

# **USAID/Pakistan Interim Strategic Plan May 2003-September 2006**



**Islamabad, Pakistan  
May 2003**

## **I. BACKGROUND**

USAID/Pakistan's Planning Framework was reviewed by the Asia and the Near East Bureau (ANE) April 11, 2003, and subsequently revised and approved by the Agency on May 9, 2003. While the original intention of the review was to extend Pakistan's current waiver from strategic planning requirements for another year, the Mission has decided that it would like to submit a three year Interim Strategic Plan from May 2003-September 2006 for Agency approval instead. Consequently, the Planning Framework was revised to reflect changes discussed with USAID/Washington in order to meet the standards of an Interim Strategic Plan.

## **II. RATIONALE FOR ASSISTANCE AND OVERALL ENVIRONMENT FOR ASSISTANCE**

### **Overview and U.S. Strategic Interests**

The earlier Planning Framework stated that "resuming a long-term assistance program clearly demonstrates an enduring commitment of U.S. engagement with Pakistan, whose prosperity and stability are critical to U.S. foreign policy goals in the region." That statement remains true today. The U.S. Ambassador to Pakistan, the new Mission Director and the ANE Bureau have been very clear about USAID's mission in Pakistan: to tangibly improve the lives of the poor in Pakistan and to build support for Pakistan's decision to join the international war on terrorism and thwart further terrorist recruiting.

USAID's return to Pakistan in July 2002 was front page news in all of the country's newspapers. The Government of Pakistan, led by the Ministries of Finance, Education and Health, welcomed USAID back with warmth and strong cooperation.

To date, funding for the new program has been strong and as anticipated. Six hundred million dollars in debt relief and \$39.55 million for education, health and democracy activities was provided in FY 2002; \$186 million more for debt relief and \$50.145 million for education, health, democracy and economic growth is expected in FY 2003. Planning for FYs 2004 and 2005 includes non-project assistance continuing at the \$200 million ESF level and the Mission's program budget increasing to approximately \$75 million a year.

Fears that it would be difficult to "staff up" the new Mission in a dangerous security environment have proven unfounded. All seven direct hire staff are now on board, plus three USPSCs and nine FSN employees. Six additional FSNs are expected to join the Mission by the end of FY 2003, for a total of 25 staff. All seven direct hire officers bid on and were accepted for a second one-year assignment in Pakistan.

Operating expenses in FY 2002 were \$0.760 million and anticipated to total \$2.149 million in FY 2003 (including \$0.534 million in Trust Funds), \$2.256 million in FY 2004 (including \$1.0 million in Trust Funds), and \$1.930 million in FY 2005 (including \$0.6 million in Trust Funds).

USAID/Pakistan staff initially worked in unoccupied office space inside the American Embassy chancery building. These conditions were far from satisfactory. The Mission moved into a renovated warehouse facility on the Embassy compound in October 2002 and expects to remain there until construction of a new facility inside the Embassy is completed in approximately two years time.

Finally, the new Mission has also provided support to USAID in Afghanistan, as anticipated in the earlier Planning Framework. The Mission's Contract Officer assisted USAID/Afghanistan with the contracting for a major road project (Afghanistan Rehabilitation of Economic Facilities Support program) and the Mission Director has helped facilitate customs free treatment for raw materials shipped over the Pakistan-Afghanistan border.

### **Situational Analysis**

The poverty indicators listed in the earlier Situational Analysis remain basically unchanged in March 2003, although the country's macroeconomic picture has improved markedly in recent years and social sector spending has increased slightly. The Government has succeeded in maintaining macroeconomic stability, reducing foreign and domestic debt burdens, and meeting IMF goals. Despite these improvements, social sector spending lags behind other sectors, especially given large defense expenditures. The five-year drought, particularly in rural western and southern Pakistan, also continues to negatively affect household income.

Politically, the situation has changed dramatically since the Planning Framework was approved in May 2002. As promised, the Musharraf Government held elections for the Provincial and National Assemblies in October 2002 and all five Assemblies have now elected Speakers and held their first sessions. The surprising success of the religious coalition party (MMA) – particularly in the Northwest Frontier Province and Balochistan – was well reported in the U.S. Musharraf remains the dominant force on the political landscape and serves a five-year term as President pursuant to the Legal Framework Order (LFO). The President's dual status as Chief of Army Staff, under the LFO, has stymied substantive legislative business for the first sessions of the new National Assembly.

Prime Minister Jamali has publicly endorsed the policies and economic measures undertaken by the Musharraf Government. Of particular interest to USAID and other donors, the Prime Minister has voiced only tepid support for the devolution plan launched by the previous government. The Prime Minister appears to welcome a close relationship with the United States.

The former situational analysis did not touch on the security situation in the country. It is bad and shows no real signs of improving. Since the Framework was approved, the U.S. Consulate in Karachi was seriously damaged by a car bomb and recently witnessed a gun battle with police; several Christian schools, hospitals and churches have been attacked

by gunmen. Cooperation between U.S. and Pakistani law enforcement officials is excellent and several “plots” to attack official American personnel in Pakistan have been thwarted as a result. But the threat remains dangerously high, death threats aimed at Embassy personnel continue and the local reaction to the U.S.-led war against Iraq poses real challenges for USAID in Pakistan which must be highlighted here. Seven American USAID staff left Pakistan as part of an Embassy draw down on March 20 and 21, 2003.

First and foremost, the security situation impacts staff levels for USAID/Pakistan. The former U.S. Ambassador to Pakistan approved a NSDD-38 determination for seven offshore American staff at the new Mission in FY 2002 and five more in FY 2003. (There are to be eight USDH and four USPSCs or TAACS.) Currently nine of the twelve positions are filled. The current Ambassador has tentatively agreed to allow the Mission to add the three remaining positions (two in FY 2004 and one in FY 2005), but not more – to keep the number of official Americans working in Pakistan as low as possible. Moreover, all sections and agencies at Post are constrained to limit TDY visitors as much as possible for the same reasons. Travel outside of Islamabad is also very limited, even for FSN personnel. These limitations have real impact on the Mission’s ability to monitor project activities and meet with partners and counterparts, and argue for new approaches to project management and monitoring.

