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## Maximizing the Impact of Aid to Pakistan: Leverage Reform and Local Capacity

### Summary

- The effectiveness of U.S. civilian assistance to Pakistan depends on sustained funding commitments from the United States and sustained commitment to economic and institutional reform from Pakistan.
- Weak public institutions and poor governance have greatly impeded Pakistan's development. U.S. assistance should focus on strengthening institutions systemically.
- Direct assistance to the Pakistani government—through financing that supports specific reform programs and policy initiatives and cash-on-delivery mechanisms that offer assistance after agreed performance criteria are met—could incentivize Pakistani public institutions to improve service delivery.
- Pakistan's devolution of authority to the provinces offers an opportunity for well-targeted and cost-effective initiatives to incentivize improvements in provincial public service delivery in such areas as basic education, health and policing.

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### Pakistan is Too Big to Fail

Pakistan has suffered from decades of poor governance, corruption, weak state institutions and, more recently, violent conflict that has hindered the aspirations of its 180 million people and threatened stability within the country and region. The U.S. government's history of stopping and starting assistance has harmed Pakistan's development, undermined U.S. credibility and influence as a trusted partner and detracted from regional stability. U.S. interests in Pakistan span politics, economy, counterterrorism, development, human rights and democracy. Maintaining a robust, multidimensional relationship with Pakistan, and steady, long-term development, law enforcement and security assistance, can help Pakistan better achieve its potential and become a stabilizing force in the region. The transition in Afghanistan should deepen, not weaken, our interest in ensuring that Pakistan does not fail.

### Downward Glide Path

President Barack Obama's fiscal year 2015 civilian assistance request for Pakistan, at \$597 million, represents the United States's fourth-largest country program.<sup>1</sup> But it also represents a further decline in civilian assistance levels for Pakistan since their 2010 peak of \$1.5 billion, following passage of the Enhanced Partnership with Pakistan Act (known as Kerry-Lugar-Berman after its congressional sponsors). There are several reasons for this decline—and

it is not necessarily a bad trend line if it leads to a sustainable plateau. Intense budgetary pressure in Washington has trimmed foreign assistance overall. Cumulative economic and law enforcement assistance appropriations to Pakistan, totaling \$4.4 billion in the period of 2010–14, generated large but largely unavoidable pipelines of undisbursed funding.<sup>2</sup>

Policymakers, budget managers, aid implementers and overseers have rightly questioned the sustainability and impact of such large, single-country programs—both in terms of U.S. government implementation capacity and local absorption capacity. Short-term assignments of American personnel have further hampered implementation. Security concerns have forced increasing reliance on remote management of projects and could potentially reduce future U.S. staffing, further constraining oversight capacity.

However, smaller budgets could actually lead to better prioritization, ownership, oversight and impact. The downward glide path presents an opportunity to refocus from a surge effort to stabilize Pakistan's democratic transition and support its counterterrorism operations to a longer-term and more sustainable development partnership.

## Refocus on Sustainable Impact

The United States and Pakistan agreed in early 2011 on a five-sector strategy—energy, economic growth, stabilization, education and health—to guide U.S. assistance. This strategy delivered some major accomplishments, including increased electricity generation by over 1,000 megawatts; 900 km of additional roads in regions bordering Afghanistan; 12,000 university scholarships; and post-flood reconstruction, among other programs.<sup>3</sup> But this strategy, which was focused on delivering rapid results across dozens of projects, was not designed to comprehensively address the daunting and long-term task of building the capacity of poorly performing government institutions. Currently, many of those institutions are failing to address Pakistan's monumental development and governance challenges.

## Toward Country-Owned and -Led Development

Over the past decade, major donors and developing countries have shaped and adapted aid effectiveness principles at high-level meetings held at Paris (2005), Accra (2008) and Busan (2011).<sup>4</sup> Donors committed to aligning their assistance behind recipient country-led strategies and to using existing country systems for the implementation of their aid, particularly with regard to public services. This commitment was meant to maximize the use of program and policy-based assistance, which aims to help governments improve their capability to implement programs and deliver services. Donors set a goal to channel at least half of their government-to-government assistance through country public financial management systems, where capacity and accountability mechanisms allowed, and to building that capacity where it was found lacking.

