

Statement for the Record
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BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE,
SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

“Assessing U.S. Foreign Policy Priorities and Needs
Amidst Economic Challenges in South Asia”

May 16, 2012 2:00 p.m.

Chairman Chabot, Ranking Member Ackerman, distinguished Members of the Subcommittee, thank you for the invitation to appear before you today to discuss the Fiscal Year 2013 budget request and how it seeks to advance United States interests in Afghanistan, Pakistan, and the broader region. As Assistant to the Administrator and Director of the United States Agency for International Development’s (USAID) Office of Afghanistan and Pakistan Affairs, I oversee the strategy and execution of our programs and operations in both of these countries.

Civilian assistance to Afghanistan and Pakistan is a critical component of our core U.S. national security objective of a stable South and Central Asia free of al-Qaeda and its affiliates. Afghanistan and Pakistan, and consequently the region as a whole, present both enormous opportunities and enormous challenges. I began working in the region 20 years ago, when I served in Afghanistan and Pakistan for nearly four years during the Afghan civil war. This region, wracked with conflict for much of the last three decades, remains one of the least integrated in the world, with the vast majority of its human and economic potential untapped.

This does not have to be the case. However, it will take fundamental changes by regional leaders to transform these dynamics. Our U.S. civilian assistance programs can be an essential catalyst and incentive for change, and our efforts in Afghanistan and Pakistan today are delivering real, tangible, measurable results that contribute to this potential transformation. Our efforts to spur investment in small Afghan enterprises; expand trade ties between Afghanistan, Pakistan, and India; and connect the restive tribal areas of Pakistan to the economy and government, are creating economic opportunity, interdependence, better governance, and accountability—all of which contribute to our effort to marginalize al-Qaeda and stabilize the region.

We have committed to an assistance program in Afghanistan and Pakistan that is increasingly effective, accountable, and sustainable. The importance and impact of effective, accountable, and sustainable development assistance to Afghanistan and Pakistan is more essential than ever in this period of transition. The stability of Afghanistan, amidst the drawdown of our combat forces, will require sustained effort to cement the important development gains that have been made over the past decade and mitigate the economic consequences of the reduction of our military presence. We have seen the dire consequences of neglect and disengagement play out in this region before, and the Obama administration is committed not to repeat history.

Afghanistan

Afghanistan has made some remarkable development progress in the last decade with the support of U.S. government and other donor investments. Given that Afghanistan started from such a low baseline, none of these significant achievements was foreordained.

Investments in agriculture, infrastructure, governance, and capacity development supported an economic and construction boom with annual growth rates of eight to ten percent - resulting in an increase in per capita income from nearly \$200 per year in 2003 to an estimated \$600 in 2012 and lifting millions out of extreme poverty. U.S. work to build a customs and taxation system has led to an 800% increase in government revenue – allowing the Afghans to pay more of the costs of running their own government.

The Afghan public health story is nothing short of remarkable. It is an appropriate reminder this week of Mother's Day that Afghanistan had the worst maternal mortality rate in the world in 2002, and only six percent of Afghans had access to even the most basic health care. Today, thanks to our innovative partnership with the Afghan Ministry of Public Health, access to basic health services has expanded to over 60 percent, and life expectancy rose 15-20 years, the single largest gain in life expectancy anywhere in the world in the last decade. At the same time, maternal and infant mortality dropped significantly, saving many tens of thousands of lives.

Improvements in education tell a similar story. Under the Taliban, a lost generation of girls was banned from even attending primary school, robbing the whole society of the proven economic, social, and political dividends that come with female literacy and participation in schools, the workplace, the market, and the halls of power. A tenfold increase of children in school, including 35 percent girls, is changing the way Afghans conduct business, education, and politics.

We have also learned hard lessons in what is one of the most challenging environments in the world and made important corrections in the implementation

of assistance to enhance effectiveness, accountability and sustainability. First, we are ensuring that our programs are increasingly effective by setting clear goals and measuring results. When programs are not working, we shut them down. For example, last fall we cancelled a planned road project in central Afghanistan when projected costs more than doubled.