Space is also a constraint for the young Mission. For security reasons, USAID’s offices must be co-located inside the secure American Embassy compound. (USAID’s former office building was turned over to the Government upon our departure in 1995 and currently houses the Board of Investment and Human Rights Commission.) USAID occupies about three-quarters of a renovated warehouse on the Embassy compound, with no prospect of finding additional space before new offices are constructed in two years time. Therefore, the Mission must also limit the number of USPSC and FSN employees in the office. The current space can accommodate approximately 25 employees, total. (Contrast this number with the hundreds that worked in USAID’s Islamabad office in the past. Dozens more used to work in USAID’s satellite offices in the provincial capitals.)

### **III. RATIONALE FOR STRATEGIC PLAN TIMEFRAME AND STRATEGIC OBJECTIVES**

#### ***Overall Precepts for Mission Programming***

Several important principles have guided the Mission’s programming decisions to date and they are worth recording here. All but one of them are related to security and the constraints the dangerous security situation imposes on our program.

***Stay focused.*** With so few staff in relation to the budget levels, and a security environment that precludes staff increases, the program proposed under the new strategy must stay focused on the four sectors identified in the previous Planning Framework and limit the number of management units as much as possible. This has been one of the Mission’s biggest challenges to date. There are high expectations from Pakistani

Government officials, local NGOs, USAID/W and our other stakeholders in the U.S. that USAID will reengage in all the sectors in which it worked in the 70s, 80s and early 90s in Pakistan (which included energy, environment and human rights). The Mission (with strong support from the U.S. Ambassador) tries to spread the message that it must stay focused, to help keep expectations realistic, and keep the public informed of program progress. The Mission recently hired a local firm to start a USAID/Pakistan website (with links to USAID/W and the Embassy's websites) and hired a part-time publicist.

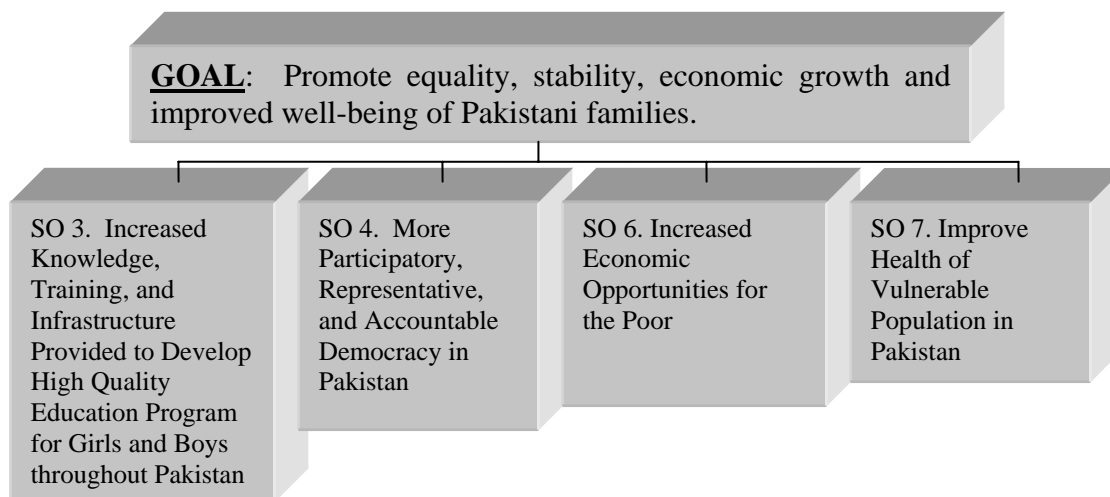
***Build a bomb proof program.*** The security situation in Pakistan is bad now and is probably not going to improve for the foreseeable future. This may mean that American and expatriate staff associated with USAID's program will have to be evacuated one or more times in the future. (There were two evacuations in the year before the Mission reopened and seven Mission staff just returned from evacuation in Washington during the Iraq War.) Therefore, the Mission is trying to build a program largely managed by Pakistani professionals who can continue working if Mission and grantee staff have to evacuate again. There is a strong cadre of Pakistani professionals available in the country, so there is no real impediment to this approach. To ensure its implementation, the Mission will make "Pakistani management" an evaluation criteria in all competitive actions, limit competitions to Pakistani organizations whenever possible, and encourage all US-based organizations to partner with indigenous organizations as much as possible. This approach may increase the risk of poor performance; the Mission will keep the Regional Inspector General in Manila well informed.

***Collaborate with other donors.*** One way to reduce our "exposure" in this dangerous security environment is to collaborate as much as possible with other donors. Given the dangers of working in Pakistan, no donor should be duplicating another's efforts. In this respect, for example, USAID decided to focus its education efforts in Balochistan and Sindh provinces because the U.K. Department for International Development (DFID) already had several education initiatives underway in the Northwest Frontier and Punjab. The Mission is also exploring ways to share resources or co-finance activities with like-minded donors. Two programs are being managed with DFID in the health sector. Likewise the Mission is exploring close cooperation with the Asian Development Bank on a micro-finance initiative, with the FAO on an agriculture activity and with the Japanese International Cooperation Agency on a school rehabilitation activity in the Federally Administered Tribal Areas.

***"Get on with it!"*** Less related to security and directly tied to U.S. foreign policy interests in Pakistan, the Mission is looking for and undertaking initiatives that it can implement immediately with a minimum of planning and discussion. As in the earlier Planning Framework, USAID/Pakistan's new strategy intend to "aggressively address the root causes of instability within Pakistan." The Mission takes the word "aggressively" very seriously and believes that we have to be seen, in action, in the rural areas and among Pakistan's poor and forgotten communities fast if the people are going to support their Government's decision to join us in the war on terrorism. The Mission can "get on with it!" in several ways, including adopting and co-financing another donor's strategy and

program for a particular sector, without lengthy assessments and analyses of our own, and supporting ongoing interventions that can expand quickly with additional funding.

