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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

PAKISTAN - AGRICULTURAL COMMODITIES AND EQUIPMENT, 391-0468

MARCH 1982

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD — **PROGRAM ASSISTANCE APPROVAL DOCUMENT**

1. PAAD NO. 391-K-187
2. COUNTRY: Pakistan
3. CATEGORY: Commodity Financing - Standard Procedure
4. DATE: March 1, 1982
5. TO: The Administrator, Agency for International Development, Washington, D.C.
6. OYB CHANGE NO. N/A
7. FROM: The Director, United States Agency for International Development, Islamabad, Pakistan
8. OYB INCREASE: N/A
TO BE TAKEN FROM: N/A
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 60,000,000
10. APPROPRIATION - ALLOTMENT: ESF
11. TYPE FUNDING: [X] LOAN [X] GRANT
12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE
13. ESTIMATED DELIVERY PERIOD: July 1982 - Dec.1983
14. TRANSACTION ELIGIBILITY DATE: March 31, 1982
15. COMMODITIES FINANCED

The major items to be financed under this program are agricultural inputs such as fertilizers and improved seeds, equipment for farm use, and commodity support for public sector agencies which provide agricultural services.

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: $60,000,000 (See Block 18)	U.S.: $60,000,000 (See Block 18)
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:
Pakistan (Minimum)	Pakistan (Minimum)

18. SUMMARY DESCRIPTION

TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, 391-0468

This PAAD authorizes $60 million, consisting of $34 million in loan funds and $26 million in grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to finance the foreign exchange and local costs for the importation of: commodity support for public sector agencies which provide agricultural services; agricultural inputs such as fertilizers and improved seeds; and equipment and machinery for farm use. This document describes the first tranche of a proposed $300 million program over the period 1982-87, which is designed to increase the productivity of the agricultural sector and provide balance of payments support. Subject to subsequent A.I.D. program approval, availability of funds and the mutual agreement of the Governments of the United States and Pakistan to proceed, amendments to this PAAD may provide additional funds over the period 1982-87.

All rupees accruing to the Cooperating Country from the sale or transfer of imported commodities shall be deposited in a special account and shall be

(Continued on next page)

19. CLEARANCES		DATE
AA/ASIA	[illegible]	3/13/82
AA/PPC	RB	
A-GC	[illegible]	3/24/82
PM (cleared on copy)		
Director	[illegible]	March [illegible]

USAID/Pakistan

20. ACTION: [X] APPROVED [ ] DISAPPROVED

M. Peter McPherson — 29 MAR 1982
AUTHORIZED SIGNATURE — DATE

Administrator
TITLE

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PROGRAM ASSISTANCE
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Block 18 Continued

mutually programed by A.I.D. and the Cooperating Country for use in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other area which both parties may mutually agree to in writing; and, where appropriate, may be used to reduce opium poppy production, or, if the parties agree, to pay U.S. administrative costs in Pakistan.

The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of the first disbursement of the loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this program, except for ocean shipping of fertilizer financed under the program, shall have their source and origin in the United States or in the Cooperating Country. Ocean shipping for all commodities except fertilizer shall be on flag vessels of the United States or the Cooperating Country only. For fertilizer only, shipping shall also be authorized on flag vessels from A.I.D. Geographic Code 935 countries, and shall be eligible for financing by A.I.D.under this program.

AGRICULTURAL COMMODITIES AND EQUIPMENT

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LIST OF ABBREVIATIONS AND DEFINITIONS

AN	Ammonium Nitrate
AS	Ammonium Sulphate
Barani	Rainfed Crop Areas
CAN	Calcium Ammonium Nitrate
C&F	Cost and Freight
DAP	Diammonium Phosphate
EFF	Extended Fund Facility
ESF	Economic Support Fund
FA	Fiat/Allis
FAS	Free Along Side
FOB	Freight on Board
FPR	Federal Procurement Regulations
GDP	Gross Domestic Product
HP	Horse Power
IFB	Invitation for Bids
IH	International Harvester
IMT	A Yugoslavian Tractor
Kg	Kilogram
Kharif	Summer Crop Season, April - September
K_2O	Potash
L/C	Letter of Credit
L/COM	Letter of Commitment
MF	Massey-Ferguson
MT	Metric Ton
N	Nitrogen, the indicator of Nitrogen content of fertilizer
NMT	Nutrient Metric Tons
NP	Nitrophosphate
NPK	Nitrogen, phosphate, and potash
PFY	Pakistan Fiscal Year, July 1 - June 30
P_2O_5	Phosphorus Pentoxide, the indicator of phosphorus content of fertilizer
PMT	Product Metric Tons
PSA	Procurement Services Agent
Rabi	Winter Crop Season, October - March
RCO	Regional Contracts Officer
RCMA	Regional Commodity Management Advisor
Rs	Rupees
SDR	Special Drawing Rights
SSP	Single Super Phosphate
TA	Technical Assistance

INSTITUTIONS

ADB	Asian Development Bank
FAO	Food and Agriculture Organization
FDFI	Federal Directorate of Fertilizer Imports
GOP	Islamic Republic of Pakistan, The Borrower/Grantee
IBRD	International Bank for Reconstruction and Development

IFDC	International Fertilizer Development Center
IMF	International Monetary Fund
IRRI	International Rice Research Institute
NFML	National Fertilizer Marketing Limited
NFC	National Fertilizer Corporation
NFDC	National Fertilizer Development Center
NLC	National Logistic Cell
OPEC	Organization of Petroleum Exporting Countries
PAC	Pakistan Automobile Corporation
PARC	Pakistan Agricultural Research Council
PADSC	Punjab Agricultural Development Supplies Corporation
PIDE	Pakistan Institute of Development Economics
SASO	Sind Agricultural Supplies Organization
SER/COM	AID's Office of Commodity Management in Washington

I. SUMMARY AND RECOMMENDATIONS

A. Prefatory Statement

The proposed program creates a significant new opportunity for A.I.D. to cooperate with the GOP in considering many policy issues important to improved agriculture sector performance. Because of the urgency of initiating this program, a full exploration of this opportunity will be deferred to the FY 83-FY 86 period. For FY 82, the first year of the program, the focus is on financing imports of fertilizer and agricultural equipment. However, USAID/Pakistan has included in this document considerable indicative material on policy issues to provide a framework for future analytical policy work and to transmit to AID/W an understanding of the nature and scope of the possible policy areas to be examined in the course of the proposed five-year program.

It should be noted, of course, that this program is not designed, by itself, to carry the policy dialogue with the GOP. It is one, a major one, of our transactions with the GOP in the policy arena. PL 480 and other assistance activities are also involved and will be drawn upon in FY 82 and beyond.

B. Recommendations

1. Funding

USAID/Pakistan recommends the FY 82 authorization of $60 million, consisting of $34 million in loan funds and $26 million in grant funds, to finance the importation of fertilizer and agricultural equipment. These funds represent the first tranche of a contemplated $300 million five-year program to finance these and other agricultural inputs, all of which will be designed to achieve the balance of payments and agricultural productivity purposes of the program.

Loan Terms: Repayment period of 40 years from date of first disbursement, including a ten-year grace period. Interest at 2% annually during the grace period, 3% thereafter.

2. Geographic Code

Except as A.I.D. may otherwise agree in writing:

a. Goods and services financed by A.I.D. under the Program except for shipping of fertilizer shall have their source and origin in countries included in A.I.D. Geographic Code 000 or Parkistan only. Shipping services for fertilizer financed under this program shall have their source/origin in A.I.D. Geographic Code 935 countries, the U.S. or Pakistan.

b. Ocean shipping for all commodities except fertilizer financed by A.I.D. under the Program shall be on flag vessels of the United States or Pakistan only. For fertilizer only, flag vessels of A.I.D. Geographic Code 935 countries shall also be eligible (see Annex A.4).

C. Summary Description

1. General

The Agricultural Commodities and Equipment Program is designed to accomplish two objectives: (a) increase the productivity of the agricultural sector through the provision of needed imported commodities and equipment; and, (b) provide balance of payments support. The program will focus on activities which promise a productive impact in the short to medium term (one to seven years) and which also will facilitate longer term adjustments in the structure of the agricultural sector.

Three groups of imports are contemplated in the five-year program:

Group I: Agricultural inputs where the productive impact is felt almost immediately, i.e. one cropping season. Most prominent examples of this group are chemical fertilizers, mineral components for the manufacture of fertilizer, improved seeds, and appropriate pesticides (where USG regulations are met).

Group II: Agricultural machinery and commodities for use on or near the farm and which increase the productivity of the farm over the short to medium term. This group of items would largely be imported and used by private parties: farmers or business organizations either directly involved in agricultural production or providing services to farmers. Examples include: inter alia, tractors, trucks, rice mills, pre-fabricated storage, and on-farm grain handling equipment.

Group III: Agricultural equipment and commodities required by public or semi-public bodies which provide services to the agricultural sector. The commodities or equipment imported would be utilized by these agencies to improve the efficiency or quality of services provided and would be expected to have a generalized impact on agricultural productivity. Examples of this class of equipment and commodities are: heavy machinery for construction or maintenance of irrigation facilities; equipment for road building or maintenance; equipment or commodities to support agricultural research and extension; public sector storage and off-farm grain handling equipment; and, transport equipment.

2. FY 1982 Program

Allocations for the FY 1982 program are expected to be as follows below. Should fertilizer supply/demand conditions or other major factors change significantly, there may be some variation in allocation.

a. Fertilizer

Imports of $34 million worth of diammonium phosphate are planned. At projected international prices (including freight and insurance), the quantity of fertilizer supplied would be around 113 thousand product metric tons (PMT), which is equivalent to 52 thousand nutrient metric tons (NMT).

b. Equipment: Co-Financing Support for Canal Rehabilitation

The GOP, through the four Provincial Irrigation Departments, is embarking with the World Bank on a major program to rehabilitate the canal network which provides water to some 33,000,000 acres. Equipment financed under the proposed program in FY 82 will assist the GOP and World Bank to carry out the rehabilitation program. $26 million will be allocated to import this equipment.

c. Future Imports

Beyond FY 82, it is contemplated that, under the program, agricultural machinery and commodities for use on or near the farm (Group II, described above) will also be financed. For example, tractor imports will be considered in subsequent years (see Annex G.8).

3. Policy Issues

As explained above in Section I.A., no policy issues will be addressed during the first year of the program. PL 480 and other assistance activities will deal with policy and institutional matters in FY 82. A.I.D. is also supportive of policy agreements between the IBRD and World Bank in the agricultural sector.

D. Statutory Criteria and Mission Director's Certification

The program meets all applicable statutory criteria. Appropriate statutory checklists are included in Annex C. The Mission Director's 611(e) certification, which certifies that Pakistan has the capability to maintain and utilize the program effectively, is contained in Annex B. Annex B also contains a 612(b) certification signed by the Mission Director which certifies that disbursements for local costs financed under this program will be made in U.S. dollars in lieu of U.S.-owned excess rupees.

E. Program Issues

During the APAC review of this program proposal, the following questions were raised:

1. Use of local currency generated by the sale of imported commodities. Following procedures established for the FY 1981 PL 480 Title I Program, all rupees accruing to the GOP for the sale or transfer of imported commodities will be deposited in a special account and mutually programed by the GOP and USAID/Pakistan. Details are provided in Section VII.

2. Institutional authority for procurement of fertilizer. The GOP has sufficient experience and expertise to procure fertilizer. Accordingly, host country contracting procedures are recommended. To expedite procurement and obtain the lowest possible cost through maximum participation of suppliers and shippers, the bid opening, appraisal, and awards will take place in Washington, D.C. The Pakistan Embassy will act for the GOP.

3. Use of Procurement Services Agents (PSAs) for equipment procurement. The GOP and USAID/Pakistan have agreed that the most cost-effective way to procure the equipment selected for the FY 1982 program is through experienced PSAs. Accordingly, the GOP will follow host country procurement procedures and execute contracts with one or more PSAs. Details are found in Section VI.

4. Narcotics. There is no direct linkage between this program and the illicit cultivation of poppies and the manufacture of heroin. The use of chemical fertilizers for poppy cultivation is negligible, and poppies are not grown on lands serviced by public irrigation systems. Nevertheless, assurances will be obtained from the GOP that items imported under this program will not be used, directly or indirectly, to support the cultivation of poppies or the manufacture of illicit drugs. Appropriate language will also be included in the Program Agreement

governing the use of rupees generated from the sale of commodities to help reduce opium poppy production.

F. Contributors to the PAAD

The following individuals contributed to the development of this program:

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II. BACKGROUND

A. USG-GOP Negotiations

A U.S. Economic Assistance Negotiating Team led by the A.I.D. Administrator reached agreement with the Government of Pakistan in August 1981 on the size and general content of a six-year program of economic cooperation beginning in FY 1982. The proposed $1.625 billion program complements an approximately equivalent package of military assistance by providing balance of payments support for the short to medium term and by financing a variety of economic development activities. The Agricultural Commodities and Equipment Program was identified during the negotiations as one of the major components of the total assistance package.

B. The Economy

The most recent agreement between the GOP and the IMF summarizes economic problems in Pakistan as follows:

> " In the mid-1970s the Pakistan economy experienced increasing structural weaknesses, which resulted in a low growth and a weak domestic and external financial position. Programs to enhance agriculture productivity were neglected; private sector confidence was depressed, leading to a decline in investment; cost/price distortions intensified; and the development of the indigenous energy resources lagged. In the financial sphere the Government's fiscal position suffered from weaknesses in the budgetary control and inelasticity in the tax system, and the rate of credit expansion was high. These shortcomings in the demand management were reflected in strong pressure on prices and balance of payments." 1/

Since 1977, the GOP has undertaken major policy reforms in an effort to correct dislocations which have impaired overall economic progress. Considerable progress has been achieved and Pakistan has averaged around 6 percent real GDP growth per year since that time. This performance has been based on higher agricultural output, recovery in the industrial sector, and major increases in exports. Despite this improvement, however, the economy remains vulnerable. Agricultural productivity is low due to lack of sufficient, timely, and appropriate use of inputs as well as cost-price distortions. The industrial base suffers from outmoded capital stock, inefficient public sector enterprises, sluggish private sector investment, discouraging labor laws, and numerous bureaucratic controls.

1/ IMF, Staff Report for the 1981 Article IV Consultation and Use of Fund Resources - Extended Fund Facility, November 12, 1981.

A serious gap remains between national savings and investments. The Government annually sustains large budgetary deficits as growth in expenditure (particularly from subsidies) outpaces the inelastic tax system's capacity to generate revenue. The resulting need for deficit financing and concurrent demand for credit by the Government has produced rapid expansion in domestic liquidity and inflation. Despite sizeable increases in exports, restrictions on imports, and heavy inflows of remittances, recent current account deficits have become more difficult to finance, as levels of external aid have been falling in real terms while the debt servicing burden has been steadily increasing. Moreover, the outlook for workers' remittances is uncertain for the next few years. A January 1981 debt rescheduling agreement with the Pakistan Consortium countries provided some relief, but pressure for further assistance will intensify when that Agreement terminates in July 1982. Finally, regional tensions have raised defense requirements, creating new demands on scarce resources, as has the presence of some two million Afghan refugees in Pakistan.

GOP authorities recognize that despite the gains made in recent years, serious structural imbalances remain which threaten the prospects for stable and sustainable growth in the coming years. Accordingly, the Government has intensified its efforts to overcome these problems and, in cooperation with the IMF, IBRD, and IDB, has embarked on a three-year structural reform program to alleviate imbalances in the economy and to promote growth in the context of relative financial stability and an improved balance of payments. A major feature of this program is that it is outward-looking. The IMF paper states that the Pakistani authorities believe "... that a phased movement towards a more open foreign trade regime can help underpin their economic growth and balance of payments objectives ..." 2/ Other important components of the program are: a re-orientation of the public sector investment to emphasize quick-yielding projects; improvement in agriculture production incentives, and a reduction in subsidies; measures to improve the efficiency of the public sector enterprises; accelerated exploitation of Pakistan's potential energy resources; and, ceilings on credit expansion to the Government, overall domestic credit, and external borrowing. A copy of the Economic Policy Memorandum of the GOP for 1981/82 is included in Annex G.1.

The cornerstone of the three-year program is the Extended Fund Facility (EFF) agreement signed with the

2/ IMF, Staff Report for the 1981 Article IV Consultation and Use of Fund Resources - Extended Fund Facility, November 12, 1981.

IMF in November 1980. Under the EFF agreement, a total of SDR 1.3 billion (about $1.7 billion) is available to Pakistan for balance of payments support over the three-year program period.

C. The Balance of Payments

Although Pakistan's exports, led by cotton, rice and textiles, increased in recent years, the country continues to suffer from chronic balance of trade deficits. (see Table 1). Pakistan remains dependent on imported petroleum products, and, although self-sufficiency in wheat was attained in PFY 1980/81, imports of edible oil have now become a major drain on foreign exchange, reaching $300 million last year and promising to continue to increase. Remittances from Pakistani workers abroad have reduced somewhat the growth in the current account deficit, but as concluded above, it is uncertain that rapid annual increases in remittances would be sustained. As a result, there is the real danger that Pakistan's current account deficit will continue to widen as the import liberalization measures under the EFF begin to take effect. Pakistan will thus have fairly sizeable external financing requirements for at least the next few years.

In the medium term, it is anticipated that the availability of necessary imports for modernization and replacement will contribute to improved industrial productivity, expecially in the private sector, and lead to increased export availabilities and even import substitution, thus reducing current account pressures. This objective, however, will take time to be achieved.

In part due to its increased access to IMF resources and in part due to unanticipated positive exogenous factors, (e.g. favourable export price movements), Pakistan's balance of payments position in PFY 1980/81 improved significantly. Export earnings rose 20 percent, led by a 72 percent increase in the value of cotton exports, while imports rose by only 13 percent, with the bulk of the increase coming in the private sector, as entrepreneurs and importers reacted to the EFF-inspired import liberalization measures of December 1980. Workers' cash remittances continued their dramatic growth, rising 21 percent to $2.1 billion. The resulting current account deficit was $917 million, which, despite a shortfall in foreign aid inflows, was more than covered by EFF drawdowns, debt relief, short-term commercial borrowings, and deposits by OPEC countries. Pakistan was thus able to increase its foreign exchange holdings by $364 million in PFY 1980/81, with the result that gross reserves now total about one billion dollars, the equivalent of eight weeks' worth of anticipated PFY 1981/82 imports. Total external

TABLE I

PAKISTAN: BALANCE OF PAYMENTS, 1978/79 - 1982/83

(In millions of U.S. dollars)

	Actual		GOP Projected	
	Revised 1979/80	Provisional 1980/81	1981/82	1982/83
Trade balance	-2,516	-2,688	-3,172	-3,374
Exports, f.o.b.	2,341	2,798	3,200	3,750
Imports, f.o.b.	-4,857	-5,486	-6,372	-7,124
Services (net) a/	-524	-479	-676	-821
Private transfers (net)	1,895	2,250	2,495	2,741
Current account balance	-1,145	-917	-1,353	-1,454
Long-term capital (net)	747	578	761	796
Gross disbursements	1,054	937	1,248	1,210
Amortization a/	-395	-489	-551	-504
Other (including private long-term capital)	88	130	64	90
Private short-term capital and errors and omissions (net)	20	-6	--	--
SDR allocation	39	32	--	--
Balance requiring official financing	-339	-308	-592	-658
Official assistance and debt relief	577	287	335	85
IMF Trust Fund	157	16	--	--
Debt relief b/	90	161	257	35
Official short-term capital (net)	52	110	8	--
Other	278	--	70	50
Overall balance	238	-21	-257	-573
Net foreign assets (increase)	-238	21	257	573
Net use of fund credit	-79	315	381	397
Other central bank and commercial banks	-159	-294	-124	176
Memorandum items:				
Net capital inflows c/	1,272	755	1,088	881
Growth rates (per cent) d/				
Exports, f.o.b.	42.2	19.5	14.4	17.2
Imports, f.o.b.	27.3	13.0	16.2	11.8

a/ Includes actual and rescheduled debt service payments.
b/ For 1980/81 - 1982/83 includes debt relief on account of the Pakistan Consortium.
c/ Includes "Long-term capital (net)" and "Official assistance and debt relief" other than official short-term capital (net).
d/ For 1980/81 calculated with respect to the revised 1979/80 base. For 1981/82 and 1982/83 calculated with respect to the revised program targets.

Source: IMF, Staff Report for the 1981 Article IV Consultation and Use of Fund Resources - Extended Fund Facility, 1981.

debt as of June 1981 was $12.7 billion, equivalent to 42 percent of GNP. The debt service ratio (debt service as a percent of merchandise export earnings and service receipts) was 18.6 percent. The ratio of debt service to total current account receipts (including workers' remittances) was 11 percent.

For this improvement in Pakistan's balance of payments situation to be sustained over the next few years, several variables will have to manifest favorable trends. Exports will have to continue to expand rapidly; favorable weather would have to persist (already, rains have been disappointing and agricultural output has been adversely affected); workers' remittances would have to continue their past annual rapid increases; optimistic assumptions as to disbursement rates for externally assisted projects would have to be realized; Pakistan's effort to secure additional debt relief would have to be successful. Thus, not only is Pakistan's economy vulnerable to deep-seated structural problems, but the recent improvement in its balance of payments is tenuous and cannot be relied on to continue during the next few years. In fact, recent (January 1982) analysis of the balance of payments suggests that exports have declined and remittances from overseas workers may fall below projections. These and other developments underscore the fragility of Pakistan's balance of payments position and its susceptability to relatively minor changes in key variables.

The recent GOP decision to delink the Rupee from the Dollar and switch over to a floating exchange rate (determining the value of the Rupee with respect to a basket of currencies of Pakistan's major trading partners), could dampen imports and spur exports. It is, however, too early to assume that this measure will make a significant difference in Pakistan's balance of payments situation. In the meantime, EFF-inspired import liberalization measures could lead to increased imports.

D. Agricultural Sector Review

1. Basic Facts

Agriculture is the single largest sector of the economy, contributing about 30 percent to the GDP, employing about 55 percent of the country's 25 million labor force, and directly or indirectly, contributing about two-thirds to the nation's commodity export earnings. Agriculture also serves as the main supplier of raw materials for domestic industry and as a major market for the outputs of other sectors.

Pakistan's present cultivated area, including fallow land, is around 50 million acres, of which some 33 million is classified as irrigated. The land tenure pattern is characterized by small holdings. About 68 percent of private farms covering 30 percent of the total private farm area have operational holdings of less than 12.5 acres each. Farm holdings of less than 25 acres constitute 94 percent of the total and cover 57 percent of the farm area. Wheat and rice are the major food crops with large acreages of cotton and sugar cane also grown. Annex G.4 presents in tabular form background information on Pakistan's agricultural sector.

2. Production Performance

Through much of the 1970s, Pakistan's agricultural production performance remained modest. Recent agricultural performance, however, has been encouraging. During 1977-81, value added in agriculture has grown annually by about five percent with the wheat crop registering three successive record harvests. Rice production stood at a record 3.27 million metric tons level in 1978/79 but declined by three percent annually thereafter. Sugar cane production jumped to a record 30.1 million metric tons in 1977/78, declined for the following two years, and is estimated to exceed 32 million metric tons in 1980/81. Cotton production crossed the four million bale mark for the first time in Pakistan's history in 1979/80, and is estimated to have increased further to about 4.2 million bales in 1980/81.

The upturn in the last four years has been aided by several factors including, inter alia, favorable weather conditions, improved demand for Pakistan's exports, and more realistic GOP agriculture policy. GOP agriculture policy has, in the last four years, been implemented primarily through enhanced support prices for all the major crops and increased supply of production inputs. During 1977-81, fertilizer offtake increased annually by 14.3 percent, farmgate water availability by 4.5 percent, and institutional credit by about 40 percent. To encourage use of production inputs on small farms, the GOP is now also distributing interest-free credit (up to Rs 6,000) to farmers owning less than 12.5 acres.

3. Production Potential

The improved economic performance of the last four years notwithstanding, Pakistan's agriculture continues to be plagued with serious problems of low cropping intensity and low productivity. Overall cropping intensity is around 110 (whereas a national average of around 150 would appear to be feasible) and declines progressively as the farm size increases. Inadequate water supplies and farm power are major reasons for low cropping intensity.

Productivity in Pakistan's agriculture is much below the potential. Crop yields are about one-third of the potential of presently used varieties for all the major crops. A plethora of economic, social, and political factors affects productivity, including the efficiency of input utilization, development and dissemination of economically viable new technologies, and cost-price adjustments in both input and output prices.

4. Agriculture Policy

During the 1950s, output growth in agriculture was predicated principally on acreage expansion. In the late 1960s, however, the supply of other "agricultural" inputs started receiving parallel attention. High-yielding varieties and commercial use of fertilizer, combined with increased water availabilities, ushered in the Green Revolution in 1967 and reinforced the planners' bias toward a simple input-supply policy towards agriculture development.

The macro-economic context of agriculture transformed radically during the early 1970s. The economic dislocations caused by the dismemberment of the country in 1971 and the problems generated by oil and other price surges in 1973 and beyond brought serious pressure on the financial resources of the Government, inhibiting its policy of supplying subsidized inputs. These difficulties coincided with the tapering off of the early spectacular yield increases of the Green Revolution, forcing home the need for a comprehensive agriculture development policy. The Planning Commission recognized the new situation in the following words:

> " It may be emphasized that while it is possible, during 1975-80 period to move ahead in agriculture, primarily concentrating the effort on further propagation of the new seed-based technology, the scope for obtaining new gains from this element would become much less in the future. Need now is to move towards a more comprehensive agricultural strategy. Focusing attention on one single element like the seed and fertilizer based technology has been useful in breaking the age-long stagnation in agriculture. Unless this period of agriculture development is used to evolve a more comprehensive program, we may be reaching the end of the road. The period 1975-80 should be considered the time available for firming up the various elements of such a comprehensive strategy and for developing an adequate institutional structure for implementing this strategy." 3/

3/ Planning Commission Development Perspective (1975-80), 1975

In February 1981, the Government announced the National Agricultural Policy. The policy is directed toward improving the "quality of life of the Pakistani people" by: (1) increasing agricultural production for domestic self-reliance and export; (2) expanding employment opportunities; (3) ensuring equitable access to productive resources; (4) providing basic amenities in rural areas such as water and sanitation; and, (5) preserving natural environments. The policy also recognizes that the transformation of the agriculture sector hinges not only on the provision of additional physical (inputs) and human (skills) assets but also on the overall economic environment that permits higher private and social returns on additional assets.

