



# More Money, More Problems

## A 2012 Assessment of the US Approach to Development in Pakistan

Staff update of the 2011 report *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*, based on the deliberations of the CGD Study Group on a US Development Strategy in Pakistan

Nancy Birdsall  
Milan Vaishnav  
Daniel Cutherell

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# Contents

- About the Authors.....iv
- About the Report.....iv
- Preface ..... v
- Acknowledgments .....vii
- Executive Summary.....ix
  - Our report card.....ix
  - Three fixable problems .....xii
  - Recommendations .....xiii
- Introduction ..... 1
- Three Fixable Problems Plaguing US Development Policy in Pakistan ..... 4
  - US approach handicapped from the start ..... 4
  - Three problems: self-inflicted but fixable ..... 9
- Recommendations .....29
  - 1. Keep the economic and development policy conversation going .....29
  - 2. Avoid the rush: spend KLB over more years .....30
  - 3. Focus on what the United States can do best .....30
  - 4. Development with friends: channel more US aid dollars through other donors .....32
  - 5. Focus on transparency, not branding and logos. ....33
- Appendix A: Energy Case Study.....34
  - Challenges .....34
  - Current USAID strategy .....36
  - Analysis: How well is the United States doing?.....37
  - What more could be done?.....38
- Appendix B: Education Case Study .....40
  - Challenges .....40
  - USAID’s approach.....41
  - Shortcomings of US approach to basic education .....42
  - Higher education—USAID’s comparative advantage?.....43
  - Conclusion .....45
- Appendix C: Study Group on a US Development Strategy in Pakistan .....46
- Appendix D: Additional CGD Publications and Resources on Pakistan.....47

## About the Authors

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## About the Report

In early 2010, the Center for Global Development convened the Study Group on a US Development Strategy in Pakistan. Chaired by CGD president Nancy Birdsall, the study group comprises experts in aid effectiveness, development economics, and national security and includes several prominent Pakistani thought leaders.

Over more than two years, we have held with that group (whose members are listed at the end of this report) a series of discussions on the US government's strategy and implementation of trade, investment, and foreign assistance programs relevant to Pakistan's long-term prosperity and stability. The group has drawn on the work of recent task forces and commissions that have examined US relations with Pakistan. Such efforts have taken into account security, military, and regional issues but have often paid little attention to aid or other economic instruments. The CGD study group's work complements these efforts by focusing specifically on US development policy in Pakistan and by drawing lessons from the vexing challenges that donors have faced in Pakistan over the past several decades.

Those discussions were reflected in our 2011 CGD report, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*, and a series of seven open letters to the Obama administration authored by Nancy Birdsall.

This 2012 assessment is a staff update; we did not request formal endorsement of study group members, but it has been fully informed by their ongoing input and comments. The views expressed here are the authors' own.

# Preface

Just over one year ago, as my colleagues and I were finishing our 2011 report, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*, US commandos raided a compound in Abbottabad, Pakistan, and killed Osama bin Laden. What was heralded as a success in the United States undermined what had become, and is likely to remain, a fragile relationship between the two countries.

In *Beyond Bullets and Bombs*, we argued, despite and because of that fragility, that it made sense for the United States to remain committed to the promise embedded in the Kerry-Lugar-Berman (KLB) legislation of October 2009. We argued that the United States, in its own long-term interests, should invest in a serious partnership with Pakistan to build a more stable and prosperous country—in effect a partnership on development.

In this update, we continue to insist on the logic of a development partnership. We report on the progress (or lack of progress) on the steps we urged the administration and Congress to take one year ago. We focus in particular on how difficult it has been for the administration to manage a development program focused on long-term state building where short-term security concerns dominate. The problem is not just the tumultuous environment in Pakistan. It is also a matter of self-inflicted wounds: unrealistic expectations associated with new money (more money, in retrospect, brought on more problems, not fewer); the system-wide shortcomings of US aid programs throughout the world; and the political difficulty of dealing with a reluctant Congress on new programs for trade and private-sector support for developing countries.

Despite progress consolidating the USAID-led assistance program, the reality is that there are limits to what assistance alone can accomplish and that a set of discrete projects, even if they are well executed, does not represent a strategy. We recommend that for the time being the annual size of the program be reduced and that more US money flow through multilateral and other donor channels. At the same time, we recommend a more clear and explicit commitment from the administration and Congress to strengthening the dialogue with Pakistani civilian counterparts on that country's tremendous economic, social, and natural-resource challenges. On issues such as tax, trade, energy, agriculture, and water, the United States can contribute greatly (and has in the past) through technical help and politically practical dialogue. We propose that the long-term nature of the partnership be buttressed by formally extending the KLB authorization through 10 instead of 5 years (i.e., through 2019). In short, we recommend recommitting to a partnership with the civilian government and the Pakistani people, while substan-

tially reducing expectations in both countries about the development impact of more spending on US-managed aid programs.

Why have we at the Center for Global Development been focusing on US development efforts in Pakistan at a time when many in Pakistan and the United States question whether the two countries should have a bilateral partnership of any kind? A cornerstone of CGD's work since its inception in 2001 has been to analyze the development policies and practices of the United States and other leading donor countries and institutions. Given ongoing debates in Washington about the dueling imperatives of security and development, the ramp-up in US aid to "frontline" states, and Pakistan's considerable development challenges, we decided it was worth placing the US-Pakistan development relationship under a microscope—both to understand it better in its own terms and to extract lessons about the overall planning and execution of US development policy in other fragile and frontline states. The situation in Pakistan represents the larger challenge for the United States posed by the trade-off, still largely underexplored, between managing immediate security risks in difficult settings and investing in long-term American security by helping to build more viable states in the developing world.

Managing that trade-off is not easy. The view in our earlier report and this update is that the United States has not adequately handled it. The benefits of support for "development" compared to the huge costs of failed states should hold greater sway in policy circles. In the end, there is a strong link between long-term security for America and prosperity and democracy in countries such as Pakistan; yet short-term security imperatives should not crowd out the potential for the United States to work with the civilian government and Pakistani people in their effort to consolidate democracy, build a more effective state, and expand economic opportunities over the long haul.

Our ultimate hope is that this report will be useful to policymakers in the United States—in the executive and legislative branches—who have a role to play in ensuring that US taxpayer money is being deployed well in the service of development in Pakistan and elsewhere. I believe it also provides a cautionary tale about expectations and execution for those now planning US engagements with Egypt, Tunisia, and other countries of the Arab Spring and beyond where US security and development objectives are at play.

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

# Acknowledgments

This report is made possible by the enormous help we received from several quarters. This report builds on our earlier publication, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*, published by CGD in June 2011. We encourage our readers to refer to the acknowledgments section of that report, as the insights of all of the people mentioned there have continued to inform our views on US-Pakistan relations.

With regard to this update, we would like to thank the many individuals who shared their insights with us. First and foremost, we would like to thank the members of the CGD Study Group on a US Development Strategy in Pakistan. Although this report is a staff update, the members of the study group have continued to provide us with useful input, insight, and feedback on our Pakistan-related publications.

We are also grateful for the continued cooperation of the dedicated staff members in the US Congress and within the Obama administration who work on Pakistan issues. While we cannot thank each and every one of the individuals with whom we have spoken, we would like to extend a special thanks to Richard Albright, Jock Conly, Robert Drumheller, Courtenay Dunn, Urakorn (Toon) Fuderich, Sajit Gandhi, Taha Gaya, David McCloud, Jamie McCormick, Cameron Munter, Tom Nides, Michael Phelan, Robin Raphael, Andy Sisson, Brit Steiner, Heather Sullivan, Fatema Sumar, Alex Thier, and Gordon Weynand. We would also like to thank Ambassador Sherry Rehman and Mudassir Tipu at the Embassy of Pakistan, as well as former Ambassador Hussain Haqqani. We also thank colleagues at the World Bank and the UK Department for International Development for many useful conversations.

A key input informing the contents of this report is the three-week trip Daniel Cutherell took to Pakistan in April 2012. Danny would like to thank Ishrat Husain for facilitating his trip and Bilal Siddiqui and Faiysal and Thirza Ali-Khan for hosting him in Lahore and Islamabad respectively. Thanks are also due to Vinay Chawla, Nadia Naviwala, and Cyril Almeida for the many introductions they provided. Finally, Danny is grateful to the US and Pakistan government officials, business leaders, journalists, aid workers, and academics who gave up hours of their valuable time to be interviewed and who are too numerous to mention here.

We benefitted immensely from comments several colleagues provided during the research, writing, and editing of this report. In particular, we thank Shamila

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Finally, we thank the Ewing Marion Kauffman Foundation, the William and Flora Hewlett Foundation, and the Norwegian Ministry of Foreign Affairs for their financial contributions that made this work possible.

# Executive Summary

In March 2009, the Obama administration announced its intention to significantly increase civilian (nonsecurity) assistance to Pakistan. Underlying this new push was a realization within the administration that Pakistan's ability to grow economically, to meet its citizens' basic needs, and to reduce conflict, insecurity, and instability depended on the establishment of a more capable, democratic state. Congress endorsed this approach by passing the Enhanced Partnership for Pakistan Act (commonly referred to as the Kerry-Lugar-Berman bill, or simply KLB), which authorized \$7.5 billion in US economic assistance to Pakistan over the five years following its passage.

In early 2010, the Center for Global Development convened a study group to evaluate this new approach and to offer practical and timely recommendations to US policymakers on the effective deployment of aid and nonaid instruments in Pakistan. In June 2011, the study group issued its report, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*.

While endorsing the need for the US government to strengthen its development efforts vis-à-vis Pakistan, the report detailed serious shortcomings in US strategy and execution.

## Our report card

Fast-forward 12 months and we find that while there have been some positive changes, they have not altered the fundamentals of the program. Despite improvements in individual projects and agencies, the government-wide development strategy for Pakistan still lacks clear leadership, mission, transparency, and adequate exploitation of nonaid tools. USAID has taken steps to consolidate the aid program, but the problems identified in the June 2011 report persist and go well beyond any one US agency; the White House, State Department, and Congress all have critical roles to play.

The chart below summarizes the 10 recommendations of last year's report—five on procedural aspects of the US development program and five on the utilization of specific development instruments. For each recommendation, we provide “grades”—our informed judgments—on the progress of the US government in the past 12 months. Our grades are set against the recommendations in our 2011 report; these recommendations were, of course, never officially endorsed by any part of the US government. In the main body of the report, we refer back to each of these recommendations and explain whatever steps have or have not been taken on each.

# REPORT CARD

A 2012 Review of *Beyond Bullets and Bombs* (2011) Recommendations

GOAL	GRADE
<b>1. Clarify the mission</b> Plan and implement a development strategy for Pakistan independent from US policy in Afghanistan.	C
<b>2. Name a leader</b> Make the USAID administrator responsible to the US president for the planning and execution of a development strategy in Pakistan.	D
<b>3. Say what you're doing</b> Be more transparent about US development program by sharing more complete and timely information, particularly on aid disbursements.	USAID effort B / C overall
<b>4. Staff the USAID mission for success</b> Allow for greater staff continuity, hire senior-level Pakistanis, and carve out greater a role for program staff in policy dialogue.	USAID effort B / D overall
<b>5. Measure what matters</b> Agree on a limited set of development outcomes with the government of Pakistan against which to measure progress.	F
<b>6. Let Pakistani products compete in US markets</b> Pass legislation for duty-free, quota-free access to US markets for all Pakistani exports for at least the next five years.	F
<b>7. Encourage investment</b> Establish a facility to increase the availability of credit for small and medium enterprises (SMEs).	I incomplete
<b>8. Beware the unintended consequences of aid</b> Backload the bulk of the investment until fundamental policy questions are resolved. Establish a multilateral fund to channel some KLB money sooner through non-US-managed programs	C
<b>9. Finance what is already working</b> Cofinance other donors' successful projects. Pay for verified development outcomes.	C
<b>10. Support Pakistan's reformers</b> Offer Pakistanis ways to shape the direction of the US development program. Provide support for local independent policy research that can improve monitoring and accountability of Pakistani government.	B

## NOTES

1. The US government has shifted away from a hyphenated “Af-Pak” approach in its Pakistan development policy. USAID has streamlined its portfolio and focused its assistance on five priority sectors, but assistance alone is not development strategy.

2. To the extent one person is responsible for development strategy, it appears to be the Deputy Secretary of State (for Management and Resources). USAID does not lead on development policy let alone aid programming, either in Washington or in Islamabad.

3. The new USAID website and recent Foreign Assistance Dashboard update provide some useful information on aid disbursements, but the data is still highly aggregated.

4. The new USAID “Af-Pak Hands” program is a positive step, but it only pertains to short-term USAID staff. USAID still cannot hire Pakistanis at senior levels.

5. The United States has not brokered an understanding with Pakistani civilian counterparts on an agreed-upon set of measurable development outcomes.

6. There is no legislation in the 112th Congress on tariff reduction for Pakistani goods. The administration has not made trade a core component of its development program.

7. USAID and the Overseas Private Investment Corporation (OPIC) intend to create an SME credit facility, but the initiative has stalled in Congress.

8. Funding has been disbursed relatively slowly during the first three years of KLB, but more by accident than design. There are no plans to establish a multilateral fund for Pakistan.

9. The United States has contributed to the World Bank’s Trust Fund for Khyber Pakthunkhwa and has experimented with paying for verified outcomes in some infrastructure projects. USAID officials have approached other donors about cofinancing but have limited ability to relax procedures that deter others.

10. Small-grants programs provide some funding for reformers via civil society groups. USAID is considering funding innovative projects with a record of success elsewhere. USAID has given some support to research via Pakistan strategic support program and centers for advanced studies.

## Three fixable problems

We conclude that in the three years since KLB's passage the US development approach toward Pakistan has failed to achieve what its creators and administration proponents had hoped it would. This is a function of many factors over which those responsible for the development effort in Pakistan have had little if any control: the depths of Pakistan's development challenges; anti-American sentiment over the drone war and the deep skepticism of Pakistanis at all levels about US aims in their country; the Pakistani government's reform failures; and the high-profile diplomatic incidents that have interrupted bilateral dialogue. All of the above have limited the United States' ability to carry out an effective development program built on a substantial increase in aid and better trade and investment strategies. External constraints aside, internal bureaucratic and political hurdles that afflict US development policy in general have been particularly damaging in Pakistan, where the US development approach has been poorly insulated from larger security and diplomatic pressures, and where the size and timing of the KLB legislation created counterproductive expectations of what could be achieved both in Washington and in Pakistan. It is admirable that despite all the pressures, the aid program has continued; yet it is hard to deny that the effectiveness of the program has been compromised.

We believe a long-term development partnership with the civilian government in Pakistan warrants a serious new effort to set it on course, but only if the self-inflicted wounds can be tackled effectively. We explain what they are in the form of fixable problems on three levels.

