.S. foreign policy apparatus.

It is clear that promoting development in Pakistan has been and remains hard. We have attempted to address today's challenges and to understand the strategic context in which U.S. policymakers operate. We also, however, have sought to arrive at conclusions that will stand the test of time. The U.S.-Pakistan relation-

***This report is a roadmap for what to do in one country at one point in time, but also a compass to steer the United States toward a future in which American soft power matches the problems it will be asked to solve.***

ship will remain critically important for decades, and there will be other Pakistans. Understanding what has gone on during the last two years in Pakistan will help future policymakers have a slightly easier time than their colleagues do today. This report is a roadmap for what to do in one country at one point in time, but also a compass to steer the United States toward a future in which American soft power matches the problems it will be asked to solve.

Nancy Birdsall  
President of the Center for Global Development  
Chair of the Study Group on a U.S. Development Strategy in Pakistan

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We are grateful for the candor and openness of the staff members of USAID, the State Department, and the White House and the personal and committee staff in the House of Representatives and the Senate. We thank David Barth, Robert Drumheller, Steve Feldstein, Mary Beth Goodman, Julie Koenan, David Lipton, Elizabeth Littlefield, Suzanne Olds, Maria Otero, Sarah Peck, Michael Phelan, Malcom Phelps, Fatema Sumar, and Alex Thier for participating in our study group discussions. Dozens of additional conversations, both formal and informal, with those responsible for shaping U.S. development policy in Pakistan informed our recommendations. We also acknowledge the service of the late Richard Holbrooke, the State Department's first special representative for Afghanistan and Pakistan (SRAP). We are grateful to the SRAP team who continue his legacy, including Marc Grossman and Dan Feldman, for their constructive and ongoing engagement.

This report was shaped profoundly by a series of consultations conducted during a two-week trip to Islamabad and Karachi in April 2011. In particular, we would like to thank the Pakistan Business Council, the Pakistan Institute of Development Economics, the Institute of Business Administration, the Planning Commission and Ministry of Finance of Pakistan, the Women's Parliamentary Caucus, and the U.S. embassy and USAID mission in Islamabad. Special thanks to Liz Dooghan, Lauren Frese, Husain Haqqani, Ishrat Husain, Tariq Husain, Nadia Naviwala, Robin Raphel, Andrew Sisson, Mudassir Tipu, and John Wall. We apologize to the dozens of others—including the Pakistani civil society leaders, heads of international missions, and members of the media—who welcomed us into their homes and offices, whose names the constraints of space do not allow us to list here.

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# Executive Summary

Pakistan's development and prosperity matter to the United States. Instability in Pakistan is both an immediate and long-term threat to Americans' security. That is no more or less true after the revelation that Osama bin Laden was hiding out less than two hours' drive from Pakistan's capital city. The Obama administration and Congress recognize that physical insecurity is closely related to economic and political instability. Since 2009, they have ramped up support for long-term development as part of a new approach to engage with Pakistan. In this report we discuss why support for Pakistan's long-term development makes sense; how to improve the planning and implementation of the U.S. development program, which is not yet on a clear or steady course; and what substantive elements could contribute to a strong U.S. development strategy in Pakistan.

## Why and why now

It is in the interest of the United States to minimize the risk that the nuclear-armed Pakistani state will fail. Weak political institutions, lackluster growth, poor education and job opportunities for a huge and growing youth population, and a profound sense of injustice among the Pakistani people put at risk the legitimacy of the democratic government and undermine its ability to combat extremism and terrorism. At the same time, Pakistan is not Yemen or Somalia; from a development perspective, it is not Afghanistan either. Pakistan has a large middle class, an active and engaged civil society, a free press, and a fledgling civilian government that is making some progress strengthening democratic institutions. The U.S. interest in Pakistan justifies a reasonable effort to help that country exploit its economic and social assets to build a capable, democratic state.

## How

After two years, the new U.S. approach cannot yet boast a coherent set of focused development priorities or the organization and tools to manage and adjust those priorities as conditions require. The integration of development into the "Af-Pak" bureaucratic structure has undermined the needed focus at the highest level on the development program and has blurred lines of authority and accountability for both planning and implementation. Transparency has not been a priority, and the lack of clear information generates skepticism and mistrust in Pakistan. The USAID mission is neither empowered nor equipped to succeed. The focus on the dollar size of the aid program has raised expectations in Pakistan and created unreasonable pressure in Washington to spend quickly.

We urge administration officials and Congress to display humility, patience, and clarity of mission, and we make five procedural recommendations to get the U.S. development program on track:

1. Clarify the mission: separate the Pakistan development program from the Afghanistan program and from the Pakistan security program.
2. Name a leader: put one person in charge of the development program in Washington and in Islamabad.
3. Say what you are doing: set up a website with regularly updated data on U.S. aid commitments and disbursements in Pakistan by project, place, and recipient.
4. Staff the USAID mission for success: allow for greater staff continuity, carve out a greater role for program staff in policy dialogue, and hire senior-level Pakistani leadership.
5. Measure what matters: track not just the outputs of U.S. aid projects but Pakistan's overall development progress.

## What

The ingredients of success in Pakistan are threefold: a stable and capable state able to deliver justice and meet the basic needs of its citizens, a strong private sector able to provide jobs to Pakistan's growing population and revenues to the government, and a healthy civil society able to play its rightful role in the democratic process. These three ingredients are what Pakistan needs to achieve the fundamental goal of development—the slow, painstaking transformation of poorly functioning states and societies into ones that function well.

Ultimately, Pakistanis themselves must lead this process of transformation. However, the United States' development toolkit—aid as well as trade and investment policy—can help. Because aid is so difficult to do well, our first two recommendations underscore the importance of trade and investment, the tools with which the United States can support job creation and private-sector growth.

1. Let Pakistani products compete in U.S. markets. As part of an overall plan to spur private investment and job creation in Pakistan, we urge Congress and the administration to work together to extend duty-free, quota-free access to U.S. markets for all Pakistani exports from all of Pakistan for at least the next five years.
2. Actively encourage domestic and foreign private investment. Increase the credit subsidy funding available for the Overseas Private Investment Company (OPIC) to offer new forms of risk insurance and extend credit to small and medium enterprises in Pakistan. Establish a Pakistani-American Enterprise Fund with an independent board to provide financial and technical assistance to private firms in Pakistan.

And what about aid? We recognize that if Pakistan were an equally poor but less strategically important country, far less aid and attention would be devoted to supporting its development. Aid is not easy to do well in Pakistan, and done badly it could be counterproductive. But while aid should be only one part of any U.S. development strategy, it is worth getting it right in Pakistan because Pakistan's future prosperity and stability matter for Americans' own security. To withdraw aid now has its own cost; it would undermine in many Pakistanis' eyes the legitimacy of their fragile democratic system, and it would deepen their sense that America's single motive for any kind of assistance or engagement is to forestall its own immediate security risks. America can and should be more far-sighted.

Our three recommendations on the aid front take into account the difficult nature of the challenges, and the inherent risks involved:

3. Beware the unintended consequences of aid. U.S. officials responsible for carrying out the development program should resist pressures to spend aid money too quickly. Especially in Pakistan's volatile tribal areas, too much aid can be counterproductive to U.S. goals. Congress must appropriate aid each year, but it should do so with minimal pressure to disburse a certain amount within a year. We suggest how.
4. Finance what is working. The United States should cofinance education programs initiated by other donors that are already working at the provincial level. In the health, agriculture, and energy sectors, it should disburse more of its aid dollars on the basis of independently verified annual progress on outcome indicators such as reductions in maternal mortality or improvements in children's learning.
5. Support and engage with Pakistan's reformers. There are already dedicated and capable constituencies in Pakistan—in government, in the business community, in civil-society organizations—advocating for necessary economic and political reforms. The United States should help these stakeholders get seats at the appropriate bargaining tables. It should also support small-scale improvements to the machinery of democracy that could bolster the reform effort.

On the basis of these recommendations, we offer a possible portfolio of good investments (outlined on page 35) that take advantage of U.S. comparative advantages and balance the United States' various long-term objectives in Pakistan.

# I. Why: The Case for a U.S. Development Strategy

In March of 2009, the Obama administration announced a comprehensive new strategy for Afghanistan and Pakistan. Explaining that a “campaign against extremism will not succeed with bullets or bombs alone,” President Obama pledged significant increases in civilian efforts in both countries and declared supporting “a vibrant economy that provides opportunity for the people of Pakistan” and a “stable constitutional government” to be central objectives of U.S. policy.<sup>1</sup> Congress endorsed this new approach. In May 2009, Senators John Kerry and Richard Lugar and Representative Howard Berman introduced the Enhanced Partnership for Pakistan Act, now better known as the Kerry-Lugar-Berman bill. Signed into law in October 2009, the legislation authorized a tripling of economic assistance to Pakistan to a total of \$7.5 billion over five years (with the possibility of a five-year extension).

***Two years later, the U.S. development program in Pakistan is not yet on course.***

Two years later, the U.S. development program in Pakistan is not yet on course. There has been little serious attention paid to the potential for U.S. trade and investment policy to spur growth and create jobs in Pakistan. Meanwhile, the aid program has not yet delivered. Observers in Pakistan and in Washington identify the same set of weaknesses in its design and implementation. No one is sure what the United States is trying to accomplish in the development space. Because of a debilitating lack of transparency in the aid program, no one is even sure what the United States is doing. With an approach to foreign policy in Washington that emphasizes integrating development and diplomacy, lines of authority over planning and implementing development policy are blurred. Long-term and short-term objectives compete for the same resources, and suspicion abounds in Pakistan that the United States’ aid spending is driven more by security concerns and objectives than by development best practice. On the ground in Pakistan, an aid mission already asked to instantly scale up its operations is hampered by shifting (and often conflicting) instructions from Washington and by burdensome oversight and bureaucracy that limit flexibility, innovation, and risk taking.

To be sure, Pakistan is and has been a difficult place for external supporters to make a difference. The same concerns over security and political fragility that justify the deployment of development aid dollars from the United States and other countries also complicate the effectiveness of aid spending. On trade, Pakistan is no worse off than many other developing countries in its poor access to U.S. markets for key products, and no amount of U.S. investment can fully

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1. Barack Obama, “Remarks by the President on a New Strategy for Afghanistan and Pakistan,” March 27, 2009, [www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-on-a-New-Strategy-for-Afghanistan-and-Pakistan/](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-a-New-Strategy-for-Afghanistan-and-Pakistan/).

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“This bill is not a short-term fix: it aims for the medium term, and especially for the long term.”

—Senator John Kerry, 2009 floor statement introducing the Kerry-Lugar-Berman bill

“If Pakistan is to break its debilitating cycle of instability, it will need to achieve progress on fighting corruption, delivering government services, and promoting broad-based economic growth. The . . . United States should support reforms that contribute to the strengthening of Pakistani civilian institutions.”

—Senator Richard Lugar, 2009 floor statement

“Achieving our core goal . . . requires, first of all, realistic and achievable objectives. These include: Assisting efforts to enhance civilian control and stable constitutional government in Pakistan and a vibrant economy that provides opportunity for the people of Pakistan.”

—White Paper of the Interagency Policy Group’s Report on U.S. Policy toward Afghanistan and Pakistan, March 2009

“[A]id alone is not development. Development is helping nations to actually develop—moving from poverty to prosperity. And we need more than just aid to unleash that change. We need to harness all the tools at our disposal—from our diplomacy to our trade policies to our investment policies.

—President Barack Obama, 2010 speech at the Millennium Development Goals Summit

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compensate for Pakistan’s overall weak investment climate at the moment. Still, the bottom line is that the U.S. development program is far from realizing its potential.

Now, however, with new leadership in place in Washington and Pakistan and a lot of hard work completed in establishing the systems for implementing a new business model of delivering aid, the United States has an opportunity to do better. This report lays out why a development-focused U.S. development strategy in Pakistan is a smart strategic choice for the United States, what such a strategy might look like, and how it could be administered.

