



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID'S PAKISTAN TRANSITION INITIATIVE PROGRAM

AUDIT REPORT NO. G-391-12-003-P  
FEBRUARY 3, 2012

ISLAMABAD, PAKISTAN



*Office of Inspector General*

February 3, 2012

**MEMORANDUM**

**TO:** USAID/Pakistan Mission Director, Andrew B. Sisson  
USAID/DCHA/Office of Transition Initiatives Director, Robert Jenkins

**FROM:** Office of Inspector General/Pakistan Director, Joseph Farinella /s/

**SUBJECT:** Audit of USAID's Pakistan Transition Initiative Program  
(Report No. G-391-12-003-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments and included your response in Appendix II.

The report contains one recommendation to help improve the Pakistan Transition Initiative program. Based on information provided by the mission and USAID's Office of Transition Initiatives, a management decision has been reached on the report's recommendation.

I want to thank you and your staff for the cooperation and courtesies extended to us during this audit.

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# SUMMARY OF RESULTS

According to USAID's Office of Transition Initiatives, a breakdown of confidence and trust between the institutions of the Pakistani Government and many local communities, compounded by years of underdevelopment and poor governance, has contributed to instability, insecurity, and growing extremism and insurgency in parts of Pakistan. Assisting the Government of Pakistan in its attempt to bring peace and security to the unstable regions of Pakistan—the Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkhwa (KPK)—is pivotal to U.S. foreign policy objectives and national security.

To this end, USAID awarded a 3-year, \$102 million contract in September 2009 to implement a portion of the Pakistan Transition Initiative in FATA and KPK. The primary goal of this quick-response program is to support activities in Pakistan that reinforce stability, counter extremism, and strengthen the influence of the Pakistani Government. USAID's Office of Transition Initiatives<sup>1</sup> manages the program with a staff of seven located at USAID/Pakistan. As of September 30, 2011, USAID had spent \$24.0 million of the \$32.8 million obligated to implement projects in dangerous environments—those that are prone to flooding, lack basic infrastructure and rule of law, and have experienced widespread violence and destruction as a result of militant activity.

USAID's Office of Inspector General in Pakistan (OIG) conducted this audit to determine whether USAID's Pakistan Transition Initiative identified basic community needs in areas suffering from instability and extremism and implemented small-scale projects that meet those needs, thereby supporting the Government of Pakistan's efforts to improve relations with the affected communities.

The audit found that the program identified basic community needs in areas suffering from instability and extremism and implemented small-scale projects to meet those needs (page 3). Each project we tested was implemented promptly; met basic community needs; and, as a result, improved people's attitudes toward the Government of Pakistan. OIG made site visits to 29 projects in six regions in FATA and KPK between October 5 and October 21, 2011. OIG's inspections of these projects and interviews of community members and various government officials confirmed that the program is a quick and efficient mechanism to deliver projects that the local communities want, and it has allowed the Government of Pakistan to create and cultivate a relationship of trust and confidence.

The purpose of the Pakistan Transition Initiative program is not to achieve specific targets. Rather, its focus is quick impact in areas identified as needing assistance. Key accomplishments under the program include:

- 48,000 meters of street paved
- 22,800 meters of drainage and sanitation piping constructed
- 7,000 meters of retaining walls built to withstand flooding
- 92 education facilities rehabilitated

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<sup>1</sup> The Office of Transition Initiatives is part of USAID's Bureau for Democracy, Conflict and Humanitarian Assistance.

Notwithstanding the program's accomplishments, the audit noted the following area for improvement:

- The program was not linked to longer-term efforts (page 6).

Therefore, the report recommends that USAID/Pakistan:

- Develop and document a coordinated strategy that links the short-term program with complementary medium- and long-term development programs in FATA and KPK (page 6).