Second, we have built additional layers of accountability to continue to ensure U.S. funds are used for their development purpose. Fighting fraud and waste is one of our highest priorities, and we have greatly enhanced oversight mechanisms to continue to address these matters. For example, our Accountable Assistance for Afghanistan initiative (A3) has increased vetting and oversight of USAID projects. We have put in place an independent third-party monitoring and evaluation team, with the addition of field offices in Kandahar and Jalalabad, to extend the agency's oversight reach to these regions. Overall, USAID field staff designated as field monitors increased over 300% in the past six months to current number of 318 On-Site Monitors across almost 30 programs.

Third, we are working to ensure that our efforts are sustainable. In 2011, we undertook an intensive review of our entire portfolio in Afghanistan, focusing our efforts on delivering results that will be maintained into the future by Afghans and build Afghan self-sufficiency.

The Way Forward

Afghanistan faces a critical turning point in the next few years. Insecurity, corruption, the narcotics trade, and political instability continue to pose challenges to fragile gains in development and governance. The drawdown of international combat forces and the associated economic impact will slow growth. But as the recently concluded U.S.-Afghanistan Strategic Partnership Agreement (SPA) makes clear, we will stay engaged in Afghanistan for the long-term, providing the Afghan people support so that they can pursue a future of greater stability and dignity.

The path to sustainable stability in Afghanistan requires continued commitment to civilian assistance, but increasingly through efforts that will boost Afghan self-sufficiency. Our budget proposal for fiscal year 2013 is aligned with this goal. The signing of the SPA is a major accomplishment and pivotal milestone on this path. The U.S. commitment to seek funding from Congress for continued economic assistance is contingent on the Afghans fulfilling their commitments and obligations to strengthen accountability, transparency, oversight, and the effectiveness of government institutions. Through the SPA, we seek to cement an enduring partnership with Afghanistan that strengthens Afghan sovereignty and stability while promoting respect for the constitution, human rights, and the advancement of women.

We have prioritized our assistance portfolio to make foundational investments that will enable irreversible transition to full Afghan security responsibility, and help to ensure Afghans increasingly have the skills and resources necessary to chart their own future. USAID plans to invest in priority sectors that are critical to private sector-led economic growth: agriculture, extractive industries, trade, and human capacity development. In addition, we are working with the Afghan authorities to ensure credible and inclusive national elections in accordance with the Afghan constitution, including by supporting and strengthening political parties and civil society coalitions to participate fully in an inclusive and representative democracy.

In one of the most food-insecure countries on earth, our agriculture assistance will help significantly boost crop yields, farm income, access to markets and reduce dependence on opium poppy for the 80 percent of Afghans who make their living from subsistence farming. Afghanistan's endowment of mineral wealth provides enormous opportunities to expand industry, trade corridors, and revenues, but presents significant potential pitfalls as well. USAID will work with the Afghan government and the private sector to improve the investment climate, increase Afghan capacity to create and implement a policy and regulatory framework that meets international best practices, and transparently report and manage resource flows so that they benefit the Afghan people.

However, Afghanistan remains a poor country and we cannot, and should not, set unrealistic goals. USAID is making difficult choices to sharpen our focus -- reducing infrastructure investments in order to support the government to maintain the infrastructure it already has. Likewise, we are cementing, rather than expanding, gains in health and education, and are reorienting stabilization efforts to more directly support the transition and a sustainable Afghanistan.

The upcoming G8, Chicago, and Tokyo conferences will be instrumental in engaging the Afghan government and international community to advance our diplomatic and civilian efforts in the region. We are committed to encouraging the international community to continue standing beside the Afghans as they take full ownership and responsibility for their nation's destiny as they move into the "Transformational Decade" (2015-2025) outlined at the December Bonn Conference.

Pakistan

Pakistan remains a critical partner for the United States in a critical region. Pakistan's efforts to deal with rising militancy, transnational terrorism, and nuclear security are of paramount importance to U.S. national security and Pakistan's economic and political stability is a foundation for Pakistan's efforts. Despite the enormous challenges to the bilateral relationship over the last 16

months, U.S. development work in Pakistan has persevered and delivered important outcomes for the United States and Pakistan.

USAID has crafted a results-driven civilian assistance strategy for Pakistan that is having a visible, measurable impact and furthers U.S. foreign policy objectives. Over the past 18 months, we have refocused our program in five key sectors – energy, economic growth including agriculture, stabilization, education, and health. We have also reduced the number of projects in Pakistan from approximately 150 to 50, with plans to further reduce to approximately 35 projects in 2013 to ensure our results are visible and tightly focused.

