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BEFORE THE
SENATE COMMITTEE ON FOREIGN RELATIONS**

U.S. Assistance to Pakistan

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Mr. Chairman, other distinguished members of the committee, thank you for inviting me to appear before you today to discuss the critically important topic of “U.S. Assistance to Pakistan.”

I would like to incorporate your questions and structure my testimony around three core themes today, laying out USAID’s strategy for Pakistan, the impact that USAID has achieved, and the support that we provide to priorities of both the U.S. Government, and the Pakistani people.

The USAID Strategy:

In discussing strategy, it may be useful to provide some historic context. U.S. foreign assistance to Pakistan began in 1948 with education as one of our major priorities. This has included programming in partnership with Pakistanis at both the national and local levels. In 1987 we funded the establishment of the Lahore University of Management Sciences (LUMS) – now the premier institution of higher education in Pakistan. USAID’s support to higher education also helped to build a cadre of expertise and leadership in the areas of public administration, education, health and business. In the health sector, USAID’s support for childhood mortality has contributed to a one third reduction over the last four decades.

Our relationship with Pakistan changed abruptly in the 1990s when USAID halted its assistance to Pakistan due to the Pressler Amendment. Enacted in 1985, the Pressler Amendment specifically prohibited U.S. assistance or military sales to Pakistan unless annual Presidential certification was issued that Pakistan did not possess a nuclear explosive device. This certification was denied in October 1990, triggering wide-ranging sanctions against Pakistan. In 1995, USAID closed its mission and pulled out of Pakistan.

In early 2001, USAID received specific legislative authority to work directly with the Government of Pakistan in education, which was the precursor to the current program. Post 9/11, the U.S. again redefined its relationship with Pakistan. In 2002, USAID came back to reengage our Pakistani allies in the War on Terror to deal with issues of poverty, lack of access to a quality education, and substandard health care alternatives for their children.

What is USAID's strategy and objective in Pakistan?

USAID's strategy and objective is to help Pakistan develop into a moderate, prosperous, and democratic nation by addressing some of the most pressing needs of the Pakistani people: education for their children; healthcare, especially for mothers and children; economic opportunities, particularly jobs for young people; and building democratic institutions and practices to help the Pakistani people gain a voice in their government.

How has this strategy been translated into specific programs?

Pakistan needs to respond to the urgent problems facing its children and youth by providing a quality basic and higher education programs which will give them the skills to find jobs in the modern economy. The U.S. is helping upgrade public education, placing emphasis on improving the quality and affordability of Pakistan's public schools. This allows parents of limited means to pursue educational opportunities for their children beyond religiously-oriented madrassahs. At the same time, we are aware that an educated population will pave the way for long term and lasting benefits for all Pakistanis - economically, socially, and politically.

USAID also recognizes that the level of health in Pakistan, particularly maternal and child health is among the worst in the world. USAID's program is helping save the lives of thousands of Pakistani mothers and children from illnesses which can be prevented – such as polio and tuberculosis.

USAID developed a program to promote democracy and governance in Pakistan in order to help the Pakistani people develop more responsive political parties, and the legislative, civil and legal institutions needed to change this status quo.

Economic recovery and growth has begun, but is not yet providing the rural poor opportunities to improve their livelihoods, nor is it producing enough jobs to keep pace with Pakistan's burgeoning population. USAID has undertaken activities to help Pakistan compete in the world arena – by providing micro-finance and larger loans for small and medium-sized business and boosting the competitiveness of industries such as furniture, marble and granite that can potentially be exported.

What is the strategy driving the various components of this support? What are the goals?

USAID's strategy in Pakistan addresses four major development areas: education; maternal and child mortality; democratic institutions and civil society; rates of poverty and unemployment. Components of the program give particular attention to relieving these constraints in the earthquake-affected areas and in the FATA.

Pakistan's education sector faces immense challenges. Of 22 million children between the ages of five and nine, only 42% attend school. Historically, less than half of Pakistani children who enroll in school complete five years of schooling; for every 100 children beginning first grade, only six complete grade twelve. Poor teaching and learning results in students leaving the system with no capacity for critical thinking, or much worse, remain illiterate. Male literacy (65%) is much higher than adult female literacy (40%); the disparity is more pronounced in rural areas (58% for men and 29% for women). Teacher absenteeism is high and many schools are in disrepair. Pakistan has several excellent universities, but social and economic costs place higher education beyond the reach of most poor students, especially women.