At the **conceptual** level:

- Despite KLB's attempts to place security and development on separate tracks, the US government's words and deeds have eroded whatever separation may have existed.

At the **strategic** level:

- Within the US government, there has never been a shared consensus about the objectives of the civilian assistance program.
- As a result of confusion over objectives, there is still no identifiable US-government development strategy that is publicly available or that has been developed in partnership with Pakistani stakeholders.
- In the absence of a clear strategy, the Obama administration and Congress have relied too heavily on aid as an instrument of development cooperation,

failing to open the US market to Pakistani exports and moving haltingly at best to enable the Overseas Private Investment Corporation (OPIC) to do more in Pakistan.

At the level of **execution**:

- The Obama administration and Congress were overly optimistic about the ability of the US Agency for International Development (USAID) and other civilian agencies to ramp up their operations quickly and extensively enough to implement KLB effectively.
- The Obama administration and Congress overestimated the ease and speed with which it could rapidly scale up government-to-government assistance as well as assistance to Pakistani nongovernmental entities.
- The overemphasis, within the administration and in Congress, on branding USAID projects has had serious perverse impacts on US assistance.

## Recommendations

Looking to the future, we have five recommendations:

**1. Keep the economic and development policy conversation going.** Independent of the size or scope of its aid program, the US government should explicitly commit to maintaining policy engagement at the federal and provincial levels on Pakistan's long-run economic and social development challenges, particularly in areas where it can contribute at a technical and practical level: tax policy, trade policy (with India and other neighbors especially), higher education, water, agriculture, and energy. Although the United States faces enormous difficulty spending aid money well in Pakistan, it does have a significant role and an obvious long-run interest in working closely with the technocratic and political leadership in Pakistan on these issues of significance to the country's stability and prosperity.

**2. Avoid the rush: spend KLB over more years.** Given the large amounts of unobligated funds for Pakistan, constraints on the aid-delivery machinery, and the acute implementation challenges, Congress and the administration should agree on a scaled-back program of development assistance for Pakistan for fiscal year 2013 at least. The United States should adhere to the KLB commitment of spending \$7.5 billion on civilian programs, but the time horizon should be extended from 5 to 10 years. An overall reduction in the civilian assistance budget seems likely in any case given American domestic budgetary pressures.

**3. Focus on what the United States can do best.** The US government—like all donors—is simply better at some things than others. Until there are major changes in Pakistan and reforms to the aid system in Washington, the United States should provide direct bilateral assistance (through USAID and its other agencies) only in those areas where it has already had some success or where it has some inherent comparative advantage. In our judgment, this would include a focus on higher education, energy, and support for innovation and civil society. In some cases, the amount of money spent might be small and the real contribution will involve financing technical and policy dialogue. Nonaid instruments that promote trade and investment may be the best assistance the United States can offer.

**4. Development with friends: channel more US aid dollars through other donors.** The United States should continue to invest in Pakistan’s development, but distinguish between financing development and the delivery of assistance. At this stage, other bilateral donors are reluctant to cofinance programs with the United States, given complicated and onerous US procedures. The administration should take steps now to work with the Congress to make it possible, in Pakistan at least, to channel more of the KLB funds through trust funds at the World Bank and the Asian Development Bank, and to make it easier to take sensible advantage of the strengths of other donors like the United Kingdom’s Department for International Development (DfID) in Pakistan, particularly in education and other service delivery sectors.

**5. Focus on transparency, not branding and logos.** The US government should be far less concerned with branding and much more focused on improving the transparency of US development efforts. A fixation with branding aid projects shifts the US government objective away from improving long-run development outcomes toward making sure the United States gets credit, which can be counter-productive.

# Introduction

In March 2009, the Obama administration announced a new strategy for Afghanistan and Pakistan. A central component of this new strategy was a significant increase in the deployment of resources—human and financial—through civilian (nonsecurity) channels in both countries. In so doing, the administration sought to demonstrate a new commitment to civilian-led government in Pakistan. Underlying this new strategic framework was a realization within the administration that Pakistan’s ability to grow economically, to meet its citizens’ basic needs, and to reduce domestic conflict, insecurity, and instability depended on the establishment of a more capable and effective democratic state. The administration was also moved by the fact that Pakistan represents a genuine security threat to the region, to the United States, and to the world. By now, the myriad concerns are well known: extremist violence, cross-border and domestic terrorism, the possibility of “loose nukes,” and the potential failure of the Pakistani state. On the basis of these significant development and security challenges, the Obama administration determined that it was in the long-term of interests of the US government and the American people to build a new partnership with the government of Pakistan to help counter these pressing challenges.

Working in concert with the Obama administration, Congress endorsed this approach by passing the Enhanced Partnership for Pakistan Act (commonly referred to as the Kerry-Lugar-Berman bill, or KLB). The KLB legislation, signed into law in October 2009, authorized \$7.5 billion in US economic assistance to Pakistan over the next five years. One of the innovations of KLB was to separate security from civilian economic assistance in the hopes of avoiding the traditional conflation between security and nonsecurity objectives in the distribution of US aid to Pakistan.

In early 2010, the Center for Global Development convened a study group to offer practical and timely recommendations to US policymakers on the effective deployment of foreign assistance and, more broadly, other nonaid instruments for achieving sustainable development in Pakistan. In June 2011, we issued a report based on the study group’s work, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*.

Our report mirrored the KLB legislation in emphasizing that economic and social development in Pakistan matter for the United States: “the key to securing US interests in Pakistan is not to address only physical security but also Pakistan’s

political and economic weaknesses.”<sup>1</sup> But while endorsing the logic of the United States committing resources to help Pakistan, the report set out serious shortcomings in the design and implementation of the actual development program on the part of Congress, the White House, the State Department, and USAID. The report concluded that the medium-term development objective, as framed by KLB, had been almost completely overshadowed in Washington by short-term diplomatic and security priorities. The development program was neither conceived nor implemented in a way that would reduce its vulnerability to such incidents as the arrest of Central Intelligence Agency contractor Raymond Davis and the reaction in Pakistan to the bin Laden raid. A fundamental problem from the outset had been Washington’s lack of clarity on the basic objective of the development program (which, in our view, was to support a more effective and democratic civilian government) and confusion about which senior official and what agency was responsible for the overall program. In short, the US development effort was badly off course one year ago (that is to say, two years after KLB funding was authorized).

It was in this spirit that the report set out the ten recommendations summarized in the report card above—split evenly between process and procedures and use of aid, trade, and investment policies.

In this 2012 update, we use the recommendations of that report as a benchmark (never officially endorsed of course) against which to evaluate the progress of the US government over the past 12 months. Reflecting on the problems of the past year and the two prior years under KLB, we conclude that the United States’ development approach has been far less effective than it could have been because of problems at three fundamental levels. We then turn to our recommendations for the future.

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1. Nancy Birdsall, Wren Elhai and Molly Kinder, *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan* (Washington DC: Center for Global Development, 2011), [www.cgdev.org/files/1425136\\_file\\_CGD\\_Pakistan\\_FINAL\\_web.pdf](http://www.cgdev.org/files/1425136_file_CGD_Pakistan_FINAL_web.pdf).

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

In light of the elevation of US-Pakistan bilateral relationship to a “strategic partnership” and the corresponding infusion of funds authorized under KLB, our 2011 report articulated three principles we believed (and still believe today) should ground the US development approach: humility, clarity of mission, and patience.

**Humility.** Since Pakistan’s independence, many donors have embarked on expensive, large-scale development initiatives in an effort to achieve transformative developmental change. Over \$100 billion and several decades later, those efforts have produced discrete successes but have failed to secure fundamental economic and political reforms that might foster sustainable progress. The scale and scope of Pakistan’s development challenges demand humility on the part of US policymakers, whose relatively small aid budget (relative to Pakistan’s GDP or population), uneven history of sustained engagement on the country’s development issues, and limited political leverage burden its mission.

**Clarity of mission.** Given the magnitude of Pakistan’s development challenges and the multitude of American objectives in the country (and the region), US policymakers would do well to elaborate a few objectives for US development policy and resist the temptation to use the development budget to achieve unrelated objectives, such as “winning hearts and minds,” reducing anti-Americanism, or securing support for US military objectives, especially in the domain of counterterrorism.

**Patience.** Investing US aid dollars for development in a country that is as challenging as Pakistan demands a long time horizon and an appetite for smart, calculated risk—not to mention a willingness to pilot new approaches that test the limits of standard bureaucratic operating procedures. If long-term development is the goal, US leaders must exercise patience. They should ensure that development resources are neither extensively channeled toward short-term initiatives designed to achieve quick political gains nor withdrawn too quickly in the event of hiccups in bilateral diplomatic or security relations between the two countries.

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# Three Fixable Problems Plaguing US Development Policy in Pakistan

In this section, we begin with a discussion of the disadvantages faced by US policy officials in addressing the challenges set out in the KLB legislation. While the US approach was handicapped from the outset, over the past two years the United States also has made a number of mistakes, which we describe as three fundamental problems plaguing US development policy.

It is a credit to officials at various levels in the US government that there have been some hard-won successes, despite initial setbacks and external and internal constraints. Committed, intelligent, and creative development professionals—in Washington and in Pakistan—have managed to notch small victories in specific sectors and on discrete projects. Furthermore, despite an otherwise extremely difficult year for US-Pakistan bilateral relations, the civilian assistance program has not once been suspended. This resilience gives us hope that the adjustments we recommend below can be made.

## US approach handicapped from the start

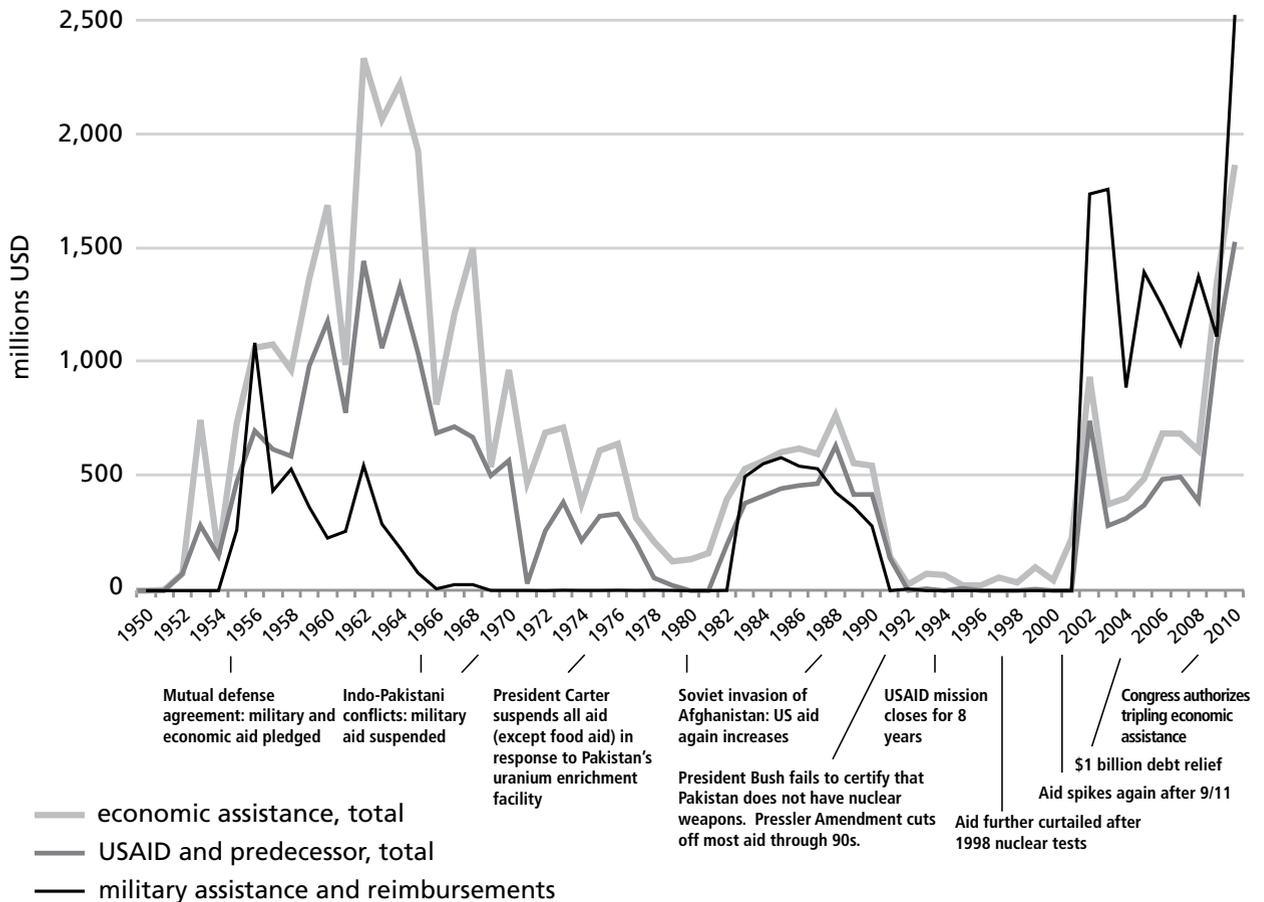
The US government faced from the start in late 2009 a set of handicaps in designing and executing a sound set of policies and programs to assist Pakistan's development. Some were inherited from the past; others have been a product of larger political, economic, and geostrategic realities over which US civilian officials have had little control.

### *The United States has a comparative “disadvantage” in managing aid programs in Pakistan*

The United States has, and has had, a comparative “disadvantage” in managing aid programs in Pakistan, compared to other actors and donors. (This is not the case for other interventions, including dialogue on economic and development policy and support of investment and trade.) Consider two points.

First, the United States starts off on the wrong foot in Pakistan partly because of its “superpower” status. This is not a new fact, although this tension has been exacerbated in recent years. As the world's lone superpower currently engaged in a bloody war in neighboring Afghanistan and directing a program of targeted drone strikes in the tribal areas of Pakistan, the United States government is at a

**Figure 1: History of US Aid and Reimbursements to Pakistan**



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

distinct disadvantage in trying to successfully implement development projects in Pakistan. No matter what the stated objective of US civilian assistance is, many Pakistanis are deeply mistrustful about US intentions. Given the fact that the US government has often sent contradictory signals, it is not surprising there is a great deal of misinformation about US policies. Certain segments of the Pakistani populace, not to mention many political elites, believe the United States is operating with malicious intent in Pakistan. As a result, criticizing and refusing to cooperate with the United States can make for good domestic politics in Pakistan: indeed, such political considerations drove the chief minister of Punjab, Pakistan's most populous province, to reject outright US assistance to

any provincial government entities in the wake of the controversial May 2011 bin Laden raid.<sup>2</sup>

Second, Pakistani elites and opinion makers have not forgotten the volatile history of US aid, which has seen at least three rounds of rapid buildup and then precipitous withdrawal for political and diplomatic reasons. This boom-bust cycle is a continuing source of deep skepticism about the steadfastness of America as a partner and helps drive the Pakistanis to focus on the short term and, more specifically, on disbursements to support their budgets rather than on long-term investments in their people and their institutions. Because of that history, many Pakistanis believe that the US civilian aid program is contingent on Pakistani cooperation with the United States in countering terrorist elements operating within the sovereign boundaries of the Pakistani state and that at any moment (as has been the case in the past) aid could be withdrawn (see figure 1).