The U.S. Agency for International Development, under the leadership of Rajiv Shah, endorsed these principles in its "USAID Forward" strategy and further defined USAID's direction in its 2014 policy document, "Local Systems: A Framework for Supporting Sustained Development." The latter document articulates a vision of development that is "locally owned, locally led and locally sustained."<sup>5</sup> It calls for addressing development challenges systemically in concert with local actors and international development institutions. In presenting the president's fiscal year 2015 budget request, Shah noted that USAID had increased overall

funding for local partnerships from 8 percent of its budget four years ago to 40 percent now and that this could grow further. The objective is “to put ourselves out of a job” by building local capacity, he said.<sup>6</sup>

As of 2013, USAID Pakistan channels more than 27 percent of its assistance through Pakistani government institutions, with the largest share funding energy and transport infrastructure investments implemented by several capable Pakistani public enterprises.<sup>7</sup> However, relatively little U.S. assistance directly supports policy reform or government capacity to improve delivery of public services, such as basic education and public health. In these areas, much U.S. assistance funds projects implemented by nongovernmental organizations or international development firms. While these organizations may be able to deliver training and services, they often do so through parallel structures outside the government, which risks undermining government capacity and may not last once donor funding ends.

This is where new approaches and experimentation are needed. The challenge is how to incentivize public institutions to deliver results. This can take different forms in different countries and situations, but evolving aid effectiveness principles suggest that policy-based finance, performance benchmarks and tying funding to specific achievements probably offer the most effective and sustainable forms of assistance. This is where the World Bank is heading with its Universal Health Coverage initiative.<sup>8</sup> The Center for Global Development argues persuasively for a cash-on-delivery assistance model, which links donor funding disbursements to progress toward agreed results.<sup>9</sup>

The benefits of this approach are multifold. It puts governments in the driver’s seat to design and deliver public services, such as basic education and maternal and child health. In most cases local authorities and institutions can implement programs at far lower cost than external actors. Moreover, successful programs implemented by empowered local actors create a learn-by-doing dynamic, with the potential for scaling up. While building institutional capacity to deliver results is a slow process, there is, as Clare Lockhart of the Institute for State Effectiveness succinctly put it, “no shortcut to development that circumvents the citizens and governing institutions of the country.”<sup>10</sup>

## What Pakistan Wants

While the Pakistani government has often failed to set, communicate and implement clear development priorities, it has consistently pushed donors to deliver their funds through government institutions. Pakistani Senator Sughra Imam Hussein convened an Institution Building Working Group, one of five activity clusters formed by the Friends of Democratic Pakistan multilateral policy dialogue in 2009, and examined how to improve the capacity of Pakistani institutions by promoting linkages between them and donor-country counterpart bodies. Her working group issued a report in 2013 with recommendations that paralleled the Busan and Paris declarations, calling for donors to build the capacity of existing government institutions over the long term and avoid creating new and parallel institutions, whose separate project structures and higher pay scales for government employees assigned to donor projects add to the already excessive size and cost of Pakistan’s government.<sup>11</sup> Imam’s report concluded that in many cases donor capacity-building efforts consist primarily of training programs, which may benefit thousands of officials but prove ineffective if not part of a holistic effort to improve the capacity of the institutions that employ those individuals.

The previous and current Pakistani governments frequently expressed dissatisfaction with donor assistance, citing the high cost of international implementers, meager results, slow disbursement and a lack of capacity-building and sustainability. Pakistani officials bridled at the lack of control over how donor support was prioritized and spent, which they needed but often had limited ability to influence. Top officials in the previous government on several occasions urged the United States to allocate most, if not all, assistance funds to the Diamer Bhasha Dam project, which successive Pakistani governments have cited as the country's top development priority. In parallel, they sought tariff-free access for Pakistani textiles to the U.S. market, which they viewed as more valuable than U.S. assistance.<sup>12</sup> Asked about U.S. assistance during April 8, 2014, remarks at USIP, Finance Minister Mohammad Ishaq Dar referred to his Strategic Dialogue discussions with U.S. government counterparts, saying Pakistan sought increased trade and investment with the United States. He then emphasized the value of assistance from the World Bank and Asian Development Bank that finances government policy reforms, builds capacity of state institutions and supports strategic investments in energy and water management. Dar said that the government considered most valuable the assistance that advances its "4-E" priorities: economy, energy, education and counter-extremism.<sup>13</sup>

