



Woodrow Wilson
International
Center
for Scholars

Asia Program

Aiding Without Abetting:

Making U.S. Civilian Assistance to Pakistan
Work for Both Sides



Aiding Without Abetting:

Making U.S. Civilian Assistance to Pakistan
Work for Both Sides

**An initiative of a working group on Pakistan,
convened by the Asia Program at the
Woodrow Wilson International Center for Scholars**

Wilson Center Working Group on Pakistan

Polly Nayak, *Chair*

Robert M. Hathaway, *Working Group Convener*

Working Group Members

Ehtisham Ahmad

Samia Altaf

Shahid Javed Burki

Craig Cohen

Mirza Jahani

Esperanza Gomez Jelalian

Mohsin Khan

Michael Kugelman

Dennis Kux

Wilson Lee

William Milam

Shuja Nawaz

John W. Sewell

Anne T. Sweetser

Huma Yusuf

Hasan Altaf, *Research Assistant*

WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

Jane Harman, President, Director, and CEO

BOARD OF TRUSTEES

Joseph B. Gildenhorn, Chair

Sander R. Gerber, Vice Chair

PUBLIC MEMBERS: Melody Barnes, designated appointee from within the Federal Government; James H. Billington, Librarian of Congress; Hillary R. Clinton, Secretary, U.S. Department of State; G. Wayne Clough, Secretary, Smithsonian Institution; Arne Duncan, Secretary, U.S. Department of Education; David Ferriero, Acting Archivist of the United States; James Leach, Acting Chairman, National Endowment for the Humanities; Kathleen Sebelius, Secretary, U.S. Department of Health and Human Services

PRIVATE CITIZEN MEMBERS: Timothy Broas, John Casteen, Charles Cobb, Jr., Thelma Duggin, Carlos M. Gutierrez, Susan Hutchison, Barry S. Jackson

ABOUT THE CENTER

The Center is the living memorial of the United States of America to the nation's twenty-eighth president, Woodrow Wilson. Congress established the Woodrow Wilson Center in 1968 as an international institute for advanced study, "symbolizing and strengthening the fruitful relationship between the world of learning and the world of public affairs." The Center opened in 1970 under its own board of trustees.

In all its activities the Woodrow Wilson Center is a nonprofit, nonpartisan organization, supported financially by annual appropriations from Congress, and by the contributions of foundations, corporations, and individuals. Conclusions or opinions expressed in Center publications and programs are those of the authors and speakers and do not necessarily reflect the views of the Center staff, fellows, trustees, advisory groups, or any individuals or organizations that provide financial support to the Center.

TABLE OF CONTENTS

Executive Summary	2
Part I: Introduction	4
Part II: Two Crises and a Potential Solution	10
Part III: Sweet Spots for a Reset of KLB Civilian Aid	27
Part IV: Key Recommendations	43
Appendices	56
Endnotes	64

EXECUTIVE SUMMARY

In October 2009, President Obama signed into law the “Kerry-Lugar-Berman” (KLB) act, committing the United States to a multiyear program of expanded non-security assistance to Pakistan. Nearly two years later, the United States is still struggling to fashion and implement an effective program of civilian aid for Pakistan. Indeed, many analysts in both the United States and Pakistan fear that KLB has little chance of succeeding.

The U.S.-Pakistan partnership already faces unprecedented strains, and dissatisfaction in both countries over KLB’s record reinforces other sources of tension in the relationship. Vital U.S. interests require a successful Pakistan—prosperous, stable, democratic, and capable of playing a constructive role in global affairs. Writing Pakistan out of the U.S. foreign policy script is not a realistic option for the United States. The United States cannot afford for KLB to fail.

Reflecting widespread concern in both countries that KLB was in grave danger, the Woodrow Wilson Center’s Asia Program organized a 17-member working group earlier this year to examine both the broad principles governing the aid program, and some of the specific mechanisms of implementation. This report is the product of extensive consultations, in Pakistan as well as in Washington.

- It concludes that a robust program of U.S. civilian assistance to Pakistan serves important interests of both countries.
- It warns that substantial mid-course changes are needed if KLB is to fulfill the hopes of its proponents.
- And it offers nearly 30 recommendations that should guide U.S. and Pakistani officials as KLB moves forward.

Some of the key recommendations proposed by the Wilson Center working group appear on the following page. The full list of recommendations may be found in Part IV of this report.

SELECTED RECOMMENDATIONS

- Continue to implement KLB aid without adding security- or economic-reform-related conditions—but advocate reforms. Press Pakistan to return to an arrangement with the International Monetary Fund (IMF).
- To ensure that U.S. aid augments and does not replace local funding, require Pakistani co-investment in all KLB civilian aid projects except disaster relief.
- Establish a more realistic timeline, with benchmarks, for stepping up the percentages of U.S. aid to be dispensed through Pakistani government structures.
- With support from other donors, press Pakistan to create and use transparent Treasury Single Account-type mechanisms to improve tracking and donor oversight of aid.
- Continue budgetary support for the Benazir Income Support Program only if it is tightened to exclude political manipulation and move beneficiaries toward eventual independence.
- Devise metrics for KLB programs in cooperation with Pakistani implementers.
- Use independent third parties for KLB project evaluations.
- Partner with local civil society organizations to improve input from aid beneficiaries, local citizen watchdog groups, and impacted populations throughout the life of a program.
- Enhance in-country aid coordination with like-minded bilateral donors.
- Help fill the Pakistan government's most critical expertise gaps at the federal and provincial levels—but with “payback” conditions for beneficiaries.
- Recognize the importance for Pakistan's future of its urban areas; fund urban clean water, power, sanitation, youth organizations, and literacy training.
- Support expansion of Pakistan's small/medium enterprises sector; target small grants and seed money to new lines of business.
- Make vocational skills training the main U.S. contribution to education in Pakistan.
- Create mechanisms to mobilize resources from and tap technical and management skills of the Pakistani diaspora in the United States and elsewhere for new ventures in Pakistan.
- Do not substitute bilateral trade, as valuable as it is, for aid, as some Americans and Pakistanis have proposed. Pakistan needs both development and growth.
- Increase USAID's use of contracts, and transition away from cooperative agreements. Recruit more seasoned technical experts; extend Pakistan tours; and devolve authority and accountability.
- Be aware of issues on which U.S. pressure might be counterproductive to development objectives; keep expectations modest; and be patient in our approach.

PART I: INTRODUCTION

The U.S.-Pakistan relationship, never easy even in the best of times, is in danger of collapsing. The strategic imperatives of the two countries are at odds, while a long history of dashed expectations and mutual distrust makes it difficult to bridge this chasm. Pakistanis resent American infringement of their territorial sovereignty, as exemplified by both the steady drumbeat of drone attacks and the Abbottabad raid that killed Osama bin Laden, and accuse Washington of meddling in Pakistan's domestic affairs. Americans are angry that the insurgents killing U.S. military personnel in Afghanistan all too easily find secure refuge in Pakistan's tribal areas, and think Pakistan ungrateful for the substantial assistance provided Islamabad over the past 10 years.

Unhappiness in both Pakistan and the United States over American civilian assistance to Pakistan is reinforcing other sources of tension. The United States, under the terms of the Enhanced Partnership with Pakistan Act of 2009,¹ has committed to a substantial program of civilian aid to Pakistan over a multiyear period. No policy could hope to satisfy all the conflicting expectations focused on this “Kerry-Lugar-Berman” (KLB) assistance—but, without meaningful changes to the aid program in the immediate future, both Pakistanis and Americans may find themselves asking, a few years from now, “Where did \$7.5 billion go? Why do we have so little to show for all that money?”

THE ISSUE: A HIGH-STAKES POLICY IN JEOPARDY

This study sounds a double alarm about U.S. civilian aid for Pakistan, authorized with bipartisan support by Title I of the Enhanced Partnership with Pakistan Act of 2009. Title I calls for *non-security* assistance for Pakistan in support of two interrelated goals: strengthening elected civilian government, and promoting the long-term economic and political development of the Pakistani people.² KLB Title I is designed to invest in the future internal stability of an increasingly troubled pivotal state.³ As the framers of KLB recognized in Title I, a system of accountable civilian government, with input from diverse interests and a progressive business sector, would offer the best chance of producing responsible and capable governance in Pakistan in the long run.

Our first warning bell concerns unintended consequences for U.S. interests of punitively reducing or terminating KLB civilian aid to Pakistan, or newly conditioning it on Islamabad's security cooperation. Any of these steps would gravely

damage American interests, short- and long-term. As a pressure tactic to bring Pakistan into line with U.S. security policies, threatening to end civilian aid is unlikely to influence policies controlled exclusively by Pakistan's autonomous armed forces and intelligence services. But a punitive cutoff of civilian aid would alienate America's remaining allies in private, media, and nongovernmental organization (NGO) circles. Conditioning U.S. civilian aid on Pakistan's security performance would confirm to skeptical Pakistanis that KLB is, as they fear, just another U.S. lever to press Islamabad to accept U.S. security priorities, and hence an affront to Pakistani sovereignty that is best rejected.

Our second warning bell relates to the relevance and effectiveness of initial KLB civilian assistance programs launched by the United States Agency for International Development (USAID). It is too soon to judge this aid a failure, as some analysts have done, but it is already clear that mid-course corrections are vital to avoid lost opportunities and disappointed expectations on both sides. Some initial obstacles to launching this aid have been beyond USAID control. These include late funding, changing lines of authority, U-turns on how aid should be funneled into Pakistani hands, and the fractious policy environment in both countries. KLB is burdened with differing expectations on both the American and Pakistani sides and between them. Uncertainties about support for this aid in both countries undercut the very long-term commitment to development that was the point of KLB, making it harder to get Pakistanis to engage. Redressing these problems on the U.S. side will require policymakers to recommit to the original vision—and to convey this recommitment to Pakistanis in a persuasive way.

USAID, however, must acknowledge what many analysts see as a ragged start to its design and delivery of KLB civilian aid for Pakistan. Some Pakistanis see USAID's initial programs as flawed owing to insufficient local input. Critics in both countries see these first choices as scattershot and lacking a cogent underlying strategy linking broad goals to desired outcomes. In addition, many Pakistanis are critical of USAID personnel and procedures in the USAID mission in Islamabad. The rising stakes in Pakistan scream for a bold recalculation of ends and means.

Why? The authors of this report believe that perceptions in Pakistan and the United States about American assistance will help determine whether the overall relationship between the two countries flourishes or flounders. They also believe that the further deterioration of bilateral ties would be harmful to both the United States and Pakistan.

It will ultimately be for *Pakistan* to affirm its equities in placing relations with the United States on a firmer footing and in making foreign aid work better. This study, although involving numerous Pakistani experts, has been prepared

under the auspices of an *American* institute of advanced research.

But we can state with great confidence that vital U.S. interests depend on stabilizing Pakistani society, which, in turn, requires strengthening the U.S. assistance program to Pakistan.

What leads us to this conclusion?

First, writing Pakistan out of the U.S. foreign policy script is not a realistic option. Pakistan will remain important to U.S. interests even after U.S. forces depart Afghanistan. Pakistan's geographic location, demographic heft, military might, nuclear weapons capability, and close ties to China and Saudi Arabia alone will guarantee that.⁴ Islamabad is a prominent actor in the Islamic world. A Pakistan well-disposed to the United States could be a key political, diplomatic, economic, and security partner; a hostile Pakistan could throw up major obstacles to achieving U.S. goals.

Second, U.S. vital interests require a successful Pakistan—a more prosperous, stable country, capable of playing a more constructive global role. This would require development of a more robust participatory democracy and more capable civilian institutions, as well as economic reforms and growth sufficient to improve the lives of a burgeoning population.

Third, the list of reasons why Pakistan cannot be ignored is multiplying alarmingly. A perfect storm of internal social, economic, and political crises is bearing down on Pakistan; the storm may dwarf U.S. concerns about terrorism and insurgencies in the “AfPak” area over the next decade. Pakistan's most serious problems have more to do with a selfish elite wedded to a status quo that consigns some 40 percent of the population to dire poverty with little or no education or health care, than with terrorism or religious fundamentalism. Some astute Pakistanis discern an emerging conflict between powerful haves and disenfranchised have-nots. Chaos in Pakistan would serve no U.S. interest.

How is KLB aid essential to advancing these U.S. interests?

- Promoting stability and prosperity in Pakistan requires new forms of private enterprise and political structures there. Carefully targeted KLB assistance can stimulate such changes. *Cutting off U.S. civilian aid to Pakistan would reduce the likelihood of progress in these directions.*
- KLB assistance can play a small but vital role in giving even Pakistan's poorest a greater stake in political and economic stability. Most Pakistanis will soon live in cities. Relatively modest investments can help avert public health catastrophes and explosive violence in destitute, overcrowded urban areas. *Without KLB aid, Washington would lose its best chance to help Pakistan mitigate and weather its growing internal storm.*

- For many Pakistanis, U.S. civilian aid is a litmus test of Washington's sincerity. *Terminating the highly publicized U.S. assistance program would fuel anti-Americanism in Pakistan. A mistrustful Pakistani public would conclude that America had once again abandoned their country as its short-term utility waned. Pro-U.S. elements in Pakistan would feel betrayed, depriving Washington of a critical source of support. Anti-Americanism, in turn, contributes to an environment sympathetic to militant penetration of Pakistani civilian and military institutions, reinforcing U.S. fears about the safety and security of Pakistan's nuclear assets.*

The U.S. civilian assistance program to Pakistan, meanwhile, is in grave danger, beset by doubts and suspicions in Pakistan, and skepticism and heightened fiscal pressures in the United States. Some knowledgeable observers have already concluded that KLB has no chance of success. We are not yet prepared to draw that dire conclusion, but we fear that without substantial U.S. changes in the KLB program, it will fail.

THIS STUDY

This study assesses these and related issues, and recommends pragmatic mid-course changes to KLB civilian assistance to Pakistan. Our guiding question is how this aid can be made to better support both Pakistani needs and capabilities and vital *long-term* U.S. interests. This report is addressed mainly to an American audience, including U.S. officials who are neither Pakistan nor foreign aid specialists. Accordingly, the study looks more at the broad principles that guide the KLB program than at the nuts and bolts of the aid process.

This study examines:

- The intent of KLB civilian aid.
- The debates in each country about whether KLB promotes its interests.
- The risk that KLB civilian aid will disappoint both Americans and Pakistanis because their expectations are misaligned.
- The case for refocusing KLB civilian aid on looming socioeconomic instability in Pakistan.
- Potential consequences if Washington were to eliminate rather than to fix KLB civilian aid.
- Institutional issues and tradeoffs affecting program design choices.
- How best to ensure Pakistani ownership of the development process and to keep KLB civilian aid from being seen in either country as a permanent entitlement for Pakistan.
- Recommended areas of assistance that advance priorities shared by both sides, with an eye to emerging problems and opportunities in Pakistan.

The conclusions of this study are a product of:

- Deliberations by an expert multidisciplinary Washington-based working group, most of whose members have long experience either as Pakistan watchers or as aid specialists.⁵
- Consultations with sitting and former U.S. and Pakistani officials, economists, development specialists, and private sector individuals.
- Discussions in Pakistan by some working group members with 45 policy and development experts, business leaders, and social activists.

This study complements the focus and findings of several recent reports dealing with related issues:

- A June 2011 study by the Center for Global Development containing valuable recommendations on U.S. aid architecture and practices with respect to Pakistan.⁶
- A comprehensive Congressional Research Service report, *Pakistan: U.S. Foreign Assistance*, also issued in June 2011.⁷
- A Council on Foreign Relations study on U.S. policy on Pakistan and Afghanistan, released in December 2010.⁸
- A seminal policy analysis by Craig Cohen and Derek Chollet from 2007, “When \$10 Billion Is Not Enough.”⁹

ACKNOWLEDGMENTS

This report is an initiative of the Asia Program of the Woodrow Wilson International Center for Scholars. The findings and recommendations of the report, however, reflect the individual views of the working group members, not those of the organizations with which they are affiliated, nor of the Wilson Center.

