

US Development Assistance to Pakistan: 2014 and Beyond

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August 2013

CGD Notes

US investment in Pakistanis' economic opportunities and hope for the future is an investment in the United States' own security.

The withdrawal of US troops from Afghanistan in 2014 provides a critical moment for the United States to evaluate its development objectives in Pakistan and signal its credibility as a long-term partner. Afghanistan and Pakistan are at different points on the path of development and require different kinds of assistance delivered in different way. Short-term stabilization is the top priority in Afghanistan while long-term development is and should be the priority in Pakistan. Given this context, the key development considerations for Pakistan are as follows.

Americans should be concerned about Pakistan's long-term stability

Pakistan is poised to become the world's fifth most populous nation, with nuclear weapons and 100 million young people with few jobs but plenty of

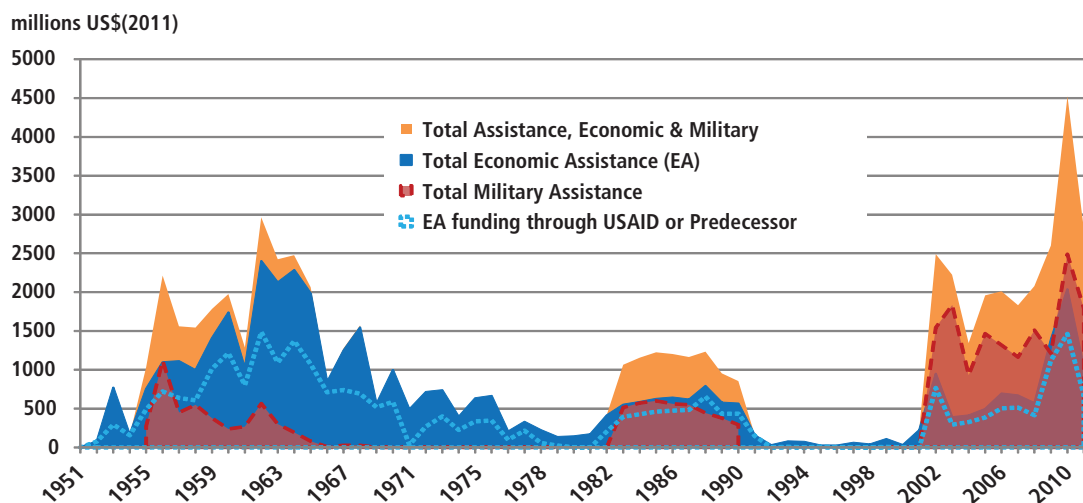
opportunities for radicalization.¹ US investment in Pakistanis' economic opportunities and hope for the future is an investment in the United States' own security.

The history of US assistance to Pakistan has been very volatile

US aid levels to Pakistan have waxed and waned for decades as US geopolitical interests in the region have shifted.² While Pakistan's actions have of course contributed to this volatility, the subsequent mistrust on both sides has undermined the United States' ability to contribute to a longer-term development agenda in Pakistan. Pakistan has become hesitant to use US aid for long-term investments in their people and institutions, focusing instead on projects with short

¹ John May, "Pakistan's Demographic Challenges," blog post January 7, 2013, www.cgdev.org/blog/pakistan%E2%80%99s-demographic-challenge.
² CGD analysis of Coalition Support Funds spending, U.S. Greenbook, budget data, CRS estimates.

US Assistance to Pakistan (obligated)



This note summarizes and updates findings from *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. CGD is grateful for contributions from the William and Flora Hewlett Foundation and the Norwegian Ministry of Foreign Affairs in support of this work. The views expressed are those of the author and should not be attributed to the board of directors or funders of the Center for Global Development. Some Rights Reserved. Creative Commons Attribution-NonCommercial.

time horizons and a more limited effect on long-term development. The US withdrawal from Afghanistan marks a critical moment for the United States to signal its credibility as a long-term partner to Pakistan.

The 2009 Enhanced Partnership for Pakistan Act needs more time to be effective

The intention of the 2009 Enhanced Partnership for Pakistan Act (commonly known as the Kerry-Lugar-Berman bill, or KLB) was to put security and development on two separate tracks, insulating the development agenda from unpredictable geopolitical and military events and facilitating longer-term planning for development. This is a good thing, but it will take longer than five years, particularly because of its emphasis on spending money through local partners to build Pakistan's capacity. As recommended by the Center for Global Development in its 2012 assessment of the United States approach to development in Pakistan, the United States should "avoid the rush" and spend KLB over more years:³

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.

³ Nancy Birdsall, Milan Vaishnav, Daniel Culhrell, *More Money, More Problems: A 2012 Assessment of the US Approach to Development in Pakistan* (Washington: Center for Global Development, 2012).

Traditional aid is not the only instrument

Developing a vibrant private sector is essential for generating economic opportunities and greater prosperity for ordinary citizens in Pakistan. While aid can help stimulate private-sector growth, efforts to reduce Pakistan's trade barriers with the United States and India would have a much greater impact, with negligible adverse impact on the US economy.⁴ Additional opportunities include increasing investment in Pakistan's private sector through OPIC projects or investment facilities such as the Pakistan Private Investment Initiative.⁵ Finally, the United States should collaborate with the IMF and World Bank to provide support on systematic macroeconomic and energy challenges facing Pakistan.

Three recommendations

For more effective US development assistance to Pakistan, we recommend three changes:

- 1. Name a leader:** it is currently unclear which agency is ultimately in charge of the development strategy in Pakistan, the State Department or USAID.
- 2. Clarify the mission:** it is critical to develop a *long-term* development strategy for Pakistan, one that is independent of our defense policy and independent of Afghanistan.
- 3. Finance what is already working:** other partners, such as the multilateral banks and the UK aid agency DFID, are already making impactful investments in Pakistan. The United States should make it easier for USAID to cofinance successful and proven projects.

⁴ Kimberly Ann Elliot, "Getting Real on Trade with Pakistan: Duty-Free Market Access as Development Policy," CGD Working Paper 241 (Washington: Center for Global Development, 2011).

⁵ Alexis Sowa, "Calling All Fund Managers: Put Your Money in Pakistan," blog post October 4, 2012, <http://www.cgdev.org/blog/callingallfundmanagers-putyour-money-pakistan>.

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