In the context of its reform program, the GOP is taking action on several fronts. In general, the strategy continues to be supply-oriented, along with upward adjustments of output prices, reduction in subsidies, and increased private sector participation in marketing and agro-industrial activities.

a. Policy Areas

During the five-year program, at least three major policy areas will be examined: (i) financial (subsidy, tax, pricing, and credit); (ii) physical (water, fertilizer, seed, pesticide, and mechanization); and, (iii) institutional (balance between public and private sectors, land reform, and policy planning capabilities). A discussion of these policy areas is presented in Annex C.2. Brief comments are, however, in order here.

i. Policy Planning

Although the GOP has routinely set production targets, the primary thrust has been on satisfying physical input requirements rather than efficiency of resource use. Also, policy planners have been engaged largely in "financial planning" (budgetary allocations) without developing long-term alternative policies consistent with the national objectives. A UNDP-funded study sums up the current planning process:

> "The aggregate claims of the agriculture sector on the capital resources are built up by selective aggregation of the capital requirements of projects developed by WAPDA, the Provincial Irrigation and Agriculture Departments, and a

number of Federal Agencies. Present Agriculture Planning is input based, i.e., determining water requirements, fertilizer requirements, etc., of independently estimated crop production requirements. Therefore, the focus of attention is on satisfying physical input requirements and not on efficient use of resources which involves prices and substitution possibilities among inputs and outputs. The practice of focusing on inputs has produced the present lack of concern with "resource generation" as an aspect of project choice. Consequently except for those planners who worry about macro-economic magnitudes (like growth of agriculture value added or GNP), planners at both Federal and Provincial levels seem only to be concerned with "resources consumption", that is capital allocations for the projects submitted." 4/

ii. Input Supply

Principal policy areas deal with water, fertilizer, seed, pesticide, and mechanization. The critical problem confronting the policy planners is to develop an input delivery mechanism consistent with the dictates of efficient resource use, cost-effectiveness, and needs of farmers, most of whom are small. At present, the input supply system is largely controlled by the public sector which also has the major responsibility for disseminating new production technologies through its extension network.

iii. Pricing Policies

The GOP in the past has kept output prices depressed, while following a policy of subsidized input supply to encourage increased input use. This policy has helped to popularize the use of modern productio . inputs, but now a stage has clearly been reached where the subsidy burden is threatening national financial stability and has become counter-productive to optimum resource use. During the last three years, the GOP has given increasing attention to correct these cost-price distortions and is heading toward input-output price relationships which provide production incentives and economical prices of inputs.

4/ WAPDA, Revised Action Programme for Irrigated Agriculture, 1979.

iv. Institutional Structures

Institutional issues relate to the effectiveness of the policy planning and implementing institutions, the appropriate balance between public and private sector activities, and the land tenure system.

(a) Role of Public and Private Sectors

The choice of policy instruments for achieving development objectives is in itself a critical policy issue. The Government influences production decisions through, *inter alia*, a series of direct and indirect controls. Government influence is particularly strong in input supply and output marketing. Government statements have recently emphasized a larger role for private decision-makers.

(b) Land Tenure

Land distribution patterns are markedly uneven, and according to the 1972 Agriculture Census, only about 12 percent of ownership holdings cover 59 percent of the farm area. Land reforms were introduced in 1959, 1972 and 1977 to reduce concentration and to safeguard the interests of the tenants. However, only about 1.75 million acres or 3.5 percent of the total cultivated area have become available for redistribution. Even these figures appear to be overstated since largescale evasions of the reforms are believed to have occurred through land transfers among heirs and relatives. Fragmentary evidence appears to support the view that the true impact of these land reforms will be felt only with a time lag of one generation. When the head of the family dies (father or elder brother), the nominal owners of the land will insist on cashing in their inheritance. Thus pressure will build for independent management of the farms, and, in some cases, sales to outsiders.

Available evidence on the production, employment, and income distribution effects of land distribution programs is inconclusive. What is certain is that the skewed land distribution pattern supports a highly stratified social structure and manifests itself in the control by the landed aristocracy of the rural cooperatives program and with some exceptions, in inequitable access to physical inputs and support services. Not surprisingly, land reform is a highly political and sensitive policy area.

(c) Policy Planning Institutions

The Federal Committee on Agriculture (FCA) is at the apex of agriculture policy planning. The FCA receives technical support from Government Departments, research agencies, and several ad hoc and standing bodies. The principal coordinating body at the Federal level is the Planning and Development Division and at the Provincial level, the Planning and Development Departments. These agencies have been engaged primarily in the inter-sectoral allocation of available financial resources with limited attention to coordinating the activities of the vast agriculture-related institutional structure.

Another shortcoming relates to the policy analysis capability of the research infrastructure. Research bodies are inadequately staffed to generate badly needed data and analyze potential policy choices.

III. PROGRAM RATIONALE

A.I.D.'s approach to development cooperation with Pakistan combines macro-economic assistance with specific program and project interventions. This strategy is also followed in the design of assistance to the agriculture sector.

The Agricultural Commodities and Equipment Program implements that strategy. Resource transfers under this program will alleviate balance of payments problems, thereby contributing to the GOP's and other donors' programs to stimulate growth and development. As part of the policy dialogue associated with the program, macro-policy decisions and structural changes to promote long-term growth in agriculture will be reinforced and encouraged. Imported fertilizer and equipment, and imports of other commodities in later years, by addressing some of the sector's key constraints, will raise agricultural productivity, output, income, and employment. Such imports will also permit other GOP initiatives -- e.g., promotion of the private sector, de-linking of the Rupee, price-cost adjustments, to have even greater positive effects on the agriculture sector.

In short, the favorable impact which this project could have on Pakistan's balance of payments would not only respond to the objectives of the economic/military assistance agreement reached between the Government of Pakistan and the United States in 1981, but would also respond to Pakistan's macro-economic needs. It addresses Pakistan's need for foreign exchange, allows Pakistan to finance a higher level of agricultural imports needed for investment and production, facilitates the GOP's moves to expand the private sector, reduces the need to expand further on an already heavy external debt, and generally undergirds Pakistan's sound policy directions in agriculture toward the achievement of growth, development, structural reform, and financial stability.

IV. PROGRAM DESCRIPTION

A. General

The Agricultural Commodities and Equipment Program is designed to: (1) increase the productivity of the agricultural sector through the provision of needed imported commodities and equipment; and, (2) provide balance of payments support. The program will focus on activities which promise a productive impact in the short to medium term (one to seven years) and will facilitate longer term adjustments in the structure of the agricultural sector.

The program will include a continuing dialogue with the GOP on the policy issues which influence the performance of the sector. Annual discussions will be held on import priorities during the program. In these discussions and at other appropriate times during the year, local currency programing decisions will be made. The program will follow procedures established for the PL 480 Title I Program, including negotiations and review of prior year experience.

Three groups of imports are contemplated during the life of the program:

Group I: Agricultural inputs where the productive impact is felt almost immediately, i.e., one cropping season. Most prominent examples of this group are chemical fertilizers, mineral components for the manufacture of fertilizer, improved seed, and appropriate pesticides (where USG regulations are met).

Group II: Agricultural machinery and commodities for use on or near the farm which increase the productivity of the farm over the short to medium term. These items would largely be imported and used by private parties: farmers or business organizations either directly involved in agricultural production or providing services to farmers. Examples of this category include, inter alia, tractors, trucks, rice mills, pre-fabricated storage, on-farm grain handling equipment, farm implements, pumps, and irrigation equipment. These items may be imported and distributed by public or private agencies; however, private sales, distribution, and maintenance channels will be utilized to the maximum extent possible.

Group III: Agricultural equipment and commodities required by public or semi-public bodies which provide services to the agricultural sector. These imports will improve the efficiency or quantity of service provided and would be expected to raise agricultural productivity. Examples of this class of equipment and commodities are: heavy machinery for construction or maintenance of irrigation facilities; equipment for road building or maintenance; equipment or commodities to support agricultural research and extension; public sector storage and off-farm grain handling equipment, and transport equipment.

Since the Agricultural Commodities and Equipment Program is designed to focus on macro-level constraints to development by providing targeted balance of payments support, the success of the program depends, in part, on the overall and sectoral policy and institutional framework. As part of the Mission's integrated approach to the agriculture sector, the Program will be managed in tandem with the PL 480 Program and with other activities in the sector. As with PL 480, the GOP-USAID policy dialogue will cover areas on which improved future agricultural performance will depend.

To facilitate this dialogue, special studies will be commissioned to explore policy and policy implementation options. These studies could, in their own right, lay the groundwork for future projects. The studies will be financed from the Project Design Fund and will be undertaken by Pakistani and U.S. institutions. These studies, along with other information, could form the basis for specific conditions for releases of yearly allocations of funds. In the first year, it is expected that a research program will be developed to explore fertilizer issues. A collaborative research program with such U.S. institutions as the International Fertilizer Development Center and Pakistani organizations such as the National Fertilizer Development Center and the National Fertilizer Corporation will be developed. The results of these studies will form the basis for future agreements on the allocation of program funds for fertilizer.

The following areas are candidates for policy studies:

1. Edible oils
2. Fertilizer
3. Mechanization
4. Food Security
5. Resource Mobilization
6. Water Management

A brief resume of these prospective policy studies is presented in Annex G.3. These and other analytic activities will form the basis of the Mission's position on key agricultural policy issues in the implementation of the proposed $300 million program for agricultural commodities and equipment.

B. Procedures

Scheduled discussions will be held each January to determine the specific import contents from the list of eligible commodities for the following year. At the same time, discussions will be held regarding the use of the generated local currency. It is at these scheduled meetings that formal interchange on policy and policy implementation will take place. Results of studies commissioned by the GOP or USAID will be discussed in this forum with recommendations for future action.

C. Relationship with Other A.I.D. Projects

This program is linked both to macro-level resource transfers (PL 480) and to specific project interventions. For example, problems associated with the increased consumption of edible oil could be addressed by three development instruments: the Agricultural Commodities and Equipment Program, the PL 480 Program, and the Agriculture Production, Distribution, and Storage Project. Depending on the outcome of the edible oil study which is described in Annex C.3 (the paramount question deals with the long-term comparative advantage of increased domestic production of oilseeds), improved hybrid sunflower seed could, for example, be imported initially under the Agricultural Commodities and Equipment Program. The PL 480 Program would continue to provide edible oil to cover deficits in domestic production and consumption until production programs were well-established. The Agriculture Production Distribution, and Storage Project would finance necessary technical advisors, training, and other complementary inputs for a major oilseed production and processing scheme. The necessary policy framework which would allow such a program to be mounted would be discussed and reinforced in meetings covering all three activities.

This program will also make direct and indirect contributions to the effectiveness of several other projects -- for example, Irrigation System Management, Agriculture Education, Research and Extension, and special programs for disadvantaged areas (Tribal Area Development and Baluchistan Area Development Projects).

D. FY 1982 Program

1. Allocations

a. Fertilizer

This program will finance the importation of $34 million worth of diammonium phosphate. At projected international prices, the quantity of fertilizer supplied would be around 113 thousand product metric tons (PMT) or 52 thousand nutrient metric tons (NMT). Diammonium phosphate was selected because Pakistan depends on phosphate imports much more than on nitrogen, and diammonium phosphate provides higher phosphate content than the other commonly used nitrophos. Further, at current international prices, diammonium phosphate is a cheaper source of phosphate relative to nitrophos. Delivery is planned for September 1982 so that the fertilizer would be available for the wheat crop to be planted in November. Supply and demand estimates of phosphate indicate that the fertilizer provided under this program, depending upon the fertilizer demand situation and the GOP stock policies over the next few months, will account for 22-37 percent of Pakistan's 1982-83 phosphate import requirements.

b. Equipment: Co-Financing Support for Canal Rehabilitation

The GOP, through the four Provincial Irrigation Departments, is embarking with the World Bank on a major program to rehabilitate the canal network which provides water to some 33,000,000 acres. During the GOP-USG negotiations, the GOP requested that the USG consider this World Bank project for co-financing. Examination of the project proposal and field examinations (see Section V., Technical Analysis, B.) confirmed the importance and feasibility of the project. Accordingly, $26 million will finance the importation of equipment needed to carry out this project. These imported items will complement and reinforce the proposed Irrigation System Management Project under which USAID plans to finance civil works, training programs, and technical advisors to work with the Provincial Irrigation Departments and the Water and Power Development Authority.

The equipment to be imported ranges from heavy earth moving equipment to required tools to upgrade maintenance facilities. An illustrative list, taken from the World Bank Staff Appraisal Report, is available at Annex G.9.

c. Future Imports

Agricultural machinery and commodities for use on or near the farm -- e.g., tractors -- will be included in the years FY 83 to FY 86. While there is a growing demand for tractors and other on-farm machines, and services and maintenance facilities appear to be well-established for some brands (see Annex C.8), the impact of GOP policy on in-country assembly and manufacture of approved models is unclear with regard to some U.S. models. The GOP limits the number of makes and models which can be imported into Pakistan. Following a two-year testing program, certain models were judged to be suitable for Pakistani conditions. At present, six manufacturers have models on this approved list. (Table I, Annex G.8.) In addition to restricting tractor imports to those on the approved list, the GOP insists on local assembly of imported tractors and encourages local manufacture of components. Thus, while all tractors must be imported in a knocked-down condition, it is becoming increasingly difficult for manufacturers to obtain releases of foreign exchange in Pakistan for tractors where there is not an assembly operation with a scheme to increase local manufacture of components. This policy has, for the time being, created uncertainties with respect to the prospects of importing U.S.-manufactured tractors.

Three U.S. manufacturers are represented on the GOP approved list: Massey-Ferguson, Ford, and International Harvester. (Recent indications suggest that Massey-Ferguson may be closing its U.S. plant, thereby possibly reducing the eligible suppliers to Ford and International Harvester.) At present, only one manufacturer, Massey-Ferguson, has established an assembly and manufacturing operation in Pakistan, through Millat Tractors, Ltd., a subsidiary of the publicly-owned Pakistan Automobile Corporation. Ford Motor Company has submitted proposals to the GOP for local assembly, but the response to date has not been favorable.

Given these uncertainties, it was decided in discussions with GOP officials, to defer any allocation of program resources for the import of tractors to the FY 83-FY 86 period.

2. Policy Issues

During this first year of the program, no specific new policy or institutional adjustments are under active consideration. In the area of fertilizer policy, the GOP has already agreed with the IMF and IBRD that the fertilizer subsidy will be eliminated by June 30, 1985. This is a major forward step by the Government.

During the course of the first year agreement, it is expected that a few of the policy studies described in Annex G.3. will be initiated. These studies will be funded under the Project Design Fund (391-0470). Two studies will relate to edible oil and fertilizer issues. For fertilizer, primary concerns are the efficiency of the distribution system, the suitability of fertilizer formulas now offered to farmers, and an examination of the role of the private sector in the importation and distribution of fertilizers. A grant involving a U.S. entity, such as the International Fertilizer Development

Center, will be developed to work on these issues with Pakistani counterparts.

V. TECHNICAL ANALYSES

A. Fertilizer

Annexes G. 5, G.6, and G.7 contain information which supplements the material presented below.

1. Demand

Pakistan will require substantial tonnages of imported phosphatic fertilizer for several years at least. Despite a 14 percent annual increase in fertilizer consumption during the past decade, per hectare use is still below half of recommended levels. Thus consumption is expected to grow for a considerable period, even if acreage sown is not increased.

Although domestic nitrogen fertilizer production will expand to a projected 80 percent of requirements by the middle of the 1980's, national phosphatic fertilizer output is expected to peak in the next few years, representing a much lower proportion (less than 20 percent in PFY 1980/81) of domestic requirements.

TABLE 2
PAST DOMESTIC PRODUCTION AND IMPORTS OF FERTILIZER AND PROJECTED DOMESTIC PRODUCTION
(000 NMT)

Period a/	Nitrogen		Phosphates	
	Domestic Production	Imports	Domestic Production	Imports
1976/77	309	137	12	140
1977/78	312	342	15	205
1978/79	334	444	27	206
1979/80	377	441	49	143
1980/81	581	366	57	280
Projected				
1981/82	798		71	
1982/83	882		76	
1983/84	882		76	
1984/85	934		76	
1985/86	934		76	
1986/87	934		76	

a/ Agriculture year -October 1 to September 30.

Sources: NDFC, Prospects of Fertilizer Demand and Supply in Pakistan, 1981; NDFC, Pakistan Fertilizer Statistics, 1980; Ministry of Food & Agriculture; USAID/Pakistan staff estimates.

The presumption of growing demand for fertilizer stems not only from Pakistan's relatively low per hectare usage, but also from the link between fertilizer input and yield. It is well-known that the growth of agriculture output in Pakistan has correlated positively with increasing fertilizer consumption. Along with the almost four-fold rise in fertilizer consumption in the 1970/71-1980/81 period, agricultural production grew by more than 40 percent. Continuation of these trends is expected because the crop-fertilizer response and benefit-cost ratios remain high, as long as product-price and input-cost relationships are held at current levels. (See Table 3.)

TABLE 3
CROP-FERTILIZER AND BENEFIT-COST
RATIOS FOR FERTILIZER

Crop	Ratio of Physical Output to Fertilizer Input	Benefit-Cost Ratio
Wheat	7	2.7
Paddy (IRRI-6)	10.5	2.7
Sugarcane	95 a/	6.0
Cotton Seed	4.5	4.8

a/ Viewed in the context of sugarcane yield of about 30,000 kilograms per hectare, the response ratio at 95 appears to be reasonable.

Sources: GOP, The Fifth Five Year Plan (1978-83), 1978; and GOP, Pakistan Economic Survey, 1980-81, 1981.

Naturally, the impact of fertilizer inputs on yields is influenced by many factors, such as the quality of seed and the timely provision of adequate water. These and other yield determinants, based upon Pakistan's donor-assisted investments (including USAID's prospective activities) in the agriculture sector, are likely to further increase crop-fertilizer ratios and, unless price-cost disincentives are introduced, should also improve benefit-cost ratios. In sum, the prospect is for continued expansion in the demand for fertilizer.

2. Supply

Table 2 suggested that domestic production of phosphatic fertilizer will fall far below natural requirements, calling for continued substantial imports.

Based upon a conservative assumption of 7 percent annual growth in fertilizer consumption[5] and taking into account domestic production projections and current reserve stock policy, USAID estimates an import requirement of 192,000 NMT, for 1982/83, as shown in Table 4.

TABLE 4
PHOSPHATE FERTILIZER BALANCE SHEET
(000 NMT)

Period a/	Incountry Supply			Demand			
	Opening Stock b/	Domestic Production	Total	Consumption c/	Reserves d/	Total	Balance e/
1981/82	185	71	256	243	122	365	(109)
1982/83	122	76	198	260	130	390	(192)
1983/84	130	76	206	278	139	417	(211)
1984/85	139	76	215	298	149	447	(232)
1985/86	149	76	225	318	159	477	(252)
1986/87	159	76	235	341	170	511	(276)

a/ Agriculture year - October 1 to September 30.
b/ Preceding year's reserves plus surplus, if any.
c/ Offtake.
d/ 50 percent of annual offtake.
e/ Figures in parentheses indicate negative balance or deficit, i.e., import requirements.

Based on the foregoing assumptions, A.I.D.-financed fertilizer imports would provide some 27 percent of estimated 1982/83 phosphatic import requirements, or 52,000 NMT. Other donors will also finance fertilizer imports. For example, other donors have pledged, in credits and barter arrangements, approximately $80 million which would provide for about 105,000 NMT of phosphate fertilizer as well as over 60,000 NMT of nitrogen. What proportion of these pledges will be used in 1981/82 or in 1982/83 is uncertain, depending upon several factors including 1981/82 offtake. But it is clear that A.I.D.'s contribution is required for 1982/83, even if all of current other donor pledges are used to finance 1982/83 imports.

3. Domestic Institutions: Production, Distribution, and Marketing

There are several public and private organizations involved in fertilizer production, distribution, and marketing -- for example, the Federal Directorate of Fertilizer Imports, the National Logistic Cell, the

5/ This assumption of 7% annual growth in fertilizer consumption takes into account the effect of a reduction in the fertilizer subsidy. Without such a reduction in the subsidy, previous trends in offtake would suggest that the percent annual growth in consumption would be greater than 7%.

National Fertilizer Corporation, the National Fertilizer Development Center, Dawood Hercules, Exxon, Fauji Fertilizer Company, provincial distributing agencies, and dealers. These institutions represent a functioning network and system which assures effective utilization of imported fertilizer. See Annex G.5 for a description of these institutions.

B. EQUIPMENT

Targeted for importation is equipment for Provincial Irrigation Departments. Importation of equipment requires that two basic conditions be met: first, that an established institutional base exists to utilize the machinery with (1) skilled personnel, (2) operating budgets for complementary inputs, and (3) a maintenance and repair capability; and, second, that there are cost-effective linkages between the imported equipment and increased agricultural productivity.

1. Irrigation System

The irrigation system consists of 40,000 miles of canals plus thousands of miles of small farm watercourses maintained by 11,000 miles of drains and 5,000 miles of flood protection and river embankment. It is the largest single irrigation system in the world and supplies water for 33 million acres.

The Federal Government, through the Ministry of Water and Power, is responsible for developing the overall program of irrigation, drainage, and flood management, and for financing nationwide the construction of canals, drains, and flood protection measures. The Provincial Governments are responsible for financing the construction, operation, and maintenance of irrigation, drainage, and flood protection works within their respective territorial jurisdictions. The equipment and maintenance units of the Provincial Irrigation Departments are responsible for the maintenance and operation of equipment assigned to a geographic area. Equipment is assigned upon demand to a specific job or project of canal maintenance or rehabilitation. Equipment maintenance funds are generated through equipment costs charged to a specific job or project.

2. Maintenance Capabilities

Four Irrigation Department maintenance facilities were visited during project design: Mughalpura in the Punjab, Jamshoro and Kotri in Sind, and Peshawar in NWFP. The equipment now in use is from 1954 to 1960 vintage with the exception of a number of D8 Caterpillar crawler tractors and WABCO scrapers that were received in 1975-1979.

Draglines and crawler tractors have been operating from 30,000 to 40,000 hours and are still operational due to an effective equipment maintenance operation. Equipment that is earmarked for replacement is from 21 to 27 years old and has outlived its maximum life expectancy by many years. This equipment is no longer economically repairable and rehabilitation costs would probably exceed 60 percent of the acquisition cost of the items.

The maintenance capability of these shops is considered high given that 80 percent of the dragline and bulldozer fleet is over 30 years old and is still operating. These shops have a deserved reputation for fabrication and improvisation to keep the equipment operating. For example, when the engines failed in a 1954 1-1/2 cubic yard P&H (kobe) dragline and no spare parts were available, the Maintenance Unit removed the engines from a D8 Caterpillar and, with some modifications and improvements, installed these engines in the draglines. These units are still in operation. The equipment maintenance capability of the Irrigation Department facilities is evident by their ability to maintain and operate 200 to 3,000 horsepower tractors and 3/4 cubic yard to 2-1/2 cubic yard draglines for 20 to 27 years and keep the equipment running.

3. Equipment Needs

The identification and importation of this equipment are closely related to the recently developed World Bank Irrigation System Rehabilitation Project. During the August 1981 negotiations, the GOP requested that A.I.D. consider co-financing this project. As a result of USAID's examination of this project and of discussions with World Bank and GOP officials, it is evident that: the canals are in need of immediate rehabilitation; the equipment is required for this work; and, the Provincial Irrigation Departments are basically sound with established procedures, budgets, skilled manpower, and a capability to man, repair, and maintain the equipment.

An important aspect of this activity is that the equipment will be utilized as part of a newly established program to upgrade the physical state of the canals. Complementary activities under the World Bank's Irrigation System Rehabilitation Project and USAID's Irrigation System Management Project will include in-service training for staff, improvement of inventory control systems for machinery and spare parts, and additional training for equipment maintenance personnel.

Water management is the key area in the newly evolving program. Moving beyond the simple provision of water and improvement of the final conveyance (the watercourse) to the farmer's field under USAID's On-Farm Water Management Project, the Mission is supporting GOP activities to improve the delivery and utilization of water. This will be accomplished by more timely delivery of water, improved planning and monitoring by federal and provincial bodies, and programed changes in civil works.

The equipment imported under this program will assist the Government of Pakistan to increase agriculture production by improving the reliability and distribution of water supplies of the irrigation system. About 75 percent of the total irrigation supplies are regulated through the canal system which has deteriorated considerably over time. Currently, an estimated 12 percent of the 30 million acre canal command area is adversely affected each year by breaches and canal closure. Further, sediment deposition has raised the water flow line resulting in more than proportionate water withdrawal for watercourses at channel heads than at the tail. Detailed empirical information on the impact of the current canal situation on agriculture production is not available, although the World Bank suggests that in the absence of a canal rehabilitation program, yields and cropping intensities could decline by about 2 to 5 percent. 6/

The primary production benefits of canal rehabilitation will be realized through an induced increase in the use of other production inputs. Research studies indicate that timely and adequate water supplies serve as a catalytic agent in the expanded use of high-yielding seed varieties and fertilizers. For the present, there is a considerable mismatch between canal water supply and crop requirements with the result that the productivity of fertilizer for the existing seed varieties experiences a high degree of variability. The canal rehabilitation will ensure timely water availabilities, reduce farmers' production risks, and thus encourage increased use of high-yielding seed varieties and fertilizer. The incidence of benefits would be particularly felt by farmers at the tail of distributories and minors. Under the present water distribution system, such farmers "tend to have lower than average incomes than do other farmers with comparable holdings and operations." 7/

6/ IBRD, "Staff Appraisal Report: Pakistan Irrigation System Rehabilitation Project, 1982."
7/ IBRD, "Staff Appraisal Report: Pakistan Irrigation System Rehabilitation Project, 1982."

In summary, imports of this equipment will increase agriculture productivity. At the same time, the institutional framework and complementary inputs are available to put the machinery to productive use.

VI. IMPLEMENTATION PLAN

A. Procurement Plan

1. Fertilizer

Fertilizer will be procured by the GOP through the Federal Directorate of Fertilizer Imports (FDFI), an agency for the Ministry of Food, Agriculture, and Cooperatives, in accordance with GOP procurement procedures as modified by A.I.D. to comply with A.I.D. regulations. FDFI will be responsible for finalizing specifications, preparing an invitation for bids (IFB), developing delivery schedules, evaluating offers, making awards, and monitoring delivery, receipt, and utilization. Official(s) responsible for these functions within FDFI will be designated prior to the initiation of the procurement process. Actual tendering will take place in Washington, D.C. because of the necessity of marrying promptly fertilizer awards with freight availabilities. Tendering in Washington will also result in a shorter bidding/award period and will enable suppliers to offer lower prices than would be in the case with in-country tendering where extended bid validities are required to accomodate bid transmittal and approval time.

The authorized geographic code for this program is 000 (United States) and Pakistan. In accordance with A.I.D. policy, fertilizer purchases will be made in the U.S. only. Shipping under this program would normally also carry code 000 and Pakistan. However, authorization has been received from AID/Washington to extend eligibility of shipping services for fertilizer only to Code 935 countries (see Annex A.4.)

Specifications will be mutually agreed upon prior to tendering. IFB and shipping terms will conform to A.I.D. regulations. To this end, the GOP will submit to A.I.D. within thirty (30) days after the signing of the Program Agreement a proposed IFB and a proposed designator of charter party for A.I.D. review and approval. Subject to GOP and A.I.D. agreement, fertilizer procurements will be conducted on an FOB or FAS basis. Upon approval by A.I.D. of the IFB and designation of charter party, FDFI will inform A.I.D. of the proposed delivery schedule and request advertising of the tender in appropriate U.S. publications.

