CENTER FOR GLOBAL DEVELOPMENT **ESSAY**

Beyond Short-Term Thinking: How to Spend Billions Well in Pakistan, for Them and for Us

By Nancy Birdsall, Wren Elhai, and Molly Kinder

September 2010

www.cgdev.org/content/publications/detail/1424399

Center for Global Development

ABSTRACT

The United States spent over $10 billion in mostly military assistance in Pakistan between 2002 and 2008, but the money has done little to further development, purchase a reliable ally in Afghanistan, or deny al-Qaeda and affiliated groups safe havens in Pakistan's tribal regions. For years, the need to incorporate development assistance as a major part of U.S. strategy in Pakistan has become more and more clear.

Today, with the Kerry-Lugar-Berman legislation authorizing $7.5 billion of economic assistance to Pakistan, the question is how to invest the money smartly to bring about long-term development improvements. This essay draws on the work of the Center for Global Development's Study Group on U.S. Development Strategy in Pakistan and on the ideas in the group's open letters to Ambassador Richard Holbrooke to present five recommendations for spending aid money well in Pakistan.

The authors are listed in alphabetical order by last name. Nancy Birdsall is president, Wren Elhai is research and communications assistant, and Molly Kinder is senior policy analyst at the Center for Global Development.
The Center for Global Development is an independent, nonprofit policy research organization that is dedicated to reducing global poverty and inequality and to making globalization work for the poor. CGD is grateful for contributions from Norwegian Ministry of Foreign Affairs in support of this work.

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Beyond Short-Term Thinking

Driven by concerns over al-Qaeda and the war in Afghanistan, the United States spent over $10 billion in mostly military assistance in Pakistan between 2002 and 2008. But the money did not purchase a reliable ally in Afghanistan or deny al-Qaeda and affiliated groups safe havens in Pakistan's tribal regions. [1] By 2008, anti-Americanism and the threat of insurgency in Pakistan were more serious problems than before. **What if, instead of or in addition to that military aid, the United States had spent $10 billion on development assistance?** If more Pakistanis had the opportunity to seek education and jobs, if they had benefited from a reliable justice system and a responsive government, might fewer of them be drawn to extremism or tolerate it in their midst? Would they feel less animosity toward the United States? Would Pakistan be more stable, and would Americans be safer?

These are the questions that Senators John Kerry (D-MA) and Richard Lugar (R-IN) asked from their perches as chairman and ranking member of the Senate Foreign Relations Committee. Senator Kerry concluded, "The status quo has not brought success, the stakes could not be higher, and we have little choice but to think big."[2] In May 2009, the two senators introduced the "Enhanced Partnership for Pakistan Act," now better known as the Kerry-Lugar bill, to provide $7.5 billion of economic assistance to Pakistan over five years (with the possibility of a five-year extension). As Richard Lugar said in his floor statement, the bill would aim to help Pakistan, "break its debilitating cycle of instability" by supporting efforts "to achieve progress on fighting corruption, delivering government services, and promoting broad-based economic growth."[3]

The U.S. national security interest in a long-term development approach in Pakistan resonated in the halls of Congress, and in October 2009, President Obama signed the Kerry-Lugar-Berman bill into law. The administration is now poised to begin spending the first $1.5 billion authorized by that law.

Today the question is no longer *what if* development assistance was a major piece of U.S. strategy in Pakistan. Now, the relevant question is *how* to invest $7.5 billion so that the Kerry-Lugar money delivers on its promise of long-term development there. Once again, the stakes are high. Failure in Pakistan would mean much more than misspent funds or delayed aid disbursements. Squandering this opportunity to accelerate Pakistan's transformation into a capable, modern state would be a major setback for U.S.-Pakistan relations, for the future of Pakistan, and for the security of the American people. It would also be devastating to the Pakistani perceptions of the United States. If Pakistanis take stock five or ten years from now and see no meaningful change in their lives, they will almost surely dismiss the Kerry-Lugar experiment as just the latest in a long line of American efforts to buy, bully, or bribe their government into cooperation. The greatest risk for the United States is that billions in U.S.