The proposed three-year USAID/Pakistan Strategy in the four sectors is as follow:



### III. PAKISTAN EDUCATION STRATEGIC OBJECTIVE

#### A. *Statement of Strategic Objective*

USAID/Pakistan’s Strategic Objective (SO) and associated Intermediate Results (IRs) for education for the interim strategic plan are as follows:

#### **SO 3: “Increase Knowledge, Training, and Infrastructure to Develop High Quality Education Programs for Girls and Boys throughout Pakistan”**

##### **Illustrative SO indicator**

- Improved net and gross primary enrollment, drop-out, repetition, and completion rates in targeted areas

##### **Intermediate Results**

- *IR 3.1 Strengthened Education Sector Policy and Planning*
- *IR 3.2 Improved Capacity of Teachers and Education Administrators*
- *IR 3.3 Improved Youth and Adult Literacy*
- *IR 3.4 Expanded Public-Private Partnerships to Improve Access and Delivery of Education Services*

**Strategic Objective Duration and Life of Project funding:** This SO was reviewed and approved last May 2002 under the Pakistan Planning Framework. The duration of this

SO is from May 2002 to September 2006. USAID anticipates life of project funding of \$100 million DA.

## ***B. Problem Analysis and Program Approach***

### *Problem Analysis*

The education sector in Pakistan is immense, broken and famously resistant to change. There are approximately 18 million children between the ages of five and nine, but only 42% of these children are in school. Historically less than half of Pakistani children who enroll complete five years of schooling and for every 100 children who begin first grade, only six complete grade 12. It is estimated that on any given day, close to a quarter of the teachers in public schools are absent and student absenteeism is also high. As a result, Pakistan's literacy rate is a very low 38%, and the gap between the rates for men (50%) and women (24%) reflects historic biases against education for women. The failing public education system has prompted many parents to send their children to religious madrassah schools. Many madrassahs offer quality secular courses, but some breed recruits for terrorists.

The reasons for the failure of Pakistan's schools are many and daunting. Many teachers in the public schools do not want to be teachers and leave at the first opportunity. The new political government may not be willing to make school heads and teachers accountable to parents for fear of alienating teachers unions. Politicians are assigning teaching positions for patronage, which destroys morale and quality within the teaching ranks. There is also considerable confusion at the district, provincial and federal levels about responsibility for education reform, and an on-going tug of war between district, provincial and nationally elected officials for control of education resources.

Notwithstanding all these problems, we are here at the right time. There is an unprecedented window of opportunity for education reform in Pakistan. Parents are clamoring for quality education and are willing to contribute from their own resources to pay for it. The Pakistan government has made education a priority. The Government has pledged to raise education expenditures from 2.2% to 4% of GDP. USAID and other donor agencies laud this newfound commitment. U.S. foreign policy objectives put improving primary education first and foremost among our development goals in Pakistan, as a way to build the economy, counter despair and extremism, while promoting moderation. USAID's education program makes significant contributions to these objectives, as expressed in the new USG Muslim Outreach Initiative.

### *Program Approach*

In August of 2002, USAID signed a \$100 million Strategic Objective Grant Agreement with the Government of Pakistan to support the Federal Ministry of Education's Education Sector Reform Action Plan in the following areas:

- strengthen the national and local capacity to improve education policies, with particular emphasis on expanding access to education for girls;
- provide education and professional development to teachers and administrators to improve the quality of public and private school instruction;

- improve youth and adult literacy by strengthening the National Literacy Commission and testing the use of distance education; and
- increase public-private partnerships that support literacy programs and strengthen community involvement in primary education.

Many ask whether our program specifically targets Pakistan's thousands of religious schools, or madrassahs, and the answer is no. The Ministry of Education agrees with us that our assistance will benefit students at all schools: public, private and religious. Teachers and administrators from the madrassahs will be encouraged to participate in USAID-sponsored training programs, along with all other teachers. The overall project is focused on the provinces of Sindh and Balochistan, two areas with very poor social indicators that have received less donor attention in education over the years.

### *C. Key Intermediate Results*

#### **IR 3.1 Strengthened Education Sector Policy and Planning**

##### *Illustrative Activities*

- Assessment of policy gaps and weaknesses;
- Capacity building for policy planning and implementation at district, provincial and national levels;
- Direct assistance in policy implementation;
- Development of District Education Plans; and
- Small grants to districts and NGOs.

##### *Illustrative Indicators*

- Number of ESR policies devolved and active at district level;
- Number of districts implementing District Education Plans;
- Increased expenditure levels in education at district level; and
- Reduced disparities between education for boys and girls.

#### **IR 3.2 Improved Capacity of Teachers and Education Administrators**

##### *Illustrative Activities*

- US-based participant training for teachers and administrators;
- In-country training for teachers, teacher educators and administrators;
- Learning Resource Centers;
- Small grants to districts and NGOs; and
- Strengthen professional development institutions.

##### *Illustrative Indicators*

- Numbers of trainees;
- % of teachers effectively using new skills in classroom;
- Reduced rates of teacher absenteeism;
- Improved participation and retention rates;



- Reduced disparities between professional development for women and men; and
- Number of NGOs with capacity in teacher development.

### **IR 3.3 Improved Youth and Adult Literacy**

#### *Illustrative Activities*

- Strengthen and consolidate literacy curriculum;
- Adult and out of school youth literacy programs;
- Small grants to literacy NGOs; and
- Experimental use of ICT for literacy.

#### *Illustrative Indicators*

- Literacy rates in target districts disaggregated by male/female and by age

### **IR 3.4 Expanded Public-Private Partnerships to Improve Access and Delivery of Education Services**

#### *Illustrative Activities*

- Strengthen regulatory framework;
- Mobilize communities;
- Design and implement incentive schemes; and
- Small grants to foster partnerships.

#### *Illustrative Indicators*

- Numbers of effective PTAs;
- Regulatory framework clarified; and
- Resource transfers from public to private sector and vice versa.

## ***D. Coordination and Security/Staffing Issues***

### *GOP and Donor Coordination*

The Mission is working very closely with the Government of Pakistan at the Federal and Provincial levels. The Senior Education Officer and staff have frequent contact with the Federal Education Minister and Secretary. We have appointed a full time coordinator to maintain close levels of communication and cooperation. Quarterly meetings with provincial education departments and grantees (RTI, CRI and AKF) and field trips (when security conditions allow) will keep USAID in close touch with activities on the ground.