USAID's education goal is, "Increase Knowledge, Training, and Infrastructure to Develop High Quality Education Programs". USAID's existing education strategy supports basic and higher education. USAID has supported the following components of the Government of Pakistan's education reform strategy: improving education policies and administrative and management capacity; providing support to teacher education and professional development; improving access to education by building and upgrading schools; and addressing special needs in the FATA and the earthquake-affected areas. The current program increases access to higher education by providing needs or merit-based scholarships to Pakistani

students and by supporting the world's largest Fulbright scholarship program.

Health indicators in Pakistan continue to be among the worst in the world. Seventy-eight of every 1,000 live births result in infant deaths and 350-500 mothers per 100,000 die every year from pregnancy and delivery complications. Other health problems afflict thousands more; these include malaria, communicable diseases including tuberculosis and acute respiratory infections. Pakistan remains one of only four countries worldwide that suffer from endemic polio.

Pakistan's unhealthy population puts a huge burden on national resources and stifles economic growth. Good health improves learning and increases labor productivity, leading to improvement in other crucial indicators such as literacy and economic growth. Healthier people can contribute economically and are less likely to lose hope and turn to extremism. USAID's maternal and child health program has already produced tangible improvements in the lives of Pakistanis, a major objective of the USG's Muslim Outreach Initiative.

USAID has adopted several approaches to improve democracy and governance in Pakistan.

One of the goals of U.S. foreign policy in Pakistan is to strengthen the country's democratic institutions and practices. Legislatures, in particular, can play a strong and positive role in governance. USAID efforts to strengthen democracy support: (1) improved representation and responsiveness of national and provincial legislatures; (2) greater civil society, media, and political party engagement in policy dialogue; (3) devolution of authority and operation to local government institutions, making them more responsive to the public; and (4) strengthening the electoral system and public oversight of the election process.

In the long term, USAID's work to strengthen democratic institutions will help establish a stable and democratic future for the people of Pakistan. In the immediate future, this work will encourage Pakistan to hold free, fair and credible elections in early January 2008. USAID provides assistance to Pakistan for voter education, political party development, computerization of the voting rolls, training of political poll watchers, and domestic and

international election observation missions to ensure that Pakistan follows a path of democratic change.

Economic growth in Pakistan has averaged seven percent over the past five years, which has resulted in a decrease in the percentage of Pakistanis living below the poverty line from 33% at the end of the 1990s to around 25% today. However, not all Pakistanis have benefited from this sustained economic growth; income distribution particularly in the rural areas remains very unequal.

The Government of Pakistan has made progress on major economic reforms, including restructuring the financial and telecommunications sectors; foreign and domestic investment; strengthening state regulatory entities; and devolving governance and fiscal management responsibilities to the local level. The multilateral development banks have played a substantial role in the reform effort, from technical advice to budget support. Positive impacts from these efforts include robust economic indicators, record levels of foreign investment, and the largest foreign reserve levels in Pakistan's history. These results, in combination with Pakistan's strong support for the war on terrorism, have led to increased donor investments in social sector support in recent years.

Continued economic growth will produce more jobs, which can accelerate and thwart those who would recruit the unemployed for terrorism. Given Pakistan's demographic bulge (63 percent of the population is under age 24), job creation is paramount.

USAID's programs support the Government of Pakistan's strategy to reduce poverty and encourage economic growth, and are helping create new employment opportunities for poor Pakistanis, especially in rural areas. USAID/Pakistan has increased economic opportunities for the poor by: (1) increasing community development programs, especially small infrastructure projects; (2) increasing access to microfinance in rural and urban areas; and (3) assisting small and medium enterprises in key sectors, helping them to generate improved employment opportunities.

Nonproject assistance provides cash to support mutually agreed upon objectives. Since September 11th, the U.S. has provided very substantial non-project assistance to the Government of Pakistan. A \$600 million Economic Support Funds (ESF) grant in November 2001 (FY 2002) paid

down debt owed to the U.S., the World Bank and the Asian Development Bank. The Government agreed to disburse the equivalent amount of Rupees to support a dozen social sector line items in the Federal budget. (In fact, the Rupee disbursements for the agreed upon social sector programs far exceeded the equivalent of \$600 million.) In FY 2003, approximately \$186 million in ESF was used to fund the subsidy cost of debt relief for the Government of Pakistan and that forgave \$1 billion in outstanding U.S. official debt, approximately one-third of its outstanding U.S. debt at that time. No conditionality was attached to the FY 2003 program.

Beginning in FY 2005, the U.S. has been providing \$200 million annually in non-project assistance*. Dollars are exchanged for rupees, and the Government of Pakistan and the USG negotiate and agree on the purposes for which the Government of Pakistan will use those rupees.

