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THE WHITE HOUSE
WASHINGTON

September 30, 2010

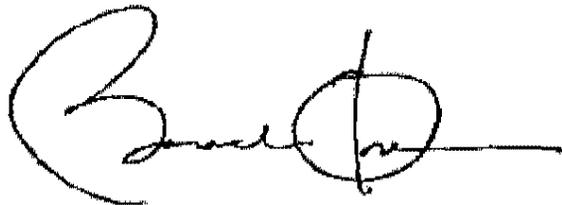
Dear Mr. Chairman:

In response to the requirement of section 1117 of the Supplemental Appropriations Act, 2009 (Public Law 111-32, the "Act"), and in order to keep the Congress fully informed, I am providing the attached report related to Afghanistan and Pakistan. This is the second report submitted under section 1117 of the Act and follows my March 2010 submission.

As I wrote in March, my Administration completed a thorough policy review last November, and I announced a new approach at West Point on December 1, 2009. As you are aware, I named and the Senate approved General David Petraeus to lead our military efforts in Afghanistan. Beyond that change, we are continuing to implement the policy as described in December and do not believe further adjustments are required at this time. Consistent with the Act and given the time necessary to accumulate data, the attached report covers the period ending June 30, 2010. To the extent possible, the report provides an update on our assessment since that date.

As the Congress continues its deliberations on the way ahead in Afghanistan and Pakistan, I want to continue to underscore our Nation's interests in the successful implementation of this policy.

Sincerely,



The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, D.C. 20510

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REPORT ON AFGHANISTAN AND PAKISTAN, SEPTEMBER 2010

During his March 27, 2009 speech announcing his strategy for Afghanistan and Pakistan, President Obama said "going forward, we will not blindly slay the course. Instead, we will set clear metrics to measure progress and hold ourselves accountable." This report outlines the process underway to fulfill that directive and provides the Administration's most recent assessment. This process highlights both positive and negative trends in the implementation of our Afghanistan and Pakistan strategy and identifies issues that may call for policy adjustments over time.

Background

Following the President's announcement of a new policy for Afghanistan and Pakistan on March 27, 2009, the National Security Staff (NSS) and departments and agencies developed a strategic implementation plan and a set of performance measures, or metrics, to track progress in meeting the President's goal and objectives. These metrics were developed with input from both congressional and academic experts.

The President submitted the first formal metrics document to the Congress on September 24, 2009, in accordance with Public Law 111-32, Section 1117a. In that document, the Administration provided Congress with a statement outlining the objectives of the U.S. policy for Afghanistan and Pakistan, and the metrics used to assess progress toward achieving these objectives.

PL 111-32 also includes a reporting requirement to provide an assessment of our strategy to the Congress every 180 days using the metrics submitted in September 2009. The President submitted the first report in March 2010. This is the second semi-annual report. As metrics collection in the field occurs quarterly, the assessments of each objective are being provided in two separate reporting periods, January 1 through March 31, 2010, and April 1 through June 30, 2010. A third post-reporting period is provided in order to provide an interim assessment for the June 30 through August 20, 2010, portion of the most recent quarter.

Goal and Objectives

Following the August 2009 national election in Afghanistan, President Obama led a strategic review of the overall U.S. policy for Afghanistan and Pakistan. On December 1, 2009, in a

speech at West Point, New York, the President reaffirmed his goal in Afghanistan and Pakistan to disrupt, dismantle, and defeat al-Qa'ida and its extremist allies and prevent their return to either country. In support of that goal, there are eight objectives that form the framework for our quarterly assessments. The eight supporting objectives, along with the lead responsible departments, are:

- I. Disrupt terrorist networks in Afghanistan and especially Pakistan to degrade any ability they have to plan and launch international terrorist attacks. (Office of the Director of National Intelligence)
- II. Please see the classified annex for details concerning this objective.
- III. Assist efforts to enhance civilian control and stable constitutional government in Pakistan. (Department of State)
- IV. Develop Pakistan's counterinsurgency (COIN) capabilities; continue to support Pakistan's efforts to defeat terrorist and insurgent groups. (Department of Defense)
- V. Involve the international community more actively to forge an international consensus to stabilize Pakistan. (Department of State)
- VI. In Afghanistan, reverse the Taliban's momentum and build Afghan National Security Force capacity so that we can begin to transition responsibility for security to the Afghan Government and decrease our troop presence by July 2011. (Department of Defense)
- VII. Selectively build the capacity of the Afghan Government which enables Afghans to assume responsibility in the four-step process of clear-hold-build-transfer. (Department of State)
- VIII. Involve the international community more actively to forge an international consensus to stabilize Afghanistan. (Department of State)

Classified Annex

Details concerning progress in our objective to "disrupt terrorist networks in Afghanistan and especially Pakistan to degrade any ability they have to plan and launch international terrorist attacks" are included within the classified annex. An eighth objective (Objective II) is classified entirely and fully discussed in the classified annex.

Assessment

Objective I: Disrupt terrorist networks in Afghanistan and especially Pakistan to degrade any ability they have to plan and launch international terrorist attacks. (ODNI)

Details of progress on this objective can be found in the classified annex.

Objective II: Details on this objective can be found in the classified annex. (ODNI)

Objective III: Assist efforts to enhance civilian control and stable constitutional government in Pakistan. (State)

January 1 - March 30, 2010, Reporting Period: Pakistan's civilian government remained stable, but faced challenges from within, even as the Parliament made progress on developing a reform package to strengthen the civilian government and restore parliamentary supremacy. The Supreme Court remained firmly disposed against President Zardari, and the relationship between Zardari and the Chief of Army Staff General Kayani remained tense. Public support of President Zardari was weak, while confidence in the military dramatically increased and extended to the army's generals, rank-and-file soldiers, and the Frontier Corps. The Pakistani public's low confidence in the civilian government does not translate into resurgent support for military rule - these views have been consistent since at least mid-2009 and indicate an overall awareness of the imbalance between civilian and military institutions.

Consistent since 2009, Pakistani confidence in the national military continues to be higher than confidence in the civilian government. At the same time, confidence in the civilian government has continued to erode, with a 7% change since 2009, while confidence in the military has increased by the same percentage since 2009.

	Confidence in Civilian Government	Confidence in National Military
2009 Q4	38%	75%
2010 Q1	32%	69%
2010 Q2	31%	82%

Source: Department of State Bureau of Intelligence and Research (INR) Polling

A stable but fragile economic situation persisted. The State Bank of Pakistan held steady on monetary policy and stabilized inflation expectations. Pakistan prioritized the reform of structural imbalances in revenue collection, fiscal administration, and energy subsidies as part of its partnership with the International Monetary Fund (IMF). The government made some progress in rationalizing energy prices in this quarter, including a 13.6 percent tariff increase on January 1, per agreement with the World Bank and Asian Development Bank (ADB). Most promising was the introduction of value-added tax (VAT) legislation in the National Assembly in December and the four provincial assemblies in early March, yet disputes between the national and provincial governments over who should manage the collection of revenues delayed the passage of the legislation. As the Government of Pakistan (GOP) took steps to implement structural reforms, there was little increase in investment for basic services and progress was inevitably slowed by domestic political events.