The tender will be issued in Washington, D.C. by the Embassy of Pakistan. Arrangements will be made to have available at the Embassy 50 copies of the IFB for distribution to interested suppliers. The tender will specify a bid closing date 30 days after advertising and require a bid validity period of 15 days. Bids are to be submitted to the Pakistan Embassy in Washington D.C. Bid opening and bid evaluation will take place at the Pakistan Embassy in Washington D.C. and will be attended by A.I.D.(SER/COM) and GOP representatives. GOP participation will be through a representative with authority to make awards. Awards will be made by the GOP subject to the approval of A.I.D. Freight tenders will also be floated by the Pakistan Embassy in Washington, D.C. Freight offers will be married to commodity offers and will be evaluated jointly by GOP and A.I.D. representatives in Washington, D.C. Upon the issuance of award notices by the GOP, FDFI will submit to USAID/Pakistan financing requests which will serve as the basis for letters of commitment issued by AID/Washington in favor of selected suppliers.

2. Equipment

The GOP will contract with qualified U.S. firm(s) to serve as procurement services agent (PSA) for the procurement of all equipment in the first year of the program. The use of PSA(s) was determined by USAID/Pakistan and the GOP to be the most efficient, expeditious, and cost-effective way of procuring this equipment in order to maximize the balance of payments impact of the program. Both the GOP and USAID/Pakistan feel that the considerable savings in time, cost, and manpower will more than offset the PSA's fees. These savings are obtained in:

a. Considerably reduced procurement time which, in turn, offsets possible inflationary increases in equipment costs which could be at least as high as 10-15 percent annually;

b. noting and rectifying shortages prior to shipment;

c. ensuring suitable export packing, thereby reducing the risk of damage and pilferage; and,

d. consolidating shipments from multiple suppliers.

In order to facilitate the timely and efficient execution of the entire procurement process, the GOP has agreed that USAID/Pakistan will act as its Agent for this procurement transaction. This Provision will be included in the Program Agreement. The following procedure which outlines the roles and relationships between the GOP, USAID/Pakistan, and the PSA(s) will be followed:

a. As the Agent of the GOP, USAID/Pakistan will place an advertisement in appropriate U.S. publications, requesting proposals from interested U.S. firms to serve as PSA(s) under the program.

b. As the GOP's Agent, USAID/Pakistan will receive and evaluate offers and make recommendations for award(s) to the GOP. USAID/Pakistan will review the selection process with and obtain concurrence in the selection(s) from the GOP.

c. As the GOP's Agent, USAID/Pakistan will prepare one or more project implementation orders for commodities (PIO/Cs), depending on the number of PSA's selected. Each PIO/C will include the type/specifications of the commodities to be procured, the name of the authorized PSA who will act on behalf of the GOP, a description of the services the PSA will provide, and the total cost of the commodities and the services of the PSA including his fee. One of the services the PSA(s) will be called upon to perform will be to work with appropriate GOP technical personnel and USAID/Pakistan to finalize equipment specifications. The PSA(s)' contract may also include a training component thereby training in management, U.S. commercial practices, and A.I.D. procurement regulations will be provided to selected GOP procurement officials.

d. The GOP and USAID/Pakistan will both sign the PIO/C(s), thereby confirming agreement to the type/specifications and cost of the commodities to be procured, the use of the selected PSA(s), the scope of work to be performed by the PSA(s), and the cost of his/their services.

e. The PIO/C(s) will confirm that USAID/Pakistan as the Agent of the GOP will handle all direct communications with the PSA(s) on behalf of the GOP and that the commodities are to be consigned to USAID/Pakistan.

f. USAID/Pakistan will request AID/Washington to issue a letter(s) of commitment to the PSA(s) which will be signed by both AID/Washington and the PSA(s).

g. As the GOP's Agent, USAID/Pakistan will keep the GOP informed of progress and likely date of receipt of commodities. USAID/Pakistan will consult as necessary with appropriate GOP officials to finalize equipment specifications and to review all documentation submitted for approval by the PSA(s) such as invitations for bids to suppliers and quotations received by the PSA(s) from suppliers. USAID/Pakistan, after consultation with appropriate GOP officials, will also authorize the PSA(s) to proceed to issue purchase orders to the selected suppliers.

h. USAID/Pakistan, as the GOP's Agent, and AID/Washington will handle all financial transactions with the PSA(s).

i. Commodities will be received at Karachi and cleared through customs by USAID/Pakistan, acting as Agent for the GOP.

j. As the GOP's Agent, USAID/Pakistan will make arrangements with provincial authorities for delivery of the equipment to the appropriate sites.

Selection of one or more qualified U.S. firms to serve as PSA(s) will be undertaken in accordance with competitive procurement procedures. The contractual arrangements worked out between the PSA(s) and the GOP will conform to A.I.D. policies and procedures on host country contracting and procurement in accordance with A.I.D. Handbook 11. Immediately upon approval of the PAAD, advertisement will be placed in appropriate U.S. publications to request proposals from interested firms to act as PSA for the equipment portion of the program. A Request for Proposal (RFP) is provided in Annex G.11. The advertisement and RFP will clearly indicate that proposals are requested in advance of a Program Agreement and that no appointments can be made by A.I.D. or the GOP before the Program Agreement is signed and all Conditions Precedent are met. The advertisement will also reserve the option to select and appoint one or more PSA(s). Offers received will be evaluated by USAID/Pakistan with the assistance of the Regional Contracts Officer (RCO) and the Regional Commodity Management Advisor (RCMA), who will also assist the Mission in notifying and preparing necessary documentation for the appointment of the selected PSA(s), which will be reviewed and signed by the GOP.

PSA(s) will be appointed on a cost plus fixed fee(CPFF) compensation basis. It is anticipated that fees will range from 5 to 7 percent of the FOB/FAS cost of the commodities. However, depending on the composition of the final equipment list, lower fees may be obtained. Payment of fees will be as follows: 50 percent of the fee payable for each contract award to be paid upon authorization by USAID/Pakistan as the Agent of the GOP of that contract award under the program, and 50 percent to be paid upon receipt and satisfactory inspection of the equipment, on the basis of each shipment recieved.

Upon the appointment of one or more PSA(s), USAID/Pakistan, as the Agent of the GOP, will request AID/W to issue direct letters of commitment (L/COMs) to the PSA(s) for the anticipated amount of the purchases to be transacted, the PSA(s)' fees, inspection costs, and forwarding, shipping and insurance charges. The PSA(s) will draw upon these L/COMs as needed to pay the above costs, subject to the concurrence of A.I.D. PSA(s) will open irrevocable letters of credit (L/Cs) in favor of selected suppliers. Payment to suppliers of commodities will be subject to satisfactory inspection and presentation of documents. Detailed procedures to implement these steps will be negotiated with the selected PSA(s) and included in the contractual documentation.

Within thirty (30) days after the signing of the Program Agreement, the GOP will designate an authorized representative of the Federal Ministry of Water and Power to collaborate with A.I.D. and the PSA(s) on equipment specifications, IFB(s) awards to suppliers, and arrangements for in-country transportation. This official will be authorized to sign all documentation relating to this procurement transaction on behalf of the GOP and will facilitate the involvement of appropriate technical personnel from Provincial Irrigation Departments to participate in the procurement process as necessary.

Except as A.I.D. may otherwise agree in writing, the irrigation equipment procured under this program shall have its source and origin in countries included in A.I.D. Geographic Code 000 (United States) or Pakistan.

3. Shipping

Ocean shipping for all equipment and commodities except for fertilizer financed under this program shall be only on flag vessels of the United States or Pakistan. For fertilizer only, shipping on flag vessels of A.I.D. Geographic Code 935 countries shall also be eligible. In accordance with the U.S. Cargo Preference Act of 1954, at least 50% of the gross tonnage of all equipment and commodities will be transported on privately-owned U.S. flag commercial vessels, to the extent that such vessels are available at fair and reasonable rates.

B. Implementation Schedule

Date (No Later Than)	Action
March 10, 1982	PAAD is reviewed and approved by the APAC.
March 15, 1982	PAAD is authorized by the A.I.D. Administrator.
March 16, 1982	Advertisement is placed in appropriate U.S. publications with

	offers from U.S. companies to serve as Procurement Services Agents for irrigation equipment.
March 31, 1982	Program Agreement is signed.
April 16, 1982	PSA(s)' offers for equipment purchases are evaluated and selection(s) is/are made.
April 30, 1982	Conditions Precedent are met by the GOP. IFB and charter party for fertilizer are submitted by FDFI to USAID/Pakistan for review and approval.
May 1, 1982	Contract(s) with PSA(s) for equipment procurement is/are signed.
May 15, 1982	Tender for fertilizer is issued by the Pakistan Embassy in Washington,D.C. L/COM(s) is/are issued by AID/W to select PSA(s) for equipment procurement.
June 1, 1982	IFB(s) is/are issued by PSA(s) for equipment.
June 30, 1982	Fertilizer bids are received and freight tender is issued by the Pakistan Embassy in Washington,D.C.
July 15, 1982	Bids for equipment are received by PSA(s).
July 15, 1982	Fertilizer commodity and freight awards are made in Washington at the Pakistan Embassy.
July 30, 1982	Fertilizer and shipping L/COMs are issued by AID/W.
August 30, 1982	Evaluation of bids for equipment is completed by PSA(s) and results are hand-carried to Pakistan for review and approval.
September 15, 1982	Irrevocable letters of credit(L/Cs) are issued by PSA(s) to selected suppliers for equipment.
September 30, 1982	Fertilizer deliveries begin to arrive at Karachi.
October 31, 1982	Fertilizer deliveries to Karachi are completed.
December 15, 1982	Deliveries of readily available equipment arrive at Karachi.
May 1, 1983	Deliveries of additional equipment arrive at Karachi.
September 1, 1983	Final shipment of equipment is received at Karachi.

C. Administrative and Monitoring Arrangements

1. A.I.D.

Responsibility for monitoring this program will be in the USAID/Pakistan Office of Agriculture and Rural

Development (ARD). ARD will draw upon the resources of the Mission's Office of Project Development and Monitoring (PDM) for contracting and procurement tasks and the Mission's Executive Office (EXO) for customs clearance and, where appropriate, delivery of commodities. Assistance will also be solicited from the A.I.D. Regional Commodity Management Advisor in Bangkok and the A.I.D. Regional Contracts Officer in Jakarta. Representatives from the Office of Commodity Management (SER/COM) in AID/Washington will be called upon to participate with GOP officials in the bid evaluation and award process for fertilizer procurement at the Pakistan Embassy in Washington, D.C. In addition, the Mission will require the services of the Office of Financial Management (SER/FM) in AID/Washington to issue letters of commitment (L/COMs) and other financial implementing documents.

At a minimum, USAID/Pakistan monitoring responsibilities will include the following:

a. Fertilizer

i. Obtain from the GOP in a timely manner an acceptable IFB and charter party format for review and approval.

ii. Ensure that the GOP's requests for issuance of L/COM(s) are submitted in a timely manner to USAID/Pakistan for transmittal to AID/Washington.

iii. Monitor arrivals, bagging, and distribution.

b. Equipment

i. Obtain GOP approval of the equipment lists and a confirmation of priorities.

ii. As Agent for the GOP, advertise for, obtain and evaluate offers, and select PSA(s).

iii. Issue PIO/C(s) for commodity procurement and the services of selected PSA(s) and request AID/Washington to issue L/COMs in favor of selected PSA(s).

iv. Review with PSA(s) and GOP equipment specifications.

v. As Agent for the GOP, handle all communications with selected PSA(s) and review with appropriate GOP officials documentation submitted by PSA(s) such as IFB(s) and bids submitted by suppliers, and authorize PSA(s) to make awards to suppliers.

vi. Monitor equipment shipments.

vii. Clear and receive equipment at Ka achi, and make arrangements with Provincial Irrigation Departments for in-country transportation to appropriate sites.

viii. Periodically spot-check utilization of equipment.

c. General

i. Jointly program with the GOP and monitor the use of local currency generations.

ii. Undertake agricultural policy studies.

iii. Undertake program evaluation.

With the anticipated addition of a supply advisor, an agricultural economist, and a rural development officer to the staff of USAID/Pakistan in FY 1982, the Mission will be able to carry out its implementation responsibilities under this program.

2. GOP

Prior to the initiation of the procurement process, the GOP will designate officials within the Federal Directorate of Fertilizer Imports (FDFI) and the Federal Ministry of Water and Power to work with USAID/Pakistan on the procurement of fertilizer and equipment, respectively. These officials will be authorized to sign all documentation relating to these procurements on behalf of the GOP and will facilitate the involvement of other appropriate GOP personnel as necessary. This will include, inter alia, making all arrangements for the fertilizer tendering and evaluation process to take place at the Pakistan Embassy in Washington, D.C. Officials of the Economic Affairs Division of the Ministry of Finance and Economic Affairs will work with USAID/Pakistan to program and monitor the utilization of local currency generations from the sale of A.I.D.-financed commodities. A number of other government agencies and local organizations will provide personnel to work with Mission staff and A.I.D.-financed consultants on the prospective agricultural policy studies described in Annex G.3.

D. Evaluation

This PAAD covers only the first tranche of several anticipated tranches of funding for a proposed $300 million program. The Mission plans to undertake an evaluation in November 1982 to assess activities covered by the first $60 million tranche and to identify any lessons learned which can be applied to the design of activities and the selection of commodities, mechanisms and procedures under subsequent tranches. Since the PAAD amendment for the second tranche will be due early in FY 1983, there will be, at most, 9 months of experience with this activity before the next PAAD amendment is prepared. By that time, the Mission will have had only a limited amount of experience with this program. However, based on the proposed implementation schedule, by November 1982, fertilizer deliveries to Karachi will have been completed and awards will have been made to suppliers by the selected PSA(s) for all the equipment.

The proposed evaluation will include a critical review of the following:

1. Progress made toward achievement of the purposes of the activity (actual compared with planned performance);
2. Procurement arrangements, including the performance of PSA(s) and the conduct of the fertilizer tendering and award process at the Pakistan Embassy in Washington, D.C.;
3. Shipping arrangements and timeliness of deliveries;
4. End use of commodities (this may be possible for fertilizer);
5. Rapidity of disbursements;
6. Potential areas for improving program implementation schedules, funding arrangements, and procurement procedures;
7. GOP and A.I.D. collaboration and the role of various organizations; and,
8. Unanticipated problems.

Two consultants for three weeks each, working in collaboration with appropriate Mission and GOP personnel, should be able to undertake an adequate assessment of this program. Approximately $20,000 which is available under the Project Design Fund (391-0470) will be required for this purpose. Evaluations in subsequent years will be more intensive in scope and are likely to focus on such issues as the estimated impact of imported commodities on the performance of the agricultural sector and the estimated marginal contribution to GNP of the foreign exchange provided under this program.

E. Environmental Statement

No initial enviromental examination is required for this program as indicated by State 293887 (see Annex A.2.)

VII. DOLLAR AND COUNTERPART ALLOCATIONS

A. Dollar Allocations and Disbursements

1. Allocations

	In $ Millions
a. Fertilizer (Loan) 113,000 PMT (equivalent to 52,000 NMT) of DAP @ $300 per PMT (including freight and insurance)	34.0 (rounded)
b. Equipment (Grant)	
i. Estimated cost of commodities	= 19.0
ii. Freight[a]/and insurance (estimated at 30% of the cost of commodities)	= 5.7
iii. Procurement Services Agent(s) Fee (estimated at 7% of the cost of commodities)	= 1.3
Total	= 60.0

a/ Includes local costs for in-country transportation to appropriate sites in the Provinces.

Equipment purchases will be drawn from the Provincial Irrigation Departments' priority lists so that the total cost of the equipment portion of the program, including freight and insurance and the procurement services agent(s)' fee, does not exceed $26 million. An illustrative list of eligible items is provided in Annexes G.9 and G.10.

2. Disbursement Schedule

If the program agreement is signed no later than March 31, 1982, it is anticipated that fertilizer and shipping L/COMs will be issued by July 30, 1982, that fertilizer deliveries will begin to arrive at Karachi by September 30, 1982, and that fertilizer shipments to Karachi will be completed and disbursements of $34 million made by October 31, 1982. It can also be expected that by September 15, 1982, irrevocable letters of credit will be issued to selected suppliers for equipment and that deliveries of readily available equipment will arrive at Karachi by December 15, 1982. For the remainder of the equipment, disbursements and deliveries are expected to be completed by September 1,1983.

3. Local Cost Financing

A minimum amount of dollar funding provided under this program will be used to finance local costs such as in-country transportation of equipment from the Karachi port to appropriate sites in the Provinces. Disbursements for these costs will be made in U.S. dollars in lieu of U.S.-owned excess rupees in keeping with the balance of payments objective of the program. A FAA Section 612(b) certification has been signed by the Mission Director and is included in Annex B.2.

B. Counterpart Funds

1. Generation of Counterpart Funds

The Agricultural Commodities and Equipment Program will result in the accrual of rupee proceeds to the Government of Pakistan when commodities provided by A.I.D. under this project are sold or charged against the budgets of autonomous agencies and Provincial Governments. Under Section 609 (a) of the Foreign Assistance Act, rupee counterpart funds are required to be deposited for any commodities which are furnished with Economic Support Funds on a grant basis under arrangements which result in the accrual of proceeds to the country. Under this program, all rupee generations, including those generated by loan-funded commodities, will be deposited by the GOP in a special account.

2. Counterpart Deposit and Use Arrangements

Rupee proceeds will be deposited in the Federal Consolidated Fund of the GOP. The GOP will credit these proceeds to a special subsidiary account to be named "USAID Programme for US FY 1982".

Releases from the account will be made by the GOP, after consultation with A.I.D. based on mutually agreed upon allocations of funds for specific purposes. The following priority order will be followed in allocating account resources:

a. Development activities being supported with A.I.D. dollar and/or local currency funds; and,

b. Such other activities as may be mutually agreed upon in writing.

Allocation will be made for development activities in the following areas: agriculture; rural development; water resources; population; education; health and, energy. Where appropriate, counterpart rupee allocations may be used to help reduce opium poppy cultivation.

The Government of Pakistan will convene a meeting with A.I.D. not less than once every six months to consult on the agreed purposes for which rupees from the special subsidiary account will be used. The first meeting will be held within three months after the generation of rupees from A.I.D.-funded commodities.

As long as a balance remains in the special subsidiary account, the GOP will provide semi-annual reports on how the proceeds have been used. The first report covering deposits and withdrawals through December 31, 1982 should be submitted to USAID/Pakistan by January 15, 1983, with subsequent reports due at six month intervals.

VIII. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

A. Conditions Precedent to Disbursements

Prior to the first disbursement under this Loan or this Grant or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower/Grantee will, except as the parties may otherwise agree in writing, furnish or have furnished to A.I.D. in form and substance satisfactory to A.I.D. within thirty (30) days after the signing of the Program Agreement:

1. A proposed Invitation for Bid (IFB) and a proposed designation of Charter Party for the importation of the fertilizer.

2. An opinion of Counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower/Grantee and that it constitutes a valid and legally binding obligation of the Borrower/Grantee in accordance with all of its terms.

3. A statement setting forth the names and titles of persons holding or acting in the Office of the Borrower/Grantee and representating that the named person or persons have the authority to act as the representative or representatives of the Borrower/Grantee together with a specimen signature of each such person certified as to its authenticity.

4. A statement of the name and title of any additional representatives acting for the Borrower/Grantee who are authorized to sign procurement documents together with a specimen signature of each such person certified as to its authenticity.

B. Covenants

1. Use of Sale Proceeds

All local currency proceeds generated from the sale, transfer, or importation of commodities provided under this Agreement will be credited to the Federal Consolidated Fund of the Borrower/Grantee. The Borrower/Grantee agrees to credit these proceeds to a special subsidiary account to be named "USAID Program for US FY 82".

Funds in the special subsidiary account may be used for development purposes in the agriculture, rural development, water resources, population, education, energy and health sectors as may be mutually agreed upon and, further, may be used within these areas for programs which would help reduce illicit narcotics cultivation by stimulating broader development opportunities.

2. Reporting

As long as balances remain in the special subsidiary account, the Borrower/Grantee shall provide to USAID/Pakistan semi-annual reports on the balances remaining in the account and the withdrawals and uses of the funds from that account during the current reporting period with the first report covering deposits and withdrawals through December 31, 1982 to be provided by January 15, 1983.

3. Authorization

The Borrower/Grantee authorizes USAID/Pakistan to act as its lawful Agent and to execute, in said capacity, all letters and documents on behalf of the Borrower/Grantee in accordance with A.I.D. Handbook 11, Chapter 3, as necessary for the following:

a. to procure, administer and compensate one or more Procurement Services Agents under this Agreement. Activities contemplated include, by illustration, advertising for Agent(s) services, evaluating and selecting of Agent(s), and instructing, answering inquiries, and otherwise communicating with Agent(s).

b. to procure, administer and finance equipment under this Agreement. Activities contemplated include, by illustration, preparing and executing Project Implementation Orders (PIO's) for equipment, arranging for issuance of Letters of Commitment to the Agent(s), clearing of equipment through customs, and arranging with provincial authorities for delivery to appropriate sites.

The Borrower/Grantee shall, upon the request of USAID/Pakistan, execute Project Implementation Orders (PIO's) and other documents as necessary for the procurement of services and equipment under this Agreement.

4. Eligible Items

The commodities eligible for financing under this Grant and/or this Loan shall be those listed below (a list will be included in the Agreement) and such other commodities as are mutually agreed upon in writing by the Parties and specified in Implementation Letter(s) issued to the Borrower/Grantee.

C. Negotiating Status

The above Conditions Precedent and Covenants have been discussed with and agreed to by the Government of Pakistan. During Program Agreement negotiations, USAID/Pakistan will incorporate into the Agreement appropriate language to cover these terms and conditions.

ANNEXES

FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY 3665
BT
UNCLAS STATE 293922

AIDAC

E.O. 12065N/A

TAGS.
SUBJ: FY 1982 ESF ECONOMIC ASSISTANCE PROGRAM FOR PAKISTAN - APAC MEETING

1. THE FY 1982 ESF PROGRAM FOR PAKISTAN WAS REVIEWED AND APPROVED DURING THE OCTOBER 15 APAC MEETING CHAIRED BY AA/ASIA. SUBMISSION IS CONSIDERED FULLY IN ACCORD-WITH PROGRAM WHICH WAS NEGOTIATED IN AUGUST 1981 BY THE U.S. ECONOMIC ASSISTANCE TEAM HEADED BY THEAID ADMINISTRATOR. PROGRAM FULFILLS POLICY NEEDS OF BOTH THE U.S. AND PAKISTANI GOVERNMENTS.

2. APAC RECOGNIZED DEGREE OF EXTRAORDINARY EFFORT REQUIRED ON THE PART OF THE USAID MISSION TO COMPLETE AND SUBMIT THE NECESSARY DOCUMENTATION ON SUCH SHORT NOTICE. THE MISSION IS TO BE COMMENDED FOR A JOB WELL DONE.

3. A NUMBER OF GENERAL CONCERNS WERE RAISED BY APAC WHICH NEED TO BE HIGHLIGHTED:

(A) STAFFING: IN ADDITION TO THE TEN ACTIVITIES IN FY 1982, FOUR NEW PROJECTS ARE PLANNED IN FY 1983 AND FOUR MORE IN FY 1984. MISSION WILL ALSO BE REQUIRED TO SUBMIT A COUNTRY DEVELOPMENT STRATEGY STATEMENT IN JANUARY 1983. IN VIEW OF THIS WORKLOAD, CURRENT MISSION STAFFING OF 16 USDH AND 37 FSN WAS CONSIDERED INSUFFI-CIENT. APAC CONCURRED IN REQUESTED IMMEDIATE INCREASE OF NINE USDH AND 13 FSN POSITIONS, WHICH WOULD BRING THE NEW STAFF TOTALS TO 25 AND 50 RESPECTIVELY DURING FY 1982. ASIA BUREAU IS REQUESTING THESE ADDITIONAL CEILINGS OF THE AID/W CONTROLLER, AND HOPES TO BE ABLE TO ALLOCATE SOME TO THE MISSION SHORTLY. IT WOULD BE HELPFUL IN TERMS OF OVERALL TIMING IF EMBASSY COULD SEND IN APPROPRIATE MODE CABLE, APPROVING NEW LEVELS.

(B) NARCOTICS: ALL PROJECTS SHOULD BE EXAMINED FOR OPPORTUNITY TO POSITIVELY AFFECT NARCOTICS PROBLEM GIVEN RECENT CONGRESSIONAL CONCERNS AND AGENCY COMMIT-MENT TO NARCOTICS EFFORT. AT A MINIMUM, PROJECTS SHOULD NOT BE SUSCEPTIBLE TO BEING USED TO ASSIST IN POPPY PRODUCTION. WHENEVER POSSIBLE, PROJECTS SHOULD

IDENTIFY ANTI-POPPY ASPECTS OF THE ACTIVITY TO BE UNDERTAKEN AND, IF CONSIDERED ADVISABLE, SHOULD UTILIZE AN APPROPRIATE QTE POPPY CLAUSE UNQTE IN PROJECT AGREEMENT.

(C) NEW POLICY EMPHASES: ALL PROJECTS SHOULD BE EXAMINED IN LIGHT OF NEW AID POLICY EMPHASES ON INSTITUTIONAL DEVELOPMENT, PRIVATE SECTOR INVOLVEMENT, TECHNOLOGY TRANSFER, HUMAN RESOURCES DEVELOPMENT AND HOST GOVERNMENT POLICY CHANGE RECEPTIVITY. COMPONENTS RELATING TO THESE EMPHASES SHOULD BE SPECIFICALLY IDENTIFIED IN EACH PROJECT PAPER.

(D) HOST COUNTRY CONTRIBUTION: IN CASES WHERE PROJECTS COMBINE ESF AND DA FUNDS, 25 PERCENTUM HOST COUNTRY CONTRIBUTION MAY REPEAT MAY HAVE TO BE MET FOR THE ENTIRE PROJECT. USAID SHOULD, AT THIS TIME, IDENTIFY AND QUANTIFY AS POSSIBLE ANTICIPATED HOST COUNTRY EXPENDITURES RELATED TO EACH PROJECT OR AMENDMENT TO PROJECT. IF 25 PERCENTUM HOST COUNTRY CONTRIBUTION FOR EACH PROJECT IS NOT ATTAINABLE, PLEASE ADVISE GC/ASIA AS TO (1) PROJECT NAME, (2) AMOUNT OF SHORTFALL AND (3) REASON. IN IDENTIFYING AND QUANTIFYING ANTICIPATED HOST COUNTRY CONTRIBUTIONS, KEEP IN MIND THAT CONTRIBUTION MAY BE QTE IN KIND UNQTE AND GUIDANCE FOUND IN HANDBOOK 3-APPENDIX 3D.

(E) PROGRAMMING OF COUNTERPART: WHERE ESF GRANT REPEAT GRANT FUNDS ARE USED TO FINANCE COMMODITIES AND LOCAL CURRENCY GENERATIONS RESULT, SECTION 609 OF THE FAA REQUIRES AID TO APPROVE THE HOST COUNTRY PROGRAMMING OF SUCH GENERATIONS. UNDER SECTION 609 SUCH COUNTERPART CAN BE USED FOR EITHER USG ADMINISTRATIVE REQUIREMENTS OR ANY OTHER PURPOSE JUSTIFIABLE UNDER FAA.