*This is part of a larger Administration commitment to Pakistan that began in FY 2005 and continues through F"Y 2009 of \$300 million per year in economic assistance and \$300 million per year in military assistance

Now, as Assistant Secretary Boucher has indicated, in FY 2008 , the full \$300 million in Economic Support Funds will be projectized. This additional project funding will be implemented through US contractors and grantees who would work with provincial and local governments as well as Pakistani NGOs and private sector organizations. We are still developing the program plans but we expect that the additional programming will impact three program areas. The first is education, which we believe is fundamental to Pakistan's forward progress towards democracy, prosperity and stability. Our approach to education assistance in Pakistan is comprehensive -- training teachers, building schools, providing scholarships with the premise that these actions will reduce the number of children exposed to extremist teachings. Second, we will direct resources to improving child and maternal health, thereby allowing the US to visibly touch the lives of millions of Pakistanis and fill a critical need. Third is an economic element - we want to expand job training for unemployed youth, generate jobs by building small infrastructure in communities, and help farmers get out of poverty.

Earthquake reconstruction began after the devastating earthquake on October 8, 2005. The USG pledged to spend \$200 million over four years on a wide range of activities to rebuild the area. Individual activities were undertaken to clear rubble, help the landless get housing, rebuild schools and health facilities, improve health conditions, and increase rural incomes.

Systemic changes were also targeted to improve the capacity of the health and education systems, and to increase economic activity by helping important industries to expand and generate more jobs.

Fiercely independent, some people in FATA do not want to be governed by the government in Islamabad. Some feel alienated from the Government of Pakistan because they have received very little. Security concerns make it difficult for the government to provide social services, and the lack of social services make it more difficult for the Government of Pakistan to increase security in the FATA. USAID's strategy is to improve economic and social conditions in the FATA through a broad range of programs consistent with the Government of Pakistan's FATA Sustainable Development Program.

What is the detailed breakdown of all USAID support to Pakistan since fiscal year 2000?

The following table provides a breakdown of funding since 2000 per USAID sector.

Education:	\$256 million
Democracy and Governance:	\$ 84 million
Emergency Economic Assistance:	\$1.6 <u>billion</u>
Economic Growth:	\$ 70 million
Health:	\$169 million
Earthquake and Reconstruction:	\$106 million
Program Support:	\$ 9 million
<u>FATA:</u>	<u>\$105 million</u>
Total:	\$2.4 Billion

The Impact of USAID in Pakistan:

Are these goals being achieved?

Since 2002, USAID has achieved the following:

In education:

- More than 400,000 children have benefited from USAID education programs; resulting in a 15.5% increase in student enrollment in USAID supported school districts.
- USAID trained 45,600 teachers and administrators in improved teaching techniques. These people were then observed to be

practicing what they had learned in the classroom setting. These techniques positively affect student achievement and educational advancement.

- USAID awarded 906 in-country higher education scholarships since the program started in 2004. Since 2005, 235 Pakistanis started master's or PhD studies in the US.

In health:

- USAID's support to the tuberculosis efforts in Pakistan helped district governments improve diagnosis and treatment quality, and provide better access to public care facilities for TB patients. This has helped the case detection rate to reach the WHO standard of 70%, and meet an 85% treatment-success rate.
- Since 2004, the number of children vaccinated during every national immunization polio day campaign rose from 29.8 million to 33.5 million. The number of polio cases dropped from 40 in 2006 to 18 in November 2007– with most areas not experiencing an outbreak for over two years.
- USAID has trained 1,404 traditional birth attendants since 2004 – preventing unnecessary deaths from obstetric complications.

In democracy:

- USAID has helped the Electoral Commission of Pakistan to curb vote tampering by updating the national voter registration list, computerizing electoral rolls, improving election complaints, and providing transparent ballot boxes and security seals for the January 8, 2008 elections. USAID has also provided voter education, political party assistance, and training and support of domestic and international observers.
- USAID trained 1,290 local leaders (including 283 women) in budget oversight, leadership skills and participatory planning for better service delivery. In one of the targeted six districts, USAID-trained public health workers began to track the usage of medicines in clinics, and have prevented stock shortages using information technology.

In economic growth:

- USAID provided over 350,000 microfinance loans in 25 rural districts and peri-urban areas – generating business opportunities for over 100,000 entrepreneurs.
- USAID’s competitiveness program has brought together businesspeople in six sectors. These business people developed strategies to improve their industries' competitiveness in the global marketplace. USAID's \$11 million investment generated over \$50 million in new private investment and over \$102 million in government support – creating more productive businesses and employees.

What determined the mix of programs across sectors?

USAID sectoral activities address the root causes of poverty and instability in Pakistan. Lack of education and poor health impede productivity. An absence of economic opportunity and political choice fuels frustration and violence.

