



STATUS REPORT: AFGHANISTAN AND PAKISTAN CIVILIAN ENGAGEMENT

*Office of the Special Representative for Afghanistan and Pakistan
November 2011*

MESSAGE FROM THE SECRETARY OF STATE

The civilian surge in Afghanistan and Pakistan that President Obama launched in 2009 to accompany the military surge in Afghanistan has helped advance our goals of defeating al-Qaeda, reversing the Taliban's momentum in key areas, and bolstering the economy and civil society of both countries. As U.S. troops begin a phased drawdown in Afghanistan as part of the larger plan for transition, our civilian initiatives in both Afghanistan and Pakistan are assuming new importance.


This report provides a thorough review of our civilian efforts, identifies significant challenges and areas of progress, and outlines the way forward. It places the work of our diplomats, development experts, and other civilian specialists within the framework of our "fight, talk, build" strategy. We will continue the fight, as coalition and Afghan forces increase the pressure on the Taliban, the Haqqani network, and other insurgents. We will continue supporting an Afghan-led peace process that meets our red-lines. This won't be easy, but reconciliation is still possible and is the best hope for peace and stability in Afghanistan and the region. And we will continue to build capacity and opportunity in Afghanistan, Pakistan, and across the region, because lasting stability and security go hand in hand with greater economic opportunity.

In Afghanistan, "build" means supporting Afghans in laying the foundation for sustainable economic growth in the run-up to 2014, while also shifting from short-term stabilization projects to long-term development programs. In Pakistan, it means leveraging the resources provided by the landmark Kerry-Lugar-Berman legislation to address major economic challenges that threaten Pakistan's stability. And across the wider region, it means pursuing a broader, long-term vision for regional economic integration – a New Silk Road – that will lower trade barriers, create jobs, and reinforce political stability.

Our civilian efforts were never designed to solve all of Afghanistan's development challenges or to completely turn around Pakistan's economy. But they do aim to give Afghans and Pakistanis a stake in their countries' futures and undercut the appeal of insurgency. This strategy is rooted in a lesson we have learned over and over again, all over the world – lasting stability and security go hand in hand with economic opportunity. People need a realistic hope for a better life, a job, and a chance to provide for their family. It recognizes the vital role of women and civil society in building more stable and prosperous countries – and in achieving lasting peace and reconciliation. And it puts accountability and transparency at the heart of all our efforts.

So, as our commanders on the ground will attest, it is critical to our broader strategy that civilian assistance continue in both Afghanistan and Pakistan. Disengaging now would undermine our military and political efforts and the national security interests of the United States.

We know that there will be hard days ahead, but we believe that this strategy – fight, talk, build – offers the best way forward. As we proceed, the support and advice of Congress will be crucial. I look forward to continuing to work closely with members of both chambers and parties to ensure that our diplomats and development experts have the resources and support they need to advance our goals in Afghanistan and Pakistan and our national security around the world.



Hillary Rodham Clinton

Secretary of State

November 2011

TABLE OF CONTENTS

| | |
|---|----|
| OVERVIEW..... | 1 |
| SUPPORTING AN AFGHAN-LED, SUSTAINABLE TRANSITION..... | 8 |
| BUILDING AN ECONOMIC FOUNDATION FOR AFGHANISTAN’S FUTURE | 9 |
| SUPPORTING AFGHANISTAN’S GOVERNANCE AND POLITICAL INSTITUTIONS..... | 11 |
| STRENGTHENING AFGHAN RULE OF LAW..... | 13 |
| SUSTAINABLE DEVELOPMENT INVESTMENTS..... | 14 |
| ADVANCING THE RIGHTS OF AFGHAN WOMEN AND GIRLS | 15 |
| OVERSIGHT OF AFGHANISTAN ASSISTANCE | 16 |
| PAKISTAN’S PRIORITY SECTORS | 17 |
| STRENGTHENING OVERSIGHT OF PAKISTAN ASSISTANCE | 22 |
| LOOKING AHEAD ON CIVILIAN ENGAGEMENT WITH PAKISTAN | 23 |

OVERVIEW

The core U.S. goal in Afghanistan and Pakistan remains to disrupt, dismantle, and defeat al-Qaeda and its safe havens in Pakistan, and to prevent their return to Afghanistan or Pakistan. As Secretary Clinton laid out in a February 2011 speech, the United States is pursuing a strategy of three mutually reinforcing surges: a military offensive in Afghanistan against al-Qaeda terrorists and Taliban insurgents; a civilian campaign to bolster the governments, economies, and civil societies of Afghanistan and Pakistan to undercut the pull of extremism; and an intensified diplomatic push to bring the Afghan conflict to an end and chart a new and more secure future for the region. This strategy of “fight, talk, build” recognizes that a political resolution of Afghanistan’s decades-long conflict offers the best hope of peace, enabling the related goal of widening sustainable stability in Afghanistan and the region. The death of Osama Bin Laden, the weakening of al-Qaeda’s senior leadership, and ongoing transition to Afghan security lead by December 2014 – alongside initial steps toward reconciliation and greater regional economic integration – are all concrete signs of progress.

Pakistan has a critical role to play in defeating al-Qaeda, and like Afghanistan’s other neighbors, it has legitimate interests in a resolution of the Afghan conflict. Therefore, we are also focused on building a productive and cooperative long-term relationship with Pakistan – through diplomacy and tangible support for the Pakistani people in their fight against terrorism and their efforts to increase economic growth and opportunity.

This status report outlines progress since the February 2010 “Afghanistan and Pakistan Regional Stabilization Strategy” report was issued, and reviews key priorities for civilian engagement in Afghanistan and Pakistan moving forward.

AFGHANISTAN

The United States has significant national security interests in Afghanistan, Pakistan, and the region. Although we are beginning to withdraw combat troops and transfer responsibility for security to the Afghan people by 2014, drawing down our troops is not the same as disengaging. We want to partner with the Afghan people for the long-term, an engagement underscored by the Strategic Partnership negotiations aimed at defining U.S.-Afghan long-term security, economic, and social development cooperation. Economically, we are working with the Afghan government to support transition from an economy based on donor assistance to a sustainable, self-sufficient economy. Expanded market access for Afghanistan in the region and beyond, including to the United States through the proposed Reconstruction Opportunity Zones program and support for the New Silk Road vision, is crucial to support stability beyond the transition period.

The United States has helped to build the capacity of Afghan institutions to withstand and diminish the threat posed by extremism, deliver high-impact economic assistance, create jobs, promote the rule of law, and draw insurgents off the battlefield. The military surge we pursued in 2009, combined with an unprecedented civilian surge initiated to help support Afghan

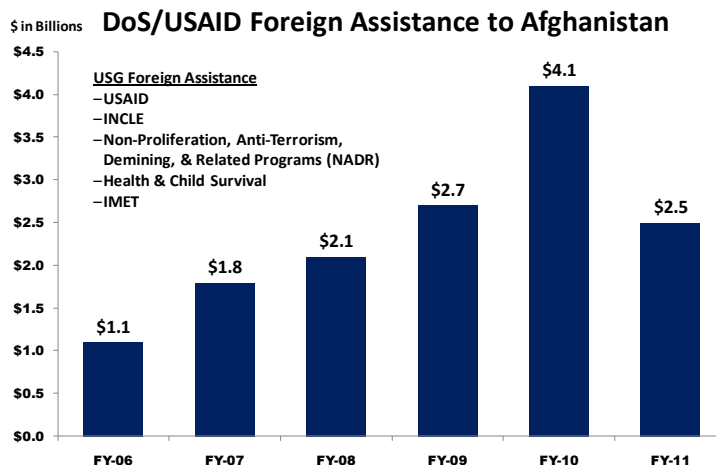
institutions and improve Afghanistan's governing capacity, have helped pave the way for security transition and for the diplomatic effort aimed at resolving the conflict.