USAID/Pakistan is also an important member of the monthly forum for international donors active in education. We are also exploring areas of partnership with other donors, such as DFID, in support of policy reform and teacher education.

### *Security and Staffing*

Given the current security constraints in Pakistan the Education Sector Reform Assistance program will maintain a small presence in each province, to be collocated with an established education institution or NGO wherever possible. Project monitoring

will be enhanced by Pakistani consulting firms on contract to the Mission. We believe this method limits security risks and builds local capacity to help other donors or the Government monitor progress long after this project ends.

## **IV. DEMOCRACY AND GOVERNANCE STRATEGIC OBJECTIVE**

### **A. Statement of Strategic Objective**

USAID/Pakistan's Strategic Objective (SO) and associated Intermediate Results (IRs) for democracy and governance for the Interim Strategic Plan are as follows:

#### **SO 4: "More Participatory, Representative, and Accountable Democracy in Pakistan"**

##### **Illustrative Indicators**

- Selected government institutions create mechanisms for citizen input;
- Increased level of legislative, media and civil society oversight of the executive; and
- Decentralization process meets key benchmarks.

##### **Intermediate Results**

- *IR 4.1 Improved Representation and Responsiveness of National and Provincial Legislatures*
- *IR 4.2 Greater Civil Society, Media, and Political Party Engagement in Policy Dialogue*
- *IR 4.3 Devolution Supported Through More Accountable and Responsive Local Governance*

**Strategic Objective Duration and Life of Project Funding:** The Strategic Objective begins in May 2003 and ends in September 2006. USAID anticipates investing approximately \$38 million over the next three years. As program implementation unfolds and initial results are known, the Mission will expand existing programs and capitalize on emerging opportunities.

### **B. Problem Analysis and Program Approach**

#### *Problem Analysis*

Democracy and governance in Pakistan must address multiple challenges to earn the confidence of a largely disenfranchised, disillusioned and distrustful public. The country suffers from weak public institutions at national, provincial and local levels and lacks accountability of elected officials at all levels. Political decision-making is highly centralized and non-participatory. The majority of Pakistanis are marginalized from policy-making and political participation. Creating public demand for democratic politics and governance is vital but remains a challenge. Extremists have, in part,

exploited these realities and capitalized on the failure of government to respond to its citizens.

The Government of Pakistan is committed to improving governance. The *Interim Poverty Reduction Strategy Paper* identifies good governance as a key enabling factor for rapid economic growth and essential for responding to the needs of the poor and women. The United States welcomed the return of the national and provincial legislatures, despite questions about the October 2002 elections. One of the goals of U.S. foreign policy in Pakistan is to strengthen the country's democratic institutions and practices, including the legislatures which can play a strong and positive role in governance.

#### *Program Approach*

USAID's democracy and governance program is designed to create the foundation for sustainable civilian government in Pakistan. Participatory and representative processes are very weak, which in turn undermines mechanisms for accountability. This has led to a decrease in the efficiency of the bureaucracy, as the lack of transparency and accountability has meant that pressures for patronage have over time systematically undermined the governance process by the elites in power, whether they are civilian politicians or military rulers. The 56-year history of Pakistan has been characterized by alternating periods of ineffective civilian governments that are followed by periods of military rule. This is highly detrimental to the long-term stability and overall development of Pakistan. Unless future civilian governments are committed to governance in the public good, and have the capacity to do so, this downward cycle will surely continue. Several trends emerged over the past few years that have made it clear to many Pakistani political elites that reform is a must and not an option. The credibility gap and lack of public engagement with the government have reached levels where a return to elected civilian government may not in itself be enough to help stave off unrest and dissatisfaction. Rather, the process of return to civilian rule has to be accompanied by other reforms that will make government more participatory, representative, and accountable.

#### ***A. Key Intermediate Results***

##### **IR 4.1 Improved Representation and Responsiveness of National and Provincial Legislatures**

As noted, the United States welcomed the return of the national and provincial legislatures to Pakistan in late 2002. Members of Parliament and their staff need training in essential legislative processes such as budgeting, functioning of committees, and rules of parliamentary process. In addition, these legislatures are an obvious arena for promoting policy reform and good governance.

#### *Illustrative Activities*

- Legislative orientation; and
- Legislative strengthening program.

### *Illustrative Indicators*

- Increased legislative capacity to influence national policy priorities;
- Budgeting oversight capacity improved; and
- Legislators linked with local governments.

## **IR 4.2 Greater Civil Society, Media and Political Party Engagement in Policy Dialogue**

The lack of effective means of aggregating and articulating policy alternatives that can unite disparate groupings has been one of the biggest failures of civilian politics and governance. The political parties and civil society failed to play a role that could effectively help bridge the gap between citizen and state. As a result, the state has become less relevant to the aspirations and needs of growing numbers of Pakistanis. However, an unlikely confluence of events and trends has opened up new opportunities to address these past failures. The centrality of governance issues and the results of the recent elections have, ironically, made it more likely that support to political parties, national-level civil society actors (business groups, policy think tanks, etc.), and the media will have an impact on the ability of these organizations to articulate and generate popular support for specific governance reforms.

### *Illustrative Activities*

- Supporting independent media;
- Strengthening civil society advocacy; and
- Supporting political party reform.

### *Illustrative Indicators*

- Increased openness of public institutions to civil society involvement in the policy process;
- Increased pluralism in electronic media; and
- Political parties focused on significant public policy issues.

## **IR 4.3 Support Devolution through More Accountable and Responsive Local Governance**

Decentralization of fiscal and decision-making authority may provide the long-term solution to breaking the destructive political cycle described above. Fortunately, devolution is one of the centerpieces of the ongoing government reform process. One of the goals of devolution is to improve the performance of local government through a process that breaks the stranglehold of parties over scarce resources and tries to devolve some authority closer to the community level. Once this stranglehold is broken, it would be almost impossible for a future government (civilian or military) to recentralize. To date, devolution has largely focused on more effective administration and reorganization. But this process will not take root unless citizens get more involved from the bottom up and the Government invests more in capacity building for the new bureaucracies at the district level. Structures are now in place for this to take place from a legal/constitutional

standpoint, but this system needs to be invigorated if governance is to become more effective.