(F) SOURCE/ORIGIN: AUTHORIZED SOURCE/ORIGIN IS U.S. PLUS HOST COUNTRY FOR ESF FUNDED GRANT REPEAT GRANT ACTIVITIES. ANY PROCUREMENT FROM CODE 941 COUNTRIES WOULD HAVE TO BE JUSTIFIED THROUGH WAIVER PROCESS.

(G) ENVIRONMENT: PROJECTS 391-0468; 0469; 0470; 0474; AND 0475 DO NOT REQUIRE IEE'S OR EA'S. PROJECT 0413 HAS PREVIOUSLY BEEN GIVEN A NEGATIVE DETERMINATION WHICH REMAINS VALID. FOR MALARIA AND RURAL ELECTRIFICATION, EXISTING EA'S SHOULD BE EXAMINED FOR ANY NEW ISSUES. NEW IEE'S ARE REQUIRED FOR 391-0467 (IRRIGATION SYSTEM - REHABILITATION) AND 391-0471 (TRIBAL AREA DEVELOPMENT). A MEMO WITH ADDITIONAL GUIDELINES HAS BEEN FORWARDED VIA POUCH BY BUREAU ENVIRONMENTAL OFFICER TO MISSION.

(H) PROCUREMENT: A SPECIFIC PROCUREMENT PLAN, WITH STAFFING/TDY REQUIREMENTS, SHOULD BE DEVELOPED FOR EACH PROJECT.

4. SPECIFIC COMMENTS ON PIDS FOR ACTIVITIES TO BE INITIATED IN FY 1982 ALONG WITH GUIDANCE FOR THE DEVELOPMENT OF PP'S FOLLOW BY SEPTELS. HAIG
BT
#3922

FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY 3662
BT
UNCLAS STATE 293887

AIDAC

E.O. 12065: N/A

TAGS:
SUBJECT: APAC REVIEW: AGRICULTURAL COMMODITIES AND EQUIPMENT PID (391-0468)

1. APAC APPROVED SUBJECT PID 10/15/81. FOLLOWING GUIDANCE PROVIDED FOR PP DEVELOPMENT.

2. SINCE WE HAVE DUAL OBJECTIVES OF ACHIEVING RAPID DISBURSEMENTS AND HAVING POSITIVE DEVELOPMENT IMPACT IN THE FERTILIZER SECTOR, APAC DECIDED THAT INITIAL PP FOR FIRST YEAR'S TRANCHE OF DOLS 60 MILLION WOULD BE DEVELOPED RAPIDLY WITH MINIMAL CONDITIONS REGARDING POLICY ISSUES. HOWEVER, THIS PP WILL DELINEATE POLICY AREAS WHICH NEED TO BE ADDRESSED IN FUTURE YEARS. A SUBSEQUENT PP AMENDMENT FOR DOLS 240 MILLION (OR LESSER AMOUNT IF AT THAT TIME IT APPEARS DESIRABLE TO LIMIT PP TO LESS THAN FOUR YEARS) WOULD BE DEVELOPED AFTER ADDITIONAL ANALYSIS IS UNDERTAKEN ON SUCH QUESTIONS AS SUBSIDIES, PRIVATE SECTOR PARTICIPATION AND OTHERS WHICH MISSION AND PP TEAM CONSIDER IMPORTANT.

3. INITIAL DOLS 60 MILLION PP SHOULD DRAW ON IBRD ANALYSIS OF FERTILIZER SECTOR AND, IF APPROPRIATE, THE CONDITIONS ATTACHED TO BANK'S RECENT LOAN, AS WELL AS PREVIOUS AID ACTIVITIES IN THE SECTOR. AID/W MEMBERS OF DESIGN TEAM WILL CONSULT WITH IBRD PRIOR TO DEPARTURE. PP SHOULD ATTEMPT TO DEFINE THOSE POLICY AND INSTITUTIONAL AREAS FOR STUDY WHICH THIS PROJECT SHOULD ADDRESS IN FUTURE YEARS.

4. PROGRAMMING OF COUNTERPART WAS DISCUSSED AS MEANS OF ACHIEVING POLICY/DEVELOPMENTAL IMPACT IN THIS PROJECT. APAC WAS AWARE OF GOP'S BUDGETING PROCESS AND FACT THAT INITIAL COUNTERPART MAY ALREADY BE CONSIDERED PROGRAMMED; HOWEVER, SECTION 609 OF FAA REQUIRES AID APPROVAL OF LOCAL CURRENCY USES WHEN GENERATED BY ESF GRANTS REPEAT GRANTS FOR COMMODITY IMPORTS. THIS ISSUE SHOULD BE EXAMINED DURING PP DESIGN.

5. PROCUREMENT: FERTILIZER IS EXPECTED TO BE PROCURED BY GOP ASSUMING IT ALREADY HAS AN EFFECTIVE MECHANISM ESTABLISHED WHICH CAN QUICKLY HANDLE PROCUREMENT AND PROCEED IN ACCORDANCE WITH REGULATION 1. OTHERWISE,

PROCUREMENT WOULD BE DONE DIRECTLY BY AID ON BEHALF OF THE GOP. PROCUREMENT OF EQUIPMENT SHOULD, AT LEAST DURING FIRST YEAR, BE PROCURED BY AID THROUGH PROCUREMENT AGENT, RATHER THAN GOP IN ORDER TO ASSURE EXPEDITIOUS - HANDLING.

6. PROCUREMENT AGENTS: QUESTION AROSE WHETHER ANY ONE PROCUREMENT AGENCY COULD HANDLE ALL THE DIVERSE TYPES OF PROCUREMENT ANTICIPATED IN THIS AND OTHER- PROJECTS. APAC DECIDED THAT REQUEST FOR PROPOSALS SHOULD BE BROAD ENOUGH TO ALLOW FIRMS TO PRESENT PROPOSALSON - BOTH TOTAL AND PARTIAL PORTFOLIO NEEDS. RECENTAID AUDIT ON USE OF PROCUREMENT AGENTS SHOULD BE REVIEWED. (COPY WILL BE POUCHED TO MISSION.) ALTERNATIVE FEE- STRUCTURES INCLUDING FIXED FEES SHOULD BE EXPLORED.

7. PUBLIC VS PRIVATE SECTOR USE OF EQUIPMENT: APAC CONSIDERED THAT TO THE EXTENT PROCUREMENT OF EQUIPMENT FOR PUBLIC SECTOR USE IS MORE EXPEDITIOUS, THIS SHOULD BE THE PREFERRED APPROACH, AT LEAST IN THE FIRSTYEAR. IF MECHANISMS EXIST OR CAN BE DEVELOPED TO EXPEDITIOUSLY WORK WITH PRIVATE SECTOR, THIS SHOULD BE ENCOURAGED. - ESPECIALLY IN LATER YEARS.

8. SOURCE OF COMMODITIES: THE AUTHORIZED PROCUREMENT SOURCE FOR ESF FUNDED GRANTS REPEAT GRANTS IS U.S. PLUS HOST COUNTRY. WHILE WAIVERS CAN BE REQUESTED FOR CODE 941 PROCUREMENT, SUPPLIERS FROM ALL 941 COUNTRIES WOULD BE ELIGIBLE TO BID, AND INDIAN SUPPLIERS WOULD LIKELY BE

IN STRONG COMPETITIVE POSITION. SOLE SOURCE PROCUREMENT OF TRACTORS FROM BRAZIL ON BASIS OF WAIVER DOES NOT APPEAR JUSTIFIABLE AS SIMILAR TRACTORS ARE BELIEVED MADE IN THE U.S. AND OTHER 941 COUNTRIES.

9. ANTI-SALINITY EQUIPMENT: IN REVIEWING PID FOR IRRIGATION SYSTEM REHABILITATION (FOR WHICH SEPTEL IS BEING TRANSMITTED) IT WAS DECIDED THAT THAT PROJECT SHOULD BE LIMITED TO THE CANAL REHABILITATION ACTIVITIES WHILE THE PROCUREMENT OF ANTI-SALINITY EQUIPMENT COULD BE INCLUDED IN AGRICULTURAL COMMODITIES AND EQUIPMENT PROJECT.

10. ENVIRONMENTAL DETERMINATION: NO IEE OR EA IS REQUIRED FOR THIS PROJECT. HAIG
BT
#2887

FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY 4273
BT
UNCLAS STATE 317[illegible]41

AIDAC

E.O. 12065: N/A
TAGS:

SUBJ: AGRICULTURAL COMMODITIES AND EQUIPMENT PROJECT (391-0468)

REF: ISLAMABAD 15329

1. AID/W HAS NO OBJECTION TO MISSION'S REQUEST TO UTILIZE PAAD MECHANISM. AUTHORIZATION LEVEL IN FY 82 SHOULD, HOWEVER, REMAIN AT U.S. DOLS [illegible] MILLION.

2. WHAT WE ANTICIPATE IS THAT MISSION AND AGRICULTURAL COMMODITIES TEAM WILL [illegible] PAAD FOR FY 82 IN [illegible] WHICH WILL PRESENT A RATIONALE FOR FY 82 PROGRAM BASED ON BALANCE OF PAYMENTS CONSTRAINTS AND A STATEMENT OF THE [illegible] WITHOUT [illegible] WITHOUT COMMITMENT TO AUTHORIZE THE [illegible] DOLS [illegible] MILLION OVER THE LIFE OF THE PROJECT. AT THE SAME TIME, PAAD SHOULD SPELL OUT THOSE ADDITIONAL REQUIREMENTS THAT WILL NEED FURTHER ANALYSIS IN IMPROVING OUR UNDERSTANDING OF THE SECTOR AND THE POLICY MEASURES THAT WE CAN REASONABLY EXPECT. WE RECOGNIZE THE MISSION'S STAFF CONSTRAINTS TO DO THIS ADDITIONAL ANALYSIS BUT WOULD HOPE THAT REQUESTS FOR CONSULTANTS COULD BE LIMITED TO FILLING CRITICAL GAPS THAT APPEAR HERE AND THERE--I.E.- [illegible] ALL THAT IS NEEDED IS ONE PERSON FOR A MONTH TO SIX WEEKS TO REVIEW THE EXTENSIVE ANALYSES WHICH HAVE ALREADY BEEN CARRIED OUT IN THIS SECTOR FOR POSSIBLE GAPS. THIS PERSON COULD ALSO ASSIST THE MISSION IN IDENTIFYING CONSTRAINTS IN THE SECTOR WHICH WE MIGHT WANT TO ADDRESS THROUGH CONDITIONS IN FUTURE PAADS. THESE WOULD BE DESIGNED TO COMPLEMENT THOSE BEING DEALT WITH BY THE WORLD BANK. THE POINT HERE IS THAT WE FEEL IT IS INAPPROPRIATE TO AUTHORIZE [illegible] MILLION DOLLARS FOR FERTILIZER IMPORTS WITHOUT HAVING A BETTER KNOWLEDGE OF THE PROBLEMS AND CONSTRAINTS IN THE SECTOR AND AN UNDERSTANDING OF THE POLICY DIRECTIONS WE WILL WANT TO ENCOURAGE. THE INITIAL FY 1982 AUTHORIZATION OF [illegible] MILLION DOLLARS CAN BE MADE WITHOUT THIS ANALYSIS IN ORDER THAT WE CAN RESPOND QUICKLY TO PAKISTAN'S NEEDS THIS YEAR. A PAAD AMENDMENT COVERING ADDITIONAL FUNDING SHOULD AWAIT A COMPLETE PRESENTATION TO THE AA/AS OF THE MISSION'S POSITION REGARDING ASSISTANCE TO THIS SECTOR.

3. AS FOR SOURCE OF PROCUREMENT, WE BELIEVE MISSION

SHOULD START FROM PREMISE THAT ALL FS PROCUREMENT, GRANT OR LOAN, SHOULD BE OTF CCF UNOTI. WHEN IN A PARTICULAR INSTANCE THERE IS A STRONG PROJECT RELATED JUSTIFICATION FOR PROCUREMENT OTHER THAN OTF CCF UNOTI, AID/W WILL REVIEW SUCH REQUESTS ON A CASE BY CASE BASIS. RAIG
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UNCLASSIFIED STATE 217541

ANNEX A.4

FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY 446
BT
UNCLAS STATE 323974

AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PROJECT (391-0468)

REF: A. ISLAMABAD 15329, B. STATE 317541

1. PARAGRAPH 7 OF REFTEL B ADVISED THAT SOURCE FOR PROCUREMENT OF COMMODITIES SHOULD BE CODE 000. IT THEREFORE FOLLOWS, PER SEC 7B OF SUPPLEMENT B OF HANDBOOK 1 THAT THE SOURCE OF OCEAN TRANSPORTATION SERVICES FOR THE DELIVERY OF THE COMMODITIES MUST NORMALLY BE CODE 000, I.E., ONLY U.S. FLAG VESSELS.

2. SER/COM IS CONCERNED THAT THIS SHIPPING LIMITATION COULD HAVE A SERIOUS ADVERSE IMPACT ON THE EFFECTIVE PROCUREMENT AND DELIVERY OF FERTILIZER. THERE MAY NOT BE SUFFICIENT SUITABLE U.S. FLAG VESSELS AVAILABLE TO ACCOMPLISH DELIVERY AT THE TIME SERVICE IS REQUIRED. THE LIMITATION WOULD ALSO NOT ASSURE ADEQUATE COMPETITION AND COMPETITIVE PRICING BY THE VESSEL OPERATORS.

3. THEREFORE, SER/COM HEREBY DETERMINES UNDER THE PROVISIONS OF SECTION 7B1B(2) OF SUPPLEMENT B HANDBOOK 1 THAT IT IS NECESSARY TO AUTHORIZE THE FINANCING OF OCEAN

TRANSPORTATION OF FERTILIZER FOR PROJECT 391-0468 ON VESSELS UNDER FLAG REGISTRY OF COUNTRIES INCLUDED IN CODE 935. UTILIZATION OF CODE 935 CARRIERS WILL BE SUBJECT TO THE QUALIFICATIONS STATED IN THIS SECTION. PLEASE INCORPORATE THIS DETERMINATION IN THE PAAD IN REGARD TO THE ELIGIBLE SOURCE OF SHIPPING.

4. THIS DETERMINATION IS APPLICABLE ONLY TO THE EXPECTED FERTILIZER PROCUREMENT. THE PAAD SHOULD ALSO INDICATE THAT THE ELIGIBLE SOURCE OF OCEAN SHIPPING FOR ALL COMMODITIES OTHER THAN FERTILIZER IS CODE 000.

5. ADDITIONALLY, THIS DETERMINATION DOES NOT ALTER THE USUAL OBLIGATION AS EXPRESSED IN 1CA6 OF SUPPLEMENT B HANDBOOK 1 TO COMPLY WITH CARGO PREFERENCE REQUIREMENTS. HAIG
BT
#3974

ANNEX B. 1

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable : USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

THE DIRECTOR

AGRICULTURAL COMMODITIES AND EQUIPMENT

FAA SECTION 611 (e) CERTIFICATION

I, Donor M. Lion, the principal officer of the Agency for International Development in the Islamic Republic of Pakistan, having taken into account, among other things, the maintenance and utilization of projects in the Islamic Republic of Pakistan previously financed or assisted by the United States, do hereby certify, pursuant to Section 611 (e) of the Foreign Assistance Act of 1961, as amended, that, in my judgement, the Islamic Republic of Pakistan has both the financial capability and the human resources capability to effectively implement, utilize and maintain the proposed Agricultural Commodities and Equipment Program.

This judgement is based upon the program analysis as detailed in the Agricultural Commodities and Equipment PAAD and is subject to the conditions imposed therein.

Donor M. Lion
Director
USAID/Pakistan

DATE

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable : USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

THE DIRECTOR

AGRICULTURAL COMMODITIES AND EQUIPMENT

FAA SECTION 612 (b) CERTIFICATION

A major purpose of the $1.625 billion economic assistance program negotiated between the governments of the U.S. and Pakistan, acknowledged by both governments and a primary reason for both governments having decided to develop an economic assistance package, is to provide balance of payments assistance to Pakistan.

I have carefully reviewed the advisability of disbursing U.S. dollars in lieu of U.S.-owned excess foreign currency to pay for local costs of projects being implemented in Pakistan. In light of the U.S. Government's objectives concerning the program, I have determined that it would be prejudicial to U.S. interests and goals to pay for any local currency costs with U.S.-owned rupees. Such a procedure would prevent the U.S. from providing the maximum amount of balance of payments support under the economic assistance package, and consequently would undercut one of the basic objectives of the program. The objective of providing balance of payments assistance to Pakistan can best be achieved by disbursing U.S. dollars to pay for local costs of the program.

Section 612 (b) of the Foreign Assistance Act of 1961, as amended, authorizes the administrative official approving the voucher to determine that local costs will be funded with direct payment of dollars for the program. Pursuant to this provision, Handbook 19 requires that the Mission Director (or his designee) make a determination as to the reason in any instance where U.S. dollars are used (disbursed) when U.S.-owned foreign currency is available. Where dollars are used for local cost financing, therefore, USAID/Pakistan will make disbursements to the GOP in U.S. currency.

FAA Section 612 (b) Certification (Continued)

In view of the above rationale, I, Donor M. Lion, principal officer of the Agency for International Development in Pakistan, do hereby certify, pursuant to Section 612 (b) of the Foreign Assistance Act of 1961, as amended, the need to disburse dollars to cover local currency costs in lieu of using U.S.-owned excess rupees under the Agricultural Commodities and Equipment Program.

Donor M. Lion
Director
USAID/Pakistan

Date

NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. Yes
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Secs. 653(b); 634A

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

(a) Congressional Notification and Special Committee Hearings.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%).

(b) Yes

2. FAA Sec. 611 (a) (2)

If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No legislative action necessary.

3. FAA Sec. 209

Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No

4. FAA Sec. 601(a)

Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan

This program will:

(a) have a moderate increase on the flow of international trade in fertilizer and agricultural equipment.

associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and, (f) strengthen free labor unions.

(b) increase the country's efforts to foster private initiatives among the end users of the commodities, the farmers;

(c) have minimal impact on the use of cooperatives and savings and loan associations;

(d) have positive impact on the market practices of Pakistan;

(e) significantly improve the technica. efficiency of the agriculture sector of the economy.

(f) have minimal opportunity to strengthen the free labor unions.

5. FAA Sec. 601(b)

Information and conclusion of how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.

Program funds will be used to procure fertilizer and agriculture equipment from U.S. private businesses.

6. FAA Sec. 636(h); Sec. 612(b)

Describe steps taken to assure that to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

This is a commodity import program which is designed to favorably impact on Pakistan's balance of payments. Other than local costs of inland transportation for imported commodities and bagging of fertilizer, no local costs are involved in this program. Rupees will be generated from sales of commodities, and these rupees will be jointly programmed by AID and the GOP to support mutually agreed upon development activities.

7. FAA Sec. 612(d)

Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	Yes, the U.S. government owns excess Pakistan rupees which are jointly programmed by AID and the GOP to support mutually agreed upon development activities.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

Nonproject Criteria for Economic Support Assistance

a. FAA Sec. 531 Will this assistance promote economic or political stability?	Yes
To the extent possible does it reflect the policy directions of Section 102?	Yes

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	No special arrangements for U.S. small businesses are currently contemplated. Small businesses may participate in the ordinary course of procurement.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.?	There is no discrimination against U.S. Marine Insurance Companies.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	Yes.

5. <u>FAA Sec. 603.</u> Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo linkers, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?	No.
7. <u>FAA Sec. 621.</u> If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services be furnished from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	The only technical assistance provided under this program will be a procurement services agent. These services will be furnished from private enterprise on a contract basis.
8. <u>International Air Transport. Fair Competitive Practices Act, 1974.</u> If air transportation of persons or property is financed on grant basis, will provision be made that U.S. carriers will be utilized to the extent such service is available?	Yes.
9. <u>Continuing Resolution Sec. 505</u> If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests?	Not applicable
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	Not applicable
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?	Not applicable

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	Yes
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	Not applicable
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?	Yes
4. Continuing Resolution Sec. 514 If participants will be trained in the United States with funds obligated in FY 1981,	Not applicable

has it been determined either (a) that such participants will be selected otherwise than by their home governments, or (b) that at least 20% of the FY 1981 fiscal year's funds appropriated for participant training will be for participants selected otherwise than by their home governments?

5. Will arrangements preclude use of financing:

a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization? — Yes

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — Yes

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

d. FAA Sec. 662. For CIA activities? — Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained. — Yes

f. Continuing Resolution Sec. 504. To pay pensions, annuities retirement pay, or adjusted service compensation for military personnel? — Yes

g. Continuing Resolution Sec. 506. To pay U.N. assessments, arrearages or dues.	Yes
h. Continuing Resolution Sec. 507. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending.)	Yes
i. Continuing Resolution Sec. 509. To finance the export of nuclear equipment fuel, or technology or to train foreign nationals in nuclear fields?	Yes
j. Continuing Resolution Sec. 510. To aid the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	Yes
k. Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

بسم الله الرحمن الرحيم

ANNEX D.
Page 1

GOP REQUEST FOR DOLLAR ASSISTANCE

No. 1(1)CM-VI/82.
Government of Pakistan
MINISTRY OF FINANCE AND ECONOMIC AFFAIRS
(ECONOMIC AFFAIRS DIVISION)

Islamabad the, 31st Jan., 1982.

Telegram: ECONOMIC
Telex : ECDIV NO. 05 634

SECRETARY
PHONE : 22/61

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Dear Mr. Lion,

As part of our two Governments' agreement on a six year $ 1.625 billion economic assistance program, the Government of Pakistan formally requests from AID three hundred million dollars ($ 300,000,000) in United States assistance to fund an Agricultural Commodities and Equipment Project.

2. The Agricultural Commodities and Equipment Project is designed to provide balance of payments support by financing imports which will promote agricultural development. The major items to be financed will be agricultural inputs such as fertilizer, equipment for farm related use, and commodity support for public sector agencies which provide agricultural services.

3. Subject to the availability of funds, approximately three hundred million dollars would be provided over a five year period. During the first year, our fiscal year 1981-82 (FY 1982), $ 60 million consisting of $ 34 million in ESF loan funds and $ 26 million in ESF grant funds would be provided to finance imports. I understand that the amount and type of imports to be financed during the life of the project will be jointly developed by both our governments.

4. The rupee proceeds from sale of commodities imported under this activity will be credited to the Federal Consolidated Fund of the Government of Pakistan. The Government of Pakistan, however, agree to credit these proceeds to a special subsidiary account to be named as "US AID Programme for US FY 1982". The funds in this account will be jointly programmed by the United States Government and the Government of Pakistan for use in high priority development programmes in accordance with criteria we will jointly develop. As long as balances remain in

Contd....P/2...

the Special Account, the Government of Pakistan shall provide semi-annual reports on the amount of the balance and the uses of funds during the previous six months.

5. The Government of Pakistan assures the United States Government of its full cooperation in carrying out the Agricultural Commodities and Equipment Project. The manpower, financial, and other inputs required of us will be provided in an expeditious manner.

6. We look forward to a continued, combined effort by both our governments to yield a productive and beneficial program for the people of Pakistan.

Yours sincerely,

(Ijaz Ahmad Naik)

Mr. Donor M. Lion,
Director,
USAID Mission,
Islamabad.

PROGRAM: PAKISTAN

ACTIVITY DATA SHEET

CP 81-13 (4-79)

TITLE	FUNDS	PROPOSED OBLIGATION (In thousands of dollars)		
Agricultural Commodities & Equipment	ESF: AC, RDLN	FY 82: 34,000 ESF LOAN; 26,000 ESF GRANT	LIFE OF PROJECT	222,000 Loan; 78,000 Grant; 300,000 Total
NUMBER 391-0468; GRANT [ ] LOAN [ ]; NEW [X] CONTINUING [ ]	PRIOR REFERENCE: None	INITIAL OBLIGATION FY 82	ESTIMATED FINAL OBLIGATION FY 86	ESTIMATED COMPLETION DATE OF PROJECT FY 87

Purpose: To provide short-term balance of payments support by financing imports which will promote agricultural development.

Background: A U.S. Economic Assistance Negotiating Team led by the A.I.D. Administrator reached agreement with the Government of Pakistan in August, 1981 on the size and general content of a six-year program of economic cooperation beginning in FY 1982. The proposed $1.625 billion program complements an approximately equivalent package of military assistance by providing balance of payments support for the short to medium term and by financing a variety of economic development activities. The Agricultural Commodities and Equipment Program was identified during the negotiations as one of the major components of the total assistance package.

Program Description: The Agricultural Commodities and Equipment Program is expected to total $300 million over five years. The first year's tranche is for $60 million and is designed to be relatively fast disbursing and to provide maximum balance of payments impact while increasing the productivity of the agriculture sector.

The $34 million loan is expected to finance diammonium phosphate (DAP) fertilizer for the 1982/83 crop year and the $26 million grant will finance agriculture sector equipment. The amount of fertilizer likely to be imported in the first year of the project represents approximately 27 percent of Pakistan's phosphatic fertilizer requirement for the 1982/83 crop year. The grant funds are intended to meet a major portion of the immediate equipment requirements of provincial Irrigation Departments. In years two through five, the proportion of the program which will be devoted to fertilizer relative to other items will depend on fertilizer demand, the contributions of other donors for fertilizer, domestic production of fertilizer, and the nature and magnitude of other agricultural input and equipment needs.

Relationship of Program to A.I.D. Country Strategy: This Program will promote at least three objectives of A.I.D.'s strategy in Pakistan. It will provide quick disbursing assistance to support Pakistan's balance of payments situation and contribute to both increased food production and small farm incomes.

Fertilizer imports, while helping Pakistan to significantly increase agricultural production in recent years, have also had a serious adverse impact on Pakistan's balance of payments, particularly due to sharp increases in the price of international fertilizer. To help Pakistan meet these costs and increase food production, A.I.D. has assisted Pakistan's fertilizer program since 1973 by providing $90 million for imports and $40 million for fertilizer plant construction. Recent studies have shown that due to increased fertilizer supplies and improved distribution systems, small farmers are now participating more equitably in the market, using as much or more fertilizer per unit of land as the larger farmers.

Pakistan's limited agricultural equipment inventory is well maintained but out-dated and inefficient. As a result of the equipment imported under this project, services rendered by Provincial Irrigation Departments will have improved, and the use of modern and efficient on-farm equipment will contribute to increased agricultural production and agricultural exports, thus reducing the balance of payments strain.

Beneficiaries: Small farmers will benefit directly from the imported supplies of fertilizer and from the improved services which Provincial Irrigation Departments will be able to provide as a result of the imported equipment.

Host Country and Other Donors: All rupees accruing to the GOP from the sale or transfer of imported commodities will be deposited in a special account and mutually programmed by the GOP and A.I.D. for use in development activities. Other donors, including the World Bank, the Asian Development Bank, Germany, and Holland, have pledged, in credits and barter arrangements, approximately $80 million through September 1982 which would provide for about 105,000 NMT of phosphatic fertilizers and over 60,000 NMT of nitrogen fertilizers. Agricultural equipment grants are being provided by Japan and the EEC. The nature and amount of equipment to be imported under this program are closely related to the recently developed World Bank Irrigation System Rehabilitation Project, under which canal rehabilitation equipment will also be imported.