Our coordinated, focused civilian and military efforts have led to substantial progress in stabilization and governance in some of the most volatile areas of the country. Today, economic growth has increased, and the Afghan government is making inroads in combating the cultivation, production, and trafficking of narcotics. Ten years ago, only 900,000 boys and no girls were enrolled in primary and secondary schools. Today, 7.1 million students are enrolled, 37 percent of them girls. Hundreds of thousands of farmers have been trained and equipped with new seeds, resulting in improved yields and increased rural incomes. Afghan women have used more than 830,000 micro-finance loans during the last eight years and developed more than 175,000 micro and small businesses. Infant mortality is down 22 percent since 2002, and there have been significant gains in life expectancy and access to basic health care.

Though a tremendous amount has been accomplished, we also have no illusions about the task before us. As we adjust to a more sustainable civilian presence, we will continue to support military efforts with stabilization programs, while shifting toward long-term development to preserve critical gains and help ensure the Afghan people are able to sustain these gains in a more constrained financial environment. Even then, we expect that ongoing violence, lack of institutional and human capacity, discrimination against women and vulnerable groups, and Afghanistan's incredibly low economic baseline will remain difficult challenges.

Corruption in particular remains a major concern. Fighting fraud and waste is one of our highest priorities, and we have greatly enhanced oversight mechanisms to address it, including expanding our civilian presence in the field to provide hands-on management of development projects. We also have partnered with the U.S. military to implement more coordinated and aggressive controls on contractors. We work closely with Afghan institutions that we fund directly to improve auditing, transparency, and accountability.

The Afghan government will face a significant fiscal deficit and must take credible steps to build revenue sources over the medium to long-term. At the same time, we have reached the high water mark of our civilian funding levels. We are applying the current resource levels to complete stabilization efforts and invest in foundational projects that will allow transition to long-term sustainable development at lower funding levels. As Afghan transition progresses and capacity increases, the U.S. Agency for International Development (USAID) has reviewed its programs to confirm they increase Afghan ownership and capacity, contribute to stability, and are cost-effective. This has helped the United States shift from stabilization projects to investing in priority sectors that will lay the foundation for long-term growth, focusing on economic growth (e.g. agriculture, extractive industries); infrastructure (e.g. energy, water); and human capacity development (e.g. education, vocational skills training).



Despite all of these challenges, we have – through the transition process agreed at the 2010 NATO Lisbon Summit – a unique opportunity to reaffirm engagement with the Afghan people and to an increasingly peaceful, stable, and prosperous Afghanistan. Militarily, this will take the form of continued assistance to the Afghan National Security Forces. From a civilian perspective, this will mean supporting Afghan-led efforts to establish the foundations for private sector-led economic growth and fiscal sustainability. Diplomatically, this will mean signing a new Strategic Partnership that will provide a long-term political framework for our bilateral cooperation and bolster Afghan and regional confidence that we will remain engaged.

Moving forward, we will work to build the foundation for Afghans to take responsibility for their future – seeking a political solution to the conflict, providing security, strengthening governance and the rule of law, protecting the rights of women and minorities, advancing democratic principles, and driving long-term economic growth. As President Obama said in June 2011, “We won’t try to make Afghanistan a perfect place. What we can do and will do, however, is build a partnership with the Afghan people that endures – one that ensures that we will be able to continue targeting terrorists and supporting a sovereign Afghan government.” Our three mutually reinforcing surges will help build a strong, sustainable foundation for Afghanistan’s future, while also building Afghanistan’s connections to the broader region and Afghan capacity to take ownership of their own future.

PAKISTAN

A positive and productive relationship with Pakistan is necessary to achieving our core goal of disrupting, dismantling and defeating al-Qaeda. It is also in the national security interests of the United States and Pakistan, as well as the broader region, for Pakistan to be both politically and economically stable. Despite recent challenges in the bilateral relationship, U.S. civilian engagement and assistance are important elements in realizing our shared interests, in cooperation with the people of Pakistan and their civilian-led government.

The political framework for our bilateral cooperation includes the U.S.-Pakistan Strategic Dialogue, which reflects a shared commitment to strengthen bilateral relations and cooperate on mutual interests. The Dialogue’s working groups meet regularly to discuss progress in our

collaborative efforts to enact reforms that will enhance stability and security, including in key sectors such as energy, water, and law enforcement.

On the economic assistance side, to demonstrate our long-term commitment to Pakistan's future, civilian assistance was tripled between FY 2008 and FY 2010, in line with the Kerry-Lugar-Berman (KLB) legislation authorizing \$7.5 billion in civilian assistance. This multi-year effort combines key investments in Pakistan's economic infrastructure with support for economic and governance reforms that are essential to long-term stability.

Since the passage of KLB in 2009, we have been helping Pakistan meet vital infrastructure needs and build its capacity to provide basic services and economic opportunity to its citizens. Our approach is innovative in four key ways:

- **Aligned with Pakistan's Priorities:** We are aligning our programs with Pakistani priorities, and working through Pakistani government institutions when appropriate, to improve the sustainability of our programs. Just over half of FY 2010 civilian assistance funding is being implemented through Pakistani institutions. This will help build the capacity of the civilian government, improving governance and strengthening institutions over the long-term, and is in line with international best practices for foreign assistance.
- **Visible Infrastructure:** "Signature" infrastructure projects, including dams and roads, strengthen the foundation for economic growth with increased power generation capacity, water storage, irrigation, and improved transportation. Technical assistance programs and diplomatic efforts to help Pakistan implement key reforms complement infrastructure investment. Infrastructure projects in the Federally Administered Tribal Areas (FATA) and Khyber Pakhtunkhwa (KP) province help build stability, integrate the region into broader Pakistan, and increase the authority of the state.
- **Focusing on Priority Sectors and Regions Vulnerable to Violent Extremism:** We are focusing our efforts on fewer and larger programs, and in the priority sectors of energy, economic growth (including agriculture), stabilization, education and health. We are also concentrating as appropriate on regions most vulnerable to insurgent recruitment. We have expanded our presence geographically to implement this effort.
- **Whole of Government Effort:** We bring expertise from a variety of U.S. government agencies to our efforts in Pakistan, ensuring that each agency works to its comparative advantage, de-conflicting their programs, and actively collaborating to find ways that civilian assistance can further U.S. goals.

As we move forward with this new approach, there is much that we and Pakistan have already accomplished together. The United States has disbursed about \$2 billion across many sectors since KLB was enacted, including \$550 million in emergency flood relief for the 2010 floods.

Implementing assistance well takes time, and we will see the results of increased civilian assistance over several years. We have reduced the number of projects to allow for a more streamlined, visible portfolio of larger initiatives in priority sectors and have identified signature

infrastructure projects – many of which are now under implementation. For example, we are on track to achieve the goal of adding 900 megawatts (MW) of electricity capacity to the grid by 2012, benefiting millions of Pakistanis around the country, while helping Pakistan address one of its foremost priorities – its destabilizing energy crisis. We are also working with the Pakistani government to help stabilize KP and FATA, having funded over 1,700 small infrastructure projects in remote communities and completing over 215 kilometers of major roads. We support Pakistani leaders of the future with the largest Fulbright program worldwide, sponsoring roughly 140 fellowships to the United States each year.

We are especially proud of U.S. responsiveness when disaster strikes. From the 2005 earthquake through the historic floods of 2010 and 2011, the United States delivered relief to millions of affected Pakistanis, helped prevent major disease outbreaks, saved thousands of lives and helped individuals and communities rebuild their homes, schools, and livelihoods. During the devastating 2010 floods affecting 20 million people, the United States was the largest donor, providing \$550 million in emergency relief and then reorienting another \$500 million of KLB funds to enable flood reconstruction and recovery. The prompt U.S. response to the 2011 floods in Sindh supports similar activities.