*Illustrative Activities*

- Supporting participatory local governance; and
- Supporting key decentralization reforms.

*Illustrative Indicators*

- Mechanisms for popular participation utilized by both citizens and local governments;
- Key policy and financial decisions increasingly made at local levels; and
- Successful implementation of community-driven development projects.

**B. *Coordination and Security/Staffing Issues***

*GOP and Donor Coordination*

USAID will sign a Strategic Objective Agreement with the Government to implement the democracy and governance program described above. Key donors in democracy and governance are the Asian Development Bank, DFID, CIDA, and the United Nations Development Program. Areas of mutual interest have been identified: legislative strengthening at the national and provincial levels (closely coordinated with DFID and UNDP), and support for local governance and civil society under devolution (ADB and DFID). As a result of close collaboration among the donors, USAID's programs should reach geographic areas and/or target groups not covered by other donors. USAID is actively participating in a new donor coordination group on governance and may establish a donor working-group on democratic processes and civil society. USAID is also an active participant in the U.S. Embassy's strategic planning (MPP) team in Democracy and Human Rights.

*Security and Staffing*

Given the importance of this sector and the number of planned activities, the Mission intends to add a new GDO to help manage the Democracy/Governance portfolio. As with the other three sectors, programs in the democracy and governance program will maximize the use of Pakistani professionals, from project managers to technical experts. There are a number of capable NGOs in the sector, such as the Pakistan Institute of Legislative Development and Transparency and The Asia Foundation. The Mission will also consider innovative approaches to minimize program management burden. The Mission will outsource and work with other donors to monitor program outputs and other services.

**V. PAKISTAN ECONOMIC GROWTH STRATEGIC OBJECTIVE**

**A. *Statement of Strategic Objective***

USAID/Pakistan's Strategic Objective (SO) and associated Intermediate Results (IRs) for economic growth for the interim strategic plan are as follows:

## **SO 6: "Increased Economic Opportunities for the Poor"**

### *Illustrative Indicators*

- Real GDP growth rate.

### *Intermediate Results*

- *IR 6.1 Increased Access to Micro-Credit and Microfinance Services in the Rural Economy*
- *IR 6.2 Expanded Access to Quality Education in Business and Agriculture for the Poor*
- *IR 6.3 Increased Market-Based Opportunities in the Rural Economy*

**Strategic Objective Duration and Life of Project Funding:** The Economic Opportunities strategy begins in May 2003 and ends in September 2006. USAID plans to invest approximately \$29 million over the next three years. As program implementation unfolds and initial results are known, the Mission will expand existing programs and capitalize on emerging opportunities.

## ***B. Problem Analysis and Program Approach***

### *Problem Analysis*

Poor economic performance throughout the 1990s coupled with heavy military expenditures and severe drought conditions left poor Pakistanis even poorer in recent years. Thirty three percent of the country's estimated 148 million people now live below the poverty line compared to only 20 percent in the 1980s. The GDP growth rate has steadily declined since 1991, as has direct investment which reached a record low of 14 percent of GDP in 2001. The failure to take advantage of trade opportunities (domestic, south-south and/or south-north) has also negatively affected economic growth including in the agriculture sector. As military and foreign debt service expenditures rose over the last ten years, spending for basic health, education, and community infrastructure has markedly declined. Pakistanis are relatively worse off today than they were ten years ago.

In response to growing poverty rates, the Musharraf Government mobilized support and substantial resources from multilateral development banks. Since 1999, the Government of Pakistan has begun restructuring its financial sector to spur foreign and domestic investment, strengthened state regulatory entities, and embarked upon a program to devolve governance and fiscal management responsibilities to the local level. Some positive signs such as the lowest inflation rate in decades, improving macro-economic indicators and unprecedented foreign reserves, combined with Pakistan's strong support for the war on terrorism, have led to increased social sector investment by donor countries in recent years.

The Government of Pakistan believes that economic growth means more jobs, which can accelerate economic recovery and thwart those who would recruit the unemployed for terrorism. Programs to spur economic growth and job creation feature prominently in the Government of Pakistan's Interim Poverty Reduction Strategy Paper. USAID will help create new opportunities for poor Pakistanis, especially in and from rural areas. These economic opportunities respond to an important USG foreign policy imperative, as expressed in the Muslim Outreach Initiative, which is to quickly and tangibly improve the lives of the poor.

#### *Program Approach*

USAID/Pakistan will increase economic opportunities for the poor in three ways: increase community development and access to microfinance in the rural areas, with a focus on agriculture-related enterprise; expand opportunities for poor students to attend Pakistan's premier business and agriculture schools; and address constraints and increase new market opportunities in the rural economy.

### **B. Key Intermediate Results**

#### **IR 6.1 Increased Access to Micro-Credit and Microfinance Services in the Rural Economy**

Microfinance is relatively new in Pakistan. Most experts agree it is not reaching its potential and only 33 percent of microfinance borrowers are women. But this young industry has tremendous growth potential and strong Government support, as evidenced by the recently passed Microfinance Ordinance (that improves the regulatory environment and paves the way for more private-sector participation) and the large Asian Development Bank loan to increase access to microfinance for the poor. Existing microfinance institutions are focusing on high-density areas where lending economies of scale and efficiencies are greatest. Credit is not reaching the vast numbers of Pakistan's rural poor who have the country's worst economic and social indices.

To help stimulate the rural economy, USAID/Pakistan plans to support microfinance on two parallel tracks. The first is a grant which will help accelerate the bank's expansion into Balochistan and rural Sindh, the country's least served regions. Microfinance would not reach this large, agrarian-based, rural and poor population for years without USAID's investment. This grant will overcome the high initial investment costs (e.g., training field-based credit officers, establishing branch offices, etc.) associated with bringing microfinance services to these hard-to-reach areas. This will also create economic opportunities for women. This approach ensures that both the community and borrowers are prepared to take advantage of microfinance, prior to initiating services.

The second grant will help a network of NGOs bring microfinance to new and underserved rural communities by establishing a new lending window at the Pakistan Poverty Alleviation Fund (PPAF). The PPAF is an apex microfinance organization with more than 40 institutional and NGO members; it manages more than \$90 million in Government and donor funds. This new window will enable PPAF member

organizations to reach credit-restrained businesses that are too large for micro-credit but too small for commercial loans (e.g., loans between \$300 and \$1700). These businesses offer the greatest potential for generating higher income for the poor. PPAF would include business advisory services for the borrower and the full complement of credit support services normally delivered.