***Now, however, the United States has an opportunity to do better.***

## **Why development in Pakistan matters to the United States**

The underlying premise of the United States’ renewed focus on economic and political development in Pakistan makes sense. A weak state, lackluster growth, and a profound sense of injustice among the people of Pakistan put at risk the legitimacy of the democratic government and undermine its ability to combat extremism and terrorism. Insecurity in Pakistan is a critical threat to the safety and

security of Americans and the stability of South Asia as a whole.<sup>2</sup> According to one recent report, more than half of the 21 serious terrorist plots against the West since 2004 had ties to Pakistan's tribal regions, areas President Obama has termed "the most dangerous place in the world for Americans."<sup>3</sup> Internal threats to the Pakistani state are increasing—and are themselves global threats given Pakistan's arsenal of over 100 nuclear weapons, its worrisome history of proliferation, and its precariously balanced relationship with neighboring India.

**The key to securing U.S. interests in Pakistan is to address not only physical security but also Pakistan's political and economic weaknesses.**

Fundamentally, as American leaders have recognized, the key to securing U.S. interests in Pakistan is to address not only physical security but also Pakistan's political and economic weaknesses. Indeed, these three dimensions of insecurity—military, political, and economic—are mutually reinforcing in Pakistan, each feeding the others in a destructive cycle.

Economic trends are increasing pressures on Pakistan's already weakened social fabric. There are as many Pakistanis under the age of 25 today as there are people in Egypt, Libya, and Tunisia combined. By 2030, Pakistan will have the fourth largest population of any country in the world. The millions of young Pakistanis who enter the work force each year are poorly prepared to find well-paying, skilled jobs.<sup>4</sup> Pakistan's education system has failed most of them: for every 100 students who enter kindergarten in Karachi, only one graduates from the city's secondary schools.<sup>5</sup> Economic growth would have to exceed 8 percent per year simply to create jobs for Pakistan's rising population.<sup>6</sup> It has instead slowed, and high fiscal deficits are generating inflation at levels that are worrying. A severe power crisis limits growth and investment, with unpredictable outages lasting up to 18 hours a day. Inefficient water use and the growing population continue to deplete ever-

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2. For a broader argument on how American security and prosperity depend increasingly on its global environment, see Mr. Y [Wayne Porter and Mark Mykleby], "A National Strategic Narrative," (Washington: Woodrow Wilson Center, 2011), [www.wilsoncenter.org/events/docs/A%20National%20Strategic%20Narrative.pdf](http://www.wilsoncenter.org/events/docs/A%20National%20Strategic%20Narrative.pdf).

3. Paul Cruickshank, "The Militant Pipeline: Between the Afghanistan-Pakistan Border Region and the West," Counterterrorism Strategy Initiative Policy Paper (Washington: New America Foundation, 2011), available at [http://counterterrorism.newamerica.net/publications/policy/the\\_militant\\_pipeline](http://counterterrorism.newamerica.net/publications/policy/the_militant_pipeline).

4. According to the latest economic survey, the Pakistani working age population will not peak until 2045, when 68 percent of Pakistanis will be of working age. See Nausheen Saba Nizami, "Population, Labor Force and Employment," chapter 16 in *Pakistan Economic Survey 2009–10* (Government of Pakistan Ministry of Finance, 2010), [www.finance.gov.pk/survey/chapter\\_10/16\\_Population.pdf](http://www.finance.gov.pk/survey/chapter_10/16_Population.pdf).

5. Sir Michael Barber, "Education Reform in Pakistan: This Time It's Going to Be Different" (Pakistan Education Task Force, 2010), [www.pakistaneducationtaskforce.com/web\\_urdu/erp.pdf](http://www.pakistaneducationtaskforce.com/web_urdu/erp.pdf).

6. This figure has been widely cited and seemingly originates in analysis performed by the Planning Commission of the Government of Pakistan. See the draft of "Pakistan: New Growth Framework" (Government of Pakistan, Planning Commission, 2011), available online at [www.planningcommission.gov.pk/nda/PDFs/conceptual\\_framework\\_2.pdf](http://www.planningcommission.gov.pk/nda/PDFs/conceptual_framework_2.pdf).



shrinking supplies of fresh water, threatening the agricultural backbone of the country.

None of these problems—in the power, education, and water sectors, or on the fiscal front—will be resolved unless Pakistan’s political institutions and leaders can tackle them head on. At the present moment, the political economy of policy reform in Pakistan and structural features in the Pakistani system of government make that difficult if not impossible. A weak coalition government headed by the Pakistan Peoples Party finds its parliamentary majority thrown into doubt whenever it hints at economic reform. Top-down efforts to reduce costly, untargeted energy and other subsidies are met with street protests. Political leaders who support tolerance and moderation have been assassinated. Given the way power is divided among regional parties and between the federal and provincial governments, it is hard to see how any other coalition would fare better. Although a broad constituency for reform exists, it presently has no effective political channels to exercise its influence.

Mutually reinforcing security, economic, and political weaknesses deeply frustrate Pakistanis. In a Pew opinion poll, 91 percent of Pakistanis said the lack of jobs was a key concern, tied with terrorism as the top concern.<sup>7</sup> Only 14 percent expressed satisfaction with national conditions, more than 75 percent feel the economy is in bad shape, and half think it will worsen over the next year. Pakistan’s own government is nearly as unpopular among its own people as the United States is. Just 20 percent of Pakistanis view President Asif Zardari favorably, and only a quarter feel that the national government has a positive influence on the way things are going (compared to 84 percent for the military).

Pakistan differs from Egypt or Libya in early 2011 in that it is ruled by a democratically elected government, not a military strongman. At the same time, Pakistan’s democracy is fragile, and recent events in the Middle East indicate the insecurity and volatility that could result if the pressures created by Pakistan’s young frustrated population and its economic and political weaknesses are not relieved. Slowly settling the combustible mix of instabilities in Pakistan and laying the foundation for a more prosperous, functional country over the long term is the best way for Pakistanis and Americans to support their future security.

The ingredients of success in Pakistan are threefold: a stable and capable state able to deliver justice and meet the basic needs of its citizens, a strong private sector able to provide jobs to Pakistan’s growing population and revenues to the government, and a healthy civil society able to play its rightful role in the democratic process. These three ingredients are what Pakistan needs to achieve the fundamental goal of development—the slow, painstaking transformation of poorly

***The ingredients of success in Pakistan are threefold: a stable and capable state, a strong private sector, and a healthy civil society.***

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7. “Concern about Extremist Threat Slips in Pakistan,” Pew Global Attitudes Project, July 29, 2010, <http://pewglobal.org/2010/07/29/concern-about-extremist-threat-slips-in-pakistan/1/>.

functioning states and societies into ones that function well. Ultimately, this is a process that Pakistan has to lead. No matter what Pakistan's international donors do—or how much aid money they spend—it is Pakistan's own political leaders and citizens who will determine whether their country succeeds.

## Why the time is right in Pakistan

As this report goes to press, the prospects for a positive outcome in Pakistan—for Pakistanis or for Americans—seem bleak. The stories of the day include political assassinations, an increasing terrorist threat even in Pakistan's major cities, and a U.S.-Pakistan relationship on the rocks following the killing of Osama bin Laden a stone's throw away from Pakistan's military academy. But just as there are reasons to believe the United States has a window available to reassess and improve its development strategy, there are reasons to believe that Pakistan can turn the corner.

***Pakistan's most important resource is its large, highly competent, and well-educated middle class that can provide the drive for private-sector growth and policy reform.***

Chief among them is the slow but meaningful progress Pakistan is making to entrench its democratic system of government. More than three years after a return to elected rule, Pakistan seems likely to make it to a second round of elections next year. The process of devolving powers and budgets to the provinces—though chaotic and inefficient in the short term—represents a necessary step toward strengthening the democratic system. This year's national census, the first to be conducted in 13 years, and next year's elections will likely reveal a population that has changed and is changing in important ways. An increasingly urban, increasingly young population offers hope that the ossified, traditional power centers of Pakistani society may have competition. Meanwhile, what appears to be a good-faith attempt to normalize relations across the Pakistan-India border is making progress, albeit fragile and reversible.

Pakistan's most important resource is its large, highly competent, and well-educated middle class that can provide the drive for private-sector growth and policy reform. That group comprises millions of Pakistanis working in the media, academia, public service, and civil society organizations who are dedicated to the idea of a more just and democratic system.

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### How much is \$1.5 billion a year in aid?

- 5½ days of average U.S. military spending in Afghanistan
  - less than 1 percent of Pakistan's GDP and approximately 5 percent of the federal government's budget
  - half of USAID's global health budget (not including State Department-administered HIV/AIDS programs)
-

Nevertheless, Pakistan must make a significant course correction if it is to join the ranks of India, Indonesia, and other large Asian countries on a clear path of sustainable growth and transformation. The United States has a role to play in achieving that course correction, a correction that would ultimately benefit Americans as well. Without exaggerating the importance of U.S. money or diplomatic leverage, the United States should focus its development programs to support the many courageous Pakistanis working toward a better future for their own country. That is what will in turn help secure a safer future for Americans and the rest of the world.

## Three foundational themes: humility, clarity of mission, patience

Commendably, American policymakers have expressed their intent to address all three of Pakistan's instabilities—in the security, economic, and political spheres—and to build on and support the small but hopeful changes underway in Pakistan. However, two years of a new, comprehensive approach have fallen short. This year, high-level staff changes and the largely invisible progress made developing working relationships with the Pakistani government present a window of opportunity to reassess and improve the U.S. development strategy in Pakistan. Here, we outline three themes that we believe should constitute a foundation on which to build a better U.S. program: humility, clarity of mission, and patience.

First, Pakistan's development challenge demands a great deal of humility from the United States and other supporters. Since 1960, all OECD and multilateral creditors have given an inflation-adjusted total of over \$100 billion in development assistance to Pakistan.<sup>8</sup> That money has built dams, roads, and schools, has trained teachers, farmers, and nurses, but it has failed to secure the fundamental economic and political reforms that would foster self-sustaining progress. The lesson is about lack of leverage: aid has not and will not buy the United States or other outside supporters the ability to dictate the outcomes of Pakistan's political process.<sup>9</sup> In the case of the U.S. aid program, the \$1.5 billion per year in pledged assistance is not an unprecedented aid investment in Pakistan—two multilateral donors have current programs that are larger. It is not a large sum when compared to the size of Pakistan's economy or its population, translating to roughly \$8 per Pakistani per year. In 2010, it would have constituted approximately 5 percent of total federal expenditures. And it is far less than the estimated \$11 billion that Pakistanis will send home from abroad as remittances this fiscal year.<sup>10</sup>

***Aid has not and will not buy the United States the ability to dictate the outcomes of Pakistan's political process.***

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8. OECD DAC-2a, ODA Disbursements from 1960–2009 in constant 2008 dollars. To be more precise, the total recorded by the OECD is \$101.4 billion.

9. See more on this point in Nancy Birdsall, Wren Elhai, and Molly Kinder, "Pakistan's Political Crisis: The Limits of U.S. Leverage," Foreign Policy's AfPak Channel, January 20, 2011, [http://afpak.foreignpolicy.com/posts/2011/01/20/pakistan\\_s\\_political\\_crisis\\_the\\_limits\\_of\\_us\\_leverage](http://afpak.foreignpolicy.com/posts/2011/01/20/pakistan_s_political_crisis_the_limits_of_us_leverage).

10. "Pakistan's July-April Current Account Surplus at \$748 million," *The News*, May 18, 2011, [www.thenews.com.pk/TodaysPrintDetail.aspx?ID=47490&Cat=3&dt=5/18/2011](http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=47490&Cat=3&dt=5/18/2011).