The Pakistani Government did take steps to support under-protected groups, specifically women, and President Zardari signed two laws which made harassment of women in the workplace a punishable offense. The Ministry of Religious Affairs conducted consultations with representatives of minorities and political parties to push for reform of the blasphemy laws and other minority-related issues. However, sectarian and religious minority-focused violence persisted. The Pakistani Government continued to take measures to protect refugees, returnees, and internally displaced persons (IDPs). Nearly 2 million people returned to their homes following military operations in the Federally Administered Tribal Areas (FATA) and North-West Frontier Province, since renamed Kyber Pakhtunkhwa. However, internal displacement continued, with over 1.4 million Pakistanis still displaced and new displacements from other agencies in FATA threaten to stymie further progress. On March 24, Prime Minister Gilani approved the Afghan Management Strategy, which officially granted some 1.7 million registered Afghan refugees the right to remain in Pakistan through the end of 2012. Approval of the strategy also makes possible the signing and extension, through 2012, of the Tripartite Agreement between the United Nations High Commissioner for Refugees and the Governments of Pakistan and Afghanistan on voluntary repatriation.

The United States and Pakistan continued to take steps towards deepening their partnership through the U.S. Pakistan Strategic Dialogue Ministerial meeting in Washington on March 24, 2010,

which was co-hosted by Secretary Clinton and Foreign Minister Qureshi. The Dialogue broadened the relationship from a primarily security assistance-focused dynamic toward a broader strategic agenda addressing Pakistan's most pressing economic, health, education, and energy needs. Foreign Minister Qureshi's leadership role at the Dialogue demonstrated significant civilian involvement, while General Kayani also participated significantly in defense-related engagements. Press reporting noted positive reaction in Pakistan to the Dialogue.

March 30 - June 30, 2010, Reporting Period: The stability of Pakistan's civilian government continued to face broad-based challenges during this period, albeit making marginal advancements over the last reporting period. The government's passage of the 18th Amendment in April implemented an entire package of reforms, most notably the restoration of executive authorities to the Parliament and Prime Minister that had been transferred to the Presidency under the Musharraf government.

The 18th Amendment also devolved some Federal authorities to provincial governments - an act welcomed by many provincial leaders - and created a new method for the appointment of judges to the appellate courts. These changes helped to stabilize the political situation, but President Zardari continued to face broad lack of political support, a fragile economy, strained civil-military relations, and an ongoing conflict with the judiciary which distracted his government from addressing the weakening security and governance situation.

President Zardari's declining popularity and low support among Pakistani political stakeholders stood out as the most obvious factor impacting the strength and stability of the civilian government. President Zardari faced extreme opposition from Supreme Court Chief Justice Chaudhry, who led the court in hearing petitions challenging the constitutionality of the 18th amendment provisions related to appointment of high court judges; it also exerted pressure on the government to reopen corruption cases against President Zardari. Leader of the political opposition and former Prime Minister Nawaz Sharif initially planned to increase pressure on the Zardari government, but eventually retreated.

On economic issues, the State Bank of Pakistan (SBP) held steady on monetary policy and stabilized inflation expectations. Public sector debt decreased as revenue collection increased marginally. Yet Pakistanis continued to express frustration with the provision of basic services such as electricity, water,

and food. Key structural impediments remained, particularly in areas of fiscal administration, energy subsidies, and revenue collection. Most notable was the government's failure to implement a VAT. Failure to meet revenue collection targets or implement key structural reforms affected Pakistan's Stand-By Agreement (SBA) with the International Monetary Fund (IMF), which temporarily "paused" its SBA with Pakistan and planned to withhold more than \$2 billion until a VAT is implemented. Overall, the failure to implement long-term reforms, coupled with the inability to provide for basic amenities, exacerbated low confidence in public officials and further strengthened the feeling that Pakistan is headed in the wrong socioeconomic direction.

Pakistan continued to face challenges in addressing humanitarian and social issues. Over 1.5 million people are still displaced from Pakistani military operations to combat insurgents in the northwest; and there was a lack of progress on improvements in human rights. Reports of gross violations of human rights continued. There was some evidence that the Pakistani military has made initial efforts to stop these abuses. However, despite U.S. engagement on the issue, reports of ongoing abuses continue to surface. Other sectarian and religious minority-focused tensions resulted in acts of violence, including 100 killed in two attacks on Ahmadiyya mosques in Lahore in March, which prompted a muted response from the Pakistani Government and its law enforcement agencies. The government's focus on women received a higher profile, with senior U.S. and Pakistani officials participating in the U.S.-Pakistan Strategic Dialogue on Women's Empowerment, the first official bilateral dialogue on women's development and advancement. On protecting refugees, returnees, and IDPs, the Pakistani Government remains capable in its efforts to address needs. In 2009, there were 54,000 Afghan returnees. In just this quarter, there were 77,000 returnees. However, there remain at least 1.6 million registered Afghan refugees and Afghans in a refugee-like situation in Pakistan.

According to State Department surveys, compared to 2009, fewer Pakistanis today have positive views of the government's efforts to provide aid to those displaced by conflict in the northwest.

	Positive ratings of Pakistani government's efforts	Negative ratings of Pakistani government's efforts
2009 Q1	51%	34%
2010 Q2	30%	41%

June 30 - August 20, 2010, Post-Reporting Period: In the post-reporting period, Pakistan faced the worst floods in its history, compounding the problems faced by President Zardari and the overall strength of the government. Tensions between political parties grew, as the opposition confronted Zardari and other Pakistan People's Party (PPP) officials in an ongoing fake degree scandal. Chief Justice Chaudhry continued to hear petitions challenging certain provisions in the 18th Amendment. Chief of Army Staff General Kayani accepted a 3-year extension in his current position, an unprecedented decision under a civilian government. The extension fed public perception that General Kayani is the lead decisionmaker on national security-related foreign policy issues. Violence in Karachi contributed to an already tenuous security situation in Pakistan. While the violence remains primarily linked to conflicts between the Muttahida Qaumi Movement (MQM) and Awami National Party (ANP), the competing agendas of these political parties, both coalition members, still have the potential to impact the stability of the government.

President Zardari's decision to travel to Europe despite the floods exacerbated inter-party tensions, civil-military relations, and damaged his image in the domestic and international media. According to polls and other reports, the Pakistani public believes the civilian government's relief efforts have been slow and inadequate, in comparison to perceptions that the Pakistani military works effectively to distribute assistance and rescue stranded populations. The poor civilian response apparently has worsened relations between President Zardari and General Kayani. It remains to be seen how these various actors will engage in the forthcoming reconstruction phase.