The Wilson Center’s Asia Program is extremely grateful to the Fellowship Fund for Pakistan, a charitable trust in Pakistan, and MLResources, LLC, whose generous support has made this project possible. Neither, however, endorses or is responsible for the conclusions or recommendations contained in this report.¹⁰

The chair of the working group and the principal author of this report was Ms. Polly Nayak. The Wilson Center and its Asia Program are immensely indebted to Ms. Nayak for the enthusiasm, dedication, and splendid judgment she brought to this project.

Additionally, deep appreciation is due to the 17 members of the independent working group that met at the Woodrow Wilson Center approximately every 10

days from late January to early June 2011. A list of working group members may be found in Appendix I of this report. This report is a consensus document, broadly reflecting the views of the working group members. No member of the group necessarily agrees with every recommendation or judgment contained in this report.

And finally, Hasan Altaf, who served as the research assistant for most of the life of the working group, has amply earned our gratitude. If he typifies Pakistan's next generation, then that country has a very promising future.

PART II: TWO CRISES AND A POTENTIAL SOLUTION

AN OLD BILATERAL CRISIS REKINDLED: CONFRONTATIONS OVER SECURITY ISSUES

In the early months of 2011, even before the U.S. raid on Abbottabad in which Osama bin Laden was killed, many analysts concluded that the U.S.-Pakistan relationship was as strained as at any time since 9/11. The arrest in January of Raymond Davis, a CIA contractor who killed two men he claimed were trying to rob him, sparked months of recriminations and diplomatic reprisals between the two governments. Pakistani indignation over frequent U.S. drone attacks further stirred the pot, as did Pakistan's apparent inability to clean out Taliban sanctuaries in its tribal areas. The debate in Washington about how soon U.S. forces could leave Afghanistan raised angst among some Pakistanis that the United States would again turn its back on their country when it was no longer needed as a frontline state. Anger surged on both sides after the Abbottabad raid. Americans were indignant that bin Laden had been hiding in plain sight in a city so close to Islamabad; many doubted that this could have occurred without official Pakistani complicity. Pakistanis saw the operation, which had been launched by U.S. Special Forces without forewarning or consulting with Pakistani authorities, as a humiliating violation of national sovereignty. Tensions grew further following charges by U.S. officials in September that Pakistani intelligence was complicit in attacks by Pakistan-based Haqqani network militants on U.S. facilities and NATO troops in Afghanistan.

These tensions have spilled into debates in the U.S. Congress and in Pakistan's parliament, and led to harsh long-distance verbal exchanges. In recent months, discussions about Pakistan on Capitol Hill have moved from possible budget-driven aid cuts to punitive cuts or the imposition of new conditions on development assistance. Aid that was meant to help democratic rule take root and gain legitimacy may instead become a casualty of controversies that KLB meant to bypass. On the U.S. side, domestic factors also are working against U.S. civilian aid to Pakistan; these include the U.S. fiscal crisis, new calls for focusing on joblessness and other economic difficulties, and growing skepticism about foreign aid.

THE LOOMING NEW INTERNAL CRISIS

Washington's preoccupation with contentious bilateral security issues has eclipsed what may well become a larger U.S. concern in coming years: Pakistan, already a fragile state, faces a tidal wave of internal stresses that could belie the myth that the country always muddles through. This looming "tsunami" is centered in "settled" or "main" Pakistan where most Pakistanis live, and not in the tribal belt bordering Afghanistan. Fueling the crisis are:

- Economic, political, and social divisions that have been complicated by Islamization.
- Socioeconomic pressures building from below after decades of dominance by a narrow elite in the military and civilian establishments that retains a monopoly over the best education, agricultural land, urban real estate, and jobs—and access to scarce capital.
- A "youth wave" that is about to engulf urban areas. Half of all Pakistanis are 21 years old or younger.¹¹ Rural in-migrants are piling into slums that often lack access to clean water, basic education, health care, and jobs.
- A legacy of 20 years of zigzagging policies that have left Pakistan politically and economically underdeveloped and un-reformed, with no consensus on its future direction.
- An economy that is beset by stagflation. Growth is largely at the mercy of fluctuating external flows—foreign aid and private remittances by Pakistani expatriates. Energy shortages are closing factories. Rising fuel and food costs are pushing many Pakistanis deeper into poverty. Some 60 percent of women and children are food insecure.¹²
- Domestic extremists who have brought their war on the state to cities in "settled" Pakistan.

Even as these problems emerge, shifts in Pakistan's power structure are raising questions about where the authority and legitimacy to cope with this "tsunami" will reside in 5 to 10 years.

First, democracy is on probation in Pakistan, associated in the public mind with incompetent and corrupt elected officials. Only 33 percent of respondents in the British Council's 2009 broad-based "Next Generation" survey of 18-to-29-year-olds approved of democracy.¹³

Second, the outcome of a recently launched high-stakes process of political devolution from central to provincial governments, effected through the 18th Amendment, is highly uncertain. Both stability and democracy in Pakistan hinge on the devolution process. The process is further complicating the country's

disastrous fiscal situation—the product of successive governments’ failure to reform the tax system while continuing to borrow and spend. The only relative certainty is that devolution will increase the sway of Pakistan’s provincially based mainstream political parties.

Third, the long-dominant military’s “Teflon” credibility with citizens has been damaged by its cooperation with U.S. security operations, perceived failure to keep the United States from violating the country’s sovereignty, and difficulties in countering domestic extremists. Banned radical groups have recruited officers and penetrated military facilities, challenging the armed forces’ reputation as the linchpin of Pakistan’s unity and stability, and as guardian of its nuclear arsenal.

The potential makings of revolt against the entire political and/or socio-economic order are apparent in the younger generation, including many in its middle and upper-middle classes. Eighty-five percent of 18-to-29-year-olds in the British Council sample disliked where Pakistan is headed. Fifty-eight percent thought that most violence was caused by everyday injustice and poor economic conditions—two of the most-often cited complaints of Pakistan’s poor. Thirty-three percent liked the idea of Islamic *sharia* law because it had to be better than the status quo. Those who assume that Pakistanis are too divided or too patient to rebel or to take to the streets are extrapolating from the past—not focusing on uncertainties introduced by the unprecedented changes now under way.

There is much that we do not yet know about the emerging Pakistan, but it is clear that some of its troubles can be ameliorated by aid. The U.S. civilian assistance outlined in KLB was designed to address the sorts of intertwined political and economic development deficits confronting Pakistan. Together with other thoughtful efforts, targeted KLB civilian aid can play a small but important part in fostering orderly, constructive, participatory change—a subject on which we elaborate in the third and fourth parts of this report.

U.S. CIVILIAN ASSISTANCE: A POTENTIAL BRIDGE OVER TROUBLED WATERS?

KLB provides a flexible menu of goals and tools with potential to help Pakistan with its complex and evolving problems. Signed into law in mid-October 2009 by President Barack Obama, the Enhanced Partnership with Pakistan Act of 2009 includes two distinct substantive sections:

- Title I—Democratic, Economic, and Development Assistance for Pakistan
- Title II—Security Assistance for Pakistan

DEMOCRATIC PAKISTAN'S "HAIL MARY PASS": PROVINCIAL DEVOLUTION

Uncertainty about the outcome of democratic Pakistan's gamble with provincial devolution is but one of the reasons why Washington and other foreign donors will have to be flexible in coming years concerning where and how best to deliver aid. The "18th Amendment is 'The Game,'" says one prominent Pakistani analyst.¹⁴

If devolution is successfully implemented as negotiated between the national government and provinces, it could potentially:

- Break the monopoly of policy decision making by "the same five hands" at the center (in the words of one Pakistani economic reformer).
- Bring resource decisions closer to citizens, bypassing discredited national government institutions and making government more responsive to popular needs and demands.
- Re-legitimize the "national project" of Pakistan by better accommodating the desires of the smaller provinces and ethnic groups,¹⁵ including their demands for a share of local natural resources.

However, there are substantial obstacles to provincial devolution. These include:

- Opposition from the senior civil service.
- Fiscal shortfalls and a hefty up-front price tag for the devolution process.
 - The provinces are discovering that they have effectively been handed unfunded mandates.
 - Some are trying to hand responsibilities back—but pertinent national structures have been dismantled.
- Wide variations in provincial administrative capacities and willingness to assume new functions.
- Worries that the Army, if it returns to power, will undo the devolution process.

If provincial devolution "does not last, it will lead to great strife among Pakistanis."—Pakistani social scientist

Title I, the focus of this study, was inspired by the election in 2008 of a civilian government in Pakistan after nine years of military rule. Adopted with bipartisan congressional support, Title I aimed to re-shape the predominantly military post-9/11 U.S. partnership with Pakistan by adding a significant civilian-to-civilian element. The bill authorized a tripling of non-security aid to Pakistan from FY 2008 levels to some \$7.5 billion over five years, or \$1.5 billion annually for each year from FY 2010 through FY 2014, with the expectation that the aid would be extended for a further five years.

The main purposes of this assistance are most clearly captured by the title given Title I: “Democratic, Economic, and Development Assistance for Pakistan.” Elsewhere in the legislation, its authors cite a confusing array of authorized purposes for which civilian aid for Pakistan can be spent—for example:

STATUTE-

(a) In general

The President is authorized to provide assistance to Pakistan—

- (1) to support the consolidation of democratic institutions;
- (2) to support the expansion of rule of law, build the capacity of government institutions, and promote respect for internationally recognized human rights;
- (3) to promote economic freedoms and sustainable economic development;
- (4) to support investment in people, including those displaced in ongoing counterinsurgency operations; and
- (5) to strengthen public diplomacy.

The Act imposes *no* conditions on Title I aid other than compliance by U.S. executive branch officials with accountability rules under the U.S. Foreign Assistance Act. This point was underscored publicly by two of the Act’s authors after an outcry in Pakistan about conditions imposed solely on Title II.¹⁶

Of particular importance for this study, KLB Title I identified a range of mechanisms through which civilian aid could be channeled. The U.S. president is “encouraged” to utilize funds authorized under Title I to “work with and benefit Pakistani organizations.” Specifically mentioned are Pakistani business, community, and local nongovernmental organizations, “including through host country contracts, and to work with local leaders to provide assistance under this section.”¹⁷ In another section, Title I recognizes public-private partnerships as an option.

KLB Title I clearly is not an aid strategy. By design, it leaves priority-setting and road-mapping to the White House of the day.¹⁸ As a practical matter, much of this responsibility has fallen to the U.S. Agency for International Development as lead U.S. foreign assistance agency.

DECODING KLB FLOWS, PROJECTS, AND OUTPUTS

From outside the U.S. government, it is difficult, if not impossible, to get a comprehensive and accurate picture of how KLB assistance is shaping up.

This is partially because of the complexity of U.S. aid-funding mechanisms. As indicated earlier, not all Title I KLB aid is strictly economic; this aid also covers human rights promotion and government capacity-building, among other programs.

Conversely, not all civilian or economic aid is KLB assistance. KLB civilian aid began soon after the start of a rapid rise in the size of the Economic Support Fund (ESF) for Pakistan in FY 2009-FY 2010, a bilateral economic assistance program “employed to advance U.S. strategic and political interests through the use of foreign aid.”¹⁹ But only about three-fourths of total U.S. economic assistance from FY 2002-FY 2010, or \$4.8 billion, fell within the Economic Support Fund before Title I was enacted. Following the enactment of KLB, some ESF funds were reprogrammed to kick off spending under the KLB civilian aid flag.

Much of the information on KLB expenditures is embedded in other civilian aid spending categories, as a look at the diverse funding streams for civilian aid to Pakistan will confirm. (See the Congressional Research Service table showing U.S. civilian/military assistance since 9/11, found in Appendix II of this report.) Complicating the picture further, not all aid authorized for a given fiscal year is necessarily disbursed; if appropriated levels are insufficient, they may be supplemented by a transfusion from elsewhere in the system.²⁰

The opacity of KLB civilian aid data contributes to Pakistani misunderstandings about U.S. assistance and intentions. Our Pakistani interlocutors urged that USAID strive to match the performance of other foreign donors in providing clear, up-to-date information on aid flows on its website.

In an effort to clarify these issues, USAID has provided the following chart for inclusion in this study:

GRAPHIC I: DISBURSEMENTS TO PAKISTAN, IN MILLIONS OF DOLLARS, OCTOBER 2009 TO JUNE 30, 2011

USAID Mission and Interagency Programs	Total	KLB Funds (FY 2010)
Energy	\$66.3	\$33.9
Economic Growth (including Agriculture)	\$133.1	\$29.8
Stabilization	\$473.5	\$102.1
Education	\$262.8	\$84.0
Health	\$131.4	\$43.5
Social/Humanitarian Assistance	\$228.4	\$198.9
Cross-cutting—Democracy and Governance	\$32.1	\$3.4
Subtotal	\$1,327.6	\$495.7
Flood Response/Recovery	Total	KLB Funds (FY 2010)
UN/Red Cross Displaced Persons Relief	\$49.3	-
Disaster Assistance from UN & NGOs	\$169.1	-
Overseas Humanitarian, Disaster and Civic Aid from DOS and DOD	\$100.9	-
Emergency Food Aid—World Food Program	\$230.8	-
Flood Subtotal	\$550.0	-
Other Accts - INCLE and NADR	Total	KLB Funds (FY 2010)
Narcotics Affairs/Law Enforcement	\$87.8	\$20.2
Antiterrorism/Nonproliferation	\$19.8	\$10.0
Other Subtotal	\$107.6	\$30.1
	Total	KLB Funds (FY 2010)
Grand Total	\$1,985.3	\$ 525.8

Note: DOS=Department of State; DOD=Department of Defense; INCLE=International Narcotics Control and Law Enforcement; NADR=Nonproliferation, Antiterrorism, Demining, and Related programs.

As noted in Graphic I, civilian assistance to Pakistan from October 2009 through June 30, 2011 totaled about \$2 billion, of which over \$520 million are KLB-authorized funds. Of these amounts, USAID has actually spent \$1.86 billion, of which \$500 million are KLB-authorized funds.

KLB-authorized civilian assistance includes several types of funds: Economic Support Funds (ESF), Global Health Child Survival (GHCS), International Narcotics Control and Law Enforcement (INCLE), Nonproliferation, Anti-Terrorism, Demining, and Related (NADR), and other smaller sources. USAID manages ESF and GHCS; the State Department manages INCLE and NADR.

As for civilian assistance not authorized by KLB, separate small civilian aid programs are managed by the State Department, U.S. Department of Agriculture (USDA), Department of Energy (DOE), and Department of Homeland Security (DHS).

In addition, the U.S. Embassy in Islamabad provided the following account of KLB civilian aid flows to Pakistan, as of early July 2011:²¹

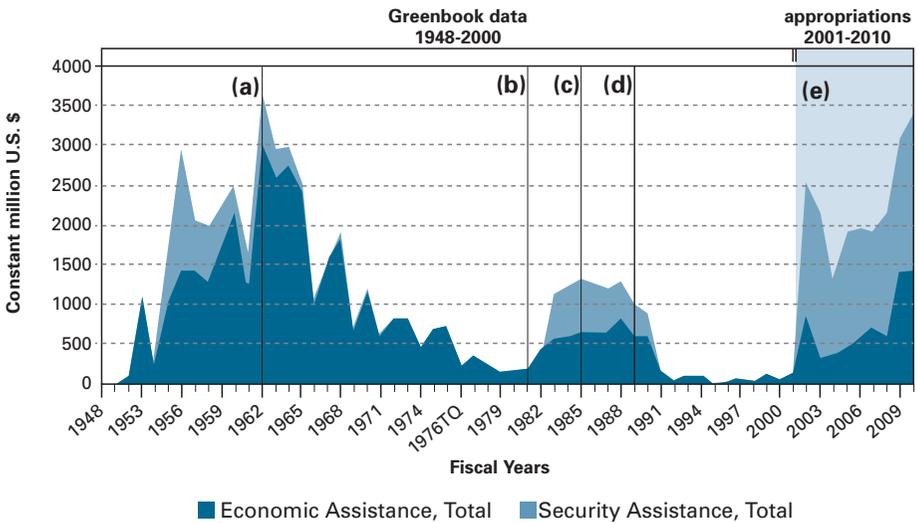
- \$32.16 million for two dam projects.
- \$54.8 million on flood relief and recovery.
- \$39 million for students to study in the United States.
- \$45 million for higher education [e.g., competitive scholarships for poor students].
- \$75 million for income support to very poor Pakistanis [the Benazir Income Support Program of targeted subsidies].
- \$10.34 million for small infrastructure projects.