Second, the United States must give its development strategy a clear mission. The United States faces many competing pressures and urgent priorities in Pakistan. It is tempting for policymakers to look to the development strategy to pursue additional U.S. strategic objectives, often unrelated to the fundamental goal of state building and economic development. Some would like, for example, for the development program to improve the public image of the United States in Pakistan or for it to secure the Pakistani government's support for U.S. military policies. These additional layers of objectives muddle the development mission, imperil the effectiveness of the aid dollars, and often result in the United States trying to do too much, too quickly, with little enduring impact. Some of these objectives, including the goal of winning "hearts and minds," are beyond what is possible to achieve with a development program alone. We argue that the United States has to make choices about the primary goals of its policies.

***We urge patience and a tolerance for risk. The risks associated with an aid program are serious but small compared to the risks of military engagement overseas and counterterrorism at home.***

Finally, we urge patience and a tolerance for risk. Support for Pakistan's development is a low-cost, stunningly sensible addition to the United States' portfolio of risk-reducing measures in Pakistan. The risks associated with an aid program are serious but small compared to the risks of military engagement overseas and counterterrorism at home. Development investments, like preventive health care, are less expensive and far less risky than dealing with emergencies later. However, such investments do take time and persistence to yield a return. Development does not happen overnight and often happens in fits and starts.<sup>11</sup> Done well, the U.S. aid program can seed investments in people, institutions, and programs that have the potential to pay off over the long term. If long-term development is truly an important goal, it must be protected from being crowded out by the short-term pressures often associated with the "integration" of development programs with diplomatic and security strategies. To the extent possible, the development program must be shock-proofed against the inevitable crises in the volatile U.S.-Pakistan diplomatic relationship—the killing of Osama bin Laden in Abbottabad being only the latest example.

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11. An important lesson for U.S. policymakers is that some uncertainty will be a necessary and critical part of any path to long-term stability. See, for example Moeed Yusuf, "Useful Instability," Dawn.com, January 31, 2011, [www.dawn.com/2011/01/31/useful-instability.html](http://www.dawn.com/2011/01/31/useful-instability.html).

## II. *How*: Two Years On, It Is Not Too Late

Since early 2009, those in charge of U.S. foreign policy have shaped a new approach to nonmilitary engagement with Pakistan. The U.S. Congress committed additional aid resources; the administration set up a special office in the State Department for Pakistan and Afghanistan; and its first head, Ambassador Richard Holbrooke, instituted a major and welcome shift away from contract-managed aid toward more direct support of and partnership with the government of Pakistan. But after two years, the new approach cannot yet boast a coherent set of focused priorities, the tools to manage and adjust those priorities as conditions require, or a system to measure and report progress against them.

Thankfully it is not too late. There are signs in Washington and Islamabad that elements of a better aid structure and a more focused strategy are starting to fall into place. Now is the time for the U.S.-Pakistani partnership to do better.

### Four problems

Before turning to our recommendations to improve the planning and implementation of U.S. development policy in Pakistan, it is worth considering the reasons the program has yet to take off. We identify four such reasons.

#### 1. The integrated “Af-Pak” approach has muddled the development mission in Pakistan

Upon taking office, the Obama administration moved quickly to design a new institutional structure for an integrated approach to Afghanistan and Pakistan. The so-called Af-Pak construct was inspired by what the Obama administration perceived to be an interconnected security threat stemming from the presence of Al-Qaeda in both countries and the central role Pakistan plays in resolution of Afghanistan war.<sup>12</sup> The result was both a geographic integration (Afghanistan and Pakistan) and a functional integration across government agencies, which merged the development efforts for these two countries with the broader diplomatic and defense strategies.

The “Af-Pak” strategy resulted in bureaucratic and functional changes and new coordinating roles in both Washington and Islamabad. In Washington, Ambassador Holbrooke became the first special representative for Afghanistan and Pakistan (SRAP), and built a dedicated team at the State Department comprising Afghanistan and Pakistan experts from across the U.S. government. USAID reorga-

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12. The “Af-Pak” moniker has been dropped from official U.S. government lexicon, but the “Afghanistan-Pakistan” grouping has persisted.

nized its own staff along similar lines, creating the Afghanistan-Pakistan Task Force, which later became the Office of Afghanistan and Pakistan Affairs. In Islamabad, the Obama administration created the senior-level position of coordinator for U.S. civilian assistance within the State Department, intended to complement the work of the ambassador and USAID mission director. Meanwhile, a Strategic Dialogue process was set in place, with periodic high-level meetings in Washington and Islamabad between Pakistani and U.S. officials. The U.S. representatives come from across the U.S. government. Among the U.S. leads on the economic working groups are a senior director at the National Security Council, the U.S. trade representative, a deputy undersecretary of agriculture, and three undersecretaries of state.

From a development perspective, the creation of the SRAP office and the increased attention to Afghanistan and Pakistan have allowed for a few notable cross-border success stories, including the signing of a landmark trade and transit accord between the two countries in July 2010 and continued cooperation on immunization campaigns. However, on balance, the integrated approach for both countries has not fostered an effective development program in Pakistan.

There are at least three ways “Af-Pak” integration has undermined the development mission. First, in policy discussions in Washington, security and Afghanistan dominate. In cases where portfolios span the border between Afghanistan and Pakistan, the larger budgets and public attention paid to Afghanistan translate into greater amounts of staff time and high-level attention dedicated to that country—at times at the expense of attention to Pakistan. When Pakistan is addressed, security dominates. Trade, investment, and aid lose out.

***The integration of development, diplomacy, and defense has blurred the lines of authority.***

Second, the integration of development, diplomacy, and defense has muddled the development mission and left the program without a clear, focused mandate. The Kerry-Lugar legislation lists no fewer than 11 different objectives of U.S. policy, including enhancing short-term stability, countering extremism, and improving the standing of the United States among Pakistanis. Non-aid tools are often overlooked, and aid decisions are politicized and subject to short-term pressures. Overall, the program ends up trying to do too much, too quickly. Integration has made long-term development issues in Pakistan more susceptible to distraction by the security and diplomatic emergencies of the moment. For instance, in the aftermath of the Raymond Davis incident in Lahore, the U.S. government cancelled plans for a trilateral economic summit, and the press reported widespread rumors that a congressional delegation visiting Pakistan threatened to cut U.S. aid.

Finally, the integrated structure has blurred lines of authority: it is unclear who is in charge of the development strategy in Washington and who is responsible for its implementation in Pakistan. In the field, the assistance coordinator shares responsibilities in Islamabad with an ambassador and a USAID mission director, but their

roles are ambiguous. In Washington, there are many cooks in the kitchen but no one person in charge.

## 2. In the absence of transparency, skepticism and mistrust of the aid program are widespread

A key motivation of the Enhanced Partnership legislation was to improve the relationship between the United States and the government and people of Pakistan and to reduce widespread mistrust and anti-American sentiment among Pakistani citizens. The bill's authors explained that through the program the United States "can materially and powerfully demonstrate the true friendship of the American people for the Pakistani people." Two years later, however, anti-American sentiment in Pakistan has only worsened.

We doubt that the positive effects on public opinion of a well-executed development program will ever outweigh the negative effects of the drone campaign and high-profile diplomatic disputes like those surrounding the Raymond Davis incident and the killing of Osama bin Laden. This is neither the point nor the potential of development assistance. However, whatever possible public diplomacy benefit could come from the program has been stymied by confusion about what it is trying to achieve and a mystifying lack of information on what has been done.

The United States has placed a heavy emphasis on branding U.S.-funded projects with the USAID logo, featuring the slogan "From the American People." Yet the overall brand of the aid program itself is quite weak. The term "Kerry-Lugar-Berman" is associated with little in Pakistan beyond the monetary value of the aid pledge—a dangerous state of affairs, as a monetary figure unsupported by a clear narrative is easy to construe as an attempt to purchase the cooperation of Pakistani leaders. Lists of U.S. aid priorities encompass broad categories such as economic growth, the social sectors, energy infrastructure, stability, and humanitarian assistance. In aid as in life, if everything is a priority, nothing is a priority.

***In aid as in life,  
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priority.***

Moreover, it remains difficult for us and for the Pakistani people to understand how these priority sectors translate into a concrete portfolio of individual projects. The most complete listing of USAID's activities is to be found only in an auditor's report, and it is not linked to from the USAID-Pakistan website.<sup>13</sup> The administration's assistance strategy in 2009 called for a portfolio of "high-impact, high-visibility" projects in targeted sectors, but none of these signature projects has gained traction in Pakistani public discourse—perhaps because even the signature programs are collections of relatively small-scale projects.<sup>14</sup>

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13. Government Accountability Office, "Department of State's Report to Congress and U.S. Oversight of Civilian Assistance to Pakistan Can Be Further Enhanced" (GAO-11-310R) February 12, 2011, [www.gao.gov/products/GAO-11-310R](http://www.gao.gov/products/GAO-11-310R).

14. The lists of projects announced to be part of the signature programs in energy, water, and health are available on the USAID-Pakistan website at [www.usaid.gov/pk/downloads/factsheets.html](http://www.usaid.gov/pk/downloads/factsheets.html). The current status

Finally, at the most basic level, key audiences in Pakistan and the United States remain troublingly unaware of how much money has been spent and on what. It is not their fault. Even the auditors responsible for tracking aid spending have expressed deep frustration with the lack of data on the outputs of U.S.-funded aid projects in Pakistan.<sup>15</sup> Basic data on how much aid has been disbursed is unavailable online; we obtained it only after several months of persistent requests.<sup>16</sup>

In May 2010, Senator Kerry wrote a letter lamenting the lack of clear information on the U.S. aid package in Pakistan. “This creates confusion and unnecessary speculation in Pakistan,” Kerry wrote, “and limits the potential of the policy community and allies at home.”<sup>17</sup> The current vacuum of information is an unforced error for the United States. Those who have concerns that transparency would worsen the reputation of the aid program miscalculate just how poorly the program is already perceived. In the absence of clearly presented, trusted information, speculation and conspiracy theories are already filling the vacuum.

### **3. The USAID mission is neither empowered nor equipped to succeed**

The USAID mission in Pakistan has been tasked with scaling up its operations to triple economic assistance while shifting to a new business model that emphasizes funding Pakistani institutions. However, the mission has been placed in a position that makes success improbable. Two constraints on the mission’s effectiveness are the short duration of staff postings (including the mission director) and the limits imposed on staff movements by security restrictions. American civilians are typically stationed in Pakistan for one-year posts split up by multiple R&R breaks. The brevity of staff tenure hinders the mission’s ability to establish lasting and meaningful relationships with Pakistani partners—a key part of the new business model of working directly with the Pakistan government. The high level of U.S. staff turnover frustrates Pakistanis and fuels the perception of a start-and-stop approach to working with development partners.

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of most of these projects is unclear.

15. “Quarterly Progress and Oversight Report on the Civilian Assistance Program in Pakistan as of December 31, 2010,” jointly prepared by the Inspectors General for USAID, the Department of State, and the Department of Defense, [www.usaid.gov/oig/public/special\\_reports/pakistan\\_quarterly\\_report\\_as\\_of\\_dec\\_31\\_2010.pdf](http://www.usaid.gov/oig/public/special_reports/pakistan_quarterly_report_as_of_dec_31_2010.pdf).

16. Disbursement figures at a level of detail to allow for a real understanding of the program are still unavailable. For more, see Wren Elhai, “Nailing Down the Slipper Numbers on U.S. Aid to Pakistan,” posted May 6, 2011, on CGD’s Rethinking U.S. Foreign Assistance Blog, <http://blogs.cgdev.org/mca-monitor/2011/05/nailing-down-the-slippery-numbers-on-u-s-aid-to-pakistan.php>.

17. John Kerry, U.S. Senate Committee on Foreign Relations letter to Richard Holbrooke, special representative for Afghanistan and Pakistan, May 25, 2010, available at [www.boston.com/news/politics/politicalintelligence/Kerry%20Holbrooke%20re%20Pak%20assistance%20strategy.pdf](http://www.boston.com/news/politics/politicalintelligence/Kerry%20Holbrooke%20re%20Pak%20assistance%20strategy.pdf).