Major Outputs (All Years):

1. Increased agricultural yields as a result of fertilizer and other inputs and improved canals and watercourses brought about by imported equipment.
2. Alleviation of the GOP's balance of payments problems.
3. Contribution to the achievement of targets set for the GOP under the IMF's Extended Fund Facility (EFF).
4. Generation of local currency for use in development activities.

A.I.D. Financed Inputs	Life of Project ($ Thousands)
Commodities	292,000
Technical Assistance	8,000

U.S. FINANCING (In thousands of dollars)	Obligations	Expenditures	Unliquidated
Through September 30, 1980	0	0	0
Estimated Fiscal Year 1981	0	0	0
Estimated through September 30, 1981	0	0	0
		Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year 1982	60,000	240,000	300,000

PRINCIPAL CONTRACTORS OR AGENCIES

Procurement Services Agent(s)

ANNEX E.

DRAFT PROGRAM DESCRIPTION FOR INCLUSION IN PROGRAM AGREEMENT

The Agricultural Commodities and Equipment Program is designed to accomplish two objectives: (1) increase the productivity of the agricultural sector through the provision of needed imported commodities and equipment; and, (2) provide balance of payments support. The program will focus on activities which promise a productive impact in the short to medium term (one to seven years) and which also will facilitate longer term adjustments in the structure of the agricultural sector.

Three groups of imports are contemplated in the five-year program:

Group 1: Agricultural inputs where the productive impact is felt almost immediately, i.e. one cropping season. Most prominent examples of this type are chemical fertilizers, mineral components for the manufacture of fertilizer, improved seeds, and appropriate pesticides (where USG regulations are met).

Group 2: Agricultural machinery and commodities for use on or near the farm and which increase the productivity of the farm over the short to medium term. This group of items would largely be imported and used by private parties: farmers or business organizations either directly involved in agricultural production or providing services to farmers. Examples include, _inter alia_, tractors, trucks, rice mills, pre-fabricated storage, and on-farm grain handling equipment.

Group 3: Agricultural equipment and commodities required by public or semi-public bodies which provide services to the agricultural sector. The commodities or equipment imported will be utilized by these agencies to improve the efficiency or quality of service provided and would be expected to have a generalized impact on agricultural productivity. Examples of this class of equipment and commodities are: heavy machinery for construction or maintenance of irrigation facilities; equipment for road building or maintenance; equipment or commodities to support agricultural research and extension; public sector storage and off-farm grain handling equipment; and, transport equipment.

The program is expected to total $300 million over five years subject to A.I.D. program approval, availability of funds and agreement of the parties to proceed. The first year's obligation is for $60 million and is designed to be fast disbursing and to provide maximum balance of payments impact while increasing the productivity of the agriculture sector. Expected allocations for the FY 1982 program are shown in Table 1 and described below:

1. Fertilizer

Imports of $34 million worth of diammonium phosphate are planned. At projected international prices (including freight and insurance), the quantity of fertilizer supplied would be around 113 thousand product metric tons (PMT), which is equivalent to 52 thousand nutrient metric tons (NMT).

2. Equipment: Co-Financing Support for Canal Rehabilitation

The GOP, through the four Provincial Irrigation Departments, is embarking with the World Bank on a major program to rehabilitate the canal network which provides water to some 33,000,000 acres. Equipment financed under the proposed program in FY 82 will assist the GOP and World Bank to carry out the rehabilitation program. $26 million will be allocated to import this equipment.

TABLE 1

DOLLAR ALLOCATIONS FOR FY 1982 PROGRAM

		In $ Millions
1. Fertilizer (Loan)		
113,000 PMT a/ (equivalent to 52,000 NMT b/) of DAP @ $300 per PMT a/ (including freight and insurance)	=	34.0 (rounded)
2. Equipment (Grant)		
a. Estimated cost of commodities	=	19.0
b. Freight c/ and insurance (estimated at 30% of the cost of commodities)	=	5.7
c. Procurement Services Agent(s) Fee (estimated at 7% of the cost of commodities)	=	1.3
Total	=	60.0

a/ Product Metric Ton b/ Nutrient Metric Ton

c/ Includes local costs for in-country transportation from

Equipment purchases will be drawn from the Provincial Irrigation Departments' priority lists so that the total cost of the equipment portion of the program, including freight and insurance and the procurement services agent(s)' fee, does not exceed $26 million.

A special account will be established in which the rupee proceeds accruing to the GOP from the sale of commodities imported under this program will be deposited. The funds in this account will be jointly programed by the Governments of the United States and Pakistan for use in development programs in the areas of agriculture, rural development, water resources, population, education, energy, and health including uses which would help to reduce opium poppy cultivation.

ECONOMIC POLICY MEMORANDUM OF THE GOVERNMENT OF PAKISTAN FOR 1981/82 1/

Introduction

1. In recent years the Pakistan Government has begun to reorient its economic and financial policies towards the alleviation of structural imbalances and the promotion of economic growth and financial stability. To continue and strengthen this reform effort, the Government has adopted an economic program for the period 1980/81-1982/83 which is being supported by an extended arrangement from the Fund. The content of this program was outlined in our Memorandum of November 3, 1980.

2. During the first year of the medium-term program, the Pakistan economy has by most indicators performed well. Gross domestic product increased in real terms by almost 6 per cent, slightly above the program target. Manufacturing production expanded by over 9 per cent, and new output records were set for most major agricultural crops. The agricultural sector benefited from an adequate and timely supply of inputs, such as improved seeds, irrigation water, fertilizer and the means to finance them, as well as from substantial adjustments in procurement prices for major crops and favorable weather conditions. Domestic credit expansion was lower than envisaged in the program, and although there was a small excess over the ceiling on government borrowing from the banking system, due to increased commodity financing requirements on account of a bumper wheat crop and higher than expected sugar production, the overall fiscal deficit was smaller than had been projected. In the external sector, the current account deficit was below that of the previous year and was considerably below the program forecast. The implementation of the first stage of the import liberalization program did not lead to as large an increase in import payments as had been anticipated, while export receipts and workers' remittances were higher than expected. Although a considerable shortfall in official balance of payments assistance occurred,

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1/ Retyped by USAID/Pakistan from a copy of the memorandum provided by the Government of Pakistan.

this was partly offset by larger short-term borrowing. As a result of these developments, the overall external deficit was quite small ($21 million). Since Pakistan received considerable assistance from the Fund, gross official reserves (excluding gold) increased by more than $300 million to some $1.1 billion--equivalent to nine weeks of projected 1981/82 imports. Despite the stronger than expected external position, monetary growth at 14 per cent was on target. For the year as a whole, consumer prices rose by about 14 per cent with the acceleration predominantly due to a further increase in prices of imported energy and energy-related products. The inflation outcome was somewhat higher than projected though the rate of price increase slowed down during the year.

3. The Government of Pakistan remains committed to continuing its economic reform efforts in 1981/82 and as indicated below intends to put into effect a number of policy initiatives in the context of this year's economic program. We expect that these measures, together with the strengthening of policies already in place, will lead to a further improvement in overall economic performance. We are projecting the rate of real economic growth to continue at about 6 per cent. By further lowering government domestic bank borrowing as a proportion of GDP to 2.0 per cent and containing the growth of credit to other sectors, we believe that we can limit monetary growth to 15 per cent. This target should result in a statement of excess demand pressures and help us to contain the underlying increase in consumer prices to about 10 per cent. In the external sector, with further import liberalization, the current account/GNP ratio is expected to rise by 0.8 percentage points to about 4.0 per cent, and we anticipate an increase in the overall balance of payments deficit to about US$250 million.

Policies for Fiscal Year 1981/82

Supply Policies

4a. We have recently completed a comprehensive review of public sector development expenditure priorities in consultation with the staff of the World Bank.

Based on this review, we have begun to implement a revised development spending program for 1981/82-1983/84, covering the bulk of public sector investments. The revised development program reflects the Government's commitment to restructure development expenditure. In the main, the sectoral pattern of public sector allocations will be shifted from fertilizer subsidies and capital-intensive, longgestation industrial projects to agricultural projects, energy programs, provision of basic social services, and development of backward regions. We seek greater private sector participation in industry and a corresponding reduction in public sector presence in this sphere. Accordingly, over the next three years, the proportion of the Annual Development Program (ADP) allocations to the industrial sector will be progressively reduced from 15 per cent in 1980/81 to 4 per cent in 1983/84. Over the same period, allocations for fertilizer subsidies are to be reduced from 9 per cent to 3 per cent. These reductions will permit ADP investment and program expenditures for other purposes to increase at an average annual rate of 7 per cent in real terms over 1981/82-1983/84. The revised program accords relatively high priority to agriculture (including irrigation), energy, rural development, and the social sectors. Allocations for these sectors will increase to 63 per cent of total ADP development expenditures in 1983/84, compared with 49 per cent in 1980/81.

4b. The ADP for 1981/82 already reflects the shift in priorities of the revised three-year public sector development program and provides for a large increase in resources for important support programs in agriculture as well as for energy projects (see paragraph 4g below). In the agricultural sector, funding for agricultural extension services and seed production will be maintained at their high 1980/81 levels. In addition, new programs designed to improve agricultural research and water management have been included in the 1981/82 ADP. Overall, allocations for agricultural projects and programs (excluding input subsidies) have been raised by 21 per cent. As for current spending, allocations for maintenance of the canal irrigation system have been raised by 33 per cent in the 1981/82 budget. As indicated in last year's Memorandum, we will have in operation by December 1981 a program to expand the domestic cultivation of oilseeds.

4c. A major objective of the Government has been an improvement in agricultural output incentives through prices and other policy measures. To that end, prices paid to farmers for the major summer crops were increased in April 1981 (Basmati paddy by 13.3 per cent, Irri paddy by 16.6 per cent to 27 per cent and cotton by 6.4 per cent). Moreover, in order to ensure that future crop and input pricing decisions are made on a more coordinated basis, we have, as planned, established in collaboration with the World Bank an Agricultural Prices Commission. In respect of fertilizer prices, we have decided to undertake an adjustment during the fiscal year 1981/82 that will be fully consistent with maintaining adequate progress towards our medium-term objective of eliminating fertilizer subsidies by mid-1985.

4d. In collaboration with the World Bank, the Government has completed the study of the objectives and policies of the public manufacturing enterprises. Our general objectives are to improve the quality of management, capacity utilization, and financial performance by giving enterprises greater autonomy in decision-making in return for greater accountability for performance on the basis of an objective performance evaluation system. The study recommends that beginning in 1981/82 a three-year action program be launched to establish a "signalling system" which comprises three elements, namely: a performance evaluation system based on agreed objectives; an information system to measure performance; and an incentive scheme to reward good performance. The study makes preliminary recommendations to be finalized before December 1981 for phased implementation of the main elements over the period 1981/82-1983/84. We have adopted, early in 1981, as an interim measure, a performance evaluation system to improve operational efficiency of the enterprises as measured by the trend in profits at constant prices. In 1981/82 we intend to concentrate on measures aimed at strengthening the information system and refining the setting of indicative profit targets. A system of providing financial incentives for those enterprises that meet the targets will be put in place during 1982/83. Furthermore, in pursuance of the Government's policy to rationalize the division of responsibilities between the public and private sectors, we have sold three enterprises to the private sector since January 1980, two sugar mills and a rice mill in Punjab. We have identified 12 enterprises which we will divest, close, or restructure on to a profitable basis by end-1982. It is our firm intention to overcome the obstacles we have faced so far in achieving these objectives. Therefore, we have engaged the Bankers' Equity Ltd. to expedite divestiture on reasonable terms. For an additional five enterprises, steps will be taken to strengthen their financial position through increases in equity capital, and rationalization of duties and taxes as well as sales prices.

4e. We have given particular attention to the operating and financial performance of the Water and Power Development Authority (WAPDA) and the Pakistan Railways. A tariff increase of about 10 per cent was implemented in WAPDA's electricity rates in November 1980. It is expected that WAPDA will achieve self-financing of 40 percent during 1981/82 even without any further tariff increase. Nevertheless, we will make another increase of about 10 per cent in WAPDA's tariffs on November 1, 1981. In recent years we have introduced measures to improve WAPDA's accounting and management systems and we intend to continue these reform efforts in 1981/82. We have also decided to undertake urgent action to improve the operational efficiency and financial performance of the railways and will initiate significant action in this area during 1981/82.

4f. In recent years the Government has taken a number of steps to revive confidence and investment activity in the private industrial sector. Although the climate for private investment has improved and there is considerable investment interest, private investors are facing a variety of constraints. In line with our objectives of simplifying procedures for approving private investment, the Government implemented measures in January 1981 to streamline private investment clearance procedures. As envisaged in our Memorandum of last year, we have completed our studies and reviews of the specific problems of individual export industries, of a program of support for small-scale industry, and of closed and ailing textile mills. As a result of the first two studies, during 1981/82 we intend to use the $30 million loan obtained from the World Bank in February 1981 to meet the financial requirements for modernization and expansion of small-scale industrial units; to set up a Wood Working Service Centre at Gujrat and a Leather Goods Service Centre at Bannu; and for export promotion of handicrafts and small industries products. In respect of closed and ailing industrial units, including textile mills, we have set up a committee to look into their problems on a case-by-case basis with the objective of suggesting measures for revival and fuller utilization of capacity. The measures being utilized by the committee include financial restructuring and, when necessary, financial relief and assistance from the Government. In addition, we have reached an understanding with the World Bank on procedures to resolve the problem of outstanding private sector arrears owed to both the Pakistan Industrial Credit and Investment Corporation and the Industrial Development Bank of Pakistan. This understanding involves a review of these arrears, on a case-by-case basis in order to draw up and implement programs of debt rescheduling; progress in this matter will be reviewed with the World Bank during 1981/82. Moreover, in collaboration with the Provincial Governments we intend to draw up a program by March 1982 to provide infrastructure facilities for large private investment projects in selected key areas, e.g, cement, fertilizer, and chemicals. Finally, after undertaking an assessment of the fixed investment financing needs of the private sector projects which would reasonably be expected to be implemented in 1981/82, including the large projects in the areas noted above, we have made adequate provision for foreign exchange and rupee financing of private industrial investment. A provision of PRs 2.6 million has been specifically allocated in the 1981/82 credit budget to finance local currency investment needs of the private industrial sector. This amount doubles the flow of institutional investment finance to the private manufacturing sector compared with the notional allocation for 1980/81. With regard to financing the foreign exchange component of private sector projects during 1981/82, a provision of $115 million has been made by the Government within the ceiling on the contracting of guaranteed external loans of 1-12 years' maturity, and the Government intends to follow a liberal policy of approving nonguaranteed suppliers' credits within the same maturity range. Additionally, foreign exchange financing availabilities under the nonrepatriable investment scheme is expected to increase in 1981/82. As indicated in paragraph 7a below, various limits on the value of machinery imports paid for from Pakistan's own foreign exchange resources have recently been raised significantly.

4g. We have been cognizant of the need to adopt a pricing policy in the energy sector that reflects the endowments and scarcities of the nation's energy resources. In recent years, a number of major international firms have availed themselves of the attractive terms the Government has offered for petroleum exploration. In order to encourage a more rapid development of existing fields, the Government has decided after consultation with the World Bank to revise the pricing system for domestic petroleum and natural gas. Our objective is to enhance the price incentives offered domestic producers. To this end, we are revising the pricing system for all petroleum from new wells in proven fields. The fixed price policy currently in force will be replaced by a system which indexes domestic oil prices for incremental oil to international prices; this conversion would be accompanied by a substantial increase in per barrel prices. To improve the incentives for natural gas production, we are in the process of establishing a base price system to replace the present arrangements providing for fixed returns to shareholder equity. Under the new system, base prices will be negotiated with the companies operating in each field in order to generate agreed rates of return on total estimated investment and other project costs. The base prices would be indexed to world fuel oil prices. The above revision does not apply to the Sui gas field or to the existing contractual arrangements covering the supply of gas from the Mari field to the fertilizer factories. For the Sui field, we are currently engaged in identifying the new investment resources that will be required to maintain production in the field and will take steps to ensure that this investment takes place.

With regard to consumer prices, after adjusting for export receipts, we passed through fully to domestic consumers all cost increases for imported and domestic petroleum products during 1980/81, and we will continue this policy during 1981/82. In the sector of electricity generation and distribution, our objective has been to increase generating capacity and improve transmission efficiency through expanded investments. Thus, in the 1981/82 ADP, allocations in these areas were increased by 25 per cent. For the energy sector as a whole, ADP allocations were raised by 22 per cent for 1981/82, following the nearly 40 per cent increase implemented last year. To allow for the substitution of LPG for kerosene in household sector consumption, we have contracted an LPG extracting facility which will be commissioned in August 1982 and will more than double the existing production of LPG in the country.

Fiscal Policy

5a. The principal fiscal policy objectives of our three-year economic program are to improve the structure of revenues and expenditures in order to curb the overall budget deficit and limit government reliance on the domestic banking system to levels consistent with a policy of financial stabilization. During the second year of the program, we intend to continue pursuing these goals. On the revenue side, we have initiated, beginning with the 1981/82 budget, a program of structural reform of the tax system, based in part on an analysis of indirect taxation completed in 1980/81 with Fund assistance. The major reforms implemented this year include the following measures:

(1) An indirect taxation policy cell has been set up in the Central Board of Revenue in order to create institutional arrangements for policymaking and to ensure the evolution of an integrated indirect taxation system.

(2) The standard rate of the sales tax on domestic manufacturers has been reduced from 20 per cent to 12.5 per cent in order to minimize economic distortions and promote voluntary compliance. A major structural weakness of the sales tax, the erosion of the tax base due to exemptions and evasion, will be addressed during 1981/82 primarily by substantially reducing evasion. In 1981/82 exemptions were withdrawn on footwear tiles and chip board, and nonagricultural insecticides. The list of

exemptions will continue to be examined with a view to eliminating progressively, starting with the 1982/83 budget, exemptions that do not serve a compelling social or economic purpose.

(3) With respect to import duties, the number of ad valorem rates has been reduced from 42 to 16 which will reduce the possibility of misdeclaration and simplify administration.

(4) The base of withholding taxes on income has been enlarged.

The elasticity of the basic tax structure will be under constant review and further structural changes will be examined during 1981/82, including where feasible the conversion of specific to ad valorem rates. In addition, specific rates will continue to be reviewed and adjusted when necessary to maintain revenue growth. The administrative difficulties standing in the way of greater yield in the tax system are being eliminated and to improve administration the following measures have been taken with the aim of generating an additional PRs 1,000 million in revenue during 1981/82.

(1) With respect to indirect taxes, increased efforts and resources are being devoted to improved valuation procedures, antievasion work, extensive audit checks, reducing arrears and rapid disposal of confiscated goods.

(2) Separate appeals administrators are being established for indirect taxes to free collectors from time consuming appeals work.

(3) In April 1981, to substantially increase revenue yield, the sales tax was shifted to an excise mode of collection from the income tax administration procedures formerly followed. In July 1981, all aspects of sales tax administration including assessment and audit were moved to the excise department. The definition of "cottage industry" as a basis for tax exemption was rationalized and made stricter to limit its abuse.

(4) Efforts to identify and register new taxpayers will continue. This program has more than doubled the number of registered taxpayers in the last three years. This increased taxpayer load has placed a burden on the assessment function and therefore in 1981/82 a substantial number of new assessing officers have been assigned to the income tax department.

As part of our fiscal reform effort, we have adopted the principle that fees and charges for government services be progressively raised to levels that at least cover costs. In this connection, we have increased for the second successive year charges for irrigation water by 25 per cent (estimated to yield PRs 160 million in 1981/82). In addition, the following specific revenue measures have been introduced with the 1981/82 budget and subsequent to it to ensure that the target for the overall budget deficit and the ceiling on net credit to the Government indicated below are observed. Prices have been increased for sugar, cement, and lube-based oils, and for postal, telephone and telegraph services. These measures are expected to yield about PRs 1.1 billion. Further, the increase in electrical power rates referred to in paragraph 4e above is estimated to yield PRs 300 million.

5b. Our expenditure policy seeks to redirect outlays towards meeting essential economic, social, and security needs and to implement those investment projects and development programs necessary for structural reform in the productive sectors. In line with this policy, we also aim to further reduce budget subsidies. Barring unforeseen developments in the geopolitical situation, we expect to contain the increase in total government expenditures to 10.6 per cent. Current outlays are estimated to rise by 17.3 per cent. To achieve this, all expenditure categories excluding defence and fixed charges have been subjected to a 6 per cent cut relative to the original budget estimates. This reduced total includes an increase in salaries and allowances of civil servants of PRs 1.7 billion which is considered essential to compensate for the increased cost of living, and to retain and attract high-quality personnel to government service. The growth of development expenditures is targeted at 15.6 per cent. During 1981/82 subsidy payments as a proportion of total expenditures are to be reduced from 9 per cent in 1980/81 to 6 percent. The subsidy on wheat will be held below the nominal level of 1980/81 due to an increase of 23 per cent in the issue price of wheat. This more than compensates for the increase in the producer price of wheat instituted in October 1980. As a result of this price increase, a budgetary saving of PRs 970 million will be realized and together with the above-mentioned revenue measures, the total impact will be about PRs 2 billion. We will take measures as necessary to prevent total subsidy costs from rising above the present estimates.

5c. The above revenue and expenditure will permit the Government to limit its overall budget deficit to about 5 per cent of GDP and to hold net credit to the Government from the domestic banking system to 2 per cent of GDP. Both of these targets are consistent with the goals set forth in our three year program. To assist in achieving these targets, we are establishing for 1981/82 a limit on the increase in net credit to the Government for both budgetary support and commodity operations of PRs 6,540 million. This ceiling has been established on the assumption that disbursements of external budgetary financing (apart from project aid) reach PRs 8,467 million. If financing from this source exceeds the expected level, we will reduce our reliance on domestic bank borrowing commensurately. If financing from this source falls short of the expected level up to a limit of PRs 1,000 million a commensurate increase in short-term external financing and in domestic bank borrowing, the total of which may not exceed PRs 1,000 million, may be undertaken; however, no more than PRs 500 million will be obtained from additional external short-term borrowing. Quarterly ceilings in accordance with these amounts are set forth in the attached Table 1. Should there be a change in the procurement practices relating to commodity operations, which affect the level and/or timing of financing required, we will consult with the Fund concerning an appropriate adjustment of the ceilings. No budgetary measures in addition to those cited in paragraphs 5a and 5b above appear to be required at this time to remain within the ceilings on net credit to the Government. However, in January/February 1982 we will conduct a comprehensive review of the budgetary position in consultation with the Fund staff. If this review indicates that the 1982 ceilings on net credit to the Government are not likely to be observed, we will take sufficient corrective measures at that time.

Monetary Policy

6a. During 1981/82 the Government's monetary and credit policies will continue to be directed toward containing inflation, while at the same time allowing the banking system to meet the expanded credit needs of the nongovernment, and particularly the private, sector which expected to result from our reform efforts. For this purpose, we will continue to rely on direct credit controls. In this context, we have established a ceiling on the increase in net domestic assets of the banking system during 1981/82 of PRs 18,370 million. This ceiling has been established on the assumption that external financing of the public sector (i.e, the budgetary financing referred to in paragraph 5c, plus disbursements of cash or rupee-generating import finance loans to public sector entities) will amount to PRs8,467 million. If additional external financing is forthcoming, or if there are shortfalls, the ceiling on net domestic credit will be adjusted commensurately as stated in paragraph 5c. Quarterly ceilings are set forth in the attached Table 1. The ceilings on the increase in net domestic assets together with the contractionary impact from the projected decline in net foreign assets are expected to contain the growth of domestic liquidity to 15 per cent, compared with an anticipated increase in nominal GDP (at market prices) of nearly 18 per cent. We believe that this continued monetary restraint is necessary to achieve the desired moderation of excess demand pressures.

6b. In 1980/81 the Government introduced a number of new measures to facilitate the gradual transformation of the financial system to a regime based on profit and loss sharing from one based on interest. Of the measures taken, the most important were the requirement that all commercial banks accept profit and loss sharing deposits, and the implementation of regulations allowing for use of participation term certificates and the setting up of "modaraba" companies. The return on profit and loss sharing deposits for the half year ended June 1981 has been higher than the interest paid by the banks on savings accounts and fixed deposits. This will encourage savers particularly those who have conscientious objection to receiving interest. "Modaraba" companies will help mobilize savings outside the banking system for investment.

External Sector Policies

7a. The Government initiated last year its programme modernization to implement a subtantial rationalization and liberalization of the import system by putting into effect all the measures for the first year indicated in our Memorandum of November 1980, as well as certain additional measures. In December 1980 the ceilings on all currently permitted import items (except consumer goods and certain synthetic yarn) were removed, and additionally restrictions on certain consumer items were lifted. Moreover, virtually all previously prohibited basic raw materials were added to the list of permitted items; certain commodities hitherto reserved to the public sector were permitted to be imported by the private sector; and the procedures for importing machinery were liberalized as specified. In February 1981 further measures to liberalize machinery imports were approved. To improve upon export incentives existing during 1980, compensatory rebates were introduced in January 1981 for exports of cutlery, surgical, and sports goods. The Government also removed price checks formerly imposed by the Export Promotion Bureau and minimum export prices enforced formerly by the Customs Department in the case of surgical and sports goods. The list of duty-free machinery, importable for balancing, moderization, and replacement (i.e., the BMR scheme) by the sports goods, leather shoe, surgical goods, and cutlery industries was expanded. The Government also approved a scheme for the setting up of export houses to provide various facilities to small-scale producers. Finally, the system of standardized rebates of customs and exercise duties and sales tax has been expanded further and now covers almost all manufactured exports.

7b. As additional liberalizing measures effective July 1, 1981, we have (i) added 212 hitherto banned items to the Free List; (ii) shifted 36 items from the Tied List to the Free List; (iii) deleted/transferred 9 items from Part C of the Free List (i.e., those imports reserved for the public sector) to Part A or Part B; (iv) transferred 31 items from Part B of the Free List (reserved for importation only by industrial users) to Part A (importable by all users); (v) raised the limit for machinery imports under the BMR scheme from PRs 2.5 million to PRs 5 million; (vi) reduced the number of permitted consumer goods and raw materials for consumer goods subject to licensing ceilings from 47 to 28; and

(vii) removed the requirement that certain commodities be imported only from a certain country.

7c. A major structural reform objective of the Government in the external sector is to have implemented by the start of 1983/84, first, a significant liberalization of the remaining import items presently banned for protective reasons and, second, a full transition from the present system involving a positive list of permitted items to a system relying only on a negative list of prohibited commodities. To facilitate these reforms we have compiled a detailed list of all items at present banned and have also completed a preliminary study aimed at assessing the extent of domestic manufacturing currently protected by actual bans or broadly equivalent restrictions (e.g., where importation is restricted to the public sector and is generally allowed only when there is insufficient domestic production). Using the latest data available (namely, the 1975/76 Census of Large-Scale Manufacturing) it appears that approximately two thirds of our manufacturing sector consists of items the importation of which is either actually banned (44 per cent) or restricted in the manner described above (22 per cent). Within this two thirds total, protected consumer goods industries account for about 47 percentage points. The imposition of restrictions in the case of the latter category of goods reflects social as well as economic considerations, including the desire to discourage the importation of certain luxury consumer goods. The Government intends to reduce the present proportion of industry protected by bans/restrictions (approximately two thirds) by at least 40 per cent by the end of the program period. In selecting particular items for liberalizing in this way, we are conscious of the need to ensure, subject to political and social considerations, that the benefits intended by liberalization, namely improved competitiveness and productivity, are attained. We intend to give relatively greater emphasis to removing bans/restrictions on the intermediate and investment goods. In the case of banned capital goods we have, effective October 14, 1981, raised the allowable import limits for exporting units from PRs 2.5 million to PRs 3.0 million and for nonexporting units for BMR purposes from PRs 0.5 million to PRs 1.0 million.