KLB FUNDING—MORE THAN A SYMBOLIC GESTURE, BUT NOT LEVERAGE

Relatively High Level

KLB was intended to mark a new start for U.S.-Pakistan civilian ties. As discussed earlier, the intended scope and duration of KLB civilian assistance demonstrate a serious intent to invest in Pakistan’s long-term political and economic development. KLB assistance has made Pakistan the second largest recipient of bilateral U.S. civilian aid, after Afghanistan.

GRAPHIC II: OFFICIAL U.S. AID LEVELS OVER TIME IN CONSTANT DOLLARS

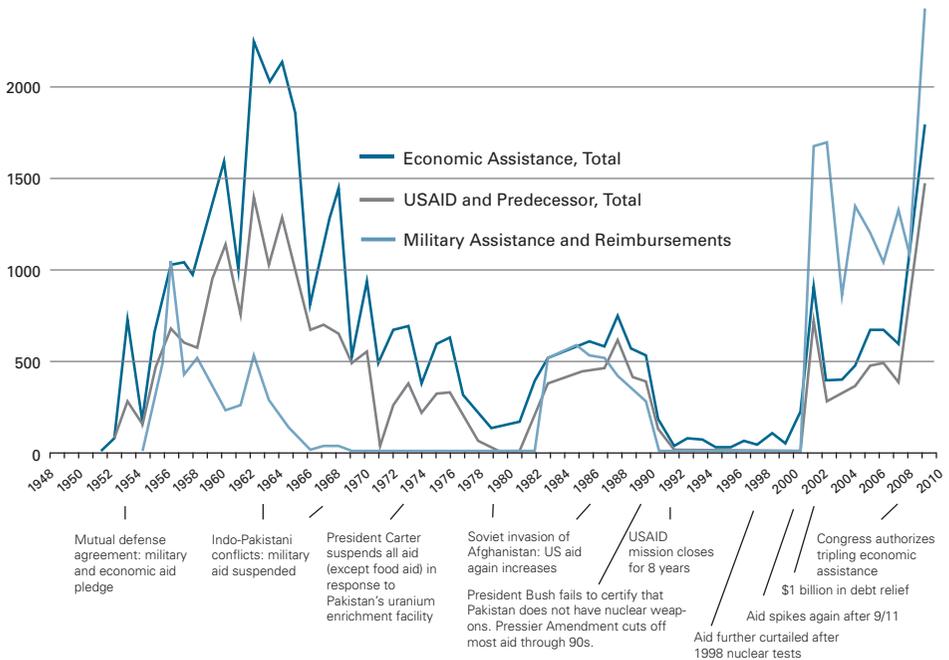


Source: Congressional Research Service, *U.S. Overseas Loans and Grants (Greenbook)*, USAID, and the U.S. State Department.

Notes: Figures 1948-2000=obligations; 2001-2010=appropriations. (a) 1962—peak aid. Pakistan aligned with West; signed two defense pacts. (b) 1981—Reagan administration negotiated five-year \$3.2 billion security/economic aid package with Pakistan. (c) 1985—Presler Amendment, Reagan and George H. W. Bush certified Pakistan to get aid until 1990. (d) 1989—Soviet Army withdrew from Afghanistan. George H.W. Bush suspended aid in 1990 because of Pakistan’s nuclear activities. Aid lowest in 1990s. (e) Post-9/11 aid to Pakistan.

If delivered, the \$7.5 billion of U.S. development aid to Pakistan over five years promised by the Enhanced Partnership with Pakistan Act of 2009 would return non-military U.S. assistance to Pakistan, for the first time, to the real levels of the early 1960s, at the height of U.S.-Pakistani engagement. Former World Bank economist Homi Kharas has pointed out that, for the 25 years between 1975 and 2000, “the actual programmable cash-flow from the U.S. to Pakistan—gross aid disbursements excluding technical cooperation (where no money flows to Pakistan), food and humanitarian assistance (not designed for long-term development purposes), debt relief (write-offs on bad commercial loans that would not have been repaid anyway), and interest and principal repayments on past aid—was negative.”²² All U.S. non-humanitarian aid was cut off throughout the 1990s under the Pressler Amendment, after the White House proved unable to certify that Pakistan did not possess nuclear weapons.

GRAPHIC III: PRE-KLB HISTORY OF U.S. ASSISTANCE AND REIMBURSEMENTS TO PAKISTAN (MILLIONS OF DOLLARS, 2007)



Source: Center for Global Development, U.S. Development Strategy in Pakistan Initiative.

Modest Relative to Pakistan's Needs and Total Foreign Aid

Even so, the projected \$7.5 billion of KLB civilian assistance for the first five years is not much money either in terms of the country's requirements or of overall international aid. \$1.5 billion per year would come to a bit over \$8 per capita.

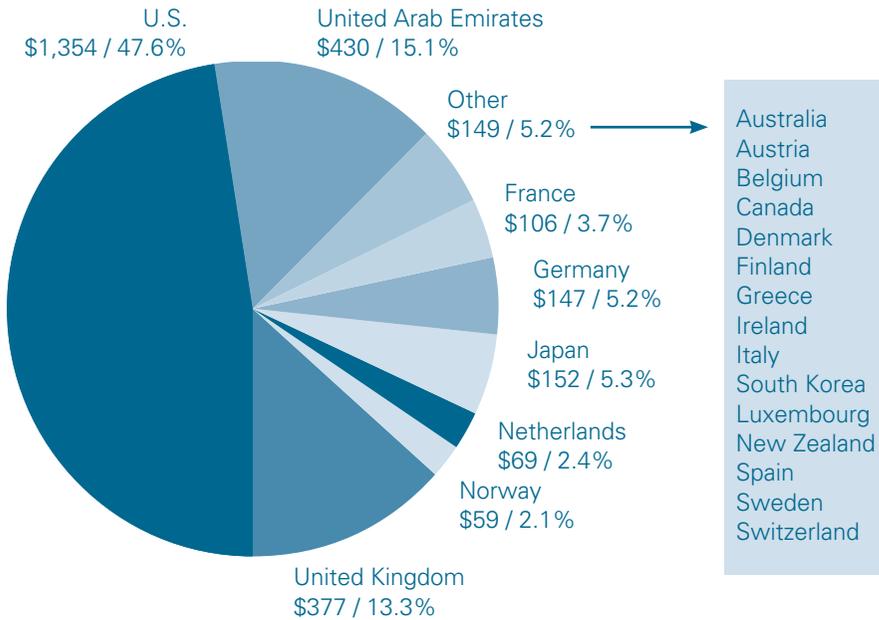
Moreover, the aid landscape today could not be more different from that of the 1960s. The United States is now only one of numerous bilateral donors of civilian aid to Pakistan, although it is the largest.

Annual levels of aid for Pakistan from international financial institutions (IFIs) have exceeded the size of any single bilateral aid package for some years.

As in other receiving countries, the proliferation of donors and implementing agents in Pakistan in recent years has strained the country's limited administrative capabilities and confused planning efforts. The Paris Declaration has helped a bit by committing signatory donors to running all official aid through Pakistan's government for tracking purposes. Most of Pakistan's donors united in 2008 to form the "Friends of Pakistan" coalition for the purpose of coordinating aid.²³ However, the group is too large to allow for much real negotiation.

The large field of donors also dilutes the impact of each aid stream. It seems improbable that we will see again the magical combination of large aid flows from a dominant donor—the United States—working hand in glove with like-minded local technocratic elites, as occurred in Taiwan and South Korea some decades ago. This model of domestic political and economic will plus U.S. assistance held steady from the 1950s to the 1970s. The result was a coherent, continuous development effort and rapid growth that galvanized the two countries' economic takeoffs.²⁴ Development in Taiwan and South Korea also benefited from greater social and political stability than Pakistan is likely to see in coming years. Such stability has been identified as a common thread in diverse exemplars of successful development in widely differing political and economic systems. Foreign aid played a role in many of these success stories—but few countries have faced a combination of internal challenges on the scale of Pakistan's.

GRAPHIC IV: OFFICIAL DEVELOPMENT ASSISTANCE TO PAKISTAN, BY BILATERAL DONOR, CY 2009 (IN MILLIONS OF DOLLARS AND IN PERCENTAGES)



Source: Congressional Research Service, *Organization for Economic and Development Cooperation, and USAID*.

Notes: CY=Calendar Year. In addition to bilateral development assistance, in 2009 Pakistan received \$2.6 billion from multilateral agencies, including the World Bank's International Development Association—\$1.9 billion, European Union Institutions—\$279 million, and the Asian Development Fund—\$249 million.

KLB DEBATES

KLB was meant to provide new policy tools for a civilian-to-civilian chapter in U.S.-Pakistani relations, free of the constraints and ill-will surrounding security issues. Key players on both sides, however, are acting on divergent assumptions, perceptions, and expectations about the assistance. These mismatched expectations are already evident in disappointment with KLB aid in both countries.

The U.S. Side

Some proponents of KLB civilian aid are prepared for the long-haul effort at cooperative political and economic development to which the Act commits. Others, however, hold conflicting, sometimes unrealistic, expectations about what Pakistan owes in return.

Misperceptions of Pakistan’s power structure. Some American officials see *long-term* civilian development assistance as an unstated quid pro quo for *immediate* military support for U.S. counterterrorism and counterinsurgency policies. In many cases, they assume incorrectly that Pakistan’s civilian government can, if sufficiently motivated, force the military there into line with U.S. policies.

Misunderstood terms of KLB Act. Others believe that KLB aid *was conditioned* on such cooperation. As in Pakistan, many in the United States misconstrue the conditions on KLB Title II security assistance as applying also to civilian aid.

The U.S. has few levers in Pakistan. Those we have are at best marginal. Kerry-Lugar is not a lever; it is a statement of concern.

—Former senior U.S. policymaker

Public statements by senior policymakers have unintentionally added to the confusion. One former senior official, for example, referred during a Senate Foreign Relations Committee hearing in May 2011 to two conditions for continuing “U.S. aid,” not further specified. First, that Pakistan issue a “clear and definitive statement” rejecting terrorism as an instrument of foreign policy, and second, that Pakistan commit to rooting out extremists within its borders. KLB security aid is premised on such conditions; some in Congress think that such conditions should have applied to civilian aid as well and want them added now.

Main criticisms. Opponents of KLB civilian aid typically contend either that U.S. involvement with Pakistan is a passing phase or that Pakistan does not deserve aid.

Those viewing the relationship through a counterterrorism lens see a country that opposes the U.S. will and exacts a high price for U.S. logistics access to Afghanistan; in this view, military aid is a sufficient payoff for services rendered by the Pakistan Army and intelligence services, after which Pakistan is best left to its own devices. As indicated earlier in this study, we believe Pakistan to be un-ignorable for reasons certain to endure far beyond current U.S. operations in Afghanistan.

Those who see Pakistan as undeserving of civilian aid usually make one of the following arguments:

- “KLB civilian aid is more good money after bad. What is there to show for billions in civilian assistance?” This perspective gives short shrift to some notable legacies of past U.S. aid to Pakistan, including the Tarbela Dam, a huge water management system, and Pakistan’s top management institutes. This argument also fails to take account of extended breaks in U.S. aid to

Pakistan. (See Graphics II and III above.) Moreover, this criticism of past aid to Pakistan ignores the fact that two-thirds of the \$20.7 billion provided to Pakistan since 2002 went to *military* uses; in addition, most of the \$4.8 billion under Economic Support Funds went to beef up the government budget, some of it to pay off debt owed to the United States.²⁵

- “Let them clean up their own act first.” If Pakistan were Luxembourg, this might be a realistic option. With Pakistan’s political system in disrepair and its stovepiped civilian and military leaderships unwilling to look ahead, Pakistan’s immediate prospects for self-help are poor. The costs to U.S. interests of letting Pakistan slide could be far higher than the amount allocated for KLB aid. That said, Pakistan must reform to grow. And it must tax to pay for more and better government.
- “Why aid Pakistanis? They hate us.” Pakistan is indeed a tough sell to Americans. Most Pakistanis do not share U.S. security priorities, although some opinion surveys indicate that most oppose extremism.²⁶ Even Americans who favor KLB civilian aid are unhappy that it is not reducing Pakistani anti-Americanism. Anti-Americanism is prominent in both the state’s rhetoric and public opinion, in a chicken-and-egg cycle. Pakistanis see their country as the loser in U.S. counterinsurgency operations on the border with Afghanistan, for which they blame rising militant violence in their cities.

A growing literature on foreign aid suggests that aid cannot win “hearts and minds” when recipients are angry at the donor for other reasons. U.S. aid cannot overcome Pakistani hostility to U.S. security policies. Anti-Americanism may drop off as the U.S. presence in neighboring Afghanistan declines—once Pakistani fears that the United States will dump Pakistan abate.

The Pakistani Side

Pakistani views of KLB civilian aid vary widely. At one extreme is President Asif Ali Zardari’s reported request to the then-Special Representative for Afghanistan and Pakistan (SRAP) for a Marshall Plan for Pakistan. Zardari argued that Pakistan’s role in the war against extremism had restricted its economic and industrial growth so that the international community now owed it to Pakistan and to itself to help rebuild the country.²⁷ At a minimum, Pakistani officials hoped that KLB aid would replace budget allocations for social sector spending.

KLB has been warmly received by some pro-reform Pakistanis. They told visiting working group members that they applauded the conditions placed on U.S. security assistance, and the absence of conditions on KLB civilian aid. Several have gone public, at some risk in the current anti-American environment, to chide their countrymen for churlishness about civilian assistance. Some Paki-

stanis welcomed the then-SRAP's decision to funnel KLB aid through Pakistani organizations rather than U.S. contractors.

The Pakistan-based economists consulted by working group members contrast KLB favorably with past U.S. aid in the form of direct budgetary support. They oppose “easy money” for Pakistan.

Nonetheless, most Pakistanis consulted by the working group were harshly critical of the program as it has unfolded over the past two years. The complaint about KLB assistance most frequently heard in Pakistan is that Pakistanis have not seen any evidence of assistance. Such complaints reflect a number of questions that USAID is committed to redressing but has yet to resolve: how to cut through bureaucratic red tape and speed up actual disbursement of funds; how to explain adequately the incredibly complicated and time-consuming process from congressional authorization to final implementation of projects; whether to focus on large, high visibility projects, or smaller, less visible ones; and to what extent to “brand” USAID projects with a “made in America” sign.

For some Pakistanis, the slow implementation of KLB civilian assistance has rekindled old doubts about the sincerity and reliability of the U.S. aid commitment to Pakistan. (For a description of the convoluted process in the U.S. government that delays the disbursement of KLB monies, refer to Appendix III.) To Pakistani officials, the administrative overhead burden has seemed disproportionate to the aid levels in play. To some Pakistani analysts, the United States appeared to throw money at Pakistan's military from 2002 to 2008, with no oversight, benchmarks, or preconditions—and then granted civilian assistance laden with U.S.-specific application and accounting requirements. In addition, confusion reigns about what counts as KLB civilian aid and on what it is being spent.

The working group heard numerous complaints that KLB has been poorly managed by USAID officials in Islamabad. According to many, USAID has relied excessively on American consultants with little knowledge of Pakistan and limited technical expertise. This has created an impression among Pakistani interlocutors that USAID is not interested either in using available technical or policy capacity in Pakistan, or in developing such capacity if it is not currently available. No doubt the performance of the USAID mission can be and should be improved. Nonetheless, the working group members who traveled to Pakistan for consultations were also impressed by the dedication displayed by, and the immense sacrifices imposed upon, USAID personnel in Pakistan.