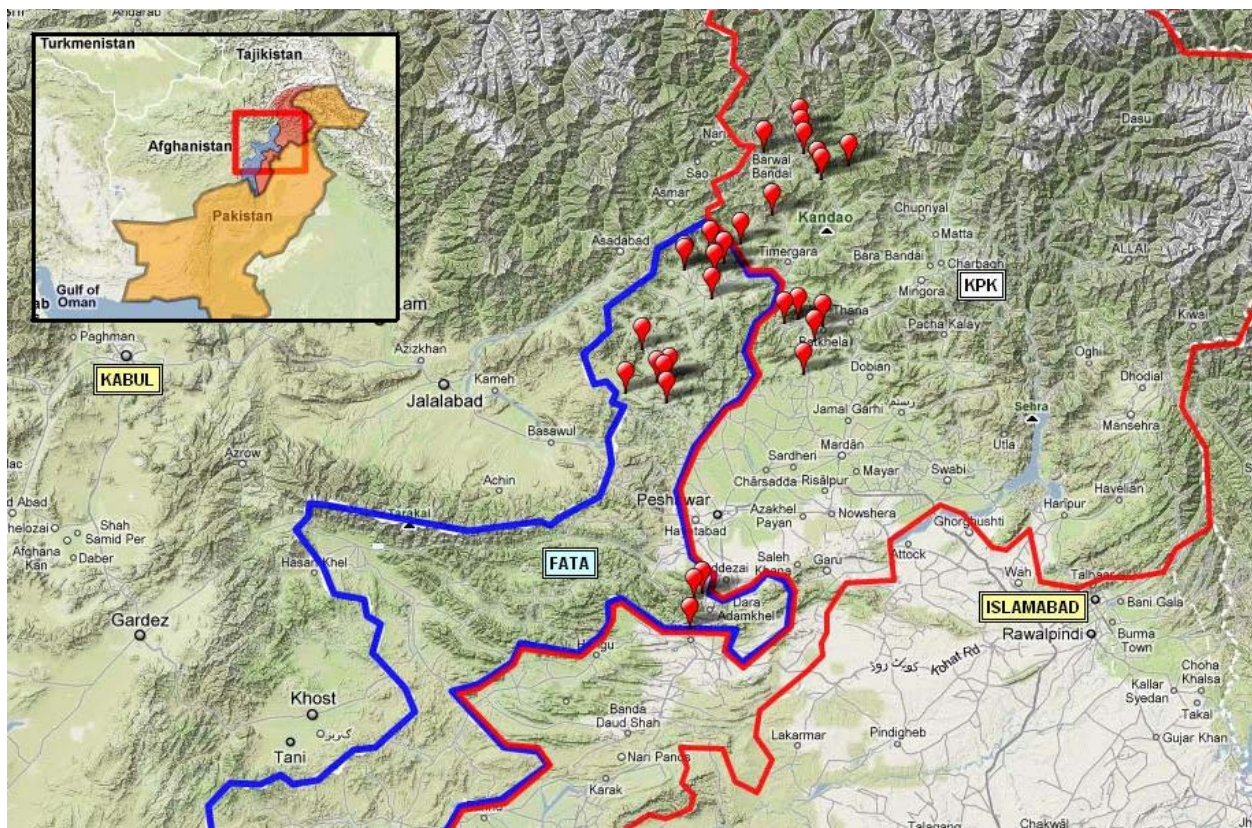
Detailed findings appear in the following section. The audit scope and methodology are described in Appendix I.

# AUDIT FINDINGS

## Program Identified Basic Community Needs and Implemented Small-Scale Projects

The program's goal is to help the Government of Pakistan identify community needs in FATA and KPK and involve communities in the projects implemented to meet those needs. These projects are intended to build trust between residents of high-conflict areas and the Government of Pakistan, eventually making these areas less prone to militancy and extremism. Insurgents have debilitated these areas, and in some cases, Pakistani military operations to remove militants caused additional infrastructure damage. Projects were typically started after the Pakistani military removed insurgents.

The audit confirmed that the program achieved its desired results. OIG reviewed 69 of the 424 projects implemented. OIG also visited 29 projects in some of the most dangerous regions of Pakistan, shown in the map below. The 29 site visits covered projects in six regions totaling \$1.8 million of the \$15.3 million spent on projects. The map's pinpoints illustrate the communities visited during the site visits.



Source: OIG

During site visits, OIG conducted interviews with community representatives and other stakeholders and verified project implementation. Site visits confirmed that the program identified basic community needs and implemented small-scale projects to meet those needs in 3 to 4 months; involved the communities in the process; and improved relations between the community and the Government of Pakistan.

**Identified Community Needs.** For the 29 projects visited, OIG confirmed that the projects met identified community needs. Projects included drinking water supply systems; suspension bridges; causeways; flood protection walls; street pavement; drainage systems; school rehabilitation; and the provision of seeds, fertilizers, and emergency relief kits. For example, KPK residents formerly crossed a river using a rudimentary cable system powered by an automobile, as depicted below left; the construction of the bridge, shown below right, addressed community needs.