It has not helped that Washington legislators have often called for this kind of conditionality; and in Pakistan the civilian government has not made a point of forcefully clarifying to its own legislators and citizens that such calls have not generally led to major legislative reversals. The problem is further compounded by the reality, well understood on all sides, that the size and scope of the US assistance program for Pakistan is motivated by the security risk Pakistan poses to the United States and the rest of the world, and so is widely perceived as a tool to buy compliance.<sup>3</sup> Proponents of this view believe the United States is only interested in pursuing its strategic objectives rather than materially improving the quality of life of Pakistani citizens. Incidents such as the CIA-manufactured fake Hepatitis B vaccination campaign—a ruse intended to collect information on the whereabouts of Osama bin Laden—had the cost of feeding misperceptions about US efforts.<sup>4</sup>

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2. Another impediment to US activities in Pakistan is the government of Pakistan's harassment of US officials. This is highlighted in US Department of State Office of Inspector General, *Compliance Followup Review of Embassy Islamabad and Constituent Posts, Pakistan*, May 2012. See also Crisis Group, *Aid and Conflict in Pakistan*, Asia Report 227, June 27, 2012, [www.crisisgroup.org/~media/Files/asia/south-asia/pakistan/227-aid-and-conflict-in-pakistan.pdf](http://www.crisisgroup.org/~/media/Files/asia/south-asia/pakistan/227-aid-and-conflict-in-pakistan.pdf).

3. It is instructive to note that when US Senator John Kerry, one of the architects of KLB, was asked recently about what the United States can show for increased aid to Pakistan, his reply focused exclusively on the security dimension: "The fact is that we would not have been able to go after or find Osama bin Laden if we did not have access to the country and an intelligence capacity that was able to build the evidence for that raid. And, of course, Pakistan has a major nuclear program and nuclear weapons presence." See "The Role of US Aid In Pakistan," interview with Rachel Martin on NPR's *Weekend Edition Sunday*, [www.npr.org/2012/06/10/154688157/whats-the-role-of-u-s-aid-in-pakistan](http://www.npr.org/2012/06/10/154688157/whats-the-role-of-u-s-aid-in-pakistan).

4. Declan Walsh, "Gunmen Attack U.N. Vehicle in Pakistan, Wounding Polio Doctor," *The New York*

***But history and superpower status are not the whole story. In addition, US development policy faces severe internal, bureaucratic hurdles, and not only in Pakistan***

Even if external constraints were not an issue, the US development effort in Pakistan would still have to grapple with the systemic failures inherent in the planning and execution of US development policy. These are not specific to Pakistan but rather are issues that affect US policy across the globe. These problems have been much discussed in Washington; we highlight a few important dynamics.

- While USAID-managed program dollars have increased over the past three decades, the agency's permanent Foreign Service workforce has declined by 58 percent since 1970.<sup>5</sup> The result is that USAID, notwithstanding recent efforts to reverse the trend, still relies heavily on US contractors to implement its funded programs. Despite recent sensible additions to its permanent technical staff, USAID has limited dedicated country knowledge and expertise in program design and execution.
- In the past few years, USAID has made important strides in rebuilding its internal policy formulation and budget and management systems.<sup>6</sup> Yet, at least for the critical "frontline" states the State Department is in the lead on policy formulation and resource allocation. This is particularly true for Pakistan, given the creation early on in the Obama administration of the Office of the Special Representative for Afghanistan and Pakistan (SRAP).
- US development efforts, whether guided by USAID or by the State Department, are also hamstrung by Congressional earmarks, procedures and reporting requirements that limit flexibility and agility. The additional scrutiny placed on an aid program on the scale of KLB has led to risk aversion on the part of US development professionals and an inability to experiment with new or nontraditional models of development finance.
- The fragmentation of US development assistance and the proliferation of actors with a piece of the development pie also make it difficult to plan and

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*Times*, July 17, 2012, [www.nytimes.com/2012/07/18/world/asia/gunmen-attack-un-polio-doctor-in-pakistan.html](http://www.nytimes.com/2012/07/18/world/asia/gunmen-attack-un-polio-doctor-in-pakistan.html).

5. John Norris and Connie Veillette, *Engagement Amid Austerity: A Bipartisan International Affairs Budget* (Washington DC: Center for Global Development and Center for American Progress, 2012).

6. Read more about USAID's reform agenda at the *USAID Forward* website: <http://forward.usaid.gov/home>.

execute a coherent development program.<sup>7</sup> Many of the agencies involved in the delivery of both aid and nonaid assistance have different rules, procedures, and requirements that make coordination difficult, if not impossible. Even were the division of labor between the State Department and USAID better articulated, it would not completely solve the “too many cooks” problem.

### ***Finally, the US approach was at least initially shaped by two questionable assumptions***

The first assumption was that that it would be possible to implement a development assistance program in Pakistan in a different way, with more of the money flowing through the Pakistani government rather than US-based contractors and with more flexibility in management, procurement, and other operational work, including on the part of USAID. The assumption was reflected in, and reinforced by, the appointment of Richard Holbrooke as the Special Representative for Afghanistan and Pakistan (SRAP); the creation of a SRAP office outside of the normal bureaucratic channels; and the engagement of top officials in the State Department and the White House. Our view is that this may have unwittingly made execution of any civilian assistance program more difficult rather than less, as we explain below.

The second assumption was that the environment in Pakistan, already a difficult one in which to operate—particularly for Americans—would not worsen. There was, as a result, little contingency planning for how to manage expectations and reduce certain risks. In retrospect, our June 2011 report did not sufficiently emphasize the constraints in Washington, which are common to other country programs, especially where security concerns dominate (e.g. Afghanistan).<sup>8</sup> We did refer to the difficulties inherent in executing a successful development program in Pakistan, including the weakness of the civilian government and the political and bureaucratic constraints it faces to undertaking key reforms, for example in energy pricing, merit-based teacher recruitment, and increasing tax revenue. Absent these reforms, no amount of assistance from outside, on the part of any donor, could be truly effective.<sup>9</sup> This inability (or unwillingness) to make tough choices has been

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7. Sheila Herrling and Steven Radelet, “Modernizing US Foreign Assistance for the Twenty-First Century,” in Nancy Birdsall, ed., *The White House and the World: A Global Development Agenda for the Next US President* (Washington DC: Center for Global Development, 2008).

8. For a good overview of the constraints in Washington, see Sheila Herrling and Steven Radelet, “Modernizing US Foreign Assistance.” This has also been an overarching concern of CGD’s Rethinking US Foreign Assistance program ([www.cgdev.org/section/initiatives/\\_active/assistance](http://www.cgdev.org/section/initiatives/_active/assistance)).

9. Indeed, in 2011 Pakistan announced it would discontinue its IMF program, leaving more than \$3 billion in future lending on the table, because it was unable to make sufficient progress on tough reforms related to increasing tax revenue and improving cost recovery in the energy sector. See Nancy Birdsall, Milan

particularly problematic in the lead-up to Pakistan’s national elections in late 2012 or early 2013. (Election-year dynamics in Washington have also constrained US policies: despite the fact that many in the administration and in Congress are committed to continued US efforts to promote development in Pakistan, there are real political risks associated with appearing to be “soft on Pakistan.”)

That initial assumption has now been discarded. From the arrest of US intelligence contractor Raymond Davis, to the dramatic US raid on the bin Laden compound in Abbottabad, to the November 2011 accidental NATO bombing of Pakistani military positions in Salala, the last 12 months have been tumultuous ones for US-Pakistan relations. The Salala incident led to a nearly year-long “pause” in US-Pakistan relations, but they have since resumed. It was misguided to assume they would be smooth, but it would be equally misguided now to assume they cannot improve.

## Three problems: self-inflicted but fixable

In this section we outline three fundamental problems with the US development approach in Pakistan. These problems, self-inflicted in our judgment but potentially fixable, operate at three levels: *conceptual* (has the US approach been about development in the first place?); *strategic* (were specific development objectives defined, and are they the objectives with which the US should try to help?); and at the level of *execution* (why has it been so difficult to get objectives implemented?). In describing the nature of each of these challenges, we refer to the ten recommendations set out in the report card, reporting on progress (or its absence).

### *Conceptual*

At a conceptual level, the administration and Congress—working in good faith—hoped to demarcate American security from development interests. They have not entirely succeeded in achieving this separation.

- *Despite KLB’s attempts to place security and development on separate tracks, the US government’s words and deeds have eroded whatever separation may have existed.*

In our view, there have been two contributing factors to the US government’s “muddled” development mission in Pakistan. The first is the push toward “hyphenation,” or the emphasis on an integrated “Af-Pak” construct. The second relates to the confusion over America’s core objectives in Pakistan.

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Vaishnav, and Danny Cutherell, “Pakistan and the IMF,” *Foreign Policy Af-Pak Channel*, November 14, 2011, [http://afpak.foreignpolicy.com/posts/2011/11/04/pakistan\\_and\\_the\\_imf](http://afpak.foreignpolicy.com/posts/2011/11/04/pakistan_and_the_imf).

## 2011 Recommendation

**Clarify the mission:** Plan and implement a development strategy for Pakistan independent from US policy in Afghanistan.

In policy discussions in Washington dating back to early 2009, Afghanistan consistently dominated policy discussions related to “Af-Pak.” When Pakistan was addressed, short-term security considerations typically dominated. There are indications that over the past year there has been a rebalancing in the discussion, with greater attention and focus devoted to Pakistan on its own terms. For instance, when SRAP issued a status report on civilian assistance efforts in November 2011, it addressed Afghanistan and Pakistan independently within the document.<sup>10</sup> The Obama administration deserves credit for this shift.

Yet, there is a second, equally thorny problem related to the tensions between security and development priorities within Pakistan itself.

One of the core innovations of the KLB legislation was to decouple civilian from military assistance, thus allowing each to pursue its own objectives and to be judged on its own terms.<sup>11</sup> The underlying motivation of this approach was to avoid the conflation of the two, both here and in Pakistan, so that civilian assistance would not be on the chopping block when bilateral disagreements over military strategy arose (and vice versa).

Yet with the charged incidents of the past year and the ongoing conflict in Afghanistan and in the tribal areas of Pakistan, no amount of rhetorical or legislative “decoupling” can withstand the realities of a “hot” regional war in which the United States is a protagonist. Irrespective of US intentions (including the original legislative intent of KLB), it is very difficult to change popular perceptions in Pakistan.

In Washington, on the other hand, there have been repeated calls from members of Congress to place security conditions on US civilian assistance or to cut off civilian aid entirely because of conflicts between the two countries in the security domain.<sup>12</sup> The constant risk—or at least its perception in Pakistan—of cutting

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10. Office of the Special Representative for Afghanistan and Pakistan, “Status Report: Afghanistan and Pakistan Civilian Engagement,” US Department of State, November 2011, [www.state.gov/documents/organization/176809.pdf](http://www.state.gov/documents/organization/176809.pdf).

11. Wren Elhai, “Can US Development Strategy in Pakistan Survive a Spat over Military Aid?” posted July 13, 2011, on CGD’s *Rethinking US Foreign Assistance Blog*, <http://blogs.cgdev.org/mca-monitor/2011/07/can-u-s-development-strategy-in-pakistan-survive-a-spat-over-military-aid.php>.

12. For instance, in 2011 Congressman Ted Poe of Texas introduced HR 3013 (The Pakistan Accountability Act), which proposed cutting off all US assistance to Pakistan in the wake of disagreements over military-security matters. This year, Senator Rand Paul offered an amendment to suspend all US aid to Pakistan until Pakistan overturned the prison sentence of a Pakistani doctor jailed for assisting the United States in its efforts to locate Osama bin Laden.

or suspending the civilian development program further compounds popular suspicion of America's intentions in Pakistan.

Even within the Obama administration, short-term military and intelligence objectives have often trumped long-term objectives of strengthening Pakistan's civilian government, economy, and civil society. For many crucial foreign-policy actors who occupy a seat at key interagency discussions, development spending is still treated more like a bribe than a tool to assist with "supplementing Pakistan's efforts in building a stable, secure and prosperous Pakistan."<sup>13</sup>

### **Strategic**

At a strategic level, US development efforts have lacked clarity of vision. In the absence of a shared consensus in Washington about the objectives of US development efforts and the reality of multiple objectives promoted by multiple powerful actors (Congress, the White House, the State Department, and USAID, in particular), it is not surprising that there has been no coherent development strategy. As in our June 2011 report, we emphasize the lack of attention to two areas where the United States does have a comparative advantage: support for increasing Pakistan's presence in trade markets, in the United States, India and beyond; and support for increasing foreign and domestic private investment.

- *Within the US government, there has never been a shared consensus about the objectives of the civilian assistance program.*

Assuming a better separation between security and development objectives could have been achieved, three years into KLB there is still no consensus within the US government—across executive branch agencies and on Capitol Hill—on the objectives of US civilian assistance.

This difference of opinion is not altogether surprising given that the KLB legislation enumerates 11 different objectives of US civilian assistance. At the heart of the disconnect is a fundamental disagreement between the foreign-policy and development arms of the US government over the objectives of US civilian assistance. The former believes that US assistance must carry out visible, high-impact projects that will improve America's standing in the country. The latter believes that the United States needs to focus primarily on investments in a more accountable and democratic civilian government that better serves the needs of the Pakistani people—investments that may have little visibility and impact in the short run. The former wants an early and visible return; the latter takes the view

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13. This language is from the Kerry-Lugar-Berman legislation: [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111\\_cong\\_public\\_laws&docid=f:publo73.111.pdf#page=5](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_public_laws&docid=f:publo73.111.pdf#page=5).

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## Challenges identified in recent State Department audit report

A May 2012 report of the State Department Inspector General echoes many of the challenges we enumerate—across the *conceptual, strategic, and execution* levels. A few salient excerpts are reproduced below.