Pakistani media have been obsessed with aid dependency, says a Pakistani journalist; they fear that U.S. civilian aid is a ruse to influence Pakistani security policies. They have “developed a narrative that civilian aid is a ‘bribe’ offered by the United States to the Pakistani government to buy impunity. Because of

aid, the United States can get away with murder (literally, as demonstrated by the Raymond Davis case, and escalation of the drone program).” Facilitating this narrative is the dearth of concrete projects demonstrating the impact of U.S. aid.

Many Islamists, such as the deputy secretary-general of Jamaat-e-Islami, Pakistan’s largest religious party, have opposed KLB aid for another reason: “We are not in favor of the \$1.5 billion dollars,” he told a Public Broadcasting Service interviewer in late 2010. “There were many restrictions imposed upon our government and upon our values [to get that money].”²⁸ His particular concern was about foreign and un-Islamic influences on education in Pakistan.

The political terrain for KLB civilian aid is thus as bumpy in Pakistan as in the United States. There, too, KLB civilian aid could yet become hostage to ill feeling over other issues.

WHAT IF WASHINGTON TERMINATED KLB AID?

Although both sides of the KLB debate are fraught with confusion and suspicion, we believe that the benefits of continued assistance far outweigh the costs. Conversely, if Washington were to end KLB civilian aid now, as some in Congress have proposed, the impacts could be considerable. Granted, the immediate economic impact of ending KLB civilian assistance would be small—an estimated 0.014 percent decrease in annual GDP.²⁹ Islamabad’s budget problems, however, mean that it is not funding development programs of its own, increasing the relative importance of KLB development aid. For example, the Benazir Income Support Program (BISP), which makes targeted cash transfers to the poorest Pakistanis for basic necessities, currently relies heavily on U.S. support.

The state of Pakistan’s economy at the time also would determine the impact of any KLB aid cut-off. As discussed earlier, economic growth in Pakistan depends on external flows—foreign aid and remittances from overseas Pakistanis. With neither multilateral loans nor aid flowing and with repayments to the IMF coming due in 2012, remittances would become a lifeline to the economy as well as to overseas workers’ families. Anecdotal evidence suggests, however, that the safety valve of labor migration to the Middle East is starting to close as key receiving countries stop renewing contracts for Pakistani workers for a range of reasons. Many poor Pakistanis could face unbearable hardship.

The opportunity costs of canceling KLB civilian aid presumably would be far larger (albeit harder to measure) than simply the economic losses—especially if mid-course corrections had made this assistance more relevant and effective. We believe, though, that a failure to deliver this aid would have a far greater negative impact on bilateral relations than simply roads not built, schools not funded, or

institutions not supported. KLB civilian aid is widely viewed as a litmus test for U.S. concern about Pakistan.

- Although worried that foreign aid enables irresponsible economic policies, some of the westernized intelligentsia have publicly praised the U.S. commitment to Pakistan's civilian rule and economic development. These allies would feel betrayed.
- Other Pakistanis—although skeptical of U.S. motives for civilian aid and unhappy that Pakistan is aid-dependent—reportedly believe their country has already earned the aid. The assistance is seen as a consolation prize for the military's unpopular cooperation with U.S. counterinsurgency operations. Terminating promised aid would confirm the widespread view that Washington has been cynically manipulating Pakistan.

PART III. SWEET SPOTS FOR A RESET OF KLB CIVILIAN AID

A PIECEMEAL INITIAL AID PLAN

The first round of KLB civilian aid choices—in 2010—was a compromise among conflicting requirements and opinions in Washington and Islamabad. Initial project selections bespoke an effort at balance: quick-success vs. long timeline, agriculture vs. university education, etc. Some of the choices harkened back to pre-1990s Agency for International Development successes in Pakistan. Agriculture is well inside USAID’s comfort zone globally. The commitment to build two small dams recalled the 1960s Tarbela project and the leading U.S. role, together with the World Bank, in the Indus Water Replacement Works.

The initial KLB aid plan included quick-impact and slow-germinating projects in agriculture, water, and energy. Energy became the theme for Year I. Emphasizing infrastructure sidestepped some uncertainties about how reimbursements to the Pakistan government should work for “soft” areas like health and education. The focus on energy unquestionably met real needs as well.

KLB CIVILIAN ASSISTANCE—THE FIRST YEAR’S AID TARGETS

Initial priorities for the U.S. government’s civilian effort in Pakistan included:

- **Energy:** The United States has worked on rehabilitating projects that could start quickly, such as smaller dams, and is now looking at the next phase, which hopefully will include larger power-generating projects.
- **Economic growth and agriculture,** including **jobs** (a Pakistani priority); this will also include issues of irrigation and water management.
- **“Stabilization”** in Khyber-Pakhtunkhwa (KPK) and the Federally Administered Tribal Areas (FATA)—small rural infrastructure projects, roads in Waziristan, schools and clinics, and IDP (internally displaced persons) support.
- **Education and health** (traditional aid sectors)—to work through provincial government institutions.

Responding to problems that arose in the first year of KLB, USAID has rebooted its organization in Islamabad, increased staff, and opened new offices in Lahore and Karachi to facilitate outreach to Pakistanis. The first SRAP representative in Islamabad served a two-year term in a new policy-aid coordinating role. A successor is now in place.

The division of aid resources and responsibilities among State, the SRAP's office, and USAID is still working itself out. "There are a lot of cooks in this kitchen, both in Washington and in Islamabad," one U.S. official says. "There are different priorities with this 'whole-of-government' thing. You have the State Department, USAID, and the SRAP, for starters. USAID was decimated during the 'down years' for foreign aid. Oversight mechanisms required by the United States sometimes slow down the aid process, and relationships with Congress have also become more complicated."

Political pressures on the U.S. end have been poorly aligned with realities in Pakistan—resulting, for example, in earmarks for sectors that don't have the absorptive capacity. Some competent but small Pakistani NGOs were initially so overfunded relative to their capacities that the quality of their work reportedly dipped, discouraging other small organizations from risking a similar outcome.

Differences of opinion over "branding" U.S. aid to Pakistan persist. Some members of Congress and the former SRAP have wondered what the point was of taxpayer-funded foreign aid if the United States could not claim public credit for it. Security threats to aid workers and U.S. enterprises have discouraged casual branding, however. Sensitivity about U.S. influence can also be a problem. Pakistani interlocutors described to visiting working group members an ill-considered decision to brand—a USAID logo on the back cover of Punjab province's recently published strategic plan. Our interlocutors attributed the faster-than-expected disappearance from circulation of the strategic plan to the embarrassment of Punjabi officials about the logo.

The next subsections briefly examine options for circumventing the shortfall in official Pakistan's will and capacity to undertake development and reform; Pakistani views on how USAID might become a more effective broker of KLB civilian aid; advice from veterans of U.S. aid-giving on how to increase USAID's control of the aid process; and recommendations for refocusing KLB aid programs and partnering with other donors.

MAKING KLB WORK BETTER—COMPENSATING FOR LIMITED GOVERNMENT WILL AND CAPACITY FOR DEVELOPMENT AND REFORM

Pakistan is no developmental state. The quality of economic governance and decision making and the capacity of relevant institutions have actually declined over the past several decades.³⁰ Political instability and leadership turnover, especially in the 1990s, made for damaging discontinuities of economic policy.

Improvements in economic governance will require decades—but in Pakistan both elected and military governments have short time horizons. There has been no dearth of economic policy proposals and blueprints for reform in Pakistan to stimulate both growth and development. In the end, however, “we do stabilization, not growth, [and] far less economic reform,” in the words of a senior Pakistani development economist.

“What we really need here is a ‘developmental state.’”

—*Economist in Pakistan*

“Developmental states are usually characterized by a leadership which is strongly committed to developmental goals, and which places national development ahead of personal enrichment and/or short-term political gains.”³¹

In our view, the low levels of official Pakistani will and capacity for development makes the U.S. target of passing half of all American official development assistance through the government of Pakistan unrealistically high for now. U.S. officials acknowledge that engaging their Pakistani counterparts on development has proved difficult: “You have issues of coordination and implementation capacity, and you have issues of will.”

- The issue of government will is paramount. The United States as a donor cannot bestow commitment on Pakistani officials. There is ambivalence about accepting any U.S. aid. “It is sometimes difficult to get a decision or

action from the Pakistani government, even when large pots of money are on the table.”

- Pakistan’s government starts with a low capacity. Frustrated by the failures of its Social Action Program for Pakistan, the World Bank in 1999 began bypassing the public sector and disbursing money directly to community organizations—one of several pragmatic alternatives to counting on government, in our judgment.
- U.S. and other donor efforts to build capacity by the mere fact of working through Pakistani systems and institutions—government and nongovernment—seem unlikely to succeed. As one Pakistani social scientist commented, learning proposal-writing and accounting to USAID specifications confers no skills that have utility for Pakistan’s government or civil society organizations. Rather, onerous paperwork requirements for aid take skilled man-hours from core government functions.
- Efforts to increase government capacity through donor technical advice and tutoring will also likely fail. A decade-plus of research on development has concluded that increased capacity and good governance cannot be effectively implanted from outside. Capacity ultimately rests on political decisions and commitments to make systemic changes. Such political decisions must come from within. The lack of such commitment explains why USAID tax administration advice and World Bank programs have failed to improve policies or infrastructure of Pakistan’s Federal Board of Revenue, which clings to its discretionary powers.³²

While government capacity cannot be transplanted, donors can help fill “expertise gaps” by supporting the education of a few promising Pakistani officials at the federal and provincial levels. The two knowledge gaps repeatedly identified by Pakistani government planners and business leaders are in the energy field and in finance, economics, and management. Future efforts to train key officials need to go hand in hand, however, with steps to prevent “new capacity from exporting itself abroad” or becoming high-salaried private consultants for foreign donors in the capital.

Deficits in government capacity certainly constrain development in Pakistan, but development cannot wait for government capacity to grow. Development processes must take root elsewhere along the continuum between government and private sector entities. After the fall of the Soviet Union, western donors to Eastern European nations looked in each country for healthy organizations, public or private, capable of serving as springboards for new capabilities and market processes. In Hungary, universities performed this function in the initial

design and launch of new energy markets. In Pakistan, some of the more dynamic, reformist elements of the private sector could partner with foreign donors and counterparts on some types of development activities. In time, elements of the private sector might even become advocates for economic reforms.

MIGHT BUSINESS SPARK ECONOMIC REFORMS IN PAKISTAN?

Although we are used to thinking of economic reform as a top-down process, the impetus need not come from political leaders.

History suggests that Pakistan, like other reform-resistant states, will reform only when top political and economic players conclude that this is in their interests—or, alternatively, when a leader emerges with the prestige and bargaining chips to strike deals with key groups for cooperation on reforms. In Russia, reforms resulted from intense pressure by a coalition of “local think tanks, business associations, and like-minded civil society organizations” that were bent on creating a better business climate.³³ In Pakistan the initiative for economic reforms could well come from professional or business organizations that seem likely, on the face of it, to oppose such changes. Progressive Pakistani businessmen have told working group members that reforms, redress of official corruption, and professional standards of conduct are vital to attracting foreign venture capital and new technologies to Pakistan’s stagnating industrial sector. Among Pakistan’s small and intertwined elites, a spark from the business sector could ignite a broader process. The recent call by Nawaz Sharif, head of the opposition Pakistan Muslim League-Nawaz (PML-N), for increased trade with India came in response to the Punjab business community’s new openness to more trans-Punjab business activity.

MAKING KLB WORK BETTER— PAKISTANI ADVICE FOR USAID

We have just discussed how the realities of Pakistani official commitment to and capacity for development warrant adjustments in the U.S. approach to civilian aid for Pakistan. We now review Pakistani advice for USAID as a basis for helping to make KLB assistance more credible. This section presents a sampling of Pakistan perspectives on USAID that were shared, off-the-record, with members of our working group.

The shift ordered by the former SRAP from U.S. to Pakistani contractors and NGOs resonated favorably with Pakistanis. But the dearth of U.S.-aid-relevant experience in managing large amounts of money is prompting the reintroduction of Americans into the aid process as subcontractors to Pakistanis—leading one small business owner to conclude: “So what have we won?”

Some causes of USAID Islamabad’s organizational growing pains are well known. Short tours and rapid personnel turnover mean that project proposals solicited by USAID fall between the cracks at transition time, in the words of another small-business owner, “after I have spent a month crafting” them. Longer tours and better handoffs would help, according to this interlocutor.

USAID needs to become demonstrably more open and responsive to input from Pakistani aid partners and recipients. Some Pakistani NGOs, government planners, and business people say they have found USAID officers to be in a “box-checking” mode during meetings: “They do not listen or do not respond.” Additionally, “there is no dialogue. It is very one-sided. Letters to USAID and the [U.S.] Embassy get no reply,” says a business association leader, voicing a common concern.

Some Pakistani development specialists see USAID project proposals as needing more on-the-ground vetting with locals. A prominent Pakistani told of being proudly informed that “Washington” had decided to plant date trees in Sukkur as part of a counternarcotics crop substitution program. But Sukkur is already world famous for the exquisite dates it grows and exports internationally.

Pakistanis see many USAID employees as very inexperienced. As one senior U.S. diplomat has observed, “Pakistanis know that these [USAID] people are short-timers on one-year tours and blow them off....Give me some grizzled veterans and much longer tours.”

USAID needs to redouble efforts to recruit seasoned aid personnel with broad international development experience. Prior local knowledge and pertinent language skills are also scarce at USAID Islamabad, according to numerous interlocutors.

“The USAID model needs to be revamped, if aid is important. It must be more locally adaptive and have an institution-building focus for Pakistan because (1) NGOs have limited capacity to absorb, process, and implement; (2) public-private partnerships can use models from around the world, with the Pak government as an enabler and with private sector management; (3) you must accelerate synergies among NGOs—eg, you could share distribution networks at all levels of government. The role of contractors is key. Ask them if the models are working elsewhere.”

—Pakistani business leader

Increasing USAID’s experience level on the ground must go hand in hand with offering seasoned personnel greater discretion; the possibility of the latter should help attract and retain experience.

Holding USAID and Pakistani partners and recipients accountable for spending and implementing aid is vital—but the perceived utility of KLB aid will depend also on USAID’s ability to:

- Be more flexible and opportunistic about where and how to build capacity in Pakistan.
- Streamline “bureaucracies.” Some highly qualified Pakistanis find USAID’s processes and procedures uniquely frustrating. To some, USAID’s preoccupation with maximum oversight of funds and avoiding errors seems to take precedence over impact.
- Act expeditiously. “Speed everything up. It is too slow. USAID took a year and one-half of meetings with the Sindh and Punjab governments just to identify portfolios. The provinces wanted dialogue with substance that would help spur growth. Without growth, no jobs, despite poverty alleviation,” says a Pakistani planner.

USAID would err grievously if it failed to heed complaints and suggestions such as those above. Virtually all Pakistanis with whom working group members spoke feel that USAID must mend itself if KLB is to have a chance at success.

MAKING KLB WORK BETTER—ADVICE FROM VETERAN AMERICAN AID PRACTITIONERS

Many Americans with in-depth knowledge of the aid business and experience in Pakistan concur with our Pakistani interlocutors that the changes instituted so far by USAID—increasing numbers of staff and offices and working through local partners—are insufficient to make civilian assistance more effective. Some U.S. experts say that a change from cooperative agreements to contracts as USAID’s preferred implementing instrument is key to ensuring aid outcomes more in line with program intentions.

There are, of course, tradeoffs between aid effectiveness and cost-saving for USAID staff.

- One appeal of cooperative agreements is that they effectively delegate aid tasks to contractors and require no direct oversight by, or direction from, U.S. government technical staff. This allows USAID to use less qualified personnel. Cooperative agreements keep aid flowing rapidly through the pipeline and permit contractors to apply project designs that worked in other countries. Skilled aid practitioners typically see little appeal in monitoring cooperative agreements.
- Contracts require more input, direction, and oversight from U.S. government personnel—hence more technically expert staff to manage and design programs in Pakistan. Contracts thus give the mission greater control, provide incentives for more locally suited project design, afford experienced USAID staff leverage to demand changes of aid partners as soon as implementation starts to go awry, and (if written with care) allow responsible government officials added flexibility to tweak projects as circumstances in Pakistan change. The prospect of steering contracts to outcomes is likely to attract and retain more skilled USAID staff than a system based on cooperative agreements. Such staff also become accountable for good results.