**At left, residents use an automobile to power a cable to carry one person at a time across a river in KPK. At right, a program-funded bridge allows for quick and safe river crossing. (Photos by OIG, October 2011)**

**Involved the Community.** The program formed committees for each project that were made up of community representatives. Community members conducted inspections and evaluations throughout project implementation. OIG documented oversight by community members of the projects inspected. For example, we interviewed the community members who had overseen the installation of a water supply system (shown on next page). They explained that after extremists destroyed portions of their water system, villagers had been forced to get water from a distant well, exposing themselves to danger along the path. After the Pakistani military cleared the area, the program installed a new water tank and pumps. One villager explained that, although they fear extremists, they fear thirst even more.



**This program-funded tank, shown from two angles, delivers water to a village. (Photos by OIG, October 2011)**

**Improved Relations.** An overarching goal of the program is to improve relations between the Government of Pakistan and communities in FATA and KPK, thereby reducing violence and extremism. In addition to infrastructure projects like those depicted above, the program rehabilitated 92 educational facilities, including the Government Girls' High School (shown in the photo below). The school closed for several months to house displaced persons during military operations and sustained significant damage. The program rehabilitated the school and provided school supplies. OIG site visits confirmed that these projects improved relations with and perceptions of the Government of Pakistan. In each community we visited, villagers expressed gratitude to the Government of Pakistan.



**The Government Girls' High School, damaged during military operations, has been rehabilitated and is now open. (Photo by OIG, October 2011)**

Despite these positive results, some of these communities are subject to ongoing militant threats, highlighting the need for a strategy building on this short-term program to create



complementary medium- and long-term development programs in FATA and KPK. This issue is discussed below.

## **Program Was Not Linked to Longer-Term Efforts**

In January 2011, USAID's Administrator issued guidance on stabilization programs. The guidance noted that, "to guard against waste, diminishing returns, and the creation of unsustainable dependencies, [USAID must] identify ways to link short-term stabilization programs with subsequent complementary medium- and long-term development programs." The guidance also states that clear criteria and coordination mechanisms must be established, "internally and with our [USAID's] implementing partners, between stabilization programs and those that are intended to follow afterwards." Enduring stability and USAID's broader development goals depend on that effective transition.

USAID's Office of Transition Initiatives (OTI) and mission officials told OIG that they are working to support, coordinate, and assist in longer-term projects. For example, mission officials noted that they are and have been implementing other programs in FATA and KPK, in areas such as livelihood development, agriculture, microenterprise development, vocational training and scholarships, community health, and education. In addition, USAID has begun implementing a major infrastructure program in the area.

Notwithstanding these efforts, the audit found that the mission had not developed a formal written plan with clear criteria linking the implementation of program activities with the larger, missionwide development portfolio for FATA and KPK.

The implementing partner agreed that funding is not focused on long-range planning, as an internal evaluation report completed in April 2011 concluded.<sup>2</sup> The report noted that USAID has not developed a systematic approach that would generate long-term capacity for the Government of Pakistan to sustain the positive results achieved by the program.

The audit also found that the program provided for the creation of a civilian stability corps within the Government of Pakistan to address sustainability. However, OTI determined early in the program that a stability corps was not a priority during the current contract and eliminated the requirement in a recent contract modification.

As a result of not having a formal, systematic approach linking this short-term program with longer-term development programs, OTI officials agree that, if funding stopped, the program would collapse. Without USAID follow-on projects, relationships and trust built through the program between the Government of Pakistan and FATA and KPK communities may be compromised. Therefore, we make the following recommendation.

***Recommendation 1.*** *We recommend that USAID/Pakistan develop and document a coordinated strategy that links the short-term stabilization program with subsequent, complementary medium- and long-term development programs in the Federally Administered Tribal Areas and Khyber Pakhtunkhwa.*

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<sup>2</sup> Channel Research Ltd., "Evaluation of Pakistan Transition Initiative," Final Report, April 13, 2011.

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Pakistan and USAID's Office of Transition Initiatives agreed with the findings and recommendation in the report. Concerning the report's finding that the program was not linked to longer-term efforts, mission and OTI comments elaborated on linkages already in place. The comments also stated that OIG may not have fully accounted for USAID's capacity-building efforts. Further, the mission and OTI noted that conditions on the ground would continue to be a primary consideration.

Regarding USAID's capacity-building efforts, the mission commented that the subject audit examined OTI's Pakistan Transition Initiative program exclusively, whereas, USAID's capacity-building programs fall outside of OTI's purview. OIG understands that USAID's capacity-building programs fall outside of OTI's purview. This was an audit of OTI's Pakistan Transition Initiative program, not of USAID's capacity-building program. Finally, OIG fully recognizes that conditions on the ground will be a primary consideration.