*Illustrative Activities*

- Microfinance program.

*Illustrative Indicators*

- Number of new loans disbursed in target areas; and
- Number of new women borrowers.

**IR 6.2 Expanded Access to Quality Education in Business and Agriculture for the Poor**

Pakistan has several world class business schools and the potential to produce internationally competitive MBAs. The Lahore University of Management Sciences (LUMS) and the Institute of Business Administration in Karachi are two examples that USAID helped to establish. Though Pakistan has many institutions of higher education that can meet this challenge, the social and economic cost of attending these institutions are beyond the reach of most poor students, especially women. The Mission will work with the Government's Higher Education Commission (HEC) to create a merit-based scholarship fund for needy students that would not otherwise be able to attend HEC-recognized business schools. The Mission is also considering strengthening MBA and other business school programs in the future, by adding a second or third year in the curriculum at a U.S. partner university.

*Illustrative Activities*

- Undergraduate and graduate business degree scholarship program; and
- Undergraduate and graduate agriculture degree scholarship program.

*Illustrative Indicators*

- Number of scholarships awarded (by geographic, economic and gender distribution); and
- Number who complete undergraduate and graduate degrees.

**IR 6.3 Promoting Market-Based Opportunities in the Rural Economy**

Agriculture accounts for 25 percent of GDP and employs more than half of Pakistan's population. Production for the rural poor that relies on increasing inputs is reaching its limits, and problems with water availability and management have become limiting factors. To address some of the primary constraints to the rural economy, the Mission is developing an initiative to improve agricultural practices and create agricultural market linkages for small scale-farmers with the Government of Pakistan's Ministry of



Agriculture, the UN's Food and Agriculture Organization and leading national and international agricultural research organizations.

*Illustrative Activities*

- Improve the livelihood and food security of the rural poor in Balochistan through community-based, sustainable arid land management.

*Illustrative Indicators*

- Number of new agricultural technologies applied in targeted areas; and
- Number of households benefiting from improved production and access to markets.

**C. Coordination and Security/Staffing Issues**

*GOP and Donor Coordination*

USAID will sign a Strategic Objective Agreement with the Ministry of Finance to implement this program. USAID participates in Embassy Islamabad's strategic planning (MPP) team for Economic Growth and Development, where results from investments in the microfinance sector correspond to the key indicator for increased economic opportunities for the poor. USAID collaborates day-to-day with the Economic Section at the Embassy, which takes the lead on trade and macroeconomic policy analysis.

Key donors in the economic growth and microfinance area are the Asian Development Bank, the World Bank, and the Swiss government. The Khushhalibank is supported by ADB resources and has expanded to 31 branches in 33 districts, with plans to reach 96 districts during 2003. The World Bank has provided significant funding to PPAF for micro-finance through local partner organizations. USAID will coordinate closely with the ADB and the World Bank as it launches programs with Khushhalibank and the PPAF. USAID participates in the microfinance donor coordination group, which provides a forum for discussion and coordination of issues such as the bridge between microfinance and small business, and the need to diversify services in the microfinance sector.

*Security/Staffing*

All programs in the Economic Opportunities program will maximize use of Pakistani organizations and expertise. Technical assistance and training envisioned under the microfinance component will rely predominantly upon in-country expertise. Program activities with training in agriculture and business will depend primarily on trips from Pakistan to the U.S. or utilize telecommunications technologies to minimize travel to Pakistan by expatriates. The Mission will likely outsource the formal monitoring of program outputs and other services.

**VI. PAKISTAN HEALTH STRATEGIC OBJECTIVE**

*C. Statement of Strategic Objective*

USAID/Pakistan's Strategic Objective (SO) and associated Intermediate Results (IRs) for health for the interim strategic plan are as follows:

## **SO 7: "Improved Health of Vulnerable Populations in Pakistan"**

### **Illustrative SO indicators**

- Unwanted total fertility rate - % women who report last birth as mis-timed or unwanted
- Infant/neonatal mortality rate

### **Intermediate Results**

- *IR 7.1 Increased Access To and Quality Of Reproductive Health/Family Planning Services*
- *IR 7.2 Improved Health Resources Management and Decision-making at the Provincial Level*
- *IR 7.3 Help Maintain Pakistan's Low HIV Prevalence Rate*
- *IR 7.4 Improved Maternal and Child Health*

**Strategic Objective Duration and Life of Project Funding:** Under the new strategy, the duration of this SO is from May 2003 to September 2006. Overall support to the health and population sector over the next three years (life of project funding) should reach approximately \$69 million CSH, \$6 million of which will be set aside to support programs that are "taking off" and need additional resources in FYs 2004 and 2005.

## ***B. Problem Analysis and Program Approach***

### *Problem Analysis*

Pakistan's health indicators continue to be among the worst in the world. Seventy-two of every 1000 live births result in infant deaths and 350 mothers per 100,000 die every year from pregnancy and delivery complications. These are compounded by other health problems, such as malaria, acute communicable diseases including tuberculosis, and respiratory infections. Over the past three decades the Government of Pakistan has made many attempts to alleviate this situation with help from donor agencies or loans from international lending agencies, but the results are mixed. There are many reasons, including poor infrastructure, institutional disarray due to political instability, and lack of essential supplies and appropriately trained personnel. Charges of corruption have also been directed towards program managers.

The Government of Pakistan realizes that an unhealthy population puts a huge burden on national resources and stifles economic growth. Good health improves learning and increases labor productivity, leading to improvement in other crucial indicators such as population growth rates and literacy. The United States considers health reform one of its two biggest priorities for assistance in Pakistan. Healthier people are important for the economy and less likely to lose hope and turn to extremism. USAID's health program will produce tangible improvements in lives of Pakistanis, a major objective of the USG's new Muslim Outreach Initiative.

### *Program Approach*

The Government of Pakistan's *Interim Poverty Reduction Strategy Paper* identifies key health interventions for the nation. These include reducing the population growth rate, training Lady Health Workers to provide primary care services to women and children, and protecting vulnerable populations. USAID's support to the health sector, described by illustrative activities below, will support the government's priorities.