In the spring of 2001, USAID received specific legislative authority to work on education with the Government of Pakistan. USAID’s Pakistan Planning Framework document of May 2001 states that USAID received this authority in response to “the grave state of the public education systems and the belief that a poorly educated populace impedes economic development and more readily supports extremist actions.”

Thus, from the beginning of USAID’s re-engagement with Pakistan, education has played the central role. When USAID re-established a full Mission presence in Pakistan in the wake of the September 11, 2001 attacks, programs to address needs in health, economic growth and democracy were added creating the current robust assistance program. Administration commitments made in conjunction with high-level negotiations have played a role in further program selection, e.g., the commitments to provide \$300 million per year from FY 2005-2009 for economic aid (\$100 million in project support and \$200 million in non-project or budget support), \$50 million per year from FY 2007 – Fy 2009 for earthquake reconstruction, and \$750 million over five years (FY 2007-2011) for sustainable development in the FATA. All these activities are directed toward the over-arching goal of helping Pakistan develop into a moderate, prosperous, and democratic nation. These activities also complement existing programs of other donors

in the country, such as the UK's Department for International Development, or in other cases working jointly on programs such as with the Government of Japan in the FATA education response.

What oversight mechanisms are in place to ensure that this assistance is being used for legitimate purposes?

All USAID contracts and grants are supervised by trained personnel to ensure the activities spend resources in order to obtain the agreed upon objectives. Regular financial audits are performed. Evaluations of projects after they end – and in some cases earlier – are part of our business approach. USAID has been hiring additional staff to increase project monitoring.

Supporting USG and Pakistani Priorities:

To achieve the end state of a prosperous, moderate and stable country, the United States and the Government of Pakistan are working together very closely to strengthen opportunities for Pakistanis. USAID has been very responsive to the evolving situation in Pakistan – supporting the earthquake relief efforts, assisting with Cyclone Yemyin this past summer, and in developing a long term plan to address the needs of the Tribal Areas.

What proportion of USAID assistance is spent in the FATA region?

We estimate that USAID allocated 6% of funds for FY2002-2007 to activities in the FATA.

What are the goals for assistance in this region and are they being achieved?

The goals of USAID's assistance program to the FATA are to help the government of Pakistan integrate the people of this strategically critical region into the rest of the country, economically, socially and politically – to give the people of the FATA a stake in Pakistan's development and to help them experience the economic and social benefits and services that come with this integration. Most importantly, this program will work on strengthening the capacity of local government institutions in the FATA to address the needs of citizens there.

USAID has designed a comprehensive program for the region that addresses the major constraints that impede development in the region, with a focus on promoting economic growth through development of small and medium enterprises, markets, education, job training, health care and community development activities.

How is the civilian assistance coordinated with the U.S. support for the Pakistani military?

Coordination takes place at weekly FATA meetings which are chaired by the DCM and attended by representatives of the US military, USAID, and all other members of the Embassy team that provide assistance to FATA. Similarly, thrice weekly country team meetings chaired by the Ambassador, address coordination issues. The U.S. Embassy has recently filled a FATA assistance coordinator position in Islamabad.

Does USAID have a strategy to sustain support for Pakistani institutions over the long-term?

USAID builds sustainability into the design of each program. The major role of USAID technical assistance is to undertake the training and capacity-building that will ensure we leave behind teams and institutions in place that have the skills and systems needed to keep programs operating after USAID projects end. These efforts form the heart of USAID activities worldwide. Thus, in earthquake reconstruction, we not only rebuild schools, but also work with communities and schools to improve the quality of classroom instruction and establish parent and teacher groups that will take responsibility for upkeep and maintenance of school buildings. In higher education, we have a long history of creating and sustaining high quality schools that provide leadership for Pakistan. In health, USAID's work supports public and private institutions that provide services and strengthen human resources for health care. These include district-level governmental institutions as well as commercial institutions providing health care products to communities and individuals.

In FATA, we face many development challenges. However, one of the largest components is capacity building of the FATA government so that it can more effectively govern this territory.

Conclusion:

Mr. Chairman, although we have come a long way in Pakistan, no one seeks to underestimate the challenges ahead. Recent events have shown that the

road back to democracy in Pakistan isn't as smooth as we would expect it to be. Our commitment is to the people of Pakistan, as they embark upon a long-term development course. The strong, long-term U.S. commitment that we display is making the difference, and it must continue with intensity.

We at the U.S. Agency for International Development appreciate all that your committee does to support this most important endeavor. Thank you again for this opportunity to appear before this committee. I look forward to taking your questions.

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PAKISTAN: USAID ASSISTANCE