“Events of the past year have rocked the US-Pakistani relationship and fundamentally altered the assumptions on which US engagement with Pakistan have been based since 2009. . . . The impact of these events has been felt across the full spectrum of the bilateral relationship.” (4)

“The mission struggles with the challenge of programming more than \$2 billion in annual aid funding for development and security assistance programs, a challenge made more daunting by the security environment and by government institutions at all levels that suffer from both a lack of capacity and pervasive corruption.” (1)

“Under the direction of the assistance coordinator, progress has been made in sharpening the focus of development assistance efforts. . . . Not surprisingly, it is the relationship with USAID—which accounts for more than 80 percent of the assistance budget—that has presented the greatest challenge.” (9)

“One of the [US] embassy’s greatest challenges is managing Washington’s intense and at times intrusive involvement. . . . A particular case in point is the intense engagement of senior officials in both the Department and USAID in the design and monitoring of assistance programs. . . . The level of Washington involvement may have been justified at a time when the USAID program in particular was undergoing major restructuring, with close scrutiny from the Congress. Over time, however, Washington’s engagement . . . has become both intrusive and inefficient.” (12)

“US official entities operating in Pakistan have long been subjected to unusual, government-initiated obstructionism and harassment. That harassment has reached new levels of intensity, however, after the events of 2011. The embassy describes the harassment as deliberate, willful, and systematic . . . [and it] has increased to the point where it is significantly impairing mission operations and program implementation.” (7)

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“The goal of channeling 50 percent of our development assistance through the Pakistani Government has posed a special challenge, given the weakness, lack of capacity, and corruption at all levels of government. . . . US assistance funding has failed to supply the leverage needed to improve the government’s capacity to deliver needed services to the Pakistani people.” (6)

Source: See US Department of State Office of Inspector General, *Compliance Followup Review of Embassy Islamabad and Constituent Posts, Pakistan*, May 2012.

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that though aid may not “work,” the benefits are potentially high relative to the manageable risks. Although some development initiatives may satisfy all of these requirements, most do not. The continued absence of a shared vision has hindered all aspects of US development efforts, from policy formulation to the execution of projects.

The absence of a shared vision is further compounded by confusion about who is in charge of US development policy. As we noted in our June 2011 report, it was unclear who was in charge of development strategy in Washington and who was in charge of its implementation in Islamabad. If this was true even to those of us in the think-tank community who follow US policy for a living, imagine the confusion experienced by partners in Pakistan.

Fast-forward one year and the situation arguably is no better. To the extent one person is responsible for the planning and execution of the development strategy in Washington, it appears to be Deputy Secretary of State (for Management and Resources) Thomas Nides. After the untimely death of Ambassador Holbrooke, former Undersecretary of State Marc Grossman took the reins as the new special representative for Afghanistan and Pakistan. Since that time, SRAP seems to have ceded day-to-day responsibility for development policy toward Pakistan to the deputy secretary. Having someone in charge is better than having no one in charge, but as far as development programming is concerned, it is not obvious that the deputy secretary of state is the best person to fulfill this leadership role (given the position’s limited staff and broad remit). We of course do not question the dedication or commitment of the deputy secretary or his staff, but we are concerned about undermining the incentives and “chain of command” inside USAID and between USAID and the rest of the administration.

As a result, USAID is not now (nor has it been in recent years) in the lead on the development program, either in Washington or in Islamabad. In Islamabad, the

**2011 Recommendation**

**Name a Leader:**  
Make the USAID administrator responsible to the US president for the planning and execution of a development strategy in Pakistan.

USAID mission director and the US civilian assistance coordinator have overlapping responsibilities, which has created confusion internally and vis-à-vis the Pakistanis.

- *As a result of confusion over objectives, there is still no identifiable US-government development strategy that is publicly available or that has been developed in partnership with Pakistani stakeholders.*

Over the past year, USAID has dramatically cut the number of projects in its portfolio and narrowed the focus of its civilian assistance efforts to five priority sectors: energy, education, economic growth, health, and stabilization. This prioritization and narrowing of focus is an important step in the right direction, but it is a poor substitute for a coherent development strategy. These five sectors reflect what the United States perceives to be Pakistan's major development problems, yet there is little discussion of what within those sectors is in America's comparative advantage to address. Indeed, the notion of comparative advantage seems completely absent from US development programming.

Even if we stipulate that these five sectors are the right sectors, there is insufficient articulation of the goals of US assistance, how policymakers plan to monitor progress, or how discrete US-financed development projects contribute to achieving those goals.

#### **2011 Recommendation**

##### **Measure what matters:**

Agree on a limited set of development outcomes with the government of Pakistan against which to measure progress.

When the KLB legislation expires in 2014, there will be the inevitable discussion about what ramped-up US assistance authorized over the previous five years has accomplished. Unfortunately, substantive answers will be few and far between. This is not because there has been no positive impact, but rather because the US government has not sufficiently invested in measuring impact or progress along the way. In the past, as in the present, the defining indicator of US civilian assistance is money: how much of KLB funds have been appropriated by Congress and how much have been spent?

As our June 2011 report points out, an emphasis on spending is unfortunate for two reasons. First, it focuses on effort rather than development impact. And second, it focuses on the contributions of the United States rather than progress of Pakistan on development outcomes the United States is supporting. The focus on the money (and often, more specifically, on unspent funds) has been detrimental for all parties: it has given Pakistanis a reliable talking point to deflect attention from their own government's lack of progress on development, and it has allowed the United States to muddle through without a clearly defined development strategy.

Ironically, despite the fact that money is what overwhelmingly dominates the narrative of US civilian efforts, it is still very difficult for outsiders to obtain reliable, updated data (at a sufficiently disaggregated level) on US civilian assistance.

One year ago, we recommended that the United States and Pakistan agree on a limited set of measurable indicators of *Pakistan's* development progress that the two countries could jointly monitor over the course of the next five years.<sup>14</sup> This would focus officials' minds on what truly matters while serving as an important symbol of the bilateral development partnership. Lamentably, there has been little progress on this front. In recent months, USAID has made an effort to articulate "top-line" goals for some of its sectoral programs. For instance, the United States has provided a clear measurable goal for its energy programs: it aims to add 900 megawatts of power to Pakistan's energy supply after the first phase of its energy projects are completed. However, these goals (poorly advertised and virtually unknown in Pakistan) have been constructed *ex post* and thus do not always inform the overall project portfolio.<sup>15</sup>

- *In the absence of a clear strategy, the Obama administration and Congress have relied too heavily on aid as an instrument for development cooperation, failing to open the US market to Pakistani exports, and moving haltingly at best on enabling OPIC to do more in Pakistan.*

In Pakistan, as in the rest of the world, developing a vibrant private sector is essential for generating economic opportunities and greater prosperity for ordinary citizens. Aid can play a role in stimulating the growth of a vibrant private sector in Pakistan, but the single best thing the United States (and other donor countries) can do is to open its markets to Pakistani exports.

While much of the attention of US policymakers is focused on the issue of development assistance, our 2011 report argued for a greater rebalancing of priorities,

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14. Nancy Birdsall and Wren Elhai, "Shared Goals: Measuring Overall Development Progress in Pakistan," CGD Essay, January 2011, [www.cgdev.org/files/1424744\\_file\\_Birdall\\_Elhai\\_Shared\\_Goals\\_FINAL.pdf](http://www.cgdev.org/files/1424744_file_Birdall_Elhai_Shared_Goals_FINAL.pdf).

15. It is our understanding that—at least internally—USAID has been developing a system for tracking and monitoring progress of its own programs. Indeed, this is confirmed by a March 2012 US government audit report. However, this database has never been made public nor are we aware that the progress indicators used have been shared with the government of Pakistan. See the recent report of the State-USAID-Defense Inspectors General, *Quarterly Progress and Oversight Report on the Civilian Assistance Program in Pakistan*, March 31, 2012, [http://gopher.info.usaid.gov/oig/public/special\\_reports/Pakistan\\_Quarterly\\_Report\\_as\\_of\\_31\\_March\\_2012.pdf](http://gopher.info.usaid.gov/oig/public/special_reports/Pakistan_Quarterly_Report_as_of_31_March_2012.pdf).

#### 2011 Recommendation

**Let Pakistani products compete in US markets:** Pass legislation for duty-free, quota-free access to US markets for all Pakistani export for at least the next five years.

away from a single-minded focus on aid toward a better integration of aid and nonaid tools, such as trade and investment.

In fact, we previously recommended that the United States open its markets to all exports originating from Pakistan. Doing so, as an analysis by Kimberly Elliott has shown, would have a negligible impact on the US economy—but would be a boon to Pakistan exporters.<sup>16</sup> For its part, the government of Pakistan has been explicit about its desire to improve the access of Pakistani exports to US markets.

It is unfortunate then to report that the administration and Congress have made no headway increasing market access to Pakistani exports. The administration had previously supported Congressional efforts to designate certain areas of Pakistan Reconstruction Opportunity Zones (ROZs), whereby certain goods manufactured in designated “reconstruction” areas would be given duty-free access to US markets. ROZs are a half-measure at best: they are a token gesture that would have little (if any) impact on the domestic Pakistani economy.<sup>17</sup> Yet even such an incremental step appears to be off the table: although the administration still supports the ROZs in theory, Congress has not introduced any legislation authorizing their designation.

This failure to take action that would have measurable impact on Pakistani livelihoods has created deep disappointment in Pakistan and given those who claim that the United States is interested in Pakistan out of a concern for its own short-term security even more ammunition. Over the past year, as we have noted elsewhere, the European Union has taken some small, but important steps to increase access to Pakistani exports.<sup>18</sup> Indeed, the EU decided to reduce tariffs on some 75 products from Pakistan for two to three years as part of their pledge to provide assistance to Pakistan in the wake of the devastating 2010 floods. While this EU action does not go nearly far enough and is only a temporary measure, it is projected to generate between \$100 and \$300 million per year in additional revenue for Pakistani manufacturers. And the EU spent real political capital to get this done: not only did it have to convince its member states to agree to the plan, it also had to obtain a waiver from the World Trade Organization—which meant

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16. Kimberly Ann Elliott, “Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy,” CGD Working Paper 241 (Washington DC: Center for Global Development, 2011). A summary of the main arguments can be found at [www.cgdev.org/content/publications/detail/1424056/](http://www.cgdev.org/content/publications/detail/1424056/).

17. Nancy Birdsall, “Open Letter #6: US Support for Pakistan’s Private Sector,” [www.cgdev.org/content/publications/detail/1425847/](http://www.cgdev.org/content/publications/detail/1425847/).

18. Danny Cutherell, “Trading Up: Pakistan, the EU, and Trade as Development,” posted on the CGD’s *Global Development: Views from the Center Blog*, February 13, 2012, <http://blogs.cgdev.org/globaldevelopment/2012/02/trading-up-pakistan-the-eu-and-trade-as-development.php>.

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## What are US civilian assistance dollars doing in Pakistan?

Since 2011, following an agency review of the Pakistan program, USAID has focused its civilian assistance on five priority sectors: energy, economic growth, stabilization, health, and education. In addition, the agency provides assistance in support of “cross-cutting themes” (such as democracy, governance, and gender equity) as well as humanitarian aid (in response to crises such as the 2010 floods). This reorientation of the civilian assistance program also involved reducing and in some cases consolidating the number of “projects,” from 140 down to approximately 35 by the end of 2012.

As we wrote in our 2011 report, and in numerous commentaries since then, it remains very difficult to get accurate figures on actual disbursements of US aid funds. The recently revamped USAID-Pakistan website provides very little quality information on aid disbursements. Analytical and oversight reports produced by the General Accountability Office (GAO), Congressional Research Service (CRS), and the Inspectors General of State, USAID and Defense are incomplete or contain different numbers (often based on different definitions of “civilian assistance”).

As an example, take the question (that many Pakistanis often ask) of how much money the US has spent in Pakistan since the beginning of KLB in October 2009 (FY 2010). A recent CRS report claims that a total of \$2.2 billion in economic assistance has been disbursed in fiscal years 2010–12. During that same period, the US government’s Foreign Assistance Dashboard reports that total foreign assistance disbursements were \$1.3 billion, and the USAID-Pakistan website claims \$2.85 billion.

For the purposes of this report, we will assume that the largest number (reported on the USAID website) is correct. Out of this \$2.85 billion total, \$976 million was spent on emergency flood response and recovery efforts. This means roughly \$1.86 billion has been spent on bilateral civilian assistance (subtracting flood-related expenditures) over approximately three years. Notwithstanding the many caveats that are in order—not all of this money is “KLB money”; these figures are current as of March 31, 2012; there is the possibility that non-USAID civilian assistance funds are not fully accounted for—if these figures are accurate, USAID has spent roughly \$620 million per year on civilian assistance.

This report recommends that USAID’s annual budgets for Pakistan be reduced and that the KLB window be extended from 5 to 10 years. Thus, if the original KLB commitment was \$7.5 billion over five years, our recommendation suggests that the annual civilian assistance budget hover around \$750 million (to be spent over 10 years). Given the system-wide challenges facing

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USAID, not to mention the three difficult (but fixable) problems we argue the United States faces in Pakistan, at least one-third of this money should be spent through non-US channels (through other bilateral and multilateral partners).

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convincing the Indians to endorse the plan, or at least not object to it, because the move discriminated against other member states that compete with Pakistan to export the exempted products.

**2011 Recommendation**

**Encourage investment:** Establish a facility to increase the availability of credit for small and medium enterprises (SMEs).

Beyond trade, our June 2011 report made the case for increasing focus on generating private investment in Pakistan. USAID identifies economic growth as one of its five priority sectors, and the agency manages a portfolio of projects intended to improve firm competitiveness, expand access to local markets, and increase income-generating opportunities. These projects constitute sensible investments, but in the absence of credible impact evaluation, it is difficult to evaluate their successes and failures; all outsiders have to rely on is a list of outputs (X individuals trained, Y farmers helped through US assistance) while outcomes prove difficult to come by.<sup>19</sup>

The administration's signature "private investment" vehicle was a proposed \$60 million Pakistani-American Enterprise Fund, which would provide financial and technical assistance to firms in Pakistan. Although the administration lobbied Congress to authorize such a fund, Congress explicitly refused to do so as part of its 2012 "megabus" spending bill.<sup>20</sup>

Although the administration failed to gain Congressional approval for an enterprise fund, there are other options to effectively support the country's private sector. In our June 2011 report we suggested that the administration seek an increase in OPIC's modest credit subsidy so that the agency could expand its already successful but limited work in Pakistan.<sup>21</sup> In a subsequent open letter to the

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19. For more information, see the fact sheet and working paper on "Economic Growth" on the USAID-Pakistan website, <http://transition.usaid.gov/pk/db/sectors/growth/>.

20. Danny Cutherell, "The 'Megabus' and Pakistan: An Odd Sort of Holiday Gift," posted on CGD's *Rethinking US Foreign Assistance Blog*, January 4, 2012, <http://blogs.cgdev.org/mca-monitor/2012/01/the-%E2%80%9Cmegabus%E2%80%9D-and-pakistan-an-odd-sort-of-holiday-gift.php>.

21. Lending to small and medium enterprises often requires relatively high levels of subsidy, even though individual transactions are small. In order for OPIC to increase its support for small-business lending in risky developing countries, it requires higher levels of credit subsidy than currently appropriated under law.

