DISSENT CHANNEL October 2, 2009

Classification: SBU

TO: S/P – Anne-Marie Slaughter, Director

FROM: USAID/EGAT/EG – C. Stuart Callison

SUBJECT: Dissent Channel: Contradictory Objectives for the USAID/Pakistan Program

1. The following is a Dissent Channel message from C. Stuart Callison, Ph.D., Sr. Development Economist, USAID Bureau for Economic Growth, Agriculture and Trade, Office of Economic Growth, to the Director of Policy Planning (S/P), for action under 2 FAM 070.

2. The USAID Mission in Pakistan is receiving contradictory objectives from S/SRAP. On the one hand it is expected to achieve high impact counterinsurgency and broad-based economic development objectives as quickly as possible, especially in those areas more susceptible to radical Taliban recruitment. On the other hand it is asked to do this by working through national and local government channels and host country contractors and NGOs, and not through U.S. contractors and NGOs, to avoid the overhead charges of the latter and to improve the institutional capacity and legitimacy of government agencies and local institutions. These are all worthy goals and USAID can achieve them all. However, they are contradictory objectives without a reasonable transition period for the latter.

3. Directing an immediate shift away from U.S. contractors already on the ground to local implementers without an appropriate transition period will seriously compromise the more important requirements for quick counterinsurgency and economic impacts. Changing course instantly means that much of the action needed to meet the more substantive US strategic objectives will be suspended for many months or a year, if not longer, since not many local counterparts are yet able to deliver the necessary technical assistance to local levels, nor even to pass pre-award financial management audit requirements to receive project funds or grants.

4. Incremental funding actions, normally approved at the USAID office director level, now require Ambassador Holbrooke's personal approval. This approval process has been difficult, time-consuming and extremely frustrating for an already overburdened Mission staff, and the disapprovals already received are shockingly counterproductive to priority USG counterinsurgency (COIN) and economic development objectives. They have had a chilling effect on all decision-making by Mission staff, who know better than anyone else what will work and what will not work in the Pakistan context.

5. Now I hear about plans to cancel all prime contracts with American consulting firms and contract Pakistani firms instead. This would set back the USAID program and delay the accomplishment of USG objectives, instead of achieving more rapid results. Such policy decisions seem to be based on an inadequate understanding of the nature of economic development activities, the requirements for local institutional capacity building, the operational requirements under which USAID must function and the amount of time it takes to design and obtain approval for new contracts and/or project activities.

6. I strongly recommend that S/SRAP allow the current USAID/Pakistan program to continue in transition mode, adjusted as well as possible to the new COIN mandates but not be required to cancel contracts mid-stream. Large amounts of new funds are coming on line and it will take considerable

time and effort to design new activities that will make wise use of that money. Meanwhile, the existing contracts can be used effectively to pave the way for the desired new approaches to doing business. The money spent on contractor overhead during this transition period would be very small compared to the negative impact on COIN objectives of the disruption caused by contract cancelations.

7. Based on past experience in Pakistan, very few Pakistani firms and NGOs can currently satisfy the stringent financial management audit requirements for USAID project funding. Recently, one of Pakistan's preeminent financial institutions for wholesale microfinance, the Pakistan Poverty Alleviation Fund (PPAF), did not pass the financial management audit for a micro-lending activity and had to return half of its $5 million grant when one of its local partners misspent the funds. Now there is talk of giving PPAF a grant of up to $50 million before its management and financial systems have been strengthened to address internal weaknesses related to managing funds. The Khushali Bank did pass its financial management audit but failed its performance targets, despite very active monitoring and oversight by USAID staff. Building up the capacity of Pakistan institutions to manage project funds and implement the desired project activities is a worthy goal, but it will take considerable time and effort before they can successfully contribute to shared US-Pakistan objectives. Meanwhile, the U.S. consulting firms can simultaneously pursue project activities and help build that local capacity without bringing USAID development assistance to Pakistan to an abrupt halt.