We intend to undertake a study of the operations of the above facilities to be completed by May 1982. Implementation of the above program of action will take place in two equally balanced stages, by July 1, 1982, and July 1, 1983. As stated in our earlier three-year policy Memorandum, we intend to ensure that any additional protective tariffs/duties or quotas would not be so stringent as to render ineffective the desired reduction of inefficiencies. Also, by July 1, 1983 we will have completed the transition from a positive to a negative list system. Finally, by December 31, 1982, a study of effective protection in the entire industrial sector will have been completed in conjunction with the World Bank. On the basis of this study and other work to be undertaken by the Central Board of Revenue, we intend to introduce on July 1, 1983 a comprehensive tariff reform which satisfies the needs for fiscal revenues, price stability, protection of domestic production, and the promotion of savings.

7d. Government efforts to stimulate export growth through incentives have continued. To this end, export compensatory rebates at the rate of 12.5 per cent have been allowed from July 1, 1981 on exports of leather goods and hand-knotted woolen carpets. Import duty at the rate of 85 per cent previously levied on the import of wet blue goat and sheep leather has been abolished. Machinery for BMR purposes can now be imported duty-free by the marble industry and by the Gem Stone Corporation for the cutting and polishing of gem stones. The list of exportable agricultural commodities has been expanded; in the case of a few vegetables, quota restrictions may be imposed when necessitated by domestic market considerations. Finally, exemption from taxation of income derived by rendering technical services abroad to a foreign enterprise has been expanded to noncompany tax payers and the deductible allowance for certain advertising expenditures in the case of the carpet and engineering export industries has been increased.

7e. To avoid debt servicing difficulties, the Government will continue to limit its contracting or guaranteeing of external debt in the 1-5 year and 1-12 year maturity ranges (including deferred payments arrangements) and for 1981/82 has established ceilings of $100 million and $125 million, respectively.

Exempt from these ceilings are concessional loans and refinancing loans obtained from existing creditors within the framework of bilateral or multilateral rescheduling arrangements. Moreover, by end-June 1982 we expect to have contained external short-term credits to the public sector at approximately the level outstanding as of June 30, 1981, namely to $450 million; moreover, as indicated in paragraph 5c, it may be necessary to increase this amount by $50 million.

Table 1

PAKISTAN: CEILINGS ON THE INCREASES IN
DOMESTIC ASSETS (NET) AND CLAIMS ON THE GOVERNMENT (NET)
OF THE BANKING SYSTEM, 1981-82

(In millions of Pakistan rupees)

	Stock On Jun.30 1981	Ceilings For Dec.31 1981	Ceilings For Mar.31 1982	Ceilings For Jun.30 1982
Domestic assets (net) 1/	102,374	16,293	18,703	18,370
Claims on Government (net) 1/ 2/	59,552	4,300	4,905	6,540
Memorandum item: Expected external financing 3/	--	4,634	6,345	8,467

1/ As provided in the fifth and sixth sentences of paragraph 5c and the fifth sentence of paragraph 6a, the ceilings will be adjusted on a quarterly basis, subject to the stated annual limits, for deviations from the expected disbursements of external financing indicated in the memorandum item. The stock data and the ceilings exclude Zakat Fund deposits at the State Bank of Pakistan.

2/ The sum of budgetary support and commodity financing.

3/ Excludes project aid.

AGRICULTURAL POLICY ISSUES IN PAKISTAN 1/

I. Introduction

Agriculture is the single most important sector of Pakistan's economy. About three quarters of the population is engaged in one or another agricultural activity. A substantial part of the national income and most of the exports originate in this sector. It would not be overstating the fact that one serious crop failure, say of wheat or cotton, can adversely affect the entire economy , and the consequences can last for a number of years.

That three quarters of the population engaged in agriculture cannot produce an adequate supply of food and fibre at reasonable prices for the one quarter working in other sectors indicates the low level of productivity in crop and livestock production. Agricultural growth in the past three decades has been uneven, both in terms of rates and commodity balances. Also, the benefits from growth have varied significantly across regions and between farm groups. Markets and public policy have not always provided the right economic incentives and environment for sustained or stable growth.

There is considerable potential for increased agricultural production in Pakistan, notable through the more efficient use of available resources and technology. In the short to medium term, increased inputs, especially fertilizer, combined with better timing of water releases and improvement in farm practices such as regular weeding and increasing plant densities, can substantially increase crop output. In the long-term, however, major efforts to strengthen the institutional framework for incentives, research, extension, and water management will have to be part of a strategy to transform the agricultural sector.

There is no disagreement in Pakistan on the need to expand agricultural production rapidly. That this should come mainly by increased efficiency (or productivity of resources) is also generally accepted. However, opinions differ on the "best" or (even second best) method by which this can be achieved with "fair" (equitable)distribution of benefits among farmers and between the agricultural and industrial sectors.

II. Agricultural Strategies and Policy Objectives

While the national imperative for improved living standards has been endorsed by successive governments, public policy on agriculture has undergone several significant changes. The balance between the private and public domains in agriculture has shifted according to the political predilections of the ruling party or group. These changes have in turn affected production, employment and income distribution. A perspective on these changes would be useful for understanding the policy issues of today.

1/ Paper by Dr. Mahmood Hassan Khan, Professor of Agricultural Economics, University of Vanderbilt, Canada, November 1981. This paper,commissioned by USAID/Pakistan, is a background piece for examining agricultural policy in Pakistan.

The decade of the fifties can best be described as a period of "benign neglect". Agricultural surpluses of food and fibre of the late forties and early fifties disappeared by the mid-fifties. Public policy did little to create incentives for increased efficiency in agriculture.

Following the Martial Law in 1958, several policy changes were introduced. Adjustments were made in the land tenure system, and tenancy reforms were introduced. However, the major thrust of the "pragmatic" strategy of development was on input subsidies and support prices. Significant surface and ground water development, increasing use of fertilizer and use of the high-yielding varieties in the late sixties also made impressive impact on yield levels of most major crops. Little or no consideration however was given in this policy to issues of uneven distribution of growth by regions and unequal distribution of income among farm groups.

This period was followed by about six years (1972-1977) of an "interventionist" public policy, which emphasized the central role of the state in the production and distribution systems. Changes were introduced in the land tenure system, followed by public control of most marketing and even processing of major agricultural commodities and distribution of inputs.

After the imposition of Martial Law in mid-1977, the new government initiated a policy which has reduced the direct state control of several activities. More recently, the government has adopted an agricultural strategy which places less reliance on input subsidies and more on crop support prices. Also, it is designed to divert funds from subsidies to quick-yielding investments and support services to improve the effective use of resources in the agricultural sector. It is in some ways a policy similar to the pragmatic strategy followed in the sixties, with some sensitivity to small farmers, employment, and income distribution. The principal objectives of the existing policy are as follows:

(a) Increase reliance on domestic production of major food commodities, particularly foodgrains, meat, milk and its products, edible oils, and sugar;

(b) Increase production of crops like cotton and rice for domestic industries and for exports;

(c) Expand employment in agriculture, both within the traditional production system and in industries integrated with agriculture and based in rural areas;

(d) Provide basic amenities in rural areas such as water, sanitation, education, basic health care and roads.

(e) Ensure preservation of natural environments.

Some of these objectives are obviously not achievable in the short-run, but others must be achieved as the long-run prospects for development will depend on their realization in the short-run. It is also true that in a mixed economy the achievement of these objectives will depend on how well markets and public policy interact to maintain the right incentives for increased efficiency and improved income distribution.

III. Policy Issues

It has been recognised that the disappointing performance of the agricultural sector in the early and mid-seventies contributed significantly to the acute resource constraints facing the economy. While there has been a promising growth in output of at least the major crops during the last three years, it is safe to suggest that for the 1970s as a whole neither increased use of inputs nor substantial investments in water supply infrastructure have had the impact on agricultural production that was expected. Relatively slow expansion in the productive base has been reflected in a poor domestic savings performance. Since the input subsidies and major new investments in water supply absorbed a large proportion of the available resources, the financial crunch has been felt particularly acutely by the institutions that serve the farming community and which operate and maintain the existing facilities. This was further aggravated by the role which some of these institutions played in the direct management of programs and facilities for which they were not well equipped. These included public tubewells, pest control programmes, fertilizer distribution, agricultural processing, and trade.

The present government has initiated several major policy changes affecting the performance of the agricultural sector. Many of these changes have resulted from the Revised Action Programme prepared by WAPDA with the help of the World Bank for the Federal government in 1979. Some of the changes have already been implemented, and others are still being considered. The major thrust in the new policies is (a) to relieve the public sector of managing the distribution of inputs and processing of agricultural commodities, (b) to remove the subsidies on some inputs, and (c) to increase reliance on price support for agricultural commodities.

In order to study the many and complex policy issues in agriculture, it would be convenient to place them into three categories, namely: (A) Agricultural Inputs, (B) Agricultural Services, (C) Institutions and Policy Instruments.

A. Agricultural Inputs

Production and distribution of several agricultural inputs are critical to expand agricultural production. It is equally important to consider their quality, delivery and cost.

1. Quality Seed

Crop yields are greatly affected by the vigour and quality of seed. In Pakistan, production and distribution of quality seed of even the major crops have encountered serious problems. Most of the seed industry work, from certification to distribution, was in the public sector until recently. In view of the serious deficiency of good quality seed, a seed industry project has now been launched with help from the World Bank. The more significant change has been in inducing the private sector to participate in the seed industry, as seed requirements will not be met by the public sector. Several incentives have been announced in the last two years. They include the supply of pre-basic and basic seed from the public to private sector, credit facility, income tax relief, indirect tax relief on imported processing plant, facility to import basic seed not available in the country, and freedom to form joint ventures with foreign firms. The private sector seed program has been announced, but the actual schemes are still to be launched and implemented.

2. Fertilizers

Most of the chemical fertilizer in Pakistan is used on a limited number of crops and mainly in the irrigated areas. To encourage the use of fertilizer, in adequate quantity and with proper nutrient combination, price subsidy has been used. This subsidy has been absorbed by the difference between the fixed price paid by farmers and the cost of domestic and imported fertilizer.

Rapid cost increases at home and in foreign markets in the late 1970s increased the burden of subsidy quite significantly. The present government has implemented two important policy changes. First, it has opened distribution of fertilizer to the cooperatives. Second, it increased sharply the sale prices of most fertilizers in February 1980. There is little evidence that the price increase has in fact adversely affected crop output. There is some evidence now that the offtake of fertilizer has been reduced in the Punjab. It is possible that the higher cost of fertilizer induced greater care and efficiency and, with favourable weather, offset the reduction in quantities applied. The short-term supply situation looks satisfactory, although this may be entirely due to reduced use of fertilizer itself. For the long-term, Pakistan has the raw material, including energy, to increase domestic production substantially for nitrogenous and phosphatic fertilizers at internationally competitive prices for both domestic use and possible exports.

A proper balancing of nutrients in the soil not only requires the use of chemical fertilizer but also of farmyard manure and green manuring. While chemical fertilizers have received much attention, there has been no systematic policy to encourage the use of manure and practice of green manuring at the farm level.

3. Plant Protection

Aerial spraying and use of pesticides on crops are the only methods of plant protection used in Pakistan. Even their use has been limited to only some crops and on limited area. While the need has been expressed to develop an integrated pest control system in the country, there has been no visible move in that direction. However, on aerial spraying and use of pesticides, several policy changes have recently been announced and some have already been implemented. Some specific measures are:

(a) aerial spraying has been stopped in all areas, except in Baluchistan;

(b) subsidy on pesticides has been withdrawn completely in the Punjab and Sind, with a phased withdrawal for NWFP and Baluchistan;

(c) procurement and distribution of pesticides in the Punjab and Sind have been given to the private sector, and the same policy will be followed in NWFP and Baluchistan after the subsidy has been withdrawn by 1983;

(d) supply of imported pesticides will be restricted to 50% of the finished product used in the country, and domestic manufacturers will be given incentives to import raw material;

(e) committees have been established at the Federal and Provincial levels, with members from public and private sectors, to monitor implementation of the new policy.

4. Farm Mechanization

Use of machines on farms is a complex and controversial issue. It is complex because it is hard to identify a unique package of machines most suitable for increased efficiency on all types of farms. It is controversial because machines can significantly affect employment of labour, tenancy relations, and income distribution without necessarily bringing about increased efficiency.

Tractors have been regarded by and large the most important form of mechanization in Pakistan agriculture, although other machines and implements can be significant sources of increased productivity without creating the kinds of problems associated with tractors.

The case for increasing use of tractors rests basically on three arguments: (a) to meet labour shortages and complete certain agricultural activities between crop seasons, (b) to reduce the dependence on animal power, as its use implies burden on land for fodder, and (c) to increase cropping intensity. Here the issue is whether tractors are in fact necessary to increase cropping intensity when supplementary water is available. If tractorization indeed leads to significant intensity increases then the argument about adverse employment effects would at least be mitigated if not negated.

Recently, the government has announced several policy changes with regard to tractors. First, it has fixed the number of tractors (15,000) which the public sector would import and the rest will be imported by the private sector. Second, it has restricted imports of only six makes of tractors to standardize their use. Third, there is also now greater recognition of the problems of tractor rentals, repairs and availability of spare parts. Finally, the government is considering possibilities of introducing small tractors of 20 to 30 HP, suited for small farms in certain regions and for a variety of farm activities with associated implements.

Several incentives have also been announced for manufacturing agricultural implements in the country, both for use with tractors and animal power. To facilitate the development of suitable implements and technology, the government has established an Agricultural Machinery Division in Pakistan Agricultural Research Council.

5. Irrigation Water

Water is one of the most important inputs constraining Pakistan agriculture. The rain-fed (barani) areas provide good evidence that inadequate and unstable supply of water can impede the development of efficient agriculture. In the irrigated areas, surface water development has been both impressive and costly. Poor designing and drainage of irrigation canals in the Indus basin have created the menance of waterlogging and salinity, which are also aggravated by poor soil conditions and improper water management at the farm level.

There are at least three policy aspects of surface water system. Firstly, there is the problem of maintaining and rehabilitating the canals because of inadequate funding and neglect by the Provincial irrigation departments. Related to this is the problem of inadequate and unstable supply of water to users, which is mainly because of the lack of coordination between the Provincial Irrigation and Agriculture departments. The Federal government has recently asked the Provincial governments to establish inter-departmental committees to minimize this problem.

The second serious problem is of water losses in the watercourse, from the canal to the farmer's field. Considering these losses, the Government of Pakistan with USAID assistance launched in 1977 On Farm Water Management (OFWM) pilot projects on selected watercourses in the Punjab, Sind and N.W.F.P. It includes cleaning, straightening and partial lining of watercourses, and installation of pucca nuccas. The Provincial governments have established technical departments to facilitate this work, and they have recently enacted Water Users Association Ordinances. It is hoped that these Associations will facilitate improvement and maintenance of watercourses within a cooperative framework. It has been shown, at least in the OWFM pilot project, that a considerable saving of water and labour can be achieved at reasonable cost if the water users maintain the improved watercourses. In fact, the Provincial governments with help from the World Bank have now a nationwide project underway to cover most of the watercourses in the next five to ten years. The USAID OFWM Project is also being amended for extension.

Finally, the problem of waterlogging and salinity, serious as it has been in some areas, is still increasing. The reclamation efforts have been costly and not entirely satisfactory. Following the recommendation of the Revised Action Plan (RAP) document, prepared by WAPDA with help from UNDP/World Bank, the government has announced its intent to restructure the SCARPS, although the new structure has not been indicated so far. One important likely policy change, at least in sweet water areas, is that the public sector tubewells will be sold to the private sector. Public sector will now be involved only in siting wells and laying the electric networks. Subsidy on diesel tubewells will continue in areas where electricity cannot be provided easily or cheaply.

6. Agricultural Credit

Credit is the bridge leading from subsistence to cash economy, and eventually to investible surplus. Despite the substantial growth of institutionalized credit in recent years, much of it is still beyond the reach of many cultivators. Sharecroppers are, of course, almost entirely excluded, as landlords have the only asset that counts as collateral for loans. Small owners have to go to relatives and moneylenders. Competition for credit from government sources favours large landowners, whose needs are relatively not as pressing as those of small farmers.

Nationalized commercial banks, Agricultural Development Bank of Pakistan (ADBP), and Cooperative banks are now the three major sources of institutionalized credit. The ADBP and Cooperative banks have in the last two years initiated a program of interest-free loan of up to Rs 6,000 to owners of 12.5 acres or less. The small-farmer credit scheme has however, created the problem of false land registration and petty corruption. While the supervised and in-kind credit appears cost-effective and efficient in inducing the use of fertilizer by small farmers, there are doubts if rapid expansion of credit can be mobilized and delivered to the target group. Also, recovery of the expanded credit may not be as easy as the more recent experience has been on a much smaller volume of credit. Lending through cooperatives, guaranteed by the Provincial governments, may also lead to low recovery rates, increasing the subsidy costs and adding to the fiscal burden of the government. The commercial banks and ADBP are still mainly catering to the long-term credit needs of large farmers, particularly in financing their purchases of tractors, etc. The basic policy issue, therefore, is still the delivery of credit in amounts and at times most needed by small farmers to make them productive, thus increasing their capacity to repay the loans.

B. Agricultural Services

There are several market-like and public sector services which are needed to improve the production and distribution of agricultural commodities and inputs.

1. Storage and Marketing

The need for adequate storage of certain agricultural products has been felt for a long time. Proper storage at the farm and national levels can stabilize prices and supply of major food and cash crops for domestic consumption and exports. Recently, there has been increased emphasis on expanding the national storage facilities, both within the public sector and through cooperatives. However, it has also been argued that, at least for wheat, a private storage programme should be encouraged by the support price mechanism. It has been suggested by researchers that the procurement price of wheat should be increased gradually in the post-harvest season. This will induce the wheat farmers to improve their own storage facility and also save the public sector the enormous costs involved in building these facilities.

Private markets for agricultural goods are quite fragmented and many are still unregulated. In the domestic markets the government participates in varying degrees, and export trade of some agricultural commodities is entirely in the hands of the public sector. In the last three to four years, there has been a definite shift toward a freer market system. In this the government has emphasized the need for cooperatives and public corporations to compete with the private trading agents. While the government has expressed a desire to facilitate the private sector in export trade, with planning and guidance provided by the public sector, no definite programme has been announced. However, the private sector has been assigned almost total control of marketing of pesticides. Similarly, processing of major crops has been returned to the private sector, from which it was taken away in the mid-seventies.

The government has increased its involvement in transporting certain agricultural goods and inputs through the National Logistics Cell to facilitate the movement of goods to markets which the private sector alone cannot at present provide.

2. Agricultural Education and Research

Improved organization of the existing knowledge about improved farming methods is urgently needed to increase farmers' capacity for higher levels of production and income. This will depend largely on educational facilities and adaptive research for better diagnostic and technical support system for farmers. These aspects of agricultural education, research and extension have been very weak in Pakistan. Agricultural education has expanded quite rapidly, but the standards of education have probably fallen considerably. Educational institutions at present are not suitably integrated with research and extension services.

Agricultural research in Pakistan has faced several problems. For one thing, the institutional system of research is complex and fragmented between the Federal and Provincial governments. There has been no national review procedure to evaluate the research work and there is considerable duplication of effort. Many gaps in technology remain even in the area of major crops on which most of the research has focused. Little emphasis has been placed on adaptive research for minor crops, livestock and farm management. Inadequate funding, weak institutional framework and lack of appropriate work environment and incentives for researchers have also contributed to poor research performance in the country.

The Federal government has this year accepted the recommendations of the World Bank on Reorganizing Pakistan Agricultural Research Council (PARC) and establishing a coordinated research network around the country. This will also include adaptive research in fields in which little and fragmented knowledge exists. It also emphasizes the need to collect and process agricultural economics data, which are at present grossly inadequate in quantity and quality. The problem of coordination between various research facilities within each province and between provinces is still a serious issue.

3. Agricultural Extension

A little but correct knowledge can be a wonderful thing. To improve the management of land and water, an effective extension service integrated with a vigorous educational and research system, is essential. The extension service, such as it is in Pakistan, does not reach most farmers. If it does, it is usually of the least desirable quality and is almost too late. The extension service is unable to provide technical service and assistance to farmers on a regular basis for several reasons. The important among these are the relatively small number of agents, who are too thinly distributed and have inadequate mobility, training and motivation.

The training and visit system of extension has now been accepted as an effective method of providing the necessary help to farmers about improved practices. With the help of the World Bank, and as part of crop maximization programs, the T&V method has been launched in the Punjab and Sind on a limited basis. This project hopes to cover about 20 to 25 percent of the farmers by 1983-84. One of the major constraints in expanding an effective extension service in Pakistan is still the lack of funds to recruit, train and supervise the extension agents. No less important perhaps is the problem of delivering it equally effectively to small and large farmers, as the information agent follows the size of holding or economic (and political) influence of the prospective demander of his service.

C. Institutions and Policy Instruments

The structure of private arrangements on and about land, including production and marketing activities, and public institutions, including the fiscal instruments of the state, determine the direction and growth of agriculture.

1. The Land Tenure System

Most regions in Pakistan have a highly differentiated structure of land tenure, in which coexist asymmetrically the small cultivator with large landowner, the sharecropper with his landlord, and so on. Participation in the market place, as in public sector activities, is closely associated with one's position in this hierarchy of interests on land. It is therefore necessary to examine the problem of incentives, including price support and subsidies, by first recognizing the existence of a mass of producers who at present do not participate in the market, as their marketable surplus is small or is acquired by others as rent.

Land reforms of 1959 and 1972 have not radically altered the high concentration of land ownership in most areas, although they have given to the tenants increased security of tenure on land. The small plots cultivated by sharecroppers, as in many areas of Sind and in some areas of the Punjab, suffer from the imposition of high ground rent by landlords, who are by and large absentee landowners. The small landowners are also under pressure by large landowners, who have enjoyed a visibly high place in the development programs of the government and exert the most influence in markets and public sector activities. Small and marginal landowners also face a serious problem of land fragmentation, and the consolidation schemes have not been quite satisfactory. Increasing fragmentation due to rapid population growth and the Muslim laws of inheritance poses serious threat not only to the owners but also represents a considerable economic waste for the society.

Since a radical readjustment in the land tenure system is not at present a priority issue, the target groups of small farmers (owner-cultivators and the landless) will have to rely on the institutional support available within the present social system. It is important here to point out that, since there is evidence in Pakistan that small farmers have higher yield levels and intensities of land and labour than large farmers, a policy that supports or encourages the growth of large farms may not necessarily be efficient and it will have adverse consequences on employment and income distribution.

2. Cooperatives

Farmer cooperatives in Pakistan have a disappointing past for a variety of reasons. Among these probably the most important and persistent reason is the highly differentiated structure of economic and social relations in the countryside. Lack of education and poor information for small cultivators, combined with insensitivity of public officials, add to the failure of both single and multi-purpose cooperatives. The concentration of traditional economic and social power in most areas is often used to acquire benefits for the few even at the expense of majority who may have voluntarily joined a cooperative venture.

While successive governments have emphasized their commitment to expand the role of cooperatives, no visible scheme of cooperatives has been implemented with success. State involvement with local leadership has apparently also no desirable effect on strengthening the cooperative movement. Local initiatives have had few opportunities to be expressed through representative institutions, although the recently elected Councils are now being involved in public programs for local development.

3. Support Prices and Subsidies

State intervention in the pricing of agricultural products has been based on at least two arguments. First, it is argued that it can provide the necessary incentives to farmers to use yield-increasing inputs. The second argument is that it can stabilize agricultural incomes and perhaps keep them in line with changes in non-agricultural incomes. It is obviously important that correct price signals are given to farmers to avoid less than optimal substitution between crops and to encourage maximum growth of crop output. Similarly, input prices should create incentives without imposing serious financial burden on the economy.

In the last two to three years, the government has moved in the direction of substantial increases in support prices of all major crops. At the same time, subsidies on fertilizer, pesticides and water rates have been reduced substantially. Following the recommendations of the RAP document, an Agricultural Prices Commission has been established this year. It is hoped to gather and analyze relevant data and information on (a) open market prices at home and in world markets, (b) cost of production of crops, and (c) intercrop and intersectoral movements of prices. This information can then be used to recommend the extent and timing of appropriate adjustments in the pricing of agricultural inputs and outputs.

One of the critical issues in the pricing of inputs has been the charge on canal water. There is evidence that expenditures on maintaining and rehabilitating the irrigation system are falling short of the needed resources. The government is now considering to transfer these expenditures from the recurring to the development components of the Provincial budgets. There is now clear recognition that water should be priced at much higher rates than what are being paid in order to economize the use of water and to recover a substantial portion of the costs of maintaining and rehabilitating the canal system. Water rates have been increased recently, although the political realities have not allowed the government to increase them by as much as may be warranted.

4. Taxation

Indirect taxes on agriculture have been the major means of transfering part of the agricultural surplus to the state. One of the most controversial forms of indirect taxation were the export duties on cotton and rice, which the government has recently abolished. With increased support prices for major agricultural commodities, it has reduced the implied indirect tax as well.

The only direct tax on agriculture is the land tax (called land revenue), which is charged on the basis of on outdated valuation of net assets (or net income) of landowners. The rate does not vary with the size of landholding, and it has no relationship to agricultural income. The tax structure is, therefore, rigid and unresponsive to changes in agricultural production and income. It yields fixed amounts of revenue each year, hence it has fallen considerably as a proportion of the value of agricultural production and of other revenues.

The previous government introduced in the mid-seventies some changes in the land tax system by raising the rates paid by landowners of 12.5 acres or more and exempting from payment the owners of smaller holdings. It then enacted a law in early 1977, abolishing the land revenue system and replacing it by an income tax system similar to the one used for non-agricultural incomes. The present government, however, suspended that law and has maintained the land tax system with adhoc increases in the rate of payment by owners of 25 acres and more and exemption to owners of smaller holdings. An Ordinance providing for Ushr (an Islamic tax at 5 percent of agriculture produce) has been approved but not as yet made effective.

In the absence of a progressive direct tax on agriculture, investible surplus remains in the hands of those whose incomes have increased because of their preferred position in the marketplace and in public sector activities. Because of the limited and fixed amount of revenue generated by the land tax, the government has resorted to several types of explicit and implicit indirect taxes on agriculture which have had few if any positive effects on efficiency and equity. From society's point of view, the tax system should create the needed pressure for better use of land and transfer to the state part of the private surplus which public subsidies help to create. Since there has been a definite shift away from indirect taxes on agricultural commodities, the issue of direct taxes for revenue and equity should now get a proper place on the policy agenda.