Implementing a program of such scale and complexity is challenging. Expectations are extremely high, both in terms of speed of implementation and results. Extensive consultation with a broad range of stakeholders, while essential, takes time. Tensions in the broader U.S.-Pakistan relationship have at times restricted our ability to secure visas for personnel. Insecurity constrains mobility. Reorienting programs has been necessitated by natural disasters and the accelerated devolution of authority from the federal to the provincial governments in key service sectors, especially education and health. Devolution has accentuated the capacity and resource limitations at the provincial level and left donors without the partners they had cultivated at the federal level to implement their programs.

In this difficult fiscal environment, appropriations of civilian assistance to Pakistan reached KLB levels (\$1.5 billion/year) in FY 2010 but not subsequent years. In FY 2011, funding fell to \$1.09 billion; FY 2012 levels are uncertain. The Administration reaffirms, however, the intent of the KLB authorization in its commitment to providing robust, multi-year civilian assistance to Pakistan.

REGIONAL APPROACH MOVING FORWARD

Long-term stability in a region with significant natural resources, a history of conflict, and two states possessing nuclear weapons is a key U.S. national interest. We know from tragic experience that distance alone cannot protect the homeland from threats born of extremism, despair, and lack of governance. That is why an enduring engagement by the United States and our partners is critical.

In Afghanistan, the international community will continue to be engaged beyond transition. We have joined with our partners to form an International Contact Group on Afghanistan to ensure that the broad range of countries and organizations contributing to Afghanistan remain

coordinated in their policies and programs. The Contact Group is a reflection of the international community's investment in Afghanistan, with roughly fifty countries and international organization participating. One-third of these are member states of the Organization of Islamic Cooperation (OIC), including the OIC itself. In fact, all three Contact Group meetings in 2011 have been hosted in OIC countries.

A key part of our engagement is encouraging regional support for a secure, stable, and prosperous Afghanistan in the context of a secure, stable, and increasingly prosperous region. The United States supports Afghanistan's efforts, including its efforts to advance reconciliation. The September 2011 murder of former President Rabbani was a setback, but the Afghan government strongly believes reconciliation is still possible and we support that as the best hope for peace and stability in the region. The region will benefit from an Afghanistan that is at peace internally and with its neighbors and that is growing its economy and creating jobs, giving its neighbors and near-neighbors strong reason to cooperate and invest.

Pakistan has an important regional role to play and has legitimate interests in any final political settlement in Afghanistan. The Afghan government has engaged the Pakistani government to secure its support for reconciliation, and both countries agreed to form a Joint Reconciliation and Peace Commission, which had its first meeting on June 11, 2011. The United States, Pakistan, and Afghanistan established a Core Group in May 2011 to support Afghan reconciliation, which has met four times since its launch.

Lasting stability and security go hand in hand with greater economic opportunity. That is why we are working closely with the Afghan government and international partners to support an achievable strategy for transitioning to a sustainable economy and addressing the economic impact of the drawdown of foreign troops. In partnership with the governments of the region, we are actively supporting an effort to expand regional economic connections – what we and others have called the New Silk Road vision. This vision is about tearing down the barriers to the movement of goods, ideas, and people across the region and unlocking the pent-up private sector economic potential that exists in the region based on the significant human and resource wealth that exists there. It is about promoting inclusive growth that allows all the people of Afghanistan and the region, including women and minorities, opportunities for economic empowerment. The New Silk Road vision is also about creating the necessary economic framework for a sovereign and self-sufficient Afghanistan not dependent on the international community for support. We must help the Afghans and Pakistanis realize their goal of economic growth and development based on trade and not just aid. To get there, meaningful reforms must be implemented that will open the region to increased private investment.

Several major conferences in late 2011 and early 2012 will engage the international community on how best to advance our diplomatic and civilian efforts in the region. These conferences are crucial to our efforts to knit Afghanistan's neighbors and the international community together in support of a secure and stable future. In early November 2011, Turkey hosted a ministerial-level meeting of Afghanistan's neighbors, near neighbors, and key international partners. Participants underscored their full respect for Afghan sovereignty and endorsed the transition to Afghan security leadership, Afghan efforts for a political solution to its conflict, and Afghanistan's vision of sustainable, regionally integrated economic growth.

In early December 2011, Germany will host a ministerial conference, chaired by the Afghans, commemorating the 10th anniversary of the first Bonn Conference. Involvement of the private sector, civil society, and women in these upcoming discussions on Afghanistan's future is crucial. For this reason, we are working to ensure that women are involved in all stages of the planning and agenda formation processes of the conferences in order to strengthen the transition and economic development future of Afghanistan. The official Afghan delegation itself, which is expected to represent a broad cross-section of Afghan society, will highlight the progress Afghanistan has made over the past decade. There will also be a two-day civil society event preceding the Bonn ministerial meeting, at which half of the delegates will be women. Two of the civil society representatives, including one woman, will serve as official delegates to the December 5th foreign ministers' meeting. We expect that the Afghan government will present its vision for sustained economic growth and reduced dependence on foreign assistance, based on private sector-led growth and increased regional economic integration, along with legal and regulatory reforms required to achieve these goals.

In May 2012, President Obama will host NATO Allies and partners for a Summit in Chicago, which will shape the next phase of the transition to Afghan lead.

Supporting an Afghan-led, Sustainable Transition

The United States is supporting a sustainable transition to Afghan leadership by partnering with the Afghans to build capacity, generate economic growth in support of fiscal sustainability, and foster efficiency between the national and sub-national governments. The transition process started in July 2011 when the first tranche of seven provinces and cities commenced transition to full Afghan responsibility and will end in December 2014. Sustainable transition requires that there be sufficient governance, development, and rule-of-law programs that buttress Afghan-led security.

Key Issues & Achievements

- **Civilian Surge:** Since the beginning of the surge, the number of American government direct-hire civilians serving in Afghanistan has nearly quadrupled from around 320 to over 1,200, working alongside Afghans and the U.S. military in Kabul and 80 locations throughout the country. These civilians have changed the way business is done on the ground, tailoring programs to specific local needs; narrowing the focus to key sectors contributing to stability and capacity building; and shifting funding to empower Afghans to take the lead.
- **Expanding Afghan Capabilities:** A sustainable, credible and successful transition must be supported by capacity building in areas such as service delivery and budget execution. The United States and its international partners are working to achieve conditions for sufficiently effective governance through training and capacity building programs with a more focused approach to sub-national governance, supporting democratic practices and institutions.
- **Stabilization to Development Continuum:** Stabilization programs in Afghanistan, an integral part of the counterinsurgency campaign, are designed to gain the support of the Afghan population by mitigating the conditions that give rise to the insurgency. They are critical enablers to Afghan-led transition by laying the foundation for governance and economic development of Afghanistan. As Afghan capacity increases, we will continue to shift to more sustainable models of governance and development assistance to Afghanistan as part of our enduring partnership.
- **Economic Impact of Transition:** Economic growth in Afghanistan is likely to decline and the fiscal deficit widen significantly during the upcoming transition. The World Bank is currently estimating that gross domestic product (GDP) growth would decline to under 5 percent per year. The slowdown in growth is expected to be concentrated primarily in the services industry (transport and logistics). It will likely affect urban areas more than rural areas, and will differ by region across the country. The World Bank also projects a budget deficit equal to around 25 percent of GDP due mainly to the Afghan government's assumption of the security wage bill. Achieving sustained, inclusive economic growth over the medium and long-term will depend on several critical factors, including (i) economic policy and political reform decisions by the Afghan government, (ii) the security environment and its impact across the country, (iii) donor actions on the size, modalities, and timing of their financing and other support, (iv) actions by Afghanistan's neighbors, and (v) possible unanticipated exogenous shocks, such as drought.