***Recommendation 1.*** *We recommend that USAID/Pakistan develop and document a coordinated strategy that links the short-term stabilization program with subsequent, complementary medium- and long-term development programs in the Federally Administered Tribal Areas and Khyber Pakhtunkhwa.*

The mission and OTI stated that they plan to have a written strategy linking the short-term stabilization program with medium- and long-term development programs in FATA and KPK by August 31, 2012. Based on the actions taken, a management decision has been reached on the recommendation.

The full text of management comments is included in Appendix II.

# SCOPE AND METHODOLOGY

## Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID's Pakistan Transition Initiative identified basic community needs in areas suffering from instability and extremism and implemented small-scale projects to meet those needs, thereby supporting the Government of Pakistan's efforts to improve relations with members of these communities. No previous audits addressed the areas reviewed.

The audit covered projects implemented from March 2010 through August 31, 2011. The program started on September 4, 2009, and is to end on September 3, 2012. As of September 30, 2011, USAID had spent \$24.0 million of the \$32.8 million obligated for the program. Of that, \$15.3 million was spent on projects.

We reviewed applicable laws and regulations as well as USAID policies and procedures pertaining to the program, including Automated Directives System Chapters 200, 201, 203, and 302 and supplemental guidance. The audit relied on the following sources of evidence: the contract; interviews with USAID/Pakistan, the Government of Pakistan, and the implementing partner; and documentation maintained at the mission and at the implementing partner's Islamabad headquarters. Audit fieldwork was performed at the USAID/Pakistan mission and at the implementing partner's main program offices located in Islamabad from September 14 through December 13, 2011. Fieldwork also included 29 site visits to two regions in FATA and four regions in KPK between October 5 and October 21, 2011.

In planning and performing the audit, the audit team assessed relevant controls used by the mission to manage the program and to ensure that it provided adequate oversight of program activities. These controls included maintaining regular contact with the implementing partner.

## Methodology

To answer the audit objective, the audit team interviewed officials of OTI, the Government of Pakistan, and the implementing partner. Through interviews and documentation, the audit team obtained an understanding of (1) the program's goals, (2) how performance indicators, targets, and baseline data were established to measure the progress of the program, (3) how the mission ensures the quality of the data reported by the implementing partner, (4) how the mission monitors the implementation of activities, and (5) whether the mission is aware of any allegations of fraud or other potential illegal acts or noncompliance with laws and regulations.

In addition, we performed the following audit tests:

- Reviewed and tested the performance indicators, targets, and baselines established to determine their appropriateness and to document progress made.
- Reviewed and tested the procedures established by the mission to monitor and ensure the quality of work of its implementing partner.
- Documented and tested compliance with requirements for sustainability, branding and marking, and contract documentation.
- Statistically selected 69 of the 424 projects awarded under the contract during the audit period to determine the adequacy of documentation and controls.
- Conducted site visits to 29 of the 424 projects initiated during the audit period to verify the existence and status of the activities.
- Interviewed officials from the mission, the Government of Pakistan, and the implementing partner to gain their input into all of the above audit tests.

In assessing the status of the activities during the program's first and second years of operation, we statistically selected 69 of the 424 projects awarded. We visited 29 projects to visit to document their existence and their progress against stated objectives. Site visits covered projects in six regions totaling \$1.8 million of \$15.3 million spent. Based on the results of our statistical sampling, we believe that our substantive testing was sufficient to support the conclusion that the program has successfully identified basic community needs in areas suffering from instability and extremism and implemented small-scale projects that meet those needs, supporting the Government of Pakistan's efforts to improve relations with these communities.

Our detailed testing of the projects and site visits to completed activities were supplemented by interviews with officials from USAID/Pakistan, the Government of Pakistan, and the implementing partner, as well as with beneficiaries of the program, regarding the implementation of the program.

# MANAGEMENT COMMENTS



**USAID**  
FROM THE AMERICAN PEOPLE

**PAKISTAN**

January 23, 2012

## MANAGEMENT COMMENTS

### INFORMATION MEMORANDUM TO THE DIRECTOR OF THE OFFICE OF THE INSPECTOR GENERAL, PAKISTAN

FROM: Andrew B. Sisson, Mission Director, USAID Pakistan /s/  
Robert Jenkins, Director, USAID Office of Transition Initiatives /s/

SUBJECT: Management Comments in response to the Audit of USAID'S Pakistan Transition Initiatives Program (PTI), Audit Report Number: G-391-12-00X-P

Thank you for providing the Mission and Office of Transition Initiatives (OTI) with the opportunity to review the subject draft audit report. Please find below our management comments on the one recommendation included therein.