The muddled lines of authority described above further undermine the ability of mission staff to operate effectively. In contrast to counterparts from the UK and other donor missions, the structure of the U.S. bureaucracy largely separates program implementation from policy dialogue with the Pakistani government. Especially in the priority sectors of energy and water, the State Department handles policy while USAID designs and implements aid projects—with insufficient links between the two spheres. This dynamic diminishes the opportunities and incentives for USAID program staff to develop strong working relationships with counterparts in the recipient government, as they are expected to do in other field assignments. At the senior staffing level, other donors and government officials view the State Department’s coordinator for economic assistance (who has had ambassadorial rank) as senior to the USAID mission director. This perception may make it more difficult for USAID staff to interact as effectively as would be ideal with their government counterparts and with other donors.

***The structure of the U.S. bureaucracy largely separates program implementation from policy dialogue with the Pakistani government.***

Finally, demands from Washington impose a heavy burden on field staff. In its first 18 months, the mission was buffeted by a constant stream of shifting and at times conflicting instructions. The Holbrooke-mandated effort to assess the potential of Pakistani institutions to implement selected programs, though welcome, absorbed considerable staff time. A response to the floods required reprogramming some existing programs and canceling others. Burdensome oversight and reporting requirements continue to limit the ability of staff to make decisions, take risks, and innovate. A June 2010 inspector general’s report found that “a significant portion” of the U.S. embassy in Islamabad’s limited resources were devoted to supporting nearly 700 official visitors from Congress and the administration. Their visits totaled 175 days during the 2009 fiscal year.<sup>18</sup> Delays in Congress slow down an already complicated process of budgeting and spending aid, and the contentious fights over the broader foreign operations budget throw the U.S. commitment to Pakistan into doubt.

#### **4. The money is a problem**

In October 2009, Congress authorized tripling U.S. development assistance to Pakistan, from approximately \$500 million a year in 2008 to \$1.5 billion per year for five years.<sup>19</sup> This large figure, and the many public statements by U.S. officials that cite it as a symbol of America’s long-term commitment to Pakistan, have raised expectations in Pakistan and in the United States. Those expectations exceed the reality of American influence in Pakistan and the speed and scale of what the U.S. aid program could ever accomplish. Many Pakistanis assume the U.S. can exert seemingly limitless influence on the decisions and actions of their leaders.

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18. “Embassy Islamabad and Constituent Posts, Pakistan,” Report of Inspection (Department of State Office of Inspector General Report Number ISP-I-10-64, June 2010), <http://oig.state.gov/documents/organization/144568.pdf>.

19. See box in section I for a range of comparisons for the size of this aid package. Note: while Congress authorized up to \$7.5 billion for five years, Congress must appropriate this money on an annual basis.

In Washington, policymakers expect that the aid program can accomplish half a dozen or more objectives simultaneously, many of which are competing, and that money can be spent well, quickly, and accountably through an entirely new business model.

In the absence of an unambiguous objective or clear indicators of progress, attention in Pakistan and in the United States focuses on the pace of aid spending, which has been slow. USAID reports that it disbursed \$275 million in the 2009 fiscal year and \$676 million in 2010, the first year covered by the Kerry-Lugar-Berman commitment.<sup>20</sup> The pace of spending has been slower than appropriations might have permitted (though in 2010 the new Kerry-Lugar-Berman money was not available until very late in the fiscal year) in part for good reasons that were not predictable, in part for entirely predictable reasons.

***A new business model that aims to spend approximately half of U.S. aid through Pakistani institutions has simply taken time to get off the ground.***

A new business model that aims to spend approximately half of U.S. aid through Pakistani institutions, instead of through U.S. contractors, has simply taken time to get off the ground—an unavoidable trade-off of speed for the possibility of building local capacity.<sup>21</sup> Significant time has been invested certifying Pakistani organizations that meet American accounting standards, training additional Pakistani auditors to evaluate U.S.-funded projects, and choosing projects in coordination with the Pakistani government. Because of fears of corruption, disbursing money through Pakistani government channels carries a greater administrative burden, especially as relationships are first being established.<sup>22</sup> A rough count reveals at least a dozen separate documents—from congressional notification to activity agreements to implementation letters—that must be prepared and approved before any money moves. Now that much of the groundwork has been laid, the pace of disbursement may increase—but, ideally, it will not exceed USAID’s ability to spend money well.

If slow spending allows for better-planned programs and greater impact, then slower disbursement is a good thing and the error was in creating expectations in Pakistan that the United States’ aid bureaucracy could move much more quickly than realistically possible. Indeed, spending quickly without lasting impact would

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20. USAID internal statistics. Disbursement numbers are extremely hard to come by and can be oddly uncertain. For example, while USAID reports disbursing \$676 million in FY2010, only \$180 million of that amount was drawn from appropriations against the Kerry-Lugar-Berman commitment. The remainder came from unspent prior year appropriations.

21. The Pakistan aid program is at the vanguard of a new U.S. approach to interactions with aid recipient countries, encapsulated in the recently completed Quadrennial Diplomacy and Development Review and in major procurement reforms across USAID that will permit a similar approach in other priority countries.

22. This is above and beyond an already severe administrative burden, described by former USAID Administrator Andrew Natsios. See Andrew Natsios, “The Clash of the Counter-bureaucracy and Development,” CGD Essay (Washington: Center for Global Development, 2010), [www.cgdev.org/content/publications/detail/1424271](http://www.cgdev.org/content/publications/detail/1424271).

only confirm Pakistanis' suspicions that the United States is not a credible long-term partner, suspicions that are based in the history of American assistance to Pakistan. Since Pakistan's founding, U.S. aid has surged during periods when Pakistan has occupied an important strategic position—periods that have coincided with military rule in the country (see chart next page). Most recently, the United States reengaged with Pakistan in the aftermath of the 9/11 attacks. During the administration of George W. Bush, the United States provided large amounts of aid to Pakistan, the vast majority of which was military-focused; only about one-quarter was allocated for nonmilitary purposes.<sup>23</sup>

***Spending quickly without lasting impact would only confirm Pakistanis' suspicions that the United States is not a credible long-term partner.***

“In the past, security assistance always overshadowed development aid: the Pakistani military could bypass civilian authorities to focus policy on its institutional interests,” the authors of the Kerry-Lugar legislation wrote in their summary. “Under Kerry-Lugar, economic assistance is no longer the poor cousin to military aid.”<sup>24</sup> Yet in trying to prove this point, the United States' aid package is trapped in an impossible trinity: Congress and the administration demand local ownership, rigorous oversight, and speedy results. Under current constraints, the aid program can maximize two of these at one time, but not all three.

## Five recommendations to get on track

To address the problems described above, we suggest the United States take the following steps. In brief, we recommend defining and communicating a clear set of objectives and giving USAID the responsibility and authority to deliver on them.

### 1. Clarify the mission: separate the Pakistan development program from the Afghanistan program and from the Pakistan security program

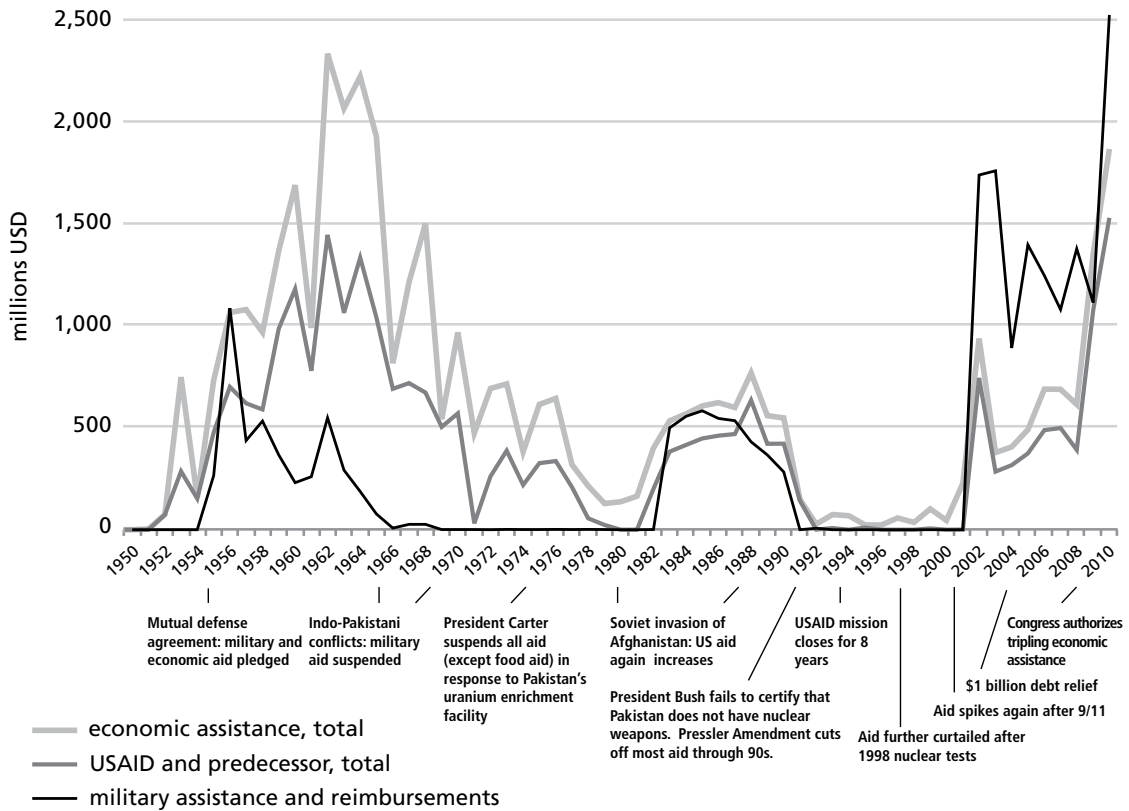
We recommend that, wherever possible, a development strategy in Pakistan be planned and implemented independently from U.S. policy in Afghanistan. This could mean increasing the number of development professionals in USAID and the State Department who deal with only Pakistan. In the Office of the Special Representative, for instance, it is our understanding that every person who works on development issues splits time between Afghanistan and Pakistan and only one employee on the State Department's Pakistan desk deals solely with economic assistance issues. At USAID, the Pakistan program needs the full-time attention of a leader in Washington with the experience in Pakistan and stature in Washington

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23. The Congressional Research Service estimates that the United States provided \$12.1 billion in military and nonmilitary aid to Pakistan from 2002 to 2008. Of that, \$3.2 billion was for economic and humanitarian purposes. See K. Alan Kronstadt, “Direct Overt U.S. Aid and Military Reimbursements to Pakistan, FY2002–FY2011,” table prepared for the Congressional Research Service, available at [www.fas.org/sgp/crs/row/pakaid.pdf](http://www.fas.org/sgp/crs/row/pakaid.pdf).

24. See “Senate Unanimously Passes Kerry-Lugar Pakistan Aid Package,” press release of Senator Lugar, June 25, 2009, <http://lugar.senate.gov/record.cfm?id=315031&>.

## History of U.S. Assistance and Reimbursements to Pakistan



Sources: For the years 2002–2009, we have added Congressional Research Service estimates of Coalition Support Fund reimbursements, which constituted the bulk of U.S. military assistance, to U.S. Greenbook data. In the absence of Greenbook data for the 2010 fiscal year, we have used budget data compiled by the CRS. Go to [www.cgdev.org/content/publications/detail/1425116](http://www.cgdev.org/content/publications/detail/1425116) for more information.

to advocate for good development practice. It is unclear whether a deputy position to an Afghanistan-Pakistan office director (currently the most senior staff member solely responsible for Pakistan) can meet this requirement.

