



U.S. Aid to Pakistan— U.S. Taxpayers Have Funded Pakistani Corruption



BELFER CENTER

for Science and International Affairs

John F. Kennedy School of Government
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**Belfer Center Discussion Paper #2009-06
International Security Program
Harvard Kennedy School
July 2009**

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Acknowledgements

The author would like to express his gratitude to Mehmet Celebi of the Dean's International Council, Harris School for Public Policy, University of Chicago, for his invaluable advice and guidance.

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The views expressed in this report are those of the author alone and do not necessarily represent those of Harvard University, the Harvard Kennedy School, the Belfer Center for Science and International Affairs, or any other individual.

Executive Summary

There is widespread agreement that aid to Pakistan has not been spent effectively over the past decade. There is less agreement over how to fix it. This paper contributes to the debate in two ways.

First, it provides the most comprehensive survey of the publicly available information on U.S. aid to Pakistan since 2001 to provide an evidence base on which recommendations can be based.

Second, it suggests three ways to improve aid to Pakistan, by proposing three principles which should underlie any conditions which are attached to future aid. They are:

- 1) **Cooperate to Reduce Obstruction, Sanction to Reduce Opposition**—Conditions should only be imposed to prevent clear harm to explicitly expressed U.S. intentions (such as Pakistan spending funds on nuclear weapons). Other outcomes, however desirable, (such as requiring Pakistan to shut *madrassahs* which encourage extremism), should be achieved through cooperation, not conditionality.
- 2) **First, Do No Harm**—It will be counterproductive to use conditions to micromanage specific positive outcomes by institutions beyond U.S. control—that would be to invite failure. Rather, conditions should focus on preventing harm (i.e. preventing Pakistan moving in the wrong direction, such as reducing civilian oversight over the military budget, for example).
- 3) **Put Conditions Only on How the Aid is Spent**—Pakistan and its electorate are acutely sensitive to the perception that the country may be being bullied or bribed. Some argue that this speaks to the necessity of not imposing any conditions. *This is equivalent to arguing that Pakistan's sensitivity licenses it to more years misspending a large proportion of U.S. aid money.* A more logical response is to draw a distinction between how Pakistan spends the aid funds and general Pakistani actions which do not directly relate to how Pakistan spends U.S. aid. The most important aspect of this paper is the recommendation that conditions should only be tailored to the actual use of the funds themselves (apart from conditions preventing Pakistan from moving in the wrong direction). The funds should not be used as leverage to impose positive collateral requirements on Pakistan.

Underlying these conditions is the recognition that conditions will never be effective unless Pakistani sensitivities to them are properly understood and taken into account. After all, they will determine how Pakistan reacts.

The United States must also recognize that conditionality is only part of the solution; conditions are not an appropriate means to achieve all the outcomes which the United States seeks. For each, Congress should look into the various options, excluding sanctions, which it has available to it, in a hard-headed way.

The United States must not provide Pakistani institutions with incentives to act counter to U.S. foreign policy objectives in the future. It has done so in the past. But until the spring of 2009, no comprehensive overview of the full funding to Pakistan was possible as the figures were kept secret. Those figures, as well as a full analysis of what is known about how they were spent, can now be evaluated. The available information paints a picture of a systemic lack of supervision in the provision of aid to Pakistan, often lax U.S. oversight, and the incentivization of U.S. taxpayer-funded corruption in the Pakistani military and security services. The author believes that this is the first attempt to present an overview of U.S. aid to Pakistan since 2001, evaluate it, and present recommendations on how to ensure that mistakes are not repeated and lessons are learned.

Since 1951, the United States has given significant funding to Pakistan. Since September 11, 2001, U.S. funding has been intended for the following five purposes: to cover the extra cost to Pakistan's military of fighting terrorism; provide Pakistan with military equipment to fight terrorism; to provide development and humanitarian assistance; covert funds (such as bounties or prize money); and cash transfers directly to the Pakistani government's budget.

Pakistan one of only four countries to receive direct cash transfers. Between 2002 and 2008, this "thank you" to Pakistan for help in fighting terrorism cost the U.S. taxpayer \$2,374,000,000. By its nature, these cash transfers became Pakistani sovereign funds, precluding U.S. oversight.

Since 2001, there have been significant concerns over the funding:

- **The United States has not been transparent about the funds.** Until 2009, information has been either hidden from the public or released in a form too aggregated to allow for effective public oversight. Those who have seen the agreements on how funds are to be spent say they have lacked concrete benchmarks, sometimes even concrete figures, and were too vague to be effective.
- **The United States misused development funds.** Operating costs were high, too much of the aid was ineffective, and United States Agency for International Development (USAID) programs have been hampered by insufficient resources and security concerns.
- **There was a lack of agreed strategy for use of funds.** Aims for the military aid were poorly defined, and many of the agreements on how funds were to be spent were inadequate.
- **The United States had inadequate procedures for checking how Pakistan spent the funds.** U.S. Embassy staff in Pakistan were not required to check how the Pakistani military actually spent U.S. funds, the Pakistani army insisted that the Federally Administered Tribal Areas (FATA)—where much of the money was to be spent—were too dangerous to visit, making sustained oversight there impossible; the United States has not been able to check Pakistani army records on how the money was being spent; the procedures in place to check how Pakistan spent the money were inadequate, and the decision to give Pakistan funds in the form of reimbursements made adequate oversight impossible.
- **U.S. funds disincentivized democratization** by giving the military a disincentive to submit to civilian control, increasing its independence from government, and ignoring evidence of profiteering from military budgets.
- **The Pakistani military did not use most of the funds for the agreed objective of fighting terror.** Pakistan bought much conventional military equipment. Examples include F-16s, aircraft-mounted armaments, anti-ship and antimissile defense systems, and an air defense radar system costing \$200 million, despite the fact that the terrorists in the FATA have no air attack capability. Over half of the total funds—54.9 percent—were spent on fighter aircraft and weapons, over a quarter—26.62 percent—on support and other aircraft, and 10 percent on advanced weapons systems.
- **There is also clear evidence of corruption within the Pakistani army.** The United States provided \$1.5 million to reimburse Pakistan for damage to Navy vehicles which had not been used in combat, \$15 million for the Pakistani army to build bunkers for which there is no evidence that they exist, and about \$30 million for Pakistani road-building for which there is no such evidence either. Fifty-five million dollars was provided for helicopter maintenance for the entire national helicopter fleet which was not performed. Pakistan continued to receive around \$80 million per month for military operations during ceasefire periods when troops were in their barracks. U.S. officials visiting the FATA found Pakistani

Frontier Corps units poorly equipped, one reporting that he saw members of the Corps “standing... in the snow in sandals,” with several wearing World War I-era pith helmets and carrying barely functional Kalashnikov rifles with “just 10 rounds of ammunition each”. At one point, Pakistani President Pervez Musharraf himself complained that Pakistan’s helicopters needed more U.S. spare parts and support, despite reports from U.S. military officials that the United States had provided \$8 million worth of Cobra parts over the previous six months.

“The great majority” of the Coalition Support Funds given by the United States to reimburse Pakistan for counterterrorism operations was reportedly diverted to the Ministry of Finance, with only \$300 million reaching the Army in the financial year ending 2008. This is evidence of corruption at the highest level. The result is that, after eight years of funding, many Pakistani troops in the FATA lack basic equipment such as sufficient ammunition, armored vests, and shoes. For many years, U.S. officials ignored clear evidence that the military was not using U.S. funds to further U.S. foreign policy objectives.

- **Pakistani counterterrorism failed until 2009.** During the years 2001 to mid-2009, significant parts of the FATA were under Taliban control, and according to the 2007 National Intelligence Estimate, al Qaeda has reconstituted a safe haven in the FATA. Tellingly, when the Pakistani army did launch an effective operation in Malakand in mid-2009, it was primarily in response to public pressure within Pakistan, not U.S. aid.

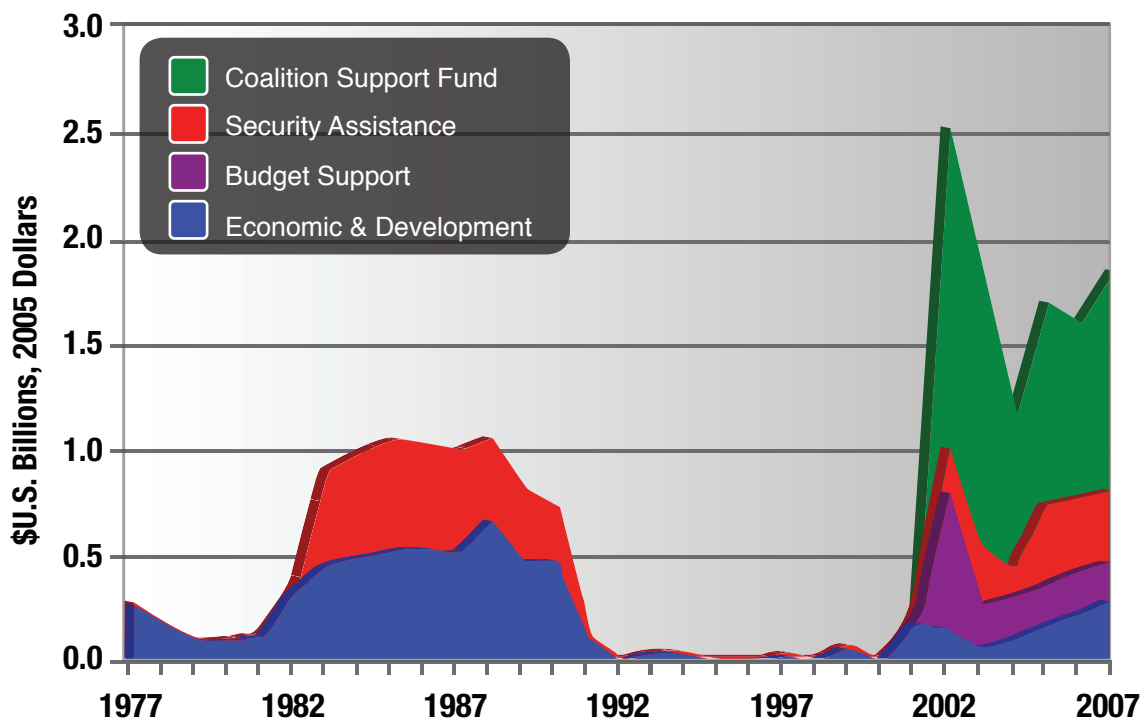
Sadly, it seems that Pakistan’s military and security services have for many years been a black hole for U.S. funds. They have enriched individuals at the expense of the proper functioning of Pakistani institutions and the country’s ability to fight its extremist enemies and provided already kleptocratic institutions with further incentives for corruption. Many of the incentives for Pakistani army corruption are longstanding, institutional, and remain in place today.

Preventing this performance from recurring will require changes to the oversight system such as the use of experts and the creation of a dedicated monitoring group as described below. But that will not be sufficient. It will also require an understanding that conditionality is just one of the items in the toolbox available for getting aid right and an understanding of how and when it should be used, to which this paper contributes.

History of U.S. Aid to Pakistan

U.S. Aid to Pakistan¹

Figure 1.1 Historical U.S. Engagement with Pakistan, FY 1977-2007



Note: Data from USAID Greenbook and Table A.1. Data do not include covert assistance.

Since 1951, the United States has given significant funding to Pakistan. U.S. bilateral aid to Pakistan started in 1951. Pakistan received \$2 billion dollars between 1953 and 1961.² By the early 1960s, aid reached \$400 million per year. At its height, during the first half of the 1960s, U.S. assistance was more than half of all foreign aid to Pakistan, covering one-third of Pakistan's development budget and financing half its import bill. By 1982, the United States was giving Pakistan \$5.1 billion dollars per year.