Because of the tradeoffs entailed in such a shift in aid-implementing mechanisms and the potential for gains well beyond Pakistan, a high-level review independent of USAID would be a good idea. Action by Congress, the State Department, and perhaps even the White House would be necessary to effect a systemic change. A standing executive branch review group could manage funding and referee outcomes of independent third-party evaluations of USAID programs in Pakistan.

We have argued here that USAID operations in and for Pakistan require significant revamping. That said, we have great regard for the dedication of

USAID personnel. The abduction of a seasoned USAID contractor in Pakistan earlier this year has provided a sobering reminder of the risks regularly incurred by U.S. officials serving in-country.

REFOCUSING KLB CIVILIAN AID

In our view, the first year's KLB civilian aid plan for Pakistan was a collection of projects that had value but not vision. Some of these—notably USAID's proposal to expand its involvement in power generation—seem better left to multinational donors such as the Asian Development Bank that have more funds, expertise, and experience in Pakistan's complex power sector. The construction of more dams, for example, must be considered in relation to other measures—ranging from the joint overhaul of both gas and power sectors to greater fee-collection efforts, reduced electricity theft, and cuts in the bloated staffing of electric distribution companies.

Other first-year KLB civilian aid projects were selected to support U.S. counterinsurgency efforts in KPK and FATA. In the words of the director of USAID's Office of Afghanistan and Pakistan Affairs (OAPA), these "stabilization" projects were to focus "in the areas where extremism is taking hold...on root-cause issues: focusing on poverty, focusing on political alienation, focusing on the absence of a credible, legitimate government presence. This aspect of our programming is dedicated to try and work with the Pakistani government to improve that situation in those areas; to diminish the existential threat that Pakistan faces."³⁴ Delivering aid in the troubled border areas between Pakistan and Afghanistan has often proved difficult in practice because of fighting, the absence of a strong governmental presence, and a host of other reasons.

The projects in KPK and FATA address real needs: health care, education, and aid for people internally displaced by military operations. Recent research in Pakistan and elsewhere, however, casts doubt on the argument that meeting such needs advances counterinsurgency or counterterrorism goals—in part because poverty does not seem to motivate people to become militants.³⁵

“...After another pendulum swing following eight years of military dictatorship, we don't just want to support a particular government; we want to shore up the notion that civilian government is actually the best way forward for Pakistan.”³⁶

Stability

In any case, we believe that the converging crises described earlier in this report warrant refocusing U.S. stability concerns—and some civilian aid—from counterterrorism and counterinsurgency in areas abutting Afghanistan, to the more promising and ultimately more important long-term viability of “settled Pakistan,” where most of the country’s population lives. These are the areas that will be most affected by the “tsunami” sketched earlier in this study. The possibility of contributing to constructive, gradual change in Pakistan is the most compelling reason for continuing U.S. civilian aid to Pakistan.

Cities

In our view, focusing current and future KLB civilian aid programs more on Pakistan’s *emerging opportunities and problems* would give USAID programs greater coherence and relevance. As the place where the promise of change and the threat of instability are coming together, urban Pakistan is the logical focus for much of USAID’s future effort—although agriculture will remain vital if Pakistan is to be able to feed a growing population.

Cities are growing even faster than official records have suggested. Demographers agree that the 1998 census greatly underestimated Pakistan’s urban population by counting peri-urban areas as rural.³⁷ By definition, peri-urban areas—although just outside formal urban boundaries—are progressively assuming characteristics of urban areas.

Pakistan’s cities are the most promising seedbeds for economic growth, but poverty—although still predominantly rural—also is rising rapidly in urban settings. The coming influx of uneducated and semi-educated young adults will make cities and their adjacent areas the locus of both joblessness and expectations of personal progress. High population densities will create unique opportunities to build the skills and channel the energies of youth, as well as efficiencies of scale. Urban areas lend themselves well to integrated planning and aid by locale rather than by sector—a principle commended to the working group by a senior provincial development advisor in Pakistan. Some of the target issues identified by USAID—water and energy, for example—have already emerged as critical needs in urban Pakistan, and can be fruitfully pursued there.

Two opportunities jump out for using KLB civilian aid to help promote political and economic stability in urban Pakistan. The first centers on small and medium industries (SMEs); the second, on bottom-up mobilization of local

communities in urban areas with weak and/or unresponsive governments.

Pakistan, like other developing and emerging economies, is characterized by a “missing middle”—a relative paucity of mid-range enterprises and a small “bourgeois” middle class. In contrast, most healthy developed economies boast a “thick layer of small and medium firms.”³⁸ By most definitions, SMEs have fewer than 250 employees.

SMEs promise to stimulate export-led growth and job creation in Pakistan. They now contribute a smaller percentage of the country’s exports than textiles, but they have far greater potential to expand exports quickly. SMEs are also the big employment generators; with only 35 percent of Pakistan’s manufacturing output, SMEs generate 85 percent of non-agricultural jobs.³⁹

Growing SMEs, however, requires four ingredients that are in short supply in Pakistan: job skills (including vocational training), seed money, an appropriate regulatory environment, and, of particular concern to the business community, credit. Heavy domestic borrowing by the Pakistan government in the past two years has exacerbated the shortage of credit for businesses in Pakistan.

“[U.S.] government agencies ... tend not to recognize aid to the SME sector as part of development. SME owners often fall in the middle to upper classes, and SME employees are viewed as people for whom assistance is not necessary. Development officials rarely appreciate that SMEs can be a vehicle to create more of these people, lifting them out of poverty and freeing them (and potentially their countries) from development assistance. Private capital alternatives are also lacking. There is no analogue to the robust U.S. system of community-level banking that drives considerable middle-market growth.”⁴⁰

THIS IS NOT YOUR AMERICAN-STYLE MIDDLE CLASS

Building SMEs in Pakistan will help fill the “missing middle” in its class structure, as well as its job structure. Pakistan’s growing middle class, however, does not conform to any profile that most Americans would find familiar—or congenial.

Definitions of Pakistan’s middle class are contested; so, therefore, are estimates of its size. Some Pakistani observers place this figure as high as 30 percent of the total population, or more than 50 million people. Others, however, note that only 4 percent of the adult population has obtained higher education and dismiss such estimates as ludicrously inflated. Regardless of its actual size, Pakistan’s real urban middle class includes retailers, wholesalers, transporters, and contractors. These citizens are represented in occupational associations and in “entrenched political parties such as the Muslim League.”⁴¹

But Americans must guard against assuming that the Pakistani middle class mirrors the U.S. middle class. Journalist Jason Burke has profiled what he calls Pakistan’s “Mehran man,” after the small car often driven by such recent escapees from lower-middle-class status. The “Mehran man” is pious; his wife and teenage daughter wear a headscarf or veil. He sees the Muslim world as under attack by the West; 9/11, as the work of the CIA or Mossad. He aspires to travel to other Muslim countries, is outraged by U.S. drone attacks in Pakistan’s northwest, and identifies as an “Islamist-nationalist.”⁴²

For some young people in this usually socially and religiously traditional class, tolerance and even celebration of terrorism in song and jokes have become part of the idiom of anti-Americanism.⁴³

It is telling, says a former Pakistan journalist, that it was Punjab chief minister Shahbaz Sharif who—playing to his bourgeois base—publicly refused further U.S. aid even though U.S.-aided projects had been highly successful.

KLB civilian aid could also support the development of model programs to stimulate the development of civil society organizations among the urban poor. The record of bottom-up mobilization in poor urban communities in Pakistan is thin compared with the rich history of government- and NGO-sponsored rural support networks. Yet such bottom-up efforts to channel dissatisfaction with the lack of basic infrastructure and services into effective demands promise to help foster orderly, constructive, participatory change in burgeoning urban settings. Developing the capacity of poor communities to publicize official non- or malfeasance also could help counter official corruption in Pakistan, which ranks near the top on most global scales.

The few prominent urban exemplars include the Orangi Pilot Project (OPP) and urban projects launched by U.S.-supported social entrepreneurs. The indigenous OPP at the edge of Karachi demonstrates how low-income urban citizens can be organized to demand and to collaborate in the provision of basic sanitation, water, health programs, and micro-credit for their community. The community in question, however, is not a slum; its residents arrived as refugees from the former East Pakistan (now Bangladesh) with relatively high education levels, political organization skills, and entrepreneurial experience.⁴⁴

Small nonprofit companies funded by what one proponent calls “patient capital” have provided employment as well as affordable amenities to the poor, including cheap urban housing, safe drinking water, and micro-credit. With skills training, micro-business advice, and micro-loans, motivated local individuals have launched small companies providing low-priced services to the poor that ultimately recover initial costs. Some of these entities in Pakistan have shown enough growth potential to be bought out by for-profit companies.⁴⁵

“Many aid and development groups that eschewed politics are finding that they must involve themselves in rights-based governance and promoting good citizenship, even if they do not call it that, in order to find sustainable community-based solutions to...problems. Ultimately better governance will come if supply from government and demand from people somehow converge.”

PARTNERING, PIGGYBACKING, AND FINDING PAKISTANI REFERENCE POINTS FOR KLB ASSISTANCE

Given the small size of KLB civilian aid relative to Pakistan's challenges, ensuring that it has impact will require:

- Far greater USAID collaboration with other donors, leveraging their Pakistan experience and expertise with American resources.
- A focus on projects that both support each other and have good prospects of becoming self-sustaining.
- Careful monitoring of aid flows.
- Selection of Pakistani partners who are credible with Pakistani aid recipients.
- Preparing both Pakistani partners and recipients to operate independent of U.S. assistance.

EXPANDING THE ROLE OF BUSINESS IN ECONOMIC DEVELOPMENT: INPUT FROM U.S. FIRMS OPERATING IN PAKISTAN

“Punching beyond its weight” will require USAID to engage and collaborate far more broadly with diverse private- as well as public-sector groups.

In fact, USAID officials do acknowledge that the private sector is essential to economic growth in Pakistan. In private communication with the working group, they noted that USAID has been engaging and will continue to engage with the private sector through consultations on economic and business matters, provision of technical assistance, and co-investments or public-private partnerships. For example, USAID supported dialogue with the private sector during the drafting of the new Pakistan government economic growth framework, provided financial and business management training to about 65,000 female entrepreneurs, and mobilized \$2.3 million in private investment by mango producers for production upgrades.

That said, U.S. firms doing business in Pakistan urge more. Some U.S. business organizations are eager to discuss development in Pakistan and public-private partnerships with USAID.

“USAID should look to develop a more robust private sector strategy that encourages business growth.” USAID should pursue projects that have economic impact and are tied to business activities in the region.

“There are a number of very sophisticated Pakistani companies that would like to participate in development projects, but they will be looking to positive impact on their bottom line. These companies are open to working with U.S. private sector partners and vice versa....What many of these companies don't see is a model from USAID that allows them to achieve their corporate objectives while satisfying the development projects.”

Fund entrepreneur-to-entrepreneur programs bringing together U.S. and Pakistani businesses in Pakistan. Pakistan could benefit from a State Department Global Entrepreneurship Program like that in Egypt.

Tap U.S. companies that have long operated in Pakistan for insights on what works in various sectors of the economy. They say that USAID does not engage them, overlooking an important source of ideas for aid projects.

USAID could help “bring together OPIC [Overseas Private Investment Corporation], USTDA [U.S. Trade and Development Agency], and EXIM [Export-Import Bank] to attract the U.S. private sector, coordinate financial and technical resources, and get real deals moving forward.” But “USAID seems to have little appetite for encouraging U.S. private sector participation.”

- “The money is there and the desire is there, but there needs to be more and better identification and coordination of resources,” including political risk insurance.
- Consider offering a few small grants on which small specialty U.S. firms could engage directly with USAID, instead of via large Washington “beltway bandits.”

The notion that the aid comes from the American people is lost in the process of distribution through the Pakistani government and NGOs; there is no real people-to-people contact to improve relations at the grassroots level.

- Select a key infrastructure project like a hospital or renewable energy project in a strategic area like Peshawar as a public symbol of the generosity of the American people. Have U.S. and Pakistani workers build it jointly.

PAKISTANI PLANS AS A BASIS FOR AID DIALOGUE

For foreign donors, one challenge to devising programs compatible with Pakistani goals has been the rapid succession of divergent economic policies in Islamabad. The growth framework for Pakistan that was unveiled in early 2011 by the current national planning commission team supplanted a five-year plan that was close to publication.⁴⁶ The new strategy advocates a turn to urban, private-sector-driven growth, with only a light government hand. Recognizing the cumulative deficit from years of scant government investment in social capital, the new strategy gives priority to education and services for youth. It also emphasizes the importance of opening up urban spaces and opportunities to the informal sector and to rural in-migrants. In short, the framework tries to address changing trends in Pakistan and deficits in what it calls the “software” of growth.

The growth strategy has proved controversial. Fans admire its boldness. Few economists would take issue with the importance of cities as growth poles, but critics say the framework plays down at least three other elements that remain vital to economic growth in Pakistan:

- Overall macroeconomic context—so that the private sector is not crowded out by the government’s borrowing from the banking sector because of a failure of domestic resource mobilization. This would also affect the provision of public services, including education and services for youth.
- Further physical infrastructure improvements.
- Trade.

Some worry that the growth strategy is regressive in its emphasis on incentives for private-sector growth but not on poverty alleviation. Other critics see the strategy as an “easy out” for politicians who, in the run-up to elections in Pakistan, want to avoid the unpopular issues of IMF loans and requirements for macroeconomic reform.

Whatever its shortcomings, the framework has offered a Pakistani starting point for U.S. and other donor discussions with officials in Islamabad about the economy and foreign aid. It is unclear what will take its place if the provinces remain unwilling to sign up to it and challenges to its constitutionality win out.

PART IV: KEY RECOMMENDATIONS

KLB civilian aid has not yet been given adequate time. While many analysts have great reservations about the effectiveness of the U.S. aid program, it is certainly too soon to pull the plug on such assistance. But the prospects of its matching the expectations of its authors or having an identifiable impact on the lives of Pakistanis are not bright without substantial mid-course corrections. Accordingly, the working group offers the following recommendations.

BROAD GOALS

Recommendation 1: Continue to implement KLB civilian aid without adding conditions relating to either security or economic reforms.

Washington needs to keep its promise to invest in Pakistan. KLB civilian aid, although modest relative to Pakistan's needs, is more important than ever to help cope with Pakistan's approaching "tsunami." This assistance also is symbolically important to bilateral ties.

Adding security conditions would poison KLB civilian aid for Pakistanis. Indeed, U.S. officials should help insulate KLB civilian aid from the ill-will surrounding security assistance by carefully specifying, in their public statements, to which kind of "U.S. aid" for Pakistan they are referring.

We support continued U.S. pressure on Pakistan to undertake economic reforms. Strong, sustainable macroeconomic policies clearly would strengthen Pakistan's ability to cope with the coming storm of crises. All KLB civilian assistance must be structured with care to avoid undercutting incentives for reform. Washington should make clear to Islamabad that such aid will be continually reviewed to ensure that perverse policies do not undercut development.

Nonetheless, the working group opposes making KLB civilian aid conditional on macroeconomic reforms in Pakistan for several reasons:

- Adding conditions to civilian aid that was billed by the U.S. Congress as unconditional would send the wrong signal at a time when Pakistanis already feel whipsawed by the United States.
- U.S. bilateral aid does not confer leverage to force reforms on Pakistan.
- Far larger amounts of conditional IFI aid have not induced Islamabad to reform over several decades. Successive Pakistani governments have agreed to reforms to qualify for IMF packages, only to discontinue the reforms later.⁴⁷

- As long as Washington needs Pakistan's cooperation for the military re-supply of NATO operations in Afghanistan, the United States will lack bilateral leverage.
- Pakistani sensitivity about U.S. efforts to dictate internal policy solutions means that greater U.S. pressure for reforms could turn into a counterproductive showdown.
- Pushing too hard also would risk appearing to undercut the democratic processes that Washington says it supports. Pakistan's political parties have effectively united against tax reforms on behalf of their constituencies. The military, too, avoided such reforms when it last held power in the person of President Pervez Musharraf.
- Pakistan in any case might walk away if the United States imposed post-hoc reform conditions on promised KLB civilian aid.

