

U.S. Assistance to Pakistan

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Mr. Chairman, Senator Hagel, thank you for inviting me to share my thoughts with you at a critical time in Pakistan's history and in U.S.-Pakistan relations.

U.S. ties with Pakistan have had a long history of turbulence and of contradictions. That is still true today: Pakistan is a critical partner in our struggle to keep terrorists out of South and Central Asia. It is also a troubled country, struggling to fulfill the people's desire for democracy and for good governance. Pakistan's location next to Afghanistan, where the United States has a major military presence and where a Taliban-led insurgency is under way, and next to India, with whom Pakistan has a major unresolved dispute, guarantees that we will need to remain involved for many years to come. Assistance is not the only tool that the United States brings to bear on this situation, but it is a very important one, and a highly visible one.

I believe that the United States needs to use its aid to invest in Pakistan's future and in the long-term viability of a decently-governed state. At the same time, we don't want to encourage policies we find perverse or at variance with U.S. interests. These principles are not as contradictory as they sound, and I think they give us a pretty good guide to structuring our assistance in the future.

U.S. economic assistance is our best instrument for investing in Pakistan's future. We should shift the balance of our assistance toward economic aid, and reduce the percentage of military assistance. I would suggest a ratio of about 2:1 between economic aid and security-related aid (not including Coalition Support Funds).

Within the economic assistance portfolio, our assistance should all be given in the form of projects rather than cash or budget support. This is more labor-intensive for AID, but it is the only way to ensure that our money is supports what we want it to. Dispensing cash in return for a statement that the receiving government has spent the equivalent amount on agreed development objectives is usually an accounting exercise that glosses over the fact that the government is not spending its own resources on these objectives.

We should invest in Pakistan's people – primarily education and health. These sectors have been disastrously under-funded for over three decades. We need to help redress that balance. Our investments need to be visible to the people they are supposed to help. The only recent time when U.S. assistance boosted people's attitudes toward the U.S. was two years ago, when the U.S. military provided such effective earthquake relief. Health spending could have some of the same effect. Together with the policy-related programs that we usually do, for example, we could capture people's imaginations by encouraging visits by Project Hope and similar special teams – and then using them to train people who will continue to staff rural clinics after the special teams have left.

The largest single expenditure in our assistance profile is Coalition Support Funds. Technically, it's not assistance but reimbursement, but it is a major part of our budget. I support the calls for greater accountability of how this money is spent.

Others plan to address how our military assistance funds are spent, so I will not get into detail on this subject, except to say that the most important part of our military assistance is the part that directly supports counter-terrorism and counter-insurgency operations. That needs to be the priority.

You asked what impact U.S. assistance has on Pakistan's internal security and on its path towards democracy. The honest answer is, not very much. The U.S. has funded some valuable programs designed to improve election transparency, and I certainly support those. But overall U.S. policy toward Pakistan until very recently gave no serious attention to encouraging democracy in Pakistan. In the past six months, that has begun to change, and Ambassador Patterson has undertaken a remarkable outreach campaign to show U.S. support for a free press and free and fair elections. Her efforts are, alas, undercut by broad statements from the White House and elsewhere suggesting that Musharraf is "indispensable."

Mr. Chairman, I would suggest to you that working with Pakistan is indispensable, but that no one leader merits this designation. What Pakistan needs, to be able to work with us over the long term, is a government that enjoys widely accepted legitimacy and is capable of pushing back against violent extremists that are challenging the writ of the state. Legitimacy was never President Musharraf's strong point, and he has lost popularity, legitimacy, and ultimately much of his political strength during the nine months since he first tried to fire the Chief Justice. To me, this means that we ought to focus on the process of elections rather than picking a candidate. An ugly election – which is likely unless things get turned around quickly – will not settle the issue of Pakistan's governance or of its ability to defend the legitimate authority of the state. That

goes beyond the scope of this hearing, but will profoundly affect the effectiveness of our assistance.

Your final question deals with the proposed assistance package to the Federally Administered Tribal Areas (FATA). I support a major US assistance package for this area. The stakes could not be higher, both for our efforts in Afghanistan and for Pakistan's future as a decently governed, modernizing, moderate state.

Once the Pakistan army went into FATA, under heavy pressure from the U.S., they started a process that they are now obliged to finish – integrating this largely ungoverned region into the Pakistani state and society. It has involved, and will involve, heavy sacrifices for them. Accomplishing this task requires a three-pronged strategy: military, political and economic. Our package can help with the economic program; the Pakistan military will need to develop a more effective military approach; and the political part of the puzzle is largely lacking.

So our aid package contributes to only one of the three key ingredients in a FATA strategy. Let's be clear: there is no "school solution" to the economic problems of the region. The social structures that once ran the region are problematic, and are now largely destroyed, without a good substitute in place. So whatever we do will involve risks – risks that it won't work, and high risks that some of the money will go astray.

This has led some people I respect to recommend that we stay away from funding development in FATA. I disagree: I think we need to try, and we need to accept those risks. But we need to be both strategic and flexible in our funding. The two most important objectives are job creation and popular impact; and the popular impact needs to be structured so that both Pakistan and the United States are seen in a favorable light. We

need to operate in ways that will gain the support of the tribal leaders, to the extent they are still in place. In the short term, this probably means an emphasis on public works (especially for roads and other infrastructure) and on health. I wouldn't start with education, though that's a cause I've been pushing passionately for decades. However, it is not welcomed by tribal leaders, and an effective program needs their buy-in. We will therefore be more effective if we make education an issue for the "second wave" rather than the first.

But we ought also experiment, and encourage the Pakistan government to experiment, with ways of encouraging job creation through business development. The Reconstruction Opportunity Zones that the Administration supports are a great idea in principle, but right now, this region produces little or nothing that's exportable. Why? Entrepreneurial talent is there. Part of what's missing is capital – not just microcredit, but financing for small and medium sized businesses that can employ people. Part of what's missing is equipment, not necessarily complex and fragile equipment but tools that will permit those with some skill in marble-cutting, furniture-making, or some similar craft to get greater economic gain from it. Equipment leasing might be a good way to fill this gap. Part of what's missing is infrastructure, especially roads and electricity. It's not just a question of building more, there may also be a need to set up the system so that potential employers can access it (and pay for it) without the distribution lines having to go through non-paying customers first.

We should encourage the agencies in the US government whose expertise lies in encouraging business in tough places – I'm thinking especially of OPIC – to go in there and try out a few things. Some of them may fail – that's what happens if you try

something tough. But if some succeed, we may sow the seeds of progress in the most demanding and most important challenge facing Pakistan.