[1] Cohen, Craig and Derek Chollet, "When $10 Billion Is Not Enough: Rethinking U.S. Strategy toward Pakistan," *Washington Quarterly*, Spring 2007, www.twq.com/07spring/docs/07spring_cohen-chollet.pdf.
[2] Senator John Kerry's Floor Statement, May 4, 2009, ipripak.org/factfiles/ff114.pdf.
[3] Senator Richard Lugar's Floor Statement, May 4, 2009, ipripak.org/factfiles/ff114.pdf.

assistance will be for naught—making no sustainable difference in Pakistan's long-term prosperity and stability—or, even worse, leave behind another generation of Pakistanis resentful of their own government and resentful of America.

Fortunately, a great deal of that risk can be managed and minimized by the decisions the United States will make over the next five years—about *how* to implement the aid, *which* foreign policy goal should dominate its deployment (defense, diplomacy, or development), *what* to invest in, and *with whom* to partner. Success will hinge on the willingness of the United States to put the goal of long-term development front and center and to protect long-term investments from other urgent (and entirely valid) short-term pressures. Doing so brings no guarantee of an overnight transformation in Pakistan. But failure to do so is the surest way to lead us to the day—five, ten, or more years from now—when another U.S. senator will look at Pakistan and once again lament: "The status quo has not brought success, the stakes could not be higher, and we have little choice but to think big."

In this paper, we make three key points pertinent to U.S. development strategy in Pakistan. We then set out five simple recommendations to guide implementation of that strategy. In doing so, we draw on the expertise and insights of the members of the Center for Global Development Study Group on U.S. Development Strategy in Pakistan,[4] and on the ideas set out in our series of open letters to Ambassador Richard Holbrooke, which are meant to provide both constructive commentary and practical suggestions on the U.S. foreign assistance and development program in Pakistan.[5]

I. Three Key Points

1. To be an effective long-term foreign policy tool, development investments require patience and insulation from short-term pressures.

A well-governed, prosperous, and stable Pakistan is clearly in the United States' long-term interests.[6] However, the United States has other immediate security and diplomatic interests in the country. Large areas of territory outside the control of the Pakistani state create safe havens for enemies of the United States, while anti-American sentiment limits the willingness of Pakistan's leaders to confront them. A fragile civilian government is threatened not only by armed militant groups, but also by a debilitating energy crisis, a shortage of foreign capital, and high unemployment.

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[4] The Study Group comprises experts in national security, development economics, and aid effectiveness, and includes several prominent Pakistanis. More information is available at www.cgdev.org/section/initiatives/_active/pakistan.

[5] The letters published thus far have focused on overall guidelines for effective aid, development in Pakistan's tribal regions, assistance to the energy sector, the human resource needs of the development program, and the education sector.

[6] This objective is spelled out in the Kerry-Lugar legislation and in Obama administration strategic plans. See "White Paper of the Interagency Policy Group's Report on U.S. Policy toward Afghanistan and Pakistan." www.whitehouse.gov/assets/documents/afghanistan_pakistan_white_paper_final.pdf

The critical challenge for U.S. policymakers is to balance their priorities so that the fierce urgency of today's diplomatic, stability, and security goals does not crowd out sustainable progress toward a more developed Pakistan five and ten years from now. A smart development approach takes patience. Development investments have high expected returns, but not in the short run. In an environment in which the demands of diplomacy and defense policy are immediate and acute and the benefits of good development policy are far off and diffuse, investment in long-run development may get short shrift.[7] It is entirely reasonable to use some economic assistance to address short-term concerns. However, if the lion's share of what is labeled and meant to be "development" aid is not used to further the long-term development mission, then, paradoxically, the overall foreign policy objectives of the United States in Pakistan will be imperiled.

In many sectors, there are real tensions between policies targeted at the short term and the long term. Consider, for instance, the decisions to be made about U.S. investments in Pakistan's energy sector. In the interest of enhancing political and economic stability in Pakistan over the next year, short-term U.S. assistance to blunt the worst of Pakistan's power crisis may well be warranted. But will the desire of the United States to make quick progress undermine the incentive for Pakistan to implement the pricing and institutional reforms without which future crises are inevitable? Will the impact of U.S. investments in restoration and repair and even new power generation capacity be sustained? Will blackouts again cripple Pakistani businesses and frustrate households next year? In five years?