The aid has been intermittent, dependent on Pakistan's behavior. U.S. aid has traditionally been tied to security imperatives. The United States suspended assistance both during the Indo-Pakistan wars and following Pakistan's construction of a uranium enrichment facility in 1979. Pakistan reemerged as an ally in the 1980s during the Soviet Union's occupation in the recipient of aid. But the amount of aid dropped again following the withdrawal of Soviet troops in the late 1980s.³ In the 1990s, the United States began giving aid to Pakistan, with the United States Agency for International Development (USAID)'s office there employing over 1,000 people, one of the largest in the world.⁴

But in the 1990s, the United States again stopped providing funds to Pakistan because of the Pressler amendment. Enacted in 1985, the Pressler amendment specifically prohibited U.S. assistance or military sales to Pakistan unless annual certification was issued that Pakistan did not have a nuclear explosive device. This certification was denied in October 1990, triggering wide-ranging sanctions against Pakistan. In 1995, USAID closed its mission and pulled out of Pakistan. Aid started again in early 2001, after USAID received specific legislative authority to work with the Pakistani government in education.⁵

Since September 11, 2001, the United States has once again given significant quantities of aid to Pakistan. After the terror attacks of September 11, 2001, the United States began to see Pakistan first and foremost as an essential ally in the War on Terror. USAID sought to engage Pakistan as an ally by providing aid. A USAID mission reopened in Pakistan in 2002, as part of the office of the U.S. Embassy in Pakistan. It is this post-2002 period which is the focus of this paper.

Between 2002 and 2008, the United States gave Pakistan a total of nearly twelve billion dollars. A full breakdown is reproduced in Appendix II.

A small proportion—10 percent—of the money was explicitly for Pakistani development.⁶ USAID sought to engage Pakistan as a partner in the War on Terror by funding programs to address issues of poverty, lack of access to a quality education, and substandard health care alternatives for children.⁷

The vast majority—75 percent—of the money was explicitly for military purposes.⁸ After September 11, 2001, the United States asked the Pakistani army to conduct counterterrorism operations in the FATA near the country's western border with Afghanistan. The Pakistani army had been trained and equipped to fight conventional defensive battles in more hospitable terrain on its eastern border, against India. Pakistan argued that its army was not equipped to carry out this request. As a result, the United States agreed that Pakistan should train and equip its army for counterterrorism deployment, with the United States funding this extra training and equipment.

To this end, the United States created the Coalition Support Funds (CSF). These were designed to support only the costs of fighting terrorism over and above regular military costs incurred by Pakistan. Nearly two thirds—60 percent—of the money that the United States gave Pakistan was part of the CSF.

The CSF was also designed to provide money to other states helping the United States fight the War on Terror, but the vast majority of the funds—81 percent—went to Pakistan.⁹ By the end of 2007, the United States was paying for roughly a quarter of Pakistan's military budget.¹⁰

After six years, in December 2007, the Department of Defense decided to prioritize training a Pakistani counterinsurgency force.¹¹ In response to concerns that the United States was spending significantly but not seeing any results, the Department of Defense (DoD) conducted a review into U.S. military aid to Pakistan, which reported in December 2007. *The New York Times* reported that the DoD report changed the focus of the funding towards:

- Assisting the Pakistani military with building a counterinsurgency force
- Training Pakistani forces in the Federally Administered Tribal Areas.

The Barack Obama administration retains U.S. objectives of eliminating terrorist safe havens in Afghanistan and Pakistan and preventing terrorists from returning. It has emphasized development as a means to achieve this. President Obama has called on Congress to pass a bill sponsored by Senators John Kerry (D-Mass.) and Richard Lugar (R-Ind.) which would

- Spend \$7.5 billion over the next five years on social programs in education, health care, infrastructure development, and poverty alleviation.
- Spend another \$7.5 billion over the subsequent five years.¹²
- Only provide more aid to the Pakistani army to fight terrorism if it agreed to spend it on fighting terrorism.

The Prime Minister of Pakistan argued that this approach would be unlikely to work because the Pakistani population would not receive it well, regarding it as an unreasonable condition.¹³ The Pakistani ambassador to Washington argued that this approach would not work because people in Pakistan would think that Pakistan was too dependent on the United States.¹⁴

At the Tokyo Donors' Conference on April 17, 2009, The United States announced that it would provide Pakistan with \$1 billion between 2009 and 2010 as part of Pakistan's International Monetary Fund (IMF) package, subject to Congressional approval. The money is regarded as a sign of President Obama's commitment to support the Congressional bill described above.¹⁵

What Were the Intended Purposes of the Aid?

Since 2002, U.S. aid to Pakistan can be divided into five categories.

1. CSF—Covering the extra cost to Pakistan’s military of fighting terrorism
2. Security Assistance—Military equipment to fight terrorism
3. Cash Transfers to the Pakistani government
4. Development and Humanitarian Assistance
5. Covert Funds

Coalition Support Funds—Covering the extra cost to Pakistan’s military of fighting terrorism. The majority—60 percent—of the known aid which the United States gives Pakistan falls into this category—reimbursements to the Pakistani military. It is intended to be a reimbursement only for the costs incurred in fighting terrorism, over and above its normal military costs. Officially, that is intended to cover food, fuel, clothing, ammunition, billeting, and medical expenses.¹⁶ The United States has been assuming that Pakistan will use the funds for counterterrorism. But up until early 2009, the United States has given Pakistan the funds without attempting to set particular outcomes against terrorism which it expects.¹⁷

Security Assistance—Military equipment to fight terrorism. The United States gives and sells Pakistan military equipment and funds Pakistani counternarcotics programs. Between financial years 2002 and 2007, Pakistan was approved for more than \$9.7 billion worth of weapons sales. Again, the United States has traditionally assumed that the military equipment will be used for counterterrorism.

Cash Transfers to the Pakistani government. Pakistan is one of four countries that receive budget support from the United States, (the others are Israel, Egypt, and Jordan). A report from the Center for Strategic and International Studies (CSIS) explains that the official purpose of this direct cash transfer is to “provide balance of payments, budget, and policy reform support to the government of Pakistan during this time of economic hardship and political strain associated with Pakistan’s participation in the war on terrorism.”¹⁸ Budget support funds are, therefore, intended to be used for economic stabilization, structural reform, and increases in spending for education, health, clean water, and Pakistani earthquake relief.¹⁹ The CSIS report explains that these funds were originally conceived by both sides as being “to thank Pakistan for its help in fighting terrorism.”²⁰

Until 2007, the United States tried to affect how the Pakistani government spent the money by discussing it jointly; the CSIS report explained that U.S. officials met yearly with officials from Pakistan’s army to develop “shared objectives” to decide jointly how budget support would be spent.

From 2007, USAID stepped up its efforts to agree on what the money would be used for and monitor the outcomes. James Kunder, the acting deputy administrator of USAID, told the Senate Foreign Relations Committee Investigation into aid to Pakistan that the money had been “projectized”. He said “That \$200 million was carefully monitored in terms of what the outcomes were. We had agreed with the Pakistani Government on what we expected the money to be spent for in education, health care, and so forth and then we tracked whether they were actually expending the money in those areas.”²¹

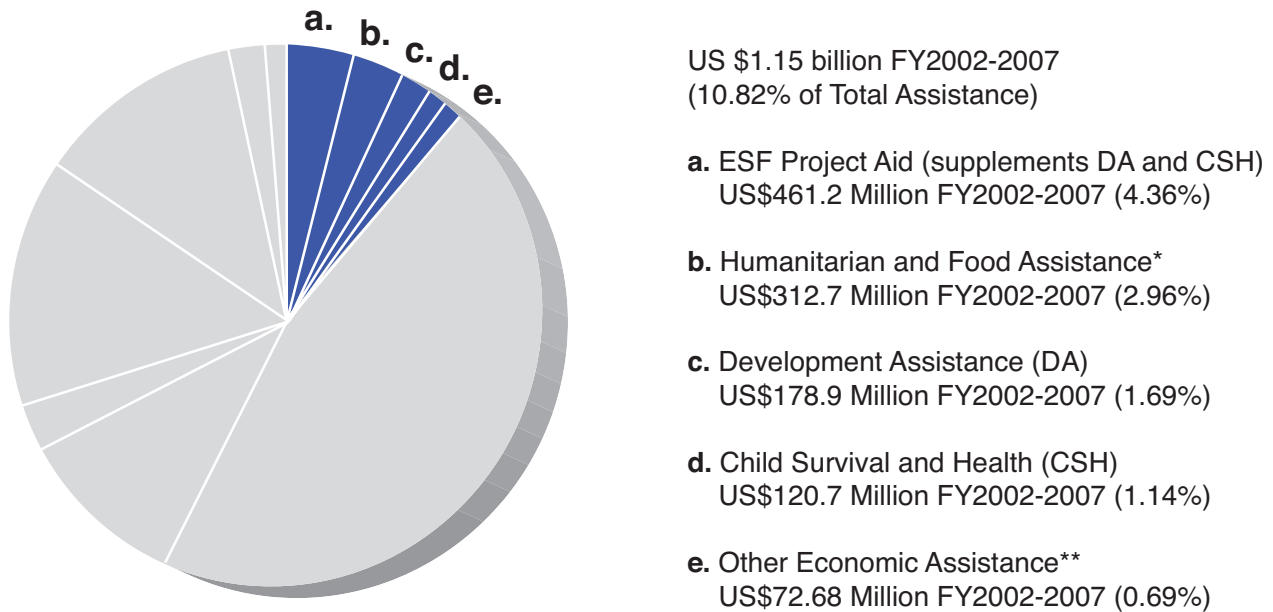
Certainly, once the Pakistani government receives the funds, they belong to the Pakistani government, which resists U.S. attempts to tie it bindingly to specific uses.

Development and Humanitarian Assistance. Until 2007, development assistance accounted for almost 11 percent of the total reported U.S. donations to Pakistan.

The money goes to primary education and literacy, basic health, food aid, and democracy and governance, mainly election support. It goes through USAID, which does not deal with any transfers to Pakistan's military except in exceptional circumstances (such as the Pakistani earthquake of 2005).

The CSIS report's breakdown of these funds (until 2007) is reproduced in the following chart:

Figure 3.7 Development and Humanitarian Assistance to Pakistan



Notes: See Tables A.1 and A.2 for data and Table A.3 for sources.

*Section 416(b) \$88.2M (0.83%); International Disaster and Famine Assistance \$70.0M (0.66%); Food for Progress \$434.0M (0.41%); P.L. 480 Title II \$33.1M (0.31%); Migration and Refugee Assistance \$27.3M (0.26%); Emergency Refugee and Migration Assistance \$25.0M (0.24%); Food for Education \$16.2M (0.15%); P.L. 480 Title I \$10.0m (0.09%). See Table A.1 for details.

**Disease Control, Research and Training \$32.0M (0.30%); USAID Operating Expenses \$20.1M (0.19%); Salaries and Expenses, Departmental Management \$15.7M (0.15%); National Endowment for Democracy \$2.6M (0.02%); Trade and Development Agency \$1.7M FY02-07 (0.02%); International Affairs Technical Assistance \$0.4M (0.00%); Salaries and Expenses, Agricultural Research Services \$0.2M (0.00%). See Table A.1 for details.

The unspoken intention of much of this aid is to improve the image of the United States, in the hope of countering the attraction of extremist discourses. Richard Boucher, Assistant Secretary of State for South and Central Asian Affairs at the State Department, described the effort as follows in 2007:

The United States has... recently begun to implement a 5-year, \$750 million development strategy for Pakistan's frontier region that supports the Government of Pakistan's 9-year, \$2 billion program for the tribal areas' sustainable development. The people of the tribal areas need to have a stronger connection to their central government if they are to resist violent extremism effectively and over the long term. The plan seeks to develop the capacity of tribal area authorities and local leaders to plan, administer, implement, and monitor development assistance programs; to strengthen the strategic communication capacity of civilian administration bodies; and to improve planning and coordination between civilian and security organizations. In addition, the plan seeks to more effectively address security concerns in the tribal areas, which is a prerequisite for a successful development strategy.

To accomplish this, we have been working with and will continue to work with the Pakistani Government to increase the size and enhance the capabilities of the three law enforcement entities that have a traditional presence in the tribal areas and whose ranks are filled with predominantly locally recruited ethnic Pashtuns. I believe these pieces of our assistance to Pakistan are some of the most crucial elements of the war on terror. These forces are doing much of the fighting against the Taliban, al-Qaeda, and other violent extremist groups in the tribal areas and elsewhere in the Northwest Frontier Province, such as Swat.²²

Covert Funds. In his 2006 book, *In the Line of Fire*, ex-Pakistani President Pervez Musharraf referred to millions of dollars in bounties or prize money which the United States made available via its Central Intelligence Agency (CIA). As this information is classified, accounting for it or assessing how it was spent is not possible at this time.²³ Some analysts have suggested that these covert payments may have exceeded \$10 billion until 2007.²⁴

How is it Supposed to be Accounted For?