## Using Assistance to Leverage Reform and Performance

Pakistan's 2013 International Monetary Fund (IMF) program and major new lending initiatives in 2014 by the World Bank and Asian Development Bank support critical reforms in tax and energy policy. They offer bilateral donors direction in developing programs to complement these reforms, as well as opportunities to cofinance them with these international financial institutions. The Japan International Cooperation Agency is cofinancing energy reforms with the Asian Development Bank. Other critical priorities for Pakistan, the IMF and donors include increasing tax and other revenue as a share of gross domestic product, reducing power subsidies and technical losses, better utilizing limited water resources and streamlining regional trade through tariff reduction and trade facilitation. In energy, the top U.S. assistance priority, policy and electricity pricing changes are needed to enable the cash-starved Water and Power Development Authority to finance new capacity and fully fund operations and maintenance. Using grant funds to incentivize reform could be a cost-effective way to improve the sustainability of Pakistan's power sector and complement ongoing U.S. assistance.

Through a 2010 constitutional amendment, Pakistan devolved authority for most basic government services from the federal government to the provinces. This sweeping devolution—unevenly implemented by provincial governments with varying levels of capacity—presents a particularly compelling opportunity for cash-on-delivery assistance to encourage improved service delivery in basic education, health care, policing and municipal services.<sup>14</sup> As the three main provinces (Punjab, Khyber Pakhtunkhwa and Sindh) are run by opposing political parties, political competition adds another motivation to innovate. Well-targeted cash-on-delivery programs could incentivize mutually agreed, measurable and verifiable achievements in areas such as girls' access to school, reading and math testing, maternal and infant mortality, immunization rates and community policing. The goal is to help the provinces innovate and build capacity to deliver rather than to use contractors to deliver services for them. Where needed and desired, donors could provide technical support to build provincial capacity. Donors could achieve efficiencies of scale by partnering on design and implementation in selected provinces.

## A New Assistance Partnership

Neither policy-reform nor cash-on-delivery assistance will bring simple or quick fixes. Both would require careful design to develop realistic and tangible targets and measurable performance indicators against which funds could be disbursed. Neither can succeed without strong local buy-in and political commitment. Both would depend on multiyear funding and intense and direct engagement by U.S. government development professionals with local counterparts. But these mechanisms have the potential to boost the effectiveness and streamline implementation of assistance to the public sector. Both align with international best practices, USAID's Local Systems framework and Pakistan's desire for sustainable capacity-building. Cash-on-delivery is ideally suited to promote taking calculated risks in support of innovation, as donors would only fund agreed outcomes rather than inputs.

By placing responsibility on Pakistani government bodies to achieve clearly defined, measurable targets, cash-on-delivery and policy reform aid have the potential to boost local buy-in and accountability, reduce overhead costs and deliver results with a lighter U.S. government footprint in Pakistan. These tools can enhance the effectiveness of U.S. civilian assistance and empower Pakistan's institutions to perform, while creating a legacy of visible and sustainable partnership.