***Cross-border Indo-Pakistani trade has more potential to spur economic growth in Pakistan than practically any intervention in the U.S. arsenal.***

While a two-country “Af-Pak” construct may make sense from a short-term security perspective, it makes much less sense from a development perspective. Afghanistan and Pakistan are at different points on the path of development and require different kinds of assistance delivered in different ways. The expertise and experience needed for U.S. staff to work on development issues in Pakistan and Afghanistan is different. The very missions in each country are different. Short-term stabilization is the top priority in Afghanistan; long-term development is and should be the priority in Pakistan. Assigning staff to work on both countries is like expecting a doctor to be top-notch in both trauma surgery and physical therapy. Although a regional approach can be helpful, a regional strategy designed for maximal impact would have to include Pakistan’s enormous neighbor to the east—

India. Cross-border Indo-Pakistani trade has more potential to spur economic growth in Pakistan than practically any intervention in the U.S. arsenal.

## **2. Name a leader: put one person in charge of the development program in Washington and in Islamabad**

The administration needs to clarify who is responsible for the ongoing task of shaping and adjusting as circumstances demand the overall development strategy (including the approach to trade and investment), and who is responsible for implementation of aid programs.

The contrast between the currently muddled accountability in the United States vis-à-vis development in Pakistan and the clear accountability in the United Kingdom of the cabinet member responsible for the Department of International Development (DfID) is notable. The broad outlines of the DfID program are closely coordinated with the UK Foreign Office (the counterpart to the U.S. State Department) but DfID has more autonomy and its secretary of state more independent standing in the British cabinet (see box next page).

We recommend that the USAID administrator be responsible to the U.S. president—through the secretary of state—for the planning and execution of a development strategy in Pakistan.<sup>25</sup> He and his staff should collaborate with staff in the Office of the Special Representative (as is the case now), but they should be ultimately accountable for making decisions regarding the content of the program and its execution. In Pakistan, the USAID mission director should be fully accountable to the USAID administrator for execution of the program. He and his staff should inform the ongoing shaping of strategy in Washington through feedback on implementation issues and implications for medium-term strategy.

To some extent, lines of responsibility are confused because the United States is pursuing multiple legitimate objectives. It could help to separate the money spent primarily for long-term development from money spent primarily for diplomatic reasons (e.g., to maintain key relationships) or to benefit short-term stability (e.g., keeping the lights on in a restive urban area). There is space in the U.S. budget for projects that are chosen because they matter to a key contact in the Pakistani civilian government or even in the Pakistani military. However, if these sorts of projects are to be undertaken, they should be set apart from the projects that are chosen on the basis of their potential medium- and long-term development impacts. Projects chosen primarily for reasons other than their potential development impact are more likely to fall short if they are judged against stan-

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25. We hesitate to make a specific recommendation regarding responsibility for trade and investment. In the long run, it would be better if USAID had far more responsibility for policies in these areas that would spur development. At the moment, however, we see the benefits of the White House taking leadership on better access for Pakistan to the U.S. market, with input from USAID. On investment, USAID or OPIC should be responsible, with the other collaborating.

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## A Different Approach: The British Model

The British Department for International Development (DfID) approach is an alternative to the integrated U.S. approach to development policy in Pakistan. The mandate, priorities, and organizational structure of the British development program stand in stark contrast to the USAID model. There are, of course, important differences in the roles played by the United States and the United Kingdom in Pakistan. In sheer size, the U.S. assistance program is over two and a half times larger (not including significant military assistance and reimbursements). The United States' role as the world's superpower and lead coalition partner in Afghanistan creates additional short-term pressures that affect its ability to plan a strictly long-term focused development program. Nevertheless, certain ingredients of the DfID model could inform the United States' own efforts to improve its development program—both to achieve development results and, perhaps counterintuitively, to reap the strategic benefits of public goodwill.

**Development is the goal:** Policymakers in the United Kingdom have made clear that the primary objective of DfID's program in Pakistan and throughout the world is poverty reduction because that is in Britain's long-term national interest. The result has been a clear and unambiguous focus on long-term development which has enabled the DfID program to avoid the skepticism that many Pakistanis have of the motives of the U.S. program.

**Clear objectives:** As part of a comprehensive review of British development programs, DfID has defined specific targets for the results it aims to achieve in each aid-recipient country. During a recent visit to Pakistan, Prime Minister Cameron announced two of the targets for the UK program there: to put 4 million additional children through primary school and to increase the annual volume of exports from Pakistan to the United Kingdom by 600 million pounds. In setting clear, measurable targets, DfID creates a clear, compelling narrative through which Pakistani and British citizens can easily understand the purpose and priorities of the aid program and assess whether it is on track.

**Empowered leadership:** The United Kingdom structures its development agency differently than the United States does. DfID is a cabinet-level agency with broad authority over long-term development policy—not just aid implementation. It can, for example, recommend trade policies that complement its overall development mission and manage relationships with the multilateral development institutions. It is the secretary of state for international development, not the foreign secretary, who represents the UK's development program in Pakistan. This sends a signal consistent with DfID's primary mission of poverty reduction. As a cabinet-level agency, it is well positioned to represent development concerns in broader foreign policy discussions.

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**Staffing for success:** Especially in conflict-affected states such as Pakistan, DfID has increased the number and seniority of local national staff. This is part of an intentional, worldwide shift that by 2010 increased the number of senior, representational-level staff hired locally to 132 worldwide (12 percent of such positions in all).<sup>\*</sup> In Pakistan, the head of DfID's economic growth program is a well-respected Pakistani who was previously the executive director of Pakistan's Securities and Exchange Commission. The DfID mission has also sought to involve private Pakistani experts and members of the business community in its work by, for example, appointing a public-private board of directors for a major skills development fund in Punjab province.

\*Data are from DfID, "DfID Staffing by Grade and Location at 31 March 2010," available at [www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605we03.htm](http://www.publications.parliament.uk/pa/cm201011/cmselect/cmintdev/605/605we03.htm).

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standard development metrics—even if they meet their diplomatic objectives. Thus, USAID, an agency highly sensitive to the potential effects of even one negative audit, worries about including such projects in its regular portfolio.

A clearly delineated stability budget could be programmed and evaluated on the basis of more appropriate short-term stability goals. Since the stability mission has a strong diplomatic component, it might make sense for the State Department's coordinator for economic assistance to exercise primary control over this money, leaving the rest of the budget for the USAID mission director to spend based on interventions designed for development impact.

### **3. Say what you are doing: set up a website with regularly updated data on U.S. aid commitments and disbursements in Pakistan by project, place, and recipient**

Despite widespread agreement from State Department and USAID leaders on the benefits of transparency, their program still remains far too opaque. The administration should be much more transparent about the U.S. development program by sharing more complete and timely information about plans, commitments, and actual disbursements than we have seen up to now. USAID traditionally follows an approach to transparency that emphasizes success stories. We do not think that approach is sufficient. What matters most is providing the facts.

The USAID-Pakistan website should offer up-to-date information on spending plans and, critically, on aid disbursements. It should list all the projects funded by American assistance, ideally in a way that is sortable by geographic area or by implementing partner. There are, to be sure, certain security concerns with information sharing in Pakistan, especially as it affects the ability of implementing

***An approach to transparency that emphasizes success stories is not sufficient. What matters most is providing the facts.***

**A robust strategic communications strategy should be implemented to publicize and explain the development program to stakeholders in Pakistan and beyond.**

partners to operate in the dangerous tribal regions, but to date not even comprehensive public and unclassified material is available on the USAID website.

USAID took a significant step last year with the rollout of the Foreign Assistance Dashboard.<sup>26</sup> As USAID expands and improves the site, it should make quickly addressing the enormous gaps in information in the Pakistan aid program a top priority. As this information is made available, a robust strategic communications strategy should be implemented to publicize and explain the development program to stakeholders in Pakistan and those beyond. For aid effectiveness, public diplomacy, and relations with Capitol Hill appropriators, transparency about where the money is going is indispensable.

#### **4. Staff the USAID mission for success**

To effectively implement the administration's development program for Pakistan, the USAID mission needs staff that have Pakistan experience and expertise and sufficiently long tenures to develop relationships with their Pakistani counterparts. To develop this human resource capital within USAID, we recommend creating a formal long-term rotation of five years for USAID officers in Pakistan, similar in philosophy if not in all details to the Pentagon's Afghanistan-Pakistan Hands program.<sup>27</sup> The five-year assignment could be split into three separate 18-month tours—two in the field, one at headquarters—and would include significant local language and cultural training.

The mission should also take steps to recruit, retain, and promote highly qualified local staff in Pakistan. One of the strengths of Pakistan is its large cadre of smart, educated, technical professionals. These professionals offer deep experience in the country and could forge the long-term relationships necessary to work directly with Pakistani institutions. They also might be less affected by worsening security conditions. However, top-notch Pakistanis are unlikely to be attracted by positions in which they are necessarily limited in their career tracks and often required to report to far less-experienced American staff. The mission should be granted greater flexibility to hire foreign national staff at senior levels, with attractive salaries and training opportunities. It could also tap into the large and highly skilled Pakistani-American diaspora population. A mechanism similar to the UNDP's TOKTEN<sup>28</sup> program could allow motivated members of the diaspora to donate their expertise to Pakistani government institutions or nongovernmental organizations or even to serve in a field office of the USAID mission.

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26. See [www.foreignassistance.gov](http://www.foreignassistance.gov).

27. A description of the Pentagon's program can be found in Karen Parrish, "AfPak Hands' Strive for Cultural Awareness," American Forces Press Service, March 3, 2011, [www.defense.gov/news/newsarticle.aspx?id=63019](http://www.defense.gov/news/newsarticle.aspx?id=63019).

28. Transfer of Knowledge through Expatriate Nationals. The program, initiated in 1977, places expert volunteers in training and advisory positions in their country of origin for a limited period of time.



USAID has worked to decentralize its operations in Pakistan, setting up offices in the provincial capitals of Karachi, Lahore, and Peshawar. This new structure will allow USAID to work more directly with provincial governments, especially important as Pakistan's own process of devolution continues. It is critical that these working relationships include policy dialogue on key economic and social reforms. State Department diplomats will also play a role in this process, but the bureaucratic division between policy dialogue and program design and implementation must be closed.

Staff closest to the implementation of programs, including those in the field offices, should have opportunities to share feedback on what is working and what is not and on the viewpoints of government officials and citizens in Pakistan. They should also have channels to offer recommendations on policy and strategy. Otherwise, the healthy process of adjusting to changing realities on the ground is thwarted, or at least made too dependent on informal communication and good personal relationships between the staffs of USAID and the State Department.

## **5. Measure what matters: Pakistan's development progress**

Currently, the indicator that draws the most attention in Pakistan and in the United States is how much aid money the United States has spent. For a strategy intended to promote long-term development, this is a terrible metric of success in two respects. It focuses on money, not impact, and on the accomplishments of the United States instead of Pakistan's own progress. The direct U.S. contribution to development in Pakistan will necessarily be relatively minor, but it should catalyze more significant progress by Pakistanis.

Indicators of progress in Pakistan such as childhood vaccination rates, electricity paid for and delivered, and development spending funded through domestic revenue are not direct outputs of U.S. aid.<sup>29</sup> They are however, better signals of whether development in Pakistan is progressing than are the outputs of U.S. aid projects. We suggest that the U.S. and Pakistani governments agree on a limited set of such indicators reflecting a shared view of what development outcomes can be and ought to be pursued in Pakistan over the next five years. This process of defining goals and indicators would fit well within the overall effort to encourage joint U.S.-Pakistani ownership over development programs. Once these indicators have been selected, the two governments or an independent third party should report on progress against them at least once a year.