Similarly, in the education sector, the United States' desire to improve its standing with the Pakistani public now may justify investments in school construction and student stipends, where money can be spent quickly and results are immediately visible. It bears asking, though, whether there will be teachers in those new classrooms, and if the schools will be performing—in one year, and in five years? As stipends enable more students to attend school, will they be learning anything? Will U.S. investments in the education sector reduce the risk of militancy and violence over the long term by expanding the opportunities available to Pakistan's huge youth cohort?[8]

For U.S. development assistance in Pakistan to be more than the sum of its parts and to contribute to lasting change, it needs to be an *investment* in sustainable, long-term change, beyond serving as a tool for achieving short-term interests. Protecting that long-term investment will require that the United States resist the urge to 'integrate' development in the short-term with diplomacy and defense, beyond the funds dedicated explicitly to those short-term purposes.[9]

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[7] As described by Birdsall in *The White House and the World: A Global Development Agenda for the Next U.S. President* (Washignton, D.C.: Center for Global Development, 2008), the "three-legged stool" of American foreign policy has long been a lopsided one, with a development dimension too often subordinated to diplomacy and defense.

[8] Rebecca Winthrop and Corinne Graff, "Beyond Madrasas: Assessing the Link Between Education and Militancy in Pakistan," Center for Universal Education Working Paper 2, Brookings Institution, June 2010, www.brookings.edu/~/media/Files/rc/papers/2010/06_pakistan_education_winthrop/06_pakistan_education_winthrop.pdf.

[9] To more clearly demarcate this distinction, the Administration could report to Congress annually which of the Kerry-Lugar funds were used for immediate economic stabilization and emergency post-conflict relief, for instance, and which were invested in programs and projects expected to have a sustainable impact on economic growth and social development.

The more that the development mission is serious, the funding and implementation separate from short-term pressures, and the long-term goal clear and unambiguous, the more effective the U.S. aid program will be in the long run—and the more credible the U.S. aid program will likely be to Pakistanis. After a long and turbulent history, Pakistanis are rightly wary of American assistance that seems to come with strings attached. The notion that development, diplomacy, and defense policies are to be integrated in Pakistan creates the scent of a *quid pro quo* deal that Pakistanis are likely to resent, and it reinforces the beliefs of those in Pakistan who worry that development aid will stop flowing as soon as the U.S. security community shifts its focus elsewhere.

Put another way, in our view, the most effective way for U.S. policymakers to persuade Pakistanis that the United States is serious about its commitment to Pakistan's long-term development is *to be serious* about development. An earnest effort to improve the lives of Pakistanis over the long term, with demonstrable results, is likely to also be a powerful approach to public diplomacy.[10]

2. In insecure environments, aid spent poorly can be counterproductive and destabilizing.

Of course, there is a scenario worse than getting nothing for U.S. aid spending. In certain cases, indiscriminate aid risks actively harming U.S. interests in Pakistan. Nowhere is this risk of counterproductive aid greater than in Pakistan's Federally Administered Tribal Areas (FATA). FATA is at once the least developed region of Pakistan and the place where extremism poses the greatest threat to American citizens. Certainly, the security of Pakistanis and Americans justifies the planned U.S. investments in job creation and expanded social services there. However, FATA continues to be one of the most difficult places in the world to spend aid money well, and many of USAID's FATA programs have encountered serious difficulties.[11]

To understand the potential pitfalls of development in environments such as FATA, the (more extensive) literature on aid in Afghanistan offers some insights. Research there has found that aid spending can fuel corruption, enrich elites, and create resentment among those who do not benefit from its largesse. It can create perverse incentives to maintain a state of insecurity and can raise expectations that cannot be met. In short, one recent report on aid in Afghanistan warned, "Research findings suggest policymakers should be cautious in assuming that aid projects help create positive perceptions of the deliverers of aid, or that they help legitimize the government." The report concluded that while many aid projects in Afghanistan have succeeded in delivering significant development benefits—including in expanding social services, investing

[10] As a point of comparison, it was in countries in Africa that benefited from the Bush administration initiative to deal with the AIDS problem there that pro-American sentiment was highest in 2007 (data available from the Pew Global Attitudes Project at www.pewglobal.org).