Looking Ahead

Moving forward, our civilian efforts will remain critical but must evolve, as the military begins drawing down troops and Afghan leadership strengthens. Post-transition we will need to align civilian assistance resources to more closely match the long-term needs and priorities of the Afghans.

Building an Economic Foundation for Afghanistan's Future

U.S. economic efforts in Afghanistan are designed to sustain sufficient economic growth to meet the needs of the Afghan people while also minimizing government dependence on massive donor inflows as transition progresses and assistance budgets shrink. The enormity of this task is exacerbated by an Afghan economy that is constrained by weak institutions, a restrictive regulatory environment, pervasive corruption, primitive financial markets, and an unskilled labor force. In order to stimulate growth, the United States has focused its assistance on foundational investments that can enable sustainable growth in high potential sectors, such as agriculture and extractive industries. U.S. economic assistance has helped build basic transport, power, and communication infrastructure needed to underpin economic growth. At the same time, assistance is addressing government capacity and financial institutions through targeted efforts to increase access to credit and financial inclusion. These interventions are critical for ensuring the fiscal and economic sustainability of the Afghan state, particularly post-transition, and laying the groundwork to attract private sector investment and deepen regional interconnections.

Key Issues & Achievements

- **Agriculture:** Afghanistan's economy is overwhelmingly agrarian with approximately eight out of ten Afghans employed in the agricultural sector. We have continued to focus key programs in the agriculture sector to bolster production and create jobs that will reduce the pool of available insurgents, as well as stem the flow of money to the insurgency from poppy cultivation. U.S. agriculture assistance has increased licit economic opportunities and built Afghan agriculture capacity at all levels. We have expanded licit agricultural cultivation by 190,000 hectares since 2009. To build Afghan capacity, the U.S. Department of Agriculture (USDA) has conducted 1,335 agribusiness and extension demonstrations and trainings in Afghanistan, while the USAID has trained over 307,000 farmers in improved farm practices, 1,058 government staff in improved public service performance; and over 5,500 businesses on improved business skills needed to increase agricultural sales.
- **Extractive Industries:** The extractive industries may be the most promising long-term source of future Afghan revenue if the appropriate technical and governance capacities are developed. From 2004-2010, the United States invested nearly \$30 million in Afghanistan's mining sector. Support from the Department of Defense, USAID, and the U.S. Geological Survey has identified mineral resources, created a nation-wide digitally cataloged minerals database at the Ministry of Mines (MoM), and provided specialized training to staff at the MoM and Afghan Geological Survey. The United States has also provided training to 250 Afghan technical personnel through workshops focused on geology, mineral resources, coal resources, water resources, earthquake hazards, and geophysics.
- **Employment:** Two-thirds of the Afghan population is below the age of 25, with half never attending school. This vulnerable, under-skilled, uneducated, and neglected segment is a target pool for recruitment by the insurgency. To address this reality in the short-term, U.S. stabilization programs have generated more than 14.5 million employment days through short-term income generation. In addition, USAID implemented long-term job creation business development programs that trained 20,000 Afghans in business development skills and resulted in almost 100,000 full time jobs.

- **Revenue Generation:** Afghanistan has experienced impressive economic growth, partially as a consequence of its exceedingly low baseline. Total revenues have grown steadily by 20 percent year-on-year to \$1.65 billion. Customs revenues have increased 425 percent since the 2005 Afghan fiscal year. In 2002, GDP was estimated at \$4.1 billion, but today, the IMF estimates it at \$15.6 billion. The World Bank, however, estimates that much of this growth has been consumption-driven, fueled in part by the international presence in Afghanistan. As transition proceeds, the Afghans will need to increasingly look for ways to encourage private sector investment and regional connectivity that will drive long-term, sustainable revenue generation.
- **Transportation Infrastructure:** Lack of sufficient infrastructure is a key obstacle limiting Afghanistan's growth as a regional economic partner. Since 2002, USAID has rehabilitated approximate 2,500 km of roads. In addition, the United States, working in cooperation with other donors has facilitated the near-completion of the Ring Road, giving the 80 percent of Afghans who live within 50 kilometers of the Ring Road improved access to markets, health clinics, and schools. To build the sustainability, USAID is supporting the development of an Afghan Roads Authority, which will be responsible for continued operations and maintenance of key roads.
- **Communications:** We have supported the building of telecommunications, television and radio towers to expand the reach of cell phones and information broadcasts. Investments in sustainable projects included the establishment of a market for bulk-priced text messaging, which is the preferred "social network" channel in Afghanistan. We have supported Pashtun language broadcasters; Afghan news wire services and SMS-based news services; the production of documentaries and programming on key Afghan government policy initiatives, such as the training and capacity built in the security forces; as well as educational radio programming.
- **Electricity:** Lack of access to reliable electricity has slowed Afghanistan's economic growth and deterred private sector investment. In 2002, only 6 percent of Afghans had access to reliable electricity. Today, 14 percent have access, with USAID adding 230 additional megawatts to the national power grid. Today, over 50 percent of the households in Kabul and 62 percent of the households in Mazar-e-Sharif receive continuous 24-hour electricity. In addition, USAID has worked intensively to commercialize DABS, the Afghan power utility, to build its capacity to effectively manage and oversee electrical production and revenue generation.

Looking Ahead

Afghanistan's long-term economic success and fiscal sustainability post-2014 will depend on its ability to maintain and develop its agricultural sector, diversify its manufacturing and service sectors, connect successfully with regional markets, as well as attract international private sector investment in key sectors. It will also depend on women's economic participation from agriculture to small businesses, including cross border trade. Job creation and food security will remain major challenges for Afghanistan to develop. The United States will continue to provide economic assistance that is closely prioritized with the Afghan National Development Strategy (ANDS), including through USAID's foundational investments and support for the Afghan-led economic strategy that advances a transition to a sustainable economy and the New Silk Road vision for regional economic integration and growth. These investments over the long-term will help build capacity of Afghan institutions, leverage more effective donor spending, and increase the role of the private sector – both Afghan domestic investors and foreign direct investors – by improving the investment climate and enabling environment.

Supporting Afghanistan's Governance and Political Institutions

Transition to full Afghan sovereignty requires support for a democratic political system sufficiently resilient to effectively manage internal and external challenges, reinforce a system of checks and balances, provide avenues for inclusive citizen participation, and sustain the accomplishments of the past ten years while providing space for necessary reform. Institutional change does not happen overnight; rather, it takes decades to take root and is impacted by local dynamics and culture. Local Afghan traditions and forms of social organization are critical components of successful Afghan governance, with bottom up mechanisms broadening participation and representation. The goal as we move forward is to support Afghan governmental institutions at all levels and increase their ability to deliver key services to the public with an eye towards helping institutions gain credibility and win public trust. This includes ensuring governance bodies respond to citizens' needs and provide venues for policy debate and scrutiny. Progress toward this goal will continue to be bolstered by sustained capacity-building efforts undertaken by the United States and our partners. For governance to be more sustainable requires focusing on sub-national governance and supporting democratic practices and institutions.