We have also created a network of public-private partnerships that helps make gains sustainable. We are closely coordinating with the government of Pakistan and implementing through Pakistani institutions when appropriate, to maximize impact.

At the same time, rigorous accountability mechanisms have been put in place to help ensure American tax dollars are used for their development purposes. Pre-award assessments, third-party monitoring, and regular auditing work are implemented to ensure the accountable use of funds. In several cases, we are utilizing a cost reimbursement model that allows us to confirm work is accomplished before payments are made.

The U.S. government has made energy the top priority for U.S. civilian assistance to Pakistan because sufficient and reliable energy is a key element of the country's overall development. Pakistan's chronic power shortage remains the number one constraint to economic growth and has the potential to create further political instability. Nearly half of the population lacks access to electricity and, in Pakistan's industrial base, insufficient power has shut down factories, putting thousands out of work and inciting violent protests. Pakistan must address its energy crisis to enable the private sector to drive growth and employment and ultimately move the country beyond its dependence on assistance.

USAID is increasing Pakistan's power supply with a goal of adding 1,200 megawatts of power to the grid and improving efficiency of the power sector, 900 MW of which will be completed by 2013, benefiting more than two million households and businesses and spurring economic growth. Infrastructure projects such as the rehabilitation of Gomal Zam, Tarbela, and Satpara dams, and three thermal power plants, will help close approximately 20 percent of Pakistan's current energy gap. Yet, Pakistan cannot fully address its energy needs through increasing supply. Therefore, in collaboration with other donors, we are aggressively helping Pakistan pursue policy reforms to help reduce subsidies, increase revenue collection, and improve fiscal management of the power sector. These hard choices in policy reforms, which must be led by the

Government of Pakistan, are crucial for the viability and sustainability of the sector.

More jobs and increased incomes will not just reduce poverty in Pakistan, it will lessen the appeal of extremist groups, and lead to a more stable and prosperous Pakistan. Over the past few years, low economic growth and high inflation have increased the amount of poverty in Pakistan – the UN Human Development Report estimated poverty at almost 50 percent of the population in 2011.

Low levels of foreign investment in Pakistan are exacerbated by concerns over governance, energy, security, internal political instability, and other factors. Pakistan's economic woes cannot be fully addressed until the government tackles long standing issues related to government revenues and how it allocates its budget. As the U.S. focuses its economic growth assistance on the private sector, we continue to urge the Pakistani government to implement the policy reforms needed to improve the enabling environment for private sector-led growth and to promote trade. We also continue to urge the government to implement tax and budget reforms that will help finance the provision of essential services. Private sector growth, when combined with sound fiscal policy, is the key to helping Pakistan move beyond its need for international assistance.

As one step, we plan to leverage USAID funds on at least a one-to-one basis to create new investment in Pakistani small and medium enterprises, which generally lack access to finance but constitute 90 percent of Pakistani firms, and contribute over 30 percent of gross domestic product.

USAID will also focus economic growth programs to increase employment and incomes for 250,000 farmer households (representing two million Pakistanis) by irrigating one million acres of land and connecting small farmers to major agribusinesses, such as Nestle and PepsiCo, to increase the price farmers receive for their products. USAID provided 620,000 Pakistani households – over four million individuals – with agricultural resources like seed and fertilizer, livestock supplies, and/or work opportunities to restore their livelihoods after the 2010 floods. Improved wheat seed increased yields by over 60 percent. Our investments have also led to the irrigation of one million acres of land, improving economic opportunities across Pakistan.

Assistance to the agriculture sector has the potential to transform Pakistan's economy by connecting commercial agribusinesses with small farmers, especially women, in three key sectors with the highest employment multipliers – dairy, livestock, and horticulture. We are also providing support to thousands of businesses to improve the transportation, processing, packaging, and marketing of dairy, livestock, and horticulture products in order to increase incomes, create jobs, and promote long term commercial relationships. By strengthening Pakistan's ability to process, package, and transport agriculture products we are helping to push the sector toward its full potential as a driver of economic growth.

