

U.S Aid to Pakistan (Part II): Planning and Accountability
Subcommittee on National Security and Foreign Affairs

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Remarks by Deputy Special Representative for
Afghanistan and Pakistan Dan Feldman

Chairman Tierney and Ranking Member Flake:

Thank you for your invitation to appear before this subcommittee to discuss our efforts to enhance planning and accountability of U.S. development assistance to Pakistan, one of the poorest and most fragile countries in Asia. Pakistan faces threats of many forms: the security situation weighs heavily on all Pakistanis; too many of the country's citizens do not have access to functioning health or education systems; Pakistan's energy crisis leaves businesses and homes in the dark many hours of the day, and the looming water crisis poses an existential threat to Pakistan and its neighbors. All these factors increase the stakes on the effectiveness of our assistance programs. Your committee rightly identifies the crucial role of proper planning and oversight in the success of our efforts. I will outline today the policy direction that affects how we deliver aid to Pakistan and how we have changed the focus of our assistance over the past 14 months, with an emphasis on accountability and measurable results.

Our Policy

USG assistance in Pakistan aims to expand our relationship beyond predominantly security issues, providing instead a more balanced approach that will help the Pakistani people overcome the political, social and economic challenges that threaten their country's stability. Our civilian assistance will: (1) help address the immediate energy, water, and related economic crises; (2) support broader economic and political reforms that are necessary for sustainable growth; (3) improve the prospects for better health care for vulnerable Pakistanis and better education for the country's nearly 100 million school-age population; (4) help Pakistan respond to the humanitarian challenges caused by extremist violence and natural disasters; and 5) combat extremism.

Understanding past problems with U.S. assistance

Pakistanis of a certain age have a generally favorable impression of our assistance in the early 1990s and before. They remember USAID personnel in every province and still revere signature U.S. efforts such as the Lahore University of Management Sciences and the Agricultural School at Peshawar University. The recent period is a different story.

Since 2002, when the US re-engaged with Pakistan, a large percentage of our civilian assistance has been tied up in large contracts and grants with U.S. organizations that have produced uneven results, have lacked flexibility, have not provided optimum value, and have not built sufficient Pakistani capacity. Much of our past programming did not address the issues most important to Pakistanis, such as energy and water. Pakistanis believe a high percentage of U.S. resources does not reach them, given our work and our people have been mostly invisible to the average citizen of the country, and the average Pakistani has perceived our assistance as being strongly tied to their country's military and intelligence cooperation with the U.S. – rather than being aimed toward the long-term well being of the country's citizens. Finally, our sparse presence in Pakistan did not enable the necessary oversight to identify and address problems or to build relationships. Combined, all of this points to a large and very expensive missed opportunity.

The Opportunity Before Us

The confluence of several opportunities offer hope for a more effective, balanced, and mature environment for delivering civilian assistance to Pakistan and the cultivation of U.S.-Pakistani relations.

First is President Obama's commitment to a new kind of relationship between Pakistan and the United States, specifically our desire to "unleash the potential of the Pakistani people." Second is the passage of the "Enhanced Partnership with Pakistan Act," under the leadership of Senators Kerry and Lugar and Representative Berman, which outlines the direction and parameters for our assistance and explicitly supports the enhancement of civilian-led democratic governance in Pakistan. Finally, the frank discussions of Secretary Clinton and Ambassador Holbrooke during their visits to Pakistan recognized shortcomings of past U.S. assistance efforts, while underscoring Pakistan's responsibilities. The Pakistani public has welcomed this level of honesty.

How we are responding to opportunities

Smaller, More Flexible Contracts

To provide more flexibility and improved monitoring and oversight, we are shifting away from large, U.S.-based contracts to smaller, predominantly Pakistani ones with fewer sub-grants and sub-contracts. These will be managed by our increased number of staff in the field. The need for flexibility is simple: in a dynamic environment like Pakistan, especially in the western part of the country, we must be able to adapt our programs as conditions change.

Decentralization

Within the next few months USAID teams will be placed in Lahore and Karachi. This is in addition to the current USAID offices located in Islamabad and Peshawar.

A decentralized programming platform will: enable more location-appropriate development activities at the provincial and district level; makes it easier for U.S. officials in the field to oversee and monitor programs and prevent fraud; and allow more regular engagement between our personnel and the populations we aim to benefit. By mid-year, empowered deputy USAID Mission directors will be operating in Karachi, Lahore and Peshawar along with a technical and management-support team consisting of a combination of Americans and Pakistani Foreign Service Nationals.

Meaningful assistance

Relevant and effective assistance must materially address the issues that count most to the average Pakistani. The overwhelming message conveyed to the Secretary and Ambassador Holbrooke during their visits to Pakistan was the need for assistance with the country's chronic power and water shortages. In response, we have begun projects to reduce the hours of power blackouts, make more potable water available to poor communities, and improve the availability and management of irrigation water for farms. As these projects move quickly from feasibility to implementation, we will begin the same process for projects that address other priority Pakistani needs, including medical and educational facilities. An integral element of our negotiations is the need for concrete demonstrations of commitment from the GOP that our investments will be sustained. For example, our Energy Dialogue last Fall not only produced a mutually agreed list of high-impact infrastructure investments by the US, but also produced agreement on key policies to be undertaken by the GOP. Following this meeting, the GOP has

adhered to its plan (agreed to with the World Bank and Asian Development Bank) to increase tariffs on electricity and bring consumer prices in line with costs.