Key Issues and Achievements

- **Sub-national Governance:** Successful transition will require continued efforts to help Afghans build the competencies of national and sub-national governance. In addition to improving important service delivery mechanisms, strengthening the legitimacy of sub-national governance requires wider public participation. However, the capacity of government and civil society to engage the Afghan public in keeping their government accountable and honest remains limited. The United States will continue to assist the Afghan government to build functioning institutions at the national and sub-national levels capable of complementing each other on matters of rule of law and governance and economic development. Our continued strong engagement with the Ministries of Finance and Rural Rehabilitation and Development, the Independent Directorate for Local Governance, as well as key service ministries, will be critical.
- **Enhancing Afghan Governance Capacity and Strengthening Political Institutions:** We have seen progress in the capacity of Afghan institutions to provide services, however the low baseline of Afghan capacity means significant work remains. We recognize that a long-term commitment to governance in areas such as civil service and public administration reform is needed for transition to succeed. Working closely with various Afghan ministries – including the Ministry of Public Health, Ministry of Information, Communications and Technology, and the Ministry of Finance – we have increased on-budget assistance. At the same time, key independent governance institutions are emerging as checks on executive power and independent arbiters of the political system. Afghanistan's Parliament and the Independent Election Commission (IEC) stand out as examples. In the past few years, Parliament has enhanced its oversight role with close scrutiny of the national budget, presidential appointments, and other executive policy initiatives. Meanwhile, the IEC demonstrated a tremendous level of professionalism and integrity in its management of the 2010 Parliament elections crisis, withstanding significant pressure from the executive and the judiciary.
- **Civil Servant Training:** Civil service and public administration support is a key investment to ensure the sustainability of long-term governance in Afghanistan. Today, elected officials at the national and provincial level oversee courts, police, and several ministries that have effectively

implemented national programs. USAID has supported elections and the development of all three branches of government, trained thousands of civil servants, and supported accountability bodies such as election commissions and the High Office of Oversight. In FY 2010-2011 the embassy Public Affairs Section sent nearly 1,000 Afghans on exchange programs to the United States and other moderate nations for training and exposure to government and civil society institutions.

- **Parliament Assistance:** The United States is focused on supporting the development of the legislative branches to achieve its full constitutionally-mandated roles, and to put it on a more balanced and competitive footing with the executive. USAID's Afghanistan Parliamentary Assistance Program has played a critical role in supporting Parliament's ability to play an oversight role, engage more effectively on legislation, and develop constituency outreach. Parliament's needs remain significant. Its capacity must be increased to conduct investigations and public hearings, and to expand its role in budget formation. Continued support is critical as Parliament resumes its legislative responsibilities following the 2010 parliamentary elections crisis.
- **Government Media:** Through public diplomacy funding, the United States has supported the building of the Government Media Information Center (GMIC) and the training of government spokespeople throughout the country. In addition, a Parliament Media Information Center is also being constructed to provide information and accountability from all levels of government.
- **Municipal Support:** We are implementing programs at the municipal level to support critical stabilization efforts and pave the path for longer-term development investments. We are helping the government to improve its responsiveness and accountability by supporting municipal officials to implement visible municipal service projects. Major urban centers are critical as drivers not only of stability but also economic growth, municipalities and the national government are the only two entities that can collect taxes and generate revenue. Great gains have been made, particularly in the north and west and continued efforts in the east and south are vital to stabilization efforts.
- **Countering Extremist Voices:** We are working with the Ministry of Hajj and Religious Affairs to build capacity and develop a database of religious leaders for education and outreach. In addition, we have supported several Imams from other countries to visit Afghanistan, working with religious and tribal leaders to exchange ideas on religion and governance. Exchange programs bringing Afghan Imams to moderate Islamic countries have been established to broaden education and international contacts.

Looking Ahead

Moving forward during this transition period, we will continue to work alongside our Afghan partners to support a combination of formal and traditional governance structures that are transparent, efficient, and accountable and can serve as a strong counter-balance to insurgency efforts. We will also work to help Afghans improve service delivery at the sub-national level in the critical areas of health, education, and other key sectors. At the same time, we will need to continue to explore how sub-national governance structures can become more accountable to citizens, ensuring that the system of checks and balances is well entrenched, and supporting efforts to strengthen the IEC, relevant civil society institutions, and independent political actors as the key 2014 (presidential) and 2015 (parliamentary) elections approach.

Strengthening Afghan Rule of Law

Improved rule of law and access to justice are essential for long-term stability in Afghanistan. To help the Afghan government provide its people with transparent, affordable, and effective dispute resolution mechanisms, we support rule of law initiatives at the district, provincial, and national levels focused on increasing access to justice, capacity-building, and promoting transparency and accountability. We strive to help increase the Afghan government's legitimacy, improve its perception among Afghans, and promote a culture that values rule of law above self-interest.

Key Issues and Achievements

- **Justice and Corrections Sector Support:** State's Bureau for International Narcotics and Law Enforcement's (INL) Justice Sector Support Program continues to build Afghan capacity through training and mentorship of Afghan prosecutors, defense attorneys, investigators, judges, and officials in the Ministry of Justice and Attorney General's office. INL's corrections program provides training, advising, capacity building, and infrastructure assistance to Afghanistan's Central Prisons Directorate (CPD), including a robust capacity building team at CPD headquarters focused on developing standard operating procedures, prisoner classification and case management, and protection of female inmates.
- **Provincial Justice Centers:** A keystone rule of law program is the Provincial Justice Center (PJC) program. There are currently five PJCs in development in the Herat, Jalalabad, Mazar-e Sharif, Kandahar, and Khost provinces. The concept encompasses the cluster of justice sector infrastructure, personnel, records, expertise, and leadership associated with a provincial capital.
- **Counternarcotics:** Counternarcotics remains a major focus, with the Drug Enforcement Administration working with the Counter Narcotics Police of Afghanistan (CNPA) to identify, investigate, disrupt and dismantle significant drug trafficking organizations. Capacity at the Ministry of Counter Narcotics (MCN) and CNPA to manage the narcotics challenges continues to increase. Our programs directly support the Afghan government's comprehensive National Drug Control Strategy, including through supply reduction, drug demand reduction, and MCN capacity building. During 2011, 18 of 34 provinces participated in the MCN's governor-led eradication program (funded by INL) and eradicated 65 percent more poppy than in 2010.
- **Rule of Law Support:** USAID's Rule of Law Stabilization Program has trained over half the country's judges (670) and expanded the Supreme Court's training program for new judges and doubled the number of incoming students. The program also supports traditional dispute resolution mechanisms and fosters linkages between the informal and formal justice sectors.
- **Anti-Corruption:** Corruption remains a fundamental challenge. Law enforcement is one element of our anticorruption strategy, which includes efforts to develop Afghan institutional capacity to investigate corruption and promote the enforcement of anticorruption laws and regulations, through support to the Major Crimes Task Force (MCTF). USAID and public diplomacy programs have focused on the training of journalists, particularly investigative journalists.

Looking Ahead

We will continue to focus our support promoting accountability in the Afghan legal community, and expanding of the formal justice system, with targeted assistance to the informal justice system.

Sustainable Development Investments

U.S. development assistance is helping build a bridge between short-term stabilization efforts and longer-term development interests by supporting the minimum development conditions necessary for a sustainable and lasting transition. We recognize the importance of developing Afghan capacity at the national and sub-national levels to take leadership of the development process. To this end, we have continued fulfilling commitments made at the London and Kabul conferences in 2010 to increase Afghan ownership. This includes bringing 80 percent of development assistance into “alignment” with the Afghan government’s National Priority Programs and to direct 50 percent of assistance through the Afghan national budget (“on-budget”) by January 2012.