Because the money which flowed to Pakistan did so through the above five channels, there are at least five different processes at work. Plus, the accounting process for any given channel did not necessarily remain the same since September 11, 2001. Also, many of the chains of accountability are very complicated.

All these factors have made it harder to get reliable information about how the U.S. government has accounted for the funds which have been given to Pakistan.

CSF—Covering the extra cost to Pakistan’s military of fighting terrorism.

There is a lengthy oversight process for the Coalition Support Funds. A detailed diagram of how responsibility for oversight was shared between many different offices until June 2008 is reproduced in Appendix III.

Pakistan was to claim any extra expenses it incurred in fighting terrorism. In 2003, guidelines were sent to embassies, combatant commanders, and the comptroller responsible for oversight of U.S. aid to Pakistan about how to assess these claims.

The guidelines stated that the Pakistani-based Office of the Defense Representative to Pakistan (ODRP) was responsible for assisting the Pakistani military in filing the claims for its extra expenses. They gave examples of extra expenses, such as transport of forces, sustainment of forces, and increased use of equipment or vehicles. They also specified that requests for reimbursement had to contain “quantifiable information that clearly indicates incremental nature of support, such as total personnel fed, number and types of vehicles repaired, total fuel consumed,” and “total number of flight sorties.”²⁵

Combatant commanders were to submit evidence of who requested the service, the duration, and the initial estimate of the cost of the support or service.

They were also required to confirm that costs were indeed spent on counterterrorism, that they were not part of Pakistan’s conventional military operations, and give “a narrative description of the types of costs incurred and a description of how the costs for each were computed,” and, crucially, an “evaluation of the reasonableness of the individual categories for which reimbursement is requested.”

Security Assistance—Military equipment to fight terrorism. In his testimony to the Congressional Committee investigating U.S. aid to Pakistan, Richard Boucher, representing the State Department, described the oversight process for U.S. security assistance to Pakistan with reference to agreements between the U.S. government and Pakistan, rather than a process per se, and implied that the long reporting chain ensured thorough oversight.

He said that overall responsibility for the program of giving money to Pakistan lay with the State Department’s Director of Foreign Assistance. The Department of State offered advice. The program was managed by the Bureau of Political-Military Affairs, because it is the “the primary interface between the Defense and State Departments.” Many individuals and offices supported the decisions. In his testimony, he explained that “U.S. Ambassadors have an important role to play in... providing oversight over the execution of programs, end-use monitoring and human rights vetting.” There was “close coordination between U.S. Ambassadors and Combatant Commanders in the field,” which “produced programs that closely match the military needs of our partners to the overarching goals of U.S. foreign policy.” He said that the State Department helped to ensure that the donations did not fuel an arms race in the region and that the Defense Security Cooperation Agency checked that the weapons were being used as agreed.²⁶

Regarding the agreements between the United States and Pakistan, he said: "The Government of Pakistan has entered into an agreement regarding end-use and retransfer and security of defense articles provided on a grant basis. Each Letter of Offer and Acceptance pursuant to the Foreign Military Sales program contains end-use, retransfer, and security obligations."²⁷

He argued that these checks ensured "the program's complete fidelity to U.S. foreign policy objectives."

Cash Transfers to the Pakistani Government. Information about the sums that the United States has provided to Pakistan's government is available. (see Appendix II below, the row labeled "ESF"). However, information about how the Pakistani government uses it is not available as the Pakistani government is not obliged to account for how this type of aid is spent to the donor country.

A U.S. Government Accountability Office report released in June 2008 acknowledged that it is difficult for the U.S. government to get reliable information about how the Pakistani government spends the funds. It highlighted concerns over both Pakistan's recordkeeping and its accounting standards. However, as the U.S. government has traditionally given these funds to the Pakistani government without strings attached, the Pakistani government is not obliged to reveal how it is spent.

Development and Humanitarian Assistance. The money through the fourth channel—USAID—was accounted for in the usual way by USAID. A full assessment of USAID's accounting process is beyond the scope of this paper.

Covert Funds. Information about how covert funds were accounted for is classified. Obviously, it is not possible at this time to assess how they were accounted for and therefore evaluate their objectives and efficacy.

The Concerns

- The United States has not been transparent about the funds that it has given Pakistan
- The United States misused development funds
- There was a lack of agreed strategy for use of funds
- The United States had inadequate procedures for checking how Pakistan spent the funds
- U.S. funds disincentivized democratization
- The Pakistani military did not use most of these funds to fight terror
- Pakistani counterterrorism failed until 2009

The United States has not been transparent about the funds that it has given Pakistan

Secrecy. Covert funds or “rewards” offered in Pakistan have naturally not been accounted for publicly. The DoD did not reveal a breakdown of the figures for the funds given to the Pakistani military in Coalition Support Funds. Given the opportunity to appear at the Congressional investigation into U.S. aid to Pakistan, the DoD did not send any representatives. The Coalition Support Funds represent over 60 percent of total aid—over \$7 billion.

The DoD has been equally secretive about the cash transfers that the Pakistani government receives directly. Originally, no information on the intended purpose was made public. Administration officials explained its intended purposes at the 2007 Congressional Investigation. However, a Treasury official still admitted that “the entire process of budget support delivery—from the setting of shared objectives to efforts to monitor progress—is not transparent to public oversight.” Officials who are familiar with the agreements on how the Pakistani government is supposed to spend the funds agree that they are vague, subject to varying interpretations, lacking concrete benchmarks and even concrete figures.²⁸

It is difficult to escape the conclusion that for a long time, the DoD has wanted to avoid the figures for military aid to Pakistan from becoming public knowledge.

Lack of Aggregate Information. The aid is also administered by various government agencies, and until April 2009, no attempt has been made to aggregate the totals and release the information to the public. Lawrence J. Korb, Senior Fellow at the Center for American Progress, argues that “there is little coordination among the various agencies of the U.S. Government which disperse aid to Pakistan. [They] are each responsible for only one aspect of the total program in Pakistan and oversee fragmented pieces of the overall assistance picture.”²⁹ In 2007, the Center for Strategic and International Studies asked nearly 100 current and former U.S. officials to estimate how much money the United States had given Pakistan. Their answers “ranged from \$800 million per year to more than \$5 billion per year.”³⁰

Finally, the aggregate figures in Appendix II were released in April 2009.

The United States misused development funds

Despite some notable successes and a recognition that humanitarian and development aid can play a role in blunting the appeal of extremism, there are concerns about how efficiently USAID spends aid money.

High Operating Costs. A recent U.S. strategy for the region acknowledged that much of the money is spent on overhead and international consultants.³¹ That has to be compared to the fact that only 10 percent of total aid was allocated to development funds until 2009.

Ineffective Aid. The region which has been the focus for Islamist extremists is the Federally Administrated Tribal Areas (FATA), on the border with Afghanistan. The challenges of providing development aid there are considerable.

The FATA is a remote area with a forbidding landscape, over which the Pakistani state does not exert full sovereignty and the rule of Pakistani law is not enforced. There are minimal traditional state structures. Power is concentrated in the hands of leaders of the most powerful tribes, only some of whom are members of the *jirgas*. Rough justice is the purview of the colonial-era body, the Frontier Crimes Regulation, which acts as both the executive and the judiciary, and to which there is no right of appeal.

Sixty percent of the population lives below the poverty line, half of the population lacks access to clean drinking water, and the female literacy rate is 3 percent. The majority Pashtun population adheres to the Pashtun code of ethics, or *Pukhtunwali*, which centers around the obligation for revenge and the provision of safe conduct. This code is incumbent on all Muslims—Islamists and Frontier Police alike. As most Frontier Police are Pashtun, it is a powerful source of cohesion between those who the United States has hoped will capture and kill extremists and most of the extremists themselves. (For a short and comprehensive introduction to how *Pukhtunwali* affects Pakistan's efforts in the FATA, pages 10–11 of the Atlantic Council's February 2009 report on U.S. policy on Pakistan³² is highly recommended). Tribal loyalties and conservative religious ideas hold sway. In some parts, the United States is unpopular. Some aid agencies have found it counterproductive to reveal that the development programs are funded by the United States. In these cases, they are administered anonymously.³³

Partly for this reason, most aid agencies rely on contractors to implement the building projects. However, for this reason, much of the money which was intended to help Pakistan actually ends up in the contractors' countries. There have been concerns that this aid does not constitute an investment in Pakistan.³⁴ Naturally, anonymously given aid does not help towards the policy objective of improving the image of the United States in the region.

The Center for Strategic and International Studies concludes that "the process of building schools and opening health clinics is unlikely to produce development in any broad sense. What is more likely... is that the system of patronage used to maintain political authority will also co-opt the development funds provided to the tribal areas.... Although a few residents may benefit from the assistance, the money may not alleviate poverty in the tribal areas in any meaningful way."³⁵

Although this is not necessarily the case with the majority of the aid, there is anecdotal evidence which fleshes out the picture of aid funds being ferried by private contractors to enrich suppliers, without contributing towards intended outcomes. In his statement to the Congressional investigation, Dr. Robert Hathaway, the Asia Program Director for the Woodrow Wilson International Center for Scholars, described two examples³⁶:

I've gotten this from a very senior AID official that we have provided hospitals and clinics in Pakistan with these very fancy surgical lights which don't cast a shadow, and with autoclaves and other equipment that requires electricity, only to find that these hospitals don't have electricity and that moreover, there are no plans to hook them into the electrical grid. So I asked, how is this possible? And I was told, we signed a contract with a firm who provides

this equipment. We go back and ask the firm, how come this is the case and the firm, the contractor says, 'it's not our business'. We didn't sign a contract to provide electricity or to make sure this equipment was used. We simply signed the contract to provide the equipment.

A different case, again, a story I've heard from a senior AID official. We are giving scholarships to young Pakistanis to study in the United States and I absolutely applaud this, but I'm also aware of a particular instance where we awarded a scholarship to a young man from the tribal area who spoke no English, who speaks no Urdu. He speaks Baluch. So he was asked, through a translator, so how is he going to benefit from this experience? And after further questions, it turned out, in fact, there was no possibility of him benefiting and in fact, all his family had been killed in the tribal areas and the chances of him even going to school were very minimal. The chances of him then returning to Pakistan were virtually nonexistent.

...Two examples don't prove a case but they are the types of things I had in mind [about economic and development programs that frequently have been unfocused, poorly conceived or lacking in responsible oversight].

Part of the problem is that USAID lacks the staff in Pakistan to gain enough knowledge of these areas in advance of implementing programs and that hostility to the United States in Pakistan has been so great over the last decade that the USAID staff based in Pakistan have had limited opportunities to travel widely outside the embassy.

USAID programs hampered by security concerns. In the first half of this decade, security concerns significantly limited the ability of staff at the USAID mission to oversee how the funds are spent in practice. U.S. and Pakistani law enforcement officials uncovered plots to attack Americans in Pakistan. Death threats to U.S. Embassy personnel occurred. Anger over the Iraq war heightened security tensions. In light of this, the U.S. Ambassador to Pakistan in 2003 sought to limit the number of U.S. staff in Pakistan to minimize the security risk.

An official USAID report concedes that "these limitations have real impact on the [USAID] Mission's ability to monitor project activities and meet with partners and counterparts, and argue for new approaches to project management and monitoring."³⁷

USAID programs hampered by limited resources.

Movement. Travel outside Islamabad was limited, and the number of visitors was strictly limited.

Staff. In 2006, there were twelve positions, nine of which were filled. For security reasons, the U.S. Ambassador has sought to keep the number of Americans working in Pakistan as low as possible.

Space. Until 2006, USAID in Pakistan worked out of three-quarters of a renovated warehouse on the Embassy compound, limiting staff numbers to twenty-five. (Hundreds worked in USAID's Islamabad office in the past, and dozens more used to work in USAID's satellite offices in the provincial capitals).