### **C. Key Intermediate Results**

#### **IR 7.1 Increased Access To and Quality Of Reproductive Health/Family Planning Services**

In order to increase the Contraceptive Prevalence Rate (CPR) from 32 percent to 45 percent in the next three years, service delivery must expand in rural areas, the private-sector must continue to increase its reach and diversify its product mix, and the public sector must at least maintain its current level of contraceptive procurement and distribution networks. The program will target women who need family planning services, by offering them a wider range of choices, better information and closer service delivery points. The Mission is also considering including a quality assurance monitoring initiative to measure and track improvements in service delivery. In addition, DFID and UNFPA together will provide \$20 million over the same period for commodities to be procured through international tenders.

#### *Illustrative Activities*

- Direct assistance to expand family planning/contraceptive services;
- Expansion of services to the rural areas;
- Mobilization of community-based service providers;
- Encourage public-private partnerships to propagate birth-spacing and contraceptive usage;

#### *Illustrative Indicators*

- Contraceptive prevalence rate - % women 15-49 currently using contraception by method;
- Births spaced <24 and <36 months; and
- Number/% of service delivery points that offer family planning to post abortion care clients.

#### **IR 7.2 Improved Health Resources Management and Decision-making at the Provincial Level**

Under this IR, USAID plans to provide budgetary support and technical assistance to the Government to improve fiscal management and implementation of seven national health and population programs at the provincial and district level. The national programs cover immunization, tuberculosis, HIV/AIDS, malaria, Lady Health Workers, nutrition, and population welfare. USAID is complementing DFID's budget support and technical

assistance (TA) at the federal level with funds for TA at the provincial and district level for the seven programs. The technical design of the project has been completed and approval from the Government is nearly complete. The Mission plans to contribute \$2 million per year for TA for the next four years to support this effort. The project should improve management of vertical health programs at the district level in all the four provinces, ultimately contributing to better utilization of crucial services.

*Illustrative Activities*

- Assist in developing monitoring systems for key maternal/child health programs, such as the Expanded Program on Immunization (EPI);
- Assist in decision-making at the district level for future program planning; and
- Assist in developing operational management plans at the district and provincial levels.

*Illustrative Indicators*

- Number/proportion of provincial/district health offices using information to monitor performance
- Number/proportion of provincial/district health budgets linked to operational plans

**IR 7.3 Help Maintain Pakistan's Low HIV Prevalence Rate**

HIV/AIDS is a priority of the U.S. Government. The prevalence levels are low, but all the risk factors for rapid spread of the disease are present in Pakistan. USAID has made support for the GOP's National AIDS Control Program (NACP) one of its key objectives, to help keep HIV prevalence low. The Mission will continue to support Family Health International's ongoing work with the NACP and ensure that all work is coordinated with the World Bank's large intervention to fight HIV/AIDS. Specific activities that increase awareness and knowledge about the disease among adolescents and youth are being planned with additional funding of approximately \$2.5 million over the next three years.

*Illustrative Activities*

- Assist the National AIDS Program in developing appropriate health education material to create awareness of disease prevention;
- Assist in training methodology for Master Trainers;
- Assist in identifying high-risk groups to target for program activities;

*Illustrative Indicators*

- % population/youth who know two HIV prevention methods
- % using condoms at last high risk sex

**IR 7.4 Improved Maternal and Child Health**

In January 2003, USAID organized a meeting of the key stakeholders in maternal and child health from the Government and the NGO sector to discuss the impediments to improved maternal and child health. The group made four specific recommendations to

the Ministry of Health. The MOH is seeking USAID's support to carry out one of the recommendations: a safe-motherhood initiative to improve maternal and neonatal mortality rates. USAID is exploring the proposal to determine the specific services needed and the modalities of implementation. The activity is currently budgeted at approximately \$10 million for the next three years.

The Government of Pakistan launched an Enhanced Polio Eradication Strategy in 1994 with multilateral funding to join the global effort to eradicate polio. The program has been very successful; the virus persists in very few areas of the country. Faced with the exciting possibility of eradicating polio from Pakistan, the Mission will continue to provide \$0.2 million per year for a public awareness campaign. USAID has also supported Pakistan's National TB Control Program to spread the Directed Observed Therapy (DOTS) methodology to control TB. Our support has helped develop specific infrastructure and a cadre of trained workers for the DOTS approach in several pilot districts. The Global Health Bureau will likely continue to fund these two important programs from their resources.

#### *Illustrative Activities*

- Enhance specific skills for delivery of MCH services;
- Educate/train mothers in appropriate breast feeding practices;
- Train community health workers to identify polio and tuberculosis in children;

#### *Illustrative Indicators*

- % births attended by skilled health personnel;
- Exclusive breastfeeding rate: % of infants 0-<6 months of age who are exclusively breastfed; and
- Number of new polio and TB cases reported.

### ***D. Coordination and Security/Staffing Issues***

#### *GOP and Donor Coordination*

The Mission is developing a Strategic Objective Agreement (SOAG) to cover all of the activities described above and the expected results. To date, the Mission's health team has excellent relations with the Ministries of Health and Population Welfare. The expected quarrels about their respective funding levels from USAID have not materialized. We keep our fingers crossed. The health sector is the Mission's prime example of collaboration with another donor. Despite a seven year absence, USAID is able to engage in two important national programs with minimal additional analysis and delay. Our joint development, implementation and monitoring of the National Health Facility with DFID and with DFID and UNFPA for the Social Marketing Program have and will save all three donors resources, time and reduced exposure in a dangerous security environment. Currently, the donor roundtable on health and population sectors meets on an ad hoc basis and focuses mostly on security issues. USAID intends to try to establish a quarterly donor forum to focus on substantive issues related to program coordination at the provincial and district levels.

### *Security and Staffing*

The Mission has partly overcome its security and staffing constraint by engaging with the Catalyst Consortium to perform the administrative, programmatic and monitoring functions of a fully functioning health office within the Mission. Catalyst will serve as an extension of the USAID/Pakistan health team, to help the senior health advisor engage and manage technical assistance, and help monitor and report on project activities. For example, Catalyst staff found and engaged the experts to assess the technical assistance needs for the provinces and districts for the National Health Facility program with DFID.