Obama administration, we suggested that OPIC—working with USAID—could be tapped to increase the supply of domestic credit available to small and medium enterprises (SMEs).<sup>22</sup> Specifically, we recommended that OPIC and USAID form a cooperative agreement (as they have done before in places such as Palestine and Egypt) under which the two entities could provide financing and technical assistance to Pakistani SMEs. Administration officials have agreed in principle to establish an SME facility, and OPIC and USAID staff have developed a joint plan. However, though such a move does not require legislative authorization, there are apparently concerns in Congress about what will happen to the fund's proceeds and about the lack of “American” branding in the proposed OPIC-USAID approach.<sup>23</sup>

### **Execution**

There have been multiple failures when it comes to *execution* of aid programs. Many, if not most, of these failures have their origins in outdated legislation and the broader move—over several administrations—by the State Department to assert greater control over USAID. Given USAID's long-standing constraints of personnel, rules, and lack of policy or budget autonomy, the agency has faced numerous challenges in effectively scaling up its activities in Pakistan. Combined with a fixation in Washington over branding, this has limited the effectiveness of civilian assistance.

- *The Obama administration and Congress were overly optimistic about the ability of USAID and other civilian agencies to ramp up their operations quickly and extensively enough to implement KLB effectively.*

In hindsight, it is clear that the administration and those on Capitol Hill (as many officials now readily admit) overestimated the ability of USAID (and other civilian agencies) to increase the scope of its operations in Pakistan following the passage of KLB. USAID is not entirely to blame for this state of affairs: the agency's limited prior presence in Pakistan, its shortage of qualified staff, and the large new infusion of funds—and the corresponding increased scrutiny—combined with a State Department push to channel large sums of money through the Pakistani entities were all contributing factors. In our June 2011 report we

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22. Small and medium enterprises in Pakistan create jobs and contribute to the vibrancy of local economies, yet their ability to access credit is constrained. Although Pakistan has a robust banking sector, the current climate (in which banks can do well at low risk by lending to the government) provides no incentives for banks to expand their lending operations in the SME sector. See Nancy Birdsall, “Open Letter #6: US Support for Pakistan's Private Sector,” [www.cgdev.org/content/publications/detail/1425847/](http://www.cgdev.org/content/publications/detail/1425847/).

23. A central component of the plan, as we understand it, is for OPIC and USAID to partner with a Dubai-based private-equity firm to establish a lending facility for SMEs in Pakistan.

concluded that the USAID mission was neither empowered nor equipped to succeed.

**2011 Recommendation**

**Staff the USAID mission for success:** Allow for greater staff continuity, hire senior-level Pakistanis, and carve out greater a role for program staff in policy dialogue.

In particular, we highlighted two issues related to human resources. First, civilian officials had short rotations, leading to frequent staff turnover. In line with our recommendation, USAID established a new “Af-Pak Hands” program,<sup>24</sup> modeled after the Pentagon’s program of the same name, with the objective of establishing a cadre of employees with expertise in Afghanistan and Pakistan.<sup>25</sup> This is an important step in the right direction, yet it is only a small step in our view because the eligibility criteria keep the pool of potential applicants relatively small.<sup>26</sup>

A second shortcoming is the fact that USAID relies on too few local staff members (Foreign Service Nationals, or FSNs) especially at the senior level. Given the physical constraints placed on US officials in Pakistan and frequent staff turnover, hiring experienced local staff and empowering them with key policy positions within the mission could compensate for the agency’s staffing shortcomings.<sup>27</sup> But neither USAID nor the US Embassy has taken such steps; our understanding is that their inaction is not the result of a lack of will, but rather the result of broader US government guidelines that disallow FSNs from occupying positions involving policy formulation.

Our 2011 report emphasized the high costs of the confusion over US activities in Pakistan, among citizens, the media, the parliament, the military-intelligence establishment, and even government officials. We recommended as a first step

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24. Danny Cuthrell, “Af-Pak Hands for USAID,” posted on CGD’s *Rethinking US Foreign Assistance Blog*, November 29, 2011, <http://blogs.cgdev.org/mca-monitor/2011/11/af-pak-hands-for-usaid.php>. The State Department has also taken positive steps in this direction. For instance, there is now a State Department initiative to encourage foreign service officers to spend 12 months in Washington working on Af-Pak following a 12-month tour in the region. There are also new incentives for section chiefs and principal officers to sign on for two-year tours. Email correspondence with SRAP official, December 2011.

25. Since 2009, Pentagon employees who sign up for “Af-Pak hands” are given language and cultural training and are deployed to either Afghanistan or Pakistan twice over the course of a 45-month commitment. Between deployments, employees assume a role at headquarters that directly supports activities in the region. The purpose of this initiative is to create a cadre of officials with language skills and expertise in their region, experience in the local work environment, and significant relationships with local counterparts.

26. First, the applicant pool is limited to people with at least one year of Afghanistan or Pakistan experience. Second, although USAID’s program is modeled on the Pentagon’s, it adopts a 36-month rather than 45-month timeframe. Finally, only USAID staff hired as Foreign Service Limited or Personal Service Contractors are eligible for Af-Pak Hands. This leaves out career USAID employees.

27. As of March 2012, the US Mission in Pakistan had a shortfall of 66 staff members. See the “Quarterly Progress and Oversight Report” (note 15).

that the existing USAID-Pakistan website provide simple and clear information, ideally every quarter, on the amount of aid money spent on Pakistan programs. At that time, it was difficult for Americans and Pakistanis alike to find out even the most basic information on what USAID was doing, how much it was spending and where, and for what purpose. Having an up-to-date website with the latest information on project disbursements is, of course, only a first step. It will not magically reduce anti-American sentiment or general skepticism about US policies and practices, but increased transparency is nonetheless good for process and for substance. For one thing, communicating more effectively to key audiences what US assistance aims to do (and what it is actually doing) is necessary, if not sufficient, to neutralize the conspiracy theories and other misunderstanding about US intentions.

In this regard, there has been some limited progress. In February 2012, USAID unveiled its new USAID-Pakistan website ([www.usaid.gov/pk/](http://www.usaid.gov/pk/)). It is reasonably user-friendly and highlights USAID's five priority sectors, including brief descriptions of all current projects in each sector. As we have written elsewhere, these changes are important; ultimately, they do not go far enough.<sup>28</sup>

USAID only provides minimal information on actual spending (disbursements): spending data are presented as cumulative figures, by sector, over the past three years. Ideally, USAID would report spending, by project or sector, on a quarterly basis. Such disaggregated information on disbursements is critical to any third-party assessment of whether money spent has been spent effectively. Without such data, it is too easy for Pakistanis to view the United States as using aid not to help but to bribe their government into compliance on matters unrelated to development. We remain puzzled why providing information on disbursements by purpose and project is so difficult. Furthermore, as discussed in the box above on USAID activities in Pakistan, it is difficult—if not impossible—to reconcile the USAID mission's spending data with numbers provided by other US government agencies. Second, there is no mention of objective measures of success. At the sectoral level, the provided “working papers” do a fair job of specifying what USAID is doing. However, at the level of individual projects, it is rarely clear what constitutes success, or how success will be measured. Finally, there is no Urdu version of the site, and there is very little content available for Pakistanis who do not speak English.

#### 2011 Recommendation

**Say what you're doing:** Be more transparent about US development program by sharing more complete and timely information, particularly on aid disbursements.

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28. Danny Cutherell, “‘Say What You’re Doing’: USAID-Pakistan’s New Website,” posted on CGD’s *Rethinking US Foreign Assistance Blog*, February 7, 2012, <http://blogs.cgdev.org/mca-monitor/2012/02/%E2%80%9Csay-what-you%E2%80%99re-doing%E2%80%9D-usaid-pakistan%E2%80%99s-new-website.php>.

The new website constitutes a modest first step—but only a first step—toward a more transparent approach to USAID activities in Pakistan.

- *The Obama administration and Congress overestimated the ease and speed with which it could rapidly scale up government-to-government assistance as well as assistance to Pakistani nongovernmental entities.*

One of the key priorities of the late Richard Holbrooke was to dramatically increase US financial assistance to the government of Pakistan and to local Pakistani nongovernmental organizations. Holbrooke believed that too much money was being wasted by channeling money through US-based contractors and NGOs and pushed for up to 50 percent of US aid funds to be directly channeled through public and private Pakistani entities.<sup>29</sup> This local spending mandate, while commendable in intent, was overly ambitious given realities in Pakistan. Given that USAID has publicly stated it hopes to channel at least 30 percent of its bilateral assistance worldwide through local entities (government and nongovernment) in recipient countries by the year 2015, the dramatic scale-up attempted in Pakistan would have been a challenge for USAID even in a high-performing developing country.<sup>30</sup> In a country like Pakistan with weak state institutions and a poor track record on governance, ramping up government-to-government assistance in particular was an exceptional challenge. In the context of US assistance, it was unprecedented.

#### 2011 Recommendation

**Support Pakistan's reformers:** Offer Pakistanis ways to shape the direction of the US development program. Provide support for local independent policy research that can improve monitoring and accountability of Pakistani government.

According to sources inside the administration, there is now a broad recognition that adhering to an artificial target for government-to-government programming has not served the US government well. Perhaps this recognition will create new momentum for tapping into Pakistan's vibrant civil-society sector, where investing in local (non-US) partners makes more sense given the fertile landscape.

Our 2011 report urged the US government to find additional complementary ways to support Ambassador Holbrooke's focus on building a more capable state. The United States can do that by championing reformist actors and institutions outside of government in Pakistan—both for the benefit of promoting policy change as well as strengthening the cogs of Pakistan's democratic machinery. For instance, we recommended that the US government create an advisory group of Pakistanis to advise it on development priorities. We also urged the United States to finance nongovernmental organizations—such as think tanks, universities, and

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29. "Quarterly Progress and Oversight Report."

30. US Agency for International Development, "Building Local Development Leadership: USAID's Operational and Procurement Improvement Plan," <http://forward.usaid.gov/sites/default/files/Building%20local%20development%20leadership%20PA.pdf>

community groups—whose vibrancy is a necessary component of democratic deepening.

We have no reason to expect that our specific proposal for an advisory board will be pursued, but no other approach to our knowledge would address the need to channel badly needed local expertise into a USAID mission with severe mobility and human-resource constraints (not to mention enhance elite buy-in of USAID programs).

With respect to support for nongovernmental organizations, the United States has made some progress. Currently, USAID oversees four small-grants initiatives: two programs to support local initiatives consistent with US strategic development priorities (the Small Grants Program and US Ambassador’s Fund); the Gender Equity program, to help build the capacity of women’s rights organizations; and the Citizens’ Voice Project, to support government accountability through enhanced citizen engagement and oversight.<sup>31</sup>

These civil-society initiatives, three of which became operational in 2011, are sensible and very much in a long tradition of such support. But more could be done—and done more effectively.<sup>32</sup> USAID Administrator Rajiv Shah has made innovation a priority during his tenure, establishing early on a new Development Innovation Ventures (DIV) unit to support innovative ideas that have the potential to have transformative development impact. The USAID Mission in Pakistan should consider how to incorporate DIV or a DIV-like approach in its activities, for example by establishing a new “innovation” window for Pakistan.<sup>33</sup>

More generally, in previous open letters and in our June 2011 report, we have emphasized that the solutions to Pakistan’s development problems will succeed

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31. These initiatives, managed by local Pakistani civil-society organizations, make grants of under \$1 million (most programs offer grants as small as \$25,000) to local organizations working in priority areas, as designated by the US government. More information on the US government’s small-grants programs can be found under the “Cross-Cutting Themes” tab on the USAID Pakistan website, <http://transition.usaid.gov/pk/db/sectors/cross-cutting/>.

32. See Nancy Birdsall, “Open Letter #7: US Support for Pakistan’s ‘Democratic Machinery,’” [www.cgdev.org/content/publications/detail/1426287](http://www.cgdev.org/content/publications/detail/1426287).

33. At the time of this writing, it is our understanding that the USAID Pakistan country team is developing a partnership along these lines with DIV. This is a significant, positive step about which we look forward to learning more. There is precedent for such a window. USAID recently established an Innovation Fund for the Americas, whose goal is to invest in “cost-effective breakthrough solutions to development challenges in Latin America and the Caribbean” (<http://idea.usaid.gov/div/IFA>). DIV has also launched a Haiti-specific country fund: <http://idea.usaid.gov/div/div-haiti-initiative>.

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## Fostering innovation in Pakistan

Under the leadership of Administrator Rajiv Shah, USAID has established a new Office of Innovation and Development Alliances (IDEA). The motivation behind IDEA is to carve out within the USAID bureaucracy a space where new ideas—with potentially transformative development impact—can be piloted and tested, often in partnership with the private sector.

A central node residing within IDEA is the Development Innovation Ventures (DIV) unit. Modeled after venture capital, DIV is a competitive fund that provides staged USAID grants to pilot and test innovative development solutions, whether already implemented locally or in the proof-of-concept stage, and scale up those that are successful.

USAID could embed some of DIV's operating principles into its Pakistan assistance program, in effect creating a special window that invites innovation and experimentation from local Pakistani partners (acting in certain instances, perhaps, in collaboration with US academics or entrepreneurs).

This is important for three reasons. First, the current models for civil-society grantmaking do not emphasize scalability. For instance, USAID might fund a local NGO in Balochistan to install solar panels on schoolhouses, but this is effectively a one-shot deal: the idea might be a good one but there is no process in place to build on success. Second, there is no attention to sustainability. Those same solar panels likely require regular maintenance, but without matching funds from local organizations or other such arrangements, the investments will not have significant pay-offs over time. And finally, there is the issue of impact. One of the principles of the DIV approach, for which USAID deserves credit, is an emphasis on evaluation: Do solar panels for school improve energy efficiency? Do they increase school attendance?

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only when they come from Pakistanis.<sup>34</sup> External donors such as USAID are likely to be most successful when they put their resources behind initiatives that have achieved a degree of consensus at least among key stakeholders. Pakistani think tanks, for instance, can contribute substantially through monitoring and analysis of public policies, as well as helping to create consensus around difficult policy decisions. Pakistan has a rich history of private institutions that promote independent thinking on economics, politics, and society, and the United States should encourage them. Yet, to date, the United States has not made think tanks a priority of engagement with the nongovernmental sector. To remedy this, the United

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34. See page 34 of *Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan*, [www.cgdev.org/files/1425136\\_file\\_CGD\\_Pakistan\\_FINAL\\_web.pdf#page=45](http://www.cgdev.org/files/1425136_file_CGD_Pakistan_FINAL_web.pdf#page=45); and Nancy Birdsall, "Open Letter #7: US Support for Pakistan's 'Democratic Machinery,'" [www.cgdev.org/content/publications/detail/1426287](http://www.cgdev.org/content/publications/detail/1426287).