Key Issues & Achievements

- **Stabilization:** Our stabilization goal is to help the Afghan government gain the support of the Afghan population by reducing conditions that give rise to the insurgency. The United States has implemented more than 5,325 community stabilization activities in Afghanistan, supporting district governance and identifying local service delivery gaps and issues have helped connect citizens and their local governments. Research of communities in the south showed that, where stabilization activities existed, respondents were more likely to turn to the government to address their needs, a key stability indicator.
- **Health and Education:** Since 2002, under-five mortality rates have declined by 26 percent and infant deaths have declined by 22 percent. USAID has trained over 1,600 mid-wives across the country, making up half of all trained mid-wives in the country. Today 71 percent of health facilities have at least one female health worker, up 45 percent since 2002. In the education sector, more than seven million children are enrolled in grades 1-12, with 37 percent being girls. While national literacy rates have increased slowly, literacy among youth aged 12-15 years has increased dramatically to 62 percent for males and 37 percent for females.
- **On-Budget Assistance:** Since 2009, we have increased the amount of on-budget assistance provided to the Afghan government from 13 percent to 37 percent. The United States assesses any potential on-budget recipient to determine institutional strengths and weaknesses related to financial oversight, and if needed provides technical advisors to help oversee processes and training of the Afghan staff. In addition, we retain audit rights for all of its on-budget assistance. We continue to work with other international donors by providing strong support to the successful National Solidarity Program (NSP) administered through the World Bank’s Afghanistan Reconstruction Trust Fund (ARTF). This on-budget fund is the largest contributor to the Afghan budget – for both operating costs and development programs.
- **Budget Execution:** The United States is supporting a Ministry of Finance and Independent Directorate for Local Governance-led pilot that is assisting four ministries and their provincial line departments to prioritize needs and build consensus around the allocation of public revenue through the year long budget process.

Looking Ahead

Development is critical throughout transition for reinforcing stabilization and governance gains and strengthening Afghan ownership and sustainability. Design and implementation of programs will focus on sustainability and regional integration.

Advancing the Rights of Afghan Women and Girls

The advancement of women's rights is critical to political, social, and economic progress in Afghanistan, where women's human rights have been ignored, attacked, and eroded over decades, especially under Taliban rule. Many challenges remain, and we are committed to ensuring that women remain a cornerstone of our policy efforts and programs. Afghan women must have a voice in the decision-making about the future of their country.

Key Initiatives and Achievements

- **Key Advancements:** In a government-wide effort, we developed the Civilian Assistance Strategy for Afghan Women in December 2010, which focuses on key areas such as: greater access to health and education, increased leadership and civic participation, improved security and access to justice, and access to economic development. USAID has doubled spending on women's programs since 2008, created a gender unit in Kabul in 2010, and continues to support capacity building of the Afghan Ministry of Women's Affairs. The embassy's Public Affairs Section is supporting the networking of women's groups with others in the Central Asia region, as well as literacy programs, women's radio and television programming and international visitors focused on the rights of women in Islam.
- **Health and Education:** In education, based on 2010 data, 37 percent of the 7.3 million schoolchildren are female – a significant leap forward given that in 2002 only 900,000 students were formally enrolled in school, and nearly all were male. Access to basic health services has grown from around 9 percent in 2002 to roughly 80 percent of all Afghans, including women. Of the population accessing health services in 2011, 60 percent are female.
- **Political Process:** Despite Afghan male opposition to their participation, women are playing a role in the executive branch with three women serving as cabinet ministers, and in the legislative branch with women holding 69 of the 249 seats in the Afghan National Assembly (68 of which are constitutionally mandated) and serving on provincial assemblies.
- **Security and Access to Justice:** The State Department supports a number of initiatives to provide legal training and education, protective services, legal aid, drug treatment and professional development opportunities to benefit women and their children in Afghanistan, such as the opening of six new Violence Against Women Units at prosecutors' offices throughout the country. Since the first unit opened in March 2010 in Kabul, Afghan prosecutors have initiated 586 cases from 22 provinces, resulting so far in five convictions, including one for murder. The United States is the single largest donor to women's shelters, funding six of the 14 existing shelters in Afghanistan. In addition, we established an Afghan Women's Shelter Fund dedicated to serving victims of gender-based violence.

Looking Ahead

We will continue to encourage women to play leadership roles in key sectors, including security and justice. Through our economic development efforts, we will focus on job creation, agricultural and business development programs, cross border activities, and improved credit access for women. We are also working to ensure that women are meaningfully involved in the full range of transition strategies and discussions, including at the December Bonn conference.

Oversight of Afghanistan Assistance

The United States is taking steps to ensure that our assistance efforts in Afghanistan are sustainable, durable, and accountable. We worked to identify and address weaknesses in our processes. We significantly increased the number of staff dedicated to oversight and monitoring in the field. Our investment in training, coupled with increased personnel, is helping to support transparency and accountability measures necessary to reduce corruption in Afghan institutions, and helping Afghan government institutions stand up as part of a sustainable transition process.

Key Initiatives and Achievements

- **Decentralization of Project Oversight:** We deployed U.S. officials to regional, provincial, and district level platforms, enhancing our ability to coordinate and oversee programs. Personnel travel outside the wire to visit project sites and meet with local stakeholders to ensure that implementation is consistent with community priorities. Their presence enables better management, coordination, and monitoring of programs in the field.
- **Improving Assistance Processes:** In the fall of 2010, USAID launched the Accountable Assistance for Afghanistan (A3) initiative, which provides a structure for improving policies and practices for USAID assistance to Afghanistan and prevents U.S. funds from being diverted from their development purpose and falling into the hands of malign groups through corruption or extortion. It reduces layers of subcontracts, tightens financial controls, enhances project oversight, and establishes a vetting system. USAID successfully implemented a Vetting Support Unit in February 2011, which is now vetting new, non-U.S. awardees and sub-awardees working for USAID, as well as existing awards on an as-needed basis.
- **Planning Analysis & Evaluation Unit:** Embassy Kabul established this unit to help ensure the efficiency and policy coherence of U.S. assistance activities in Afghanistan. The unit conducts program reviews of current and planned activities and assists with analysis across a wide array of issues.
- **Gender Assessments and Analyses:** To increase the effectiveness of programs specifically for women and ensure that women are able to participate in and benefit from all programs, USAID now requires a gender analysis to be conducted for every new activity. The results of the analysis are integrated throughout the design of programs.
- **Afghan Info:** This database provides a comprehensive and transparent picture of how USAID implementing partners use assistance resources to support initiatives at the national, provincial, and district levels in Afghanistan. Embassy Kabul is taking steps to utilize the Afghan Info database to capture all foreign assistance activities being implemented by U.S. government agencies.

Looking Ahead

USAID will continue to expand the number of in-country oversight personnel and is building a plan to audit 100 percent of program costs incurred by implementing partners in Afghanistan.

Pakistan's Priority Sectors

Making a long-term investment in a stable, secure, tolerant, prosperous, and civilian-led Pakistan is in the national security interests of both the United States and Pakistan. To ensure U.S. civilian assistance is as effective and targeted as possible, we consulted extensively with the Government of Pakistan (GOP) and ultimately identified five priority sectors in sync with our joint priorities: energy, economic growth, stabilization, education and health. Throughout our programs, we have shifted to implementing through Pakistani institutions when possible, to help build capacity of the civilian government and the Pakistani people, while instituting robust monitoring mechanisms to ensure maximum transparency and accountability of funds.

Addressing Pakistan's Energy Needs

Pakistan has a chronic shortage of electricity. Rolling blackouts constrain Pakistan's economic development and disrupt services, causing public unrest and undermining the legitimacy of the elected government. High subsidies, low rates of tariff collection, and distorted pricing exacerbate the problem. Pakistan must solve its energy crisis to enable the private sector to drive growth and employment, build its middle class, and move beyond its dependence on assistance. Thus energy is the top priority of U.S. assistance to Pakistan.

- **Signature Energy Programs:** Secretary Clinton announced Phase I of our energy program in October 2009 after an accelerated vetting of projects designed to produce near-term results. These funds were designated to rehabilitate three thermal plants and the Tarbela Dam power plant, replace inefficient tube well pumps for irrigation, and provide technical assistance to promote energy efficiency and reform in the power generation and distribution companies. In Phase II of the program we are funding the completion of two dams (Gomal Zam and Satpara) in FATA and Gilgit-Baltistan. We are on track to complete Gomal Zam by early 2012 and Satpara early the following year. Both ultimately will irrigate over 180,000 acres, bring power to 30,000 households, and provide 3.1 million gallons of drinking water daily. By the end of 2012, Phase I and II projects in total will add approximately 900 MW of power generation capacity, which is enough to provide electricity to millions of households.
- **Energy Reform:** In a complementary effort, we have worked with the GOP to move the energy reform process forward through a bilateral Strategic Dialogue on energy. The United States and other international donors are also providing technical assistance to help the GOP implement its energy reform plan, which is intended to address the fundamental shortcomings in management of the energy sector through appropriate energy pricing, regulatory, and privatization policies.