Our assistance to mango farmers helped them connect to regional markets and increased their exports by 90 percent.

Last November, I was able to tour Nestle's Training and Demonstration Farm in Punjab, where I had the opportunity to meet with the chairman of Nestle. This specific project offers training to small farmers on best practices in dairy farming. Trainees receive basic equipment and are introduced to techniques and resources that help improve milk yields and livestock management. The project also helps farmers to connect to agribusinesses and greatly increase their incomes. To date, 9,000 dairy farmers and 5,000 small agribusinesses have been trained by Nestle.

In the priority area of health, saving the lives of women and children strengthens family and community stability and prosperity. USAID has set out an ambitious goal to save 190,000 lives over five years through a network of innovative public-private partnerships that will reduce maternal and infant mortality and increase healthy pregnancies and birth spacing. Channeling the energy, responsibility and commitment of Pakistan's private health sector, USAID plans to develop new public-private primary health care platforms to ensure sustained quality services for the poorest and most marginalized families. Working with public sector reformers and private sector activists, we will work to change outdated supply-side public sector models and bolster service delivery through community outreach services and community-based health financing practices. Health partners include the Sindh and Federally Administered Tribal Areas/Khyber Pakhtunkhwa Health Departments as well as long-established Pakistani non-governmental organizations such as the Pakistan Marie Stopes Society and GreenStar social marketing along with a range of philanthropic groups and local foundations. International expertise and partnerships will be built with the Johns Hopkins JHPIEGO program. The health program will also concentrate on changing harmful social norms and link family planning to health, environment, and social and economic development outcomes.

We are achieving similar results in other sectors. In education we have renovated or built 500 schools and trained 12,000 teachers and 3,000 school administrators in the past three years providing greater education opportunities for Pakistan's large youth demographic. We have also awarded over 10,000 university scholarships to talented, low-income students. Our funding has supported the construction of 410 kilometers of roads completed in FATA and Khyber Pakhtunkhwa, providing economic opportunity and facilitating commerce and delivery of government services in remote areas. And our work in the health sector has helped educate over 50 million Pakistanis in family planning and reproductive health. This progress is vital to Pakistan's long-term political and economic stability.

I recently accompanied the Administrator on a trip to Pakistan in which we had a series of very positive interactions with the government, private sector, and civil society. This is due to our ability to demonstrate that we have delivered real

results, as well as dramatically increased transparency with the Pakistani government and people. Last year we listened to our Pakistani counterparts about their concerns and priorities, which informed our new approach with the five priority sectors and a more focused portfolio.

While ultimately it is up to the Pakistani people to chart a positive course for their country's future, the U.S. will work to support them by providing the tools necessary for the long-term stability of Pakistan and the region. Given the economic and governance issues facing Pakistan, we see our work as critical to U.S. national security.

Regional Engagement

Improving regional trade is an important aspect of our assistance program for Pakistan and Afghanistan, and to this end we helped resolve technical issues necessary for approval of the Afghanistan-Pakistan Transit Trade Agreement. USAID is now supporting its implementation, which will harmonize customs practices, increase the flow of trade across the border, and contribute to expanded commercial ties over time. We are also supporting Pakistan's emerging trade liberalization with India and collaborating with Pakistani think tanks and opinion-makers to promote better public understanding of the importance of trade relations between India and Pakistan.

Furthermore, we are engaging other USAID missions in the region on ways to effectively expand trade with Central Asia and support the New Silk Road vision, which we see as critical to increasing overall economic vibrancy and stability. Later this month, I will participate in a regional mission meeting in Almaty, Kazakhstan to discuss how to further increase regional trade and linkages.

Conclusion

USAID plays a crucial role in implementing the President's strategy in Afghanistan and Pakistan. Development assistance is an important tool in advancing key U.S. national interests, forging strong and productive relationships with international partners, and helping set countries like Afghanistan and Pakistan on a path where our assistance will no longer be needed. Ultimately, our investments in a stable, self-reliant Afghanistan and Pakistan that provide security, economic opportunity, and basic services to their citizens will enhance U.S. security and the long-term stability of the region. The FY 2013 budget request reflects our commitment to maintaining the necessary level of support to accomplish the goals that we have set forth in coordination with our Afghan and Pakistani partners.