States—working with other donors—should make a substantial investment in Pakistani think tanks and research institutes to help promote creative solutions to Pakistan’s pressing policy problems.<sup>35</sup> A new program of support to think tanks and research organizations could complement two related USAID-supported activities that are now in initial stages of development. For instance, USAID has sponsored an initiative (managed by the International Food Policy Research Institute) to make small grants to academics in Pakistan and abroad who research the most pressing domestic economic issues in Pakistan.<sup>36</sup> Furthermore, USAID recently announced its decision to partner with Pakistan’s Higher Education Commission to establish three centers for advanced studies at Pakistan’s universities, which will link American and Pakistani universities on technical issues of water, energy, and agriculture.<sup>37</sup>

- *The overemphasis, within the administration and in Congress, on branding USAID projects has had serious perverse impacts on US assistance.*

It is understandable that the US government is interested in ensuring that it—and the American taxpayers, by extension—gets credit for the assistance it provides. Yet, the impetus to use the “brand-ability” of a project as a litmus test for US assistance has led to perverse outcomes. Rather than examine one’s project portfolio and then determine which projects should be branded and which should not, the process often seems to work in reverse: the projects which are ultimately selected are those for which branding is possible. This means that some projects that cannot easily be branded—but are otherwise worthy—have not been pursued, while others that are more easily branded but less worthy often are.<sup>38</sup>

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35. USAID could for example contribute to an expansion of the Think Tank Initiative, a multidonor effort led by Canada’s International Development Research Centre to invest in building up the capacity of think tanks in developing countries. Working through a consortium is beneficial to providing direct bilateral funding because it would create a buffer—good for both sides—between the United States as a donor and recipient non-profit organizations. Preliminary inquiries with current funders of that initiative, however, suggest they are leery of working with USAID because of what they see as impossibly high transactions costs. Read more about the initiative at [www.idrc.ca/EN/Programs/Social\\_and\\_Economic\\_Policy/Think\\_Tank\\_Initiative/Pages/default.aspx](http://www.idrc.ca/EN/Programs/Social_and_Economic_Policy/Think_Tank_Initiative/Pages/default.aspx).

36. The initiative, the Pakistan Strategy Support Program, is jointly sponsored by the American and Pakistani governments. The objective of the program is to support credible research in support of the Pakistan Planning Commission’s recent *Framework for Economic Growth*. The call for proposals can be found here: <http://pssp.ifpri.info/files/2012/01/IFPRI-PSSP-Call-for-Research-Proposals-to-support-the-Pakistan-Framework-for-Economic-Growth.pdf>.

37. More information about the program is available at the newsroom section of USAID’s Pakistan website: <http://transition.usaid.gov/pk/newsroom/news/education/120413-ed.html>.

38. According to discussions with administration officials, concerns about branding are, in part, what

### 2011 Recommendation

**Beware the unintended consequences of aid:** Backload the bulk of the investment until fundamental policy questions are resolved. Establish a multilateral fund to channel some KLB money sooner through non-US-managed programs.

There is a great deal of consternation, in Washington and Islamabad, over the pace at which the administration has spent KLB funds. In the absence of greater transparency and periodic updating of disbursements (as emphasized above), it is impossible to know which funds are disbursing slowly or whether for appropriate reasons (slow progress on the part of the government of Pakistan and other Pakistani partners) or inappropriate ones (related to burdensome USAID procedures, bureaucratic inertia, or anonymous Congressional “holds”).<sup>39</sup> When it has to do with the former, the United States should not be pressured into spending money unwisely.

To the extent it is the latter—that is, because of dysfunctional US aid-delivery systems—our 2011 report recommended that the United States rely more on multilateral channels for disbursing aid money in Pakistan. For instance, we recommended (as one possibility) that the United States partner with the World Bank and other donors to establish a multilateral trust fund to finance long-term development programs.<sup>40</sup> To date, the administration has been reluctant to pursue such a strategy, in part because of concerns about ownership and possible Congressional pushback.

#### 2011 Recommendation

##### **Finance what is already working:**

Cofinance other donors' successful projects. Pay for verified development outcomes.

In addition to disbursing aid through multilateral channels, our 2011 report also recommended that the US government finance what is already working, or invest in projects and sectors in which demonstrable progress is already being made—whether by the United States or other donors. This seems like an obvious recommendation, yet it is surprising how often aid donors in Pakistan are compelled to reinvent the wheel or make forays into sectors and projects in which history suggests sustainable progress is elusive. Specifically, we encouraged USAID to do two things: cofinance successful programs with other donors and pay for verified outcomes.

The motivation behind cofinancing is simple. Wherever possible, the United States should piggyback on successful interventions pioneered by other donors. For instance, we advocated that the United States should partner with the United Kingdom's Department for International Development (DfID) and cofinance

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has driven USAID to focus on school construction and rehabilitation as a core pillar of its basic education program. For obvious reasons, infrastructure is easily branded.

39. Congress, of course, has an important oversight function to fulfill over US civilian assistance. Too often, however, Congressional holds are the result of disputes that are incidental to the program or project being held.

40. To date, the United States is contributing money to at least one multilateral trust fund, the Multi-Donor Trust Fund (MDTF) for Khyber Pakhtunkhwa, Federally Administered Tribal Areas, and Balochistan, [www.pakistanmdtf.org/](http://www.pakistanmdtf.org/).

education programs in the provinces of Punjab, Khyber Pakthunkhwa, and Sindh. Doing so would benefit both donors by increasing coordination, sharing expertise, and pooling effort, and ultimately maximizing their influence on education reforms. But while USAID staff do their best to collaborate with other donors in the field, they generally can only do so by focusing on complementary programs rather than simply cofinancing because of USAID's more complicated and onerous procurement and contracting procedures. Indeed those procedures have generally made other multilateral and bilateral donors reluctant to work jointly with USAID (and the other US agencies delivering aid). Cofinancing raises issues about branding, credit, and modalities of financing; frequent turnover, bureaucratic hurdles, and multiple changes in direction have also taken their toll on USAID's relationships with potential partners. But these obstacles are worth surmounting, particularly in Pakistan where the United States is unusually handicapped. If cofinancing cannot be made to work, that is all the more reason to work with Congress to establish multilateral trust funds (at the World Bank or Asian Development Bank), under which the United States could retain some control over the use of funds, while delegating the implementation of funded programs to multilateral bank staff.

Another fruitful path would be to use any "innovation" funds to pay Pakistani government partners for their progress on agreed-upon measurable outcomes after the fact (e.g., the annual increase in the number of girls completing the first year of public or private secondary school) with independent third-party verification of those outcomes. This "Cash-on-Delivery" approach focuses the donor *and* recipient on outcomes, rather than intermediate targets. It demands, by definition, local ownership and minimizes the headaches of dealing with the US development bureaucracy.<sup>41</sup> For instance, in our last report we suggested that USAID could provide support to a provincial government in order to roll out universal student testing. USAID could then negotiate a contract with the government in which it would agree to pay Pakistani authorities a fixed amount for every additional child above a baseline who completes primary school and takes the standardized test.<sup>42</sup>

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41. Wren Elhai, "The Challenge of Aid in Pakistan: Is Cash on Delivery Part of the Solution?" CGD Policy Brief, March 29, 2011, [www.cgdev.org/content/publications/detail/1424685](http://www.cgdev.org/content/publications/detail/1424685). See also Nancy Birdsall and William D. Savedoff, *Cash on Delivery: A New Approach to Foreign Aid* (Washington DC: Center for Global Development, 2010), [www.cgdev.org/content/publications/detail/1423949/](http://www.cgdev.org/content/publications/detail/1423949/).

42. Short of paying for verified outcomes, it is difficult (if not impossible) to decipher the impact of USAID initiatives in sectors such as health and education. For instance, as evidence of the impact of its education program, USAID points to its success in restoring, furnishing, and equipping of "150 schools and the training of more than 600 teachers in Malakand Division of Khyber Pakhtunkhwa." Yet, it is difficult to determine if this has appreciably improved the quality of education.

The US government has made at least one important move in this direction by relying more heavily on Fixed Amount Reimbursement Agreements, whereby USAID pays contractors only for successful project implementation that can be independently verified. But this approach has so far been confined to infrastructure projects, such as building roads, and does not engage any part of the Pakistani government in the process.<sup>43</sup>

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43. At the time of this writing, USAID is preparing to launch a major new basic education program in Sindh, with whose government other donor agencies have been reluctant to partner. If USAID is set on establishing a partnership with the provincial government, it should at the very least design a reform program that pays for results (rather than inputs).

# Recommendations

The US development approach, as envisaged by KLB, has failed to achieve what its creators and administration proponents had hoped it would in the three years since its passage. This failure is a function of Pakistan's formidable development challenges, the constraints imposed by geopolitical realities and unforeseen crises, and the systemic shortcomings of the US development machinery. These challenges alone are enough to reduce the effectiveness of America's development policy, but to this list we must also add failures of vision, planning, and execution.

We believe that the United States should remain fully committed to its KLB promise to support the creation of a strong and stable state and an accountable, democratic government. This is in the interests of Americans as well as the people of Pakistan. Yet in order to do this effectively, and in a manner that serves Pakistan's long-run development prospects, the United States needs to significantly alter its approach.

## 1. Keep the economic and development policy conversation going

Although the United States faces enormous difficulty spending aid money well in Pakistan, we should not ignore the fact that it can have significant influence through policy dialogue. Independent of the size or scope of any aid program, the US government should explicitly commit to maintaining policy engagement at the federal and provincial levels on Pakistan's long-run economic and social development challenges. The United States has tremendous convening power, and on some specific sectors, it can engage in a useful ongoing dialogue at the technical and political level with Pakistani counterparts. In our view, these sectors include but are not limited to tax policy, trade policy (especially with India and other neighbors), higher education, water, agriculture and energy. Our research reveals that Pakistani government officials appreciate that US expertise in these areas adds real value.

It is in America's interests to sustain discussions over development priorities rather than to close off communication and further isolate Pakistan. This process is useful and involves spending very little money. Even if other aspects of America's relationship with Pakistan become increasingly troubled, the United States should continue to keep lines of communication around development open. This is a low-risk strategy with potentially high long-run returns.

## 2. Avoid the rush: spend KLB over more years

It is now self-evident that the KLB plan of spending \$1.5 billion per year on civilian assistance in Pakistan was simply too ambitious, for the United States and for Pakistan. Given the large amounts of unobligated funds for Pakistan, constraints on the aid-delivery machinery, and the acute implementation challenges facing the United States and Pakistan, Congress and the administration should agree on a scaled-back program of development assistance for Pakistan for fiscal year 2013 at least. The United States can adhere to the KLB commitment of spending \$7.5 billion on civilian programs, but the time horizon should be extended from 5 to 10 years. One could think of this as a no-cost extension, leaving open the possibility that US efforts will improve, that absorptive capacity in Pakistan will increase, and that there will be fewer bumps (such as Abbottabad) in the road ahead.

An overall reduction in the civilian assistance budget seems likely in any case given American domestic budgetary pressures, the large amounts of unspent funds that have already been appropriated in prior fiscal years, and the recent decision by a key Senate subcommittee to reduce civilian aid for Pakistan in the coming fiscal year.

## 3. Focus on what the United States can do best

The US government—like all donors—is simply better at some things than others. In the interests of efficiency and effectiveness, the US civilian assistance program needs to critically review its activities to identify its strengths and weaknesses and adjust its approach accordingly. The United States has had some success in the energy sector, for example, particularly in helping address technical issues (in contrast to the basic education sector).<sup>44</sup> Indeed, the contrast between these two sectors in particular provides several possible lessons for future US assistance.

First, USAID is clearly better at interacting with central government ministries than provincial ones, a reality that favors the relatively centralized energy sector over the more devolved education sector. This difference is likely the result of severe movement restrictions on staff members posted outside of Islamabad, the quick turnover of staff in provincial posts, and the clustering of senior USAID staff in the capital city. These factors inhibit close working relationships with local counterparts and the accumulation of in-depth local knowledge. Perhaps this also explains why USAID struggles to address issues of governance and administrative reform at the subnational level (such as in basic education). Finally, USAID works

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44. The case studies in this report offer a brief overview of both the education and energy programs.

best in sectors that have clear, measurable outcomes, such as adding megawatts to the power grid. Success in the education sector is much harder to measure.

However, America’s comparative advantage does not rest entirely, or even principally, in the realm of traditional development assistance. In Pakistan, the effective use of nonaid instruments that promote trade and investment may be the best way the United States can provide support to the civilian government and to the economy.

### ***Higher education and support for innovation and civil society***

The United States has a long legacy of success in support of higher education in Pakistan; Pakistanis give its current portfolio high marks. The story is different for basic education, where on-the-ground work with local officials and communities is difficult for USAID to execute. Given the constraints and the local expertise that other donors offer in the sector, we recommend that the United States provide any new substantial financial support for basic education through other donors, either by cofinancing or through multilateral channels.

The United States also has a comparative advantage in helping to support Pakistan’s reformers operating outside of government, primarily by channeling small amounts of targeted money to civil-society groups—often working in the shadows on innovative policy solutions to pressing domestic issues. Outside of Pakistan, USAID has experimented with adapting the core principles of the “venture capital” model to mainstream development. The USAID Mission in Pakistan should embed this approach in the Pakistan program by establishing a new innovation window that would bring an entrepreneurial, tech-driven, evidence-based research approach to identifying and scaling up new initiatives. Finally, the United States—working with other donors—should make a substantial investment in Pakistani think tanks and research institutes to help promote creative solutions to Pakistan’s pressing policy problems

### ***Energy***

The energy sector in Pakistan is an extremely challenging area for donors to tread. Given that the United States has a relatively successful historical legacy in the energy sector and is seen as a leader in this realm, we recommend that the United States remain (cautiously) engaged. The energy program receives high marks from a wide variety of industry insiders in Pakistan.<sup>45</sup> We would emphasize, however, that the United States may not be able to spend large amounts of

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45. This judgment, discussed in greater length in appendix A, is based on interviews Danny Cuthrell conducted with an array of Pakistani government officials, energy sector entrepreneurs, and academic experts.

money in this sector after the initial phase of infrastructure upgrades is complete. There is good reason for the United States to band together with other donors, the government of Pakistan, and the private sector to finance additional upgrades to Pakistan's energy-generation capacity, but should such opportunities not present themselves, the United States should continue a dialogue with the government on technical issues in the sector. On the distribution side, the United States has made some small but smart investments by providing technical assistance to key ministries and public entities in the sector. These should continue so that the United States can be poised to exploit reform opportunities, if and when they come along.