However, this discussion of conditionality cannot be complete without a caution concerning Pakistan's recently announced decision to discontinue negotiations on a new IMF program. This action radically changes the context in which KLB programs will be operating, and the U.S. government must seriously consider whether protective measures might be necessary to prevent KLB programs from being distorted and/or undermined by the serious economic and social repercussions that are likely to result from that decision. Most economic analysts, Pakistani and American, warn that the decision to terminate the IMF program will lead to accelerating inflation and economic decline. KLB funds could be diverted to non-development uses, including repayment of current IMF loans.

Finally there is the issue of moral hazard—the danger that, absent the constraints that would be imposed by an IMF program, KLB resources might enable the government of Pakistan to pursue macroeconomic policies that could worsen life for most Pakistanis and contribute to the polarization of Pakistani society. Such an outcome would be hard to square with the objectives of the Congress and the will of most Americans.

This is not a call to abandon KLB or to place specific macroeconomic conditions on U.S. aid in the coming months. There is force in the argument that Congress wanted KLB to be unconditional, and that Pakistanis would view an overt reversal of that as another U-turn by an unreliable ally. It is also true that overt conditionality in the past has not produced sustained economic reform. Nonetheless, USAID has a substantial obligation to protect KLB programs from being undermined by economic policies that lead to runaway inflation or declining growth, and to ensure that taxpayer monies are not diverted for uses that would be outside the scope of the legislation. Recommendations toward

these ends, and which might even be turned into incentives for more promising Pakistani policies, are offered below.

Recommendation 2: The overarching purpose of American assistance is to help Pakistan toward eventual aid independence, recognizing that this goal may be at least a decade off. **Each U.S. aid program should include a road-map and timetable for making its functions locally self-sustaining.**

Recommendation 3: U.S. assistance should augment, not replace, Pakistani funding. If a project is not sufficiently important to Pakistan for Islamabad to be willing to put money into it, it should not be important to the U.S. taxpayer. Putting Pakistani funds on the table is one way for Pakistan to move toward ownership over the U.S. aid program.

To this end, require Pakistani co-investment with all KLB civilian aid other than disaster relief. Contributions by the pertinent level of government should increase over the life of each assistance program, reducing worries on both sides about aid dependency. Some Pakistani interlocutors say that a co-investment requirement would help lower public suspicion of Pakistani organizations that accept U.S. dollars. For community development programs, recipients would contribute sweat equity and/or financial reimbursement over time.

One question will be the ability of the Pakistani government to co-invest in its current straitened financial circumstances. A tactical delay in initiating Pakistani co-investment may be a practical interim solution. A second issue concerns the varying level of resources available to different provinces and localities. To avoid disadvantaging poorer places, USAID will need to develop a formula for determining the level of co-investment required of different authorities.

USAID already has some experience with government co-investment in Pakistan, specifically on infrastructure projects. To extend the concept further, USAID will need to determine, in consultation with local partners and prospective recipients:

- The division of responsibilities among receiving communities, municipalities, districts, provinces, and national government authorities. One successful model from the past was USAID's use of PL-480 food aid funds for rural works programs in East and West Pakistan; the money was disbursed directly to elected district councils, which selected projects from a list approved by provincial program directors.
- Whether and how in-kind contributions should count as part of the mix. Such contributions would need to be clearly defined and monitorable. Community-level work by private voluntary organizations and social entrepreneurs is rich in exemplars from Pakistan.

IMPROVING EFFECTIVENESS, TRANSPARENCY, ACCOUNTABILITY, AND DONOR COORDINATION MECHANISMS FOR U.S. AID

Recommendation 4: Enhance USAID's effectiveness by

- Conducting an independent review of the benefits and costs of switching from cooperative agreements to (procurement) contracts as the main implementing mechanism for U.S. aid in Pakistan.
- Recruiting personnel experienced in international aid, not necessarily with USAID, to serve in the field, and giving them greater discretion and responsibility for more responsive and effective aid programs.
- Extending Pakistan tours for USAID personnel to at least two years and increasing skilled technical staff.
- Using in-country senior personnel to build professional bridges to local NGOs, business reform groups, researchers, and government experts, all key players in moving programs toward autonomy from aid.
- Seeking congressional support to streamline USAID application and administrative procedures. Current practices are eroding the goodwill of partners globally, not just in Pakistan.
- Providing simple, up-to-date information on the State Department and U.S. Embassy (Islamabad) websites regarding KLB and other U.S. civilian aid programs and aid flows. Pakistani and U.S. audiences also need current information on the status of proposed programs in the U.S. congressional approval and funding process. Clarity on these issues would reduce misunderstandings and could increase goodwill.

Recommendation 5: To promote the goals of protecting KLB programs and ensuring that its funds are not diverted to inappropriate uses, step up efforts to **secure support from other important donors for the creation and obligatory use by Pakistan of a transparent Treasury Single Account-type mechanism** and collectively, to the extent possible, insist that the government of Pakistan implement it. This would enable both Pakistan and foreign donors to track aid funds, with correspondent accounts to allow check-writing authority to remain with the donor. These mechanisms would provide monitoring and spending controls for participating donors, necessary conditions for better oversight of KLB monies.

To ensure that U.S. funds are used effectively, make clear to Pakistani authorities that Washington expects the government to return to an arrangement with

the IMF as stipulated by the Friends of Pakistan donors' group in 2008. Without the benefit of the comprehensive tracking of Islamabad's financial operations that would come with an IMF program, monitoring a TSA will be more difficult for donors. Alternatives, such as disbursing KLB aid in tranches contingent on demonstrable outcomes, would need to be weighed.

Recommendation 6: To help ensure implementation and follow-through on both the U.S. and Pakistani sides, **have independent third parties evaluate projects**, in addition to end-of-project evaluations by the aid-disbursing organization or contractors. Input from independent local civil-society watchdog groups could be incorporated into the project evaluation design—advancing Pakistani ownership of these aid projects.

Recommendation 7: To help pinpoint where the value-added of KLB civilian aid would be greatest, **enhance USAID's tracking of other donors' activities in Pakistan.**

Recommendation 8: Give greater priority to in-country coordination with key like-minded bilateral donors; form small “experts' groups” of experienced hands to meet often and informally.

BUILDING PAKISTANI GOVERNMENT CAPACITY

Recommendation 9: In the short run, **disburse major parts of KLB assistance through local and international NGOs and contractors** until we have greater confidence that such funds are not being used for purposes other than those envisioned by the Congress.

Establish a more realistic timeline, with benchmarks, for stepping up the percentages of U.S. assistance to be dispensed through Pakistani government structures. This would also address concerns about the tradeoffs between ensuring that KLB assistance has a significant impact and rapidly increasing the Pakistan government's role in U.S. aid.

Although ultimately desirable, the goal of moving 50 percent of civilian assistance through the Pakistani government now is premature. Government will and capacity are scarce. The chaos of the initial devolution process to the provinces alone serves as a powerful argument for slowing the transition and giving USAID greater ability to calibrate—although not to return to relying on U.S. contractors as intermediaries.

Pakistani NGOs, too, need time and training to learn to manage growing amounts of aid effectively. The mid-point of KLB's projected second five years of civilian aid might be a feasible target date for having all civilian assistance going through Pakistani government agencies or NGOs.

Recommendation 10: Help fill the Pakistani government's most critical expertise gaps at the federal and provincial levels—but with conditions. In return for USAID-assisted specialized training in the fields of energy and of finance, economics, and management science, beneficiaries must commit to a “payback” period of service to the sending government entity.

PARTNERING WITH PAKISTANI CIVIL SOCIETY ORGANIZATIONS

Recommendation 11: Create a new standing bi-national public-private working group on development to propose new ideas and troubleshoot problems relating to U.S. assistance. An off-the-record civilian-to-civilian arena insulated from security controversies could wrestle with alternative models and metrics for development, urban planning, education, vocational skills training, and job-creation programs. Pakistani entrepreneurs and creative thinkers on political and economic reform, many of them returned “expats,” would be naturals for such a forum. U.S. participants could be drawn from the private sector and from government departments and agencies involved in civilian aid.

Recommendation 12: Negotiate program requirements and metrics of success with Pakistani aid program implementers. Such requirements can be designed to strengthen implementers' hands against pressures from political actors or business elites to bend standards or rules to their advantage.

Recommendation 13: Build up local civil society organizations (CSOs) as a means of expanding Pakistan's capacity for and ownership of development. For example, train USAID's local NGO partners in doing needs assessments. Encourage local CSO initiatives by reintroducing the practice of welcoming unsolicited proposals from Pakistani civil society and other private-sector actors for projects that are consistent with USAID's vision and goals.

Recommendation 14: In partnership with local CSOs, enhance input from prospective beneficiaries and impacted populations up front and throughout the life of a program to ensure its relevance and effectiveness.

- Jointly develop instruments appropriate to sampling beneficiary populations. Such input will buttress the credibility of the elite urban Pakistani NGOs with which Western donors and IFIs tend to partner.
- Support for NGO work needs a broader base in Pakistan. Greater sustainability will require local legitimacy.

“NGOs are and will remain essential partners for the donor community. However, since they rarely develop their own constituencies, NGOs are easily criticized as paid agents of foreign interests. When they represent the real interests of real people, these groups become much harder to ignore. A base of support matters if groups want to continue their work when international donors move on to other countries. Moreover, donors also need the legitimacy that local constituencies confer. Without it, we’re vulnerable to charges of meddling. And, local support helps nurture our values in the long run.”⁴⁸

REFOCUSING PROGRAM PRIORITIES

Recommendation 15: Focus additional USAID programs on Pakistan’s cities and peri-urban areas. Sindh province and national planning commission economists rate cities as a top priority. Urbanization is occurring even faster and more widely than official statistics suggest.

Recommendation 16: Fund clean water, electricity, and sanitation in selected urban areas. By 2030, Pakistan will be more urban than rural; the demand for urban infrastructure will be huge. By one estimate, energy use in Pakistan could quadruple.⁴⁹

“Pakistan’s youth needs civil society organizations that are not nihilistic.”

—*Pakistani physician and social activist*

Recommendation 17: Sponsor youth-targeted urban community organizations for participatory development in partnership with local and foreign NGOs that have experience in running such programs in Pakistan. The British Council “Next Generation” surveys suggest that young Pakistanis may be mobilizable for community self-help.

Recommendation 18: Sponsor community-based adult literacy training and certification programs in poor urban areas. Cash incentives for attainment of higher reading and comprehension skills might boost female participation; nationally, the female literacy rate in Pakistan is an abysmally low 44 percent.⁵⁰

Recommendation 19: Continue U.S. budgetary aid for the Benazir Income Support Program only if it becomes less patronage-based and incorporates self-sufficiency measures. U.S. aid has contributed substantially to BISP. The program is demonstrably an efficient way to dispense aid to presumably poor people in a time of hardship—from floods, rising food and energy prices, and militant violence. Pakistan is proposing to use this program as a backbone to deliver other services to the poor. Some in Pakistan see in the program a potential new paradigm for relations between government and the governed.⁵¹

Even so, our working group has three major reservations about continuing U.S. assistance for BISP; unless they are resolved, we believe that U.S. support for BISP should end.

- First, as currently configured, the BISP relies on members of Parliament to identify the very poor in their districts, an approach that inevitably favors political supporters. This approach to beneficiary designation must be changed to avoid turning poverty alleviation into political patronage.
- Our second concern is that U.S. funding for BISP is replacing, not supplementing, Pakistan government social spending. While the foreign-funded BISP has grown, government investment in rural support programs reportedly is falling—an unacceptable though predictable state of affairs.
- Our third worry is that BISP includes no provision to help beneficiaries move toward greater independence. An earlier employment provision

reportedly was deleted from the BISP. To meet our priority of promoting development in Pakistan and our criteria for eventual sustainability, BISP would need to be linked tightly to programs aimed at adult skills acquisition and income opportunities—e.g. in micro-enterprises—so that many BISP beneficiaries could graduate from the program.

Recommendation 20: If agreement is reached with Pakistan to reshape the BISP, fund the establishment of a “targeted subsidy cell” in the Planning Commission and/or in the provinces. Such a cell would expand Pakistan’s planning capacity and could apply poverty-mapping techniques that were developed at the World Bank. These techniques were used in successful targeted subsidy programs such as Morocco’s.

KNITTING BUSINESS INTO DEVELOPMENT

Working more closely with the Pakistani and U.S. private sectors should be both a means and an end for USAID. While government bears responsibility for the business environment, growth depends on the private sector.

Recommendation 21: Increasing Pakistan-U.S. trade should be part of the overall strategy toward Pakistan, but Washington should not privilege trade over aid, as some Americans and Pakistanis have proposed. Some see U.S. market access for Pakistani products, specifically textiles, as a substitute for U.S. assistance. One Pakistani business leader recommended that Washington use the \$7.5 billion of KLB civilian assistance to provide equivalent market access for Pakistani goods. A few advocates claim that such access for textiles would increase exports enough to spur broad economic growth in Pakistan, obviating the need for any foreign aid.

Access to U.S. markets would certainly boost Pakistani textile exports, but these could not replace aid for several reasons.

- First, greater Pakistani exports would not obviate the need for development, which for now is reliant on foreign aid. Development entails shifts in the nature and structure of Pakistan’s economy.
- Second, Pakistan’s textile industry offers less promise of spurring future growth, exports, and job-creation than does the SME sector.
- Third, Pakistan’s textile industry is losing out to cheaper Asian exporters. Some Pakistani economists argue that given competition from low-wage

economies such as Bangladesh and Cambodia, Pakistan should abandon its focus on textiles altogether and concentrate on developing its knowledge-based industries.

- Fourth, U.S. textile lobbies pose daunting political obstacles to greater market access for Pakistani textiles.

Recommendation 22: Target small grants and seed money to economic development objectives, including job creation.

- With small grants for entrepreneurs and very modest investments, USAID could fill a critical funding gap for the exploration of new business lines in Pakistan. Pakistani entrepreneurs are ineligible for the small-grants programs currently listed on USAID Islamabad’s website.⁵² A second critical need is for seed money.
- Draw from the model of scalable nonprofit entrepreneurship to create jobs that also improve services for the poor at a low price. With skills training, micro-business advice, and micro-loans, many of the small companies launched by motivated local individuals have recovered their initial costs.

Recommendation 23: Help build the SME sector in Pakistan. USAID should re-examine the feasibility of setting up a country Enterprise Fund program to promote SMEs in Pakistan. Some of the funds established in Eastern Europe after the collapse of the Soviet Union reportedly returned profits to the U.S. Treasury.⁵³

USAID has enabled credit for SMEs in other areas, including Haiti as well as Eastern Europe. In post-earthquake Haiti, USAID’s Development Credit Authority (DCA) has partnered with local banks to help make \$20 million worth of loans accessible to SMEs to rebuild their businesses and credit histories. DCA’s credit guarantees lower collateral requirements to enable SME owners to borrow. The partnership in Haiti has brought the total private sector credit mobilized by DCA in developing countries above \$2 billion, according to USAID.⁵⁴

Recommendation 24: Make vocational skills training the main U.S. contribution to education in Pakistan; accept a support role in post-elementary education, but consider the use of incentives to encourage further schooling, especially for girls.

Basic technical and mechanical skills are in short supply in Pakistan except in the Army. A number of our interlocutors in Pakistan urged, as a priority, the establishment of U.S.-assisted vocational skills certification programs for machinists and similar professions.

- Such training must be linked to apprenticeships and new lines of business that are already generating work.
- Development economists with whom working group members met in Pakistan noted that vocational skills training may also be the best option for the many “semi-educated unemployed.” Many lower-middle-class high school graduates and middle-class “degree holders” are too poorly educated to be competitive for white-collar positions, but lack other marketable skills.