5. Organizational Structure

A highly bureaucratized public sector can itself be a serious impediment to efficient use of resources. Recognizing this the present government has curtailed the role of public sector in processing and distribution of agricultural outputs and inputs. While some of the trade is still in the public sector, it is also planned to be transfered to the private sector.

Several infrastructural services and activities which directly affect agricultural production, such as water supply, research and extension and supply of credit, are controlled and managed by government departments and agencies. Here one of the most serious problems has been the lack of coordination between relevant departments for specific policy actions. Several examples have been cited. It is perhaps most evident in the interaction between the Provincial Irrigation and Agriculture departments and between the research institutions and Provincial extension services. It was to overcome such difficulties that the RAP document recommended a radical restructuring of public organizations involved in agriculture. The recommended structure was to be built from the "Command Area Management" at the bottom to the "Commission for Agricultural Policy and Planning" at the top in the Federal government, with clearly defined linkages between various Provincial and Federal agencies. The government has not adopted this recommendation, although it has established various inter-departmental committees at the Provincial and Federal levels. The revised and expanded scheme for research through PARC is underway, although there is considerable debate on the relationship between the Provincial research institutions and PARC.

Another significant development in the last three years has been the establishment of elected Councils, from the village/town level to the Provincial level. Members of these Councils, at least at the lower levels, have been assigned some authority to control part of financing of development projects. It is still too early to say if the elected representatives can perform a significant role in initiating, supervising and executing projects directly related to the welfare of the farm community. Experience with similar councils in the past was not entirely successful, as the involvement of civil bureaucracy had negative effects on people's participation through their elected representatives. Of course, most of the local leadership even today reflects the basic asymmetry of social and economic relations in rural areas.

IV. Conclusion

No attempt has been made here to analyze all conceivable public policy issues in Pakistan agriculture. In conclusion, statements should be made on two important issues, which have not been covered in the proceding discussion.

The livestock sector in agriculture has never been the focus of attention despite the admitted potential for its rapid development for meat, milk and its products. Several fragmented schemes have existed to promote livestock products. Some of them have been obvious failures, such as the large-scale milk processing plants in certain urban centres. The government has recently adopted a new dairy policy, which gives to the private sector a central role in production, processing and distribution of milk and its products. It will also include protection of local milk processing industry from liberal imports of dairy products. Similar emphasis is being placed on supporting the private sector for meat and poultry development for domestic and foreign markets, but no definite program or set of policies has been adopted.

The problems facing farmers in the rain-fed (barani) regions of the country are far more serious than those encountered in the irrigated areas. The government has taken several policy decisions to provide adequate research and support facilities. These include establishment of a development authority to facilitate education, research and extension services adapted to the agronomic requirement of crops in conditions of extreme water scarcity. It has also started implementing projects for surface water supply and management and has provided support to the private sector for the development of ground water supply to crops.

PROSPECTIVE AGRICULTURAL POLICY STUDIES

I. Edible Oil

A. Description

Edible oil is the primary focus of the PL 480 Title I program and the Agriculture Production, Distribution, and Storage Project (391-0476). Presently, edible oil consumption requirements in Pakistan are increasing rapidly, and unless domestic production can be increased significantly, Pakistan will have to spend an increasingly large amount of scarce foreign exchange on edible oil imports. During Pakistan fiscal year 1980/81, edible oil imports amounted to $264 million.

In addition to the technical requirements to expand production, there are broad policy areas relating to the marketing and processing of oilseeds and by-products which the Government must address. The proposed edible oil study will provide the necessary analyses to enable the GOP to adopt a comprehensive oilseed policy which cuts across the "agricultural" and "industrial" dimensions of oilseed production. Briefly, the study will, among other things, cover agronomic analysis of oilseed production options, price and income elasticity of demand for edible oil, and the interdependence of the poultry and dairy industries with domestic edible oil production.

B. Responsible U.S. Institutions

USDA and Title XII Institutions

C. Cooperating Pakistani Institution

Oilseed Development Board. The Oilseed Development Board was created in June 1981 to, inter alia, coordinate research and development efforts for increased oilseed production in the country. The Board is headed by the Minister for Food, Agriculture, and Cooperatives with concerned Ministries/Divisions, Provincial Agriculture Secretaries, Vice Chancellors of Agriculture Universities, and representatives of growers as members. The Oilseed Development Commissioner is the Secretary of the Board.

II. Fertilizer

A. Description

Fertilizer is the major component of the Agriculture Commodities and Equipment Program (391-0468). The fertilizer sector suffers from several deficiencies in areas ranging from farm level application practices to the delivery mechanism. At least two studies are envisaged to be undertaken:

1. Privatization of Marketing

Currently, fertilizer imports are handled exclusively by the Government. The public sector also plays a significant role in domestic marketing, particularly of the large amount of imported phosphatic fertilizer. The private fertilizer companies are interested in the importation of fertilizer and in an expanded role in the distribution of fertilizer in the domestic market. The study will investigate the implications of increased private sector participation in marketing (including international buying) and suggest an appropriate mix of public and private sectors for the fertilizer market.

2. Domestic Production

Current nitrogen production capacity is 737 thousand NMT (against a demand of over 900 thousand NMT) and is likely to increase to 1,038 thousand NMT shortly. The country will, however, continue to import over 70 percent of its phosphatic requirements. At the present time, total phosphate production capacity is 89,000 nutrient tons and is projected to remain at the same level at least during the 1980s. All of the phosphatic and 68 percent of the nitrogen production capacity exists at the semi-governmental National Fertilizer Corporation. Operating rates in the public sector plants are generally low.

This study will examine the long range options for increased domestic production, identify constraints to increased private participation, and develop a strategy for A.I.D.'s possible participation in plant construction and/or modernization and balancing of existing plants.

B. Responsible U.S. Institution

IFDC

C. Cooperating Pakistani Institution

National Fertilizer Development Center. The Center was established as an extension of the Federal Planning and Development Division with FAO's assistance. The Center is the coordinating body for the fertilizer community in Pakistan and has, in the past, concentrated on strengthening the fertilizer data base and assessing farm level fertilizer use. The Center also has an expatriate marketing specialist.

III. Food Security

A. Description

Food security in Pakistan relates principally to the supply of the staple wheat at reasonable prices. Since

Pakistan's inception, the GOP has practiced wheat rationing, procuring 20-30 percent of the wheat crop and marketing wheat flour to largely urban consumers at subsidized prices. Consequences of this policy have been lower producer prices and a burgeoning consumer subsidy.

In the last several PL-480 Title I programs, A.I.D. has attempted to limit the GOP rationing system and encourage private grain trade. However, low production levels along with the political sensitivity attached to an assured supply of cheap wheat flour have restricted progress.

Now that Pakistan has registered three successive record wheat harvests and is on the threshold of wheat self-sufficiency, the time is ripe to examine the rationing system. The study envisaged will cover production base, procurement operations, stock policies, consumers' subsidy, and beneficiaries. The study will also address the possibility of using Government wheat stocks as an effective instrument to dampen wheat price fluctuations.

B. Responsible U.S. Institution

To be identified

C. Cooperating Pakistani Institution

Applied Economic Research Center. Affiliated with the University of Karachi, the Center has been actively engaged in agriculture policy analysis. Studies conducted thus far include agriculture pricing, cropping patterns, Ushr (a 5 percent religious levy on agriculture produce), and domestic resource cost of agriculture commodities.

IV. Mechanization

A. Description

Several researchers have argued the existence of a "farm power gap" and have pleaded for a dynamic mechanization policy. The GOP has recently established a Farm Mechanization Board to advise on mechanization policy.

Use of machines on farms is a complex and controversial issue. It is complex because it is hard to identify a unique package of machines most suitable for increased efficiency on all types of farms. It is controversial because machines can significantly affect employment of labor, tenancy relations, and income distribution without necessarily bringing about increased efficiency. Studies in this area will provide the necessary empirical evidence to develop an appropriate mechanization program. Areas likely to be covered are: the impact of mechanization on employment, production and income distribution; type of machinery suitable for small holdings; and domestic manufacturing and maintenance capacities and potentials.

B. Responsible U.S. Institution

To be identified

C. Cooperating Pakistani Institution

Agriculture Machinery Division of the Pakistan Agricultural Research Council (PARC). The major activity of this Division is the IRRI-PAK Agricultural Machinery Program under the Agricultural Research Project. The Program's major thrust is the development of simple farm machines that can be locally manufactured.

V. Resource Mobilization

A. Description

The critical issue currently facing policy planners is the formulation of pricing and trade policies for agricultural commodities and inputs consistent with the objectives of increased farm productivity and equitable income distribution on the one hand and the need to generate sufficient financial resources for large-scale public sector investment programs on the other. Since resource mobilization in agriculture is necessary for infrastructural and other investments, studies are required to identify potential alternatives that may improve the financial contribution of agriculture to government revenues without adversely affecting production and income distribution. Investigations are also needed to develop ways to improve private capital formulation in agriculture, especially in view of the availability of increasing home remittances.

B. Responsible U.S. Institution

To be identified

C. Cooperating Pakistani Institution

Pakistan Institute of Development Economics (PIDE) Established as an autonomous research organization in 1957, PIDE has developed into a prime national research institution with a research staff of about 90 and a 15 member International Advisory Board. The research program consists of 106 projects, 33 of which are in the agriculture sector.

VI. Water Management

A. Description

Pakistan's irrigation system operation in the past has involved essentially surface water routing with very little attention to crop requirements. Attention, however, is now being focused on regulating water supplies with crop demands. Transformation to the demand-oriented system requires extensive investigations to develop operational guidelines for managing the irrigation system at the macro, canal and the farm level. The study will describe the engineering, economic, and administrative dimensions of the irrigation system, identify currently used management approaches, examine the role of computer modeling, and develop a plan for integrated water management to maximize agriculture production.

B. Responsible U.S. Institution

To be identified

C. Cooperating Pakistani Institution

Water and Power Development Authority (WAPDA). The Master Planning Division of WAPDA has a huge reservoir of information needed to conduct water management studies. The Division, in cooperation with the World Bank, has already started investigating several key areas of water resource planning.

BACKGROUND INFORMATION ON THE AGRICULTURAL SECTOR

TABLE 1

LAND RESOURCES FOR AGRICULTURE

	Area (Million Acres)	Percent
Irrigated	35	70
Perennial a/	(20.2)	(40.4)
Non-perennial b/	(14.3)	(28.6)
Commanded c/	(-5.0)	(10.0)
Other d/	(5.5)	(11.0)
Other	15	30
Barani	(9.1)	(18.2)
Riverian	(3.1)	(6.2)
Torrent	(2.8)	(5.6)

a/ Canal water supplied throughout the year
b/ Canal water supplied during summer months only
c/ Area within a canal command, but not irrigated
d/ Irrigated by wells, streams, underground channels

Source: IBRD, Potential for Irrigated Agricultural Development in Pakistan, 1981

TABLE 2

AREA UNDER PRINCIPLE CROPS
(Thousand Hectares)

CROPS	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 (P)
Wheat	6,229	5,977	5,797	5,971	6,113	5,812	6,111	6,390	6,360	6,687	6,912	6,921
Rice	1,622	1,503	1,456	1,480	1,512	1,604	1,710	1,749	1,899	2,026	2,035	1,921
Bajra	631	750	759	612	733	545	624	648	641	659	561	641
Jowar	491	558	507	500	589	445	476	447	520	469	423	415
Maize	648	640	633	645	632	614	620	624	656	650	701	705
Barley	157	141	157	164	205	194	186	174	167	178	159	167
Total: Foodgrains	9,778	9,569	9,309	9,372	9,784	9,214	9,727	10,032	10,243	10,669	10,791	10,770
Gram	928	914	965	1,017	1,108	996	1,068	1,095	1,099	1,224	1,128	976
Total: Food Crops	10,706	10,483	10,274	10,389	10,892	10,210	10,795	11,127	11,342	11,893	11,919	11,746
Sugarcane	620	636	552	533	645	673	700	788	822	752	718	823
Rapeseed & Mustard	479	510	562	534	536	451	470	519	412	433	409	409(r)
Sesamum	23	31	42	29	33	23	28	30	32	46	46	37
Cotton	1,755	1,733	1,957	2,010	1,845	2,031	1,852	1,865	1,843	1,891	2,081	2,103
Tobacco	60	61	51	44	47	54	45	50	53	48	50	50(r)
Total:Cash Crops	2,937	2,971	3,164	3,150	3,106	3,232	3,095	3,252	3,162	3,170	3,304	3,422
Total:Principal Crops	13,643	13,454	13,438	13,539	13,998	13,442	13,890	14,379	14,504	15,063	15,223	15,168

(P) Provisional
(r) Last year's figures repeated

Source: GOP, *Pakistan Economic Survey, 1980-81*, 1981

TABLE 3

PRODUCTION OF PRINCIPAL CROPS
(Thousand Metric Tons)

Crops	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
Wheat	7,294	6,476	6,890	7,442	7,629	7,673	8,691	9,144	8,367	9,950	10,805	11,340
Rice	2,401	2,200	2,262	2,330	2,455	2,314	2,618	2,737	2,950	3,272	3,216	3,075
Bajra	302	355	360	304	351	266	308	311	318	317	277	N.A.
Jowar	284	329	312	302	378	266	251	261	284	252	249	N.A.
Maize	667	717	705	706	767	747	802	764	821	799	875	900
Barley	104	91	103	109	139	137	130	124	121	129	118	N.A.
Total:Foodgrains	11,052	10,168	10,632	11,193	11,719	11,403	12,830	13,341	12,861	14,719	15,540	--
Gram	506	494	510	553	610	550	601	649	614	538	313	--
Total:Foodcrops	11,558	10,662	11,142	11,746	12,329	11,953	13,431	13,990	13,475	15,257	15,853	--
Sugarcane	26,379	23,167	19,963	19,947	23,911	21,242	25,547	29,523	30,077	27,326	27,498	32,157
Rapeseed & Mustard	255	269	301	287	292	248	267	296	236	248	247	--
Sesamum	8	10	14	10	12	8	11	12	13	19	19	--
Cotton	535	542	708	702	659	634	514	435	575	473	728	732
	(3,012)	(3,050)	(3,979)	(3,947)	(3,704)	(3,567)	(2,890)	(2,446)	(3,233)	(2,662)	(4,096)	(4,113)
Tobacco	127	113	47	63	66	77	58	73	74	68	78	N.A.
Total:Cash Crops	27,285	24,101	21,073	21,069	24,940	22,209	26,397	30,339	30,975	28,134	28,570	--
Total:PrincipalCrops	38,843	34,763	32,215	32,755	37,269	34,162	39,828	44,329	44,450	43,291	44,423	--

(P) Provisional
N.A. - Not available
Note: Figures in brackets indicate 000 bales for cotton

Source: GOP, Pakistan Economic Survey, 1980-81, 1981

TABLE 4

YIELD PER HECTARE OF PRINCIPAL CROPS
(Kilograms)

CROPS	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 (P)
Wheat	1,171	1,079	1,190	1,245	1,245	1,320	1,421	1,431	1,316	1,488	1,563	1,638
Rice	1,485	1,466	1,549	1,577	1,623	1,439	1,531	1,565	1,553	1,615	1,581	1,601
Bajra	470	470	470	498	480	489	489	480	496	482	494	N.A.
Jowar	581	590	418	600	646	600	590	585	[illegible]	538	588	N.A.
Maize	1,024	1,125	1,116	1,098	1,208	1,217	1,291	1,224	1,251	1,228	1,248	1,277
Barley	655	646	655	664	683	710	701	709	724	728	741	N.A.
Gram	480	544	526	544	553	553	563	593	559	443	278	N.A.
Sugarcane (tonnes)	42.5	36.4	36.2	37.4	37.0	31.6	36.4	37.5	36.6	36.3	38.3	39.0
Rapeseed & Mustard	535	526	535	535	544	553	572	571	573	573	604	N.A.
Sesamum	348	341	323	350	378	360	378	397	399	409	419	N.A.
Cotton	394	314	360	350	360	314	277	233	312	250	350	348
Tobacco	1,927	1,863	1,716	1,430	1,411	1,411	1,293	1,437	1,399	1,429	1,561	N.A.

(P) Provisional
N.A. - Not available

Source: GOP, Pakistan Economic Survey, 1980-81, 1981

TABLE 5

POTENTIAL FOR YIELD GROWTH

Sample Size a/	Crop	Crop Yields: Mean A (Kg/Hectare)	Crop Yields: Median of Upper Range b/ B (Kg/Hectare)	Potential B ÷ A x 100 (Percent)
1,457	Wheat	1,390	4,620	332
773	Seed Cotton	650	1,660	255
715	Rice	1.850	5,080	275
100	Maize	1,390	4,160	300
218	Sugarcane	29,600	78,520	265

a/ Expanded Agricultural Economic Survey carried out by WAPDA in 1976/77.
b/ Top 10% of sample frequency distribution.

Source: WAPDA, Revised Action Program for Irrigated Agriculture, 1979

INSTITUTIONS INVOLVED IN THE FERTILIZER SECTOR[1/]

There are several public and private organizations involved in fertilizer production, marketing, and distribution. A brief description of the major entities follows:

I. Federal Directorate of Fertilizer Imports (FDFI)

This Federal agency is responsible for procuring imported fertilizer for all private and public companies and government agencies. All purchases are made in open market tenders except for those tied to conditions of a particular grant or loan.

FDFI imports fertilizer in both bags and bulk. All DAP and most nitrophos are imported in bulk and bagged at Karachi port. The responsibility of FDFI ends when the bags are loaded on the transportation provided by the National Logistic Cell, Pakistan Railways, or private contractors for delivery to private companies or to the provincial agencies.

II. National Logistic Cell (NLC)

NLC, created in 1978, is an Army-run Federal Agency responsible for monitoring all port activities and arranging onward transportation of commodities. All fertilizer imported into Pakistan comes through the Karachi port. The port, until about two years ago, was extremely congested, and in addition to large demurrage payments ($120 million three years ago), there was a large surcharge for shipments to Karachi.

At the present time, there are empty berths at the Karachi port despite a growing volume of trade. The surcharge has been lifted, there have been no demurrage charges for more than a year, and dispatchment fees are being earned for quick unloading.

III. Provincial Distributing Agencies

Each Province has a public distribution agency responsible for agricultural inputs. During program design, the operations of the Sind Agricultural Supplies Organization (SASO) and the Punjab Agricultural Development Supplies Corporation (PADSC) were examined. Each deals primarily with fertilizer and seed. Imported fertilizer is allocated to private companies, the National Fertilizer Corporation, and

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1/ Paper by Gene Harris, Fertilizer Consultant from IFDC, December 1981.

the agencies' own distribution networks through a quota system. SASO and PADSC have networks of storage depots and dealers but do not extend credit to dealers or farmers. Both operate at a substantial loss in part because incidental allowances do not cover actual costs.

IV. National Fertilizer Corporation (NFC)

National Fertilizer Corporation is a public company which produces urea, nitrophos, calcium ammonium nitrate, and single phosphate. Historically, its operating production as a percentage of capacity has been much lower than for the private companies. It also receives a share of the imported fertilizer which is distributed through a sister company, National Fertilizer Marketing Limited.

NFC operates with a network of dealers who may market its products as well as the products of other companies. NFC also does research studies, including studies for the National Fertilizer Development Center.

V. Private Companies

Dawood Hercules, EXXON, and Fauji Fertilizer Company are private urea manufacturers who also participate in the distribution of imported phosphate fertilizer through their own dealers' networks. Imported fertilizers are received directly from FDFI at the Karachi port. The companies cannot market imports under their own label nor exert quality control over the domestically bagged product.

Fauji Fertilizer Company is temporarily in a more favored position in marketing imported fertilizer than other private companies, as actual costs of distribution are fully covered by incidental payments. This arrangement is intended to assist Fauji in market development and will be phased out after Fauji's own urea production comes on stream in April 1982.

VI. Dealers

The fertilizer dealer is a commission agent who generally is involved in other trades and may also be a farmer. At present, there are about 4,000 dealers in Pakistan. The dealer may be a purchaser of farm products as well as a seller of farm inputs. The dealer's low profit margin (Rs 50 per metric ton) means he has little incentive to actively promote fertilizer usage or to store it during the off season. The dealer may sell products for a private producer, NFC, or for one of the Provincial supply distributors and typically handles products from more than one company.

VII. National Fertilizer Development Center (NFDC)

The National Fertilizer Development Center is an FAO-supported entity of the Planning and Development Division. It does not have field staff and is frequently viewed as only a statistical agency. Its mandate is much broader, but because it is a new institution, and past efforts have been focused on establishing itself, it is only now that its influence in fertilizer policy, planning, research, and training are being felt.

FERTILIZER ISSUES[1/]

I. Subsidies

Where input and output prices are controlled, as in Pakistan, the price relationship is critical in determining the profitability of fertilizer use by farmers and hence the rate of fertilizer adoption. The GOP directly subsidizes imported fertilizers by making them available to both public and private distributors at below world market prices. Costs of distribution (transport, storage, etc.) are also covered by the government by "incidentals" allowances although most distributors indicate that incidentals do not fully cover costs.

The Government also reviews the production and marketing costs for each fertilizer producer in Pakistan, and fixes their ex-factory price and distribution margin. If the allowed production and marketing costs exceed the ceiling retail price, the Government subsidizes the company to cover the difference. If the same cost adds up to less than the ceiling price, which is the case for some locally produced fertilizers at present, then the difference is levied on the company as a "development surcharge". Whenever there is a fertilizer glut, actual prices paid by farmers are generally somewhat below the ceiling prices. There is thus an informal price competition despite the price control system.

As fertilizer use and world market prices have increased over time the subsidy burden has increased from an estimated Rs 614.5 million ($61.4 million) in 1977/78 to Rs 2.44 billion ($244 million) in 1980/81. It is difficult to calculate the exact cost of the subsidy. In addition to the direct costs, there are many indirect subsidies such as providing natural gas to domestic producers at less than market costs, salaries of government officials, subsidized storage and transportation, etc.

This ever growing burden has been a source of serious concern to the GOP. Accordingly, as a condition to World Bank financing of fertilizer imports, the Government has agreed to completely eliminate the net fertilizer subsidy by June 1985. AID concurs with this agreement. Subsidies on some types of fertilizers, or in some locations may continue, but surcharges in other areas could result, in the aggregate, in no net subsidy.

The full schedule for this reduction has not been announced, although a Government policy memorandum (Annex G 1, states

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1/ Paper by Gene Harris, Fertilizer Consultant from IFDC, December 1981.

that subsidies are to be reduced from 9 percent of the Annual Development Program Allocation in 1980/81 to 3 percent in 1983/84. Actual reductions each year will depend on world market crop and fertilizer prices. It is likely that the reduction will be gradual to minimize disruption of fertilizer offtake and use.

II. Fertilizer - Grain Price Relationship

Agricultural output price policy is intended to provide production incentives. Prices of fertilizer in Pakistan had steadily declined since 1975/76 until the February 1980 price increase. In late 1975 both urea and DAP were selling for Rs 75 per 50 Kg bag. This was reduced to Rs 63 and Rs 67 per bag by October 1978. This price remained in effect until February 1980, when prices were raised to Rs 93 and Rs 100 per bag. During this period procurement prices 2/ of all crops (with the exception of cotton in 1979/80) continued to increase steadily. Wheat prices since 1975/76 have increased from Rs 37 per maund (37.324 kg) to Rs 54.12 per maund.

Thus, the large increase in fertilizer prices in February 1980 was offset to some extent by increases in procurement prices for agricultural crops. Calculations of grain and fertilizer prices reveal that price relationships are more favorable today than they were in 1975/76, 1976/77 or 1977/78, but less favorable than price relationships which existed in the two years preceding the February 1980 fertilizer price rise. To rationalize cost and price ratios, the GOP, in collaboration with the World Bank, has established an Agricultural Prices Commission. As the fertilizer subsidy is reduced, price relationships will have to be constantly reviewed and appropriately adjusted.

III. Expanded Role of Private Sector

Fertilizer use per acre remains very low. While growth rates have been very high because fertilizer has been heavily subsidized, fertilizer use is still less than half of the recommended rate. As subsidies are removed it is especially important that a strong fertilizer marketing program is established in Pakistan. Phosphate use should especially be promoted.

The most effective approach to marketing and to improving the efficiency of the distribution system as a whole would be to give more scope to the private sector.

Private companies are presently neither permitted to import fertilizer nor to sell the FDFI imported fertilizer under a

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2/ Prices at which Government buys from the farmer.

private label. They are therefore unable to exert quality control, and some have at times been reluctant to handle imports because of past problems with hand stitching, adulteration and short weighing. They have little or no incentive at this time to actively promote the use of phosphates. A possible approach which could be explored would be direct importation and marketing by private companies. Many of them can utilize a worldwide network of traders and might obtain fertilizer at lower prices by taking advantage of seasonal price fluctuations, market experience, and research. All eligible companies in Pakistan have expressed interest in direct importing. There might, on the other hand, be inefficiencies resulting from smaller tenders and port scheduling problems, and the Government's management of fertilizer reserves might become more complicated.

If private companies were to assume importing responsibilities while the subsidy is still in effect, subsidy policy would be more complex since actual import costs would be higher than the allowed selling price. This could be handled by paying a fixed subsidy per bag to each importing company.

An alternative approach would be to allow private companies to market imports under their own label and to have a corresponding responsibility for maintaining a standardized, quality product. "Allowance" payments now retained by the provincial distributing agencies would accrue to the companies, increasing the profitability of handling imports.

Private companies should not be put at a competitive disadvantage as many now feel they are. At present, cooperatives are allowed to grant six-month interest free credit to members to buy fertilizer and seeds. Cooperatives also receive a larger commission and handling charge (Rs 90 vs Rs 50) per product ton. Thus, when surplus fertilizer is available, cooperatives can undercut the official price. This has made it very difficult for the private dealers to compete, especially in the Punjab, where the cooperative movement has grown rapidly.

Public ownership of fertilizer production facilities has generated inefficiencies. Private companies have consistently maintained production rates at over 100 percent of capacity while the public companies have been in the 60 percent range. Operating costs in private companies are forced by market forces to be kept lower than seems to be the case in public companies. As the Government implements its policy of converting public companies to private ownership, it appears that NFC is a company that should be considered for conversion. The provincial distributing agencies also contribute to inefficiencies in the system as they continue to operate at a loss.

The role and possible expansion of the private sector should be studied further. However, it seems clear that strengthening of this sector would be an effective means of promoting fertilizer use in Pakistan in an economically efficient manner.

IV. Fertilizer Reserves

The GOP requires that 25 percent of the year's offtake in nitrogen and 50 percent of the year's offtake in phosphate and potash be held in reserve at all times. Because about half of the fertilizer use is in the months of November, December, January, or three to eight times higher than the demand for the other nine months of the year, current reserve policy results in excessive reserves for most of the year.