Pakistani management. To minimize the security risk and to ensure that the running of the program is minimally affected by evacuations and so on, in this decade it has been a priority for USAID in Pakistan to have parts of its program managed by Pakistani professionals. In

2008, USAID's staffing ratio in the Islamabad office was "10 American Foreign Service officers on the ground and 44 Pakistani professionals."³⁸ Its own report states that "this approach may increase the risk of poor performance."³⁹

There was a lack of agreed strategy for use of funds

Vague aims and lack of strategy. Aims for the military aid were poorly defined. Those aims which were defined were short-term military objectives, such as the killing, capture, or detention of domestic and international terrorists. Beyond this, there was a lack of strategy for how U.S. military aid should support these aims at all until 2006. A February 2009 Government Accountability Office (GAO) report concluded that there was in fact no single U.S. government coordinated plan to achieve foreign policy aims in the region at all.⁴⁰

The agreements between the DoD and the Pakistani military on how the funds should be spent were inadequate. U.S. and Pakistani officials both acknowledged that they had never agreed on the strategic goals that should drive how the money was to be spent or how to measure success.⁴¹ This culture of lack of oversight and comprehensive goals meant that the United States was offering Pakistani institutions and individuals a clear incentive for misuse of U.S. funds.

Seven years after September 11, 2001, there was still no comprehensive U.S. plan for the region. Representatively, funding for initiatives in the FATA was still coming from emergency appropriations bills, not the regular defense budget.⁴²

The United States had inadequate procedures for checking how Pakistan spent the funds

Obviously, funds given covertly to Pakistan and money transferred to the Pakistani government cannot be accounted for at all. The same is true for money given non-covertly and directly to the Pakistani government. It becomes part of Pakistani sovereign funds, and Pakistan is unwilling to let the United States ascertain that it is used in accordance with the agreements described above or for objectives which are in line with U.S. foreign policy objectives.

However, there were significant problems with the procedures for checking how the non-covert money was spent.

U.S. Embassy staff in Pakistan was not required to verify how the Pakistani military actually spent U.S. funds. All Pakistan's claims via the Coalition Support Fund are supposed to be validated by the U.S. Embassy staff in Islamabad. The long chain of oversight and verification set out in Appendix III all relied on the raw information from U.S. Embassy staff because they had access to the Pakistani officials and were in the best position to obtain good information.

Although the guidelines issued to the U.S. Embassy staff in Islamabad contained detailed descriptions of the paper data that they were supposed to verify from the Pakistani military, they did not require the staff to verify that the military in fact spent the money in the way described. Despite the army's known public record of corruption, no verification was undertaken between 2003 and 2006.

After 2006, the ODRP began to try to verify—with telling results. The number of expense claims that they disallowed or deferred rose, from 2 percent to 22 percent.⁴³ Despite this, the DoD did not change the guidelines to require the ODRP to verify the military's claims.⁴⁴

The FATA is too dangerous to visit, making sustained oversight there impossible.

Ultimately, the funds are supposed to be spent towards making the FATA less dangerous. However, while it remains dangerous, U.S. Embassy personnel have been mostly unable to go to the region to verify that they are being spent as agreed. Pakistan severely limits access to the FATA for non-Pakistanis.⁴⁵ Given this, the only information available comes from patchy reports from independent journalists. Thus, for most of the previous decade, the United States has not been able to independently oversee that the Pakistani troops are properly equipped, what they are achieving, or how many troops are there.

Pakistan keeps paper records, but the United States is unable to verify them.

The June 2008 report from the GAO revealed that “although the Pakistani government generally keeps detailed financial records, these records are usually in paper form and electronic record keeping is rare. Additionally, the Pakistani military does not possess automated systems to track logistics and supplies. Because of these factors, information retrieval from the field and collation at the Pakistani joint staff level can take a great deal of time and may entail a certain amount of approximation and averaging.”⁴⁶ Without the ability to verify Pakistani records, much of its information is just accepted.

Sadly, the Pakistani military and its intelligence body, the Inter-Services Intelligence (ISI), have a historical record of corruption and profiteering.⁴⁷ Experts estimate that the Pakistani military, which forms a major part of Pakistan's economy through businesses known as “welfare foundations”, could own assets worth \$14 billion. Of the ninety-six businesses run by the four largest foundations, only nine file public accounts, and demands by Pakistan's parliament for greater accountability have been rejected.⁴⁸ The government has historically failed to get the ISI to even report to the Interior Ministry and has no institutional checks over either organization. These conditions combined with U.S. military aid incentivize theft.

The procedures in place to verify how Pakistan spent the money were inadequate.

The U.S. military did verify that Pakistan had carried out the operations that it had been claiming to have carried out until 2004, but less so afterwards. By fall 2006, it was clear to senior military officials at the U.S. Embassy in Islamabad that the CSF reimbursements program had been inadequate.⁴⁹

Staff at ODRP stated that they had previously received little to no guidance or training on how specifically to analyze Pakistani CSF reimbursement claims.⁵⁰ The Pakistani military submitted costs to the ODRP in the form of aggregates of many smaller costs, which the ODRP felt unable to monitor. For example, food costs included costs for procurement, transport, storage, and field preparation.⁵¹ The ODRP was not given guidance on whether it was supposed to take these averages and multiples on trust, perform spot-checks, or investigate more fully. The GAO also noted that the kind of formal guidance which was lacking “is especially important in Pakistan, where U.S. officials are generally limited to 1-year tours... Because of the constant turnover of Defense officials in Pakistan, clear guidance is needed to ensure the continuity of oversight efforts.”

The ODRP was also not required to audit the use of U.S. funds in a way which was understandable; the GAO report says that between January 2004 and June 2007, the United States reimbursed Pakistan without obtaining enough information to allow a third party to recalculate the costs. This amounted to \$2 billion dollars of taxpayers' money.

As far as the cash transfers to the Pakistani government were concerned, the agreements made between Pakistani and U.S. officials on how they were to be spent were inadequate. According to officials who have viewed these “shared objectives”, they even lack concrete numbers or benchmarks and are subject to various interpretations.⁵²

Giving Pakistan funds in the form of reimbursements made adequate oversight impossible. After the United States gave the funds to the Pakistani government⁵³ and military⁵⁴, it was no longer entitled to find out that they were spent as agreed. Adequate oversight by the United States of both the Coalition Support Funds and of the security assistance money was not possible. For example, RAND Corporation analyst Christine Fair noted that the United States is not entitled to find out how many or what kind of troops the Pakistani military deploys in counterterrorism operations.⁵⁵

In August 2008, DoD officials visited Pakistan to discuss improving oversight of U.S. aid to Pakistan, the result of which was a few alterations to the procedure, as described in a subsequent GAO report.⁵⁶ However, as evidenced below, underlying questions of Pakistani military corruption remain.

The GAO report concluded that “defense may have paid costs that were not incremental, not based on actual activity, or potentially duplicative.”⁵⁷

U.S. funds disincentivized democratization

Throughout its sixty-one-year history, Pakistan has alternated, sometimes violently, between democracy and military dictatorship. Despite having repeatedly disrupted the country’s political progress, the Pakistani military, along with the ISI, have traditionally been two of Pakistan’s most stable institutions. The army has also become one of the richest and largest industrial, banking, and landowning bodies in Pakistan.

As a result of this, both the ISI and the military are dangerously independent from civilian governance. The government has no tradition of formal institutional oversight over them whatsoever. This lack of control incentivizes corruption and profiteering from military budgets. It also allows the military to conduct operations without official sanctions. And it has enabled the military to create its own networks of political patronage by, for example, co-opting existing political parties through threats and bribes.

Such lack of oversight, communication, and cooperation further limits the government’s central control and hampers its ability to react to crises effectively and coherently. The state of relations between the civilian government and the intelligence services was illustrated by the government’s failed attempt to get the ISI to report to the Interior Ministry in late 2008.

In this decade, U.S. funding for the Pakistani military has bolstered this undemocratic status quo, by directing the vast majority of the funding to the military (see Appendix II). Now that Pakistan has a civilian government, Army Chief of Staff General Ashfaq Parvez Kayani has committed the military to the maintenance of civilian governance. But this situation remains fragile, and U.S. policy must not do anything to disincentivize greater accountability and democratization.

The Pakistani military did not use most of these funds to fight terror

Both the Coalition Support Funds and the security assistance were given to Pakistan to reimburse Pakistan for expenses incurred in fighting terrorism. Pakistan was, furthermore, only supposed to use U.S. money on incremental costs, which were costs incurred over and above the usual costs of military spending.

Much of the money was spent on military equipment. As Pakistan was under no obligation to tell the United States how the military equipment is used, it is impossible for the U.S. taxpayer to ascertain whether it was indeed used to fight terrorism, as agreed.

However, it is possible, to an extent, to ascertain which military equipment Pakistan purchased and to make inferences about its suitability for counterterrorism.

Pakistan bought much conventional military equipment

For six decades, Pakistan has regarded India as its main security threat. The Pakistani military services have traditionally been both trained to fight a conventional war and conditioned to see India as their main threat. This mindset coexists with a tendency for the military to underestimate the danger from Islamist terrorism and for some members of the security services to sympathize with extreme Islamist groups.

Under this scenario, it was perhaps to be expected that the Pakistani military might have sought to spend U.S. funds on weapons for use against India. But it could not be expected that Pakistan would be so open about this. It could furthermore not be expected that Pakistan would procure so much conventional equipment with limited use against terrorists, which was evidently not in line with stated U.S. policy aims.

Security assistance money is often justified to Congress as providing weapons that play a critical role in the War on Terror. In the event, over half of the money—54.9 percent—was spent on fighter aircraft and weapons, over a quarter—26.62 percent—on support and other aircraft, and 10 percent on advanced weapons systems. In his testimony to the Senate investigating committee, Lawrence J. Korb said “the vast majority of our foreign military financing (FMF) has gone toward the purchase of major weapons systems such as F-16 fighters and other aircraft, anti-ship, and antimissile capabilities.”⁵⁸ It is clear that Pakistan is not using the majority of U.S. money to fight terrorism or advance the U.S. foreign policy aims for which it was allocated.

Many of these seem to be of dubious use, such as F-16s, aircraft-mounted armaments, anti-ship and antimissile defense systems,⁵⁹ and an air defense radar costing \$200 million, despite the fact that the terrorists in the FATA have no air attack capability.

In 2009, after billions of dollars supplying the Pakistani army with equipment to be used for counterterrorism since 2002, a U.S. report argued that the Pakistani army still “lacks modern night vision devices to monitor the border and helicopters to carry troops rapidly and engage a mobile militant force.”⁶⁰ A full list of Pakistani purchases of conventional military equipment which is of dubious use against terrorism is in Appendix I.

Specific examples of corruption in the Pakistani army

The evidence of corruption in the Pakistani military at the expense of the U.S. taxpayer is clear.

- The U.S. taxpayer paid over \$1.5 million to reimburse Pakistan for damage to Navy vehicles, which had not been used in combat.
- The U.S. taxpayer paid \$15 million for the Pakistani army to build bunkers, but there was no evidence that they had been built.
- The U.S. taxpayer paid about \$30 million for the Pakistani army to build roads, but there was no evidence that they had been built.
- The United States gave the Pakistani army \$55 million for helicopter maintenance and operations for the entire national helicopter fleet, which was supposed to last eight months. The army only received \$25 million and was told it would have to last the whole of 2007.⁶¹
- When U.S. officials later checked the helicopters, they found that they had not in fact been maintained.
- Pakistan received around \$80 million per month in periods in 2006 and 2007 for military operations. There were no military operations over this period due to ceasefires. Troops were in their barracks.⁶²
- On visits to the FATA, U.S. officials found the Frontier Corps units poorly equipped. One said he saw members of the Corps “standing there in the snow in sandals,” Several were wearing World War I-era pith helmets and carrying barely functional Kalashnikov rifles with “just 10 rounds of ammunition each”. If the Pakistani military had been making fighting terrorism in the FATA a priority, it would have invested in the Frontier Corps instead of purchasing conventional military equipment.
- At one point, President Musharraf himself complained that the Pakistani army was not receiving enough support from the United States. In an interview with the *New York Times*, he complained that his helicopters needed more U.S.-made spare parts and support, saying “ten days back, of 20 Cobra helicopters, we have only one that was serviceable. We need more support.” At the same time, the paper reported U.S. military officials saying that the United States had provided \$8 million worth of Cobra parts over the last six months and was due to provide \$4 to \$6 million worth of spare parts over the next year.⁶³
- “The great majority” of the Coalition Support Funds given by the United States to reimburse Pakistan for counterterrorism operations was reportedly diverted to the Ministry of Finance.⁶⁴ Only \$300 million reached the army in the financial year ending 2008.⁶⁵ This is evidence of corruption at the highest level.
- Estimates by some western military officials put the portion of illegitimately spent funds at 70 percent.⁶⁶

U.S. officials ignored clear evidence that the military was not using U.S. funds to further U.S. foreign policy objectives.