Such training would contribute to two of our other recommendations—investing in Pakistan’s urban youth and boosting SME growth.

Additionally, with some bilateral Western aid to Pakistan’s public education system now creating acclaimed new model schools on the ground, Washington might better lend a shoulder to that effort than dissipate U.S. aid on parallel projects. U.S. assistance could help by providing incentives for poor families to keep children, especially girls, in school longer—for example, by subsidizing transportation costs to regional middle schools or cash bonuses to families for added “girl-year” of middle and high school satisfactorily completed. Cash bonuses have worked well in Bangladesh.

Responsibility for programs such as this could gradually be assumed by provincial governments.

Recommendation 25: Establish a mechanism to mobilize resources from and tap the technical and management skills of the Pakistani diaspora in the United States. For example, USAID could work with OPIC to provide seed money for new venture capital funds and private equity operations to help develop up-and-coming sectors—such as information technology, communication, higher education, health care, and pharmaceuticals.

Recommendation 26: Look for appropriate opportunities to involve successful Pakistani public-private partnerships in aid projects. “Public-private partnerships are the winning model in Pakistan,” a leading Pakistani expert on health aid told working group members for this study. The government enables bureaucratically; the private sector provides know-how. Private groups like the Citizens Foundation have partnered with provincial government agencies to found good secondary schools—although critics question whether the poor have access to them. Other public-private partnerships reportedly have delivered effective community development in Sindh.

BOUNDARIES OF PROPRIETY AND EFFECTIVENESS

Recommendation 27: Recognize issues where Washington should fear to tread. As a practical matter, there are a number of issues on which U.S. advice in particular would likely be counterproductive—even though reforms in these areas would expand Pakistan’s economic prospects and welfare.

These include:

- The military’s—particularly the officer corps’—privileged role in the economy.
- Land reform: The current land tenure system underpins water access problems and other endemic resource maldistributions.
- Civil service reform:
 - Good governance necessitates civil service reform as a springboard for recruitment and retention of civil servants with a new mandate, skills, and protections from political whims.
 - Civil service reforms, however, require political consensus and cooperation from “political classes” and military leaders who have vested interests in opposing such changes.
 - If Washington presses too hard, it risks appearing to bypass the democratic processes that the United States says it supports and breaching Pakistani sovereignty.
- Revision of the politico-religious content of school textbooks. This sensitive issue is best left to Pakistanis. Post-9/11 pressure by Washington to get anti-U.S. and “Islamist” messages expunged has made this a neuralgic example of outside interference for many Pakistanis.

Recommendation 28: Be modest in our expectations and patient in our approach. \$7.5 billion over five years could make a difference in the lives of Pakistanis, but will not transform the country. We should not expect U.S. aid, in the near-term, to gain us either love or leverage. Public perceptions do not change in the short run, and an aid program geared to altering Pakistani perceptions of the United States could well backfire. Less concern with winning hearts and minds may ultimately win more hearts and minds. Patience and a long-term perspective are essential.

REALITY CHECK ON REVAMPING WATER MANAGEMENT IN PAKISTAN

Accepting the limits of what KLB aid can realistically accomplish in current circumstances means passing up comprehensive programs that could greatly improve the lives of most Pakistanis. One such program area is water. Reworking water management and usage in Pakistan could improve flood control and the distribution of drinking and irrigation water, but there are numerous political and sociocultural obstacles to doing so. For example, in the context of:

- Flood control: The extensive system of dams, embankments, and canals that was constructed in the 1960s, partially with American assistance, was overwhelmed by the summer-fall 2010 floods. At a minimum, it requires significant repair. Pakistan's fiscal deficits have limited repairs by the government, increasing the odds of serious damage from future floods. A major cause of these deficits is the exemption of agricultural land from taxation, which is fiercely defended by large landowners.
- Drinking and irrigation water: Shortfalls are endemic in Pakistan. U.S. technical expertise and aid could help rationalize the system and ease hardships for many citizens—but the small minority of rich farmers who own most of Pakistan's rural land also control access to water in rural Sindh and Punjab. They use political influence and bribes to secure more than their share from provincial water authorities, at the expense of smallholders and the landless. The wealthy and powerful also resist changes in water usage that would conserve water and make it more broadly available. One of the most water-intensive crops is sugar, but the politicians who own many of the big sugar mills resist shifting to the cultivation of other crops. Tradition, too, helps perpetuate wasteful practices, including the widespread preference for flood irrigation instead of drip irrigation.⁵⁵

APPENDICES

APPENDIX I: WORKING GROUP MEMBERS AND BIOGRAPHIES

CHAIR

Polly Nayak is an independent consultant and senior outside advisor on issues ranging from South Asia and terrorism to nonproliferation. She retired from the U.S. intelligence community in 2002 as its senior South Asia expert. Many of her past publications have focused on U.S.-Pakistan, U.S.-India, and Pakistan-India relations, and terrorism in South Asia. She is presently working on a book about how senior U.S. foreign policymakers can best “learn” unfamiliar foreign regions on the job.

WORKING GROUP CONVENER

Robert M. Hathaway is director of the Asia Program at the Woodrow Wilson Center. His recent work includes *Empty Bellies, Broken Dreams: Food Insecurity and the Future of Pakistan* (Vanguard Books, 2011) and *Powering Pakistan: Meeting Pakistan’s Energy Needs in the 21st Century* (Oxford University Press, 2009), both co-edited with Michael Kugelman.

WORKING GROUP MEMBERS

Ehtisham Ahmad is senior fellow with the Asia Research Center at the London School of Economics and with the Center for Development Research at the University of Bonn. He previously served as special advisor to the Pakistani finance minister, represented Pakistan as senior advisor at the IMF Board, and held senior staff positions at the IMF.

Samia Altaf is a public health physician who has worked for UNICEF, USAID, and the District of Columbia’s Department of Health. She was the 2007-08 Pakistan Scholar at the Woodrow Wilson Center, where she researched donor assistance effectiveness in Pakistan’s health sector. She is the author of *So Much Aid, So Little Development: Stories from Pakistan* (Woodrow Wilson Center Press and Johns Hopkins University Press, 2011).

Shahid Javed Burki is a senior scholar at the Woodrow Wilson Center, and chairman of the Advisory Council of the Institute of Public Policy in Lahore.

He has served as Pakistan's finance minister and, earlier, chief economist of the government of West Pakistan. He has also held numerous senior positions with the World Bank.

Craig Cohen is vice president for research and programs at the Center for Strategic and International Studies. His publications include *A Perilous Course: U.S. Strategy and Assistance to Pakistan* (CSIS, 2007) and "When \$10 Billion Isn't Enough," an article on U.S. aid to Pakistan (*Washington Quarterly*, 2007).

Mirza Jahani is chief executive officer of Aga Khan Foundation USA. He was previously the foundation's CEO in the United Kingdom, East Africa, and Tajikistan. He has also worked with the United Kingdom's Department for International Development, focusing in particular on governance in the Middle East, Central Asia, and the Democratic Republic of Congo.

Esperanza Gomez Jelalian is executive director of the U.S.-Pakistan Business Council, an affiliate of the U.S. Chamber of Commerce and the leading private sector association of U.S. companies with business and investment in Pakistan. She previously held positions with government relations firms, the Republican National Committee, and American International Group.

Mohsin Khan is senior fellow at the Peterson Institute for International Economics. Previously, he served at the IMF as director of the Middle East and Central Asia Department, director of the IMF Institute, and deputy director of the Research Department. He has also held positions at the London School of Economics and World Bank.

Michael Kugelman is the Wilson Center's South Asia program associate. His recent work includes *Reaping the Dividend: Overcoming Pakistan's Demographic Challenges* (Wilson Center, 2011) and *Empty Bellies, Broken Dreams: Food Insecurity and the Future of Pakistan* (Vanguard Books, 2011), both co-edited with Robert M. Hathaway.

Dennis Kux is a senior policy scholar at the Woodrow Wilson Center. He is a retired State Department South Asia specialist, having served in Pakistan in 1957-59 and 1969-1971, and a former ambassador to Cote D'Ivoire. His books include *The United States and Pakistan, 1947-2000: Disenchanted Allies* (Woodrow Wilson Center Press and Johns Hopkins University Press, 2001).

Wilson Lee is senior program officer for Asia at the National Endowment for Democracy, where he manages a multi-million-dollar grants program for Pakistan and Tibet. Previously, he worked at the Woodrow Wilson Center and at Bear Stearns and Company.

William Milam is a senior policy scholar at the Woodrow Wilson Center. He was previously U.S. ambassador to Pakistan and Bangladesh, and deputy assistant secretary of state for international finance and development. He is the author of *Bangladesh and Pakistan: Flirting with Failure in South Asia* (Columbia University Press and Hurst & Company, 2009).

Shuja Nawaz is director of the Atlantic Council's South Asia Center. He has also worked with several think tanks, Pakistan Television, the *New York Times*, the World Health Organization, and the IMF. He is the author of *Crossed Swords: Pakistan, Its Army and the Wars Within* (Oxford University Press, 2008).

John W. Sewell is a senior scholar at the Woodrow Wilson Center. A former president of the Overseas Development Council, he has written extensively on globalization, development, and American foreign policy. His current research examines the changes in U.S. development policy needed to address 21st century challenges.

Anne T. Sweetser is a social anthropologist. In recent years she has served as a social development specialist with the Asian Development Bank. While based at the bank's Pakistan Country Office in 2006-09, she supervised preparation of the Country Gender Assessment and managed a major study on capacity development for aid effectiveness.

Huma Yusuf is a columnist and investigative journalist. She writes for *Dawn*, an English-language Pakistani daily newspaper. She was the 2010-11 Pakistan Scholar at the Woodrow Wilson Center, where she researched the independent news media's impact on Pakistani politics, public policy, and society.

RESEARCH ASSISTANT

Hasan Altaf recently served as a research assistant at the Woodrow Wilson Center, where he worked on a project examining patterns of education and Islamic thought in Pakistan. He earned an MFA in creative writing from Johns Hopkins University, and a BA with a concentration in the relationship of culture and politics from New York University.

APPENDIX II: U.S. AID APPROPRIATIONS AND MILITARY REIMBURSEMENTS TO PAKISTAN, FY 2002-2012

As noted above in Part II, the following graphic illustrates the difficulty of identifying KLB expenditures, which are embedded in other funding streams and civilian aid spending categories. As of mid-August 2011, none of the \$1.6 billion in Coalition Support Funds appropriated by Congress for FY 2011 had been paid out to Pakistan. FY 2011 humanitarian assistance, however, was flowing.

DIRECT OVERT U.S. AID APPROPRIATIONS AND MILITARY REIMBURSEMENTS TO PAKISTAN, FY 2002-FY 2012 (rounded to the nearest millions of dollars)

Program or Account	FY 2002-FY2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (est.)	Program or Account Total	FY 2012 (req.)
1206	—	28	14	56	114	—	^f	212	^f
CN	8	24	49	54	47	43 ^f	63	288	^f
CSF ^a	4,085 ^c	862	731	1,019	685	1,499	^h	8,881 ^h	^h
FC	—	—	—	75	25	—	—	100	—
FMF	674	297	297	298	300	294	295	2,455	350
IME ^T	5	2	2	2	2	5	4	22	5
INCLE	186	38	24	22	88	170	114	642	125
NADR	24	9	10	10	13	24	25	115	23
PCF/PCCF	—	—	—	—	400	700 ^g	800 ⁱ	1,900 ⁱ	1,100
Total Security-Related	4,982	1,260	1,127	1,536	1,674	2,735	1,301	14,615	1,603
CSH/GHCS	77	28	22	30	34	30	28	249	2
DA	123	38	95	30	—	—	—	286	—
ESF	1,301 ^d	338	394 ^e	347	1,114	1,292	919	5,705	1,360
Food Aid ^b	78	55	—	50	55	124	51	413	—
HRDF	5	1	11	—	—	—	—	17	—
IDA	—	70	50	50	103	232	145	650	—
MRA	28	10	4	—	61	49	—	152	—
Total Economic-Related	1,612	540	576	507	1,367	1,727	1,143	7,472	1,362
Grand Total	6,594	1,800	1,703	2,043	3,041	4,462	2,444	22,087	2,965

Sources: Congressional Research Service; U.S. Departments of State, Defense, and Agriculture; U.S. Agency for International Development.

Note: Final obligation and disbursement totals are typically lower than program account appropriations.

Chart Abbreviations:

1206: Section 1206 of the National Defense Authorization Act (NDAA) for FY 2006 (P.L. 109-163, global train and equip)

CN: Counternarcotics Funds (Pentagon budget)

CSF: Coalition Support Funds (Pentagon budget)

CSH: Child Survival and Health (Global Health and Child Survival, or GHCS, from FY 2010)

DA: Development Assistance

ESF: Economic Support Funds

FC: Section 1206 of the NDAA for FY 2008 (P.L. 110-181, Pakistan Frontier Corp train and equip)

FMF: Foreign Military Financing

HRDF: Human Rights and Democracy Funds

IDA: International Disaster Assistance (Pakistani earthquake, flood, and internally displaced persons relief)

IMET: International Military Education and Training

INCLE: International Narcotics Control and Law Enforcement (includes border security)

MRA: Migration and Refugee Assistance (also includes Emergency Migration and Refugee Assistance or ERMA)

NADR: Nonproliferation, Antiterrorism, Demining, and Related Programs (the majority allocated for Pakistan is for antiterrorism assistance)

PCF/PCCF: Pakistan Counterinsurgency Fund/Counterinsurgency Capability Fund (PCF overseen by the Pentagon, PCCF overseen by State)

Chart Notes:

- a. CSF is Pentagon funding to reimburse Pakistan for its support of U.S. military operations; it is technically not foreign assistance.
- b. P.L.480 Title I (loans), P.L.480 Title II (grants), and Section 416(b) of the Agricultural Act of 1949, as amended (surplus agricultural commodity donations). Food aid totals do not include freight costs and total allocations are unavailable until the fiscal year's end.
- c. Includes \$220 million for FY 2002 Peacekeeping Operations reported by the State Department.
- d. Congress authorized Pakistan to use the FY 2003 and FY 2004 ESF allocations to cancel a total of about \$1.5 billion in concessional debt to the U.S. government.
- e. Includes \$110 million in Pentagon funds transferred to the State Department for projects in Pakistan's tribal areas (P.L. 110-28).

- f. This funding is “requirements-based;” there are no pre-allocation data.
- g. These funds were appropriated in and became available on the final day of FY 2009.
- h. Congress appropriated \$1.6 billion for FY 2011 and the administration requested \$1.75 billion for FY 2012, in additional CSF for all U.S. coalition partners. Pakistan has in the past received more than three-quarters of such funds.
- i. In July 2011, the administration suspended approximately \$440 million in planned PCF payments following the Pakistani government’s expulsion of numerous American military trainers. This amount has not been deducted from the FY 2011 total.

APPENDIX III: TIMELINES AND U.S. LEGISLATIVE REQUIREMENTS FOR KLB CIVILIAN AID TO PAKISTAN

For simplicity's sake, USAID identifies the start of the five-year timeline for KLB as October 2009, the beginning of fiscal year (FY) 2010.⁵⁶ The reality, however, is more complex.

President Obama signed KLB into law on October 15, 2009. This law *authorizes* up to \$1.5 billion in economic assistance to Pakistan for each of five fiscal years, from FY 2010 through FY 2014, for a total of \$7.5 billion.

In the U.S. system, authorization legislation must be followed by a congressional *appropriation* to enable actual funding flows. The first funds authorized by the KLB legislation were not actually appropriated until December 16, 2009 (FY 2010), with the Consolidated Appropriations Act, 2010 (P.L. 111-117).

The congressional appropriation enabled funding, but the actual transfer of KLB funds to USAID for FY 2010 did not occur until September 2010 (nine months later), under the process outlined in Title I (2)(a) of KLB.