#### **Recommendation No. 1**

*We recommend that USAID/Pakistan develop and document a coordinated strategy that links the short-term stabilization program with subsequent complimentary medium- and long-term development programs in Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkwa (KP).*

#### **Management Comments**

Mission and OTI Management concur with the recommendation. As of January 2012 USAID is conducting an analysis of the operating context, with a review of current and upcoming activities to identify opportunities to improve linkages between short-term stabilization programs, such as PTI, and the Mission's longer-term development programs. A written transition strategy will be made available to the OIG by August 31, 2012.

Many elements of this transition are already in place. The draft report references the *stabilization policy guidance* issued by the USAID Administrator in January 2011. In March 2011 the Deputy Secretary of State approved *sectoral strategies* for Pakistan in energy, economic growth and agriculture, health, education, and FATA/KP stabilization. Combined with a significant reduction in management units, the Mission is now better placed to plan and execute fewer, and more focused, programs in the next three years. More specifically, the FATA/KP strategy authorizes:

“...a menu of programs ranging from short-term community stabilization projects, to longer-term development projects designed to promote sustainable socio-economic growth and good governance. USAID will endeavor to provide the specific mix of interventions in a given agency/district that will maximize progress along the stability continuum, so that areas outside the reach of the Government of Pakistan (GoP) come under the writ of the State, and that areas already within government influence are then anchored on the path to longer-term economic and social development.”

The Administrator’s policy guidance and the approved FATA/KP strategy provide an appropriate conceptual framework for the transition from short-term to longer-term programs. At the operational level, the transition will be informed by a *stabilization index* to track overall trends in the FATA/KP and help identify the key drivers of stability and instability. The index, under development, will provide the U.S. Government leadership with more methodologically rigorous data to, *inter alia*, help inform decision-making on when the conditions in an area are appropriate for the transition.

The index is one manifestation of USAID’s consistent efforts to refine its approach based on *lessons learned* from the last four years of working in FATA/KP. These are too numerous to mention here, but to give one example, the importance of precise geographical targeting and sequencing of interventions has been fully integrated into USAID’s planning and program management for FATA/KP.

Related to the point above, USAID has already carried out a *successful transition in the Malakand* region of KP. Following a major military operation in mid-2009, USAID focused on humanitarian and immediate post-conflict assistance. Despite devastating floods in 2010, by last year USAID’s emphasis had shifted to longer-term reconstruction and development, with PTI phased out in all but two remote areas. A key lesson from Malakand was to run both short-term and longer-term programs concurrently for a time, in order to avoid gaps that could alienate the population, destroy the credibility of local officials, and provide an opening for extremists and other spoilers.

The *return of other donors* to FATA/KP will also facilitate the transition. This process began in late 2010 as security improved, and USAID has been making every effort to facilitate the work of other donors, most of which appears to be focused on longer-term development. USAID also formed a close partnership with the GoP, and is helping to build its capacity to provide leadership and coordination.

In that regard, the Mission and OTI would like to note that the OIG may not have fully accounted for USAID’s capacity building efforts. The subject audit, and the April 2011 evaluation cited by the OIG, examined PTI exclusively, whereas USAID’s capacity building programs fall outside of OTI’s purview. A related clarification is that the determination to not pursue a “Civilian Stability Corps” within the GoP was not a unilateral decision by OTI. It was based on the preference of the GoP itself, which concluded that creating an “OTI-like” quick impact mechanism internally would not be possible, due to legal, financial, and other challenges inherent in the GoP’s own business practices.

Finally, an important caveat to the OIG's finding is that conditions on the ground will continue to be USAID's primary consideration. It should be noted that the transition discussed herein is rarely a neat and linear progression, and gains made in one area, or at one time, are often fragile and easily reversible. Furthermore, FATA/KP remains a highly complex environment. USAID's efforts are one variable among many, and are usually not the decisive factor. The actions of Pakistani security forces and civilian authorities, the willingness of tribal leaders to engage, events in Afghanistan, and the efficacy of the broader USG effort in FATA/KP are all critical to a successful transition.

The Mission and OTI deem that appropriate actions are, or will be, underway to fully address the OIG's recommendation. We therefore request the OIG's concurrence that a management decision has been reached.

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