Most significant on economic policy in the post-reporting period was Pakistan's failure to meet its July 1, 2010, deadline for implementing a VAT, due to political pressures. It will not likely be implemented before October. As a result, the World Bank and ADB delayed tranches of assistance that were supposed to be transferred last fiscal year (before June 30) because Pakistan had not met prior commitments, including the implementation of revenue and energy sector reforms. The IMF delayed the scheduled disbursement of the sixth tranche of funds until November, subject to the fifth review of the SBA this fall.

While the government is committed under the IMF agreement to reducing subsidies, particularly for food and fuel, such moves

would likely result in an unacceptable spike in consumer prices. Real GDP growth in 2010 and 2011 is likely to be constrained by shortages of energy and water and ongoing security concerns, among other things. Inflationary pressures will likely intensify in the near term. Monetary policy will likely be tightened further in the remainder of 2010, and in the first half of 2011; the SBP stated that a more restrictive monetary policy was necessary to tackle threats to economic stability. On July 30, the SBP raised its main policy interest rate by 50 basis points, to 13 percent.

Given the impact of floods on Pakistan's short and long-term economic outlook, Pakistan has indicated it plans to revise fiscal and economic policy in accordance with new needs. The United Nations (U.N.) and the World Bank are conducting separate long-term needs assessments in partnership with the Pakistani Government. We expect these to be completed by mid-October, if not sooner. What is evident at this stage is the impact of flooding on agricultural production - agriculture accounts for roughly 22 percent of national output. Some 1.4 million acres of crops have been destroyed in Punjab province alone and farm input could fall by 10-15 percent in FY 2010 and 2011. The floods could also aggravate inflationary pressures. Post-flood reconstruction will also require immense investment from both the Pakistani Government and the international community. Pakistan has already received considerable flood relief assistance, including a \$2 billion loan from the ADB and \$1 billion from the World Bank. As the post-flood situation evolves and impacts the weak domestic political situation, these dynamics will likely initially deter international investment in Pakistan.

Relations with Afghanistan have shown improvement. The two countries concluded the Afghanistan-Pakistan Transit Trade Treaty Agreement (APTTA) on July 19 in Pakistan. Dialogue with India shows promise, but the July 15 talks in Islamabad did not result in a clear path forward.

The most significant diplomatic engagement in the post-reporting period was Secretary Clinton's July 19 visit to Pakistan. During her trip, Secretary Clinton publicly discussed the evolution of development projects in Pakistan authorized by the Kerry-Lugar-Berman legislation, including efforts in areas such as dams, energy infrastructure, and hospitals. Media reporting of the trip was overwhelmingly positive, focusing on the non-security aspects of the U.S.-Pakistan relationship.

It is too early into the flood response phase to fully determine the impact of U.S. assistance on Pakistani public opinion and the overall relationship. The United States assesses that our cooperation with the Pakistani military and civilians has been seamless and welcomed by the Pakistani Government and the Pakistani people. We anticipate cooperation needs to increase as Pakistan's long-term needs become apparent.

Objective IV: Develop Pakistan's counterinsurgency (COIN) capabilities; continue to support Pakistan's efforts to defeat terrorist and insurgent groups. (DOD)

January 1 - March 30, 2010 Reporting Period: During this period, the military reduced its COIN focus on clearing operations and prioritized holding efforts. The military, augmented by the paramilitary Frontier Scouts, engaged in operations that were designed to retain cleared areas and stop militants from conducting offensive operations in settled areas, but the Army stopped short of the kind of large-scale operations that would permanently eject extremist groups - including Tehrik-e-Taliban Pakistan (TTP), the Afghan Taliban, and al-Qa'ida (AQ). Some 140,000 Pakistan Army and Frontier Scouts forces were posted in Khyber Pakhtunkhwa Province (KPK) and the FATA during this period.

Despite the Pakistan Army's success in denying territory to the Tehreek-e-Nafaz-e-Shari'at-e-Mohammad (TNSM) and TTP and continuing to target members of these organizations, both groups remain viable threats. While the Pakistan military continues to suffer from deficiencies in critical COIN enablers - such as military intelligence, close air support, and airlift - the more fundamental problem is their inability to transition to effective hold and build efforts in cleared areas. This failure results in short-lived military gains that allow militants to regroup in these areas.

Resources and organizational constraints complicate the governance and development work necessary to prevent insurgents from regaining influence over the local populace. Although Islamabad recognizes the importance of the hold and build phases of COIN, its inability to overcome these challenges could eventually turn last year's operational successes into stalled strategic efforts.

March 30 - June 30, 2010, Reporting Period: During this reporting period, insurgent-initiated violence affected all seven agencies of the FATA, with notable spikes in Mohmand and

Orakzai. Insurgent-related violence also continued to occur in 18 districts in KPK.

Militant attacks occurred primarily in Peshawar, Swat, Hangu, and Kohat; followed by Lower Dir, Mardan, Nowshera, Bannu, and Dera Ismail Khan, which each suffered ten or more militant attacks over the reporting period. There were fewer than ten attacks in each of the following districts: Charsadda, Lakki Marwat, Mansehra, Tank, Buner, Karak, Upper Dir, Malakand, Chitral, and Haripur. Violence levels were 13 percent lower during this period than the same period in 2009.

Reporting Period	# of incidents
April 1 through June 30, 2009	927 incidents
January 1 through March 30, 2010	931 incidents
April 1 through June 30, 2010	807 incidents

The large numbers of displaced residents in northwestern Pakistan as a result of military operations during this period are a negative indicator of COIN effectiveness. Although these operations ejected militants from the areas in question, they had a disruptive effect on social and economic structures.

In the wake of military activities, both the Government of Pakistan and U.S. Agency for International Development (USAID) were active in supporting IDPs and aiding their resettlement in the FATA and KPK. U.N. and nongovernmental organizations were constrained in providing IDP assistance by a lack of funding and access to impacted areas. According to the U.N. Office for the Coordination of Humanitarian Affairs, 252,135 individuals were displaced from Kurram and Orakzai Agencies during the reporting period as a result of Pakistan military operations.

During the reporting period, Pakistani military forces successfully disrupted insurgent networks in the northern agencies of the FATA (Bajaur, Mohmand, Orakzai) and KPK (Swat, Upper Dir, Lower Dir, Shangla, and Buner). Despite some indications of insurgent reinfiltration, Army and Frontier Scouts elements have largely held these areas. Operations in the Orakzai Agency remained intense throughout the reporting period as continued advances against insurgent strongholds stalled due to a lack of forces coupled with significant logistical shortfalls. It is notable that some of these areas had been previously cleared on numerous occasions.

With a continued presence of 140,000 military and paramilitary personnel across this area, the Pakistan military was nonetheless constrained to disrupting and displacing extremist groups without making lasting gains against the insurgency.