It is clear that much of the information about Pakistani allocation of U.S. funding was in the public domain and that it was in the power of officials from the State Department or the DoD to question it.

In many cases, the Pakistani army told U.S. officials what they would buy. One DoD official told the CSIS report that “when high-ranking Pakistani officials visit the U.S. Secretary of Defense, they are more likely to turn in a wish list for hardware than to engage in a discussion about strategy.”⁶⁷

There is evidence that U.S. officials were likely to accept on good faith intentions towards use of funding when facing evidence of Pakistani purchases of weapons unsuitable for the U.S. foreign policy objective of counterterrorism.

Two examples are instructive. The comptroller, responsible for monitoring Pakistani purchases, said that he approved \$200 million dollars for Pakistan's air defense radar without questioning whether it was suitable against terrorists or whether it was an extra cost incurred against terrorism. In the words of the GAO report, he did so on the assumption that "Pakistan likely incurred some increased costs by using the radars to police the airspace over the Northwest Frontier Province and provide air traffic control for U.S. military support flights into Afghanistan. The comptroller nonetheless agreed that the claims lacked sufficient detail to determine whether these charges were definitively incremental."⁶⁸

In his testimony during the Congressional investigation, Assistant Secretary Richard Boucher was asked by Senator Joe Biden (D-Del.) about use of equipment which did not seem to be for counterterrorism. His answer (available in Appendix I) revealed that, at least on that occasion, the DoD judged that the item was appropriate for counterterrorism based on where Pakistan said it was using it. In the example given in the response, the DoD judged that F-16s helped Pakistan fight terrorism because Pakistani officials had said that pilots had used them to fly over the Federally Administered Tribal Areas.

Pakistani counterterrorism failed until 2009

It is instructive to audit the costs and benefit of U.S. military aid to Pakistan.

On the credit side:

- Pakistan allowed the United States to fly sorties from the south over Pakistani airspace into Afghanistan.
- It allowed U.S. troops access to a handful of its military bases, (although not for offensive operations).
- Pakistani troops have protected those bases and U.S. ships in the Indian Ocean.
- Pakistan provided logistical support for the U.S. war effort in Afghanistan, including fuel for aircraft and port access.
- In a three-month offensive in mid-2009, the Pakistani Army regained the strategically important Malakand region, which Taliban militants controlled for a few months. This represented a previously-unseen level of commitment to fighting militancy.

On the debit side, however:

- The new military commitment to counterterrorism in mid-2009 came in response to public pressure within Pakistan, not U.S. aid. Public pressure achieved what eight years of U.S. largesse could not—it persuaded the Pakistani military to take counterterrorism seriously.
- Pakistani deaths from terrorist violence have skyrocketed. There were 189 in 2003, 648 in 2005, and 3,599 in 2007.
- Pakistan's economy has not benefited from the budget support; only an IMF loan in late 2008 prevented it from collapsing.
- Pakistan is less secure both regionally and internally.
- Pakistan did not remand one high-value Taliban asset until the summer of 2007—and then only did so reluctantly and after sustained pressure from Washington.⁶⁹

- The Afghan Taliban have not yet been the targets of effective Pakistani military action. According to RAND analyst Christine Fair, “Pakistan has not launched massive offensives against the Afghan Taliban in Pakistan. Notably, the Taliban leadership council, aka the Quetta shura, located in the Pakistani city of Quetta, remains unmolested and free to act.”⁷⁰
- Despite the billions of U.S. aid for the purpose, the Pakistani troops in the FATA lack basic equipment. They are understandably demoralized.⁷¹
- Anti-Americanism remains high. A poll in 2008 found that over half of Pakistanis hold the United States responsible for recent violence in Pakistan, and most Pakistanis—74 percent—do not support action against Taliban and al Qaeda militants.⁷²
- Far from having reduced, Islamist extremism in Pakistan has risen.
- According to the 2007 National Intelligence Estimate, al Qaeda has reconstituted a safe haven in the FATA.

The hope was that after September 11, 2001, Pakistan would clear terrorists from within its own borders, prevent them from using the areas in northwest Pakistan as a safe haven, and help to bring the al Qaeda leaders to justice. Despite over \$12 billion towards these aims, none have been achieved.

Nearly two thousand Pakistani troops have died fighting terrorist militants. However, the high levels of corruption within the Pakistani military and security services means that in practice, it is not clear that Pakistan, on aggregate, supported or hindered U.S. foreign policy objectives between 2001 and 2008.

Improving the Conditionality of U.S. Aid to Pakistan

The United States is currently fashioning a bill to extend aid to Pakistan over future years. The Pakistan Enduring Assistance and Cooperation Enhancement Act would triple U.S. economic aid to Pakistan to \$1.5 billion per year until 2013 and seek to support Pakistan's education and judicial systems. It would establish a "Pakistan Democracy and Prosperity Fund" to provide non-military aid and, on the military front, would see money spent on bolstering the capabilities of Pakistan's army and special forces fighting the Taliban and similar groups.

Separately, Congress has allocated \$400 million as part of a war funding bill for a new "Pakistan Counterinsurgency Capability Fund".

At the time of this writing, the bill has been approved by the House of Representatives Foreign Affairs Committee. The next step is a vote by the full House of Representatives. Similar legislation is pending in the Senate.

The most contentious aspect of the bill has been the conditions that it places on the aid. These have generally been added to aid Congressional control and oversight. They include:

- The necessity for the U.S. president to report on Pakistan's sustained commitment and progress towards combating terrorist groups.
- This includes ending support by any elements in Pakistan's military or intelligence agencies to extremist and terrorist groups.
- It also includes Pakistan closing terrorist camps in the Federally Administrated Tribal Areas,
- Dismantling terrorist bases in other areas,
- Strengthening its counterterrorism and anti-money laundering laws.
- Pakistan must cooperate with international efforts to dismantle nuclear weapons and the covert networks which supply them. To that end, Pakistan must provide direct access to Pakistani nationals involved in supplying covert nuclear material and expertise.
- Another condition requires that any direct U.S. assistance on or after January 1, 2010, be provided only to a government of Pakistan which has been elected freely. This is designed to disincentivize another army coup.
- The bill also prohibits use of funds to purchase or upgrade Pakistani F-16 fighter aircraft and munitions.
- The bill also requires an assessment to be presented to Congress on certain steps which Pakistan has taken in the areas of closing terrorist camps (such as *Jamaat-ud-Dawa and Lashkar-e-Taiba*), and oversight over curriculum in Islamic *madrassahs*.

In its current form, the bill also allows the President to waive any of these conditions in the interests of national security. The inclusion of these conditions, and indeed any conditions, has proven controversial, and there have been a number of arguments for and against their inclusion.

Arguments against conditionality

1. Representative Ileana Ros-Lehtinen (R-Fla.) argued that "the size and the tenor of the bill still leaves the impression that members of Congress are armchair Generals and are endeavoring to micro-manage U.S. policy toward Pakistan at a delicate time when this new administration has yet to develop and submit an implementation plan for its strategy."⁷³
2. Defense Secretary Robert Gates and Joint Chiefs of Staff Chairman Michael Mullen have expressed concern that the conditions might reduce Pakistani military flexibility.⁷⁴
3. Influential journalist and commentator on Pakistani affairs Ahmed Rashid has put forward

three arguments. First, he has argued that if any Pakistani government accepts the conditions it is unlikely to survive politically, although he does not say why.⁷⁵

4. Second, he argues that there are too many conditions and that they are too detailed. The conditions set out in the previous Biden-Lugar bill set more moderate “strategic benchmarks”, namely that Pakistan be committed to fighting terrorism, that Pakistan remain a democracy, and that both states provide public and official accountability for the funds. He argues that because these are broad parameters, they “would provide space for further negotiations and progress between Pakistan and the United States.”
5. He also refers to the \$497m which Secretary of State Hillary Rodham Clinton has requested in emergency funds. His third argument is that Pakistan needs this money fast; he writes that “delays are dangerous” because the money, along with providing U.S. helicopters for the Pakistani army, would “shore up Pakistanis’ resolve and could help persuade the army to accept the counterinsurgency training the United States has offered for the past year.” Under these circumstances, he argues that the conditions would delay the money.
6. RAND analyst Christine Fair, has argued that concerns about Pakistan’s nuclear proliferation are understandable, “and [Congress] should seek maximal assurance that the activities have ceased and will not happen again,” and that “ongoing support for numerous militant groups acting against the interests and security of the United States, the region, and the international community must stop.” However she argues that the conditions as set out in the bill are not the best way to achieve these aims. First, she argues that the bill only offers Pakistan those forms of security assistance which help Pakistan fight terrorists anyway and so specific conditions preventing it using them against India are unnecessary.
7. Second, she argues that there is “little chance that Pakistan will acquiesce to the stated demands, which puts the United States in an awkward position of having to execute waiver authority to continue funding Pakistan if needed.” She argues that this would have a doubly negative effect. First, it would continue the “well-worn cycle of the United States bending its commitment to its own laws to accommodate the importance of dealing with Pakistan.” Second, it would leave Pakistan confident that it could fail to meet these conditions and still be a recipient of U.S. money, because “Pakistan remains ever confident that Washington cannot cut off a partner as important as Pakistan, irrespective of the severity of divergence in national priorities or policies.”

Arguments for conditionality

1. Aid without conditionality has not worked. For too long, the lack of conditions and weak agreements on how the aid was to be used resulted in its being perceived as a blank check. This in turn meant that it was ineffective in countering terrorism. After eight years and \$12 billion in aid, Pakistani deaths from terrorist violence have skyrocketed, Pakistan is less secure both regionally and internally, too many Pakistani troops in the FATA lack basic equipment, Islamist extremism in Pakistan has risen, al Qaeda has reconstituted a safe haven in the FATA (according to the 2007 National Intelligence Estimate), and significant parts of the FATA have come under Taliban control, thanks to both Pakistani government truces with Islamists and Taliban military advances.
2. Conversely, the threat of conditions seems to have encouraged the Pakistani military to act against the militants. During the George W. Bush administration, Pakistan did not launch significant offensives against the Taliban in Pakistan. In spring 2009, when it became clear that the Obama administration was more open to the idea of conditionality than its predecessor had been and that future aid may be withheld, the military launched

offensives against Pakistani Taliban militants in and around the Swat Valley in May 2009, ending the peace deal negotiated between Islamic cleric Sufi Mohammed and the local government in North West Frontier Province.