Increased assistance provided through and to Pakistani institutions

In order to maximize the amount of our resources that will remain in Pakistan, we are transitioning our assistance modalities. We will do so by decreasing our reliance on large international contractors, and aim instead to build institutional capacity and sustainability by increasing direct assistance through Pakistani implementing partners. This has already started. By the end of March, we will have completed arrangements with:

- the FATA Secretariat to provide roads and electricity to embattled South Waziristan (\$55 million);
- the Ministry of Power and Works and Water and Power Development Authority for rehabilitation of Tarbela Dam (\$16.5 million);
- the Pakistan Electric Power Company to rehabilitate three thermal plants (\$52 million); and
- the Khushhali Bank to provide relief to breadwinners and shop owners who suffered losses in sectarian violence in Karachi (\$13 million).

While these arrangements involve transfers to Pakistani institutions, this is not blank-check budget support. Instead, they are the result of negotiations with USAID regarding how the funds will be spent, how progress will be monitored, and how the financial arrangements will be implemented.

In the case of budget-support transfers, they will be for targeted institutions and uses rather than general budget support, as was previously provided in the past. Our most recent transfers included \$44 million for IDP assistance in NWFP, and \$85 million for the Benazir Income Support Program to provide cash stipends to the most impoverished families.

By contrast, as much as 35% of a contract or grant to a U.S. organization supports that organization's home office operations. Add to that the salaries of international experts who may be paid as much as \$1,000 per day, and you will see why Pakistanis do not believe that they are receiving the full benefits of US assistance.

Since one of the subjects of today's hearing is *planning*, let me briefly explain how we are changing our methodology to work more closely with the Government of Pakistan. In the past, our planning was not always reconciled with that of the Pakistanis— to their great frustration. As we move forward to program a significant quantity of our resources through GOP institutions, we are quickly learning to work in concert with their planning and budgeting systems. We have learned that hundreds of projects have been developed, costed, and prioritized through the GOP process known as “PC-1’s.” The GOP now shares their PC-1s, allowing us to further evaluate them against our own sectoral, geographic, and other priorities towards funding decisions. We are also learning from other donors, such as the World Bank and DfID, who have been negotiating “direct assistance” arrangements with Pakistani government institutions for years. Their arrangements have included performance and qualitative targets that must be met before resources are released.

Each direct assistance activity will be a separate negotiation, and each Pakistani ministry and non-governmental institution must be certified as meeting accountability and transparency requirements before receiving funds. Nineteen Pakistani governmental and non-governmental organizations have successfully undergone “pre-award surveys” to date, which involve in-depth examinations by a team of certified US and Pakistani CPAs of the organizations’ management structures, procurement systems and financial controls. Pakistani institutions as varied as the Higher Education Council, the government of NWFP, the Benazir Bhutto Support Fund, and the FATA Secretariat are among those that have successfully undergone pre-award surveys. Another 50 or so organizations have been prioritized to undergo pre-award surveys in the coming months.

To be clear, this does not obviate the involvement of U.S. institutions in Pakistan’s development efforts. There are important subject areas where Pakistani expertise does not yet exist. In those instances, we will either tap directly into U.S. expertise through grants or contracts, or help Pakistani institutions develop systems for identifying foreign assistance needs and then contracting to meet those needs.

Improved Accountability and Oversight

Our stated policy goal of working more through Pakistani institutions, does have the potential to contribute to corruption. To mitigate this risk, we are increasing the number of direct-hire contracting staff and inspector-general personnel that will reside in Pakistan. We are also expanding the use of Pakistani public accounting firms to: a) conduct financial audits of funds provided to Pakistani NGOs; b) train

Pakistani public accounting firms and Pakistan's Auditor General on how to conduct audits to U.S. standards; c) help the Pakistan Auditor General conduct financial audits of funds provided to Pakistan government entities, expand investigatory coverage, provide fraud-awareness briefings and build the capacity of the Pakistan government to carry out or assist with investigations; and d) coordinate audits and investigations among the U.S. inspectors general and the Government Accountability Office (GAO). In the past two months, over \$26 million in contracts to buttress audit and monitoring capabilities in Pakistan have been awarded using ESF.

Audit coverage and annual audit plans will be developed in conjunction with U.S. Inspector General Offices in USAID, the Department of State, the Department of Defense, and the GAO. The USAID Inspector General will conduct performance audits and oversee the conduct of periodic financial and compliance audits, provide training and oversight to Pakistani certified public accounting firms, oversee and approve all locally performed audits, and work with the GOP Supreme Audit Institute to ensure that the audits it conducts of GOP entities managing U.S. funds fully meet USG regulatory and accountability standards.

The final element of our oversight and accountability strategy involves the expansion of the GOP's capacity to address economic crime. The U.S. Department of the Treasury's Office of Technical Assistance is in the process of establishing a program to improve GOP capacity to address the threat of illicit finance and improve public financial management.

Ambassador Robin Raphel – our Coordinating Director for Development and Economic Assistance in Islamabad – has day-to-day responsibility for ensuring accountability, oversight, and impact. She works closely with the USAID Mission in Islamabad, the broader country team, as well as with all of us here in Washington.

Conclusion

The Secretary, Ambassador Holbrooke, and all of our Team who work on Pakistan believe we have a duty to ensure that USG resources are used for the purposes intended by Congress. The reforms that I have outlined will, over time, decrease costs for assistance programs, increase the amount of U.S. assistance directly benefiting the Pakistani people and Pakistani institutions, and ensure much better development effects.

Pakistan is a complex, dynamic, and difficult operational environment, which will sometimes constrain our ability to provide the high level of oversight of projects that we would otherwise require. But we are making every effort to ensure that the required operational flexibility is matched with the highest dedication to accountability. And we are committed to taking the necessary corrective actions when a problem occurs by pursuing prosecutions, terminating agreements, or by amending or redirecting our assistance programming.

Thank you for this opportunity to appear here today and I look forward to answering your questions.