In South Waziristan, the Pakistan military continued to conduct small-scale operations against those militants who did not flee in late 2009. But the military largely stayed close to the roads and did not engage against those TTP militants who returned after fleeing into North Waziristan.

Without the ability to stabilize post-conflict areas and to transfer forces from areas that have been cleared to ones needing to be secured, Pakistani military operations advanced slowly. Unless these challenges are overcome, the Government of Pakistan risks allowing the insurgency the opportunity to reestablish influence over a population that remains skeptical of its government's staying power.

In this quarter's reporting period, the Pakistan military continued to avoid military engagements that would put it in direct conflict with Afghan Taliban or al-Qa'ida forces in North Waziristan. This is as much a political choice as it is a reflection of an under-resourced military prioritizing its targets.

In terms of military-to-military cooperation, U.S. and Pakistani security forces worked well together during the reporting period with an overall focus on building COIN capacity. U.S. forces continued to provide training to their Pakistani counterparts, with cumulative numbers for FY 2010 noted in the table below.

Service/Unit	Individuals trained
Frontier Corps and Frontier Scouts	1,141
Special Service Group personnel	1,138
Other Pakistan Military personnel	1,218; Army (609); Air Force (322); and Navy (287)

The initiative to develop Border Coordination Centers (BCCs) along the Afghanistan-Pakistan border progressed with BCCs on the Afghan side staffed by Afghan, Pakistani, and ISAF liaison officers. However, despite commitments at the highest levels of the Pakistani civilian and military leadership since 2007, there has been virtually no movement on developing a BCC within Pakistan.

June 30 - August 20, 2010, Post-Reporting Period: August's record-setting monsoon flooding, which impacted 20 million people and covered one-fifth of Pakistan's landmass, caused the Army to reduce operations in the FATA and KPK, shifting most of its emphasis from clear to hold operations while diverting personnel and resources toward humanitarian assistance.

Extremists have thus far not used this pause to seize territory, having been equally impacted by the flooding. However, the current military effort to maintain the status quo could ultimately result in militant gains if extremist groups remain undisturbed in their safe havens.

Through its relief efforts - which have included rescuing stranded citizens, delivering relief supplies, and reestablishing road and bridge infrastructure - the Army may have improved its image among the border population, which could ultimately result in enhanced COIN effectiveness. The determining factor will be whether the civilian government can effectively match the military's ability to clear territory by enabling the follow-up functions of providing security for liberated border populations, establishing basic services (such as food, shelter, and health) and enabling economic opportunity, governance, and rule-of-law structures.

Objective V: Involve the international community more actively to forge an international consensus to stabilize Pakistan.
(State)

January 1 - March 30, 2010, Reporting Period: The involvement and coordination with the international community was inadequate during the reporting period. Despite general consensus between the Pakistani Government and donors on the core assistance objectives, particularly in response to the IDP humanitarian crisis in the northern part of the country, a continued lack of political will impeded coordinated action and effective impact.

The Pakistani Government engaged key donors during the period, as demonstrated by the U.S.-Pakistan Strategic Dialogue, the planning for the EU-Pakistan Summit, and Foreign Minister Qureshi's trips to China. However, it missed other opportunities due to a lack of political will. For example, the Pakistan Development Forum, a mechanism for donor coordination led by the Pakistani Government, was not rescheduled in this quarter after having been postponed in the fall of 2009.

The United States Government, primarily USAID, began channeling funding directly through Pakistani Government institutions this quarter, which supported Pakistani priorities while also building local capacity.

The World Bank-administered Multi-Donor Trust Fund made significant progress. The World Bank required an initial \$100 million in pledges to begin implementation of the fund, and reported a sum of \$110 million in commitments from donors, including \$25 million from the United States.

Momentum on Tokyo Conference pledges and Friends of Democratic Pakistan (FODP) was consistent, though slow. Of the \$5.2 billion in pledges announced at the Tokyo Conference (April 2009), \$1.04 billion had been committed by the end of this period, putting the Pakistani Government at risk of missing fiscal deficit targets.

U.N. engagement on donor coordination continued to be unfocused and intermittent, at best. The lack of engagement was particularly concerning, as the Pakistani Government faced weak donor response to U.N. appeals for emergency assistance for IDPs, as Pakistan competed with other emerging global needs, such as earthquake relief for Haiti and Chile. By the end of this reporting period, only \$137 million towards the \$537 million 2010 U.N. Humanitarian Response Plan had been committed and contributed. The U.S. commitment comprised 71 percent of the funding.

The Pakistani Government has prioritized engagement with donors, but has not committed financial resources towards building further support. The Pakistan Development Forum remained on hold without a set date.

March 30 - June 30, 2010, Reporting Period: The Pakistani Government has worked closely with the U.S. Embassy to align our foreign aid with Pakistan's budget, but a lack of political will on budget implementation and overall donor assistance continues to be a major challenge.

The Pakistani Government engaged key donors to follow up on the U.S.-Pakistan Strategic Dialogue, the EU-Pakistan Summit, Turkey's trade delegation, and the Pakistani Government's decision to host an FODP meeting in Islamabad in July to align the objectives and sector focus of U.S. assistance programs with key priorities for GOP and gaps in the Pakistan budget.

The ADP-led Energy Task Force proposed key recommendations to the Pakistani Government to improve the management of the sector, prioritize energy assistance needs, and create a centralized energy regulator. Other important international efforts to improve coordination and align activities with Pakistani Government priorities have not progressed. The Post Crisis Needs Assessment designed to assess the needs of the conflict-affected areas in the northwest and establish a plan for reconstruction has stalled due to U.N. and World Bank disagreements over its scope.

For this reporting period, donors slowly followed through on pledges made at the Tokyo Conference. The sluggish pace was in part due to donors trying to work with slow Pakistani Government bureaucratic mechanisms to ensure that funds match Pakistani Government-identified priorities.

Commitments to the World Bank Multi-Donor Trust Fund increased to \$125 million (from \$110 million last quarter), but the financing of projects was delayed from June to August, and may be pushed later if fund transfers remain slow.

The U.N.-led Pakistan Humanitarian Response Plan (PHRP), which appealed for \$537 million to support IDPs and returnees, received about \$226 million - 42 percent - in contributions. The United States contributed almost 30 percent of the total. The Pakistani Government failed to encourage donors to contribute to the 2010 U.N. Pakistan Humanitarian Response Plan, and only 40 percent of the appeal had been met by the end of the reporting period.

Relations between Afghanistan and Pakistan showed some progress but need further improvement. Bilateral military relations improved over the reporting period, largely because of the very active International Security Assistance Force (ISAF) and U.S. Military leadership engagement to bring the two together. Pakistanis assigned competent liaison officers to the Border Coordination Centers (BCCs) where they established good interaction with both Afghan and ISAF officers. Engagement progressed further in the north than in the south. The only high-level civilian engagement occurred June 24-25 when Afghan Foreign Minister Zalmay Rassoul met with Pakistan Foreign Minister Mahmood Qureshi.

