



United States Department of State

Washington, D.C. 20520

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Dear John:

Thank you for your letter of May 25 regarding our Pakistan assistance strategy for FY 2010 and outlying years. We appreciate you and your Committee staff's thorough and thoughtful consideration of the key issues.

In your letter, you captured our main concerns regarding the implementation of our assistance strategy. We outline below our thoughts on the six key issues you outlined, and look forward to continuing to examine our approaches through consistent dialogue with your Committee staff as we move forward.

Leverage and Sustainability: We agree completely that we will only succeed in the long-term if we leverage our assistance to support reforms and urge the Government of Pakistan (GOP) to spend more of its own resources on sectors like health and education. The GOP will be able to provide more to these sectors if it can successfully implement its Value Added Tax (VAT) legislation, which will enlarge their revenue base. Together with the International Financial Institutions (IFIs) and others donors, we are pressing the government to pass and implement the VAT as soon as possible.

Likewise, our investments in energy will succeed only if the GOP makes structural reforms. We have made this a focal point of our energy dialogue, and are working through the Asian Development Bank's Energy Taskforce, formed following the September 2009 Friends of Democratic Pakistan Summit, to lay out a strategy to achieving these reforms. In fact, we have seconded staff to the taskforce and look forward to the release of its recommendations in July. We are planning to pool our resources with the IFIs to the extent possible and appropriate to leverage more reform and more investment in the sector. Similarly, on education, we have teamed up with the UK-Pakistan Education Task Force, which has strong GOP support, to press for structural reforms, tailored by province, that are essential to bring momentum to the basic education sector. In these ways, we seek to leverage our assistance to urge the GOP to take the challenging steps necessary to make a real impact in all sectors.

Transparency: Unambiguous messaging to our partners and Pakistani friends is of the utmost importance. We have been consulting other donors, partners and Pakistani government and civil society to consider how best to leverage reforms, build staff, and redesign our programs to best meet Pakistani needs. The planning phase for spending the Kerry-Lugar-Berman funds has taken ~~some time as we are changing the way we have been doing business in Pakistan~~ and ensuring that our programming also reflects priorities and plans of the Pakistan government. Allocation of a significant sum of money in FY 2009 and FY 2010 and identification of projects and partners is just beginning to take off. A better picture is now emerging of what our priorities and basic allocations by sector should be. We are beginning to communicate our plans to the GOP and the Pakistani people, and we are providing extensive briefings to congressional delegations. Your suggestion of providing more information about our efforts on the Internet is a good one, and we plan on putting more information on the USAID and Embassy websites as our plans become more concrete.

Accountability: As you note, USAID is taking several measures to improve accountability, such as pre-award assessments, embedding accountants within GOP institutions, and requiring separate GOP bank accounts for U.S. assistance. We share your concerns of the risks for future funding should our assistance be diverted from its intended purpose.

In FY 2010, we estimate that approximately 50 percent of U.S. funding will go through Pakistani federal and provincial agencies. We would not describe these institutions as 'untested.'" For example, INL has successfully worked through these agencies to build roads, small infrastructure projects, and outposts since the 1980s. About thirteen percent of total US assistance (\$195 million) will be provided via direct budget support, most of which will support the Benazir Income Support Program and the Higher Education Commission. We chose these institutions because of their strong accounting safeguards. Likewise, in the energy sector, we will implement projects with agencies such as Pakistan's Water and Power Development Authority, which is very experienced at international procurements through its projects with Asian Development Bank and the World Bank and other major donors. We will follow the common practice of establishing a unit within the ministries to which we are providing funding to help manage specific projects and mentor ministry staff.

We also have established USAID and State Inspector General offices in Islamabad, and are asking them to lend their expertise in the project design phase to help develop better mechanisms to guard against waste and fraud. We believe

that, with such oversight, aid channeled through the government is at least as accountable as aid through under-supervised contracts – which was often the norm in the past.

The program we have developed strikes a balance between working with Pakistani implementers and with American, or international, entities. While there are risks in providing assistance via Pakistani implementers, there are also real compromises by providing assistance via American and international contractors. For example, we have a major investigation underway concerning a possible large scale fraud with one of our American contractors. Safeguards are never perfect in any circumstances, especially when large amounts of money have been provided without sufficient supervision for some time. Both when using Pakistani implementers and when working with international entities, the parties must meet USG standards and appropriate oversight must be in place. By shifting more to Pakistani implementers, we are trying to have a sustainable impact in development efforts in Pakistan as the civilian government and civil society builds the capacity to take more and more ownership of Pakistan's development funding.

Priorities: One of the Administration's key goals is to better align U.S. assistance with Pakistan's priorities. Since we changed our approach last year, we have consulted extensively with the Pakistani government at the federal, provincial and local levels, and broadly with civil society to ensure this alignment takes place. While this practice may slow our spending rates, it is critical to ensuring our assistance contributes to our political, economic and social objectives in Pakistan.

You are right to note that Pakistanis are frustrated by the slow and often corrupt criminal justice system. This is a problem with many diverse aspects, some of which do not lend themselves to outside intervention or are not problems that funding can solve. For example, the Asian Development Bank has spent over \$300 million in the justice sector from 2002 to 2008, with little to show for its investment. Given the challenges of working in this space, we are carefully considering how to spend our justice funds. We are growing increasingly aware that we will need to support efforts in Malakand and the FATA to help the civilian judicial system process people detained during fighting in those areas, and are considering what options are most appropriate for this essential but very politically sensitive task.

We have also begun a strategic dialogue with the Pakistanis regarding water, which we agree will become an increasingly difficult issue in the future. We will focus on internal reforms that could improve water supply and sanitation for the

Pakistani population. We have plans for projects in water management, water capture and storage, and for increasing the supply of potable water at the community level. The Friends of Democratic Pakistan also intend to ask one of the IFIS to chair water task force similar to the ADB-led energy task force.

Visibility: As we scope out high visibility projects that Pakistanis and others urge us to consider, we share your concern that we strike the right balance between high visibility and overall impact for the Pakistani people. In this regard, we plan to use some of our energy sector funds to partner with other donors and the Government of Pakistan so that our funds leverage further investment by others, leading to a larger, more significant and coordinated contribution to energy generation and distribution. We will continue to weigh options carefully in all sectors and consult with Congress as we move forward in identifying projects.

Public Diplomacy: You are right to emphasize the importance of providing both the American and Pakistani public a better understanding of what we are doing with U.S. tax dollars, why we are making these investments during an economic crisis, and what we hope to accomplish. I share fully in this priority, as you know from our many discussions. We are beginning to interact more proactively with the Pakistani media in this regard, and continue to look for opportunities to explain our assistance program, take credit for individual projects, and develop a more persuasive narrative about the history of the U.S.-Pakistan assistance relationship and how it will help build a stronger partnership going forward. A senior USAID team is now in Pakistan to examine how to better brand some of our programs, as appropriate.

We appreciate your recommendations and continual effort to help us address the challenges posed by providing such large sums to Pakistan over a short but crucial period of time.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'RCH', with a long horizontal flourish extending to the right.

Richard C. Holbrooke
Special Representative for
Afghanistan and Pakistan