We are currently evaluating prospective projects and activities for FY 2011 funding, with the goal of selecting a major new infrastructure project that would both contribute to power generation and water management, and serve as a U.S. "signature" contribution to Pakistan's energy sector development. Although any U.S. contribution would be a small part of such a project's overall cost, it would help to unlock funding from multilateral banks and other donors, effectively "branding" the importance of the U.S. contribution, much as many Pakistanis remember and refer to the Tarbela Dam as the iconic U.S. project of past decades.

Fostering Economic Growth and Employment

Greater emphasis on economic growth that brings economic opportunity to the rapidly growing population is the key to Pakistan's future success and stability. The private sector must drive employment for Pakistan to move beyond its dependence on assistance. Through the Strategic Dialogue and other diplomatic efforts, we have continued to urge Pakistan to continue its process of reforms to stabilize energy supplies, stimulate investment, and promote trade, all prerequisites to increased growth, as well as implement tax reforms that would bring revenues to finance essential services. In recent years, growth has been further hampered by internal political strife, the global recession, the struggle with internal extremists and broader terrorism, and natural disasters.

- **Programming Focus:** U.S. programs focus on: (i) promoting broad-based economic reforms; (ii) supporting small and medium enterprises; (iii) improving key value chains; and (iv) improving agricultural productivity and water management. In all programs we are emphasizing the economic participation of women and other vulnerable groups. Agriculture is a focus as the sector employs a significant percentage of the population. Significant programs include:
 - Construction of irrigation systems downstream from Gomal Zam and Satpara Dams, which will irrigate over 180,000 acres of land, and generate employment for thousands in FATA, KP, and Gilgit-Baltistan, as well as help mitigate flooding.
 - After the 2010 floods, U.S. agriculture assistance reached over 500,000 households with improved seeds and other support, dramatically increasing farmers' wheat yields 60 percent above the national average.
 - USDA programs are working with Pakistani research institutions and government authorities to increase farmer incomes through agricultural productivity and strengthening U.S.-Pakistan institutional linkages. USDA and USAID are helping increase exports of mangos and other crops.

- **Other Current Efforts and Accomplishments:** Examples of other projects include technical assistance to help Pakistan's Planning Commission implement its new growth strategy, and providing training for over 70,000 female micro-entrepreneurs in basic financial literacy and enterprise management. Our livelihoods activities supported over 600,000 families following the August 2009 IDP crisis and 2010 flood. We are also supporting implementation of the 2010 Afghanistan-Pakistan Transit Trade Agreement, which includes rehabilitated border infrastructure and new management techniques to reduce transit time. These activities will continue in support of the effort to expand trade with Central Asia, a central plank of the New Silk Road vision.

- **Business, Trade and Investment:** Small and medium-sized businesses constitute 90 percent of Pakistani firms, employ 78 percent of the non-agricultural workforce, and contribute to over 30 percent of GDP; however, they consistently lack access to capital. Thus we are seeking Congressional authorization to create a U.S.-Pakistan Enterprise Fund, modeled on the successful funds created in Eastern Europe and the former Soviet Union to support economic transition in the 1990s. This type of vehicle will mobilize the private sector to generate new economic opportunities, support reform, and enhance stability in transitioning states. To help facilitate the gradual transition from civilian assistance toward greater trade and investment, we are also working with Congress to implement a number of concrete economic policy initiatives, including an expanded Reconstruction Opportunity Zones program that would provide tariff relief and create economic opportunity in Pakistan and Afghanistan, and a Bilateral Investment Treaty that would improve the business climate in Pakistan.

Enhancing Stability in Border Areas and Regions Vulnerable to Violent Extremism

While working with Pakistan on many nationwide challenges, a key policy priority is the extensive area bordering Afghanistan, the epicenter of an extremist insurgency that affects not only Pakistan and Afghanistan, but also broader U.S. national security interests. Instability and insecurity in the critical FATA and KP border regions owes much to decades of poor governance, underdevelopment, and regional conflict. U.S. programs support the GOP in making these areas inhospitable to extremists by strengthening the capacity and legitimacy of civilian authorities to provide security, good governance, and socio-economic development. This also supports the GOP's longer-term goal of full integration of the tribal areas into Pakistan. Much progress has been made in the areas of infrastructure, community stabilization, and capacity building.

- **Major Infrastructure:** We are working with the GOP to invest in major infrastructure in FATA. In South Waziristan, the United States has funded over 215 kilometers of major roads that provide access to markets and economic opportunity. This is in addition to the Gomal Zam Dam and irrigation works in South Waziristan, and small road, irrigation, and power projects throughout FATA and KP. These are creating thousands of jobs, helping the government to transform the region politically by giving people a vested interest in stability, and linking this strategic region with the rest of Pakistan. With FY 2011 funds we intend to begin work on an additional 200 kilometers of road, primarily in North Waziristan. Other donors, including the United Arab Emirates, have committed to funding and infrastructure project in the FATA.
- **Community Stabilization:** With its short-term stabilization effort, the United States has worked with the GOP to fund over 1,700 small community-based projects that address immediate needs for basic services (water, power, health, education) and jobs, while also strengthening links between GOP officials and the communities they serve. This helps build incentives for communities to align with the GOP rather than the insurgents. In the Swat Valley, the United States is working with the GOP on a major reconstruction and recovery effort, including supporting key industries, rehabilitating 115 schools, five clinics, 35 water systems, 15 multi-purpose government centers, 50 kilometers of roads, a key bridge, and irrigation infrastructure.
- **Law Enforcement and Justice:** State's INL programs in FATA and KP are designed to assist the transition from military to civilian control in post-conflict areas and help create improved security conditions so longer term development efforts can take root. INL trains and equips the KP police, levy forces, and frontier constabulary, and implements parallel efforts to enhance prosecutorial capacity. INL also has long-standing programming providing assistance and airlift to counternarcotics and law enforcement throughout FATA, KP, and Balochistan.

The recently-enacted FATA political reforms may present new opportunities for the United States to support improved governance, but meanwhile USAID continues to support capacity building of the FATA Secretariat and the KP provincial government, as well as local media. Nearly 200 KP and FATA participants have been a part of exchange programs that foster ties and better understanding between Pakistanis and Americans.

Supporting Basic and Higher Education

Pakistan's ability to educate its population, particularly women and girls, is key to its future economic growth and political stability. Nearly a quarter of Pakistani children aged 7-16 have no formal education. Currently, Pakistan's public basic education system is straining under the pressure of unrelenting population growth over the last three decades. The United States is working with Pakistan to help it improve quality and access for basic and higher education.

- **Basic Education:** USAID is helping provincial governments repair and rebuild schools in flood, earthquake and conflict affected areas, including nearly 200 in Sindh province, as well as in KP, FATA, and Azad-Jammu Kashmir. Other activities address the quality of education and accountability of school management, including: (i) a reading program at more than 3,600 schools aimed at helping students to read effectively by grade three; (ii) community mobilization programs to involve parents and communities in their schools; and (iii) technical assistance to improve school management systems. To date we have trained more than 10,000 school administrators and teachers and helped provincial governments introduce new associate and bachelor degrees to raise the qualifications of new teachers going forward.
- **Higher Education:** In higher education, the United States supports the future generation in Pakistan and U.S.-Pakistan ties with the largest Fulbright program in the world. Between 2005 and 2011 over 900 total Fulbright scholarships were awarded, 38 percent to women. USAID has also funded more than 1,800 merit-based scholarships across the country to low- and moderate-income students to study in Pakistan.