### ***Trade and private investment***

We remain convinced that the mix of US investments in the development portfolio is too skewed toward assistance at the expense of nonaid tools such as trade and investment. We recognize the fraught politics of trade on Capitol Hill, but there is no debating that trade still represents one of the most cost-effective strategies for the United States to pursue its goal of helping the private sector lead economic growth in Pakistan. Such help should include increasing the openness of US markets to encourage Pakistani exports and continuing efforts to increase Pakistani trade with India and other countries in the region. On private investment, we are heartened to see USAID and OPIC join forces behind a proposal to provide credit to small and medium enterprises in Pakistan, but we are concerned by the administration's slow progress and by the tepid Congressional response. The United States should be more aggressive in working with the private sector in Pakistan, whose fate will ultimately determine the success or failure of the domestic economy.

## **4. Development with friends: channel more US aid dollars through other donors**

The United States can *finance* development assistance to Pakistan without being a direct *provider* of assistance through its own delivery systems—as we propose above for US support to basic education. In practical terms, this means the United States should aim to oversee a diversified development portfolio consisting of direct assistance, cofinancing (if and when another donor might be agreeable), pooled or trust-fund financing; and nonaid tools such as trade and investment. The administration should take steps now to work with the Congress to make it possible to channel more of the KLB funds through trust funds at the World Bank and the Asian Development Bank and to make it easier to take sensible advantage of the strengths of other donors, particularly in education and other service delivery sectors.

## 5. Focus on transparency, not branding and logos

The US government should be far less concerned with branding and more focused on improving the transparency of US development efforts. A fixation with branding is misguided on two counts.

First, it shifts the US government objective away from improving long-run development outcomes toward making sure the United States gets credit for what it is doing. Second, branding can be counterproductive. The Pakistani public is already very wary of the use of development funds to attempt to buy good will. In addition, requiring that all US projects clearly give credit to the United States paradoxically ensures that almost none will. Limiting USAID to implementing only those projects that can be branded ensures that many good projects go unfunded because of the possibility that the United States might not get credit for the benefit they provide to Pakistan, while some less worthy ideas that are easy to brand do get funded.

The end result is twofold: first, Pakistanis see many ill-conceived initiatives with a US brand on them and begin to question American competence. Second, they see US motives in Pakistan as being entirely self-serving. In either case, US-branded development projects achieve the exact opposite of their original intent.

Instead of branding, the United States should be focused on improving the transparency of its efforts. Being absolutely clear about “disbursements” (i.e, how much taxpayer money is actually spent in Pakistan each year or even quarter and on what) has several benefits. First, making the US development program fully transparent and open for public scrutiny will force US agencies and contractors and Pakistani recipients of US support to spend money more carefully and with clearer purpose. Second, it will allow for America’s words and actions to be linked in the public’s eye. Right now, many Pakistanis see and hear American officials talk about what they are doing, but increasing transparency will demonstrate that its words are being backed up by concrete actions. Third, too many Pakistanis are able to exploit the US government’s lack of transparency, using it as a front to complain about the United States and its “unfulfilled promises.” Transparency will, at the very least, eliminate this talking point.

# Appendix A: Energy Case Study

Pakistan is in the midst of an unprecedented energy crisis. The crisis is particularly acute in the power sector, where rolling load-shedding leaves major cities such as Lahore without power for more than 12 hours a day. Politically, the power shortages are a highly charged issue. Hardly a month goes by without a strike or riot in one of Pakistan's major cities over the lack of electricity. Across the country, manufacturing and other businesses that rely on a steady energy supply have suffered greatly. In 2011, the Pakistan Ministry of Finance estimated that energy shortfalls are costing the country 2 percent of GDP per year.<sup>46</sup>

## Challenges

The size and scope of the problems in the power sector are huge and cannot be resolved quickly. They are the result not of energy shortages, but of policy and governance shortfalls. Policies that deal with these governance challenges in the power sector can be broadly divided into three categories: generation, distribution, and conservation.

### Generation

First, demand for power is outstripping supply, and the shortfall is substantial. Depending on the time of year, the gap ranges from 4,500 to 7,500 megawatts.<sup>47</sup> Pakistan has the potential to generate a large amount of additional power through hydroelectric sources—both dams and run-of-the-river turbines—but they require large initial investments and significant lead time before coming online. Pakistan used to create around 70 percent of its electricity from hydropower sources, but policy shifts during the 1990s unbundled the power sector, breaking up the state-owned Water and Power Development Authority (WAPDA) into generation companies (GENCOs) and distribution companies (DISCOs). One result of this unbundling process was the subsequent rapid growth of independent power producers, almost all of which supplied electricity to the DISCOs from thermal power plants. This has gradually altered Pakistan's fuel mix to the point that almost 70 percent of its power is now generated thermally.<sup>48</sup> Most of the thermal units burn oil or gas and are thus sensitive to price fluctuations and the

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46. Schaffer, Teresita, "Pakistan's Broken Economy," *Foreign Policy Af-Pak Channel*, March 15, 2011, [http://afpak.foreignpolicy.com/posts/2011/03/15/pakistans\\_broken\\_economy](http://afpak.foreignpolicy.com/posts/2011/03/15/pakistans_broken_economy).

47. "Power Politics," blog posted to *Banyan (The Economist)*, May 21, 2012, [www.economist.com/blogs/banyan/2012/05/pakistan%E2%80%99s-energy-crisis](http://www.economist.com/blogs/banyan/2012/05/pakistan%E2%80%99s-energy-crisis).

48. Office Suisse d'Expansion Commerciale (OSEC), "Pakistan Power Sector" (2011), available at [www.osec.ch/de/filefield-private/files/26090/field\\_blog\\_public\\_files/5513](http://www.osec.ch/de/filefield-private/files/26090/field_blog_public_files/5513)

availability of fossil fuels. Furthermore, rising oil and gas prices have substantially raised the costs of generation, which have not been fully reflected in increased tariff rates.

### ***Distribution and Collection***

Compounding the problem of high generation costs is Pakistan's circular (or intercorporate) debt. This results when the consumers of electricity do not pay their bills to the distribution companies, who in turn are unable to pay power-generation companies. Power-generation companies then cannot pay oil and gas suppliers, which means power stations throughout Pakistan are often operating far below full capacity.<sup>49</sup> The resulting cascade of debt must be paid off by the government when power producers and fuel suppliers periodically threaten to sue for default.<sup>50</sup> The total volume of circular debt currently stands at \$880 million,<sup>51</sup> or just over 2 percent of the 2011-12 federal budget.<sup>52</sup>

Pakistan's circular debt is difficult to eradicate largely because of distribution issues. Most of Pakistan's DISCOs struggle with high line losses and low cost recovery. While some of these problems are technical in nature, they are also the result nonpaying customers (in both the public and private sectors), electricity theft, and general mismanagement. The incomplete unbundling of the Pakistan's power sector in the early 1990s has meant that although DISCOs are supposed to function as independent companies, they cannot operate as such: while the DISCOs' boards of directors are theoretically independent, the Ministry of Water and Power and other government entities can overrule major management decisions. In sum, the DISCOs suffer from a variety of governance, management, and human-resource issues that render them highly inefficient. Pakistan will certainly have to increase its ability to generate cheap power in the long run. However, compared to the time required to build a large dam such as Diamer-Basha, reforming the distribution system could theoretically be accomplished relatively quickly once consensus is reached, allowing Pakistan's existing capacity to be used more efficiently.

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49. One recent news report claims that plants are operating at a mere 20 to 25 percent of full capacity: Richard Leiby, "Power Outages May Eclipse Terrorism as a Threat to Pakistan's Stability," *The Washington Post*, May 27, 2012, [www.washingtonpost.com/world/asia\\_pacific/pakistans-power-crisis-may-eclipse-terrorism-threat/2012/05/27/gJQAPhOSuU\\_story.html](http://www.washingtonpost.com/world/asia_pacific/pakistans-power-crisis-may-eclipse-terrorism-threat/2012/05/27/gJQAPhOSuU_story.html).

50. "Power Politics."

51. *Ibid.*

52. For a more thorough examination of Pakistan's circular debt and subsidies that sustain it, read the World Bank's recent policy note, "Rethinking Electricity Tariffs and Subsidies in Pakistan", accessible at [http://web.worldbank.org/external/projects/main?pagePK=64256111&piPK=64256112&theSitePK=40941&menuPK=115635&entityID=000386194\\_20110831050158&siteName=PROJECTS](http://web.worldbank.org/external/projects/main?pagePK=64256111&piPK=64256112&theSitePK=40941&menuPK=115635&entityID=000386194_20110831050158&siteName=PROJECTS).

## Conservation

The third and final way to address power shortfalls is through conservation. Although recent tariff increases have caused much public outcry in Pakistan, the World Bank estimates that less than 10 percent of the population pays for electricity at a cost-recovery level and that the largest beneficiaries of current electricity subsidies are those in the wealthiest quintile.<sup>53</sup> With large swathes of the population using electricity at heavily subsidized rates, it is little wonder that power is not currently well conserved.

## Current USAID strategy

### USAID Energy Projects in Pakistan, 2008–2011

Name	Duration	Funds appropriated	Location
Energy Efficiency Project	03/2009–03/2012	\$13,624,581	Khyber Pakhtunkhwa, Punjab, Sindh
Energy Policy Project	10/08–02/12	\$10,986,559	Nationwide
Gomal Zam Dam Project	01/11–11/13	\$80,000,000	South Waziristan
Guddu Power Station Project	05/10–11/12	\$18,068,000	Northern Sindh
Jamshoro Power Station Project	05/10–11/12	\$18,360,000	Sindh
Muzaffargarh Power Station Project	05/10–11/12	\$15,193,000	Southern Punjab
Power Distribution Project	09/10–09/13	\$29,499,409	Nationwide
Satpara Dam and Irrigation Project	01/11–04/13	\$26,000,000	Gilgit-Baltistan
Tarbela Dam Project	04/10–11/12	\$16,500,000	Khyber Pakhtunkhwa
<b>TOTAL</b>		<b>\$228,231,549</b>	

This table presents information collected from the USAID-Pakistan website ([www.usaid.gov/pk](http://www.usaid.gov/pk)), which provides information on Congressionally appropriated funds, not actual expenditures. USAID does not make project-level disbursement information available to the public.

53. Ibid., 1.

As the table above indicates, the majority (76%) of current US investment in the Pakistani energy sector is directed toward power generation. Collectively, these projects aim to put an additional 900 megawatts on Pakistan's grid, of which 380 MW have already been added.<sup>54</sup> This contribution is from a combination of financing new hydroelectric dams in Waziristan and Baltistan as well as providing technical assistance and equipment to increase the output of several thermal power plants and Tarbela dam.

In addition to adding power to the grid, USAID spends around \$40 million on programs that address energy policy and management issues. The goal of these programs is to support energy-sector reforms, decrease the volume of operational and fiscal losses within the power sector, and increase cost recovery by the DISCOs. As described above, the problem set is extremely complicated since it deals with internal governance and management issues in a highly politicized public service sector. It also requires the government to make difficult, politically charged decisions to force nonpaying customers and other government agencies to pay their bills, and to reduce waste and theft.

Finally, to address conservation issues, USAID is marketing subsidized energy-efficient tube wells to farmers throughout rural Khyber Pakhtunkhwa, Punjab, and Sindh.

## **Analysis: How well is the United States doing?**

To date, USAID's energy portfolio appears to have been moderately successful. The power generation projects so far have added a combined total of 380 MW to Pakistan's grid, en route to an overall goal of 900 MW. Critics of the program point out that US investment in the power sector is a band-aid at best; at worst, it is financing unsustainable projects where the private sector refuses to tread. USAID contends that to address Pakistan's severe shortfalls, it is necessary to simultaneously address both generation and distribution shortfalls, and find ways to convince the private sector to invest.

The relative success of USAID's distribution and policy-reform projects is harder to judge and could benefit from having outcome-oriented indicators published on a regular basis. These reports could include cost-recovery rates or the net reduction in line losses over a given period. However, in discussions with a range of energy-policy experts and leaders in the business community, there was surprisingly little criticism of USAID's distribution program, and even some praise.

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54. According to USAID officials in Islamabad. USAID's website claims the goal is 700 megawatts: [www.usaid.gov/pk/db/sectors/energy/](http://www.usaid.gov/pk/db/sectors/energy/).

Given USAID's extremely low credibility in Pakistan, and the fact that many of its other efforts are dismissed as ineffectual at best and malicious at worst, this response was a surprise. During the research conducted for this report, the only USAID energy project that did receive substantial criticism was the conservation project, which has apparently not been able to market energy-efficient tube well pumps in substantial numbers.

Conservation aside, the USAID energy portfolio appears to be reasonably successful for several reasons. First, the energy program has been effective at picking the low-hanging fruit by identifying and investing in projects (such as those to increase output of existing facilities) that are straightforward and can demonstrate results relatively quickly. Second, USAID has managed to implement its programs while largely avoiding doing harm by altering reform incentives. Finally, the energy sector appears to be one in which the United States has a comparative advantage by being able to provide much-needed technical support and financing to Pakistani individuals and organizations that actually want what the United States is offering.

## What more could be done?

In interviews with energy experts in Pakistan, the most frequent criticism expressed about USAID's energy portfolio was that the agency should be doing more, given its relative strength in the sector. While most acknowledged the usefulness of the existing projects, experts wanted to know why the United States was not taking advantage of other opportunities to help Pakistan increase the supply of power or to provide additional technical support to the reform process. The following are several of the ideas being promoted by Pakistani industry leaders and academics. These ideas represent concepts proposed by a range of Pakistani policymakers, businessmen, and journalists who work in the energy industry. They do not represent the authors' recommendations.

First, the Pakistani industry experts said that the United States could help Pakistan develop its existing coal reserves and provide clean-coal technology to minimize the environmental impact of its extraction and use. Pakistan could convert its existing thermal plants to burn coal relatively quickly,<sup>55</sup> and since coal is much cheaper than oil or gas, doing so would substantially reduce the generation cost for its many thermal plants. Second, the United States could assist Pakistan with technical support and financing for a liquefied natural gas terminal that would allow them to import gas from Qatar. This project appears to already be gaining

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55. The Asian Development Bank is piloting this concept in Sindh: <http://pakobserver.net/detailnews.asp?id=156310>.

some traction, with OPIC and the IFC.<sup>56</sup> Although it is politically a nonstarter in Washington, a third source of hydrocarbons could be in the form of a cross-border pipeline to Iran, which would ensure a flow of relatively cheap natural gas from Pakistan's neighbor. Finally, everyone interviewed pointed to the need for Pakistan to invest heavily in more hydroelectric generation. Although these projects have a long lag time before they come online and require a large capital investment, they also take advantage of Pakistan's existing natural resources, and are relatively cheap to run and maintain once they are built. In addition, large dam projects like Diemer-Basha have the added benefit of providing a water reservoir and a degree of protection against floods, both of which Pakistan desperately needs. Finally, as our 2011 report pointed out, the size and scope of the Diemer-Basha power project would provide a highly visible symbol of the United States' long-term commitment to Pakistan just as the Tarbela Dam project did in the 1970s.