[11] See Office of the Inspector General, "Audit of USAID/Pakistan's Capacity Building for the Federally Administered Tribal Areas Development Program," Audit Report 5-391-10-005-P , January 2010, pdf.usaid.gov/pdf_docs/PDACN948.pdf, and GAO "Combating Terrorism: Planning and Documentation of U.S. Development Assistance in Pakistan's Federally Administered Tribal Areas Need to Be Improved," GAO-10-289, April 2010, www.gao.gov/products/GAO-10-289.

in infrastructure, and financing community development—public perceptions of aid remain, "overwhelmingly negative."[12]

In FATA, it may be that thinking small—in money and ambition—is the best way to proceed over the next year or two at least. Success will depend on the willingness of the United States to take risks, move slowly, learn from what is working, and make adjustments. For example, it might make sense to use some assistance to catalyze private investment in small-scale industrial development to create jobs in FATA, with close study of its impact.[13] Trade policy could also play a role, although, as discussed later in this paper, expanded trade access for *all* Pakistani exports from *all* of Pakistan is a more effective policy than proposed "Reconstruction Opportunity Zones" (ROZs), which would offer preferential trade access to U.S. markets only for products produced in Pakistan's tribal areas.[14]

Viewed through a wider lens, aid also has the potential to undercut the very institutions the United States strives to strengthen in Pakistan. The development literature points out that aid can negatively affect public institutions and the relationship between governments and their citizens. For instance, aid can diminish the need to raise revenues through taxation (and, therefore, the grounds citizens have to demand effective governance and service delivery), and it can create new channels of obligation in which recipient governments are accountable to foreign donors instead of their own people.[15] Though Pakistan receives less aid as a share of its economy than the world's most aid-dependent countries, its dysfunctional tax system and its comparatively low budgetary allocations to social sectors (vis-à-vis military spending) are problems that large inflows of external aid could delay resolving or even worsen. [16] As outlined in greater detail in the final section of this paper, recognizing these issues might lead the United States to direct some portion of aid specifically towards building channels of accountability between Pakistani citizens and their government, as well as supporting not only increased revenue measures (together with the IMF), but also a more comprehensive reform of the tax system to make it fair as well as effective.

[12] "Winning 'Hearts and Minds' in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations." Report on Wilton Park Conference 1022, March 2010. wiltonpark.org.uk/resources/en/pdf/22290903/22291297/wp1022-report [[bad link]]

[13] This might include providing risk insurance for private enterprises, offering matching grants on wage payments, or subsidizing goods produced in the region. In general, any spending on development projects should be considered to be like high-risk venture capital. This is especially true for government-run development projects in FATA, given the weakness of the FATA Secretariat, the unelected administrative body that oversees FATA.

[14] Kimberly Ann Elliott, "Stimulating Pakistani Exports and Job Creation: Special Zones Won't Help Nearly as Much as Cutting Tariffs Across the Board." CGD Note (2010), www.cgdev.org/content/publications/detail/1424056/.

[15] See Nancy Birdsall, "Do No Harm: Aid, Weak Institutions, and the Missing Middle in Africa," CGD Working Paper 113, www.cgdev.org/content/publications/detail/13115/; or Todd Moss, Gunilla Pettersson, and Nicolas van de Walle, "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa." CGD Working Paper 74, www.cgdev.org/content/publications/detail/5646.

[16] At just over 10 percent, Pakistan's tax-to-GDP ratio is one of lowest in the world..

3. Major U.S. spending on energy, water, and education should support, not precede, the difficult reforms that are needed from the government of Pakistan to secure lasting impacts.

Even as he made the case for the current aid package, Senator Kerry was realistic: "Americans can influence events in Pakistan, but we cannot and should not decide them. Ultimately, the true decision-makers are the people and leaders of Pakistan." That statement is at the heart of the challenge the United States faces in its efforts to support high-return key investments in energy, water, and other major infrastructure, as well as in education and health. To fully unlock Pakistan's development potential will require securing long-overdue tax reform, land reform, the extension of political rights to the FATA region, and the adjustment of tariffs in the energy and water sectors. In the absence of these changes, external aid programs that expand social services or build infrastructure can help people only in the short run.[17]

Unfortunately, while many of the necessary reforms are well understood (in many cases, there are already detailed plans that need only be executed), the domestic politics of reform are exceedingly difficult. In many cases, donors have tried for decades to engineer the same set of reforms, with little to show for their efforts.

Consider, for instance, the dismal history of past donor efforts to fix Pakistan's energy woes and support fundamental institutional and demand-side reforms.[18] For years, donor documents cited the *same* problems in Pakistan's energy sector, donors recommended the *same* solutions, the government of Pakistan promised to implement the *same* reforms, the government broke (and donors lamented) the *same* promises, and the cycle repeated again. Despite decades of policy dialogue and billions of dollars in external assistance, the key obstacle has been and continues to be the lack of political will of the Pakistani government to implement sensitive and politically difficult reforms. When progress has been made, it has been slow, hindered by the constant threat of public outcry and elite disapproval.