This is, admittedly, a radical departure from how most aid programs are evaluated. However, a development strategy that is clearly based on more than the direct

***We recommend creating a formal long-term rotation of five years for USAID officers in Pakistan. The mission should also take steps to recruit, retain, and promote highly qualified local staff in Pakistan.***

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29. These are merely illustrative examples—real indicators must be the result of negotiations between the Pakistani and U.S. governments. For a full discussion of what sorts of indicators could be appropriate see Nancy Birdsall and Wren Elhai, "Shared Goals: Measuring Overall Development Progress in Pakistan," CGD Essay (Washington: Center for Global Development, 2011), [www.cgdev.org/content/publications/detail/1424744/](http://www.cgdev.org/content/publications/detail/1424744/).

***Measuring how much aid money the United States has spent is a terrible way to gauge success.***

outputs of aid projects should be assessed likewise. Doing so in a public way would focus attention in the United States and in Pakistan on whether development in Pakistan is on the right track and would be an important symbol of the U.S.-Pakistani development partnership. The periodic progress reports could form an important piece of a revamped communications strategy (complementing the basic transparency we advocate above in recommendation 3). More tangibly, the information produced could be a key resource for the Pakistani people, giving them the evidence they need to hold their government accountable for delivering public services.

# III. *What*: Recommendations for Aid and Beyond

We have addressed why having a development strategy in Pakistan makes sense for the United States. We have addressed how this strategy could be designed and implemented. But what elements should the strategy include?

The strategy should build on what the United States can do well, taking into account what other allies of Pakistan are doing. With respect to aid, the United States should recognize what other donors and multilateral creditors are able and willing to finance.

The United States cannot solve Pakistan's development challenges alone. It will be more effective if it is able to be selective in where it intervenes—choosing what not to do as well as what to do. We do not offer an overall roadmap for Pakistan's development, but merely a set of recommendations for focusing American policy to support Pakistan's own efforts in that direction.<sup>30</sup>

The United States has many objectives in Pakistan not fundamentally related to the mission of long-term development, including some such objectives that can be furthered with economic aid. Immediate flood reconstruction assistance, humanitarian assistance to refugees, quick-impact projects intended to extend the legitimate authority of the Pakistani state, and some spending to catalyze economic activity in war-affected regions fall into this category. However, this assistance is best described as stabilization assistance, not development assistance. It should be held to a different standard, and its effectiveness (including any development costs or benefits) should be assessed separately.

Cognizant that aid policy is only one piece of any development strategy, we do not limit our recommendations to how to spend the large U.S. assistance budget, although some ideas for smart aid investments are collected in the box on page 35.

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30. Other documents do tackle the broader question of how Pakistan can improve its own economy. See, for example, the Planning Commission of Pakistan's new growth strategy, "Pakistan: Framework for Economic Growth," available at [www.planningcommission.gov.pk/nda/index.htm](http://www.planningcommission.gov.pk/nda/index.htm), and the Asia Society's recent report, "Pakistan 2020: A Vision for Building a Better Future," available at [www.asiasociety.org/policy-politics/task-forces/pakistan-2020-vision-building-better-future](http://www.asiasociety.org/policy-politics/task-forces/pakistan-2020-vision-building-better-future).

## Support private-sector development through trade and investment

While effective aid is essential for strengthening public sector institutions in Pakistan, a strong private sector will play a far greater role in Pakistan's transition toward prosperity and stability. Measures that help to build a strong, vibrant private sector will create jobs and help to reduce poverty in Pakistan. Moreover, such measures can do so quickly because they are less constrained by the slow process of economic and political reform that is needed for aid spending to be most effective, especially when spent through the Pakistani government. A robust private sector able to pay taxes (and thus provide domestic support for development spending) is also a fundamental part of the process of transformation that will lead to a healthier Pakistani state. Thus, our first and second recommendations are for steps the United States could take—none expensive in dollar terms—to unleash the potential of Pakistan's private sector.

### 1. Let Pakistani products compete in U.S. markets

It is time for the United States to leverage what is arguably the single most powerful and inexpensive tool in the U.S. policy arsenal for promoting economic growth and job creation in Pakistan: fully opening U.S. markets to Pakistan's exports. Domestic politics often delay or derail this type of trade legislation. But assuming congressional approval of the currently pending trade agreements with South Korea, Colombia, and Panama, the administration will have an opening to reopen the question of tariff reform for Pakistan. Both to enhance the United States' long-term security and to signal the enduring American commitment to Pakistan, Congress and the administration should work together to develop and pass legislation for duty-free, quota-free access to U.S. markets for all Pakistani exports from all of Pakistan for at least the next five years.

Bills were introduced in the last Congress to allow duty-free export of certain goods produced along Pakistan's border with Afghanistan. While the idea of promoting development in these underdeveloped regions is sound, the limited approach proposed would not achieve that goal. The proposed "Reconstruction Opportunity Zones" would at best be a token gesture that would be well received in Pakistan; at worst, they risk having little (if any) economic impact and creating expectations that cannot be met.

Expanding the product and geographic coverage of the existing Reconstruction Opportunity Zones proposal would encourage product diversification and expand the potential development dividend from trade, while having only a negligible impact on U.S. producers.<sup>31</sup> If the Obama administration and Congressional

***The single most powerful and inexpensive tool in the U.S. policy arsenal for promoting economic growth and job creation in Pakistan is fully opening U.S. markets to Pakistan's exports.***

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31. Kimberly Ann Elliott, "Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy," CGD Working Paper 241 (Washington: Center for Global Development, 2011), [www.cgdev.org/content/publications/detail/1424821/](http://www.cgdev.org/content/publications/detail/1424821/).

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## The Pakistan trade opportunity

Trade with Pakistan constitutes a tiny fraction of overall U.S. imports, especially in contrast to how important Pakistan's stability and development is for U.S. national security interests. U.S. trade tariffs discriminate against poor countries that are, like Pakistan, dependent on labor-intensive, light-manufactured exports. They leave significant room to expand opportunities for Pakistani firms.

The problem and opportunity can be summarized in a few bilateral trade statistics. The data presented below are generally for 2008, avoiding the volatility caused by the global economic crisis.

The textile and apparel industries in Pakistan, including production and processing of cotton, account for much of the Pakistani economy:

- 60 percent of exports (average for 1990–2005)
- roughly half of total manufacturing output
- more than a third of industrial employment
- over 10 percent of gross domestic product

Pakistan's exports to the United States are concentrated in just a few vulnerable sectors. In 2008, they were just 0.2 percent of total U.S. imports. Of that, 85 percent were textiles and apparel; together they accounted for 3.7 percent of U.S. textile and apparel imports. These exports, which had been rising steadily, stalled after the global system of quotas was eliminated in 2005. Despite their size, Pakistan's exports face substantial discrimination in the U.S. market:

- Overall, 87 percent faced import duties, compared to just 30 percent of total U.S. imports.
- Because those items also fall in higher-than-average tariff categories, the average duty rate of 11.4 percent imposed on imports from Pakistan was nearly three times the average for all dutiable U.S. imports and 10 times the average rate for all imports (including normally duty-free products).
- The average tariff on Pakistani apparel exports, at 14.9 percent, is almost twice as high as the 8 percent average tariff on textile exports. (The proposals for Reconstruction Opportunity Zones would include many textile products but exclude most of the more highly protected apparel sector).

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- Pakistan gains very little from existing trade preference programs. Only 5 percent of its exports to the United States benefit from the Generalized System of Preferences.

Lowering tariffs on Pakistan's exports would greatly benefit Pakistan and have minimal effects on U.S. producers and Western trading partners.

- Removing all trade restrictions between the United States and Pakistan (assuming full implementation of CAFTA-DR and NAFTA) would increase Pakistan's textile and apparel exports by one-third and one-half.
- Increased Pakistani exports would displace Chinese or other Asian exports, not U.S. production. Under the scenario described above, Central American exports would increase and Mexico's would remain steady.

Adapted from Kimberly Ann Elliott, "Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy," CGD Working Paper 241 (Washington: Center for Global Development, 2011), [www.cgdev.org/content/publications/detail/1424821/](http://www.cgdev.org/content/publications/detail/1424821/)

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leaders are serious about promoting U.S. national security interests through economic progress in Pakistan, they should be prepared to push hard for something that will actually make a difference. Expanded trade access for all Pakistani exports from all of Pakistan is the best way to ensure a meaningful economic boost in Pakistan—with little cost to American taxpayers, and very little harm to workers in the United States.<sup>32</sup>

## **2. Actively encourage domestic and foreign private investment**

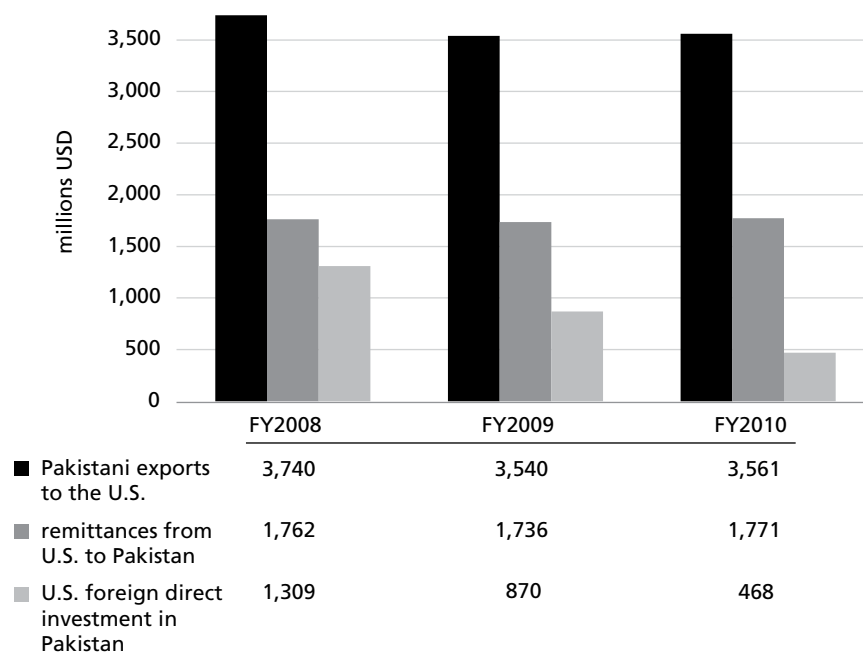
While the United States has tried to help Pakistan with increased flows of aid, there are at least three other ways in which the United States has an economic effect on Pakistan. Pakistani nationals in the United States send remittances to family back home in Pakistan. Pakistani companies export goods and services to the American market. And American firms invest in business opportunities in Pakistan. All of these three channels have the potential to equal or exceed aid's impact on jobs and economic growth in Pakistan (see chart). Over the past two years, however, the full potential of these private flows has not been realized. U.S. direct investment in Pakistan especially has suffered a precipitous decline, falling by nearly two-thirds from 2008 to 2010.<sup>33</sup> Portfolio investment has slowed as well. This is through no conscious policy decision. The global economic crisis combined with the three

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32. Ibid. Elliott and Decker find that Pakistan's exports would compete primarily with other South and East Asian trading partners.

33. State Bank of Pakistan statistics, "Net Inflow Of Foreign Private Investment- Country-wise (New Format)," spreadsheet data, available at [http://www.sbp.org.pk/ecodata/NIFP\\_Arch/index.asp](http://www.sbp.org.pk/ecodata/NIFP_Arch/index.asp).

## Private Capital Flows from the United States to Pakistan



Source: State Bank of Pakistan Economic Data, [www.sbp.org.pk/ecodata/index2.asp#external](http://www.sbp.org.pk/ecodata/index2.asp#external).

instabilities (security, economic, and political) have simply made Pakistan a riskier place to do business. Moreover, the continued failure of the Pakistani government to deal with outstanding policy issues, such as pricing and governance in the energy sector, saps investor confidence.