Strengthening Basic Health Services

Pakistan needs to urgently improve the quality and reach of basic health services. Pakistan's high fertility rate is contributing to population growth that is expected to more than double the population by 2050. This increase is set to outpace economic growth and overwhelm the GOP's ability to provide essential services in key sectors. One in ten Pakistani children do not survive until their fifth birthday and roughly one in 89 women die of maternal causes. Devolution of health services to the provinces, which do not have adequate funding, skilled staff, or management and accountability systems to successfully take on these new responsibilities has made improving health service delivery in the near term even more challenging.

- **Health Services Support:** U.S. assistance focuses on increasing access to and improving the quality of maternal and child health services and reducing the prevalence of infectious diseases. We are currently designing a major new integrated reproductive and maternal/child health program in the Sindh province, putting President Obama's Global Health Initiative into practice. We are rehabilitating municipal water systems in Jacobabad and Peshawar to assure 250,000 families access to clean water, and are constructing a premier gynecological surgery complex at a national teaching facility at the Jinnah Postgraduate Medical Center in Karachi. Pakistan is one of four countries still battling endemic polio, which is on the rise there; U.S. assistance will ensure funding for 27 national polio vaccination campaigns as well as targeted clusters where there are confirmed cases.
- **Technical Assistance:** Technical assistance programs continue to assist federal and provincial-level managers in defining planning, budgeting and technical roles under devolution and advocate

for service integration and more cost-effective approaches. We have committed to supply commodities to birth-spacing/family planning programs until 2013 while we help the federal and provincial health departments build their procurement, management and distribution systems.

Themes That Cut Across Priority Sectors

All U.S. assistance programs regardless of sector include elements that promote broader socio-political goals such as the empowerment of women, better governance, and greater transparency. Governance and transparency are themes across all programs, especially those implemented through the GOP and other Pakistani institutions. Three small grants programs, including the Ambassador's Fund, support civil society and community initiatives, all of which contribute to greater public awareness of the need for citizen participation in improving their own lives and communities, and what they should expect from their government. We also have programs to support political parties in their efforts to become more responsive to their members and constituents, and to help the National Assembly develop a research capability.

Women's participation in the economy and society is critical to building civil society, and increasing economic growth and political stability over the long term. U.S programs to advance women include microfinance for income generation; education and vocational and technical training to increase women's literacy and basic life skills; and programs and advocacy to advance women's standing in the key sectors of rule of law, human rights, health, education, and economic and social advancement. Our Gender Equity Program awards small grants to Pakistani NGOs to support women's empowerment, access to justice, and combating gender-based violence.

Strengthening Oversight of Pakistan Assistance

The rapid increase in civilian assistance funding, the unpredictable security environment, and the decision to implement programs through Pakistani institutions to increase sustainability all create oversight challenges. The key steps we have taken to improve oversight include:

- **Pre-Award Assessments:** Local organizations, including government agencies, undergo a pre-award assessment to determine the adequacy of financial and management controls and recommend remediation before they can receive U.S. funds. International accounting firms with offices in Pakistan have to date completed close to fifty pre-award assessments. USAID may embed local Certified Public Accounting (CPA) firms within organizations to ensure proper financial oversight, on an as-needed basis.
- **Inspector General Offices in Islamabad:** Recognizing that departmental Inspectors General (IGs) from USAID and State were slow to engage in Iraq and Afghanistan, USAID and State IGs have set up a presence in Islamabad that has already led to financial returns to the U.S. Treasury and some successful prosecutions. These offices collaborate with the Department of Defense IG on a quarterly report modeled on the Iraq and Afghanistan Special IG reports that chronicle the progress of programs and funding from quarter to quarter. There is also a program to help develop the capacity of the Auditor General of Pakistan, which while competent, lacks sufficient resources to keep up with more efficient auditing and oversight techniques.
- **Fixed Amount Reimbursements:** We use the mechanism to pay for infrastructure work that is completed and inspected, minimizing risk of fraud.
- **Transparency International Hotline:** Transparency International is managing a “hot line” to report suspicious activity in U.S. funded projects, which has led to a number of investigations.
- **Increased Personnel and Improved Processes for Oversight and Monitoring:** The United States has increased in-house staffing in Pakistan to manage the large work load in the procurement, contract management, auditing, legal, and program office functions of tracking the progress of projects and financial flows. USAID is enhancing financial and other safeguards through award mechanisms that provide the most visibility on projects costs, fixed amount reimbursement contracts, and limited layers of subcontracts. Other steps to improve processes include enhanced financial controls such as electronic funds transfers and audits of locally-incurred costs.
- **Monitoring & Evaluation (M&E) Contract:** USAID has contracted with a U.S. firm that specializes in M&E to develop a nation-wide monitoring and evaluation program to provide third-party oversight of U.S. assistance programs, bring more consistency and transparency to these efforts, and develop a clearer picture of what our programs are accomplishing.

While no oversight system is perfect, we are confident that we have substantial mechanisms in place to discourage deliberate fraud, identify and prosecute fraud cases, and help our Pakistani partners develop better monitoring and evaluations systems of their own.

Looking Ahead on Civilian Engagement with Pakistan

As confirmed by Secretary Clinton during her October 2011 visit to Pakistan, in the months and years ahead, we need to remain committed to the long-term goal of supporting a sovereign, democratic, and self-sufficient Pakistan.

We also need to be attentive to what works and what is more difficult in order to shift resources appropriately to sectors and methods where we are more successful. We will continue to look for innovative ways to work with Pakistani institutions, promote key reforms, and to balance risk against potential gain. We plan to focus more on programs that will stimulate economic growth through infrastructure development, enterprise development, increased agriculture productivity, and policy reform that stimulates private investment. Recognizing the likely budget constraints on the levels of assistance, we will also look for public-private partnership models, and ways in which the United States can leverage funding from other donors and/or the private sector. Our focus will remain on visible infrastructure that helps build the foundation for economic growth, and capacity building of the Pakistani government and other institutions, which are key to strengthening Pakistan's democracy, governance, and long-term stability.

The U.S.-Pakistan Strategic Dialogue will continue, as will our efforts to foster increased regional and international economic linkages. In the energy working group, we continue to work with Pakistani counterparts to make progress in reforming the energy sector to help improve economic viability. In the law enforcement working group we are supporting the Pakistanis on important issues such as the combating the proliferation of improvised explosive devices (IEDs), and are assisting their efforts to implement a National Counter IED Strategy. We are renewing our efforts to promote market access for both Pakistan and Afghanistan. Given the challenging budget climate, expanding U.S. market access is a low-cost way of supporting regional stability. For Pakistan, expanded trade with the United States (Pakistan's second largest trading partner and largest source of foreign direct investment) would not only generate political goodwill in the relationship, but also support economic opportunities for the population and promote regional stability. As Secretary Clinton noted in her October 27 testimony before the House Foreign Affairs Committee, we look forward to working with Congress to pursue enactment of investment and targeted market access measures, including the Enterprise Fund and a proposed expanded version of the Reconstruction Opportunity Zones legislation.

Our relationship with Pakistan is not always easy, but it is vital to our national security and regional interests. We have many shared interests, and it is important we continue to find a way to act on them jointly. Ultimately it is up to the Pakistani people and their civilian-led government to chart a positive course for Pakistan's future. But it is also clearly in the national interest of the United States to help build a self-sufficient Pakistan, governed by democratic and civilian-led institutions able to provide jobs and opportunities, ensure human rights for its people, and contribute to stability in the region through sound economic and political relations with its neighbors. This is the most effective way to combat extremism. At its core, U.S. assistance to Pakistan is about achieving long-term stability in Pakistan and long-term cooperation with the Pakistani people as we work toward building a more positive future for the region.