Pakistan's effort to maintain international support has improved somewhat over the quarter. The U.S.-Pakistan Strategic Dialogue working group meetings on a variety of sectors took place in

Pakistan from June to July 2010. At the EU-Pakistan Summit, the Pakistani Government and the EU agreed to regularize the Summit process. The European Union also confirmed it would seek to extend its market access by including Pakistan in the "GSP Plus," the EU's Generalized System of Preferences, during the next review in 2012.

June 30 - August 20, 2010, Post-Reporting Period: Engagement with international partners increased significantly as a result of the floods. The Pakistani Government response has been seen as inadequate and President Zardari was harshly criticized in Pakistan and the international community for proceeding with an 8 day trip to Europe and the Middle East just as the major flooding started. Other senior Pakistani Government officials made efforts in the country, but, overall, the government was overwhelmed by the scale of the crisis.

The international community, in particular and to a very large degree the United States, responded quickly to the crisis, coordinating closely with elements of the Pakistani Government and the Pakistani military. The U.S. military initially provided six helicopters from the Afghanistan mission and put in a place a plan for longer-term air support for the emergency relief and recovery effort. USAID's Office for Disaster Assistance (OFDA) immediately deployed a Disaster Assistance Response Team (DART) to implement civilian relief operations.

The U.N. Office for the Coordination Humanitarian Affairs also took a lead role in coordinating non-U.S. support. The Pakistani Government asked the U.N. to prepare an initial relief plan and to issue an international appeal for support. The U.N. plan called for \$460 million to fund immediate relief efforts. International donor and private sector response was slow but has grown.

U.N. Secretary-General Ban Ki-moon hosted a U.N. Special Session on Flood Relief on August 19. Secretary Clinton and Foreign Minister Qureshi both participated, along with other senior officials. Overall, post-flood needs have heightened Pakistan's heavy dependence on bilateral donors and multilateral institutions for concessional loans and emergency aid.

The post-reporting period also showed movement in bilateral ties. Afghanistan and Pakistan concluded the Afghanistan-Pakistan Transit Trade Treaty Agreement on July 19 in Pakistan.

Objective VI: Reverse the Taliban's momentum so that we can transition responsibility for security to the Afghan Government on a timeline that will permit us to begin to decrease our troop presence by July 2011. (DOD)

January 1 - March 30, 2010, Reporting Period: Conditions in Afghanistan remained unsatisfactory during this reporting period. There were, however, some positive trends in a number of areas that indicated the campaign was on track and moving in the right direction. Previously declining security trends in some areas of the country were arrested while trends elsewhere started to advance in a positive direction. Further evidence suggests that initial security and governance gains in central Helmand Province bolstered the Afghan Government's credibility, although this has been limited by the level of ISAF support that was required to achieve this progress. Long-term prospects for sustainability, however, are viewed with guarded optimism and rated as temporary. Current trends remain tenuous until more permanent and effective governance is established in areas being secured. Enduring stability is dependent on the Afghan Government's ability to visibly lead, deliver credible governance and justice, deliver basic services, and expand economic opportunities for its people.

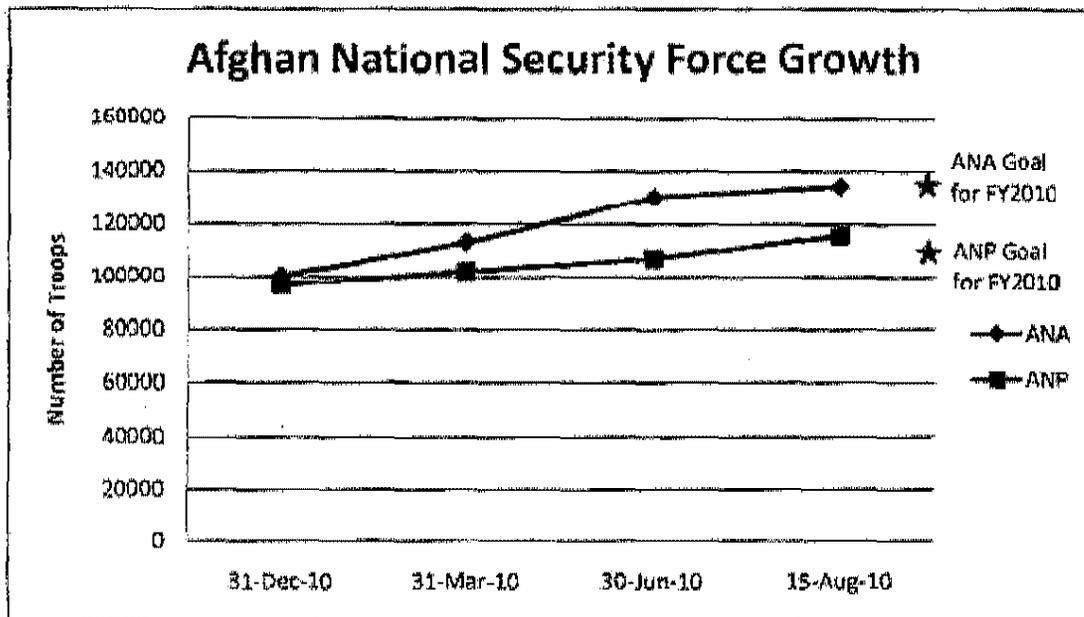
March 30 - June 30, 2010, Reporting Period: This quarter's assessment indicates that progress across the country was uneven, with modest gains in security, governance, and development in operational priority areas. Projected gains have yet to manifest themselves fully in Helmand Province. The campaign was broadly on track, but faces a resilient enemy that continued to exploit governance and security gaps in a number of areas. These dynamics complicated efforts to consolidate gains made in the clearing phase of operations. It will, therefore, take time before effective hold-and-build operations, combined with sustained governance, will result in enduring stability. Security remained tenuous and needs considerable improvement in many areas. Progress was slow and deliberate. ISAF continued to work with the Afghan Government to improve its ability to assume and maintain lead responsibility in many threatened districts. Afghan National Security Forces (ANSF) are on track for planned growth and Afghan public perception of their performance is increasing, while improvements in institutional capacity have also improved operational effectiveness. Nonetheless, challenges remain. The ANSF are generally not yet capable of providing necessary security without substantial Coalition support. The lack of freedom of movement in many areas continues to constrain growth of good governance and

economic development. Despite these challenges, local nationals in Regional Commands (RC) South and East were increasing resistance to insurgent influence, signifying pockets of increased security.

District-by-district assessment data shows that only minor positive change had occurred with respect to security. District assessments rate approximately one-third of Key Terrain and Area of Interest districts as "occasional threats" or better. RC East experienced the most positive change, with two districts' ratings improving this quarter. Additionally, in RC South, one district decreased, and in RC West, one increased and one decreased. To date, the only province and districts where the ANSF has the lead for security is Kabul and the districts directly surrounding the city.