3. Between 2001 and 2009, a large proportion of U.S. aid consisted of cash transfers to the Pakistani government. These became Pakistani sovereign funds and thus were beyond U.S. oversight. The United States neither has access to records of how these funds are spent nor has the right to ask for such records. This is the status quo to which the Pakistani government has become accustomed. To a large extent, the negative reaction which any conditionality would engender is a response to the change in this status quo. However, given high-profile incidences of corruption such as the majority of the money intended for military use being diverted to the Ministry of Finance, estimates that 70 percent of the funds have been spent illegitimately, and the military establishment's record of corruption,⁷⁶ the status quo itself is inadequate. Objections to attaching conditions to how any future U.S. funding is used must be seen in the light of a dependent country which has begun to view aid with minimal conditionality as an entitlement.
4. Regarding the argument that Congress is trying to micromanage U.S. policy towards Pakistan, while providing conditions which are too specific would indeed be counterproductive, aims such as countering militants and extremist curricula can only be achieved if Pakistan cooperates. It would be irrational to offer Pakistan aid for a specific purpose without insisting that it be used for that purpose; that need not constitute micromanagement. However, it is possible that legitimate disagreements on what constitutes micromanagement may arise between Congress and the Pakistani government.
5. Journalist Ahmed Rashid's argument that too many conditions would be politically unacceptable must be treated with caution. First, it is unclear from where the threat to the government would come. Traditionally it has come from the army, but Army Chief of Staff General Kayani has moved to bolster civilian rule over the military (such as improving military budget oversight slightly).⁷⁷
6. Second, even if Rashid is correct, and a Pakistani government which submitted to conditions (such as reporting on progress against terrorists or on shutting down militant training camps) would not survive, legitimate questions can be asked about how useful such a government would be to U.S. foreign policy aims.
7. Defense Secretary Gates and Joint Chiefs of Staff Chairman Mullen's concerns that conditions may reduce Pakistani military flexibility must be seen in context. Between 2001 and 2009, the Pakistani military showed minimal results against terrorism. While some flexibility is essential, too much risks vitiating U.S. foreign policy aims.
8. President Obama has set a goal of enacting a global cutoff of the production of weapons-grade nuclear material.⁷⁸ Pakistan is an obstacle to this goal, having recently added to its supply of such nuclear material⁷⁹ and expanded its plutonium separation capabilities.⁸⁰ Given that Pakistan has had consistent budgetary issues and a low-tax base, and given the reports of military corruption, it is likely that U.S. aid has itself funded this expansion in part. This would mean that the United States would be funding an obstacle to its own stated policy of reducing the production of weapons-grade nuclear material. This must stop.
9. RAND analyst Christine Fair argues that the bill only offers Pakistan forms of security assistance which help Pakistan fight terrorists, and so further conditions are not necessary. However, in the past, Pakistan has used aid funds to purchase conventional weapons for use against its conventional regional rival, India, an ally of the United States. Given that the new bill also contains aid funds, it is in fact far from clear that the bill does only offer Pakistan forms of security assistance which help it to fight terrorists.
10. Fair also argues that the bill should not impose conditions because there is little chance that Pakistan would acquiesce to them. This argument does not speak to removing conditions, but rather to both agreeing upon outcomes and benchmarks with Pakistani officials so that Pakistan has buy-in (as she recommends), but then to showing resolve, so that it is clear to Pakistan that if it continues to misuse funds, it cannot expect further funding. This amounts to a condition.

11. Finally, conditionality is essential if the humanitarian aid is to reach its intended recipients. The fact that aid for education and “worldly”, as opposed to religious, comprehensive study programs can help to mitigate the spread of militancy among younger generations is widely acknowledged among U.S. policymakers. But too much of the aid allocated to this purpose over the previous eight years has not been effective. There are various reasons for this, such as security concerns hampering the ability to target the aid correctly, the use of foreign contractors resulting in enriching neighboring countries, and a misguided focus on tangibles such as school buildings at the expense of intangibles such as better quality teaching.⁸¹ Given this, it is essential to put a coherent distribution mechanism in place for non-military aid. Even regarding this as a condition is misleading. It is a precondition for its being worthwhile to give the aid in the first place.

Often, Pakistani assurances that conditions would be counterproductive start from the assumption that the status quo—aid without conditions—is a norm. The suggestions in this paper start from the assumption that Pakistan has no automatic right to U.S. aid, and that such aid, especially in the quantities in which the United States has provided it over the last decade, is a privilege. The United States seeks to spend money not only to help Pakistan, but also to further its foreign policy aims. Given this, it is reasonable to use conditions to ensure that, unlike in the past, the aid does in fact further those foreign policy aims.

Principles for conditionality

Three distinctions are useful when considering how to set conditions which make U.S. aid maximally effective. Together they constitute three principles for conditionality.

Principles for conditionality #1—Cooperate to reduce Obstruction, Sanction to reduce Opposition

There is an important distinction between which U.S. aims are best achieved by conditions and which are not. Some U.S. aims are best achieved using sanctions, and some through partnership, agreeing firm goals, and ensuring Pakistani buy-in. Congress must recognize that conditions on aid are unpopular in Pakistan because they are inherently sanctioning. They are viewed as sanctions which are inappropriate for countries which are supposed to be friends and allies of the United States, and more appropriate for potential U.S. enemies or rogue states.

However, as described, some of Pakistan’s actions fall into the category of frustrating explicitly expressed U.S. intentions, such as adding to global supplies of nuclear material or declaring ceasefires with those militants who give al Qaeda safe harbor. The United States must draw a line in the sand between action or inaction which obstructs U.S. foreign policy (such as permitting *madrassahs* to operate with curricula which encourages extremism) and actions which directly oppose it (such as spending on nuclear weapons). There is the necessity for a separate debate over exactly where that line should be drawn, but it is an important distinction. The crucial point is that where Pakistan’s activity is in direct opposition to U.S. foreign policy, sanctions are appropriate. The United States should not shy away from saying so to allies such as Pakistan.

Principles for conditionality #2—First, do no harm

As RAND analyst Fair points out, many of the current conditions would be difficult for Pakistan

to keep, and this poses risks to U.S. credibility in the future. However, this again does not speak to the necessity of not making any conditions, but rather making the conditions those with which Pakistan could comply and, in line with the previous suggestion, on issues which are most important to U.S. foreign policy.

To this end, aid should be conditional on Pakistan acting in ways which do no harm to U.S. foreign policy objectives. The current condition that must Pakistan remain a democracy is a good example of this. It requires continuation of the status quo and provides a clear incentive for this. In this way, the conditions can begin to provide an incentive structure which helps both U.S. foreign policy objectives and Pakistani national progress.

Principles for conditionality #3—Put conditions only on how the aid is spent

As described above, Pakistan and its electorate are acutely sensitive to the perception that the country may be being bullied or bribed into acting any particular way. Some, such as journalist Ahmed Rashid, have argued that this speaks to the necessity not to impose any conditions. This is equivalent to saying that Pakistan's sensitivity licenses it to more years mispending a large proportion of U.S. aid money. A more logical response is to draw a distinction between how Pakistan spends the aid funds and general Pakistani actions which do not directly relate to how Pakistan spends U.S. aid.

It is appropriate to seek to influence Pakistani activity which does not relate to how Pakistan spends U.S. aid by cooperation, shared goal-setting, and ensuring Pakistani buy-in. However, in the case of the funds which the U.S. provides, it is equally appropriate to use conditions to determine how those specific funds which the U.S. provides are spent by or within Pakistan. The second principle should be prior to the third principle. In other words, it is reasonable to make the aid conditional on Pakistan not doing harm, even if the harm in question does not specifically relate to how the aid funds are spent, but relates to wider issues such as the continuation of democracy.

These principles are compatible with a number of the conditions already suggested, but not all.

For example, the requirement that any direct U.S. assistance on or after January 1, 2010, be provided only to a government of Pakistan which has been elected freely is compatible. The prohibition of funds being used to purchase or upgrade Pakistani F-16 fighter aircraft and munitions is also compatible.

Suggestions for conditions

1. Funding will be reduced unless Pakistan provides detailed oversight to Congress on how it spends the aid

In previous years, Pakistan has been able to misuse such a high proportion of U.S. aid in part because of the pitiful lack of oversight. This oversight and transparency must now be built into the aid mechanism.

This calls for a fundamental change in the relationship between the United States and Pakistan. Pakistan must spend the aid on fighting those militants which, as the author has argued elsewhere,⁸² threaten Pakistan's territorial integrity. This is in Pakistan's interest no less than that of the United States. It will help neither the United States nor Pakistan if Pakistan spends U.S. aid elsewhere. To that end, oversight is essential.

This is also a fundamental condition because the other conditions rely on it. Conditions are toothless unless those who set them have access to information on whether they have been met or not.

This precludes further cash transfers to the Pakistani government, as they naturally become Pakistani sovereign funds, precluding the United States from discovering how they are spent.

2. Funding will be reduced unless Pakistan takes steps to improve its accounting procedures.

This is a necessarily corollary to the first condition. A 2008 GAO report on U.S. aid to Pakistan⁸³ reported that the Comptroller, who was responsible for oversight of US aid to Pakistan, expressed dissatisfaction with a reimbursement claim in 2002, noting that it contained total costs without any supporting details. "For example," the report explains, "the claim reported a total cost for army airlift without providing information on number of sorties flown, the dates, costs, time frames, purpose, number or types of aircraft flown, or number of man-hours involved. According to the February 2002 memo, the government of Pakistan was unprepared or unable to reconstruct these costs in a verifiable manner in line with standard U.S. government accounting practices and expectations."

The report goes on to say that "respect for the US taxpayer's right to understand how the government spends their money demands better Pakistani accounting. This is an opportunity for the US to teach Pakistani army these procedures, and make aid dependent on their adherence."

The U.S. government's own Accountability Office's advice should be heeded. Effective oversight depends on transparent accounting. These procedures could help Pakistan's own governance if widely adopted.

3. Funding will be reduced if the army reduces its accountability to the civilian leadership.

Currently, The Pakistan Enduring Assistance and Cooperation Enhancement Act conditions future aid on Pakistan remaining a democracy. This is a step in the right direction, but given the army's history of independence from the civilian leadership and threat to it, the bill should go further. It should be more precise in ensuring that U.S. funding to the Pakistani military does not threaten the fragile progress Pakistan has made towards civilian control over the military since the end of the Musharraf era.

Any suggestions must be in line with the second principle of putting conditions only on how the aid is spent, as opposed to conditioning it on positive steps that Pakistan take in other areas, which would likely invite a dangerous and counterproductive backlash. As far as aid to the army is concerned, this means two things. The first is that conditions related to the army are better used to prevent backsliding than to mandate specified steps. The second is that the conditions apply only to U.S. funding for the army, not for the majority of the aid which is for humanitarian purposes. (It would be against both the interests of the Pakistani government, the Pakistani people, and the U.S. government if U.S. conditionality means, for example, that Pakistani schoolchildren turn up in class to find themselves without a teacher one day because Pakistani military recalcitrance has forced the United States to cutoff of non-military aid in line with conditions).

Pakistan has begun to take some faltering steps towards making the military and the ISI accountable to the civilian leadership. In June 2008, the army improved on its tradition of submitting to the government a budget consisting of a bottom-line figure which the government is legally bound to approve, under Article 82 of the Constitution. Instead it submitted a two-page budget, with breakdowns under six separate headings.¹ This is progress towards oversight. In November 2008, the Foreign Minister told reporters that

¹p.5 http://home.comcast.net/~christine_fair/pubs/FASI_A_361323_O.pdf

the government had dismantled the ISI's political wing and reassigned its members. Army Chief of Staff General Kayani kept the army out of the February 2008 elections and agreed to provide the Prime Minister with briefings on what the army's counterinsurgency operations in the FATA.

These kinds of basic steps have incredible symbolic significance in beginning to introduce the army to the idea of civilian oversight. The United States should condition aid on these steps not being reversed.

4. Funding will be reduced if it is spent on conventional military *materiel*

India and Pakistan are both crucial U.S. allies, and the perception that the United States helps arm either against the other should be minimized. The prohibition on using funds to purchase or upgrade F-16s is insufficient. Over the past eight years, Pakistan has also purchased a long list of *materiel* which is inappropriate for counterterrorism and appropriate for conventional conflict, such as surface to air missiles and radar.⁸⁴ The Islamist militants have no air capability. It would be more effective to make further U.S. aid conditional on its not being spent on any *materiel* which cannot be used for counterterrorism. This precludes its being spent on most conventional *materiel* for use against India.

5. Funding will be reduced if it is spent on increasing Pakistan's nuclear capabilities

The current bill requires cooperation with international efforts to dismantle nuclear weapons. Although worthy, this aim is too unfocused. It is impossible to define what cooperation means in practice, making it impossible to define when Pakistan has ceased to cooperate to the extent that further funding has been endangered. Conditioning certain funding on Pakistan not increasing its nuclear capabilities is a better benchmark because it is more measurable and conforms to the principle that first, Pakistan must do no harm.

Although it does make sense to seek to persuade Pakistan to provide direct access to those Pakistani nationals involved in supplying covert nuclear material and expertise, this is an inappropriate condition for aid. If in one year's time, Pakistan claims it has been unable to capture those supplying covert nuclear material, it is unlikely that the United States would be willing to stop funding which sought to secure Pakistan's northwestern areas from al Qaeda. Instead, this aim should be sought through multilateral institutions, reducing the perception within Pakistan that the United States seeks a clientelist relationship with the country and increasing the understanding within Pakistan that these suppliers pose a global threat.