While those factors are outside U.S. control, the United States can act to blunt the worst of the risk facing companies that might be willing to invest in Pakistan. To use limited public resources to leverage greater private investment, the United States could increase the credit subsidy funding available to the Overseas Private Investment Corporation. OPIC could use these resources to establish a facility to provide new creative forms of risk insurance in Pakistan, and could increase the availability of credit for small and medium enterprises and would-be homeowners. Meanwhile, a group of U.S. senators including John Kerry and Richard Lugar has proposed that \$60 million per year be invested through a new Pakistani-American Enterprise Fund to provide financial and technical assistance for private firms in Pakistan. Importantly, that fund would be administered by a private board, including prominent and respected Pakistani business leaders.<sup>34</sup>

***The United States could increase the credit subsidy funding available to the Overseas Private Investment Corporation.***

34. The text of the Senate proposal for an Enterprise Fund is available at [www.opencongress.org/bill/111-s3665/text](http://www.opencongress.org/bill/111-s3665/text).

Finally, diplomatic efforts could pursue measures designed to restore investor confidence. Helping private creditors and portfolio managers establish dialogue with Pakistani leaders in government and in the business community could help direct investment and portfolio investment recover.

## Target aid for long-term impact

We recognize that if Pakistan were an equally poor but less strategically important country, far less aid and attention would be devoted to supporting development there. Aid is not easy to do well in Pakistan, and done badly it could be counterproductive. Our three recommendations on aid take into account the difficult nature of the challenge, and the inherent risks involved.

### 3. Beware the unintended consequences of aid

As Senator Richard Lugar has noted, “Rushing aid and accelerating programming could inhibit our goals of helping Pakistan achieve a more stable and productive economic situation.”<sup>35</sup> In other words, patience matters not only for ensuring that aid has the greatest positive impact, but also for decreasing the chance that aid spending will be counterproductive. Unfortunately and inevitably, the United States’ desire to make quick progress (including on the diplomatic and security fronts)—and the perception that American aid has produced few visible benefits in the past two years—creates strong pressure for hasty disbursement. That pressure must be resisted.

Indiscriminate aid spending can do harm in at least three ways. First, spending limited aid resources on programs or projects that are not likely to be effective or sustainable has an opportunity cost. Such spending crowds out more effective projects. To the extent that the aid program can affect public opinion in Pakistan, reports of aid money going to waste can only further sour perceptions of the United States.

Second, aid can directly fuel corruption and create new flashpoints for conflict. That is especially a risk in the most insecure regions of Pakistan. Evidence from Afghanistan suggests that the sorts of aid deployed as part of counterinsurgency doctrine often enrich local elites while creating resentment among those who are not lucky enough to reap the benefits. While aid has not been shown to buy goodwill (studies in Afghanistan found “overwhelmingly negative” perceptions of aid among the Afghan people<sup>36</sup>), it represents a flood of cash, amounting to a signifi-

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35. Richard Lugar, “Opening Statement for Hearing on Nomination for Ambassador to Pakistan,” September 23, 2010, available at <http://foreign.senate.gov/imo/media/doc/LugarStatement100923a.pdf>.

36. “Winning ‘Hearts and Minds’ in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations,” Wilton Park Conference WP 1022 (March 2010), [www.wiltonpark.org.uk/resources/en/pdf/22290903/22291297/wp1022-report](http://www.wiltonpark.org.uk/resources/en/pdf/22290903/22291297/wp1022-report).



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## Hard lessons from hard donor experience: \$1.5 billion in aid does not buy U.S. leverage

The experience of the United States, other bilateral donors, and the international financial institutions over many years in many countries suggests that outside leverage on domestic policies, even where large sums of money are involved, is limited. In Pakistan's energy sector, for instance, the World Bank and the Asian Development Bank have for decades stressed the need to rationalize Pakistan's energy tariff prices. Time and again, donors cite the same problems and recommend the same solutions and the government of Pakistan promises to implement the same reform but fails to make progress on the same promises. Likewise, even the heavy-handed, explicit conditionality of the IMF's \$11 billion stabilization package has proven inadequate to force through tax reforms that have raised the ire of key constituencies in Pakistan. This pattern holds true even in countries far more aid dependent than Pakistan is, and even when donors are willing to exit the country, a step which for good reasons the United States has made clear it will not repeat.

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cant percentage of local economic activity in targeted districts.<sup>37</sup> That amount of spending in an environment not conducive to close oversight encourages corruption (as was observed last year in one of USAID's largest contracts in the Federally Administered Tribal Areas) and the erosion of local institutions.

Third, aid spending can, by plugging fiscal and other holes in the short run for Pakistan, make it too easy for Pakistan's own policymakers to put off tough decisions. It also distracts from the policy engagement with which the United States, with other donors, hopes to help Pakistan deal with the short-run political and economic costs of reforms. In sector after sector, solutions to Pakistan's most pressing problems will come only with action from Pakistani leaders. Mobilizing domestic revenues, rationalizing the financing of the energy and water sectors, and improving the governance of the civil service are all far more determinative of long-term success than how American aid is spent. As USAID itself has reported, "if fundamental reforms are not implemented, assistance from the United States and other donors will have stabilized the economy only temporarily."<sup>38</sup> However, none of those reforms is easy—they will come if at all only from a long, halting process of negotiations and coalition-building, the necessary, patient work of politics in a democratically governed country.

***Aid spending can make it too easy for Pakistan's own policymakers to put off tough decisions.***

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37. A back-of-the-envelope calculation suggests that, were planned levels of U.S. aid in FATA distributed evenly across the tribal areas, they would exceed 10 percent of local GDP. In reality, aid is likely much more concentrated, and would represent an even higher percentage of economic activity in targeted villages.

38. "Quarterly Progress and Oversight Report" (note 15).

By funding Band-Aid fixes that delay outright crisis and make it easier to avoid necessary but difficult solutions, even well-implemented aid can delay enduring solutions to Pakistan's most serious problems.<sup>39</sup> To the extent that Pakistani leaders expect and assume disbursement of aid, it makes sense for them to push for that money rather than to work with their political rivals to move on key reforms.

For these reasons, we recommend that much of the \$7.5 billion Kerry-Lugar-Berman aid package not be disbursed immediately. Especially in sectors where serious flaws in public administration are the binding constraints to success, it would be better to backload the bulk of this extraordinary aid investment, to wait until critical policy questions are resolved. This caution is most advisable in sectors where the United States has committed to disbursing its aid funding primarily through government channels.

So-called conditionality in aid spending is an extremely sensitive subject, carrying the implication that donors are using the threat of withholding aid as a stick to force their desired outcomes in Pakistani political debates. That is not the intent of our proposal. In fact, we are highly cognizant of the fact that aid does not buy leverage over domestic policies—even if that were its aim. Rather, we believe that the pure act of delaying disbursement in certain sectors will benefit both the Pakistani reform process and the ultimate effectiveness of U.S. aid.

Yet if money is left undisbursed, the incentives of the congressional budget process could endanger future appropriations of aid. If there are not \$1.5 billion worth of effective investments in Pakistan this year, given constraints on USAID's operations and the state of Pakistan's political process, then USAID must have ways to responsibly delay aid spending. As one possibility, the administration could work with Congress to build a fund (at the World Bank, for example) to finance long-term development programs in Pakistan only when they can be executed well.<sup>40</sup> The United States would continue to supervise the money and retain decision-making power over how and where to spend the aid resources, but could sequester funding that cannot currently be spent well. In the case of energy, for instance, this would mean waiting for the process of reforms to governance and pricing to run its course.

There is also an exception to our general note of caution—we believe that, even in a sector as difficult as energy, the United States could safely proceed with one or two very large, very long-term infrastructure projects without endangering the current opportunity for reform. A megaproject like the long-delayed Diamer-Basha

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39. In certain cases, this dynamic is almost inevitable. External resources that lessen the severity of Pakistan's fiscal crisis likely delay the day when tax collection and tax policy will finally be reformed.

40. Possible models already exist in the Afghanistan Reconstruction Trust Fund and in the Pakistan Multidonor Trust Fund for Khyber Pakhtunkhwa, FATA, and Balochistan. Details of governance and structure would have to be examined for this particular context.

dam will take an estimated seven to ten years to be completed. In that period of time, Pakistani advocates for a better-governed, better-performing energy sector can be afforded the space they need to finally secure the common-sense reforms that have eluded Pakistan for decades.

#### 4. Finance what is already working

As a rule of thumb, the United States should spend more of its aid where progress is already being made—not where it continues to be elusive. Spending in sectors where a stalled reform process is a binding constraint can harm the long-term development mission, distracting from and delaying the policy changes needed to put Pakistan’s economy on a sturdier foundation. By identifying geographic areas and sectors where political obstacles have already been addressed and public constituencies are mobilized, the United States will maximize the development impact of its aid budget. Doing so would also amplify the good work of independent Pakistani champions of change. Thus, payment for progress makes both development sense and political sense.

##### *Cofinance successful programs with other donors*

To pay for things that are working well, we suggest that the United States be much more open to cofinancing projects with other bilateral and multilateral donors. In the education sector, for example, the World Bank and DfID have programs in Punjab and Sindh provinces that are delivering results.<sup>41</sup> Additional resources for these programs from the United States could produce significant benefits, with no need for USAID to duplicate work others have already done well. The United States has partnered with DfID to advance the work of the Pakistan Education Task Force, an independent group that features prominent members from Pakistan’s government and civil society. It should seize this opportunity to further the movement for education reform by putting significant resources into the special fund the task force has created to fund innovations in education.

##### *Pay for verified outcomes*

U.S. agreements with the Pakistani government for payment for performance could also be much more literal. Increasingly, the United States uses Fixed Amount Reimbursement contracts to ensure that aid for small-scale infrastructure projects is disbursed only for projects that are completed satisfactorily. That idea can be extended to pay for outcomes in the education, health, water, and agricultural sectors. We believe a pilot of Cash on Delivery Aid for education—paying a provincial government for verified, incremental progress against a mutually agreed-upon development indicator—makes sense in Pakistan.

For example, a provincial government would receive initial support to roll out universal student testing. Then, the United States might pay \$100 for each additional

***We suggest that the United States be much more open to cofinancing projects with other bilateral and multilateral donors.***

***Paying a provincial government for verified, incremental progress against a mutually agreed-upon development indicator makes sense in Pakistan.***

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41. See for example the implementation status report and project paper for the World Bank’s Punjab Education Sector Project, available at <http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P102608>.

child above a baseline who completes primary school—public or private—and takes the standardized test of learning. In short, if the provincial government or district governments are willing and able to find ways to improve their overall primary education system, they would be rewarded with additional unrestricted cash.<sup>42</sup>

The money made available through a Cash on Delivery contract could put an important lever into the hands of reform-minded officials in the Pakistani government. It would promote local ownership by requiring the recipient to assume full responsibility for the design and implementation of strategies, without conditions or restrictions on how funds can be used. It would help donors and recipients alike place greater emphasis on measuring development outcomes and learning from both successes and failures. It reduces the administrative burden on both parties in an aid transaction, and offers a clear way to summarize for citizens in donor and recipient countries the progress aid is helping to achieve.

## **5. Support and engage with Pakistan’s reformers**

While the United States cannot buy political outcomes in Pakistan, it can play a catalytic role to make the very difficult politics of reform slightly easier. To do so, the United States must work to empower those in Pakistan who are their country’s most powerful champions of change.

The United States’ engagement with Pakistan has been impressive. However, the useful start U.S. diplomats have made building government-to-government ties should be expanded to what one Pakistani with long experience in and out of government calls “stakeholder-to-stakeholder” engagement. The United States can help by making sure that advocates for reform are included in negotiations with government and by advocating for the democratic tools—access to information, freedoms of assembly and speech—that can sustain reform constituencies.