Polling indicates that there has been no statistically significant change in the perception of security since September 2008. There was a slight decrease in positive perception of security since the March 2010 Nationwide Survey. The number of Afghans rating their security situation as "bad" is the highest it has been since September 2008.

ANSF growth this quarter has been substantial, but development of field force operational effectiveness is uneven. Leadership shortfalls in the officer and noncommissioned officer corps persist as the force grows, while low literacy rates and lack of technical expertise present challenges to force development. Aggressive partnering is starting to address development deficits. The Afghan National Army (ANA) reached its 2010 growth objective of 134,000 well ahead of schedule and it is on track to achieve the 2011 goal of 171,600. The Afghan National Police (ANP) is already exceeding the 2010 objective of 109,000, and the Ministry of the Interior is working to improve its capacity to ensure it will also achieve the 2011 growth goal of 134,000 personnel.



The Ministry of Defense (MOD) and ANA are using several recruiting initiatives to address continuing concerns about the lack of southern Pashtun soldiers. ANA Recruiting Command sent four delegations on a recruiting fact-finding mission to examine possible ways to increase recruiting for future Pashtun soldiers. The Defense Minister also committed to employing southern Pashtun officers as "hometown recruiters." Other recruiting initiatives conducted include billboards and media, such as radio and TV spots. Indicators of success of these methods over time are inconclusive. An improvement in security in the south is assessed to have the greatest impact on increasing recruitment.

ANA Recruiting Command identifies recruits with basic literacy skills and administers a literacy examination to verify competency. Recruits that exhibit a high school literacy equivalency are then slated for the new non-commissioned officer (NCO) direct accession program. Other future literacy initiatives include incorporating a 64-hour literacy training program into the Basic Warrior Training (BWT) Program of Instruction. This equates to 8 hours of literacy training per week. This program is expected to be fully implemented by early September once all of the required contractors are hired. NATO Training Mission-Afghanistan command has also greatly expanded the capacity to train Afghans by increasing the number of instructors, training locations, length of the training days, and actual number of training days.

The ANA took action to mitigate continued shortages in key NCO and officer positions. The new NCO direct accession training surged in six locations to increase the seat capacity to more than 1,400, and the first of the enduring courses began at Camp Gazi for 400 soldiers. In Helmand Province, a United States Marine Corps (USMC) unit at the Joint Security Academy Southwest (JSAS) helped the Afghans complete their first BWT course.

The USMC unit will now switch to the NCO Battle Course in order to train more than 50 senior NCOs. This course will provide much needed senior NCO training in a main effort and priority area. The Officer Candidate School (OCS) curriculum has been further improved by introducing leaderless problem solving challenges during which each candidate is evaluated for his leadership reaction skills. The ANA also began to focus on personnel systems, such as promotions and NCO battlefield promotions, to address the shortfall of NCOs immediately.

The ANP recruiting effort continues to improve, remaining strong into the summer months with 5,077 new recruits for the month of June. ANP retention again exceeded the monthly target of 50 percent for an overall reported retention rate of 63 percent versus just 18.1 percent this month last year.

June 30 - August 20, 2010, Post-Reporting Period: As of August 20, all U.S. surge forces have arrived, except a U.S. Army division headquarters not needed until October. The force uplift has allowed the United States Government to expand security operations throughout Afghanistan. While there has been an increase in kinetic events, there has also been progress as measured by overall security in certain key terrain districts. Additionally, based on recent reporting, ISAF has reduced coalition-attributed civilian casualties despite the increase in kinetic activity. Overall, partnered security operations continued, with one significant setback occurring on August 3, 2010 (see below) and a number of bright spots emerging throughout July and August.

On August 3, the ANA launched an independent operation in Laghman province that garnered significant media attention because of multiple Afghan failures. The unit in question was rated as effective only when partnered with Coalition forces; however, despite strong U.S. advice against the mission and efforts to delay it, the ANA pressed ahead. The operation was hastily planned, poorly rehearsed, and conducted on tough terrain despite forecasts of bad weather. The Afghan troops

walked into an ambush, suffering high casualties. Afghan leaders are conducting a thorough investigation into the incident and have taken away many lessons identified during a vigorous "lessons learned" review.

Construction of Security Ring Protection Force checkpoints continue in Kandahar City. Local opinions regarding the checkpoints remain generally positive, with a popular biometric process in place. Elsewhere in districts around Kandahar City, ISAF is seeing good results in Arghandab but have uncovered significant enemy defenses in Panjwa'i and Zharay districts. Continued tough fighting is likely in those locales in the months ahead.

Objective VII: Selectively build the capacity of the Afghan Government which enables Afghans to assume responsibility in the four-step process of clear-hold-build-transfer. (State)

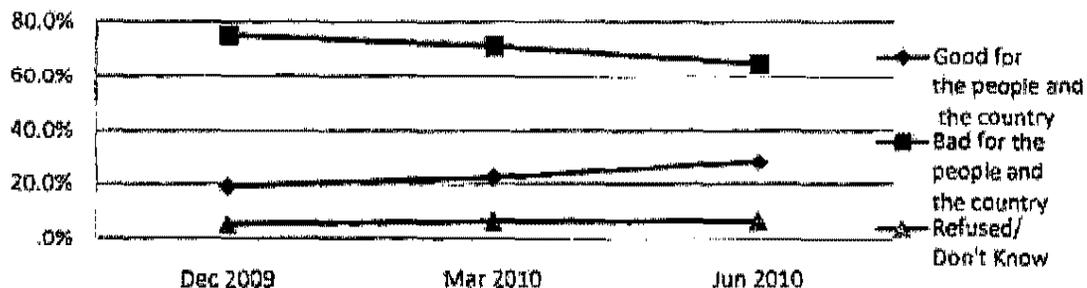
January 1 - March 30, 2010, Reporting Period: The capacity of the Afghan Government to serve the Afghan people and function with limited international support remains unsatisfactory, but progress is advancing, albeit temporarily. This progress is a result of the steps that the Afghan Government made this quarter toward good governance, notably the approval by the Cabinet of the Sub-National Governance policy in March, the start of the District Delivery Program in the strategic province of Helmand, and the appointment of several qualified governors. There have been mixed results with respect to electoral reform this quarter.

Although March survey results reveal that Afghans continue to place little faith in their government's anti-corruption efforts (no marked improvement from last quarter in 2009), President Karzai's March decree strengthening the powers of the High Office of Oversight (HOO) was a step in the right direction.

March 30 - June 30, 2010, Reporting Period: The capacity of the Afghan Government to serve the Afghan people and function with limited international support remains unsatisfactory, but continued to advance toward being capable and effective in this reporting period. Progress was particularly evident during this period on reintegration, revenue collection, electoral reform, and national-level development policy. However, accountability, particularly with regard to corruption, remains a grave and increasing concern. In addition, public perception data worsened in some significant areas this quarter after rising in recent quarters.