## **VII. NONPROJECT ASSISTANCE**

Since September 11th, the U.S. has provided almost \$800 million in non-project assistance to the Government of Pakistan. A \$600 million ESF grant in November 2001 (FY 2002) paid down debt owed to the U.S., the World Bank and the Asian Development Bank. The Government agreed to disburse a like amount of Rupees to support a dozen social sector line items in the Federal budget. (In fact, the Rupee disbursements for the agreed upon social sector programs far exceeded the Rupee equivalent of \$600 million dollars.) In FY 2003, about \$186 million ESF in debt relief has allowed Pakistan to retire \$1 billion in outstanding U.S. official debt, approximately one-third of their remaining U.S. debt. No conditionality was attached to the FY 2003 program.

Another \$200 million in non-project assistance is planned for FY 2004. USAID/Pakistan and Embassy Islamabad's ECON Section are currently discussing with the Ministry of Finance several options for using the Rupee counterpart of a FY 2004 cash grant to support the social sectors. In principal, the Ministry is not opposed to "conditionality" in FY 2004 and favors some uses for the Rupee counterpart over others (*See Annex A for USAID Proposed Conditionality for FY 2004 Cash Transfer*). The Mission may also negotiate specific social or economic reforms with the Government of Pakistan that would support USAID policy objectives in the education, health, and economic growth sectors. Limited technical assistance or training may be required to help the Government develop or implement negotiated reforms or policies. For planning purposes, we have included another \$200 million ESF in non-project assistance for FY 2005.

## **VII. MANDATORY ANALYSES**

### **A. *Gender Analysis***

USAID/Pakistan has integrated gender analyses into its interim strategic plan. As programs and activities developed, the Mission will continue to consider how gender relations affect the achievement of sustainable results; and how will proposed results affect the relative status of men and women.

### **B. *Environmental Analysis***

A Washington, DC-based desk study was developed to provide access to reference information, government of Pakistan actions and support by USAID and other donors to the conservation of tropical forests and biological diversity in Pakistan. The recently completed Biodiversity Action Plan for Pakistan provides a comprehensive review of the current status and develops proposals for action.

While biodiversity conservation and management of natural resources are among Pakistan’s developmental needs and in spite of USAID historical activity and predominant capacity in this arena, attention to this sector is beyond USAID’s management capacity at this time. Other donor activity and the capacity of the public and private sector in this arena in Pakistan mitigate the impact of the USAID focus under this interim Strategic Plan. The full "Biological Diversity and Tropical Forestry Analysis" is Annex C of this Strategy.

**C. Conflict Vulnerability Analysis**

With assistance from the ANE Bureau and DCHA/DG, USAID/Pakistan will complete and submit the conflict vulnerability analysis in August 2003.

**D. “What If?” Scenarios Analysis**

USAID/Pakistan will complete and submit an analysis of the impact of several possible political/security scenarios on implementation of this strategy.

**VIII. BUDGET, MANAGEMENT, AND REPORTING**

**A. Budget**

The interim strategic plan contained a budget for the three-year period, which is listed below. In addition, an additional \$200 million per year in debt relief is anticipated under the Budget and Balance of Payments Support line item.

<b>Strategic Objective (SO)</b>	<b>SO #</b>	<b>FY 2003 (Millions)</b>	<b>FY 2004 (Millions)</b>	<b>FY 2005 (Millions)</b>
Education	391.003	\$21.50	\$25.00	\$25.00
Democracy & Governance	391.004	8.00	15.00	15.00
Economic Growth	391.006	5.00	12.00	12.00
Health	391.007	15.65	26.60	26.60
Budget Support	391.005	188.00	200.00	200.00
<b>Total</b>		<b>\$238.15</b>	<b>\$278.60</b>	<b>\$278.60</b>

**B. Management**

As indicated above, USAID/Pakistan is now up and running with a direct hire staff of seven, one USPSC, one TAACS, a local hire USPSC office manager and 9 FSNs

(including two drivers). Direct hire assignments are for one year only, with two R&Rs. Despite the dangerous conditions under which the Mission must operate, all seven direct hire employees bid on and were reassigned for a second one year assignment into 2004. In short, recruiting for the new Mission has not been a major issue (so far).

Operating expenses for FY 2002 were \$0.760 million and expected levels for FY 2003 are \$2.149 million (including \$0.534 million in Trust Funds). Approximately \$2.8 million worth of Pakistan Rupees remain in a Trust Fund for administrative expenses of the Mission. The Trust Fund Agreement dated August 1969 remains in effect. At a future date, the Mission may request annual increments to the Trust Fund from the Government of Pakistan in support of Mission operations.

At this time, all Mission staff works at the USAID office inside the American Embassy compound in Islamabad, Pakistan's capital. Currently, there are no plans to open satellite offices in other cities, although USAID contractors and grantees may open offices in the provinces where they are most active. USAID may also contract with an NGO or some other organization in each of the provincial capitals (Karachi, Lahore, Peshawar and Quetta) to facilitate visits of Mission personnel and provide oversight on behalf of the Mission in that location.

With the arrival of key Mission staff, the Mission is now "self-sufficient" for all functions except accounting. USAID/Philippines continues to serve as the Mission's accounting station. The new Mission also relies on ICASS at the American Embassy for certain financial and administrative services and will continue to do so for the foreseeable future given staffing limitations.

The Mission Director and Controller have been in regular contact with the Regional Inspector General in Manila and expect an initial visit from the RIG in August 2003.

### ***C. Program Monitoring***

In addition to posting USAID partners' quarterly reports on the web-site, the Mission is exploring creative options to monitor program progress in a security environment that requires a limited U.S. presence. Outsourcing the monitoring and evaluation function, utilizing Pakistani NGOs, universities or private sector firms with development expertise, is one approach under consideration. Sharing monitoring responsibilities with other donors is another approach. The monitoring and evaluation function will enable the Mission to adjust program activities and emphases as necessary.

### ***D. Reporting***

With the arrival and hiring of Mission staff, the Mission is able to comply with the reporting requirements as required by USAID policy.