6. Funding will be reduced if there is evidence that it funds corruption

The paper "U.S. Taxpayers have funded Pakistani corruption" sets out overwhelming evidence of corruption in Pakistani institutions. The United States must be clear that it will not continue to fund corruption. The only way to achieve this is to be clear from the start that funding will be reduced if there is evidence that it is being transferred either to individuals or being diverted to the Pakistani army's vast commercial interests. The United States must be willing to follow through on this if it is to have effect and must be clear that this is not too much to ask.

By linking aid to these five clear, overarching conditions, it can be spent better without impinging too heavily on Pakistan's sensitivities.

There are many other outcomes which the United States wishes to see from Pakistan, which are less appropriate for conditions. In each case, it is a question of attaching the outcome to the means which is most likely to achieve it.

The significant advantages of seeking action from Pakistan not just through means other than conditions on aid have been set out by RAND analyst Christine Fair, in a passage which is worth reproducing at length:

Thus a... more transparent and ultimately effective approach, is one that is process-oriented and benchmark-based. It is essential that these processes and benchmarks be developed in concert with the Pakistani government. Both the United States and Pakistan must agree on how progress will be assessed and how remediation will be addressed. Pakistan must be a partner in achieving these objectives rather than an adversary being forced to acquiesce.... If using data-driven, transparent processes fails to achieve desired actions from Pakistan, the United States should consider provisions for cutting off security assistance.

The requirement for a transparent, evidence-based process is even more important because of the waiver-override mechanism in the legislation. While including this mechanism significantly undermines the logic of the waiver process in the first instance, I understand that congressional and administrative interpretation of the facts may vary, as demonstrated by the last eight years.⁸⁵

Other Outcomes

The United States can be more creative in how it seeks to achieve the other outcomes from Pakistan.

Means other than conditionality include

- Ring-fencing funds to certain outcomes
- Working with Pakistani officials to agree upon goals and ensure Pakistani buy-in
- Involving other actors such as the private sector or aid groups, either Pakistani or international
- Providing Pakistan with equipment rather than funds

A full detailed analysis of how other outcomes may best be achieved is beyond the scope of this paper. However, some tentative suggestions can be sketched.

- **Offer Pakistan intelligence technology and training on how to use it.** Part of the problem is that Pakistan is fighting militants, and often terrorist groups, using conventional military means. General Tarik Khan, who has led the fight against the Taliban, has said that “any kind of military operation that seeks to take out individuals is an intelligence-driven operation that requires a lot of technology, a lot of surveillance capacity, which we don’t have. I have boots on the ground and troops that I can organize to go against organized resistance and cohesive militancy, but I can’t really go after individuals.”⁸⁶

The United States could usefully include as part of its aid package both the technology transfer and training on how to use it to target individuals. Successfully neutralizing high-profile leaders of the Pakistani Taliban would be a further blow to both its operations and morale.

- **Create a Dedicated Oversight Task Force**

The particular case of corruption in the Pakistani military and security forces and the problems arising over the past decade from inadequate oversight speak to the need for a dedicated mechanism for aid to Pakistan.

It makes sense to enlist those who are familiar with the area, such as

- Pakistani-Americans in the United States
- U.S. expatriates in Pakistan
- Vetted Pakistani legislators
- Legislators from both branches of the U.S. Congress (House and Senate)

It would also make sense to make use of those with relevant expertise to monitor and report on progress on Pakistani institutions' progress towards and adherence towards conditions. For example, a water development plant may be best monitored by engineers rather than solely by political representatives, etc. To get the incentive structure right, it is important that the monitoring function be non-paid.

To ensure adequate oversight, the author recommends establishing a full time monitoring group on the ground in Islamabad, which would

- Provide regular reports
- Report back every two months to Washington, D.C.
- Have the power to withhold funds if they judge that the conditions set out in the final draft of the bill are not met.

The group should consist of a full-time Executive Director with offices in Islamabad and sufficient staff to prepare regular reports for the U.S. President. For major projects, there should be a rotation to ensure that at least two people are on the ground providing monitoring at any given time.

- **Oversee the purchase of basic kit.** Corruption has meant that too often troops have not been equipped with even basic kit. A 2009 report for the Atlantic Council of the United States found that army in some parts lacked "basic equipment, personnel gear and armored vests." Whether due to corruption or not, if the equipment is not getting through, the United States should buy it and transfer it to the Pakistani army so that funds cannot be diverted from purchasing these necessities. This will have to be done in cooperation with the army so that the kit is appropriate.
- **Press Pakistan to allow greater reporting from the FATA and the North West Frontier Province.** All too often, Pakistan has restricted access to these admittedly dangerous areas, thus restricting information, oversight, and aid effectiveness. The current bill requires that an assessment to be presented to Congress on the steps that Pakistan has taken in the areas of closing terrorist camps (such as *Jamaat-ud-Dawa and Lashkar-e-Taiba*) and oversight over curriculum in Islamic *madrassahs*. This is a worthy aim, but problematic for two reasons: it is impossible to verify, and Congress would be unlikely to make good on the threat implied by this condition by actually cutting off or reducing aid funding due to inadequate reporting. These factors mean that reporting such as this is unsuitable for conditionality. Instead, if the United States pressed Pakistan to allow greater reporting, independent information would reach the media. Pakistan has a fairly robust media, which includes media outlets operating outside the country. The ability to use the media as watchdogs is a significant advantage.
- **Money for education or health provisions should be ring-fenced.** These areas are more appropriate for ring-fencing (setting aside funding that cannot be used for anything else) than conditionality.
- **Foster competition in education.** RAND analyst Christine Fair points to a range of other options for improving aid, such as fostering competition in education to exploit the demand in Pakistan for secular, as opposed to religious, education. This would reduce the motivation to radicalize, which is the key to reducing terrorism in the long term.⁸⁷
- **Measures to ensure mutual accountability in aid provision.** Research in the provision of comparable aid to Afghanistan has revealed the importance of mutual accountability in aid mechanisms, so that all parties feel that they own the process and are accountable for its results.⁸⁸ Many of the conclusions are applicable for provision of medical and humanitarian aid in Pakistan. They include the necessity for an "independent enforceability mechanism which applies political, legal or financial sanctions" in order to enforce mutual accountability. Other ideas include:
 - a. seeking ways of delivering aid which would increase Pakistanis' ownership over its own

development, such as microfinancing. Another simple way to achieve this would be to allow existing locally elected councils in the poorest parts of Pakistan to choose the purposes to which the aid would be put. That would be a radical and powerful way to prevent aid being spent in ways which do not actually meet local needs, as described anecdotally above.

b. the necessity of allowing all development actors to complain and demand answers, which require decision-makers to explain their decisions.

c. citizen participation in setting priorities, to ensure that aid fulfills needs as experienced by Pakistanis, even where that differs from needs as perceived by donors.

Conclusion

The U.S. taxpayer has the right to be very concerned that U.S. funds have supported corruption within the Pakistani military. By its nature, corruption is not something for which there is likely to be any more concrete evidence than that U.S. money has not been spent on the purposes for which it was intended. There is abundant evidence of that. The fact that so much money has been diverted from the military to the Treasury implies that the corruption reaches the highest levels.

There is clear evidence that Pakistan has used U.S. funds which were intended to fight terrorists to buy military equipment which is of dubious utility against a terrorist threat. Given the fact that the political establishment is conditioned to regard India as Pakistan's main security threat, it is likely that U.S. funds have been spent building up the military strength of one U.S. ally—Pakistan—at the expense of another—India.

There is also evidence that for a number of years, U.S. officials did not effectively distinguish between military assistance designed for the common goals of fighting terrorists and al Qaeda and conventional military equipment. As a result, despite the billions of dollars in funds transferred to Pakistan over the preceding eight years, an estimated \$1 billion is needed to buy the Pakistan basic counterinsurgency equipment such "personnel gear and armored vests, [and] more sophisticated systems, including electronic detection tools and unmanned reconnaissance vehicles and helicopters able to operate in the rugged and mountainous terrain. At least \$200 million is needed to recruit, train and equip 15,000 more police and paramilitary forces."⁸⁹

The ISI also has a reputation for corruption as well as connections with Islamist militants. It has traditionally operated very independently of the regular military establishment, has refused to answer in any meaningful way to the government, and has ties with the Afghan Taliban—the battlefield enemy of U.S. troops. Given this, it is likely that some U.S. funds have inadvertently served to support the United States' Islamist enemies.

Looking Forward

The current Army Chief of Staff, General Kayani, has taken steps to attempt to make the ISI answerable to the formal chain of command. However, the Atlantic Council's report argues that "the weak link in the ISI's chain of command is the operational level officers who control field operatives, especially in FATA. Reliance on pro-Taliban operatives or retired ISI officers with ties to the Taliban creates problems for command and control of operations in the field."⁹⁰

A broader problem is that it is not yet clear that Pakistan has the political will to execute the sustained military engagements that would be necessary to retain control of much of the FATA for very long. There is also little evidence that even if the political will existed for this, the military would be effective in doing so. Pakistan has made no attempt to invest in the FATA, allow conventional political parties to operate there, or bring the rule of Pakistani law to the area. Instead, it has reinforced the perception of its lack of will to effect change by allowing extremists to impose Sharia law in regions such as the Swat Valley. Alongside this, the army chief has repeatedly said that the army will not retool from its focus on India to a counterinsurgency force.⁹¹

Given these factors, it is unlikely that the policy of providing funding for the Pakistani military to clear the FATA of terrorists is likely to achieve that objective alone.

If Pakistan can regain control over the ISI, rein in military corruption, create a culture of accountability in both institutions, and use them effectively to focus on terrorism in the FATA, then U.S. funds to support the initiative may be useful.

Until then, however, the military and security services are likely to continue to be a black hole for U.S. funds, in which individuals are enriched at the expense of the proper functioning of Pakistani institutions and the country's ability to fight its extremist enemies. For too much of the last decade, U.S. funds provided already kleptocratic institutions with further incentives for corruption. In short, U.S. taxpayers have funded Pakistani corruption.

Conditionality is one part of the solution. Not all the outcomes which the United States seeks are appropriate for conditionality. However, to impose no conditionality would be to fail to learn the lessons of eight years in which aid not only failed to bring about desired outcomes, but also incentivized serious corruption.

The answer is getting the balance right.

In choosing to impose conditions, the United States must recognize that conditions are sanctioning and only use them to disincentivize activities which are in direct conflict with U.S. foreign policy outcomes. Second, it must make aid conditional on Pakistan acting in ways which do no harm, as opposed to trying to make it conditional on specific positive outcomes. Third, its conditions should be limited to how the aid itself is spent as opposed to trying to determine how Pakistan acts in other areas.

Other outcomes remain important, however, and for each, Congress should look into the various options, other than sanctions, which it has available to it.

If the United States is to achieve its foreign policy objectives in the region in future years, it must oversee and evaluate how it aids Pakistan in a more hard-headed way.

Appendix I—Weapons sold or given to Pakistan designed for a conventional war rather than counterterrorism⁹²

In December 2007, The Senate Committee on Foreign Relations investigated U.S. aid to Pakistan.

The hearing was entitled “the US Foreign Assistance to Pakistan Hearing before the Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environment Protection of the Committee on Foreign Relations.”

Senator Joe Biden asked Boucher for a list of the weapons sold or given to Pakistan which were designed for a conventional war rather than counterterrorism and received the answer below.

Question from Senator Biden: Please provide a list of all weapons systems primarily designed for purposes of external security currently scheduled for sale or transfer to Pakistan, with dates of scheduled transfer and dollar value of the transaction. A weapons system primarily designed for external security (for the purpose of this question) may be informally defined as one primarily designed for conventional combat against a rival state, rather than one principally intended for counterterrorism or counterinsurgency.