Popular perceptions that the Afghan Government is moving "in the right direction" remain high, but decreased to 52.9 percent (from 58.8 percent last quarter). The Afghan public continues to overwhelmingly reject a return to Taliban rule; however, to less of a degree this quarter (65.1 percent reject versus 71.2 percent last quarter).

In your opinion, if the Taliban were to return to power and govern Afghanistan, would it be a good thing for the people and the country, or would it be a bad thing for the people and the country?



The Afghan Government's institutional capacity is improving slowly, but there are still key impediments to the Afghan Government's effectiveness and reach at the national, provincial, and local levels. As the government begins to implement its sub-national governance policy and community-oriented development programs, progress remains slow and hampered by the security situation, particularly in the East, South, and Southwest.

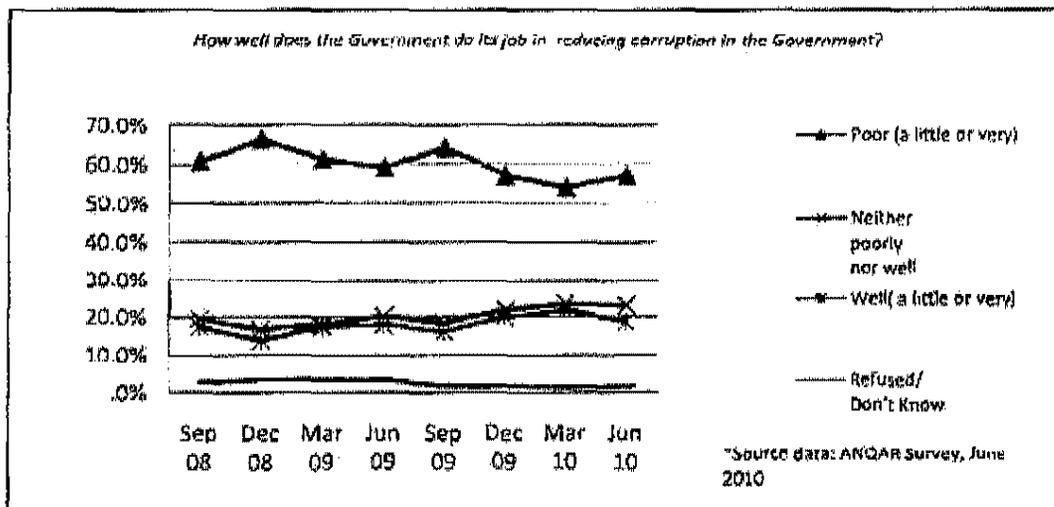
Afghan institutional capacity with regard to elections is improving. Since the Afghan Presidential elections of last year, the United States Government and the international community have seen the appointment of new and effective Afghan leadership at the Independent Electoral Commission (IEC). This leadership has implemented important reforms to strengthen transparency, improve the electoral process, and to lessen the possibility of fraud. These include: the barring of 6,000 individuals found to have engaged in fraud in last year's elections; improvements to the tracking and security of ballot papers and sensitive materials; improvements to the procedures for vote counting, to prevent fraud and tampering; increased levels of monitoring and observation at different stages of the election and polling process; and the release of polling center lists much earlier in the process - a vast improvement over the 2-days notice given last year. The legal ambiguity surrounding last quarter's Presidential decree mandating significant changes to the extant electoral law ended on April 15-17, when United Nations Assistance Mission in Afghanistan (UNAMA) Special Representative Staffan de Mistura, President Karzai, and

Parliamentary leaders reached an agreement on IEC and Electoral Complaints Commission (ECC) leadership. So far the IEC, under new leadership, has performed more effectively and assertively than it did for the 2009 elections, although it is not yet clear how deeply personnel changes at the top will affect operations throughout the organization once ballot counting begins. The ECC, however, has been slow to commence its activities, as it is forced to shut down between elections, and has assumed a more passive role than in the last election.

With regard to Afghan Government capacity at the sub-national level, the Independent Directorate of Local Governance (IDLG) has created via Presidential decree a new, merit-based appointment mechanism to be used in filling Deputy Governor and District Sub-Governor jobs. The process is proceeding well in some parts of the country, but in others it faces the twin challenges of a lack of qualified candidates and a dangerous security environment.

There has been some progress in the justice sector this quarter, mainly in the area of corrections as well as in the training and testing of judges, investigators, and prosecutors.

Nevertheless, weak governmental institutions, persistent corruption, and an inadequate supply of trained judges and prosecutors, particularly at the provincial and district levels, continue to hinder the formal justice system.



As the chart reflects, Afghans' confidence in the Government's actions to reduce corruption is low and has decreased from 21.5 percent to 16.5 percent. At the same time, the Afghan Government has not taken significant steps to strengthen anti-corruption institutions.

The rating of the Afghan Government's support for human rights remains unsatisfactory. While civil society is actively working to improve human rights, progress will continue to be slow without improved government support and the development of enforcement mechanisms. Weak rule of law, the failure by legal authorities to provide protection or remedies for human rights violations, and widespread lack of knowledge of these rights limit protection of rights in practice. Progress on women's rights over this reporting period is uneven.

June 30 - August 20, 2010, Post-Reporting Period: Progress on making more ministries eligible for direct assistance is continuing. The new merit-based appointment mechanism is being used in filling Deputy Governor and District Sub-Governor jobs. About 40 vacant Deputy Governor and District Sub-Governor slots have been advertised around the country, and blanket recruitment has begun in some southern provinces, including Helmand and Kandahar.

A banking crisis emerged in late August when the leading commercial bank in Afghanistan, Kabul Bank, was discovered to lack sufficient capital to cover most of the deposits, which led to a massive effort by Afghan depositors, including soldiers, policemen, and other government workers to withdraw their funds. As of early September 2010, the crisis stabilized, with additional funds having been transferred from reserves to meet depositors' demands.

Afghan anti-corruption efforts continue to be weak. As part of United States Government efforts to stand up a broadly accepted legitimate government, the United States Government is working to reduce corruption. During this reporting period, ISAF created Task Force Transparency, which is a comprehensive task force focused on countering corruption. In an attempt to mitigate the impact of U.S. contracting efforts, Task Force 2010, a subordinate unit to Task Force Transparency, is charged with ensuring that United States Government funds are delivered to the intended source and for the intended purpose and do not inadvertently feed corruption.

