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# United States Aid to Pakistan: United States Taxpayers Have Funded Pakistani Corruption

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**March 25, 2005: The United States agreed to sell about 2 dozen F-16 fighter planes to Pakistan, a diplomatically sensitive move that rewarded Pakistan for its help in fighting the war on terror.**



Associated Press Photo.

## 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 United States aid to Pakistan since 2001 to provide evidence 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:

- Cooperate to Reduce Obstruction, Sanction to Reduce Opposition - Conditions should only be imposed to prevent clear harm to explicitly expressed United States 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.
- First, Do No Harm - It will be counterproductive to use conditions to micromanage specific positive outcomes by institutions beyond United States control—that would invite failure. Rather, conditions should focus on preventing harm (i.e., preventing Pakistan from moving in the wrong direction, such as reducing civilian oversight over the military budget).
- 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

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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 mispending a large proportion of United States 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 United States 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 United States 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 United States oversight, and the "incentivization" of United States taxpayer-funded corruption in the Pakistani military and security services. The author believes that this is the first attempt to present an overview of United States 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, United States funding has been intended for the following five purposes:

- To cover the extra cost to Pakistan's military of fighting terrorism
- To provide Pakistan with military equipment to fight terrorism
- To provide development and humanitarian assistance, for covert funds (such as bounties or prize money), as cash transfers directly to the Pakistani government's budget

Pakistan is 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 United States taxpayer \$2,374,000,000. By its nature, these cash transfers became Pakistani sovereign funds, precluding United States 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.

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- 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. United States Embassy staff in Pakistan were not required to check how the Pakistani military actually spent United States 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.
  - United States 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
    - 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. The United States provided \$55 million 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 cease fire periods when troops were in their barracks. United States 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 United States spare parts and support, despite reports from United States 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
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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, United States officials ignored clear evidence that the military was not using United States funds to further United States 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 United States aid.

Sadly, it seems that Pakistan's military and security services have for many years been a black hole for United States 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 and 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 in the full paper. 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.