As another means of engaging with nongovernmental stakeholders, the United States should offer Pakistanis ways to comment on and shape the direction of the U.S. development program. Partly, this involves the sort of transparency described in section II of this report. Keeping natural allies in the dark about what the United States is doing in Pakistan is an unforced error of the greatest magnitude. Beyond this, however, U.S. staff on the ground in Pakistan should reach out to well-informed and well-respected Pakistanis—and seek ways to insulate these relationships against the inevitable shocks of staff turnover. As one example, the USAID mission director could regularly convene an advisory board of Pakistanis from a variety of fields. Such a group would offer a valuable perspective and could

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42. This proposal is explored in greater detail in Wren Elhai, “The Challenge of Aid in Pakistan: Is Cash on Delivery Part of the Solution?” CGD Brief (Washington: Center for Global Development, 2011), [www.cgdev.org/content/publications/detail/1424685/](http://www.cgdev.org/content/publications/detail/1424685/). For the general case, see also Nancy Birdsall and William Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington: Center for Global Development, 2010).

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## A possible portfolio of good investments

We have stressed that aid spending alone cannot constitute a development strategy. However, it is important for the United States to carefully consider how it allocates its scarce aid resources. Below is a sample portfolio of aid investments that takes advantage of U.S. strengths, avoids the worst risks of doing harm, and promotes a more functional, democratic political process in Pakistan. It is intended to balance the many different U.S. objectives in Pakistan while maintaining a long-term development focus. Though no U.S. program can solve Pakistan's economic woes alone, these investments could make a difference. Several of these investments are included in USAID's current portfolio.

1. **Support one or two major, long-term infrastructure projects.** In general, we are wary of putting money into Pakistan's energy sector at this time. Even well-implemented short-term investments could be harmful in the long-term by blunting the pressure for fundamental reform of the sector. However, a major investment in a large hydropower project, such as the one planned at Diamer-Basha, may avoid these risks. It also has features which are valuable in their own right: it would involve a healthy degree of collaboration with private-sector partners and would take advantage of American expertise in engineering and finance. Moreover, it would be a highly visible symbol of the United States' long-term commitment to Pakistan—something many policymakers in the U.S. and Pakistan have been eager to see. A similar argument could be made for the financing of a road or rail link from the port city of Gwadar in Balochistan.
2. **Cofinance innovations in education.** Other donors have made considerable progress in education in recent years, including on securing buy-in from provincial governments for reform. Targeted investments in Pakistan's education sector that build on the promising reform efforts already underway are a way for the United States to add to the success. In Pakistan, the best way for the United States to support education is to cofinance and extend the reach of the good work of the World Bank and DfID. For example, the United States should give a significant amount (at least \$50 million) to a new innovation fund administered by the U.S.-UK-Pakistan Education Task Force.
3. **Make health or agriculture a signature priority.** Those in charge of the U.S. development program could consider choosing either health or agriculture as a key priority, taking advantage of the technical expertise and focus that USAID already has in those sectors. The Obama administration launched two global initiatives focused on specific development sectors. The Global Health Initiative targets eight priority countries for focused attention on collaborative planning and impact evaluation.

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(continued)

The Feed the Future initiative selects countries for a similarly focused attention across the sectors that affect food security. Through these two initiatives, the United States is developing significant capacity to implement sectoral programs in health and in food security.

4. **Fund small-scale upgrades to the machinery of Pakistan's democracy.** Improving the functioning of Pakistan's democratic system could help champions of reform make their voices heard. Most of the help the United States can provide in this space is low profile and very low cost. Technical support for a national census, advisors to support the process of devolution, and support for independent policy research in Pakistani think tanks and universities could all be done well on a tiny fraction of the overall aid budget—\$30 million would be just 2 percent of the 2010 appropriation. For many years, support for universities in Pakistan and scholarships for Pakistanis to study in the United States have been just such a long-term investment mechanism for the United States. The Fulbright scholarship program in Pakistan is over 60 years old and accepts more applicants than any other Fulbright program in the world.

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help to communicate a development strategy to a broader swath of Pakistani society.

***The USAID mission director could regularly convene an advisory board of Pakistanis from a variety of fields.***

At a less visible level, the United States should support the unglamorous but important projects that maintain the machinery of Pakistan's democracy. Providing, for example, financial and technical support to conduct a technically sound and transparent national census could yield benefits down the road by producing a more representative balance of political power.

As the process of devolution moves forward, the United States could offer technical support to provincial governments requesting help fulfilling their new administrative responsibilities. The United States could also provide funding to support high-quality, independent policy research in Pakistan's universities and think tanks and should build local capacity to conduct public opinion polls, understand and analyze government budgets, and communicate with members of parliament.<sup>43</sup> The aim would be to create the sort of scrutiny of the process of government that encourages better policy in Washington.

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43. The multidonor Think Tank Initiative, administered by the International Development Research Center, already provides core grants to think tanks in Africa, Latin America, and South Asia—including two in Pakistan. U.S. funding for the initiative could be earmarked to expand support for Pakistani institutions. More information on the Think Tank Initiative is available at [http://publicwebsite.idrc.ca/EN/Programs/Social\\_and\\_Economic\\_Policy/Think\\_Tank\\_Initiative/Pages/default.aspx](http://publicwebsite.idrc.ca/EN/Programs/Social_and_Economic_Policy/Think_Tank_Initiative/Pages/default.aspx).

## IV. Conclusions

The U.S. development program to this point has been a victim of its designers' ambitions. The relevant decision makers agree that the United States' relationship with Pakistan should go beyond military aid and covert operations, and the \$7.5 billion Enhanced Partnership aid package was born from that consensus. However, the focus on the new aid package has not extended to the trade and investment opportunities the United States could provide to create jobs and enhance growth in Pakistan. And the high hopes for the aid package have raised unrealistic expectations, generated multiple conflicting objectives, and inspired competing lines of authority. This toxic combination has made what would be a difficult mission under any circumstances nearly impossible.

Some of the constraints on the U.S. program in Pakistan are symptomatic of broader flaws in the way the United States executes development policy around the world. The Obama administration has defined a new approach, emphasizing the logic of country ownership and the utility of tools beyond aid. But who is responsible for implementing development policy and programs, particularly in weak but strategically important states like Pakistan, is far from clear. The integration of diplomacy and development led by the State Department that makes sense on paper has not yet produced a clear mission or effective implementation in Pakistan.

Within USAID, the overhaul of procurement and the new focus on innovation, learning, and systematic evaluation of outcomes and impact is impressive, but it will take time to take hold at the level of country programs. And it will not in itself relieve the heavy burden of oversight under which USAID operates. This burden, which has accumulated over several decades, slows operations and reduces incentives to take reasonable risks.<sup>44</sup>

Still, within those larger constraints, we believe the U.S. development strategy in Pakistan can be greatly improved—and that now is the time to do so.

The necessary solution can be summarized as a bureaucratic bargain. The Obama administration must much more clearly describe what its development program intends to accomplish in Pakistan and how it will be measured. It must make this information clear to American staff in Washington and Pakistan and clarify who is responsible for leadership on trade and investment options and designing and implementing an aid program to deliver results. If this can be accomplished, Congress and top administration officials should give USAID and State Department staff space to carry out their missions. With respect to aid, a strong, unambiguous statement of purpose and a commitment to transparency is a prerequisite for earning the trust of Congress and of Pakistanis. The more trust the

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44. Andrew Natsios, "Clash of the Counter-bureaucracy" (note 20).

foundations of U.S. strategy inspire, the more that strategy can expect and deserve to be spared from the politicization and micromanagement that have bedeviled the program in Pakistan to this point.

If that bargain can be secured, we believe it is not too late for the United States to make a meaningful contribution to Pakistan's development. The process will take time and will be guided first and last by Pakistanis themselves. However, American policies can help—at relatively minimal cost given the importance of Pakistan's success to the United States. To do so, however, a strategy must be in place to structure and manage these policies to reach their full potential.



## Appendix A. Background and Objectives of the CGD Study Group on a U.S. Development Strategy

In early 2010, the Center for Global Development convened the Study Group on a U.S. Development Strategy in Pakistan. Chaired by CGD president Nancy Birdsall, the study group includes experts in aid effectiveness, development economics, and national security, several of whom are themselves Pakistani.

The objective of the study group is to offer practical and timely recommendations to U.S. policymakers on the effective deployment of foreign assistance and, more broadly, other non-aid instruments for achieving sustainable development in Pakistan. The group has drawn on the work of recent task forces and commissions that have examined U.S. relations with Pakistan. Such efforts have taken into account security, military, and regional issues but have often paid little attention to development assistance. The CGD study group's work complements these efforts by focusing specifically on development policy in Pakistan and by drawing lessons from the vexing challenges that donors have faced in Pakistan over the past several decades.

The study group has met seven times since February 2010 to discuss specific questions about development in Pakistan, including the administration's assistance strategy, challenges of effective deployment of assistance in Pakistan's FATA region, Pakistan's energy and water crises, aid to the education sector, and a U.S. response to the 2010 floods.

Drawing on the recommendations and ideas from the study group discussions, Nancy Birdsall authored a series of five open letters to Ambassador Richard Holbrooke, the State Department's Special Representative for Afghanistan and Pakistan. The letters, available through CGD's website, have provided the basis of our ongoing dialogue and consultations with U.S. officials in the State Department, USAID, the White House, and Congress. To reach a broad audience, the Center published the letters on CGD's website and disseminated them to relevant stakeholders, including members of the press and those in the policy and research communities.

## Appendix B. Additional CGD Publications and Resources on Pakistan

“Beyond Short-Term Thinking: How to Spend Billions Well in Pakistan, for Them and for Us” by Nancy Birdsall, Wren Elhai and Molly Kinder (CGD Essay, 2010), [www.cgdev.org/content/publications/detail/1424399](http://www.cgdev.org/content/publications/detail/1424399).

“The U.S. Aid ‘Surge’ to Pakistan: Repeating a Failed Experiment? Lessons for U.S. Policymakers from the World Bank’s Social Sector Lending in the 1990s” by Nancy Birdsall and Molly Kinder (CGD Working Paper 205), [www.cgdev.org/content/publications/detail/1423965](http://www.cgdev.org/content/publications/detail/1423965).

“Stimulating Pakistani Exports and Job Creation: Special Zones Won’t Help Nearly as Much as Cutting Tariffs across the Board” by Kimberly Ann Elliott (CGD Note, 2010), [www.cgdev.org/content/publications/detail/1424056/](http://www.cgdev.org/content/publications/detail/1424056/).

“Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy” by Kimberly Ann Elliott (CGD Working Paper 241), [www.cgdev.org/content/publications/detail/1424821](http://www.cgdev.org/content/publications/detail/1424821).

“Shared Goals: Measuring Overall Development Progress in Pakistan” by Nancy Birdsall and Wren Elhai (CGD Essay, 2011), [www.cgdev.org/content/publications/detail/1424744](http://www.cgdev.org/content/publications/detail/1424744).

“The Challenge of Aid in Pakistan: Is Cash on Delivery Part of the Solution?” by Wren Elhai (CGD Brief, 2011), [www.cgdev.org/content/publications/detail/1424685/](http://www.cgdev.org/content/publications/detail/1424685/).

**Open Letter #1:** “Guidelines for Effective Aid in Pakistan,” March 29, 2010, [www.cgdev.org/content/publications/detail/1424036](http://www.cgdev.org/content/publications/detail/1424036).

**Open Letter #2:** “U.S. Development Assistance to the Federally Administered Tribal Areas,” May 3, 2010, [www.cgdev.org/content/publications/detail/1424103](http://www.cgdev.org/content/publications/detail/1424103).

**Open Letter #3:** “U.S. Development Assistance to Pakistan’s Energy Sector,” May 25, 2010, [www.cgdev.org/content/publications/detail/1424170/](http://www.cgdev.org/content/publications/detail/1424170/).

**Open Letter #4:** “Adequate Staffing of the Development Assistance Program in Pakistan,” June 23, 2010, [www.cgdev.org/content/publications/detail/1424249](http://www.cgdev.org/content/publications/detail/1424249).

**Open Letter #5:** “U.S. Development Assistance to Pakistan’s Education Sector,” September 28, 2010, [www.cgdev.org/content/publications/detail/1424466](http://www.cgdev.org/content/publications/detail/1424466).



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