Objective VIII: Involve the international community more actively to forge an international consensus to stabilize Afghanistan. (State)

January 1 - March 30, 2010, Reporting Period: International community support for Afghanistan needs improvement, but some progress was made during the reporting period. The continued engagement of key allies, as well as a slight increase in donor

pledges of assistance (over \$200 million) and troop contributions from additional nations over the last quarter were positive developments. However, the decision in February by the Dutch parliament to withdraw its 2,000 troops from Uruzgan in August and the reaffirmation by the Canadian government to withdraw its 2,500 troops from Kandahar by July 2011, the continued deficit of Coalition training teams, and Canada's decision not to fund the Performance Based Governors' Fund (PBGF) demonstrate that international community support remained somewhat uncertain amid domestic political concerns in select capitals.

Allies pledged 2,660 new ISAF troops over the quarter. However, training support for the ANP continued to falter, with the effort being 450 trainers short of its goal.

Financial support from donors increased somewhat, including commitments to the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF). Following the January London Conference, donors agreed that allocations from the Fund would reflect the Afghan Government's development priorities, with an estimated financing of about \$2.6 billion to fund the period from 2010-2013. This represented a 32 percent increase in available funds over the past 3 years.

In support of our objective to build capacity and responsibility in the Afghan Government for donor support, USAID channeled 13.5 percent of program funding directly through Afghan Government. It is planned that 36.7 percent of USAID FY 2010 funding will ultimately be provided as direct assistance. However, there continues to be insufficient coordination on direct assistance from other donors. Only three Afghan Ministries (Public Health, Communication and Information Technology, and Finance) qualified to receive direct funding. Two additional ministries, the Ministry of Agriculture, Irrigation, and Livestock and the Ministry of Education, must put additional measures in place in order to qualify for direct funding.

Progress was made in implementing Afghan Government's ministerial clustering initiative aimed at improving inter-ministerial and donor coordination and implementation of national programs. UNAMA played a key role in developing the concept, which was a notable donor coordination achievement. Clustering was formally endorsed by donors at the Joint Coordination and Monitoring Board (JCMB) XIII meeting on

January 20 and the January 28 London Conference as part of Afghan Government's "Integrated Plan for Economic Development."

In March, Pakistan Foreign Minister Qureshi and Afghan Foreign Minister Rassoul issued a joint declaration on cooperation that focused on economic and people-to-people issues. On March 24, Pakistan endorsed an Afghan refugee management strategy, including an agreement to continue to host Afghan refugees through 2012, and made significant progress on renewing its trilateral agreement with the U.N. High Commissioner for Refugees (UNHCR) on the repatriation of Afghan refugees.

A new Afghanistan-Pakistan Border Region Prosperity Initiative, agreed to by both Foreign Ministers at the March G-8 Foreign Ministers meeting, is designed to improve economic opportunity and strengthen border management and trade.

Afghan-Central Asian relations focused on energy cooperation. The flow of electricity to Kabul from Uzbekistan increased (from 90 MW to 125 MW) during this quarter. The Afghan and Tajik Governments signed a 20-year power purchase agreement for up to 300 MW of power. Iranian President Ahmadinejad visited Afghanistan on March 10, in a trip marked by strong anti-Western comments.

March 30 - June 30, 2010 Reporting Period: International community support for Afghanistan remained inadequate. Though donor nations and other organizations contributed at a steady pace, these contributions did not succeed in fully covering such critical needs as the development of the capacity of the ANP. Also, while many allied nations continued to be engaged, some openly questioned the overall mission. More direct, public pronouncements were also made regarding approaching commitment deadlines for many NATO-ISAF nations' military forces, most notably the Dutch and Canadians. Nevertheless, the international community increased the number of military personnel to Afghanistan by a considerable amount this quarter, an effort matched by generally proportional increases of trainers and civilian. Non-U.S. ISAF contributors deployed an additional 2,180 personnel, while the Netherlands agreed to extend several elements of its presence in Uruzgan Province until at least September 2010.

While donor nations and other organizations continued to contribute at a steady pace, with NATO Allies and ISAF partners pledging more than 150 trainers, these contributions did not

succeed in fully meeting such critical needs as the development of the capacity of the ANSF.

Since the last quarter, ISAF-contributing nations deployed one new Operational Mentor and Liaison Team (OMLT) and nine new Police Operational Mentor and Liaison Teams (POMLTs). As of the end of the period, there was a NATO shortfall of 15 OMLTs. Furthermore, the 475 POMLT training requirement was not met, with only 320 teams on the ground as of the end of the period. Including validated offers of an additional 14 POMLTs generates a NATO shortfall of 141 POMLTs. While SHAPE has made good progress in filling OMLT requirements, the POMLT shortfall remains significant. To reach the November 2011 target strength, 16 additional OMLTs and 244 POMLTs are required.

The United Nations' ability to coordinate donor activities improved significantly this period with their support to the Afghan Government in advancing the ministerial "clustering" concept and in prioritizing national programs and policies in support of the Afghan National Development Strategy for the next 18-24 months. UNAMA continues to be burdened, however, by lack of staffing and adequate reach in the field.

Afghan Government and the international donors also reached an agreement on the Afghan Reconstruction Trust Fund Incentive Program for the Afghan Fiscal Year 1390 (U.S. equivalent: March 20, 2010 - March 21, 2011), designed to provide funding for the ARTF and additional discretionary funding in return for concomitant economic policy reforms, such as sustained domestic revenues; improved public sector governance; and support for private sector development. Assuming congressional approval of the supplemental request, the United States plans to contribute approximately \$650 million to the ARTF in FY 2010.

While Afghan-Pakistani military-to-military relations improved, there was only modest improvement in diplomatic relations between Afghanistan and Pakistan.

June 30 - August 20, 2010, Post-Reporting Period: On July 20, the Kabul Conference was held with the objectives of increasing coordination between international donors and the Afghan Government, and laying the groundwork for strategies to improve governance, development, and security in the country. It was the first time that an international conference of this level was hosted in Kabul. By most accounts the conference was a success and was reported to have had the best turnout of any of the nine international conferences on Afghanistan since 2001.

Most significantly, Afghan and Pakistani officials finalized the Afghanistan-Pakistan Transit Trade Agreement late on July 19, before the start of the conference. Afghan officials indicated that President Karzai was prepared to approve the agreement by decree as soon as Pakistan signals the completion of their internal approval process.

UNAMA continues to work closely with Afghan Government ministries on the cluster process by which Afghanistan's key ministries have been formed into groups, each with one lead minister. The goal has been to increase coordination between related ministries and streamline decision-making processes. The clusters have been in the lead on developing 21 new national priority programs. UNAMA sees the clusters have been helpful toward advancing Afghan Government's agenda, but Karzai has not yet officially endorsed them and some see the model as fragile. Additional buy-in will be required from a broader range of ministers, international donors will need to show clear support, and efforts will need to be made to avoid an internal backlash against cluster leaders who may be seen to be amassing power.

The United States and the United Kingdom proposed that the World Bank establish an infrastructure trust fund. This was well-received by the Afghan Government and it is planned that a fund will be set up through the Asian Development Bank that will accept direct contributions as well as pass-through funds from the World Bank.