The experience of the United States, other bilateral donors, and the international financial institutions over many years in many countries suggests that outside leverage on domestic policies, even where large sums are involved, is limited, except possibly when countries are far more aid-dependent than Pakistan is (i.e., they receive 30 percent or more of their budget annually from aid—Pakistan received approximately 14 percent in 2008 and 18 percent in 2009), and donors are willing to use the blunt instrument of exiting the country. For good reason, the United States has made clear its intention to stick with Pakistan over the next five years, eliminating any meaningful threat of U.S. exit. Moreover, the foreign policy imperatives of achieving both a strengthened U.S.-Pakistan relationship and greater cooperation from the

[17] Nancy Birdsall and Molly Kinder, "The U.S. Aid 'Surge' to Pakistan: Repeating a Failed Experiment? Lessons for U.S. Policymakers from the World Bank's Social-Sector Lending in the 1990s," CGD Working Paper 205, www.cgdev.org/content/publications/detail/1423965.

[18] Molly Kinder and Wren Elhai, "Background Note: Multilateral Missteps in Pakistan's Energy Sector," Center for Global Development (May 2010), www.cgdev.org/doc/Pakistan/Multilateral_Missteps_in_Pakistans_Energy_Sector.pdf.

Pakistani government in combating extremist groups surely limits the willingness of U.S. officials to press for important (but politically difficult) reforms. Expectations of leverage should also be modest because, although the United States will be a major donor in Pakistan, U.S. aid is likely to constitute at most 30 percent of all official external transfers in FY2011.[19]

Thus, while the United States should continue its efforts to engage in serious policy dialogue with the Pakistani government, it should be realistic and frank about the extent of the leverage it wields in demanding reforms: it has virtually none. On difficult governance and economic policy matters, the United States has to rely on joint constructive pressure with the other major donors, especially the World Bank, the IMF, and the Asian Development Bank. Additionally, like the other donors, it will do well to invest in ongoing working relationships with Pakistani officials, to target its support to programs Pakistanis themselves own and can sustain politically, and to partner with Pakistani governmental and nongovernmental institutions.

II. FIVE COMPONENTS OF AN EFFECTIVE U.S. DEVELOPMENT STRATEGY

There is no silver bullet for making the U.S. development program effective in Pakistan. Pakistan has been and continues to be a daunting environment for donors. Weak governance, political instability, lack of political will, and widespread corruption have undermined the effectiveness of the billions of dollars that the United States and other donors have spent on development in Pakistan over the past three decades. These same problems imperil the effectiveness of U.S. aid dollars today.

The lessons from past donor experience are sobering. Despite huge inflows of assistance from donors and multilateral creditors, Pakistan has made only halting progress on the fundamentals of state building and social development. Today its democracy is fragile, corruption and patronage are rampant in government, most of its children never complete primary school, and its health indicators lag behind those of Bangladesh, despite having higher average income. As just one example, poverty in Pakistan was *higher* in 2004 than it was a decade earlier, despite millions of dollars spent by the World Bank on a large antipoverty program in Pakistan in the 1990s.[20] At least then and in those sectors, the bottom line was clear: it is very hard to effectively spend a "surge" of aid money in Pakistan.

In light of these challenges, we suggest five components of an effective U.S. development strategy that start to address some of the problems of state weakness, corruption, and political will: partnering with the Government of Pakistan to measure and report on a limited number of key development indicators, enhancing transparency and accountability in aid and in government

[19] Not including the IMF's significant loan arrangement, which is far larger than all development assistance to Pakistan combined. The largest aid donors to Pakistan continue to be the two major multilateral banks active in the country: the World Bank and the Asian Development Bank.
[20] Nancy Birdsall and Molly Kinder, "The U.S. Aid 'Surge' to Pakistan."

spending, emphasizing wherever possible payment for development outcomes, cofinancing other donors' projects, and making smart use of trade policy.