## Notes

1. U.S. Department of State, "Fiscal Year 2015, Congressional Budget Justification, Appendix 3: Regional Perspectives," page 595, at [www.state.gov/documents/organization/224070.pdf](http://www.state.gov/documents/organization/224070.pdf).
2. This figure includes appropriations from the Economic Support Fund, Global Health and Child Survival, International Counternarcotics and Law Enforcement and the Non-Proliferation, Anti-Terrorism, Demining and Related Programs accounts. Fiscal year 2014 figures are estimates. Calculations derived from U.S. State Department, Congressional Budget Justifications, Fiscal Year 2012–2015, at [www.state.gov/documents/organization/224070.pdf](http://www.state.gov/documents/organization/224070.pdf), [www.state.gov/documents/organization/185015.pdf](http://www.state.gov/documents/organization/185015.pdf), and [www.state.gov/documents/organization/158268.pdf](http://www.state.gov/documents/organization/158268.pdf).
3. See [www.usaid.gov/pakistan/our-work](http://www.usaid.gov/pakistan/our-work).
4. See "The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action," at [www.oecd.org/dac/effectiveness/34428351.pdf](http://www.oecd.org/dac/effectiveness/34428351.pdf), and "The Busan Partnership for Effective Development Co-operation," at [www.oecd.org/dac/effectiveness/busanpartnership.htm](http://www.oecd.org/dac/effectiveness/busanpartnership.htm).
5. See [www.usaid.gov/usaidforward](http://www.usaid.gov/usaidforward) and [www.usaid.gov/policy/local-systems-framework](http://www.usaid.gov/policy/local-systems-framework).
6. See [www.usaid.gov/news-information/speeches/mar-04-2014-remarks-higginbottom-shah-fy2015-budget-request](http://www.usaid.gov/news-information/speeches/mar-04-2014-remarks-higginbottom-shah-fy2015-budget-request).
7. USAID Forward Data Tables, at [www.usaid.gov/sites/default/files/USAID%20Forward%20Data\\_Local%20Solutions.xlsx](http://www.usaid.gov/sites/default/files/USAID%20Forward%20Data_Local%20Solutions.xlsx).
8. See [www.worldbank.org/en/topic/universalhealthcoverage/overview#2](http://www.worldbank.org/en/topic/universalhealthcoverage/overview#2).
9. See [www.cgdev.org/initiative/cash-delivery-aid](http://www.cgdev.org/initiative/cash-delivery-aid).
10. Clare Lockhart, "Fixing US Foreign Assistance: Cheaper, Smarter, Stronger," *World Affairs*, January/February 2014, at [www.worldaffairsjournal.org/article/fixing-us-foreign-assistance-cheaper-smarter-stronger](http://www.worldaffairsjournal.org/article/fixing-us-foreign-assistance-cheaper-smarter-stronger).

## ABOUT THIS BRIEF

Richard Albright recently completed an interagency fellowship at the U.S. Institute of Peace. This paper is based on study during that fellowship and on his experience as a career foreign service officer. From 2011–13, Albright was the coordinator for civilian assistance at the U.S. Embassy in Islamabad, Pakistan. In prior assignments, he covered development assistance at the U.S. Embassy in Cairo, Egypt, and humanitarian assistance at the U.S. Embassy in Baghdad, Iraq. He also oversaw humanitarian programs as director for Asia and the Near East in the State Department's Bureau of Population, Refugees and Migration. The views expressed here are solely those of the author and not necessarily those of the State Department or the U.S. government.

11. Friends of Democratic Pakistan Institution Capacity Building Report, "Building a Better Pakistan," 2013.
12. See, for example, remarks by then Foreign Minister Hina Rabbani Khar during a visit by then Secretary of State Hillary Clinton during meetings in Islamabad, October 2011, at [www.state.gov/secretary/20092013clinton/rm/2011/10/175949.htm](http://www.state.gov/secretary/20092013clinton/rm/2011/10/175949.htm). This message was reiterated during a trip to Washington by Prime Minister Nawaz Sharif in October 2013; see [www.whitehouse.gov/the-press-office/2013/10/23/joint-statement-president-obama-and-prime-minister-nawaz-sharif](http://www.whitehouse.gov/the-press-office/2013/10/23/joint-statement-president-obama-and-prime-minister-nawaz-sharif).
13. See [www.usip.org/events/pakistan-economic-and-stabilization-prospects](http://www.usip.org/events/pakistan-economic-and-stabilization-prospects).
14. Michael Kugelman, "Decentralisation in Pakistan: The Lost Opportunity of the 18<sup>th</sup> Amendment," Norwegian Peacebuilding Resource Centre, November 2012, at <http://www.peacebuilding.no/Regions/Asia/Pakistan/Publications/Decentralisation-in-Pakistan-the-lost-opportunity-of-the-18th-amendment>.



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