8. Ambassador Holbrooke recently denied incremental funding for several USAID activities in the Federally Administered Tribal Areas (FATA). This program was launched in 2007 to support the objectives of the Government of Pakistan for development in this troubled and strategically important region. USAID spent many months working with counterparts, including the FATA Secretariat, the FATA Development Authority, and the local political administration, to support the Government of Pakistan in order to assemble a meaningful development program comprised of the following elements—mostly using Pakistani groups and firms for implementation in ways which do not identify them as being funded by the USG, for their own safety:

- Strengthening government institutions to improve service delivery
- Expanding economic opportunities, creating jobs, and increasing productivity
- Improving maternal and child health
- Improving teaching standards, upgrading teacher training institutions, and providing essential equipment and supplies to raise overall quality of education
- Addressing the needs of displaced people affected by the recent conflict and military operations, as well as rapidly responding to natural disasters

This program clearly supports USG COIN as well as economic development objectives in Pakistan. To shut parts of it down seriously impedes the achievement of those objectives.

9. The USAID/Pakistan Economic Growth (EG) portfolio consisted of two energy projects (Energy Policy and Energy Efficiency), Performance for monitoring and evaluation, and four interrelated private sector development activities: Jobs, Firms, Entrepreneurs and Trade. The Jobs project is to set up private sector-led training and employment systems that will integrate youth into the workforce. The Firms project will help firms in 10 key industries with a strong potential to grow and to add workers, including the agriculture sector, and will reach micro, small, and medium enterprises to add value to their products, increase exports, and create jobs. Entrepreneurs directly targets the vulnerable population in remote areas where the Taliban have been gaining a foothold by providing economic opportunities for 120,000 micro-entrepreneurs, a largely unskilled and uneducated population at risk for extremist influence in the absence of alternative income streams. The Trade project will address inefficient trade policies, illicit trade, infrastructure needs to strengthen Pakistan's transit and cross-

border trade with Afghanistan and facilitate trade with other high potential regional partners. These are well designed projects that will positively impact economic growth and employment generation in Pakistan. Their relationship to a rational COIN strategy in the Pakistan context should not be open to question, and they are all designed to build local capacity to carry on these activities as soon as possible, while the U.S. contractors are to phase out.

10. The Performance project was well designed to satisfy USAID's requirements for project monitoring, reporting and evaluation in a uniform and coordinated manner across all the EG projects and to keep the Pakistan public informed about what they were accomplishing, instead of requiring each of the several EG contractors to do so on their own in a less easily coordinated way. The project design was so well conceived it was highly praised as one other USAID Missions should try to emulate. Ambassador Holbrooke decided to end this project forthwith, ostensibly because it was being implemented by a U.S. consulting firm, although only 3 of its 28 or so employees were American and the rest were Pakistani (who received pink slips during Ramadan!). Now, since these are still USAID requirements, the Mission is forced to backfill them in much less satisfactory ways.

11. Scopes of work for a large, high priority EG agricultural development program, including livestock and dairy, horticulture, farm systems (for basic grains) and policy reform, have been under design for more than a year. They were almost ready for contracting. Under the new COIN guidelines they must now be redesigned in an attempt to use Pakistan instead of U.S. contractors and to start with small farmer organizations and local government management units, instead of using reliable U.S. consulting firms to organize the effort. This will result in considerable delay before USAID assistance to Pakistan's agricultural development can begin, which is unfortunate for a counterinsurgency effort that must rely on increasing rural productivity, employment and incomes for success. Pakistan's most backward areas will be the hardest to reach with the new limitations on contracting.

12. USAID is used to changing directions and emphases during political transition periods or when conditions change on the ground. However, in view of the time it takes to design and obtain approval for new projects, the better, more normal practice is to make incremental changes to existing projects in compliance with the new directions, but to keep them going until new projects can be brought on line with new funding. In the case of Pakistan, with the urgent need to achieve results as quickly as possible, the disruption to on-going activities of current S/SRAP procedures and plans is extremely damaging to USG objectives. The relatively small amount of money that can be saved by prematurely ending U.S. contracts is greatly exceeded by the delay and damage it will cause the program.

13. I have limited my comments mostly to the EG activities, as these are the ones with which I am more familiar; but I think they are also pertinent for much of the rest of the Pakistan program. It is one of the best suites of development assistance activities I have ever seen, in my 35 years of experience as a development economist with USAID projects around the world. Ambassador Holbrooke should have some long discussions on how best to implement COIN and economic development programs in Pakistan with USAID staffers on the ground, who are knowledgeable about conditions there, to learn why he should not dismantle the existing portfolio without a reasonable transition period.

C. Stuart Callison, Ph.D.
Sr. Development Economist
USAID/EGAT/EG/EPG
Tel. 202-712-4959
Email: ccallison@usaid.gov