- Following passage of KLB authorizing legislation, USAID and the Department of State (“State”) were required to submit a Pakistan Civilian Assistance Strategy report, which was completed and submitted in December 2009.
- After the appropriations act was passed, USAID and State had 45 days to submit a spending plan to relevant congressional appropriations committees. USAID and State submitted the FY 2010 spending plan in February 2010, after which it was placed on hold by congressional committees. Over the next three months, USAID staff provided multiple briefings to the committees detailing how funds would be used.
- With funding allocations approved, USAID and State prepared the Operational Plan, which must be approved by State’s Director of Foreign Assistance prior to USAID receiving access to appropriated funds.
- During finalization of this plan, the 2010 floods hit Pakistan, and all efforts were redirected to responding to this humanitarian disaster. USAID re-evaluated and restructured its assistance to address flood relief and recovery, with KLB implementation and disbursements delayed as a result. Between October 2010 and March 2011, the floods occasioned two changes in planned KLB aid for Pakistan:

- USAID reprogrammed \$500 million for flood recovery, including \$190 million for the Citizen's Damages Compensation Fund.
- USAID and a senior interagency group streamlined the FY 2010 assistance portfolio into five priority sectors. In descending order of importance they were energy, economic growth (including agriculture), stabilization, education, and health.⁵⁷
- After the Operational Plan was finally approved, the funds were requested from the Office of Management and Budget (OMB) and ultimately received on September 29, 2010.
- In late August and September 2010, USAID prepared the Pakistan Enhanced Partnership Agreement (PEPA), a broad, bilateral, obligating document. The document was negotiated with the government of Pakistan before the September 30, 2010 signing, and obligated over \$800 million of FY 2010 funds.
- Once funds are obligated, the legislation calls for an additional step. No FY 2010 funds programmed as "on-budget" assistance to the government of Pakistan can be sub-obligated until the Secretary of State certifies (1) that these programs reflect goals and objectives to which both the U.S. and Pakistani governments have agreed, and (2) that mechanisms are in place to ensure that funds are used for the intended purposes. This certification is done as individual programs are designed.

Between the appropriation of KLB funds on December 16, 2009 (FY 2010) and the initial transfer of KLB funds to USAID in September 2010 (the end of FY 2010), USAID began implementing planned KLB programs using funds authorized for FY 2009 and prior years.

The current five-year KLB authorization is due to end in late FY 2014, but KLB program implementation will continue until all KLB funds for FY 2014 (and prior years) are spent, which may be sometime in FY 2015 or 2016. Even when those funds run out, USAID will continue to deliver aid to and in Pakistan so long as Congress appropriates funds for such activities.

As of fall 2011, required congressional notifications and briefings were still under way. Meanwhile, political and security-related issues in and between Washington and Islamabad slowed both U.S.-Pakistan negotiations and implementation of several USAID programs.

ENDNOTES

- 1 This legislation is frequently referred to as the Kerry-Lugar-Berman act, after its principal congressional sponsors. It is hereafter referred to as KLB. See Enhanced Partnership with Pakistan Act of 2009 22 U.S.C. (2009), <http://www.gpo.gov/fdsys/pkg/BILLS-111s1707enr/pdf/BILLS-111s1707enr.pdf>.
- 2 Emergency humanitarian aid falls outside the boundaries of KLB aid.
- 3 As we use the term here, “stability” implies a predictable process of leadership turnover, evolutionary change, and a degree of policy continuity.
- 4 Pakistan has the seventh largest number of active-duty military personnel in the world. See “Active Duty Military Manpower by Country,” *Global Firepower*, <http://www.globalfirepower.com/active-military-manpower.asp>. Pakistan is reportedly close to overtaking the United Kingdom as the fifth largest nuclear power. David E. Sanger and Eric Schmitt, “Pakistani Nuclear Arms Pose Challenge to U.S. Policy,” *New York Times*, January 31, 2011, at http://www.nytimes.com/2011/02/01/world/asia/01policy.html?_r=1&pagewanted=all.
- 5 See working group members list and biographies in Appendix I.
- 6 Nancy Birdsall, Wren Elhai, and Molly Kinder, *Beyond Bullets and Bombs: Fixing the U.S. Approach to Development in Pakistan* (Washington, DC: Center for Global Development, 2011), <http://www.cgdev.org/content/publications/detail/1425136/>.
- 7 Susan B. Epstein and K. Alan Kronstadt, *Pakistan: U.S. Foreign Assistance*, CRS Report R41856 (Washington, DC: Government Printing Office, 2011), <http://www.fas.org/sgp/crs/row/R41856.pdf>.
- 8 Richard L. Armitage et. al., *U.S. Strategy for Pakistan and Afghanistan*, Council on Foreign Relations Task Force Report No. 65 (Washington, DC: Council on Foreign Relations Press, 2010).
- 9 Craig Cohen and Derek H. Chollet, “When \$10 Billion Is Not Enough: Rethinking U.S. Strategy toward Pakistan,” *Washington Quarterly* 30(2) (Spring 2007): 7-19.
- 10 Fellowship Fund for Pakistan is a Karachi-based trust established by Pakistani businessmen to encourage non-partisan scholarship on Pakistan and to help bridge the gap between academia and policymaking. More information on the trust may be found on www.ffffp.org.pk
- 11 Pakistan is still in demographic transition, a shift from high birth and death rates to low birth and death rates that has occurred in most regions as they developed. Its death rates have fallen but birth rates remain high, likely prolonging the youth bulge there for several more decades.
- 12 Sehrish Wasif, “National Nutrition Survey 2011: Food insecurity affecting 60% of women and children,” *Express Tribune*, September 18, 2011, <http://tribune>.

com.pk/story/254714/national-nutrition-survey-2011-food-insecurity-affecting-60-of-women-and-children/.

- 13 British Council, Pakistan: *The Next Generation Report* (London: British Council, November 2009), <http://www.britishcouncil.pk/pakistan-Next-Generation-Report.pdf>, for summary of key data see Shazia Khawar, "Full Circle: Pakistan: The Next Generation Report and the Perspective of Pakistani Youth," in *Reaping the Dividend: Overcoming Pakistan's Demographic Challenges*, eds. Michael Kugelman and Robert M. Hathaway (Washington, DC: Woodrow Wilson International Center for Scholars, 2011).
- 14 Haris Gazdar, "Democracy in Pakistan: The Chasm," *Economic and Political Weekly* (India) 45 (22) (2010): 10-12.
- 15 Ishrat Husain, "Retooling Institutions," in *Pakistan: Beyond the Crisis State*, ed. Maleeha Lodhi (New York: Columbia University Press, 2011): 149-168.
- 16 John F. Kerry and Howard Berman, Joint Explanatory Statement Enhanced Partnership with Pakistan Act of 2009, October 14, 2009 (Washington, DC: United States Senate, 2009), <http://www.cfr.org/pakistan/joint-explanatory-statement-enhanced-partnership-pakistan-act-2009/p20422>.
- 17 Ibid.
- 18 Personal observation by an individual with first-hand knowledge of drafting of the KLB.
- 19 Epstein and Kronstadt, *Pakistan: U.S. Foreign Assistance*, 4. For a complete table of direct overt U.S. aid and military reimbursements to Pakistan for FY 2002-FY 2012, please see table in Appendix II.
- 20 Information provided by USAID and Epstein and Kronstadt, *Pakistan: U.S. Foreign Assistance*, 5-6.
- 21 Ben Arnoldy and Issam Ahmed, "U.S. cuts aid to Pakistan: Six key questions," *Christian Science Monitor*, July 11, 2011, <http://www.csmonitor.com/World/Asia-South-Central/2011/0711/US-cuts-aid-to-Pakistan-Six-key-questions/Didnt-t-the-US-boost-funds-to-civilian-aid-recently>.
- 22 Homi Kharas, "U.S. Aid to Pakistan: Time for a New Approach," Brookings.com, August 25, 2010, http://www.brookings.edu/opinions/2010/0825_pakistan_aid_kharas.aspx.
- 23 The "Friends of Pakistan" group includes Australia, Canada, China, France, Germany, Italy, Turkey, United Arab Emirates, United Kingdom, and United States plus the United Nations and the European Union. Agence France-Presse, "Friends of Pakistan group pledges aid for stabilization," *Google News*, September 26, 2008, http://afp.google.com/article/ALeqM5jpbB_w95vRa_dAh1DTVCdBvYBFLA.

- 24 Verena Fritz and Alina Rocha Menocal, “‘Developmental’ States in the New Millennium: Concepts and Challenges for a New Aid Agenda,” *Development Policy Review* 25 (5) (2007): 542.
- 25 Ben Arnoldy and Issam Ahmed, “U.S. aid in Pakistan: Where’s the money going?” *The Christian Science Monitor*, May 18, 2011, <http://www.csmonitor.com/World/Asia-South-Central/2011/0518/US-aid-in-Pakistan-Where-s-the-money-going/How-much-US-money-is-in-Pakistan>.
- 26 Graeme Blair, C. Christine Fair, Neil Malhotra, and Jacob N. Shapiro, “Pakistan’s Middle Class Extremists, Why Development Aid Won’t Solve Radicalism,” *Foreign Affairs*, July 11, 2011, <http://www.foreignaffairs.com/articles/67976/graeme-blair-c-christine-fair-neil-malhotra-jacob-n-shapiro/pakistans-middle-class-extremists>.
- 27 Jalil Hassan Akhtar, “We Need a Marshall Plan For Pakistan Zardari Tells Holbrooke,” *Business Recorder*, January 16, 2010, <http://www.brecorder.com/top-stories/single/595/0/1007665/>.
- 28 Fared Paracha, interview by David Montero, *Frontline*, PBS, February 23, 2010, <http://www.pbs.org/frontlineworld/stories/pakistan901/paracha.html>.
- 29 Estimate cited in Arnoldy and Ahmed, “U.S. aid cuts,” *Christian Science Monitor*.
- 30 Husain, “Retooling Institutions,” in *Pakistan: Beyond the Crisis State*, 150-155.
- 31 Fritz and Menocal, “‘Developmental States,’” 534.
- 32 Huzaima Bukhari and Ikramul Ha, “Issues of transparency,” Jang, August 14, 2011, <http://www.jang.com.pk/thenews/aug2011-weekly/nos-14-08-2011/pol1.htm#5>.
- 33 John D. Sullivan, Kim Eric Bettcher, and Aleksandr Shkolnikov, *Business Associations, Business Climate, and Economic Growth: Evidence from Transition Economies* (Economic Reform Issue Paper No. 0807) (Washington, DC: Center for International Private Enterprise, September 2008). This paper was funded by USAID. See <http://www.cipe.org/publications/papers/pdf/IP%2008-07%20ISNIE.pdf>.
- 34 Alex Thier, interview by USAID.gov, *USAID Frontlines*, December 2010/January 2011, http://www.usaid.gov/press/frontlines/fl_jan11/FL_jan11_ATInterview.html.
- 35 Blair, Fair, Malhotra, and Shapiro, “Pakistan’s Middle Class Extremists.”
- 36 Thier, *USAID Frontlines*.
- 37 Shahid Javed Burki, “Historical Trends in Pakistan’s Demographics and Population,” in *Reaping the Dividend*, 70-71.
- 38 Christian Whiton, Kristofer Harrison, and Charlie Szrom, *Fixing Foreign Aid: The Missing Middle—Expanding Middle Classes in Muslim-Majority Countries through Private Enterprise Development* (Los Angeles: Hamilton Foundation, 2011): 22, 26, <http://www.hamiltonfoundation.com/Research/FixingForeignAssistance.pdf>.

- 39 Muddassar Mazhar Malik, "Boosting Competitiveness," in *Pakistan, Beyond the Crisis State*, 201-230.
- 40 Whiton, Harrison, and Szrom, *Fixing Foreign Aid*, 22, 26.
- 41 Umair Javed, "Who's the middle class in Pakistan?" *The News*, July 3, 2010, <http://criticalppp.com/archives/7150>.
- 42 Jason Burke, "Letter from Karachi," *Prospect*, March 22, 2010, <http://www.prospectmagazine.co.uk/2010/03/letter-from-karachi/>.
- 43 Nadeem F. Paracha, "Nauseous mumblings," *Dawn*, November 22, 2009, <http://www.dawn.com/wps/wcm/connect/dawn-content-library/dawn/the-newspaper/columnists/nadeem-f-paracha-nauseous-mumblings>.
- 44 Akbar Zaidi with Mohammad Sohail, Arif Hasan, and Mansoor Ali, *Assessing the impact of a micro-finance programme: Orangi Pilot Project Karachi, Pakistan* (R8257 Understanding Urban Livelihoods) (London: Department For International Development, February 2006), <http://www.dfid.gov.uk/r4d/PDF/Outputs/R8257PakistanCaseStudy.pdf>.
- 45 Jacqueline Novogratz, "TED: Jacqueline Novogratz – A Third Way to Think About Aid," online video, 17:08, ViewChange.org, <http://www.viewchange.org/videos/ted-jacqueline-novogratz-a-third-way-to-think-about-aid>. Novogratz's Acumen Fund structures ventures to simultaneously stimulate growth, impart business skills, reward entrepreneurship, and promote social change.
- 46 Planning Commission, Government of Pakistan, *Pakistan: Framework for Economic Growth* (Islamabad: Government of Pakistan, May 2011), http://www.pc.gov.pk/hot%20links/5th_revision_pakistan_framework_for_economic_growth_2011-may28-2011.pdf.
- 47 Meekal Ahmed, "An Economic Crisis State?" in *Pakistan: Beyond the Crisis State*, 184.
- 48 Jonas Rolett, "Whither Civil Society?" *Huffington Post*, July 13, 2011, http://www.huffingtonpost.com/jonas-rolett/whither-civil-society_b_897751.html.
- 49 British Council, *Pakistan: The Next Generation Report*, 7.
- 50 Zeba A. Sathar, "Demographic Boom or Demographic Dreams," in *Reaping the Dividend*, 38.
- 51 Haris Gazdar, "Social protection in Pakistan: in the midst of a paradigm shift?" (CSP Research Report 13) (Brighton, UK: Institute for Development Studies, University of Sussex, January 2011), <http://www.ids.ac.uk/files/dmfile/ResearchReport13FINAL.pdf>.
- 52 According to USAID/Pakistan, the Ambassador's Fund "is intended to support the self-help initiatives of communities and local groups for projects up to one year...and respond to urgent community needs or opportunities that may arise in Pakistan." USAID's small grants "are awarded to Pakistani NGOs, civil society

groups and communities” proposing “innovative activities that promote USAID’s development objectives” but “may not necessarily fit into existing U.S. government programs.” See USAID, “U.S. Government Small Grant Funding Opportunities,” <http://www.usaid.gov/pk/docs/smallgrantfunding.pdf>.

- 53 Whiton, Harrison, and Szrom, *Fixing Foreign Aid*, iv-v.
- 54 Ivy Mungcal, “USAID Helps Boost Recovery of Haitian SMEs,” *Devex.com*, October 29, 2010, <http://www.devex.com/en/blogs/development-assistance-under-obama/usaids-helps-boost-recovery-of-haitian-smes-2>.
- 55 *Running on Empty: Pakistan’s Water Crisis*, eds. Michael Kugelman and Robert M. Hathaway (Washington, DC: Woodrow Wilson International Center for Scholars, 2009), http://www.wilsoncenter.org/topics/pubs/ASIA_090422_Running%20on%20Empty_web.pdf#33; Michael Kugelman, “International responses to Pakistan’s water crisis: opportunities and challenges,” *Noref Policy Brief No. 11*, November 2010, <http://www.peacebuilding.no/eng/Regions/Asia/Pakistan/Publications/International-responses-to-Pakistan-s-water-crisis-opportunities-and-challenges>.
- 56 A U.S. government fiscal year runs from October 1 of each calendar year through September 30 of the following calendar year. As an example, fiscal year 2010 (referred to as “FY 2010”) ran from October 1, 2009 through September 30, 2010.
- 57 Apart from KLB, U.S. emergency humanitarian assistance to Pakistan in response to the floods included about \$550 million from USAID’s Office of Foreign Disaster Assistance (OFDA) and funding from International Disaster Assistance (IDA), Population, Refugee and Migration’s Emergency Migration and Refugee Assistance, and from DOD humanitarian assistance accounts.

Asia Program

Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027
www.wilsoncenter.org/asia