In addition to increasing Pakistan's ability to generate power, Pakistani energy experts pointed to several additional ways that the United States could assist Pakistan with reform efforts in the power sector. First, technical solutions such as smart metering and more advanced transformers would make it more difficult to steal power and easier to calculate how much electricity is being lost and where. In addition to equipment upgrades, USAID could provide assistance to help the ministry of water and power and the DISCOs to better collect, manage, and publically disseminate financial and operational data. One of the reasons that the energy sector in Pakistan is so difficult to reform is the lack of publically available, accurate data on how much electricity is being produced and where, how it is financed, and where it ends up.<sup>57</sup> Finally, USAID could provide assistance to the DISCOs to improve the legal framework around billing and collection. As political pressure builds to force powerful individuals and government institutions to actually pay their electricity bills, DISCOs have gotten into legal battles over how to bill arrears that mount into the billions of rupees. Providing technical assistance in helping Pakistan replicate international best practices in this area would ensure the recent push toward reform is not wasted. Investing in supporting Pakistani reformers to reduce waste in the distribution system would contribute to reducing circular debt. This in turn should play a role in encouraging new private investment in the power sector, which is currently minimal.

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56. "US Agency Proposes Long Term LNG Import Deal", *The Express Tribune*, May 5, 2012, accessible at <http://tribune.com.pk/story/374249/us-agency-proposes-long-term-lng-import-deal/>.

57. For a full explanation of this problem, see Khurram Hussain, "Darkness at Noon," *The Express Tribune*, April 19, 2012, accessible at <http://tribune.com.pk/story/366581/darkness-at-noon-2/>.

# Appendix B: Education Case Study

Pakistan is facing an education emergency that is likely to get worse if nothing is done to address it. The statistics speak for themselves: 1 in 10 of the world's non-school-going children live in Pakistan.<sup>58</sup> Almost 25 percent of 7- to 16-year-olds have received no formal education.<sup>59</sup> The country has no chance of achieving its Millennium Development Goals for education by 2015. Although the 18th amendment to Pakistan's constitution makes education until 10th grade a right of every child, it is highly unlikely that this goal will be realized any time soon. At current rates of growth, Punjab will achieve full enrollment by 2041, Khyber Pakhtunkhwa by 2064, and Balochistan by 2100.

Given its surging population, Pakistan has the potential to benefit from a substantial demographic dividend as millions of young people reach working age over the next couple of decades. However, without a significant increase in enrollment and improvement in education outcomes, this cohort of young people is unlikely to find (or create) jobs. This has serious implications for Pakistan's long-run economic growth and stability.

## Challenges

The current set of problems in Pakistan's education sector is serious and complex. They include a lack of access to schools, insufficient or ill-equipped facilities, weak curricula and textbooks, and teacher absenteeism. However, despite these obstacles, there are reasons to be optimistic. Local philanthropic efforts, low-cost private schools, public-private partnerships, and some donor-financed initiatives all show substantial potential to increase both the number of children in school and improve the education they are receiving. In addition, recent efforts in Chile, India, and Brazil have demonstrated that substantial, rapid improvements in education outcomes are possible.<sup>60</sup>

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58. Pakistan Education Task Force, "Education Emergency Pakistan: 2011," accessible at [www.educationemergency.com.pk](http://www.educationemergency.com.pk).

59. USAID, "Education in Pakistan Working Paper," April 2011. Accessible at [www.usaid.gov/pk/docs/sectors/Education\\_Working\\_Paper.pdf](http://www.usaid.gov/pk/docs/sectors/Education_Working_Paper.pdf).

60. Ibid.

## USAID’s approach

### USAID Education Projects in Pakistan, 2007–2011

Name	Duration	Funds appropriated	Location
Children’s Television Project	05/2010–05/2014	\$10,000,001	Nationwide
Higher Education Commission Support–IDP Assistance	07/09–06/10	\$44,000,000	Khyber Pakhtunkhwa, FATA
Higher Education Commission Support–University Development	07/09–03/16	\$7,705,605	Nationwide
Links to Learning Project	10/07–06/12	\$76,865,797	Nationwide
Sindh Education Program	09/11–09/13	\$59,000,000	Sindh
Teacher Education Project	04/11–10/13	\$37,000,000	Nationwide
US-Pakistan Science & Technology Cooperative Program	09/11–09/12	\$7,502,034	Nationwide
Women’s Hostel Project	07/11–08/14	\$6,000,000	Lahore
<b>TOTAL</b>		<b>\$248,073,437</b>	

This table presents information collected from the USAID-Pakistan website ([www.usaid.gov/pk](http://www.usaid.gov/pk)), which provides information on Congressionally appropriated funds, not actual expenditures. USAID does not make project-level disbursement information available to the public.

As the table above demonstrates, USAID’s recent investment in improving education in Pakistan is substantial. The assistance provides support to both basic (elementary) and higher (university) education and aligns roughly with USAID’s global goals of improving access to quality education, early-grade reading, and c) workforce development. In Pakistan, the majority of currently operational grants (worth \$184 million) are focused on addressing the first two goals.

USAID’s basic education program consists largely of projects that aim to support public education through school construction, material development, community mobilization, and funding pre-service and in-service training for teachers. In addition, USAID supports the Children’s Television Project’s efforts to create the literacy-focused television “Sim Sim Hamara,” a Pakistani version of Sesame Street.

USAID's education in Pakistan working paper claims that US programming has the goal of "establishing common student performance standards" and "reducing teacher absenteeism," but it is unclear how these are to be achieved given the existing portfolio of projects.<sup>61</sup>

## Shortcomings of US approach to basic education

Unfortunately, the US approach to education, although well funded and well intentioned, suffers from several serious flaws. The first is the lack of an overarching country strategy to guide the program. Individually, some of the projects have some merit. The television program "Sim Sim Hamara," for example, demonstrates an innovative way of providing basic literacy skills to children who may not be in school.<sup>62</sup> However, it is not clear that the array of US projects work coherently to achieve any overarching goal. This problem is compounded by the lack of public communication around US development strategy as a whole in Pakistan. The USAID-Pakistan website provides a list of individual projects and a three-page "working paper" that lists US activities in the country, but there is no clear sense that projects are harmonized with each other or with the government of Pakistan's education strategy.

A second problem with the existing approach is its lack of attention to the political economy and accountability issues that are at the core of the failings of Pakistan's public education system. In a country where teaching jobs are frequently handed out to boost patronage networks, ensuring that good teachers are hired and show up in class and that demonstrably bad teachers can be removed should make up the core of any approach to improving education outcomes. Unfortunately, the current slate of programs hardly addresses these issues at all. It is not obvious from publicly available documents, or in conversations held in Pakistan, that any of USAID's education projects attempt to work with the recently devolved provincial education ministries to reform the hiring and oversight processes for teachers, headmasters, or local education officials.

The lack of attention to governance and political economy issues in the education sector extends beyond the issue management of teachers. One of the central components of USAID's flagship Sindh Education Program is the consolidation of small rural schools into larger, centralized schools that are better funded and equipped. Although this might be a useful initiative, it raises serious questions about how the locations of these schools will be selected. The creation of new,

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61. USAID, "Education in Pakistan Working Paper."

62. Unfortunately, as of June 2012 the program's funding has been suspended because of allegations of corruption.

large school buildings has the potential to provide considerable prestige to whichever politician can ensure that the school is built in his village or constituency. In conversations with USAID education officials in Islamabad and Washington, the possibility for abuse of these decisions does not appear to have been factored into project design.

A third shortfall of USAID's current education strategy is its lack of engagement with the private sector. More than one in three children enrolled school in Pakistan now attend private schools,<sup>63</sup> which consistently produce better learning outcomes (measured by standardized test scores) across all subjects.<sup>64</sup> Many of the most exciting recent developments in Pakistan's education sector have involved finding creative ways to ensure that the benefits of private schools can be extended to those who do not have access to them for financial or geographic reasons. This has happened through direct philanthropy, low-cost private schools such as the Karachi-based Citizens Foundation, and through public-private partnerships such as the Punjab Education Foundation. Although there is some discussion of branching out in this direction, USAID does not currently work with the private sector on this issue in any capacity.

A final criticism of the US approach to education in Pakistan is that the measurement and evaluation strategy is poorly defined. This shortfall is particularly stark when compared to other donors in the sector, such as the World Bank and DfID.<sup>65</sup> CGD's 2011 report on the US development program in Pakistan described DfID's model as exemplary for focusing on development as the main goal, having clear objectives, empowering its leadership, and staffing its mission for success.

## Higher education—USAID's comparative advantage?

The USAID higher education program accounts for approximately 10 percent of USAID's total current education portfolio in Pakistan, and consists largely of support to and through the Higher Education Commission (HEC), in the form of two projects. The University Development Project funds a range of initiatives at both the HEC and 11 Pakistani universities to create financial aid systems and to improve the quality of teaching and the ability of the universities to carry out research in key sectors such as energy, agriculture, hydrology, engineering, and

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63. Tahir Andrabi et al., *Pakistan: Learning and Education Outcomes in Punjab Schools* (Washington DC: World Bank, 2007). Accessible at [www.leapsproject.org/assets/publications/LEAPS\\_Report\\_FINAL.pdf](http://www.leapsproject.org/assets/publications/LEAPS_Report_FINAL.pdf).

64. Ibid.

65. For comparison, see DfID's evaluation strategy: [www.dfid.gov.uk/Documents/publications1/evaluation/dfid-pk-eval-strat.pdf](http://www.dfid.gov.uk/Documents/publications1/evaluation/dfid-pk-eval-strat.pdf).

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## A Comparison with DfID

Our 2011 report described DfID's approach in Pakistan as exemplary for focusing on development as its main goal, having clear objectives, empowering its leadership, and staffing its mission for success. A comparison between the US and British approaches to education programming in Pakistan provides a useful illustration of what USAID might accomplish with a more coherent strategy. DfID has made education its signature development issue in Pakistan and is currently funding programs worth a total of approximately \$1 billion (£645 million) in the country. Several clear differences between the USAID and DfID approaches stand out:

**1. DfID approaches governance issues up-front.** In Punjab, it has financially supported the Punjab Chief Minister's School Reforms roadmap, which lays out a series of measures taken by education officials at the province, district, and subdistrict level to ensure better management and monitoring in all public schools.

**2. DfID works with the private sector.** Recognizing that the public school system will be unable to provide universal schooling, DfID works with the provincial ministry to support regulation of private schools and public-private partnerships aimed at promoting equity of access to better education options.

**3. DfID focuses heavily on innovation and has a flexible approach.** DfID's education initiatives work with civil-society groups to attempt to make education an important issue in the upcoming election. DfID has partnered with Pakistan's largest media conglomerate to create advertisements and reality TV shows that publicize both the importance of education and the many innovations that are taking place on education issues in Pakistan. This work requires substantial flexibility to take risks on pilot programs that work with nontraditional education actors.

**4. DfID measures what matters.** DfID's program is built around a publicly available strategy that includes clearly defined goals and education outcomes that can be measured. For example operational plan and evaluation strategy are both available on the front page of their website.

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technology. The US-Pakistan Science and Technology cooperative program creates linkages between American and Pakistani scientific research centers and promotes better science and technology research at Universities across Pakistan.

In addition to these university programs, the state department operates the world's largest Fulbright scholarship program in Pakistan, with about 200 scholarships for advanced study in the United States available in 2011.

Like the basic education program, the USAID higher education program suffers from a lack of clear, publicized objectives and measureable indicators for success. However, the individual projects appear to be more successful than those in the basic education sector. USAID has developed a strong working relationship with the HEC, which has a reputation in Pakistan as a competent agency with a reform agenda. The internal scholarships provided through the University Development Program are popular, and the Fulbright scholarship program has an excellent brand name in Pakistan. Finally, USAID has a strong and relatively well-known historical legacy of supporting higher education institutions in Pakistan, from the University of Agriculture in Faisalabad to the Lahore University of Management Sciences to the Institute of Business Administration in Karachi.

## Conclusion

There are a several possible reasons for the United States' greater strength in higher education relative to basic education. The recent devolution of education ministries to the provincial level has meant that basic education programs must now largely be implemented in Lahore, Karachi, Peshawar, and Quetta, where US officials work under extreme security restrictions. Relatively short in-country rotations by USAID officials also make it difficult to develop the close relationships and local knowledge necessary to implement a strategy based on a reform of the basic education system.

In contrast, partnering with the centralized, technocratic Higher Education Commission makes more sense for USAID, and seems to be working. Yet USAID lacks the independence to completely shift its focus to higher education. Congressional earmarks require that a substantial portion of US funding for Pakistan be spent on basic education. The sheer size of the US program in Pakistan means that the United States is required to spend money in a sector where it does not necessarily have a comparative advantage. To improve its approach, USAID should distinguish between financing education programming and providing it. This could be done in two ways. First, USAID could cofinance successful education programs or simply create and contribute to a multilateral "Pakistan Education Fund," which could then be utilized by other, less constrained donors to provide basic education programming throughout Pakistan.<sup>66</sup> A second approach would be to pilot and eventually scale up a Cash-on-Delivery program, in which USAID would pay the provincial government only for independently verified education outcomes.<sup>67</sup>

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66. Nancy Birdsall, Wren Elhai, and Molly Kinder, "Beyond Bullets and Bombs."

67. For details, see Wren Elhai, "The Challenge of Aid in Pakistan" (note 41).

# Appendix C: Study Group on a US Development Strategy in Pakistan

Nancy Birdsall	Study Group Chair, President, Center for Global Development
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Daniel Cutherell	Policy Analyst, Center for Global Development

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Robert Mosbacher	Former President and CEO, OPIC
Deepa Narayan	Global Development Network
Shuja Nawaz	Director, South Asia Center, Atlantic Council
Paula Newberg	Director, Institute for the Study of Diplomacy, Georgetown University
Paul O'Brien	Vice President for Policy and Advocacy, Oxfam America
Andrew Wilder	Director, Afghanistan and Pakistan Programs, US Institute of Peace
Michael Woolcock	Senior Social Scientist, World Bank
Moeed Yusuf	South Asia Advisor, US Institute of Peace

This 2012 assessment is a staff update; we did not request formal endorsement of study group members, but it has been fully informed by their ongoing input and comments. Since 2010, study group members have participated in occasional meetings, in a personal capacity and on a voluntary basis. This report does not necessarily represent the views of any working group member, the organizations with which they are affiliated, the Center for Global Development, the Center's funders and board of directors, or any other organization mentioned within.

# Appendix D: Additional CGD Publications and Resources on Pakistan

*Beyond Bullets and Bombs: Fixing the US Approach to Development in Pakistan* by Nancy Birdsall, Wren Elhai, and Molly Kinder (CGD Pakistan Study Group Report, 2011), [www.cgdev.org/content/publications/detail/1425136/](http://www.cgdev.org/content/publications/detail/1425136/).

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

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# **MORE MONEY, MORE PROBLEMS**

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