1. Define, Measure, and Report Periodically (DMRP) on Four or Five Shared Development Indicators.

No matter how much money the United States spends in support of Pakistan's long-term development, prospects for success are greatest if Pakistan's leaders share our goals and Pakistani people are engaged in the process. To that end, we recommend that the U.S. and Pakistani governments work together to define what long-term success would mean in the lives of Pakistanis. Together, the two governments should jointly define a small number (4–5) of simple, easily explained development indicators against which the success of the development strategy would be measured. These indicators might include the number of children completing primary school and taking a standardized test, for instance, the hours of blackouts for power consumers in various parts of the country, agricultural yields achieved by farmers, and the percentage of tax revenue annually spent on development investments. The governments of Pakistan and the United States could then commit to measuring progress against these indicators, commissioning an independent audit of the results, and disseminating the information widely to the Pakistani public.

This focus on development indicators would have several benefits. The process of defining the list of indicators would yield a shared vision for what U.S. and Pakistani policymakers see as key objectives of development spending and policy and would ideally build greater commitment to achieving them. It would draw attention to development outcomes that matter to people, and not just to the *outputs* of U.S.-financed aid projects. This, in turn, could help shift some of the focus in Congress away from tracking dollars and cents and toward an emphasis on real development progress.[21] It could also start to engage Pakistani citizens in the important work of holding their government and international donors accountable for delivering progress on the agreed-upon indicators. Finally, donor agencies and Pakistani government ministries alike could use these indicators to evaluate their own programs, learn from what works, and make improvements.

2. Innovate: Pay for Outcomes.

Time and again, donor efforts to encourage policy reform have been thwarted by a lack of political will in Pakistan to carry out these reforms. To help create incentives for reform at the provincial or federal government level, the United States could consider using a portion of its aid budget to pilot a Cash on Delivery aid contract[22]—starting, perhaps, at the provincial level in the education sector. Through this innovative arrangement, provincial governments would receive a

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[21] In his essay, "The Clash of the Counter-Bureaucracy and Development," Andrew Natsios derides what he terms the U.S. counter-bureaucracy (primarily the USAID Office of the Inspector General), ruing its effects on the sustainable impact of USAID programs. He also rejects any emphasis on measurement of any results; on this latter point we disagree. See www.cgdev.org/content/publications/detail/1424271.

[22] Nancy Birdsall and William Savedoff, *Cash On Delivery: A New Approach to Foreign Aid* (Washington, D.C.: Center for Global Development, 2010).

flexible stream of U.S. aid funding based on their incremental progress on a key indicator of development. In the education sector, for instance, the United States could pay an agreed-upon amount of money to each of Pakistan's provincial governments for every additional child who completes primary school—public or private—and takes a standardized test (or some other agreed upon metric). No restrictions would be imposed on how the funds are spent, and the U.S. would not dictate how to achieve the goal of increased student completion rates. In short, provincial governments that are willing and able to find ways to improve their overall primary education system would be rewarded with additional unrestricted cash.

The money made available through a Cash on Delivery contract could provide the lever that reform-minded individuals within the Pakistani government need to support their efforts. The contract would help improve accountability by focusing on and paying for outcomes, not inputs. At the same time, it would promote local ownership since it requires the recipient (in this case the provincial government) to assume full responsibility for the design and implementation of strategies, without conditions or restrictions of funds. In doing so, it could also enhance the effectiveness of other aid spending by the United States and other donors.

3. Encourage Transparency (And Be Transparent!).

The challenges of political will and governance are not limited to the highest levels of government. These same obstacles confront any donor effort to improve service delivery in the public sector—in providing high-quality education, for instance, or improving public management of Pakistan's irrigation system. Building a school is one thing; ensuring teachers show up and teach their students is another.

To improve public service delivery in Pakistan, the United States could consider financing transparency initiatives that share information about the quality of public service delivery and, in so doing, empower Pakistani citizens to hold its government accountable for its spending and services. Research in public accountability in developing countries shows that well-designed information campaigns can have powerful effects on improving the quality of public service delivery and can create pressure for democratic governments to be more responsive to the demands of their constituents.[23] In Pakistan's education sector, for instance, the United States should consider financing a massive effort to share information on either resource allocation (how many desks and chairs have been allocated to a given school, for instance) or quality (the results of a standardized examination of learning, compared to other local schools and schools in other areas). Besides the potential development impacts, this sort of effort might also be an effective public diplomacy tool for the United States by positioning the United States as the champion of accountable, honest governance in a country where many do not trust their own politicians to deliver on their commitments.