Richard Boucher: Pakistan remains one of the most active countries in supporting U.S. efforts in the war on terror. While most of the “conventional” weapons listed below may have been designed primarily for external security, Pakistan has dedicated many of these weapons to support its counterterrorism efforts. The Government of Pakistan’s use of TOW 2A missiles in the Federally Administered Tribal Areas and its F-16 sorties along the border region, to cite two examples, exemplify how “conventional” weapons can be effectively used in counterterrorism operations. In fact, much of the equipment procured by the Government of Pakistan has been used in its counterterrorism efforts along the border and in the tribal areas at some point during the past 6 years.

The items below, with dates of scheduled transfer and dollar value, are currently on case as “conventional” weapons systems for transfer to Pakistan. Some are being purchased with Pakistan’s own funds, while others may involve funds from Foreign Military Financing account.

AN/TPS-77 Radars:

Æ Cost: \$100 million

Æ Schedule: All six already in country; first turnover will be February 2008

Phalanx CIWS x 6:

Æ Cost: \$79.7 million

Æ Schedule:

Phalanx 1: Scheduled for September 2008

Phalanx 2: Scheduled for October 2008

Phalanx 3: Scheduled for November 2008

Phalanx 4: Scheduled for December 2008

Phalanx 5: Scheduled for January 2009

Phalanx 6: Scheduled for February 2009

Tow 2A Missiles x 2014:

Æ Cost: \$65.4 million

Æ Schedule: Earliest delivery January 2008

P-3C Aircraft x 8:

Æ Cost: \$295.33 million

Æ Schedule:

P-3C 1: Delivered January 2007

P-3C 2: Delivered February 2007

P-3C 3-7: In refurbishment and update; delivery date unknown

P-3C 8: Logistics spare aircraft

Harpoon Missile x 100:

Æ Cost: \$297.823 million

Æ Schedule:

40 Air-launched: Delivered September 2006

10 Ship-launched: Delivered September 2006

10 Ship-launched: Delivered June 2007

10 Ship-launched: Delivered September 2007

30 Encapsulated: Still in production

AIM-9M Missiles x 300:

Æ Cost: \$47.548 million

Æ Schedule:

44 Delivered June 2007

36 Delivered January 2008

Remaining 220 waiting for shipment

F-16 C/D Aircraft x 18:

Æ Cost: \$1.433 billion

Æ Schedule: Earliest delivery 2010

Mid-Life Update (MLU) for F-16 A/B x 60:

Cost: \$890.954 million

Schedule: Earliest delivery 2010

F-16 A/B Modification of Excess Defense Article (EDA) Aircraft x 12:

Æ Cost: \$11.084 million

Æ Schedule:

EDA 1,2: Delivered July 2007

EDA 3-6: To be delivered in June 2008

EDA 7-10: To be delivered in July 2008

EDA 11-12: To be delivered in 2011

M-109 Howitzers x 115:

Æ Cost: \$86.442 million

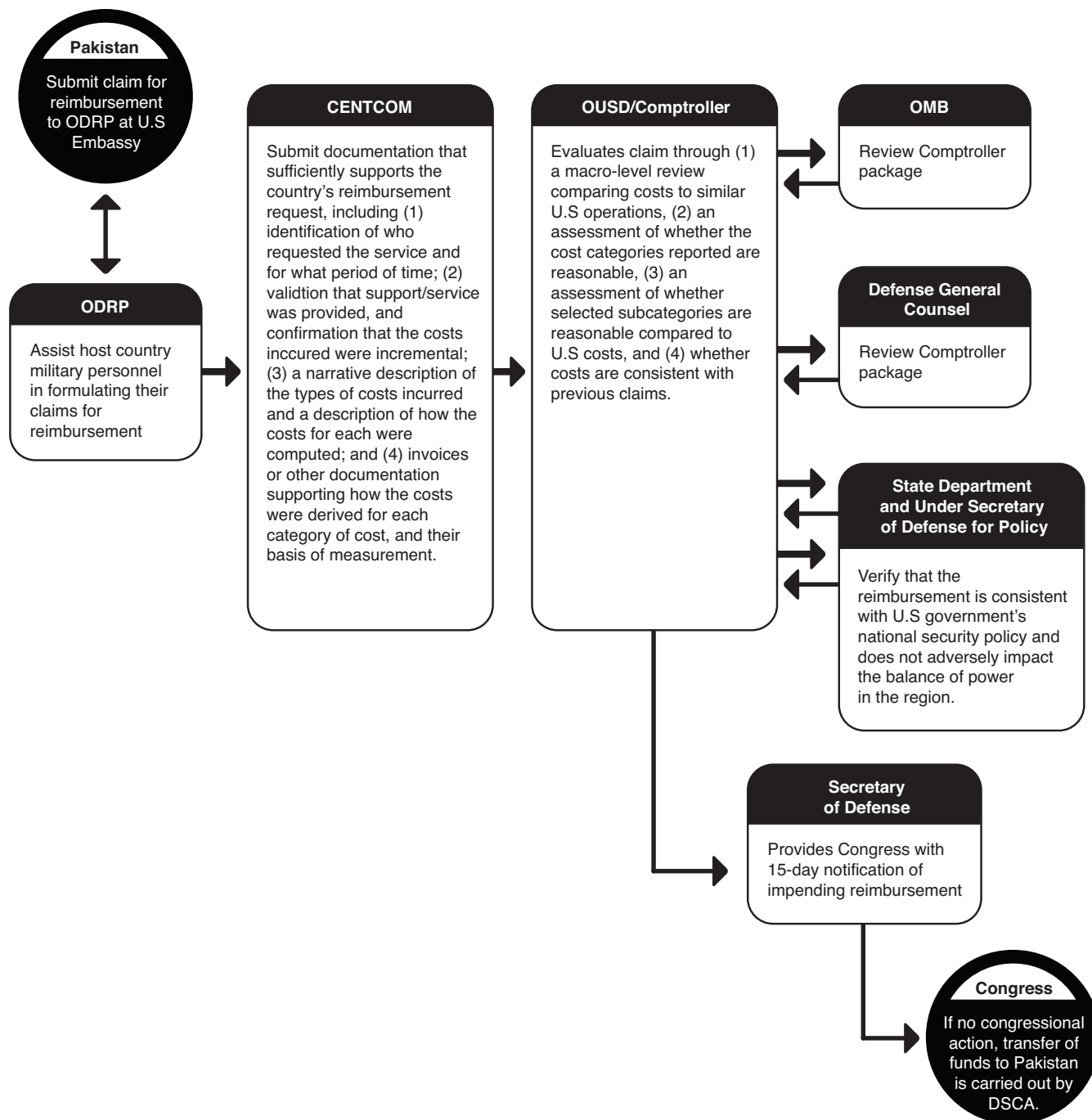
Æ Schedule: 115 to be delivered from March 2008-March 2009

AMRAAM x 500, AIM-9M x 200, JDAM x 500, BLU-109 x 700, MK-82/84 x 800:

Æ Cost: \$666.507 million

Æ Schedule: Earliest delivery 2010

Appendix II – Breakdown of the nearly \$12 billion US gave Pakistan, 2002–2009



Legend

CENTCOM = United States Central Command
Defense = Department of Defense
DSCA = Defense Security Cooperation Agency
ODRP = Office of the Defense Representative to Pakistan
OMB = Office of Management and Budget
OUSD/Comptroller = Office of the Under Secretary of Defense for Comptroller

Source: GAO analysis of Defense documentation and discussion with OUSD/Comptroller

Appendix III – Diagram of Accountability for Oversight of Coalition Support Funds, 2002–June 2008⁹³

Direct Overt U.S. Aid and Military Reimbursement to Pakistan, FY2002-FY2009

(rounded to the nearest millions of dollars)

Prepared for the Congressional Research Service by K Alan Kronstadt, Specialist in South Asian Affairs, 4/15/09

Program or Account	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008 (est.)	Program or Account Total	FY 2009 (req.)
1206	—	—	—	—	23	14	53	90	^g
CN	—	—	—	8	29	39	55	131	^g
CSF ^a	1,169 ^d	1,247	705	964	862	731	920 ^f	6,599	1,320 ^h
FC	—	—	—	—	—	—	75	75	25 ^g
FMF	75	225	75	299	297	297	298	1,566	300 ⁱ
IMET	1	1	1	2	2	2	2	11	2
INCLE	91	31	32	32	38	21	22	267	113 ^j
NADR	10	1	5	8	9	10	10	53	13 ^j
PCCF	—	—	—	—	—	—	—	—	400
Total Security-Related	1,346	1,505	818	1,313	1,260	1,115	1,435	8,792	2,173
CSH	14	16	26	21	28	22	30	157	28
DA	10	35	49	49	38	95	30	286	—
ESF ^b	615	188	200	298	337	389	347	2,347	1,018 ⁱ
Food Aid ^c	5	28	13	32	55	—	50	183	37
HRDF	1	—	2	2	1	11	—	17	—
MRA	9	7	6	6	10	4	—	42	—
Total Security-Related	654	274	296	388	539^e	521	457	3,129	1,083
Grand Total	2,000	1,779	1,114	1,701	1,799	1,636	1,884	11,913	3,256

Sources: U.S. Department of State, Defense, and Agriculture; U.S. Agency for International Development

Abbreviations:

1206: Section 1206 of the National Defense Authorization Act (NDAA) for FY2006 (P.L. 109-163, global train and equip)

CN: Counternarcotics Funds (Pentagon budget)

CSF: Coalition Support Funds (Pentagon budget)

DA: Development Assistance

ESF: Economic Support Funds

FC: Section 1206 of the NDAA for FY2008 (P.L. 110-181, Pakistan Frontier Corp train and equip)

FMF: Foreign Military Financing

HRDF: Human Rights and Democracy Funds

IMET: International Military Education and Training

INCLE: International Narcotics Control and Law Enforcement (includes border security)

MRA: Migration and Refugee Assistance

NADR: Nonproliferation, Anti-Terrorism, Demining, and Related (the great majority allocated for Pakistan are for anti-terrorism assistance)

PCCF: Pakistan Counterinsurgency Capability Fund (proposed Pentagon budget)

Notes:

- CSF is Pentagon funding to reimburse Pakistan for its support of U.S. military operation. It is not officially designated as foreign assistance, but is counted as such by many analysts.
- Congress authorized Pakistan to use the FY2003 and FY2004 ESF allocations to cancel a total of about \$1.5 billion in concessional debt to the U.S. government. From FY2005-FY2007, \$200 million per year in ESF was delivered in the form of “budget support” – cash transfers to Pakistan. Such funds are being “projectized” from FY2008 on.
- P.L.480 Title 1 (loans), P.L.480 Title 11 (grants), and Section 416(B) of the Agricultural Act of 1949, as amended (surplus agricultural commodity donations). Food aid totals do not include freight costs.
- Includes \$220 million for Peacekeeping Operations reported by the State Department.
- Includes \$70 million in FY2006 International Disaster and Famine Assistance funds for Pakistani earthquake relief.
- Includes CSF payments made or pending for support provided through August 2008
- This funding is “requirements-based” for “urgent and emergent threats and opportunities.” Thus, there are no pre-allocation data. The NDAA for FY2009 (P.L. 110-417) limits FY2009 FC funding to \$25 million.
- Congress has appropriated \$200 million for continuing CSF payments in FY2009 (P.L. 110-252). The Obama Administration’s FY2009 supplemental appropriations request includes \$1.4 billion in additional CSF for all U.S. coalition partners, including Pakistan, which in the past has received about 80% of such funds. This ratio is used to create the current FY2009 estimate.
- The Pakistan Enduring Assistance and Cooperation Enhancement Act of 2009 (H.R. 1886) would authorize \$500 million in FY2009 FMF for Pakistan with the requirement that not less than 75% of these funds be used specifically for counterinsurgency and counterterrorism efforts.
- Includes a “bridge” supplemental ESF appropriation of \$150 million (P.L. 110-252), \$15 million of which the Administration later transferred to INCLE. Also includes FY2009 supplemental requests of \$430 million for ESF, \$66 million for INCLE, and \$2 million for NADR. Moreover, H.R. 1886 would provide for \$1.5 billion in annual economic-related assistance for the period FY2009-FY2013.

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⁹³P.11 <http://www.gao.gov/new.items/d08806.pdf>. The new guidelines from June 2008 are on page 51 at <http://www.gao.gov/new.items/d09263sp.pdf>

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