About 70 percent of the nitrogen requirements are being met through local production, whereas only 28 percent of the phosphate required is met by indigenous production. This would indicate that the phosphate reserve should be higher than that for nitrogen. A possible approach which should be explored with the GOP over the next year is that demand for the following two months be kept in reserve for nitrogen and that a 3-month reserve be maintained for phosphate. The average reserve requirement would then be about 17 to 25 percent of the total offtake for nitrogen and phosphate, respectively. This results in a reduction in storage of 33 percent for nitrogen and 49 percent for phosphate or a total savings of 36 percent of storage. The National Fertilizer Development Center has recommended a similar proposal, specifically, a 2-month reserve for both nitrogen and phosphate.

A related concern is the shortage of wheat storage capacity in the country. Since the peak storage requirements for fertilizer and wheat are different, the savings in storage space for fertilizer might be used during peak storage periods for wheat.

V. Bags vs. Bulk

FDFI imports fertilizer in both bags and bulk. Urea is generally imported in bags because of the high humidity and hydroscopic characteristics of urea, although a small amount of urea has been imported in bulk with satisfactory results. All DAP and most nitrophos are imported in bulk and bagged at the port.

The bagging operation in the past has been unsatisfactory. Originally three US bagging machines were bought and proved to be unacceptable. Bags were then sewn by hand. Short weights were reported, and bags had either to be standardized or sold in unsatisfactory condition. Farmers became highly suspicious of DAP in handstitched bags because at some step in the distribution chain, adulteration with cheaper nitrophos or other materials was occurring. Some dealers considered not handling DAP, and provincial agencies at times did not sell nitrophos and DAP at the same outlet.

A recent survey 3/ conducted by the National Fertilizer Corporation indicated that 15 percent of over 700 respondents said their fertilizer had been adulterated, another 15 percent did not know, and 70 percent said it had not been adulterated. Of those reporting adulteration, DAP was mentioned by 56 percent of the respondents while local and imported urea were mentioned by 14 and 13 percent, respectively. The "do not know" answers may reflect user suspicion because of earlier problems. However, the frequency with which urea was mentioned is surprising since all of it is either imported in bags or machine stitched at the local factories. Although the survey may not reflect a precise picture of the extent of adulteration, it does indicate that farmers believe that adulteration is a problem.

The bagging situation now appears to be much improved. Twelve Norwegian bagging machines have been imported and are in use. They are simple in design and perform accurately. "Bagged in Pakistan" is stamped on machine stitched bags to improve future credibility. The FDFI reports the capability to unload and bag 5000 product tons of bulk fertilizer per day with the current 12 machines. The original three U.S. machines are also scheduled to be repaired. FDFI estimates bagging costs at about $15 per metric ton including offloading, bagging, and outloading.

However, this situation should be watched closely, especially if bulk imports increase substantially. It is recommended that DAP should continue to be imported in bulk during the first year of the project, because the bagging operation seems to be adequate now and the savings are $30 to $40 per ton. If major problems re-emerge, importing bagged DAP or allowing private firms to do their own importing and bagging are alternatives that should be considered.

A more systematic study of how bags move through the distribution chain is recommended to determine the extent of continuing adulteration and short weighing if any, and perhaps to locate the source. Currently every 10th bag of fertilizer is weighed at the port to assure the accuracy of the bagging operation. All of these bags should be identified with a number and weight recorded so that if bags are found with short weights at the dealer level, a check can be

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3/ NFC, A Study of Differential Impact of Fertilizer Price Increase on Its Use in Pakistan, 1981.

made to see where problems are occurring. Outside auditors might also be employed to check bag weights at the dealer level and take samples to ensure that DAP labeled bags contain 100 percent DAP. The licenses of dealers with repeated violations should be revoked.

VI. Storage

Data on storage are incomplete. Much of the storage used is sub-standard. Estimates of storage required for fertilizer range from six to fourteen square feet per metric ton. Storage costs per square foot vary from Rs 0.50 to Rs 2.00 per month; the incidental allowance for storage (Rs 23/MT/month) frequently does not cover costs. Private distributors and dealers, therefore, do not hold fertilizer stock during the off season, and the burden of storage costs is borne by the public sector. Fertilizer factories generally have sufficient storage to carry about two months of production.

The FDFI operates a 2,000,000 metric ton warehouse for storing fertilizer at Pipri, near the Karachi port. There is no permanent storage at the port and bags sit under tarps on the wharf until transport is available.

The provincial distribution agencies maintain about 100 satellite go-downs or bulk depots, throughout the consumption areas in Pakistan. Storage capacity is typically 250-1000 metric tons. These depots serve as supply points to feed the retail depots operated by the provincial distribution agencies.

Private fertilizer dealers possess small multi-purpose go-downs having an average capacity of 50-80 metric tons. Farmers generally do not have any specific storage facilities for fertilizer, but perhaps 20 percent of them do have some covered space available for storage of fertilizer and other farm products. The National Fertilizer Corporation has either planned or already under construction 65,000 metric tons of storage capacity at 5 locations.

Fauji Fertilizer Company has either built or planned 38 small warehouses in its marketing area ranging from 500 to 5,000 metric tons. Fauji is also planning to build three warehouses with a 10,000 metric ton capacity.

Opinions on storage needs among the various public and private agencies range from "there is a critical shortage of storage" to "there is no storage problem". It appears that adequate low-quality storage with small capacity is available but that there is a shortage of warehouses efficiently located with adequate capacity to ensure handling efficiencies.

BACKGROUND INFORMATION ON THE
FERTILIZER SECTOR

TABLE 1

RETAIL PRICES OF FERTILIZER
(Rupees)

Variety	May.75-Apr.76		Apr.76-Oct.78		Oct.78-Feb.80		Feb.80-Present	
	Per 50 kg bag	Per N kg	Per 50 kg bag	Per N kg	Per 50 kg bag	Per N kg	Per 50 kg bag	Per N kg
Urea	75.00	3.26	68.00	2.96	63.00	2.74	93.00	4.04
AS	34.00	3.24	31.00	2.95	29.00	2.76	42.00	4.00
SSP	22.00	2.44	18.00	2.00	17.00	1.89	25.00	2.78
AN	43.00	3.31	39.00	3.00	36.50	2.81	36.50	2.81
DAP	75.00	2.34	72.00	2.25	67.00	2.09	100.00	3.13
MAP	70.00	2.37	64.00	2.17	59.50	2.02	59.50	2.02
NP(24:24)	57.00	2.38	52.00	2.17	48.50	2.02	48.50	2.02
NP(23:23)	55.00	2.39	50.00	2.17	46.50	2.02	78.00	3.39
NP(20:20)	48.00	2.40	45.00	2.25	42.00	2.10	42.00	2.10
TSP	55.00	2.39	46.00	2.00	43.00	1.87	43.00	1.87

Source: GOP, Agricultural Statistics of Pakistan, 1980

TABLE 2

EXISTING DOMESTIC FERTILIZER PRODUCTION CAPACITY [a/]

Plant	Product	Rated Capacity (000 NMT) Nitrogen	Phosphate
EXXON	Urea	78	-
Dawood Hercules	Urea	160	-
National Fertilizer Corp.			
- Pak-American	AS	19	-
- Pak-Arab	Urea	33	-
	CAN	119	-
	NP	70	70
- Pak-Saudi	Urea	258	-
- Faisalabad	SSP	-	4
- Jaranwala	SSP	-	15
Total		737	89

a/ In 1982 an additional 301 nutrient metric tons of nitrogen capacity will be available as the Fauji and NFC's Hazara plants are commissioned.

Source: NFDC, Prospects of Fertilizer Demand and Supply in Pakistan, 1981.

TABLE 3

SUBSIDY AND DEVELOPMENT SURCHARGE ON FERTILIZER
(Million Rupees)

Year	Subsidy			Development Surcharge on Indigenous Fertilizer	Net Financial Burden on the Govt.
	Imported Fertilizer	Indigenous Fertilizer	Total		
1976/77	80	52	132	NA	NA
1977/78	472	143	615	252	363
1978/79	1,455	237	1,692	165	1,527
1979/80	1,867	588	2,455	179	2,276
1980/81	1,873	575	2,448	307	2,141
1981/82 (Budget)	756	1,194	1,950	NA	NA

NA: Not available

Source: Pakistan Ministry of Food, Agriculture, and Cooperatives

TRACTOR IMPORTATION POTENTIAL[1/]

I. Uses

The basic uses of 45 HP and 62 HP farm tractors in Pakistan appear to be plowing and transporting material to and from the market using a trailer or wagon. Some wagons are tractor mounted, and the tractor Power Take Off is also used to power harvesters. Farm tractors equipped with a front mounted blade are used for small earth moving tasks and minor construction. Some tractors are also used occasionally as a means of power to drive well pumps or for threshing by running the tractor over the harvested grain. Many farmers do custom work for other farmers at an approximate rate of Rs 50 per hour.

II. Inventory

The 1980 country-wide inventory of farm tractors is approximately 153,000 of which about 63,000 are Massey-Ferguson, 37,000 Fiat, 12,500 Ford, 4,000 International Harvester, 1,900 John Deere, and the balance consists of a variety of Russian, Yugoslav, Chinese, Thai and German tractors.

III. Imports

Tractor imports are currently a vibrant and functioning segment of Pakistan's import trade. Approximately 20,000 are imported annually. As indicated in Table 1, the GOP has standardized officially on six manufacturers, Massey-Ferguson, Fiat-Allis, IMT (a Yugoslav Model), Belarus (a Russian Model), Ford, and International Harvester (IH).

1/ Paper by Anthony Martin, Equipment Specialist, U.S. Department of Defense, December 1981.

TABLE 1

TRACTOR MAKES ON APPROVED IMPORT LIST

Make	Model	HP
Massey-Ferguson	240	47
	265	62
Ford	4600	62.3
	3600	46
Belarus	MTZ 50	55
Fiat	480	48
	480 S	50
	640	64
IH	444	45
IMT	540	52.5

Source: GOP, The Gazette of Pakistan, July 1, 1981.

Tractor makes currently on the import list have been judged to be technically suitable and most appropriate for Pakistan's needs.

IV. Distribution, Maintenance, and Training

To date, only two manufacturers, Massey-Ferguson and Fiat have found it possible or have been willing to establish adequate and functional distribution and maintenance networks. Spare parts for both brands are readily available through countrywide dealer distributorships.

The Mission has been able to examine most closely the distribution system for Massey-Ferguson, which is carried out by Millat Tractors, Ltd., a subsidiary of the publicly owned Pakistan Automobile Corporation. Apart from a countrywide effective distribution network providing spares and maintenance facilities, Millat has established a training center at the factory site. Each purchaser is automatically entered in a training course covering operations and maintenance of the machine purchased. The training school also schedules training courses for mechanics.

V. Local Assembly

GOP policy is to encourage local assembly with progressive manufacturing of parts locally. At present, Massey-

Ferguson (Millat) has an assembly line operation in which components are assembled and brought to the assembly line as units. These units are assembled at various points in the assembly line and a complete tractor is produced every 14 minutes. Currently, 30 percent of the tractor parts used in assembly are locally manufactured. The goal is to locally produce 60 percent of the parts by 1983 and 80 percent by 1985.

Millat Tractors is currently assembling 7,500 tractors per year with a potential to assemble 10,000. Limited foreign exchange allocations have been the controlling factor in holding the number down.

The Russian and Yugoslav models are likely to establish assembly units in the near future. Ford has also submitted proposals to the GOP for authorizing local assembly. These proposals are under consideration by the GOP. If approved and if Ford decides to establish a local assembly operation, it could take a minimum of one year before such an operation could be functional.

VI. Market Potential

Market demand has been estimated at 25,000 units per year, compared to 20,000 which are now being permitted to enter the economy. Massey-Ferguson and Fiat enjoy considerable popularity with farmers. The Yugoslav and Russian models are in a less favorable marketing position. Neither has a local assembly, and both lack the extensive distribution/maintenance set-up of the two major producers. IMT of Yugoslavia, however, is considered to be a well-made, functional model which has found acceptance among farmers and cooperatives. In order to make inroads on the local market, companies will have to compete with Massey-Ferguson and Fiat tractors which are currently priced at $7,600 and $8,000 respectively.

TABLE 1

IBRD's IRRIGATION SYSTEM REHABILITATION PROJECT: EQUIPMENT AND SPARE PARTS 1/

(Cost in millions of Rupees)

	Unit Cost	Punjab		Sind		NWFP		Baluchistan		Project Cost			
		No.	Cost	No.	Cost	No.	Cost	No.	Cost	No.	Loc.	F. E.	Total
Dragline, 1.5 cub/yd Capacity	2.85	12	34.20	-	-	-	-	-	-	12	16.20	18.00	34.20
Dragline, 1.0 cub/yd	2.85	12	27.36	3	6.84	-	-	-	-	15	16.20	18.00	34.20
Dragline, .75 cub/yd	1.90	-	-	-	-	1	1.90	-	-	1	0.90	1.00	1.90
Scraper, 8/11 cub/yd	2.66	-	-	4	10.64	-	-	2	5.32	6	7.56	8.40	15.96
Bulldozer, 140 HP	2.28	-	-	-	-	1	2.28	7	15.96	8	8.82	9.42	18.24
Bulldozer, 75 HP	1.52	-	-	3	4.56	1	1.52	-	-	4	2.88	3.20	6.08
Compactor, 5-10 t	1.14	4	4.56	3	3.42	1	1.14	-	-	8	4.32	4.80	9.12
Compactor (towed)	0.38	-	-	-	-	-	-	2	0.76	2	0.36	0.40	0.76
Grader, 125 HP	1.52	-	-	2	3.04	-		-	-	2	1.44	1.60	3.04
Front Loader, 1.5 cub/yd	1.52	-	-	2	3.04	2	3.04	-	-	4	2.92	3.16	6.08
Water Trailer, 2300 gal	0.65	-	-	4	2.60	2	1.30	2	1.30	8	2.80	2.40	5.20
Fuel Tanker, 2000 gal	0.65	-	-	4	2.60	-	-	-	-	4	1.40	1.20	2.60
Dumpers, 10 t	0.80	16	12.80	6	4.80	-	-	-	-	22	8.80	8.80	17.60
Dumpers, 8 t	0.72	-	-	-	-	4	2.88	-	-	4	1.38	1.50	2.88
Low Loader, 40 t	1.71	-	-	-	-	1	1.71	-	-	1	0.81	0.90	1.71
Lubrication Truck	0.95	4	3.80	3	2.85	1	0.95	-	-	8	3.60	4.00	7.60
Truck, 10 t	0.57	8	4.56	-	-	-	-	-	-	8	2.16	2.40	4.56
Truck, 8 t	0.40	-	-	6	2.40	4	1.60	-	-	10	1.92	2.08	4.00
Amphibious Dragline	1.90	1	1.90	-	-	-	-	-	-	1	0.90	1.00	1.90
Cutter Suction Dredger, 400 HP	2.28	1	2.28	1	2.28	-	-	-	-	2	2.16	2.40	4.56
Weed Cutting Launch, 10 HP	0.57	-	-	3	1.71	-	-	-	-	3	0.81	0.90	1.71
Ditch Cleaner, 60 HP	0.76	-	-	1	0.76	2	1.52	-	-	3	1.09	1.19	2.28
Pickup Jeeps	0.15	12	1.80	10	1.50	-	-	-	-	22	1.54	1.76	3.30
Mobile Light Units, 10 KW	0.076	5	0.38	-	-	-	-	2	0.15	7	0.25	0.28	0.53
Mobile Crane (45 T)	-	-	-	-	-	1	4.75	-	-	1	2.28	2.47	4.75
Mobile Well Drilling	1.52	-	-	-	-	1	1.52	-	-	1	0.72	0.80	1.52
Misc (light compactors, agitators with attachments, etc.)	LS	-	15.89	-	4.55	-	1.92	-	2.11	-	11.75	12.72	24.47
Subtotal Equipment			109.53		57.39		28.33		25.60		105.97	114.78	220.75 1/
Spares for New Equipment			21.52		11.47		3.94		5.26		20.25	21.94	42.19
Spares for Existing Equipment			6.75		3.38		1.10		0.95		5.85	6.33	12.18
Subtotal Spares			28.27		14.85		5.04		6.21		25.10	28.27	54.37
Total Equipment & Spares			137.80		72.44		33.07		31.81		132.07	143.05	275.12

1/ Does not include Rs 0.29 m for one passenger car and office equipment for Federal Coordinating Cell

Source: IBRD, Staff Appraisal Report: Pakistan Irrigation System Rehabilitation Project, 1982.

TABLE 2

IBRD's IRRIGATION SYSTEM REHABILITATION PROJECT: MACHINE TOOLS

(Cost in Millions of Rupees)

	Unit Cost	Punjab No.	Punjab Cost	Sind No.	Sind Cost	NWFP No.	NWFP Cost	Baluchistan No.	Baluchistan Cost	Project Cost No.	Project Cost Loc.	Project Cost F. E.	Project Cost Total
Floor Crane 4000 lb Capacity	0.76	1	0.76	-	-	1	0.76	1	0.76	3	1.05	1.23	2.28
Generating Plant 50 kW	0.30	1	0.30	-	-	-	-	-	-	1	0.14	0.16	0.30
Air Compressor	0.57	1	0.57	-	-	1	0.57	1	0.57	3	0.80	0.91	1.71
Service Unit for Light Vehicles	0.85	1	0.85	-	-	-	-	-	-	1	0.40	0.45	0.85
Electric Welding Unit	0.03	1	0.03	1	0.03	1	0.03	2	0.06	5	0.07	0.08	0.15
Mobile Welding Unit	0.11	1	0.11	-	-	2	0.22	2	0.22	5	0.26	0.29	0.55
Spot Welding Unit	0.06	1	0.06	1	0.06	-	-	-	-	2	0.06	0.06	0.12
Shaping Machine -12" Stroke	0.06	1	0.06	1	0.06	1	0.06	1	0.06	4	0.12	0.12	0.24
Radial Drilling Machine	0.21	1	0.21	1	0.21	1	0.21	1	0.21	4	0.40	0.44	0.84
Milling Machine	0.04	1	0.04	1	0.04	1	0.04	1	0.04	4	0.08	0.08	0.16
Planer 10 ft	0.08	1	0.08	1	0.08	1	0.08	1	0.08	4	0.16	0.16	0.32
Lapping Machine	0.05	-	-	1	0.05	1	0.05	-	-	2	0.05	0.05	0.10
Honing Machine	0.10	-	-	1	0.10	1	0.10	-	-	2	0.10	0.10	0.20
High Pressure Cleaner	0.19	1	0.19	2	0.38	1	0.19	2	0.38	6	0.54	0.60	1.14
Hose Assembly Machine	0.04	1	0.04	1	0.04	1	0.04	1	0.04	4	0.08	0.08	0.16
Hose Cutting Machine	0.08	1	0.08	-	-	1	0.08	1	0.08	3	0.11	0.13	0.24
Dynamometer	0.38	1	0.38	-	-	-	-	-	-	1	0.18	0.20	0.38
Injection Calibrator	0.15	1	0.15	-	-	-	-	-	-	1	0.07	0.08	0.15
Injection Tester	0.02	1	0.02	1	0.02	1	0.02	2	0.04	5	0.05	0.05	0.10
Engine Tune-up Machine	0.005	2	0.01	2	0.01	2	0.01	2	0.01	8	0.02	0.02	0.04
Pillar Drill 3/4 in.	0.02	1	0.02	2	0.04	1	0.02	2	0.04	6	0.06	0.06	0.12
Hacksaw Machine	0.02	1	0.02	1	0.02	1	0.02	2	0.04	5	0.05	0.05	0.10
Serv. Tools for Allison Trans.	0.06	1	0.06	1	0.06	-	-	2	0.12	4	0.12	0.12	0.24
Lathe - 12 ft	0.16	-	-	1	0.16	1	0.16	-	-	2	0.15	0.17	0.32
Lathe 4 to 8 ft	0.10	-	-	2	0.20	3	0.30	2	0.20	7	0.34	0.36	0.70
Valve Grinder	0.05	-	-	1	0.05	1	0.05	1	0.05	3	0.07	0.08	0.15
Electric Test Stand	0.05	-	-	1	0.05	1	0.05	2	0.10	4	0.10	0.10	0.20
Battery Charger 60 Amp	0.03	-	-	2	0.06	2	0.06	2	0.06	6	0.09	0.09	0.18
Tire Remover	0.04	-	-	2	0.08	1	0.04	1	0.04	4	0.08	0.08	0.16
Tire Rim Remover	0.04	-	-	2	0.08	1	0.04	1	0.04	4	0.08	0.08	0.16
Boring Machine	0.38	-	-	1	0.38	1	0.38	-	-	2	0.36	0.40	0.76
Tool Kits	0.10	1	0.10	2	0.20	1	0.10	2	0.20	6	0.29	0.31	0.60
Total Workshop Equipment (Tools)			4.14		2.54		3.68		3.44		6.53	7.19	13.72
Total Equipment, Spares and Tools			141.94		74.30		36.75		35.25		138.60	150.24	288.84

Source: IBRD, Staff Appraisal Report: Pakistan Irrigation System Rehabilitation Project, 1982.

ANNEX G.II

ILLUSTRATIVE ADDITIONAL EQUIPMENT AND TOOL NEEDS

Item	Unit Cost (Dollars)	Number of Units				Total Cost (Dollars)
		Punjab	Sind	NWFP	Total	
Heavy Equipment						
Dragline, 1-1/4 cu.yd.	160,000		8		8	1,280,000
Bulldozer, 180 HP	150,000		3	2	5	750,000
Bulldozer, 300 HP	200,000	2	18		20	4,000,000
Truck Tractor, 40 ton	80,000		2	1	3	240,000
Scraper, 15-21 cu.yd.	165,000	2	2	1	5	825,000
Hydraulic Excavator, 1 cu.yd.	150,000	4	4		8	1,200,000
Service Truck, 10 ton	50,000	3	2	1	6	300,000
Subtotal						8,595,000
Spare Parts @10%						860,000
Total Equipment						9,455,000
Workshop Tools						
Caterpillar D8 Press Sets 100 and 10 ton cylinder	20,000	1	1	1	3	$ 60,000
Caterpillar D8K Power Shift Transmission Kit	5,000	1	1	1	3	15,000
Metal Spray Machine for Rebuilding Crankshafts	15,000	1	1		2	30,000
Allison Transmission Service and Test Equipment	3,000	1	1	1	3	9,000
Crankshaft Regrinding Machine	40,000	1	1		2	80,000
Total Workshop Tools						194,000
Grand Total						9,649,000

PROPOSED REQUEST FOR PROPOSALS (OFFERS) FOR PROCUREMENT SERVICES AGENTS

The Government of Pakistan requires the equipment listed in Exhibit A ("Equipment List") in implementing the A.I.D.-financed Agricultural Commodities and Equipment Program. The Government of Pakistan, in its capacity as owner and principal, has constituted and appointed USAID/Pakistan as its lawful Agent to act on its behalf in obtaining the services of one or more procurement services agent(s). The Government of Pakistan will contract with the selected procurement services agent(s) to procure the equipment listed in Exhibit A.

In planning for the procurement, USAID/Pakistan and the Government of Pakistan seek information as to the capacity of firms to act as a procurement services agent(s) for the Government of Pakistan. Interested firms are invited to present to USAID/Pakistan as soon as possible specific information regarding their skills, capability, and experience relating to the particular responsibilities which a procurement services agent must undertake.

Firm(s) selected as a procurement services agent, will be asked to provide or arrange for certain services on behalf of the Government of Pakistan which will be described in a scope of work included in a contract or other procurement instruction. To successfully carry out the scope of work, firm(s) will require the competence, understanding, financial capability, and personnel with the necessary technical skills and experience to undertake some or all of the following responsibilities:

1. Assist the Government of Pakistan in refining requirements for commodities and commodity-related services.
2. Review and edit commodity specifications.
3. Prepare Invitations for Bids and/or Requests for Quotations.
4. Issue and advertise commodity solicitations.
5. Evaluate bids and recommend/make awards.
6. Issue contracts or purchase orders to selected suppliers.
7. Open irrevocable letters of credit in favor of selected suppliers.

8. Expedite suppliers/vendors' performance.

9. Inspect and consolidate equipment deliveries.

10. Arrange freight forwarding, export packing, and ocean/air transportation.

11. Arrange insurance and process insurance claims.

12. Provide complete and accurate reports to the buyer, indicating status of each procurement action.

13. Handle management and communication responsibilities required in implementing the procurements.

14. Arrange the procurement of and payment for equipment in accordance with A.I.D. procurement and financial policies and procedures.

15. Pursue economies in the procurement process that may be obtained through improving specifications, soliciting from sources involving the least markups, obtaining project freight rates, and utilizing other sound, prudent purchasing practices.

16. Understand and adhere to A.I.D. procurement policies and regulations, particularly those explained in Chapter 3 of A.I.D. Handbook 11, copies of which will be provided upon request.

The scope of work will require the firm(s) to handle all procurement transactions irrespective of the size of the transaction or the value of individual items. It will also require that the firm(s) be able to divorce all its/their activity as a procurement agent(s) from any other activities carried out as a supplier, secondary supplier, or supplier's agent. The contractual documentation will provide that the firm will be acting exclusively for the Government of Pakistan and will not receive fees, commissions, discounts or any other form of payment from suppliers. The scope of work will require periodic visits to Islamabad and other major cities in Pakistan. Procurement services agent(s) will be appointed on a cost plus fixed fee (CPFF) compensation basis.

Interested firms should submit complete information to USAID/Pakistan which describes their qualifications. It should include the following:

1. The total number of current employees and brief resume for each of the key persons, specialists

and individual consultants anticipated for this work, showing for __each__:

a. Name and Title

b. Type of work they would undertake.

c. Years of experience with the firm and with other firms (shown separately).

d. Education, including degrees, year, and specialization.

e. Foreign language capabilities.

f. Other experience and qualifications including, most importantly, those which relate to the specific activities the firm would undertake under the scope of work.

2. A summary of previous work by the firm which best illustrates its current qualifications to undertake the responsibilities described in the scope of work. List a number of projects (not more than ten), showing for __each__:

a. The project name and location and the name of the institution which awarded the contract.

b. Nature of the firm's prime responsibility (e.g. procurement agent, sales agent, supplier, etc.).

c. Actual or estimated completion date.

d. Dollar value of the contract and total project.

e. A specific description of the work performed including:

(i) the commodities purchased; (ii) the services rendered in purchasing the commodities; and (iii) assessment of how the work performed shows the firm's ability to carry out the responsibilities described in the scope of work.

3. A narrative discussion showing why the firm believes it to be otherwise especially qualified to undertake the responsibilities described in the scope of work. Information provided should include but not be limited to the capabilities of the firm for similar work, specialized equipment available for this work or relevant special approaches or

concepts developed by the firm. Identify any commodity areas (e.g. agricultural equipment) in which firm possesses special familiarity and expertise. Supplementary information including descriptive brochures, reports, manuals, organizational charts and other graphic material is welcome.

4. Copies of financial statements for the past three years and pertinent bank reference statements or other available information concerning the firm's capacity, capability, credit worthiness and financial condition, including most particularly a statement of available outside credit or the maximum capital outlay it could provide in serving as a procurement agent.

5. a. The year the firm was established.

   b. A list of overseas and other branch offices.

   c. The name of parent company, if any.

   d. Usual or planned fee structure for procurement agent services under this contract.