[23]Sthuti Khemani, "Can Information Campaigns Overcome Political Obstacles to Serving the Poor?" in *The Politics of Service Delivery in Democracies,* Shanta Devarajan and Ingrid Widlund, eds. (Stockholm: Expert Group on Development Issues, 2007), www.sarpn.org.za/documents/d0002962/Politics_SD_EGDI_2007.pdf.

We also encourage the U.S. aid program itself to be more transparent, including by sharing more complete and timely information about program plans, commitments, and actual disbursements. Greater transparency can help counter the widespread mistrust and misinformation about U.S. programs and could enable Pakistani civil society to play a role in monitoring how government and nongovernmental organizations spend money.

4. Collaborate, Cofinance, and Piggyback on Other Donors' Programs That Are Working.

Through decades of trial and error in Pakistan, donors have learned hard lessons and gained valuable experience and expertise. The Asian Development Bank, the World Bank, IMF and the UK's DfID all operate large programs in Pakistan, some of which rival or exceed the scale of the U.S. aid program. The United States would gain much by collaborating with these and other donors in Pakistan. As the United States shifts more of its resources to direct implementation by the government of Pakistan, the experience of other donors in working closely with provincial and federal ministries will be especially helpful.

Where donor programs are already working in Pakistan, there is little need for the United States to reinvent the wheel. To accelerate long-term development progress, the United States should consider cofinancing donor programs that have already demonstrated results. For instance, the World Bank's program supporting the education reform efforts of the provincial government of Punjab has yielded positive results, and primary school enrollment has increased steadily in the province since the program began in 2004. The United States could consider contributing financing to the next round of World Bank education programs. Likewise, the United States could build on the UK's leadership in Pakistan's education sector and finance a major U.S.-U.K. partnership on education over the next five years.

5. Trade, Not Just Aid.

Given the challenges of spending aid money well in Pakistan, and particularly in the FATA region, it is even *more* important for the United States to look beyond aid for ways to help the Pakistani private sector create new jobs. From this perspective, trade is an extremely powerful lever. Currently, bipartisan legislation is pending in the Senate that would create "Reconstruction Opportunity Zones," thus expanding duty-free access for certain exports from Pakistan's troubled border region with Afghanistan as well as areas affected by the 2005 earthquake. However, the ROZ legislation in its current form would have relatively little economic impact.[24] Research from CGD senior fellow Kimberly Ann Elliott and colleagues concluded that the proposed tariff reduction is "unlikely to be sufficient to overcome the competitive disadvantages of having to produce in Pakistan's remote and often insecure border regions."[25] It also fails to exploit the considerable potential for economic growth in Punjab, Sindh, and other more urbanized areas of Pakistan. Instead, Congress and the administration should work together to

[24] The bill's product restrictions, meant to avoid opposition from the U.S. textile industry, exclude half of Pakistani exports, including many in the highest tariff categories.
[25] Kimberly Ann Elliott, "Stimulating Pakistani Exports." See note 14.

develop and pass legislation for duty-free, quota-free access to U.S. markets for *all* Pakistani exports from *all* of Pakistan for at least the next five years. Offering broader access to U.S. markets would have a greater economic effect, encouraging diversification and increasing the potential development dividends from trade, while having only a negligible impact on U.S. producers.

III. CONCLUSION: CHOOSING A LONG-TERM INVESTMENT

The frustrating paradox in Pakistan is that while the extreme problems of security, anti-American sentiment, and state weakness justify U.S. aid spending there, they also complicate its effectiveness. Ironically, the more the United States has at stake with its development program in Pakistan, the greater the risk that it will try to do too much and achieve less in the short-run, and nothing in the long-run.

Given these hard realities, this paper has made the case that a clear, unambiguous focus on the long-term development challenge in Pakistan is essential. In Pakistan, there will always be short-term fires and urgent pressures. But there are no easy solutions and no quick fixes to Pakistan's fundamental development challenge. Without investing today in long-run development, and without insulating programs aimed at achieving long-term development from other short-term pressures, it is unrealistic to expect that the United States' $7.5 billion investment will yield lasting results. And given what is at stake, a strategy that fails to pursue lasting change risks, yet again, squandering an opportunity to secure Pakistan's future and the safety of Americans. The Pakistani people have seen that happen before. This time, for their sake and for ours, the United States must choose a different path.